BEFORE THE PUBLIC SERVICE COMMISSION
STATE OF MISSOURI

In the Matter of The Empire District Electric Company for Authority to File Tariffs Increasing Rates for Electric Service Provided to Customers in the Company's Missouri Service Area	)))))	**Case No. ER-2014-0351**

STAFF STATEMENTS OF POSITION

COMES NOW the Staff of the Missouri Public Service Commission, by and through counsel, and for its Statements of Position states as follows:

LIST OF ISSUES and STATEMENTS of POSITION

A. Revenue Requirement Issues

1. Southwest Power Pool (SPP) Transmission Expense

What is the appropriate level of SPP Transmission Expense to include in Empire's revenue requirement?

Staff Position: The appropriate level of SPP Transmission Expense is \$16,717,485. Staff determined this annualized level by using the most current data for the six months ending August 31, 2014. While this exact amount may not be included in the anticipated global non-unanimous stipulation and agreement to be filed April 3rd, Staff's position is consistent with the settled position.

2. SPP Integrated Market (IM) Expense

What is the appropriate level of SPP IM Expense to include in Empire's revenue requirement?

Staff Position: The appropriate level of SPP IM Expense is \$2,373,766. Staff determined this annualized level by using the most current data for the six months ending August 31, 2014. While this exact amount may not be included in the anticipated global non-unanimous stipulation and agreement to be filed April 3rd, Staff's position is consistent with the settled position.

3. **Revenues**

a. *Should Empire's other Missouri retail customers be held harmless of the revenue impact of the bill credits Empire offers to its Special Contract customer?*

Staff Position: Yes

b. *What amount of off-system sales revenue (including SPP IM revenue) should be included in the revenue requirement?*

Staff Position: The appropriate amount of off-system sales is $15,526,174. While this exact amount may not be included in the anticipated global non-unanimous stipulation and agreement to be filed April 3rd, Staff's position is consistent with the settled position.

c. *What amount of REC revenue should be included in the revenue requirement?*

Staff Position: The amount of REC revenue to include in the revenue requirement used to set rates in this case is the test year amount of $1,066,688. This level of REC revenue is known and measurable. While this exact amount may not be included in the anticipated global non-unanimous stipulation and agreement to be filed April 3rd, Staff's position is consistent with the settled position.

d. *What amount of SPP Transmission Revenue should be included in the revenue requirement?*

Staff Position: The appropriate amount of SPP transmission revenue is $6,561,967. While this exact amount may not be included in the anticipated global non-unanimous stipulation and agreement to be filed April 3rd, Staff's position is consistent with the settled position.

4. **Joplin Tornado Operations and Maintenance (O&M) Asset**

Should the Joplin Tornado O&M asset be included in rate base?

Staff Position: No.

5. **Depreciation Expense**

Should Empire continue to recover depreciation expense for the retired Riverton 7 and Asbury 2?

Staff Position: No. Empire should stop collecting depreciation expense for these retired power plants at the time rates go into effect for this case.

6. **Incentive Compensation**

a. *What level of cash incentives based on performance goals should be included in the cost of service?*

Staff Position: **The amount of cash incentive based on performance goals that should be included in the revenue requirement is $1,946,144. While this exact amount may not be included in the anticipated global non-unanimous stipulation and agreement to be filed April 3rd, Staff's position is consistent with the settled position.**

b. *Should executive stock awards be included in the cost of service?*

Staff Position: No. The executive stock awards should not be included in the cost of services because these awards are based on measures that primarily benefit shareholders, such as shareholder return (maximizing the dividends paid to shareholders) and stock price goals (the value of the stock increasing over time). There is no direct benefit to the ratepayer there Staff disallowed all of the stock awards for this case.

c. *Should lightning bolts be included in the cost of service?*

Staff Position: No. The lightning bolts award should not be included in the cost of service because they did not relate to the provision of electric service and there were no performance criteria for receipt of these awards.

