

Summary of Terms and Conditions

Except where otherwise indicated herein, all terms and conditions of the Bonds shall generally conform to Model Form No. 2 of Note Purchase Agreement as published by the American College of Investment Counsel. This Summary of Principal Terms does not attempt to describe all of the terms and conditions that would pertain to the Bond Purchase Agreement ("BPA"), nor do its terms suggest specific phrasing of documentation clauses. Instead, it is intended to outline the basic points which will be used to structure the Issuer's securities. To the extent there exists a conflict between this Summary of Principal Terms and the draft BPA, the draft BPA shall govern.

The issue

Type of Offering	Private placement in accordance with Section 4(2) of the Securities Act of 1933
Issue	First Mortgage Bonds (the "Bonds")
Issuer	The Empire District Electric Company (the "Company" or the "Issuer")
Principal Amount	\$100 million. The Company reserves the right to increase or decrease the amount of the issue.
Bondholders	Institutional Accredited Investors
Placement Agent	UBS Securities LLC
Target Maturity	30 years from the Settlement Date (other maturities may be considered). Bullet Maturity.
Interest Rate	A spread of [•] basis points over the applicable US Treasury Note yield at the time of commitment. Interest will be payable semiannually in arrears.
Price	100% of Principal Amount.
Execution of Bond Purchase Agreement: Delayed Settlement	The Bond Purchase Agreement will be executed at a document Closing (currently anticipated to be October 10, 2012). All of the Bonds will be funded on the Settlement Date (currently anticipated to be May 30, 2013).
Use of Proceeds	To refinance existing debt and for general corporate purposes.
Security; Ranking	The Bonds will be senior secured obligations of the Company secured by a first mortgage lien on substantially all the fixed property and franchises owned by the Company (but not its subsidiaries), subject to certain exceptions and will rank <i>pari passu</i> with all other First Mortgage Bonds issued under the Company's Indenture of Mortgage and Deed of Trust (the "Indenture").
Settlement Date	As a condition to the funding of the Bonds, on the Settlement Date the Issuer will be required to deliver a no-default certificate pursuant to the Bond Purchase Agreement and reaffirm certain representations and warranties set forth in the Bond Purchase Agreement.

Prepayment of the Bonds

Required Payment	The entire principal amount shall be due and payable at final maturity.
Optional Prepayment	The Bonds are prepayable at any time in whole or <i>pro rata</i> in part, in an amount not less than 5% of the aggregate principal amount of the Bonds then outstanding in the case of a partial prepayment. In the event of any such prepayment, the Company will pay an amount equal to par plus accrued interest plus a "Make-Whole Amount," if any.
Make-Whole Amount	T+50 for Optional Prepayment. The term "Make-Whole Amount" means, with respect to any Bond, an amount equal to the excess, if any, of the Discounted Value of the Remaining Scheduled Payments with respect to the Called Principal of such Bond over the amount of such Called Principal, provided that the Make-Whole Amount may not in any event be less than zero.

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Change of Control

In the event of a Change of Control, the Bondholders will each individually have the right, but not the obligation, to put their Bonds back to the Company at an amount equal to par plus accrued interest, if any.

For the purposes of this paragraph "Change of Control" means, in respect of the Company, if (1)(i) any person (as such term is used in Section 13(d) and Section 14(d)(2) of the Securities Exchange Act of 1934, as in effect on the date of the Closing (as defined in the Bond Purchase Agreement) (the "Exchange Act")) or related persons constituting a group (as such term is used in Section 13d-5 under the Exchange Act), becomes the "beneficial owners" (as such term is used in Rule 13d-3 under the Exchange Act), directly or indirectly, of more than 50% of the total voting power of all classes then outstanding of the voting stock of the Company or (ii) the Company sells, leases, transfers, conveys or otherwise disposes of (including by way of merger or consolidation), in one or a series of related transactions, all or substantially all of its assets to any person (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) and (2) after giving effect to the occurrence of any such event, the Company or the person (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) that has acquired all or substantially all of the assets of the Company, shall (i) have an unsecured (unenhanced) long-term debt rating of (x) "BB+" or lower by Standard & Poor's, a division of The McGraw-Hill Companies, Inc. ("S&P") or (y) "Ba1" or lower by Moody's Investors Service, Inc. ("Moody's") or (ii) be rated by neither S&P nor Moody's.

