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Issue: Payroll, Vegetation
Witness: Kelly S. Walters
Type of Exhibit: Rebuttal Testimony
Sponsoring Party: Empire District Electric
Case No. ER-2012-0345
Date Testimony Prepared: January 2013

**Before the Public Service Commission
of the State of Missouri**

Rebuttal Testimony

of

Kelly S. Walters

January 2013



TABLE OF CONTENTS
REBUTTAL TESTIMONY OF
KELLY S. WALTERS
ON BEHALF OF
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION
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SUBJECT	PAGE
I. INTRODUCTION	1
INCENTIVE COMPENSATION	2
VEGETATION MANAGEMENT	12

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OF
KELLY S. WALTERS
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. ER-2012-0345

1 **INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. Kelly S. Walters, 602 Joplin Avenue, Joplin, MO 64801.

4 **Q. WHO IS YOUR EMPLOYER AND WHAT POSITION DO YOU HOLD?**

5 A. My employer is The Empire District Electric Company (“Empire” or
6 “Company”). I hold the position of Vice President-Chief Operating Officer-
7 Electric.

8 **Q. ARE YOU THE SAME KELLY S. WALTERS THAT PREVIOUSLY**
9 **FILED DIRECT TESTIMONY IN THIS CASE?**

10 A. Yes.

11 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

12 A. I have prepared this rebuttal testimony to respond to the Missouri Public Service
13 Commission Staff (“Staff”) and Missouri Energy Users Association (“MEUA”)
14 recommendations to exclude a significant portion of Empire’s ongoing
15 compensation levels from the cost of service in this case. My rebuttal testimony
16 will explain how Empire’s executive compensation program is designed and how
17 Empire’s approach is similar to the approach utilized by companies comparable to
18 Empire. Further, I will explain how the overall executive compensation program
19 in place at Empire is reasonable and quite conservative when compared to the

1 Company's peers within the industry and to the national marketplace as well, and
2 why all components of executive compensation should be included in Empire's
3 test year expense. Lastly, I will explain Empire's incentive compensation
4 approach for non-executive salaried employees and how certain amounts Staff
5 recommends be excluded from test year expense should properly be included. I
6 will also address Empire's reaction to the position taken by Staff on vegetation
7 management costs and the vegetation management tracker.

8 **INCENTIVE COMPENSATION**

9 **Q. HOW IS THE EXECUTIVE COMPENSATION PROGRAM AT EMPIRE**
10 **DESIGNED?**

11 A. Empire's executive compensation is determined and administered by the
12 Compensation Committee of Empire's Board of Directors. The Compensation
13 Committee is made up of five non-employee independent Empire Board
14 members. Empire's executive compensation program is designed to provide a
15 competitive compensation package that will enable the Company to attract and
16 retain highly talented individuals for key positions and promote the
17 accomplishment of our performance objectives. Empire's compensation objective
18 is to be consistent with our industry peers while providing compensation which is
19 conservative when compared to the same peer group. Empire's compensation
20 program provides a base salary coupled with the opportunity to earn a higher level
21 of total compensation utilizing incentive programs that link compensation to
22 individual and Company performance factors. The Company targets total
23 compensation, base and incentive pay, at the 25th percentile of an industry specific

1 peer group. As explained below, the appropriate total compensation amount is
2 determined and then a certain portion of the compensation package is put at risk.
3 Empire's executive compensation program includes three basic compensation
4 elements: (1) base salary; (2) annual (short-term) cash incentives based on
5 threshold (minimum expected); target, and maximum performance measures; and,
6 (3) long-term incentives.

7 **Q. WHAT PROCESS DOES THE COMPENSATION COMMITTEE USE TO**
8 **ESTABLISH COMPENSATION?**

9 A. The Compensation Committee retains an independent third-party consultant to
10 provide guidance on best practices within executive compensation as well as to
11 provide recommendations for the establishment of a peer group and compensation
12 levels. The Committee completed the last study with the consultant, Hay Group,
13 in October 2012.

14 Attached to my rebuttal testimony as Schedule KSW-1 is the Appendix from the
15 latest Hay Group study. Page 1 of Schedule KSW-1 provides a list of the most
16 recently adopted industry-specific peer group. The peer group consists of sixteen
17 regulated electric, water, and natural gas investor-owned utilities that are similar
18 to Empire in revenue and market capitalization.

19 **Q. HOW DOES EMPIRE'S EXECUTIVE COMPENSATION APPROACH**
20 **COMPARE TO SIMILAR COMPANIES?**

21 A. As communicated by Hay Group, companies similar to Empire typically utilize
22 the same approach as Empire by incorporating a mix of base salary, short-term,
23 and long-term incentives into a total executive compensation package. This

1 reflects a “best practices” approach used by companies both inside and outside the
2 utility industry. Rather than relying solely on fixed compensation in the form of
3 base salary, this best practices approach also includes a considerable measure of
4 variable (**at risk**) compensation in the total compensation package. This approach
5 is a key factor in ensuring the alignment of an executive’s performance with the
6 interests of customers and shareholders. The approach is utilized by all but one of
7 the peer-group companies as well as all investor owned electric utilities operating
8 in Missouri.

9 **Q. ACCORDING TO YOUR UNDERSTANDING, HOW DOES EMPIRE’S**
10 **EXECUTIVE COMPENSATION PHILOSOPHY COMPARE WITH THE**
11 **COMPENSATION PHILOSOPHY OF OTHER COMPANIES?**

12 A. Although Empire’s approach to executive compensation is similar to other
13 companies, the philosophy behind the Company’s approach is much more
14 conservative. The Compensation Committee has targeted the base salary at the
15 25th percentile of the industry specific peer group discussed above for similarly
16 situated executives. In so doing, the Compensation Committee has set target base
17 salary levels significantly lower than the median base salary levels of our peer
18 group. As indicated by the accompanying Rebuttal Schedule KSW-1 (developed
19 by Hay Group through analysis of the executive compensation section of the 2011
20 proxy statements of the peer group), actual and target total compensation for
21 Empire executives is significantly below both the 25th percentile target set by the
22 Compensation Committee and the peer group median (Column M and N, pages 2-
23 7). As can be seen on page 2-7, Column D of Rebuttal Schedule KSW-1,

1 Empire's actual base salary for every executive officer lies significantly lower
2 than every company in our peer group. In fact, on the page of the Hay Group
3 report attached as Rebuttal Schedule KSW-2, it is noted that actual base salaries
4 are 27% below even the Compensation Committee's 25th percentile peer group
5 target.

