

THE EMPIRE DISTRICT GAS COMPANY
Class Cost of Service Study
Test Year Ended Dec. 31, 2008
FUNCTIONALIZATION

Exhibit HEO-2
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| Account Description | Account Code | Account Balance | Allocation Factor | SUPPLY | STORAGE | TRANSMI | DISTRIBU | ONSITE |
|---------------------------------------|-----------------|--------------------|----------------------|--------|---------|-----------|------------|-----------|
| I. GAS PLANT IN SERVICE | | | | | | | | |
| Organization | 301 | 284,572 | DIST | 0 | 0 | 0 | 284,572 | 0 |
| Franchises & Consents | 302 | 22,760 | DIST | 0 | 0 | 0 | 22,760 | 0 |
| Subtotal - INTANGIBLE ASSETS | 301-303 | 307,332 | | 0 | 0 | 0 | 307,332 | 0 |
| B. PRODUCTION PLANT | | | | | | | | |
| Production Plant | 304-338 | 0 | None | 0 | 0 | 0 | 0 | 0 |
| Subtotal - PRODUCTION PLANT | 304-338 | 0 | | 0 | 0 | 0 | 0 | 0 |
| C. STORAGE PLANT | | | | | | | | |
| Storage Plant | 360-365 | 0 | None | 0 | 0 | 0 | 0 | 0 |
| Subtotal - STORAGE PLANT | 360-366 | 0 | | 0 | 0 | 0 | 0 | 0 |
| D. TRANSMISSION PLANT | | | | | | | | |
| | 365-369 | 7,461,275 | TRANS | 0 | 0 | 7,461,275 | 0 | 0 |
| E. DISTRIBUTION PLANT | | | | | | | | |
| Land and Land Rights | 374 | 37,329 | DIST | 0 | 0 | 0 | 37,329 | 0 |
| Structures and Improvements | 375 | 98,669 | DIST | 0 | 0 | 0 | 98,669 | 0 |
| Mains | 376 | 40,882,215 | DIST | 0 | 0 | 0 | 40,882,215 | 0 |
| Meas. & Reg. Stat. Equip. - General | 378 | 636,217 | DIST | 0 | 0 | 0 | 636,217 | 0 |
| Meas. & Reg. Stat. Equip. - City Gate | 379 | 932,939 | DIST | 0 | 0 | 0 | 932,939 | 0 |
| Services | 380 | 23,733,563 | DIST | 0 | 0 | 0 | 23,733,563 | 0 |
| Meters | 381 | 5,233,634 | ONSITE | 0 | 0 | 0 | 0 | 5,233,634 |
| House Regulators | 383 | 3,111,493 | ONSITE | 0 | 0 | 0 | 0 | 3,111,493 |
| Ind. Meas. & Reg. Station Equip. | 385 | 583,501 | DIST | 0 | 0 | 0 | 583,501 | 0 |
| Other Equipment | 387 | 5,472 | DIST | 0 | 0 | 0 | 5,472 | 0 |
| Subtotal - DISTRIBUTION PLANT | 374-387 | 75,255,033 | | 0 | 0 | 0 | 66,909,905 | 8,345,128 |
| F. GENERAL PLANT | | | | | | | | |
| Land and Land Rights | 389 | 40,234 | LABOR | 0 | 0 | 0 | 20,934 | 19,299 |
| Structures and Improvements | 390 | 1,269,203 | LABOR | 0 | 0 | 0 | 660,393 | 608,810 |
| Office Furniture and Equipment | 391 | 374,488 | LABOR | 0 | 0 | 0 | 194,854 | 179,634 |
| Office Furniture and Equipment - C | 391C | 707,056 | LABOR | 0 | 0 | 0 | 367,896 | 339,160 |
| Transportation Equipment | 392 | 1,213,917 | LABOR | 0 | 0 | 0 | 631,626 | 582,291 |
| Stores Equipment | 393 | 29,019 | LABOR | 0 | 0 | 0 | 15,099 | 13,920 |
| Tools & Garage Equipment | 394 | 761,155 | LABOR | 0 | 0 | 0 | 396,044 | 365,110 |
