

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

Exhibit HEO-3

| Account Description | Account Code | DISTRIBUTION Dollars | Classification Allocation Factor | DISTRIBUTION | | |
|---------------------------------------|-----------------|-------------------------|--|--------------|-----------|------------|
| | | | | Demand | Commodity | Customer |
| I. GAS PLANT IN SERVICE | | | | | | |
| Organization | 301 | 284,572 | DISTOnlyPT | 49,690 | 0 | 234,882 |
| Franchises & Consents | 302 | 22,760 | CUST | 0 | 0 | 22,760 |
| Subtotal - INTANGIBLE ASSETS | 301-303 | 307,332 | | 49,690 | 0 | 257,642 |
| B. PRODUCTION PLANT | | | | | | |
| Production Plant | 304-338 | 0 | None | 0 | 0 | 0 |
| Subtotal - PRODUCTION PLANT | 304-338 | 0 | | 0 | 0 | 0 |
| C. STORAGE PLANT | | | | | | |
| Storage Plant | 360-365 | 0 | None | 0 | 0 | 0 |
| Subtotal - STORAGE PLANT | 360-366 | 0 | | 0 | 0 | 0 |
| D. TRANSMISSION PLANT | 365-369 | 0 | None | 0 | 0 | 0 |
| E. DISTRIBUTION PLANT | | | | | | |
| Land and Land Rights | 374 | 37,329 | DISTOnlyPT | 6,518 | 0 | 30,811 |
| Structures and Improvements | 375 | 98,669 | DISTOnlyPT | 17,229 | 0 | 81,440 |
| Mains | 376 | 40,882,215 | MAINS | 9,505,920 | 0 | 31,376,294 |
| Meas. & Reg. Stat. Equip. - General | 378 | 636,217 | DEMAND | 636,217 | 0 | 0 |
| Meas. & Reg. Stat. Equip. - City Gate | 379 | 932,939 | DEMAND | 932,939 | 0 | 0 |
| Services | 380 | 23,733,563 | CUST | 0 | 0 | 23,733,563 |
| Meters | 381 | 0 | None | 0 | 0 | 0 |
| House Regulators | 383 | 0 | None | 0 | 0 | 0 |
| Ind. Meas. & Reg. Station Equip. | 385 | 583,501 | DEMAND | 583,501 | 0 | 0 |
| Other Equipment | 387 | 5,472 | DISTOnlyPT | 956 | 0 | 4,517 |
| Subtotal - DISTRIBUTION PLANT | 374-387 | 66,909,905 | | 11,683,280 | 0 | 55,226,625 |
| F. GENERAL PLANT | | | | | | |
| Land and Land Rights | 389 | 20,934 | DISTLABOR | 6,220 | 0 | 14,715 |
| Structures and Improvements | 390 | 660,393 | DISTLABOR | 196,201 | 0 | 464,191 |
| Office Furniture and Equipment | 391 | 194,854 | DISTLABOR | 57,891 | 0 | 136,963 |
| Office Furniture and Equipment - C | 391C | 367,896 | DISTLABOR | 109,301 | 0 | 258,595 |
| Transportation Equipment | 392 | 631,626 | DISTLABOR | 187,655 | 0 | 443,971 |
| Stores Equipment | 393 | 15,099 | DISTLABOR | 4,486 | 0 | 10,613 |
| Tools & Garage Equipment | 394 | 396,044 | DISTLABOR | 117,664 | 0 | 278,380 |
| Laboratory Equipment | 395 | 51,130 | DISTLABOR | 15,191 | 0 | 35,940 |
| Power Operated Equipment | 396 | 221,179 | DISTLABOR | 65,712 | 0 | 155,467 |
| Common Property | 397 | 213,505 | DISTLABOR | 63,432 | 0 | 150,073 |
| Miscellaneous Equipment | 398 | 60,465 | DISTLABOR | 17,964 | 0 | 42,501 |

