Exhibit No.:	
Issues:	*Payroll; Payroll Taxes; 401(K) Plan; Health Care Costs; Incentive Compensation; Meals; Promotional Items; Dues and Donations; Lobbying Expenses; Workers' Compensation; Outside Services*
Witness:	*Sean T. DeVore*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Direct Testimony*
Case No.:	*ER-2004-0570*
Date Testimony Prepared:	*September 20, 2004*

FILED[3]

DEC 2 8 2004

Missouri Public Service Commission

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

SEAN T. DEVORE

EMPIRE DISTRICT ELECTRIC COMPANY

CASE NO. ER-2004-0570

Jefferson City, Missouri
September 2004

Exhibit No. 37
Case No(s). ER-2004-0570
Date 12-06-04 Rptr KF

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In The Matter of the Tariff Filing of The Empire District Electric Company to Implement a General Rate Increase for Retail Electric Service Provided to Customers in its Missouri Service Area.	)))))	Case No. ER-2004-0570

AFFIDAVIT OF SEAN T. DEVORE

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Sean T. DeVore, being of lawful age, on his oath states: that he has participated in the preparation of the following direct testimony in question and answer form, consisting of 20 pages to be presented in the above case; that the answers in the following direct testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

Sean T. DeVore

Subscribed and sworn to before me this 17th day of September 2004.

Notary

TONI M. CHARLTON NOTARY SEAL NOTARY PUBLIC STATE OF MISSOURI

TONI M. CHARLTON
NOTARY PUBLIC STATE OF MISSOURI
COUNTY OF COLE
My Commission Expires December 28, 2004

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SEAN T. DEVORE

EMPIRE DISTRICT ELECTRIC COMPANY

CASE NO. ER-2004-0570

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DIRECT TESTIMONY

OF

SEAN T. DEVORE

EMPIRE DISTRICT ELECTRIC COMPANY

CASE NO. ER-2004-0570

Q. Please state your name and business address.

A. Sean T. DeVore, 1845 Borman Court, Suite 101, St. Louis, MO 63146.

Q. By whom are you employed and in what capacity?

A. I am a Utility Regulatory Auditor for the Staff of the Missouri Public Service Commission (Commission or PSC).

Q. Please describe your educational and employment background.

A. I graduated from Truman State University in May 2002 with a Bachelor of Science degree in Accounting. I commenced employment with the Commission Staff (Staff) in May 2002.

Q. What has been the nature of your duties while employed by the Commission?

A. I am responsible for assisting in the audits and examinations of the books and records of utility companies operating within the state of Missouri.

Q. Have you previously filed testimony before this Commission?

A. Yes. Please refer to Schedule 1, attached to this direct testimony, for a complete listing of filed testimony, including the related case numbers and issues involved.

Q. With reference to Case No. ER-2004-0570, have you made an examination and study of the books and records of Empire District Electric Company (Empire or Company)?

A. Yes, in conjunction with other members of the Staff. I specifically examined the Company's workpapers and testimony, various Company reports and documents, the Company's response to Staff data requests, various invoices, and portions of the Company's general ledger.

Q. Please identify your areas of responsibility in Case No. ER-2004-0570.

A. My principal areas of responsibility include payroll, payroll taxes, payroll related benefits, incentive compensation, dues and donations, lobbying, injuries and damages and outside services.

Q. What knowledge, skill, experience, training or education do you have in these matters?

A. While attending college, I took various accounting classes, including auditing. Since joining the Commission, I attended technical training sessions sponsored by the Commission. With the exception of injuries and damages, I have been assigned to audit the aforementioned issues in previous rate cases in which I participated. Furthermore, I received and continue to receive training and guidance from the experienced senior auditors at the Commission.

Q. What is the purpose of your testimony?

A. The purpose of my direct testimony is to sponsor and explain the accounting adjustments listed below:

Staff Adjustment Number	**Adjustment Area**
S-6.1, S-7.1, S-8.1, S-9.1 S-10.1, S-11.1, S-12.1, S-14.1	Payroll
S-20.1, S-20.2, S-20.3	Payroll Taxes
S-14.9	401(k) Plan

S-14.13	Health Care Costs
S-14.10	Incentive Compensation
S-6.5, S-9.4, S-10.5, S-14.8	Meals
S-8.6, S-9.6, S-10.7, S-11.3 S-12.3, S-14.14	Promotional Giveaway Items
S-6.7, S-9.7, S-10.8 S-11.4, S-14.15	Dues and Donations
S-14.18	Lobbying
S-14.11	Injuries and Damages
S-6.6, S-9.5, S-10.6, S-14.12	Workman's Compensation
S-14.7	Outside Services

PAYROLL

Q. What are the different components of the Staff's payroll annualization?

A. The payroll annualization considers executive, non-union full-time, non-union part-time, full-time union, part-time union and non-regulated employees. Commissions, overtime, incentive pay, total and permanent disability, supplemental executive retirement plan and other miscellaneous items are also included in Staff's payroll annualization.

