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SEP 24 2002
**Missouri Public
Service Commission**

Exhibit No.
Issue: Accounting Schedules
Summer/Winter Differential
Witness: Kelly S. Walters
Type of Exhibit: Rebuttal Testimony
Sponsoring Party: Empire District
Case No. ER-02-424
Date Testimony Prepared: 9/24/02

**Before the Public Service Commission
of the State of Missouri**

Rebuttal Testimony

Of

Kelly S. Walters

September 24, 2002

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KELLY S. WALTERS
THE EMPIRE DISTRICT ELECTIC COMPANY
CASE NO. ER-2002-424

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REBUTTAL TESTIMONY
OF
KELLY S. WALTERS
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE
THE MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. ER-2002-424

1 **I. Introduction**

2 Q. PLEASE STATE YOUR NAME.

3 A. Kelly S. Walters.

4 Q. ARE YOU THE SAME KELLY S. WALTERS THAT HAS PREVIOUSLY FILED DIRECT
5 AND SUPPLEMENTAL DIRECT TESTIMONY IN THIS CASE BEFORE THE MISSOURI
6 PUBLIC SERVICE COMMISSION ("COMMISSION")?

7 A. Yes.

8 Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

9 A. I will address in this testimony the updated accounting schedules attached as Rebuttal Schedule
10 KSW-1 which are being filed as directed by the Commission and as provided in the Joint
11 Recommendation Regarding Test Year and Proposed Procedural Schedule filed by the parties in
12 this case. Included in these accounting schedules are two adjustments that I will sponsor. These
13 adjustments are the exclusion of the expense associated with the management incentive plan and
14 the exclusion of the energy traders' sales commission from the direct filing of the Commission
15 Staff ("Staff").

16 Q. ARE THERE ANY OTHER ISSUES ADDRESSED IN YOUR REBUTTAL TESTIMONY?

17 A. Yes, I also address the summer/winter differential in the tail block rate for residential customers.

18 **II. Accounting Schedules**

19 Q. WHAT TEST YEAR IS REFLECTED IN THE ACCOUNTING SCHEDULES ATTACHED
20 AS REBUTTAL SCHEDULE KSW-1?

1 A. The accounting schedules are based on the twelve months ended December 31, 2001, updated
2 through June 30, 2002, for known and measurable changes.

3 Q. WHAT ADJUSTMENTS ARE REFLECTED IN THE ACCOUNTING SCHEDULES?

4 A. The Empire District Electric Company ("Empire" or "Company") has incorporated into these
5 schedules adjustments agreed upon between the Company and Staff. The items that are different
6 include the adjustment for fuel and purchase power including line losses sponsored by Empire
7 witness Brad Beecher, a portion of the management incentive plan compensation, and the
8 commission portion of the energy traders salary. The schedules reflect a capital structure, which
9 excludes short-term debt and incorporates a return on equity of 12% as discussed in the testimonies
10 of Empire witness David W. Gibson and Donald A. Murry.

11 Q. WHAT LOSS PERCENT WAS USED TO CALCULATE NET SYSTEM INPUT USED IN
12 EMPIRE'S FUEL & PURCHASE POWER ADJUSTMENT?

13 A. Empire's fuel & purchase power adjustment is based on a net system input utilizing Staff's
14 calculated loss of 7.1%. Staff used calendar sales to calculate losses. It is the Company's opinion
15 that billed sales should be used which would result in a loss of 7.27%.

16 Q. WHY DID STAFF EXCLUDE A PORTION OF THE MANAGEMENT INCENTIVE PLAN?

17 A. Staff excluded a portion of the management incentive plan due to a lack of documentation and
18 pending further investigation.

19 Q. HAS THE COMPANY PROVIDED STAFF WITH THE REQUESTED DOCUMENTATION?

20 A. Yes. The Company has since provided Staff the requested documentation and as a result, Staff has
21 completed its review of the payroll records. After this review, it is the Company's understanding
22 that Staff has agreed to include in the payroll adjustment that portion of the management incentive
23 plan that can be directly associated with ratepayer benefits.

