Exhibit No.:
Issue: Accounting Schedules and Fuel Adjustment Clause
Witness: W. Scott Keith
Type of Exhibit: Direct Testimony
Sponsoring Party: Empire District Electric
Case No.
Date Testimony Prepared: October 2009

Before the Public Service Commission of the State of Missouri

Direct Testimony

of

W. Scott Keith

October 2009

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THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION

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INTRODUCTION

Q. STATE YOUR NAME AND ADDRESS PLEASE.

A. My name is W. Scott Keith and my business address is 602 S. Joplin Avenue, Joplin, Missouri.

POSITION

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am presently employed by The Empire District Electric Company. ("Empire" or the "Company") as the Director of Planning and Regulatory. I have held this position since August 1, 2005. Prior to joining Empire, I was Director of Electric Regulatory Matters in Kansas and Colorado for Aquila, Inc., from 1995 to July 2005.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.

A. In August 1973, I received a Bachelor of Business Administration degree with a major in Accounting at Washburn University, Topeka, Kansas.

Q. WHAT EXPERIENCE HAVE YOU HAD IN THE FIELD OF PUBLIC UTILITIES?

A. In 1973, I accepted a position in the firm of Troupe Kehoe Whiteaker & Kent as a staff accountant. I assisted in or was responsible for fieldwork and preparation of exhibits for rate filings presented to various regulatory commissions and audits leading to opinions on financial statements for various types of companies including utility companies.

In September 1976, I accepted a position with the staff of the Kansas Corporation Commission ("KCC"). My responsibilities at the KCC included the investigation of utility rate applications and the preparation of exhibits and presentation of testimony in connection with applications that were under the jurisdiction of the KCC. The scope of the investigations I performed on behalf of the KCC included the areas of accounting, cost of service, and rate design.

In March of 1978, I joined the firm of Drees Dunn & Company and continued to perform services for various utility clients with that firm until it dissolved in March of 1991.

From March of 1991 until June of 1994, I was self-employed as a utility consultant and continued to provide clients with analyses of revenue requirements, cost of service studies, and rate design. In connection with those engagements, I also provided expert testimony and exhibits to be presented before regulatory commissions.

As I mentioned earlier, I was employed by Aquila, Inc., as the Director of Regulatory for its electric operations in Kansas and Colorado from 1995 to July 2005.

Q. HAVE YOU PREVIOUSLY PARTICIPATED IN ANY REGULATORY PROCEEDINGS?

A. Yes, I have. I have testified before regulatory commissions in the states of Kansas, Colorado, Indiana, Missouri, Oklahoma, and West Virginia. I have also testified before the Federal Energy Regulatory Commission ("FERC").

PURPOSE

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. My testimony will support various schedules containing financial and other information, all of which support the Company's proposed rate increase. In addition, I will describe the Company's request to continue using the fuel adjustment clause ("FAC"). Finally, I will directly support specific adjustments that the Company is making to the test year statement of operating income.

Q. WHAT TEST YEAR DID THE COMPANY USE IN DETERMINING RATE BASE, OPERATING INCOME AND RATE OF RETURN?

A. The schedules included in this filing are based on the twelve months ending June 30, 2009, adjusted for known and measurable changes.

SUPPORTING SCHEDULES

Q. WHAT SCHEDULES ARE YOU SPONSORING?

A. I am sponsoring the following schedules which were prepared under my supervision and direction:

- Schedule WSK-1, which displays the Missouri jurisdictional rate base and the overall increase in revenue Empire is requesting as well as the overall rate of return;
- Schedule WSK-2, which displays the test-year utility operating income statement and adjustments; and

- Schedule WSK-3, which is an explanation of adjustments to test-year revenues and expenses.

Q. PLEASE DESCRIBE EMPIRE'S OVERALL MISSOURI REVENUE DEFICIENCY.

A. Empire is requesting an overall increase in this case of $68.2 million in Missouri jurisdictional revenue, or 19.6 percent above current rate revenues. This increase is based upon an overall rate of return of 8.93 percent and a return on equity of 11 percent. By far the biggest factor driving the rate case is the increase in investment in production plant at Iatan and Plum Point that has taken place since the last rate case. The investment in the new pollution control equipment at Iatan I totaled around $94 million, the direct investment associated with Iatan 2 is expected to be $227 million, and the investment in the Plum Point generating unit is expected to be $104 million. Finally, the Commission's rules require a Company with a Missouri FAC to file for a continuation or discontinuation of the FAC when a general rate case is filed in Missouri. Empire is requesting a continuation of the existing FAC mechanism as part of this rate case, and I am providing the supporting documentation required for a continuation of the existing FAC as part of this case.

Q. PLEASE DESCRIBE SCHEDULE WSK-1, RATE BASE AND RATE OF RETURN.

A. Schedule WSK-1 details the Company's electric rate base and rate of return before and after the proposed rate increase. For the test year ending June 30, 2009, end of period balances are used for electric plant in service and reserve for depreciation, adjusted for the addition of the Iatan pollution control equipment and the Iatan 2 and Plum Point generating units. Materials and supplies and prepayments are the average of the thirteen consecutive month-end balances ending June 30, 2009. Regulatory assets adjusted for known and measurable changes were included. In addition, the cash working capital requirement that is based on adjusted income has been added to rate base. Offsets to the rate base are also displayed on Schedule WSK-1. These include: deferred income taxes, customer deposits, customer advances, interest synchronization offset, and an income tax offset.

The total original cost Missouri jurisdictional electric rate base is $1,007,382,284 (Line 15) which is multiplied by the required rate of return of 8.93% to arrive at a Missouri jurisdictional after tax operating income requirement of $96,210,238 (Line 21). This operating income requirement is subtracted from the Company's Missouri jurisdictional adjusted operating income of $54,208,839 (Line 16) and results in a Missouri jurisdictional after tax operating income deficiency of $42,001,399 (Line 18) or a Missouri jurisdictional pre-tax revenue deficiency of $68,171,501 (Line 20) which was requested in the filing with the Commission.

Q. PLEASE DECRIBE SCHEDULE WSK-2.

A. Schedule WSK-2 is a test year income statement with adjustments to normalize test year electric operations. Column A reflects total Company results for the twelve months ending June 30, 2009. Column B summarizes adjustments to total Company electric operations. Column C is the total Company income statement as adjusted for purposes of this rate case. Column D reflects the as recorded Missouri jurisdictional results for twelve months ending June 30, 2009. Column E displays the Missouri jurisdictional electric operating statement adjustments and Column F summarizes the as adjusted Missouri jurisdictional income statement. As indicated, after the posting of the various adjustments to the Missouri jurisdictional operations, current rates are expected to produce $54,208,839 in Net Operating Income ("NOI") or an overall return on rate base of 5.03 percent.

Q. PLEASE DISCUSS SCHEDULE WSK-3.

A. Schedule WSK-3 summarizes the following adjustments to the electric operations test year amounts as shown on Schedule WSK-2. As summarized in schedule WSK-3, Total Company and Missouri revenues are adjusted to: (1) reflect customer numbers at June 30, 2009; (2) reflect normal weather for the test year: (3) exclude water related revenues; (4) eliminate a discount given to a large industrial customer; (5) annualize excess facilities revenue; (6) reclassify the gain associated with the sale of emission allowances; (7) eliminate the impact of franchise fees; (8) and reflect a full year of the rate increase granted by the Commission in ER-2008-0093. In addition, FAC revenue has been adjusted to reflect the base net energy cost recovery built into Empire's base Missouri electric rates in ER-2008-0093. The year-end customer adjustment annualizes the revenues to reflect what would have been received if the year-end level of customers had been served by the Company for the entire test year. Mark Quan of Itron will describe the weather normalization adjustment in greater detail in his direct testimony, and Jayna Long of Empire will explain the retail revenue adjustments in greater detail in their direct testimonies, including the process used to adjust the Missouri jurisdictional sales for customer growth and weather.