Q. Please explain the methodology you employed to determine annualized payroll.

A. The annualized payroll is based upon the Company's employee levels at June 30, 2004. The wage rate and salary levels are based upon straight time wages/salaries according to the most recent information available through the end of June 30, 2004. Hourly wage rates were computed for hourly workers using 2,088 hours, which represents the number of work hours in a year based on the 12-month period ending June 30, 2004. Salary rates are computed on an annual basis as of June 30, 2004.

Q. Why were the wage rates/salaries and employee levels at June 30, 2004 used to calculate the payroll annualization?

A. Using information as of June 30, 2004, which is the end of the update period in this case, is consistent with other aspects of this case, and is consistent with the ratemaking principle of maintaining/matching the proper relationship of revenues, expenses and investment at a point in time.

Q. Please explain the Staff's calculation of the commissions portion of the payroll adjustment.

A. The commissions portion of payroll uses the test year level of commissions paid. Based on the Staff's examination of historical levels, the test year reflects an appropriate ongoing level of expense.

Q. Please explain the Staff's calculation of the overtime portion of the payroll adjustment.

A. The overtime portion of payroll was calculated using a five-year average of overtime hours worked for the years 1999 through 2003, multiplied by the most recent hourly overtime rate paid during the 12-months ended June 30, 2004, provided by the Company in response to Staff Data Request No. 132.

Q. Please explain how the Staff determined that a five-year average of overtime hours was appropriate.

A. The Staff performed a five-year historical analysis of overtime hours to determine the reasonableness of overtime dollars included in the test year payroll. The historical analysis of overtime hours indicated that hours varied by year with no consistently increasing or decreasing trend. Based upon the Staff's analysis, it was determined that a five-year average of overtime hours would be most representative of a normalized level of overtime hours.

Q. What miscellaneous items has the Staff included in its payroll annualization?

A. The miscellaneous items Staff has included are stipends for employees performing work-related events, educational assistance, gross-up pay associated with required physicals and overnight allowances for union employees away from home because of work.

Q. Why has Staff not included severance in its payroll annualization?

A. Empire's severance plan is called the "Change of Control Severance Pay Plan." This plan provides certain key employees with severance benefits following a change of control of Empire. There is not a change of control of Empire currently in progress. Therefore, Staff has not included the costs of anticipating such an expense in Staff's payroll annualization.

Q. How did you determine total annualized payroll?

A. The Staff's annualized payroll equals the sum of annualized salaries and wages; the test year level of commissions; the five-year average of overtime; incentive compensation, which will be discussed later in my direct testimony; and the test year levels of total and permanent disability, supplemental executive retirement and other miscellaneous items.

Q. How did the Staff calculate the allocation factor to apply to Empire's total payroll costs to determine the electric utility operation and maintenance (O&M) expense?

A. The electric O&M expense allocation factor was derived from data requested from Empire for the years 1999 through 2003, identifying the amounts charged to expense, construction and retirement for the electric, water and non-utility functions.

Q. Why has Staff used a five-year average to develop its electric O&M expense factor?

A. The Staff performed a five-year historical analysis of electric O&M expense factors to determine the reasonableness of the test year factor. The historical analysis indicated a year-to-year variance with no consistently increasing or decreasing trend. Based upon the Staff's analysis, a five-year average of electric O&M expense factors is most representative of a normal ongoing level. Staff's electric O&M expense factor is 70.51%. The remaining 29.49% is charges to construction, retirements, water operations and non-utility functions.

Q. How did the Staff determine the portion of annualized total Company payroll to be charged to electric O&M expense?

A. Staff multiplied total annualized payroll by the Staff's five-year average electric O&M expense factor to derive total annualized electric payroll expense. Total annualized payroll was then distributed to expense functions based upon the actual distribution of test year payroll. Staff includes all payroll, including non-regulated payroll, in its payroll annualization. Staff's O&M percentage eliminates the non-regulated portion from each aspect of Staff's payroll annualization.

