

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

In the matter of The Empire District)
Electric Company of Joplin, Missouri)
for Authority to File Tariffs Increasing) **File No. ER-2012-0345**
Rates for Electric Service Provided to)
Customers in the Missouri Service)
Area of the Company.)

STAFF'S STATEMENT OF POSITIONS

COMES NOW the Staff of the Missouri Public Service Commission ("Staff") and provides its *Statement of Positions* as follows:

Tuesday Morning (2/19)

Opening statements
Policy (Walters, Beecher, R. Kliethermes, Lange, Bolin, Meisenheimer, Rackers)

Wednesday Morning (2/20)

RATE BASE

latan Plant

1. Should the disallowances ordered by the Commission in Case Nos. ER-2010-0355 and ER-2010-0356 with regard to Kansas City Power & Light and KCPL–Greater Missouri Operations also be ordered against Empire’s latan plant balances? (Mertens; McMellen)

Staff position: Yes, Empire’s plant balances should be reduced by \$2.454 million, the Empire Missouri jurisdictional portion of the disallowances ordered in Case Nos. ER-2010-0355 and ER-2010-0356 with regard to Kansas City Power & Light and KCPL – Greater Missouri Operations.

2. Should carrying costs be adjusted? (Mertens; McMellen)

Staff position: Yes. Carrying costs should be adjusted to reflect the KCPL disallowances.

Depreciation Reserve – latan Adjustments

Should the disallowances ordered by the Commission in Case Nos. ER-2010-0355 and ER-2010-0356 be made against Empire’s latan plant balances? (Mertens; McMellen)

Staff position: Yes Empire's reserve balances should be reduced by \$45,709, The Empire Missouri Jurisdictional portion of reserve balances related to the plant disallowances from the KCPL orders.

Joplin Tornado O&M Asset

Should the Joplin tornado O&M asset be included in rate base?
(Keith; Bolin; Robertson)

Staff position: No.

Thursday Morning (2/21)

Maintenance Normalization Adjustments at Empire Generation Units

What is the appropriate normalization period or method of normalization for Empire's generation units? (Mertens; Foster)

Staff position: The appropriate method of normalization is a five or six year average of the Company's actual non-labor O&M expenses for each generating unit; the number of years to be based on each unit's major maintenance cycle.

Cash Working Capital (CWC)

What Billing lag should be used to adjust the overall Revenue lag for purposes of CWC?
(Land; Harrison; Rackers)

Staff position: 4.15 days.

Should fuel purchased power and cash vouchers be treated as prepayments, or reflected in the CWC calculation, or both? (Land; Rackers)

Staff position: Staff has reflected the fuel and purchase power as prepayments and in its CWC calculation.

Thursday Afternoon (2/21)

STATEMENT OF OPERATING INCOME

Fuel and Purchased Power

Net Base Fuel and Purchased Power Costs

- (a) What amount of off-system sales revenue should be included in Empire's net base fuel and purchased power costs included in the

revenue requirement used to set rates in this case?
(Keith, Green, Rackers)

Staff position: Staff reflected \$0 in its direct filing.

- (b) What amount of REC revenue and certain post process fuel run adjustments should be included in net base fuel and purchased power costs included in the revenue requirement used to set rates in this case? (Keith, Tarter, Green)

Staff position: The amount of REC revenue to include in the revenue requirement used to set rates in this case is \$1,655,878. This level of REC revenue is known and measurable.

- (c) What amount of Plum Point demand charges should be included in net base fuel and purchased power costs included in the revenue requirement used to set rates in this case? (Tarter, Barnes, Foster)

Staff position: The amount of Plum Point demand charges to include in net base fuel and purchased power costs is \$9,184,672.

Friday Morning (2/22)

Economic Development Rider

Should non-participating customers be held harmless of the revenues foregone by Empire for service under an EDR? (Baker, Imhoff)

Staff position: Yes.

Pay Station Fees

Should pay station fees be paid directly by the user at the time of the transaction or included in Empire's revenue requirement? (Baker, McMellen, Meisenheimer)

Staff position: Staff proposed to exclude pay station fees from Empire's revenue requirement.

FAC Tariff

- (a) Should Empire be permitted to flow any SPP transmission costs and revenues through its FAC? (Keith, Barnes, Oligschlaeger, Beck, Rackers)

Staff position: Yes, but only include account 565 transmission by others in FAC base and FAC pass through in the amounts necessary for native load and Off System Sales, and do not include other RTO costs such as costs of Multi-Value Projects. The Commission should order segregation of charges into sub/minor accounts, i.e. 565XXX and 565YYY, to facilitate operation of FAC.

- (b) If so, which SPP transmission costs and revenues should flow through Empire's FAC?

Staff position: Only include account 565 transmission by others in FAC base and FAC pass through in the amounts necessary for native load and Off System Sales, and do not include other RTO costs such as costs of Multi-Value Projects. The Commission should order segregation of charges into sub/minor accounts, i.e. 565XXX and 565YYY, to facilitate operation of FAC.

- (c) Should Empire be required to make changes to its FAC tariff sheets to make the provisions of Empire's FAC more consistent with the FACs currently in place for other Missouri investor-owned electric utilities? If so, what changes should be made to Empire's FAC tariff sheets? (Keith, Barnes)

Staff position: Yes. Those changes reflected in the specimen tariff sheets provided by Matt Barnes should be implemented, attached here-to as Schedule 1.

Friday Afternoon (2/22)

SPP Transmission Tracker

- (a) If the Commission determines that Empire should not be permitted to flow SPP transmission costs and revenues through its FAC, should those transmission costs and revenues be deferred in a transmission cost and revenue tracker using the trued-up test year amounts of those charges and revenues as the base against which changes will be tracked, with amounts above the base booked to a regulatory asset and amounts below the base booked to a regulatory liability? (Keith, Oligschlaeger, Beck, Rackers, Robertson)

Staff position: No.

