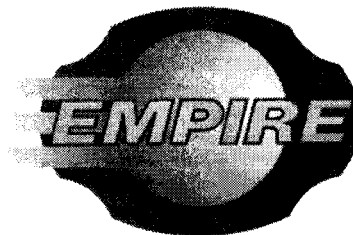

**THE EMPIRE DISTRICT ELECTRIC
COMPANY**

ENERGY RISK MANAGEMENT POLICY

December 6, 2005



Services You Count On

**THE EMPIRE DISTRICT ELECTRIC COMPANY
ENERGY RISK MANAGEMENT POLICY**

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1 STANDARDS OF OVERALL COMPANY PROGRAM

INTRODUCTION

The purpose of the Energy Risk Management Policy (RMP) document is to define the approach and internal rules that The Empire District Electric Company (EDE) will utilize to manage its power and natural gas commodity risk. The content of this document establishes and describes the EDE policy in assuming, assessing, and controlling the level of natural gas commodity risk exposure involved in the normal course of serving EDE's native load energy requirements.

OBJECTIVES

It is the policy of EDE NOT to engage in financial or commodity transactions unless they are related to underlying exposures related to supplying EDE's native load or to hedge back-to-back off-system transactions. It is the express intention of EDE to prohibit financial or physical commodity transactions that would reasonably be considered outside of EDE's core business activities.

The following are specific RMP objectives for EDE that represent a balanced financial and operational focus:

OBJECTIVE #1

Provide an organizational structure to support management goals and budget performance by mitigating energy price volatility and; hence, limiting fluctuations in the cost of supplying power to retail customers.

The RMP provides an organizational structure for effectively assessing and managing risk associated with EDE's natural gas supply and wholesale power activities. It provides a framework for effective control, audit, and reporting. The procedures set forth allow for the management of operational risks without placing undue restrictions on the operations of EDE.

OBJECTIVE #2

Allow utilization of physical and financial tools to provide a predictably priced reasonable cost gas-supply.

EDE's cost to generate, purchase, and supply power is greatly impacted by fluctuations in the market price of energy sources such as coal, natural gas, oil, and wholesale electricity. This RMP outlines procedures on how hedge positions will be employed to limit these market fluctuations in the price of natural gas and; hence, provide EDE with tools to manage expenses to generate, purchase, and supply power for its customer base.

2. **RESPONSIBILITY FOR ENERGY RISK MANAGEMENT POLICY**

The Officer Group as listed below is responsible for maintaining and overseeing the RMP:

The Officer Group is comprised as follows:

- President and CEO
- Vice President - Finance and CFO
- Vice President - Energy Supply
- Vice President - Regulatory and General Services
- Vice President - Strategic Development
- Vice President - Commercial Operations

From time to time, the Officer Group will report to the Board of Directors on the risk management activities surrounding natural gas risk. Officer Group activities shall include:

- Providing the Risk Management Oversight Committee (RMOC) authorization to engage in those activities consistent with prudent risk management and related trading practices which correlate with the native load requirements of EDE;
- Recognizing financial instruments such as futures, swaps, options, as well as physical market position management, can be effective transaction tools; and
- Providing sufficient management involvement, financial controls, and systems to monitor, report, and ensure the integrity of the RMP at all levels.

RISK MANAGEMENT OVERSIGHT COMMITTEE

The RMOC is charged to monitor aggregate risks and ensure they are managed in accordance with the RMP. The RMOC will meet periodically to assess aggregate risks and review EDE's market positions and exposures and strategy.

The RMOC is comprised as follows:

- Chairman
- Vice President - Finance and CFO

Members:

- Vice President - Energy Supply
- Vice President - Regulatory and General Services
- Vice President - Strategic Development
- Controller and Assistant Treasurer and Secretary
- Director of System Operations

Non-Voting Internal Control Members:

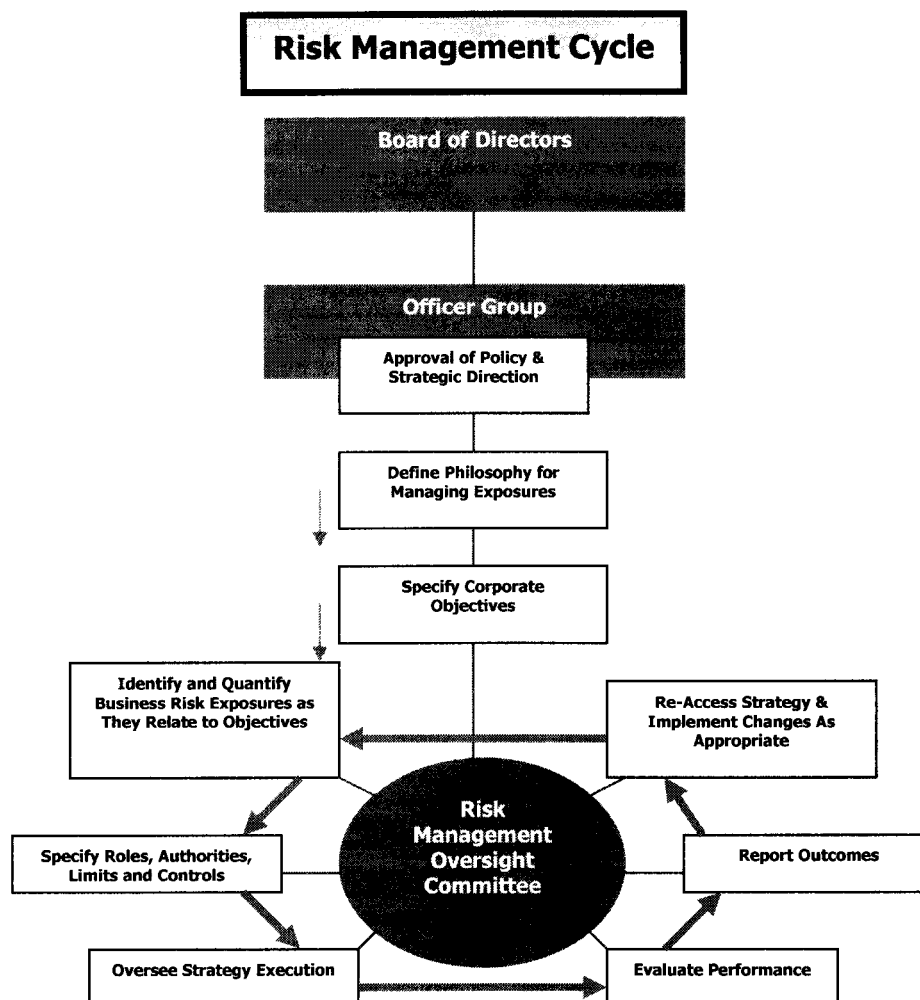
- President and CEO (see exceptions at Appendix 12)
- Director of Internal Audit
- Fuel Accounting Manager
- Wholesale Energy Trader(s)

