Exhibit No.:	
Issue:	*True-up; Gas Contract Unwinding; Regulatory Plan Amortizations*
Witness:	*Mark L. Oligschlaeger*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*True-up Direct Testimony*
Case No.:	*ER-2008-0093*
Date Testimony Prepared:	*June 10, 2008*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

TRUE-UP DIRECT TESTIMONY

OF

MARK L. OLIGSCHLAEGER

THE EMPIRE DISTRICT ELECTRIC COMPANY

CASE NO. ER-2008-0093

Jefferson City, Missouri
June 10, 2008

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TRUE-UP DIRECT TESTIMONY

OF

MARK L. OLIGSCHLAEGER

THE EMPIRE DISTRICT ELECTRIC COMPANY

CASE NO. ER-2008-0093

TRUE-UP DIRECT TESTIMONY

OF

MARK L. OLIGSCHLAEGER

THE EMPIRE DISTRICT ELECTRIC COMPANY

CASE NO. ER-2006-0315

Q. Please state your name and business address.

A. Mark L. Oligschlaeger, P. O. Box 360, Jefferson City, MO 65102.

Q. Are you the same Mark L. Oligschlaeger who has previously filed direct, rebuttal and surrebuttal testimony in this proceeding for the Staff?

A. Yes, I am.

Q. What is the purpose of your true-up direct testimony?

A. The purpose of this testimony is to report the results of the Staff's true-up audit of The Empire District Electric Company (Empire or Company) in this proceeding.

EXECUTIVE SUMMARY

Q. Please briefly summarize your true-up direct testimony.

A. The Staff has performed a true-up audit of Empire's electric operations in conformity with the Commission's May 13, 2008 *"Order Scheduling True-up Hearing and Directing Filing."* In this testimony, I discuss the results of the true-up audit in general, and also present the Staff's updated Regulatory Plan Amortization (RPA) calculation results, reflecting the changes made to the Staff's case per the true-up audit. I will also address certain gas contract "unwinding" transactions entered into by the Company during the true-up period.

TRUE-UP AUDIT

Q. Please describe the true-up audit of Empire's electric operations performed by the Staff in this proceeding.

A. Based upon a previous Order from the Commission, the parties are using a test year for the 12 months ending June 30, 2007 in this case, with an additional update period ending December 31, 2007. Per the Commission's subsequent May 13, 2008 Order authorizing a true-up in this proceeding, the Staff has updated its case to reflect known and measurable events affecting significant elements of Empire's electric revenue requirement for the months of January and February 2008. The revenue requirement areas updated by the Staff are the following:

Rate Base: Plant in Service, Depreciation Reserve, Amortization of Electric Plant, Deferred Taxes, Fuel Inventories, Prepaid Pension Asset, Pensions and Other Post-Employment Benefits (OPEBs) Regulatory Asset Trackers, Materials and Supplies, Prepayments, Customer Advances, Customer Deposits, Cash Working Capital (annualized amounts only), Cash Working Capital Income Tax and Interest Offsets, Customer Demand Programs and Regulatory Plan Amortizations.

Income Statement: Revenues from Customer Growth, Payroll (Employee Levels, Wage Rates and Related Items), Fuel and Purchased Power Expense (Fuel and Purchased Power Prices, System Loads), Rate Case Expense, Depreciation Expense, Postage Expense and Income Taxes (Effect of Trued-up Items).

Rate of Return: Rate of Return Calculation (excluding Return on Equity) and Capital Structure.

Q. How did the Staff conduct its true-up audit?

A. The Staff updated its analysis in the areas listed above using the same methods and approach it used in its initial filing in this proceeding, except as otherwise discussed in this testimony.

Q. What capital structure is the Staff using as of February 29, 2008?

A. The Staff is using Empire's actual capital structure as of February 29, 2008, which consists of 50.78% common equity, 4.58% trust preferred stock and 44.65% long-term debt.

Q. What is the Staff's true-up rate of return recommendation in this case?

A. After updating the long-term debt rate and capital structure percentages, the Staff's rate of return recommendation at true-up is 8.64%, reflecting a mid-range return on equity of 10.26%.

