Exhibit No.: _____
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Witness: John J. Reed
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Sponsoring Party: The Empire District Electric Company d/b/a Liberty
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Before the Public Service Commission
of the State of Missouri

Surrebuttal Testimony

of

John J. Reed

on behalf of

The Empire District Electric Company d/b/a Liberty

September 17, 2025

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FOR THE SURREBUTTAL TESTIMONY OF JOHN J. REED
THE EMPIRE DISTRICT ELECTRIC COMPANY D/B/A LIBERTY
BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION
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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is John J. Reed. My business address is 293 Boston Post Road West, Suite 500, Marlborough, Massachusetts 01752.

Q. Did you previously provide direct and rebuttal testimony in this matter on behalf of The Empire District Electric Company d/b/a Liberty ("Liberty" or the "Company")?

A. Yes.

Q. What is the purpose of your surrebuttal testimony in this proceeding before the Missouri Public Service Commission ("Commission")?

A. I will be responding to the rebuttal testimonies of Office of the Public Counsel ("OPC") witnesses Lena Mantle and Angela Schaben, and Commission Staff ("Staff") witness Brooke Mastrogiannis. My surrebuttal testimony addresses their positions on the Fuel Adjustment Clause ("FAC") sharing mechanism, the inclusion of transmission expense in the FAC, and broader regulatory principles that affect Liberty's ability to attract capital and maintain financial integrity.

II. RESPONSE TO OPC WITNESS LENA MANTLE

Q. Ms. Mantle argues that Liberty's FAC sharing mechanism does not impede the Company's ability to earn a fair return. Do you agree?

A. No. Ms. Mantle's analysis is overly simplistic and fails to account for the dynamic nature of fuel markets and the capital markets in which Liberty must compete. The 95/5 sharing mechanism already introduces asymmetrical risk, and any movement toward a more aggressive sharing structure would exacerbate that imbalance. In a competition for capital, even seemingly small deviations, or differences, from industry norms can have outsized impacts on investor perception and utility cost of capital.

Q. Why is "different" problematic in this context?

A. Ms. Mantle suggests that "different does not mean wrong,"[1] but in the context of regulatory finance, "different" often means "disadvantaged." Utilities operate in a national and even global capital market. Investors compare regulatory frameworks across jurisdictions. If Missouri adopts an FAC structure that is more punitive or risk laden than those in peer states, Liberty will be at a competitive disadvantage in attracting capital. This is not theoretical, it is a real and measurable consequence.

Q. Ms. Mantle references historical ROE performance as evidence that Liberty is not harmed. Is this persuasive?

A. No. First, historical ROE performance is not a reliable indicator of future financial health, especially when regulatory mechanisms are changing. Moreover, ROE outcomes are influenced by a multitude of factors, including rate base growth, cost management, and external economic conditions. The FAC sharing mechanism directly affects Liberty's ability to recover fuel costs, a major expense category, and should be evaluated on its own merits, not diluted by unrelated financial metrics. Second, Ms. Mantle references historical ROE performance based on Liberty's authorized equity ratio, not its actual equity ratio. Liberty's authorized equity ratio is lower than actual, driving up the implied ROE calculations presented by Ms. Mantle on page 5 of her rebuttal testimony. Ms. Mantle's Table 1 is derived from FAC quarterly reports, which do not require the use of the authorized equity ratio. It is also worth noting that the

[1] Mantle rebuttal, p. 24.

Company was impacted by Winter Storm Uri severely enough that it securitized approximately $200M worth of costs, costs which otherwise would have flowed through the FAC sharing mechanism and subjected the Company to under recovery.

Q. Ms. Mantle challenges the Company's witnesses on the FAC's role in "muting price signals."[2] How do you respond?

A. Ms. Mantle continues to miss the point. The assertion that the FAC "mutes" price signals reflects a misunderstanding of both how the FAC operates and the nature of price signals in a regulated utility environment. The FAC is a pass-through mechanism designed to recover the difference between actual fuel and purchased power costs and the amounts included in base rates, the FAC costs are largely outside the utility's control. It does not set prices; it adjusts rates to reflect market realities.