1 Q. PLEASE EXPLAIN THE RESPONSIBILITIES OF THE ENERGY TRADER POSITIONS AT
2 EMPIRE.

3 A. The responsibilities of the energy traders include: the negotiation of the arrangements for the
4 purchase and sale of electrical energy and capacity, the acquisition of economical natural gas fuel
5 for generation, the purchase and sale of transmission service for the bulk power market, and the use
6 of risk management techniques to control natural gas and electrical energy costs.

7 Q. ARE THESE NEW POSITIONS AT EMPIRE?

8 A. Yes. These are newly created positions at Empire. The Company began hiring people for these
9 positions during May 2001 at approximately the same time that our State Line Combined Cycle
10 plant was completed.

11 Q. WHY WERE THESE POSITIONS CREATED?

12 A. To maximize the Company's return on investment and minimize fuel costs.

13 Q. HOW ARE THESE POSITIONS PAID?

14 A. The energy traders are paid a base salary along with a sales commission. The sales commission is
15 based on two components. The first component is triggered on a monthly basis when the efforts of
16 the group generate a monthly net margin for off-system sales that exceed the group threshold,
17 which is currently set at 1.5 times their base salary. The second component is to provide incentive
18 to purchase power at a lower cost as opposed to generation.

19 Q. ARE THESE EMPLOYEES ELIGIBLE FOR THE ANNUAL INCENTIVE BONUS PAID AT
20 EMPIRE?

21 A. No they are not.

22 Q. WHAT DID STAFF INCLUDE IN ITS FILING WITH RESPECT TO ENERGY TRADERS?

1 A. Staff in its payroll adjustment included the base salary of the energy traders, but excluded their
2 sales commissions, an amount achieved by increasing the margin on off-system sales and by
3 lowering the overall cost of fuel and purchase power.

4 Q. BY ELIMINATING THESE SALES COMMISSIONS, HAS STAFF MATCHED REVENUES
5 WITH EXPENSES IN THE TEST YEAR?

6 A. No. Staff witness Graham Vesely increased the Company's off-system sales margin to the actual
7 level achieved during the twelve-month period ended June 30, 2002, but didn't include the
8 expenses associated with the commissions. As the sales commissions for the energy traders are
9 directly associated with these off-system sales, these expenses must be included to achieve a proper
10 matching of expenses to revenues. By eliminating these commissions, all costs associated with the
11 increased off-system sales have not been included in Staff's filing, and thus there has not been a
12 proper matching of expenses with revenues.

13 **III. Summer/Winter Differential**

14 Q. WHY HAS EMPIRE PROPOSED A CHANGE IN THE TAIL-BLOCK RATE FOR
15 RESIDENTIAL CUSTOMERS?

16 A. Empire has proposed a change in the tail-block rate for residential customers to better match the
17 Company's revenue with the appropriate expenses. Currently, the summer tail-block rate is
18 approximately 70% higher than the winter rate. As a result, for the test year, 41% of the
19 Company's revenue was collected in the summer season. A study of actual production costs
20 confirmed approximately 37% of these costs occurred during the summer months. Likewise,
21 37% of the non-coincident peak demand related to the summer months.

22 By decreasing the differential in the tail block, the Company would some what reduce its
23 dependence on the summer months and the monthly bills for Empire customers would become
24 more consistent throughout the year.

1 Q. WHAT WAS THE DIFFERENTIAL IN THE RESIDENTIAL TAIL-BLOCK RATE
2 PROPOSED BY THE COMPANY?

3 A. Empire proposed a summer tail-block rate set at approximately 34% higher than the winter rate.
4 After discussions with Staff and Office of the Public Counsel, the Company is preparing
5 additional options for review, by the parties.

6 Q. DOES THIS CONCLUDE YOUR Rebuttal TESTIMONY?

7 A. Yes, at this time.

INDEX TO KSW-1

<u>Section No.</u>	<u>Rebuttal Schedule No.</u>	<u>Description</u>
D	1	Rate Base and Rate of Return
E	1	Electric Plant in Service by Primary Plant Account
F	1	Accumulated Provision for Depreciation
H	1	Capital Structure at June 30, 2002
H	2	Preferred Stock
H	3	Long-Term Debt
H	8	Capital Costs
J	1	Test Year Operating Income Statements
J	2	Test Year Adjustments