7. Rate Case Expense

What is the appropriate amount to include in Empire's revenue requirement for Rate Case Expense?

Staff position: $64,261. In this case, Staff is recommending that Empire's rate case expenses be treated in the traditional manner; that is, the Company should be allowed an opportunity to recover in rates the full amount of reasonable and prudently incurred rate case expenses through a two- year normalization period from the ratepayers. While this exact amount may not be included in the anticipated global non-unanimous stipulation and agreement to be filed April 3rd, Staff's position is consistent with the settled position.

8. Accumulated Deferred Income Taxes (Rate Base)

What is the appropriate level to be used to be included in rate base?

Staff Position: The appropriate level of accumulated deferred income taxes to include in rate base is $234,740,655. While this exact amount may not be included in the anticipated global non-unanimous stipulation and agreement to be filed April 3rd, Staff's position is consistent with the settled position.

9. Income Tax

a. *Should an adjustment be made to state income tax flow through for prior years?*

Staff Position: No.

b. *Should an adjustment be made for cost of removal tax issues related to prior years?*

Staff Position: No.

10. Vegetation Management Trackers

a. *What amount should be included in the revenue requirement for Vegetation Management?*

Staff Position: The amount of Vegetation Management tracker asset to be included in rate base is $5,162,156. Staff has included $1,032,431 for the annual amortization expense of the tracker and had included $11,000,000 for the normalized ongoing expense level. While this exact amount may not be included in the anticipated global non-unanimous stipulation and agreement to be filed April 3rd, Staff's position is consistent with the settled position.

b. *Should the vegetation management tracker be continued?*

Staff Position: Yes. Given the company's stated intention to file its next rate case by the end of 2015, the Staff no longer believes it should be continued. This position is consistent with the settled position.

c. *What is the proper base level to use in the tracker?*

Staff Position: The appropriate base level to use is $11,000,000. Given the company's stated intention to file its next rate case by the end of 2015, the Staff no longer believes it should be continued. This position is consistent with the settled position.

11. Iatan 2/Iatan Common/Plum Point O&M Trackers

a. *What amount should be included in the revenue requirement for Iatan 2/Iatan Common/Plum Point O&M?*

Staff Position: The amount included in rate base for the Iatan 2/Iatan Common/Plum Point O&M trackers is a combined regulatory asset of $485,181. Staff has included $161,727 for the annual amortization expense for the Iatan 2/Iatan Common/Plum Point O&M tracker. The normalized expense level for Iatan 2/Iatan Common/Plum Point O&M expense is $3,605,645. While this exact amount may not be included in the anticipated global non-unanimous stipulation and agreement to be filed April 3rd, Staff's position is consistent with the settled position.

b. *Should the Iatan 2/Iatan Common/Plum Point O&M trackers be continued?*

Staff Position: No. The Iatan 2/Iatan Common/Plum Point O&M trackers should not be continued because Staff was able to determine a reasonable level of ongoing expense based on four years of actual historical data for each of these generating facilities.

12. **Riverton 12 O&M Tracker**

a. *Should a tracker for Riverton 12 O&M be established?*

Staff Position: Yes. Staff recommends that a tracker be established at this point in time due to the variability in the expected maintenance expense.

b. *If so, what amount, if any, should be included in the revenue requirement for Riverton 12 O&M?*

Staff Position: The amount to be included in the revenue requirement for the Riverton 12 O&M tracker is $2.7 million. This amount exclude all the hours associated with the commissioning of this unit, which Staff believes should be treated as a capital item.

13. **Operation and Maintenance (O&M) Expense**

What is the appropriate level of O&M expense to include in the cost of service?

Staff Position: The amount of O&M expenses to be included in the cost of service is $19,182,825. This amount represents the normalized level of O&M for all of Empire's generating plant, transmission and distribution. This normalized level is not adjusted for the PPI or CPI as these indices are not specific to the Company's O&M costs. While this exact amount may not be included in the anticipated global non-unanimous stipulation and agreement to be filed April 3rd, Staff's position is consistent with the settled position.