ADJUSTMENTS TO COST OF SERVICE

Q. PLEASE EXPLAIN THE ADJUSTMENTS TO EXPENSES.

A. Total Company production costs have been increased by $3,487,751, which factors down to $1,812,699 for the Missouri retail jurisdiction. Included in this total are several adjustments related to the normalization of production operating and maintenance related to Asbury, Iatan and Plum Point for $7,558,394. Empire witness Blake Mertens will explain these adjustments in detail in his direct testimony. Also included is an adjustment to normalize test year payroll costs. This adjustment increases the pro forma production expense for the Company by a total of $541,265, with $446,814 for the Missouri jurisdictional portion of production expenses. Empire witness Jayna Long explains the payroll adjustment in greater detail in her direct testimony. Fuel and purchased power costs have been normalized to reflect the current base costs established in the Missouri FAC, including the affects of customer growth and normal weather and Missouri jurisdictional off-system sales margins. Empire witness Todd Tarter will also discuss the fuel and energy costs in greater detail in his direct testimony. The fuel and purchased power energy adjustment resulted in an increase in total production expense of $1,483,581 attributable to the Company's Missouri jurisdictional operations. The fuel and energy costs are an important part of this rate case due to their significance in terms of cost and due to Empire's request to continue the Missouri FAC. In addition to the adjustment to ongoing energy costs, we have adjusted the ongoing purchase power demand charges to reflect the expiration of a purchase power contract with Westar, Inc, and a new purchase power contract that Empire has executed with Plum Point Energy Associates, LLC. In total we have decreased overall ongoing demand charges by $7.1 million, with $5.9 million for the Missouri jurisdiction. Empire's fuel and purchased power expenses represent the single most significant component of Empire's operating costs. These two expense categories represent approximately 44 percent of total ongoing operating expenses on an as adjusted basis.

Q. WERE THE FUEL AND ENERGY COSTS IN THIS CASE ADJUSTED TO REFLECT THE BASE COST IN THE EXISTING MISSOURI FAC TARIFF?

A. Yes.

Q. HOW WAS THE ADJUSTMENT TO FUEL AND ENERGY COST DEVELOPED?

A. The normalized monthly Missouri jurisdictional sales were quantified, and the monthly energy costs built into the current FAC tariff were then multiplied by these normalized sales levels. This process resulted in a normalized fuel and energy cost in this rate case that equaled the average cost built into the existing Missouri FAC. An additional refinement or adjustment was made to increase the test year off-system sales margins to bring them up to the level used in the development of the average cost base built into the existing Missouri FAC in Empire's last rate case, ER-2008-0093. Last, the accounting entries recorded during the test year that tracked the over/under recovery of the Missouri FAC costs, and the Missouri FAC revenue billed were eliminated from the FAC revenue and FAC expense. As a result of this adjustment process, the ongoing Missouri FAC base revenue and ongoing base energy costs on an ongoing basis are equal at $126,128,187.

Q. PLEASE DESCRIBE THE ADJUSTMENTS MADE TO THE TRANSMISSION EXPENSE LEVELS.

A. The Missouri jurisdictional transmission expenses were increased by $63,526 to reflect the annualized payroll costs. The Missouri jurisdictional transmission expenses were also increased by $1.35 million to reflect the jurisdictional portion of a new transmission contract Empire has with Entergy to deliver the Plum Point capacity and energy into the Southwest Power Pool. Empire witness Blake Mertens discusses this Entergy transmission contract and the impact on ongoing cost levels in his direct testimony.

Q. PLEASE DESCRIBE THE ADJUSTMENTS MADE TO THE DISTRIBUTION EXPENSES.

A. Missouri jurisdictional distribution expenses were increased by $360,692 to reflect annualized payroll costs. In addition, the distribution expenses were adjusted to reflect authorized amortization of the expenses related to past ice storms. The adjustment related to Empire's past ice storm amortization is an increase to Missouri jurisdictional distribution expense of $526,360. We have also increased

Missouri jurisdictional distribution expense $120,662 for the amortization associated with a wind storm that struck Empire's service area in May 2009, and $304,755 to reflect a full years accounting for the vegetation and infrastructure management tracker mechanism authorized by the Commission in ER-2008-0093. Empire witness Jayna Long discusses all of these adjustments in greater detail in her direct testimony.

Q. PLEASE CONTINUE WITH AN EXPLANATION OF THE ADJUSTMENTS MADE TO CUSTOMER ACCOUNTS EXPENSE.

A. Missouri jurisdictional customer accounts expense was adjusted to reflect an increase in payroll expense of $169,334. In addition, Missouri jurisdictional customer accounts expense was increased to reflect the recent increase in postage costs of $24,266, an increase of $2.56 million for banking fees and an increase of $536,317 in bad debts expense. Empire witness Rob Sager will address the increase in banking fees in his direct testimony; Empire witness Jayna Long addresses the adjustment for postage in her direct testimony; and I will address the adjustment to bad debt expense in my direct testimony.

Q. HOW WAS THE ADJUSTMENT TO BAD DEBT EXPENSE DEVELOPED?

A. The approach we used is very similar to the approach we used in Empire's last electric rate case. We gathered five (5) years of uncollectible accounts expense recorded in FERC account 904 and compared the historic expense levels to the retail sales of electricity that took place during each of those five years. This process resulted in a five-year ratio of bad debt expense to retail electric revenue of

0.58 percent. This overall ratio of 0.58 percent was applied to the normalized retail sales revenue developed for this rate case to arrive at an adjusted bad debt expense of $2,821,233. This adjusted level of ongoing bad debt expense was then compared to the bad debt expense actually recorded during the test year to arrive at an adjustment of $536,317.

Q PLEASE DESCRIBE THE ADJUSTMENTS MADE TO CUSTOMER ASSISTANCE AND SALES EXPENSES.

A Each of the expense levels in these areas was increased to reflect the ongoing level of payroll costs. Specifically, Missouri jurisdictional customer assistance was increased by $38,141 and Missouri jurisdictional sales expense was increased by $9,946. In addition, the customer assistance operating expenses have been adjusted to annualize the cost and accounting treatment associated with Empire's currently authorized demand-side management programs. The adjustment related to DSM amortization is an increase in Missouri jurisdictional operating expenses of $185,292. Empire witness Sherry. McCormack will explain this adjustment in detail in her direct testimony.

Q. PLEASE DESCRIBE THE ADJUSTMENTS MADE TO ADMINISTRATIVE AND GENERAL EXPENSES.

A. Missouri jurisdictional administrative and general expenses were increased by a total of $3.42 million through a series of twelve (12) adjustments. Of the total, $53,528 was associated with increase in 401(k) costs. In addition, the ongoing FAS 87 and FAS 106 costs based upon the tracking accounting agreed to in the last rate case resulted in an increase in Missouri jurisdictional costs of $822,361. The method used to calculate the adjustments for FAS 87 and FAS 106 are discussed in the direct testimony of Empire witness Laurie Delano. Common stock expenses were amortized over five years resulting in an increase in Missouri expenses of $1,239,989. Missouri jurisdictional administrative and general expenses have been increased by $295,071 to reflect adjusted payroll expense. Missouri jurisdictional administrative and general expenses were increased by $87,312 to reflect the current level of the Commission's annual assessment. Missouri jurisdictional outside services expenses were increased $92,340 to reflect the impact of Empire's 2010 Integrated Resource Plan ("IRP") and Empire's request to amortize 2010 IRP costs over three years. This adjustment reflects an estimated 2010 IRP cost of $331,000 and a three-year amortization period. In addition, Missouri jurisdictional administrative and general expenses have been increased $13,323 to reflect Empire's employee dental and vision insurance program and $351,505 to reflect the ongoing cost of Empire's employee health care benefit package. Rate case expenses were also decreased by $116,744 to reflect the costs associated with the current rate case and an amortization period of two years for the cost of the current rate case. The Missouri jurisdictional expense levels have also been adjusted upward by $211,110 to reflect the ongoing impact of the termination of a service contract Empire had with an outside vendor. Empire witness Jayna Long discusses this adjustment in her direct testimony. Finally, Missouri jurisdictional administrative expenses were increased by $370,653 to reflect increases in property insurance costs.

