

Exhibit No.: _____
Issues: General/ FAC MFRs
Witness: Leigha Palumbo
Type of Exhibit: Direct Testimony
Sponsoring Party: The Empire District
Electric Company d/b/a Liberty
Case No.: ER-2024-0261
Date Testimony Prepared: November 2024

**Before the Public Service Commission
of the State of Missouri**

Direct Testimony

of

Leigha Palumbo

on behalf of

The Empire District Electric Company d/b/a Liberty

November 6, 2024



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THE EMPIRE DISTRICT ELECTRIC COMPANY D/B/A LIBERTY
BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION
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1 **I. INTRODUCTION**

2 **Q. Please state your name and business address.**

3 A. My name is Leigha Palumbo, and my business address is 602 S. Joplin Avenue, Joplin,
4 Missouri 64801.

5 **Q. By whom are you employed and in what capacity?**

6 A. I am employed by Liberty Utilities Service Corp. as Senior Manager of Rates and
7 Regulatory Affairs for the Liberty Central Region, which includes The Empire District
8 Electric Company (“Liberty” or “Company”).

9 **Q. On whose behalf are you testifying in this proceeding?**

10 A. I am testifying on behalf of Liberty.

11 **Q. Please describe your educational and professional background.**

12 A. I graduated from Pittsburg State University in 2015 with a Bachelor of Science in
13 Business Administration with a major in Accounting. I was hired by Liberty in May
14 2015 as an Internal Auditor. In May 2017, I moved to the Rates and Regulatory
15 Department as an Analyst. I accepted my current role as Senior Manager of Rates and
16 Regulatory Affairs in February 2024. In my current role I am responsible for reviewing
17 and preparing various regulatory matters involving Liberty in Missouri, Oklahoma,
18 Kansas, and Arkansas. In addition to reviewing and preparing various regulatory
19 filings I am also responsible for internal review of rates and changes, among other
20 duties.

1 **Q. Have you previously testified before the Missouri Public Service Commission**
2 **(“Commission”) or any other regulatory agency?**

3 A. Yes. I have filed testimony on behalf of Liberty before the Missouri Public Service
4 Commission as well as the Oklahoma Corporation Commission.

5 **Q. What is the purpose of your direct testimony in this proceeding?**

6 A. The purpose of this direct testimony is to explain the Company’s compliance with
7 Commission rule 20 CSR 4240-3.030(3)(A), 20 CSR 4240-3.030(3)(B) and 20 CSR
8 4240-3.160 related to requirements for a Utility Company’s General Rate Increase
9 Request. Additionally, my testimony supports the Company’s compliance with
10 Commission Rule 20 CSR 4240-20.090(2)(A)1-19 in order to continue its Rider Fuel
11 Adjustment Clause (“FAC”).

12 **II. GENERAL RATE CASE MINIMUM FILING REQUIREMENTS**

13 **Q. What is the purpose of this part of your testimony?**

14 A. This portion of my testimony details how the Company met the Commission’s
15 minimum filing requirements (“MFRs”) as set forth in Commission Rule 20 CSR 4240-
16 3.030 and the filing and reporting requirements as set forth in Commission Rule 20
17 CSR 4240-3.160.

18 **Q. What is required by Commission Rules 20 CSR 4240-3.030(3)(A) and 20 CSR**
19 **4240-3.030(3)(B)?**

20 A. Commission Rule 20 CSR 4240-3.030 sets forth the MFRs for all general rate increase
21 requests. Counsel for Liberty is providing the tariff transmittal letter as required by 20
22 CSR 4240-3.030(3)(A). The table below displays a list of the remaining MFRs as
23 required by 20 CSR 4240-3.030(3)(B) and a description of where this information can
24 be found in my supporting schedules and testimony.

#	Description	References
1	Aggregate Annual Increase Proposed Dollars and Percentage	Direct Schedule LP-1
2	Counties and Communities Affected	Direct Schedule LP-1
3	Number of Customers Affected by Rate and Class	Direct Schedule LP-1
4	Dollar and Percentage Change by Rate and Class	Direct Schedule LP-1
5	Proposed Annual Aggregate Change by Rate and Class	Direct Schedule LP-1
6	Press Release	Direct Schedule LP-2
7	Summary of Reasons for Proposed Changes	Direct Schedule LP-1

1 **Q. What is required by Commission Rule 20 CSR 4240-3.160?**

2 A. Commission Rule 20 CSR 4240-3.160 requires any electric utility submitting a general
3 rate increase request to submit a depreciation study, database, and property unit catalog
4 unless Commission Staff has received those items from the utility during the three years
5 prior to the filing of the general rate case or before five years have elapsed since Staff
6 last received the items.