The Empire District Electric Company

Rate Base and Rate of Return

Section D
Schedule I
09/20/2002

	A Missouri <u>Jurisdictional</u>	<u>Reference</u>
1. Electric Plant in Service thru June 30, 2002	\$916,923,197	E-1
2. Less: Reserve for Depreciation thru June 30, 2002	<u>303,838,510</u>	F-1
3. Net Electric Plant in Service	613,084,687	
4. Materials and Supplies/Prepayments (13-Month Average)	19,714,244	
5. Prepaid Pension Asset	12,925,650	
6. Cash Working Capital	987,819	
Less:		
7. Injuries and Damages	1,396,670	
8. Liberalized Depreciation	60,640,160	
9. Amortization of Electric Plant	560,517	
10. Customer Deposits	3,515,336	
11. Customer Advances	299,965	
12. Interest Offset	3,523,618	
13. Income Tax Offset	<u>90,328</u>	
14. Total Original Cost Rate Base	\$576,685,805	
Net Electric Operating Income		
15. Before Effect of Proposed Increase	\$42,565,233	J-1
Indicated Rate of Return Before		
16. Proposed Increase	7.38%	
17. Proposed Increase (After Taxes)	\$14,757,336	
18. Income Tax Gross-up Factor	1.62308	
19. Proposed Increase (Revenue Requirement)	\$23,952,292	
Net Electric Operating Income		
20. After Effect of Proposed Increase	\$57,322,569	
Indicated Rate of Return After		
21. Effect of Proposed Increase	9.94%	H-8

The Empire District Electric Company

Electric Plant in Service
by Primary Plant AccountSection E
Schedule I
Page 1 of 2
09/20/2002

		C	D	E	F
ACCOUNT		30-Jun-02			
Number	Name	Total <u>Company</u>	<u>Adjustments*</u>	Pro <u>Forma</u>	Missouri <u>Jurisdictional</u>
	Intangible Plant				
301	Organization	\$7,622,196		\$7,622,196	\$6,460,726
	Production Plant				
	Steam Production Plant				
310	Land and Land Rights	908,332		908,332	743,106
311	Structures and Improvements	21,560,997		21,560,997	17,639,052
312	Boiler Plant and Equipment	115,896,752		115,896,752	94,815,133
312	Unit Coal Trains	5,580,296		5,580,296	4,565,240
314	Turbo Generator Units	35,631,158		35,631,158	29,149,850
315	Accessory Electric Equipment	11,218,396		11,218,396	9,177,770
316	Miscellaneous Power Plant Equipment	<u>3,599,937</u>		<u>3,599,937</u>	<u>2,945,108</u>
	Total Steam Production Plant	194,395,868	0	194,395,868	159,035,259
	Hydraulic Production Plant				
330	Land and Land Rights	224,490		224,490	183,655
331	Structures and Improvements	503,584		503,584	411,982
332	Reservoirs, Dams and Waterways	1,422,792		1,422,792	1,163,986
333	Water Wheels, Turbines & Generators	752,410		752,410	615,547
334	Accessory Electric Equipment	887,222		887,222	725,836
335	Miscellaneous Power Plant Equipment	<u>323,608</u>		<u>323,608</u>	<u>264,744</u>
	Total Hydraulic Production Plant	4,114,105	0	4,114,105	3,365,750
	Other Production Plant				
340	Land and Land Rights	450,349		450,349	368,431
341	Structures and Improvements	13,405,870		13,405,870	10,967,342
342	Fuel Holders, Producers & Accessories	12,466,624		12,466,624	10,198,945
343	Prime Movers	161,808,738		161,808,738	132,375,729
344	Generators	39,725,521		39,725,521	32,499,449
345	Accessory Electric Equipment	12,186,604		12,186,604	9,969,861
346	Miscellaneous Power Plant Equipment	<u>1,401,250</u>		<u>1,401,250</u>	<u>1,146,363</u>
	Total Other Production Plant	241,444,956	0	241,444,956	197,526,119
	Total Production Plant	439,954,929	0	439,954,929	359,927,128
	Transmission Plant				
350	Land and Land Rights	8,462,725		8,462,725	6,923,355
352	Structures and Improvements	2,335,614		2,335,614	1,910,766
353	Station Equipment	76,335,261		76,335,261	62,449,877
354	Towers and Fixtures	777,080		777,080	635,729
355	Poles and Fixtures	27,138,574		27,138,574	22,202,067
356	Overhead Conductors and Devices	<u>43,983,503</u>		<u>43,983,503</u>	<u>35,982,904</u>
	Total Transmission Plant	159,032,757	0	159,032,757	130,104,698