Q. WHY IS A TWO-YEAR AMORIZATION PERIOD FOR THE RATE CASE EXPENSES APPROPRIATE IN THIS RATE CASE?

A. A two-year amortization period is a conservative estimate of the period during which the rates approved in this case will be in effect. In large part, this case is being driven by the expected start-up of the Iatan II and Plum Point generating stations in the summer of 2010. Given the additional rate case proceedings that will follow this rate case, a two-year amortization period seems appropriate and reasonable. It is also consistent with the amortization periods used in the recent Empire cases in Missouri.

Q. PLEASE DESCRIBE THE ADJUSTMENT TO DEPRECIATION EXPENSE.

A. The depreciation expense adjustment resulted in an increase of $8,645,798 and $7,253,859 for the total Company and the Missouri jurisdiction, respectively. The increase is directly related to the additional investment in generation facilities at Iatan and Plum Point. In addition to the depreciation expense, amortization expense has been decreased by $5.7 million to reflect the elimination of the Regulatory Amortization authorized in ER-2008-0093. Depreciation and amortization costs have also been increased by $102,006 to reflect the impact of Iatan 1 construction accounting.

Q. PLEASE CONTINUE WITH YOUR DESCRIPTION OF SCHEDULE WSK-3.

A. Taxes other than income taxes have been increased by $5,915,779 for the total Company, or $5,094,678 for the Missouri jurisdiction, to reflect the impact of plant in service adjusted for the Iatan and Plum Point additions. In addition, Missouri jurisdictional taxes other than income have been adjusted upward by $201,292 to include the impact of the projected change in payroll taxes due to the annualized payroll expense. Lastly, 100 percent of the franchise fees Empire pays have been eliminated from taxes other than income.

The next three (3) adjustments to the statement of operations are related to income taxes as a result of the adjustments that were made above and also to adjust book income taxes to income taxes calculated on a Missouri regulatory basis.

The last adjustment involves interest on customer deposits and is made to move the interest associated with these deposits above the line, which is consistent with past practices in Empire's rate cases in Missouri.

Q. PLEASE EXPLAIN WHY THE ADJUSTMENTS FOR THE MISSOURI JURISDICTION AND TOTAL COMPANY ARE THE SAME IN SOME INSTANCES.

A. Several of the adjustments are calculated for the Missouri jurisdiction only for purposes of this case. For example, rate case expense was calculated for the Missouri jurisdiction only.

<u>JURISDICTIONAL ALLOCATIONS</u>

Q. PLEASE DESCRIBE THE JURISDICTIONAL ALLOCATION PROCESS USED IN EMPIRE'S FILING.

A. In general, the types of jurisdictional allocation factors used in this rate case are identical to those used in ER-2008-0093, Empire's most recent rate case. Of course, the values used to derive the jurisdictional allocation factors have been updated to reflect the current test year values.

Q. WHAT METHOD WAS USED TO DERIVE EMPIRE'S JURISDICTIONAL DEMAND ALLOCATION FACTORS?

A. The average of twelve monthly coincident peak demands by jurisdiction was used to jurisdictionally allocate production and transmission costs.

Q. WHY HAS THE COMPANY ELECTED TO USE THIS METHOD FOR JURISDICTIONAL DEMAND ALLOCATIONS?

A. During prior rate proceedings, as well as in our last electric rate proceeding, the Commission accepted the use of the average monthly coincident peaks for jurisdictional allocations. Additionally, this method has been used by our other four jurisdictions for jurisdictional allocations. The Company needs to keep the jurisdictional allocations consistent between our service territories to ensure full allocation and recovery of costs.

Q. PLEASE GIVE A BRIEF DESCRIPTION OF THE AVERAGE OF TWELVE MONTHLY COINCIDENT PEAK DEMAND ALLOCATION METHOD.

A. The monthly coincident peak (CP) demands for the test year are determined for the following jurisdictions: (a) Missouri wholesale; (b) Kansas wholesale; (c) Missouri retail; (d) Kansas retail; (e) Oklahoma retail; and (f) Arkansas retail. An average of the monthly CP demands is calculated for each of the above jurisdictions. These average monthly CP demands are then used to allocate production and transmission costs to each of the Company's jurisdictions.

Q. HOW WERE THE MONTHLY COINCIDENT DEMANDS BY JURISDICTION OBTAINED?

A. In 1980, the Company installed metering at points where transmission and distribution lines crossed state boundaries. The demand readings at the time of monthly system peak for each of the metering points are combined with generation and tie line data to calculate the jurisdictional demands.

Q. HAVE SUPPORTING WORKPAPERS BEEN PROVIDED THAT DISPLAY EMPIRE'S ALLOCATION PROCESS?

A. Yes. Empire has provided copies of all of the supporting workpapers to the parties in this case, including those that support the jurisdictional allocation of costs.

<u>LOSS STUDY</u>

Q. HAS THE COMPANY CONDUCTED A STUDY TO DETERMINE LOSS PERCENTAGES AT THE VARIOUS VOLTAGE LEVELS?

A. Yes, the Company retained the services of Management Applications Consulting, Inc., to perform a loss study in 2009. The results of this study were reported to Empire in October of 2009. This loss study derived losses for the following service levels by jurisdiction: (a) transmission/substation load and no-load; (b) distribution primary load and no-load; and (c) distribution secondary load and no-load. The results of this study indicate a small overall improvement in losses since the last study was completed in March of 2007. Due to the small nature of the change and our proposal to continue to use the existing Missouri FAC, we did not use the new loss study to make any changes to the existing expansion factors used on FAC tariff sheet 17c.

PROPOSED TARIFFS

Q. HOW IS THE COMPANY PROPOSING TO SPREAD THE REQUESTED INCREASE AMONG ITS CURRENT RATES?

A. Empire will file a separate class cost of service study in January 2010. This cost of service study will serve as a guide in the development of new rates and the allocation of the requested rate increase. The cost of service filing will take place as a separate case. Until new rates are developed using the cost of service study, any additional revenue authorized by the Commission should be spread to the various rates as an across-the-board increase using an equal percentage to increase each of the revenue components.