6 The Compensation Committee has also established **short- and long-term**
7 **incentive** target levels for Empire's executives that are consistent with and **below**
8 those of the peer group companies. In terms of **total compensation**, the
9 Compensation Committee has set a target level for Empire executives that also
10 approximates the 25th percentile. Again looking at pages 2-7, Column M & N of
11 Rebuttal Schedule KSW-1, you will note that the Empire executives were the
12 lowest compensated in the entire peer group by a significant amount for both
13 actual and target compensation.

14 **Q. HOW DOES EMPIRE'S EXECUTIVE COMPENSATION PHILOSOPHY**
15 **IMPACT COMPENSATION AWARDS AS COMPARED TO THE**
16 **COMPARATOR COMPANIES?**

17 A. Because of Empire's conservative compensation philosophy, the Company's
18 overall compensation awards are significantly less than similar awards of the peer
19 group. As indicated by Rebuttal Schedule KSW-1, page 2, Column D, the base
20 salary of Empire's CEO is only 54% of the peer group median CEO base salary.
21 The long term incentive (stock compensation) and target non-equity incentive
22 compensation awarded to Empire's CEO are 35% (Column K) and 42% (Column
23 G) of the peer group medians, respectively. Finally, target total compensation

1 awarded to Empire’s CEO, as reported in the Hay Group report, is only 44% of
2 median total compensation awarded to peer group CEOs. In fact, total target
3 compensation is only 80% of the second lowest in the peer group, (Column N).

4 The same types of observations can be made with regard to compensation paid to
5 other Named Executive Officers (“NEOs”) listed in the Company’s proxy
6 statement. As can be shown on Rebuttal Schedule KSW-2, the average base
7 salary of Empire’s NEO’s, other than the CEO, is only 76% of the peer group
8 target. Again looking at pages 2-7 of Rebuttal Schedule KSW-1, total
9 compensation of every NEO is the lowest of any company in the peer group.

10 **Q. WHAT ADJUSTMENT IS STAFF WITNESS, CASEY WOLFE ,**
11 **PROPOSING TO EXECUTIVE COMPENSATION?**

12 A. Despite the fact that Empire’s compensation philosophy is conservative (25th
13 percentile of a regulated industry specific peer group) and despite the fact that the
14 executives are currently not compensated at the conservative target, Ms. Wolfe
15 still recommends the removal of several components of Empire’s total
16 compensation package from test year expense, namely those that constitute the
17 variable, equity, or at risk portions of executive compensation. Additionally, the
18 Staff is recommending removal of compensation associated with the Management
19 Incentive Compensation Plan (“MIP”), Lightning Bolts, which are generally lump
20 sum cash payments to individual employees.

21 **Q. HOW DO YOU CHARACTERIZE THESE STAFF ADJUSTMENTS TO**
22 **EXECUTIVE COMPENSATION?**

23 A. They are unreasonable.

1 **Q. WHY?**

2 A. Total target compensation for Empire is significantly below the peer group
3 median, and in fact is the lowest in the peer group. Our program is designed with
4 consideration of best industry practices such that the cash incentive (at risk)
5 compensation expense associated with the performance measures discussed above
6 is properly includable in cost of service.

7 No cash incentive awards are payable to an executive officer unless performance
8 is above the threshold, or minimum, level of expected performance as approved
9 by the Compensation Committee. In the case of each of the disallowed amounts
10 discussed above, performance exceeded the threshold level of expected
11 performance.

12 Further, there is no doubt Empire's customers benefit directly from high levels of
13 executive performance with regard to securing adequate low-cost capital to fund
14 our capital expenditures and the oversight of jointly-owned plant through joint
15 ownership meetings.

16 In addition, the Staff recommends removal of the full amounts of the equity
17 compensation (performance-based restricted stock and stock options) associated
18 with the long-term incentive award.

19 **Q. DO YOU AGREE WITH THE STAFF'S RECOMMENDATION TO**
20 **REMOVE SUCH FORMS OF VARIABLE OR AT-RISK**
21 **COMPENSATION FROM TEST YEAR EXPENSE?**

22 A. No. The elimination of the variable or at-risk compensation incorrectly assumes
23 such awards are **not part of total compensation**, but, instead, are **in addition to**

1 **total compensation** developed by Empire, and therefore constitute additional
2 compensation without a corresponding benefit to Empire and its customers. Each
3 component of variable compensation is essential to complete the executive’s total
4 compensation package. Variable compensation is “at risk”, and standards, in the
5 form of performance criteria, are necessary in order to determine what portion of
6 the compensation is earned. The Compensation Committee has developed such
7 performance criteria as a function of placing a substantial portion of an
8 executive’s total compensation in variable rather than fixed vehicles in order to
9 encourage high levels of performance. This approach is consistent with the
10 approach utilized by the peer group and the utility industry in general.