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|---------------------------------------|-----------------|-------------------------|--|----------------|-----------|------------------|
| | | | | Demand | Commodity | Customer |
| Subtotal - GENERAL PLANT | 389-399 | 2,833,126 | | 841,716 | 0 | 1,991,409 |
| TOTAL UTILITY PLANT | | 70,050,363 | | 12,574,686 | 0 | 57,475,677 |
| II. DEPRECIATION RESERVE | | | | | | |
| Intangible Plant | 108 | 117,135 | DISTPT_INT | 18,939 | 0 | 98,197 |
| Production Plant | 108 | 0 | None | 0 | 0 | 0 |
| Local Storage Plant | 108 | 0 | None | 0 | 0 | 0 |
| Transmission Plant | 108 | 0 | None | 0 | 0 | 0 |
| Mains | 109 | 15,056,283 | MAINS | 3,500,882 | 0 | 11,555,401 |
| Mains- Direct Assignment | 109 | 0 | None | 0 | 0 | 0 |
| Services | 109 | 12,276,976 | CUST | 0 | 0 | 12,276,976 |
| Meters | 109 | 0 | None | 0 | 0 | 0 |
| Distr Other | 109 | 1,003,123 | DISTPT_xMSM | 952,065 | 0 | 51,057 |
| General Plant | 109 | <u>1,489,340</u> | DISTLABOR | <u>442,480</u> | <u>0</u> | <u>1,046,860</u> |
| TOTAL - DEPRECIATION RESERVE | 108 | 29,942,857 | | 4,914,366 | 0 | 25,028,491 |
| III. OTHER RATE BASE ITEMS | | | | | | |
| Gas Storage Inventory | | 0 | COMMODITY | 0 | 0 | 0 |
| Materials & Supplies - 13 Mo Avg | | 380,489 | DISTPT | 66,438 | 0 | 314,051 |
| Customer Deposits | | (994,045) | CUST | 0 | 0 | (994,045) |
| Customer Advances for Construction | | (317,323) | CUST | 0 | 0 | (317,323) |
| Accum Defd Inc Taxes- Gas Inventory | | 0 | DISTPT | 0 | 0 | 0 |
| Accum Defd Inc Taxes- Plant | | (1,494,296) | DISTPT | (260,922) | 0 | (1,233,374) |
| Other Gas-related | | 0 | CUST | 0 | 0 | 0 |
| Other Plant-related | | 2,044,216 | DISTPT | 356,945 | 0 | 1,687,271 |
| Other labor-related | | <u>0</u> | DISTLABOR | <u>0</u> | <u>0</u> | <u>0</u> |
| Total - OTHER RATE BASE ITEMS | | (380,958) | | 162,461 | 0 | (543,419) |
| IV. TOTAL RATE BASE (Excl. Working Ca | | 39,726,548 | | 7,822,780 | 0 | 31,903,767 |
| Working Capital | 131 | <u>945,436</u> | DISTPT | 165,085 | 0 | 780,351 |
| V. TOTAL RATE BASE | | 40,671,983 | | 7,987,865 | 0 | 32,684,119 |
| I. OPERATION & MAINTENANCE EXPEN | | | | | | |
| A. PRODUCTION EXPENSES | | | | | | |
| 1. Manufactured Gas Production | | | | | | |
| Operations Labor | 701 | 0 | None | 0 | 0 | 0 |
| Operation Supv and Engineering | 710 | 0 | None | 0 | 0 | 0 |
| LNG Expense | 717 | <u>0</u> | None | <u>0</u> | <u>0</u> | <u>0</u> |

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Test Year Ended Dec. 31, 2008