| Laboratory Equipment | 395 | 98,267 | LABOR | 0 | 0 | 0 | 51,130 | 47,137 |
| Power Operated Equipment | 396 | 425,081 | LABOR | 0 | 0 | 0 | 221,179 | 203,903 |

85
86 I. OPERATION & MAINTENANCE EXPENSE
87 A. PRODUCTION EXPENSES

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| Account Description | Account Code | Account Balance | Allocation Factor | SUPPLY | STORAGE | TRANSMI | DISTRIBU | ONSITE |
|--|-----------------|--------------------|----------------------|--------|---------|---------|----------|---------|
| 1. Manufactured Gas Production | | | | | | | | |
| Operations Labor | 701 | 0 | None | 0 | 0 | 0 | 0 | 0 |
| Operation Supv and Engineering | 710 | 0 | None | 0 | 0 | 0 | 0 | 0 |
| LNG Expense | 717 | 0 | None | 0 | 0 | 0 | 0 | 0 |
| Subtotal - O&M Accounts 701-716 | 710-716 | 0 | | 0 | 0 | 0 | 0 | 0 |
| Maint. of Structure & Improvements | 741 | 0 | None | 0 | 0 | 0 | 0 | 0 |
| Maint Production Equipment | 742 | 0 | None | 0 | 0 | 0 | 0 | 0 |
| Subtotal - O&M Accounts 717-742 | 717-742 | 0 | | 0 | 0 | 0 | 0 | 0 |
| Subtotal - Manufactured Gas Production | 710-742 | 0 | | 0 | 0 | 0 | 0 | 0 |
| 2. Other Gas Supply Expenses | | | | | | | | |
| Natural Gas City Gate Purchases | 804 | 0 | SUPP | 0 | 0 | 0 | 0 | 0 |
| Other Natural Gas Purchases | 805 | 0 | SUPP | 0 | 0 | 0 | 0 | 0 |
| Natural Gas W/D from Storage- Gas Repoi | 808 | 0 | SUPP | 0 | 0 | 0 | 0 | 0 |
| Gas Used for Other Util Operations | 812 | 0 | SUPP | 0 | 0 | 0 | 0 | 0 |
| LNG Operating Expenses | 813 | 18,343 | SUPP | 18,343 | 0 | 0 | 0 | 0 |
| Subtotal - PRODUCTION EXPENSES | 710-813 | 18,343 | | 18,343 | 0 | 0 | 0 | 0 |
| B. NATURAL GAS STORAGE, TERMINALING & PROCESSING EXPENSES | | | | | | | | |
| Energy Trading & Accounting | 844 | 77,687 | SUPP | 77,687 | 0 | 0 | 0 | 0 |
| Subtotal - NATURAL GAS STORAGE | 840-850 | 77,687 | | 77,687 | 0 | 0 | 0 | 0 |
| C. TRANSMISSION EXPENSES | 851-870 | 169,987 | TRANS | 0 | 0 | 169,987 | 0 | 0 |
| D. DISTRIBUTION EXPENSES | | | | | | | | |
| Mains and Services Expenses | 874 | 168,919 | DIST | 0 | 0 | 0 | 168,919 | 0 |
| Perf Distrib Main Locates | 874.01 | 274,398 | DIST | 0 | 0 | 0 | 274,398 | 0 |
| Routine Leak Surv Mains & SVCS | 874.02 | 72,227 | DIST | 0 | 0 | 0 | 72,227 | 0 |
| Meas. & Reg. Station Expense General | 875 | 110,946 | DIST | 0 | 0 | 0 | 110,946 | 0 |
| Meas. & Reg. Station Expense Industrial | 876 | 0 | DIST | 0 | 0 | 0 | 0 | 0 |
| Meas. & Reg. Station Expense Stat-City G | 877 | 28,156 | DIST | 0 | 0 | 0 | 28,156 | 0 |
| Meter & House Regulator Expenses | 878 | 229,717 | ONSITE | 0 | 0 | 0 | 0 | 229,717 |
| Perf Connects/Discon/Recon-Gas | 878.01 | 521,299 | ONSITE | 0 | 0 | 0 | 0 | 521,299 |