Q. Has the Staff applied the electric O&M expense factor to other payroll related adjustments?

A. Yes. The Staff also applied the electric O&M expense factor to other payroll-related adjustments such as 401(k), health care costs and other employee benefits, which naturally follow payroll expense.

Q. Which income statement adjustments reflect the Staff's annualization and normalization of payroll?

A. The Staff's payroll adjustments are income statement adjustments S-6.1, S-7.1, S-8.1, S-9.1, S-10.1, S-11.1, S-12.1 and S-14.1.

PAYROLL TAXES

Q. Please explain adjustment S-20.2.

A. Adjustment S-20.2 annualizes Federal Unemployment Tax (FUTA) by multiplying that portion of each employee's salary at or under the current $7,000 FUTA limit by the current 2004 rate of .8%. I then applied the electric O&M expense factor of 70.51% to the total annualized FUTA amount to derive the electric O&M expense portion. This amount was compared to the test year level to determine the FUTA expense adjustment.

Q. Please explain adjustment S-20.3.

A. Adjustment S-20.3 annualizes State Unemployment Tax (SUTA) by multiplying the portion of each employee's salary at or under the respective State's SUTA limit by the respective State's 2004 rate. The dollar limits are: Missouri - $8,000, Kansas - $8,000, Oklahoma - $14,300 and Arkansas - $10,000. The 2004 rates are: Missouri - 0%, Kansas - .24%, Oklahoma - .1% and Arkansas - .9%. I then applied the electric O&M expense factor of 70.51% to the total annualized SUTA amount to derive the electric O&M expense portion. This amount was compared to the test year level to determine the SUTA expense adjustment.

Q. Please explain adjustment S-20.1.

A. Adjustment S-20.1 represents the annualization of the Federal Insurance Contributions Act (FICA) tax.

Q. Please explain how the Staff annualized the FICA tax.

A. FICA (Social Security) is comprised of Old Age, Survivors and Disability Insurance (OASDI) taxes and Medicare taxes. The OASDI tax rate of 6.2% is limited in calendar year 2004 to the first $87,900 of gross income per employee. The OASDI tax may also be reduced by the employee's election to set aside a portion of his/her gross salary/wages for healthcare, life insurance, medical expenses and/or dependent care through Empire's Employee Flexible Benefit Plan. The reduction of OASDI tax related to an employee's election to participate in the Employee Flexible Benefit Plan also reduces the applicable OASDI tax. Empire provided the Employee Flex Benefit Plan elections for 2003, updated through June 30, 2004, in response to Staff Data Request No. 379. The Medicare tax of 1.45% applies to the total gross income with no exclusions. I applied the appropriate OASDI and Medicare tax rates to the tax base portion of annualized wages/salaries for each individual employee. Staff applied the OASDI and Medicare tax rates to fringe benefits, commissions, overtime dollars, incentive compensation and miscellaneous items up to OASDI limitations to determine the annualized total Company FICA taxes. I then applied the electric O&M expense factor of 70.51% to the total annualized FICA amount to derive the electric O&M expense portion. This amount was compared to the test year level to determine the FICA tax expense adjustment.

PAYROLL RELATED BENEFITS

Q. Please explain adjustment S-14.9.

A. Adjustment S-14.9 reflects the increase in expenses for the Employee 401K Retirement Plan based upon the employees' current election. Under the 401(k) Plan, employees have the option of deferring, for receipt in the future, a portion of their salaries or wages. The Company matches 50% of the employee's deferral, up to a maximum of 6% of the employees' salaries/wages. Empire provided the employee 401(k) deferral election percentages for 2003 updated through June 30, 2004, in response to Staff Data Request No. 138. These amounts were applied to the annualized wage/salary levels to determine Empire's annualized 401(k) expense. The total Company expense factor was then applied to the total Company annualized 401(k) employer cost to determine the electric O&M expense portion. This amount was compared to the test year level to determine the adjustment.

Q. Please explain adjustment S-14.13.

A. Adjustment S-14.13 annualizes the health care expense for Empire employees. The Staff completed an analysis of the health care costs for active employees, retired employees and employees on Consolidated Omnibus Budget Reconciliation Act (COBRA) insurance based upon Empire's response to Staff Data Request No. 453. The analysis shows that health care expenses have escalated over the past years. The Staff annualized employee health care plans in effect through the update period ending June 30, 2004. Staff then applied the O&M factor to the annualized level of expense to derive the electric O&M health care expense portion. This amount was compared to the test year level to determine the adjustment.

