BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Tariff Filing of The Empire District Electric Company of Joplin, Missouri to Implement a General Rate Increase for Retail Electric Service Provided to Customers in the Missouri Service Area of the Company.	))))))	Case No. ER-2006-0315

NONUNANIMOUS STIPULATION AND AGREEMENT REGARDING REGULATORY PLAN AMORTIZATIONS

Come now the Staff of the Missouri Public Service Commission ("Staff"), the Office of the Public Counsel ("Public Counsel"), and The Empire District Electric Company ("Empire"), collectively "Signatories," and respectfully state to the Missouri Public Service Commission ("Commission"):

1. The Signatories have reached a Nonunanimous Stipulation And Agreement Regarding Regulatory Plan Amortizations ("Agreement") that resolves among them the issue should Empire's revenue requirement include Regulatory Plan amortizations and the gross-up for taxes issue of the calculation of the quantification of the Regulatory Plan amortizations issue and sub-issues listed as item 4 under the heading "REGULATORY PLAN AMORTIZATIONS**,**" in the LIST OF ISSUES filed with the Commission in this case on August 28, 2006; as well as the amortization capital structure issue that arose during the true-up portion of this proceeding. The sub-issues concerning how Empire's off-balance sheet obligations should be valued for purposes of the amortizations were fully contested and still must be decided by the Commission in this proceeding.

2. The Signatories hereby agree that the methodology illustrated in the attachments hereto shall be the methodology used to calculate the quantification of any tax impacts associated

with the Regulatory Plan amortizations in Empire rate increase or rate decrease cases.

3. The Signatories agree that the amortization calculation based upon the revenue requirement resulting from the true-up in this case will reflect an allocation of Empire's capital structure to Missouri electric operations. This allocation will exclude the impact of Empire's acquisition of the former Aquila gas properties and the impact of any other operations of Empire not related to Empire's Missouri electric operations.

4. This Agreement is subject to various provisions of the Regulatory Plan Stipulation And Agreement in Case No. EO-2005-0263, such as Paragraph III(D)(2) and Paragraph III(D)(3). Paragraph III(D)(2) of the Regulatory Plan states, in part, that the amortization amounts in the aggregate shall not exceed the expected cost savings from the amortization mechanism and the lower costs of capital resulting from investment grade ratings. Paragraph III(D)(3) of the Regulatory Plan states that in order to ensure that the benefits of offsetting the rate base related to the amortizations in the Regulatory Plan accrue to Empire's customers in future rate proceedings, these benefits shall be reflected in rates, notwithstanding any future changes in the statutory provisions contained in Chapters 386 and 393 RSMo, for at least ten (10) years following the effective date of the Order Approving Stipulation And Agreement in Case No. EO-2005-0263.[1]

5. Further, the Signatories acknowledge that this agreement is a resolution and is an implementation of the resolution of the gross-up for taxes issue that was intentionally left unresolved by the Stipulation and Agreement in Case No. EO-2005-0263. The accumulated "Additional Amortizations To Maintain Financial Ratios" amounts will be treated as increases to the depreciation reserve and be deducted from rate base in any future Empire rate proceedings,

[1] The effective date of the Commission's August 2, 2005 Order Approving Stipulation And Agreement in Case No. EO-2005-0263 was August 12, 2005.

beginning with the first rate case after the 2006 Rate Case. This resolution is implemented pursuant to and in compliance with the provisions of that Stipulation and Agreement, and that as a result thereof, any Regulatory Plan amortization that is provided to Empire pursuant to that Stipulation and Agreement shall be used as a reduction to rate base for the longer of (a) at least ten (10) years following the effective date of the August 2, 2005 Order Approving Stipulation And Agreement in Case No. EO-2006-0263 or (b) until the investment in the plant in service accounts to which the Regulatory Plan amortizations are ultimately assigned by the Commission is retired. Such reduction to rate base is understood and accepted by Empire without reservation.

6. The Signatories agree that the amount shown on line 5 ("Additional Net Balance Sheet Investment)" of the IEC Termination and IEC Continuation Regulatory Plan amortizations, attached to the true-up testimony of Staff witness Mark L. Oligschlaeger as Schedules MLO-3 and MLO-4, respectively, shall be $30 million (Missouri jurisdictional), for purposes of calculating the Regulatory Plan amortizations in this proceeding.

