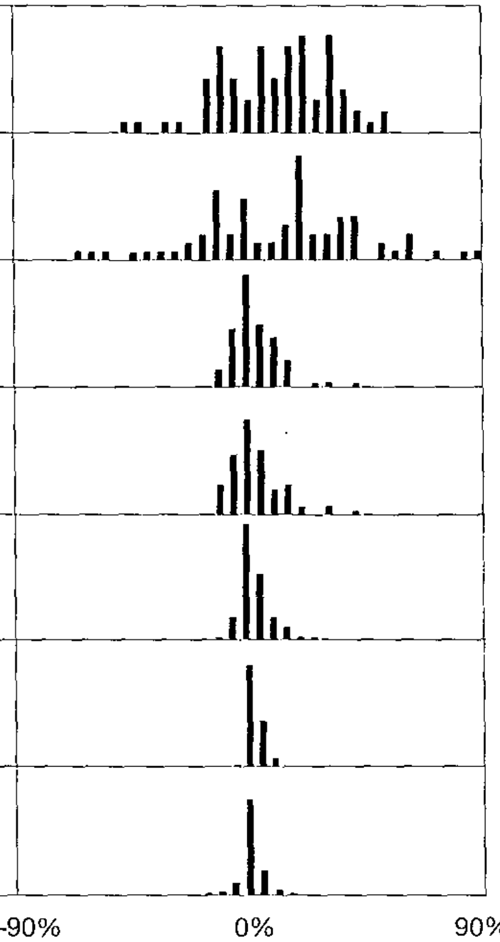
Table 2-1

Basic Series: Summary Statistics of Annual Total Returns

from 1926 to 2001

Series	Geometric Mean	Arithmetic Mean	Standard Deviation	Distribution
Large Company Stocks	10.7%	12.7%	20.2%	
Small Company Stocks	12.5	17.3	33.2	*
Long-Term Corporate Bonds	5.8	6.1	8.6	
Long-Term Government	5.3	5.7	9.4	
Intermediate-Term Government	5.3	5.5	5.7	
U.S. Treasury Bills	3.8	3.9	3.2	
Inflation	3.1	3.1	4.4	



*The 1933 Small Company Stocks Total Return was 142.9 percent.

Schedule 1

Table 2-9 (continued)

Basic Series

Compound Annual Returns for 10-Year Holding Periods (percent per annum)

from 1971 to 2001

Period	Large Company Stocks	Small Company Stocks	Long-Term Corporate Bonds	Long-Term Government Bonds	Intermediate Government Bonds	U.S. Treasury Bills	Inflation
1971–1980	8.44	17.53	4.16	3.90	5.73	6.77	8.05
1972–1981	6.47	17.26	2.95	2.81	5.80	7.78	8.62
1973–1982	6.68	19.67	5.93	5.76	8.00	8.46	8.67
1974–1983	10.61	28.40	6.45	5.95	8.28	8.65	8.16
1975–1984	14.76	30.38	8.46	7.03	9.11	8.83	7.34
1976–1985	14.33	27.75	9.84	8.99	10.31	9.03	7.01
1977–1986	13.82	22.90	9.95	9.70	10.53	9.14	6.63
1978–1987	15.26	18.99	9.73	9.47	10.69	9.17	6.39
1979–1988	16.33	18.93	10.86	10.62	10.97	9.09	5.93
1980–1989	17.55	15.83	13.02	12.62	11.91	8.89	5.09
1981–1990	13.93	9.32	14.09	13.75	12.52	8.55	4.49
1982–1991	17.59	11.97	16.32	15.56	13.13	7.65	3.91
1983–1992	16.19	11.55	13.28	12.58	11.04	6.95	3.81
1984–1993	14.94	9.96	14.00	14.41	11.43	6.35	3.71
1985–1994	14.40	11.06	11.57	11.86	9.40	5.76	3.58
1986–1995	14.84	11.90	11.32	11.92	9.08	5.55	3.46
1987–1996	15.28	12.98	9.48	9.39	7.77	5.46	3.68
1988–1997	18.05	16.46	10.85	11.32	8.33	5.44	3.41
1989–1998	19.19	13.22	10.85	11.66	8.74	5.29	3.12
1990–1999	18.20	15.09	8.36	8.79	7.20	4.92	2.93
1991–2000	17.46	17.49	8.96	10.26	7.48	4.74	2.66
1992–2001	12.93	15.58	8.09	8.73	6.73	4.56	2.51

Schedule 2

THE EMPIRE DISTRICT ELECTRIC COMPANY
CASE NO. ER-2002-424

Capital Asset Pricing Model (CAPM) Cost of Common Equity Estimates for Empire District Electric and the Four Comparable Electric Utility Companies

	(1)	(2)	(3)	(4)
Company Name	Risk-Free Rate	Beta	Market Risk Premium (1992-2001)	CAPM Cost of Common Equity (1992-2001)
Empire District Electric	1.68%	0.45	9.60%	6.00%
DPL Inc.	1.68%	0.65	9.60%	7.92%
DQE, Inc.	1.68%	0.50	9.60%	6.48%
Hawaiian Electric	1.68%	0.50	9.60%	6.48%
NSTAR	1.68%	0.55	9.60%	6.96%
Comparable Companies' Average		**0.55**		**6.96%**

Notes: Column 4 = [Column 1 + (Column 2 * Column 3)] .

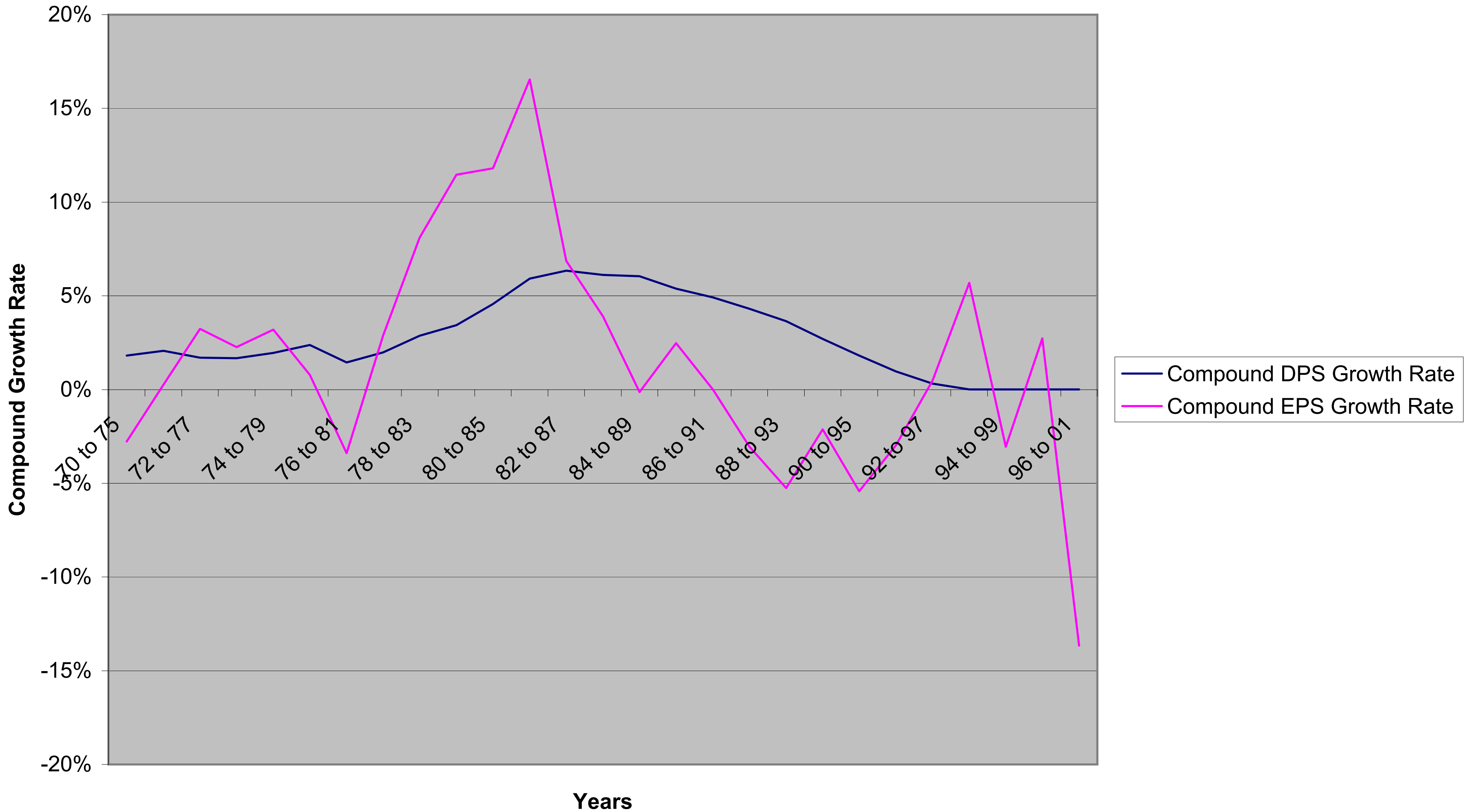
Sources: Column 1 = The Risk-Free Rate reflects the level of return which can be achieved without accepting any risk. The Risk-Free Rate is represented by the average yield on 30-Day U.S. Treasury Bills for the month of August 2002 which was obtained from the St. Louis Federal Reserve's website at:. http://www.stls.frb.org/fred/data/irates/gs1m

Column 2 = The Beta represents the relative movement and relative risk between a particular stock and the market. The approriate Betas were taken from The Value Line Investment Survey, April 5, 2002, May 17, 2002 and June 7, 2002.

Column 3 = The Market Risk Premium represents the expected return from holding the entire market portfolio less the expected return from holding a risk-free investment. The approriate Market Risk Premium for the period 1992-2001 was determined to be 9.60% from Dr. Murry's Schedule DAM-30 attached to his direct testimony

THE EMPIRE DISTRICT ELECTRIC COMPANY
CASE NO. ER-2002-424

DPS Vs. EPS 5-Year Compound Growth Rates for Empire Since 1970



Schedule 4

THE EMPIRE DISTRICT ELECTRIC COMPANY
CASE NO. ER-2002-424

Empire's DPS Growth Rates and EPS Growth Rates Since 1970

Rolling 5-Year Compound Growth of DPS and EPS

	96 to 01	95 to 00	94 to 99	93 to 98	92 to 97	91 to 96	90 to 95	89 to 94	88 to 93	87 to 92	86 to 91
DPS	0%	0%	0%	0%	0%	1%	2%	3%	4%	4%	5%
EPS	-14%	3%	-3%	6%	0%	-3%	-5%	-2%	-5%	-3%	0%

	85 to 90	84 to 89	83 to 88	82 to 87	81 to 86	80 to 85	79 to 84	78 to 83	77 to 82	76 to 81	75 to 80
DPS	5%	6%	6%	6%	6%	5%	3%	3%	2%	1%	2%
EPS	2%	0%	4%	7%	17%	12%	11%	8%	3%	-3%	1%

	74 to 79	73 to 78	72 to 77	71 to 76	70 to 75
DPS	2%	2%	2%	2%	2%
EPS	3%	2%	3%	0%	-3%

Average of 5-year Rolling Compound Growth Rates Since 1970

DPS	2.76%
EPS	1.51%

Average of Last 5 Periods of 5-Year Rolling Compound Growth Rates

DPS	0%
EPS	-2%

Average of Last 10 Periods of 5-Year Rolling Compound Growth Rates

DPS	1.38%
EPS	-2.67%

THE EMPIRE DISTRICT ELECTRIC COMPANY
CASE NO. ER-2002-424

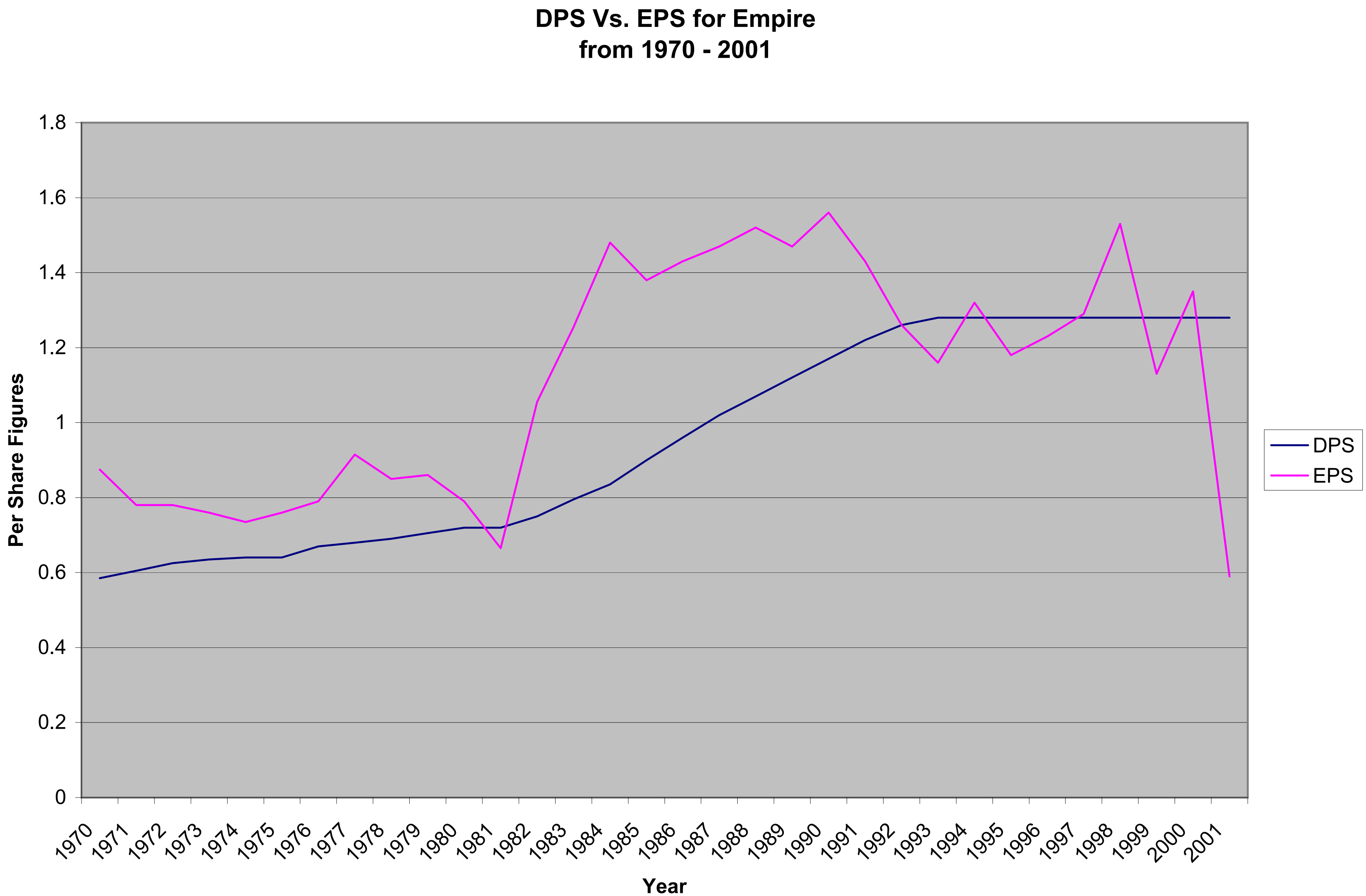
Empire's Payout Ratios Since 1970

	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990
Dividends Per Share	1.28	1.28	1.28	1.28	1.28	1.28	1.28	1.28	1.28	1.26	1.22	1.17
Earnings Per Share	0.59	1.35	1.13	1.53	1.29	1.23	1.18	1.32	1.16	1.26	1.43	1.56
Payout Ratio	216.95%	94.81%	113.27%	83.66%	99.22%	104.07%	108.47%	96.97%	110.34%	100.00%	85.31%	75.00%

	1989	1988	1987	1986	1985	1984	1983	1982	1981	1980	1979	1978
Dividends Per Share	1.12	1.07	1.02	0.96	0.90	0.84	0.80	0.75	0.72	0.72	0.71	0.69
Earnings Per Share	1.47	1.52	1.47	1.43	1.38	1.48	1.26	1.06	0.67	0.79	0.86	0.85
Payout Ratio	76.19%	70.39%	69.39%	67.13%	65.22%	56.42%	63.35%	71.09%	108.27%	91.14%	81.98%	81.18%

	1977	1976	1975	1974	1973	1972	1971	1970
Dividends Per Share	0.68	0.67	0.64	0.64	0.64	0.63	0.61	0.59
Earnings Per Share	0.92	0.79	0.76	0.74	0.76	0.78	0.78	0.88
Payout Ratio	74.32%	84.81%	84.21%	87.07%	83.55%	80.13%	77.56%	66.86%

THE EMPIRE DISTRICT ELECTRIC COMPANY
CASE NO. ER-2002-424



A.G. Edwards & Sons, Inc.