- (b) If the Commission determines that Empire should be permitted to defer changes in transmission costs and revenues through a tracker, should any conditions apply to that tracker? If so, what conditions should apply? (Keith, Oligschlaeger; Robertson)

Staff position: Those described in the rebuttal testimony of Mark Oligschlaeger, attached here-to as Schedule 2.

SPP Transmission Expense

What is the appropriate level of SPP Transmission Expense to include in Empire's revenue requirement? (Keith, Bolin, Robertson, Rackers)

Staff position: The most current twelve months ending June 30, 2012 level of SPP Transmission expense should be used.

Monday Morning (2/25)

SPP Integrated Market Costs

Should test year costs incurred by Empire to prepare for and participate in the SPP Integrated Marketplace be included in the revenue requirement used to set rates in this case, or should some or all of those costs be deferred for consideration in a future rate case? (Mertens, Rackers, McMellen)

Staff position: Staff position is that this issue will be addressed in true-up.

Monday Afternoon (2/25)

Rate case expense

Were prior rate case expenses amortized or normalized; if they were amortized, should Empire be allowed to recover the unamortized portion of prior rate case expenses? (Keith; Bolin; Roth)

Staff position: Prior rate cases' expenses have received normalization treatment from Staff, thus there is no unamortized portion to recover.

Advertising

Should the costs of certain radio and TV advertisements be categorized as "general?" (Green; Land)

Staff position: No additional advertisements should be categorized as "general," beyond those considered in Staff's direct-filed case.

Outside services

What is the appropriate level of outside services expense? (Keith; Green; Rackers)

Staff position: The normalized level of outside services should be \$2,270,433. Staff utilized a five (5) year average ending December 31, 2011 in determining the level of expense.

Property Insurance expense

What insurance policy should be used in the calculation of property insurance expense?
(Keith; Bolin)

Staff position: The property insurance policy that was included in the test year should be used in calculating of property insurance expense, instead of the insurance policy that was renewed outside of the test year and update period.

Banking Fees

Should fees to secure short-term debt be expensed or capitalized?
(Sager; McMellen; Rackers)

Staff position: Banking fees should be expensed. An annualized level of these fees should be included based on the new agreement renegotiated by the Company in January 2012.

Tuesday Morning (2/26)

Payroll and Benefits - Incentive Compensation

1. What level of cash incentives based on performance goals should be included in the cost of service? (Walters; McMellen; Rackers)

Staff position: Staff proposed an adjustment allowing \$300,351 for cash incentives. Due to the “abnormal” conditions in 2011, Empire’s incentives for the test year were not based on actual goals attained. With no goals associated with the incentives, Staff’s position normally would be to exclude these awards. In this case, Staff recognized the abnormal conditions caused by the Joplin tornado in 2011, and therefore took an average of the amounts Staff has allowed in the last 5 cases.

2. Should executive stock awards included? (Walters; McMellen; Rackers)

Staff position: No. Staff eliminated all stock-based compensation since it did not result in any cash outlay by Empire, and was not tied to achievement of any particular operating or financial goals

3. Should lightning bolts be included? (Walters; McMellen; Rackers)

Staff position: No, consistent with the Commission's position in Report and Order in File No. ER-2006-0315, Staff eliminated payroll costs for "Lightning Bolts" awards since these awards do not have any pre-set goals or objectives attached to them and they are paid out at senior management's discretion.

Dues and Donation – Including EEI Dues

What amount of test year dues and donations, including EEI dues, should be included in the revenue requirement used to set rates in this case? (Green; Keith; Addo)

Staff position: The total amount of dues and donations including EEI dues disallowed by Staff is \$138,768. Of that amount EEI dues total \$119,808; the Company has failed to adequately justify EEI's benefit to the ratepayers for inclusion in rate.

Depreciation and Amortization

What are the appropriate depreciation rates? (Sullivan; Robinett)

Those attached as schedules to the testimonies of John Robinett, attached here-to as Schedule 3.

Riverton Amortization

Should the Commission order an amortization associated with the projected retirements of Riverton 7 and 8? (Sullivan; Robinett; Robertson)

Staff position: No. Empire has sufficient depreciation reserve to cover the retirements associated with these units, should retirements occur.

Taxes

1. **Property tax**

What amount of property tax expense should be included in the revenue requirement used to set rates in this case? (McMellen; Rackers; Williams)

Staff position: Staff proposed to include \$15,813,412 of property tax expense. This is based on using a five-year average tax rate which is then applied to plant in service as of December 31, 2011. As of the update period in this case, December 31, 2011 is the most currently assessed plant balances

2. Current & Deferred income taxes

- (a) Should an adjustment be made related to state income tax flow through for prior years? (Sager; Oligschlaeger)

Staff position: No.

- (b) Should an adjustment be made for cost of removal tax issues related to prior years? (J. Warren; Sager; Oligschlaeger)

Staff position: No.

Iatan/Plum Point Trackers

1. What is the appropriate base cost to be built into rates? (Keith; Foster)

Staff position: The appropriate base tracker cost going forward should be (1) \$2,306,219 Missouri jurisdictional for Plum Point plus an appropriate amount to be determined for Outside Services; (2) \$2,405,307 Missouri jurisdictional for Iatan 2 plus \$73,306 for accounts not included in Staff's direct case; and (3) \$2,590,005 Missouri jurisdictional for Iatan Common plus \$15,388 for accounts not included in Staff's direct case. Note all of these amounts have been adjusted to exclude accounts included in the original tracker that flow through the Fuel Adjustment Clause (FAC).

2. What FERC accounts should be included in the tracker? (Keith; Foster)

Staff position: See Schedule 4 for the FERC accounts to be used going forward.

Tuesday Afternoon (2/26)

Bad Debt Expense

1. What level of bad debt expense should be included?
(Keith, Green, Rackers, Addo)

Staff position: The appropriate level of bad debt expense that should be included in this case is \$2,285,210. Staff utilized a five (5) year average ending March 31, 2012 to develop the effective uncollectible rate of 0.5663% which was then applied to Staff's calculated annualized revenues to calculate the above level of bad debt expense.

