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

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| 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 | )<br>)<br>)<br>) | Case No. ER-2014-0351 |

**THE EMPIRE DISTRICT ELECTRIC COMPANY'S**
**STATEMENT OF POSITIONS**

COMES NOW The Empire District Electric Company ("Empire" or "Company"), by and through counsel, and respectfully files its Statement of Positions in the above-captioned case. In this regard, Empire states as follows to the Missouri Public Service Commission ("Commission"):

**Global Stipulation and Agreement**

All parties to this proceeding, with the exception of the Midwest Energy Consumers Group ("MECG"),[1] have reached an agreement in principle as to all issues in this rate case proceeding and intend to file a global stipulation and agreement with the Commission by Friday, April 3. It is Empire's understanding that MECG will object to the global stipulation and agreement to be filed by the Signatories and that MECG may request a hearing on all or some issues.

The Signatories submitted a List of Issues to the Commission containing all matters at issue in this rate case proceeding, and Empire's Statement of Positions follows this filed List of Issues and its prefiled testimony. Once filed, however, the global stipulation will represent

[1] An agreement has been reached by Empire, the Staff of the Commission ("Staff"), the Office of the Public Counsel ("OPC"), the City of Joplin ("Joplin"), the Missouri Department of Resources – Division of Energy ("DE"), and the Midwest Energy Users' Association ("MEUA") (collectively, the "Signatories").

Empire's positions on all issues in this matter and should be accepted by the Commission as a just and reasonable resolution of this rate case proceeding.

## Position Statements

### A. Revenue Requirement Issues

Pursuant to the Signatories' agreement, to be memorialized in a global stipulation and agreement to be filed herein by Friday, April 3, it is Empire's position that Empire should be authorized to file tariffs designed to increase the Company's revenues by $17,125,000. As to all revenue requirement issues, it is Empire's position that the Signatories' agreement represents a just and reasonable resolution. The Signatories' agreement is fully supported by the Signatories' testimony pre-filed herein.

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

It is Empire's position that the Signatories' agreement represents a just and reasonable resolution of this issue. Empire further states as follows:

Pursuant to the Direct Testimony of Empire witness Doll, all transmission expense and revenue not associated with the wholesale customers should be included in the FAC base fuel rate.

- <u>Transmission Expense</u>
    - $12,286,434 – Total 565 SPP Transmission expense (Total Company)
    - $4,164,359 – Total 565 Other Transmission expense (Total Company)
    - $16,450,792 – Total 565 Transmission expense (Total Company)

    - $10,889,378 – Total 565 SPP Transmission expense (MO jurisdictional)
    - $3,494,213 – Total 565 Other Transmission expense (MO jurisdictional)
    - $14,383,591 – Total 565 Transmission expense (MO jurisdictional)
- <u>Transmission Revenue</u>
    - ($9,596,850) – Total 457 SPP Transmission revenue (Total Company)
    - ($7,000,692) – Total 457 SPP Transmission revenue (MO jurisdictional)
- <u>Net Transmission Expense</u>
    - $6,853,942 – Total 457 SPP Transmission expense (Total Company)

- $7,382,899– Total 457 SPP Transmission expense (MO jurisdictional)

Doll Dir., pp. 3-7
Doll Reb., pp. 3-5

**2. SPP Integrated Market (IM) Expense:** What is the appropriate level of SPP IM Expense to include in Empire's revenue requirement?

It is Empire's position that the Signatories' agreement represents a just and reasonable resolution of this issue.

Doll Dir., pp. 3-7
Doll Reb., pp. 3-5

**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?
>
> b. What amount of off-system sales revenue (including SPP IM revenue) should be included in the revenue requirement?
>
> c. What amount of REC revenue should be included in the revenue requirement?
>
> d. What amount of SPP Transmission Revenue should be included in the revenue requirement?

It is Empire's position that the Signatories' agreement represents a just and reasonable resolution of these issues. Empire further states as follows as to sub-issue (a):

No, other Missouri retail customers should not be "held harmless" from the revenue impact of these credits/payments made for the right to interrupt electric service to Praxair on short notice. This ability to interrupt is a demand-side management program, as it allows the Company to lower demand in times of peak usage.