11 **Q. WHAT IS THE CONSEQUENCE OF FOLLOWING STAFF’S**
12 **RECOMMENDED ADJUSTMENTS TO EXECUTIVE COMPENSATION?**

13 A. Staff’s position tends to undermine the overall objectives of Empire’s
14 Compensation Committee by shifting more of the emphasis to base compensation
15 to ensure cost recovery through rates. The Compensation Committee could
16 design an executive compensation program that includes *all* short- and long-term
17 incentive compensation amounts in base salary, (like what was done at California
18 Water Services as displayed in the Hay Group Study). However, the
19 Compensation Committee doesn’t believe such a design philosophy serves the
20 customer or shareholder as well as the design of the compensation program
21 currently in place. Consistent with the Compensation Committee’s philosophy,
22 which I discussed earlier, whereby each executive’s total compensation package
23 consists of a considerable measure of variable (at risk) compensation, it is

1 necessary for the Compensation Committee to establish a set of standards, or
2 performance criteria, to determine what portion of variable pay is earned. The
3 performance criteria for each executive are tied to the Company's vision, and
4 goals established at the beginning of each performance year. These performance
5 criteria are different than those that might be determined for other non-executive
6 employees, but these criteria form the core of each executive's responsibility and
7 are not simply accomplishments that are above regular job duties.
8 Accomplishment of executive performance criteria has a significant positive
9 impact on the operational and financial condition of the Company. Conversely,
10 non-accomplishment of such performance criteria has a negative impact on the
11 Company. The degree, or lack thereof, of accomplishment is reflected in the
12 variable nature of the associated compensation award.

13 The Staff's recommended adjustment which removes from test year expense the
14 variable compensation expense related to short- and long-term components of the
15 executive compensation package, does not recognize the compensation awarded
16 each executive for accomplishment of the core responsibilities of his or her
17 position and the benefits those accomplishments bring to Empire and its electric
18 customers. In addition, the Staff's recommendation ignores the overall
19 conservative nature of Empire's compensation program. Therefore, all elements
20 of executive compensation should properly be included in test year expense.

21 **Q. HOW DOES EMPIRE APPROACH COMPENSATION WHEN IT**
22 **INVOLVES ITS NON-EXECUTIVE SALARIED EMPLOYEES AND**

1 **HOW DOES THAT APPROACH COMPARE WITH BEST PRACTICES**
2 **IN THE COMPENSATION FIELD?**

3 A. Empire follows best practices in its compensation structure for non-executive
4 salaried employees by linking the Company's performance management systems
5 with how employees are paid. This is achieved by allocating a percentage, or
6 fixed amount, of an employee's compensation to a variable pay program tied
7 directly to the attainment of goals and objectives set forth by management and
8 aligned with Empire's overall vision, goals and key business strategies. These
9 goals and objectives are above the regularly expected results of the non-executive
10 salaried employee's position, and, when achieved, add benefit not only to the
11 Company but to its customers as well.

12 **Q. DID THE STAFF PROPOSE ADJUSTMENTS TO NON-EXECUTIVE**
13 **SALARIED COMPENSATION EXPENSE FOR THE TEST YEAR?**

14 A. Yes. The Staff included the amount of non-executive salaried-compensation in
15 test year expense for non-executive salaried employees who were compensated in
16 cash. However, during the test year each department head's salary was reduced
17 from normal levels due to the financial impact of the restoration of our customers
18 back to service after the May, 2011 tornado. Going forward, the Company is
19 recommending an adjustment to increase the level of payroll for our non-
20 executive salaried employees to a normal level.

21 **Q. DOES THE STAFF RECOMMEND ADJUSTMENTS TO ANY OTHER**
22 **FORMS OF INCENTIVE COMPENSATION?**

1 A. Yes. Ms. Wolfe recommends removal of Lightning Bolt cost from test year
2 expense. This amount represents the entire amount of compensation awarded
3 through the program during the test year.

4 **Q. PLEASE EXPLAIN THIS PROGRAM.**

5 A. The Lightning Bolt program is not an incentive program. Through this program,
6 the Company provides cash awards to individuals who deliver results beyond
7 those normally associated with their position, often involving protracted time
8 beyond normal work hours spent on special projects. In no way does the
9 Lightning Bolt program fully compensate the non-executive salaried individual
10 for the additional effort they put forth. However, it is a vehicle available to the
11 Company to show appreciation to salaried individuals who do not earn overtime
12 for working beyond their normal hours during prolonged projects. Payments
13 made under the Lightning Bolt program are closely related to Empire's cost of
14 service, and should properly be included in test year expense. During the test year
15 in this case, most of the Lightning Bolt awards were related to the extraordinary
16 efforts of our employees during the restoration of electric service following the
17 May 2011 tornado.

18 **Q. WHAT IS EMPIRE'S RESPONSE TO THE POSITION TAKEN BY MEUA**
19 **ON INCENTIVE COMPENSATION?**

20 A. Empire disagrees with the MEUA incentive compensation disallowances. MEUA
21 has essentially eliminated many of the same items as Staff, and the same
22 arguments against Staff disallowances also apply to MEUA. For example,
23 MEUA has eliminated Lightning Bolt awards and discretionary awards for

1 Empire's executives. Due to the tornado and subsequent dividend suspension, no
2 short term or long term incentives were granted, thus further reducing
3 compensation even further below market based levels. The Compensation
4 Committee awarded a total of \$250,000 to existing executives to recognize both
5 recovery from the tornado and financial recovery allowing for dividend re-
6 instatement. As I noted above, Empire's overall compensation package is
7 designed to reflect total compensation and a portion of the total is put at risk. The
8 MEUA and Staff positions in this area are at odds with the industry standards on
9 the design of compensation packages.

10 **VEGETATION MANAGEMENT**

11 **Q. WHAT IS EMPIRE'S RESPONSE TO THE POSITION TAKEN BY**
12 **STAFF ON GOING LEVEL VEGETATION MANAGEMENT COSTS**
13 **AND THE VEGETATION MANAGEMENT TRACKER?**

14 A. Empire can agree with Staff's level of normalized vegetation management costs
15 as long as the current tracker mechanism will remain in place. If the vegetation
16 management tracker mechanism is eliminated, Empire's annual vegetation
17 management costs need to be increased to \$13.2 million on a Missouri
18 jurisdictional basis to establish a normalized level of ongoing vegetation
19 management expenses to be recovered in base rates.