2. Should the revenue requirement be factored up for bad debts?
(Keith, Green, Rackers, Addo)

Staff position: No.

Vegetation Management Tracker

1. What is the proper level of expense? (Harrison; Walters)

Staff position: \$4,503,719. This level includes the prior amortizations for the vegetation management trackers from previous cases (\$1,503,719) and also reflects an increase from \$9,000,000 to \$12,000,000 (\$3,000,000) for the current tracker being proposed by Staff in this case.

2. What is the proper base level to be used in the tracker?
(Harrison; Walters)

Staff position: \$12,000,000. Staff examined the history of vegetation management expense and determined \$12,000,000 would be an appropriate level.

Corporate franchise tax

Should the lower rate for 2013 corporate franchise taxes be included in Empire's revenue requirement? (Rackers; Williams)

Staff position: Staff has no position on this issue.

Rate Design Issue - LED Street and Area Lighting

Within twelve months of the effective date of rates authorized by the Commission in this case, should Empire be required to complete its own evaluation of LED SAL systems and either (i) file proposed LED lighting tariff sheet(s), or (ii) update the Commission regarding when the Company intends to file such tariff sheet(s)? (Penning, Kang)

Staff position: Yes.

Wednesday Morning (2/27)

RATE DESIGN

Rate Design & Class Cost of Service

1. Does Staff's revenue proof contain Staff normalized billing units? If not, what adjustment should be made? (Keith; Scheperle)

Staff position: Staff's proof of revenue was based on Staff's update period which reflects an update period of twelve months ending June 30, 2012. Staff will update its information to the true-up period of December 31, 2012 as information becomes available from Empire.

2. What is the appropriate customer charge for the Residential class?
(Scheperle; Meisenheimer)

Staff position: The residential customer charge be increased to \$13.25 from \$12.52.

3. What is appropriate per-class rate increase for this case?
(Scheperle; Meisenheimer; Brubaker)

Staff position: Based on CCOS results, Staff recommends adjustments be made first on a company-wide revenue-neutral basis to the residential class, commercial building class and general power class. The Empire residential class should receive a positive 0.5% adjustment. The Empire commercial building class and general power class should receive a negative adjustment of approximately 0.82%. All other classes should receive the system average increase (commercial space heating, special transmission: Praxair, total electric building, feed mill and grain elevator, large power, lighting and miscellaneous).

Wednesday Afternoon (2/27)

DSM Cost Recovery

1. Should pre-MEEIA DSM programs be set forth on a separate tariff?
(Keith; Scheperle; Meisenheimer; Brubaker)

Staff position: Each applicable rate schedule should show a separate DSM cost recovery rate.

2. Should pre-MEEIA DSM program costs be shown on a separate line item on customer bills? (Keith; Scheperle; Meisenheimer; Brubaker)

Staff position: Yes. Staff recommends wording of “Energy Efficiency Pgm Charge” on customers’ bills.

3. How should the pre-MEEIA DSM revenue requirement be grossed up? (Scheperle; Meisenheimer; Brubaker)

Staff position: Staff recommends no gross up for Pre-MEEIA revenue requirement.

4. How should the pre-MEEIA DSM revenue requirement be allocated among Empire’s customer classes? (Scheperle; Meisenheimer; Brubaker)

Staff position: Staff recommends an energy revenue requirement allocation by class of customer based on the kWh for each class less approved opt-out.

Other Rate Design Issues:

Low Income Weatherization

- (a) Should the maximum and average per-unit amount be eliminated? (Keith; Warren; Bickford)

Staff position: Staff generally agrees with DNR Energy Center that the Empire Low Income weatherization tariff should be revised so that dollar amounts for average expenditures per home are replaced with language that states the average per home expenditure will be consistent with current federal guidelines.

- (b) Should Staff's recommended tariff language revision be implemented? (Keith; Warren; Bickford)

Staff position: Staff generally agrees with the specimen tariff sheet provided with Adam Bickford's pre-filed surrebuttal testimony.

Thursday Morning (2/28)

RATE OF RETURN

- A. What value for the return on equity should the Commission use to determine Empire's rate of return in the revenue requirement used to set rates in this case? (Vander Weide; Gorman; Atkinson)

Staff position: Staff recommends, based upon its expert analysis, a return on common equity ("ROE") range of 8.50% to 9.50%, mid-point 9.00%, resulting in an overall Rate of Return ("ROR") of 7.23% to 7.74%, mid-point 7.49%. Staff recommends that the Commission authorize a ROE of 9.50% based on a consideration of all relevant factors.

- B. What capital structure should the Commission use to determine the rate of return included in the revenue requirement used to set rates in this case? (Vander Weide; Sager; Gorman; Atkinson)

Staff position: The appropriate capital structure for determining the allowed rate of return is Empire's consolidated capital structure, exclusive of short-term debt and the remaining unamortized balance of debt expenses as of June 30, 2012, which were incurred to amend Empire's mortgage bond indenture in order to maintain the dividend. Staff's resulting ratemaking capital structure recommendation consists of 51.06% common equity and 48.94% long-term debt.

C. What is the appropriate cost of debt? (Sager; Atkinson)

Staff position: Staff proposes to disallow the remaining unamortized balance of debt expenses as of June 30, 2012, which was incurred to amend Empire's mortgage bond indenture in order to maintain the dividend. Staff subtracted this amount from Empire's cost of debt calculation for the period ending June 30, 2012. Staff recommends an embedded cost of long-term debt of 5.91%.

Thursday Afternoon (2/28)

Asbury Unit Train

1. Was Empire's sale of the Asbury unit train properly booked by Empire? (Sager; Robinett)

Staff position: No, Empire's depreciation reserve balance should be increased by \$1,241,287.03 Non-Jurisdictional (ND).

