Empire District Transmission Formula Rate Annual Update Narrative

2018

Empire District’s Transmission Formula Rate (“TFR”) is based strictly on historical financial data, making the Annual Update relatively straight forward. The 2018 Annual Update of the template is based on 2017 financial data, primarily obtained from the 2017 FERC Form 1 (filed on 4/18/2018). The data entry cells in the 2018 TFR are shaded in tan. 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 2018 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 depreciation corrections discussed in the 2017 Narrative and Annual Update meeting. Also included in ATT-11, Page 2 are the informal challenges accepted by Empire during the discovery and challenge periods of the 2017 Annual Update.

The impact of this year’s Annual Update (compared to the 2017 Annual Update) is as follows:

1. The Network Service Rate (Schedule 9) will increase by approximately 28.7%.
2. The Dispatching Rate (Schedule 1) will increase by approximately 21.4%.
3. The Point-to-Point Rates (Schedule 7 – Firm, & Schedule 8 – Non-Firm) will increase by approximately 28.7%.
4. Empire’s revenue requirement associated with regional projects (Schedule 11) will increase by approximately 4.8. Although no additional Regional Projects were completed in 2017, the Net Transmission Plant Carrying Charges increased from 16.42% to 17.66%.

The significant driving factors for these changes (compared to the 2017 Annual Update) are as follows:

1. Gross Transmission Plant in Service increased by 6.3%.
2. The ADIT’s impact on rate base decreased by 25% largely due to the recalculation of the ADIT’s using the lower corporate federal income tax rate.
3. Transmission O&M expense increased by 8.6%.
4. Income Taxes increased by 8.1%.
5. The 12 CP transmission divisor decreased from 919 MW to 892 MW contributing to an increase in rates of approximately 2.9%.
6. During the final review of this 2017 Annual Update, a potential need to correct the past depreciation reserves and expense was discovered. After further review and discussion during the 2017 Annual Update process, a $4,081,769 surcharge adjustment to correct this issue (back to 2012) was made to this 2018 Annual Update, resulting in a 10% increase in the Net revenue requirement.

The Annual Update Meeting to discuss the inputs and impacts will be held on Thursday, June 14, 2018 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 copies to Jill Schwartz ([jill.schwartz@libertyutilities.com](mailto:jill.schwartz@libertyutilities.com)) and Bethany Aborn ([bethany.aborn@libertyutilities.com](mailto:bethany.aborn@libertyutilities.com)).