

LAW OFFICES

HAWKINS, BRYDON & SWEARENGEN

PROFESSIONAL CORPORATION

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December 15, 1986

Mr. Harvey G. Hubbs
Secretary
Missouri Public Service Commission
P. O. Box 360
Jefferson City, Missouri 65102

Re: Docket No. AO-87-48

Dear Mr. Hubbs:

Enclosed for filing please find three copies of the response of The Empire District Electric Company as directed by the order of the Missouri Public Service Commission issued in the referenced docket on November 3, 1986.

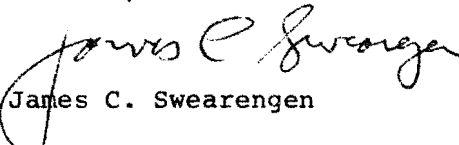
Please enter the appearance of the undersigned as counsel for The Empire District Electric Company in this docket.

Thank you very much.

Very truly yours,

HAWKINS, BRYDON & SWEARENGEN P. C.

By:


James C. Swearengen

JCS/rg
Enclosures

cc: Office of Public Counsel
Mr. Myron McKinney

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DEC 15 1986

PUBLIC SERVICE COMMISSION

THE EMPIRE DISTRICT ELECTRIC COMPANY
JOPLIN, MISSOURI 64801

MYRON MCKINNEY
VICE PRESIDENT
CUSTOMER SERVICES

December 15, 1986

602 JOPLIN STREET
(417) 623-4700

Missouri Public Service Commission
Mr. Harvey Hubbs, Secretary
P.O. Box 360
Jefferson City, MO 65102

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PUBLIC SERVICE COMMISSION

Dear Mr. Hubbs:

Enclosed please find The Empire District Electric Company's December 15, 1986 response to the order of the Missouri Public Service Commission in Case No. AO-87-48. Included please find three sets of information for both Missouri jurisdictional electric operations and water operations. The sets reflect: 1) tax law in effect in 1986; 2) tax law in effect in 1987; and 3) tax law subsequent to 1987. Each set contains:

- Schedule 1 - Missouri Jurisdictional Rate Base and Revenue Requirement
- Schedule 2 - Capital Structure
- Schedule 3 - Missouri Jurisdictional Operating Income Statement
- Schedule 4 - Income Tax Calculation
- Schedule 5 - Excess Deferred Tax Reserves

The information provided is based on Empire's current understanding of the impact of the Tax Reform Act of 1986 on the Company. The Act is a very complex piece of legislation, and Empire believes the full impact will not be known for quite some time.

Empire's initial assessment of the Act indicates that while tax expense may be reduced in the near-term, the long-term impact will be a negative influence on the Company's financial stability. Certain provisions of the Act, including the repeal of the investment tax credit, the lengthening of depreciable property lives, capitalization of certain overhead costs, and a lower rate applied to tax deferrals, will significantly reduce cash flow, resulting in an increased need for external financing. The future prospect during heavy construction years of half of AFUDC being included in taxable income under minimum tax provisions adds to Empire's cash flow concerns. Additionally, any revenue reductions to reflect the impact of the tax rate change will lower pre-tax interest coverages, potentially increasing the cost of external financing.

Empire has a history of rate stability and dependability in dealing with its customers. The long-term interest of Empire's customers is not served by an attempt to adjust rates based on one element of cost of service in reaction to an as yet not-fully-understood change in tax law. It is possible that Congress, in an attempt to deal with budget deficits, may amend the Act and, in fact, the 34% corporate tax rate may never become a reality. The above-mentioned negative effects of the Act will most certainly increase the need and cost of external financing and, combined with possible subsequent tax rate increases, will put upward pressure on Empire's service rates.

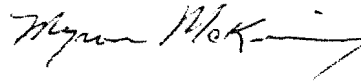
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Missouri Public Service Commission
Case No. AO-87-42
December 15, 1986
Page 2

In addition, Empire believes that consideration of excess previously flowed-through tax benefits should be included in the investigation of excess deferred tax reserves. A preliminary analysis indicates that in Empire's situation the amount of these unfunded tax items significantly exceeds the excess deferred tax reserves.

After considering the revenue requirements indicated in the attached schedules, prohibitions against one-issue ratemaking, the uncertainty surrounding the Act and the negative long-term impact of the Act on Empire, the Company does not believe a change in jurisdictional electric or water rate levels is appropriate at this time. In addition, appropriate procedures are in place under current Public Service Commission law to deal with the effects of the Act, and, accordingly, Empire does not suggest alternatives.

Yours truly,

A handwritten signature in dark ink, appearing to read "M. W. McKinney", is written over the typed name.

M. W. McKinney
pas

THE EMPIRE DISTRICT ELECTRIC COMPANY

Rate Base and Rate of Return
December 31, 1985
Tax Law in Effect in 1988

Schedule J
54% Tax Rate

Missouri
Water
Jurisdictional

1. Water Plant in Service	\$2,430,871
Less:	
2. Reserve for Depreciation	958,563
3. Net Water Plant in Service	1,472,308
4. Materials and Supplies (13-Month Average)	26,681
Less:	
5. Deferred Income Taxes - Liberalized Depreciation	106,991
6. Customer Advances for Construction	22,516
7. Total Original Cost Rate Base	\$1,368,482
Net Water Operating Income Before	
8. Effect of Proposed Increase	\$83,728
Indicated Rate of Return Before	
9. Proposed Increase	6.11%
10. Proposed Increase (After Taxes)	\$57,329
Net Water Operating Income After	
11. Effect of Proposed Increase	\$141,057
Indicated Rate of Return After	
12. Effect of Proposed Increase	10.30%
13. Income Tax Factor	1.5678
14. Gross Revenue Deficit	\$89,880

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PUBLIC SERVICE COMMISSION

THE EMPIRE DISTRICT ELECTRIC COMPANY

Schedule 2
34% Tax RateCapital Structure
December 31, 1985
Tax Law in Effect in 1988

	A	B	C	D
	Amount Outstanding	% of Total	Cost Rate	Weighted Return on Tariffs File
1. First Mortgage Bonds	\$90,125,162	43.35	8.54%	3.70%
2. Preferred Stock	20,758,257	9.98	7.74%	0.77%
3. Common Equity	97,039,946	46.67	12.50%	5.83%
4. Total	\$207,923,365	100.00		10.30%

THE EMPIRE DISTRICT ELECTRIC COMPANY

Schedule 3
342 Tax RateTest Year Utility Operating Income
Statements Adjusted for Changes
Based on Tax Law in Effect in 1988

Twelve Months Ended December 31, 1985

Account		Missouri
Number	Name	Water Jurisdictional
Water Utility Operating Revenues:		
460	Unmetered Sales - Commercial	2,309
461.1	Metered Sales - Residential	396,996
461.2	Metered Sales - Commercial	106,581
461.3	Metered Sales - Industrial	43,249
464	Other Sales to Public Authorities	6,482
467	Interdepartmental Sales	585
Total Water Operating Revenues		556,122
Water Utility Operating Expenses:		
401-2	Source of Supply Expenses	20,072
401-2	Pumping Expenses	85,776
401-2	Water Treatment Expenses	2,301
401-2	Transmission and Distribution Expenses	175,308
401-2	Customer Accounts Expenses	46,794
401-2	Administrative and General Expenses	29,037
403	Depreciation	59,205
408.1	Taxes Other Than Income Taxes	27,644
Total Expenses Before Income Taxes		446,139
Net Water Utility Operating Income		
Before Taxes - Unadjusted		109,983
Provision for Income Taxes: *		
409.1	Income Taxes - Federal	19,722
409.1	Income Taxes - State	2,015
410.1	Provision for Deferred Income Taxes	6,529
411.4	Investment Tax Credit Adjustment - Net	(2,011)
Total Provision for Income Taxes		26,255
Net Water Utility Operating Income		\$83,728

*Calculation method consistent with last Commission Rate Order

SCHEDULE 4

Page 1

YEAR IN WHICH
LAW IS IN EFFECT
1988

Income from Operations 109,983

ADD:

Rook Depreciation 59,205
Unbilled Revenue Phase-in 6,750
Interest Capitalized (Tax) 2,088
Total Additions 68,043

LESS:

Interest Synchronization 50,671
Tax Depreciation - Excess of SL 28,599
Tax Straight-Line Depreciation 38,736
Total Deductions 118,006

NET TAXABLE INCOME 60,020

FEDERAL INCOME TAX PROVISION:

Net Taxable Income (Above) 60,020
Less Missouri Income Tax (Below) 2,015
Federal Taxable Income 58,005

FEDERAL INCOME TAX 19,722
LESS CURRENT ITC (Incl. Paysop) 0
PLUS ITC RECAPTURE 0
PROVISION FOR CURRENT FEDERAL INCOME TAX 19,722

MISSOURI INCOME TAX CALCULATION:

Net Taxable Income (Above) 60,020
Less Current Federal Income Tax (Above) 19,722
Missouri Taxable Income 40,298

PROVISION FOR CURRENT MISSOURI INCOME TAX 2,015

TOTAL CURRENT TAX LIABILITY 21,737

DEFERRED TAX CALCULATION:

INVESTMENT CREDIT -

Current Earned Investment Credit 0
PAYSOP 0
Less Investment Credit Amortized (2,011)
NET INVESTMENT CREDIT (2,011)

OTHER DEFERRED ITEMS -

Tax Depreciation in excess of SL 9,724
Excess deferred tax amortization - depreciation (900)
Unbilled revenues (2,295)
NET OTHER DEFERRED TAX 6,529

TOTAL DEFERRED TAX (Incl. ITC) 4,518

TOTAL INCOME TAX PROVISION 26,255

DEFERRED FEDERAL INCOME TAX SUMMARY

	Latest Computation of Deferred Tax Balance 12-31-85*	Calculated 1985 Deferred Inc. Tax (Excl. Amort. of Excess Deferred Taxes)		Calculated Excess Deferred Tax Amortization		Excess Deferred Tax Balance (After 1985 Amort. of Excess Deferred Taxes)	
		40%	34%	40%	34%	40%	34%
WATER UTILITY:							
L.D. (1954-1960)	15,072.84	(1,225.63)	(1,041.78)	(461.26)	(645.12)	3,954.36	5,622.13
L.D. (1961-1970)	35,100.38	(611.96)	(520.15)	(163.37)	(255.17)	6,726.00	10,982.14
A.S.R. (1971-1980)	94,294.73	6,239.82	5,303.84	-0-	-0-	13,138.66	24,567.63
ACRS (1981-1983)	15,989.03	2,918.30	2,480.55	-0-	-0-	2,085.53	4,171.05
ACRS (1984)	4,205.50	2,343.08	1,991.62	-0-	-0-	351.46	702.92
ACRS (1985)	1,759.69	1,530.17	1,300.64	-0-	-0-	229.52	459.05
TOTAL WATER	166,422.17	11,193.78	9,514.72	(624.63)	(900.29)	26,485.53	46,504.92
ELECTRIC UTILITY:							
L.D. (1961-1970)	3,717,774.20	(148,733.81)	(126,423.74)	(34,440.28)	(56,750.34)	694,379.23	1,147,888.50
L.D. (1954-1960)	709,755.57	(3,676.98)	(3,125.42)	(4,628.34)	(6,514.38)	209,499.00	283,002.75
Structures (1961-1970)	26,969.25	(409.25)	(347.86)	(95.62)	(156.39)	5,167.38	8,437.64
Structures (1954-1960)	19,566.14	(1,096.84)	(932.30)	(585.35)	(721.98)	5,732.13	7,477.37
Production (Excluding Hydro) (1971-1980)	8,108,153.82	557,679.15	474,027.28	(1,253.13)	(2,506.25)	1,010,022.47	1,977,101.43
Hydro & T&D (1971-1980)	8,009,683.75	530,404.66	450,843.95	-0-	-0-	1,069,327.27	2,018,885.97
CF&F & Structures (1971-1980)	134,544.29	(1,694.82)	(1,440.56)	(944.29)	(1,723.82)	17,779.74	34,690.32
ACRS (1981-1983)	5,738,734.24	1,025,885.10	872,002.34	(2,932.09)	(8,333.29)	745,598.46	1,488,727.82
ACRS (1984)	1,020,864.64	557,829.18	474,154.81	-0-	-0-	133,156.26	266,312.51
Light Structures (1979 and 1980)	12,579.31	841.92	715.63	-0-	-0-	1,640.78	3,281.56
ACRS (1985)	284,430.90	247,331.22	210,231.53	-0-	-0-	37,099.68	74,199.37
Heavy Truck & CE (1980)	20,296.60	(29,010.44)	(24,658.88)	(4,351.57)	(8,703.13)	2,647.38	5,294.77
Heavy Truck & CE (1979)	-0-	(8,928.36)	(7,589.10)	(1,339.25)	(2,678.51)	-0-	-0-
TOTAL ELECTRIC	27,803,352.71	2,726,420.73	2,317,457.68	(50,569.92)	(88,088.09)	3,932,049.78	7,315,300.01
TOTAL OTHER (See Worksheet)	1,064,499.00					199,602.00	399,206.00
TOTAL COMPANY	29,034,273.88					4,158,137.31	7,761,010.93

*We have a classification difference between
Water and Electric deferred taxes of approximately \$50,000.

CALCUALTION OF EXCESS DFIT ABOVE 40% and 34%
FOR ITEMS OTHER THAN DEPRECIATION

	Reserve Balances 12-31-85	Federal Income Tax Rate	Excess DFIT above	
			Percentages After 1985 Entries 40%	34%
A.A. - #8	33,210	46+%	-----*	-----*
A.A. - Rocketdyne	20,279	46+%	2,645	5,290
A.A. - Riverton, PC Equipment	802,619	46%	104,689	209,379
A.A. - Asbury, PC Equipment	720,370	46%	93,961	187,923
Asbury - Maintenance	25,730	46%	3,356	6,712
Provision for Rate Refund	(499,000)	46%	-----*	-----*
Licensed Software	(38,709)	46%	<u>(5,049)</u>	<u>(10,098)</u>
Total	<u>1,064,499</u>		<u>199,602</u>	<u>399,206</u>

* Fully amortized in 1986

THE EMPIRE DISTRICT ELECTRIC COMPANY

Rate Base and Rate of Return
December 31, 1985
Tax Law in Effect in 1986

Schedule 1
46% Tax Rate

Missouri
Water
Jurisdictional

1. Water Plant in Service	\$2,430,871
Less:	
2. Reserve for Depreciation	958,563
3. Net Water Plant in Service	1,472,308
4. Materials and Supplies (13-Month Average)	26,681
Less:	
5. Deferred Income Taxes - Liberalized Depreciation	112,227
6. Customer Advances for Construction	22,516
7. Total Original Cost Rate Base	\$1,364,246
Net Water Operating Income Before 8. Effect of Proposed Increase	\$77,063
Indicated Rate of Return Before 9. Proposed Increase	5.65%
10. Proposed Increase (After Taxes)	\$63,454
Net Water Operating Income After 11. Effect of Proposed Increase	\$140,517
Indicated Rate of Return After 12. Effect of Proposed Increase	10.30%
13. Income Tax Factor	1.9045
14. Gross Revenue Deficit	\$120,849

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PUBLIC SERVICE COMMISSION

THE EMPIRE DISTRICT ELECTRIC COMPANY

Schedule 2
46% Tax RateCapital Structure
December 31, 1985
Tax Law in Effect in 1986

	A	B	C	D
	Amount Outstanding	% of Total	Cost Rate	Weighted Return on Tariffs File
1. First Mortgage Bonds	\$90,125,162	43.35	8.54%	3.70%
2. Preferred Stock	20,758,257	9.98	7.74%	0.77%
3. Common Equity	97,039,946	46.67	12.50%	5.83%
4. Total	\$207,923,365	100.00		10.30%