2. Were the lease proceeds associated with the Asbury unit train properly booked? (Sager; Robinett)

Staff position: No, Empire's depreciation reserve balance should be increased by \$4,050,000 (ND).

3. Did Empire properly book depreciation expense in the eight months immediately prior to the retirement of the Asbury unit train? (Sager; Robinett)

Staff position: No, Empire's depreciation reserve balance should be increased by \$248,137.18 (ND) to reflect eight months of stopped depreciation accruals.

WHEREFORE, Staff submits its *Statement of Positions*.

Respectfully submitted,

/s/ Sarah Kliethermes

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CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or electronically mailed to all counsel of record this 13th day of February, 2013.

/s/ Sarah Kliethermes

THE EMPIRE DISTRICT ELECTRIC COMPANY

P.S.C. Mo. No. 5 Sec. 4 1st Revised Sheet No. 17h

Canceling P.S.C. Mo. No. 5 Sec. 4 Original Sheet No. 17h

For ALL TERRITORY

FUEL & PURCHASE POWER ADJUSTMENT CLAUSE
RIDER FAC
For service on and after XX-XX-XXXX.

The two six-month accumulation periods, the two six-month recovery periods and filing dates are set forth in the following table:

| <u>Accumulation Periods</u> | <u>Filing Dates</u> | <u>Recovery Periods</u> |
|-----------------------------|---------------------|-------------------------|
| September - February | By April 1 | June - November |
| March - August | By October 1 | December – May |

The Company will make a Fuel Adjustment Rate (“FAR”) filing by each Filing Date. The new FAR rates for which a filing is made will be applicable starting with the recovery period that begins following the Filing Date. All FAR filings shall be accompanied by detailed workpapers supporting the filing in an electronic format with all formulas intact.

DEFINITIONS

ACCUMULATION PERIOD:

The six calendar months during which the actual costs and revenues subject to this rider will be accumulated for the purpose of determining the FAR.

RECOVERY PERIOD:

The billing months during which a FAR is applied to retail customer usage on a per kilowatt-hour (kWh) basis.

BASE ENERGY COSTS AND REVENUES:

Base energy costs are ordered by the Commission in the last rate case consistent with the costs and revenues included in the calculation of the Fuel and Purchase Power Adjustment (“FPA”).

BASE FACTOR (“BF”):

The base factor is the base energy cost divided by net generation kWh determined by the Commission in the last general rate case. BF = \$0.02786 per kWh for each accumulation period.

APPLICATION

FUEL & PURCHASE POWER ADJUSTMENT

$$FPA = \{[(FC + PP + E + TC - OSSR - REC - B) * J] * 0.85\} + T + I + P$$

Where:

FC = Fuel Costs Incurred to Support Sales:

The following costs reflected in Federal Energy Regulatory Commission (FERC) Account Number 501: coal commodity and railroad transportation, switching and demurrage charges,

DATE OF ISSUE July 6, 2012
ISSUED BY Kelly S. Walters, Vice President, Joplin, MO

DATE EFFECTIVE August 5, 2012

THE EMPIRE DISTRICT ELECTRIC COMPANY

P.S.C. Mo. No. 5 Sec. 4 1st Revised Sheet No. 17i

Canceling P.S.C. Mo. No. 5 Sec. 4 Original Sheet No. 17i

For ALL TERRITORY

FUEL & PURCHASE POWER ADJUSTMENT CLAUSE
RIDER FAC
For service on and after XX-XX-XXXX.

applicable taxes, natural gas costs, alternative fuels (i.e. tires, bio- fuel and landfill gas), fuel additives, Btu adjustments assessed by coal suppliers, quality adjustments assessed by coal suppliers, fuel hedging costs, fuel adjustments included in commodity and transportation costs, broker commissions and fees associated with price hedges, oil costs, propane costs, combustion product disposal revenues and expenses, consumable costs related to Air Quality Control Systems (AQCS) operation, such as ammonia, lime, limestone, powder activated carbon, urea, sodium bicarbonate, and trona and settlement proceeds, insurance recoveries, subrogation recoveries for increased fuel expenses in Account 501.

The following costs reflected in FERC Account Number 547: natural gas generation costs related to commodity, oil, transportation, storage, fuel losses, hedging costs for natural gas, oil, and natural gas used to cross-hedge purchased power, fuel additives, and settlement proceeds, insurance recoveries, subrogation recoveries for increased fuel expenses, broker commissions and fees.

PP = Purchased Power costs:

The following costs or revenues reflected in FERC Account Number 555: purchased power costs, purchased power demand costs associated with purchased power contracts with a duration of one year or less, settlements, insurance recoveries, and subrogation recoveries for purchased power expenses, virtual energy charges, generating unit price adjustments, load/export charges, energy position charges, ancillary services including penalty and distribution charges, hedging costs, broker commissions, fees, and margins, SPP EIS market charges, and SPP Integrated Market charges (see note A. below)

E = Net Emission Costs:

The following costs and revenues reflected in FERC Account Numbers 509, 411.8 and 411.9 (or any other account FERC may designate for emissions expenses in the future): emission allowance costs offset by revenues from the sale of emission allowances including any associated hedging costs, broker commissions, fees, commodity based services, and margins.

TC = Transmission Costs:

The following costs reflected in FERC Account Number 565 (excluding Base Plan Funding costs): transmission costs that are necessary to receive purchased power to serve native load and transmission costs that are necessary to make off-system sales.

OSSR = Revenue from Off-System Sales:

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ISSUED BY Kelly S. Walters, Vice President, Joplin, MO

DATE EFFECTIVE August 5, 2012

THE EMPIRE DISTRICT ELECTRIC COMPANY

P.S.C. Mo. No. 5 Sec. 4 1st Revised Sheet No. 17i

Canceling P.S.C. Mo. No. 5 Sec. 4 Original Sheet No. 17i

For ALL TERRITORY

FUEL & PURCHASE POWER ADJUSTMENT CLAUSE
RIDER FAC
For service on and after XX-XX-XXXX.