20 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

21 A. Yes, it does.

Revised peer group – financial performance

Company (N=16)	Sales	Net Income (Loss)	Market Value	# EE's	Assets	TSR		Sales CAGR		NI CAGR		ROA		ROE		ROI	
						1 Yr	3 Yr	1 Yr	3 Yr	1 Yr	3 Yr	1 Yr	3 Yr	1 Yr	3 Yr	1 Yr	3 Yr
ALLETE	\$928	\$94	\$1,591	1,371	\$2,876	18%	15%	2%	5%	25%	4%	3%	3%	9%	8%	5%	4%
American States Water	\$419	\$46	\$825	732	\$1,238	4%	5%	5%	10%	38%	28%	3%	3%	10%	9%	6%	5%
Aqua America	\$712	\$143	\$3,493	1,615	\$4,348	1%	5%	-2%	4%	15%	13%	3%	3%	12%	11%	5%	5%
Black Hills	\$1,272	\$50	\$1,511	2,030	\$4,127	17%	13%	-3%	8%	-28%	-22%	1%	2%	3%	6%	2%	3%
California Water Svcs	\$502	\$38	\$767	1,132	\$1,855	1%	-5%	9%	7%	0%	-2%	2%	2%	8%	9%	4%	4%
Chesapeake Utilities	\$418	\$28	\$449	711	\$709	8%	15%	-2%	13%	6%	27%	4%	3%	11%	10%	8%	7%
Cleco	\$1,117	\$196	\$2,485	1,234	\$4,050	28%	23%	-3%	1%	-23%	24%	5%	5%	14%	14%	7%	7%
El Paso Electric	\$914	\$104	\$1,327	1,000	\$2,397	28%	25%	4%	-4%	3%	10%	4%	4%	14%	11%	7%	5%
Idacorp	\$1,027	\$167	\$2,079	2,058	\$4,961	18%	17%	-1%	2%	17%	19%	3%	3%	10%	9%	5%	5%
MGE Energy	\$546	\$61	\$1,143	712	\$1,459	13%	17%	3%	-3%	6%	5%	4%	4%	11%	11%	7%	7%
Northwestern	\$1,117	\$93	\$1,362	1,400	\$3,210	30%	21%	1%	-4%	20%	11%	3%	3%	11%	10%	5%	4%
Northwestern Natural Gas	\$849	\$64	\$1,319	1,050	\$2,747	7%	7%	5%	-6%	-12%	-3%	2%	3%	9%	10%	5%	5%
Otter Tail	\$1,078	(\$13)	\$819	3,155	\$1,701	3%	4%	-4%	-6%	N/A	N/A	1%	1%	3%	2%	2%	1%
South Jersey Ind	\$829	\$89	\$1,562	675	\$2,248	11%	16%	-10%	-5%	34%	5%	4%	4%	14%	12%	8%	8%
Unitil	\$353	\$16	\$363	454	\$800	32%	18%	-2%	7%	71%	19%	2%	2%	9%	6%	3%	3%
UNS Energy	\$1,510	\$110	\$1,653	2,004	\$3,985	8%	13%	4%	3%	-1%	99%	3%	3%	12%	13%	4%	4%
75th Percentile	\$1,088	\$105	\$1,607	1,712	\$4,001	21%	17%	4%	7%	22%	22%	4%	3%	12%	11%	7%	6%
Median	\$881	\$77	\$1,344	1,183	\$2,572	12%	15%	0%	2%	6%	11%	3%	3%	11%	10%	5%	5%
25th Percentile	\$535	\$44	\$823	727	\$1,640	6%	6%	-2%	-4%	-1%	5%	2%	3%	9%	9%	4%	4%
Empire District	\$577	\$55	\$894	746	\$2,022	-2%	13%	7%	4%	16%	11%	3%	2%	8%	7%	4%	4%
Percent Rank	28%	36%	28%	27%	36%	N/A	33%	96%	57%	60%	51%	33%	23%	13%	19%	20%	17%

Data: Standard & Poors

Market value & TSR data are as of 8/31/2012; all other data reflect fiscal year end