RMOC RESPONSIBILITIES

- **Approve Hedging Strategies** - Develop and approve strategies that achieve risk management objectives.
- **Individual Trading Authorization** - Approve a list of individuals authorized to establish trading relationships and execute trades. The hierarchy of oversight will include opening futures accounts, executing International Swap Dealer Association (ISDA) master agreements, placing futures orders, and entering into transactions per a master swap agreement.
- **Set Transaction Exposure Limits** - Approve limits on volumes and length of coverage of all outstanding physical, futures, options, and Over-the-Counter (OTC) positions.
- **Ensure Credit Approval and Documentation** - The credit approval / monitoring process is described in Appendix 12: Trader Authorization and Appendix 1: Credit Risk / Procedures Policy.
- **Establish Procedures and Develop Reporting Systems** - Ascertain appropriate checks and balances are in place and financial reporting is correct.
- **Establish Approved Counterparty List** - Establish an approved counterparty trading checklist to be used by the Wholesale Energy Group.

Any member of the RMOC has authority to call committee meetings and the responsibility to ensure that all activities are in accordance with this program. The committee may meet in person, through telephone conference calls, and/or electronic mail. The RMOC secretary (who is not a member of the RMOC) will keep regular minutes and records of meetings and actions.

At any time a RMOC member believes the committee has failed to adequately address a situation in which the member believes price or credit speculation is taking place, that member shall submit a written statement describing the concern to the President and CEO or the Director of Internal Audit.

RMOC CYCLE3 RISKCOMPANY EXPOSURE

EDE's exposure spans activity in both the physical fuels market and the financial derivative markets that have developed to accommodate natural gas and power. Without risk management, EDE will be subject to cost and pricing uncertainty, as well as uncertainty in meeting budgeted earnings and cash flow.

The primary components of EDE's risk exposure are operations risk, market risk, and credit risk. The RMP is designed to address the management of these risks in the aggregate.

OPERATIONS RISK

Involves the potential increased cost for items such as providing replacement power to serve customers due to the unscheduled outage of generation plants, interruptions of power purchases from other parties, or interruption of gas supply.

MARKET RISK

Involves the potential change in value of a commodity contract, liability, or cash flow caused by adverse fluctuations in market factors over a pre-defined holding period. Types of market risk include:

- **Price Risk** - Uncertainty associated with changes in the price level of commodity fuel costs.
- **Liquidity Risk** - Risk associated with the diminished market activity of a fuel commodity.
- **Volume Risk** - Supply or demand deviation from forecast (for example, the risk of not having enough or having too much natural gas to meet forecasted obligations). Volume risk is highly correlated with price risk because availability of wholesale electricity is high and price low when the weather is mild causing reduced volume need. Conversely, when weather is extreme causing an increase in our underlying needs, the price of wholesale electricity may increase exponentially.
- **Calendar Risk** - Exposure due to time differential in commodity value between actual physical delivery and financial position expiration.
- **Basis Risk** - Exposure due to a difference in commodity value between different delivery points or between cash market prices and the pricing points used in the financial markets.

COUNTERPARTIES/CREDIT RISK

A component of the overall RMP is the management of credit exposure. EDE's exposure is different when transacting on the New York Mercantile Exchange (NYMEX) versus when transacting OTC.

The creditworthiness of trading partners or clearinghouses is a function of both qualitative and quantitative factors. Such factors are centered on the credit rating assigned to a company by major credit rating services and an evaluation of the company's ability to financially meet its obligations to EDE. Typical sources of credit-related information are credit rating reports (published by one or more of the commonly recognized rating agencies, such as Dunn & Bradstreet, Standard & Poor's, or Moody's), general market intelligence, electronic news releases, and other public information sources. Based on these resources, the RMO will provide oversight as to each approved counterparty's credit exposure limit.

Credit risk associated with maintaining an account with a futures clearinghouse is considerably less than that with OTC counterparts. This distinction exists because the collective clearinghouse members of NYMEX, which includes

virtually every major energy company and financial institution in the country, guarantee the performance on all positions placed on the exchange. Requiring margin deposits and daily mark-to-market by clearinghouse members allows for incremental monitoring and control of transactions and eliminates the potential for sudden defaults on contracts.

ESTABLISHING CREDIT RESPONSIBILITIES

As defined in Appendix 1 - Credit Risk / Procedures Policy, establishing limits and creditworthiness monitoring will be done independent of the trading function and will be performed by the Fuel Accounting Manager in Finance (with oversight by the RMOC), in order to guarantee appropriate segregation of duties within EDE. All trading activity with a particular counterparty who no longer meets EDE's credit standards will be halted. A Counterparty Credit Exposure Report will be included as part of the weekly Position Report described later. The report will summarize the total amount of exposure by counterparty by hedging instrument based on current mark-to-market amounts.

4. HEDGE STRATEGY

EDE's Missouri retail rates are not subject to a fuel cost adjustment clause. Missouri legislators did pass a fuel adjustment clause in the summer of 2005. However, at this time EDE is stipulated to operating under a three year Interim Energy Credit mechanism that began March 27, 2005. As such, the only time EDE's rates are adjusted for changes in fuel costs is during a rate proceeding. The regulatory schedule for a rate proceeding in Missouri requires 11 months from the date of filing before new rates come into effect. Adding preparation time for a rate case, this period could stretch to 12 or 13 months. This regulatory schedule combined with the volatility of natural gas necessitates that EDE focus on procuring fuel over periods longer than 18 months to help prevent EDE's revenues from lagging its costs. The Kansas Corporation Commission has approved a fuel adjustment clause that will become effective January 1, 2006. EDE's strategic focus addresses both the regulatory structure and volatility by attempting to protect against volatile natural gas costs for EDE plants. To best utilize the economic trade-offs between generating with on-system resources versus buying non-firm wholesale power, EDE will apply risk management strategies. EDE will attempt to lessen the risks associated with variances in the volume of fuel consumed relative to budgeted fuel consumption volume.

EDE's specific hedge strategy goals are to provide for predictable fuel and purchased power costs over a multi-year period and to provide a framework to allow EDE to manage its risk positions.

EDE's RMP is designed to provide the Wholesale Energy Group with a more comprehensive set of tools to mitigate the adverse impacts associated with changing natural gas or wholesale electricity prices.

EDE's risk management strategies involve an active and continual "mark-to-market" assessment of market conditions to match its supply portfolio to its portfolio of retail and wholesale obligations.

In effect, these strategies set out to determine how much market risk is reasonable to best minimize costs and volatility, while still providing EDE's customers with reasonable fuel costs.

An overview of the hedging targets for natural gas is outlined below.

