Memo

**Subject:** Grounds for YES vote on the Empire District Electric Company shareholder resolution requesting a report on plans for pursuing cost effective energy efficiency resources

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Empire shareholders are encouraged to vote FOR the following resolution:

**Resolved:** Shareholders request a report (reviewed by a board committee of independent directors) on actions the company is taking or could take to reduce risk throughout its energy portfolio by pursuing all cost effective energy efficiency resources. The report should be provided by September 1, 2013 at a reasonable cost and omit proprietary information.

**Rationale for a “FOR” vote:**

Financial Risk to Empire from energy resource portfolio that under-utilizes energy efficiency

1. Navigant Consulting observed in a 2010 report that, “the changes underway in the 21st century electric power sector create a level and complexity of risks that is perhaps unprecedented in the industry’s history.” (http://www.ceres.org/resources/reports/the-21st-century-electric-utility-positioning-for-a-low-carbon-future-1).

2. In October 2012, the American Council for an Energy Efficient Economy (ACEEE) released a report ranking Missouri 43rd among all states in energy efficiency (http://aceee.org/research-report/e12c).


4. In May 2011, a National Academy of Sciences report warned that the risk of dangerous climate change impacts is growing with every ton of greenhouse gases emitted into the atmosphere. The report also emphasized that, “the sooner that serious efforts to reduce greenhouse gas emissions proceed, the lower the risks posed by climate change, and the less pressure there will be to make larger, more rapid, and potentially more expensive reductions later.” (http://dels.nas.edu/Report/Americas-Climate-Choices/12781).

5. The Tennessee Valley Authority’s (TVA) 2011 integrated resource plan, which employed a sophisticated approach to risk management determined that the lowest-cost, lowest-risk strategies were the ones that diversified TVA’s resource portfolio by increasing investments in energy efficiency and renewable energy. (http://www.tva.com/environment/reports/irp/)
**Empire lags its competitors in deploying energy efficiency programs:**

1. In 2009, the Missouri General Assembly passed the Missouri Energy Efficiency Investment Act (MEEIA). In 2010 the Missouri Public Service Commission (PSC) interpreted MEEIA and issue final rules that remove financial disincentives for regulation utilities to invest in energy efficiency. The rules allow utilities to recover costs of efficiency investments and resulting lost margins.
2. In 2012, both Ameren Missouri and Kansas City Power and Light – Greater Missouri Operations received approval from the PSC for efficiency programs within the MEEIA framework, investing $145 million and $40 million in efficiency demand-side mechanisms over the next three years.
3. The Empire District Electric Company has not disclosed in SEC filings or other public communications a significant accounting of investments in demand side energy efficiency.

**Conclusion:**

An increasing number of reports conclude that electric utilities need to increase their investment in energy efficiency. However, Empire is lagging in expanding this aspect of its resource portfolio, even though a mechanism exists to invest in energy efficiency while recouping lost revenue (i.e. MEEIA).

Investors have a right to know what the company is planning on doing to catch up with industry best-practice in this area.