14. **Prepayments**

Should the working funds for Iatan 2, Iatan Common, and Plum Point be treated as prepayments?

Staff Position: No. Staff believes the working funds for Iatan 2, Iatan Common, and Plum Point are cash accounts, not investment in utility assets.

15. Advertising

Should the cost of the "Value of Electricity" advertising be included in the revenue requirement?

Staff Position: No, the Advertising costs of $155,394 from two campaign ads and one radio ad related to the "Value of Electricity" should not be included in the revenue requirement. These ads should be categorized as promotional and institutional in nature. While this exact amount may not be included in the anticipated global non-unanimous stipulation and agreement to be filed April 3rd, Staff's position is consistent with the settled position.

16. EEI Dues

What amount, if any, of the dues paid by Empire to EEI should be included in revenue requirement?

Staff position: The total amount of $147,299 in EEI dues was disallowed by Staff and should not be included in the revenue requirement. The Company has failed to adequately justify EEI's benefit to the ratepayers for inclusion in rates. While this exact amount may not be included in the anticipated global non-unanimous stipulation and agreement to be filed April 3rd, Staff's position is consistent with the settled position.

17. Net Base Fuel and Purchased Power

What level of fuel expense should be included in Empire's Fuel Adjustment Clause (FAC) and revenue requirement?

Staff position: Staff determined the level of fuel expense to be $94,834,279, and purchase power expense to be $40,228,865. While this exact amount may not be included in the anticipated global non-unanimous stipulation and agreement to be filed April 3rd, Staff's position is consistent with the settled position.

18. Energy Efficiency

a. *Should Empire continue its current level of Pre-MEEIA energy efficiency programs?*

Staff position: Yes. As stated in the rebuttal testimony of Staff Witness Jason Huffman.

b. What should the cost recovery mechanism be to recover Pre-MEEIA program costs?

Staff Position: Staff recommends the same cost recovery mechanism as last approved by the Commission. In rate design, Staff directly assigns to applicable customer classes the portion of the revenue increase/decrease that is attributable to energy efficiency programs from Pre-MEEIA program costs.

19. Low-Income Weatherization

a. Should an evaluation be performed on the Low-Income Weatherization program?

Staff Position: Staff's position as discussed in Staff's Revenue Requirement Cost of Service Report in direct and in the surrebuttal testimony of Michael Stahlman is that an evaluation should be performed on the Low-Income Weatherization program. Given the company's stated intention to file its next rate case by the end of 2015, Staff supports no evaluation be performed at this time. This position is consistent with the settled position.

b. Should Low-Income Weatherization program expenses be recovered in the base rates?

Staff Position: To facilitate compliance with Section 393.1075.1(4), energy efficiency costs should not be recovered in base rates. Consistent with the global agreement Staff understands that there is an agreement of the parties that the Commission deem that beginning with the effective date of new rates as a result of this case that Empire's Low-Income Weatherization program is not energy efficient within the meaning of Section 393.1075.1(4).

20. Rate of Return

a. *What is the appropriate value for Return on Equity ("ROE") that the Commission should use in setting Empire's Rate of Return?*

Staff Position: Staff recommends, based upon its expert analysis, a return on common equity ("ROE") range of 9.25% to 9.75%, mid-point 9.50%, resulting in an overall Rate of Return ("ROR") of 7.47% to 7.73%, mid-point 7.60%. Staff recommends that the Commission

authorize a ROE of 9.50% based on a consideration of all relevant factors. While the ROE value ranges may not be included in the anticipated global non-unanimous stipulation and agreement to be filed April 3rd, Staff's position is consistent with the settled position.

b. *What capital structure should the Commission use to determine the rate of return?*