Equity Research -**Electric Utilities**
June 21, 2001

Analyst: Timothy M. Winter, CFA 314-955-5783

Fuel and Purchased Power Adjustment Clause in MO Could Become Law

Empire District Electric (EDE/NYSE/19.67)
Maintain Position/Conservative

- **On May 29, Senate Bill 387 (SB 387), which allows certain electric utilities to recover certain fuel or purchased power costs through higher rates, was delivered to the Governor to be signed into law.**
- **SB 387 bodes well for Empire District Electric's pending rate case. The company has filed for a $41 million, or 19%, annual rate increase to be effective in late-September or early-October. The outcome of the general rate case will primarily determine future EPS power and ultimate value of the company.**
- **The likelihood that the Governor signs the bill into law combined with the fact that the rate increase is to reflect $23 million in higher energy prices and a 350-megawatt addition to its State Line power plant give us confidence that a substantial increase will be authorized. We have maintained our 2002 EPS estimate of $1.55.**
- **We advise investors to focus on 2002 EPS estimates when valuing the company.**

Fiscal Year (Dec)	**1997**	**1998**	**1999**	**2000**	**2001E**	**2002E**
Revenues (mil.)	$215	$240	$242	$256	$277	$295
Shares Out (mil.)	16.6	16.9	17.2	17.6	18.8	19.9
Earnings Per Share	$1.29	$1.53	$1.54	$1.37	$1.00	$1.55
Dividends Per Share	1.28	1.28	1.28	1.28	1.28	1.28
Price Range	16-19	19-26	19-27	20-30		
P/E Range	12-15	12-17	12-19	15-22	20.0X	12.7X
Return on Equity	9.9%	11.5%	10.3%	10.1%	7.9%	11.0%

Current Dividend: $1.28 Yield: 6.5%
Common equity ratio: 39%
Book value per share (12/00): $13.65

Fuel and Purchased Power Adjustment Clause in MO Could Become Law

On May 29, Senate Bill 387 (SB 387), which allows certain electric utilities to recover certain fuel or purchased power costs through higher rates, was delivered to the Governor to be signed into law. EDE had aggressively lobbied for such a bill given its earnings sensitivity to fluctuations in energy prices. We expect EDE to report very weak EPS results over the next two quarters partially due to higher natural gas prices.

SB 387 bodes well for Empire District Electric's pending rate case. The company has filed for a $41 million, or 19%, annual rate increase to be effective in late-September or early-October. The outcome of the general rate case will primarily determine future EPS power and ultimate value of the company. We have pasted the text of a summary of the bill below:

"SCS/SB 387 - This act provides that the Missouri Public Service Commission may allow electrical corporations which are not also gas corporations and which serve fewer than 175,000 retail customers in Missouri and which own at least 60% of a plant with a capacity of at least 300 megawatts which was under construction and at least 30% complete on January 1, 2001, (currently including Empire Electric) to recover reasonably and prudently incurred costs of the purchase of natural gas used in the production of electricity in such plants and costs of electricity purchased as an alternative to using such plants and impacted by the cost of natural gas. The recovery of purchased electricity costs shall be fully recoverable for one year after the section becomes effective and limited to 50% thereafter and the electrical corporation must clearly document the impact of the cost of natural gas on the purchase price of the electric energy. The recovery shall be according to rate schedules approved by the Commission.

The rate schedules will be initially established pursuant to a general order of ratemaking, but shall not be established if the Commission determines that it would not be in the long-term best interests of ratepayers to establish such a mechanism."

EPS Outlook

We anticipate that EDE will experience poor EPS results in the second and third quarters of 2001 given the need for rate relief, higher energy prices, the public issuance of common and preferred equity, and additional expenses related to the operation of the new plant. While we project a decline in 2001 EPS to $1.00, from $1.37 earned in 1999, we expect a constructive regulatory decision to lead to a strong EPS rebound in 2002. Our 2002 EPS estimate is $1.55. Factors to negatively impact 2001 are as follows:

- The sizeable increases in natural gas prices since the company's last rate case will continue to lead to higher fuel and purchase power expenses. Without rate relief, EDE's results will be significantly hurt by higher energy prices.

- The company began operation of a 500-megawatt combined cycle plant at the existing 150-megawatt State Line Power Plant site. The investment provides EDE with an additional 150-megawatts of capacity. EDE will jointly own the plant with Western Resources. The total cost of the plant is estimated to be $204 million and EDE's share is estimated at $108 million. Given that the plant will operate for roughly four months without rate recognition, the higher operating expenses and capital costs will further depress EPS in the third quarter of 2001.

- Finally, the company issued $50 million in trust preferred securities in early 2001 to fund construction of the plant and to maintain a strong balance sheet. The company plans to issue $30-50 million in common equity in the fall of this year. The pending rate request is based upon a 47.5% common equity ratio, which compares to the company's current ratio of roughly 40%.

The likelihood that the Governor signs the bill into law combined with the fact that the rate increase is to reflect higher fuel and purchased power prices and a 350-megawatt addition to its State Line power plant give us confidence that a substantial increase will be authorized. The company generates 15-20% of it internal generation from gas-fired plants and purchases another 30-35% of its output. Roughly $23-24 million of the requested revenue increase is to reflect higher fuel prices. We note that the rate request will be adjusted in August for changes in fuel prices through June.

On April 3, 2001, the Staff of the Missouri Public Service Commission recommended that the Commission authorize EDE to increase electric base rates by $15.5-18.2 million (7.2-8.5%). Staff's recommendation is premised on a low 8.5%-9.5% return on equity and 39.8% equity ratio for a test period ended December 31, 2000, with updates through June 30, 2001. The $23-26 million difference between the company-supported increase and the Staff-proposed rate hike is related to: cost of capital ($8-11 million); rate base ($12 million); and, other adjustments, net ($3 million). EDE continues to diligently negotiate these items.

Our $1.55 2002 EPS estimate results in an earned return on common equity of a reasonable 10.7%. Upon rate recognition of the investment in the plant, higher fuel prices, and additional common equity, we anticipate strongly improved earnings power. In addition, a lower capital budget following completion of the plant is projected to greatly reduce the company's need for external financing and allow for future earnings growth. We expect the company's capital budget to decline significantly from $117.2 million, including $69.3 million for combined cycle unit, in 2000 to below $50 million in 2002. By 2002, we believe EDE will be a cash healthy, low cost, traditional electric utility operating in a growing service territory.

Our universe of integrated electric utilities currently trades at an average of 11.7X 2002 EPS estimates. We note that EDE has historically traded at a premium multiple reflecting a potential takeover and high interest from retail investors.

Empire District Electric

JULY 11, 2001

Maintain/Conservative

Timothy M. Winter, CFA (314) 955-5783

UTILITIES

Symbol: **EDE**
Exchange: **NYSE**
Recent Price: **20.75**

52-Week Price Range	30.75—17.50				
			Year Ends December 31		
			2000	2001E	2002E
Dividend	$1.28	**EPS**	$1.37	$1.00	$1.55
Yield	6.2%	**P/E**	—	20.8X	13.4X
		ROE	10.1%	7.2%	10.7%

Fundamental Data

1998-2000 EPS CAGR	(5.7%)
Est. 2000-2002 EPS CAGR	6.4%
Trailing 12 Months' Sales (mil.)	$266
Common Equity to Total Cap.—3/01	35.2%
Book Value Per Share—3/01	$13.47
Price/Book Value	1.5X
Market Value (mil.)	$365
Relative P/E, FY 2002E, S&P Comp	67%

CAGR—Compound Annual Growth Rate

Trading Data

Shares Outstanding (mil.)	17.6
Estimated Float (mil.)	17.4
Insider Holdings	1.26%
Institutional Holdings	27.53%
Average Daily Volume (mil.)—12 Months	.06

AGE managed an offering in the last three years.

Pending Rate Case to Determine EPS Power and Ultimate Company Value

- Decision in pending request for a 19% annual rate increase to recognize higher energy prices and generating plant addition expected in September of 2001.
- Second- and third-quarter EPS reports likely to be depressed given higher energy prices and additional plant operating expenses.
- Constructive decision would lead to EPS rebound in 2002.
- Company has strong underlying fundamentals, including low electric rates, growing service territory, and strong balance sheet.

Company Description: (Joplin, Missouri) EDE is a small electric utility that serves Southwest Missouri (87% of 2000 revenues), Southeastern Kansas (7%), Northeastern Oklahoma (3%), and Northwestern Arkansas (3%).

Investment Appraisal

The January 2, 2001, decision by UtiliCorp United (UCU/Not Rated) to terminate its agreement to acquire The Empire District Electric Company after 18 months of integration planning has left EDE in a temporarily challenging situation. As a result, EDE will likely experience poor EPS results in the second and third quarters of 2001 given the need for rate relief, higher energy prices, the public issuance of common and preferred equity, and additional expenses related to the operation of a new generating plant. Our 2001 EPS estimate is $1.00, which represents approximately a 30% decline from the $1.37 earned in 2000.

The company's future EPS power and value as a stand-alone company will be heavily influenced by the outcome of the pending rate case before the Missouri Public Service Commission. The company has requested a $41 million, or 19%, rate increase in Missouri to be effective in late 2001 to recognize an additional 150 megawatts (MW) of generating capacity, which began operation in June of 2001 and higher energy prices. Assuming reasonable rate recognition of these prudent expenditures, we anticipate strongly improved earnings power in 2002 EPS of $1.55. In addition, a lower capital budget is projected to greatly reduce the company's need for external financing and allow for future earnings growth. By 2002, we believe EDE will be a cash-healthy, low-cost, traditional electric utility operating in a growing service territory.

We advise investors to focus attention on 2002 EPS but note the stock may be weak given that EPS levels will likely fall well below the dividend level over the next few quarters and in light of rate case uncertainty.

Investment Features

Growing Service Area Economy. EDE's service area, which includes the growing country music capital, Branson, Missouri, is one of the nation's faster growing service areas in terms of customer growth. The company experienced annual customer and sales growth of 2.4% and 4.7%, respectively, during the 1990 through 2000 period, which is well above industry averages. While customer growth in Branson has slowed, the company estimates that kilowatt per hour sales will continue to grow at an above-industry-average rate.

Above-average competitive position. Empire is among the lowest cost producers in the four states that it serves. The company's rates generally rank in the lowest 15th percentile nationally. This should allow the company to maintain and grow its commercial and industrial electric load and should make it easier for the Missouri Public Service Commission to treat the company fairly. EDE also has few investments likely to be stranded in a competitive electric market.

Pure play electric utility without nuclear exposure. EDE is committed to its core business of providing inexpensive, dependable electric service. EDE has no significant non-utility investments. The company has a favorable fuel mix with no nuclear generation.

Strong financial condition. We consider the company's balance sheet to be strong. Common equity represents 35% of total capitalization and Standard and Poor's rates the company's senior secured debt A-. The company is expected to issue an additional $30 million to $50 million in common equity in the fall of 2001 to permanently finance recent capital additions and improve the equity ratio.

Potential acquisition candidate. Given a growing service territory, low electric rates, and strong balance sheet, we believe EDE is an attractive acquisition candidate for larger electric utilities in the area.

Investment Concerns

Dividend security could be threatened by unfavorable regulatory decision. EDE is committed to its retail shareholder base and intends to maintain the current $1.28 annual dividend. However, the dividend exceeds our 2001 EPS estimate of $1.00 and an unfavorable regulatory ruling in the pending rate case could threaten the security of the dividend.

EPS growth dependent on rate increases. Given the need to externally finance roughly $108 million in expenditures to construct the 150-megawatt generating addition that came on line in June of 2001, EDE's EPS growth potential is dependent upon receipt of a reasonable rate increase in October of 2001.

Earnings sensitivity to higher fuel and purchased power costs. Given that EDE purchases a large amount of power to service customers and Missouri does not have a fuel and purchased power adjustment clause, EDE's earnings have historically been heavily influenced by changes in the price of purchased power. We do note that the additional generating capacity brought on line will mitigate much of the company's sensitivity to volatile purchased power prices.

Below-average regulation. We consider the Missouri Public Service Commission (MPSC), governing 87% of electric operating revenues, to be below average.

Interest rate sensitivity. The share price of utilities, like Empire District Electric, typically moves inversely with interest rates. If interest rates rise significantly, EDE shares would likely come under pressure. Conversely, if rates decline, it could favorably impact the share price.

Description

Empire District Electric, headquartered in Joplin, Missouri, provides electric service to more than 150,000 customers in a 10,000 square mile service area in southwest Missouri (86% of 2000 operating revenues), southeast Kansas (6%), Northeast Oklahoma (3%), and northwest Arkansas (3%). In addition, EDE provides water service to three Missouri communities. (See Figure 1.) The company is a more traditional electric utility with a focus on its core business. Growth potential is largely dependent upon rate recognition of investments in the business. customer and sales growth, and cost controls.

Year-end 2000 installed capacity of 878 megawatts was 50%-gas fired, 48%-coal, and 2% hydro. (See Figure 2.) In addition, the company is under long-term contract for 162 megawatts of capacity from Western Resources beginning June 2001. The addition to the State Line plant in June of 2001 added 150 megawatts of gas-fired capacity and increased the fuel mix to 57%.

EDE's customer mix is favorable with roughly 42% of 2000 revenues derived from residential customers, 30% from commercial customers, 16% from industrial customers, 8% from wholesale customers, and 4% from miscellaneous customers. (See Figure 3.) Average 2000 residential and industrial rates were $0.065 and $0.042 per kWh, respectively, which compares to national averages of $0.084 and $0.046, respectively. (See Figure 4.)