| Customer Install | 879 | 294,993 | ONSITE | 0 | 0 | 0 | 0 | 294,993 |
| Other expenses | 880 | 211,476 | DIST_PT | 0 | 0 | 0 | 188,025 | 23,451 |
| Co Used Gas O&M Offset | 880.01 | 19,827 | DIST_PT | 0 | 0 | 0 | 17,628 | 2,199 |
| Distribution Rents | 881 | 0 | DIST_PT | 0 | 0 | 0 | 0 | 0 |
| Maint. Supervision & Engineering | 885 | 58,975 | DIST_PT | 0 | 0 | 0 | 52,435 | 6,540 |
| Maint. of Mains | 887 | 450,109 | DIST | 0 | 0 | 0 | 450,109 | 0 |
| PerfMaint3rdPartyDmg-UGDistGas | 887.01 | 7,160 | DIST | 0 | 0 | 0 | 7,160 | 0 |

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| <u>Account</u> | <u>Account</u> | <u>Account</u> | <u>Allocation</u> | <u>SUPPLY</u> | <u>STORAGE</u> | <u>TRANSMI</u> | <u>DISTRIBU</u> | <u>ONSITE</u> |
|---|----------------|------------------|-------------------|---------------|----------------|----------------|-----------------|------------------|
| <u>Description</u> | <u>Code</u> | <u>Balance</u> | <u>Factor</u> | | | | | |
| Dist Maint Compr Station Equip | 888 | 133 | DIST | 0 | 0 | 0 | 133 | 0 |
| Maint Of Meas. & Reg. Station Expense Gr | 889 | 66,419 | DIST | 0 | 0 | 0 | 66,419 | 0 |
| Maint Of Meas. & Reg. Station Expense In | 890 | 70,803 | DIST | 0 | 0 | 0 | 70,803 | 0 |
| Maint Of Meas. & Reg. Station Expense St | 891 | 4,809 | DIST | 0 | 0 | 0 | 4,809 | 0 |
| Maint. of Services | 892 | 134,957 | DIST | 0 | 0 | 0 | 134,957 | 0 |
| Maint. of Meters & House Regulators | 893 | 45,986 | ONSITE | 0 | 0 | 0 | 0 | 45,986 |
| Maintenance of Other Equipment | 894 | 189 | DIST_PT | 0 | 0 | 0 | 168 | 21 |
| Blank | XXX | 0 | DIST_PT | 0 | 0 | 0 | 0 | 0 |
| Subtotal - DISTRIBUTION EXPENSES | 870-894 | 2,771,495 | | 0 | 0 | 0 | 1,647,291 | 1,124,204 |
| Total - OPERATION & MAINTENANCE EXPENSES | | 3,019,169 | | 77,687 | 0 | 169,987 | 1,647,291 | 1,124,204 |
| II. CUSTOMER ACCOUNTS EXPENSES | | | | | | | | |
| Customer Service - Administrative | 901 | 73,353 | ONSITE | 0 | 0 | 0 | 0 | 73,353 |
| Meter Reading Expenses | 902 | 667,900 | ONSITE | 0 | 0 | 0 | 0 | 667,900 |
| Customer Records & Collection Expense | 903 | 915,988 | ONSITE | 0 | 0 | 0 | 0 | 915,988 |
| Uncollectible Accounts | 904 | 1,365,508 | ONSITE | 0 | 0 | 0 | 0 | 1,365,508 |
| Write-Off- PIP | 904P | 0 | ONSITE | 0 | 0 | 0 | 0 | 0 |
| Miscellaneous Customer Accounts Expens | 905 | 51,806 | ONSITE | 0 | 0 | 0 | 0 | 51,806 |
| Miscellaneous Customer Accounts Expens | 905A | 0 | ONSITE | 0 | 0 | 0 | 0 | 0 |
| Total - CUSTOMER ACCOUNTS EXPENSES | | 3,074,555 | | 0 | 0 | 0 | 0 | 3,074,555 |
| III. CUSTOMER SERVICE & INFORMATIONAL EXPENSES | | | | | | | | |
| Operation Supervision | 907 | 20,484 | ONSITE | 0 | 0 | 0 | 0 | 20,484 |