Q. What revenue components were updated by the Staff in its true-up audit?

A. The Staff updated its revenue adjustments to reflect customer growth for the period of January and February 2008 for the following customer classes: residential, commercial, small heating, total electric buildings, and general power.

Q. Has the Staff included the Asbury Selective Catalytic Reduction (SCR) project in its true-up case?

A. Yes. As a result of the Commission's Order for a true-up audit in this proceeding, which will allow for reflection of the Asbury SCR project in rates appropriately matched in time with other material changes to Empire's revenue requirement, the Staff no longer opposes inclusion of this plant addition in rates. Accordingly, the Staff has included the Asbury SCR project in rate base, has included an annualized level of depreciation associated with this plant addition, and has included an allowance for operations and maintenance expense in its case for operation of the SCR addition (adjustment S-28.6). However, the Staff has not included any property tax expense in its case for the Asbury SCR project. The Staff understands that Empire intends to drop its request for recovery of Asbury SCR property tax expense in this proceeding.

Q. What components of fuel and purchased power expense were updated by the Staff in its true-up audit?

A. The Staff has updated its calculated natural gas prices, coal prices, purchased power prices, and freight/transportation costs associated with delivery of coal, natural gas and petroleum coke. The result of this update, when the Staff incorporated this updated information in its fuel expense model, was increases in the Staff's recommended level of total variable fuel/purchased power costs from $149,161,065 to $151,407,056 (both amounts total Company).

Q. Why did the Staff's recommended level of fuel/purchased power expense increase as a result of the true-up?

A. Part of this increase relates to serving the increased customer loads reflected in the Staff's true-up revenues calculation. Also, replacing January through February 2007 fuel and purchased power price data with the same months for 2008 in Staff's adjustment calculations resulted in an overall increase to natural gas and purchased power prices. In addition, the price to transport coal by truck increased in the true-up period due to higher gasoline price levels at February 29, 2008.

Q. What trued-up natural gas price is the Staff recommending that the Commission use to set rates in this case?

A. The Staff's overall recommended price for natural gas in this proceeding is \$6.92 per MMBtu. This result is derived from Empire's known and measurable hedged contracts to purchase natural gas entered into as of February 29, 2008, applicable to the months March 2008 through February 2009, valued at \$6.97/MMBtu; and the weighted average actual price paid by Empire for spot natural gas for the twelve months ended February 2008, valued at \$6.56/MMBtu. The Staff combined these two gas costs at an 87% weighting for hedged gas costs to 13% for spot gas costs to determine the overall price of \$6.92 per MMBtu. This methodology is consistent with that used to determine the Staff's recommended natural gas price in its initial direct filing.

Q. Has the Staff updated its off-system sales margin recommendations to reflect true-up period results?

A. No. The Staff believes the recommendation made regarding off-system sales (OSS) in its direct case, based upon Empire's results for the first six months of 2007, is still appropriate and representative of an ongoing level of margin from these transactions. The Staff's recommended level of OSS margin is \$4,415,779 in this proceeding. For the Commission's information, however, Empire's achieved margins from off-system sale transactions for the 12 months ending February 2008 are \$6,116,915, compared to a test year level of \$3,920,819 and a level of \$5,955,336 for the 12 months ending December 31, 2007.

Q. Did the Staff propose a new adjustment to Empire's test year depreciation expense?

A. Yes. The Staff recently discovered that its direct case reflected a small amount of depreciation expense (a little under \$100,000) that was calculated on plant accounts that were in fact fully depreciated as of the end of the test year update period. For purposes of the true-up filing, the Staff has made Adjustments S-90.1 and S-90.2 to eliminate from annualized depreciation expense the amounts calculated on Accounting Schedule 6, Depreciation Expense, associated with fully depreciated plant accounts.

Q. How did the Staff update Empire's rate case expense in the true-up audit?

A. The Staff has reflected Empire's actual rate case expenses incurred through May 31, 2008, in its case, as well as including an estimate of the costs Empire will incur during the true-up and briefing phases of this case.

Q. What were the overall results of the Staff's true-up audit (without consideration of the RPA)?

A. The Staff's recommended traditional revenue requirement after the true-up audit is $25,668,911, reflecting the midpoint of the Staff's rate of return range as shown in the Staff's True-up Accounting Schedules, filed concurrently with this testimony. In this context, "traditional revenue requirement" means the revenue requirement calculated absent consideration of the need for an RPA.