FIGURE 1 Empire District Electric Service Area

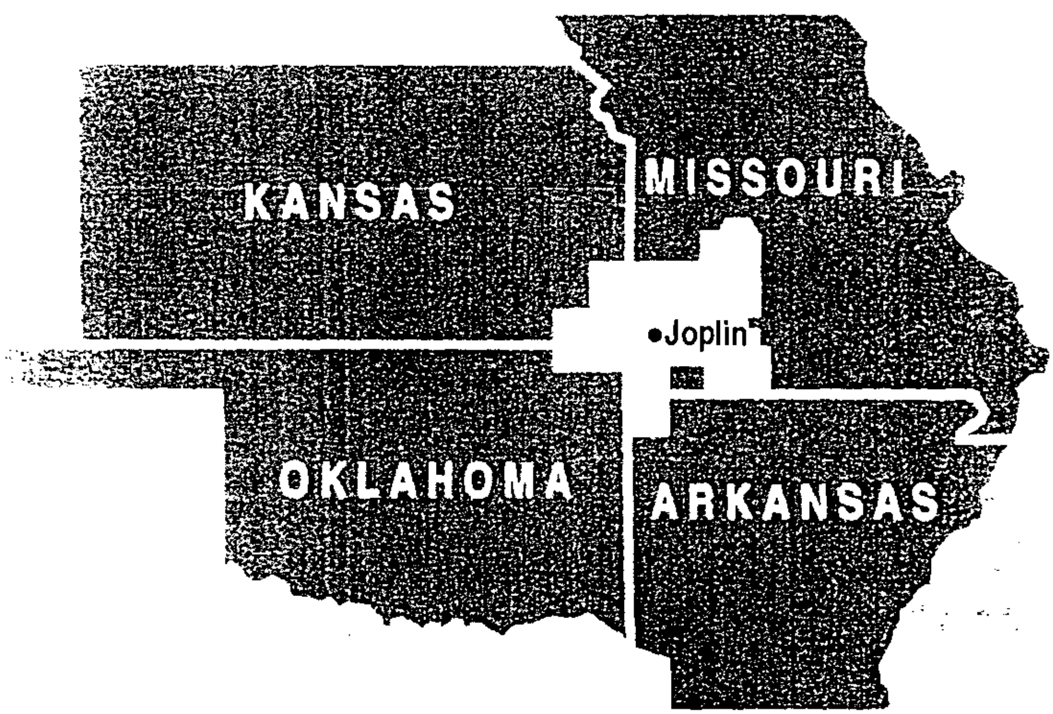


FIGURE 2 **Fuel Mix**
(2000)

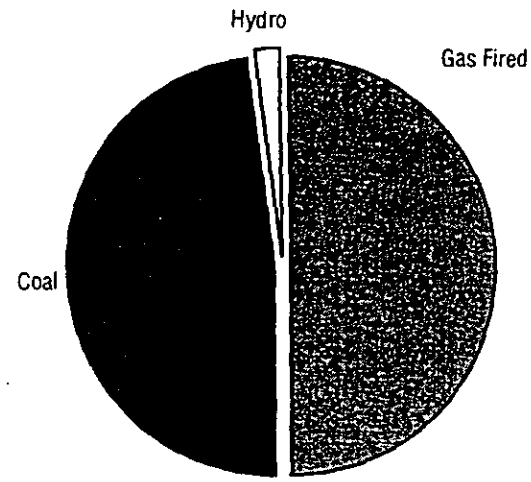
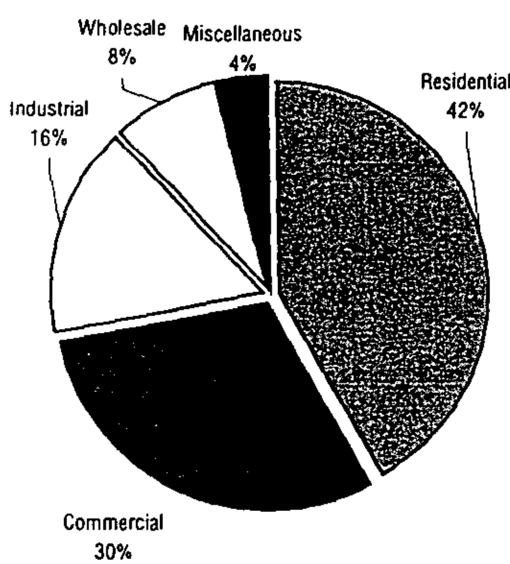


FIGURE 3 **2000 Revenues by Customer Class**

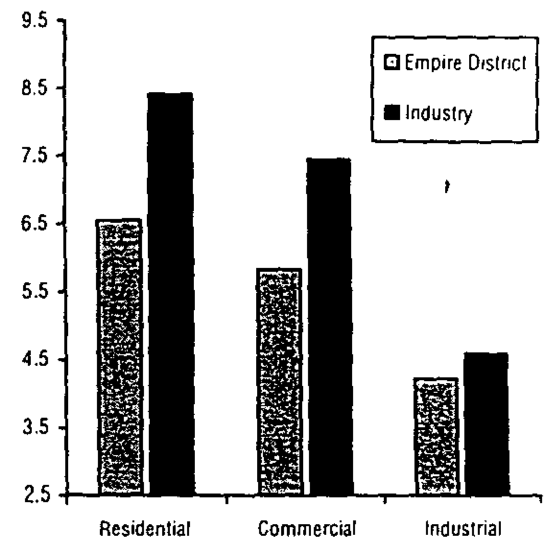


Merger Agreement With UCU Terminated

Through most of the 1990s, the investment community had considered Empire District Electric an attractive takeover candidate given its relatively small size, low-cost generation, and growing service territory. The May 1999 agreement by UCU to buy EDE for $29.50 in cash and stock seemed to be a natural and logical fit.

However, UCU was unable to gain comfort in the MPSC's potential longer-term treatment of merger synergies and acquisition premium and on January 2, 2001, exercised its right to terminate the merger agreement. We believe uncertainty related to the pending 19% rate increase request exacerbated UCU's discomfort with the MPSC. Under the terms of the agreement, if all required regulatory approvals were not obtained by December 31, 2000, then either company could terminate the agreement without penalty.

FIGURE 4 **Electric Rates**
Cents Per Kilowatt-Hour



Approvals had been obtained from the Federal Energy Regulatory Commission and the state commissions of Colorado, Iowa, Minnesota and Oklahoma. However, approvals were not obtained from the Arkansas Public Utility Commission (APSC), which ruled against the merger and Kansas, which had yet to decide. In addition, on December 28, 2000, the Missouri Public Utility Commission (MPSC) approved the merger but rejected the companies' regulatory plan. Given the small size of EDE's Arkansas operations, we believe the companies would have agreed to a less-than-favorable regulatory plan in Arkansas if they had received a constructive decision from the MPSC.

Despite UCU's termination decision, we continue to consider EDE a potential acquisition candidate over the long term; although potential acquirers will likely wait until after the pending rate case to evaluate a combination.

Recent Earnings History and Outlook

Despite strong annual customer and sales growth of 2.4% and 4.7%, respectively, over the 1990 through 2000 period, EDE's EPS growth rate has been relatively flat. (See Figure 5.) EPS in 1990 was $1.28 versus $1.37 in 2000, which represents less than 1% compound annual growth. EPS growth has been hampered by a relatively high payout ratio, which led to the need for significant external financing of utility plant to serve the growing load. In addition, the frequent need for rate relief, less than constructive regulatory environment, and swings in energy prices helped handicap results. EPS results in the second and third quarters of 2001 will likely continue to be weak for similar reasons as detailed below.

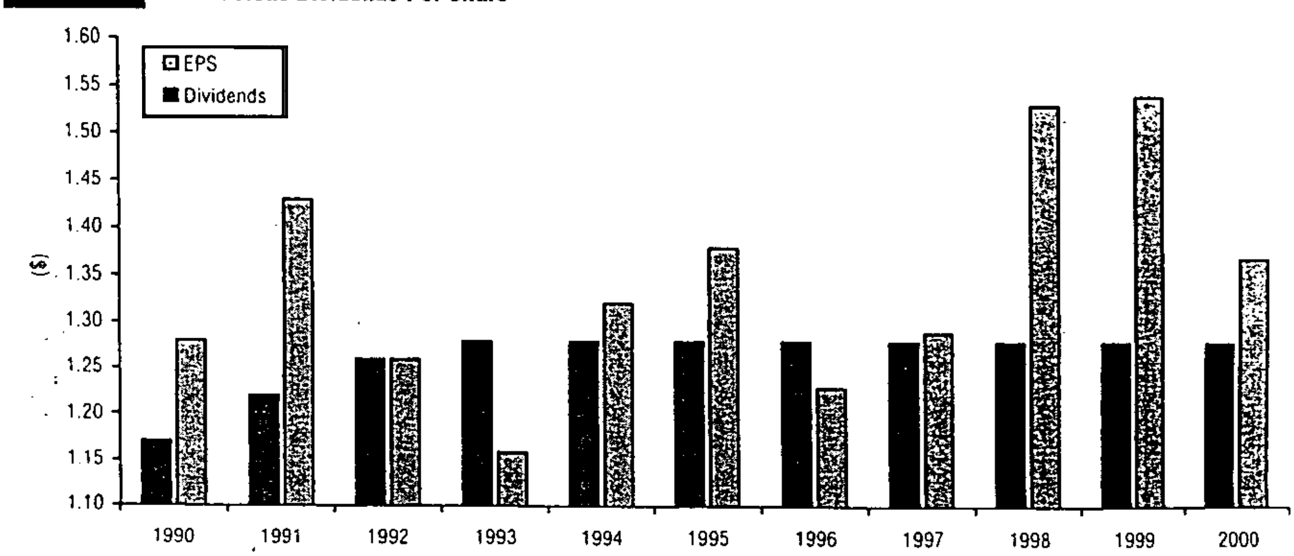
- The sizable increases in natural gas prices since the company's last rate case in 1997 will continue to lead to higher fuel and purchase power expenses for the remainder of 2001. Without rate relief, EDE's results will be significantly hurt by higher energy prices.
- In May of 2001, the company began operation of a 500-megawatt combined cycle plant at the existing 150-megawatt State Line Power Plant site. The investment provides EDE with an additional 150-megawatts of capacity. EDE jointly owns the plant with Western Resources. The total cost of the plant was estimated to be $204 million and EDE's share was estimated at $108 million. Given that the plant will operate for roughly four months without rate recognition, the higher operating expenses and capital costs will further depress EPS in the third quarter of 2001.
- Finally, the company issued $50 million in trust preferred securities in early 2001 to fund construction of the plant and to maintain a strong balance sheet and plans to issue $30 million to $50 million in common equity in the fall of this year. The pending rate request is based upon a 47.5% common equity ratio, which compares to the company's current ratio of roughly 40%.

While we project a decline in 2001 EPS to $1.00, from $1.37 earned in 2000, we expect a constructive regulatory decision to lead to a strong EPS rebound in 2002. Our 2002 EPS estimate is $1.55.

On July 11, the Governor of the state of Missouri vetoed Senate Bill 387 (SB 387), which would have allowed certain electric utilities to recover certain fuel or purchased power costs through higher rates. EDE had aggressively lobbied for the bill given its earnings sensitivity to fluctuations in energy prices. SB 387 would have aided Empire District Electric's case in its pending request for a $41 million, or 19%, annual rate increase to be effective in late-September or early-October. The rate request reflects $23 million in higher energy prices and a 150-megawatt addition to its State Line power plant. The outcome of the general rate case will primarily determine future EPS power and ultimate value of the company.

We continue to believe the company will be authorized a substantial rate increase given the deterioration of earnings power related to uncontrollable energy prices and prudently incurred construction expenditures. The company

FIGURE 5 **EPS Versus Dividends Per Share**



generates 15% to 20% of its internal generation from gas-fired plants and purchases another 30% to 35% of its output. We note that the rate request will be adjusted in August for changes in fuel prices through June.

On April 3, 2001, the Staff of the Missouri Public Service Commission recommended that the Commission authorize EDE to increase electric base rates by $15.5 million to $18.2 million (7.2% to 8.5%). Staff's recommendation is premised on a low 8.5% to 9.5% return on equity and 39.8% equity ratio for a test period ended December 31, 2000, with updates through June 30, 2001. The $23 million to $26 million difference between the company-supported increase and the Staff-proposed rate hike is related to: cost of capital ($8 million to $11 million); rate base ($12 million); and, other adjustments, net ($3 million). EDE continues to diligently negotiate these items. While the Staff's recommendation is not particularly encouraging, we note that the MPSC's staff has historically issued unconstructive recommendations. See Figure 6 for Empire District's recent rate case history.

FIGURE 6 **EDE Rate Case History**

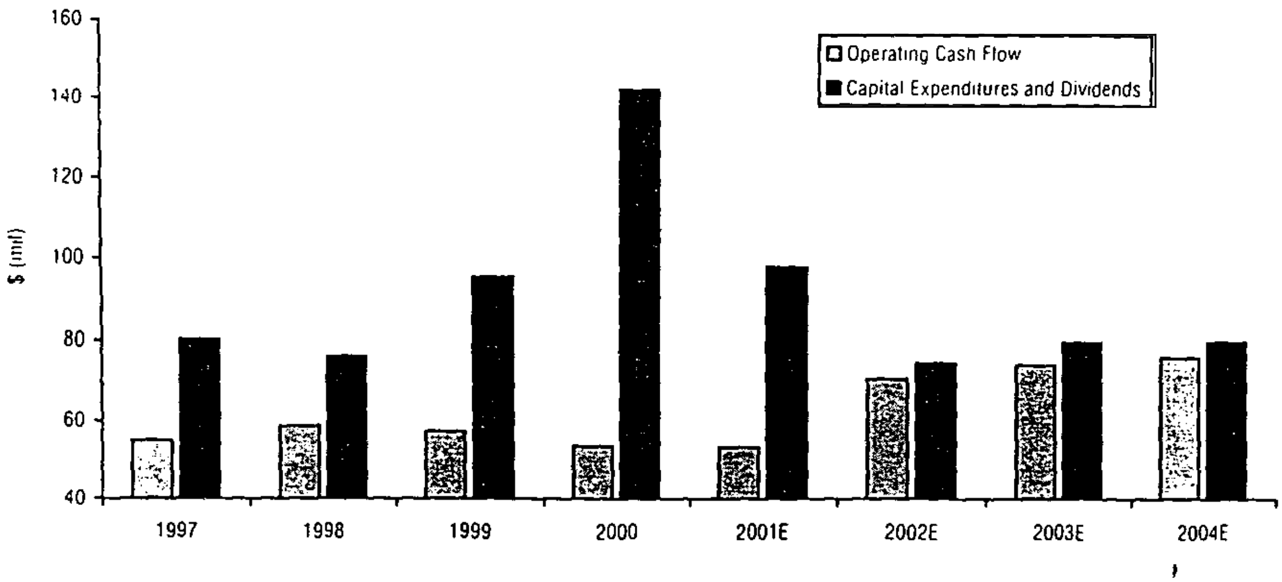
Decision Date	Amount Requested ($mil.)	Amount Authorized ($mil.)	Requested ROE * %	Rate Case Lag (Mos)
Aug-90	8.8	5.7	13.5	8
Aug-94	8	7.4	12.5	8
Nov-95	8.5	1.4	12.8	8
Jul-97	23.4	13.6	13.5	11

Our $1.55 2002 EPS estimate results in an earned return on common equity of a reasonable 10.7%. Allowed ROEs throughout the nation have generally averaged 11% to 13% in recent periods. While the MPSC has historically issued below-average ROEs, we believe an allowed ROE of 11.0% is reasonable. Upon rate recognition of the investment in the plant, higher fuel prices, and additional common equity, we anticipate strongly improved earnings power. In addition, a lower capital budget following completion of the plant is projected to greatly reduce the company's need for external financing and allow for future earnings growth. We expect the company's capital budget to decline significantly from $131.6 million, including $69.3 million for combined cycle unit, in 2000 to below $50 million in 2002. (See Figure 7.) By 2002, we believe EDE will be a cash-healthy, low-cost, traditional electric utility operating in a growing service territory.