NATURAL GAS

At least yearly, EDE will model its electric system with a production cost model to establish an expected gas burn for retail load for each of the next four years. This budgeted gas burn will be the same as that utilized in EDE's financial projections.

From time to time as conditions change (i.e. unit outages, gas commitments, purchase power commitments), the Wholesale Energy Group shall re-model EDE's system to establish a new "expected" gas burn for native load.

EDE will utilize the following procurement guidelines:

- Hedge a minimum of 10% of year four expected gas burn
- Hedge a minimum of 20% of year three expected gas burn
- Hedge a minimum of 40% of year two expected gas burn
- Hedge a minimum of 60% of year one expected gas burn

The Wholesale Energy Group will have the flexibility to hedge up to 80% of any year's expected requirements while being cognizant of volume risk. For years beyond year four, additional factors of long term uncertainty in required volumes, counterparty credit, etc. should also be considered.

(By December 31 of current year we should have a minimum of 60% of the next years projected gas burn hedged.)

This progressive dollar cost averaging approach is intended to protect our customers and shareholders from volatility in the marketplace. In addition, the progressive approach allows for increasing uncertainty of gas needs inherent in forecasting events occurring further in the future.

If changes in expected gas burns occur that make us more than 100% hedged in any given month, immediate steps will be taken to reduce our hedged position to 100% or less.

5. INTERNAL CONTROLS

Internal controls are essential in ensuring adherence to the RMP and include the authorization of acceptable instruments, limits, and credit standards. Additional

checks and balances including segregation of departmental duties, market position monitoring, and a management reporting structure should be in place to verify and reconcile the integrity of EDE's risk management activity results. EDE's accounting policies and key controls relating to our hedging program are detailed in the Power & Fuel Cycle section of our Sarbanes/Oxley documentation.

SEGREGATION OF DEPARTMENTAL RESPONSIBILITIES

An appropriate segregation of duties is fundamental in controlling EDE's risk management operations and includes activities such as approvals, verifications, and reconciliations. A clear separation between transacting, credit review and approval, margining and cash settlements, and accounting has been established with respect to the RMP.

Wholesale Energy Group, Finance, and Internal Audit are the departments most directly impacted by energy supply risk management activities.

AUTHORIZATION PARAMETERS

INSTRUMENTS

A primary responsibility of the RMOC is the review and approval of tools acceptable for implementation of the risk management strategy.

The various hedging instruments that EDE is authorized to use by this RMP is described as follows:

- **Physical Forward Contract** - Contract for future physical delivery of a designated quantity of a fuel source or power supply at a designated price, time, and location. Physical forward contracts obligate both the buyer and seller to accept the agreed-upon price, regardless of the market price when the delivery takes place.
- **Futures Contract** - Standardized binding agreement to buy or sell a specified quantity or grade of a commodity at a later date. Futures contracts are freely transferable, can be traded exclusively on regulated exchanges, and are settled daily based on their current value in the marketplace.
- **Put Option / Call Option** - Contract giving the holder the right, but not the obligation, to purchase or sell the underlying futures contract at a specified price within a specified period of time in exchange for a one-time premium payment. The contract also requires the writer, who receives the premium, to meet these obligations. (Use of these instruments in a manner that precludes them from falling under hedge accounting treatment is prohibited.)
- **OTC Instrument** - Any financial or physical instrument that is customized and created by a counterpart to replicate the risk profile associated with a commodity. The OTC swap is a contractual agreement between two parties to

exchange a series of cash flows, for a stipulated period of time, based on agreed-upon parameters and price fluctuations in some underlying commodity or market index. There is a monthly settlement price, which is the difference between the fixed price of the contract and the index price in the publication for that month's date. If the index price for the delivery period is higher than the fixed price of the OTC contract, then the seller pays the buyer the difference. If the index price is lower, the buyer pays the seller the difference. This policy approves the use of OTC forwards and options for natural gas and power. Power examples include: 5x16, 7x24, 5x8, 2x24, 7x8, 1x16, etc. (Use of these instruments in a manner that precludes them from falling under hedge accounting treatment is prohibited.)

LIMITS

AUTHORIZED TRADERS AND TRADING LIMITS

- **"Round Trip" Trades Prohibited** - "Round trip" transactions shall be strictly prohibited. Round trip transactions, as used herein, refer to simultaneous (or nearly simultaneous) energy purchases and sales of equal duration, price and volume. Employees engaging in such transaction shall be subject to progressive discipline up to and including termination of employment.
- **Off-Premise Trading** - Off-premise trading is not allowed. One-time trades may be done with the approval of a senior officer.

Authorized traders, along with approval and transaction limits, are listed in Appendix 12.

6. REPORTING POSITION REPORT

The Position Report contains a list of all open and recently closed transactions for EDE trade-based activity and serves as a crucial element of RMP control and management. The Position Report has multiple applications for risk management review that includes account transaction tracking and evaluation as well as overall performance evaluation.

The Position Report is updated as transactions occur and distributed weekly by the Wholesale Energy Group (WEG). Its primary objectives are:

- Allow for marking individual transactions to market;
- Provide data for transactions as well as portfolio analysis; and
- Simplify accounting and program results evaluation through analysis of the closed positions list.

MARK-TO-MARKET

All positions will be mark-to-market (using the appropriate NYMEX prices or other suitable market indicator as defined by the underlying contract) weekly or as determined by the RMOC on the Position Report by Wholesale Energy Group. This analysis is performed to appropriately reflect the current value and cash flows associated with open positions and to provide timely information regarding EDE's market risk and exposure.

The Wholesale Energy Group is responsible for verifying the validity of the market data used in mark-to-market calculations through the Position Report, with Finance performing a subsequent review as a check on this report's accuracy. On certain OTC positions, it may be difficult to obtain an accurate mark-to-market value. In these instances, Wholesale Energy Group will provide the most precise estimate of values and will identify the source and reliability of the data.

ADDITIONAL MANAGEMENT REPORTING

Management reports are to be based on the principles of adequate compliance limit monitoring, accuracy of data sources, and frequency and quality of information. All reports should communicate the price risks assumed by EDE. Information pertaining to performance measurement and program evaluation will be included in required reports and will be used as a basis for RMOC discussions and future strategy setting.

MINIMUM REPORTING REQUIREMENTS

The following table identifies the various reports to be generated by different departments or management levels, the normal regularity, and circulation of the document.

Report	Distribution	Normal Frequency	Originator
Position Report	WEG Fuel Accounting Manager RMOC	Weekly and Quarter-End	WEG
Man Financial Account Statements via email	WEG Fuel Accounting Manager.	Daily – Others	RMI
Minutes of RMOC Meetings	RMOC	As soon as possible after RMOC meeting (5-7 business days)	RMOC Secretary
Counterparty Credit Exposure Report	RMOC WEG Fuel Accounting Manager	Weekly	WEG (as reviewed by Fuel AccountingMgr.)

