

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

In the matter of The Empire District Electric     )  
Company and The Empire District Gas             )  
Company for Approval of their Cost Allocation     )  
Manual   )

**Case No. AO-2012-0062**

**RECOMMENDATION TO DEFER APPROVAL PENDING APPROPRIATE REVISION**

**COMES NOW** the Staff of the Missouri Public Service Commission (“Staff”), and for its *Recommendation to Defer Approval Pending Appropriate Revision* states as follows:

1. On August 23, 2011, The Empire District Electric Company and The Empire District Gas Company (collectively, “Empire”), filed their application for Missouri Public Service Commission (“Commission”) approval of their Cost Allocation Manual (CAM).

2. In the attached Staff Memorandum, Appendix A, Staff describes a number of areas in which the submitted CAM requires revision.

3. Staff recommends that the Commission defer its approval of Empire’s CAM until such time as Empire files an appropriately revised CAM consistent with the revisions described in Staff’s Memorandum.

4. Staff intends to work with Empire on these revisions and will file a supplemental recommendation as expeditiously as possible upon Empire’s filing of a revised CAM.

**WHEREFORE**, the Staff recommends to the Commission that the Commission defer approving Empire’s CAM until such time as Empire files an appropriately revised CAM consistent with the revisions described in Staff’s Memorandum.

Respectfully submitted,

**/s/ Sarah L. Kliethermes**

Sarah L. Kliethermes

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Missouri Bar No. 60024

Attorney for the Staff of the

Missouri Public Service Commission

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**CERTIFICATE OF SERVICE**

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or electronically mailed to all counsel of record this 10<sup>th</sup> day of November, 2011.

**/s/ Sarah L. Kliethermes**

## MEMORANDUM

TO: Missouri Public Service Commission Official Case File  
Case No. AO-2012-0062  
The Empire District Electric Company  
The Empire District Gas Company

FROM: Mark Oligschlaeger, Auditing Unit Manager  
Amanda McMellen, Utility Regulatory Auditor IV

/s/ Mark Oligschlaeger 11/10/11  
Auditing Unit / Date

/s/ Sarah Kliethermes 11/10/11  
General Counsel's Office / Date

/s/ Amanda McMellen 11/10/11  
Auditing Unit / Date

SUBJECT: Staff Recommendation for Deferral of Approval of Empire's  
Cost Allocation Manual Pending Indicated Revisions

DATE: November 10, 2011

On August 23, 2011, The Empire District Electric Company ("Empire Electric") and The Empire District Gas Company ("Empire Gas") (jointly, "Company") filed a joint application for approval of their Cost Allocation Manual (CAM). The filing was pursuant to the *Global Agreement* approved in File No. ER-2011-0004, an Empire Electric general rate case.

The purpose of the Company's CAM is to provide transparency into the process and procedures employed by the Company to comply with the Commission's affiliate transactions rules, 4 CSR 240-20.015 (Electric) and 4 CSR 240-40.015 (Gas). The affiliate transactions rules are intended to prevent regulated utilities from subsidizing or otherwise advantaging their non-regulated operations.

Staff has reviewed the responses to the data requests submitted in this case, as well as conducted a conference call with appropriate Company personnel concerning its affiliate transaction policies and procedures. Prior to recommending Commission approval of the Company's CAM, Staff recommends that the Company make certain revisions and further address certain areas.

- 1) Language should be added to the CAM that commits the Company to obtain competitive bids for goods or services provided by non-regulated affiliates, or in the alternative demonstrating why bids are neither necessary nor appropriate for the goods and services provided by non-regulated affiliates [4 CSR 240-20.015(3)(A) and 4 CSR 240-40.015(3)(A)].