Q. Explain why the FAC does not mute price signals.

A. Price signals are muted when customers are insulated from cost changes. The FAC does the opposite: it ensures that customers incur the actual cost of fuel and purchased power, even if on a semi-annual basis. If anything, a FAC mechanism enhances price signals by making fuel cost fluctuations more immediate than if they were buried in base rates and adjusted only during rate cases. However, I believe a focus on "price signals" via the FAC is not pertinent to the policy issues at hand.

Q. How does the sharing mechanism affect cost causation?

A. The sharing mechanism does not strengthen any price signals, it distorts them, but the more important issue is cost causation. By arbitrarily assigning a portion of fuel cost risk to the utility, the sharing mechanism creates a disconnect between actual costs and customer bills. For example, under a 95/5 mechanism, customers only see 95% of the

[2] Mantle rebuttal, pp. 25-26.

fuel cost change. Under a 90/10 mechanism, they see even less. This dilution affects the relationship between actual costs and what customers pay and undermines the principle that rates should reflect cost causation.

Q. Ms. Mantle argues that the sharing mechanism incentivizes the utility to manage fuel costs more efficiently. Is that a valid argument?

A. It is not. Fuel costs are largely driven by market forces and generation dispatch economics, not by discretionary utility behavior. The idea that a utility can meaningfully "manage" fuel costs in a way that justifies penalizing it for increases is not supported by operational reality. Moreover, the FAC already includes prudence reviews and audit mechanisms to ensure that costs are the product of prudent decision making. Adding a sharing mechanism does not improve efficiency.

III. RESPONSE TO OPC WITNESS ANGELA SCHABEN

Q. Ms. Schaben argues that only a narrow subset of transmission expenses should be recovered through the FAC. Do you agree?

A. No, I do not. Ms. Schaben's position reflects an overly restrictive interpretation of the FAC statute and its purpose. Transmission expenses incurred to deliver purchased power whether through bilateral contracts or Regional Transmission Organization ("RTO") markets are integral to the cost of serving load. These costs are largely uncontrollable and should be recovered through the FAC to ensure timely and accurate cost recovery.

Q. Does Liberty's proposal to include 100% of SPP and MISO transmission expense in the FAC represent a departure from regulatory norms?

A. Not at all. Excluding portions of transmission expense from the FAC creates artificial distinctions and undermines the principle of full cost recovery. It also introduces regulatory lag and increases the risk of under-recovery, which ultimately harms both the utility and its customers.

Q. Ms. Schaben claims that Liberty already recovers transmission costs through base rates. Is this a valid concern?

A. It is a partial truth that misses the broader picture. While some transmission costs are normalized in base rates, the FAC is designed to capture variability and the fluctuations in cost that occur between rate cases. Transmission expenses, especially those tied to RTO settlements and congestion charges, can vary significantly month to month. The FAC is the appropriate mechanism to recover those costs that are beyond the utility's control on a more "real time" basis.

Q. She also argues that Liberty has control over transmission costs because it participates in SPP working groups. Does this justify excluding those costs from the FAC?

A. Absolutely not. Participation in stakeholder processes does not equate to control over cost outcomes. Liberty, like other load-serving entities, must comply with SPP tariffs and pay transmission charges as assessed. These charges are determined by market conditions, system topology, FERC decisions and regional planning decisions, none of which Liberty can unilaterally influence. Stakeholders include transmission owners, large load customers, special interest groups, and state and federal agencies. Suggesting that participation as a stakeholder equals control is a fundamental mischaracterization of how RTOs and RTO stakeholder groups operate.

Q. What about Ms. Schaben's recommendation to exclude administrative transmission charges like SPP Schedule 1-A and 12?

A. Administrative charges are a necessary part of the cost of delivering energy. While I agree that some fixed administrative costs may be more appropriately recovered through base rates, the Commission should be cautious not to exclude charges that fluctuate with load or are tied to energy transactions. A blanket exclusion risks omitting legitimate costs from FAC recovery and undermining the utility's financial position.

