

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of The Empire District Electric)	
Company of Joplin, Missouri for authority)	
to file tariffs increasing rates for electric)	Case No. ER-2006-0315
service provided to customers in the)	
Missouri service area of the Company)	

**STIPULATION AND AGREEMENT
AS TO CERTAIN ISSUES**

COME NOW The Empire District Electric Company ("Empire" or the "Company") and the Staff of the Missouri Public Service Commission ("Staff"), and respectfully state to the Missouri Public Service Commission ("Commission") that, as a result of negotiations, the undersigned parties ("Parties") have reached the stipulations and agreements contained herein in order to settle the certain issues specified below.

1. **Issues Settled.** This Stipulation and Agreement is intended to settle the following issues previously identified by some or all of the Parties through testimony and or schedules.

- Banking fees;
- Outside services;
- Edison Electric Institute expense;
- Healthcare expense;
- Life insurance expense;
- Rate case expense;
- Deferred income taxes;
- Energy Center Income Statement;

- Energy Center Rate Base;
- State tax flow-through;
- Prepaid pension asset;
- Allocation of taxes other than income taxes;
- FAS 87 pension costs;
- Other post-employment benefit (OPEB) costs;
- Test period revenue;
- Retirement work in progress;
- Other maintenance costs;
- Cash working capital;
- Growth on sales to municipals;
- Storm damage/tracker expense; and,
- Tariff issues relating to the Experimental Green Power Schedule, Rider EGP, street lighting service charge, tariff section 5 sheets 12-17 and 17a and tariff sheet header presentation.

2. **Revenue Requirement.** In settlement of the above issues, the Company's revenue requirement, as computed by the Staff, shall be increased by \$2,000,000, as reflected in the Staff's Revised Reconciliation attached hereto as **Appendix A**. The revenue requirement for the IEC Termination scenario is based on the Staff's present Missouri permanent rate revenues of \$285,933,543 as set out in **Appendix B**.¹ The revenue requirement for the IEC Continuation

¹ Appendix B is provided in order to demonstrate the revenue impact of the settlement of the issues addressed herein. It does not reflect an agreement of the parties as to issues related to rate design or class-specific revenues.

scenario is based on the Staff's present Missouri permanent rate revenues of \$285,933,543 and the Staff's present IEC revenues of \$8,766,358 as set out in

Appendix B.

3. **OPEBs/FAS 106 Tracker Mechanism.** The Parties agree to the use of an OPEBs/FAS 106 "Tracker Mechanism" as described in the attached **Appendix C.** The sum of \$3,313,892 will be used as the starting point for the OPEBs/FAS 106 Tracker Mechanism until Empire's next general electric rate case.

4. **Stipulation Case No. ER-2004-0570.** The Parties agree to the language attached hereto as **Appendix D**, which language is intended to clarify and modify a Stipulation involving Pensions/FAS 87 previously approved by the Commission in Empire's Case No. ER-2004-0570. The sum of \$3,920,895 (exclusive of Supplemental Executive Retirement Pensions) will be used as the starting point for the Pensions/FAS 87 Tracker Mechanism until Empire's next general rate proceeding.

5. The provisions in this Stipulation and Agreement involving the OPEBs/FAS 106 tracker mechanism, the Pensions/FAS 87 tracker mechanism and the Storm Damage Expense tracker mechanism are not binding upon the Parties in future Empire rate proceedings.

6. **Energy Center Units 3 and 4.** The Parties agree that this Stipulation and Agreement resolves, for purposes of this proceeding and any and all future proceedings, all issues concerning the construction costs, including associated property taxes, of Empire's Energy Center Units 3 and 4. Empire

agrees that prior to the filing of its next general electric rate case, it will write off for regulatory purposes \$1 million, total company, of its Energy Center Units 3 and 4 costs booked to Plant in Service.