INCENTIVE COMPENSATION

Q. Please describe Empire's employee incentive compensation plans.

A. Empire has three incentive plans that it provides to its employees. There is an incentive plan for the officers of the Company and a separate plan for salary non-officer employees. The officers' incentive plan is called the management incentive compensation plan (MIP). In addition to these two plans, Empire also offers certain employees lump-sum payments in the nature of bonuses in a program called "Lightning Bolts."

Q. Please give a brief description of the Company's MIP.

A. The Company's management incentive compensation plan is available to the Company's senior officers: President and Vice Presidents. The MIP is based on recommendations from an executive compensation study prepared by HayGroup, a consulting company hired by Empire. Empire has modified the MIP since the last rate case and because of this, the Staff was not able to apply a five-year analysis. The MIP considers three main categories of compensation: base salary, cash incentives and long-term stock incentives.

In early 2004, cash incentives were paid to senior officers for the achievement of goals during the calendar year 2003. Each senior officer had a list of goals pertaining to areas such as expense control, customer service, regulatory performance and financial performance. Each of these goals was given a specific performance measure and a weighting, thus providing a target cash payout. The amount of the award determination was based upon attainment of a specific performance level by that senior officer:

1. Threshold (50% of target payout),
2. Target (100% payout), and
3. Maximum (200% of target payout).

If the results for a specific goal were below the threshold, the senior officer did not receive an award related to that specific goal. If the results were at or above the level set for the maximum goal the senior officer received double the target cash award for that specific goal.

The long-term stock incentive is made up of stock options and performance shares. Stock options are considered part of the senior officer's total compensation and are granted each year to the officers of the Company. The senior officers do not have any extra goals to meet in order to be granted these stock options. The senior officer can exercise the options after a three-year vesting period if the stock price is higher than at the time of the grant and the senior officer is still employed by the Company.

Annually, there is a three-year comparison of total shareholder return between Empire and the companies in a peer group utilized in the HayGoup study. The total number of performance shares to be awarded is based on this comparison.

Q. Please explain Staff's treatment of the base salary and cash incentive portion of the MIP.

A. The Staff views the base salary considered in MIP to be the same as the base salary of other employees and has included the entire amount in its annualization of payroll. Historically, the Commission has ordered that, at a minimum, an acceptable management performance plan should contain goals that improve existing performance, and the benefits of the plan should be ascertainable and reasonably related to the plan. The Staff has applied the same criteria accepted by the Commission for incentive compensation plans for both management and salaried employees. The Staff performed an analysis of the cash incentives issued for the MIP in early 2004. These cash payments were for the achievement of goals during the test year 2003. Staff eliminated from recovery awards related to attainment of earnings goals. In the Staff's view, since financial goals primarily benefit shareholders, shareholders should bear the cost. There is no direct correlation between increased earnings and customer benefits. The Commission has historically not allowed incentive payments for goals related to the financial performance because these goals primarily benefit the shareholder. In its Report And Order in Case No. GR-96-285, Missouri Gas Energy (MGE), the Commission stated:

> ...the costs of MGE's incentive compensation program should not be included in MGE's revenue requirement because the incentive compensation program is driven at least primarily, if not solely, by the goal of shareholder wealth maximization, and it is not significantly driven by the interests of ratepayers.

Staff also eliminated payment for goals related to non-regulated activities and goals the Staff believes are part of the officers' normal job duties. The criteria utilized by the Commission and applied by the Staff requires that incentive compensation included in cost of service, be the result of employees performing beyond basic job requirements and providing benefits to Empire ratepayers. In the Report And Order in Case Nos. EC-87-114 and EC-87-115, Union Electric Company, the Commission stated:

> At a minimum, an acceptable management performance plan should contain goals that improve existing performance, and the benefits of the plan should be ascertainable and reasonably related to the plan.

The Company uses "at budget" and "on schedule" as target levels and commences payouts of 50% of the target level for outcomes that are over budget and past the scheduled completion date. Staff eliminated the cash incentives paid out relating to goals in which the results were over budget or past the scheduled completion date. Staff believes that by using these measurements for payout thresholds, the employees are allowed to perform below an appropriate level of expectation and still receive an award. Staff believes that at a minimum, goals should have a threshold for payouts of "at budget" or "on schedule."

Q. Please provide an example of a goal that Staff believes should be viewed as being part of the officers' normal job duties.

