Exhibit No.:	
Issues:	*Fuel/Purchased Power; Amortization Calculations*
Witness:	*Mark L. Oligschlaeger*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Direct Testimony*
Case No.:	*ER-2006-0315*
Date Testimony Prepared:	*June 23, 2006*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

MARK L. OLIGSCHLAEGER

THE EMPIRE DISTRICT ELECTRIC COMPANY

CASE NO. ER-2006-0315

Jefferson City, Missouri
June 2006

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the matter of The Empire District Company of Joplin, Missouri for authority to file tariffs increasing rates for electric service provided to customers in Missouri service area of the Company.	))))	Case No. ER-2006-0315

AFFIDAVIT OF MARK L. OLIGSCHLAEGER

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

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

Mark L. Oligschlaeger

Mark L. Oligschlaeger

Subscribed and sworn to before me this 23rd day of June 2006.

Toni M Charlton

TONI M. CHARLTON
Notary Public - State of Missouri
My Commission Expires December 28, 2008
Cole County
Commission #04474301

TONI M. CHARLTON
NOTARY SEAL
NOTARY PUBLIC
STATE OF MISSOURI

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DIRECT TESTIMONY

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MARK L. OLIGSCHLAEGER

THE EMPIRE DISTRICT ELECTRIC COMPANY

CASE NO. ER-2006-0315

Q. Please state your name and business address.

A. Mark L. Oligschlaeger, P. O. Box 360, Suite 440, Jefferson City, MO 65102.

Q. Please describe your educational background and work experience.

A. I attended Rockhurst College in Kansas City, MO, and received a Bachelor of Science degree in Business Administration, with a major in Accounting, in 1981. I have been employed by the Missouri Public Service Commission (Commission) since September 1981 within the Auditing Department. In November 1981, I passed the Uniform Certified Public Accountant (CPA) examination and, since February 1989, have been licensed in the state of Missouri as a CPA.

Q. Have you previously filed testimony before this Commission?

A. Yes, numerous times. A listing of the cases in which I have previously filed testimony before this Commission, and the issues I have addressed in testimony in cases from 1990 to current, attached as Schedule 1 to this direct testimony.

Q. What knowledge, skills, experience, training and education do you have in the areas of which you are testifying as an expert witness?

A. I have been employed by this Commission as a Regulatory Auditor for over 20 years, and have submitted testimony on ratemaking matters numerous times before the

Commission. I have also been responsible for the supervision of other Commission employees in rate cases and other regulatory proceedings many times. I have received training at in-house and outside seminars on technical ratemaking matters since I began my employment at the Commission.

Q. What is the purpose of your direct testimony?

A. The purpose of this testimony is to present an overview of the Staff's approach to the fuel/purchased power expense area in this rate proceeding.

EXECUTIVE SUMMARY

Q. Please briefly summarize your testimony.

A. There is a threshold question before the Commission in this case for which the Commission's decision will have a very significant affect on the determination of an appropriate level of fuel/purchased power expense for The Empire District Electric Company (Empire or Company) in this proceeding. That decision is whether to grant Empire's request to terminate its current Interim Energy Charge (IEC). The Staff has calculated revenue requirements under two scenarios; continuation of the current IEC, or termination of the IEC.

In the event the Commission leaves Empire's current IEC in place, then Empire will recover the fuel/purchased power expenses reflected in the permanent rates ($125 million) and in the IEC proposed by certain parties and ordered by the Commission in Empire's last rate case ($10 million); i.e. $135 million (total Company).

In the event the Commission orders the termination of the IEC, the Staff recommends a "single-point" ratemaking allowance for Empire's fuel/purchased power expense in this case, based upon the most current relevant factors affecting Empire's incurred fuel/purchased power costs.

If the Commission were to order the termination of the IEC, the Staff would also be willing to consider use of a new IEC mechanism to allow Empire to recover its fuel costs, if the Company and other parties to this proceeding are interested in pursuing such an arrangement, and if there were time available to permit the parties and the Commission to consider an IEC.

Finally, the Staff will work with the Company and other parties to this proceeding to make a determination as to whether the Empire regulatory plan "amortizations to maintain financial ratios" mechanism prescribed in the Case No. EO-2005-0263 Stipulation And Agreement approved by the Commission would be triggered under the revenue requirement scenarios presented in this proceeding.