Valuation

Our universe of integrated electric utilities currently trades at an average of 11.7X 2002 EPS estimates and 183% of book value. (See Figures 8 and 9.) EDE currently trades at a premium 13.4X 2002 EPS estimate but only 154% of book value. We note that EDE has historically traded at a premium multiple reflecting a potential takeover and high interest from retail investors. We still consider EDE an attractive takeover target, but we believe the pending rate case may hamper a potential acquirer's desire to pursue an acquisition of EDE in the near term.

FIGURE 7 Operating Cash Flow Versus Capital Expenditures and Dividends



First-Quarter EPS at $0.04 versus $0.14; Well Below Expectations

On April 24, EDE reported first-quarter 2001 EPS of $0.04 (excludes $0.04 in merger-related expenses and $0.13 tax benefit), below our $0.11 estimate, versus $0.14 for the same period in 2000. Significantly higher natural gas and purchased power expenses more than offset the positive impact of favorable weather. The company had outages at its Iatan and Riverton power plants during the quarter, which forced the need to buy power in the open market. This led to roughly a $2.3 million increase in purchased power. Total fuel and purchased power expenses rose $6.9 million in the quarter. Given that Missouri does not have a fuel and purchased power adjustment clause, fluctuations in these items fall right to the bottom line. On March 9, the Missouri Public Service Commission denied EDE's request for a $16.8 million interim rate increase to reflect the fuel and purchased power situation.

Partially offsetting these negatives was cooler-than-normal temperatures, which led to a 10.5% increase in retail kilowatt-hour sales.

FIGURE 8 Traditional Electric Utility Statistical Comparisons

		Market Data				Valuation Data			
Integrated Utilities	Sym	Closing Price 7/11/01	Total Return 2000	Total Return YTD	Market Cap. (Mil.)	P/E 2000	P/E 2001E	P/E 2002E	Price/ Book
ALLEGHENY ENERGY	AYE	$48.500	83%	2%	$6,048	17.3 X	12.5 X	11.4 X	304%
ALLIANT ENERGY	LNT	29.600	19	-4	2,340	12.0	12.3	11.4	126
AMEREN	AEE	42.000	51	-7	5,763	12.2	12.8	12.9	182
AMERICAN ELEC PWR	AEP	47.780	57	-5	15,386	17.7	13.5	12.4	191
BLACK HILLS	BKH	44.430	90	1	1,153	19.0	10.8	12.8	496
CINERGY	CIN	33.600	53	-2	5,343	12.9	12.2	11.5	188
CMS ENERGY	CMS	27.080	2	-12	3,574	10.7	9.8	8.7	132
DPL	DPL	28.250	98	-14	3,576	18.1	15.3	13.8	417
DTE ENERGY	DTE	45.750	30	20	7,541	13.8	12.9	11.2	164
EL PASO ELEC (1)	EE	15.820	43	20	813	14.3	12.2	11.3	228
EMPIRE DIST ELEC U	EDE	20.750	16	-19	366	15.1	20.8	13.4	152
FIRST ENERGY	FE	32.000	47	4	7,167	11.9	11.3	10.4	149
HAWAIIAN ELEC INDUS	HE	38.580	36	7	1,252	15.2	12.3	11.7	152
KANSAS CITY P&L	KLT	25.050	32	-6	1,549	11.6	17.9	13.2	169
NISOURCE INC.	NI	26.600	82	-12	5,493	14.9	12.9	11.2	156
OGE ENERGY	OGE	23.090	37	-1	1,799	12.2	13.6	11.3	176
PINNACLE WEST CAPITAL	PNW	48.870	59	4	4,141	13.7	12.7	11.9	169
PROGRESS ENERGY	PGN	45.040	68	-5	9,282	14.9	13.4	12.5	167
PS CO NEW MEXICO	PNM	32.290	68	22	1,263	12.7	8.2	9.5	126
PS ENTERPRISE GROUP	PEG	49.070	50	3	10,205	13.8	13.2	11.9	248
PUGET SOUND ENERGY	PSD	26.660	53	-1	2,297	12.3	12.4	12.1	129
SCANA	SCG	27.670	16	-4	2,898	12.8	12.4	11.2	130
SIERRA PAC RES U	SRP	16.590	-4	5	1,302	NA	10.8	9.4	102
SOUTHERN COMPANY	SO	23.400	49	17	16,030	15.4	14.6	13.9	1
TXU	TXU	48.920	33	-13	12,567	14.3	13.6	12.9	168
UNISOURCE ENERGY	UNS	23.490	63	26	782	17.8	8.0	11.7	209
WISCONSIN ENERGY	WEC	24.020	23	8	2,829	15.9	11.4	10.7	139
WPS RESOURCES	WPS	34.350	59	-4	910	13.6	13.0	12.3	167
XCEL ENERGY	XEL	29.010	58	4	9,956	13.7	12.6	11.8	170
Integrated Utility Average			47%	2%	$4,774	14.3 X	12.7 X	11.7 X	183%
Integrated Utility Median			50%	2%	$3,574	13.8 X	12.6 X	11.7 X	167%
Electric Utility Universe Median			49%	-2%	$3,576	13.8 X	12.9 X	12.0 X	169%

Schedule 9-8

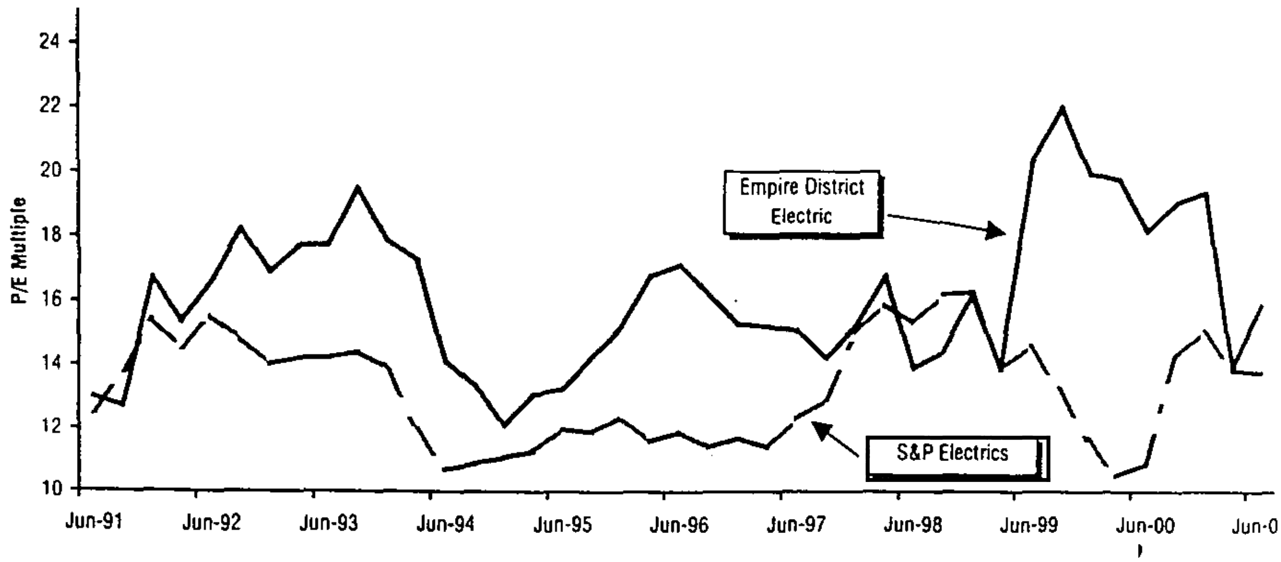
FIGURE 8 Traditional Electric Utility Statistical Comparisons (continued)

Integrated Utilities	Sym	Financial Performance EPS 2000	EPS 2001E#	EPS 2002E#	Dividends Current Annual Rate	Current Yield	Payout 2001E EPS	Book Value P/S 3/31/01	S&P Corp. Debt Rating++ 6/22/01
ALLEGHENY ENERGY	AYE	$2.81	$3.87	$4.26	$1.72	3.5%	44%	$15.96	A
ALLIANT ENERGY	LNT	2.46	2.41	2.60	2.00	6.7	83%	23.53	A+
AMEREN	AEE	3.44	3.25	3.25	2.54	6.0	78%	23.02	A+
AMERICAN ELEC PWR	AEP	2.70	3.55	3.85	2.40	5.1	68%	25.01	A-
BLACK HILLS	BKH	2.34	4.11	3.47	1.08	2.6	NA	8.96	A
CINERGY	CIN	2.60	2.76	2.93	1.80	5.2	65%	17.83	BBB+
CMS ENERGY	CMS	2.53	2.75	3.10	1.46	5.2	53%	20.48	BB
DPL	DPL	1.56	1.85	2.04	0.94	3.3	51%	6.78	BBB+
DTE ENERGY	DTE	3.32	3.54	4.09	2.06	4.5	58%	27.83	BBB+
EL PASO ELEC (1)	EE	1.11	1.30	1.40	-	NA	NA	6.93	BBB-
EMPIRE DIST ELEC U	EDE	1.37	1.00	1.55	1.28	3.7	128%	13.65	A-
FIRST ENERGY	FE	2.69	2.84	3.09	1.50	4.6	53%	21.53	BB+
HAWAIIAN ELEC INDUS	HE	2.54	3.13	3.31	2.48	6.4	79%	25.33	BBB
KANSAS CITY P&L	KLT	2.16	1.40	1.90	1.66	6.6	119%	14.86	A-
NISOURCE INC.	NI	1.79	2.07	2.38	1.08	3.8	52%	17.04	BBB'
OGE ENERGY	OGE	1.89	1.70	2.05	1.33	5.8	78%	13.11	A+
PINNACLE WEST CAPITAL	PNW	3.57	3.84	4.12	1.40	2.9	36%	28.87	BBB
PROGRESS ENERGY	PGN	3.03	3.35	3.60	2.12	4.7	63%	27.01	BBB+
PS CO NEW MEXICO	PNM	2.55	3.96	3.41	0.80	2.4	20%	25.64	BBB-
PS ENTERPRISE GROUP	PEG	3.55	3.71	4.11	2.16	4.4	58%	19.82	BBB
PUGET SOUND ENERGY	PSD	2.16	2.15	2.20	1.84	6.9	86%	20.59	BBB+
SCANA	SCG	2.16	2.24	2.47	1.15	4.1	51%	21.31	A
SIERRA PAC RES U	SRP	-0.51	1.54	1.76	1.00	6.3	65%	16.21	BBB
SOUTHERN COMPANY	SO	1.52	1.60	1.68	1.34	5.8	84%	15.67	A
TXU	TXU	3.43	3.60	3.80	2.40	4.9	67%	29.19	BBB+
UNISOURCE ENERGY	UNS	1.32	2.95	2.00	0.32	1.4	11%	11.26	BB
WISCONSIN ENERGY	WEC	1.51	2.10	2.25	0.80	3.3	38%	17.34	A+
WPS RESOURCES	WPS	2.53	2.65	2.80	2.06	5.9	78%	20.63	AA-
XCEL ENERGY	XEL	2.12	2.30	2.45	1.50	5.2	65%	17.10	A-

Integrated Utility Average	4.7%	64%
Integrated Utility Median	4.8%	65%
Electric Utility Universe Median	4.0%	52%

FIGURE 9 **Empire District P/E Multiple Since 1991 Versus S&P Electrics**

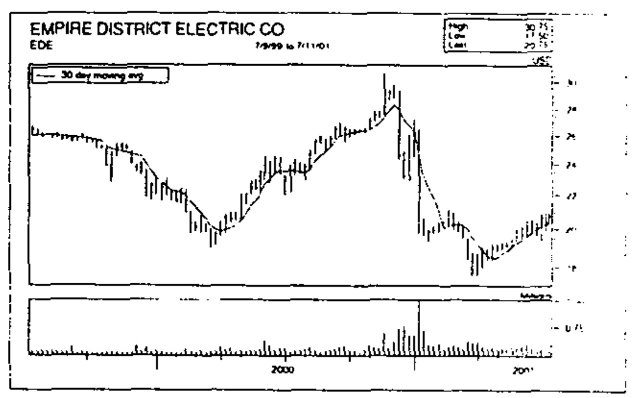
Trailing-Twelve Months P/E Multiple



Selected Balance Sheet Data

March 30, 2001
(Figures in Millions)

Property, Plant, Equipment	$736
Current Assets	51
Deferred Debits & Other Assets	57
Total	**$844**
Capitalization and Liabilities	
Stockholder's Equity	237
Long-Term Debt	326
Preferred Stock	50
Current Liabilities:	
Short-term Debt & Maturities	60
Other Current Liabilities	42
Deferred Credits & Other Liabilities	129
Total	**$844**



Source: FACTSET Data Systems, Inc.