A. An example would be the goal to renew the Company's bank line of credit. The Company would have sought to renew and would have renewed its bank line of credit with or without this incentive compensation goal. Staff believes this would be part of an officer's normal job duties.

Staff also eliminated awards related to succession planning. While Staff believes that the Company should have a succession plan, Staff does not believe it should be a goal for incentive compensation. Staff considers succession planning a normal job responsibility of the officers of Empire.

Q. Please explain Staff's treatment of the long-term stock incentive portion of the MIP.

A. Staff eliminated all expenses for stock options during the test year in Staff adjustment S-14.10. These options are granted to the officers with no increase in duties or goals and no measurement of any specific duties or goals have been met. These options also accumulate dividend equivalents during the three-year vesting period. The dividend equivalents are intended to keep the executives focused on dividend maximization. Staff views dividend equivalents as focused on stockholder benefits with no direct connection to improvement in operating performance or quality of service to the ratepayer. Therefore, Staff believes that the stockholders should bear these costs.

There were no expenses booked during the test year for the performance shares due to a change in the way the Company accounts for the shares. The Company will experience higher expenses during 2004 to catch-up for the cost associated with prior years performance shares. Staff has not included any costs for the performance shares because the goal that triggers the awarding of the shares is total shareholder return. The Company's total shareholder return is compared to that of a peer group, chosen from a list of utility companies of comparative size and financial criteria by the HayGroup. The companies in the peer group do not do business in the State of Missouri. Since the triggering mechanism is total shareholder return, Staff believes that the cost of this benefit should be borne by the shareholder. By using the performance of a peer group to determine an incentive award, the Company has established criteria that are based on the financial performance of employees and factors beyond Empire's control. There is no direct correlation between the financial performance of the peer group of utilities and benefits to Empire ratepayers.

Q. What other incentive compensation plans does Empire offer its employees?

A. In addition to the MIP, the Company has a discretionary award pool that it uses to reward salaried employees who have met all items on a specified list of objectives.

Q. Please explain the Staff's treatment of the Company's discretionary compensation award pool.

A. In the Company's response to Staff Data Request No. 378, the Company provided a sample of employees who received a discretionary compensation incentive award for the test year and a description of the criteria under which the awards were granted. Staff reviewed the goals for each individual in the sample. It was discovered that in certain instances employees were being awarded for objectives met that were part of their normal job duties, and some employees were being awarded for their active involvement with certain charitable contribution campaigns, such as the United Way. Based on the sample provided in Staff Data Request No. 378, Staff calculated a percentage of awards in which the goals were related to normal job duties, involvement in charitable activities and non-cost of service activities, such as meeting with area legislators. Staff then applied that percentage to the total discretionary pool awarded to employees. The amount resulting from this calculation was disallowed by the Staff as unnecessary for the provision of safe and adequate service. There was no direct correlation between these incentive awards and benefits to Empire ratepayers.

Q. Please provide some examples of goals the Staff believes should be viewed as being part of the employees' normal job duties.

A. One example would be the goal of completing Sarbanes-Oxley Section 404 (SOX 404) documentation for the Securities and Exchange Commission (SEC) reporting process. SOX 404 requires public companies to thoroughly investigate and take responsibility for all of their internal operational and financial controls. This was a goal for Empire's SEC reporting manager. Staff believes that this item should be treated as being part of this individual's normal job duties and therefore not compensated for as part of an incentive compensation plan. Another example would be the goal to manage shift schedules and vacation schedules to make certain that each weekly shift is complete and within company guidelines. This was an incentive compensation goal for a shift supervisor. This should be treated as a normal job responsibility for this position.

Q. What additional incentive award program does Empire offer its employees?

A. Empire offers an additional discretionary award program to its non-union salaried employees referred to by the Company as "Lightning Bolts." This program provides cash awards to individuals who have delivered results that are beyond those normally associated with their position.

Q. Please explain Staff's treatment of "Lightning Bolts."

A. The Staff recommends disallowance of these payments, as they do not meet criteria accepted by the Commission for incentive compensation. Reasons for awarding "Lightning Bolts" listed in the Company response to Staff Data Request No. 364 include working on the United Way Campaign and performing normal responsibilities. There are no set criteria established or attached to the earning of such awards. Employees cannot ascertain the level of performance that must be achieved. These payments are made solely at the discretion of the Company's management.

MEALS EXPENSE

Q. Please explain adjustments S-6.5, S-9.4, S-10.5 and S-14.8.

A. These adjustments reflect the Staff's disallowance of costs associated with Christmas luncheons. These expenses are incurred at the discretion of the Company's management and are not necessary for the provision of safe and adequate service, and provide no direct benefit to the ratepayer.