CEO

A	B	C	D	E	F	G	H	I	J	K	L	M	N
<i>(\$000s)</i>													
Company	Executive	Title	Base Salary	Actual Bonus		Target Bonus		Cash Compensation		Long-Term Incentives		Total Compensation	
				\$	% of Salary	\$	% of Salary	Actual	Target	Present Value	% of Salary	Actual	Target
ALLETE	Alan Hodnik	COB, Pres, CEO	\$495	\$563	114%	\$297	60%	\$1,058	\$793	\$447	90%	\$1,505	\$1,240
American States Water	Robert Sprowls	President, CEO	\$549	\$155	28%	\$165	30%	\$703	\$713	\$410	75%	\$1,113	\$1,123
Aqua America	Nicholas DeBenedictis	CEO	\$599	\$729	122%	\$450	75%	\$1,328	\$1,049	\$1,948	325%	\$3,276	\$2,997
Black Hills	David Emery	COB, Pres, CEO	\$638	\$342	54%	\$511	80%	\$980	\$1,149	\$799	125%	\$1,779	\$1,948
California Water Services	Peter Nelson	Pres, CEO	\$995	N/A	N/A	N/A	N/A	\$995	\$995	\$340	34%	\$1,335	\$1,335
Chesapeake Utilities	Michael McMasters	Pres, CEO	\$350	\$206	59%	\$140	40%	\$556	\$490	\$432	123%	\$988	\$922
Cleco	Bruce Williamson	Pres, CEO	\$700	\$578	83%	\$700	100%	\$1,278	\$1,400	\$2,326	332%	\$3,604	\$3,726
El Paso Electric	David Stevens	CEO	\$597	\$576	97%	\$418	70%	\$1,173	\$1,015	\$993	166%	\$2,166	\$2,008
Idacorp	J. LaMont Keen	Pres, CEO	\$635	\$942	148%	\$508	80%	\$1,577	\$1,143	\$715	113%	\$2,292	\$1,858
MGE Energy	Gary Wolter	COB, Pres, CEO	\$495	\$316	64%	\$247	50%	\$810	\$742	\$145	29%	\$956	\$887
Northwestern	Robert Rowe	Pres, CEO	\$514	\$415	81%	\$411	80%	\$929	\$925	\$493	96%	\$1,422	\$1,418
Northwestern Natural Gas	Gregg Kantor	Pres, CEO	\$466	\$359	77%	\$396	85%	\$825	\$862	\$581	125%	\$1,406	\$1,443
Otter Tail	Edward McIntyre	Pres & CEO	\$600	\$480	80%	\$480	80%	\$1,080	\$1,080	\$930	155%	\$2,010	\$2,010
South Jersey Ind	Edward Graham	COB, Pres, CEO	\$659	\$554	84%	\$495	75%	\$1,214	\$1,154	\$621	94%	\$1,835	\$1,775
Unitil	Robert Schoenberger	COB, Pres, CEO	\$525	\$318	60%	\$263	50%	\$843	\$788	\$202	38%	\$1,044	\$989
UNS Energy	Paul Bonavia	COB & CEO	\$624	\$527	84%	\$502	80%	\$1,151	\$1,126	\$941	151%	\$2,092	\$2,066
75th Percentile			\$636	\$569	90%	\$498	80%	\$1,183	\$1,130	\$933	152%	\$2,110	\$2,008
Median			\$598	\$480	81%	\$418	75%	\$1,026	\$1,005	\$601	118%	\$1,642	\$1,609
25th Percentile			\$509	\$330	62%	\$280	55%	\$838	\$791	\$426	86%	\$1,279	\$1,211
Empire District	Bradley Beecher	Pres & CEO	\$324	\$60	19%	\$178	55%	\$384	\$502	\$210	65%	\$595	\$712
Percentile Rank			Min	Min	Min	8%	25%	Min	0%	7%	18%	Min	Min
75th Percentile			\$645					\$1,028	\$908			\$1,718	\$1,642
Median	Regressed Proxy		\$555					\$892	\$801			\$1,382	\$1,309
25th Percentile			\$477					\$775	\$708			\$1,112	\$1,044
Empire District	Bradley Beecher	Pres & CEO	\$324					\$384	\$502			\$595	\$712

CFO

A	B	C	D	E	F	G	H	I	J	K	L	M	N
(\$000s)													
Company	Executive	Title	Base Salary	Actual Bonus		Target Bonus		Cash Compensation		Long-Term Incentives		Total Compensation	
				\$	% of Salary	\$	% of Salary	Actual	Target	Present Value	% of Salary	Actual	Target
ALLETE	Mark Schober	SVP, CFO	\$292	\$239	82%	\$131	45%	\$531	\$423	\$174	60%	\$705	\$597
American States Water	Eva Tang	SVP, CFO, Sec, Treas	\$320	\$60	19%	\$64	20%	\$380	\$384	\$98	31%	\$478	\$482
Aqua America	David Smeltzer	EVP, CFO	\$304	\$182	60%	\$137	45%	\$486	\$441	\$79	26%	\$565	\$519
Black Hills	Anthony Cleberg	EVP, CFO	\$337	\$112	33%	\$202	60%	\$448	\$538	\$349	104%	\$798	\$888
California Water Services	Martin Kropelnicki	VP, CFO, Treas	\$485	N/A	N/A	N/A	N/A	\$485	\$485	\$78	16%	\$563	\$563
Chesapeake Utilities	Beth Cooper	SVP, CFO, Corp Sec	\$245	\$90	37%	\$61	25%	\$335	\$306	\$213	87%	\$548	\$520
Cleco	Darren Olagues	SVP, CFO, Treas	\$306	\$202	66%	\$122	40%	\$508	\$428	\$240	79%	\$748	\$669
El Paso Electric	David Carpenter	SVP, CFO	\$334	\$246	74%	\$150	45%	\$581	\$485	\$277	83%	\$858	\$762
Idacorp	Darrel Anderson	EVP, CFO, Admin Svcs	\$383	\$355	93%	\$192	50%	\$738	\$575	\$287	75%	\$1,026	\$862
MGE Energy	Jeffrey Newman	VP, CFO, Sec, Treas	\$260	\$116	45%	\$91	35%	\$376	\$351	\$76	29%	\$452	\$427
Northwestern	Brian Bird	VP, CFO, Treas	\$337	\$170	50%	\$169	50%	\$507	\$506	\$226	67%	\$733	\$731
Northwestern Natural Gas	David Anderson	SVP, CFO	\$358	\$144	40%	\$161	45%	\$502	\$519	\$200	56%	\$702	\$719
Otter Tail	Kevin Moug	SVP, CFO	\$356	\$82	23%	\$202	57%	\$437	\$558	\$332	93%	\$769	\$890
South Jersey Ind	David Kindlick	VP, CFO	\$283	\$159	56%	\$142	50%	\$442	\$425	\$164	58%	\$606	\$589
Unitil	Mark Collin	SVP, CFO, Treas	\$255	\$108	42%	\$89	35%	\$363	\$345	\$68	26%	\$431	\$412
UNS Energy	Kevin Larson	SVP, CFO & Treas	\$340	\$185	54%	\$176	52%	\$525	\$516	\$342	101%	\$867	\$858
75th Percentile			\$344	\$193	63%	\$172	50%	\$512	\$517	\$280	84%	\$776	\$786
Median			\$327	\$159	50%	\$142	45%	\$486	\$463	\$207	63%	\$704	\$633
25th Percentile			\$290	\$110	39%	\$107	38%	\$423	\$413	\$93	30%	\$559	\$519
Empire District	Laurie Delano	VP, CFO	\$178	\$21	12%	\$62	35%	\$198	\$240	\$27	15%	\$225	\$267
Percentile Rank			Min	Min	Min	2%	14%	Min	Min	Min	Min	Min	Min
75th Percentile			\$344					\$474	\$424			\$617	\$586
Median	Regressed Proxy		\$308					\$428	\$395			\$566	\$537
25th Percentile			\$275					\$387	\$367			\$520	\$492
Empire District	Laurie Delano	VP, CFO	\$178					\$198	\$240			\$225	\$267