FUEL/PURCHASED POWER

Q. What is the biggest single factor driving the Company's current request to increase its rates?

A. The Staff believes that material increases in Empire's fuel/purchased power costs since its last rate case in Missouri, Case No. ER-2004-0570, is the primary driver behind this rate request. This increase in fuel/purchased power expense has occurred for a number of reasons, including significant increases in the cost of natural gas needed as fuel for some of Empire's generating units, substantial increases in the cost of the purchased power Empire uses to supply part of its customer load, increases in the cost of other fuel commodities (such as coal), and the impact of Empire's "coal conservation" program instituted in the summer of 2005 to deal with disruptions in the rail transport of coal from its western coal suppliers.

Q. How are Empire's fuel/purchased power costs currently being recovered in its rates?

A. Per the Nonunanimous Stipulation And Agreement Regarding Fuel and Purchased Power Expense in Case No. ER-2004-0570 (IEC Stipulation), an "interim energy charge" (IEC) was established by the Commission to allow Empire to recover a portion of a negotiated amount of fuel/purchased power costs. The remainder of Empire's fuel/purchased power costs are currently reflected in Empire's permanent rates. IECs have been established in past rate proceedings for Empire and other electric utilities in Missouri to reduce some of the perceived level of risk associated with volatile and fluctuating levels of fuel expense for utilities and their customers, particularly in the area of natural gas costs.

While the Staff was not a signatory to the IEC Stipulation in Empire's last rate case, it did not oppose Commission adoption of the agreement.

Q How do IECs work?

A. IECs are an interim rate intended to allow recovery of a portion of an electric utility's fuel costs, set up with a refund with interest provision. As used in the past in this jurisdiction, IECs allow recovery of an amount of variable fuel/purchased power expense above the level set in permanent rates. A base amount of variable fuel/purchased power expense is included in permanent rates (along with fixed fuel/purchased power costs), which establishes the IEC "floor." An additional estimated amount of variable fuel/purchased power expense establishes the IEC "ceiling." The difference between the "floor" and the "ceiling" is the IEC charge, and is set as an interim rate subject to refund.

If an IEC is approved, customers pay total rates, including both permanent rates and the IEC, that incorporate the "ceiling" valuation of fuel/purchased power expense. If, during the period of time the IEC is in effect, the utility's actual fuel/purchased power expense is below the level of expense reflected in the "ceiling" level, then the utility must refund back to customers the difference between the "ceiling" level of fuel/purchased power expense and the actual level of fuel expenses, as long as the actual level of fuel expenses is greater than or equal to the level of expense set as the "floor" of the IEC. If the utility's actual fuel/purchased power expense is below the "floor" level of fuel expense, then the utility can retain the difference between the "floor" level of expense in the IEC and its actual costs without any obligation for refund, giving back to customers with interest only the difference in revenues between the "ceiling" and the "floor" levels of the IEC.

Staff Auditing witness Janis E. Fischer also discusses the purpose and the history of IECs in her direct testimony.

Q. Why has the Staff agreed in the past to the use of IECs in setting rates to cover the fuel/purchased power component of a utility's revenue requirement?

A. The Staff has found the use of IECs to be appropriate in some circumstances due to the quite volatile natural gas and purchased power markets experienced in the electric utility industry for the past five years or so. Because of the IEC refund mechanism, the Staff has agreed to allow utilities to initially collect a higher level of fuel/purchased power expense in rates than the Staff probably would if the entire amount of fuel expense would be placed in permanent rates, while customers are in turn protected to some degree by the IEC refund provision if fuel/purchased power costs should decrease after implementation of an IEC.

Q. What is the status of Empire's current IEC?

A. Empire's current IEC went into effect in late March 2005, per the IEC Stipulation approved by the Commission in Case No. ER-2004-0570. Empire has sought to terminate that IEC as part of this rate case filing, but the other signatories (Praxair, Inc., Explorer Pipeline Company, and the Office of Public Counsel) to the IEC Stipulation in the last rate case oppose termination of that IEC in this proceeding. The Commission has not yet ruled on Empire's request to terminate its current IEC in this case.

Q. What has happened to fuel/purchased power costs since the last Empire IEC was negotiated by Praxair, Inc., Explorer Pipeline Company and the Office of Public Counsel?