Q. Ms. Schaben emphasizes that the statute authorizing the FAC is meant to insulate utilities from "unexpected and uncontrollable" costs. Does Liberty's proposal meet that standard?

A. Yes, it does. Transmission costs associated with purchased power are precisely the kind of costs the FAC was designed to address. They are incurred to serve load, vary with market conditions, and are outside the utility's control. Including them in the FAC ensures that customers pay the actual cost of service and that the utility is not penalized for cost volatility it cannot manage.

Q. What is your recommendation to the Commission regarding the inclusion of transmission expense in the FAC?

A. I recommend that the Commission adopt Liberty's proposal to include 100% of SPP and MISO transmission expense in the FAC, and maintain those expenses outside of any sharing mechanism. This approach reflects current utility operations, aligns with the statutory purpose of the FAC, and ensures fair and timely cost recovery. It also avoids the pitfalls of arbitrary exclusions and supports regulatory transparency.

IV. RESPONSE TO STAFF WITNESS BROOKE MASTROGIANNIS

Q. Ms. Mastrogiannis maintains support for a 95/5 sharing mechanism yet also does not oppose a possible move toward a 90/10 sharing mechanism. What are the implications of such a shift?

A. A move toward 90/10 level of sharing is not merely incremental, it is structurally harmful. It would signal to investors that Missouri is willing to impose disproportionate risk on utilities for costs they cannot control. Fuel prices are volatile and driven by global markets. Penalizing utilities for fuel cost increases would be a disruptive signal to the investment community about the efficacy of Missouri's regulatory environment. It would undermine the regulatory compact and introduce uncertainty that is fundamentally incompatible with sound regulatory policy.

Q. What are the financial implications of Ms. Mastrogiannis' recommendations?

A. Ms. Mastrogiannis' shift in position on the appropriate level of sharing reflects a perspective that does not consider long-term financial sustainability. The danger of these "slippery slope" recommendations lies in their cumulative effect: they can erode investor confidence, increase the cost of capital, and ultimately harm customers by making it more expensive to finance infrastructure and service improvements.

Q. What are the broader implications of moving toward a 90/10 sharing mechanism?

A. Such a move would represent a further departure from regulatory norms and introduce a level of risk that is incompatible with the utility business model. It would signal to investors that Missouri is willing to impose disproportionate risk on utilities, making the state less attractive for capital investment. This would increase Liberty's cost of capital, reduce its financial flexibility, and ultimately harm customers through higher rates and reduced service quality.

Q. How does this affect Liberty's ability to compete for capital?

A. In today's environment, utilities are in a competition for capital. Investors have choices, and they evaluate jurisdictions based on regulatory stability, risk allocation, and return potential. Anything that is abnormal in the risk allocation, such as a punitive sharing mechanism, puts the utility at a disadvantage. This is not just a theoretical concern; it affects bond ratings, equity valuations, and the cost of financing infrastructure.

V. CONCLUSION

Q. What is your overall assessment of the rebuttal testimonies?

A. The proposals and assertions in the rebuttal testimonies of Ms. Mantle, Ms. Schaben and Ms. Mastrogiannis introduce distortions in cost recovery, undermine Liberty's ability to earn a fair return, and impair its competitiveness in attracting capital.

Q. What do you recommend to the Commission?

A. I respectfully recommend that the Commission reject proposals to modify the FAC sharing mechanism in a way that increases Liberty's exposure to uncontrollable costs. I continue to recommend that all transmission expenses are included in the FAC, outside of any sharing mechanism. I also continue to support the elimination of any FAC sharing, which will help move Missouri's regulatory framework closer to the national norm. The Commission should maintain a balanced and symmetrical cost recovery framework that supports financial stability, encourages investment, and protects customers through reliable service and long-term affordability.

Q. Does this conclude your surrebuttal testimony at this time?

A. Yes.

VERIFICATION

I, John J. Reed, under penalty of perjury, on this 17th day of September, 2025, declare that the foregoing is true and correct to the best of my knowledge and belief.

/s/ John J. Reed