

**STATE OF MISSOURI
PUBLIC SERVICE COMMISSION**

At a session of the Public Service
Commission held at its office in
Jefferson City on the 25th day of
April, 2006.

In the Matter of the Application of The Empire District)	
Electric Company for Authority to Issue and Sell under)	
Its Existing Indenture of Mortgage and Deed of Trust)	
Dated as of September 1, 1944, as Amended and)	
Supplemented, up to and Including \$255,000,000)	<u>Case No. EF-2006-0263</u>
Principal Amount of its First Mortgage Bonds, in One)	
or More Series and to, Among Other Things, Execute)	
and Deliver a Supplemental Indenture or Indentures)	
to Provide for the Terms of Said Bonds.)	

ORDER GRANTING APPLICATION

Issue Date: April 25, 2006

Effective Date: May 5, 2006

This order grants the application filed by The Empire District Electric Company to sell up to \$200,000,000 of First Mortgage Bonds issued under its existing Indenture of Mortgage and Deed of Trust.

The Application

On December 19, 2005, The Empire District Electric Company asked for permission to sell up to and including \$255,000,000 principal amount of its First Mortgage Bonds under its existing Indenture of Mortgage and Deed of Trust. According to its application, Empire has an Indenture of Mortgage and Deed of Trust dated September 1, 1944. The Indenture of Mortgage and Deed of Trust, as supplemented, are a first mortgage lien on substantially all of Empire's property.

Empire will create a lien or encumbrance on its property to secure payment of the bond indebtedness, and therefore seeks the Commission's approval under Section 393.190.1 RSMo 2000. Empire plans to apply the proceeds of the bond sale to its general funds.

Staff Recommendation

The Staff of the Commission filed its Recommendation on March 31. Staff recommends that the Commission approve the application, subject to nine conditions. One condition is that Empire issue only \$200,000,000 in bonds, because Empire has decided to use \$55,000,000 of unsecured debt, instead of the originally planned secured debt, to acquire Aquila's Missouri gas properties. Therefore, Empire will only need to issue \$200,000,000 in bonds.

Empire responded on April 7, stating that it did not object to Staff's conditions, with one exception. Empire wants the word "electric" removed from Staff's fourth condition because Empire also has regulated water operations in Missouri. Empire states that it has no intention to use the proceeds of the bond sales for anything other than regulated purposes.

Staff replied on April 17, stating that Empire specifically mentioned its experimental regulatory plan for electric operations, and that Staff focused on Empire's electric operations only when it formed its Recommendation. Staff proposes broader language for its fourth condition that would include Empire's electric and water operations, and states that Empire does not object to Staff's proposal.

Discussion

The Commission has reviewed the parties' verified pleadings, which are admitted into evidence. The Commission finds that the transaction would not be detrimental to the public interest, and will therefore approve the transaction, subject to the conditions listed below, to which Empire and Staff agree.

IT IS ORDERED THAT:

1. The application filed by The Empire District Electric Company is granted, subject to the following conditions:

- A. The Empire District Electric Company shall be authorized to issue up to the reduced amount of \$200,000,000 in First Mortgage Bonds under its existing Indenture of Mortgage and Deed of Trust. The Empire District Electric Company shall not be authorized to use any portion of the debt securities for any purpose other than to discharge long term indebtedness by the payment of principal at maturity, to refinance outstanding indebtedness, including the payment of applicable redemption premiums, for construction identified as Projected Infrastructure Investments in Appendix A of the Experimental Regulatory Plan in Case No. EO-2005-0263, for construction associated with the Plum Point Power Plant and for other incidental electric utility construction projects.
- B. The Empire District Electric Company shall submit to the Financial Analysis Department of the Commission the three key financial ratios (i.e., Adjusted Total Debt to Total Capitalization, Adjusted Funds From Operations Interest Coverage, and Adjusted Funds From Operations as a percentage of Average Total Debt) that were agreed to and defined in the Stipulation and Agreement in Case No. EO-2005-0263. The financial ratios shall be submitted on a quarterly calendar year basis and after each issuance of long-term debt and/or common stock identified in Appendix 5 of the Application. The requirement to submit the financial ratios on a quarterly calendar year basis shall begin after the first issuance of First Mortgage Bonds covered by this Application. The ratios shall be calculated for The Empire District Electric Company on a consolidated basis and for The Empire District Electric Company's Missouri jurisdictional electric utility operations.

- C. The Empire District Electric Company's Adjusted Total Debt to Total Capitalization Ratio objective shall be 56.5% during the period of the Experimental Regulatory Plan approved by the Commission in Case No. EO-2005-0263. If the Adjusted Total Debt to Total Capitalization Ratio exceeds 56.5% based on a rolling twelve month average for the period subject to review in a rate case during the period of the Experimental Regulatory Plan, the amount of debt by which the 56.5% limit is exceeded and its associated interest expense shall not be considered in the calculation for determining additional amortization in any such rate case.
- D. The Empire District Electric Company shall make available to the Staff of the Commission sufficient documentation to ensure: 1) that the funds acquired through the issuance of securities under the Application shall be used exclusively for the benefit of The Empire District Electric Company's regulated electric utility operations, and not for the other operations of The Empire District Electric Company or any of its affiliates or non-regulated activities; and 2) that the amount of any and all other benefits that accrue to the funds shall be used exclusively for the benefit of The Empire District Electric Company's regulated electric and water utility operations.
- E. The Empire District Electric Company shall be required to file with the Commission all final terms and conditions on this financing including, but not limited to, the aggregate principal amount to be sold or borrowed, price information, estimated expenses, and the loan or indenture agreement concerning each issuance.
- F. The interest rates for these debt issuances shall not exceed 9% including any applicable discounts unless The Empire District Electric Company first obtains the Commission's approval.
- G. The Empire District Electric Company shall submit to the Financial Analysis Department of the Commission any information concerning communications with credit rating agencies in connection with this issuance(s).
- H. Nothing in the Commission's order shall be considered a finding by the Commission of the value of these transactions for ratemaking purposes, and that the Commission reserves the right to consider the ratemaking treatment to be afforded these financing transactions and their results in cost of capital, in any later proceeding.
- I. The Empire District Electric Company shall file with the Financial Analysis Department of the Commission any information concerning use of the funds from the issuance(s) with regard to redemption of any

outstanding long-term debt, including Net Present Value calculations indicating the amount of interest cost savings.

2. The Commission authorizes The Empire District Electric Company to execute, deliver and perform the agreements and instruments necessary to issue up to \$200,000,000 in First Mortgage Bonds under its existing Indenture of Mortgage and Deed of Trust as approved in this order.

3. This order shall become effective on May 5, 2006.

4. This case may be closed on May 6, 2006.

BY THE COMMISSION

A handwritten signature in black ink, appearing to read 'Colleen M. Dale', written over a horizontal line.

Colleen M. Dale
Secretary

(S E A L)

Davis, Chm., Murray, Clayton,
and Appling, CC., concur.
Gaw, C., dissents.

Pridgin, Regulatory Law Judge