

ORIGINAL _____ Sheet No. 34

Replacing: _____ Sheet No. _____

The Empire District Electric Company d/b/a Liberty-Empire
Name of Company

Kind of Service: Electric Class of Service: All

Part III Policy Schedule No. 16

Title: **ENERGY COST RECOVERY RIDER (Rider ECR)**

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16. ENERGY COST RECOVERY RIDER

16.1. RECOVERY OF ENERGY COST

Energy Cost Recovery Rider (ECR Rider) defines the procedure by which the "Energy Rate" of The Empire District Electric Company ("Empire" or "Company") shall be initially established and periodically determined. The Energy Cost Rate shall recover the Company's net fuel and purchased energy cost, as defined in this Rider ECR.

16.2. ENERGY COST RATE

The Energy Cost Rate to be initially effective under this Rider ECR shall be determined in the manner prescribed by the Arkansas Public Service Commission ("Commission") in its final order in Docket No. 13-111-U and shall become effective upon the date established by the Commission. The Energy Cost Rate shall then be redetermined through filings made in accordance with the provisions of Annual Redetermination of this Rider ECR. The Energy Cost Rate shall be applied to each customer's monthly billing energy (kWh).

16.3. ANNUAL REDETERMINATION

On or before March 15 of each year beginning in 2015, the Company shall file a redetermined Energy Cost Rate with the Commission. The redetermined Energy Cost Rate shall be determined by application of the Energy Cost Rate Formula set out in Attachment A of this Rider ECR. Each such revised Energy Cost Rate shall be filed in the proper underlying docket and shall be accompanied by a set of workpapers sufficient to fully document the calculations of the revised Energy Cost Rate.

The redetermined Energy Cost Rate shall reflect the projected Energy Cost for the 12- month period commencing on April 1 of each year ("Projected Energy Cost Period") together with a true-up adjustment reflecting the over-recovery or under-recovery of the Energy Cost for the 12-month period ended December 31 of the prior calendar year ("Energy Cost Period"). The Energy Cost Rate so determined shall be effective for bills rendered on and after the first billing cycle of April of the filing year and shall remain in effect for twelve (12) months, except as otherwise provided for below.

The annual update shall include a report of the following:

1. detailed fuel and purchased energy costs for FERC account and month for the historical year;
2. identify and explain changes of 10% or more from the prior year for major cost components of the ECR Rider, including fuel expense, purchased energy expense, off-system sales, etc.
3. identify changes in accounting procedures affecting fuel and purchased power costs, such as changes in FERC account number classifications and changes in costing methodologies;
4. identify changes in fuel and purchased power procurement practices;

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5. identify the monthly level of coal inventory in days and tons for the historical year;
6. identify the average price per unit for each fuel type and purchased power for the historical year;
7. identify and discuss changes in environmental regulations affecting fuel and purchased energy costs and explain the Company’s plans for compliance;
8. identify plant outages for the historical year and explain the cause(s) of the outages; and
9. identify penalty charges received in the SPP IM, if any, for the historical year and explain the reasons for incurring such penalties;
10. identify and explain changes in the SPP IM or the application of the SPP tariff that affect fuel and fuel-related costs and revenues recovered in the ECR Rider; and
11. explain Empire’s process for evaluating the accuracy of the underlying costs from the SPP IM.

16.4. INTERIM ADJUSTMENTS

If prior to the annual redetermination of the Energy Cost Rate, APSC General Staff (“Staff”) or the Company becomes aware of an event that is reasonably expected to occur and/or has occurred which will materially impact the Company’s Energy Cost, either the Staff or the Company may propose an interim adjustment to the Energy Cost Rate Formula set out in Attachment A of this Rider ECR. Furthermore, should a cumulative over-recovery or under-recovery balance arise during any Rider Cycle which exceeds ten percent (10%) of the Energy Cost determined for the Energy Cost Period included in the most recently filed rate redetermination under this Rider ECR, then either Staff or the Company may propose an interim revision to the then currently effective Energy Cost Rate.

