

**THE STATE CORPORATION COMMISSION  
OF THE STATE OF KANSAS**

Before Commissioners: Pat Apple, Chairman  
Shari Feist Albrecht  
Jay Scott Emler

In the Matter of the Application of The )  
Empire District Electric Company for ) Docket No. 17-EPDE-226-ACA  
Approval of its Annual Energy Cost )  
Adjustment Filing. )

**ORDER APPROVING ANNUAL COST ADJUSTMENT**

The above-captioned matter comes before the State Corporation Commission of the State of Kansas (Commission) for consideration and decision. Having reviewed the files and records and being duly advised in the premises, the Commission makes the following findings:

1. On December 1, 2016, The Empire District Electric Company (Empire) filed an Application for approval of its Annual Energy Cost Adjustment (ACA) for the period ending October 31, 2016.<sup>1</sup>

2. On October 19, 2017, Commission Staff (Staff) submitted a Report and Recommendation (R&R) analyzing and recommending approval of Empire's requested 2016 ACA factor.<sup>2</sup> Staff's R&R was filed in this docket on October 20, 2017, and is incorporated herein.

3. Traditional Fuel and Purchased Power Review. Staff requested from Empire, by formal discovery requests and email correspondence, documentation supporting Empire's Application and Appendix A, Schedules 1-5, attached to the

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<sup>1</sup> Application of Empire (December 1, 2016).

<sup>2</sup> Staff Report and Recommendation, p. 1 (Staff R&R) (October 19, 2017).

Application and also met with Empire at its corporate offices.<sup>3</sup> For the months of April, May, June, and July, 2016, Staff audited Empire's Application by:

- Testing the accuracy of the monthly settlement computations;
- Ensuring the actual cost adjustment computed by Empire reflects the actual over/under-recoveries and the actual sales to Kansas jurisdictional customers;
- Ascertaining that the actual fuel and purchased power costs recovered through the ACA are actual costs supported by vendor invoices and general ledger entries;
- Verifying that the ACA factor used to calculate the customer's bill agrees with the calculation that the Company files with the Commission; and
- Ensuring the ACA balance reflects the elimination of the gains/losses associated with financial instruments used to hedge the cost of natural gas and the sales of excess natural gas during the twelve-month ACA period ending October 31, 2016.

Staff found no material irregularities in the information provided.<sup>4</sup>

4. For the SPP IM portion of the audit, Staff's objectives as to Empire's participation in the IM were as follows:

- a. Review Empire's process and control procedures in place to validate the accuracy of SPP invoices and statements.
- b. Examine Empire's management of market performance and operational risk within the SPP IM.
- c. For the months being audited in this year's ACA audit, evaluate whether Empire has accurately accounted for Kansas' actual share of IM costs/revenues pursuant to the provisions of the current ACA tariff.
- d. Determine whether Empire's participation in the IM is providing benefits to Empire's Kansas ratepayers.

Staff's R&R provides the details of Staff's process and analysis for this portion of the audit.<sup>5</sup>

5. Processes & Control Procedures. Based on the documentation provided to Staff by Empire and the discovery responses, Staff believes Empire has robust control

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<sup>3</sup> Staff R&R, p. 2.

<sup>4</sup> Staff R&R, p. 2&3.

<sup>5</sup> See Staff's R&R, pgs 3-7.

procedures in place to verify the accuracy of the settlement statements and invoices it receives from SPP for its activity in the IM.<sup>6</sup> Furthermore, Empire has a comprehensive process in place to verify meter data with internal and external counterparties and with SPP.<sup>7</sup> Finally, Empire has a process in place to verify all Bilateral Settlement Schedules (BSS) are submitted to SPP, and it has a defined process in place to submit and monitor disputes with SPP.<sup>8</sup>

6. Market Performance and Operational Risk. Staff conducted extensive discovery into the details of Empire's procedures for determining the profitability of incremental market sales associated with the SPP IM.<sup>9</sup> Staff also issued formal discovery requests regarding Empire's strategy for offering its generating resources into the IM and bidding for the daily load necessary to serve customers.<sup>10</sup> Finally, Staff issued several formal discovery requests regarding Empire's hedging strategies and procedures regarding the Auction Revenue Rights (ARRs) and Transmission Congestion Rights (TCRs) congestion management processes within the SPP IM.<sup>11</sup> "While the details of Empire's strategies are confidential due to their competitive and market-sensitive nature, Staff found that Empire has developed strategies that allow it to manage risks (including risks of recovery of variable O&M costs and fuel cost changes) and evaluate profitability to be successful in the SPP IM."<sup>12</sup>

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<sup>6</sup> Staff R&R, p. 4.