THE EMPIRE DISTRICT ELECTRIC COMPANY

Schedule J
46% Tax RateTest Year Utility Operating Income
Statements Adjusted for Changes
Based on Tax Law in Effect in 1966

Twelve Months Ended December 31, 1985

Account		Missouri
Number	Name	Water Jurisdictional
Water Utility Operating Revenues:		
460	Unmetered Sales - Commercial	2,309
461.1	Metered Sales - Residential	396,996
461.2	Metered Sales - Commercial	106,501
461.3	Metered Sales - Industrial	43,249
464	Other Sales to Public Authorities	6,482
467	Interdepartmental Sales	565
Total Water Operating Revenues		556,122
Water Utility Operating Expenses:		
401-2	Source of Supply Expenses	20,072
401-2	Pumping Expenses	85,778
401-2	Water Treatment Expenses	2,301
401-2	Transmission and Distribution Expenses	175,308
401-2	Customer Accounts Expenses	46,794
401-2	Administrative and General Expenses	29,037
403	Depreciation	59,205
406.1	Taxes Other Than Income Taxes	27,644
Total Expenses Before Income Taxes		446,139
Net Water Utility Operating Income Before Taxes - Unadjusted		109,983
Provision for Income Taxes: *		
409.1	Income Taxes - Federal	9,283
409.1	Income Taxes - State	1,530
410.1	Provision for Deferred Income Taxes	14,960
411.4	Investment Tax Credit Adjustment - Net	7,147
Total Provision for Income Taxes		32,920
Net Water Utility Operating Income		\$77,063

*Calculation method consistent with last Commission Rate Order

SCHEDULE 4

Page 1

YEAR IN WHICH
LAW IS IN EFFECT
1986

Income from Operations	109,983
ADD:	
Book Depreciation	59,205
Bad Debt Expense - (Book in excess of tax)	795
Total Additions	60,000
LESS:	
Interest Synchronization	50,477
Tax Depreciation - Excess of SL	32,521
Tax Straight-Line Depreciation	38,697
Payroll taxes capitalized	1,160
Other A&G and Pensions Capitalized	6,428
Injuries and Damages Capitalized	416
Dividends Paid Deduction	400
Total Deductions	130,099
NET TAXABLE INCOME	39,884
FEDERAL INCOME TAX PROVISION:	
Net Taxable Income (Above)	39,884
Less Missouri Income Tax (Below)	1,530
Federal Taxable Income	38,354
FEDERAL INCOME TAX	17,643
LESS CURRENT ITC (Incl. Paysop)	(8,360)
PLUS ITC RECAPTURE	0
PROVISION FOR CURRENT FEDERAL INCOME TAX	9,283
MISSOURI INCOME TAX CALCULATION:	
Net Taxable Income (Above)	39,884
Less Current Federal Income Tax (Above)	9,283
Missouri Taxable Income	30,601
PROVISION FOR CURRENT MISSOURI INCOME TAX	1,530
TOTAL CURRENT TAX LIABILITY	10,813
DEFERRED TAX CALCULATION:	
INVESTMENT CREDIT -	
Current Earned Investment Credit	8,360
PAYSOP	900
Less Investment Credit Amortized	(2,113)
NET INVESTMENT CREDIT	7,147
OTHER DEFERRED ITEMS -	
Tax Depreciation in excess of SL	14,960
NET OTHER DEFERRED TAX	14,960
TOTAL DEFERRED TAX (Incl. ITC)	22,107
TOTAL INCOME TAX PROVISION	32,920

DEFERRED FEDERAL INCOME TAX SUMMARY

	Latest Computation of Deferred Tax Balance 12-31-85*	Calculated 1985 Deferred Inc. Tax (Excl. Amort. of Excess Deferred Taxes)		Calculated Excess Deferred Tax Amortization		Excess Deferred Tax Balance (After 1985 Amort. of Excess Deferred Taxes)	
		40%	34%	40%	34%	40%	34%
WATER UTILITY:							
L.D. (1954-1960)	15,072.84	(1,225.63)	(1,041.78)	(461.26)	(645.12)	3,954.36	5,622.13
L.D. (1961-1970)	35,100.38	(611.96)	(520.15)	(163.37)	(255.17)	6,726.00	10,982.14
A.D.R. (1971-1980)	94,294.73	6,239.82	5,303.84	-0-	-0-	13,138.66	24,567.63
ACRS (1981-1983)	15,989.03	2,918.30	2,480.55	-0-	-0-	2,085.53	4,171.05
ACRS (1984)	4,205.50	2,343.08	1,991.62	-0-	-0-	351.46	702.92
ACRS (1985)	1,759.69	1,530.17	1,300.64	-0-	-0-	229.52	459.05
TOTAL WATER	166,422.17	11,193.78	9,514.72	(624.63)	(900.29)	26,485.53	46,504.92
ELECTRIC UTILITY:							
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L.D. (1954-1960)	709,755.57	(3,676.98)	(3,125.42)	(4,628.34)	(6,514.38)	209,499.00	283,002.75
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Structures (1954-1960)	19,566.14	(1,096.84)	(932.30)	(585.35)	(721.98)	5,732.13	7,477.37
Production (Excluding Hydro) (1971-1980)	8,108,153.82	557,679.15	474,027.28	(1,253.13)	(2,506.25)	1,010,022.47	1,977,101.43
Hydro & T&D (1971-1980)	8,009,683.75	530,404.66	450,843.95	-0-	-0-	1,069,327.27	2,018,885.97
OF&F & Structures (1971-1980)	134,544.29	(1,694.82)	(1,440.56)	(944.29)	(1,723.82)	17,779.74	34,690.32
ACRS (1981-1983)	5,738,734.24	1,025,885.10	872,002.34	(2,932.09)	(8,333.29)	745,598.46	1,488,727.82
ACRS (1984)	1,020,864.64	557,829.18	474,154.81	-0-	-0-	133,156.26	266,312.51
Intan Structures (1979 and 1980)	12,579.31	841.92	715.63	-0-	-0-	1,640.78	3,281.56
ACRS (1985)	284,430.90	247,331.22	210,231.53	-0-	-0-	37,099.68	74,199.37
Heavy Truck & CE (1980)	20,296.60	(29,010.44)	(24,658.88)	(4,351.57)	(8,703.13)	2,647.38	5,294.77
Heavy Truck & CE (1979)	-0-	(8,928.36)	(7,589.10)	(1,339.25)	(2,678.51)	-0-	-0-
TOTAL ELECTRIC	27,803,352.71	2,726,420.73	2,317,457.68	(50,569.92)	(88,088.09)	3,932,049.78	7,315,300.01
TOTAL OTHER (See Worksheet)	1,064,499.00					199,602.00	399,206.00
TOTAL COMPANY	29,034,273.88					4,158,137.31	7,761,010.93

*We have a classification difference between
Water and Electric deferred taxes of approximately \$50,000.