7 **Q. Is a depreciation study included with the Company's direct filing?**

8 A. No. Based on Commission Rule 20 CSR 4240-3.160 as I described above and 20 CSR
9 4240-3.175(1)(B)(II)2, the Company is not required to submit a depreciation study,
10 database, or property unit catalog until five years have elapsed since the last filing of
11 such study. The Company filed a depreciation study in May 2021 as part of its most
12 recent general rate filing in Case No. ER-2021-0312. Therefore, the Company is not
13 yet required to file an updated study.

14 **Q. Is the Company requesting approval for a new depreciation rate on assets that do
15 not currently have an approved rate?**

16 A. No.

1 **III. FAC MINIMUM FILING REQUIREMENTS**

2 **Q. Is the Company’s request to continue its Rider FAC designed to comply with the**
3 **Commission’s rules?**

4 A. Yes. Liberty has designed its Rider FAC continuation request to comply with
5 Commission Rule 20 CSR 4240-20.090(2)(A)1-19. The table below displays a list of
6 the FAC-related minimum filing requirements and a description of where this
7 information can be found in the Company’s direct testimony and supporting schedules.

#	Description	References
1	Customer Notice	Direct Schedule LP-3
2	Sample Customer Bills	Direct Schedule LP-4
3	Proposed FAC Tariff	Direct Schedule LP-5
4	Description and Operation	Palumbo Direct Testimony
5	Equity Return	Palumbo Direct Testimony
6	True-Up	Palumbo Direct Testimony
7	Short-Term Borrowing Rate	CONFIDENTIAL Direct Schedule LP-6
8	Prudence Reviews	Palumbo Direct Testimony
9	Power Supply Costs/Rev.	Tarter Direct Testimony Direct Schedule LP-7
10	Fuel Costs/Rev.	Tarter Direct Testimony Direct Schedule LP-7
11	Incentive Features	Palumbo Direct Testimony
12	Rate Volatility Mitigation	Palumbo Direct Testimony
13	Cost Recovery Prudence	Palumbo Direct Testimony
14	Business Risk	Dane Direct Testimony
15	Plant Efficiency Stats	HIGHLY CONFIDENTIAL Direct Schedule LP-8
16	IRP Schedule	Case No. EO-2021-0331
17	Emissions Allowances	CONFIDENTIAL Direct Schedule LP-9
18	Five-year Plant Availability	Direct Schedule LP-10
19	Authorization	Palumbo Direct Testimony

8 **Q. Has Liberty prepared a proposed notice to customers in accordance with 20 CSR**
9 **4240-20.090(2)(A)(1)?**

10 A. Yes. In addition to the normal notice requirements for a general rate case filing, the
11 Company has prepared a notice that describes the request to continue the existing FAC.
12 An exemplar copy of the notice is attached as **Direct Schedule LP-3** and includes a

1 description of how the Company’s proposed Rate Adjustment Mechanism (“RAM”)
2 shall be applied to monthly bills, the amount of the proposed change in base rates
3 caused by the rebase of energy costs, and the estimated impact on a typical residential
4 customer’s bill resulting from the rebase of energy costs.

5 **Q. Has Liberty filed an example of a customer bill which shows the Rider FAC as a**
6 **separately identified line item in accordance with 20 CSR 4240-20.090(2)(A)(2)?**

7 A. Yes. The costs recovered through Rider FAC are identified as a separate line item on
8 actual customer bills and is shown in the example attached as **Direct Schedule LP-4**.

9 **Q. Has Liberty filed its proposed Rider FAC tariff sheets as required under 20 CSR**
10 **4240-20.090(2)(A)(3)?**

11 A. Yes. The proposed Rider FAC tariff sheets can be found as attached **Direct Schedule**
12 **LP-5**. For additional discussion of changes reflected in the proposed FAC tariff sheets
13 regarding eliminating the current 95%/5% FAC sharing approach and including certain
14 transmission expenses in the FAC, please refer to the direct testimonies of Company
15 witnesses Aaron J. Doll and John J. Reed.