Information Reporting

Financial Statements

The Company will provide to each Bondholder:

1. Quarterly (unaudited) consolidated financial statements of the Company and its subsidiaries within 60 days after each financial quarter (other than the last financial quarter in each financial year), certified by an authorized officer of the Company; and
2. Annual (audited) consolidated financial statements of the Company and its subsidiaries within 105 days after the end of each financial year, certified by an authorized officer of the Company.

The foregoing requirements may be satisfied by the filing of a Quarterly Report on Form 10-Q or Annual Report on Form 10-K, as applicable, within the above timeframes with the Securities and Exchange Commission.

Officer's Certificate

On an annual basis, the Company will provide to each Bondholder an officer's certificate confirming that there have been no events of default.

Affirmative Covenants

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In addition to the affirmative covenants set forth in the Indenture, the Bond Purchase Agreement will contain the following:

- a) compliance with laws and regulations including environmental laws and regulations, ERISA and the USA PATRIOT Act;
 - b) maintenance of corporate existence;
 - c) books and records;
 - d) status of Bonds as senior secured indebtedness;
 - e) recordation of Supplemental Indenture;
 - f) visitation and inspection rights; and
 - g) Notice of Default and Events of Default, notices in respect of ERISA and Environmental matters.
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Negative covenants

Limitation on Dividends

Empire's mortgage and its Restated Articles contain certain dividend restrictions. The most restrictive of these is contained in the mortgage, which provides that Empire may not declare or pay any dividends (other than dividends payable in shares of the Company's common stock) or make any other distribution on, or purchase (other than with the proceeds of additional common stock financing) any shares of, our common stock if the cumulative aggregate amount thereof after August 31, 1944 (exclusive of the first quarterly dividend of \$98,000 paid after said date) would exceed the sum of \$10.75 million and the earned surplus (as defined in the Company's mortgage) accumulated subsequent to August 31, 1944, or the date of succession in the event that another corporation succeeds to the Company's rights and liabilities by a merger or consolidation. On June 9, 2011, Empire amended the mortgage in order to provide the Company with additional flexibility to pay dividends to its shareholders by permitting the payment of any dividend or distribution on, or purchase of, shares of the Company's common stock within 60 days after the related date of declaration or notice of such dividend, distribution or purchase if (i) on the date of declaration or notice, such dividend, distribution or purchase would have complied with the provisions of the Company's mortgage and (ii) as of the last day of the calendar month ended immediately preceding the date of such payment, the Company's ratio of total indebtedness to total capitalization (after giving pro forma effect to the payment of such dividend, distribution, or purchase) was not more than 0.625 to 1.

Limitation on Acquisition of Properties

The Indenture will limit the Company's ability to acquire any property (other than electric equipment subject to chattel mortgages or similar liens) subject to a prior lien securing indebtedness that exceeds 60% of the sum of the fair value of the property and 166 2/3% of the amount of the first mortgage bonds issuable on the basis of all available property additions.

Limitation on the Issuance of Additional First Mortgage Bonds

The Indenture limits the aggregate principal amount of the bonds at any one time outstanding to \$1,000,000,000. Additional first mortgage bonds may be issued under the Indenture in a principal amount equal to:

- a) 60% of net property additions (as defined in the Indenture) acquired or constructed after September 1, 1944;
- b) the principal amount of certain retired bonds or prior lien bonds; and
- c) the amount of cash deposited with the Principal Trustee (as defined in the Indenture).

No bonds may be issued as provided in clauses (a) and (c) above, nor as provided in clause (b) above with certain exceptions, unless the Company's net earnings (as defined in the Indenture) are at least two times the annual interest on all first mortgage bonds (including the Bonds proposed to be issued) and indebtedness secured by a prior lien.

Additional Negative Covenants – Indenture

The Indenture will also contain limitations on the issuance of bonds, the withdrawal of cash or the release of property on the basis of prior lien bonds and property additions subject to a prior lien. In addition, any indebtedness of the Company secured by a prior lien on property at the time of its acquisition may not be increased unless the evidences of such increases are pledged to the Principal Trustee under the Indenture.

