

*Exhibit No.:*  
*Issues:* *Affiliated Transactions*  
*Cost Allocation Manual*  
*Witness:* *Robert E. Schallenberg*  
*Sponsoring Party:* *MoPSC Staff*  
*Type of Exhibit:* *Direct Testimony*  
*Case No.:* *AO-2012-0062*  
*Date Testimony Prepared:* *September 9, 2016*

**MISSOURI PUBLIC SERVICE COMMISSION**

**COMMISSION STAFF DIVISION**

**OPERATIONAL ANALYSIS**

**DIRECT TESTIMONY**

**OF**

**ROBERT E. SCHALLENGER**

**THE EMPIRE DISTRICT ELECTRIC COMPANY**

**CASE NO. AO-2012-0062**

*Jefferson City, Missouri*  
*September 2016*

**DIRECT TESTIMONY**

**OF**

**ROBERT E. SCHALLENBERG**

**THE EMPIRE DISTRICT ELECTRIC COMPANY**

**CASE NO. AO-2012-0062**

Q. Please state your name and business address.

A. My name is Robert E. Schallenberg. My business address is 200 Madison Street, Jefferson City, Missouri, 65101.

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

A. I am the Operational Analysis Manager at the Missouri Public Service Commission (“MoPSC” or “Commission”).

Q. Please describe your educational background and work experience.

A. I am a 1976 graduate of the University of Missouri at Kansas City with a Bachelor of Science degree and major emphasis in Accounting. In November 1976, I successfully completed the Uniform Certified Public Accountant (“CPA”) examination and subsequently received the CPA certificate. In 1989, I received my CPA license in Missouri. I began my employment with the MoPSC as a Public Utility Accountant in November 1976. I remained on the Staff of the MoPSC until May 1978, when I accepted the position of Senior Regulatory Auditor with the Kansas State Corporation Commission. In October 1978, I returned to the Staff of the MoPSC. Most immediately prior to October 1997, I was an Audit Supervisor/Regulatory Auditor V. During my career as an auditor, I was involved in a direct role in processing the cases listed in my Schedule RES-d1. In October 1997, I was named Division Director of the Utility Services Division of the MoPSC. In November 2011,

1 my group became the Auditing, Accounting and Financial Analysis Department. During my  
2 term in senior management, I was involved in the strategic aspects of cases listed in  
3 Schedule RES-d1 during this period as well as performing management activities.

4 Q. Please describe your responsibilities and experience while employed at the  
5 MoPSC as a Regulatory Auditor V?

6 A. As a Regulatory Auditor V for the MoPSC, I had several areas of  
7 responsibility. I was required to have and maintain a high degree of technical and substantive  
8 knowledge in utility regulation and regulatory auditing. Among my various responsibilities as  
9 a Regulatory Auditor V were:

10 1. To conduct the timely and efficient examination of the accounts, books,  
11 records and reports of jurisdictional utilities;

12 2. To aid in the planning of audits and investigations, including staffing  
13 decisions, and in the development of Staff positions in cases to which the  
14 Accounting Department of the MoPSC was assigned, in cooperation with Staff  
15 management as well as other Staff;

16 3. To serve as lead auditor, as assigned on a case-by-case basis, and to  
17 report to the Assistant Manager-Accounting at the conclusion of the case on  
18 the performance of less experienced auditors assigned to the case, for use in  
19 completion of annual written performance evaluations;

20 4. To assist in the technical training of other auditors in the  
21 Accounting Department;

22 5. To prepare and present testimony in proceedings before the MoPSC,  
23 the Federal Communications Commission ("FCC") and the Federal Energy  
24 Regulatory Commission ("FERC"), and aid MoPSC Staff attorneys and the  
25 MoPSC's Washington, D.C. counsel in the preparation of pleadings and for  
26 hearings and arguments, as requested; and

6. To review and aid in the development of audit findings and prepared testimony to be filed by other auditors in the Accounting Department.

The MoPSC has relied on the Regulatory Auditor V position to be able to present and defend positions both in filed testimony and orally at hearing. I have had many occasions to present testimony before the MoPSC on issues ranging from the prudence of building power plants to the appropriate method of calculating income taxes for ratemaking purposes. I have worked in the area of telephone, electric and gas utilities. I have taken depositions on behalf of the MoPSC in FERC dockets. Attached as Schedule RES-d1, is a listing of cases and issues on which I have worked at the MoPSC. My responsibilities were expanded to assist in federal cases involving the MoPSC as assigned.