Income Statement

(Figures in Millions)

Revenues	1997	1998	1999	2000	2001E	2002E
Electric	214.3	238.8	241.1	258.9	275.7	296.3
Water	1.0	1.1	1.1	1.1	1.1	1.1
Total Operating Revenues	**215.3**	**239.9**	**242.2**	**260.0**	**276.8**	**297.4**
Expenses						
Operation & Maintenance	126.7	138.9	138.1	161.5	181.4	177.3
Depreciation	23.4	25.0	26.4	27.8	28.9	32.4
Other Taxes	11.2	12.4	13.5	13.1	13.9	14.9
Operating Expenses B4 Taxes	161.3	176.3	178.0	202.4	224.2	224.6
Operating Income	**54.0**	**63.6**	**64.2**	**57.6**	**52.6**	**72.7**
Total Other Income	**(0.2)**	**(0.6)**	**(0.1)**	**2.4**	**2.4**	**0.1**
EBIT	**53.8**	**63.0**	**64.1**	**60.0**	**55.0**	**72.9**
Interest Expense	**17.0**	**18.5**	**20.3**	**24.6**	**21.7**	**21.9**
Income Taxes	**13.0**	**16.2**	**15.9**	**11.4**	**10.7**	**16.4**
Net income	23.8	28.4	27.9	23.9	22.6	34.5
Preferred Dividends	2.4	2.4	1.4	0.0	4.1	4.1
Earnings for common*	21.4	26.0	25.2	23.9	18.5	30.5
Common shares - average	16.6	16.9	17.2	17.5	18.5	19.6
Common shares - year end	16.7	17.1	17.4	17.6	19.5	19.7
Basic EPS	**1.29**	**1.53**	**1.46**	**1.37**	**1.00**	**1.55**
Dividend/Share Paid	1.28	1.28	1.28	1.28	1.28	1.28
Book Value/Share	13.13	13.43	13.48	13.65	14.10	14.91
Avg. Book Value/Share	13.05	13.28	13.46	13.57	13.87	14.50
ROE (%)	9.9%	11.5%	10.9%	10.1%	7.2%	10.7%

**Excludes non-recurring items, including merger-related charges of $0.33 and $0.02 in 1999 and 2000.*

Cash Flow Statement and Capital Structure

(Figures in Millions)

Operating Activities	1997	1998	1999	2000	2001E	2002E
Net income	23.8	28.3	22.2	23.6	22.6	34.5
Depreciation	26.5	28.3	29.7	31.2	31.4	34.9
Voluntary early retirement program	(0.7)	(2.2)	(4.3)	(7.8)	0.0	0.0
Deferred Income taxes	2.8	3.4	4.5	2.1	2.1	2.1
Investment tax credit	(0.6)	(0.6)	(0.6)	(0.6)	(0.6)	(0.6)
AFUDC-equity	(0.2)	(0.0)	(0.1)	(2.4)	(2.5)	(0.2)
Issuance of common stock for 401 k	0.7	0.7	0.8	0.8	0.0	0.0
Other	2.7	0.6	(3.0)	9.0	0.0	0.0
Net Operating Cash flow	55.0	58.5	49.1	56.0	53.0	70.7
Investing Activities						
Construction expenditures	(56.7)	(51.9)	(71.9)	(133.9)	(70.0)	(45.0)
Allowance for funds used during construct.	0.2	(0.0)	(0.1)	2.4	2.5	0.5
Net Investing Cash Flow	(56.5)	(51.9)	(72.0)	(131.6)	(67.5)	(44.5)
Financing Activities						
Stock issue price						
Sale of common stock	21.0	22.0	25.0	25.0	21.0	21.0
Sale of preferred stock	5.2	5.1	6.4	3.9	40.0	5.0
Redemption & mty 1st mtg bonds	0.0	0.0	0.0	0.0	50.0	0.0
Redemption of preferred stock	0.0	(23.0)	0.0	0.0	0.0	0.0
Sale of 1rst mortgage bonds	0.0	(0.3)	(33.9)	0.0	0.0	0.0
State Line Prepayments	0.0	49.7	99.8	0.0	0.0	0.0
Net proceeds from short term borrowing	0.0	0.0	7.9	6.5	9.0	0.0
Premium paid on extinguished debt	20.5	(13.5)	(14.5)	69.5	(60.0)	0.0
Dividends	0.0	0.0	0.0	0.0	0.0	0.0
Other	(23.7)	(24.1)	(23.7)	(22.4)	(27.8)	(29.2)
Net Financing Cash Flow	23.0	15.9	67.0	82.5	32.2	(3.2)
Net Change in Cash	0.3	(0.1)	18.2	(18.2)	(1.3)	2.0
Cash at beginning ofperiod	2.2	2.5	2.5	20.7	2.4	1.1
Cash at end of period	2.5	2.5	20.7	2.4	1.1	3.1
Capital Structure						
Common Equity	219	230	234	240	275	294
Preferred	33	33	0	0	50	50
Long-Term Debt	196	246	346	326	326	326
Short-Term Debt	28	15	0	90	30	30
Total Capitalization	476	523	580	655	680	699
% Equity	46	44	40	37	40	42
% Preferred	7	6	0	0	7	7
% Long-Term Debt	41	47	60	50	48	47
% Short-Term Debt	6	3	0	14	4	4

A.G. Edwards

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David W. Gibson

From: "Barnidge, Robert"
To: <dgibson@empiredistrict.com>
Sent: Wednesday, September 26, 2001 8:36 AM
Subject: FW: ede first call note

I hope this is accurate.

Bob Barnidge

-----Original Message-----
From: Jacobi, Mary
Sent: Wednesday, September 26, 2001 8:22 AM
To: Donovan, William; Fay,C harles; Lester Krone (E-mail); Robert Barnidge (E-mail); Woodard, Adam
Subject: ede first call note

A.G. Edwards & Sons, Inc.
Equity Research - **ELECTRIC UTILITIES**
September 25, 2001

Analyst: Timothy M. Winter (314)955-5783
Associate: Neil Kalton

EDE UPGRADED TO ACCUMULATE FOLLOWING RATE ORDER

EMPIRE DISTRICT ELECTRIC (EDE 19.38 - NYSE)
ACCUMULATE/CONSERVATIVE

Market Cap ($mil.):	$364	Est. Long-Term EPS CAGR:	6%
Dividend:	$1.28	Book Value/Share:	$13.47
Yield:	6.6%		

Fiscal Year Ends Dec

EPS	2000A	2001E	Prior	2002E	Prior	2003E	Prior
Qtr1	$0.14	$0.04					
Qtr2	$0.21	$0.04					
Qtr3	$0.82	$0.45					
Qtr4	$0.20	$0.27					
Year	$1.37	$0.80		$1.55			

- **We have upgraded our rating on shares of Empire District to Accumulate from Maintain Position. The rating change was prompted by a re-evaluation of the company following the Missouri Public Service Commission's authorization of a relatively constructive rate order that we expect to result in an EPS rebound in 2002 and the maintenance of the common dividend. We consider the dividend secure, but note that the high 83% payout ratio of our 2002 EPS estimate of $1.55 provides limited cushion against unforeseen events.**
- **On September 18, the MPSC ordered a $36.7 million, or roughly 15%, annual revenue increase consisting of a $17 million permanent increase and a $19.6 million two-year interim fuel and purchased power increase. The increases will be effective October 1 and are premised on a 10.0% allowed return on common equity. The company had filed for a $41 million increase based on an 11.5% allowed ROE.**
- **While we consider the 10.0% allowed return on common equity to be relatively low, the rate plan includes a fuel and purchased power adjustment clause for a two-year period provided fuel and purchased power expenses fall within a specified range. We believe this is a**

significant action that will reduce the risk profile of the company given that in fuel and purchased power expenses have significantly hampered the company's results in recent periods.

- **Our 2001 EPS estimate remains $0.80. Despite the lower-than-expected allowed ROE, we have maintained our 2002 EPS estimate of $1.55, which results in a 10.7% earned ROE. We note that the company may have an opportunity to earn above the allowed ROE through the reduction of fuel and purchased power costs below the lower-end of the interim adjustment collar of $25.20 per megawatt-hour. We project annual EPS growth of 3% from a 2002 base year estimate of $1.55 driven by a growing customer base and cost controls.**
- **Our favorable rating is based on the attractive current dividend yield of 6.6%, relatively low risk, and longer-term takeover potential. Our twelve-to-eighteen month price is $21 per share.**

The Rate Case

On September 18, the MPSC ordered a $36.7 million, or roughly 15%, annual revenue increase consisting of a $17 million permanent increase and a $19.6 million two-year interim fuel and purchased power increase. The increases will be effective October 1 and are premised on a allowed return on common equity. The case was initiated on November 3, 2000, when the company filed for a $41 million, or 19%, annual increase based on an 11.5% allowed ROE. The rate plan includes a fuel andp urchased power adjustment clause for a two-year period provided fuel andp urchased power expenses fall within a range of $25.20 per mwh and $30.60 per mwh. The impact of prices above and below the range will be borne by the company. We believe this is a action that will reduce the risk profile of the company given that fluctuations in fuel and purchased power expenses have significantly hampered the company's results in recent periods. The $17 million permanent rate increase recognizes the investment ina dditional generating capacity and other capital and operating costs since the last rate case. The company began operation of a 500-megawatt combined cycle plant at the existing 150-megawatt State Line Power Plant site in June of 2001. EDE jointly owns the plant with Western Resources and the provided EDE with an additional 150-megawatts of capacity. The total cost of the plant was roughly $204 million and EDE's share was roughly $122 million.

EPS Outlook

Our 2001 EPS estimater emains $0.80. EPS through the first six months of 2001 were $0.08 vs. $0.35 for the same period last yearg iven the negative impact of higher natural gas prices, higher financing costs, and the need for rate relief. Natural gas prices rose significantly in the first half of the year compared to the prices used to set rates in the company's last rate case. **The company issued $50 million in trust preferred securities in early 2001 to fund construction of the plant and maintain a strong balance sheet.** We anticipate that EDE will report poor EPS results in the third quarter of 2001 given a continuation of the above-mentioned factors and the additional operating and capital expenses associated with the new plant. The plant will operate for roughly four months before implementation of the rate increases on October1 .

The strong projected rebound in EPS in 2002 is primarily due to the $36.7 million annual increase to be effective October 1, 2001. Despite the lower-than-expected allowed ROEa in the rate case, we have maintained our 2002 EPS estimate of $1.55, which results in a 10.7% earned ROE. We note that the company has the opportunity to earn above the allowed ROE through the reduction of fuel and purchased power costs below the lower-end of the interim adjustment collar of $25.20 per megawatt-hour. The new rate plan recognizes theo perating and capital expenses associated with the new generating facility and allows for an additional $19.6 million to account for higher fuel and purchased power expenses. Importantly, the EPS impact of fluctuations in fuel and purchased power have been muted by the interim energy adjustment clause.

In addition, a lower capital budget given the mid-2001 completion of the plant is projected to greatly reduce the company's need for external financing and allow for future earnings growth. We expect the company's capital budget to decline significantly from $131.6 million, including $69.3 million for combined cycle unit, in 2000 to below $50 million in 2002. However, the company is expected to issue $30-50 million in common equity in the fall of this year to strengthen the balance sheet and maintain investment grade-rated debt. Following the rate increase and equity issuance, we believe EDE will be a cash healthy, low cost, traditional electric utility operating in a growing service territory. We project annual EPS growth of 3% from a 2002 base year estimate of $1.55 driven by a growing customer base and cost controls.

EDE currently trades at 12.5X our 2002 EPS estimate, which compares to our universe of integrate

The Dividend
Given the significant rate relief, we believe the dividend will be maintained over the next few years. However, we note that the dividend represents a relatively high 88% ratio of our 2002 estimate of $1.55 and will likely remain high over the next few years. Should an unexpected event hamper EPS power, the company could be forced to re-evaluate the dividend policy.

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Schedule 11

Equity Research - ELECTRIC UTILITIES
October 26, 2001

Analyst: Timothy M. Winter (314)955-5783
Associate: Neil Kalton

THIRD QUARTER EPS AT $0.56 VS. $0.82

Empire District Electric (EDE 21.10 - NYSE)
Buy/Conservative

Market Cap ($mil.):	$399	Est. Long-Term EPS CAGR:	6%
Dividend:	$1.28	Book Value/Share:	$13.47
Yield:	6.1%		

Fiscal Year Ends Dec

EPS	2000A	2001E	Prior	2002E	Prior	2003E	Prior
Qtr1	$0.14	$0.04					
Qtr2	$0.21	$0.04					
Qtr3	$0.82	$0.56	$0.45				
Qtr4	$0.20	$0.26	$0.27				
Year	$1.37	$0.85	$0.80	$1.55			

- **On October 25, EDE reported third quarter EPS of $0.56 (excludes non-recurring items), well ahead of our low $0.45 estimate, vs. $0.82 for the same period last year.**
- **The 32% quarterly EPS decline was due to the need for rate relief to cover significantly higher fuel and purchased power costs and capital and operating expense associated with generation additions. Milder weather summer weather also negatively impacted results.**
- **On September 18, the MPSC ordered a $36.7 million, or roughly 15%, annual revenue increase consisting of a $17 million permanent increase and a $19.6 million two-year interim fuel and purchased power increase. The increases were effective October 1 and premised on a 10.0% allowed return on common equity.**
- **The two-year fuel and purchased power adjustment clause will reduce earnings sensitivity to fluctuations in fuel and purchased power costs, which have significantly hampered the company's results in recent periods.**
- **We raised our 2001 EPS estimate to $0.85, from $0.80, and maintained our 2002 EPS estimate of $1.55, which results in a 10.7% earned ROE. We note that the company may have an opportunity to earn above the allowed ROE through the reduction of fuel and purchased power costs below the lower-end of the interim adjustment collar of $25.20 per megawatt-hour. We project annual EPS growth of 3% from a 2002 base year estimate of $1.55 driven by a growing customer base and cost controls.**
- **Our favorable rating is based on the attractive current dividend yield of 6.1%, relatively low risk, and longer-term takeover potential. Our twelve-to-eighteen month price objective is $21 per share.**

EPS at $0.56 vs. $0.82

On October 25, EDE reported third quarter EPS of $0.56 (excludes non-recurring items), well ahead of our $0.45 estimate, vs. $0.82 for the same period last year. The 32% quarterly EPS decline was due to the need for rate relief to cover significantly higher fuel and purchased power costs and capital and operating expenses associated with a generation addition. Milder summer weather also negatively impacted results. While natural gas prices moderated in the third quarter from the unusually high levels seen in the first half of the year, they were higher than prices used to set rates in the company's last rate case and thus negatively impacted results. The issuance of $50 million in trust preferred securities in early 2001 to fund construction of new plant and maintain a strong balance sheet resulted in a $1.1 million, or $0.04 per share, increase in interest expense. The company began operation of a 500-megawatt combined cycle plant at the existing 150-megawatt State Line Power Plant site in June of 2001. The allowance for funds used during construction declined $0.7 million, or $0.03 per share, given the completion of the plant. Partially offsetting these negatives was strong customer growth of 1.7% annually.

For the trailing twelve-months EPS were $0.87 vs. $1.39 for the prior twelve-month period. The decline was primarily due to a 23% increase in fuel and a 21% increase in purchased power costs.

Non-recurring items:

(1) a one-time non-cash charge in the third quarter of $2.5 million, or $0.14 per share, in construction expenditures related to the completion of the State Line Combined Cycle Plant.
(2) Merger-related costs of $1.6 million, or $0.09 per share, and $0.3 million, $0.02 per share, during the twelve-month period ended September 30, 2001 and 2000, respectively.
(3) A one-time tax benefit recognized in the first quarter of $2.3 million, or $0.13 per share, from previously incurred merger related costs becoming tax-deductible for income tax purposes.

EPS Outlook

While EPS through the first nine-months of 2001 were $0.64 vs. $1.17 for the same period last year given the negative impact of higher natural gas prices, higher financing costs, and the need for rate relief, fourth quarter earnings should improve substantially given a October 1 rate increase of $36.7 million, or 15%. We raised our 2001 EPS estimate to $0.85, from $0.80, and maintained our 2002 EPS estimate of $1.55. We note that the company has the opportunity to earn above the allowed 10% ROE through the reduction of fuel and purchased power costs below the lower-end of the interim adjustment collar of $25.20 per megawatt-hour. The new rate plan recognizes the operating and capital expenses associated with the new generating facility and allows for an additional $19.6 million to account for higher fuel and purchased power expenses. Importantly, the EPS impact of fluctuations in fuel and purchased power have been muted by the interim energy adjustment clause.

In addition, a lower capital budget given the mid-2001 completion of the plant is projected to greatly reduce the company's need for external financing and allow for future earnings growth. We expect the company's capital budget to decline significantly from $131.6 million, including $69.3 million for a combined cycle unit, in 2000 to below $50 million in 2002. However, the company is expected to issue $30-50 million in common equity later this year to strengthen the balance sheet and maintain investment grade-rated debt. Following the rate increase and equity issuance, we believe EDE will be a cash healthy, low cost, traditional electric utility operating in a growing service territory. We project annual EPS growth of 3% from a 2002 base year estimate of $1.55 driven by a growing customer base and cost controls.