Staff Position: The appropriate capital structure for determining the allowed rate of return is Empire's consolidated capital structure, exclusive of short-term debt and the remaining unamortized balance of debt expenses as of August 31, 2014, which were incurred to amend Empire's mortgage bond indenture in order to maintain the dividend. Staff's resulting ratemaking capital structure recommendation consists of 51.71% common equity and 48.29% long-term debt. While this capital structure may not be reflected in the anticipated global non-unanimous stipulation and agreement to be filed April 3rd, Staff's position is consistent with the settled position.

c. *What is the appropriate value for embedded cost of debt?*

Staff Position: Staff proposes to disallow the remaining unamortized balance of debt expenses as of August 31, 2014, which was incurred to amend Empire's mortgage bond indenture in order to maintain the dividend. Staff subtracted this amount from Empire's cost of debt calculation for the period ending August 31, 2014. Staff recommends an embedded cost of long-term debt of 5.56%. While this embedded cost of long term debt may not be reflected in the anticipated global non-unanimous stipulation and agreement to be filed April 3rd, Staff's position is consistent with the settled position.

21. Total Revenue Requirement

What revenue requirement should the Commission establish in this proceeding?

Staff Position: The appropriate revenue requirement is in between the range of $12,758,861 to $17,323,455.

B. Non-Revenue Requirement Issues

1. FAC Tariff

a. Should Empire be allowed to continue, with modifications, its FAC?

i. Did Empire provide a complete explanation of the costs and revenues that it is proposing be included in its FAC?

ii. Did Empire show the magnitude of each cost and revenue type that it has requested be included in its FAC?

iii. Did Empire show that each cost and revenue type that it has requested be included in its FAC is volatile?

iv. Did Empire show that each cost and revenue type that it has requested be included in its FAC is uncertain?

v. Did Empire show that it is unable to manage each cost and revenue type that it has requested be included in its FAC?

Staff position: Empire should be allowed to continue its FAC with certain modifications. Empire provided sufficient information, in its testimony and workpapers, for Staff to perform its analysis of Empire's filing.

b. If Empire is allowed to continue its FAC, what modifications, if any should be made to its FAC?

Staff Position: Empire's FAC should be modified as reflected in the exemplar tariff sheets attached to Staff's Rate Design report to, among other things, reflect the replacement of the Southwest Power Pool's (SPP) Energy Imbalance Service Market with the Integrated Marketplace, to include certain SPP transmission costs (see ii), to include a revised Base Factor, reflect Empire's current operations, and clean-up Empire's FAC tariff.

i. Should the incentive mechanism be changed from Empire absorbing/retaining 5% of the change in cost to 10%?

Staff Position: No

ii. Should SPP transmission costs and revenues be included? If so, what transmission costs and revenues should be included?

Staff Position: Yes. SPP transmission costs should be included except for SPP Schedules 1a and 12. The set of transmission costs and revenues proposed to be included in Empire's FAC is very similar to the transmission costs and revenues that the Commission has approved for recovery through Ameren Missouri's FAC.

iii. Should the costs and revenues included in Empire's FAC reflect its current operations only?

Staff Position: Yes.

iv. Should cost types incurred and revenue types received of less than $60,000 during the test year be included in the FAC?

Staff Position: Staff has taken no position on this issue but reserves the right to do so later if necessary.

v. Should Empire be allowed to add SPP charges and revenues to its FAC between rate cases?

Staff Position: Yes, as provided in Staff's pre-filed reports and/or testimony.

vi. If so, should Empire be required to file the change with the Commission or provide notification in its FAC monthly reports?

Staff Position: Yes, as provided in Staff's pre-filed reports and/or testimony.

vii. Should Empire's FAC be modified to charge certain elements on the basis of how the cost or revenue was allocated in this rate case?

Staff Position: The FAC should be changed as provided in the exemplar tariff sheets attached to Staff's Rate Design and Class Cost of Service Report.

c. If Empire is allowed to continue its FAC, what if any changes should be made to FAC reporting requirements?