16 **Q. Please provide a detailed description of Liberty’s Rider FAC in accordance with**
17 **20 CSR 4240-20.090(2)(A)(4).**

18 A. The application of the tariff involves the accumulation of actual Missouri jurisdictional
19 net energy costs over a six-month period and a comparison to the cost of energy FAC-
20 eligible expenses included in the Company’s base rates. Currently, 95% of this
21 over/under recovery balance is then billed or credited to Liberty’s Missouri retail
22 customers over a six-month billing period. The first six-month Accumulation Period is
23 September through February, and the associated Recovery Period is the following June
24 through November. The second six-month Accumulation Period is March – August,

1 and the associated Recovery Period is the following December – May. Rider FAC
2 requires the Company to modify the energy cost recovery factor twice per year, once
3 in June and again in December. Under the currently approved tariff, Liberty files these
4 cases in April and October of each year. The FAC process and proposed changes to the
5 Company’s Rider FAC are further described in the direct testimonies of Company
6 witnesses Todd W. Tarter, Aaron J. Doll, and John J. Reed.

7 **Q. What is the timing of the semi-annual FAC filings in the proposed Rider FAC?**

8 A. The proposed tariff retains the same timing of actions included in Liberty’s existing
9 FAC:

- 10 • Filing for a change in the fuel adjustment rate (“FAR”) on April 1st and October
11 1st each year;
- 12 • Staff recommendation on the filed FAR by May 1st and November 1st each year;
13 and
- 14 • Commission action on the FAR by June 1st and December 1st or the FAR as
15 filed is allowed to go into effect on June 1st and December 1st each year.

16 In accordance with 20 CSR 4240-20.090(8)(F), Staff has thirty days from the date of a
17 FAR filing to make its recommendation. According to 20 CSR 4240-20.090(8)(H), the
18 Commission has 60 days from the FAR filing date to render a decision concerning the
19 cost recovery factor or allow it to go into effect by operation of law.

20 **Q. What is the timing of Liberty’s quarterly FAC surveillance reports?**

1 A. In compliance with the Order Approving Stipulations and Agreements in Case No. ER-
2 2021-0312,¹ Liberty agreed to file its quarterly FAC surveillance reports as shown in
3 the table below. The Company is requesting the same schedule continue in this case.

Quarter Ending:	Submission Deadline:
March 31	May 30
June 30	August 31
September 30	November 30
December 31	February 28

4 **Q. Are there any additional reporting requirements related to the FAC?**

5 A. Yes. In Case No. ER-2019-0374, the Commission ordered “a detailed listing of all costs
6 incurred due to the MJMEUC contracts and the revenues that Empire receives from
7 MJMEUC.”² Liberty has continued to comply with this requirement by including this
8 detailed listing with its monthly FAC reports beginning in August 2020.

9 **Q. Please provide a detailed explanation of how the proposed Rider FAC provides**
10 **Liberty a sufficient opportunity to earn a fair return on equity in accordance with**
11 **20 CSR 4240-20.090(2)(A)(5).**

12 A. The proposed FAC mechanism is a significant improvement over the recovery of these
13 costs solely through base rates. The proposed FAC will recover 100 percent of the
14 changes in energy costs outside of those approved in base rates. This process ensures
15 that the Company’s prudently incurred fuel and energy costs, including transportation,
16 are passed through to Missouri’s retail customers. While the FAC is an improvement
17 over the situation that existed prior to its existence, the current 95%/5% sharing
18 approach deprives the Company of a sufficient opportunity to earn a fair return on
19 equity, thereby denying the Company one of the major benefits the FAC was designed

¹ Per the Order, the parties independently resolved this issue in the Fourth Partial Stipulation and Agreement filed on February 5, 2022 in Case No. ER-2021-0312.

² Case No. ER-2019-0374, Amended Report and Order, pages 72-73.

1 to provide. During periods when fuel and purchased power costs increase between rate
2 cases, which has occurred since Liberty's most recent rate case, the sharing mechanism
3 prevents Liberty from recovering all the increased cost. This directly reduces the
4 Company's earnings even when those costs are determined prudent by the
5 Commission. If the percentage of costs the Company is required to absorb under the
6 sharing mechanism is increased above the current level, the resulting effect on net
7 income could further deprive the Company of the opportunity to earn a fair return on
8 equity. Likewise, if energy costs fell below the FAC base, Liberty's customers would
9 be adversely impacted because they would share in less of those savings. Please see
10 Company witness John J. Reed's direct testimony for further discussion of the proposed
11 sharing mechanism. Furthermore, Company witnesses Doll and Reed discuss why it is
12 reasonable to include 100% of certain transmission revenues and expenses in FAC
13 calculations and recovery.