CALCULATION OF EXCESS DFIT ABOVE 40% and 34%
FOR ITEMS OTHER THAN DEPRECIATION

	Reserve Balances 12-31-85	Federal Income Tax Rate	Excess DFIT above Percentages After 1985 Entries	
			40%	34%
A.A. - #8	33,210	46+%	-----*	-----*
A.A. - Rocketdyne	20,279	46+%	2,645	5,290
A.A. - Riverton, PC Equipment	802,619	46%	104,689	209,379
A.A. - Asbury, PC Equipment	720,370	46%	93,961	187,923
Asbury - Maintenance	25,730	46%	3,356	6,712
Provision for Rate Refund	(499,000)	46%	-----*	-----*
Licensed Software	(38,709)	46%	<u>(5,049)</u>	<u>(10,098)</u>
Total	<u>1,064,499</u>		<u>199,602</u>	<u>399,206</u>

* Fully amortized in 1986

THE EMPIRE DISTRICT ELECTRIC COMPANY

Rate Base and Rate of Return
December 31, 1985
Tax Law in Effect in 1988

Schedule 1
34% Tax Rate

Missouri
Electric
Jurisdictional

1.	Electric Plant in Service	\$270,616,208
	Less:	
2.	Reserve for Depreciation	90,060,955
3.	Net Electric Plant in Service	180,555,253
4.	Materials and Supplies	7,622,493
5.	Prepayments	271,201
	Less:	
	Deferred Income Taxes -	
6.	Liberalized Depreciation	23,083,859
7.	Investment Tax Credit - Pre-1971	507,463
8.	Customer Deposits	1,245,054
9.	Total Original Cost Rate Base	\$163,612,571
	Net Electric Operating Income Before	
10.	Effect of Proposed Increase	\$19,714,553
	Indicated Rate of Return Before	
11.	Proposed Increase	12.05%
12.	Proposed Increase (After Taxes)	(\$931,830)
	Net Electric Operating Income After	
13.	Effect of Proposed Increase	\$18,782,723
	Indicated Rate of Return After	
14.	Effect of Proposed Increase	11.48%
15.	Income Tax Factor	1.5678
16.	Gross Revenue Surplus	(\$1,460,923)

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PUBLIC SERVICE COMMISSION

THE EMPIRE DISTRICT ELECTRIC COMPANY

Schedule 2
34% Tax Rate

Capital Structure
December 31, 1985
Tax Law in Effect in 1988

	A	B	C	D
	Amount Outstanding	% of Total	Cost Rate	Weighted Return on Tariffs File
1. First Mortgage Bonds	\$90,125,162	43.35	8.54%	3.70%
2. Preferred Stock	20,758,257	9.98	7.74%	0.77%
3. Common Equity	97,039,946	46.67	15.03%	7.01%
4. Total	\$207,923,365	100.00		11.48%

THE EMPIRE DISTRICT ELECTRIC COMPANY

Schedule J
34% Tax RateTest Year Utility Operating Income
Statements Adjusted for Changes
Based on Tax Law in Effect in 1988

Twelve Months Ended December 31, 1985

Number	Account Name	Missouri Electric Jurisdictional
	Electric Utility Operating Revenues:	
440	Residential	\$41,191,771
442.1	Commercial	27,414,454
442.2-6	Industrial	22,338,365
444	Public Street and Highway Lighting	723,741
445	Other Sales to Public Authorities	1,094,421
448	Interdepartmental	59,891
447.2,4	Sales for Resale - On-System	
447.1,3	Sales for Resale - Off-System	10,267,269
	Total Sales of Electricity	103,089,912
449.1	Less Provision for Rate Refund	593,469
	Total Revenues Net of Prov. for Rate Refund	102,496,443
450-456	Other Electric Operating Revenues	1,270,472
	Total Electric Operating Revenues	103,766,915
	Electric Utility Operating Expenses:	
401-2	Production	45,907,461
401-2	Transmission	1,988,107
401-2	Distribution	5,447,120
401-2	Customer Accounts	3,077,304
401-2	Customer Assistance	848,179
401-2	Sales	249,164
401-2	Administrative and General	5,956,387
403	Depreciation	8,148,390
408.1	Taxes Other Than Income Taxes	5,951,707
	Total Expenses Before Income Taxes	76,673,819
	Net Electric Utility Operating Income Before Taxes - Unadjusted	27,093,096
	Provision for Income Taxes: *	
409.1	Income Taxes - Federal	6,027,241
409.1	Income Taxes - State	614,898
410.1	Provision for Deferred Income Taxes	1,580,336
411.1	Provision for Deferred Income Taxes - Cr.	(392,041)
411.4	Investment Tax Credit Adjustment - Net	(451,891)
	Total Provision for Income Taxes	7,378,543
	Net Electric Utility Operating Income	21,414,553

* Calculation method consistent with last Commission Rate order

SCHEDULE 4

Page 1

**YEAR IN WHICH
LAW IS IN EFFECT
1988**

Income from Operations 27,093,096

ADD:

Book Depreciation	8,148,390
Rate Case Expenses	22,451
Unbilled Revenue Phase-in	980,617
Bad Debts Phase-in	65,778
Bad Debt Expense - (Book in excess of tax)	0
Interest Capitalized (Tax)	484,582
Contributions in Aid Capitalized (Tax)	309,475
Non-deductible expenses	106,916
Licensed Software	69,961
Asbury Maintenance	110,760
Bonded Revenues	507,616
Interest on Bonded Revenues	63,522
Total Additions	10,870,068

LESS:

Interest Synchronization	6,053,665
Tax Depreciation - Excess of SL	5,721,701
Tax Straight-Line Depreciation	7,369,608
Payroll taxes capitalized	0
Other A&G and Pensions Capitalized	0
Capitalized Book Interest	411,854
Injuries and Damages Capitalized	0
Dividends Paid Deduction	66,786
Miscellaneous	14,346
Total Deductions	19,637,960

NET TAXABLE INCOME 18,325,204

FEDERAL INCOME TAX PROVISION:

Net Taxable Income (Above)	18,325,204
Less Missouri Income Tax (Below)	614,898
Federal Taxable Income	17,710,306

FEDERAL INCOME TAX	6,021,504
LESS CURRENT ITC (Incl. Paysop)	0
PLUS ITC RECAPTURE	5,737
PROVISION FOR CURRENT FEDERAL INCOME TAX	6,027,241

MISSOURI INCOME TAX CALCULATION:

Net Taxable Income (Above)	18,325,204
Less Current Federal Income Tax (Above)	6,027,241
Missouri Taxable Income	12,297,963

PROVISION FOR CURRENT MISSOURI INCOME TAX	614,898
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TOTAL CURRENT TAX LIABILITY	6,642,139
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YEAR IN WHICH
LAW IS IN EFFECT
1988

DEFERRED TAX CALCULATION:

INVESTMENT CREDIT -

Current Earned Investment Credit	0
PAYSOP	0
Less Investment Credit Amortized	(451,891)
NET INVESTMENT CREDIT	(451,891)

OTHER DEFERRED ITEMS -

Tax Depreciation in excess of SL	1,975,645
Accelerated Amortization	(89,114)
Asbury maintenance	(37,658)
Licensed software	(23,787)
Excess deferred tax amortization - depreciation	(73,235)
Excess deferred tax amortization - A.A.	(22,668)
Excess deferred tax amortization - Other	(13,291)
Bonded Revenues	(172,589)
Interest on bonded revenues	(21,598)
Unbilled revenues	(333,410)

NET OTHER DEFERRED TAX	1,188,295
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TOTAL DEFERRED TAX (Incl. ITC)	736,404
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TOTAL INCOME TAX PROVISION	7,378,543
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DEFERRED FEDERAL INCOME TAX SUMMARY