DISCIPLINE

Any violation by an employee of the RMP will be subject to the Progressive Discipline Policy as outlined in the Personnel Policy Manual of EDE.

7. POLICY REVIEW

On a periodic basis, the RMOC will review and mutually make a recommendation to the Officer Group on the adequacy of the RMP and any necessary changes.

8. CONFLICTS OF INTEREST

Personnel responsible for executing and managing EDE's trading activity will not be authorized to enter into energy-related commodity transactions on behalf of others or themselves unless specifically approved by the RMOC.

9. DUTIES AND WORK FLOW

Appendices are listed as follows:

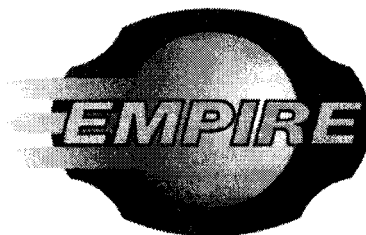
- Credit Risk and Procedures Policy - Appendix 1
- Duties for Wholesale Energy Group - Appendix 2
- Duties for Finance - Appendix 3
- Duties for Auditing - Appendix 4
- Work Flow to Execute Trade - Appendix 5
- Procedure for Hedge Transactions and Reconciliation - Appendix 6
- Trade Ticket - Appendix 7
- Confirmation Procedure - Appendix 8
- Position Report - Appendix 9
- Mark to Market Report - Appendix 10
- Broker Account Statement - Appendix 11
- Authorized Traders - Appendix 12
- Wholesale Energy Group – Purchase and/or Sale Pre-Approval Form – Appendix 13

APPENDIX 1

**THE EMPIRE DISTRICT ELECTRIC
COMPANY**

CREDIT RISK/PROCEDURES POLICY

January 11, 2005



Services You Count On

I: INTRODUCTION

The purpose of this policy is to establish a consistent process whereby the credit risk of future financial loss due to counterparty physical or financial non-performance is significantly diminished for energy purchases and / or sales. This Credit Risk/Procedures Policy will govern any energy transactions relating to natural gas and / or purchased power conducted by Empire District Electric Company.

II: POLICY OVERVIEW

In general, all energy suppliers and / or purchasers will be subject to a financial review in accordance with Empire District Electric standards for determination of creditworthiness. Evaluation of a company's financial strength and its ability to deliver its product or to pay is crucial.

A credit review cannot be viewed as the mechanism to prevent any and all losses, but it can help identify those companies where performance has been a problem in the past or may present a problem in the future. Established limits combined with proper monitoring oversight will help Empire District Electric to effectively mitigate possible losses due to counterparty insolvency.

III: RESPONSIBILITIES

Risk Management Oversight Committee

The Risk Management Oversight Committee (RMOC) shall give final approval for all credit policies and procedures. In today's business environment, a formularized credit rating approach for rating counterparties may not be practical. The RMOC will provide oversight by reviewing weekly Position Reports produced by the Wholesale Energy Group (WEG) and by formal discussions of counterparty credit limits, credit risk, credit exposure, etc. at the RMOC meetings. The Fuel Accounting Manager will provide monthly credit rating status reports of counterparties. WEG will report on credit exposure by counterparties in the weekly Position Report.

RMOC Committee Members

This group is defined in the Energy Risk Management Policy.

Fuel Accounting Manager

The Fuel Accounting Manager shall monitor the credit exposures created through the trading of energy and derivative products, and ensure that the RMOC is aware of any inappropriate credit exposure.

Primary Responsibilities include the following:

- On-going monitoring of existing counterparty credit/financial strength, see On-Going Financial/Credit Strength Monitoring Procedures section below
- Monitor credit exposures created by the trading of energy and / or derivative products, see On-Going Financial/Credit Strength Monitoring Procedures section below
- Oversee the development and administration of systems necessary to support the above activities
- Monitoring trade activity with each counterparty

Wholesale Energy Group

The Wholesale Energy Group optimizes the use of generation, purchased power and natural gas as outlined in the Energy Risk Management Policy.

Primary Responsibilities include the following:

- Keeping abreast of market trade talk and communicate knowledge to the Fuel Accounting Manager
- Coordination of legal documentation appropriate for each counterparty such as Master Agreements, International Swaps Derivative Agreements (ISDA), etc.
- Monitoring trade activity with each counterparty

Legal Services

An outsourced legal services group shall be used by the Wholesale Energy Group in counterparty agreement negotiations. While it is not always possible to achieve, the Wholesale Energy Group will work with legal services to seek netting and/or set-off agreements with counterparties on all contracts.

Netting provisions allow counterparties to settle with each other the net of all transactions for a given period rather than gross amounts involved in a series of transactions. If a company buys power from a counterparty and also sells them power, the final transaction will take both aspects into consideration and pay the difference between the two. The non-defaulting party may also perform a closeout of any existing positions and include this balance in the netting calculation. This provision can eliminate a large amount of downside potential associated with counterparties that default.

Set-Off can be viewed in simple terms as netting among different governing agreements. For instance, Empire District Electric may be transacting both electricity and natural gas with the same counterparty under two different governing agreements. Set-Offs allow for amounts owed or received under both agreements to be netted against each other.

On-Going Financial/Credit Strength Monitoring Procedures

The Fuel Accounting Manager shall be responsible for reviewing on an on-going basis the credit rating status of counterparties. In addition, the Fuel Accounting Manager will follow business news reports on counterparties for any potential information that may indicate a change in creditworthiness. The Fuel Accounting Manager will also work in close contact with WEG to stay abreast of any current negative supplemental information gained from direct contact within the energy industry.

If any declining creditworthiness information develops on a counterparty, such as their credit rating is downgraded by Moody's or Standard and Poor's, the Fuel Accounting Manager will notify the RMOC of such development by email.