7. **Testimony Received Into Evidence.** Unless called by the Commission or the Regulatory Law Judge to respond to questions of the Commissioners or the Regulatory Law Judge, in the event the Commission accepts the specific terms of this Stipulation and Agreement the portions of the testimony of the following witnesses concerning matters not at issue between the Parties, including the Issues Settled as set out in paragraph 1, supra, shall be received into evidence without the necessity of these witnesses taking the stand:

Empire Witnesses and Testimony

W. Scott Keith	Direct testimony involving all issues except the off-system sales adjustment; Rebuttal testimony involving all issues except the off-system sales adjustment and gain on unwinding adjustment proposed by other parties.
Jayna R. Long	Direct and Rebuttal testimony involving all issues other than rate design
Todd W. Tarter	Rebuttal NP and HC - Staff correction of the Firm Transportation contract only
Blake A. Mertens	Rebuttal NP and HC – all
L. Jay Williams	Rebuttal testimony including all issues other than taxes pertaining to the proposed amortization proposed by other parties
Tim N. Wilson	Rebuttal – all
Gary C. Lentz	Rebuttal – all
C. Kenneth Vogl	Rebuttal – all

Laurie Delano Direct – all
 Rebuttal – all

Michael E. Palmer Direct – all

Staff Witnesses and Testimony

Kofi Boateng – Direct: All

Dana Eaves – Direct: All
 Rebuttal: All

Janis Fischer – Direct: pp. 29-31 (Fuel Inventory)

Paul Harrison – Direct: All
 Rebuttal: All

Paula Mapeka – Direct: All

Amanda McMellen – Direct: pp. 4-9, 16-22 (to line 6), 22 (from line 13)-29
(All issues except Incentive Compensation and Customer Program
Amortization)
 Rebuttal: pp. 3-4 (Deferred Income Taxes)

David Elliott – Direct: pp. 6-8 (Energy Center 3 and 4 Construction Costs)

Shawn Lange – Direct: All
 Rebuttal: All

Erin Maloney – Direct: All

William McDuffey – Direct: All

Curt Wells – Direct: All
 Rebuttal: All

Contingent Waiver of Rights

8. This Stipulation and Agreement is being entered into solely for the purpose of settling the identified issues in this case that are listed above. Unless otherwise explicitly provided herein, none of the signatories to this Stipulation

and Agreement shall be deemed to have approved or acquiesced in any ratemaking or procedural principle, including, without limitation, any other method of cost determination or cost allocation or revenue-related methodology. Other than explicitly provided herein, none of the signatories shall be prejudiced or bound in any manner by the terms of this Stipulation and Agreement in this or any other proceeding regardless of whether this Stipulation and Agreement is approved.

9. This Stipulation and Agreement has resulted from extensive negotiations among the signatories and the terms hereof are interdependent. If the Commission does not approve this Stipulation and Agreement unconditionally and without modification, then this Stipulation and Agreement shall be void and no signatory shall be bound by any of the agreements or provisions hereof, except as explicitly provided herein.

10. If the Commission does not unconditionally approve this Stipulation and Agreement without modification, and notwithstanding the provision herein that it shall become void; neither this Stipulation and Agreement nor any matters associated with its consideration by the Commission shall be considered or argued to be a waiver of the rights that any Party has for a decision in accordance with §536.080 RSMo 2000 or Article V, Section 18 of the Missouri Constitution, and the Parties shall retain all procedural and due process rights as fully as though this Stipulation and Agreement had not been presented for approval, and any suggestions, memoranda, testimony, or exhibits that have been offered or received in support of this Stipulation and Agreement shall

become privileged as reflecting the substantive content of settlement discussions and shall be stricken from and not be considered as part of the administrative or evidentiary record before the Commission for any purpose whatsoever.

11. In the event the Commission unconditionally accepts the specific terms of this Stipulation and Agreement without modification, the signatories waive their respective rights to present oral argument and written briefs pursuant to §536.080.1 RSMo 2000; their respective rights to the reading of the transcript by the Commission pursuant to RSMo §536.080.2 RSMo 2000; their respective rights to seek rehearing, pursuant to §536.500 RSMo 2000; and their respective rights to judicial review pursuant to §386.510 RSMo 2000. This waiver applies only to a Commission order respecting this Stipulation and Agreement issued in this proceeding and only to the issues that are resolved hereby. It does not apply to any matters raised in any prior or subsequent Commission proceeding or any matters not explicitly addressed by this Stipulation and Agreement.

Right to Disclose


12. The Staff may file suggestions or a memorandum in support of this Stipulation and Agreement. Each of the Parties shall be served with a copy of any such suggestions or memorandum and shall be entitled to submit to the Commission, within five (5) days of receipt of Staff's suggestions or memorandum, responsive suggestions or a responsive memorandum, which shall also be served on all Parties. The contents of any suggestions or memorandum provided by any Party are its own and are not acquiesced in or otherwise adopted by the other signatories to this Stipulation and Agreement,

whether or not the Commission approves and adopts this Stipulation and Agreement.