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ORIGINAL _____ Sheet No. 35.1

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ATTACHMENT A

The charge or credit per kilowatt-hour, rounded to the nearest one-thousandth of a cent shall be determined as follows:

ECR = Energy Cost Rate (8)

$$ECR = \frac{TUA + (PEC * EAF)}{PES}$$

Where: TUA = True-up adjustment for the Energy Cost Period including carrying charges (1).

$$TUA = \sum_{j=1}^{12} (EC_j * EAF - (RR_j - PTU_j)) + CC_j$$

Where: EC_J = Energy cost for month_J of the energy cost period.

$$EC = FE_J + PE_J + AQCS_J - EMREV_J - REC_J - OSS_J$$

Where: FE_J = Gross system Fuel expense charged to accounts 501, 509, and 547 in month of the energy cost period.

PE_J = Gross system Purchased energy expense charged to account 555 in month of the energy cost period. (2).

EMREV_J = Revenues associated with sales of SO2 Emissions Allowances recorded in month of the historical energy cost period.

REC_J = Revenues associated with the sale of Renewable Energy Credits ("REC") recorded in month of the historical energy cost period.

OSS_J = Revenue associated with the sale of electricity to off-system customers (excluding wholesale sales to native load utilities) and revenue associated with the SPP IM during the historical energy cost period.

AQCS_J = The cost of anhydrous ammonia, limestone and limestone and powder activated carbon recorded in account 506.2 and 548.2 in month of the historical energy cost period.

EAF = Energy Cost Allocation factor most recently approved by the Commission for application in this Rider ECR (3.0420%).

RR_J = Revenue under Rider ECR for month of the energy cost period.

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PTU_J = Prior period true-up adjustment applicable for month of the energy cost period (3).

CC_J = Carrying charges for month of the historical energy cost period.

$$CC_J = (BB_J + EB_J) / 2 * CCR * Days / 365.$$

Where:

BB_J = Beginning month over/under-recovery balance, excluding carrying charges, for month of the historical energy cost period.

EB_J = Ending over/under-recovery balance excluding carrying charges for month of the historical energy cost period.

CCR = Carrying Charge Rate (4)

Days = Number of days in month of the historical energy cost period.

PEC = Projected energy cost for the projected energy cost period (5).

$$PEC = \sum_{J=1}^{12} EC_J \text{ (6)}$$

PES = Projected energy sales (kWh) subject to this Rider ECR for the projected energy cost period.

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ORIGINAL _____ Sheet No. 35.3

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16.5. NOTES TO FORMULA

- (1) The Energy Cost Period is the calendar year immediately proceeding the filing year.
- (2) Only energy related-portion of Account 555 shall be included in calculation. The recovery of energy costs associated with long-term renewable energy resources must be approved by the Commission prior to recovery through the ECR Rider. The recovery of SPP IM penalties incurred by the Company must be approved by the Commission prior to recovery through the ECR Rider.
- (3) The value of PTU for month of the then current Energy Cost Period shall be equal to one-twelfth of the True-up Adjustment (TUA) previously determined under the provisions of this Rider ECR for the second preceding Energy Cost Period for j=1,3 (January through march) and equal to one-twelfth of the True-up Adjustment (TUA) for the immediately preceding Energy Cost Period for j=4,12 (January through December).
- (4) The Carrying Charge Rate shall be the Commission approved rate of interest on customer deposits.
- (5) The projected Energy Cost period is the twelve month period commencing on April 1 of the filing year. The Projected Energy Cost is the energy cost, including AQCS and SO2 Emission costs and REC revenue recorded for the calendar year immediately preceding the filing year.
- (6) Should there be unusual circumstances associated with any Projected Cost (Variable PEC) different from that defined by this formula.
- (7) The energy cost to be recovered under this rider shall reflect the net system input costs associated with accounts 501, 547 and 555, and exclude any of the fuel and energy costs associated with off-system sales.
- (8) The Energy Cost Rate will be reduced by (\$14,737) on an annual basis based on a reimbursement received by Empire from Southwest Power Administration (SWPA) related to the reduction of generation at its hydro electric facility at Ozark Beach in Docket No. 10-052-U. The Arkansas jurisdictional reimbursement will be amortized to fuel expense over a 50-year period.