A. They have increased substantially, though the price for natural gas has moderated somewhat over the past few months. For the twelve months ending December 2005 (the test year ordered in this case), Empire's per book level of total Company fuel/purchased power expense was approximately $155 million. This compares to the total Company level of fuel/purchased power expense of $135 million established in the IEC Stipulation. Empire's actual booked expenses for its fuel/purchased power costs have exceeded the "ceiling" level of its IEC by a cumulative $18.4 million dollars from the IEC's implementation in late March 2005 through March 31, 2006, per the Company's first quarter 2006 Form 10-Q, filed with the Securities and Exchange Commission.

Q. If Empire's pending request to terminate its current IEC is not granted by the Commission, what are the implications of that action on treatment of fuel/purchased power expense in this proceeding?

A. If Empire's current IEC is not terminated as a result of this proceeding, then presumably Empire would be limited to the recovery of fuel/purchased power expenses reflected in the permanent rates and in the IEC ordered in its last rate case, Case No. ER-2004-0570.

Q. In the event the Commission decides that Empire's current IEC should not be terminated, and that Empire's fuel/purchased power expense should be retained at the levels reflected in its current IEC, does the Staff have a revenue requirement recommendation in this proceeding?

A. Yes. In the event that the Commission decides not to terminate Empire's current IEC in this proceeding, the overall revenue requirement recommendation for Empire would be ($22,939,520), calculated at the midpoint of the Staff's recommended return on equity range. This revenue requirement calculation shall be referred to as the "IEC Continuation" revenue requirement for the remainder of this testimony.

Q. If the Commission ordered that the IEC be terminated, what are the options for handling fuel/purchased power expense in this rate proceeding?

A. Based upon recent history, if the Commission approves Empire's request to terminate its current IEC, the Commission's two primary options for handling fuel/purchased power expense would be to: a) set Empire's rates using a "single-point" estimate of the Company's ongoing fuel/purchased power costs, again based upon current cost information; or b) approve a new IEC for Empire, incorporating updated fuel/purchased power cost information. There may be other alternative regulatory mechanisms available to the Commission to allow Empire the opportunity to recover its fuel/purchased power expense.

Q. If the Commission grants Empire's request to terminate the IEC, how does the Staff recommend that Empire's fuel/purchased power expense be treated in the context of this rate proceeding?

A. As with all other components of Empire's revenue requirement, the Staff's revenue requirement recommendation under this scenario would include a calculation of an ongoing and reasonable level of Empire's prudent fuel/purchased power expense utilizing known and measurable information through March 31, 2006, the end of the Staff's test year update period in this case. The Staff's fuel/purchased power expense recommendations under this scenario are set out in the testimony of Staff witness David W. Elliott of the Energy Department and Staff witness Fischer. For the remainder of this testimony, this revenue requirement calculation will be referred to as the "IEC Termination" scenario.

Q. Does the Staff recommend a new IEC for Empire in this rate case under the IEC Termination scenario?

A. No. The Staff recommends a single-point determination of annualized and normalized fuel/purchased power expense for the Commission's consideration in this proceeding.

Q. What is the Company's recommendation for recovery of its fuel/purchased power costs in this proceeding?

A. Empire initially sought an "Energy Cost Recovery" (ECR) mechanism as its primary recommendation to recover its fuel costs in this case. (An ECR is a form of fuel adjustment clause, allowed but not mandated in this jurisdiction since the passage of Missouri Senate Bill 179 in 2005. Rules governing the processing of utility requests for ECRs have not yet been approved by the Commission.) As a second choice to an ECR, Empire recommended a single-point determination of adjusted fuel/purchased power costs as part of its overall rate change request in this case.

On May 2, 2006, after Empire's instant filing for a rate change, the Commission ruled that Empire cannot seek an ECR mechanism in this case under the terms of the IEC Stipulation in Case No. ER-2004-0570.

Q. In the event the Commission orders termination of the Company's present IEC, why wouldn't the Staff recommend a new IEC for Empire in this case based upon its current level of prudently incurred fuel/purchased power costs?

A. The Staff understands that Empire's current position is that it does not desire a new IEC mechanism for its fuel/purchased power costs as part of its current rate filing. This stance may relate to Empire's preference for use of an ECR mechanism in the future to recover its fuel/purchased power costs.

The Staff believes that IEC rates are best developed and considered through negotiation and agreement of all rate case parties, with ultimate concurrence by the Commission. If Empire is not interested in a new IEC mechanism, it is doubtful that it would be productive for the Staff and/or other parties to this case to pursue that option, if the other parties were also interested in doing that. Further, Empire's current position on fuel/purchased power expense indicates that it believes it is not subject to an unacceptable level of risk if a single-point estimate of its fuel/purchased power expense is made the basis of its rate allowance for this item (at least at its recommended single-point estimate of fuel/purchased power expense).