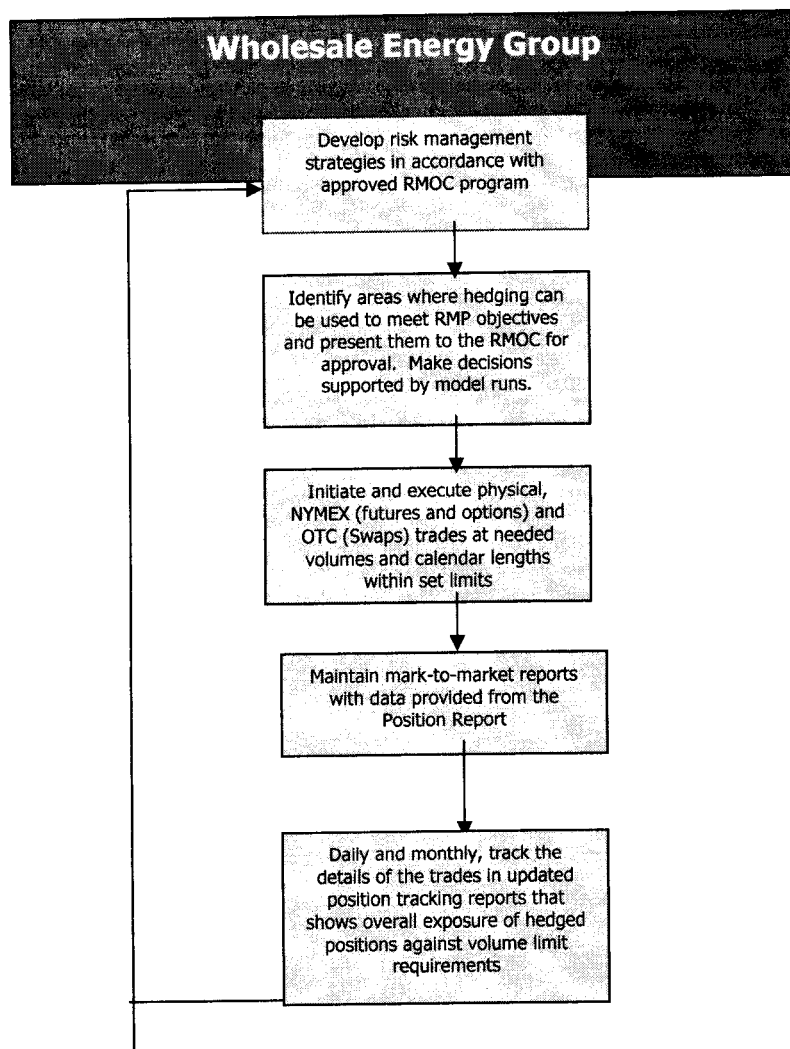
Furthermore, if a counterparty's credit rating is downgraded to below investment grade (Ba by Moody's, BB by Standard and Poor's) or below, the Fuel Accounting Manager will additionally notify the Chief Financial Officer, Controller and Vice-President of Energy Supply by phone of the downgrade. The Fuel Accounting Manager would also notify the Wholesale Energy Group to halt any further trades with this counterparty until further notice. Any member of the RMOC could then call a special meeting of the RMOC for discussion or add this information to the agenda of the next regularly scheduled RMOC meeting.

APPENDIX 2

WHOLESALE ENERGY GROUP

Responsible for analyzing the market and developing appropriate strategies and tactics in line with the RMP.

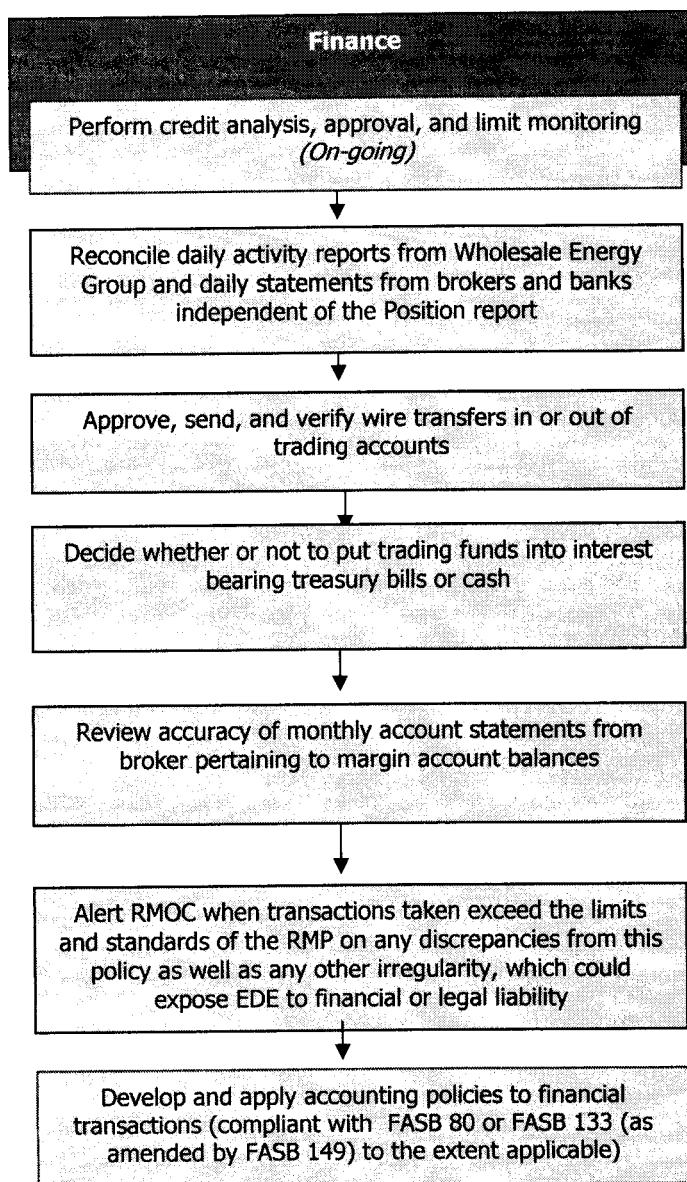
Responsibilities include the following:



APPENDIX 3

FINANCE

Responsible for the provision of financing Wholesale Energy Group hedge transactions. In addition, Finance will crosscheck hedge positions placed by Wholesale Energy Group in physicals, swaps, futures, and options for accuracy and accordance with EDE's RMP. Accountable for review of account balances for any associated margin requirements with day-to-day activity and also responsible for the following:



APPENDIX 4

INTERNAL AUDIT

Review documentation as needed to verify the RMP defined limits of EDE hedge transactions and operations and will periodically confirm the internal controls in place are effective in protecting the objectives of EDE's risk management program.