PROMOTIONAL GIVEAWAY ITEMS

Q. Please describe adjustments S-8.6, S-9.6, S-10.7, S-11.3, S-12.3 and S-14.14.

A. These adjustments decrease expenses for the disallowance of promotional giveaway items distributed by Empire during the test year.

Q. Please describe the items that the Company offers as promotional giveaways.

A. The Company distributed many types of items (e.g., magnets, patriot flag maps, travel mugs, desk items, etc.) during the test year. Some of the items display the Empire logo. The Staff believes that the cost of promotional giveaways provides no direct benefit to the ratepayer and is not necessary for the provision of safe and adequate service. The Commission has previously disallowed the cost of promotional giveaway items that were similar in nature in several rate cases, including Missouri Cities Water Company, et al., Case No. WR-92-207.

DUES AND DONATIONS

Q. Please explain adjustments S-6.7, S-9.7, S-10.8, S-11.4 and S-14.15.

A. These adjustments decrease test year expenses relating to various dues and donations paid by the Company. The Staff recommends disallowing the dues and donations listed in Schedule 2, attached to my direct testimony, because they are not necessary for the provision of safe and adequate service, and do not provide any direct benefit to ratepayers.

Q. Do you have any specific comments on certain disallowances indicated on Schedule 2?

A. Yes. The dues to state and national chambers of commerce were disallowed on the basis that the activities of these groups duplicate the efforts of the local chambers of commerce located within the Company's four state service territory. Dues for memberships in local chambers of commerce were allowed because such memberships generally benefit the Company and its customers, through the Company's participation in the local communities it serves. The Commission has historically allowed in rates one chamber of commerce membership in each of the Missouri communities that a utility serves.

LOBBYING EXPENSES

Q. Did the Staff evaluate the lobbying expenses incurred by the Company?

A. Yes, the Staff evaluated the lobbying expenses incurred by the Company. While reviewing information provided in Staff Data Request No. 449, Staff found a total of 23 hours of William Gipson's time that was charged to account 920.101, Management and Administrative - Executives, that should have been charged to account 426.400, Civic, Political and Related Activities. Staff calculated an hourly wage rate for William Gipson and multiplied the wage rate by the number of hours to get a total dollar figure. Staff then applied the O&M percentage to the total dollar figure to calculate adjustment S-14.18.

INJURIES AND DAMAGES AND WORKERS' COMPENSATION

Q. Please explain adjustment S-14.11.

A. Adjustment S-14.11 reflects the Staff's normalization of injuries and damages expenses. The Staff's calculation regarding injuries and damages expense reflects a normalized level based upon the average actual injuries and damages paid during the last 60 months ending December 31, 2003, multiplied by 12 to determine an annualized level.

Q. Please explain Adjustment S-6.6, S-9.5, S-10.6 and S-14.12.

A. These adjustments annualize the excess workers' compensation insurance expense based on the June 30, 2004 premium rates. The Company has experienced a significant increase in the premiums during the test year for excess workers' compensation insurance due to the addition of a terrorism option and other fees.

OUTSIDE SERVICES

Q. Please describe adjustments S-14.7.

A. Independent (outside) contractors and vendors provided various services to Empire. The Staff reviewed the cost of outside services posted to accounts 923.005 through

923.514, Outside Services, during the 2003 test year. Staff's adjustment S-14.7 reflects both the normalizations and disallowances of a portion of these costs based on Staff's review of these transactions.

Q. Please give a brief description of the components of this adjustment.

A. This adjustment reflects the Staff's treatment of the costs associated with legal fees for the Enron North America Corp. (Enron) fuel contract dispute, the Kansas City Power & Light Company (KCPL) arbitration, the Riverton retirement analysis and the strategic planning study.

Enron claimed that Empire owed a sum of money for future physical purchases of natural gas as a result of Empire's early termination of a fuel contract with Enron. Enron disputed the lawfulness of the termination. Empire terminated the contract due to the fall of Enron's credit rating. Empire and Enron eventually settled the dispute. Staff has disallowed all legal fees pertaining to the Enron dispute, which was a one-time, nonrecurring event.

Staff has also disallowed all legal fees pertaining to the KCPL arbitration. This legal matter dealt with an interchange agreement between Empire and KCPL that is no longer in effect. The Staff views this item as a nonrecurring event.