| Customer Assist- Choice | 908C | 0 | ONSITE | 0 | 0 | 0 | 0 | 0 |
| Customer Assist- Other | 908 | 240,043 | ONSITE | 0 | 0 | 0 | 0 | 240,043 |
| Advertising & Promotion | 909 | 20,444 | ONSITE | 0 | 0 | 0 | 0 | 20,444 |
| Other Customer Service & Informational E | 910 | 0 | ONSITE | 0 | 0 | 0 | 0 | 0 |
| Operations sales Expense | 911 | 13,870 | ONSITE | 0 | 0 | 0 | 0 | 13,870 |
| Demonstration | 912 | 16,439 | ONSITE | 0 | 0 | 0 | 0 | 16,439 |
| Total - CUSTOMER SERVICE & INFORMATIONAL EXP. | | 311,281 | | 0 | 0 | 0 | 0 | 311,281 |
| Total - CUSTOMER ACCOUNTS, SERVICES & SALES EXPENSES | | 3,385,836 | | 0 | 0 | 0 | 0 | 3,385,836 |
| IV. ADMINISTRATIVE & GENERAL EXPENSES | | | | | | | | |
| A. Labor-Related: | | | | | | | | |
| Administrative & General Salaries | 920 | 1,750,379 | LABOR | 0 | 0 | 0 | 910,759 | 839,621 |
| Office Supplies & Expenses | 921 | 738,856 | LABOR | 0 | 0 | 0 | 384,442 | 354,414 |
| Transfer Expenses | 922 | 0 | LABOR | 0 | 0 | 0 | 0 | 0 |
| Outside Services Employed | 923 | 205,815 | ONSITE | 0 | 0 | 0 | 0 | 205,815 |

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| Account Description | Account Code | Account Balance | Allocation Factor | SUPPLY | STORAGE | TRANSMI | DISTRIBU | ONSITE |
|---|-----------------|--------------------|----------------------|----------|----------|-----------|----------------|----------------|
| Outside Services Employed | 923 | 0 | ONSITE | 0 | 0 | 0 | 0 | 0 |
| Injuries & Damages | 925 | 260,141 | LABOR | 0 | 0 | 0 | 135,357 | 124,784 |
| Employee Pensions and Benefits | 926 | <u>767,116</u> | LABOR | <u>0</u> | <u>0</u> | <u>0</u> | <u>399,146</u> | <u>367,970</u> |
| Subtotal - O&M Accounts 920-923, 926 | | 3,722,307 | | 0 | 0 | 0 | 1,829,704 | 1,892,604 |
| B. Plant-Related: | | | | | | | | |
| Property Insurance | 924 | <u>255</u> | PLANT | <u>0</u> | <u>0</u> | <u>23</u> | <u>206</u> | <u>26</u> |
| Subtotal - O&M Accounts 924 | | 255 | | 0 | 0 | 23 | 206 | 26 |
| C. Other-Related: | | | | | | | | |
| Regulatory Commission Expenses | 928 | 269,917 | PLANT | 0 | 0 | 24,347 | 218,338 | 27,232 |
| Duplicate Charges Credit | 929 | (18,875) | PLANT | 0 | 0 | (1,703) | (15,268) | (1,904) |
| PUCO Assessments | 408 | 0 | PLANT | 0 | 0 | 0 | 0 | 0 |
| Customer Interest Expense | 431 | 61,449 | DIST | 0 | 0 | 0 | 61,449 | 0 |
| Miscellaneous General | 930 | 185,185 | PLANT | 0 | 0 | 16,704 | 149,798 | 18,683 |
| Rents | 931 | 314,468 | PLANT | 0 | 0 | 28,366 | 254,375 | 31,726 |
| Misc. General Plant | 935 | <u>114,011</u> | LABOR | <u>0</u> | <u>0</u> | <u>0</u> | <u>59,322</u> | <u>54,689</u> |