13. The Staff also shall have the right to provide, at any agenda meeting at which this Stipulation and Agreement is noticed to be considered by the Commission, whatever oral explanation the Commission requests; provided, that the Staff shall, to the extent reasonably practicable, provide the other Parties with advance notice of when the Staff shall respond to the Commission's request for such explanation once such explanation is requested from the Staff. The Staff's oral explanation shall be subject to public disclosure, except to the extent it refers to matters that are privileged or protected from disclosure pursuant to any protective order issued in this case.


WHEREFORE, for the foregoing reasons, the undersigned Parties respectfully request that the Commission issue its Order approving all of the specific terms and conditions of this Stipulation and Agreement.

Respectfully submitted,



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Certificate of Service

I hereby certify that a true and correct copy of the above and foregoing document was sent by U.S. Mail, postage prepaid, or hand-delivered, on this 18th day of August, 2006, to:

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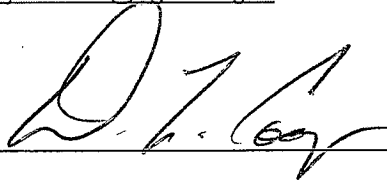
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Empire District Electric Company

ER-2006-0315

Revenue Requirement Reconciliation

IEC Termination Scenario

Line No.			
1	Company Revenue Requirement Per Reconciliation		28,061,275
2	Difference due to Tax Conversion Factor - Rounding Difference		
3	Company Revenue Requirement		28,061,275
4			
5	Rate of Return & Capital Structure		
6	Value of Capital Structure Issue - Staff / Company	0	
7	Capital Structure impact on Interest Expense Deduction	\$0	
8	Rev. Req. Value of Return on Equity	(\$10,815,114)	
9	Sub-Total Rate of Return and Capital Structure Differences		(\$10,815,114)
10			
11	Rate Base Issues :		
12	Disallowance of Plant	-	
13	Adjust AFUDC Costs for Plant	0	
14	Disallowance of Reserve	0	
15	Adjust AFUDC Costs for Reserve	0	
16	Sub Total E&C Cost Overruns		0
17	RWIP		-
18	Cash Working Capital		0
19	Prepayments		0
20	Prepaid Pension Asset		0
21	Customer Demand Programs		(7,376)
22	Deferred Income Taxes		0
23	Update Plant to March 31, 2006	0	
24	Plant not at Issue	0	
25	Update Reserve to March 31, 2006	0	
26	Depr. Reserve not at issue	0	
27	Amortization of Electric Plant	0	
28	Sub Total Unreconciled Differences		0
29	Sub Total - Rate Base Issues		(\$7,376)
30			
31	Income Statement - Revenue Issues		
32	Booked Revenue - Unadjusted		\$0
33	Eliminate Unbilled Revenues		\$0
34	Customer Growth Adjustment		\$0
35	Eliminate IEC Revenues	\$8,665,335	
36	Rate Increase Adjustment		\$0
37	Weather Normalization		\$0
38	Off-System Sales Normalization	(\$1,231,013)	
39	Eliminate Water Revenue		\$0
40	Sub Total - Revenue Adjustments		\$7,434,322
41			
42	Income Statement - Expense Issues		
43	Allocation of Taxes Other Than Income Tax		0
44	Annualized Variable Production Fuel Costs	2,011,162	
45	Annualization of Purchased Power for Energy Charges	(8,613,754)	
46	Subtotal Fuel and Purchase Power-Energy Costs		(6,602,592)
47	Annualize Interest Expense for Customer Deposits		0
48	Annualize Banking Fees		0
49	Annualize Outside Services		0
50	Annualize Rate Case Expense		0
51	Proprty Taxes - EC 3&4 Cost Overruns		0
52	Customer Demand Program		(4,570)
53	Annualize Payroll Taxes		(65,410)
54	Payroll Annualization		(941,404)
55	Incentive Compensation		0
56	Pensions & OPEBS		0
57	Maintenance Expense		0
58	Dues & Donations		0
59	401 (k)		0
60	Health Insurance		0
61	Life Insurance		0
62	Sub Total - Expense Adjustments		(\$7,613,975)
63			

Empire District Electric Company
ER-2006-0315
Revenue Requirement Reconciliation
IEC Termination Scenario