The Empire District Electric Company

Section E
Schedule 1
Page 2 of 2
09/20/2002

Electric Plant in Service
by Primary Plant Account

		C	D	E	F
ACCOUNT		31-Dec-01			
Number	Name	Total <u>Company</u>	<u>Adjustments</u>	Pro <u>Forma</u>	Missouri <u>Jurisdictional</u>
	Distribution Plant				
360	Land and Land Rights	1,557,898		1,557,898	1,385,361
361	Structures and Improvements	8,910,294		8,910,294	7,923,479
362	Station Equipment	53,044,215		53,044,215	47,169,568
364	Poles, Towers and Fixtures	83,530,875		83,530,875	74,279,831
365	Overhead Conductors and Devices	94,950,127		94,950,127	84,434,400
366	Underground Conduit	14,822,530		14,822,530	13,180,935
367	Underground Conductors and Devices	30,586,419		30,586,419	27,198,973
368	Line Transformers	61,566,174		61,566,174	54,747,720
369	Services	41,084,306		41,084,306	36,534,219
370	Meters	13,742,318		13,742,318	12,220,356
371	Installations on Customers' Premises	11,511,284		11,511,284	10,236,409
373	Street Lighting and Signal Systems	<u>9,547,273</u>		<u>9,547,273</u>	<u>8,489,913</u>
	Total Distribution Plant	424,853,713	0	424,853,713	377,801,164
	General Plant				
101.1	Capital Lease	0		0	0
389	Land and Land Rights	727,747		727,747	616,853
390	Structures and Improvements	9,517,016		9,517,016	8,066,813
391	Office Furniture and Equipment	8,152,176		8,152,176	6,909,947
392	Transportation Equipment	6,373,900		6,373,900	5,402,645
393	Stores Equipment	335,977		335,977	284,781
394	Tools, Shop and Garage Equipment	2,715,864		2,715,864	2,302,021
395	Laboratory Equipment	873,206		873,206	740,147
396	Power Operated Equipment	10,563,463		10,563,463	8,953,803
397	Communication Equipment	10,845,292		10,845,292	9,192,686
398	Miscellaneous Equipment	<u>188,511</u>		<u>188,511</u>	<u>159,786</u>
	Total General Plant	50,293,152	0	50,293,152	42,629,481
	Total Electric Plant in Service	\$1,081,756,747	0	\$1,081,756,747	\$916,923,197

The Empire District Electric Company

Accumulated Provision for Depreciation
of Electric Plant in ServiceSection F
Schedule I
09/20/2002

	C	D	E	F
	31-Dec-01			
Functional Group	<u>Total Company</u>	<u>Adjustments</u>	<u>Pro Forma</u>	<u>Missouri Jurisdictional</u>
Production:				
1. Steam	\$94,385,555	0	\$94,377,190	77,209,979
2. Hydro	2,227,277	0	2,227,277	1,822,135
3. Other	38,905,866	0	38,905,866	31,828,889
4. Total Production	\$135,518,698	0	135,518,698	110,861,003
5. Transmission	47,045,555	0	47,045,555	38,487,969
6. Distribution	152,437,520	0	152,437,520	135,555,065
7. General	22,338,644	0	22,338,644	18,934,474
8. Amortization of Electric Plant	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
9. Total	\$357,340,417	\$0	\$357,340,417	\$303,838,510

	<u>Amount Outstanding</u>	<u>% of Total</u>	<u>Cost Rate</u>	<u>Weighted Return on Tariffs Filed</u>
1. Long-term Debt	\$297,480,599	44.90%	7.90%	3.55%
2. Preferred Stock	48,198,588	7.28%	8.95%	0.65%
3. Common Equity	316,760,505	47.82%	12.00%	5.74%
4. Short-term Debt	0	0.00%	3.13%	0.00%
5. Total	\$662,439,692	100.00%		9.94%