GAS CONTRACT UNWINDING

Q. Were there any transactions entered into by the Company in the true-up period affecting its fuel and purchased power expense that the Commission should be aware of?

A. Yes. In February 2008, Empire "unwound" several contracts for future delivery of natural gas and, as a result, booked a gain that decreased its fuel expense by approximately $1.3 million.

Q. What do you mean by the term "unwound" in the above context?

A. To "unwind" a contract is to undo or cancel it. In this particular instance, Empire entered into a settlement with BP Energy Company (BP) to cancel certain physical contracts for the delivery of natural gas to Empire by BP in July and August of 2010, and the same months in 2011. This gas was contracted for by Empire at a price of $4.525 per dekatherm. The reason Empire chose to unwind these contracts were: 1) to receive a cash payment of $2.1 million from BP to alleviate a perceived cash flow shortage, and 2) to book an approximate $1.3 million gain ($2.1 million less associated taxes) in its income statement that would offset in part the additional fuel expense the Company was incurring in the first quarter of 2008 as a result of the extended outage at its Asbury generating station. An explanation by Empire for entering into these unwinding transactions can be found in its response to Staff Data Request No. 290, Schedule 1 to this true-up direct testimony.

Q. Has Empire entered into replacement contracts for supply of natural gas for its gas generating units in 2010 and 2011to replace the gas that would have been supplied under the unwound gas contracts?

A. No, per its response to Staff Data Request No. 290.1 (Schedule 2).

Q. Has Empire previously ever unwound any of its natural gas supply contracts?

A. Yes. In 2005, Empire unwound several of its then-existing natural gas contracts and booked a gain of approximately $5 million to its income statement as a result. In Case No. ER-2006-0315, in response to proposals by the Staff and other parties to include all or part of that gain in rates as a reduction to fuel expense, the Commission ruled that no part of that gain was to be flowed through to customers in rates.

Q. Is the Staff proposing to include the February 2008 unwinding gain in its recommended true-up level of fuel and purchased power expense in this case?

A. No, in light of the Commission's decision in Case No. ER-2006-0315. However, the Staff does have several concerns about Empire's unwinding transactions and their potential future impact on regulated customers.

Q. What is the Staff's first concern?

A. From the Staff's perspective, contracts entered into by utility companies for supply of natural gas in the future clearly should clearly be considered as assets (future benefits) to the utility. It is my understanding that utilities are prohibited by Missouri law from disposing of the whole or part of its franchise, works or system necessary or useful in the performance of its duties to the public without the authorization of the Commission. Prior Commission decisions indicate that a utility's franchise, works or system can include intangible assets, such as SO2 emission allowances, for purposes of these provisions of Missouri law. Therefore, the Staff is investigating whether the type of gas supply contracts entered into by Empire, which it chose to unwind, fall under this prohibition, and whether a complaint should be filed against Empire in regard to its actions regarding these gas contracts.

Q. What is the Staff's other concern regarding Empire's unwinding actions?

A. The Staff's is concerned that Empire's actions to unwind these contracts may not be in the long-term best interest of its customers. Empire, through its actions in the true-up period, has given up the contractual right to receive natural gas in the future at prices that are significantly below current market levels, in order to enhance its cash flow and to book a financial gain to shore up its income statement on a short-term basis. To the extent the gas Empire obtains to replace the "unwound" contractual volumes is higher-priced than the gas that would have been obtained through the contracts Empire canceled, then the Company's actions will ultimately be detrimental to its customers.

Q. What does the Staff recommend on this matter?

A. If the Commission orders a fuel adjustment clause (FAC) implemented for Empire in this case or subsequent rate cases, then the replacement cost of the gas for the contracts unwound by Empire will automatically flow through the FAC to customers, unless such costs are disallowed for recovery on prudency grounds. Therefore, the Staff recommends that the effects of Empire's unwinding transactions on future natural gas procurement costs be closely monitored in general rate proceedings or FAC audits, as the case may be, to ensure that higher prices that may be paid for replacement gas are not passed on to the Company's customers. As Empire's ratepayers will not receive any benefit in rates from the financial gain achieved by Empire from the unwinding transactions, neither should customers be burdened with higher rates as a direct result of the Company's decisions to unwind gas contracts.

