

MISSOURI PUBLIC SERVICE COMMISSION

STAFF REPORT COST OF SERVICE



THE EMPIRE DISTRICT ELECTRIC COMPANY

CASE NO. ER-2019-0374

*Jefferson City, Missouri
January 15, 2020*

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Recommendations

The Commission has previously approved requests to eliminate credit card convenience fees with the utility absorbing credit card processing services in the cost of service.⁹⁵ As discussed in Section VII.H., subsection 15 of this Report sponsored by Staff witness Kimberly K. Bolin, Staff is recommending in this case that convenience fees for customers paying bills by credit card be eliminated, with the cost of processing such payments to be included in the Company's cost of service. If the Commission approves this treatment, Staff recommends that the Company be ordered to track performance and savings to the Company and its customers from this initiative. Staff further recommends that Empire be required to monitor the level of customers using the credit card option, along with other questions such as: Have the number of payments by credit card increased? If so, by how much? Has eliminating a fee to pay by credit card resulted in savings to the customer and/or to the Company? If so, how much? How will the Company inform customers that there is no fee to pay their bill by credit card? Staff witness Kimberly K. Bolin is sponsoring the adjustments proposed by Staff in regard to inclusion in cost of service of customer credit card payment processing costs.

Staff Expert/Witness: Dana R. Parish

XIII. Isolated Adjustment – Retirement of Asbury

Ordinarily, appropriate ratemaking practice calls for measurement of all of the major components of utility cost of service (revenues, expenses, rate base) at a consistent point in time for ratemaking purposes (generally the true-up audit cut-off date for a rate case). However, the Commission has recognized there may be exceptions to this general rule, and for a long time has allowed parties to argue for inclusion in utility rates of "isolated adjustments" for events occurring after the true-up period. The Commission has stated that, for an isolated adjustment to be considered, the underlying event must have a known and measurable financial impact, and that inclusion in rates of the isolated adjustment would not inappropriately affect the overall matching in time of utility revenues, expenses and rate base.

In its direct testimony filed on August 14, 2019, Empire stated that it planned to retire the Asbury generating plant by no later than June 30, 2020, which was approximately five months

⁹⁵ Case No. GR-2017-0215 & GR-2017-0216, "In the Matter of Spire Missouri, Inc.'s Request to Increase Its Revenues for Gas Service."

1 after the true-up cut-off date that was later ordered in this proceeding. Empire did not include any
2 adjustments reflecting the retirement of Asbury in its case. However, Empire stated in its
3 testimony that an AAO was an option that could be used to address changes in operations and
4 maintenance (“O&M”) expense due to the retirement of the plant, for potential reflection of the
5 changes in Asbury O&M expense in its next general rate case.

6 In Case No. EA-2019-0010, Empire’s application for certificates of convenience and
7 necessity to acquire interest in three wind project holding companies, Empire entered into a
8 stipulation and agreement calling for use of an AAO to measure the changes in the types of Asbury
9 capital costs, expenses and revenues that have been included in Empire’s cost of service that
10 Empire will no longer incur after retiring Asbury. However, in its Report and Order in that
11 proceeding, the Commission did not approve that provision as it stated that it was too early to issue
12 an AAO for the retirement of Asbury because the sale or retirement of the unit was not certain at
13 that time. The Commission also said there was not sufficient evidence to show the sale or
14 retirement would be extraordinary in nature, and thus eligible for an AAO. The Commission said
15 when the retirement or sale of the unit did occur, parties could present proposals for deferrals of
16 some or all Asbury costs and savings as part of a formal request for an AAO.

17 On November 13, 2019, Empire filed in this case an updated Asbury informational notice
18 stating that the retirement of Asbury would occur no later than March of 2020. After this notice
19 and further discussions with Empire, Staff has learned that Empire is planning on retiring the
20 Asbury plant no later than March 1, 2020. The test year in this case is the 12 months ending
21 March 31, 2019, updated through September 30, 2019, with a true-up audit cut-off date of
22 January 31, 2020. The planned retirement of Asbury is outside of the true-up period by
23 approximately one month.

24 Staff recommends that isolated adjustments to certain rate base related financial impacts of
25 the retirement of the Asbury plant be included in this case. The amount of these adjustments will
26 be known and measurable at the time of the Asbury retirement, well before the operation-of-law
27 date in this proceeding. Accordingly, Staff intends to adjust plant-in-service and the accumulated
28 depreciation reserve to reflect the retirement of the Asbury plant. Staff also intends to remove
29 Asbury depreciation expense from this case. In addition, Staff will also remove any fuel inventory
30 associated with Asbury from rate base. These adjustment amounts will be quantified and
31 supported in Staff’s surrebuttal/true-up testimony filing scheduled for March 27, 2019.

1 Empire's O&M expenses will also be affected by the retirement of Asbury, but many of
2 these cost changes may not be fully known and measurable within the pendency of this rate case.
3 For that reason, Staff recommends that a tracker mechanism be ordered by the Commission in this
4 case to quantify the changes in the amounts of O&M expenses incurred by Empire associated due
5 to the retirement of Asbury, with the tracked amount potentially includable in rates in Empire's
6 next general rate proceeding. The items to be tracked include the portion of the change in Asbury
7 net fuel/purchased power expense not flowing through the FAC, Asbury maintenance expense,
8 and Asbury payroll expense and payroll related benefits.

9 *Staff Expert/Witness: Kimberly K. Bolin*

10 **XIV. Appendices**

11 **Appendix 1 - Staff Credentials**

12 **Appendix 2 - Support for Staff Cost of Capital Recommendation**