7. The Signatories agree that the calculated amount of any Regulatory Plan amortization during the remainder of Empire's Regulatory Plan will reflect an allocation of Empire's total company capital structure to its Missouri jurisdictional retail electric operations. Empire's Missouri jurisdictional allocated capital structure will be calculated by synchronizing the capital structure component ratios with the amount of its Missouri jurisdictional electric rate base plus any net balance sheet investment in electric operations it incurs in serving Missouri retail electric customers that is not reflected in its rate base. This synchronization will be effectuated by applying the debt and equity capital ratio percentages from Empire's total company capital structure to the sum of Missouri jurisdictional rate base plus the additional net balance sheet investment incurred to serve Missouri jurisdictional electric operations.

8. This Agreement is being entered into for the purpose of disposing of the issues that are specifically addressed in this Agreement. In presenting this Agreement, none of the Signatories to this Agreement shall be deemed to have approved, accepted, agreed, consented or acquiesced to any ratemaking principle or procedural principle, including, without limitation, any method of cost or revenue determination or cost allocation or revenue related methodology, and none of the Signatories shall be prejudiced or bound in any manner by the terms of this Agreement in this or any other proceeding, other than a proceeding limited to enforce the terms of this Agreement, whether this Agreement is approved or not, except as otherwise expressly specified herein.

9. If the Commission does not unconditionally approve this Agreement without modification, it shall become void, and neither this Agreement, nor any matters associated with its consideration by the Commission, shall be considered or argued to be a waiver of the rights that any Signatory has for a decision in accordance with Section 536.080 RSMo 2000 or Article V, Section 18 of the Missouri Constitution, and the Signatories shall retain all procedural and due process rights as fully as though this Agreement had not been presented for approval, and any suggestions or memoranda, testimony or exhibits that have been offered or received in support of this Agreement shall become privileged as reflecting the substantive content of settlement discussions and shall be stricken from and not be considered as part of the administrative or evidentiary record before the Commission for any further purpose whatsoever.

10. If the Commission unconditionally accepts the specific terms of this Agreement without modification, the Signatories waive, with respect to the issues resolved herein: their respective rights pursuant to Section 536.070(2), RSMo 2000 to call, examine and cross-examine witnesses; their respective rights to present oral argument and/or written briefs pursuant to

Section 536.080.1 RSMo 2000; their respective rights to the reading of the transcript by the Commission pursuant to Section 536.080.2 RSMo 2000; their respective rights to seek rehearing pursuant to Section 386.500 RSMo 2000 and their respective rights to judicial review pursuant to Section 386.510 RSMo 2000. These waivers apply only to a Commission order respecting this Agreement issued in this above-captioned proceeding, and do not apply to any matters raised in any prior or subsequent Commission proceeding, or any matters not explicitly addressed by this Agreement.

11. This Agreement contains the entire agreement of the Signatories concerning the issues addressed herein.

12. Should the Commission have questions about this Agreement, the Signatories will make available their witnesses and attorneys on the issues resolved by this Agreement. If the Commission has questions for the Signatories' witnesses or Signatories, the Signatories will make available, at any on-the-record session, their witnesses and attorneys on the issues resolved by this Agreement, so long as all parties have had adequate notice of that session. The Signatories agree to cooperate in presenting this Agreement to the Commission for approval, and will take no action, direct or indirect, in opposition to the request for approval of this Agreement.

WHEREFORE, the undersigned Signatories respectfully request the Commission to issue an order in this case approving the Nonunanimous Stipulation And Agreement Regarding Regulatory Plan Amortizations subject to the specific terms and conditions contained therein.

Respectfully submitted,

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PUBLIC COUNSEL OF
THE STATE OF MISSOURI

Certificate of Service

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or electronically mailed to all counsel of record this 27th day of October, 2006.

/s/ Steven Dottheim

REGULATORY PLAN AMORTIZATIONS RESOLUTION EXPLANATION

A resolution of the Regulatory Plan amortization tax gross-up issue has been reached in the Empire rater increase case, Case No. ER-2006-0315, involving the following key points:

1. The entire amount of the Regulatory Plan amortization allowed in rates is to be treated as additional book depreciation for rate and financial statement purposes by Empire;

2. An additional tax straight-line depreciation[1] deduction in the entire amount of the Regulatory Plan amortization allowed in rates will be assumed for rate purposes and financial reporting purposes; and

3. The accumulated book depreciation reserve resulting from the recognition of the Regulatory Plan amortization as book depreciation will be recognized as an offset (reduction) to rate base in subsequent rate cases. The accumulated reduction in deferred income tax expense resulting from including the Regulatory Plan amortization in the straight line tax depreciation deduction will be reflected on Empire's tax records and included in subsequent rate cases, as appropriate, along with all other factors included in the determination of deferred income tax expense. The net effect of these changes related to the Regulatory Plan amortizations to the accumulated depreciation reserve and the accumulated deferred tax reserve is an overall reduction to Empire's rate base. The reduction in deferred taxes will be reflected in the deferred income tax balance in rate base in future rate cases, as well as all other changes affecting the deferred tax balance, including additional deferred taxes resulting from Empire's plant additions.