Q. Is the Staff opposed to a new IEC mechanism for Empire in this case under all circumstances?

A. No. If the parties to this rate proceeding, including Empire, ultimately believe an IEC is a reasonable approach for setting a level of fuel/purchased power expense for Empire in this case, then the Staff intends to fully participate in negotiations with the parties to recommend to the Commission reasonable parameters and rules for a new IEC.

Q. What approach to fuel/purchased power expense is reflected in the Staff's filed Accounting Schedules?

A. The IEC Termination scenario is reflected in the Staff's filed Accounting Schedules. This scenario being reflected in the Staff's Accounting Schedules is not intended to signify a Staff preference for this scenario.

Q. Under the IEC Termination revenue requirement, how are revenues from the Company's current IEC being treated?

A. Under this scenario, the IEC revenues collected in the test year by the Company are being eliminated from the case. This is appropriate because the Staff is not recommending a new IEC under this scenario, and this adjustment allows for a calculation of a rate change in this case based upon analysis of permanent revenue levels only.

Q. How does "IEC Continuation" revenue requirement, recommended by the Staff in the event of a Commission decision not to terminate the existing IEC, compare to the Staff's single point revenue requirement recommendation, applicable should the Commission decide to terminate the IEC?

A. It is approximately $27 million less. Schedule 2 to this testimony is a recalculated Revenue Requirement Accounting Schedule, showing how this revenue requirement amount was derived. Schedule 3 to this testimony provides a listing of the changes from the Staff's filed Accounting Schedules that resulted in the IEC Continuation revenue requirement calculation shown on Schedule 2.

Q. Please describe Schedule 3.

A. Schedule 3 shows that the only differences between the Staff's two alternative revenue requirement scenarios are different adjustments to test year fuel/purchased power expense, and differing treatment of current IEC revenues.

While the Staff's filed Accounting Schedules show net positive adjustments of $2,151,168 to test year fuel/purchased power expense through a traditional annualization and normalization adjustment, the IEC Continuation scenario features a negative $19,821,311 adjustment to test year fuel/purchased power expense to reduce it to the level of expense previously negotiated in the IEC Stipulation in Case No. ER-2004-0570.

While the Staff's filed Accounting Schedules show an adjustment to completely eliminate test year IEC revenues from the revenue requirement calculation, the IEC Continuation scenario incorporates an adjustment to annualize IEC revenues as if they had been collected for all twelve months of the test year, which is the appropriate adjustment if the present IEC continues.

Q. May the "IEC Continuation" revenue requirement be supplemented in any way?

A. Possibly. The "IEC Continuation" revenue requirement amount could be increased by the regulatory amortization mechanism established in the "regulatory plan" approved by the Commission for Empire in Case No. EO-2005-0263, if the projected cash flows resulting from Empire's "IEC Continuation" Missouri jurisdictional electric operations fail to maintain Empire's debt at investment grade levels. These amortizations will be discussed further later in this testimony.

The Staff's single point revenue requirement, applicable in the event the current IEC is terminated, could also trigger amortizations under the provisions of the regulatory plan, but that possibility is less likely because of the increased revenue requirement for the Company calculated under that scenario.

Q. Is the "IEC Continuation" revenue requirement calculation appropriately "matched" by traditional Commission standards?

A. No. "Matching" means that the different components of the revenue requirement are synchronized in both time frame of measurement, and in approach. It is difficult to have a matched revenue requirement when fuel/purchased power expense is measured based upon cost information dating back to 2003-2004, and all other components of the revenue requirement are measured based upon information as of 2005-2006. For example, in the IEC Continuation revenue requirement calculation, the loads used to develop fuel/purchased power expense and the loads used in calculating an electric utility's adjusted ongoing revenue levels are not identical, or matched, as they would be under a normal or traditional revenue requirement calculation.

The Staff is raising this point as an informational matter for the Commission. The problem with "matching" of a revenue requirement raised herein would be an inherent problem anytime a utility chooses to file for rate relief during the pendency of a previously-ordered IEC. The use of IECs or similar mechanisms that may be employed in the future under the provisions of Missouri Senate Bill 179 may not feature the same kind of revenue requirement "matching" concerns, however.