FUEL ADJUSTMENT CLAUSE

Q. PLEASE DESCRIBE THE FAC TARIFF THE COMPANY IS PROPOSING TO CONTINUE IN THIS CASE.

A. The Company's existing Missouri FAC tariff has been included in the existing tariffs as Section 4 – Riders, Sheet 17. As indicated, the tariff sheet describes just how the FAC mechanism operates. I have attached a copy of the existing FAC tariff sheet to my testimony as Schedule WSK-4. Several of the major features of the tariff are:

- Changes in the FAC factor will be based upon 95 percent of the difference between the cost of fuel and energy that is built into base rates and the actual cost of fuel and energy;

- Costs included in the FAC calculation will be based upon the actual Missouri jurisdictional historical expenses recorded in FERC accounts 501, 547 and 555, including the cost/benefits associated with Empire's fuel hedging program. In addition, the FAC will include the recovery of emission allowance costs (sulfur dioxide) recorded in FERC account 509;
- Costs included in the FAC calculation will exclude the capacity charges associated with purchased power contracts;
- Only two changes in the FAC factor will be made each year, one in June and one in December;
- The Missouri jurisdictional base cost of energy under the FAC will continue to be established at $0.03001 per kilowatt-hour ("kWh") for the summer months (June-September) and $0.02744 per kWh for the non-summer months;
- Over/under recoveries of Missouri jurisdictional energy costs will be refunded/collected periodically (every six months) from Missouri retail customers through the operation of the tariff;
- Over/under recoveries of Missouri jurisdictional energy costs will be recorded on the books of the Company in FERC accounts using an asset/liability account to track over/under recoveries of energy costs on the balance sheet, Account No. 182.xxx/254.xxx and an offsetting expense account to reflect the over/under recoveries of energy costs on the income statement, Account No. 501. This will continue to ensure that net operating income is not distorted by over/under

recoveries of Missouri jurisdictional energy costs. In addition, this accounting process will leave an audit trail for internal and external auditors. This audit trail will be very useful during the periodic prudence reviews that are required under the Commission's rules governing the fuel adjustment process. Empire has continued to restrict the recovery and refund of over/under recoveries to 95 percent of the total difference that was established in the last rate case.

- Carrying costs on energy costs deferred as part of the operation of the FAC will continue to be calculated on a monthly basis using Empire's embedded cost of short-term debt, and will be applied during both the accumulation period and the recovery period.

Q. DOES EMPIRE'S REQUEST TO CONTINUE ITS FAC COMPLY WITH THE COMMISSION'S RULES?

A. Yes. Empire has designed its FAC continuation request to comply with the Commission's rule governing the fuel adjustment process. Attached to this testimony as Schedule WSK-7 is a list of the twenty (20) minimum filing requirements and where this information can be found in supporting exhibits and testimony.

Q. PLEASE DESCRIBE THE ADDITIONAL INFORMATION THAT HAS BEEN INCORPORTATED IN THE FILING TO COMPLY WITH 4 CSR 210-3.161 (3) (T).

A. We have included information associated with the following:

- Proposed FAC tariff, (Schedule WSK-4)

- An example customer billing with a separate line item for the FAC factor, (Schedule WSK-5)
- Customer notice of proposed continuation of the FAC, (Schedule WSK-6)
- Testimony regarding business risk and the FAC (Vander Weide & Keith)
- Testimony concerning the resource mix that Empire expects to use to meet its customers electric requirements over the next four years (Tarter)
- Testimony describing Empire's long-term resource planning process (Tarter)
- Testimony describing Empire's current generation testing procedures concerning unit heat rates and efficiency (Keith)
- Testimony concerning emission allowance costs/revenues (Mertens)
- Testimony authorizing the Commission staff to release Empire's previous five years of historical surveillance reports to all of the official parties to this rate case (Keith)

Q. DOES EMPIRE AUTHORIZE THE COMMISSION TO RELEASE THE LAST FIVE YEARS OF HISTORICAL SURVEILLANCE REPORTS TO THE PARTIES IN THIS CASE?

A. Empire agrees to release the last five years of historical surveillance information to the Commission Staff and to OPC. If other parties to this case desire to receive that information, Empire will provide it subject to the protections to confidential information that are afforded by 4 CSR 240-2.135. At this point, we are concerned about other utilities operating in Missouri that compete with Empire, such as KCPL and Ameren, gaining unrestricted access to our surveillance information as a result of intervening in this rate case. It would be unfair to Empire to require a complete release of this information to competitors without safeguards as to the access by competitors and the extent to which employees of competitors may view the information. Assuming these concerns can be addressed satisfactorily, then Empire would agree to an overall release of five-years of the surveillance information to the parties in this rate case.

Q. DOES THE EXISTING FAC TARIFF AND THE RECOVERY/REFUND MECHANISM PROVIDE EMPIRE SUFFICIENT OPPORTUNITY TO EARN A FAIR RETURN ON EQUITY?

A. Yes, I believe so. The existing FAC mechanism is a significant improvement over the recovery of these costs through base rates. During periods of extreme fuel and energy price fluctuations, the FAC will recover 95 percent of the changes in energy costs, which means that the Missouri retail customers will only reimburse Empire for a significant portion of its actual prudently incurred fuel and energy costs. In the event that fuel and energy costs stabilize at or near the base established in the FAC, the energy costs that pass through to the customer through the FAC would be minimal. For example, since September of 2008, Empire has requested to pass on to its Missouri customers around $1.1 million of increased fuel and energy costs through the FAC. This represents an annual change in Missouri retail revenue of around 0.31 percent or $0.26 per month for a customer using 1,000 kWh of energy.

Q. IS THE EXISTING FAC DESIGNED TO COMPLY WITH THE PRUDENCE REVIEW PROCEDURES PRESCRIBED BY THE

COMMISSION'S RULES?

A. Yes. The proposal is flexible and will allow the Commission to adjust the amount of FAC recovery if any cost is disallowed as the result of a prudence review. As I mentioned earlier, the accounting procedures used by Empire will involve an audit trail that should facilitate the audit process associated with those periodic prudence reviews.

Q. DOES THE ACCOUNTING AND BILLING PROCESS IN THE FAC PROPOSAL ENABLE EMPIRE TO TRACK FAC REVENUES AS A DISCRETE REVENUE STREAM?

A. Yes. FAC revenue have been and will continue to be billed as a separate line item on each customer's bill and the FAC revenue will continue to be segregated on the Empire books and records to facilitate the accounting and audit process.

Q. HAVE EMPIRE'S CUSTOMERS BEEN NOTIFIED OF THE REQUEST TO CONTINUE THE FAC?

A. Yes. In addition, to the normal notice requirements for a general rate filing, Empire has prepared a notice that describes the request to continue the FAC. I have attached a copy of this notice as Schedule WSK-6.

Q. PLEASE DESCRIBE HOW THE EXISTING FAC WORKS.

A. A copy of the existing FAC tariff is attached to my direct testimony as Schedule WSK-4. As shown on that schedule, the application of the existing tariff involves the accumulation of actual Missouri jurisdictional energy costs over a six-month period, comparing that cost accumulation to the base cost of energy built into the

Missouri jurisdictional rates and then determining the amount of over/under recovery of energy costs. Ninety-five percent (95%) of this over/under recovery balance is then billed/credited to the Missouri retail customers over a six-month billing period that immediately follows the six-month accumulation period. In addition, 95 percent of the actual Missouri jurisdictional off-system sales margins are flowed through the FAC. As outlined in Schedule WSK-4, the first six-month accumulation period is September through February and the recovery or billing period associated with this accumulation period is the following June through November. The process in the existing FAC involves changing the energy cost recovery factor twice each year, once in June, the beginning of the summer season, and again in December, the beginning of the winter season. Empire has filed for two energy cost recovery changes under the existing FAC, one in April of 2009 and the second in October of 2009.

Q. DO THE ENERGY COSTS ELIGIBLE FOR RECOVERY THROUGH THE EXISTING FAC INCLUDE THE COSTS AND/OR BENEFITS ASSOCIATED WITH EMPIRE'S FUEL RISK MANAGEMENT (HEDGING) PROGRAM?

A. Yes. As indicated on Schedule WSK-4, the costs eligible for recovery through the tariff include Empire's fuel risk management costs, which are recorded in FERC accounts 501, 547 and 555.

Q. WHAT IS THE TIMING OF THE SEMI-ANNUAL FAC FILINGS IN THE EXISTING FAC TARIFF?

A. The existing tariff incorporates the following timing of actions:

- Filing for a change in the cost adjustment factor ("CAF") on April 1st and October 1st each year;
- Staff recommendation on the filed CAF by May 1st and November 1st each year;
- Commission Approval of the CAF by June 1st and December 1st or CAF as filed is allowed to go into effect on June 1st and December 1st each year.