REGULATORY PLAN AMORTIZATIONS

Q. Has the Staff updated its calculations for the Regulatory Plan Amortization (RPA) mechanism authorized as a result of the Commission's approval of the Stipulation and Agreement for Case No. EO-2005-0263?

A. Yes, it did. The updated amortization calculation incorporating the Staff's recommended true-up revenue requirement is shown as Schedule 3 to this testimony. The RPA was devised first for Kansas City Power & Light Company in Case No. EO-2005-0329 and then for Empire in Case No. EO-2005-0263 to assist these companies in maintaining their debt at investment-grade status during the construction of the Iatan 2 generating unit and other infrastructure projects addressed in those cases for KCPL and Empire, respectively.

Q. What do the Staff's current Regulatory Plan Amortization calculations show?

A. The Staff's calculated amount of RPA for the true-up is ($2,849,541).

Q. What does calculation of a negative RPA amount signify?

A. This result shows that no additional amount of RPA is necessary in this case above the Staff's recommended traditional revenue requirement recommendation to support Empire's present investment-grade credit ratings. Further, this result indicates that a portion of the RPA rate component authorized by the Commission in Empire's previous rate proceeding, Case No. ER-2006-0315, is no longer required to support the Company's investment-grade credit ratings.

Q. Why has the amount of the calculated RPA decreased significantly from that shown in the RPA calculation attached to the Staff's Cost of Service Report filed on February 22, 2008?

A. Most of the decrease in the calculated RPA can be attributed to the parties' agreement in the *Second Stipulation and Agreement as to Certain Issues* in this proceeding to incorporate in the RPA calculation an imputation of depreciation expense associated with Empire's purchased power agreements, in conformity with Standard & Poors' current practice. This imputation had the impact of materially improving Empire's cash flow metrics considered in the RPA calculation. Also, the Staff's inclusion of the Asbury SCR project in its true-up revenue requirement also led to a substantial decrease in the RPA calculation.

Q. Does the Stipulation and Agreement in Case No. EO-2005-0263, Empire's Regulatory Plan case, address whether it is permissible or required to reduce the amount of an RPA found reasonable in a prior rate proceeding as a result of the RPA findings or calculations in a subsequent rate case?

A. The Empire Regulatory Plan Stipulation and Agreement appears to be silent on this question. However, the other parties to this proceeding have indicated in informal discussions that they believe reducing the prior case's ordered RPA amount to be an appropriate action if the Commission's final traditional revenue requirement findings in this case so justify. The Staff concurs with this approach, although there is a counter-argument that reducing the RPA component in rates at this time will mean a higher rate base, and consequently higher customer rates, in subsequent Empire rate proceedings.

Q. Taking into account both the Staff's traditional revenue requirement and the negative RPA revenue requirement, what is the total Staff recommended revenue requirement for Empire in this case?

A. The Staff's total revenue requirement recommendation at true-up is $22,819,370 (traditional revenue requirement of $25,668,911 less negative RPA of $2,849,541).

Q. Taking into account the Commission's RPA findings in the 2006 Empire rate case, what portion of the Staff's recommended overall revenue requirement of $22,819,370 consists of the RPA?

A. The amount of the RPA ordered in the Company's 2006 rate proceeding was $10,168,615. Reducing this amount by $2,849,541 leaves $7,319,074 in remaining RPA in

Empire's rates, if the Staff's traditional revenue requirement recommendations are adopted by the Commission.

To verify this result, the Staff computed a revenue requirement for Empire that excluded the previous case's ordered RPA from expense. The Company's revenue requirement at the midpoint ROE range under that assumption was $15,500,295. Incorporating these results into the RPA calculation spreadsheet then showed a need for an RPA to maintain credit ratings in the amount of $7,319,074. These two amounts added together equal $22,819,370.

Q. What do these amounts mean?

A. They mean that, if the Commission were to adopt the Staff's true-up rate increase recommendation of $22,819,370 in whole, $15,500,295 should be considered traditional revenue requirement and $7,319,074 should be considered to consist of RPA. Under these assumptions, the Company would book the latter amount annually as a component of its depreciation expense on an ongoing basis until its next general rate case.