Position 2

(\$000s)													
Company	Executive	Title	Base Salary	Actual Bonus		Target Bonus		Cash Compensation		Long-Term Incentives		Total Compensation	
				\$	% of Salary	\$	% of Salary	Actual	Target	Present Value	% of Salary	Actual	Target
ALLETE	Mark Schober	SVP, CFO	\$292	\$239	82%	\$131	45%	\$531	\$423	\$174	60%	\$705	\$597
American States Water	Denise Kruger	SVP, Reg Utilities	\$339	\$65	19%	\$68	20%	\$404	\$407	\$98	29%	\$502	\$505
Aqua America	David Smeltzer	EVP, CFO	\$304	\$182	60%	\$137	45%	\$486	\$441	\$79	26%	\$565	\$519
Black Hills	Linden Evans	Pres, COO Utilities	\$383	\$154	40%	\$192	50%	\$537	\$575	\$399	104%	\$936	\$974
California Water Services	Martin Kropelnicki	VP, CFO, Treas	\$485	N/A	N/A	N/A	N/A	\$485	\$485	\$78	16%	\$563	\$563
Chesapeake Utilities	Stephen Thompson	SVP	\$295	\$111	38%	\$74	25%	\$406	\$369	\$213	72%	\$619	\$582
Cleco	Michael Madison	Fmr Pres, CEO	\$600	\$842	140%	\$510	85%	\$1,442	\$1,110	\$1,328	221%	\$2,770	\$2,438
El Paso Electric	David Carpenter	SVP, CFO	\$334	\$246	74%	\$150	45%	\$581	\$485	\$277	83%	\$858	\$762
Idacorp	Darrel Anderson	EVP, CFO, Admin Svcs	\$383	\$355	93%	\$192	50%	\$738	\$575	\$287	75%	\$1,026	\$862
MGE Energy	Scott Neitzel	VP	\$275	\$123	45%	\$96	35%	\$397	\$371	\$81	29%	\$478	\$452
Northwestern	Brian Bird	VP, CFO, Treas	\$337	\$170	50%	\$169	50%	\$507	\$506	\$226	67%	\$733	\$731
Northwestern Natural Gas	David Anderson	SVP, CFO	\$358	\$144	40%	\$161	45%	\$502	\$519	\$200	56%	\$702	\$719
Otter Tail	Charles MacFarlane	SVP	\$360	\$266	74%	\$216	60%	\$626	\$576	\$231	64%	\$857	\$807
South Jersey Ind	David Kindlick	VP, CFO	\$283	\$159	56%	\$142	50%	\$442	\$425	\$164	58%	\$606	\$589
Unitil	Thomas Meissner	SVP, COO	\$258	\$109	42%	\$90	35%	\$368	\$349	\$68	26%	\$435	\$416
UNS Energy	David Hutchens	President	\$360	\$189	53%	\$180	50%	\$549	\$540	\$360	100%	\$909	\$900
75th Percentile			\$366	\$243	74%	\$186	50%	\$557	\$549	\$280	77%	\$871	\$821
Median			\$338	\$170	53%	\$150	45%	\$505	\$485	\$207	62%	\$704	\$658
25th Percentile			\$294	\$133	41%	\$114	40%	\$433	\$419	\$94	29%	\$565	\$552
Empire District	Kelly Walters	VP, COO - Electric	\$243	\$46	19%	\$85	35%	\$289	\$328	\$36	15%	\$325	\$364
Percentile Rank			Min	Min	Min	12%	14%	Min	Min	Min	Min	Min	Min
75th Percentile			\$374					\$554	\$490			\$758	\$712
Median	Regressed Proxy		\$326					\$463	\$423			\$605	\$572
25th Percentile			\$283					\$387	\$366			\$483	\$459
Empire District	Kelly Walters	VP, COO - Electric	\$243	\$46	19%	\$85	35%	\$289	\$328	\$36	15%	\$325	\$364

