

MEMORANDUM

TO: Missouri Public Service Commission
Official Case File Case No. EO-2010-0262
The Empire District Electric Company

FROM: Mark L. Oligschlaeger, Auditing Department

/s/Mark L. Oligschlaeger 4/27/10 /s/Sarah L. Kliethermes 4/27/10
Project Coordinator/Date General Counsel's Office/Date

SUBJECT: Staff's Recommendation for Approval of The Empire District Electric Company's Application for Authority to Utilize Construction Accounting for its Investments Related to the Plum Point Generating Unit

DATE: April 27, 2010

On March 23, 2010, The Empire District Electric Company ("Empire" or "Company") filed its Application for the Commission to authorize use of "construction accounting" for its share of the investment in the Plum Point Generating Unit ("Plum Point") after Plum Point is declared fully operational and used for service. Empire's Application is filed pursuant to the Non-Unanimous Stipulation and Agreement filed February 25, 2010 in Case No. ER-2010-0130 ("ER-2010-0130 Stipulation"), Empire's current pending rate increase application. The ER-2010-0130 Stipulation provided that the Staff and other signatory parties would not oppose a request for authority to utilize construction accounting for Plum Point that was otherwise in conformity with the terms of the ER-2010-0130 Stipulation.

"Construction Accounting" is defined within the ER-2010-0130 Stipulation as "use of the same treatment for expenditures and credits with the accounting treatment prior to the time that an investment is found to be Fully Operational and Used for Service through the effective date of compliance tariffs filed in the next succeeding general rate case."

In Case No. EO-2005-0263, the Commission approved a Stipulation and Agreement setting out the terms of what is commonly known as Empire's "Regulatory Plan." Among other items, the Regulatory Plan authorized use of construction accounting for the Company's investment in the Iatan 2 Generating Unit and certain environmental upgrades associated with the Iatan 1 Generating Unit. As noted in the Company's Application, Empire had not agreed to participate in the Plum Point project at the time the Regulatory Plan was approved by the Commission, and construction accounting for Plum Point is not covered under the terms of the Regulatory Plan.

On October 29, 2009, Empire filed a general rate increase application docketed as Case No. ER-2010-0130 which, among other things, was filed to include the costs of the

Plum Point unit in rate base. Plum Point is currently scheduled to be fully operational and used for service in the summer of 2010.

On February 25, 2010, the parties entered into the ER-2010-0130 Stipulation which, among other things, provides that Plum Point plant costs incurred through the end of March 2010 will be included in rate base in Case No. ER-2010-0130 if Plum Point is declared fully operational and used for service by August 15, 2010. The ER-2010-0130 Stipulation also provides that the parties will support construction accounting for the amount of Plum Point plant investment not included in rate base in Case No. ER-2010-0130 from the date the unit is declared to be fully operational and used for service to the date of effective rates from Empire's next general rate proceeding, subject to an exclusion of up to 60 days measured from the in-service date of Plum Point to the date compliance tariffs in Case No. ER-2010-0130 become effective.

The ER-2010-0130 Stipulation specifies that while the signatory parties will not oppose Empire's request for construction accounting for Plum Point investment, they are free to raise issues in Empire's next general rate case regarding Empire's calculation or methodology concerning construction accounting, as well as to seek appropriate rate treatment of any imprudent plant costs afforded construction accounting by Empire and costs associated with imprudent construction accounting treatment by Empire.

Empire's Application is in conformity with the ER-2010-0130 Stipulation, and the Staff recommends that this Application be approved by the Commission.