<sup>7</sup> Staff R&R, p. 4.

<sup>8</sup> Staff R&R, p. 4.

<sup>9</sup> Staff R&R, p. 4.

<sup>10</sup> Staff R&R, p. 4.

<sup>11</sup> Staff R&R, p. 5.

<sup>12</sup> Staff R&R, p. 4&5.

7. ACA Audit of Revenues and Costs. Empire provided Staff with a reconciliation that documented and verified all Empire IM activity for the audited months. This reconciliation relied on the KCC Monthly IM Activity Reports, weekly SPP settlement statements and Empire's reconciliation spreadsheet tying net general ledger accounting data for the month back to the corresponding settlement statement and KCC Monthly IM Activity Report.<sup>13</sup> Staff verified that the financial impact of the SPP statements and KCC Monthly IM Activity Report were accurately reported on Empire's general ledger and this data was tied back to Empire's ACA Application for the sample months reviewed in the audit.<sup>14</sup>

8. SPP IM Benefit to Kansas Ratepayers. Staff issued formal discovery and examined other publicly-available data. Staff concluded that:

Staff has not performed a comprehensive review of the benefits and costs derived from Empire's participation in the various components of the SPP IM. Staff's analysis focused on short-run marginal costs of generation and transmitting power to serve Empire's load. In this limited review, Staff has observed a decline in Empire's overall cost to serve its load since the implementation of the SPP IM in 2014, but has also seen a decline in OSS [off-system sales] and increased congestion revenue and expenses in 2016. However, based on the available data from SPP, the modeled results performed by Empire, and the decline in the overall cost to serve load since the start of the SPP IM, Staff's analysis suggests that the SPP IM is benefitting Empire's Kansas customers.<sup>15</sup>

9. Staff recommends the Commission approve Empire's Application and recommends the Commission authorize the use of Empire's ACA factor of \$0.00188 per kWh in order to return \$420,433 of over-recovered fuel and purchased power expenses from retail customers during the ACA period ending October 31, 2016.<sup>16</sup> Staff will

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<sup>13</sup> Staff R&R, p. 6.

<sup>14</sup> Staff R&R, p. 6.

<sup>15</sup> Staff R&R, p. 7.

<sup>16</sup> Staff R&R, p. 1&7.

continue to monitor Empire's performance and participation in the IM and will provide periodic updates to the Commission regarding this issue as often as is desired.

10. Upon review of the record as a whole, the Commission finds all of Staff's findings and recommendations to be reasonable and hereby adopts the same.

**IT IS, THEREFORE, BY THE COMMISSION ORDERED THAT:**

A. Empire is authorized to use its ACA factor of \$0.00188 per kWh to refund \$420,443 to its retail customers for the ACA period ending October 31, 2016.

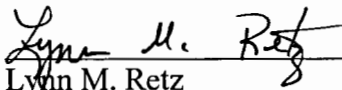
B. The parties have fifteen (15) days, plus three (3) days if served by mail, from the date of electronic service of this Order to petition for reconsideration.<sup>17</sup>

C. The Commission retains jurisdiction over the subject matter and parties for the purpose of issuing such further orders, as necessary.

**BY THE COMMISSION IT IS SO ORDERED.**

Apple, Chairman; Albrecht, Commissioner; Emler, Commissioner

Dated: NOV 21 2017

  
Lynn M. Retz  
Secretary to the Commission

JF

**EMAILED**

NOV 21 2017

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<sup>17</sup> K.S.A. 66-118; K.S.A. 77-529(a)(1).

## CERTIFICATE OF SERVICE

17-EPDE-226-ACA

I, the undersigned, certify that the true copy of the attached Order has been served to the following parties by means of

Electronic Service on NOV 21 2017

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/S/ DeeAnn Shupe  
DeeAnn Shupe

**EMAILED**

NOV 21 2017