<u>AMORTIZATION CALCULATIONS</u>

Q. How does this case relate to the Company's current "regulatory plan," approved by the Commission last year in the August 2, 2005 Order Approving Stipulation And Agreement for Case No. EO-2005-0263?

A. This rate case is the first one filed by Empire since its regulatory plan was approved by the Commission. The most pertinent impact of that regulatory plan on the instant case is the provision in the regulatory plan allowing for possible reflection of "amortizations" in rates if the Company fails to meet certain financial ratios in any general rate case filed prior to the rate case that includes the Iatan 2 investment.

Q. Please describe the provisions in the Company's regulatory plan concerning possible "additional" amortizations to reflect in its rate proceedings.

A. The regulatory plan, as approved by the Commission, calls for special regulatory measures to be taken, if Empire fails to meet the benchmarks set out in Appendix C of the regulatory plan for any one of three standards set out by credit rating agencies as indicative of an investment grade rated company. These three standards are: 1) Adjusted Total Debt to Total Capitalization; 2) Adjusted Funds from Operations Interest Coverage; and 3) Adjusted Funds from Operations as a Percentage of Average Total Debt. The first ratio listed above will be monitored in Empire's applications for financing (and, in fact, was monitored in Empire's recent financing case, Case No. EF-2006-0263. However, the latter two ratios were intended to be examined in the context of general rate proceedings. If these two ratios are not met, the regulatory plan allows for incorporation of an "additional" amortization in the rate process under certain circumstances.

Q. Will the Staff perform an analysis of whether Empire will meet the benchmarks for the two credit ratings ratios under the revenue requirement scenarios presented by it to the Commission in this proceeding?

A. Yes. The Staff has requested information from Empire to allow it to run calculations concerning the impact of the various revenue requirement scenarios outlined in this testimony on the Company's financial ratios set out in the regulatory plan approved in Case No. EO-2005-0263. When that information is received, the Staff intends to work with Empire and the other rate case parties to determine if recommendations should be made to reflect the regulatory plan amortizations in the revenue requirement for this case. The Staff intends to file supplemental testimony on the matter of "additional" amortizations in this proceeding no later than on July 15, 2006, the date previously set by the Commission for the parties in this rate proceeding to submit supplemental testimony on various questions raised by the Commission.

Q. Does this conclude your direct testimony?

A. Yes, it does.

MARK L. OLIGSCHLAEGER

Company Name	Case Number	Issues
Western Resources	GR-90-40 and GR-91-149	Take-Or-Pay Costs
Missouri-American Water	WR-91-211	True-up; Known and Measurable
Missouri Public Service	EO-91-358 and EO-91-360	AAO
Generic Telephone	TO-92-306	Revenue Neutrality; Accounting Classification
Generic Electric	EO-93-218	Preapproval
Western Resources & Southern Union Company	GM-94-40	Regulatory Asset Transfer
St. Louis County Water	WR-95-145	Policy
Union Electric Company	EM-96-149	Merger Savings; Transmission Policy
St. Louis County Water	WR-96-263	Future Plant
Missouri Gas Energy	GR-96-285	Riders; Savings Sharing
Empire District Electric	ER-97-82	Policy
Missouri Public Service	ER-97-394	Stranded/Transition Costs; Regulatory Asset Amortization; Performance Based Regulation
Western Resources & Kansas City Power & Light	EM-97-515	Regulatory Plan; Ratemaking Recommendations; Stranded Costs
United Water Missouri	WA-98-187	FAS 106 Deferrals
Missouri-American Water	WM-2000-222	Conditions
UtiliCorp United & St. Joseph Light & Power	EM-2000-292	Staff Overall Recommendations
UtiliCorp United & Empire District Electric	EM-2000-369	Overall Recommendations
Green Hills Telephone	TT-2001-115	Policy
IAMO Telephone Company	TT-2001-116	Policy