Q. IS THE TIMING OF THESE ACTIONS IN ACCORDANCE WITH THE COMMISSION'S RULES GOVERNING THE FILING OF PERIODIC ADJUSTMENTS TO THE FAC?

A. Yes. The Staff has thirty days from the date of a CAF filing to make its recommendation and the Commission has sixty days from the CAF filing date in which it can render a decision concerning the cost recovery factor or allow it to go into effect by operation of law.

Q. HOW DOES THE TRUE-UP OF ENERGY COST RECOVERY TAKE PLACE AND HOW ARE PRUDENCE REVIEWS SCHEDULED ACCORDING TO THE EXISTING FAC TARIFF?

A. The true-up of energy costs and their recovery takes place every six months. The exact timing of the prudence review has not been explicitly set out in the tariff, due to the consultation that needs to be taken with the Commission staff concerning the scheduling of the prudence reviews associated with other Missouri electric utilities using an FAC. The proposed FAC tariff specifies that prudence reviews will take place no less than every eighteen (18) months. The Staff of the Commission has recently opened a case and started its initial prudence review of the existing Empire FAC.

Q. DOES THE EXISTING FAC INCLUDE ANY EXPLICIT INCENTIVE MEASURES?

A. Yes. As I mentioned earlier, Empire's Missouri FAC limits Empire's recovery of energy cost changes to 95 percent of the overall change in energy costs. This means that Empire retains 5% of any decrease in energy costs during the accumulation period or absorbs 5% of any increase in energy costs during the accumulation period. This incentive feature in Empire's FAC has been adopted by the Commission in FAC's approved for other Missouri electric utilities as well.

Q. DOES THE EXISTING FAC INCLUDE ANY RATE VOLATILITY MITIGATION FEATURES?

A. Yes, the energy cost changes that occur during the accumulation period will be spread over six months. This feature will fix the FAC component of a customer's bill for six months and will tend to smooth out energy price volatility.

Q. HAS EMPIRE CONDUCTED ANY HEAT RATE TESTING ON ITS GENERATION UNITS DURING THE TEST YEAR?

A. No. Empire had scheduled heat rate tests on the Riverton and State Line units for this past year, but canceled the tests due to the abnormally cool weather. Empire plans to perform heat rate tests on all of its generation units during the 2010 calendar year and has informed the Commission staff of its intensions.

Q. DO YOUR RESPONSES TO THE INFORMATION REQUIRED BY 4 CSR

240.3.161 (3) FILED IN THIS CASE DIFFER FROM THE INFORMATION FILED IN RESPONSE TO THE INFORMATION AND RESPONSES REQUIRED BY 4 CSR 240.3.161 (2)?

A. Not materially, in the initial case authorizing the FAC some of the information Empire submitted dealt with the FAC tariff proposed by Empire in ER-2008-0093. In this case, the FAC tariff is in existence so the responses and information requirements are tailored to meet the needs of the existing FAC.

FUEL PLANNING AND PROCUREMENT

Q. DOES EMPIRE HAVE PROCEDURES IN PLACE THAT ENSURE THAT ITS FUEL PURCHASING IS PRUDENT?

A. Yes it does. Empire plans it fuel procurement activity using long-term planning and maintains an active Risk Management Policy ("RMP").

Q. PLEASE DESCRIBE EMPIRE'S RMP.

A. Empire implemented its RMP in 2001 to manage natural gas price volatility. The RMP outlines the instruments that may be used to help manage volatility. In general terms, Empire's RMP allows the use of financial and physical transactions to help manage price volatility. In addition, the RMP establishes minimum quantities of natural gas in future calendar years that are required to be price protected by a certain date. Historically, the Staff and the Office of Public Counsel have reacted favorably to Empire's RMP.

Q. DOES EMPIRE ALSO HAVE ACCESS TO OTHER SOURCES OF ELECTRIC ENERGY THAT CAN BE USED TO OFFSET NATURAL GAS

PRICE VOLATILITY?

A. Yes. In addition to its coal fired generating units, Empire also owns and operates the Ozark Beach hydro facility. It has a capacity of about 16 MW and averages about 63,000 MWh's of output per year. The output of this unit is limited by the water released from Table Rock Lake and the level of water maintained on Bull Shoals Lake.

At the end of 2005, Empire began receiving electricity from the Elk River Wind Project owned by PPM Energy. Empire has a contractual commitment to purchase 100% of the output from this project for the next 20 years. Empire expects to receive about 550,000 MWh's per year from this project or about 10% of its overall energy supply. During the test year ending June 30, 2009, Empire received approximately 10 percent or 563,000 Mwh of its overall energy supply via the contract with Elk River. The wind energy is purchased at a predetermined cost and is typically used to offset the energy from higher cost resources, such as those using natural gas. Empire also entered into an agreement with Cloud County Windfarm, LLC, owned by Horizon Wind Energy, to purchase all of the output from Meridian Way Wind Farm beginning about January 1, 2009. Empire anticipates purchasing approximately 350,000 megawatt-hours of energy under this contract annually. During the test year, Empire purchased around 153,000 Mwh from this wind farm or about 3 percent of our customers energy requirements.

Q. **HOW DOES EMPIRE ACQUIRE THE FUEL AND PURCHASED POWER USED TO SUPPLY ELECTRICITY TO ITS CUSTOMERS?**

A. Empire's fuel and purchased power acquisition planning is performed using a three-step process. The steps in this process are:

- Long-term Integrated Resource Plan ("IRP");
- An annual and five-year business plan;
- Updates to the annual and five-year business plans as conditions change.

Q. PLEASE DESCRIBE THE IRP PROCESS.

A. Empire utilizes the IRP process to develop a long-term strategy to reliably serve its customers at the lowest possible cost. This planning process uses Empire's entire load in all five of its jurisdictions. This formal IRP process has been in place since the early 1990's when Missouri implemented a formal IRP rule. Since that time Oklahoma and Arkansas also have implemented IRP rules. Empire has thus far been allowed to use the IRP developed for filing in Missouri as the basis for the IRP filings in Oklahoma and Arkansas. The IRP process that Empire uses results in a target list of future resources designed to serve Empire's projected usage and customer levels in all jurisdictions. The resource plan selected by Empire as a result of this process includes base load, intermediate, and peaking resources using a mix of fuels from coal to natural gas. Demand-side management programs are also considered as potential resources as part of the IRP process. Empire filed its latest IRP plan in Missouri on September 5, 2007, and is currently scheduled to file its next Missouri IRP in September 2010.

Q. HOW DOES THE SECOND STEP OF THE PLANNING PROCESS WORK?

A. In addition to the long range planning, Empire conducts annual financial and operational planning, which is used to develop a five-year business forecast. This planning process includes detailed load forecast, detailed generation unit modeling, detailed O&M and capital budget planning, and revenue forecast. This plan is used to assess many things including the ability to raise capital, debt and equity, and the near term impact on the overall cost of service. The detailed generation unit modeling developed in this phase of the planning process is used as the primary source of information for the development of the fuel and purchased power procurement plan.

Q. ARE THE ANNUAL AND FIVE-YEAR BUSINESS PLANS ADJUSTED TO REFLECT CHANGES IN THE BUSINESS ENVIRONMENT?

A. Yes. The annual and five-year business plans are periodically refined to take into account changes that have occurred since the plans were initially developed. Empire takes into account changes in such things as load growth, weather, the number of customers, fuel prices, purchased power prices, rail transportation delays, and coal availability. As these refinements are made to the near term forecasts, Empire adjusts its fuel procurement plans as necessary.