The Riverton analysis performed by Burns & McDonnell examined and recommended changes to Empire's Riverton generating units 7 and 8. These units are aging and have not been substantially refurbished. The purpose of the study was to make recommendations for a plan of future plant operations spanning a 20-year planning period through 2022. The Staff believes that this expense will recur in the future as Empire continues to evaluate this facility. However, the Staff does not expect a Riverton plant assessment of units 7 and 8 to occur on an annual basis. Therefore, the Staff is recommending a normalization of the cost of this study over a five-year period.

Based on the Company's response to Staff Data Request No. 190.4, Staff has determined that a strategic planning study is performed every two years. Therefore, Staff has normalized the costs of the study performed during the test year over a period of two years.

Q. Does this conclude your direct testimony?

A. Yes, it does.

CASE PROCEEDING PARTICIPATION

SEAN T. DEVORE

PARTICIPATION		**TESTIMONY**
COMPANY	**CASE NO.**	**ISSUES**
Empire District Electric	ER-2002-0424	Direct – Advertising, Promotional Giveaways, Dues and Donations, PSC Assessment, Rate Case Expense, Postage Expense, Customer Deposits, Materials and Supplies, Prepayments, Customer Advances
Ameren UE	GR-2003-0517	Direct – Plant in Service, Depreciation Reserve, Depreciation Expense, Other Rate Base, Cash Working Capital, Property Taxes, Dues and Donations
Fidelity Telephone Company	IR-2004-0272	Direct – Test Year, Accounting Schedules, Payroll, Incentive Compensation, Advertising Expense, Dues and Donations, Promotional Giveaways, Outside Services, Legal Fees, Rate Case Expense, Rent Expense, Extraordinary Items, Travel and Lodging Expense

Empire District Electric
ER-2004-0570
Dues and Donations
Sean DeVore
DR 96 **Non-Proprietary**