Staff Position: Empire should continue to provide the additional reporting as part of its monthly reports that Empire first agreed to in the Non-Unanimous Stipulation and Agreement filed May 12, 2010, in Case No. ER-2010-0130, and which it has continued to provide in its

monthly reports; this would include the following:

1. Monthly Southwest Power Pool ("SPP") market settlements and revenue neutrality uplift charges;

2. Notify Staff within 30 days of entering a new long-term contract for transportation, coal, natural gas or other fuel; natural gas spot transactions are specifically excluded;

3. Provide Staff with a monthly natural gas fuel report that includes all transactions, spot and longer term; the report will include term, volumes, price and analysis of number of bids;

4. Notify Staff within 30 days of any material change in Empire's fuel hedging policy, and provide the Staff with access to new written policy;

5. Provide Staff its Missouri Fuel Adjustment Interest calculation workpapers in electronic format with all formulas intact when Empire files for a change in the cost adjustment factor;

6. Notify Staff within 30 days of any change in Empire's internal policies for participating in the SPP;

7. Continue to provide Staff access to all contracts and policies upon Staff's request, at Empire's corporate office in Joplin, Missouri.

d. What level of fuel expense should be included in Empire's FAC and revenue requirement?

Staff position: Staff determined the level of fuel expense to be $94,834,279, and purchase power expense to be $40,228,865. While this exact amount may not be included in the anticipated global non-unanimous stipulation and agreement to be filed April 3rd, Staff's position is consistent with the settled position.

2. Miscellaneous Tariffs

a. *Should Empire's Economic Development Rider be modified to condition participation in applicable energy efficiency programs, as proposed by the Division of Energy?*

Staff Position: No

b. Should Empire be required to submit a Large Power rate schedule in its next case that recognizes a time differentiated facilities demand charge?

Staff Position: Staff does not oppose consideration of such a schedule, but does not recommend the Commission order its consideration.

c. *Should Empire modify its tariffs to include language on how a CHP customer requiring standby service is to be charged for such service, as proposed on page 3 of Division of Energy witness Alex Schroeder's surrebuttal testimony?*

Staff Position: Empire include language that until modified by the Commission in the Company's next general rate proceeding following Case No. ER-2014-0351, any "qualifying facility" as defined in 4 CSR 240-20.060(1)(G) shall be provided, upon request, stand-by power at the otherwise applicable standard rates which would apply if the Company provided energy at the customer's full service requirements.

d. *Should a standby service cost study (referenced on page 3 of Schroeder's surrebuttal testimony and page 19 of Schroeder's February 11th direct testimony) be completed before Empire's next rate case in order to develop a sound standby rate framework?*

Staff Position: Empire include language that until modified by the Commission in the Company's next general rate proceeding following Case No. ER-2014-0351, any "qualifying facility" as defined in 4 CSR 240-20.060(1)(G) shall be provided, upon request, stand-by power at the otherwise applicable standard rates which would apply if the Company provided energy at the customer's full service requirements.

3. Class Cost of Service and Rate Design

a. What, if any, revenue neutral interclass shifts are supported by Class Cost of Service studies?

Staff Position: Staff's CCoS results indicate that the following interclass shifts are appropriate to exactly match the rates of return provided by the various classes:

Residential	**10.69760%**
CB	**0.27289%**
SH	**0.12438%**
TEB	**-4.07253%**
GP	**-5.25522%**
LP	**-5.70596%**
SC-Praxair	**5.31806%**
PFM	**-35.42822%**
Lighting	**-16.51973%**

b. What, if any, revenue neutral interclass shifts should be made in designing the rates resulting from this case?

Staff Position: Based on CCOS results and rate design considerations such as maintaining rate continuity, rate stability, revenue stability; and minimizing rate shock to any one customer class, Staff recommends the RG class receive a positive 0.75% adjustment; and the TEB, GP, and LP classes of customers receive a negative adjustment of approximately 0.85%.

c. What, if any, changes to the residential customer charge are supported by Class Cost of Service studies?