The Empire District Electric Company

Preferred Capital Stock

Section H
Schedule 2
09/20/2002

Series	A	B	C	D
	Principal Amount <u>Issued</u>	Percentage Annual Dividend <u>Requirement</u>	Net Discount, Premium and Issuance <u>Expense</u>	Amount Outstanding at <u>31-Dec-01</u>
1. Trust Preferred	\$50,000,000	8.5	(\$1,801,412)	\$50,000,000
2.				
3.				
4. Total	\$50,000,000		(\$1,801,412)	\$50,000,000

Series	A	B	C	D
	31-Dec-01		30-Jun-02	
	Unamortized Expense, Discount and Premium	Principal Amount Outstanding	Unamortized Expense, Discount and Premium	Principal Amount Outstanding
Bonds and Unsecured Notes:				
1. 7.2% Series, Due 2016	(354,157)	25,000,000	(342,286)	25,000,000
2. 5.2% Pollution Control Series, Due 2013	(323,809)	5,200,000	(310,127)	5,200,000
3. 5.3% Pollution Control Series, Due 2013	(454,892)	8,000,000	(435,671)	8,000,000
4. 7-1/2% Series, Due 2002	(114,279)	37,500,000	0	0
5. 7% Series, Due 2023	(5,213,837)	45,000,000	(5,093,979)	45,000,000
6. 7-3/4% Series, Due 2025	(3,118,598)	30,000,000	(3,052,009)	30,000,000
7. 9-3/4% Series, Due 2020	(31,212)	2,250,000	(30,387)	2,250,000
8. 7-1/4% Series, Due 2028	(594,016)	13,154,000	(582,772)	13,099,000
9. 8-1/8% Series, Due 2009	(195,227)	20,000,000	(182,766)	20,000,000
10. 7.60% Series, Due 2005	(67,840)	10,000,000	(57,404)	10,000,000
11. 6-1/2% Series, Due 2010	(606,721)	50,000,000	(569,950)	50,000,000
12. 7.7% Unsecured Series, Due 2004	(565,918)	100,000,000	(466,050)	100,000,000
13. Total	(\$11,640,505)	\$346,104,000	(\$11,123,401)	\$308,549,000

Capital Costs

	A	B	C	D
	31-Dec-01		31-Dec-01	
Bonds and Unsecured Notes Series:	Amount Outstanding	Annual Cost	Projected Amount Outstanding	Annual Cost
1. 7.2% Series, Due 2016	25,000,000	1,800,000	25,000,000	1,800,000
2. 5.2% Pollution Control Series, Due 2013	5,200,000	270,400	5,200,000	270,400
3. 5.3% Pollution Control Series, Due 2013	8,000,000	424,000	8,000,000	424,000
4. 7-1/2% Series, Due 2002	37,500,000	2,812,500	0	0
5. 7% Series, Due 2023	45,000,000	3,150,000	45,000,000	3,150,000
6. 7-3/4% Series, Due 2025	30,000,000	2,325,000	30,000,000	2,325,000
7. 9-3/4% Series, Due 2020	2,250,000	219,375	2,250,000	219,375
8. 7-1/4% Series, Due 2028	13,154,000	953,665	13,154,000	953,665
9. 8-1/8% Series, Due 2009	20,000,000	1,625,000	20,000,000	1,625,000
10. 7.60% Series, Due 2005	10,000,000	760,000	10,000,000	760,000
11. 6-1/5% Series, Due 2010	50,000,000	3,250,000	50,000,000	3,250,000
12. 7.7% Unsecured Series, Due 2004	100,000,000	7,700,000	100,000,000	7,700,000
13. Premium, Discount and Expense	(11,640,505)	1,034,212	(11,123,401)	988,270
14. Total	\$334,463,495	\$26,324,152	\$297,480,599	\$23,465,710
15. Annual Cost Rate		7.87%		7.90%
Trust Preferred Series				
16. Trust Preferred	\$50,000,000	\$4,250,000	\$50,000,000	\$4,250,000
17. Premium and Expenses				
18. Annual Dividend Rate				
19. Premium and Expense	(\$1,801,412)	62,840	(\$1,801,412)	62,840
20. Total	\$48,198,588	\$4,312,840	\$48,198,588	\$4,312,840
21. Annual Dividend Requirement Rate		8.95%		8.95%

