

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

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)
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.)

Case No. EF-2006-0263

STAFF'S REPLY TO EMPIRE'S QUALIFIED CONSENT TO STAFF RECOMMENDED CONDITIONS

COMES NOW the Staff ("Staff") of the Missouri Public Service Commission ("Commission") and respectfully states as follows:

1. On December 19, 2005, The Empire District Electric Company ("Empire" or "Company") filed an Application requesting authority to issue and sell, from time to time, up to and including \$255,000,000 aggregate principal amount of Empire's First Mortgage Bonds under its existing Indenture of Mortgage and Deed of Trust.

2. On March 31, 2006, the Staff filed its Recommendation in support of Empire's Application, subject to nine conditions, including a recommended reduction in the amount of the authorization from \$255,000,000 to \$200,000,000. The reduction was mutually agreed to by the Staff and the Company.

3. On April 7, 2006, Empire filed its Qualified Consent To Staff Recommended Conditions, wherein the Company stated that it has no objection to a Commission Order approving its Application subject to the Staff's recommended conditions, with one exception concerning condition # 4. That condition states as follows:

That Empire shall make available to the Staff sufficient documentation to ensure that the funds, and the amount of any and all other benefits that accrue to the funds, acquired through issuance of securities under this Application shall be used exclusively for the benefit of Empire's regulated electric utility operations, and not for the other operations of Empire or any of its affiliates or non-regulated activities.

4. While not contesting the “purpose and spirit” of this condition, Empire requests that the restriction on the use of the proceeds, and the amount of any benefits accruing thereto, be broadened to include its regulated water utility operations. Empire notes that this would be consistent with a similar condition included in the Staff’s recommendation in Empire’s previous financing case, Case No. EF-2004-0109. Specifically, the Company requests that the word “electric” be omitted from the condition, or, alternatively, that the words “and water” be inserted after the word “electric.”

5. In developing its Recommendation, the Staff’s focus was on Empire’s regulatory plan authorized in Case No. EO-2005-0263, which addresses the Company’s financing agreements strictly with respect to its electric operations and which is specifically identified in Empire’s Application. Accordingly, condition # 1 of the Staff’s Recommendation, to which Empire does not object, limits use of the proceeds (other than debt discharge and refinancing) to electric operations. Specifically, condition # 1 states:

That the Company shall be authorized to issue up to the reduced amount of \$200 million in First Mortgage Bonds under its existing Indenture of Mortgage and Deed of Trust. The 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.

6. Upon reviewing the conditions set out in its Recommendation, the Staff has determined that the adoption of either of the Company's suggested alternative modifications, aimed at broadening condition # 4 of the Staff's Recommendation, would create an inconsistency with the condition # 1 limitation on the use of the proceeds to the Company's electric operations. However, the Staff believes it is reasonable to broaden the language of condition # 4, as it pertains to the application of "all other benefits that accrue to the funds," to include both the regulated electric and water operations of Empire. Therefore, the Staff recommends that the Commission revise condition # 4 of the Staff's Recommendation to read as follows:

That Empire shall make available to the Staff sufficient documentation to ensure: a) that the funds acquired through issuance of securities under this Application shall be used exclusively for the benefit of Empire's regulated electric utility operations, and not for the other operations of Empire or any of its affiliates or non-regulated activities; and b) and that the amount of any and all other benefits that accrue to the funds shall be used exclusively for the benefit of Empire's regulated electric and water utility operations.

7. Counsel for Empire has informed the Staff that the Company does not object to Staff's proposed modification to condition # 4.

WHEREFORE, the Staff respectfully recommends that the Commission issue an Order authorizing Empire to issue and sell long-term debt up to \$200,000,000 aggregate principal amount, subject to the nine conditions set forth in its March 31, 2006 Recommendation, but as modified in paragraph 6 hereinabove.

Respectfully submitted,

/s/ Dennis L. Frey

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Certificate of Service

I hereby certify that copies of the foregoing have been mailed, hand-delivered, or transmitted by facsimile or electronic mail to all counsel of record this 17th day of April 2006.

/s/ Dennis L. Frey