Q. Is the amount of the RPA component of Empire's rates still subject to change in this proceeding?

A. Yes, because a final RPA quantification in this case is dependent upon the Commission's decisions in certain contested issues, particularly return on equity and depreciation rates.

Q. Does the reduction in RPA in this case from last case mean that the rates set in Empire's last rate proceeding, Case No. ER-2006-0315, were excessive by $2,849,541?

A. No. The RPA calculation resulting from the Commission's *Report and Order upon Reconsideration* in Case No. ER-2006-0315 (issued March 26, 2008) was correct. On a going forward basis, the RPA calculation is now different due to stipulated changes to the RPA calculation approaches and to changes in Empire's financial results.

Q. Does a reduction in RPA affect the amount of offset to rate base to be booked by Empire per the Stipulation and Agreement in Case No. EO-2005-0263?

A. Yes. While the Company has been booking $10,168,615 to depreciation expense related to the RPA since its last rate case, and has reflected that annual amount as a reduction to rate base in this case, on a going forward basis Empire will book $7,319,074 in annual depreciation expense and as a cumulative offset to rate base in future rate proceedings, if the Staff's recommendations in this case are accepted by the Commission.

Q. Does this conclude your true-up direct testimony?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of The Empire District Electric Company of Joplin, Missouri's Application for Authority to File Tariffs Increasing Rates for Electric Service Provided to Customers in the Missouri Service Area of the Company	)))))	Case No. ER-2008-0093

AFFIDAVIT OF MARK L. OLIGSCHLAEGER

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Mark L. Oligschlaeger, of lawful age, on his oath states: that he has participated in the preparation of the foregoing True-Up Direct Testimony in question and answer form, consisting of 13 pages to be presented in the above case; that the answers in the foregoing True-Up Direct Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

Mark L. Oligschlaeger

Mark L. Oligschlaeger

Subscribed and sworn to before me this 10th day of June, 2008.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
County of Cole
My Commission Exp. 07/01/2008

D Suzie Mankin

Notary Public

Missouri Public Service Commission

Data Request

Data Request No.	0290
Company Name	Empire District Electric Company, The-Investor(Electric)
Case/Tracking No.	ER-2008-0093
Date Requested	5/22/2008
Issue	Expense - Operations - Fuel Expenses
Requested From	Angela Cloven
Requested By	Mark Oligschlaeger
Brief Description	Unwinding Transaction
Description	Re Empire's 1Q SEC Form 10-Q, p. 14, in which a 2/15/08 gas contract "unwinding" transaction is described: 1) Please provide the details of Empire's original contracts for deliveries of this gas; i.e., who the gas was purchased from, dates of delivery, and the price paid by Empire for the gas. 2) Provide a complete rationale for why Empire decided to unwind these contracts. 3) Is it Empire's position that the financial gain from this transaction should not be included in the ordered true-up for this proceeding? If yes, why?
Due Date	5/29/2008
Response	Provided by Doug Gallemore

1) The natural gas was purchased from BP Energy Company on November 18, 2004 for delivery in July 2010, August 2010, July 2011 and August 2011. The contracted price was $4.525/MMBTU for all delivery months.

2) These contracts were unwound to partially offset the negative liquidity effect and hardship experienced as a result of an extended outage of the Company's base load coal generation facility.
The Company's Missouri rate jurisdiction, from which approximately 83% of revenues are derived, does not have a fuel adjustment mechanism; therefore the Company must attempt to keep fuel costs in line with the rate deemed reasonable and prudent and ordered by the Missouri Public Service Commission (MPSC). It was estimated that the Company's expenditures for fuel and purchased power costs would be approximately

$8.0 to $10.0 million higher than planned, thus causing the Company to experience decreased liquidity and other hardships.

The Company's Risk Management Oversight Committee (RMOC), consisting of senior management, operations and accounting personnel concluded that unwinding the gas contracts (also known as net settling) would be an appropriate action to offset the negative liquidity impact and operational hardship impact.

3) Yes, the financial gain associated with the transaction should be excluded from the true-up. The transaction was entered into to partially offset the unexpected increase in fuel and purchased power costs related to the unexpected extension in the outage at the Asbury unit. The Company has not requested recovery of these unanticipated increases in fuel and purchased power in the current case. Finally, this transaction is not routine and ongoing and should not be reflected as a component of Empire's ongoing energy costs.