Position 3

	A	B	C	D	E	F	G	H	I	J	K	L	M	N
	(\$000s)													
				Actual Bonus		Target Bonus		Cash Compensation		Long-Term Incentives		Total Compensation		
Company	Executive	Title	Base Salary	\$	% of Salary	\$	% of Salary	Actual	Target	Present Value	% of Salary	Actual	Target	
ALLETE	Deborah Amberg	SVP, GC, Sec	\$273	\$199	73%	\$109	40%	\$472	\$382	\$174	64%	\$646	\$557	
American States Water	McClellan Harris III	SVP, Asst Sec	\$330	\$57	17%	\$66	20%	\$386	\$396	\$98	30%	\$485	\$494	
Aqua America	Roy Stahl	CAO, GC, Sec	\$300	\$180	60%	\$120	40%	\$480	\$420	\$217	72%	\$697	\$638	
Black Hills	Anthony Cleberg	EVP, CFO	\$337	\$112	33%	\$202	60%	\$448	\$538	\$349	104%	\$798	\$888	
California Water Services	Francis Ferraro	VP, Corp Dev	\$401	N/A	N/A	N/A	N/A	\$401	\$401	\$78	19%	\$479	\$479	
Chesapeake Utilities	Beth Cooper	SVP,CFO, Corp Sec	\$245	\$90	37%	\$61	25%	\$335	\$306	\$213	87%	\$548	\$520	
Cleco	Darren Olagues	SVP, CFO, Treas	\$306	\$202	66%	\$122	40%	\$508	\$428	\$240	79%	\$748	\$669	
El Paso Electric	Mary Kipp	SVP, GC, CCO	\$278	\$182	65%	\$111	40%	\$459	\$389	\$137	49%	\$596	\$526	
Idacorp	Daniel Minor	EVP, COO	\$360	\$334	93%	\$180	50%	\$694	\$540	\$270	75%	\$964	\$810	
MGE Energy	Kristine Euclide	VP, GC	\$266	\$119	45%	\$93	35%	\$384	\$358	\$78	29%	\$462	\$437	
Northwestern	Heather Grahame	VP, GC	\$307	\$124	40%	\$123	40%	\$431	\$429	\$153	50%	\$583	\$582	
Northwestern Natural Gas	Margaret Kirkpatric	VP, GC	\$276	\$86	31%	\$97	35%	\$362	\$373	\$125	45%	\$487	\$497	
Otter Tail	Kevin Moug	SVP, CFO	\$356	\$82	23%	\$202	57%	\$437	\$558	\$332	93%	\$769	\$890	
South Jersey Ind	Michael Renna	Pres, COO	\$278	\$176	63%	\$141	51%	\$455	\$420	\$164	59%	\$618	\$584	
Unitil	Mark Collin	SVP, CFO, Treas	\$255	\$108	42%	\$89	35%	\$363	\$345	\$68	26%	\$431	\$412	
UNS Energy	Michael DeConcini	SVP, Ops	\$349	\$176	50%	\$168	48%	\$525	\$516	\$350	100%	\$875	\$867	
75th Percentile			\$340	\$181	64%	\$155	49%	\$474	\$451	\$248	81%	\$753	\$704	
Median			\$303	\$124	45%	\$120	40%	\$443	\$410	\$169	61%	\$607	\$569	
25th Percentile			\$275	\$99	35%	\$95	35%	\$386	\$380	\$118	41%	\$486	\$496	

Position 4

	A	B	C	D	E	F	G	H	I	J	K	L	M	N
<i>(\$000s)</i>														
Company	Executive	Title	Base Salary	Actual Bonus		Target Bonus		Cash Compensation		Long-Term Incentives		Total Compensation		
				\$	% of Salary	\$	% of Salary	Actual	Target	Present Value	% of Salary	Actual	Target	
ALLETE	David McMillan	SVP, External Affairs	\$250	\$181	72%	\$100	40%	\$432	\$351	\$130	52%	\$561	\$480	
American States Water	Eva Tang	SVP, CFO, Sec, Treas	\$320	\$60	19%	\$64	20%	\$380	\$384	\$98	31%	\$478	\$482	
Aqua America	Karl Kyriss	EVP, Pres, AC Ventures	\$257	\$114	44%	\$103	40%	\$370	\$359	\$148	58%	\$518	\$508	
Black Hills	Robert Myers	SVP, HR	\$292	\$78	27%	\$117	40%	\$370	\$409	\$200	68%	\$569	\$608	
California Water Services	Robert Guzzetta	VP, Ops	\$334	N/A	N/A	N/A	N/A	\$334	\$334	\$78	23%	\$412	\$412	
Chesapeake Utilities	Elaine Bittner	VP	\$195	\$69	36%	\$49	25%	\$264	\$244	\$465	238%	\$729	\$709	
Cleco	George Bausewine	President, COO	\$270	\$232	86%	\$141	52%	\$502	\$411	\$326	121%	\$828	\$737	
El Paso Electric	Rocky Miracle	SVP, Corp Plng & Dev	\$262	\$174	66%	\$105	40%	\$436	\$367	\$139	53%	\$575	\$506	
Idacorp	Rex Blackburn	SVP, GC	\$270	\$200	74%	\$108	40%	\$470	\$378	\$158	58%	\$628	\$536	
MGE Energy	Jeffrey Newman	VP, CFO, Sec, Treas	\$260	\$116	45%	\$91	35%	\$376	\$351	\$76	29%	\$452	\$427	
Northwestern	Curtis Pohl	VP, Retail Ops	\$241	\$98	40%	\$97	40%	\$339	\$338	\$120	50%	\$459	\$458	
Northwestern Natural Gas	Lea Anne Doolittle	SVP	\$252	\$81	32%	\$88	35%	\$333	\$340	\$90	36%	\$423	\$431	
Otter Tail	Shane Waslaski	SVP, Mftg & Infrastructure	\$330	\$83	25%	\$133	40%	\$413	\$463	\$128	39%	\$541	\$591	
South Jersey Ind	Jeffrey DuBois	SVP, Ops, COO	\$257	\$144	56%	\$129	50%	\$401	\$386	\$149	58%	\$549	\$534	
Unitil	George Gantz	SVP	\$205	\$74	36%	\$61	30%	\$279	\$266	\$38	19%	\$317	\$304	
UNS Energy	Kevin Larson	SVP, CFO & Treas	\$340	\$185	54%	\$176	52%	\$525	\$516	\$342	101%	\$867	\$858	
75th Percentile			\$299	\$178	\$1	\$123	\$0	\$433	\$391	\$168	\$1	\$588	\$595	
Median			\$261	\$114	\$0	\$103	\$0	\$378	\$363	\$134	\$1	\$545	\$507	
25th Percentile			\$252	\$79	\$0	\$90	\$0	\$338	\$340	\$96	\$0	\$457	\$451	
Empire District	Ronald Gatz	VP, COO - Gas	\$196	\$39	20%	\$68	35%	\$235	\$264	\$29	15%	\$264	\$294	
Percentile Rank			0%	Min	1%	16%	21%	Min	6%	Min	Min	Min	Min	
75th Percentile			\$284					\$381	\$358			\$567	\$553	
Median	Regressed Proxy		\$256					\$348	\$328			\$488	\$476	
25th Percentile			\$231					\$317	\$301			\$419	\$410	
Empire District	Ronald Gatz	VP, COO - Gas	\$196	\$39	20%	\$68	35%	\$235	\$264	\$29	15%	\$264	\$294	