Twelve Months Ended December 31, 2001

ACCOUNT		A	B	C	D	E	F
		Total Company			Missouri Jurisdictional		
Number	Name	Actual	Adjustments	Pro Forma	Actual	Adjustments	Pro Forma
Electric Utility Operating Revenues:							
440	Residential	\$110,584,151	\$15,639,503	\$126,223,654	\$97,889,093	\$15,639,503	\$113,528,596
442.1	Commercial	82,237,020		82,237,020	75,231,963	\$0	75,231,963
442.2-6	Industrial	44,508,806		44,508,806	36,430,232	\$0	36,430,232
444	Public Street & Highway Lighting	2,014,542		2,014,542	1,773,894	\$0	1,773,894
445	Other Sales to Public Authorities	4,296,577		4,296,577	3,721,632	\$0	3,721,632
448	Interdepartmental	92,039		92,039	92,039	\$0	92,039
447.2,4	Sales for Resale - On-System	12,911,248		12,911,248	0	\$0	0
447.1,3	Sales for Resale - Off-System	6,163,331	3,671,220	9,834,551	5,351,859	\$3,671,220	9,023,079
Total Sales of Electricity		262,807,714	19,310,723	282,118,437	220,490,711	19,310,723	239,801,434
450-456	Other Electric Operating Revenues	3,225,044	0	3,225,044	2,865,363	0	2,865,363
Less: Provision for Rate Refund		2,843,444	750,009	3,593,453	2,843,444	750,009	3,593,453
Total Sales of Electricity		263,189,315	18,560,714	281,750,029	220,512,630	18,560,714	239,073,344
Electric Utility Operating Expenses:							
401-2	Production	136,433,068	(1,159,493)	135,273,575	111,608,743	(950,102)	110,658,641
401-2	Transmission	3,581,468	(646,063)	2,935,405	2,932,601	(528,544)	2,404,057
401-2	Distribution	11,997,663	(176,283)	11,821,380	10,668,920	(156,760)	10,512,160
401-2	Customer Accounts	7,173,156	169,904	7,343,060	6,154,855	145,784	6,300,639
401-2	Customer Assistance	869,018	(25,671)	843,347	745,652	(22,027)	723,625
401-2	Sales	464,111	(19,950)	444,161	410,845	(17,660)	393,185
401-2	Administrative & General **	13,567,375	7,196,520	20,763,895	11,266,867	5,995,663	17,262,530
403	Depreciation	29,393,175	(1,775,177)	27,617,998	25,053,588	(1,769,229)	23,284,359
408.1	Taxes Other Than Income Taxes	13,473,355	2,213,827	15,687,182	12,048,682	1,979,737	14,028,419
409.1	Income Taxes - Federal	(23,040)	6,752,563	6,729,523	(20,034)	6,642,459	6,622,425
409.1	Income Taxes - State	34,240	1,023,256	1,057,496	29,774	1,010,893	1,040,667
410.1	Provision for Deferred Income Taxes	8,898,762	(4,251,173)	4,647,589	8,819,363	(4,809,249)	4,010,113
411.1	Provision for Deferred Income Taxes - Cr.	(6,710,633)	6,164,686	(545,947)	(6,650,757)	6,182,918	(467,839)
411.4	Investment Tax Credit Adjustments - Net	(547,650)	2,679	(544,971)	(542,764)	75,761	(467,003)
431.1	Interest on Customer Deposits		0	0		202,132	202,132
Total Electric Utility Operating Expenses		218,604,070	15,469,626	234,073,696	182,526,334	13,981,777	196,508,111
Net Electric Utility Operating Income		44,585,244	3,091,088	47,676,333	37,986,295	4,578,937	42,565,233