Company Name	Case Number	Issues
Ozark Telephone Company	TT-2001-117	Policy
Peace Valley Telephone	TT-2001-118	Policy
Holway Telephone Company	TT-2001-119	Policy
KLM Telephone Company	TT-2002-120	Policy
Missouri Gas Energy	GR-2001-292	SLRP Deferrals; Y2K Deferrals; Deferred Taxes; SLRP and Y2K CSE/GSIP
Empire District Electric	ER-2001-299	Prudence/State Line Construction/Capital Costs
Ozark Telephone Company	TC-2001-402	Interim Rate Refund
Gateway Pipeline Company	GM-2001-585	Financial Statements
Missouri Public Service	ER-2001-672	Purchased Power Agreement; Merger Savings/Acquisition Adjustment
Union Electric Company	EC-2002-1	Merger Savings; Criticisms of Staff's Case; Injuries and Damages; Uncollectibles
Laclede Gas Company	GA-2002-429	AAO Request
Aquila, Inc., d/b/a Aquila Networks-MPS-Electric and Aquila Networks-L&P-Electric and Steam	ER-2004-0034 and HR-2004-0024 (Consolidated)	Aries Purchased Power Agreement; Merger Savings
Missouri Gas Energy	GR-2004-0209	Revenue Requirement Differences; Corporate Cost Allocation Study; Policy; Load Attrition; Capital Structure
Laclede Gas Company	GR-99-315 (remand)	Depreciation and Cost of Removal

Cases prior to 1990 include:

Kansas City Power and Light Company	ER-82-66
Kansas City Power and Light Company	HR-82-67
Southwestern Bell Telephone Company	TR-82-199

Missouri Public Service Company	ER-83-40
Kansas City Power and Light Company	ER-83-49
Southwestern Bell Telephone Company	TR-83-253
Kansas City Power and Light Company	EO-84-4
Kansas City Power and Light Company	ER-85-128 & EO-85-185
KPL Gas Service Company	GR-86-76
Kansas City Power and Light Company	HO-86-139
Southwestern Bell Telephone Company	TC-89-14

ALTERNATIVE REVENUE REQUIREMENT

The Empire District Electric Company
Case: ER-06-315B
Twelve Months Ended December 31, 2005

Revenue Requirement

Line		8.22% Return	8.30% Return	8.37% Return
	(A)	(B)	(C)	(D)
1	Net Orig Cost Rate Base (Sch 2)	$ 617,577,674	$ 617,577,674	$ 617,577,674
2	Rate of Return	8.22%	8.30%	8.37%
3	Net Operating Income Requirement	$ 50,764,885	$ 51,258,947	$ 51,691,251
4	Net Income Available (Sch 9)	$ 65,392,301	$ 65,392,301	$ 65,392,301
5	Additional NOIBT Needed	$ (14,627,416)	$ (14,133,354)	$ (13,701,050)
6	Income Tax Requirement (Sch 11)			
7	Required Current Income Tax	$ 14,705,354	$ 15,013,194	$ 15,282,552
8	Test Year Current Income Tax	$ 23,819,360	$ 23,819,360	$ 23,819,360
9	Additional Current Tax Required	$ (9,114,006)	$ (8,806,166)	$ (8,536,808)
10	Required Deferred ITC	$ 0	$ 0	$ 0
11	Test Year Deferred ITC	$ 0	$ 0	$ 0
12	Additional Deferred ITC Required	$ 0	$ 0	$ 0
13	Total Additional Tax Required	$ (9,114,006)	$ (8,806,166)	$ (8,536,808)
14	Gross Revenue Requirement	$ (23,741,422)	$ (22,939,520)	$ (22,237,858)

STAFF ALTERNATIVE REVENUE REQUIREMENT CALCULATION
IEC CONTINUATION SCENARIO
DIFFERENCES FROM FILED ACCOUNTING SCHEDULES

Accounting Schedule 10, Adjustments to the Income Statement

REVENUES
Accounting Schedules Adjustment S-1.3: "Eliminate test year Interim Energy Charge Revenues" **($6,305,092)**

Alternative Revenue Requirement Calculation: Substitute New Adjustment S-1.3 "To adjust test year revenues to reflect Staff's annualization of the IEC rate implemented on 3/27/05"

+$ 2,461,555

EXPENSES
Accounting Schedules Adjustment S-7.3: "To adjust test year variable production fuel cost to reflect Staff's annualized level"

($386,593)

Adjustment S-28.2: "To adjust test year variable production fuel cost to reflect Staff's annualized level"

($922,764)

Adjustment S-36.2: "To adjust test year expense to reflect Staff's annualization of purchased power for energy charges (variable production)"

+$3,460,525

Alternative Revenue Requirement Calculation: New Adjustment S-7.3: Substitute for three adjustments listed above "To adjust test year fuel and purchased power expense to reflect levels included in rates in Empire's last rate case"

($19,821,311)

Adjustments S-28.2 and S-36.2 taken to zero.