Q. IS THE EXISTING FAC DESIGNED TO PRODUCE A DIFFERENT COST ADJUSTMENT FACTOR ("CAF") FOR DIFFERENT VOLTAGE LEVELS?

A. Yes. The FAC includes a feature that reduces the cost adjustment factor to those customers taking service at primary voltage or higher. The existing expansion factors were based upon the information coming from the periodic line loss studies performed by the Company. We have recently completed an updated loss study, but due to the small changes in the loss rates and our request to maintain the existing base FAC cost, we are not requesting a change in the expansion factors used in the FAC.

Q. ARE THERE BENEFITS ASSOCIATED WITH THE USE OF AN EXPANSION FACTOR TO ADJUST THE CAF?

A. Yes. It is simple and it is fair to the two groups of customers, and the administration of the tariff is much easier. By using an expansion factor rather than attempting to allocate accumulation period costs between these two groups of customers, Empire only has to track one over/under account, not two as the Aquila FAC tariff appears to require.

Q. WHAT BENEFITS DO YOU SEE ASSOCIATED WITH THE CONTINUED USE OF THE EXISTING EMPIRE FAC?

A. I believe the benefits are significant for all of the stakeholders. First, Empire benefits by being able to recover almost all of its actual fuel and energy costs through the FAC. This strengthens Empire's financial profile and ability to attract the financing necessary to meet its customers' requirements at the best rates possible. In addition, the need to file general rate cases for the primary purpose of recovering ongoing fuel and energy costs in base electric rates has essentially been eliminated. This should reduce the overall number of electric rate cases in Missouri. A reduction in the number of general rate cases will ultimately lower Empire's regulatory costs and ultimately the cost to serve Empire's Missouri customers.

Q. HOW WILL THE COMMISSION BENEFIT?

A. The Commission will benefit in a couple of ways. First, the number of rate cases may decline as fuel and energy costs should no longer drive the filing of rate cases. The result is an FAC process that is ultimately fair to all sides. The utility will collect its actual cost of fuel and energy, and the customer will pay for no more than the actual, prudently incurred fuel and energy cost. The customer will benefit automatically if prices decline, as was the case in Empire's October 1st FAC filing. In addition, the FAC rule enacted by the Commission includes an enhanced surveillance reporting requirement that enables the Commission to track overall earnings trends of the utilities using an FAC and guard against excessive utility earnings.

Q. HOW DOES THE FAC BENEFIT THE CUSTOMER?

A. In the long run the customer will benefit from the implementation of a properly designed FAC. The customer will only reimburse Empire for the actual cost of fuel and energy, not an estimate of future energy costs. Thus, there is no over or under reimbursement of cost. Empire also has a stronger financial profile and an enhanced ability to attract the capital necessary to operate its utility system at the best rates possible. Ultimately, this will lower the cost of operations from where it would have been without the FAC. Over the long run, the reduction in the number of general rate proceedings and the lower financing costs will lower Empire's cost of doing business and lower the electric rates it needs to charge to operate the system from what it otherwise would be without the FAC. In addition, the FAC conveys a more accurate cost of electric energy to Empire's customers. If energy costs escalate the customer will know within six months and will be in a position to make an informed decision concerning any energy efficiency measures that could be implemented in an effort to lower consumption. The fixed energy pricing system that Missouri used prior to the FAC tended to shield the customer from the true cost of electric energy, and in my mind hampered the customers' adoption of or participation in energy efficiency programs. When the customer can purchase his electric energy at rates lower than the cost of producing it, the true economics are concealed and the customer will have a much harder time deciding between adding additional insulation to the house versus turning up the thermostat.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

LIST OF SCHEDULES

Schedule No.	Description
WSK-1	Rate Base and Rate of Return
WSK-2	Statement of Utility Operating Income
WSK-3	Explanation of Test Year Adjustments to Operations
WSK-4	Fuel Adjustment Tariff
WSK-5	Example Customer Bill with an FAC factor
WSK- 6	Notice
WSK-7	FAC Minimum Filing Requirements

The Empire District Electric Company **Schedule WSK - 1**
Rate Base and Rate of Return **10/26/2009**

	Missouri Jurisdictional
1. Electric Plant in Service	$1,658,215,678
2. Less: Reserve for Depreciation	501,097,698
3. Net Electric Plant in Service	1,157,117,980
4. Materials and Supplies (13-Month Average)	38,608,397
5. Regulatory Asset (FAS 87)	555,916
7. Prepayments (13-Month Average)	2,814,742
8. Cash Working Capital	20,032,030
Less:	
9. Deferred Taxes	120,349,954
11. Customer Deposits (13-Month Average)	7,376,590
12. Customer Advances (13-Month Average)	8,252,370
13. Interest Offset	4,527,342
14. Income Tax Offset	1,240,525
15. Total Original Cost Rate Base	$1,077,382,284
16. Net electric Operating Income Before Effect of Proposed Increase	$54,208,839
17. Indicated Rate of Return Before Proposed Increase	5.03%
18. Proposed Increase (After Taxes)	$42,001,399
19. Income Tax Gross-up Factor	1.62308
20. Proposed Increase (Revenue Requirement)	$68,171,501
21. Net Electric Operating Income After Effect of Proposed Increase	$96,210,238
22. Indicated Rate of Return After Effect of Proposed Increase	8.93%

The Empire District Electric Company
Test-Year Utility Operating Income

Schedule WSK - 2
10/26/2009

	A	B	C	D	E	F
Account		**Total Company**			**Missouri Jurisdictional**	
Name	**Actual**	**Adjustments**	**Pro Forma**	**Actual**	**Adjustments**	**Pro Forma**
Electric Utility Operating Revenues:						
Retail Revenue	$399,566,547	-$6,496,101	$393,070,445	$355,258,576	-$6,496,101	$348,762,475
Sales for Resale - On-System	18,754,822	0	18,754,822	0	0	0
Sales for Resale - Off-System and Other	21,459,226	0	21,459,226	17,731,309	0	17,731,309
Total Sales of Electricity	439,780,595	-6,496,101	433,284,494	372,989,886	-6,496,101	366,493,785
Other Electric Operating Revenues	6,890,291	28,141	6,918,431	6,065,414	127	6,065,541
Total Sales of Electricity	446,670,885	-6,467,960	440,202,925	379,055,300	-6,495,974	372,559,326
Electric Utility Operating Expenses:						
Production	214,358,079	2,449,719	216,807,798	177,347,313	2,284,417	179,631,730
Transmission	6,571,265	1,696,240	8,267,505	5,475,435	1,413,373	6,888,808
Distribution	21,950,296	1,366,315	23,316,611	19,741,889	1,312,469	21,054,358
Customer Accounts	9,300,147	3,650,735	12,950,881	8,226,450	3,229,259	11,455,709
Customer Assistance	1,406,385	228,424	1,634,809	1,248,729	223,433	1,472,162
Sales	356,210	11,185	367,395	316,756	9,946	326,702
Administrative & General	27,610,596	4,093,016	31,703,612	23,119,293	3,420,719	26,540,012
Depreciation	47,860,823	2,998,556	50,859,379	42,330,253	1,606,618	43,936,871
Taxes Other Than Income Taxes	22,117,288	-789,478	21,327,809	19,423,945	-1,644,236	17,779,709
Income Taxes - Federal	13,136,033	-2,156,340	10,979,693	11,297,680	-1,568,507	9,729,174
Income Taxes - State	1,835,590	-110,210	1,725,380	1,578,704	-49,834	1,528,870
Deferred Income Taxes	7,460,686	-10,263,916	-2,803,230	6,431,342	-8,738,463	-2,307,122
Interest on Customer Deposits	0	313,505	313,505	0	313,505	313,505
Total Electric Utility Operating Expenses	373,963,397	3,487,751	377,451,147	316,537,788	1,812,699	318,350,487
Net Electric Utility Operating Income	72,707,489	-9,955,711	62,751,778	62,517,512	-8,308,673	54,208,839