The Regulatory Plan amortization is intended to provide Empire the necessary cash flow to meet the two particular debt coverage ratios identified in the Regulatory Plan based upon Empire's Missouri jurisdictional cost of service.[2] The entire amount of the Regulatory Plan amortization will be treated as additional book depreciation, and the entire amount of the amortization will be reflected in Empire's tax calculation as additional tax straight-line depreciation deduction.

[1] What the Staff refers to as tax straight-line depreciation deduction, Empire refers to adjusted book depreciation.

[2] Adjusted Funds From Operations Interest Coverage and Adjusted Funds From Operations as a Percent of Average Total Debt. *See* Paragraph III(D)(2) and Appendix C and Appendix D of the Regulatory Plan.

REGULATORY PLAN AMORTIZATIONS: GROSS-UP ISSUE
ILLUSTRATION OF SETTLEMENT METHOD
IEC CONTINUATION SCENARIO

The following approach is adopted to allow Empire the opportunity for full recovery of any Funds From Operations (FFO) deficiency determined for purposes of calculating Regulatory Plan amortizations and the resulting impact on deferred income tax expense.

1) Determine Amortization Expense Amount (before consideration of deferred tax impacts) from Amortization Calculation

Updated IEC Continuation Amortization Calculation	$20,733,907

2) Increase Amortization Expense Amount to Account for FFO Impact of Reduced Deferred Taxes

(20,733,907 X 1.62311315)	$33,653,477

3) Add $33,653,477 to Book Depreciation Expense on the Income Statement

4): Add $33,653,477 to the Straight Line Tax Depreciation Deduction used in the deferred income tax expense computation

5) Subtract $33,653,477, in addition to other Straight Line Tax Depreciation Deductions, from the Accelerated Tax Depreciation Deduction to determine the basis for deferred income taxes; Total Tax Depreciation Deduction does not change after Steps Four and Five

6) Reduce Deferred Tax Expense by $12,919,570 (33,653,477 X .3839) to reflect decrease in the difference between Accelerated Tax Depreciation and Straight Line Tax Depreciation arising from Step Five

Future Rate Base Impact:

Depreciation Reserve	$33,653,477

Rate base is reduced by $33,653,477. The $33,653,477 will be added to annual book straight line tax depreciation to determine annual deferred taxes in future periods. In this illustration, the expected impact of the inclusion of the $33,653,477 in book straight line tax depreciation will be a reduction in deferred tax expense of $12,919,520. The reduction in deferred taxes of $12,919,520 will be reflected in the deferred income tax balance in rate base in future rate cases, as well as all other changes affecting the deferred tax balance, including additional deferred taxes resulting from Empire's plant additions.

Note: The amortization amounts presented herein are based upon Staff's updated amortization calculation derived from the Staff's recommended revenue requirement of ($11,914,580), as reflected in the case reconciliations filed by the Staff on August 25,

2006. The Staff's recommended revenue requirement under the IEC Continuation scenario, incorporating Regulatory Plan amortizations, is $21,738,897 [($11,914,580) + $33,653,477]. These amounts are subject to change, and are presented here for illustrative purposes only.

Staff Rev. Req. w/o Amortiz.	Reg. Plan Amortiz.	Staff Rev. Req. w/ Amortiz.
($11,914,580)	$33,653,477	$21,738,897

ILLUSTRATION: REDUCTION IN DEFERRED TAXES RELATED TO THE ADOPTED APPROACH

Staff Income Tax Schedule – Depreciation Line Items, 8/25/06 EMS Run:

Add to Net Income Before Taxes		
Book Depreciation Expense	$30,488,785	
Subtract from Net Income Before Taxes		
Tax Depreciation – Straight Line	$29,863,952	
Tax Depreciation – Excess	$ 9,521,255	($39,385,207)