Line No.			
64	Income Taxes		
65	State Tax Flow-Through		
66	Sub Total - Income Tax Differences	0	\$0
67			
68	Total Value of All Issues		(\$11,002,143)
69			
70	Unreconciled Difference/Rounding		(\$10)
71			
72	Staff Revenue Requirement		\$17,059,122
73			
74	OPC Issues		
75	Rev. Req. Value of Return on Equity	477,966	
76	Rev. Req. Value of Capital Structure - OPC / Staff	(1,466,443)	
77	Capital Structure impact on Interest Expense Deduction		
78	Sub-Total Rate of Return and Capital Structure Differences		(988,476)
79			
80	Rate Base Issues :		
81	Sub Total - Rate Base Issues		
82			
83	Income Statement - Revenue Issues		
84	Off-System Sales	211,367	
85	Sub Total - Revenue Adjustments		211,367
86			
87	Income Statement - Expense Issues		
88	Storm Damage Expense	(174,299)	
89	ELIP Program Expense	(1) (100,000)	
90	Sub Total - Expense Adjustments		(274,299)
91			
92	Total Value of All Issues		(1,051,408)
93			
94	OPC Revenue Requirement		
95		(2)	\$16,007,714
96	Praxair / Explorer Pipeline Issues		
97	Income Statement - Expense Issues	(3)	
98	Fuel/Purchased Power Expense		

(1) If OPC's proposed modifications to the ELIP program design are not accepted, then OPC proposes to eliminate further funding for the program in rates so there should be an \$150,000 adjustment that would lower the annual funding amount to \$0.

(2) OPC has proposed an additional adjustment to variable production fuel costs to account for costs associated with non-recurring PRB coal delivery problems if such costs were reflected in Empire's filed case. At the time of this reconciliation, OPC is still waiting for Empire's response to OPC DR No. 5040 which should reveal whether such costs were actually included in Empire's filed case.

(3) It is the position of Explorer and Praxair (Industrials) that the IEC should remain in effect until the end of its 3 year term. Based on an understanding that Empire's claimed fuel and variable purchased power cost in the updated figures is \$117.4 million, Industrials would propose a decrease of \$20.5 million to reflect what the IEC collects. If, over the objections of Industrials, the Commission permits Empire to abandon the IEC, Industrials would propose a reduction of the claimed costs by \$16.6 million to more accurately reflect pro forma cost levels. (In this case additional reductions may be warranted to properly reflect the level of spot purchased power costs as proposed by Staff.)

Empire District Electric Company
ER-2006-0315
Revenue Requirement Reconciliation
IEC Continuation Scenario

Line No.			
1	Company Revenue Requirement Per Reconciliation		27,953,643
2	Difference due to Tax Conversion Factor - Rounding Difference		
3	Company Revenue Requirement		27,953,643
4			
5	Rate of Return & Capital Structure		
6	Value of Capital Structure Issue - Staff / Company	0	
7	Capital Structure impact on Interest Expense Deduction	\$0	
8	Rev. Req. Value of Return on Equity	(\$10,800,841)	
9	Sub-Total Rate of Return and Capital Structure Differences		(\$10,800,841)
10			
11	Rate Base Issues :		
12	Disallowance of Plant		
13	Adjust AFUDC Costs for Plant	0	
14	Disallowance of Reserve	0	
15	Adjust AFUDC Costs for Reserve	0	
16	Sub Total E&C Cost Overruns		0
17	RWIP		-
18	Cash Working Capital		0
19	Prepayments		0
20	Prepaid Pension Asset		0
21	Customer Demand Programs		0
22	Deferred Income Taxes		(7,376)
23	Update Plant to March 31, 2006	0	0
24	Plant not at Issue	0	
25	Update Reserve to March 31, 2006	0	
26	Depr. Reserve not at issue	0	
27	Amortization of Electric Plant	0	
28	Sub Total Unreconciled Differences		0
29	Sub Total - Rate Base Issues		(\$7,376)
30			
31	Income Statement - Revenue Issues		
32	Booked Revenue - Unadjusted	\$0	
33	Eliminate Unbilled Revenues	\$0	
34	Customer Growth Adjustment	\$0	
35	Eliminate IEC Revenues	(\$101,312)	
36	Rate Increase Adjustment	\$0	
37	Weather Normalization	\$0	
38	Off-System Sales Normalization	(\$1,231,013)	
39	Eliminate Water Revenue	\$0	
40	Sub Total - Revenue Adjustments		(\$1,332,325)
41			
42	Income Statement - Expense Issues		
43	Allocation of Taxes Other Than Income Tax	0	
44	Annualized Variable Production Fuel Costs	(26,754,233)	
45	Annualization of Purchased Power for Energy Charges	0	
46	Subtotal Fuel and Purchase Power-Energy Costs		(26,754,233)
47	Annualize Interest Expense for Customer Deposits	0	
48	Annualize Banking Fees	0	
49	Annualize Outside Services	0	
50	Annualize Rate Case Expense	0	
51	Property Taxes - EC 3&4 Cost Overruns	0	
52	Customer Demand Program	(4,570)	
53	Annualize Payroll Taxes	(65,410)	
54	Payroll Annualization	(941,404)	
55	Incentive Compensation	0	
56	Pensions & OPEBS	0	
57	Maintenance Expense	0	
58	Dues & Donations	0	
59	401 (k)	0	
60	Health Insurance	0	
61	Life Insurance	0	
62	Sub Total - Expense Adjustments		(\$27,765,615)
63			