The Empire District Electric Company
Explanation of Adjustments to Test-Year
Revenues & Expenses

	Increase (Decrease) Total Company Revenues	Total Company Expenses	Missouri Jurisdictional Revenues	Missouri Jurisdictional Expenses
To adjust customer growth	466,598		466,598	
To normalize weather	1,836,010		1,836,010	
To reflect rate increase	2,636,470		2,636,470	
To reflect unbilled revenue	704,313		704,313	
To remove general ledger unbilled	-5,341,385		-5,341,385	
To add back Praxair revenue adjustment	100,320		100,320	
To eliminate franchise fees	-6,940,205		-6,940,205	
To annualize excess facilities	41,777		41,777	
To remove water revenue from other revenue	-9,031		-7,525	
To reclass emission allowances to operating income	177,018		147,498	
To adjust fuel revenue to test year amount	-139,846		-139,846	
Total Revenue Adjustment	-6,467,960		-6,495,974	
To reflect new plant addition maintenance cost		7,558,394		6,297,949
To normalize test year payroll		541,265		446,814
To adjust demand for test year		-7,133,520		-5,943,927
To reflect normalization of Fuel/PP		1,483,581		1,483,581
Total Production		2,449,719		2,284,417
To normalize test year payroll		76,240		63,526
To reflect transmission expense for Plum Point		1,620,000		1,349,847
Total Transmission		1,696,240		1,413,373
To normalize test year payroll		401,040		360,692
To include May wind storm amortz		134,159		120,662
To normalize ice storm amortz		526,360		526,360
To amortize vegetation tracker		304,755		304,755
Total Distribution		1,366,315		1,312,469
To normalize test year payroll		191,435		169,334
To increase banking fees for line of credit		2,895,550		2,561,260
To increase bad debt expense		536,317		474,399
To adjust postage for rate increase		27,433		24,266
Total Customer Accounts		3,650,735		3,229,259
To normalize test year payroll		43,132		38,141
To adjust DSM Programs		185,292		185,292
Total Customer Assistance		228,424		223,433
To normalize test year payroll		11,185		9,946
Total Sales Expense		11,185		9,946

The Empire District Electric Company
Explanation of Adjustments to Test-Year
Revenues & Expenses

	Increase (Decrease)			
	Total Company		Missouri Jurisdictional	
	Revenues	Expenses	Revenues	Expenses
To reflect annualized dental and vision insurance		15,920		13,323
To normalize test year 401k costs		63,958		53,528
To normalize test year payroll		352,568		295,071
To adjust PSC assessment cost		87,312		87,312
To reflect FAS 87 tracker expense		1,811,834		1,516,356
To reflect FAS 106 tracker expense		-828,904		-693,725
To adjust outside services for resource planning		110,333		92,340
To reflect increase in healthcare expense		420,000		351,505
To reverse contract termination payoff		252,247		211,110
To reflect amortization of common stock expense		1,481,613		1,239,989
To reflect increase in property insurance		442,879		370,653
To reflect amortization of rate case expenses		-116,744		-116,744
Total Administrative & General		4,093,016		3,420,719
To annualize depreciation expense		8,645,798		7,253,859
To exlude Regulatory Amortization ongoing expense		-5,301,560		-5,301,560
To include the reduction to depreciation for Accumulated Reg Amortz		-447,687		-447,687
To include the carrying cost of Iatan 1		102,006		102,006
Total Depreciation Expense		2,998,556		1,606,618
To annualize property taxes		5,915,779		5,094,678
To recognize FICA taxes from wage increase (decrease)		243,864		208,754
To Eliminate Franchise Fees		-6,940,205		-6,940,205
To recognize FUTA tax from wage increase (decrease)		-1,023		-856
To recognize SUTA tax from wage increase (decrease)		-7,893		-6,606
Total Taxes Other Than Income Taxes		-789,478		-1,644,236
To adjust book taxes		-2,156,340		-1,568,507
Total Taxes - Federal		-2,156,340		-1,568,507
To adjust book taxes		-110,210		-49,834
Total Taxes - State		-110,210		-49,834
To adjust book taxes		-10,263,916		-8,738,463
Total Provision for Deferred Income Tax		-10,263,916		-8,738,463
To include interest on Missouri customer deposits		313,505		313,505
Total Interest on Customer Deposits		313,505		313,505
Total Adjustments	-6,467,960	3,487,751	-6,495,974	1,812,699

P.S.C. Mo. No.	5	Sec.	4		Original Sheet No.	17a
Canceling P.S.C. Mo. No.	5	Sec.			Original Sheet No.	

For ALL TERRITORY

FUEL ADJUSTMENT CLAUSE
SCHEDULE FAC

APPLICATION

FUEL ADJUSTMENT CLAUSE

The average price per kWh of electricity generated or purchased will be adjusted subject to application of the FAC, and approved by the Public Service Commission. The price will reflect 95 percent of the accumulation period costs either above or below base costs specified below for:

1. fuel consumed in Company electric generating plants,
2. purchased energy (excluding demand),
3. off-system sales margin,
4. net of emission allowance costs and revenues.

It will also include:

5. an adjustment for the prior recovery period sales variation.
6. Interest: Interest at a rate equal to the Company's short-term interest rate will be applied to the average monthly deferred electric energy costs and will be accumulated during the accumulation period. Deferred electric energy cost shall be determined monthly. The monthly deferred amount may be negative or positive during the accumulation period.

The formula and components are displayed below.

$$FAC = \{[(F + P + E - O - B) * J] * 0.95\} + C + I$$

Where:

F = Actual total net system input cost of fuel - FERC Accounts 501 & 547

P = Actual total net system input cost of purchased energy - FERC Account 555 (excluding purchase power demand charges)

E = Actual total system net emission allowance cost and revenues - FERC Accounts 509 & 254.103

O = Actual total system off-system sales margin

B = Base cost of fuel and purchased power energy calculated as follows:

1. For the months of June through September	B = (NSI kWh * $0.03001)
2. For all other months	B = (NSI kWh * $0.02744)

FUEL ADJUSTMENT CLAUSE
SCHEDULE FAC

J = Missouri energy ratio calculated as follows:

$$\text{Missouri Energy Ratio} = \frac{\text{Missouri Retail kWh sales}}{\text{Total System kWh sales}}$$

Where Total System kWh Sales excludes off-system sales

C = True-up of Under/Over recovery of FAC balance from prior Recovery period as included in the deferred energy cost balancing account. This factor will reflect any modifications made due to prudence reviews

I = Interest

COST ADJUSTMENT FACTOR

The Cost Adjustment Factor ("CAF") is the result of dividing the FAC by estimated recovery period Missouri net system input (NSI) kWh, rounded to the nearest $.00000. The CAF shall be adjusted to reflect the differences in line losses that occur at primary and above voltage and secondary voltage by multiplying the average cost at the generator by 1.0520 and 1.0728, respectively. Any CAF authorized by the Commission shall be billed based upon customers' energy usage on and after the authorized effective date of the CAF. The formula and components are displayed below.

$$CAF = \frac{FAC}{S}$$

Where:

S = Forecasted Missouri NSI kWh for the Recovery Period. Missouri NSI kWh is calculated as:

$$\text{Missouri NSI} = \text{Forecasted NSI} * \frac{\text{Forecasted Missouri Retail kWh sales}}{\text{Forecasted Total System kWh sales}}$$

Where Forecasted Total System kWh Sales excludes off-system sales

PRUDENCE REVIEW

There shall be a periodic review of fuel and energy costs subject to the FAC, and a comparison of the FAC revenue collected. In addition, the review shall determine if the costs subject to the FAC were prudently incurred by the Company. FAC cost and the FAC charges are subject to adjustment if found to be imprudent by the Commission. The normal true-up of over/under recovery of FAC cost occurs at the end of each Recovery period. Prudence reviews shall occur no less frequently than at eighteen (18) month internvals.