14 **Q. Please provide an explanation of how the proposed Rider FAC will be trued-up in**
15 **accordance with 20 CSR 4240-20.090(2)(A)(6).**

16 A. The true-up of recovered energy costs takes place every six months. If the costs
17 incurred during the Accumulation Period are different than the costs included in base
18 rates, then the mismatch is recovered through Rider FAC during the subsequent
19 Recovery Period, subject to review and approval by the Commission. Any refunds
20 ordered by the Commission will include interest at the Company's short-term
21 borrowing rate.

22 **Q. Please describe how the FAC monthly short-term borrowing rate is defined and**
23 **applied to over- and under-billed amounts and disallowances in accordance with**
24 **20 CSR 4240-20.090(2)(A)(7).**

1 A. The interest rates for Liberty’s FAC accounts are calculated monthly at a rate equal to
2 the weighted average interest paid on the Company’s money pool account which is
3 similar in nature as short-term debt. Liberty applies those rates to the average balance
4 of the under- or over-recovery calculations for periods including the current
5 accumulation period and all prior accumulation periods net of recoveries from and
6 refunds to customers. A sample calculation of the short-term debt rate is shown on
7 **Confidential Direct Schedule LP-6.**

8 **Q. Please describe how the FAC complies with the prudence review procedures**
9 **prescribed by the Commission’s rules in accordance with 20 CSR 4240-**
10 **20.090(2)(A)(8).**

11 A. Liberty’s proposed FAC allows the Commission to adjust the amount of FAC recovery
12 if any cost is disallowed as the result of a prudence review. The accounting procedures
13 used by Liberty provide an audit trail to facilitate the audit process associated with the
14 periodic prudence reviews. The exact timing of the prudence review is not explicitly
15 set out in the tariff, but the tariff specifies that prudence reviews will take place no less
16 frequently than every 18 months. Liberty’s operation of the FAC has been audited by
17 the Commission Staff through February 29, 2024.³

18 **Q. Please explain the costs and revenues that will be considered for recovery in the**
19 **FAC in accordance with 20 CSR 4240-20.090(2)(A)(9) and 20 CSR 4240-**
20 **20.090(2)(A)(10).**

21 A. The costs and revenues considered for base fuel expenses in the FAC are discussed in
22 the direct testimony of Company witness Tarter. The specific accounts included and
23 excluded from Liberty’s existing FAC and proposed FAC are attached as **Direct**

³ Case No. EO-2024-0241, Order Approving Staff’s Prudence Audit Report, eff. October 11, 2024.

1 **Schedule LP-7**. This schedule also includes a mapping of the subaccounts to the
2 proposed FAC tariff and a description of the subaccounts and charge types.

3 **Q. Do the energy costs eligible for recovery through the proposed FAC include the**
4 **costs and benefits associated with Liberty’s Fuel Risk Management (hedging)**
5 **program?**

6 A. Yes. As indicated on **Direct Schedule LP-7**, the costs eligible for recovery through the
7 tariff include Liberty’s fuel risk management costs, which are recorded in FERC
8 Accounts 501, 547, and 555.

9 **Q. Please describe any incentive features and the associated benefits in the proposed**
10 **FAC in accordance with 20 CSR 4240-20.090(2)(A)(11).**

11 A. The Commission determined in its Amended Report and Order issued on July 23, 2020,
12 in Case No. ER-2019-0374 that the 95%/5% sharing mechanism “provides the
13 appropriate incentive to properly manage its net energy costs.” In this case, Liberty is
14 proposing to revise its FAC to allow for 100% recovery of fuel and certain transmission
15 costs as described in Company witness Reed’s direct testimony and further supported
16 by Company witness Doll’s direct testimony. This approach will strengthen Liberty’s
17 financial profile and enhance its ability to attract the financing necessary to meet its
18 customers’ needs and to obtain that financing at the best rates possible. As mentioned
19 above, with the current FAC sharing mechanism Liberty’s customers are adversely
20 impacted when energy costs fall below the FAC because they share in less of those
21 savings. Therefore, allowing the 100% recovery of fuel and certain transmission costs
22 benefits both the Company and customers on ensuring that all eligible FAC costs are
23 equally shared.

1 In addition, as Mr. Reed addresses in his testimony, Liberty’s proposed 100%
2 FAC cost recovery provides a more accurate pricing signal to Liberty’s customers. If
3 energy costs increase, the customer will know within six months and will be able to
4 make an informed decision concerning any energy efficiency measures that could be
5 implemented in an effort to lower consumption.

6 **Q. Please provide a detailed explanation of any rate volatility mitigation features in**
7 **the FAC in accordance with 20 CSR 4240-20.090(2)(A)(12).**

8 A. The energy cost changes that occur during an Accumulation Period will be spread over
9 six months. This feature will fix the FAC component of a customer’s bill for six months
10 and helps to smooth out energy price volatility.