Empire has consistently included the cost of the interruptible credit in its overall revenue requirement. There have been some changes made to the number of hours of interruption available to Empire over time, but nothing that would support the exclusion of this cost. If the cost of the program is excluded from Empire's revenue requirement, the only fair and reasonable outcome for Empire is authorization from the Commission to discontinue the program and eliminate the IR credit from the Praxair tariff sheet.

Keith Reb., pp. 11-12
Keith Sur., pp. 11-12

**4. Joplin Tornado O&M Asset:** Should the Joplin Tornado O&M asset be included in rate base?

It is Empire's position that the Signatories' agreement represents a just and reasonable resolution of this issue. Empire further states as follows:

Yes, the asset should be included, as exclusion of these costs from Empire's rate base will deny Empire a return on the investment it has made in the system to restore electric service and result in an understatement of Empire's cost of service in Missouri.

Keith Reb., pp. 7-8

**5. Depreciation Expense:** Should Empire continue to recover depreciation expense for the retired Riverton 7 and Asbury 2?

It is Empire's position that the Signatories' agreement represents a just and reasonable resolution of this issue. Empire further states as follows:

Riverton Unit 7 and Asbury Unit 2 costs would still not be fully collected prior to Empire's next anticipated rate case. Overall reserves for both Riverton Unit 7 and Unit 8 will still need to be addressed at that time. Not continuing the depreciation expense collected from current customers for both Riverton Unit 7 and Asbury Unit 2 further delays the ultimate cost recovery for a group of assets, and potentially shifts collection of those costs to customers who did not receive the benefit of the generation. Depreciation reserve deficiency remaining at the end of the life of plant only remains because the authorized depreciation rates have not accurately tracked the life of the plant. Requiring a utility to forego or delay recovery of such amounts because of the inaccuracy of the authorized depreciation rates is unreasonable.

Sager Dir., pp. 2-5
Sager Reb., pp. 1-2
Sager Sur.

**6. Incentive Compensation**

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

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

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

It is Empire's position that the Signatories' agreement represents a just and reasonable resolution of these issues. Empire further states as follows:

(a) Empire's executive compensation program includes three basic compensation elements: (1) base salary; (2) annual (short-term) cash incentives based on threshold (minimum expected), target, and maximum performance measures; and, (3) long-term incentives. The executive compensation program in place at Empire is reasonable and quite conservative when compared to the Company's peers within the industry (i.e. the Company's overall compensation awards are significantly less than similar awards of the peer group). Accomplishment of executive performance criteria has a significant and positive impact on the operational and financial condition of the Company. All components of test year executive compensation should be included in Empire's revenue requirement.

(b) Yes. The full amounts of the equity compensation (performance-based restricted stock and stock options) associated with the long term incentive award should be included in Empire's revenue requirement. The Compensation Committee has developed such performance criteria as a function of placing a substantial portion of an executive's total compensation in variable rather than fixed vehicles in order to encourage high levels of employee performance. This approach is consistent with the approach utilized by Empire's peer group and the utility industry in general.

(c) Yes. The Management Incentive Compensation Plan, or "Lightning Bolt" program, is applicable to non-executive, salaried employees (individuals who do not earn overtime). It allows the Company to provide cash awards to individuals who deliver results beyond those normally associated with their position, often involving protracted time beyond normal work hours spent on special projects. Payments made under the Lightning Bolt program during the test year should be included in Empire's revenue requirement.

Walters Reb., pp. 2-10

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

It is Empire's position that the Signatories' agreement represents a just and reasonable resolution of this issue. Empire further states as follows:

Empire is incurring rate case expense (professional fees, attorneys' fees, and travel expenses) in order to participate in this rate case before the Commission. These expenses are reasonable. Empire is only participating in this proceeding because of the system of regulation the State of Missouri has decided to apply to utilities. Accordingly, an allowance for Empire's reasonable rate case expense should be included in the rates to be set in this proceeding. The Commission should further bring these expenses forward to a date that will allow the majority of costs to be captured in the Commission's order – at a minimum, a cut-off date after the filing of post-hearing briefs.