APPENDIX 5

FOR ANY HEDGE TRANSACTION

(Physical, Exchange-Traded or OTC)

**Please reference Appendix 6 for a graphical representation of this process*

DAILY

- 1. Monitor Market Prices/Identify Need for a Hedge in line with Hedging Strategy Objectives**
 - ✓ Wholesale Energy Group will monitor prices for opportunities to meet RMP hedge goals and objectives.
- 2. Determine Best Strategy within Limits to Achieve Hedging Objective**
 - ✓ Within the RMOC approved limits, Wholesale Energy Group will determine the best hedge strategies to implement in line with objectives.
 - ✓ For any chosen strategies that exceed a specified time period or dollar limit, the Vice President – Energy Supply must verify that the chosen hedge transaction meets objectives.
- 3. Confirm Counterparty Meets Credit Requirements**
 - ✓ For an OTC transaction, the prospective counterparty must be crosschecked with the Approved Counterparty Credit List for credit verification.
- 4. Implement Transaction**
 - ✓ Wholesale Energy Group prepares internal documentation for current order.
- 5. Communicate Order**
 - ✓ Wholesale Energy Group executes a hedge with broker and/or counterpart by picking up the phone and calling in information that is simultaneously recorded via a trading ticket (*reference example in Appendix 7 in next section*) which is date/time stamped and entered into a position tracking report and FUTRAK software.
- 6. Broker Documents and Executes Transaction**
 - ✓ In addition, the broker and the NYMEX floor representatives keep their own trading tickets to document the transaction.
- 7. Verify Transaction (Verbal and Written)**
 - ✓ Broker and/or counterpart verifies hedge fill via phone initially to Wholesale Energy Group.
 - ✓ Written confirmations will be sent to Wholesale Energy Group and Finance the following business day via e-mail or fax. The confirmation/contract is examined by the WEG Energy Trader for accuracy by crosschecking to the input on the trading ticket. If everything is in agreement, the appropriate WEG representative (as defined in Appendix 12, Trading Authorities) will sign the confirmation/contract and fax back to the counterparty. If there are disagreements, these will be resolved and

then the confirmation/contract will be signed and faxed to the counterparty. A copy of the trading ticket is sent to the Fuel Accounting Manager to be matched up with the confirmation/contract.

8. Confirm Accuracy of Transaction

- ✓ Wholesale Energy Group crosschecks daily broker Account Statement confirmations against internal Position Report for accuracy
- ✓ Wholesale Energy Group provides mark-to-market reports that tracks the value of the hedge based on current market price.

9. Track Positions

- ✓ This Wholesale Energy Group Position Report is forwarded to Finance as a check for accuracy on market value and is compared to the broker daily Account Statement report.

10. Reconcile Positions Daily with Broker via Finance

- ✓ On a daily basis, Finance will determine and verify cash flow receipts and obligations. If EDE is on margin call, funds will be wired to the broker to keep the hedge account equity in line with the current market value.

MONTHLY AND ON-GOING

1. Reconcile Monthly Account Statements

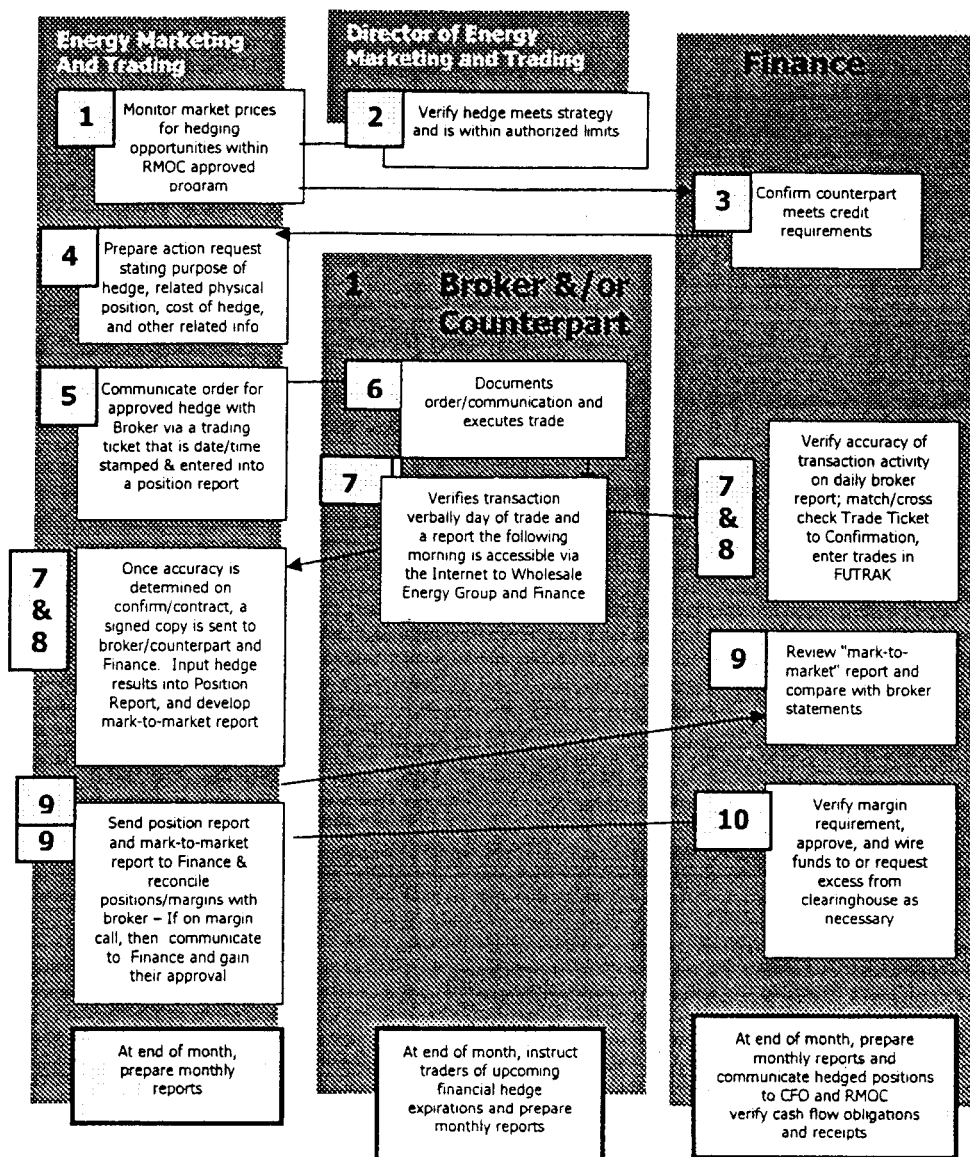
- ✓ Finance reconciles broker and/or counterpart statements with internal Position Report and FUTRAK software.

2. Review of Transaction/Reporting

- ✓ On a monthly basis, Wholesale Energy Group will review with the RMOC the strategy and positions taken. On at least a semi-annual basis, the results of the RMP hedge strategy will be reported to the Board of Directors by the RMOC.

APPENDIX 6

PROCEDURAL FLOW FOR HEDGE TRANSACTIONS & RECONCILIATION



**Internal Audit will periodically review process to verify accuracy and compliance*

APPENDIX 7

TRADE TICKET

The ability to internally track hedge transactions is crucial to providing an audit trail whereby all parties involved in the decision-making process are notified of a hedge position. This notification of a transaction is also the primary document in tracking a hedge and providing information for the Position Report. Included in the document will be the volumes hedged, the price or instrument used, the length of time for the hedge, and the counterpart to the transaction. Internal Trade Transaction Ticket(s) are included on the following pages.

