

of carrying costs, be determined in a future general rate or securitization proceeding; and grant such other and further relief as is just in the circumstances.

Respectfully submitted,

/s/ Whitney Payne

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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served by electronic mail, or First Class United States Postal Mail, postage prepaid, on this 8th day of October, 2021, to all counsel of record.

/s/ Whitney Payne

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. EU-2021-0274
Empire District Electric Company

FROM: Kimberly K. Bolin, Utility Regulatory Manager

DATE: /s/ Kimberly K. Bolin 10/08/2021 /s/ Whitney Payne 10/08/2021
Auditing Department/Date Staff Counsel's Office/Date

SUBJECT: Staff Recommendation for the Approval of the Application of The Empire District Electric Company's Fuel Costs Related to the Extraordinary Weather Event of February 2021

DATE: October 8, 2021

On June 2, 2021 The Empire District Electric Company ("Empire" or "Company") filed an Application for an accounting authority order ("AAO") permitting Empire to track and defer, beginning February 2021, to a regulatory asset: (1) the remaining 5% of extraordinary fuel and purchased power costs from February 2021 that was not deferred as a result of Case No. ER-2021-0032; (2) carrying costs on the total February 2021 fuel and purchased power expenditures at the Company's weighted average cost of capital; and (3) other costs specially related to Winter Storm Uri, including outside legal fees. Staff recommends that the Commission approve Empire's request for an AAO permitting Empire to track and defer to a regulatory asset certain costs associated with Winter Storm Uri.

Accounting Authority Order

An AAO is an order from the Commission allowing a utility to account for a reporting item in a different manner than normally prescribed for the utility's financial records. An AAO allows a utility to defer costs associated with an extraordinary event. Under normal accounting practices, a utility would charge to expense as incurred on its income statement all costs associated with an extraordinary event. If deferral of those costs is authorized through an AAO, the utility treats the costs associated with an extraordinary event as a regulatory asset and records them on its balance sheet to be amortized over some established period of time. If a utility experiences extraordinary savings those savings can also be deferred, but as a regulatory liability, with the regulatory liability then later returned to its customers through an amortization in rates. Examples of savings that have been deferred to an AAO are savings related to the closing of a generating plant and income tax rate reductions.

An AAO gives the utility an opportunity to obtain rate recovery of the deferred items in the future. AAOs have usually been used to allow utilities to capture certain unanticipated costs that have not been included in ongoing rate levels. The Commission has taken the position that the costs in question must be associated with an event that is extraordinary, unusual or unique in nature and not recurring. The costs associated with the event must be material. The classic

example of an extraordinary event is the occurrence of a natural disaster, such as a wind or ice storm or major flood that affects a utility's service territory.

AAOs deviate from the Commission's general ratemaking methodology, but the Commission has "substantial discretion" in determining whether an AAO is appropriate in a particular case.¹ However, the Commission has limited the use of AAOs in the past to extraordinary events. Staff agrees with Empire that Winter Storm Uri was an extraordinary event of a material nature for purposes of Empire's request to identify, track, document, accumulate, and defer associated costs and revenues.

Empire's Request for an AAO

Empire requests an AAO permitting Empire to track and defer, to a regulatory asset, the costs associated with Winter Storm Uri. The costs to be deferred include: (1) the remaining 5% of extraordinary fuel and purchased power costs from February 2021 that were previously not authorized for deferral; (2) carrying costs on the total February 2021 fuel and purchased power expenditures at the Company's weighed average cost of capital; and (3) other costs specifically related to Winter Storm Uri, including outside legal fees. The following table provides the amount of Missouri jurisdictional fuel and purchased power expense incurred for February 2021:

Total MO Jurisdictional Fuel and Purchased Power	\$184,333,407
Ordinary Fuel & PP Recovered in Case No. ER-2021-0332	\$ 7,346,526
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Total Extraordinary Fuel & PP (Case No. ER-2021-0332)	\$176,986,881
95% of Total Extraordinary MO Jurisdictional Fuel & PP	\$168,720,211
5% of Total Extraordinary MO Jurisdictional Fuel & PP	\$ 9,266,670

As shown above, 5% of the extraordinary fuel and purchased power costs from February 2021 is \$9,266,670. In Case No. ER-2021-0332, Empire was allowed to defer \$168,720,211 (or 95%) of the extraordinary fuel and purchased power costs incurred during February 2021. Normally, if fuel and purchased power costs are recovered through Empire's FAC, then Empire would recover only 95% of the costs and 5% of the costs would not be recovered through the FAC. However, Empire is requesting that the 5% of the extraordinary February 2021 fuel and purchased power costs not eligible for recovery through the FAC be deferred in the instant Application. While Staff is not opposed to these amounts being deferred by Empire in an AAO, any decision as to whether any, some or all of the deferral should be granted rate recovery should be determined in a future general rate proceeding or in a future case involving a request to securitize these costs.

Empire is also requesting carrying costs be applied to the deferrals using Empire's weighted average cost of capital of 6.77% as approved in the last rate case (Case No. ER-2019-0374). Staff is opposed to including carrying costs in the deferral at this time, since the

¹ *Office of Pub. Counsel v. Evergy Mo. West, Inc.*, 609 S.W.3d 857, 866 (Mo. App. W.D. 2020).

appropriateness of applying carrying costs to deferrals is essentially a ratemaking determination. In addition, the Commission has rarely authorized inclusion of carrying costs in a deferral. Staff recommends the Commission wait until Empire's next general rate case proceeding or in a possible future securitization case to decide this issue.

Lastly, Empire is also requesting to recover other costs specifically related to Winter Storm Uri, including outside legal fees. Empire provided an estimated amount of \$100,000 in Empire's workpapers for the current rate case (Case No. ER-2021-0312) for legal costs related to Winter Storm Uri. Staff recommends that Empire be allowed to defer these costs. Staff likewise recommends that the rate treatment of these costs be examined in a future general rate case proceeding or in a future securitization application.

Staff Recommendation

Staff recommends that the Commission approve Empire's request for an AAO, but that any ratemaking decisions, including the amount of recovery from customers and application of carrying costs, be determined in a future general rate or securitization proceeding.

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of The Empire District Electric)
Company's d/b/a Liberty (Empire) Fuel Costs)
Related to the Extraordinary Weather Event)
of February 2021)

Case No. EU-2021-0274

AFFIDAVIT OF KIMBERLY K. BOLIN

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

COMES NOW Kimberly K. Bolin, and on her oath states that she is of sound mind and lawful age; that she contributed to the foregoing *Staff Recommendation in Memorandum form*; and that the same is true and correct according to her best knowledge and belief.

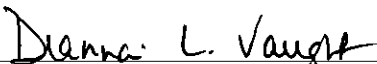
Further the Affiant sayeth not.



Kimberly K. Bolin

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 8th day of October, 2021.



Notary Public