Missouri Public Service Commission

Respond Data Request

Data Request No.	0290.2
Company Name	Empire District Electric Company, The-Investor(Electric)
Case/Tracking No.	ER-2008-0093
Date Requested	6/5/2008
Issue	Expense - Operations - Fuel Expenses
Requested From	Angela Cloven
Requested By	Mark Oligschlaeger
Brief Description	Feb. 2008 Unwinding Transactions

Description

For any replacement contracts or new contracts entered into by Empire for future supply of natural gas in connection to its decision to unwind certain physical gas contracts in Feb. 2008, please provide the following information: the date the new/replacement contracts were entered into; the identity of the supplier; the date of delivery of the gas; the price to be paid by Empire for the gas; and the market value of the gas at the time the new/replacement contract of the gas was entered into.

Response	Provided by Rick McCord - None purchased to date.
Objections	NA

The attached information provided to **Missouri Public Service Commission** Staff in response to the above data information request is accurate and complete, and contains no material misrepresentations or omissions, based upon present facts of which the undersigned has knowledge, information or belief. The undersigned agrees to immediately inform the **Missouri Public Service Commission** if, during the pendency of Case No. **ER-2008-0093** before the Commission, any matters are discovered which would materially affect the accuracy or completeness of the attached information. If these data are voluminous, please (1) identify the relevant documents and their location (2) make arrangements with requestor to have documents available for inspection in the **Empire District Electric Company, The-Investor(Electric)** office, or other location mutually agreeable. Where identification of a document is requested, briefly describe the document (e.g. book, letter, memorandum, report) and state the following information as applicable for the particular document: name, title number, author, date of publication and publisher, addresses, date written, and the name and address of the person(s) having possession of the document. As used in this data request the term "document(s)" includes publication of any format, workpapers, letters, memoranda, notes, reports, analyses, computer analyses, test results, studies or data, recordings, transcriptions and printed, typed or written materials of every kind in your possession, custody or control or within your knowledge. The pronoun "you" or "your" refers to **Empire District Electric Company, The-Investor(Electric)** and its employees, contractors, agents or others employed by or acting in its behalf.