Energy Trade Confirmation Sheet

Trader: Greg

Trade Ticket Number G082203SA

Date 8/22/2003

A

PSE:

EDE

Path:

EDE/WRI

Sale

HE	MW	\$/MWH	\$	Cost \$/MWH	Cost \$
0100			0		0.00
0200			0		0.00
0300			0		0.00
0400			0		0.00
0500			0		0.00
0600			0		0.00
0700			0		0.00
0800			0		0.00
0900			0		0.00
1000			0		0.00
1100			0		0.00
1200			0		0.00
1300			0		0.00
1400			0		0.00
1500			0		0.00
1600			0		0.00
1700	30	75.00	2250	64.73	1,941.90
1800	50	70.00	3500	64.73	3,236.50
1900			0		0.00
2000			0		0.00
2100			0		0.00
2200			0		0.00
2300			0		0.00
2400			0		0.00
02AA					
Totals	80		5,750.00		5,178.40

Comments:

Net Margin:

571.60

Sold to Westar.

Avg cost

64.73

Avg

revenue

71.88

Deal type:

WSP

Economy Sale

Fax or Voice

Confirmation

voice

Margin:

7.15

Source Unit:

EC unit 2

Source Unit Cost:

\$/MWH

64.73

Incentive amount:

Supervisor's

initials:

Empire District Electric Company Internal Trade Transaction Ticket		Trade Trade Date Trade Time		G22 9-Sep- 11:50	
Euy/Sell Euy	Instrument Futures	Type Normal	Strike Price Premium	Market NYMEX	
Location Henry Hub	Quality Firm	Delivery Start Date 01-Jul-05		Exercise	
		Delivery End Date 31-Aug-05		Settlement Date 01-Jul-05 01-Aug-05	
Price Type Fixed	Price Differential / 4.58 Jul-05 4.58 Aug-05		Volumetric Quantity Rate Total Qty 200,000 Jul-05 200,000 Aug-05		
Transmission/Transport Charges		Scheduling			
Counter Party NYMEX		Mark-to-Market Henry Hub		Broker Commission	
General					
Energy Trader: Greg					
Energy Trader's _____					
Transaction Objective Based on Empire's Risk Management Policy					
Purchased gas futures to financially lock in a portion of Calendar 2005 gas					
Middle Office - Risk Management		_____ Doug Gallemore			
Back Office - Accounting		_____ Doug Gallemore			
Back Office - Tax Accounting		_____ Jay Williams		This Transaction complies with: Ordinary Property Obligations (IRC Section 1221)	
Distribution:				Identification (Treas. Regs. Section 1.1221-2(e))	
Energy Trading Risk Management Tax Accounting Treasury					

CONFIRMATION PROCEDURE**Exchange Traded Confirmations**

Wholesale Energy Group will verbally confirm every transaction with broker and/or counterpart on the trade date. Trade confirmations on the daily open position statements will be sent by the broker (on the following business day) to Wholesale Energy Group and Finance. Wholesale Energy Group must check for accuracy on the following business day, input updates into the position report, maintain a mark-to-market report, and forward said report to Finance. Finance is responsible for verifying the confirmation against the transacting records and entering the transaction into FUTRAK.

Physical and OTC Financial Confirmations

Wholesale Energy Group must verbally confirm every transaction with the broker/counterpart on the trade date. For physical and financially settled OTC transactions, written or email confirmations of the applicable business terms and conditions will be completed by Wholesale Energy Group and forwarded to Finance by the end of the second business day following the trade day. Finance is responsible for verifying the confirmation against the transacting records.

The following procedures will be adhered to at all times:

- The trader will review a copy of the confirmation for completeness and initial the confirmation.
- The trader will enter the trade into the Position Report. The Fuel Accounting Manager will enter the trade into FUTRAK.
- Confirmations will be completed, signed, and sent to the counterpart by WEG within two business days.
- Original trade tickets and confirmations will be kept by Finance until after the transaction has settled. Once the transactions have settled, the confirmations and tickets will be maintained.

APPENDIX 9**POSITION REPORT****EXAMPLE**

The Empire District Electric Company

Gas Position Summary as of October 6, 2003

	November	December	Nov-Dec	Year 2004	Year 2005	Year 2006	Year 2007	Net
	2003	2003	2003	60% min	40% min	20% min	10% min	All Years
Budget Dth	394,656	882,590	1,277,246	10,492,844	11,261,182	12,232,134	12,884,705	48,148,111
Expected Dth	510,900	877,800	1,388,700	10,492,844	11,261,182	12,232,134	12,884,705	48,259,565
Policy minimum hedged Dth (2)	408,720	702,240	1,110,960	6,295,706	4,504,473	2,446,427	0	14,357,566
Policy maximum hedged Dth	510,900	877,800	1,388,700	8,394,275	6,756,709	4,892,854	2,576,941	24,009,479
Amount Hedged from Upside Volatility	395,000	675,000	1,070,000	6,620,000	3,800,000	1,300,000	600,000	13,390,000
percentage	77%	77%	77%	63%	34%	11%	5%	28%
Amount Hedged from Downside Volatility	395,000	675,000	1,070,000	6,620,000	3,800,000	1,300,000	600,000	13,390,000
percentage	77%	77%	77%	63%	34%	11%	5%	28%
Bookout per physical Dth, all positions	-3.659	-4.716	-4.188	-10.091	3.949	3.988	4.203	1.870
Average Cost per Dth hedged	2.288	3.388	2.981	3.312	4.119	4.188	4.203	3.813
Net All Positions Market to Market \$ (1)	818,435	950,095	1,768,530	8,844,225	1,478,350	211,600	45,600	12,348,305
PHYSICAL HEDGES								
Purchased Dth	100,000	100,000	200,000	600,000	2,400,000	1,000,000	600,000	4,800,000
Purchased \$	325,500	325,500	651,000	2,256,000	9,636,000	4,050,000	2,521,500	19,114,500
Purchased \$/Dth	3.255	3.255	3.255	3.760	4.016	4.050	4.203	3.982
Market \$	452,500	478,500	931,000	2,789,475	10,955,400	4,199,500	2,567,100	21,442,475
Market \$/Dth (on Williams Pipeline)	4.525	4.785	4.655	4.649	4.565	4.200	4.279	4.487
Gain/(Loss) versus current market	127,000	153,000	280,000	533,475	1,319,400	149,500	45,600	2,327,975
FINANCIAL HEDGES								
Swap/Futures Dth Purchased	375,000	375,000	750,000	6,300,000	1,400,000	300,000	0	8,750,000
Net Cost, \$/Dth	3.093	3.093	3.093	3.307	4.298	4.648	0.000	
Market \$/Dth (at Henry Hub or Swap)	4.396	4.652	4.524	4.852	4.411	4.855	0.000	
Swap Settlement - Receipt / (Payment)	488,475	584,575		8,474,550	158,950	62,100	-	9,768,650
Swap/Futures Dth Sold or Settle	280,000	0	280,000	280,000	0	0	0	560,000
Net Cost, \$/Dth	4.935	0.000	4.935	4.150	0.000	0.000	0.000	
Market \$/Dth (at Henry Hub or Swap)	4.767	0.000	4.767	4.735	0.000	0.000	0.000	
Swap Settlement - Receipt / (Payment)	47,040	-	47,040	(163,800)	-	-	-	(116,760)
Call Dth (Buy a Call)	0	0	0	0	0	0	0	0
Call Strike \$/Dth	0.000	0.000	0.000	0.000	0.000	0.000	0.000	
Market \$/Dth (at Henry Hub or Swap)	0.000	0.000	0.000	0.000	0.000	0.000	0.000	
Cost of Call \$/Dth	0.000	0.000	0.000	0.000	0.000	0.000	0.000	
Value \$ of Call Position	-	-	-	-	-	-	-	0
(Cost) \$ of Call Position	-	-	-	-	-	-	-	0
Collar Dth	200,000	200,000	400,000	-	-	-	-	400,000
Floor \$/Dth	3.350	3.350	3.350	0.000	0.000	0.000	0.000	
Ceiling \$/Dth	4.000	4.000	4.000	0.000	0.000	0.000	0.000	
Market \$/Dth (at Henry Hub or Swap)	4.767	5.034	4.901	0.000	0.000	0.000	0.000	
Cost of Floor \$/Dth	0.000	0.000	0.000	0.000	0.000	0.000	0.000	
Value of Ceiling \$/Dth	0.780	1.063	0.921	0.000	0.000	0.000	0.000	
(Cost) / Value \$ of Collar Position	155,920	212,520	368,440	-	-	-	-	368,440
Put Dth (Sell a Put)	0	0	0	0	0	0	0	0
Put Strike \$/Dth	0.000	0.000	0.000	0.000	0.000	0.000	0.000	
Market \$/Dth (at Henry Hub or Swap)	0.000	0.000	0.000	0.000	0.000	0.000	0.000	
Revenue from Put \$/Dth	0.000	0.000	0.000	0.000	0.000	0.000	0.000	
Value \$ of Put Position	-	-	-	-	-	-	-	0
(Cost) \$ of Put Position	-	-	-	-	-	-	-	0