Keith Sur., pp. 2-9

**8. Accumulated Deferred Income Taxes (Rate Base):** What is the appropriate level to be used to be included in rate base?

Pursuant to Empire's prefiled testimony, $232,722,424 is the proper amount. It is Empire's position that the Signatories' agreement represents a just and reasonable resolution of this issue.

**9. Income Tax**

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

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

As set forth in the prefiled testimony of Empire witness Jay Williams, yes, there should be an adjustment made to state income tax flow through for prior years and there should be an adjustment for cost of removal tax issues related to prior years. It is Empire's position that the Signatories' agreement represents a just and reasonable resolution of these issues for this case.

J. Williams Reb., Sur.

**10. Vegetation Management Trackers**

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

b. Should the vegetation management tracker be continued?

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

As set forth in Empire's prefiled testimony, it would be reasonable to continue the vegetation management tracker. Without a tracker, Empire's test year amount of $11.5 million should be included in the revenue requirement. It is Empire's position that the Signatories' agreement represents a just and reasonable resolution of these issues.

Walters Reb., pp. 10-11

**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?

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

Pursuant to Empire's prefiled testimony, it would be reasonable to continue the trackers, with base amounts of $1,872,745 (Iatan 2), $2,144,836 (Iatan Common), and $2,103,017 (Plum Point). It is Empire's position that the Signatories' agreement represents a just and reasonable resolution of these issues.

Mertens Dir., pp. 7-8
Mertens Reb., pp. 2-3
Mertens Sur., p. 2

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

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

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

Pursuant to Empire's prefiled testimony, it would be reasonable to establish a tracker. It is Empire's position that the Signatories' agreement represents a just and reasonable resolution of these issues.

Mertens Dir., pp. 10-13
Mertens Reb., pp. 5-6
Mertens Sur., pp. 2-3

**13. Operation and Maintenance (O&M) Expense:** What is the appropriate level of O&M expense to include in the cost of service?

Pursuant to Empire's prefiled testimony, $11,421,780 is the appropriate level of O&M expense to be included in the cost of service. It is Empire's position that the Signatories' agreement represents a just and reasonable resolution of this issue.

Mertens Dir., pp. 3-7
Mertens Reb., pp. 3-5

**14. Prepayments:** Should the working funds for Iatan 2, Iatan Common, and Plum Point be treated as prepayments?

It is Empire's position that the Signatories' agreement represents a just and reasonable resolution of this issue. Empire further states as follows:

The prepayments for Iatan 2, Iatan Common, and Plum Point should be included in rate base at the 13-month average level. These accounts represent working capital funds that are required by the Iatan and Plum Point ownership agreements. They are held by Kansas City Power & Light Company and Plum Point Energy Associates and represent shareholder investment that is necessary to provide utility service to Empire's customers.

Mertens Reb., pp. 7-8
Mertens Sur., pp. 3-4

**15. Advertising:** Should the cost of the "Value of Electricity" advertising be included in the revenue requirement?

It is Empire's position that the Signatories' agreement represents a just and reasonable resolution of this issue. Empire further states as follows:

The "Value of Electricity" campaign informed Empire's customers about the overall value of electricity and the magnitude and timing of the rate impact associated with Empire's environmental compliance plan. It was of value to Empire's customers because it provided the information necessary for the customers to prepare for a change in their bill well in advance of new rates going into effect. Thus, this campaign was used to inform and educate Empire's customers and its costs should be included in Empire's revenue requirement.