The Rate Case

On September 18, the MPSC ordered a $36.7 million, or roughly 15%, annual revenue increase consisting of a $17 million permanent increase and a $19.6 million two-year interim fuel and purchased power increase. The increases will be effective October 1 and are premised on a 10.0% allowed return on common equity. The case was initiated on November 3, 2000, when the company filed for a $41 million, or 19%, annual increase based on an 11.5% allowed ROE. The rate plan includes a fuel and purchased power adjustment clause for a two-year period provided fuel and purchased power expenses fall within a range of $25.20 per mwh ($23.37 including lost system sales) and $30.60 per mwh. The impact of prices above and below the range will be borne by the company. We believe this is a significant action that will reduce the risk profile of the company given that fluctuations in fuel and purchased power expenses have significantly hampered the company's results in recent periods. The $17 million permanent rate increase recognizes the investment in additional generating capacity and other capital and operating costs since the last rate case. The company began operation of a 500-megawatt combined cycle plant at the existing 150-megawatt State Line Power Plant site in June of 2001. EDE jointly owns the plant with Western Resources and the expansion provided EDE with an additional 150-megawatts of capacity. The total cost of the plant was roughly $204 million and EDE's share was roughly $122 million.

Appraisal

EDE currently trades at 12.5X our 2002 EPS estimate, which compares to our universe of integrated electric utilities of 10.6X 2002 EPS estimates. We note that EDE has historically traded at a premium multiple reflecting a potential takeover and high interest from retail investors. Our twelve-to-eighteen month price objective of $21 per share is based on 3% long-term EPS growth, a 5.5% long-term government bond yield, and a 3% risk premium.

The Dividend

Given the significant rate relief, we believe the dividend will be maintained over the next few years. However, we note that the dividend represents a relatively high 83% ratio of our 2002 estimate of $1.55 and will likely remain high over the next few years. Should an unexpected event hamper EPS power, the company could be forced to re-evaluate the dividend policy.

AGE has managed an underwriting.

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Equity Research Summary Report

A.G. Edwards

UTILITIES

Empire District Electric

December 5, 2001

Buy/Conservative
EDE/NYSE/20.36

Price Objective:	21			Dividend:	$1.28	AGE Lists:
Fiscal Year Ends Dec				Yield:	6.3%	
				Dividend Opinion:	2	
2000 EPS:	$1.37					
2001 EPS est:	$0.85	P/E	24.0X	Est. L-T EPS CAGR:	3%	
2002 EPS est:	$1.55	P/E	13.1X	Est. L-T Div. CAGR:	0%	
2003 EPS est:		P/E				

Book Value Per Share:	$13.19	Common Equity/Capital:		Market Cap ($mil.): $385
Price/Book:	154.4%	S&P Corporate Debt Rating:	A-	
Analyst:	Timothy M. Winter	Associate:	Neil Kalton	
Sector:	Utilities	Industry:	ELECTRIC UTILITIES	

Recent Development:
12/05/2001 EDE Issues 1.75 Million Common Shares

For more information, see the related Recent Development report.

Company Description: (Joplin, Missouri) EDE is a small electric utility that serves Southwest Missouri (87% of 2000 revenues), Southeastern Kansas (7%), Northeastern Oklahoma (3%), and Northwestern Arkansas (3%).

Investment Premise: Our favorable rating is based on the attractive current dividend yield of 6.1%, relatively low risk, and longer-term takeover potential. We consider the dividend secure, but note that the high 83% payout ratio of our 2002 EPS estimate of $1.55 provides limited cushion against unforeseen events. On September 18, the Missouri Public Service Commission authorized EDE a $36.7 million, or roughly 15%, annual revenue increase consisting of a $17 million permanent increase and a $19.6 million two-year interim fuel and purchased power increase. The increase was effective October 1 and premised on a 10.0% allowed return on common equity. We project that the rate increase will lead to an EPS rebound in 2002 to $1.55 from depressed 2001 levels. Our 2001 EPS estimate is $0.85.

While we consider the 10.0% allowed return on common equity to be relatively low, the rate plan includes a fuel and purchased power adjustment clause for a two-year period provided fuel and purchased power expenses fall within a specified range. We believe this is a significant item that will reduce the risk profile of the company given that fluctuations in fuel and purchased power expenses have hampered the company's results in recent periods. We note that the company may have an opportunity to earn above the allowed ROE through the reduction of fuel and purchased power costs below the lower-end of the interim adjustment collar of $25.20 per megawatt-hour. We project annual EPS growth of 3% from a 2002 base year estimate of $1.55 driven by a growing customer base, cost controls, and future rate increases to recognize additional investments in the business.

Attractive Features:

Growing service area economy. EDE's service area, which includes the growing country music capital, Branson, Missouri, is one of the nation's faster growing service areas in terms of customer growth. While customer growth in Branson has slowed, the company estimates that kilowatt per hour sales will continue to grow at an above-industry-average rate.

Above-average competitive position. Empire is among the lowest cost producers in the four states that it serves. The company's rates generally rank in the lowest 15th percentile nationally. This should allow the company to maintain and grow its commercial and industrial electric load and should make it easier for the Missouri Public Service Commission to treat the company fairly. EDE also has few investments likely to be stranded in a competitive electric market.

Pure play electric utility without nuclear exposure. EDE is committed to its core business of providing inexpensive, dependable electric service. EDE has no significant non-utility investments. The company has a favorable fuel mix with no nuclear generation.

Strong financial condition. We consider the company's balance sheet to be strong. Common equity represents 39% of total capitalization and Standard and Poor's rates the company's senior secured debt A-.

Potential acquisition candidate. Given a growing service territory, low electric rates, and need for capacity, we believe EDE is an attractive acquisition candidate for larger electric utilities in the area.

Concerns:

Dividend represents a high payout ratio of our 2002 EPS estimate. We consider the dividend secure, but note that the high 83% payout ratio of our 2002 EPS estimate of $1.55 provides limited cushion against unforeseen events. In addition, the high payout necessitates the external financing, which hampers EPS growth.

Earnings sensitivity to higher fuel and purchased power costs. Given that EDE purchases a large amount of natural gas and wholesale power to service customers, EDE's earnings have been heavily influenced by changes in the price of purchased power. The recent rate order does allow for some adjustments to changes in energy prices, but a large fluctuation on the upside would negatively impact results. We do note that the additional generating capacity brought on line will mitigate much of the company's sensitivity to volatile purchased power prices.

Below average regulation. We consider the Missouri Public Service Commission (MPSC), governing 87% of electric operating revenues, to be below average.

Interest rate sensitivity. The share price of utilities, like Empire District Electric, typically moves inversely with interest rates. If interest rates rise significantly, EDE shares would likely come under pressure. Conversely, if rates decline, it could favorably impact the share price.

Selected Financial Statistics

(Dollars in millions except per share)

Fiscal Year Ends Dec	1996	1997	1998	1999	2000	CAGR(%)	2001E	2002E	2003E
Revenues	$206	$215	$240	$242	$260	6.0	$277	$292	
Net Income		24	28	28	24	0.0	15	31	
Cash Earnings		55	59	49	56	0.0	53	71	
Shares Outstanding	16	16.6	16.9	17.2	17.5	2.3	18.9	20.3	
Earnings Per Share	1.23	1.29	1.53	1.46	1.37	2.7	0.85	1.55	
Dividends Per Share	1.28	1.28	1.28	1.28	1.28	0.0	1.28	1.28	
Price Range (High)	19	19	26	27	31				
(Low)	17	16	19	19	19				
P/E Range (High)	15	15	17	18	23				
(Low)	14	12	12	13	14				
Return on Equity (%)	9.6	9.9	11.5	10.9	10.1		5.8	10.7	

CAGR – Compound Annual Growth Rate
Cash Earnings – Net Income plus noncash charges
Dividend Opinions: 1 – Secure with growth; 2 – Secure with little or no growth; 3 – Secure intermediate term, might not be secure long term; 4 – Not secure

Quarterly Summary

Fiscal Year Ends Dec				
EPS	2000A	2001E	2002E	2003E
Qtr1	$0.14	$0.04		
Qtr2	$0.21	$0.04		
Qtr3	$0.82	$0.56		
Qtr4	$0.20	$0.21		
Year	$1.37	$0.85	$1.55	

AGE has managed an underwriting.

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Equity Research - ELECTRIC UTILITIES
March 8, 2002

Analyst: Timothy M. Winter (314)955-5783
Associate: Neil Kalton

RATING LOWERED DUE TO PREMIUM VALUATION

Empire District Electric (EDE 21.43 - NYSE)
Hold/Conservative

Market Cap ($mil.):	$459	Est. Long-Term EPS CAGR:	3%
Dividend:	$1.28	Book Value/Share:	$13.19
Yield:	6.0%		

Fiscal Year Ends Dec

EPS	2001A	2002E	Prior	2003E	Prior	2004E	Prior
Qtr1		$0.11					
Qtr2		$0.21					
Qtr3		$0.83					
Qtr4		$0.20					
Year	$0.68	$1.35		$1.55			

Rating Lowered To Hold Due To Premium Valuation

We have lowered our rating on shares of Empire District Electric to Hold/Conservative from Buy/Conservative given that the share price exceeds our $21 price objective. In addition, we have lowered our 2002 EPS estimate to $1.35, from $1.55, and established a 2003 estimate of $1.55. On March 8, EDE announced its intention to issue up to $50 million in common equity to raise funds to pay down a $37.5 debt due at the end of June. The debt pay down with the equity issuance would help achieve the company's goal of maintenance of its A-rated Standard and Poor's corporate debt rating and stronger common equity ratio, which was 42% at the end of 2001. Our 2002 estimate revision reflects the expected 13% share dilution and modestly higher than anticipated maintenance expense associated with new electric generating capacity. Our 2003 estimate assumes rate recognition of the additional equity issuance.

Given recent share price advances, we believe the attractive 5.9% current yield, relatively low risk, and longer-term takeover appeal are reflected in the premium valuation. Shares trade at 13.9X our 2003 EPS estimate of $1.55 or a 24% premium to the traditional power company median of 11.2X. We note that EDE has historically traded at a premium multiple reflecting a potential takeover and high interest from retail investors.

Achievement of Allowed ROE Pushed Out Another Year

We have lowered our 2002 EPS estimate to $1.35, from $1.55, and established a 2003 estimate of $1.55. On March 8, EDE announced its intention to issue up to $50 million in common equity to raise funds to pay down a $37.5 debt due at the end of June. EDE continues to suffer from regulatory lag as it externally finances an ongoing construction program and seeks rate recognition of the investment in the business. The debt pay down with the equity issuance would help achieve the company's goal of maintenance of its A-rated Standard and Poor's corporate debt rating and a stronger common equity ratio, which was 42% at year-end 2001. Our 2002 estimate revision reflects the expected 13% share dilution and modestly higher than anticipated maintenance expense associated with new electric generating capacity.

Our 2003 EPS estimate of $1.55 assumes a rate increase that recognizes the additional equity in March of 2003. As a result, the equity issuance would be dilutive to 2002 EPS, but would likely be accretive to 2003 EPS. While disappointed that our estimate of the achievement of the allowed ROE is pushed out another year, we continue to believe that the company will eventually receive the appropriate rate treatment to allow a fair opportunity to earn the allowed ROE. The company plans to file another rate case in Missouri in the spring of 2002 to reflect the $43 million in common equity issued in November of 2001, additional equity issue expected to be issued at some point in 2002 or 2003, a $3.5 million clerical error in the late 2001 rate decision, recognition of $1 million in property taxes (which were excluded because receipt had not yet been received), and to attempt to receive a more constructive ROE than the recently allowed 10%. The effective date of the rate increase would likely be March of 2003. We note that neighboring electric utility Ameren (AEE) is currently negotiating a rate plan and the ROE established in the case could heavily influence the ROE in EDE's case. We do not believe that the MPSC would authorize an allowed ROE below the EDE's current low 10% allowed ROE, which was issued in September of 2001. However, EDE could have to give up some of the potential margin that it can currently earn under the interim energy charge established in the late 2001 case.

The expected rate filing comes on the heels of a rate increase implemented in October of 2001 when the MPSC ordered a $36.7 million, or roughly 15%, annual revenue increase consisting of a $17 million permanent increase and a $19.6 million two-year interim fuel and purchased power increase. The increases were effective October 1 and premised on a 10.0% allowed return on common equity. The two-year fuel and purchased power adjustment clause will reduce earnings sensitivity to fluctuations in fuel and purchased power costs, which have significantly hampered the company's results in recent periods. We note that the company has the opportunity to earn above the allowed 10% ROE in its Missouri jurisdiction through the reduction of fuel and purchased power costs below the lower-end of the interim adjustment collar of $25.20 per megawatt-hour. **Given that the company was able to cancel its hedging agreements with Enron and re-enter with other counter parties at more favorable prices, we believe the company will be able to earn above its 10% allowed return on equity.** In addition, EDE filed for a $3.2 million annual rate increase in its Kansas jurisdiction with new rates to be effective by August of 2002.

Appraisal
EDE currently trades at 13.9X our 2003 EPS estimate, which compares to the median of our universe of traditional electric power companies of 11.2X 2003 EPS estimates. We note that EDE has historically traded at a premium multiple reflecting a potential takeover and high interest from retail investors.

The Dividend
Assuming reasonable rate treatment, we believe the dividend will be maintained over the next few years. However, we note that the dividend represents a relatively high 95% and 83% ratio, respectively, of our 2002 and 2003 EPS estimates and will likely remain high over the next years. Should an unexpected event, such as poor rate treatment in the pending rate case, hamper EPS power, the company could be forced to re-evaluate the dividend policy.

AGE has managed an underwriting.

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Equity Research - ELECTRIC UTILITIES
April 26, 2002

Analyst: Timothy M. Winter, CFA 314-955-5783
Associate: Neil Kalton

First Quarter EPS Well Below Expectations; 2002 Estimate Lowered

Empire District Electric (EDE 20.90 - NYSE)
Hold/Conservative

Market Cap ($mil.):	$439	Est. Long-Term EPS CAGR:	3.0%
Dividend:	$1.28	Book Value Per Share:	$13.57
Yield:	6.1%	Price Objective:	

Fiscal Year Ends Dec

EPS	2001A	2002E	Prior	2003E	Prior	2004E	Prior
Qtr1	$0.04	$0.02A	$0.11E				
Qtr2	$0.04	$0.21					
Qtr3	$0.56	$0.83					
Qtr4	$0.01	$0.20					
Year	$0.68	$1.26	$1.35	$1.55			
P/E		16.6X		13.5X			

EDE Reports First Quarter EPS Results

On April 25, Empire District Electric reported first quarter 2002 EPS of $0.02 (excludes non-recurring items), well below our $0.11 estimate, versus $0.04 (excludes non-recurring items) for the same period last year. The lower-than-expected results were due to a number of factors: (1) mild weather, which led to lower electric heat-related consumption, (2) increased maintenance costs of $1.8 million, or $0.06 per share, associated with the signing of long-term maintenance contracts on combustion turbine and combined cycle units, (3) $0.7 million, or $0.03 per share, reduction in pension income, (4) lower AFUDC of $1.7 million, or $0.06 per share, following completion of the State Line Combined Cycle Plant in June of 2001, (5) higher operation and maintenance expense associated with the plant, and (6) an additional $0.7 million, or $0.03 per share, in interest expense related to a trust preferred issuance in March of 2001.