Note 1: Market data using NYMEX Close Prices as of October 3, 2003.

Note 2: Policy minimums and maximums are 12/31/2003 targets

MARK-TO-MARKET REPORTING

As mentioned previously, all positions will be "mark-to-market" (using the appropriate NYMEX prices as defined by the underlying contract) weekly. This analysis is performed by Wholesale Energy Group to appropriately reflect the current value and cash flows associated with open positions and to provide timely information regarding EDE market risk and exposure. Wholesale Energy Group is responsible for verifying the validity and accuracy of the market data used in mark-to-market calculations through the position report on a weekly basis. All positions will be "marked-to-market" (using the appropriate NYMEX prices as defined by the underlying contract) at the end of each month using FUTRAK accounting software by the Fuel Accounting Manager. The resulting entries will then be recorded in EDE's general ledger.

The RMI Account Statement shown below is an illustration of the daily report that Wholesale Energy Group and Finance can access on the Internet daily to confirm the previous day's trading activities:

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APPENDIX 12**TRADING AUTHORIZATION****Physical Power
Purchases and Sales****Other Physical and
Financial Transactions**

Rick McCord	Up to \$5 million	Up to \$5 million
Brian Berkstresser	Up to \$5 million	*Up to \$5 million
Katie Barton	Next 7 days and up to \$1 million	*Next 7 days and up to \$1 million
Greg Sweet	Next 7 days and up to \$1 million	*Next 7 days and up to \$1 million
Jay Haralson	Next 7 days and up to \$1 million	*Next 7 days and up to \$1 million
Matthew Howard	Next 7 days and up to \$1 million	*Next 7 days and up to \$1 million
Michael Kidwell	Next 7 days and up to \$1 million	*Next 7 days and up to \$1 million
Tim Wilson	Next 7 days and up to \$1 million	*Next 7 days and up to \$1 million
Kristy Tackett	Next 7 days and up to \$1 million	*Next 7 days and up to \$1 million

Brad Beecher	Up to \$10 million	Up to \$10 Million
John Deffenbaugh	Next 3 days	None
Jim Graham	Next 3 days	None
Denny Fales	Next 3 days	None
Kenny Myers	Next 3 days	None
Todd Murray	Next 3 days	None
Don Kimrey	Next 3 days	None

*Denotes only physical transactions
trading authorization

- The persons listed above are authorized only to engage in the types of transactions specifically approved by the RMOC and the Energy Risk Management Policy.
- Although system dispatchers should do whatever is necessary to ensure system reliability, they should immediately notify the Director of System Operations or a Senior Officer in the event they enter into a single transaction exceeding \$250,000 in a calendar day
- Transactions greater than \$5 million must be pre-approved by at least two-thirds (2/3) of the Senior Officers appointed to the RMOC by completing a Wholesale Energy Group Purchase and/or Sale Pre-Approval Form (see attached). If 2/3 of the Senior Officers appointed to the RMOC are not available, the President and CEO will pre-approve in their place.
- In Rick McCord's absence, any single VP on the RMOC can approve any transaction up to \$5 million.
- Transactions beyond the limits set forth above require the completion of a Pre-Approval Form (see APPENDIX 13) prior to the execution of the sale and/or purchase.
- In the event a market opportunity arises and no other approved trader is available, the VP-Energy Supply has the authority to execute the trade. In this situation, if the trade is less than \$5 million, one additional Senior Officer appointed to the RMOC must approve the trade. If the trade is greater than \$5 million, then the two additional Senior Officers appointed to the RMOC or the President and CEO must pre-approve the trade as defined in Appendix 13 of this policy.

Wholesale Energy Group Purchase and/or Sale Pre-Approval Form

This form is to convey pre-approval of the Officers or RMOC for purchases and/or sales that are beyond the approval limits of the members of the Wholesale Energy Group as set forth in *Appendix 12 - Trading Authorization* of the Energy Risk Management Policy.

Approval for:	(circle one) Purchase Sale	(circle one) Nat Gas Power
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Quantity	Minimum _____ Maximum _____
----------	--------------------------------

Price	Minimum _____ Maximum _____
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Timeframe	Months _____ Years _____
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	Total \$ Value
Minimum	\$ _____ -
Maximum	\$ _____ -

Other Comments:

Approval is valid until:	Filled _____ Date _____
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Signatures	Name: _____ Title: _____ Date: _____	Name: _____ Title: _____ Date: _____
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