| Subtotal - O&M Accounts 928-935 | | 926,155 | | 0 | 0 | 67,715 | 728,014 | 130,425 |
| Total - ADMINISTRATIVE & GENERAL EXPENSES | | 4,648,717 | | 0 | 0 | 67,738 | 2,557,924 | 2,023,055 |
| TOTAL - OPERATING EXPENSES (Excl Depr, Tax and Gas Supply) | | 11,053,722 | | 77,687 | 0 | 237,725 | 4,205,215 | 6,533,095 |
| VI. DEPRECIATION EXPENSE | | | | | | | | |
| Intangible Plant | 403.10 | 26,866 | INTANG_PT | 0 | 0 | 0 | 26,866 | 0 |
| Production Plant | 403.20 | 0 | None | 0 | 0 | 0 | 0 | 0 |
| Local Storage Plant | 403.30 | 0 | None | 0 | 0 | 0 | 0 | 0 |
| Transmission Plant | 403.40 | 117,683 | TRANS | 0 | 0 | 117,683 | 0 | 0 |
| Mains | 403.51 | 940,291 | DIST | 0 | 0 | 0 | 940,291 | 0 |
| Mains- Direct | 403.52 | 0 | DIST | 0 | 0 | 0 | 0 | 0 |
| Services | 403.53 | 683,527 | DIST | 0 | 0 | 0 | 683,527 | 0 |
| Meters | 403.54 | 230,211 | ONSITE | 0 | 0 | 0 | 0 | 230,211 |
| Distr Other | 403.55 | 47,111 | DIST_xMSM | 0 | 0 | 0 | 47,111 | 0 |
| General Plant | 403.60 | 315,085 | LABOR | 0 | 0 | 0 | 163,945 | 151,140 |
| Rent from Gas Ppty / Other Rev | 404.00 | 753,598 | PLANT | 0 | 0 | 67,977 | 609,592 | 76,029 |
| Adjustments | | <u>0</u> | PLANT | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Total - DEPRECIATION EXPENSE | 403 | 3,114,371 | | 0 | 0 | 185,660 | 2,471,331 | 457,380 |
| VII. TAXES OTHER THAN INCOME TAXES | | | | | | | | |
| A. General Taxes | | | | | | | | |

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| Account Description | Account Code | Account Balance | Allocation Factor | SUPPLY | STORAGE | TRANSMI | DISTRIBU | ONSITE |
|--|-----------------|--------------------|----------------------|------------|----------------|----------------|----------------|----------------|
| Property Tax- Plant | | 615,720 | PLANT | 0 | 0 | 55,540 | 498,061 | 62,119 |
| Distribution Tax | | 0 | None | 0 | 0 | 0 | 0 | 0 |
| Payroll related | | 12,179 | LABOR | 0 | 0 | 0 | 6,337 | 5,842 |
| Other taxes | | 40,251 | PLANT | 0 | 0 | 3,631 | 32,559 | 4,061 |
| Property Tax- Inventory | | <u>241,503</u> | STOR | <u>0</u> | <u>241,503</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Subtotal- Taxes Other Than Income Taxes | 408 | 909,652 | | 0 | 241,503 | 59,171 | 536,957 | 72,022 |
| B. Franchise and Revenue Taxes | | | | | | | | |
| Gross Receipts Tax | | 0 | REVENUE | 0 | 0 | 0 | 0 | 0 |
| GRT- Uncoll Rider | | <u>0</u> | None | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Subtotal- Franchise and Gross Receipts Tax | | 0 | | 0 | 0 | 0 | 0 | 0 |
| C. Income Tax Expense | | | | | | | | |
| State Income Tax expense | | 33,394 | Pre-Tax | 53 | 7,563 | 1,962 | 2,649 | 21,166 |
| Federal Income Tax Deferred | | 519,234 | PLANT | 0 | 0 | 46,837 | 420,013 | 52,385 |