- 2) Language should be added to the CAM that commits the Company to calculate and document the fair market price (FMP) and the fully distributed costs (FDC) for goods and services provided to the Company by non-regulated affiliates and provided to non-regulated affiliates by the Company [4 CSR 240-20.015(3)(B) and 4 CSR 240-40.015(3)(B)]. In addition, the Company should include in the CAM a specific discussion of its approach to calculation of FMP and FDC for all major lines of affiliate business entered into between the Company and non-regulated affiliates.
- 3) Language should be added to the CAM that commits the Company to conduct audits of its compliance with the Commission's affiliated transaction rules and the CAM no less frequently than every 36 months.
- 4) Language should be added to the CAM that, consistent with 4 CSR 240-40.015(2)(E), the Company will annually file either its CAM for Commission approval if it has been modified, or will file an indication that its CAM has not been modified.
- 5) Language should be added to the CAM that commits the Company to inform Staff on a timely basis of any material change made to its affiliated transaction policies and procedures in the duration between its required annual CAM filings.
- 6) Language should be added to the CAM that would broaden its scope to address a more comprehensive overview of issues concerning compliance with the Commission's affiliate transaction rules.

### **Conclusion**

Empire Electric and Empire Gas timely filed the CAM and required documents such that it complied with the applicable provisions of the *Global Agreement* and the Commission's *Order Approving Global Agreement* in File No. ER-2011-0004.

Staff recommends that the Commission defer approving the Company's CAM pending the Company's submission of revised CAM that complies with the matters discussed above.

Staff intends to work with the Company and will file a supplemental recommendation as expeditiously as possible upon the Company's submission of a revised CAM.

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

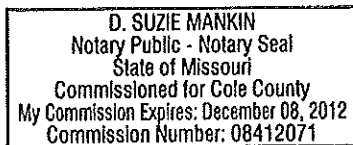
In the Matter of the Application of The       )  
Empire District Electric Company and The    )  
Empire District Gas Company for            )  
Approval of their Cost Allocation Manual    )

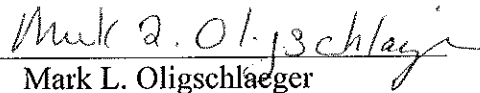
Case No. AO-2012-0062

AFFIDAVIT OF MARK L. OLIGSCHLAEGER

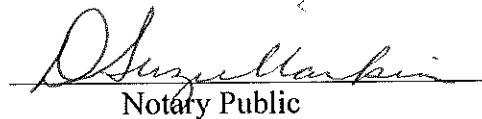
STATE OF MISSOURI       )  
                                      )  
COUNTY OF COLE        )       ss.

Mark L. Oligschlaeger, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Recommendation in memorandum form, to be presented in the above case; that the information in the Staff Recommendation was developed by him; that he has knowledge of the matters set forth in such Staff Recommendation; and that such matters are true and correct to the best of his knowledge and belief.



  
Mark L. Oligschlaeger

Subscribed and sworn to before me this 10<sup>th</sup> day of November, 2011.

  
Notary Public

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

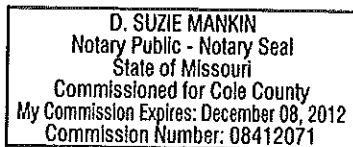
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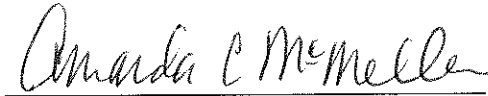
Case No. AO-2012-0062

AFFIDAVIT OF AMANDA C. MCMELLEN

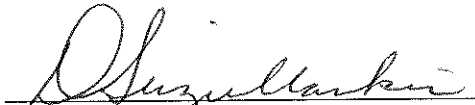
STATE OF MISSOURI       )  
                                      )  
COUNTY OF COLE        )       ss.

Amanda C. McMellen, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Staff Recommendation in memorandum form, to be presented in the above case; that the information in the Staff Recommendation was developed by her; that she has knowledge of the matters set forth in such Staff Recommendation; and that such matters are true and correct to the best of her knowledge and belief.



  
Amanda C. McMellen

Subscribed and sworn to before me this 10<sup>th</sup> day of November, 2011.

  
Notary Public