

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

In the Matter of the First Prudence Review of)
Costs Subject to the Commission-Approved Fuel)
Adjustment Clause of The Empire District Electric) Case No. EO-2010-
Company.)

STAFF’S NOTICE OF START OF PRUDENCE AUDIT

COMES NOW the Staff of the Missouri Public Service Commission (“Staff”), by and through counsel, and for its Notice of Start of Prudence Audit, respectfully states as follows to the Missouri Public Service Commission (“Commission”):

1. Like the Fuel and Purchased Power Adjustment Clause tariff (“FAC”) of Aquila, Inc., d/b/a KCP&L Greater Missouri Operations Company, which the Commission addressed in Case No. EO-2009-0115, the FAC of The Empire District Electric Company (“Empire”) provides that there “shall be a periodic review of fuel and energy costs subject to the FAC” and that “[p]rudence reviews shall occur no less frequently than at eighteen (18) month intervals.”¹ This tracks the language of both Commission Rule 4 CSR 240-20.090(7) and § 386.266.4(4) RSMo Supp. 2008.

2. In its last general rate case, Case No. ER-2008-0093, the Commission approved Empire’s FAC tariff sheets numbered 17, 17a, 17b and 17c to become effective on September 1, 2008.² Tariff sheet number 17 provides for recurring six-month accumulation periods of September-to-February and March-to-August.

¹ The Empire District Electric Company, Tariff Sheet, P.S.C. MO. No. 5, Sec. 4, Original Sheet No. 17b.

² *In the Matter of The Empire District Electric Company’s Tariff’s to Increase Rates for Electric Service Provided to Customers in the Missouri Service Area of the Company*, Case No. ER-2008-0093, *Order Granting Expedited Treatment and Approving Tariff Sheets*, issued August 12 and effective August 23, 2008.

3. The Staff plans to conduct a prudence review of the costs associated with Empire's FAC (offset by off-system sales margin and any emission allowance revenues) for an audit period of September 1, 2008 through August 31, 2009.³

4. Rule 4 CSR 240-20.090(7)(B), in part, provides: "The Staff shall file notice within ten (10) days of starting its prudence audit." It also establishes the following schedule of dates by which certain events are to take place keyed off of the date the Staff initiates its prudence audit:

Time from Staff prudence audit initiation within which event is to occur	Event
180 days after	Submission of Staff recommendation to Commission regarding Staff's examination and analysis
190 days after	Request for hearing
210 days after	Commission Order, if no hearing requested

5. The Staff initiated its prudence audit of the costs subject to Empire's commission-approved FAC on September 4, 2009, and the Staff plans to submit its recommendation to the Commission regarding the Staff's examination and analysis by February 28, 2010 by filing that recommendation in this case.

6. The Staff notes that this is the second prudence audit that it has undertaken of a fuel and purchased power adjustment mechanism authorized by § 386.266 RSMo Supp. 2008 (the first being of Aquila, Inc., d/b/a KCP&L Greater Missouri Operations Company, Case No. EO-2009-0115). Therefore, the Staff may, and in all likelihood will, change its audit approach during this audit, and in future prudence audits as well, based on the particular utility and the particular conditions prevailing at the time of the audit. The Staff has assembled its Energy

³ The Staff notes a rate adjustment based on the September 2008 to February 2009 was the subject of Case No. EO-2009-0349.

Resource Analysis Group, which, among other things, has the responsibility for the Staff's implementation of 4 CSR 240-3.161 and 4 CSR 240-20.090. The Staff plans to file a Staff recommendation at the conclusion of its prudence audit that covers the topics in the following outline:

Section 1 - Standard of Prudence

A. Standard requires documentation and includes other Commission principles as appropriate, such as the Commission's Affiliate Transactions Rules, which also requires documentation.

Section - 2 Audit Scope

A. Presently Known Areas To Review

1. Empire's Total Book Costs as Allocated to Missouri for Fuel Consumed in Empire's Generating Units
2. Costs Associated with Empire's Fuel Hedging Program
3. Purchased Power Energy Charges, Including Applicable Transmission Fees
4. Southwest Power Pool Variable Costs
5. Emission Allowance Costs and Revenues
6. Off System Sales

B. Tests/Investigations to Address/Discover Other Significant Items Impacting Fuel and Purchased Power Cost Recovery Amount

1. Comparison of Base Fuel Components and Amounts to Claimed Cost Components and Amounts
2. Plant Outages

3. Fuel, Freight and Transportation / Purchase Power Contracts

WHEREFORE, the Staff of the Missouri Public Service Commission hereby provides notice that it started its prudence audit of the costs subject to Empire's Commission-approved fuel adjustment clause on September 4, 2009 for the period September 1, 2008 through August 31, 2009, and that it plans to submit its recommendation to the Commission regarding the Staff's examination and analysis by February 28, 2010 by filing that recommendation in this case.

Respectfully submitted,

/s/ Nathan Williams

Nathan Williams
Deputy Staff Counsel
Missouri Bar No. 35512

Attorney for the Staff of the
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102
(573) 751-8702 (Telephone)
(573) 751-9285 (Fax)
nathan.williams@psc.mo.gov (e-mail)

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 9th day of September, 2009.

/s/ Nathan Williams