Exhibit HEO-3

| Account Description | Account Code | DISTRIBUTION Dollars | Classification Allocation Factor | DISTRIBUTION | | |
|--|-----------------|-------------------------|--|--------------|-----------|----------|
| | | | | Demand | Commodity | Customer |
| Subtotal - O&M Accounts 701-716 | 710-716 | 0 | | 0 | 0 | 0 |
| Maint. of Structure & Improvements | 741 | 0 | None | 0 | 0 | 0 |
| Maint Production Equipment | 742 | 0 | None | 0 | 0 | 0 |
| Subtotal - O&M Accounts 717-742 | 717-742 | 0 | | 0 | 0 | 0 |
| Subtotal - Manufactured Gas Production | 710-742 | 0 | | 0 | 0 | 0 |
| 2. Other Gas Supply Expenses | | | | | | |
| Natural Gas City Gate Purchases | 804 | 0 | None | 0 | 0 | 0 |
| Other Natural Gas Purchases | 805 | 0 | None | 0 | 0 | 0 |
| Natural Gas W/D from Storage- Gas Repoi | 808 | 0 | None | 0 | 0 | 0 |
| Gas Used for Other Util Operations | 812 | 0 | None | 0 | 0 | 0 |
| LNG Operating Expenses | 813 | 0 | None | 0 | 0 | 0 |
| Subtotal - PRODUCTION EXPENSES | 710-813 | 0 | | 0 | 0 | 0 |
| B. NATURAL GAS STORAGE, TERMINAL | | | | | | |
| Energy Trading & Accounting | 844 | 0 | None | 0 | 0 | 0 |
| Subtotal - NATURAL GAS STORAGE | 840-850 | 0 | | 0 | 0 | 0 |
| C. TRANSMISSION EXPENSES | 851-870 | 0 | None | 0 | 0 | 0 |
| D. DISTRIBUTION EXPENSES | | | | | | |
| Mains and Services Expenses | 874 | 168,919 | MAIN&SERVICE | 24,850 | 0 | 144,068 |
| Perf Distrib Main Locates | 874 | 274,398 | MAINS | 63,803 | 0 | 210,595 |
| Routine Leak Surv Mains & SVCS | 874 | 72,227 | MAIN&SERVICE | 10,626 | 0 | 61,602 |
| Meas. & Reg. Station Expense General | 875 | 110,946 | DEMAND | 110,946 | 0 | 0 |
| Meas. & Reg. Station Expense Industrial | 876 | 0 | DEMAND | 0 | 0 | 0 |
| Meas. & Reg. Station Expense Stat-City G | 877 | 28,156 | DEMAND | 28,156 | 0 | 0 |
| Meter & House Regulator Expenses | 878 | 0 | None | 0 | 0 | 0 |
| Perf Connects/Discon/Recon-Gas | 878 | 0 | None | 0 | 0 | 0 |
| Customer Install | 879 | 0 | None | 0 | 0 | 0 |
| Other expenses | 880 | 188,025 | DISTOnlyPT | 32,831 | 0 | 155,194 |
| Co Used Gas O&M Offset | 880 | 17,628 | DISTOnlyPT | 3,078 | 0 | 14,550 |
| Distribution Rents | 881 | 0 | DISTOnlyPT | 0 | 0 | 0 |
| Maint. Supervision & Engineering | 885 | 52,435 | DISTOnlyPT | 9,156 | 0 | 43,279 |
| Maint. of Mains | 887 | 450,109 | MAINS | 104,659 | 0 | 345,450 |
| PerfMaint3rdPartyDmg-UGDistGas | 887 | 7,160 | MAINS | 1,665 | 0 | 5,495 |
| Dist Maint Compr Station Equip | 888 | 133 | DEMAND | 133 | 0 | 0 |
| Maint Of Meas. & Reg. Station Expense G | 889 | 66,419 | DEMAND | 66,419 | 0 | 0 |
| Maint Of Meas. & Reg. Station Expense In | 890 | 70,803 | DEMAND | 70,803 | 0 | 0 |
| Maint Of Meas. & Reg. Station Expense St | 891 | 4,809 | DEMAND | 4,809 | 0 | 0 |

THE EMPIRE DISTRICT GAS COMPANY
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Test Year Ended Dec. 31, 2008