Empire District Electric Company
ER-2006-0315
Revenue Requirement Reconciliation
IEC Continuation Scenario

Line No.			
64	Income Taxes		
65	State Tax Flow-Through		
66	Sub Total - Income Tax Differences	0	\$0
67			
68	Total Value of All Issues		(\$39,906,157)
69			
70	Unreconciled Difference/Rounding		
71			
72	Staff Revenue Requirement		(\$11,952,515)
73			
74	OPC Issues		
75	Rev. Req. Value of Return on Equity	477,335	
76	Rev. Req. Value of Capital Structure - OPC / Staff	(1,464,507)	
77	Capital Structure impact on Interest Expense Deduction		
78	Sub-Total Rate of Return and Capital Structure Differences		(987,172)
79			
80	Rate Base Issues :		
81	Sub Total - Rate Base Issues		-
82			
83	Income Statement - Revenue Issues		
84	Off-System Sales	211,367	
85	Sub Total - Revenue Adjustments		211,367
86			
87	Income Statement - Expense Issues		
88	Storm Damage Expense	(174,299)	
89	ELIP Program Expense	(1) (100,000)	
90	Sub Total - Expense Adjustments		(274,299)
91			
92	Total Value of All Issues		(1,050,104)
93			
94	OPC Revenue Requirement	(2)	(\$13,002,618)
95			
96	Praxair / Explorer Pipeline Issues		
97	Income Statement - Expense Issues	(3)	
98	Fuel/Purchased Power Expense		

(1) If OPC's proposed modifications to the ELIP program design are not accepted, then OPC proposes to eliminate further funding for the program in rates so there should be an \$150,000 adjustment that would lower the annual funding amount to \$0.

(2) OPC has proposed an additional adjustment to variable production fuel costs to account for costs associated with non-recurring PRB coal delivery problems if such costs were reflected in Empire's filed case. At the time of this reconciliation, OPC is still waiting for Empire's response to OPC DR No. 5040 which should reveal whether such costs were actually included in Empire's filed case.

(3) It is the position of Explorer and Praxair (Industrials) that the IEC should remain in effect until the end of its 3 year term. Based on an understanding that Empire's claimed fuel and variable purchased power cost in the updated figures is \$117.4 million, Industrials would propose a decrease of \$20.5 million to reflect what the IEC collects. If, over the objections of Industrials, the Commission permits Empire to abandon the IEC, Industrials would propose a reduction of the claimed costs by \$16.6 million to more accurately reflect pro forma cost levels. (In this case additional reductions may be warranted to properly reflect the level of spot purchased power costs as proposed by Staff.)