Acct	Vendor Name	Amount	Sales Tax	Month	Year	Amount Disallowed	Reason
549120	Sam's Club	482.47	-	12	2003	**482.47**	Not needed for safe and reliable service
580001	Garry D Haralson - Rotary	106.00	-	10	2003	**106**	Involuntary donation
584022	Arkansas One-Call System Inc	57.50	-	3	2003	**57.5**	Not Missouri
588011	INTERNATIONAL LINEMANS HAYWARD	1,000.00		3	2003	**1000**	Already allowed
901001	Joplin Branch of NAACP	30.00	-	8	2003	**30**	Involuntary donation
907101	Marcia K Sadler - Rotary	27.00	-	1	2003	27	Involuntary donation
907101	Columbus Country Club	600.00	40.80	3	2003	600	golf dues
907101	Travis L Jones - SBU TD Club	147.62	-	10	2003	147.62	Involuntary donation
						774.62	
921102	Bradley P Beecher - Briarbrook Country Club	142.74	-	1	2003	142.74	Golf Dues
921102	Missouri Chamber Of Commerce	2,500.00	-	1	2003	2500	Already allowed are dues
921102	Briarbrook Country Club	112.74	-	1	2003	112.74	golf dues
921102	Twin Hills Golf & Country Club	1,889.72	-	1	2003	1889.72	Golf Dues
921102	Missouri Chamber Of Commerce	30.00	-	1	2003	30	Already allowed are dues
921102	Briarbrook Country Club	142.77	-	2	2003	142.77	Golf Dues
921102	Associated Industries Of Missouri	1,134.00	-	2	2003	1134	lobbying and tax deductible
921102	Twin Hills Golf & Country Club	52.08	-	2	2003	52.08	Golf Dues
921102	Bradley P Beecher - Briarbrook Country Club	142.74	-	2	2003	142.74	Golf Dues
921102	Briarbrook Country Club	142.74	-	3	2003	142.74	golf dues
921102	Twin Hills Golf & Country Club	908.02	-	3	2003	908.02	golf dues
921102	Briarbrook Country Club	142.74	-	4	2003	142.74	Golf dues
921102	MO SOUTHERN STATE COLLE GIPSON	530.00		4	2003	530	Involuntary Donation
921102	MO SOUTHERN STATE COLLE LONGAN	350.00		4	2003	350	Involuntary Donation
921102	Briarbrook Country Club	142.74	-	5	2003	142.74	golf dues
921102	MO SOUTHERN STATE COLLEG KNAPP	300.00		5	2003	300	Involuntary Donation
921102	Missouri Chamber Of Commerce	5,000.00	-	6	2003	5000	Already allowed area dues
921102	Twin Hills Golf & Country Club	50.00	-	6	2003	50	golf dues
921102	Bradley P Beecher - Briarbrook Country Club	142.74	-	6	2003	142.74	golf dues
921102	Briarbrook Country Club	285.48	-	7	2003	285.48	golf dues
921102	Twin Hills Golf & Country Club	50.00	-	8	2003	50	golf dues
921102	Twin Hills Golf & Country Club	44.59	-	8	2003	44.59	golf dues
921102	Bradley P Beecher - Briarbrook Country Club	157.74	-	8	2003	157.74	golf dues
921102	Twin Hills Golf & Country Club	50.00	-	9	2003	50	golf dues
921102	Briarbrook Country Club	142.74	-	9	2003	142.74	golf dues
921102	Bradley P Beecher - Briarbrook Country Club	142.74	-	9	2003	142.74	golf dues
921102	Twin Hills Golf & Country Club	50.00	-	10	2003	50	golf dues
921102	Briarbrook Country Club	152.74	-	10	2003	152.74	golf dues
921102	Bradley P Beecher - Twin Hills Country Club	136.13	-	10	2003	136.13	golf dues
921102	Briarbrook Country Club	152.74	-	11	2003	152.74	golf dues
921102	Twin Hills Golf & Country Club	50.00	-	11	2003	50	golf dues
921102	Bradley P Beecher - Twin Hills Country Club	186.13	-	11	2003	186.13	golf dues
921102	Twin Hills Golf & Country Club	953.86	-	12	2003	953.86	golf dues
921102	Twin Hills Golf & Country Club	50.00	-	12	2003	50	golf dues
921102	Briarbrook Country Club	152.74	-	12	2003	152.74	golf dues
921301	Center for Energy & Economic Development	3,941.00	-	1	2003	1,970.50	Lobbying %
						18,583.90	
930210	EEI dues	7,532.36		1	2,003	7,532.36	
930210	EEI dues	7,532.36		2	2,003	7,532.36	
930210	EEI dues	7,532.36		3	2,003	7,532.36	
930210	EEI dues	7,532.36		4	2,003	7,532.36	
930210	EEI dues	7,532.36		5	2,003	7,532.36	
930210	EEI dues	7,532.36		6	2,003	7,532.36	
930210	EEI dues	6,785.47		7	2,003	6,785.47	
930210	EEI dues	6,785.47		8	2,003	6,785.47	
930210	EEI dues	2,300.00		8	2,003	2,300.00	
930210	EEI dues	6,785.47		9	2,003	6,785.47	
930210	EEI dues	6,785.47		10	2,003	6,785.47	
930210	EEI dues	6,785.47		11	2,003	6,785.47	
930210	EEI dues	8,785.44		12	2,003	8,785.44	
930219	KANSAS ECONOMIC DEVELOPMENT ALLIANCE	50.00	-	3	2003	50	Not Missouri
930219	SOUTHERN ED DEV COUNCI WALLACE	200.00		4	2003	200	Already allowed area dues
930219	Southeast Kansas Inc	800.00	-	8	2003	800	Not Missouri

Acct	Vendor Name	Amount	Sales Tax	Month	Year	Amount Dissallowed	Reason
930219	CORENET GLOBAL CONFERE WALLACE	450.00		8	2003	450	Already allow area dues
930219	MO ECONOMIC DEV COUNCI WALLACE	110.00		9	2003	110	Already allow area dues
930219	INTERNATIONAL ECONOMIC WALLACE	325.00		12	2003	325	Already allowed area dues
930248	Baxter Springs Chamber Of	260.00	-	1	2003	260	Kansas dues
930248	Gravette Chamber Of Commerce	35.00	-	2	2003	35	Kansas Dues
930248	U S Chamber of Commerce	795.00	-	2	2003	795	Already allowed area dues
930248	Kansas Chamber Of Commerce And	1,400.00	-	5	2003	1400	Not Missouri
930248	Chamber Of Commerce	436.00	-	10	2003	436	already allowed Area duea
						95,067.95	
935523	NSPE MEMBERSHIP DUES GAINES	237.00		12	2003	237	Already allowed once
						116,339.44	

ACCT	Amount	
549	**(482)**	S-6.7
580	**(106)**	
584	**(58)**	
588	**(1,000)**	S-9.7
901	**(30)**	S-10.8
907	**(775)**	S-11.4
921	**(18,584)**	
930	**(95,068)**	
935	**(237)**	S-14.15
	(116,339)	