	Latest Computation of Deferred Tax Balance 12-31-85*	Calculated 1985 Deferred Inc. Tax (Excl. Amort. of Excess Deferred Taxes)		Calculated Excess Deferred Tax Amortization		Excess Deferred Tax Balance (After 1985 Amort. of Excess Deferred Taxes)	
		40%	34%	40%	34%	40%	34%
WATER UTILITY:							
L.D. (1954-1960)	15,072.84	(1,225.63)	(1,041.78)	(461.26)	(645.12)	3,954.36	5,622.13
L.D. (1961-1970)	35,100.38	(611.96)	(520.15)	(163.37)	(255.17)	6,726.00	10,982.14
A.D.R. (1971-1980)	94,294.73	6,239.82	5,303.84	-0-	-0-	13,138.66	24,567.63
ACRS (1981-1983)	15,989.03	2,918.30	2,480.55	-0-	-0-	2,085.53	4,171.05
ACRS (1984)	4,205.50	2,343.08	1,991.62	-0-	-0-	351.46	702.92
ACRS (1985)	1,759.69	1,530.17	1,300.64	-0-	-0-	229.52	459.05
TOTAL WATER	166,422.17	11,193.78	9,514.72	(624.63)	(900.29)	26,485.53	46,504.92
ELECTRIC UTILITY:							
L.D. (1961-1970)	3,717,774.20	(148,733.81)	(126,423.74)	(34,440.28)	(56,750.34)	694,379.23	1,147,888.50
L.D. (1954-1960)	709,755.57	(3,676.98)	(3,125.42)	(4,628.34)	(6,514.38)	209,499.00	283,002.75
Structures (1961-1970)	26,969.25	(409.25)	(347.86)	(95.62)	(156.39)	5,167.38	8,437.64
Structures (1954-1960)	19,566.14	(1,096.84)	(932.30)	(585.35)	(721.98)	5,732.13	7,477.37
Production (Excluding Hydro) (1971-1980)	8,108,153.82	557,679.15	474,027.28	(1,253.13)	(2,506.25)	1,010,022.47	1,977,101.43
Hydro & T&D (1971-1980)	8,009,683.75	530,404.66	450,843.95	-0-	-0-	1,069,327.27	2,018,885.97
OF&F & Structures (1971-1980)	134,544.29	(1,694.82)	(1,440.56)	(944.29)	(1,723.82)	17,779.74	34,690.32
ACRS (1981-1983)	5,738,734.24	1,025,885.10	872,002.34	(2,932.09)	(8,333.29)	745,598.46	1,488,727.82
ACRS (1984)	1,020,864.64	557,829.13	474,154.81	-0-	-0-	133,156.26	266,312.51
Latan Structures (1979 and 1980)	12,579.31	841.92	715.63	-0-	-0-	1,640.78	3,281.56
ACRS (1985)	284,430.90	247,331.22	210,231.53	-0-	-0-	37,099.68	74,199.37
Heavy Truck & CE (1980)	20,296.60	(29,010.44)	(24,658.88)	(4,351.57)	(8,703.13)	2,647.38	5,294.77
Heavy Truck & CE (1979)	-0-	(8,928.36)	(7,589.10)	(1,339.25)	(2,678.51)	-0-	-0-
TOTAL ELECTRIC	27,803,352.71	2,726,420.73	2,317,457.68	(50,569.92)	(88,088.09)	3,932,049.78	7,315,300.01
TOTAL OTHER (See Worksheet)	1,064,499.00					199,602.00	399,206.00
TOTAL COMPANY	29,034,273.88					4,158,137.31	7,761,010.93

*We have a classification difference between
Water and Electric deferred taxes of approximately \$50,000.

CALCULATION OF EXCESS DFIT ABOVE 40% and 34%
FOR ITEMS OTHER THAN DEPRECIATION

	Reserve Balances 12-31-85	Federal Income Tax Rate	Excess DFIT above Percentages After 1985 Entries	
			40%	34%
A.A. - #8	33,210	46+%	-----*	-----*
A.A. - Rocketdyne	20,279	46+%	2,645	5,290
A.A. - Riverton, PC Equipment	802,619	46%	104,689	209,379
A.A. - Asbury, PC Equipment	720,370	46%	93,961	187,923
Asbury - Maintenance	25,730	46%	3,356	6,712
Provision for Rate Refund	(499,000)	46%	-----*	-----*
Licensed Software	(38,709)	46%	<u>(5,049)</u>	<u>(10,098)</u>
Total	<u>1,064,499</u>		<u>199,602</u>	<u>399,206</u>

* Fully amortized in 1986

THE EMPIRE DISTRICT ELECTRIC COMPANY

Rate Base and Rate of Return
December 31, 1985
Tax Law in Effect in 1987

Schedule 1
40% Tax Rate

Missouri
Water
Jurisdictional

1. Water Plant in Service	\$2,430,871
Less:	
2. Reserve for Depreciation	958,563
3. Net Water Plant in Service	1,472,308
4. Materials and Supplies (13-Month Average)	26,681
Less:	
5. Deferred Income Taxes - Liberalized Depreciation	108,707
6. Customer Advances for Construction	22,516
7. Total Original Cost Rate Base	\$1,367,766
Net Water Operating Income Before	
8. Effect of Proposed Increase	\$78,742
Indicated Rate of Return Before	
9. Proposed Increase	5.76%
10. Proposed Increase (After Taxes)	\$62,138
Net Water Operating Income After	
11. Effect of Proposed Increase	\$140,880
Indicated Rate of Return After	
12. Effect of Proposed Increase	10.30%
13. Income Tax Factor	1.7193
14. Gross Revenue Deficit	\$106,834

FILED

DEC 15 1985

PUBLIC SERVICE COMMISSION

THE EMPIRE DISTRICT ELECTRIC COMPANY

Schedule 2
40% Tax RateCapital Structure
December 31, 1985
Tax Law in Effect in 1987

	A	B	C	D
	Amount Outstanding	% of Total	Cost Rate	Weighted Return on Tariffs File
1. First Mortgage Bonds	\$90,125,162	43.35	8.54%	3.70%
2. Preferred Stock	20,758,257	9.98	7.74%	0.77%
3. Common Equity	97,039,946	46.67	12.50%	5.83%
4. Total	\$207,923,365	100.00		10.36%

THE EMPIRE DISTRICT ELECTRIC COMPANY

Schedule 3
40% Tax RateTest Year Utility Operating Income
Statements Adjusted for Changes
Based on Tax Law in Effect in 1987

Twelve Months Ended December 31, 1985

Account		Missouri
Number	Name	Water Jurisdictional
Water Utility Operating Revenues:		
460	Unmetered Sales - Commercial	2,309
461.1	Metered Sales - Residential	396,996
461.2	Metered Sales - Commercial	106,501
461.3	Metered Sales - Industrial	43,249
464	Other Sales to Public Authorities	6,482
467	Interdepartmental Sales	585
Total Water Operating Revenues		556,122
Water Utility Operating Expenses:		
401-2	Source of Supply Expenses	20,072
401-2	Pumping Expenses	85,778
401-2	Water Treatment Expenses	2,301
401-2	Transmission and Distribution Expenses	175,308
401-2	Customer Accounts Expenses	46,794
401-2	Administrative and General Expenses	29,037
403	Depreciation	59,205
408.1	Taxes Other Than Income Taxes	27,644
Total Expenses Before Income Taxes		446,139
Net Water Utility Operating Income Before Taxes - Unadjusted		109,983
Provision for Income Taxes: *		
409.1	Income Taxes - Federal	23,298
409.1	Income Taxes - State	1,839
410.1	Provision for Deferred Income Taxes	8,115
411.4	Investment Tax Credit Adjustment - Net	(2,011)
Total Provision for Income Taxes		31,241
Net Water Utility Operating Income		\$78,742

*Calculation method consistent with last Commission Rate Order

SCHEDULE 4

Page 1

YEAR IN WHICH
LAW IS IN EFFECT
1987

Income from Operations 109,983

ADD:

Book Depreciation 59,205
Unbilled Revenue Phase-in 6,750
Interest Capitalized (Tax) 2,088
Total Additions 68,043

LESS:

Interest Synchronization 50,607
Tax Depreciation - Excess of SL 28,599
Tax Straight-Line Depreciation 38,736
Total Deductions 117,942

NET TAXABLE INCOME 60,084

FEDERAL INCOME TAX PROVISION:

Net Taxable Income (Above) 60,084
Less Missouri Income Tax (Below) 1,839
Federal Taxable Income 58,245

FEDERAL INCOME TAX 23,298
LESS CURRENT ITC (Incl. Paysop) 0
PLUS ITC RECAPTURE 0
PROVISION FOR CURRENT FEDERAL INCOME TAX 23,298

MISSOURI INCOME TAX CALCULATION:

Net Taxable Income (Above) 60,084
Less Current Federal Income Tax (Above) 23,298
Missouri Taxable Income 36,786

PROVISION FOR CURRENT MISSOURI INCOME TAX 1,839

TOTAL CURRENT TAX LIABILITY 25,137

DEFERRED TAX CALCULATION:

INVESTMENT CREDIT -

Current Earned Investment Credit 0
PAYSOP 0
Less Investment Credit Amortized (2,011)
NET INVESTMENT CREDIT (2,011)