A. The following revenues or costs reflected in FERC Account Number 447: all revenues from off-system sales but excluding revenues from full and partial requirements sales to Missouri municipalities that are associated with Empire, hedging costs, SPP EIS market charges, and SPP Integrated Market revenues (see note A. below)

REC = Renewable energy credit revenue:

Revenues reflected in FERC account 509 from the sale of Renewable Energy Credits that are not needed to meet the Renewable Energy Standard.

Hedging Costs = Hedging costs are defined as realized losses and costs (including broker commission fees and margins) minus realized gains associated with mitigating volatility in the Company's cost of fuel, fuel additives, fuel transportation, emission allowances, transmission and purchased power costs, including but not limited to, the Company's use of derivatives whether over-the counter or exchange traded including, without limitation, futures or forward contracts, puts, calls, caps, floors, collars, and swaps.

Note A. In anticipation of the implementation of the SPP Integrated Market, the Company and the Missouri Public Service Commission Staff (Staff) will meet quarterly to discuss and review the charge types proposed by SPP and the new market. The Company will provide a listing of charge types and definitions to discuss. Staff and other interested intervenors will provide feedback relating to those costs included in the Fuel Adjustment Clause. Documentation of the quarterly meetings will be filed with the most closely following monthly Section 5 report to be filed with the Commission.

Should FERC require any item covered by factors FC, PP, E or OSSR to be recorded in an account different than the FERC accounts listed in such factors, such items shall nevertheless be included in factor FC, PP, E or OSSR. In the month that the Company begins to record items in a different account, the Company will file with the Commission the previous account number, the new account number and what costs or revenues that flow through this Rider FAC are to be recorded in the account.

B = Net base energy cost is calculated as follows:

$$B = (S_{AP} * \$0.02786)$$

S_{AP} = Actual net system input at the generation level for the accumulation period.

For ALL TERRITORY

FUEL & PURCHASE POWER ADJUSTMENT RIDER FAC
For service on and after XX-XX-XXXX.

$$J = \frac{\text{Missouri retail kWh sales}}{\text{Total system kWh sales}}$$

Where Total system kWh sales includes sales to Missouri municipalities that are associated with Empire and excludes off-system sales.

T = True-up of over/under recovery of FAC balance from prior recovery period as included in the deferred energy cost balancing account. Adjustments by Commission order pursuant to any prudence review shall also be placed in the FPA for collection unless a separate refund is ordered by the Commission.

I = Interest applicable to (i) the difference between Total energy cost (FC + PP + E + TC – OSSR – REC) and Net base energy cost (“B”) multiplied by the Missouri energy ratio (“J”) for all kWh of energy supplied during an AP until those costs have been recovered; (ii) refunds due to prudence reviews (“P”), if any; and (iii) all under- or over-recovery balances created through operation of this FAC, as determined in the true-up filings (“T”) provided for herein. Interest shall be calculated monthly at a rate equal to the weighted average interest paid on the Company’s short-term debt, applied to the month-end balance of items (i) through (iii) in the preceding sentence.

P = Prudence disallowance amount, if any, as defined below.

FUEL ADJUSTMENT RATE

The FAR is the result of dividing the FPA by estimated recovery period S_{RP} kWh, rounded to the nearest \$0.00000. The FAR shall be adjusted to reflect the differences in line losses that occur at primary and above voltage and secondary voltage by multiplying the average cost at the generator by 1.0502 and 1.0686, respectively. Any FAR authorized by the Commission shall be billed based upon customers’ energy usage on and after the authorized effective date of the FAR. The formula for the FPA is displayed below.

$$FAR = \frac{FPA}{S_{RP}}$$

Where:

S_{RP} = Forecasted Missouri NSI kWh for the recovery period.

$$= \text{Forecasted total system NSI} * \frac{\text{Forecasted Missouri retail kWh sales}}{\text{Forecasted total system kWh sales}}$$

Where Forecasted total system NSI kWh sales includes sales to Missouri municipalities that are associated with Empire and excludes off-system sales.

THE EMPIRE DISTRICT ELECTRIC COMPANY

P.S.C. Mo. No. 5 Sec. 4 1st Revised Sheet No. 17j

Canceling P.S.C. Mo. No. 5 Sec. 4 Original Sheet No. 17j

For ALL TERRITORY

FUEL & PURCHASE POWER ADJUSTMENT RIDER FAC
For service on and after XX-XX-XXXX.

PRUDENCE REVIEW

Prudence reviews of the costs subject to this FAC shall occur no less frequently than every eighteen months, and any such costs which are determined by the Commission to have been imprudently incurred or incurred in violation of the terms of this rider shall be returned to customers. Adjustments by Commission order, if any, pursuant to any prudence review shall be included in the FAR calculation in P above unless a separate refund is ordered by the Commission. Interest on the prudence adjustment will be included in I above.

TRUE-UP OF FPA

In conjunction with an adjustment to its FAR, the Company will make a true-up filing with an adjustment to its FAC on the first Filing Date that occurs after completion of each recovery period. The true-up adjustment shall be the difference between the revenues billed and the revenues authorized for collection during the true-up recovery period, i.e. the true-up adjustment. Any true-up adjustments or refunds shall be reflected in item T above and shall include interest calculated as provided for in item I above.

