

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

In the Matter of the Empire District Electric )  
Company of Joplin, Missouri, 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

**STAFF NOTICE**

Comes now the Staff of the Missouri Public Service Commission (Commission) by and through the Commission's General Counsel, and for its Notice states as follows:

1. The Staff has discovered a \$131,600 error in the Regulatory Plan Amortization (RPA) calculation that was incorporated in the revenue requirement amount authorized in the Commission's Report and Order dated July 30, 2008 in The Empire District Electric Company (Empire) rate case, Case No. ER-2008-0093, which goes against Empire. This error involved use of a non-trued-up capital structure within the RPA calculations.

2. The capital structure the Staff used in its direct case filing in the Empire rate case was the Company's actual capital structure as of December 31, 2007: 50.82% common equity, 4.58% trust-owned preferred stock, and 44.61% long-term debt. This capital structure was also appropriately used in the Staff's RPA calculations that were contained in the Staff's direct case revenue requirement inputs.

3. Pursuant to Commission Order, the Staff performed a true-up audit of Empire through February 29, 2008. In the Staff's true-up accounting schedules, the Staff used Empire's actual capital structure as of February 29, 2008 to calculate the Company's "traditional" revenue requirement based on 50.78% common equity, 4.58% trust-owned

preferred stock, and 44.65% long-term debt. However, because of an oversight, this same capital structure was not used as an input in the Staff's trued-up RPA calculations. Instead, the capital structure as of December 31, 2007 was used.

4. If Empire's February 29, 2008 capital structure had been used in the Staff's trued-up RPA calculations, and then incorporated into the rate increase amount authorized in the Commission's July 30, 2008 Report and Order, Empire's RPA rate component amount would have increased by approximately \$131,600; i.e., there would have been less of a reduction to Empire's RPA in this proceeding by \$131,600. In this case, the effect to the RPA is an anomaly; the anomalous effect in this case is that the RPA is reduced, and this error caused the RPA to be reduced by \$131,600 more than it should have been. The \$131,600 error would have increased the overall amount of Empire's rate relief from this proceeding by \$131,600. Thus, the Staff's July 30, 2008 Financial Scenario Filing should have found that the RPA amount was a negative \$5,573,918 rather than a negative \$5,705,080 and the increase to Empire's Missouri retail customers on an annual basis based on the Commission's scenario assumptions is \$22,171,995 instead of \$22,040,395. Therefore, the increase in revenue authorized by the Commission to be collected by Empire from its Missouri customers on an annual basis shown on the second to last line on page 3 of the Commission's July 30, 2008 Report And Order should be \$22,171,995 instead of \$22,040,395. Attached as Appendix A are Staff workpapers.

5. The Staff has informed Empire of this error, and it is the Staff's understanding that Empire does not desire that the Commission modify the amount of ordered rate relief provided for in the Commission's July 30, 2007 Report and Order on

account of this error. Empire has advised the Staff that its own calculation respecting the error shows increasing its revenue requirement approximately \$85,000 rather than approximately \$132,000.

WHEREFORE the Staff provides Notice to the Commission and Parties of the Staff's error in its calculations in response to the Commission's July 30, 2008 Order Requesting Scenario.

Respectfully submitted,

/s/ Steven C. Reed

Steven C. Reed  
Litigation Counsel  
Missouri Bar No. 40616

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Missouri Public Service Commission  
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### **Certificate of Service**

I hereby certify that copies of the foregoing have been mailed, hand-delivered, or transmitted by facsimile or electronic mail to all counsel of record this 20th day of August, 2008.

/s/ Steven C. Reed

### **Regulatory Plan Amortization (RPA): Capital Structure Difference**

RPA Using 12/31/07 Capital Structure	(\$5,705,080)
RPA Using 2/29/08 Capital Stucture	(\$5,573,918)
Increase in RPA	<b>\$131,162</b>