EPS Outlook

Given the lower-than-expected results, we have reduced our 2002 EPS estimate to $1.26, from $1.35, and maintained our $1.55 estimate for 2003. EDE filed for a $19.8 million annual rate increase to be effective by March of 2003. The revenue increase request seeks to recognize the addition of roughly $90 million in common equity achieved through a November 2001 public stock issuance and an anticipated May 2002 issuance, clerical errors in its October 2001 rate case, and additional investment in the business. The outcome of this case will be primary determinant of EPS power in 2003 and beyond.

AGE has managed an underwriting.

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Equity Research - ELECTRIC UTILITIES
July 3, 2002

Analyst: Timothy M. Winter, CFA 314-955-5783
Associate: Neil Kalton, CFA

S&P Lowers EDE's Credit Rating To 'BBB'

Empire District Electric (EDE 19.60 - NYSE)
Hold/Conservative

Market Cap ($mil.):	$412	Est. Long-Term EPS CAGR:	3.0%
Dividend:	$1.28	Book Value Per Share:	$13.47
Yield:	6.5%	Price Objective:	

Fiscal Year Ends Dec

EPS	2001A	2002E	Prior	2003E	Prior	2004E	Prior
Qtr1	$0.04	$0.02A					
Qtr2	$0.04	$0.21					
Qtr3	$0.56	$0.83					
Qtr4	$0.01	$0.20					
Year	$0.68	$1.26		$1.55			
P/E		15.6X		12.6X			

On July 2, Standard and Poor's lowered its corporate credit rating on Empire District Electric to 'BBB' with a stable outlook from 'A-' with a negative outlook. While S&P has taken a much more aggressive and proactive approach to its credit ratings in recent periods given several corporate debacles, we were surprised to see the two-notch downgrade given EDE's obvious commitment to credit quality and a very low risk strategy that does not include material exposure to non-regulated businesses. We do not expect the lower rating to have a material impact on EDE over the near term, but will raise financing costs if not improved over the long term. **We continue to believe the company's future financial profile will be primarily determined by a pending rate case in Missouri where a decision is expected by March 2003.** The rating action could actually send a signal to the Missouri Public Service Commission regarding the poor regulatory treatment it provides its state's utilities and the higher financings costs associated with such treatment. Such a signal could lead the Missouri Public Service Commission to consider more constructive regulatory treatment in the pending rate case.

S&P cited a declining financial profile that was not alleviated in the October 2001 rate case and a poor regulatory environment. The rating agency highlighted the poor regulatory environment in Missouri, including low allowed ROE's, low plant depreciation allowances, and the absence of a permanent fuel and purchased power adjustment clause to shield EDE from an increased reliance on natural gas to fuel its generation portfolio. EDE's earnings suffered in 2001 and the first quarter of 2002 due to the need for rate recognition of the external financing necessary to fund an ongoing construction program and higher fuel prices. EDE issued over $90 million in common stock through two public offerings in late 2001 and early 2002 and $50 million in trust preferred in early 2001. The issuances were intended to maintain a strong balance sheet and maintain an A- credit rating. EDE's pro-forma common equity ratio following its May 2002 equity offering was a very strong 46% of total capitalization, which is one of the highest equity ratio's for 'BBB" rated debt in the electric universe. In addition, the company has taken aggressive rate action to improve its financial profile, including receipt of a $3.2 million revenue increase for its Kansas jurisdiction effective in June of 2002 and filed for a rate increase case for its Missouri jurisdiction.

In May of 2002, EDE filed for a $19.8 million annual rate increase for its Missouri jurisdiction to be effective by March 2003. The revenue increase request seeks to recognize the addition of roughly $90 million in common equity, clerical errors in its October 2001 rate case, and additional investment in the business. The rate filing comes on the heels of a rate increase implemented in October 2001 when the MPSC ordered a $36.7 million, or roughly 15%, annual revenue increase consisting of a $17 million permanent increase and a $19.6 million two-year interim fuel and purchased power increase. The increases were effective October 1, 2001, and premised on a 10.0% allowed return on common equity. The two-year fuel and purchased power adjustment clause will reduce earnings sensitivity to fluctuations in fuel and purchased power costs, which have historically hampered the company's results. The company has the opportunity to earn above the allowed 10% ROE in its Missouri jurisdiction through the reduction of fuel and purchased power costs below the lower-end of the interim adjustment collar of $25.20 per megawatt-hour.

We note that the company's earnings results have been disappointing in recent periods, including a full year 2001 EPS result of $0.68 and a first quarter 2002 result of $0.01. **Our 2002 EPS estimate is $1.26 and our 2003 EPS estimate of $1.55 assumes a rate increase that recognizes the additional equity in March of 2003. The outcome of this case will be primary determinant of EPS power in 2003 and beyond.** We continue to believe that the company will eventually receive the appropriate rate treatment to allow a fair opportunity to earn the allowed ROE. We do not believe that the MPSC would authorize an allowed ROE below EDE's current low 10% allowed ROE. We also believe that it would be imprudent not to recognize the additional equity and lower debt rating. Assuming reasonable rate treatment, we believe the $1.28 dividend will be maintained over the next few years. However, we note that the dividend represents a relatively high 102% and 83% ratio, respectively, of our 2002 and 2003 EPS estimates and will likely remain high over the next years. Should an unexpected event, such as poor rate treatment in the pending rate case, hamper EPS power, the company could be forced to re-evaluate the dividend policy.

Appraisal

EDE currently trades at 12.6X our 2003 EPS estimate, which compares to the median of our universe of traditional electric power companies of 11.1X 2003 EPS estimates. We note that EDE has historically traded at a premium multiple reflecting a potential takeover and high interest from retail investors. However, the premium could erode given the credit rating downgrade. Our rating remains Hold.

AGE has managed an underwriting.

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A.G. Edwards

Equity Research - ELECTRIC UTILITIES
July 26, 2002

Analyst: Timothy M. Winter, CFA 314-955-5783
Associate: Neil Kalton, CFA

Second Quarter EPS Improve; More Rate Decisions To Determine Future EPS Power

Empire District Electric (EDE 17.72 - NYSE)
Hold/Conservative

Disclosure Information. Please refer to the final page(s) of this report for important disclosure information.

Market Cap ($mil.):	$372	Est. Long-Term EPS CAGR:	3.0%
Dividend:	$1.28	Book Value Per Share:	$13.47
Yield:	7.2%	Price Objective:	

Fiscal Year Ends Dec

EPS	2001A	2002E	Prior	2003E	Prior	2004E	Prior
Qtr1	$0.04	$0.02A					
Qtr2	$0.04	$0.19	$0.21				
Qtr3	$0.56	$0.85	$0.83				
Qtr4	$0.01	$0.20					
Year	$0.68	$1.26		$1.55			
P/E		14.1X		11.4X			

EDE Reports Second Quarter 2002 EPS Results of $0.19 vs. $0.04

On July 25, Empire District Electric reported second quarter 2002 EPS of $0.19, modestly below our $0.21 estimate, versus $0.04 (excludes non-recurring items) for the same period last year. Strongly improved results were primarily driven by a $36.7 million, or roughly 15%, annual revenue increase implemented in October of 2001 and lower natural gas prices. The rate increase covered the Missouri jurisdiction and consisted of a $17 million permanent increase and a $19.6 million two-year interim fuel and purchased power increase. The increases were premised on a 10.0% allowed return on common equity. The two-year fuel and purchased power adjustment clause reduced earnings sensitivity to fluctuations in fuel and purchased power costs within certain ranges. However, the company has the opportunity to earn above the allowed 10% ROE when fuel and purchased power costs fall below the lower-end of the interim adjustment collar of $25.20 per megawatt-hour. Given this arrangement, lower natural gas prices positively impacted second quarter results. More favorable weather also helped results.

Partially offsetting these positives were the following negative factors: (1) increased maintenance costs associated with the signing of long-term maintenance contracts on combustion turbine and combined cycle units, (2) lower AFUDC following completion of the State Line Combined Cycle Plant in June of 2001, (3) higher operation and maintenance expense associated with the plant, and (4) a 19% increase in shares outstanding following two public equity offerings.

EPS Outlook

We have maintained our 2002 and 2003 EPS estimates of $1.26 and $1.55, respectively. The primary component of EDE's EPS growth strategy is to receive rate recognition of investments in electric infrastructure. Trailing twelve-months EPS were a depressed $0.79 (excludes non-recurring items). Our 2002 estimate assumes a strong third quarter driven by the late 2001 revenue increase's effect and lower fuel costs. Our 2003 EPS estimates assume a constructive rate decision in early 2003. EDE filed for an additional $19.8 million annual rate increase to be effective by March of 2003. The revenue increase request seeks to recognize the addition of roughly $90 million in common equity achieved through a November 2001 public stock issuance and an anticipated May 2002 issuance, clerical errors in its October 2001 rate case, and additional investment in the business. The outcome of this case and future rate cases will be primary determinants of EPS power in 2003 and beyond.

The rate filing comes on the heels of the rate increase implemented in October 2001 and an early 2003 rate decision will likely be followed by a third Missouri rate filing in early 2003. The additional filing will be to recognize the addition of 50-megawatts of generating capacity expected to come on line in 2003. We continue to believe that the company will eventually receive the appropriate rate treatment to allow a fair opportunity to earn the allowed ROE. We do not believe that the MPSC would authorize an allowed ROE below EDE's current low 10% allowed ROE. We also believe that it would be imprudent not to recognize the additional equity and lower debt rating. In addition, the company implemented a $3.2 million revenue increase for its Kansas jurisdiction effective in June of 2002 and has filed for a $400,000 revenue increase for its water utility.

S&P Lowers EDE's Credit Rating

On July 2, Standard and Poor's lowered its corporate credit rating on Empire District Electric to 'BBB' with a stable outlook from 'A-' with a negative outlook. While S&P has taken a much more aggressive and proactive approach to its credit ratings in recent periods given several corporate debacles, we were surprised to see the two-notch downgrade given EDE's obvious commitment to credit quality and a very low risk strategy that does include material exposure to non-regulated businesses. We do not expect the lower rating to have a material impact on EDE over the near term, but will raise financing costs if not improved over the long term. The company does not expect any external financing in 2002, but will likely need some in 2003 to finance the capital expenditure program, which includes $86 million in 2002 and $70 million in 2003. The addition of two 25-megawatt single cycle generating units is estimated to cost $55 million over the two-year period. EDE's pro-forma common equity ratio following its May 2002 equity offering was a solid 43% of total capitalization, which is one of the highest equity ratios for 'BBB" rated debt in the electric universe.

The rating action could actually send a signal to the Missouri Public Service Commission regarding the poor regulatory treatment it provides its state's utilities and the higher financings costs associated with such treatment. Such a signal could lead the Missouri Public Service Commission to consider more constructive regulatory treatment in the pending rate case. S&P cited a declining financial profile that was not alleviated in the October 2001 rate case and a poor regulatory environment. The rating agency highlighted the poor regulatory environment in Missouri, including low allowed ROE's, low plant depreciation allowances, and the absence of a permanent fuel and purchased power adjustment clause to shield EDE from an increased reliance on natural gas to fuel its generation portfolio.

Appraisal

EDE currently trades at approximately 10.9X our 2003 EPS estimate, which compares to the median of our universe of traditional electric power companies of 10.0X 2003 EPS estimates. We note that EDE has historically traded at a premium multiple reflecting a potential takeover and high interest from retail investors. However, the premium could erode given the credit rating downgrade. Assuming reasonable rate treatment, we believe the $1.28 dividend will be maintained over the next few years. However, we note that the dividend represents a relatively high 102% and 83% ratio, respectively, of our 2002 and 2003 EPS estimates and will likely remain high over the next years. Should an unexpected event, such as poor rate treatment in the pending rate case, hamper EPS power, the company could be forced to re-evaluate the dividend policy.

Our rating remains Hold.

			Past 12 months	
Rating	Master List Companies	Current Rating Distribution	Investment Banking Clients	% of Investment Banking Clients *
Buy	309	44%	59	19%
Hold/Neutral	372	53%	33	9%
Sell	24	3%	1	4%

* Percentage of Investment Banking Clients on Master List by rating.

OUR 4-TIER RATING SYSTEM (12-18 month time horizon)
Strong Buy: Positive total return (price appreciation plus dividend yield) and outperformance versus industry peers are anticipated. Total return expectations should be higher for stocks which possess greater risk.
Buy: A total return is anticipated in excess of the market's long-term historic rate (approximately 10%). Total return expectations should be higher for stocks which possess greater risk.
Hold: Hold the shares, with neither a materially positive total return nor a materially negative total return is anticipated.
Sell: Stock should be sold, as a materially negative total return is anticipated.

RISK SUITABILITY (Relates to fundamental risk, including earnings predictability, balance sheet strength and price volatility)
Conservative: Fundamental risk approximates or is less than the market.
Aggressive: Fundamental risk is higher than the market.
Speculative: Fundamental risk is significantly higher than the market.

COMPANY SPECIFIC DISCLOSURES:
AGE has managed/co-managed a public offering within the past 12 months.
AGE has managed/co-managed a public offering within the past three years.

AGE's research analysts receive no direct compensation in connection with the firm's investment banking business. Analysts may be eligible for annual bonus compensation based on the overall profitability of the firm, which takes into account revenues derived from all of the firm's business activities, including its investment banking business.

Price objectives are determined by a subjective review of fundamental and/or quantitative characteristics of the issuer and the security that is the subject of this report. Specific information is provided in the text of the research report.

A.G. Edwards

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A.G. Edwards
UTILITIES

Empire District Electric

September 19, 2002

Hold/Conservative
EDE/NYSE/16.91

Disclosure Information. Please refer to the final pages of this report for important disclosure information.

Dividend:	$1.28			Est. L-T EPS CAGR:	3%
Yield:	7.6%	Dividend Opinion:	2	Est. L-T Div. CAGR:	0%
Book Value Per Share:	$13.47	Common Equity/Capital:	39.0%	Market Cap (mil.):	$355
Price/Book:	125.5%	S&P Debt Rating:	BBB		

Fiscal Year Ends Dec

2001	EPS:	$0.68		
2002	EPS est.:	$1.26	P/E:	13.4X
2003	EPS est.:	$1.55	P/E:	10.9X
2004	EPS est.:		P/E:	

Analyst:	Timothy M. Winter, CFA	Associate:	Neil Kalton, CFA
Sector:	Utilities	Industry:	ELECTRIC UTILITIES
AGE Lists:			

Recent Development:
07/26/2002 Second Quarter EPS Improve; More Rate Decisions To Determine Future EPS Power

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For more information, see the related Recent Development report.

Company Description: (Joplin, Missouri) EDE is a small electric utility that serves Southwest Missouri (87% of revenues), Southeastern Kansas (7%), Northeastern Oklahoma (3%), and Northwestern Arkansas (3%).

Investment Premise: EDE currently trades at approximately 10.9X our 2003 EPS estimate, which compares to the median of our universe of traditional electric power companies of 10.2X 2003 EPS estimates. We note that EDE has historically traded at a premium multiple reflecting a potential takeover and high interest from retail investors. However, the premium could erode given the credit rating downgrade. Assuming reasonable rate treatment, we believe the $1.28 dividend will be maintained over the next few years. However, we note that the dividend represents a relatively high 102% and 83% ratio, respectively, of our 2002 and 2003 EPS estimates and will likely remain high over the next years. Should an unexpected event, such as poor rate treatment in the pending rate case, hamper EPS power, the company could be forced to re-evaluate the dividend policy. Our rating remains Hold.