Staff Position: Staff's cost of service study allocated $18.42 of revenue responsibility to the residential customer charge.

d. What, if any, changes to the residential customer charge should be made in designing the rates resulting from this case?

Staff Position: Based on CCOS results and rate design considerations such as maintaining rate continuity, rate stability, revenue stability; and minimizing rate shock to any one customer class, Staff recommends the residential customer charge increase by equal percent. Given the company's stated intention to file its next rate case by the end of 2015, Staff supports maintaining the existing customer charge, relying on its CCOS study results, but deferring to policy considerations. This position is consistent with the settled position.

e. What, if any, changes to the Commercial and Industrial customer charges are supported by Class Cost of service studies?

Staff Position: Staff's cost of service study found the customer charges for the non-residential classes are generally consistent with cost of service results.

f. What, if any, changes to the Commercial and Industrial customer charges should be made in designing the rates resulting from this case?

Staff Position: Staff recommends, based on CCOS results, that the commercial and industrial customer charges be increased by the equal percent increase for each applicable class excluding PFM and Lighting.

g. What, if any, changes to the LP tail block rate are supported by Class Cost of Service studies?

Staff Position: Staff found, on a per kWh-only basis, that the LP class's non-rate base net revenue requirement is approximately $.06695/kWh. Staff found that for the first year of SPP IM operation, the average energy cost per kWh for the LP class was $.03506/kWh. The Staff's study results support an LP tail block rate of some amount greater than $.03506/kWh, but less than $.06695/kWh.

h. What, if any, changes to the LP tail block rate should be made in designing the rates resulting from this case?

Staff Position: Staff recommends that each rate component of each class be increased across-the-board for each class on an equal percentage after consideration of steps 1 through 3 detailed below. These are (1) based on CCOS results, Staff recommends to increase/decrease the current base retail revenue on a revenue-neutral basis to various classes of customers. Specifically, Staff recommends the RG class receive a positive 0.75% adjustment; and the TEB, GP, and LP classes of customers receive a negative adjustment of approximately 0.85%; (2) Staff directly assign to applicable customer classes the portion of the revenue increase/decrease that is attributable to energy efficiency ("EE") programs from Pre-MEEIA program costs; (3) Staff determined the amount of revenue increase awarded to Empire not associated with EE revenue from Pre-MEEIA revenue requirement assigned in Step 2 from the total increase awarded to Empire. Staff recommends allocating this amount to various customer classes as an equal percent of current base revenues after making the adjustment in Step 1. Staff recommends that the PFM and combined lighting classes receive no retail increase as existing revenues received from these classes are providing more revenue to Empire than Empire's cost to serve.

i. Should the LP tariff be modified to reduce demand charges following an outage? If so (1) how is "outage" to be defined, and (2) is Empire's current filling and customer information system capable of accomplishing the modified billing proposed by MECG?

Staff Position: No. (1) No evidence has been presented regarding this issue. (2) No evidence has been presented regarding this issue.

j. What, if any, changes to the Special Contract interruptible credit and allowable hours of interruption are supported by Class Cost of Service studies?

Staff Position: No changes have been justified by any filed Class Cost of Service study.

k. What, if any, changes to the Special Contract interruptible credit and hours of interruption should be made in designing the rates resulting from this case?

Staff Position: None

l. What, if any, changes to the general interruptible credit are supported by Class Cost of Service studies?

Staff Position: No changes have been justified by any filed Class Cost of Service study.

m. What, if any, changes to the general interruptible credit should be made in designing the rates resulting from this case?

Staff Position: None

WHEREFORE, the Staff tenders its Statements of Position as directed by the Commission.

Respectfully submitted,

/s/ Robert S. Berlin
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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served, either electronically or by hand delivery or by First Class United States Mail, postage prepaid, to all counsel of record on this **31st day of March, 2015.**

/s/ Robert S. Berlin