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ISSUED BY Kelly S. Walters, Vice President, Joplin, MO

DATE EFFECTIVE August 5, 2012

THE EMPIRE DISTRICT ELECTRIC COMPANY

P.S.C. Mo. No. 5 Sec. 4 3rd Revised Sheet No. 17k

Canceling P.S.C. Mo. No. 5 Sec. 4 2nd Revised Sheet No. 17k

For ALL TERRITORY

**FUEL & PURCHASE POWER ADJUSTMENT
RIDER FAC**
For service on and after XX-XX-XXXX.

| Accumulation Period Ending: | | | Month, Day, Year |
|-----------------------------|--|---|------------------|
| 1 | Total Energy Cost(TEC) = (FC+PP+E+TC-OSSR-REC) | | |
| 2 | Net Base Energy Cost (B) | - | |
| | 2.1 Base Factor (BF) | | |
| | 2.2 Accumulation Period NSI (S_{AP}) | | |
| 3 | (TEC-B) | | |
| 4 | Missouri Energy Ratio (J) | * | % |
| 5 | (TEC-B)*J | | |
| 6 | Fuel Cost Recovery | * | % |
| 7 | (TEC-B)*J * 0.85 | | |
| 8 | True-Up Amount (T) | + | |
| 9 | Prudence Adjustment Amount (P) | + | |
| 10 | Interest (I) | + | |
| 11 | Fuel and Purchased Power Adjustment (FPA) | = | |
| 12 | Forecasted Missouri NSI (S_{RP}) | ÷ | |
| 13 | Current Period Fuel Adjustment Rate (FAR) to be applied to bills Beginning XX-XX-XXXX | = | |
| 14 | Current Period $FAR_{Prim} = FAR \times VAF_{Prim}$ | | |
| 15 | Prior Period FAR_{Prim} | + | |
| 16 | Current Annual FAR_{Prim} | | |
| 17 | Current Period $FAR_{Sec} = FAR \times VAF_{Sec}$ | | |
| 18 | Prior Period FAR_{Sec} | + | |
| 19 | Current Annual FAR_{Sec} | | |
| | | | |
| | $VAF_{Prim} = 1.0502$ | | |
| | $VAF_{Sec} = 1.0686$ | | |

Primary Voltage Adjustment Factor (VAF_{PRIM}) = 1.0502
Secondary Voltage Adjustment Factor (VAF_{SEC}) = 1.0686

1 Company “whole” in respect to the time value of money for its transmission expenditures
2 incurred between rate proceedings. There is no justification in this particular instance for the
3 Commission to provide Empire complete protection against the risk of regulatory lag related
4 to its transmission costs in this manner.

5 Q. At pages 20-21 of Mr. Keith’s direct testimony, he proposed that deferred SPP
6 transmission expenses be amortized to cost of service in Empire’s next rate proceeding over
7 the length of time the SPP costs were accumulated in a tracker. Again, if the Commission
8 grants Empire’s deferral request, does Staff agree with this proposed amortization period?

9 A. No. Staff recommends that all relevant ratemaking considerations regarding
10 transmission revenue and expense amounts deferred by the Company – if such authority is
11 granted – should be reserved and decided in Empire’s next rate proceeding.

12 Q. If the Commission rejects Staff’s recommendation not to authorize Empire to
13 implement a SPP tracker and allows the Company to use one, then should the Commission
14 condition that authorization?

15 A. Yes. If the Commission authorizes Empire to implement a SPP tracker, then
16 the Commission should order a number of conditions to that authorization. Those conditions
17 follow:

- 18 1. That the tracker reflect both transmission revenues and expenses, and
19 thereby operate as a two-way mechanism (i.e., tracking both under and
20 over collections of net transmission costs).
- 21 2. That Empire will provide to all parties in this case on a monthly basis
22 copies of billings from SPP for all SPP rate schedules that contain
23 charges and revenues that will be included in the tracker and will report,
24 per its general ledger, all expenses and revenues included in the tracker
25 by month by Federal Energy Regulatory Commission (FERC) Uniform

1 System of Accounts (USOA) account and Empire subaccount or minor
2 account. Empire shall also provide, on no less than a quarterly basis, the
3 internally generated reports it relies upon for management of its ongoing
4 levels of transmission expenses and revenues. Empire should also commit
5 to notify the parties to this case of any changes to its existing reporting or
6 additional internal reporting instituted to manage its transmission
7 revenues and expenses.

8 3. That all ratemaking considerations regarding transmission revenue and
9 expense amounts deferred by Empire pursuant to a tracker be reserved to
10 the next Empire rate proceeding, including examination of the prudence
11 of the revenues and expenses.

12 4. That Empire must impute into its tracker mechanism, the level of
13 transmission revenues earned by any transmission company affiliate
14 related to facilities in Empire's service territory into its tracker
15 mechanism to the extent necessary to ensure that no additional revenue
16 requirement resulting from any decision by Empire to transfer
17 responsibility for transmission construction activity from Empire's
18 regulated business is passed on to Empire's Missouri retail customers
19 through the tracker.

20 5. That nothing in any order authorizing Empire's use of a transmission
21 tracker is intended to amend, modify, alter, or supersede any previous
22 Commission order or agreement approved by the Commission concerning
23 Empire's involvement in SPP or treatment of SPP transmission revenues
24 and expenses.

25 6. That deferrals resulting from the transmission tracker mechanism
26 cease under certain circumstances, identified in the sixth condition
27 specified below, depending upon Empire's reported return on equity
28 (ROE) level.