Attractive Features:

Growing service area economy. EDE's service area, which includes the growing country music capital, Branson, Missouri, is one of the nation's faster growing service areas in terms of customer growth. While customer growth in Branson has slowed, the company estimates that kilowatt per hour sales will continue to grow at an above-industry-average rate.

Pure play electric utility without nuclear exposure. EDE is committed to its core business of providing inexpensive, dependable electric service. EDE has no significant non-utility investments. The company has a favorable fuel mix with no nuclear generation.

Solid financial condition. We consider the company's balance sheet to be solid. Common equity represents 39% of total capitalization as of March 2002 and 46% including a May 2002 common stock offering. However, S&P lowered EDE's credit rating on July 2, 2002 to 'BBB' with a stable outlook from A- with a negative outlook due primarily to poor Missouri regulation.

Potential acquisition candidate. Given a growing service territory, low electric rates, and need for capacity, we believe EDE is an attractive acquisition candidate for larger electric utilities in the area.

Concerns:

Dividend represents a high payout ratio of our 2002 EPS estimate. Assuming reasonable rate treatment, we believe the dividend will be maintained over the next few years. However, we note that the dividend represents a relatively high 102% and 83% ratio of our 2002 and 2003 EPS estimates and will likely remain high over the next few years. Should an unexpected event, such as poor rate treatment in the pending rate case, hamper EPS power, the company could be forced to re-evaluate the dividend policy..

Earnings sensitivity to higher fuel and purchased power costs. Given that EDE purchases a large amount of natural gas and wholesale power to service customers, EDE's earnings have been heavily influenced by changes in the price of purchased power. A recent rate order does allow for some adjustments to changes in energy prices, but a large fluctuation on the upside would negatively impact results. We do note that the additional generating capacity brought on line will mitigate much of the company's sensitivity to volatile purchased power prices.

Below average regulation. We consider the Missouri Public Service Commission (MPSC), governing 87% of electric operating revenues, to be below average. The MPSC has historically authorized low allowed ROE's and lacks a permanent fuel and purchased power adjustment clause.

Interest rate sensitivity. The share price of utilities, like Empire District Electric, typically moves inversely with interest rates. If interest rates rise significantly, EDE shares would likely come under pressure. Conversely, if rates decline, it could favorably impact the share price.

EPS Outlook

Our 2002 and 2003 EPS estimates are $1.26 and $1.55, respectively. The primary component of EDE's EPS growth strategy is to receive rate recognition of investments in electric infrastructure. EPS growth over the past several years has been negligible primarily due to below-average allowed returns on common equity. Trailing twelve-months EPS were a depressed $0.79 (excludes non-recurring items). Our 2002 estimate assumes a strong third quarter driven by the late 2001 revenue increase's effect and lower fuel costs. Our 2003 EPS estimate assumes a constructive rate decision in early 2003, but we note that our estimate could prove optimistic without an increase in the current 10.0% allowed return on equity. We note that the company's growth rate and earnings power will be primarily determined by the allowed ROE. Our long-term 3% growth rate assumes the company can earn close to an 11% allowed return on common equity. We are somewhat concerned with the Staff of the MPSC's flawed and circular approach to determining an allowed ROE. The method applies the dividend yield to the anticipated growth rate to determine an allowed ROE. This is flawed given the higher the allowed ROE, the higher the growth rate. On the other hand, the lower the allowed ROE, the lower the growth rate. EDE filed for an additional $19.8 million annual rate increase to be effective by March of 2003. The revenue increase request seeks to recognize the addition of roughly $90 million in common equity achieved through a November 2001 public stock issuance and an anticipated May 2002 issuance, clerical errors in its October 2001 rate case, and additional investment in the business. The outcome of this case and future rate cases will be primary determinants of EPS power in 2003 and beyond.

The rate filing comes on the heels of the rate increase implemented in October 2001 and an early 2003 rate decision will likely be followed by a third Missouri rate filing in early 2003. The additional filing will be to recognize the addition of 50-megawatts of generating capacity expected to come on line in 2003. We continue to believe that the company will eventually receive the appropriate rate treatment to allow a fair opportunity to earn a reasonable ROE. We do not believe that the MPSC would authorize an allowed ROE below EDE's current low 10% allowed ROE. We also believe that it would be imprudent not to recognize the additional equity and lower debt rating. In addition, the company implemented a $3.2 million revenue increase for its Kansas jurisdiction effective in June of 2002 and has filed for a $400,000 revenue increase for its water utility.

S&P Lowers EDE's Credit Rating

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The rating action could actually send a signal to the Missouri Public Service Commission regarding the poor regulatory treatment it provides its state's utilities and the higher financings costs associated with such treatment. Such a signal could lead the Missouri Public Service Commission to consider more constructive regulatory treatment in the pending rate case. S&P cited a declining financial profile that was not alleviated in the October 2001 rate case and a poor regulatory environment. The rating agency highlighted the poor regulatory environment in Missouri, including low allowed ROE's, low plant depreciation allowances, and the absence of a permanent fuel and purchased power adjustment clause to shield EDE from an increased reliance on natural gas to fuel its generation portfolio.

Selected Financial Statistics

(Dollars in millions except per share)

Fiscal Year Ends Dec	1997	1998	1999	2000	2001	CAGR (%)	2002E	2003E	2004E
Revenues	$215	$240	$242	$260	$264		$290	$303	
Net Income	24	28	28	24	12		29	35	
Cash Earnings	55	59	49	56	35		69	76	
Shares Outstanding	17	17	17	18	18		21	23	
Earnings Per Share	1.29	1.53	1.46	1.37	0.68		1.26	1.55	
Dividends Per Share	1.28	1.28	1.28	1.28	1.28		1.28	1.80	
Price Range (High)	19	26	27	31	22				
Price Range (Low)	16	19	19	19	18				
P/E Range (High)	15	17	18	23	32				
P/E Range (Low)	12	12	13	14	26				
Return on Equity (%)	9.9	11.5	10.9	10.1	5.0		8.8	10.2	

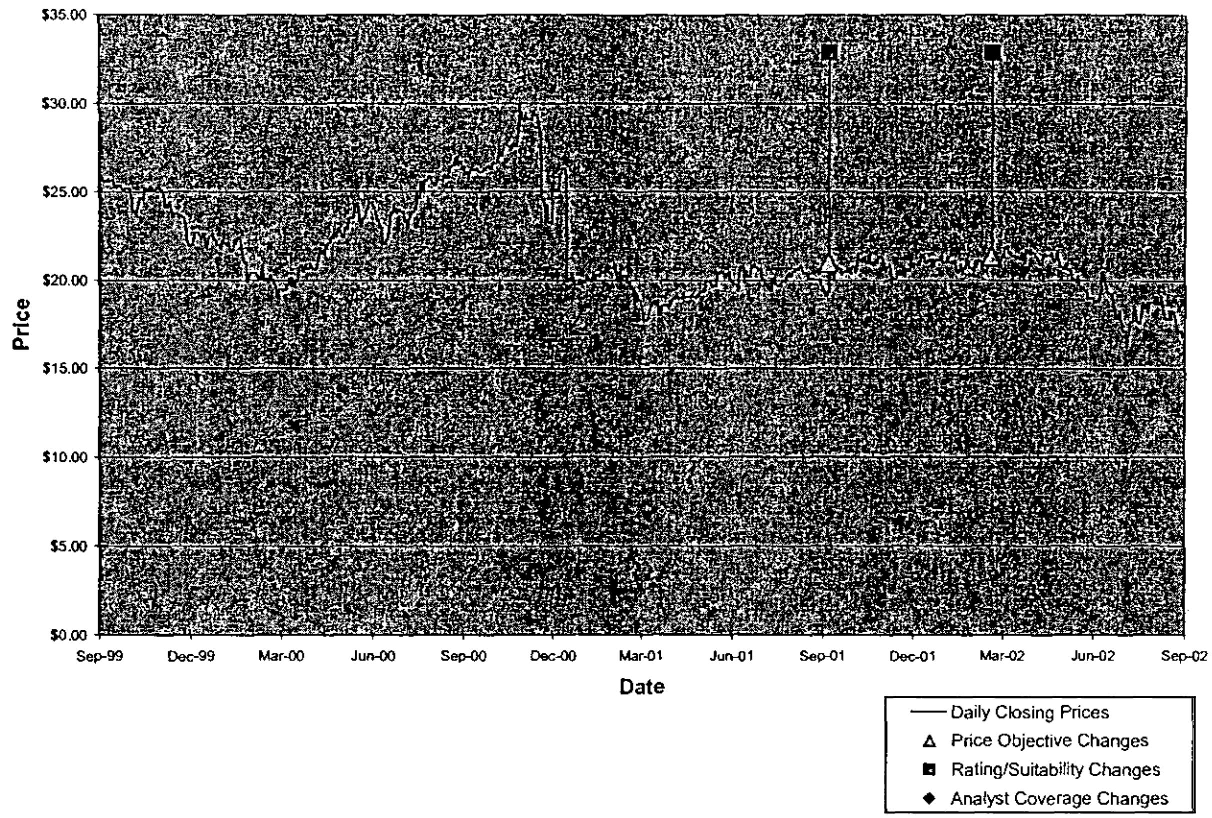
CAGR – Compound Annual Growth Rate

Cash Earnings - Net Income plus goodwill amortization

Dividend Opinions: 1 - Secure with growth; 2 - Secure with little or no growth; 3 - Secure intermediate term, might not be secure long term; 4 - Not secure

Quarterly Summary

Fiscal Year Ends Dec				
EPS	2001A	2002E	2003E	2004E
Qtr1	$0.04	$0.02A		
Qtr2	$0.04	$0.19		
Qtr3	$0.56	$0.85		
Qtr4	$0.01	$0.20		
Year	$0.68	$1.26	$1.55	



Price Objective (PO) Changes *								
Date	Closing Price	PO	Date	Closing Price	PO	Date	Closing Price	PO
		NA	09/25/2001	19.38	21.00	03/08/2002	21.35	NA

* NA: Positive rating removed; no price objective supplied.

Rating/Suitability Changes					
Date	Closing Price	Rating/Suitability	Date	Closing Price	Rating/Suitability
09/25/2001	19.38	Maintain/Conservative Accumulate/Conservative	03/08/2002	21.35	Hold/Conservative

Analyst Coverage Changes					
Analyst	From	To	Analyst	From	To
Timothy M. Winter	02/26/1996				

			Past 12 months	
Rating	Master List Companies	Current Rating Distribution	Investment Banking Clients	% of Investment Banking Clients *
Buy	292	42%	55	19%
Hold/Neutral	387	55%	30	8%
Sell	20	3%	2	10%

* Percentage of Investment Banking Clients on Master List by rating.

OUR 3-TIER RATING SYSTEM (12-18 month time horizon)
Buy: A total return is anticipated in excess of the market's long-term historic rate (approximately 10%). Total return expectations should be higher for stocks which possess greater risk.
Hold: Hold the shares, with neither a materially positive total return nor a materially negative total return is anticipated.
Sell: Stock should be sold, as a materially negative total return is anticipated.

RISK SUITABILITY (Relates to fundamental risk, including earnings predictability, balance sheet strength and price volatility)
Conservative: Fundamental risk approximates or is less than the market.
Aggressive: Fundamental risk is higher than the market.
Speculative: Fundamental risk is significantly higher than the market.

On 9/28/01 AGE changed its rating system from 5 tiers to 4 tiers. "Strong Buy" replaced the previous "Buy" rating, "Buy" replaced the previous "Accumulate" rating, and "Hold" replaced the previous "Maintain" rating. We compressed the previous ratings of "Reduce" and "Sell" into one rating, "Sell".

On 9/13/02 AGE changed its rating system from 4 tiers to 3 tiers. We eliminated the "Strong Buy" rating, and we changed the rating on all stocks with that rating to "Buy". All other ratings and their definitions remained in place.

COMPANY SPECIFIC DISCLOSURES:
AGE has managed/co-managed a public offering within the past 12 months.
AGE has managed/co-managed a public offering within the past three years.

AGE's research analysts receive no direct compensation in connection with the firm's investment banking business. Analysts may be eligible for annual bonus compensation based on the overall profitability of the firm, which takes into account revenues derived from all of the firm's business activities, including its investment banking business.

Price objectives and recommendations contained in this report are based on a time horizon of 12-18 months, but there is no guarantee the objective will be achieved within the specified time horizon. Price objectives are determined by a subjective review of fundamental and/or quantitative characteristics of the issuer and the security that is the subject of this report. Specific information is provided in the text of the research report.

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STANDARD &POOR'S	RATINGSDIRECT

Research:

Return to Regular Format

Summary: Empire District Electric Co.

Publication date: 02-Jul-2002
Credit Analyst: Todd A. Shipman, CFA, New York (1) 212-438-7676; Craig Hauret, New York (1) 212-438-7938

Credit Rating: BBB/Stable/A-2

Rationale

On July 2, Standard & Poor's lowered its corporate credit rating on Joplin, Mo.-based Empire District Electric Co. (EDE) to 'BBB' from 'A-'. The rating on the company's commercial paper program remains at A-2. The outlook was revised to stable from negative.

The rating action on energy provider EDE reflects a downward trend in the company's financial profile that was not adequately stemmed in recent regulatory actions. Roughly 80% of EDE's revenues are derived in Missouri, where the regulatory environment is marked by relatively low allowed ROEs, low plant depreciation allowances, and the lack of a permanent fuel adjustment clause to help shield the company from its markedly increased dependence on natural gas. While the temporary fuel and purchased-power mechanism now in place in Missouri helps to mitigate potential volatility in energy prices through 2003, Standard & Poor's is concerned about future regulatory policy regarding the timely recovery of prudently incurred fuel and purchased-power expenses.

EDE has an average business profile, and a financial position (adjusted for purchased power obligations) that is marginally adequate for the new rating. The business profile is supported by a healthy service area with limited industrial concentration, negligible unregulated activities, and a credit-quality conscious management. In addition to the aforementioned regulatory environment, concerns include EDE's reliance on the Asbury coal plant, illustrated by the company's poor financial performance in 2001 during which the plant experienced extended maintenance. This dependence will diminish as more capacity comes on line through 2004, but Asbury will still provide a significant amount of generation. Furthermore, Nox compliance issues at the plant will affect the company's operating and financial risks going forward.

Continued reductions in capital spending (outside of expansion) and cost controls are leading to improved earnings protection. Rates are higher, but EDE will remain competitive in the region. In addition, the other principal financial measures are expected to fall in line with levels suitable for the established risk profile at the 'BBB' level: funds from operations (FFO) to debt at 20%, FFO coverage at 3.5 times, and debt to capital at 53%.

Outlook

The stable outlook assumes reasonable regulatory response in future rate proceedings, manageable environmental compliance costs that are recoverable through rates, and the continued improvement in risk management of the company's generation fleet, fuel procurement, and purchased-power needs.

Ratings List

Empire District Electric Co.

Corporate credit rating BBB/Stable/A-2

A complete list of the ratings is available to RatingsDirect subscribers at www.ratingsdirect.com, as well as on Standard & Poor's public Web site at www.standardandpoors.com under Ratings Actions/Newly Released Ratings

Schedule 18