Explanation of Adjustments to Test-Year
Revenues & Expenses Through 6/30/02

	Total Company		Missouri Jurisdictional	
	<u>Revenues</u>	<u>Expenses</u>	<u>Revenues</u>	<u>Expenses</u>
Revenue:				
1. To adjust for annualization of rate change	14,173,972		14,173,972	
2. To adjust for annualization of customer growth	596,554		596,554	
3. To adjust test year for normalized weather	811,434		811,434	
3. To adjust test year to eliminate unbilled	615,556		615,556	
4. To adjust billed revenue to a 365 day year	(225,403)		(225,403)	
6. To adjust revenue for misc adjustment	(332,610)		(332,610)	
7. To eliminate revenue associated with SPP	(346,049)		(346,049)	
8. To adjust test year revenues annualize off-system sales	4,017,269		4,017,269	
9.	0		0	
10.	0		0	
 Total Revenue Adjustment	 19,310,723		 19,310,723	
Production:				
11. To reflect normalization of fuel expense		(7,601,651)		(6,220,431)
12. To normalize test year production expenses		6,322,620		5,172,535
13. To include commission for energy traders		119,538		97,794
14.		0		0
		0		0
		0		0
		0		0
 Total Production		(1,159,493)		(950,102)
Transmission:				
15. To normalize test year expenses		(646,063)		(528,544)
 Total Transmission		(646,063)		(528,544)
Distribution:				
16. To normalize test year expenses		(176,283)		(156,760)
 Total Distribution		(176,283)		(156,760)
Customer Accounts				
17. To normalize test year expenses		169,904		145,784
 Total Customer Accounts		169,904		145,784
Customer Assistance				
18. To normalize test year expenses		(25,671)		(22,027)
 Total Customer Assistance		(25,671)		(22,027)
Sales Expense:				
19. To normalize test year expenses		(19,950)		(17,660)
 Total Sales Expense		(19,950)		(17,660)


Explanation of Adjustments to Test-Year
Revenues & Expenses

	Increase (Decrease)			
	Total Company		Missouri Jurisdictional	
	<u>Revenues</u>	<u>Expenses</u>	<u>Revenues</u>	<u>Expenses</u>
Administrative & General:				
20. To reflect increased insurance expenses		256,789		217,921
21. To reflect increase in regulatory commissions exp		278,859		278,859
22. To reflect increase in A & G expenses		5,717,909		4,720,420
23. To reflect amortization of common stock expense		911,013		752,087
24. To include portion of officer MIP		31,950		26,376
		0		0
		0		0
		0		0
		0		0
		0		0
Total Administrative & General		7,196,520		5,995,663
Depreciation:				
25. To recognize expense for cost of removal		1,639,214		1,389,481
26. To annualize depreciation expense		(3,414,391)		(3,158,710)
		(1,775,177)		(1,769,229)
Taxes Other Than Income Taxes:				
27. To annualize property taxes		2,212,364		1,978,429
28. To recognize FICA taxes from wage increase (decrease)		2,546		2,277
29. To recognize FUTA tax from wage increase (decrease)		(1,083)		(968)
30. To recognize SUTA tax from wage increase (decrease)		0		0
Total Taxes Other Than Income Taxes		2,213,827		1,979,737
Income Taxes - Federal:				
31. To adjust book taxes		6,752,563		6,642,459
Total Taxes - Federal		6,752,563		6,642,459
Income Taxes - State:				
32. To adjust book taxes		1,023,256		1,010,893
Total Taxes - State		1,023,256		1,010,893
Provision for Deferred Income Tax:				
33. To adjust book taxes		(4,251,173)		(4,809,249)
Total Provision for Deferred Income Tax		(4,251,173)		(4,809,249)
Provision for Deferred Income Tax Cr.:				
34. To adjust book taxes		6,164,686		6,182,918
Total Provision for Deferred Income Tax Cr.		6,164,686		6,182,918
Provision for Investment Tax Credit:				
35. To adjust book taxes		2,679		75,761
Total Provision for Investment Tax Cr.		2,679		75,761
Interest on Customer Deposits:				
36. To include interest on customer deposits at 5.0% *		0		202,132
Total Interest on Customer Deposits		0		202,132
TOTAL ADJUSTMENTS	19,310,723	15,469,626	19,310,723	13,981,777

AFFIDAVIT

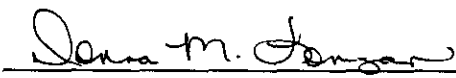
STATE OF MISSOURI)
) ss
COUNTY OF JASPER)

On the 20th day of September, 2002, before me appeared Kelly S. Walters, to me personally known, who, being by me first duly sworn, states that she is the Director of Planning and Regulatory of The Empire District Electric Company and acknowledged that she has read the above and foregoing document and believes that the statements therein are true and correct to the best of her information, knowledge and belief.



Kelly S. Walters

Subscribed and sworn to before me this 20th day of September, 2002



Donna M. Longan, Notary Public

My commission expires: January 24, 2004