Deferred Taxes from Accelerated Depreciation: $3,655,210 [9,521,255 X .3839]

Adjusted Staff Income Tax Schedule – Depreciation Line Items, Assuming Amortization of $33,653,477

Add to Net Income Before Taxes		
Book Depreciation Expense	$64,142,262	
Subtract from Net Income Before Taxes		
Tax Depreciation – Straight Line	$63,517,429	
Tax Depreciation – Excess	($ 24,132,222)	($39,385,207)

Deferred Taxes from Accelerated Depreciation: ($9,264,360) [(24,132,222) X .3839]

Reduction in Deferred Taxes: $12,919,570 (from a positive 3,655,210 to a negative 9,264,360)

REGULATORY PLAN AMORTIZATIONS: GROSS-UP ISSUE
ILLUSTRATION OF SETTLEMENT METHOD
IEC TERMINATION SCENARIO

The following approach is adopted to allow Empire the opportunity for full recovery of any Funds From Operations (FFO) deficiency determined for purposes of calculating Regulatory Plan amortizations and the resulting impact on deferred income tax expense.

1) Determine Amortization Expense Amount (before consideration of deferred tax impacts) from Amortization Calculation.

Updated IEC Termination Amortization Amount $8,254,729

2) Increase Amortization Expense Amount to Account for FFO Impact of Reduced Deferred Taxes

(8,254,729 X 1.623113) $13,398,359

3) Add $13,398,359 to Book Depreciation Expense on the Income Statement

4) Add $13,398,359 to the Straight Line Tax Depreciation Deduction used in the deferred income tax expense computation

5) Subtract $13,398,359, in addition to other Straight Line Tax Depreciation Deductions, from the Accelerated Tax Depreciation Deduction to determine the basis for deferred income taxes; Total Tax Depreciation Deduction does not change after Steps Four and Five

6) Reduce Deferred Tax Expense by $5,143,630 (13,398,359 X .3839) to reflect decrease in the difference between Accelerated Tax Depreciation and Straight Line Tax Depreciation arising from Step Five

Future Rate Base Impact:

Depreciation Reserve $13,398,359

Future rate base is reduced by $13,398,359. The $13,398,359 will be added to annual book straight line tax depreciation to determine annual deferred taxes in future periods. In this illustration, the expected impact of the inclusion of the $13,398,359 in book straight line tax depreciation will be a reduction in deferred tax expense of $5,143,630. The reduction in deferred taxes of $5,143,630 will be reflected in the deferred income tax balance in rate base in future rate cases, as well as all other changes affecting the deferred tax balance, including additional deferred taxes resulting from Empire's plant additions.

Note: The amortization amounts presented herein are based upon Staff's updated amortization calculation derived from the Staff's recommended revenue requirement of

$8,339,890, as reflected in the reconciliations filed by the Staff on August 25, 2006. The Staff's recommended revenue requirement under the IEC Termination scenario, incorporating Regulatory Plan amortizations, is $21,738,249 ($8,339,890 + $13,398,359). These amounts are subject to change, and are presented here for illustrative purposes only.

Staff Rev. Req. w/o Amortiz.	Reg. Plan Amortiz.	Staff Rev. Req. w/ Amortiz.
$8,339,890	$13,398,359	$21,738,249

ILLUSTRATION: REDUCTION IN DEFERRED TAXES RELATED TO THE ADOPTED APPROACH

Staff Income Tax Schedule – Depreciation Line Items, 8/25/06 EMS Run:

Add to Net Income Before Taxes		
Book Depreciation Expense	$30,488,785	
Subtract from Net Income Before Taxes		
Tax Depreciation – Straight Line	$29,863,952	
Tax Depreciation – Excess	$ 9,521,255	($39,385,207)

Deferred Taxes from Accelerated Depreciation: $3,655,210 [9,521,255 X .3839]

Adjusted Staff Income Tax Schedule – Depreciation Line Items, Assuming Amortization of $13,398,359

Add to Net Income Before Taxes		
Book Depreciation Expense	$43,887,144	
Subtract from Net Income Before Taxes		
Tax Depreciation – Straight Line	$43,262,311	
Tax Depreciation – Excess	($ 3,877,104)	($39,385,207)

Deferred Taxes from Accelerated Depreciation: ($1,488,420) [(3,877,104) X .3839]

Reduction in Deferred Taxes: $5,143,630 (from a positive 3,655,210 to a negative 1,488,420)