Walters Reb., p. 11-12

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

It is Empire's position that the Signatories' agreement represents a just and reasonable resolution of this issue. Empire further states as follows:

The amount of Empire's annual Edison Electric Institute (EEI) dues not associated with lobbying should be included in Empire's revenue requirement, as Empire uses its membership in EEI to monitor critical industry issues. Working with EEI and its members enables Empire to stay abreast of industry issues, and gain insight into how other utilities are approaching industry problems and issues that will eventually have cost implications for Empire and its customers. Empire's EEI membership enables Empire to monitor and deal with these critical issues at a fraction of what it would cost to do on a standalone basis.

Keith Reb., p. 8-11

**17. Net Base Fuel and Purchased Power:** What level of fuel expense should be included in Empire's FAC and revenue requirement?

Pursuant to the Signatories' agreement, it is Empire's position that total fuel and purchased power to be included in Empire's FAC base is $142,143,000.

**18. Energy Efficiency**

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

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

(a) Without significant improvement in the cost recovery mechanism, Empire should be allowed to discontinue its current energy efficiency programs.

(b) The annualized cost of these energy efficiency programs should be billed as a separate line item on customers' bills at a rate 1 of $0.0043 per kilowatt-hour ("KWH"). This represents an increase of $0.0016 per KWH from the current charge.

It is Empire's position that the Signatories' agreement represents a just and reasonable resolution of these issues.

**19. Low-Income Weatherization**

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

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

Without significant improvement in the cost recovery mechanism, Empire should be allowed to discontinue its current energy efficiency programs, including weatherization. It is Empire's position, however, that the Signatories' agreement represents a just and reasonable resolution of these issues.

**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?

It is Empire's position that the Signatories' agreement represents a just and reasonable resolution of this issue. Empire further states as follows:

Based upon the common equity cost rates resulting from the use of multiple cost of common equity models as applied to a large proxy group of electric utility companies – the Discounted Cash Flow (DCF), the ex ante Risk Premium Model (RPM), the ex post RPM and the Capital Asset Pricing Model (CAPM), - a proper, conservative return on common equity for EMPIRE is within the a range of 10.0% to 10.8 % applicable to Empire's April 30, 2014, common equity ratio, as determined by Empire witness James H. Vander Weide, Ph.D. Empire has developed its revenue requirement in this case using a rate of return on common equity of 10.15%.

Taking into account the cost rates for long-term debt (5.6%) and common equity, the appropriate pro forma, weighted cost of capital, or fair rate of return, for Empire applicable to its jurisdictional electric utility rate base is 7.94% as of April 30, 2014.

Vander Weide Dir., Reb., and Sur.
Walters Dir., pp.5-6

Sager Dir., pp. 7-8

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

It is Empire's position that the Signatories' agreement represents a just and reasonable resolution of this issue. Empire further states as follows:

Empire is a corporate entity that issues its own debt based on its own credit risk and common stock. The appropriate capital structure for calculating Empire's weighted average cost of capital is its stand-alone capital structure as of April 30, 2014, which represents the capital financing its jurisdictional rate base to which the overall rate of return set in this proceeding will be applied. As of April 30, 2014, Empire's actual, stand-alone capital structure, adjusted to remove short-term debt, is comprised of 48.55% long-term debt and 51.45% common equity. The company's embedded cost of debt should include approximately $1.5 million of unamortized expense associated with an amendment to Empire's bond indenture in 2008 to comply with its obligations to maintain the debt-to-equity ratio required by a Regulatory Plan approved by the Commission in Case No. EO-2005-0263.

Walters Dir., pp. 7
Sager Reb. pp. 2-5

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

It is Empire's position that the Signatories' agreement represents a just and reasonable resolution of this issue.

Sager Dir., p. 7
Sager Reb., pp. 2-5

**21. Total Revenue Requirement:** What revenue requirement should the Commission establish in this proceeding?

Pursuant to the prefiled testimony of the Signatories and the Signatories' agreement, to be memorialized in a global stipulation and agreement to be filed herein by Friday, April 3, it is Empire's position that Empire should be authorized to file tariffs designed to increase the Company's revenues by $17,125,000.