Security : Public

Rationale : NA

SCHEDULE 2-2

Line	Item	Source	Total Company	Juris Alloc
1	Calculation of Amortization to meet Financial Ratio Targets			6/10/2008
2	Case No. ER-2008-0093, Empire District Electric			
3			Total	Juris
4			Company	Alloc
5	Additional Net Balance Sheet Investment	(numeric value for this case only)		65,883,523
6	Rate Base	Staff Acct. Schedule 2		700,251,812
7	Jurisdictional Allocation for Capital			0.837404
8				
9	Total Capital	L5+L6		766,135,335
10	Equity	Barnes Workpapers	0.5082	389,349,977
11	Trust Preferred	Barnes Workpapers	0.0458	35,088,998
12	Long-term Debt	Barnes Workpapers	0.4461	341,772,973
13	Cost of Debt	Barnes Workpapers		6.75%
14	Interest Expense	L12 * L13 (+$2,125,000 (TOPRs))		25,194,676
15				
16	Electric Sales Revenue	Staff Acct. Schedule 9, L 1-2, + Rate Increase		369,584,524
17	Other Electric Operating Revenue	Staff Acct. Schedule 9, L3		3,010,138
18	Water Revenue			
19	Operating Revenue	L16 + L17		372,594,662
20				
21	Operating and Maintenance Expense	Staff Acct. Schedule 9, L 94 (less cust. deposits)		223,980,005
22	Depreciation	Staff Acct. Schedule 9, L 97		35,389,669
23	Amortization	Staff Acct. Schedule 9, L 99-100		15,600,408
24	Interest on Customer Deposits	Staff Acct. Schedule 10, Adj. S-82.1		521,052
25	Taxes Other than Income Taxes	Staff Acct. Schedule 9, L 101		12,489,412
26	Federal and State Income Taxes	Staff Acct. Schedule 9, L 112 (plus rate incr. impact)		24,112,359
27	Gains on Disposition of Plant			
28	Total Water Operating Expenses			
29	Total Electric/Water Operating Exp	Sum of L. 21-28		312,092,905
30				
31	Operating Income - Electric	L19 - L29		60,501,757
32	Operating Income - Water			
33	less: Interest Expense	L14		-25,194,676
34	Depreciation	L22		35,389,669
35	Amortization			15,600,408
36	Deferred Taxes	Staff Acct. Schedule 9, L111		-3,142,413
37	Funds from Operations (FFO)	Sum of L31-36		83,154,745
38				
39				
40				
41				
42				
43	Additional Financial Information Needed for Calculation of Ratios			
44	Capitalized Lease Obligations	EDE Accounts 227 + 243	479,951	401,913
45	Short-term Debt Balance	EDE Form 10-Q, p. 8	33,040,000	27,667,828
46	Short-term Debt Interest	EDE Accounts 417.891 + 431.400	2,940,317	2,462,233
47	Cash Interest Paid	Information Supplied by EDE	31,049,437	26,000,923
48	AFUDC Debt (capitalized interest)	EDE Form 10-Q, p. 4	550,469	460,965
49	Imputed PPA Debt Amortization		4,679,375	3,918,527
50	Adjustments Made by Rating Agencies for Off-Balance Sheet Obligations			
51	Debt Adj for Off-Balance Sheet Obligs			
52	Operating Lease Debt Equivalent	Information Supplied by EDE	2,937,000	2,459,456
53	Purchase Power Debt Equivalent	Information Supplied by EDE	63,373,585	53,069,294
54	Total OSB Debt Adjustment	L52 + l53	66,310,585	55,528,749
55				
56	Operating Lease Deprec Adjustment	Information Supplied by EDE	1,255,000	1,050,942
57				
58	Interest Adjustments for Off-Balance Sheet Obligations			
59	Present Value of Operating Leases	L52 * 6.8%	199,716	167,243
60	Purchase Power Debt Equivalent	L53 * 6.8%	4,309,404	3,608,712
61	Total OSB Interest Adjustment	L59 + L60	4,509,120	3,775,955

SCHEDULE 3-1

62			
63	**Ratio Calculations**		
64	Adjusted Interest Expense	L14 + L46 + L61	31,432,864
65	Adjusted Total Debt 12/31/07	(L11/2) + L12 + L44 + L45 +L54	442,915,962
66	Adjusted Total Debt 12/31/06	Same as L65, but for prior year	443,934,000
67	Adjusted Total Capital	L9 + L44 + L45 + L54	849,733,825
68			
69	Adj. FFO Interest Coverage	(L37 + L56 + L64 + L49)/L64	3.80
70	Adj. FFO as a % of Average Total Debt	(L37 + L56 + L49)/L65	0.1990
71	Adj. Total Debt to Total Capital	L65/L67	0.5212
72			
73	**Changes Required to Meet Ratio Targets**		
74	Adj. FFO Interest Coverage Target		3.20
75	FFO Adjustment to Meet Target	(L74 - L69) * L64	-18,971,914
76	Interest Adjustment to Meet Target	L37 * (1/L74 - 1) - 1/L69 - 1)	8,137,299
77			
78	Adj. FFO as a % of Average Total Debt		0.195
79	FFO Adjustment to Meet Target	(L78 - L70) * L65	-1,755,602
80	Debt Adjustment to Meet Target	L37 * (1/L78 - 1/L70)	8,495,389
81			
82	Adj. Total Debt to Total Capital Target		56.50%
83	Debt Adjustment to Meet Target	(L82 - L71) * L67	37,183,649
84	Total Capital Adjustment to Meet Target	L65/L82 - L67	-65,811,768
85			
86	**Amortization and Revenue Needed to Meet Targeted Ratios**		
87	FFO Adj Needed to Meet Target Ratios	Maximum of L75 or L79	-1,755,602
88	Effective Income Tax Rate		0.3839
89	Deferred Income Taxes	L87 * L88/(1 - L88)	1,093,939
90	Total Amortization Req for FFO Adj	L87 - L89	-2,849,541
91			
92	* All references to Staff Acct. Schedules tie to schedules supporting amounts reflected in the		
93	True-up Accounting Schedules filed 6/10/08		