

Exhibit No. 46

Empire District Electric Company – Exhibit 46
Testimony of John Reed
Surrebuttal
File No. ER-2024-0261

Exhibit No.: _____
Issue(s): FAC Recovery
Witness: John J. Reed
Type of Exhibit: Surrebuttal Testimony
Sponsoring Party: The Empire District
Electric Company d/b/a Liberty
Case No.: ER-2024-0261
Date Testimony Prepared: September 2025

**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



TABLE OF CONTENTS
FOR THE SURREBUTTAL TESTIMONY OF JOHN J. REED
THE EMPIRE DISTRICT ELECTRIC COMPANY D/B/A LIBERTY
BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. ER-2024-0261

SUBJECT	PAGE
I. INTRODUCTION.....	1
II. RESPONSE TO OPC WITNESS LENA MANTLE	1
III. RESPONSE TO OPC WITNESS ANGELA SCHABEN	4
IV. RESPONSE TO STAFF WITNESS BROOKE MASTROGIANNIS.....	7
V. CONCLUSION	8

SURREBUTTAL TESTIMONY OF JOHN J. REED
THE EMPIRE DISTRICT ELECTRIC COMPANY D/B/A LIBERTY
BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. ER-2024-0261

1 **I. INTRODUCTION**

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

3 A. My name is John J. Reed. My business address is 293 Boston Post Road West, Suite
4 500, Marlborough, Massachusetts 01752.

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

8 A. Yes.

9 **Q. What is the purpose of your surrebuttal testimony in this proceeding before the**
10 **Missouri Public Service Commission (“Commission”)?**

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

17 **II. RESPONSE TO OPC WITNESS LENA MANTLE**

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

20 A. No. Ms. Mantle’s analysis is overly simplistic and fails to account for the dynamic
21 nature of fuel markets and the capital markets in which Liberty must compete. The 95/5
22 sharing mechanism already introduces asymmetrical risk, and any movement toward a

1 more aggressive sharing structure would exacerbate that imbalance. In a competition
2 for capital, even seemingly small deviations, or differences, from industry norms can
3 have outsized impacts on investor perception and utility cost of capital.

4 **Q. Why is “different” problematic in this context?**

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

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

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

¹ Mantle rebuttal, p. 24.

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

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

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

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

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

19 **Q. How does the sharing mechanism affect cost causation?**

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

² Mantle rebuttal, pp. 25-26.

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

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

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

12 **III. RESPONSE TO OPC WITNESS ANGELA SCHABEN**

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

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

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

23 A. Not at all. Excluding portions of transmission expense from the FAC creates artificial
24 distinctions and undermines the principle of full cost recovery. It also introduces

1 regulatory lag and increases the risk of under-recovery, which ultimately harms both
2 the utility and its customers.

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

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

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

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

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

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

8 **Q. Ms. Schaben emphasizes that the statute authorizing the FAC is meant to insulate**
9 **utilities from “unexpected and uncontrollable” costs. Does Liberty’s proposal**
10 **meet that standard?**

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

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

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

1 **IV. RESPONSE TO STAFF WITNESS BROOKE MASTROGIANNIS**

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

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

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

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

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

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

1 **Q. How does this affect Liberty’s ability to compete for capital?**

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

7 **V. CONCLUSION**

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

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

12 **Q. What do you recommend to the Commission?**

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

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

22 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