OTHER DEFERRED ITEMS -

Tax Depreciation in excess of SL 11,440
Excess deferred tax amortization - depreciation (625)
Unbilled revenues (2,700)
NET OTHER DEFERRED TAX 8,115

TOTAL DEFERRED TAX (Incl. ITC) 6,104

TOTAL INCOME TAX PROVISION 31,241

DEFERRED FEDERAL INCOME TAX SUMMARY

	Latest Computation of Deferred Tax Balance 12-31-85*	Calculated 1985 Deferred Inc. Tax (Excl. Amort. of Excess Deferred Taxes)		Calculated Excess Deferred Tax Amortization		Excess Deferred Tax Balance (After 1985 Amort. of Excess Deferred Taxes)	
		40%	34%	40%	34%	40%	34%
WATER UTILITY:							
L.D. (1954-1960)	15,072.84	(1,225.63)	(1,041.78)	(461.26)	(645.12)	3,954.36	5,622.13
L.D. (1961-1970)	35,100.38	(611.96)	(520.15)	(163.37)	(255.17)	6,726.00	10,982.14
A.D.R. (1971-1980)	94,294.73	6,239.82	5,303.84	-0-	-0-	13,138.66	24,567.63
ACRS (1981-1983)	15,989.03	2,918.30	2,480.55	-0-	-0-	2,085.53	4,171.05
ACRS (1984)	4,205.50	2,343.08	1,991.62	-0-	-0-	351.46	702.92
ACRS (1985)	1,759.69	1,530.17	1,300.64	-0-	-0-	229.52	459.05
TOTAL WATER	166,422.17	11,193.78	9,514.72	(624.63)	(900.29)	26,485.53	46,504.92
ELECTRIC UTILITY:							
L.D. (1961-1970)	3,717,774.20	(148,733.81)	(126,423.74)	(34,440.28)	(56,750.34)	694,379.23	1,147,888.50
L.D. (1954-1960)	709,755.57	(3,676.98)	(3,125.42)	(4,628.34)	(6,514.38)	209,499.00	283,002.75
Structures (1961-1970)	26,969.25	(409.25)	(347.86)	(95.62)	(156.39)	5,167.38	8,437.64
Structures (1954-1960)	19,566.14	(1,096.84)	(932.30)	(585.35)	(721.98)	5,732.13	7,477.37
Production (Excluding Hydro) (1971-1980)	8,108,153.82	557,679.15	474,027.28	(1,253.13)	(2,506.25)	1,010,022.47	1,977,101.43
Hydro & T&D (1971-1980)	8,009,683.75	530,404.66	450,843.95	-0-	-0-	1,069,327.27	2,018,885.97
OF&F & Structures (1971-1980)	134,544.29	(1,694.82)	(1,440.56)	(944.29)	(1,723.82)	17,779.74	34,690.32
ACRS (1981-1983)	5,738,734.24	1,025,885.10	872,002.34	(2,932.09)	(8,333.29)	745,598.46	1,488,727.82
ACRS (1984)	1,020,864.64	557,829.18	474,154.81	-0-	-0-	133,156.26	266,312.51
Latan Structures (1979 and 1980)	12,579.31	841.92	715.63	-0-	-0-	1,640.78	3,281.56
ACRS (1985)	284,430.90	247,331.22	210,231.53	-0-	-0-	37,099.68	74,199.37
Heavy Truck & CE (1980)	20,296.60	(29,010.44)	(24,658.88)	(4,351.57)	(8,703.13)	2,647.38	5,294.77
Heavy Truck & CE (1979)	-0-	(8,928.36)	(7,589.10)	(1,339.25)	(2,678.51)	-0-	-0-
TOTAL ELECTRIC	27,803,352.71	2,726,420.73	2,317,457.68	(50,569.92)	(88,088.09)	3,932,049.78	7,315,300.01
TOTAL OTHER (See Worksheet)	1,064,499.00					199,602.00	399,206.00
TOTAL COMPANY	29,034,273.88					4,158,137.31	7,761,010.93

*We have a classification difference between
Water and Electric deferred taxes of approximately \$50,000.

CALCUALTION OF EXCESS DFIT ABOVE 40% and 34%
FOR ITEMS OTHER THAN DEPRECIATION

	Reserve Balances 12-31-85	Federal Income Tax Rate	Excess DFIT above Percentages After 1985 Entries	
			40%	34%
A.A. - #8	33,210	46+%	-----*	-----*
A.A. - Rocketdyne	20,279	46+%	2,645	5,290
A.A. - Riverton, PC Equipment	802,619	46%	104,689	209,379
A.A. - Asbury, PC Equipment	720,370	46%	93,961	187,923
Asbury - Maintenance	25,730	46%	3,356	6,712
Provision for Rate Refund	(499,000)	46%	-----*	-----*
Licensed Software	(38,709)	46%	<u>(5,049)</u>	<u>(10,098)</u>
Total	<u>1,064,499</u>		<u>199,602</u>	<u>399,206</u>

* Fully amortized in 1986

THE EMPIRE DISTRICT ELECTRIC COMPANY

Rate Base and Rate of Return
December 31, 1985
Tax Law in Effect in 1987

Schedule 1
40% Tax Rate

Missouri
Electric
Jurisdictional

1. Electric Plant in Service	\$270,616,208
Less:	
2. Reserve for Depreciation	90,060,955
3. Net Electric Plant in Service	180,555,253
4. Materials and Supplies	7,622,493
5. Prepayments	271,201
Less:	
Deferred Income Taxes -	
6. Liberalized Depreciation	23,115,051
7. Investment Tax Credit - Pre-1971	507,463
8. Customer Deposits	1,245,054
9. Total Original Cost Rate Base	\$163,581,379
Net Electric Operating Income Before Effect of Proposed Increase	\$18,401,671
Indicated Rate of Return Before Proposed Increase	11.25%
12. Proposed Increase (After Taxes)	\$377,471
Net Electric Operating Income After Effect of Proposed Increase	\$18,779,142
Indicated Rate of Return After Effect of Proposed Increase	11.48%
15. Income Tax Factor	1.7193
16. Gross Revenue Deficit	\$648,986

FILED

DEC 15 1986

PUBLIC SERVICE COMMISSION

THE EMPIRE DISTRICT ELECTRIC COMPANY

Schedule 2
40% Tax RateCapital Structure
December 31, 1985
Tax Law in Effect in 1987

	A	B	C	E
	Amount Outstanding	% of Total	Cost Rate	Weighted Return on Tariffs File
1. First Mortgage Bonds	\$90,125,162	43.35	8.54%	3.70%
2. Preferred Stock	20,758,257	9.98	7.74%	0.77%
3. Common Equity	97,039,946	46.67	15.03%	7.01%
4. Total	\$207,923,365	100.00		11.48%

THE EMPIRE DISTRICT ELECTRIC COMPANY

Schedule 3
40% Tax RateTest Year Utility Operating Income
Statements Adjusted for Changes
Based on Tax Law in Effect in 1987

Twelve Months Ended December 31, 1985

Number	Account Name	Missouri Electric Jurisdictional
	Electric Utility Operating Revenues:	
440	Residential	\$41,191,771
442.1	Commercial	27,414,454
442.2-6	Industrial	22,338,365
444	Public Street and Highway Lighting	723,741
445	Other Sales to Public Authorities	1,094,421
448	Interdepartmental	59,891
447.2,4	Sales for Resale - On-System	
447.1,3	Sales for Resale - Off-System	10,267,269
	Total Sales of Electricity	103,089,912
449.1	Less Provision for Rate Refund	593,469
	Total Revenues Net of Prov. for Rate Refund	102,496,443
450-456	Other Electric Operating Revenues	1,270,472
	Total Electric Operating Revenues	103,766,915
	Electric Utility Operating Expenses:	
401-2	Production	45,907,461
401-2	Transmission	1,988,107
401-2	Distribution	5,447,120
401-2	Customer Accounts	3,077,304
401-2	Customer Assistance	848,179
401-2	Sales	249,164
401-2	Administrative and General	5,956,387
403	Depreciation	8,148,390
408.1	Taxes Other Than Income Taxes	5,051,707
	Total Expenses Before Income Taxes	76,673,819
	Net Electric Utility Operating Income Before Taxes - Unadjusted	27,093,096
	Provision for Income Taxes: *	
409.1	Income Taxes - Federal	7,115,877
409.1	Income Taxes - State	561,025
410.1	Provision for Deferred Income Taxes	1,858,455
411.1	Provision for Deferred Income Taxes - Cr.	(392,041)
411.4	Investment Tax Credit Adjustment - Net	(451,891)
	Total Provision for Income Taxes	8,691,425
	Net Electric Utility Operating Income	\$18,401,671