**The Empire District Electric Company
Staff Recommended Annual Depreciation Rates**

| Account Number | Account Description | Recommended Whole Life Rate (%) | Recommended Net Salvage | Reccomended Depreciation Rate (%) |
|-------------------------------|-------------------------------------|---------------------------------------|----------------------------|---|
| STEAM PRODUCTION PLANT | | | | |
| Riverton 7&8 | | | | |
| 311 | Structures and Improvements | 3.51% | -5.00% | 3.69% |
| 312 | Boiler Plant Equipment | 2.94% | -5.00% | 3.09% |
| 314 | Turbogenerator Units | 2.28% | -5.00% | 2.39% |
| 315 | Accessory Electric Equipment | 1.75% | -5.00% | 1.84% |
| 316 | Miscellaneous Power Plant Equipment | 5.02% | -5.00% | 5.27% |
| Asbury 1&2 | | | | |
| 311 | Structures and Improvements | 2.68% | -5.00% | 2.81% |
| 312 | Boiler Plant Equipment | 5.03% | -5.00% | 5.28% |
| 314 | Turbogenerator Units | 2.70% | -5.00% | 2.84% |
| 315 | Accessory Electric Equipment | 3.14% | -5.00% | 3.30% |
| 316 | Miscellaneous Power Plant Equipment | 3.76% | -5.00% | 3.95% |
| Iatan 1 | | | | |
| 311 | Structures and Improvements | 1.99% | -5.00% | 2.09% |
| 312 | Boiler Plant Equipment | 3.02% | -5.00% | 3.17% |
| 314 | Turbogenerator Units | 2.32% | -5.00% | 2.44% |
| 315 | Accessory Electric Equipment | 3.89% | -5.00% | 4.08% |
| 316 | Miscellaneous Power Plant Equipment | 3.11% | -5.00% | 3.27% |
| Iatan 2 | | | | |
| 311 | Structures and Improvements | 2.00% | -5.00% | 2.10% |
| 312 | Boiler Plant Equipment | 2.00% | -5.00% | 2.10% |
| 314 | Turbogenerator Units | 2.00% | -5.00% | 2.10% |
| 315 | Accessory Electric Equipment | 2.00% | -5.00% | 2.10% |
| 316 | Miscellaneous Power Plant Equipment | 2.00% | -5.00% | 2.10% |
| Iatan Common | | | | |
| 311 | Structures and Improvements | 2.00% | -5.00% | 2.10% |
| 312 | Boiler Plant Equipment | 2.00% | -5.00% | 2.10% |
| 314 | Turbogenerator Units | 2.00% | -5.00% | 2.10% |
| 315 | Accessory Electric Equipment | 2.00% | -5.00% | 2.10% |
| 316 | Miscellaneous Power Plant Equipment | 2.00% | -5.00% | 2.10% |
| Plum Point | | | | |
| 311 | Structures and Improvements | 2.00% | -5.00% | 2.10% |
| 312 | Boiler Plant Equipment | 2.00% | -5.00% | 2.10% |
| 314 | Turbogenerator Units | 2.00% | -5.00% | 2.10% |
| 315 | Accessory Electric Equipment | 2.00% | -5.00% | 2.10% |
| 316 | Miscellaneous Power Plant Equipment | 2.00% | -5.00% | 2.10% |

Schedule 3

**The Empire District Electric Company
Staff Recommended Annual Depreciation Rates**

| Account Number | Account Description | Recommended Whole Life Rate (%) | Recommended Net Salvage | Recommended Depreciation Rate (%) |
|------------------------------------|--------------------------------------|---------------------------------|-------------------------|-----------------------------------|
| HYDRAULIC PRODUCTION PLANT | | | | |
| 331 | Structures and Improvements | 1.91% | -5.00% | 2.01% |
| 332 | Reservoirs, Dams and Waterways | 0.93% | -5.00% | 0.98% |
| 333 | Waterwheels, Turbines and Generators | 2.84% | -5.00% | 2.98% |
| 334 | Accessory Electric Equipment | 1.87% | -5.00% | 1.96% |
| 335 | Miscellaneous Power Plant Equipment | 3.36% | -5.00% | 3.53% |
| OTHER PRODUCTION PLANT | | | | |
| Riverton 9,10,11&12 | | | | |
| 341 | Structures and Improvements | 1.67% | -2.00% | 1.70% |
| 342 | Fuel Holders, Producers and Access. | 2.00% | -2.00% | 2.04% |
| 343 | Prime Movers | 2.11% | 4.00% | 2.03% |
| 344 | Generators | 2.00% | 4.00% | 1.92% |
| 345 | Accessory Electric Equipment | 1.91% | -2.00% | 1.95% |
| 346 | Miscellaneous Power Plant Equipment | 2.00% | -2.00% | 2.04% |
| Energy Center 1&2 | | | | |
| 341 | Structures and Improvements | 2.15% | -2.00% | 2.19% |
| 342 | Fuel Holders, Producers and Access. | 2.97% | -2.00% | 3.03% |
| 343 | Prime Movers | 2.43% | 4.00% | 2.33% |
| 344 | Generators | 2.17% | 4.00% | 2.08% |
| 345 | Accessory Electric Equipment | 1.12% | -2.00% | 1.14% |
| 346 | Miscellaneous Power Plant Equipment | 2.70% | -2.00% | 2.75% |
| Energy Center 3&4 (FT8) | | | | |
| 341 | Structures and Improvements | 2.00% | -2.00% | 2.04% |
| 342 | Fuel Holders, Producers and Access. | 2.00% | -2.00% | 2.04% |
| 343 | Prime Movers | 2.06% | 4.00% | 1.98% |
| 344 | Generators | 2.01% | 4.00% | 1.93% |
| 345 | Accessory Electric Equipment | 2.01% | -2.00% | 2.05% |
| 346 | Miscellaneous Power Plant Equipment | 2.00% | -2.00% | 2.04% |
| Stateline CT | | | | |
| 341 | Structures and Improvements | 4.20% | -2.00% | 4.28% |
| 342 | Fuel Holders, Producers and Access. | 2.27% | -2.00% | 2.32% |
| 343 | Prime Movers | 3.67% | 4.00% | 3.52% |
| 344 | Generators | 2.72% | 4.00% | 2.61% |
| 345 | Accessory Electric Equipment | 2.36% | -2.00% | 2.41% |
| 346 | Miscellaneous Power Plant Equipment | 3.80% | -2.00% | 3.88% |
| Stateline CC | | | | |
| 341 | Structures and Improvements | 2.07% | -2.00% | 2.11% |
| 342 | Fuel Holders, Producers and Access. | 4.52% | -2.00% | 4.61% |
| 343 | Prime Movers | 2.11% | 4.00% | 2.03% |
| 344 | Generators | 2.54% | 4.00% | 2.44% |
| 345 | Accessory Electric Equipment | 2.15% | -2.00% | 2.19% |
| 346 | Miscellaneous Power Plant Equipment | 2.04% | -2.00% | 2.08% |

