Empire District Transmission Formula Rate Annual Update Narrative

2017

Empire District’s Transmission Formula Rate (“TFR”) is based strictly on historical financial data, making the Annual Update relatively straight forward. The 2017 Annual Update of the template is based on 2016 financial data, primarily obtained from the 2016 FERC Form 1 (filed on 4/18/2017). The data entry cells in the 2017 TFR are shaded in blue. Non-shaded cells represent fixed data, results of calculations within the template formula, and/or references from other worksheets within the template. Any data derived from a FERC Form 1 location other than the reference location in the TFR template is highlighted in yellow in the template and a footnote explanation is included in the template.

The Protocols posted/published for the 2017 Annual Update are those that were filed in FERC dockets EL14-73 and ER14-2882. It should be noted that these Protocols were approved on 3/22/2016 (effective 4/1/2015).

The sources of any inputs that come from Company books and records are documented in the template through specific instruction references and may be further explained through yellow-highlighted footnotes.

The adjustments displayed on ATT-11, Page 2 of the template reflect the informal challenges accepted by Empire during the discovery period of the 2016 Annual Update.

The impact of this year’s Annual Update (compared to the 2016 Annual Update) is as follows:

1. The Network Service Rate (Schedule 9) will increase by approximately 11.9%.
2. The Dispatching Rate (Schedule 1) will increase by approximately 1.5%.
3. The Point-to-Point Rates (Schedule 7 – Firm, & Schedule 8 – Non-Firm) will increase by approximately 11.9%.
4. Empire’s revenue requirement associated with regional projects (Schedule 11) will decrease by approximately 1.2% because no additional Regional Projects were completed in 2016.

The significant driving factors for these changes (compared to the 2016 Annual Update) are as follows:

1. Gross Transmission Plant in Service increased by 7.1%, contributing to an increase of 7.2% in Rate Base (after depreciation and other adjustments to Rate Base – primarily ADIT), which increased investment return by 7.5%.
2. Transmission O&M expense decreased by 2.0%.
3. Income Taxes increased by 6.6%.
4. The 12 CP transmission divisor increased from 903 MW to 919 MW dampening the increase in rates by approximately 1.8%.
5. During the final review of this 2017 Annual Update, a potential need to adjust the depreciation expense in the 2016 Annual Update was discovered which will require further review and resolution during the 2017 Annual Update process.

The Annual Update Meeting to discuss the inputs and impacts will be held on Thursday, June 15, 2017 at 10:00 AM CST at Empire’s offices located at 602 South Joplin Avenue, Joplin, Missouri. Remote access will also be available with details in the “Notice of Annual Update Meeting”.

Interested parties may submit information requests via email to Angela Cloven ([acloven@empiredistrict.com](mailto:acloven@empiredistrict.com)), with a copy to Jill Schwartz (jill.schwartz@libertyutilities.com).