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|---|-----------------|-------------------------|--|--------------|-----------|-----------|
| | | | | Demand | Commodity | Customer |
| Maint. of Services | 892 | 134,957 | CUST | 0 | 0 | 134,957 |
| Maint. of Meters & House Regulators | 893 | 0 | None | 0 | 0 | 0 |
| Maintenance of Other Equipment | 894 | 168 | DISTOnlyPT | 29 | 0 | 139 |
| Blank | XXX | 0 | MAIN&SERVICE | 0 | 0 | 0 |
| Subtotal - DISTRIBUTION EXPENSES | 870-894 | 1,647,291 | | 531,963 | 0 | 1,115,328 |
| Total - OPERATION & MAINTENANCE EXPENSES | | 1,647,291 | | 531,963 | 0 | 1,115,328 |
| II. CUSTOMER ACCOUNTS EXPENSES | | | | | | |
| Customer Service - Administrative | 901 | 0 | None | 0 | 0 | 0 |
| Meter Reading Expenses | 902 | 0 | None | 0 | 0 | 0 |
| Customer Records & Collection Expense | 903 | 0 | None | 0 | 0 | 0 |
| Uncollectible Accounts | 904 | 0 | CUST | 0 | 0 | 0 |
| Write-Off- PIP | 904P | 0 | CUST | 0 | 0 | 0 |
| Miscellaneous Customer Accounts Expenses | 905 | 0 | None | 0 | 0 | 0 |
| Miscellaneous Customer Accounts Expenses | 905A | 0 | None | 0 | 0 | 0 |
| Total - CUSTOMER ACCOUNTS EXPENSES | | 0 | | 0 | 0 | 0 |
| III. CUSTOMER SERVICE & INFORMATIONAL EXPENSES | | | | | | |
| Operation Supervision | 907 | 0 | CUST | 0 | 0 | 0 |
| Customer Assist- Choice | 908C | 0 | CUST | 0 | 0 | 0 |
| Customer Assist- Other | 908 | 0 | CUST | 0 | 0 | 0 |
| Advertising & Promotion | 909 | 0 | CUST | 0 | 0 | 0 |
| Other Customer Service & Informational Expenses | 910 | 0 | CUST | 0 | 0 | 0 |
| Operations sales Expense | 911 | 0 | CUST | 0 | 0 | 0 |
| Demonstration | 912 | 0 | CUST | 0 | 0 | 0 |
| Total - CUSTOMER SERVICE & INFORMATIONAL EXPENSES | | 0 | | 0 | 0 | 0 |
| Total - CUSTOMER ACCOUNTS, SERVICE & INFORMATIONAL EXPENSES | | 0 | | 0 | 0 | 0 |
| IV. ADMINISTRATIVE & GENERAL EXPENSES | | | | | | |
| A. Labor-Related: | | | | | | |
| Administrative & General Salaries | 920 | 910,759 | DISTLABOR | 270,585 | 0 | 640,174 |
| Office Supplies & Expenses | 921 | 384,442 | DISTLABOR | 114,217 | 0 | 270,225 |
| Transfer Expenses | 922 | 0 | DISTLABOR | 0 | 0 | 0 |
| Outside Services Employed | 923 | 0 | DISTLABOR | 0 | 0 | 0 |
| Outside Services Employed | 923 | 0 | DISTLABOR | 0 | 0 | 0 |
| Injuries & Damages | 925 | 135,357 | DISTLABOR | 40,214 | 0 | 95,143 |
| Employee Pensions and Benefits | 926 | 399,146 | DISTLABOR | 118,586 | 0 | 280,561 |
| Subtotal - O&M Accounts 920-923, 926 | | 1,829,704 | | 543,601 | 0 | 1,286,102 |

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|--|-----------------|-------------------------|--|---------------|-----------|---------------|
| | | | | Demand | Commodity | Customer |
| B. Plant-Related: | | | | | | |
| Property Insurance | 924 | <u>206</u> | DISTPT | <u>36</u> | <u>0</u> | <u>170</u> |
| Subtotal - O&M Accounts 924 | | 206 | | 36 | 0 | 170 |
| C. Other-Related: | | | | | | |
| Regulatory Commission Expenses | 928 | 218,338 | DISTPT | 38,124 | 0 | 180,214 |
| Duplicate Charges Credit | 929 | (15,268) | DISTPT | (2,666) | 0 | (12,602) |
| PUCO Assessments | 408 | 0 | CUST | 0 | 0 | 0 |
| Customer Interest Expense | 431 | 61,449 | CUST | 0 | 0 | 61,449 |
| Miscellaneous General | 930 | 149,798 | DISTPT | 26,157 | 0 | 123,641 |
| Rents | 931 | 254,375 | CUST | 0 | 0 | 254,375 |
| Misc. General Plant | 935 | <u>59,322</u> | DISTLABOR | <u>17,625</u> | <u>0</u> | <u>41,698</u> |
| Subtotal - O&M Accounts 928-935 | | 728,014 | | 79,240 | 0 | 648,775 |
| Total - ADMINISTRATIVE & GENERAL EXPENSES | | 2,557,924 | | 622,877 | 0 | 1,935,047 |
| TOTAL - OPERATING EXPENSES (Excl Income Taxes) | | 4,205,215 | | 1,154,840 | 0 | 3,050,375 |
| VI. DEPRECIATION EXPENSE | | | | | | |
| Intangible Plant | 403 | 26,866 | DISTPT_INT | 4,344 | 0 | 22,522 |
| Production Plant | 403 | 0 | None | 0 | 0 | 0 |
| Local Storage Plant | 403 | 0 | None | 0 | 0 | 0 |
| Transmission Plant | 403 | 0 | None | 0 | 0 | 0 |
| Mains | 404 | 940,291 | MAINS | 218,636 | 0 | 721,655 |
| Mains- Direct | 404 | 0 | None | 0 | 0 | 0 |
| Services | 404 | 683,527 | CUST | 0 | 0 | 683,527 |
| Meters | 404 | 0 | None | 0 | 0 | 0 |
| Distr Other | 404 | 47,111 | DISTPT_xMSM | 44,713 | 0 | 2,398 |
| General Plant | 404 | 163,945 | DISTLABOR | 48,708 | 0 | 115,237 |
| Rent from Gas Ppty / Other Rev | 404 | 609,592 | DISTPT | 106,442 | 0 | 503,150 |
| Adjustments | | <u>0</u> | DISTPT | <u>0</u> | <u>0</u> | <u>0</u> |
| Total - DEPRECIATION EXPENSE | 403 | 2,471,331 | | 422,843 | 0 | 2,048,488 |
| VII. TAXES OTHER THAN INCOME TAXE | | | | | | |
| A. General Taxes | | | | | | |
| Property Tax- Plant | | 498,061 | DISTPT | 86,967 | 0 | 411,093 |
| Distribution Tax | | 0 | None | 0 | 0 | 0 |
| Payroll related | | 6,337 | DISTLABOR | 1,883 | 0 | 4,454 |
| Other taxes | | 32,559 | DISTPT | 5,685 | 0 | 26,874 |