THE EMPIRE DISTRICT ELECTRIC COMPANY - CASE NO. ER-2006-0315
SUMMARY OF ANNUALIZED AND NORMALIZED RATE REVENUE

MISSOURI RETAIL

Rate Schedule	As Billed Rate Rev w/o taxes	Rate Change Annualization	Large Customer Annualizations	Normalization for Weather & Days	Additional Rev from Cust Growth	Total MO Normalized Rev
RG-Residential	\$126,103,253	\$3,994,474	0	(\$2,891,387)	\$2,392,021	\$129,598,362
CB-Commercial	\$27,717,632	\$728,654	0	(\$444,381)	\$158,050	\$28,159,955
SH-Small Heating	\$6,563,318	\$192,068	0	(\$14,419)	\$187,238	\$6,928,204
PFM-Feed Mill/Grain Elev	\$55,563	\$1,480	0	(\$349)	\$0	\$56,694
MS-Traffic Signals	\$56,168	\$1,412	0	(\$13)	\$0	\$57,566
GP-General Power	\$50,942,434	\$1,140,913	0	(\$397,689)	\$1,947,949	\$53,633,607
TEB-Total Electric Bldg	\$21,708,864	\$514,964	0	(\$178,751)	\$528,154	\$22,573,232
LP-Large Power	\$34,731,211	\$0	\$1,574,809	\$0	\$0	\$36,306,020
SC-P PRAXAIR	\$2,395,456	\$56,774	0	\$0	\$0	\$2,452,230
SPL-Municipal St Lighting	\$1,208,852	\$33,550	0	\$0	\$0	\$1,242,402
PL-Private Lighting	\$3,285,279	\$90,841	0	(\$10,923)	\$0	\$3,365,197
LS-Special Lighting	\$158,026	\$3,442	0	\$40	\$0	\$161,508
Missouri Billed Rate Revenue	\$274,926,056	\$6,758,571	\$1,574,809	(\$3,937,872)	\$5,213,413	\$284,534,977
Other Rate Revenue						
CP-Cogeneration Purchase	(\$165)					(\$165)
Excess Facilities Charges	\$1,721,892		\$19,751			\$1,741,643
Special Credits	(\$474,450)		\$131,538			(\$342,912)
MO Other Rate Revenue	\$1,247,277	\$0	\$151,289	\$0	\$0	\$1,398,566
MO Rev from Permanent Rates	\$276,173,333	\$6,758,571	\$1,726,098	(\$3,937,872)	\$5,213,413	\$285,933,543
Interim Energy Charges	\$6,305,092	\$2,461,266				\$8,766,358
Accounting Adjustment No.		S-1.5	S1.8,S-1.9,S-1.10	S-1.6,S-1.7	S-1.2	S-1.11

Schedule CW-1 (Revision 1)

Appendix B

- 1 3. In the case that FAS 106 expense becomes negative, the Company is ordered to set up
2 a regulatory liability to offset the negative expense. In future years, when FAS 106
3 expense becomes positive again, rates will remain zero until the prepaid asset that
4 was created by negative expense is reduced to zero. The regulatory liability will be
5 reduced at the same rate as the prepaid asset. This regulatory liability is a non-cash
6 item and should be excluded from rate base in future years.
- 7 4. A regulatory asset or liability will be established on the Company's books to track the
8 difference between the level of FAS 106 expense during the rate period and the level
9 of OPEB expense built into rates for that period. If the FAS 106 expense during the
10 period is more than the expense built into rates for the period, the Company will
11 establish a regulatory asset. If the FAS 106 expense during the period is less than the
12 expense built into rates for the period, the Company will establish a regulatory
13 liability. If the FAS 106 expense becomes negative, a regulatory liability equal to
14 the difference between the level of OPEB expense built into rates for that period and
15 \$0 will be established. Since this is a cash item, the regulatory asset or liability will
16 be included in rate base and amortized over 5 years at the next rate case.
- 17 5. The Company receives reimbursement in rates for its FAS 106 cost, including the
18 amortization of unrecognized amounts. Therefore, the Company will be directed to
19 set up a regulatory asset to offset any charges that would otherwise be recorded
20 against equity (e.g., decreases to other comprehensive income) caused by applying
21 the provisions of FAS 106 or any other FASB statement or procedure that requires
22 accounting adjustments due to the funded status or other attributes of the OPEB plan.
23 This regulatory asset should not be amortized into rates because it is expected to be

1 recovered in rates through future years' FAS 106 expense. The regulatory asset will
2 increase or decrease each year by the same amount that the equity charge increases or
3 decreases.

4 6. The regulatory assets/liabilities identified in this agreement will address all Rate Base
5 amounts.

1 fund future FAS 87 costs until such time that the entire prepaid pension asset has
2 been reduced to zero.

3 3. The Company receives reimbursement in rates for its FAS 87 cost, including the
4 amortization of unrecognized amounts. Therefore, the Company will be directed to
5 set up a regulatory asset to offset any charges that would otherwise be recorded
6 against equity (e.g., decreases to other comprehensive income) caused by applying
7 the provisions of FAS 87 or any other FASB statement or procedure that requires
8 accounting adjustments due to the funded status or other attributes of the pension
9 plan. This regulatory asset should not be amortized into rates because it is expected
10 to be recovered in rates through future years' FAS 87 expense. The regulatory asset
11 will increase or decrease each year by the same amount that the equity charge
12 increases or decreases.

13