Exhibit No. 42

Empire District Electric Company – Exhibit 42
Testimony of Leigha Palumbo filed on March 14, 2025
Direct
File No. ER-2024-0261

CONFIDENTIAL DESIGNATIONS

The Empire District Electric Company d/b/a Liberty

ER-2024-0261

RE: All confidential schedules (Direct Schedules LP-6 and LP-8) of Leigha Palumbo

The information provided is designated "Confidential" in accordance with Commission Rule 20 CSR 4240-2.135(2)(A)3, as it contains marketing analysis or other market specific information related to services offered in competition with others. The portion of Direct Schedule LP-6 containing bank account numbers and financial information potentially impacting financial markets and the Company's access to and terms for accessing capital is designated CONFIDENTIAL. Liberty designates bank account numbers as confidential in order to protect its financial information and to prevent unauthorized access to its accounts. Further, if lenders can ascertain the interest rates in Schedule LP-6 that Liberty has obtained from other financial institutions, the lenders may not offer their best interest rates to Liberty, which will cause a competitive disadvantage to both Liberty and its customers.

The portion of Direct Schedule LP-8 providing the heat rates for generation units is HIGHLY CONFIDENTIAL potentially impacting the wholesale electric market. Public disclosure of the heat rates could negatively affect Liberty's place in the wholesale electric market. Heat rates are considered by traders in determining when units are likely to be dispatched in the wholesale market. Should this information be disclosed, Liberty could inure a commercial disadvantage by allowing other utilities to beat Liberty to the market based on the knowledge gleaned from the heat rates. The confidentiality shall be maintained consistent with that Rule and/or Section 386.480 RSMo, as the case may be.

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: February 26, 2025

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

February 26, 2025

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FOR THE DIRECT TESTIMONY OF LEIGHA PALUMBO
THE EMPIRE DISTRICT ELECTRIC COMPANY D/B/A LIBERTY
BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. ER-2024-0261

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DIRECT TESTIMONY OF LEIGHA PALUMBO
THE EMPIRE DISTRICT ELECTRIC COMPANY D/B/A LIBERTY
BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. ER-2024-0261

I. INTRODUCTION

Q. Please state your name and business address.

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

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

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

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

A. I am testifying on behalf of Liberty.

Q. Please describe your educational and professional background.

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

Q. Have you previously testified before the Missouri Public Service Commission ("Commission") or any other regulatory agency?

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

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

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

II. GENERAL RATE CASE MINIMUM FILING REQUIREMENTS

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

A. This portion of my testimony details how the Company met the Commission's minimum filing requirements ("MFRs") as set forth in Commission Rule 20 CSR 4240-3.030 and the filing and reporting requirements as set forth in Commission Rule 20 CSR 4240-3.160.

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

A. Commission Rule 20 CSR 4240-3.030 sets forth the MFRs for all general rate increase requests. Counsel for Liberty is providing the tariff transmittal letter as required by 20 CSR 4240-3.030(3)(A). The table below displays a list of the remaining MFRs as required by 20 CSR 4240-3.030(3)(B) and a description of where this information can be found in my supporting schedules and/or other Company witness 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	Lyons Direct Testimony
4	Dollar and Percentage Change by Rate and Class	Lyons Direct Testimony
5	Proposed Annual Aggregate Change by Rate and Class	Lyons Direct Testimony
6	Press Release	Direct Schedule LP-2
7	Summary of Reasons for Proposed Changes	Direct Schedule LP-1

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

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

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

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

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

A. No.

III. FAC MINIMUM FILING REQUIREMENTS

Q. Is the Company's request to continue its Rider FAC designed to comply with the Commission's rules?

A. Yes. Liberty has designed its Rider FAC continuation request to comply with Commission Rule 20 CSR 4240-20.090(2)(A)1-19. The table below displays a list of the FAC-related minimum filing requirements and a description of where this 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	Direct Schedule LP-9
18	Five-year Plant Availability	Direct Schedule LP-10
19	Authorization	Palumbo Direct Testimony

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Q. What is the timing of Liberty's quarterly FAC surveillance reports?

A. In compliance with the Order Approving Stipulations and Agreements in Case No. ER-2021-0312,[1] Liberty agreed to file its quarterly FAC surveillance reports as shown in 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

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

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

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

A. The proposed FAC mechanism is a significant improvement over the recovery of these costs solely through base rates. The proposed FAC will recover 100 percent of the changes in energy costs outside of those approved in base rates. This process ensures that the Company's prudently incurred fuel and energy costs, including transportation, are passed through to Missouri's retail customers. While the FAC is an improvement over the situation that existed prior to its existence, the current 95%/5% sharing approach deprives the Company of a sufficient opportunity to earn a fair return on 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.

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

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

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

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

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

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

A. Liberty's proposed FAC allows the Commission to adjust the amount of FAC recovery if any cost is disallowed as the result of a prudence review. The accounting procedures used by Liberty provide an audit trail to facilitate the audit process associated with the periodic prudence reviews. The exact timing of the prudence review is not explicitly set out in the tariff, but the tariff specifies that prudence reviews will take place no less frequently than every 18 months. Liberty's operation of the FAC has been audited by the Commission Staff through February 29, 2024.[3]

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

A. The costs and revenues considered for base fuel expenses in the FAC are discussed in the direct testimony of Company witness Tarter. The specific accounts included and 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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

A. Liberty filed its most recently completed triennial IRP in Missouri on April 1, 2022, in Case No. EO-2021-0331 ("2022 IRP"). The Parties in the docket filed a Notice of Joint Agreement in that case on November 3, 2022, which indicated "Liberty has met with the parties to discuss and address all stated concerns with Liberty's 2022 triennial IRP filing, and agreement has been reached by the Company, Staff, and OPC regarding all items." Liberty has filed annual updates in 2023 and 2024, in Case No. EO-2023-0294 and Case No. EO-2024-0249, respectively. The next triennial IRP will be filed by April 1, 2025.

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

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

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

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

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

A. Yes.

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

A. Yes.

VERIFICATION

I, Leigha Palumbo, under penalty of perjury, on this 26th day of February 2025, declare that the foregoing is true and correct to the best of my knowledge and belief.

/s/ Leigha Palumbo