* Calculation method consistent with last Commission Rate Order

YEAR IN WHICH
LAW IS IN EFFECT
1987

Income from Operations 27,093,096

ADD:

Book Depreciation	8,148,390
Rate Case Expenses	22,451
Unbilled Revenue Phase-in	980,617
Bad Debts Phase-in	65,778
Bad Debt Expense - (Book in excess of tax)	0
Interest Capitalized (Tax)	484,582
Contributions in Aid Capitalized (Tax)	309,475
Non-deductible expenses	106,916
Licensed Software	69,961
Asbury Maintenance	110,760
Bonded Revenues	507,616
Interest on Bonded Revenues	63,522
Total Additions	10,870,068

LESS:

Interest Synchronization	6,052,511
Tax Depreciation - Excess of SL	5,721,701
Tax Straight-Line Depreciation	7,369,698
Payroll taxes capitalized	0
Other A&G and Pensions Capitalized	0
Capitalized Book Interest	411,854
Injuries and Damages Capitalized	0
Dividends Paid Deduction	56,769
Miscellaneous	14,346
Total Deductions	19,626,789

NET TAXABLE INCOME 18,336,375

FEDERAL INCOME TAX PROVISION:

Net Taxable Income (Above)	18,336,375
Less Missouri Income Tax (Below)	561,025
Federal Taxable Income	17,775,350

FEDERAL INCOME TAX	7,110,140
LESS CURRENT ITC (Incl. Paysop)	0
PLUS ITC RECAPTURE	5,737
PROVISION FOR CURRENT FEDERAL INCOME TAX	7,115,877

MISSOURI INCOME TAX CALCULATION:

Net Taxable Income (Above)	18,336,375
Less Current Federal Income Tax (Above)	7,115,877
Missouri Taxable Income	11,220,498

PROVISION FOR CURRENT MISSOURI INCOME TAX	561,025
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TOTAL CURRENT TAX LIABILITY	7,676,902
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YEAR IN WHICH
LAW IS IN EFFECT
1987

DEFERRED TAX CALCULATION:

INVESTMENT CREDIT -

Current Earned Investment Credit	0
PAYSOP	0
Less Investment Credit Amortized	(451,891)
NET INVESTMENT CREDIT	(451,891)

OTHER DEFERRED ITEMS -

Tax Depreciation in excess of SL	2,324,289
Accelerated Amortization	(104,862)
Asbury maintenance	(44,304)
Licensed software	(27,984)
Excess deferred tax amortization - depreciation	(42,043)
Excess deferred tax amortization - A.A.	(11,334)
Excess deferred tax amortization - Other	(6,646)
Bonded Revenues	(203,046)
Interest on bonded revenues	(25,409)
Unbilled revenues	(392,247)

NET OTHER DEFERRED TAX	1,466,414
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TOTAL DEFERRED TAX (Incl. ITC)	1,014,523
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TOTAL INCOME TAX PROVISION	8,691,425
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DEFERRED FEDERAL INCOME TAX SUMMARY

	Latest Computation of Deferred Tax Balance 12-31-85*	Calculated 1985 Deferred Inc. Tax (Excl. Amort. of Excess Deferred Taxes)		Calculated Excess Deferred Tax Amortization		Excess Deferred Tax Balance (After 1985 Amort. of Excess Deferred Taxes)	
		40%	34%	40%	34%	40%	34%
WATER UTILITY:							
L.D. (1954-1960)	15,072.84	(1,225.63)	(1,041.78)	(461.26)	(645.12)	3,954.36	5,622.13
L.D. (1961-1970)	35,100.38	(611.96)	(520.15)	(163.37)	(255.17)	6,726.00	10,982.14
A.D.R. (1971-1980)	94,294.73	6,239.82	5,303.84	-0-	-0-	13,138.66	24,567.63
ACRS (1981-1983)	15,989.03	2,918.30	2,480.55	-0-	-0-	2,085.53	4,171.05
ACRS (1984)	4,205.50	2,343.08	1,991.62	-0-	-0-	351.46	702.92
ACRS (1985)	1,759.69	1,530.17	1,300.64	-0-	-0-	229.52	459.05
TOTAL WATER	166,422.17	11,193.78	9,514.72	(624.63)	(900.29)	26,485.53	46,504.92
ELECTRIC UTILITY:							
L.D. (1961-1970)	3,717,774.20	(148,733.81)	(126,423.74)	(34,440.28)	(56,750.34)	694,379.23	1,147,888.50
L.D. (1954-1960)	709,755.57	(3,676.98)	(3,125.42)	(4,628.34)	(6,514.38)	209,499.00	283,002.75
Structures (1961-1970)	26,969.25	(409.25)	(347.86)	(95.62)	(156.39)	5,167.38	8,437.64
Structures (1954-1960)	19,566.14	(1,096.84)	(932.30)	(585.35)	(721.98)	5,732.13	7,477.37
Production (Excluding Hydro) (1971-1980)	8,108,153.82	557,679.15	474,027.28	(1,253.13)	(2,506.25)	1,910,022.47	1,977,101.43
Hydro & T&D (1971-1980)	8,009,683.75	530,404.66	450,843.95	-0-	-0-	1,069,327.27	2,018,885.97
OP&F & Structures (1971-1980)	134,544.29	(1,694.82)	(1,440.56)	(944.29)	(1,723.82)	17,779.74	34,690.32
ACRS (1981-1983)	5,738,734.24	1,025,885.10	872,002.34	(2,932.09)	(8,333.29)	745,598.46	1,488,727.82
ACRS (1984)	1,020,864.64	557,829.18	474,154.81	-0-	-0-	133,156.26	266,312.51
Intan Structures (1979 and 1980)	12,579.31	841.92	715.63	-0-	-0-	1,640.78	3,281.56
ACRS (1985)	284,430.90	247,331.22	210,231.53	-0-	-0-	37,099.68	74,199.37
Heavy Truck & CE (1980)	20,296.60	(29,010.44)	(24,658.88)	(4,351.57)	(8,703.13)	2,647.38	5,294.77
Heavy Truck & CE (1979)	-0-	(8,928.36)	(7,589.10)	(1,339.25)	(2,678.51)	-0-	-0-
TOTAL ELECTRIC	27,803,352.71	2,726,420.73	2,317,457.68	(50,569.92)	(88,088.09)	3,932,049.78	7,315,300.01
TOTAL OTHER (See Worksheet)	1,064,499.00					199,602.00	399,206.00
TOTAL COMPANY	29,034,273.88					4,158,137.31	7,761,010.93

*We have a classification difference between
Water and Electric deferred taxes of approximately \$50,000.