Negative Covenants – Bond Purchase Agreement

In addition to the negative covenants set forth in the Indenture, the Bond Purchase Agreement will contain the following:

- (a) Limitation on transactions with affiliates;
- (b) Limitation on line of business; and
- (c) Compliance with terrorism sanctions regulations.

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Events of Default

Events of Default

Events of Default under the Bond Purchase Agreement will include the following:

1. The Company defaults in the payment of any principal or Make-Whole Amount on the Bonds when due;
2. the Company defaults in the payment of interest on the Bonds when due by more than 5 business days;
3. the Company fails to (i) deliver notice of a Default or Event of Default, (ii) maintain its corporate existence or the senior secured ranking of the Bonds, or (iii) comply with any of its Negative Covenants;
4. the occurrence of certain defaults as set forth in the Indenture;
5. any representations or warranties proving false or incorrect in any material respect when made by the Company;
6. defaults of the Company in observance of any other term of the BPA (other than those described in items 1-5 above) which continue unremedied for 30 days;
7. with respect to the Company or any Significant Subsidiary, cross default on payment defaults on Indebtedness for borrowed money of at least \$20,000,000 or termination payments under swap contracts with swap termination values of at least \$20,000,000, and cross acceleration on Indebtedness for borrowed money of at least \$20,000,000;
8. the Company or a Significant Subsidiary has final judgments exceeding \$20,000,000 which remain unpaid or unstayed by appeal or otherwise for 45 days;
9. certain events involving bankruptcy or insolvency of the Company or any Significant Subsidiary; and
10. standard ERISA defaults with customary qualifications and exceptions.

Bondholders' Rights upon an Event of Default

Upon the occurrence of any Event of Default described in paragraphs 1 or 2 above, any Bondholder may declare its Bonds immediately due and payable in an amount equal to par plus accrued interest plus the Make-Whole Premium, if any. Upon the occurrence of any Event of Default described in paragraphs 3-8 and 10 above, the holder or holders of at least 50.1% of the aggregate unpaid principal amount may declare all of the Bonds to be immediately due and payable in an amount equal to par plus accrued interest plus the Make-Whole Premium, if any. Upon the occurrence of any Event of Default described in paragraph 9 above, all the Bonds shall be immediately due and payable in an amount equal to the outstanding principal amount plus any interest accrued thereon, plus the Make Whole Premium, if any (to the full extent permitted by applicable law). The holders of at least 50.1% of the aggregate unpaid principal amount may rescind acceleration any time thereafter in the event the Company shall have cured the Event of Default.

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Representations and Warranties

Representations and Warranties:

The BPA will contain the following representations and warranties:

- (a) Due organization and existence;
- (b) Due authorization, execution and delivery of the Bond Documents; enforceability of the Bond Documents;
- (c) Accuracy of financial statements; absence of material liabilities;
- (d) Adequacy of disclosure;
- (e) Organization and ownership of equity interests in subsidiaries;
- (f) No conflicts with law or contracts; no liens;
- (g) Governmental authorizations and regulatory approvals;
- (h) Legal proceedings and litigation;
- (i) Payment of taxes;
- (j) Title to properties and Collateral;
- (k) Licenses and Permits;
- (l) ERISA matters;
- (m) Securities Act exemption;
- (n) Use of proceeds; compliance with Regulations T, U and X;
- (o) Existing indebtedness; no default;
- (p) Compliance with foreign assets control regulations and anti-terrorism orders;
- (q) Status under the Investment Company Act of 1940;
- (r) Absence of environment claims or proceedings; and
- (s) Senior obligations.

Miscellaneous

Amendment and Waiver

Any provisions of the Bonds may be amended or waived with the written consent of the Required Holders except that each Bondholder must consent in writing to any amendment or waiver which adversely affects the interest rate, maturity, prepayment or redemption provisions, or the percentage required to amend the Bonds.

Issuer's Counsel

Cahill Gordon & Reindel LLP

Investors' Counsel

Winston & Strawn LLP

Governing Law

New York

Expenses

The Company will pay the reasonable legal fees of Investors' Counsel, whether or not the transaction closes.