THE EMPIRE DISTRICT GAS COMPANY
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Test Year Ended Dec. 31, 2008

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|--|-----------------|-------------------------|--|------------------|-----------|----------------|
| | | | | Demand | Commodity | Customer |
| Property Tax- Inventory | | <u>0</u> | COMMODITY | <u>0</u> | <u>0</u> | <u>0</u> |
| Subtotal- Taxes Other Than Income Taxes | 408 | 536,957 | | 94,535 | 0 | 442,421 |
| B. Franchise and Revenue Taxes | | | | | | |
| Gross Receipts Tax | | 0 | CUST | 0 | 0 | 0 |
| GRT- Uncoll Rider | | <u>0</u> | CUST | <u>0</u> | <u>0</u> | <u>0</u> |
| Subtotal- Franchise and Gross Receipts Taxes | | 0 | | 0 | 0 | 0 |
| C. Income Tax Expense | | | | | | |
| State Income Tax expense | | 2,649 | PreTax-DIST | (268) | 0 | 2,917 |
| Federal Income Tax Deferred | | 420,013 | RevReq_Dist | 91,277 | 0 | 328,736 |
| Federal Income Tax expense | | <u>16,858</u> | PreTax-DIST | <u>(1,707)</u> | <u>0</u> | <u>18,565</u> |
| Subtotal- Income tax expense | | 439,519 | | 89,301 | 0 | 350,218 |
| Total- TAX EXPENSE | | <u>976,476</u> | | <u>183,836</u> | <u>0</u> | <u>792,640</u> |
| TOTAL EXPENSES | | 7,653,022 | | 1,761,519 | 0 | 5,891,503 |
| V. REVENUES at Present Rates | | | | | | |
| Residential | 480-483 | 4,585,627 | RevReq_Dist | 996,541 | 0 | 3,589,086 |
| Comm - Indust Sales | 480-483 | 1,827,741 | RevReq_Dist | 397,202 | 0 | 1,430,540 |
| Comm - Indust Transport | 480-483 | 1,048,177 | RevReq_Dist | 227,788 | 0 | 820,389 |
| Forfeited Discounts Gas | 480-483 | 36,907 | RevReq_Dist | 8,021 | 0 | 28,887 |
| Returned Check Chgs Gas | 480-483 | 5,231 | RevReq_Dist | 1,137 | 0 | 4,094 |
| Reconnect Charges Gas | 480-484 | 26,380 | RevReq_Dist | 5,733 | 0 | 20,647 |
| Tax Remuneration Gas | 480-485 | 11,733 | RevReq_Dist | 2,550 | 0 | 9,183 |
| Misc Revenue | 480-485 | 0 | CUST | 0 | 0 | 0 |
| Gas Revenue | 480-483 | 0 | RevReq_Dist | 0 | 0 | 0 |
| Rent from Gas Ppty / Other Rev | 495 | <u>0</u> | DISTPT | <u>0</u> | <u>0</u> | <u>0</u> |
| Subtotal Gas Revenues, net | | 7,541,796 | | 1,638,971 | 0 | 5,902,825 |
| Non-Operating Income | 418-421 | 0 | None | 0 | 0 | 0 |
| Non-Operating Income | 426 | <u>0</u> | None | <u>0</u> | <u>0</u> | <u>0</u> |
| Total Non-Oper Income | | 0 | | 0 | 0 | 0 |
| Total Revenue | | 7,541,796 | | 1,638,971 | 0 | 5,902,825 |
| Total Expenses | | 7,653,022 | | 1,761,519 | 0 | 5,891,503 |
| NET INCOME at Present Rates | | <u>(111,226)</u> | | <u>(122,548)</u> | <u>0</u> | <u>11,321</u> |