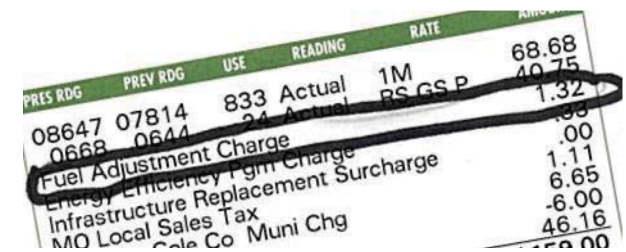
What’s this on my electric bill?

Examining the Fuel Adjustment Charge (FAC)

Each month, the Missouri Public Service Commission’s Consumer Services Department receives a number of calls from consumers regarding an item on their electric bill and whether it’s a new charge. Maybe you thought about calling and asking, *“What is an FAC?”*

FAC stands for fuel adjustment charge. If you are an electric customer of The Empire District Electric Company, Ameren Missouri or KCP&L (in the former Aquila, Inc. service territories), it is a part of your monthly electric bill. It’s not a new charge; in fact some customers have had an FAC charge on their electric bills since 2007. Still, it is a charge consumers may not know much about.

The FAC is designed to reflect fuel and purchased power cost volatility as well as company off-system sales revenues. Those costs tend to change, up and down, quite frequently. The FAC attempts to capture those costs in a more timely fashion so that the company recoups cost increases closer to when those costs occur and consumers benefit faster, in lower rates, when those costs go down.



The Fuel Adjustment Charge appears as a separate line-item on your electric bill.

The Empire District Electric Company and KCP&L (in the former Aquila service territories) have had an FAC for nearly five years. Both companies make filings with the Commission to adjust the charge, up or down, every six months. Ameren Missouri, the state’s largest investor-owned electric company, makes three filings a year to reflect changes to fuel, purchased power costs and off-system sales revenues. Ameren Missouri has had an FAC since 2009.

Fuel costs are costs the electric company incurs to purchase fuel such as coal, natural gas, uranium, or heating oil. Those fuels are used to run the power plants that produce the electricity that goes to your home. Purchased power costs are costs the company incurs if it has to buy power, either through a contract with another electric utility or on the spot market, to meet its customers’ needs.

An example of when an electric company might have to purchase power would be if the company has a power plant out of service (not providing power to its customers), the outside temperature is 100 degrees and a number of customers are using air conditioners to cool their homes. In this example, the electric company would purchase energy from other electric producers, on the open market, to meet its customers’ needs.

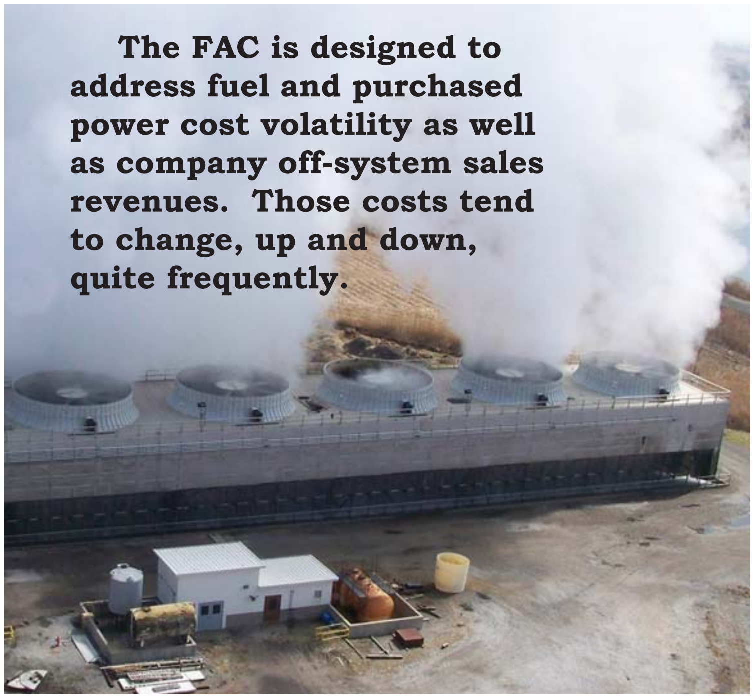
Another example would be if another electric company has excess capacity (power) and is willing to enter into a contract to sell that electricity at a price that is lower than what it would cost the Missouri electric company to produce its own electricity.

Off-system sales is a term often used to describe sales of excess power on the open market by the electric company because the price that it receives for the sale is greater than the price to generate power. The revenue from those sales goes toward reducing the overall fuel costs to serve its customers.

When the Missouri Public Service Commission decides a rate case involving an electric company such as Ameren Missouri, customer rates (base rates) are set reflecting a certain normalized (adjusted to curb the effects of unusual circumstances) level of fuel costs and off-system sales revenues. The Commission makes that determination based upon a thorough review of evidence filed by all parties in the rate case. Establishing a certain level of fuel costs and off-system sales revenues in “base rates” is important as it serves as a starting point or benchmark when adjustments are made, either up or down, to the FAC.

As you move forward from a rate case decision, fuel costs, purchased power costs and off-system sales revenues change from the level set in the “base rates” of a rate case. The FAC is designed to recognize those changes.

When an electric company seeks to change its FAC, it is required to make a filing with the Missouri Public Service Commission. Under PSC rules, the Commission has 60 days after the filing to make a decision. After the filing is made, it is thoroughly reviewed by the PSC staff. The PSC staff then makes a recommendation to the Commission on whether the filing should be approved.



The Empire District Electric Company’s Asbury Power Plant.

If the filing complies with state law, PSC rules, is mathematically correct and receives PSC staff approval, the Commission allows the change to take effect.

The fuel adjustment charge is calculated using actual fuel costs and <u>predicted</u> customer usage. As part of the FAC process, a true-up is conducted to make sure what the company paid in fuel costs is what it billed its customers through the FAC.

An annual true-up is necessary to reflect actual customer usage for that period of time reflected in the FAC. Predicted versus actual usage vary based upon factors such as the weather and economic conditions. If an over-collection or under-collection has occurred, it is ultimately reflected in the FAC.

Creation of the FAC was the result of Missouri legislation passed and signed into law in 2006 (SB 179). That bill provided the PSC with the authority to grant periodic rate adjustments, between rate cases, for electric, natural gas and water corporations. Electric companies were allowed to recover costs for fuel, purchased power and environmental compliance. The Commission implemented this law through a collaborative rulemaking process that involved all interested stakeholders.

SB 179 requires a prudency audit be conducted at least every 18 months to ensure the company made prudent decisions in its fuel and purchased power costs as well as its off-system sales associated with its FAC. The PSC staff can, and has, after its audit review, sought to reduce the FAC if it believes imprudent decisions were made. The Commission ultimately decides if an imprudent decision was made and determines the impact of the decision on customer rates.

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