1	Calculation of Amortization to meet Financial Ratio Targets			7/30/2008
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 *		703,724,909
7	Jurisdictional Allocation for Capital			0.837404
8				
9	Total Capital	L5+L6		769,608,432
10	Equity	Barnes Workpapers	0.5082	391,115,005
11	Trust Preferred	Barnes Workpapers	0.0458	35,248,066
12	Long-term Debt	Barnes Workpapers	0.4461	343,322,322
13	Cost of Debt	Barnes Workpapers		6.75%
14	Interest Expense	L12 * L13 (+\$2,125,000 (TOPRs))		25,299,257
15				
16	Electric Sales Revenue	Staff Acct. Schedule 9, L.1-2, + Rate Increase		373,072,521
17	Other Electric Operating Revenue	Staff Acct. Schedule 9, L.3		3,010,138
18	Water Revenue			
19	Operating Revenue	L16 + L17		376,082,659
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		35,372,038
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)		25,417,855
27	Gains on Disposition of Plant			
28	Total Water Operating Expenses			
29	Total Electric/Water Operating Exp	Sum of L. 21-28		313,380,770
30				
31	Operating Income - Electric	L19 - L29		62,701,889
32	Operating Income - Water			
33	less: Interest Expense	L14		-25,299,257
34	Depreciation	L22		35,372,038
35	Amortization			15,600,408
36	Deferred Taxes	Staff Acct. Schedule 9, L111		-3,143,403
37	Funds from Operations (FFO)	Sum of L31-36		85,231,675
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

62			
63	Ratio Calculations		
64	Adjusted Interest Expense	$L14 + L46 + L61$	31,537,445
65	Adjusted Total Debt 12/31/07	$(L11/2) + L12 + L44 + L45 + L54$	444,544,845
66	Adjusted Total Debt 12/31/06	Same as L65, but for prior year	443,934,000
67	Adjusted Total Capital	$L9 + L44 + L45 + L54$	853,206,922
68			
69	Adj. FFO Interest Coverage	$(L37 + L56 + L64 + L49)/L64$	3.86
70	Adj. FFO as a % of Average Total Debt	$(L37 + L56 + L49)/L65$	0.2029
71	Adj. Total Debt to Total Capital	$L65/L67$	0.5210
72			
73	Changes Required to Meet Ratio Targets		
74	Adj. FFO Interest Coverage Target		3.20
75	FFO Adjustment to Meet Target	$(L74 - L69) * L64$	-20,818,766
76	Interest Adjustment to Meet Target	$L37 * (1/L74 - 1) - 1/L69 - 1)$	8,941,724
77			
78	Adj. FFO as a % of Average Total Debt		0.195
79	FFO Adjustment to Meet Target	$(L78 - L70) * L65$	-3,514,900
80	Debt Adjustment to Meet Target	$L37 * (1/L78 - 1/L70)$	17,032,066
81			
82	Adj. Total Debt to Total Capital Target		56.50%
83	Debt Adjustment to Meet Target	$(L82 - L71) * L67$	37,517,066
84	Total Capital Adjustment to Meet Target	$L65/L82 - L67$	-66,401,887
85			
86	Amortization and Revenue Needed to Meet Targeted Ratios		
87	FFO Adj Needed to Meet Target Ratios	Maximum of L75 or L79	-3,514,900
88	Effective Income Tax Rate		0.3839
89	Deferred Income Taxes	$L87 * L88/(1 - L88)$	2,190,180
90	Total Amortization Req for FFO Adj	$L87 - L89$	-5,705,080
91			
92	* All references to Staff Acct. Schedules tie to schedules supporting amounts reflected in the		
93	Accounting Schedules reflecting the Commission's Scenario issued 7/30/08		

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12	Long-term Debt	Barnes Workpapers	0.4465	343,630,165
13	Cost of Debt	Barnes Workpapers		6.75%
14	Interest Expense	L12 * L13 (+\$2,125,000 (TOPRs))		25,320,036
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16	Electric Sales Revenue	Staff Acct. Schedule 9, L.1-2, + Rate Increase		373,072,521
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71	Adj. Total Debt to Total Capital	$L65/L67$	0.5214
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73		Changes Required to Meet Ratio Targets	
74	Adj. FFO Interest Coverage Target		3.20
75	FFO Adjustment to Meet Target	$(L74 - L69) * L64$	-20,752,272
76	Interest Adjustment to Meet Target	$L37 * (1/L74 - 1) - 1/L69 - 1)$	8,913,045
77			
78	Adj. FFO as a % of Average Total Debt		0.195
79	FFO Adjustment to Meet Target	$(L78 - L70) * L65$	-3,434,091
80	Debt Adjustment to Meet Target	$L37 * (1/L78 - 1/L70)$	16,640,269
81			
82	Adj. Total Debt to Total Capital Target		56.50%
83	Debt Adjustment to Meet Target	$(L82 - L71) * L67$	37,209,223
84	Total Capital Adjustment to Meet Target	$L65/L82 - L67$	-65,857,032
85			
86		Amortization and Revenue Needed to Meet Targeted Ratios	
87	FFO Adj Needed to Meet Target Ratios	Maximum of L75 or L79	-3,434,091
88	Effective Income Tax Rate		0.3839
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