**The Empire District Electric Company
Staff Recommended Annual Depreciation Rates**

| Account Number | Account Description | Recommended Whole Life Rate (%) | Recommended Net Salvage | Reccomended Depreciation Rate (%) |
|---------------------------|--------------------------------|---------------------------------------|----------------------------|---|
| TRANSMISSION PLANT | | | | |
| 352 | Structures & Improvements | 1.82% | -15.00% | 2.09% |
| 353 | Station Equipment | 2.00% | -10.00% | 2.20% |
| 354 | Towers & Fixtures | 1.54% | -25.00% | 1.92% |
| 355 | Poles & Fixtures | 1.67% | -100.00% | 3.33% |
| 356 | Overhead Conductors | 1.54% | -40.00% | 2.15% |
| DISTRIBUTION PLANT | | | | |
| 361 | Structures & Improvements | 1.67% | -25.00% | 2.08% |
| 362 | Station Equipment | 2.22% | 15.00% | 1.89% |
| 364 | Poles, Towers & Fixtures | 2.17% | -100.00% | 4.35% |
| 365 | Overhead Conductors | 1.89% | -100.00% | 3.77% |
| 366 | Underground Conduit | 2.70% | -45.00% | 3.92% |
| 367 | Underground Conductors | 3.13% | -15.00% | 3.59% |
| 368 | Transformers | 2.22% | -25.00% | 2.78% |
| 369 | Services | 2.50% | -100.00% | 5.00% |
| 370 | Meters | 2.27% | 0.00% | 2.27% |
| 371 | Meter Installations | 4.00% | -45.00% | 5.80% |
| 373 | Street Lighting | 2.08% | -50.00% | 3.13% |
| GENERAL PLANT | | | | |
| 390 | Structures & Improvements | 2.50% | -10.00% | 2.75% |
| 391.1 | Office Furniture and Equipment | 5.00% | 0.00% | 5.00% |
| 391.2 | Computer Equipment | 10.00% | 0.00% | 10.00% |
| 392 | Transportation Equipment | 8.33% | 15.00% | 7.08% |
| 393 | Stores Equipment | 3.33% | 5.00% | 3.17% |
| 394 | Tools, Shop & Garage Equipment | 5.00% | 10.00% | 4.50% |
| 395 | Laboratory Equipment | 2.63% | 0.00% | 2.63% |
| 396 | Power Operated Equipment | 6.67% | 5.00% | 6.33% |
| 397 | Communication Equipment | 4.00% | 0.00% | 4.00% |
| 398 | Miscellaneous Equipment | 4.55% | 0.00% | 4.55% |

**Empire District Electric (EDE)
Iatan 2, Iatan Common, and Plum Point Operations and Maintenance Tracker
FERC Accounts to Include**

| Iatan 2 and Common O&M Tracker Accounts | | |
|--|--------------------|-------------------------------|
| Empire Account | Empire FERC | Description |
| 408141 | 408 | Prov-Foab Taxes-Electric |
| 408144 | 408 | Payroll Taxes - Iatan |
| 408511 | 408 | Prov-Fed Unemp Compens Tax-EI |
| 408512 | 408 | Prov-St Unemp Compens Tax-EI |
| 500039 | 500 | Operation Supervision & Eng |
| 502114 | 502 | Steam Expenses - Other |
| 505422 | 505 | Electric Expense - Iatan |
| 506126 | 506 | Misc Steam Power Expenses |
| 507129 | 507 | Rents - Energy Supply |
| 510030 | 510 | Mtce Supervision & Engineer |
| 511127 | 511 | Mtce Of Structures |
| 512165 | 512 | Mtce Of Boiler Plant-Other |
| 513168 | 513 | Mtce Of Turbine Plant |
| 514171 | 514 | Mtce Of Misc Steam Plant |
| 557448 | 557 | Other Pwr Supply Expense |
| 920882 | 920 | Administrative & General Sal |
| 921885 | 921 | A&G Expenses Iatan |
| 923045 | 923 | Outside Services |
| 924000 | 924 | Property Insurance |
| 925000 | 925 | Injuries & Damages-Corp |
| 926197 | 926 | Pensions - Iatan |

| Plum Point O&M Tracker Accounts | | |
|--|--------------------|--------------------------------|
| Empire Account | Empire FERC | Description |
| 500036 | 500 | Opr Spr & Eng-Air Abate&Monit |
| 500039 | 500 | Operation Supervision & Eng |
| 502096 | 502 | Exp To H2O Supply System |
| 502108 | 502 | Exp Of Steam Boiler |
| 502109 | 502 | Boiler Ops & Supervision |
| 505425 | 505 | Turbine Mtls |
| 505426 | 505 | Electric Ops & Supervision |
| 506025 | 506 | Safety Expenses-Prod |
| 506126 | 506 | Misc Steam Power Expenses |
| 510030 | 510 | Mtce Supervision & Engineer |
| 511127 | 511 | Mtce Of Structures |
| 512165 | 512 | Mtce Of Boiler Plant-Other |
| 513168 | 513 | Mtce Of Turbine Plant |
| 514171 | 514 | Mtce Of Misc Steam Plant |
| 556401 | 556 | Sys Control & Generation Disp |
| 557448 | 557 | Other Pwr Supply Expense |
| 920882 | 920 | Administrative & General Sal |
| 921475 | 921 | Telecommunications |
| 921489 | 921 | Supplies-Other |
| 921886 | 921 | Home Off Support Travel & Misc |
| 923045 | 923 | Outside Services |
| 923047 | 923 | Outside Services - EDE Only |
| 923050 | 923 | Management Fee |
| 923051 | 923 | O&M Fee - NAES |
| 924000 | 924 | Property Insurance |
| 925000 | 925 | Injuries & Damages-Corp |
| 926105 | 926 | Plant Pension & Benefits |