| Federal Income Tax expense | | <u>212,506</u> | Pre-Tax | <u>339</u> | <u>48,131</u> | <u>12,483</u> | <u>16,858</u> | <u>134,695</u> |
| Subtotal- Income tax expense | | <u>765,133</u> | | <u>392</u> | <u>55,694</u> | <u>61,282</u> | <u>439,519</u> | <u>208,246</u> |
| Total- TAX EXPENSE | | <u>1,674,786</u> | | <u>392</u> | <u>297,197</u> | <u>120,452</u> | <u>976,476</u> | <u>280,268</u> |
| TOTAL EXPENSES | | 15,861,222 | | 96,422 | 297,197 | 543,837 | 7,653,022 | 7,270,742 |

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| | Account Description | Account Code | Account Balance | Allocation Factor | <u>SUPPLY</u> | <u>STORAGE</u> | <u>TRANSMI</u> | <u>DISTRIBU</u> | <u>ONSITE</u> |
|-----|-------------------------------------|-----------------|--------------------|----------------------|---------------|----------------|----------------|------------------|------------------|
| 229 | V. REVENUES at Present Rates | | | | | | | | |
| 230 | Residential | 480-483 | 11,695,138 | REVENUE | 62,401 | 716,759 | 441,224 | 4,585,627 | 5,889,127 |
| 231 | Comm - Indust Sales | 480-483 | 4,661,454 | REVENUE | 24,872 | 285,686 | 175,863 | 1,827,741 | 2,347,291 |
| 232 | Comm - Indust Transport | 480-483 | 2,673,260 | REVENUE | 14,264 | 163,836 | 100,854 | 1,048,177 | 1,346,129 |
| 233 | Forfeited Discounts Gas | 480-483 | 94,128 | REVENUE | 502 | 5,769 | 3,551 | 36,907 | 47,398 |
| 234 | Returned Check Chgs Gas | 480-483 | 13,340 | REVENUE | 71 | 818 | 503 | 5,231 | 6,717 |
| 235 | Reconnect Charges Gas | 480-484 | 67,279 | REVENUE | 359 | 4,123 | 2,538 | 26,380 | 33,879 |
| 236 | Tax Remuneration Gas | 480-485 | 29,924 | REVENUE | 160 | 1,834 | 1,129 | 11,733 | 15,068 |
| 237 | Misc Revenue | 480-485 | 0 | REVENUE | 0 | 0 | 0 | 0 | 0 |
| 238 | Gas Revenue | 480-483 | 0 | REVENUE | 0 | 0 | 0 | 0 | 0 |
| 239 | Rent from Gas Ppty / Other Rev | 495 | 0 | REVENUE | 0 | 0 | 0 | 0 | 0 |
| 240 | Subtotal Gas Revenues, net | | 19,234,523 | | 102,628 | 1,178,826 | 725,663 | 7,541,796 | 9,685,610 |
| 241 | | | | | | | | | |
| 242 | Non-Operating Income | 418-421 | 0 | None | 0 | 0 | 0 | 0 | 0 |
| 243 | Non-Operating Income | 426 | 0 | None | 0 | 0 | 0 | 0 | 0 |
| 244 | Total Non-Oper Income | | 0 | | 0 | 0 | 0 | 0 | 0 |
| 245 | | | | | | | | | |
| 246 | Total Revenue | | 19,234,523 | | 102,628 | 1,178,826 | 725,663 | 7,541,796 | 9,685,610 |
| 247 | | | | | | | | | |
| 248 | Total Expenses | | 15,861,222 | | 96,422 | 297,197 | 543,837 | 7,653,022 | 7,270,742 |
| 249 | | | | | | | | | |
| 250 | NET INCOME at Present Rates | | <u>3,373,301</u> | | <u>6,206</u> | <u>881,628</u> | <u>181,826</u> | <u>(111,226)</u> | <u>2,414,867</u> |