**B. Non-Revenue Requirement Issues**

**1. FAC Tariff**

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

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

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

Empire should be allowed to continue its FAC with certain modifications. Empire provided a complete explanation of the costs and revenues to be included in its FAC and otherwise complied with all filing requirements and applicable law. Empire's FAC should be modified to include transmission costs and revenues, the sharing mechanism should remain at 95-5, and Empire's FAC tariff should be as attached to the Signatories' agreement.

Tarter Dir., Supp. Dir., Reb.
Doll Reb.
Vander Weide Supp. Dir.

**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?

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

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?

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?

It is Empire's position that the Signatories' agreement represents a just and reasonable resolution of these issues. Empire further states as follows:

(a) No.

(b) No. Empire's current billing system is not designed to differentiate between a peak that occurs within 12 hours of a customer outage and a peak that occurs outside this particular time period. In addition, Empire's existing billing system does not readily accommodate the use of a time-of-use rate.

(c) No.

(d) Pursuant to the Signatories' agreement, Empire is willing to conduct such a study.

Baker Reb., p. 2
Keith Sur., p. 13

**3. Class Cost of Service and Rate Design**

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

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

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

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

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

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

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

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

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?

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

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?

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

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

It is Empire's position that the Signatories' agreement represents a just and reasonable resolution of these issues. Empire further states as follows:

(a) Empire's cost of service study reflects that revenue neutral interclass shifts are necessary in order to reduce class subsidies, improve price signals, and provide more economically efficient rates.

(b) The allocation of any overall deficiency (increase in revenue requirement) should use the cost of service study prepared by Empire witness Overcast as a starting point. However, the allocation should further take into account the mitigation steps outlined in the Direct Testimony of Empire witness Keith (p. 12-15).

(c) Empire's cost of service study suggests that the residential customer charge should be increased to provide for the recovery of fixed costs in the fixed charges.

(d) The residential customer charge should be increased. Doing so would send accurate price signals to customers. Currently, 90.54% of the revenues produced by this class come from the volumetric or variable component of the rate, while a significant portion of Empire's cost to serve the class are fixed. Failure to increase the customer charge will result in the continued subsidization of low use customers by high use customers.

(e) Empire's cost of service study suggests that the commercial and industrial customer charges should be increased to provide for the recovery of fixed costs in the fixed charges.

(f) The allocation of any overall deficiency (increase in revenue requirement) should use the cost of service study prepared by Empire witness Overcast as a starting point. However, the allocation should further take into account the mitigation steps outlined in the Direct Testimony of Empire witness Keith (p. 12-15).

(g) The current rate design could be revised to better reflect Empire's cost to serve. The proposed customer charge and facilities demand charge were increased and the energy or variable rate components were decreased to better reflect the nature of Empire's fixed and variable cost to serve this class of customers.

(h) The current rate design could be revised to better reflect Empire's cost to serve. The proposed customer charge and facilities demand charge were increased and the energy or variable rate components were decreased to better reflect the nature of Empire's fixed and variable cost to serve this class of customers.

(i) No. Empire's current billing system is not designed to differentiate between a peak that occurs within 12 hours of a customer outage and a peak that occurs outside this particular time period. In addition, Empire's existing billing system does not readily accommodate the use of a time-of-use rate.

(j) No changes to the interruptible credit or hours of interruption are supported by the Class Cost of Service study.

(k) No changes to the interruptible credit or hours of interruption should be made in this case.

(l) No changes to the interruptible credit are supported by the Class Cost of Service study.

(m) None.

Keith Dir., pp. 12-15
Keith Reb., pp. 18-19
Keith Sur., pp. 11-13

Overcast Dir.
Overcast Reb.
Overcast Sur.

Respectfully submitted,

BRYDON, SWEARENGEN & ENGLAND P.C.

By:
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ATTORNEYS FOR THE EMPIRE
DISTRICT ELECTRIC COMPANY

**CERTIFICATE OF SERVICE**

I hereby certify that the above and foregoing document was filed in EFIS and that a copy of the same was sent via electronic mail on this 31st day of March, 2015, to all counsel of record.

/s/ Diana C. Carter_____________