P.S.C. Mo. No.	5	Sec.	4	1ST	Revised Sheet No.	17c
Canceling P.S.C. Mo. No.	5	Sec.	4		Original Sheet No.	17c

For ALL TERRITORY

FUEL ADJUSTMENT CLAUSE
SCHEDULE FAC

ACCUMULATION PERIOD ENDING, Feb-28-2009

1.	Total energy cost (F + P + E - O)	$77,599,808
2.	Base energy cost (B)	$75,211,342
3.	Missouri Energy Ratio (J)	0.8317
4.	Fuel Cost Recovery [(F + P + E - O) – B] * J	$ 1,942,714
5.	Adj for Over/Under recovery for the Recovery period ending 00-00-0000 (C)	$0
6.	Interest (I)	$(25,918)
7.	Fuel Adjustment Clause (FAC)	$ 1,916,797
8.	Forecasted Missouri NSI for the Recovery Period (S)	2,376,883,365
9.	Cost Adjustment Factor (CAF) to be applied to bills beginning 00-00-0000	$0.00081 / kWh
10.	CAF - Primary and above (Line 9 x Primary Expansion Factor)	$0.00085 / kWh
11.	CAF - Seconday (Line 9 x Secondary Expansion Factor)	$0.00087 / kWh

Primary Expansion Factor = 1.0520
Secondary Expansion Factor = 1.0728

THE EMPIRE DISTRICT ELECTRIC COMPANY
SAMPLE MISSOURI BILL

SCHEDULE WSK-5

Account Detail

Electric	**acct #**	For Service at address		Rate: RG-Residential
Read for	meter #	From beginning date to ending date (# of days)		Curr Read # Prev Read #, Totaling # kWh
Billing date	Late Payment Fee	amount x percentage		xxxx
Billing date	Customer Charge	1 x cust charge rate		xxxx
Billing date	Usage Charge	First block (up to 600) kWh * .xxxx (rate)		xxxx
Billing date	Usage charge	Excess over 600 kWh * .xxxx (rate)		xxxx
Billing dat	**Fuel Charge**	**Total kWh * .xxxx (monthly FAC factor**		**xxxx**
Billing date	Franchise Fee (if appl.)	**'Total Charge * fran rate		xxxx
Billing date	City Tax (if appl.)	**'Total Charge * tax rate		xxxx
Billing date	Other Charges (if appl.)	**Total Charge * Applicable rate		xxxx
		Current Months Charges:		**$ xxxxx**
			Billed Charges:	**$ xxxxx**

**'Total Charge = Customer Charge + Usage Charges + Fuel Adjustment Cost

SERVICES YOU COUNT ON

PRESS RELEASE

FOR IMMEDIATE RELEASE ***DRAFT***

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THE EMPIRE DISTRICT ELECTRIC COMPANY FILES FOR NEW MISSOURI ELECTRIC RATES

JOPLIN, MO – October 29, 2009 – The Empire District Electric Company (NYSE:EDE) announced today that it has filed a request with the Missouri Public Service Commission (MPSC) for changes in rates for its Missouri electric customers. The Company is seeking an annual increase in revenues of approximately $68.17 million or about 19.6 percent. If approved, a residential customer using 1,000 kilowatt hours of electricity would experience a monthly increase of approximately $19.21. The Company is also asking to continue with the Fuel Adjustment Clause that was approved in its last case.

In making the announcement, Bill Gipson, president and CEO, stated, "We are seeking new rates to begin recovery of the investment we have made or are making to our electric system, specifically environmental upgrades at Iatan Unit 1 and new generating units Iatan 2 and the Plum Point Generating Station, plus the annual operating costs associated with these units. These additions will allow Empire to continue to provide reliable service to its customers with a balanced mix of resources."

The Iatan 1 environmental upgrades and the Iatan 2 addition are included in Empire's long-term and least-cost energy plan that was approved by the Missouri Public Service Commission in August 2005. At that time, the Commission stated, "The Agreement strikes a reasonable and appropriate balance between the interests of Empire's customers and shareholders."

(more)

After today's filing with the MPSC, an extensive audit of Empire's operations, a public hearing, and an evidentiary hearing will be held. The Company anticipates that any new rates approved would not become effective until the fall of 2010.

Based in Joplin, Missouri, The Empire District Electric Company (NYSE: EDE) is an investor-owned, regulated utility providing electricity, natural gas (through its wholly owned subsidiary The Empire District Gas Company), and water service, with approximately 215,000 customers in Missouri, Kansas, Oklahoma, and Arkansas. A subsidiary of the company provides fiber optic services. For more information regarding Empire, visit www.empiredistrict.com.

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Certain matters discussed in this press release are "forward-looking statements" intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. Such statements address future plans, objectives, expectations, and events or conditions concerning various matters. Actual results in each case could differ materially from those currently anticipated in such statements, by reason of the factors noted in our filings with the SEC, including the most recent Form 10-K and Form 10-Q.

THE EMPIRE DISTRICT ELECTRIC COMPANY
LOCATION OF INFORMATION REQUIRED BY 4 CSR 240.3.161 (3)
CASE NO.

Rule Reference	Description	Location
4 CSR 240.3.161 (3) (A)	Customer Notice	Schedule WSK-6
4 CSR 240.3.161 (3) (B)	Example Customer Bill	Schedule WSK-5
4 CSR 240.3.161 (3) (C)	FAC Tariff	Schedule WSK-4
4 CSR 240.3.161 (3) (D)	Explanation of FAC	Keith Testimony
4 CSR 240.3.161 (3) (E)	FAC and Opportunity to earn Fair ROE	Keith Testimony
4 CSR 240.3.161 (3) (F)	(Over)/Under recoveries & true-up	Keith Testimony
4 CSR 240.3.161 (3) (G)	FAC & Prudence Review	Keith Testimony
4 CSR 240.3.161 (3) (H)	Specific Costs & FERC Accounts	Keith Testimony
4 CSR 240.3.161 (3) (I)	Specific Revenue & FERC Accounts	Keith Testimony
4 CSR 240.3.161 (3) (J)	Incentive Features and Benefits	Keith Testimony
4 CSR 240.3.161 (3) (K)	Volatility Mitigation	Keith Testimony
4 CSR 240.3.161 (3) (L)	Company Procedures/Prudent Costs	Keith Testimony
4 CSR 240.3.161 (3) (M)	Customer Class Rate Design	Keith Testimony
4 CSR 240.3.161 (3) (N)	FAC, Business Risk & Allowed ROE	Keith & Vander Weide Testimonies
4 CSR 240.3.161 (3) (O)	How Responses Differ	Keith Testimony
4 CSR 240.3.161 (3) (P)	Supply-side, Demand-side Resources & Dispatch	Tarter Testimony
4 CSR 240.3.161 (3) (Q)	Unit Heat & Unit Efficiency Testing Procedures	Keith Testimony
4 CSR 240.3.161 (3) (R)	Existing IRP and Objectives	Tarter & Keith Testimonies
4 CSR 240.3.161 (3) (S)	Emission Allowance Cost/(Revenue) & FAC	Mertens Testimony
4 CSR 240.3.161 (3) (T)	Authorization to Release 5-years of Surveillance	Keith Testimony