Position 5

A	B	C	D	E	F	G	H	I	J	K	L	M	N
(\$000s)													
Company	Executive	Title	Base Salary	Actual Bonus		Target Bonus		Cash Compensation		Long-Term Incentives		Total Compensation	
				\$	% of Salary	\$	% of Salary	Actual	Target	Present Value	% of Salary	Actual	Target
ALLETE	Robert Adams	VP, Bus Dev, CRO	\$232	\$126	54%	\$69	30%	\$357	\$301	\$75	32%	\$432	\$376
American States Water	Patrick Scanlon	VP, Water Ops	\$259	\$37	14%	\$39	15%	\$297	\$298	\$78	30%	\$374	\$376
Aqua America	Christopher Franklin	EVP, Pres, COO, Reg Ops	\$250	\$136	55%	\$100	40%	\$386	\$350	\$145	58%	\$532	\$495
Black Hills	Steven Helmers	SVP, GC, Sec	\$292	\$78	27%	\$117	40%	\$369	\$408	\$270	92%	\$639	\$678
California Water Services	Paul Ekstrom	VP, Cust Svc, HR, IT	\$310	N/A	N/A	N/A	N/A	\$310	\$310	\$78	25%	\$388	\$388
Chesapeake Utilities	Joseph Cummiskey	VP	\$177	\$0	0%	\$44	25%	\$177	\$222	\$171	96%	\$348	\$392
Cleco	Wade Hoefling	SVP, GC	\$274	\$203	74%	\$123	45%	\$477	\$397	\$209	76%	\$686	\$606
El Paso Electric	Richard Fleager	SVP, Cust Care & Ext Affairs	\$247	\$164	66%	\$99	40%	\$411	\$346	\$161	65%	\$572	\$507
Idacorp	Lisa Grow	SVP	\$240	\$178	74%	\$96	40%	\$418	\$336	\$140	58%	\$558	\$476
MGE Energy	James Bidlingmaier	VP, Admin, CIO	\$199	\$85	43%	\$70	35%	\$284	\$269	\$59	29%	\$343	\$328
Northwestern	Bobbi Schroepel	VP, Cust Care, Comm, HR	\$213	\$65	30%	\$64	30%	\$278	\$277	\$69	33%	\$347	\$347
Northwestern Natural Gas	J. Keith White	VP, Bus Dev, CSO	\$229	\$82	36%	\$92	40%	\$311	\$321	\$87	38%	\$398	\$408
Otter Tail	George Koeck	SVP, GC, Corp Sec	\$306	\$76	25%	\$144	47%	\$381	\$449	\$252	82%	\$634	\$701
South Jersey Ind	Kevin Patrick	VP, R&D	\$236	\$115	49%	\$106	45%	\$351	\$342	\$114	48%	\$465	\$456
Unitil	Todd Black	SVP	\$196	\$71	36%	\$59	30%	\$267	\$254	\$38	20%	\$305	\$293
UNS Energy	Karen Kissinger	VP, Cont & Compliance	\$268	\$108	40%	\$103	38%	\$376	\$370	\$268	100%	\$644	\$639
75th Percentile			\$269	\$131	54%	\$105	40%	\$383	\$355	\$180	78%	\$588	\$532
Median			\$244	\$85	40%	\$96	40%	\$354	\$328	\$127	53%	\$448	\$432
25th Percentile			\$225	\$73	28%	\$67	30%	\$293	\$293	\$77	32%	\$368	\$376
Empire District	Michael Palmer	VP, TP & Corp Svcs	\$203	\$41	20%	\$71	35%	\$244	\$275	\$31	15%	\$275	\$305
Percentile Rank			15%	8%	11%	36%	36%	5%	18%	Min	Min	Min	2%
75th Percentile			\$254					\$336	\$318			\$451	\$447
Median	Regressed Proxy		\$230					\$298	\$291			\$401	\$392
25th Percentile			\$209					\$264	\$266			\$356	\$344
Empire District	Michael Palmer	VP, TP & Corp Svcs	\$203	\$41	20%	\$71	35%	\$244	\$275	\$31	15%	\$275	\$305

Targeted base salary

The following table provides base salary levels that target P25 of the peer group:

- In aggregate, current salaries are approximately 27% below the 25th percentile level of the peer group)


Incumbent	Current Midpoint	Current Salary	Targeted Base Salary ¹	Current Salary vs. Targeted Base Salary
President & CEO	\$374	\$324	\$510	63%
VP & COO Electric	\$280	\$243	\$295	82%
VP & CFO	\$205	\$178	\$290	61%
VP & COO Gas	\$190	\$196	\$250	78%
VP Trans Policy & Corp Svcs	\$190	\$203	\$225	90%
VP Energy Supply	\$190	\$165	\$225	73%
VP Commercial Ops	\$190	\$165	\$225	73%

¹ P25 of the proxy peer group market

AFFIDAVIT OF KELLY S. WALTERS

STATE OF MISSOURI)
) ss
COUNTY OF JASPER)

On the 14th day of January, 2013, before me appeared Kelly S. Walters, to me personally known, who, being by me first duly sworn, states that she is Vice President and Chief Operating Officer - Electric of The Empire District Electric Company and acknowledges that she has read the above and foregoing document and believes that the statements therein are true and correct to the best of her information, knowledge and belief.



Kelly S. Walters

Subscribed and sworn to before me this 14th day of January, 2013.

SHERRI J. BLALOCK
Notary Public - Notary Seal
State of Missouri
Commissioned for Newton County
My Commission Expires: November 16, 2014
Commission Number: 10969626



Notary Public

My commission expires: Nov 16, 2014.