11 **Q. Does Liberty’s FAC tariff include provisions that are designed to limit Liberty’s**
12 **FAC recoveries to prudently incurred cost of energy in accordance with 20 CSR**
13 **4240-20.090(2)(A)(13)?**

14 A. Yes. Liberty’s FAC tariff and the Commission’s rule governing FACs include two
15 safeguards that limit FAC recovery to actual, prudent energy costs. The first safeguard
16 is a true-up process that ensures that FAC collections during the Recovery Period do
17 not exceed actual energy costs incurred during an Accumulation Period. The second
18 safeguard involves a requirement that Liberty’s FAC costs be subjected to periodic
19 prudence reviews, which ensure that only prudently incurred energy costs are passed
20 through to customers. As Mr. Reed states in his testimony, these periodic prudence
21 reviews give Liberty all the incentive it needs to ensure its fuel costs remain prudent,
22 obviating the need for a 95/5 sharing mechanism. Moreover, to ensure its costs are
23 prudent, Liberty plans its fuel procurement activity using long-term planning and
24 maintains an active Risk Management Policy.

1 **Q. Please provide any information about the change in business risk resulting from**
2 **the implementation of the proposed FAC in accordance with 20 CSR 4240-**
3 **20.090(2)(A)(14).**

4 A. Liberty's business risk is discussed in the direct testimony of Company witness Daniel
5 S. Dane.

6 **Q. Please provide the results of any heat rate testing on the Company's generation**
7 **units during the previous twenty-four months in accordance with 20 CSR 4240-**
8 **20.090(2)(A)(15).**

9 A. The heat rate test results are attached as **Highly Confidential Direct Schedule LP-8.**
10 Additionally, the Company will provide documentation of the test monitoring
11 procedures to the parties in this case as part of the workpapers it provides in connection
12 with its direct case filing.

13 **Q. Please provide any information that demonstrates that Liberty has a long-term**
14 **resource planning process in place in accordance with 20 CSR 4240-**
15 **20.090(2)(A)(16).**

16 A. Liberty filed its most recently completed triennial IRP in Missouri on April 1, 2021, in
17 Case No. EO-2021-0331 ("2022 IRP"). The Commission issued its Order Approving
18 the 2022 Triennial Integrated Resource Plan in that case on November 3, 2022, which
19 found "Liberty's IRP filings demonstrate compliance with the requirements of
20 Commission Rule 20 CSR 4240-22." Liberty has filed annual updates in 2023 and
21 2024, in Case No. EO-2023-0294 and Case No. EO-2024-0249, respectively. The next
22 triennial IRP will be filed by April 1, 2025.

1 **Q. Please provide a description of the Company’s emission management policy and**
2 **forecasted environmental investments and allowance purchases and sales in**
3 **accordance with 20 CSR 4240-20.090(2)(A)(17).**

4 A. Liberty is currently subject to two sets of regulations which utilize emissions
5 allowances. They are the Acid Rain program and the Cross State Air Pollution Rule
6 (“CSAPR”). Under these programs, a set number of emissions allowances are provided
7 to Liberty each year for each of the affected plants. Liberty anticipates being able to
8 comply with these regulations with the allowances provided. At this time, Liberty has
9 no plans to sell any banked allowances, which are used to ensure compliance with
10 existing regulations. Therefore, based on current market conditions, the Company
11 expects little to no cost or revenue over the next four years related to emissions
12 allowances. **Confidential Direct Schedule LP-9** further describes Liberty’s current
13 emissions allowances.

14 **Q. Please provide data and illustrations detailing generating plant availability for the**
15 **preceding five years for each plant Liberty owns either in part or in its entirety in**
16 **accordance with 20 CSR 4240-20.090(2)(A)(18).**

17 A. The plant availability data is attached as **Direct Schedule LP-10**.

18 **Q. In accordance with 20 CSR 4240-20.090(2)(A)(19), does Liberty grant**
19 **authorization for the Commission to release to all parties to the general rate case**
20 **the previous five years of historical Surveillance Monitoring Reports that Liberty**
21 **has submitted through the Electronic Filing Information System?**

22 A. Yes.

23 **Q. Does this conclude your direct testimony at this time?**

24 A. Yes.

VERIFICATION

I, Leigha Palumbo, under penalty of perjury, on this 6th day of November 2024, declare that the foregoing is true and correct to the best of my knowledge and belief.

/s/ Leigha Palumbo