CALCULATION OF EXCESS DFIT ABOVE 40% and 34%
FOR ITEMS OTHER THAN DEPRECIATION

	Reserve Balances 12-31-85	Federal Income Tax Rate	Excess DFIT above Percentages After 1985 Entries	
			40%	34%
A.A. - #8	33,210	46+%	-----*	-----*
A.A. - Rocketdyne	20,279	46+%	2,645	5,290
A.A. - Riverton, PC Equipment	802,619	46%	104,689	209,379
A.A. - Asbury, PC Equipment	720,370	46%	93,961	187,923
Asbury - Maintenance	25,730	46%	3,356	6,712
Provision for Rate Refund	(499,000)	46%	-----*	-----*
Licensed Software	(38,709)	46%	<u>(5,049)</u>	<u>(10,098)</u>
Total	<u>1,064,499</u>		<u>199,602</u>	<u>399,206</u>

* Fully amortized in 1986

THE EMPIRE DISTRICT ELECTRIC COMPANY

Rate Base and Rate of Return
December 31, 1985
Tax Law in Effect in 1986

Schedule 1
46% Tax Rate

Missouri
Electric
Jurisdictional

1. Electric Plant in Service	\$270,616,208
Less:	
2. Reserve for Depreciation	90,060,955
3. Net Electric Plant in Service	180,555,253
4. Materials and Supplies	7,622,493
5. Prepayments	271,201
Less:	
6. Deferred Income Taxes - Liberalized Depreciation	23,169,994
7. Investment Tax Credit - Pre-1971	507,463
8. Customer Deposits	1,245,054
9. Total Original Cost Rate Base	\$163,526,436
Net Electric Operating Income Before	
10. Effect of Proposed Increase	\$17,933,291
Indicated Rate of Return Before	
11. Proposed Increase	10.97%
12. Proposed Increase (After Taxes)	\$839,544
Net Electric Operating Income After	
13. Effect of Proposed Increase	\$18,772,835
Indicated Rate of Return After	
14. Effect of Proposed Increase	11.48%
15. Income Tax Factor	1.9045
16. Gross Revenue Deficit	\$1,598,912

FILED

DEC 15 1986

PUBLIC SERVICE COMMISSION

THE EMPIRE DISTRICT ELECTRIC COMPANY

Schedule 2
46% Tax Rate

Capital Structure
December 31, 1985
Tax Law in Effect in 1986

	A	B	C	D
	Amount Outstanding	% of Total	Cost Rate	Weighted Return on Tariffs File
1. First Mortgage Bonds	\$90,125,162	43.35	8.54%	3.70%
2. Preferred Stock	20,758,257	9.98	7.74%	0.77%
3. Common Equity	97,039,946	46.67	15.03%	7.01%
4. Total	\$207,923,365	100.00		11.48%

THE EMPIRE DISTRICT ELECTRIC COMPANY

Schedule 3
46% Tax Rate

Test Year Utility Operating Income
Statements Adjusted for Changes
Based on Tax Law in Effect in 1986

Twelve Months Ended December 31, 1985

Number	Account Name	Missouri Electric Jurisdictional
	Electric Utility Operating Revenues:	
440	Residential	51,191,771
442.1	Commercial	2,414,454
442.2-6	Industrial	22,338,365
444	Public Street and Highway Lighting	723,741
445	Other Sales to Public Authorities	1,094,421
448	Interdepartmental	59,891
447.2.4	Sales for Resale - On-System	
447.1.3	Sales for Resale - Off-System	10,267,269
	Total Sales of Electricity	103,089,912
449.1	Less Provision for Rate Refund	593,469
	Total Revenues Net of Prov. for Rate Refund	102,496,443
450-456	Other Electric Operating Revenues	1,270,472
	Total Electric Operating Revenues	103,766,915
	Electric Utility Operating Expenses:	
401-2	Production	45,907,461
401-2	Transmission	1,988,107
401-2	Distribution	5,447,120
401-2	Customer Accounts	3,077,304
401-2	Customer Assistance	848,179
401-2	Sales	249,164
401-2	Administrative and General	5,956,387
403	Depreciation	8,148,390
408.1	Taxes Other Than Income Taxes	5,051,707
	Total Expenses Before Income Taxes	76,673,819
	Net Electric Utility Operating Income Before Taxes - Unadjusted	27,093,096
	Provision for Income Taxes: *	
409.1	Income Taxes - Federal	5,998,321
409.1	Income Taxes - State	477,881
410.1	Provision for Deferred Income Taxes	2,598,552
411.1	Provision for Deferred Income Taxes - Cr.	(392,041)
411.4	Investment Tax Credit Adjustment - Net	477,092
	Total Provision for Income Taxes	9,159,805
	Net Electric Utility Operating Income	\$17,933,291

* Calculation deemed consistent with last Commission Rate Order

SCHEDULE 4

Page 1

YEAR IN WHICH
LAW IS IN EFFECT
1986

Income from Operations

27,093,096

ADD:

Book Depreciation	8,148,390
Rate Case Expenses	22,451
Bad Debt Expense - (Book in excess of tax)	112,522
Non-deductible expenses	73,661
Licensed Software	69,961
Asbury Maintenance	110,760
Bonded Revenues	507,616
Interest on Bonded Revenues	63,522
Total Additions	9,108,883

LESS:

Interest Synchronization	6,050,478
Tax Depreciation - Excess of SL	5,810,722
Tax Straight-Line Depreciation	7,301,478
Payroll taxes capitalized	292,658
Other A&G and Pensions Capitalized	441,977
Capitalized Book Interest	411,854
Injuries and Damages Capitalized	273,500
Dividends Paid Deduction	49,031
Miscellaneous	14,346
Total Deductions	20,646,044

NET TAXABLE INCOME

15,555,935

FEDERAL INCOME TAX PROVISION:

Net Taxable Income (Above)	15,555,935
Less Missouri Income Tax (Below)	477,881
Federal Taxable Income	15,078,054

FEDERAL INCOME TAX	6,935,905
LESS CURRENT ITC (Incl. Paysop)	(943,321)
PLUS ITC RECAPTURE	5,737
PROVISION FOR CURRENT FEDERAL INCOME TAX	5,998,321

MISSOURI INCOME TAX CALCULATION:

Net Taxable Income (Above)	15,555,935
Less Current Federal Income Tax (Above)	5,998,321
Missouri Taxable Income	9,557,614

PROVISION FOR CURRENT MISSOURI INCOME TAX	477,881
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TOTAL CURRENT TAX LIABILITY

6,476,202

YEAR IN WHICH
LAW IS IN EFFECT
1986

DEFERRED TAX CALCULATION:

INVESTMENT CREDIT -

Current Earned Investment Credit	875,979
PAYSOP	66,594
Less Investment Credit Amortized	(465,481)
NET INVESTMENT CREDIT	477,092

OTHER DEFERRED ITEMS -

Tax Depreciation in excess of SL	2,672,932
Accelerated Amortization	(120,566)
Asbury maintenance	(50,950)
Licensed software	(32,182)
Bonded Revenues	(233,503)
Interest on bonded revenues	(29,220)
NET OTHER DEFERRED TAX	2,206,511

TOTAL DEFERRED TAX (Incl. ITC)	2,683,603
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TOTAL INCOME TAX PROVISION	9,159,805
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DEFERRED FEDERAL INCOME TAX SUMMARY

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A.D.R. (1971-1980)	94,294.73	6,239.82	5,303.84	-0-	-0-	13,138.66	24,567.63
ACRS (1981-1983)	15,989.03	2,918.30	2,480.55	-0-	-0-	2,085.53	4,171.05
ACRS (1984)	4,205.50	2,343.08	1,991.62	-0-	-0-	351.46	702.92
ACRS (1985)	1,759.69	1,530.17	1,300.64	-0-	-0-	229.52	459.05
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Heavy Truck & CE (1979)	-0-	(8,928.36)	(7,589.10)	(1,339.25)	(2,678.51)	-0-	-0-
TOTAL ELECTRIC	27,803,352.71	2,726,420.73	2,317,457.68	(50,569.92)	(88,088.69)	3,932,049.78	7,315,300.01
TOTAL OTHER (See Worksheet)	1,064,499.00					199,602.00	399,206.00
TOTAL COMPANY	29,034,273.88					4,158,137.31	7,761,010.93

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Water and Electric deferred taxes of approximately \$50,000.

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FOR ITEMS OTHER THAN DEPRECIATION

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Asbury - Maintenance	25,730	46%	3,356	6,712
Provision for Rate Refund	(499,000)	46%	-----*	-----*
Licensed Software	(38,709)	46%	<u>(5,049)</u>	<u>(10,098)</u>
Total	<u>1,064,499</u>		<u>199,602</u>	<u>399,206</u>

* Fully amortized in 1986