Q. Have you previously submitted testimony in proceedings before the FERC?

A. Yes. I submitted testimony in Docket Nos. RP94-365-000, RP95-136-000, RP96-173-000, et al. These dockets were cases involving Williams Natural Gas Company ("WNG"). WNG provides gas transportation and storage services for local distribution companies serving the western portion of Missouri. WNG provides service to Missouri Gas Energy which serves the Kansas City area. My testimony in Docket No. RP94-365-000 involved a prudence challenge of the costs that WNG sought to recover in that case. I also filed testimony regarding certain cost of service issues in Docket No. RP95-136-000, WNG's rate case before the FERC. These issues included affiliated transactions between WNG and its parent. I also conducted depositions on this Commission's behalf regarding affiliated transactions between WNG and its parent company. I filed testimony in Docket No. RP96-173-000, et al., on the issue of whether the costs in question met FERC's eligibility criteria for recovery under FERC Order No. 636.

1 I submitted testimony in Docket No. RP96-199-000. That case was a Mississippi  
2 River Transmission Corporation (“MRT”) rate case. MRT provides gas transportation and  
3 storage services for local gas distribution companies serving the eastern portion of Missouri.  
4 MRT provides service to Laclede Gas Company (“Laclede”) which serves the St. Louis area.  
5 My testimony in Docket No. RP96-199-000 involved cost of service issues. These issues  
6 included affiliated transactions between MRT and its parent company.

7 Q. What expertise do you have relative to Missouri’s affiliate transactions rules as  
8 applied to electric and gas utilities, 4 CSR 240-20.105 and 4 CSR 240-40.105?

9 A. I helped draft the Missouri affiliate transactions rules which were to apply to  
10 not just to the telecommunications industry. The rules were developed based on a  
11 Commission initiative. The Commission wanted greater administrative efficiency as affiliate  
12 transactions were playing a greater role in Southwestern Bell Telephone Company (“SWBT”) rate cases. The number of affiliate transaction issues was increasing in SWBT rate cases and  
13 lack of documentation of key information (e.g., time reporting of executive and non-executive  
14 personnel, determination and charging of costs, determination of and charging of market  
15 value, etc.) made the affiliate issues more difficult to address and resolve. The Commission’s  
16 affiliate transactions rules were influenced by the affiliate transactions rules applied by  
17 the FCC.  
18

19 Through the National Association of Regulatory Utility Commissioners (“NARUC”)  
20 I have experience in examination of the telephone implementation of safeguards against  
21 affiliate transaction abuse and participated on joint audits with other states and the FCC  
22 before the Bell System divestiture and telephones/telecommunications were deregulated in

1 Missouri. I was familiar with the SWBT implementation of its affiliate transactions  
2 protections as well as those of General Telephone Company.

3 Q. Was it thought that affiliate transactions rules were needed only for the  
4 telephone/telecommunications industry?

5 A. No. Among other things, there was divestiture of the Bell System and there  
6 was deregulation of the state telephone/telecommunications industry in Missouri so the  
7 affiliate transactions rule that was viewed as needed for the telephone/telecommunications  
8 industry was ultimately developed for the electric, gas and steam heat regulated industries that  
9 are covered by Chapter 393.

10 Q. What were the initial reactions of some utilities to the Commission's adopting  
11 of the affiliate transactions rules?

12 A. Initially, some Missouri utilities would not implement the rules the  
13 Commission adopted. Certain companies ultimately appealed the affiliate transactions rules  
14 to the Missouri Supreme Court. The Supreme Court decision identifies Atmos Energy  
15 Corporation ("Atmos"); Missouri Gas Energy ("MGE"); Laclede Gas Company ("Laclede");  
16 Trigen-Kansas City Energy Corporation ("Trigen"); Ameren Corporation ("Ameren"); and  
17 Union Electric Company ("UE"), d/b/a AmerenUE as the companies appealing the  
18 Commission's adoption of affiliate transactions rules.

19 Q. Have you worked on any other Commission CAM case?

20 A. Yes. I have been working in and continue to work in File No. EO-2014-0189,  
21 In the Matter of Kansas City Power & Light Company ("KCPL") and KCP&L Greater  
22 Missouri Operations Company's ("GMO") Application for Approval of Cost Allocation  
23 Manual Application for Approval of Cost Allocation Manual.

1 Q. What is the purpose of your direct testimony in this case?

2 A. The purpose of my testimony is to address the question of what Cost  
3 Allocation Manual(s) ("CAM(s)") should be approved by the Commission. I am unsure of  
4 what CAM(s) The Empire District Electric Company's ("EDE") and possibly The Empire  
5 District Gas Company's ("EDG") will be submitting for approval in this case. On  
6 December 15, 2011, EDE recommended the Commission defer approval of its CAM until  
7 Empire files an appropriately revised CAM consistent with the revisions described in Staff's  
8 Memorandum filed at an earlier date. The Commission adopted this approach. The CAM  
9 originally filed was intended to be replaced by the revised CAM. On February 10, 2012,  
10 EDE, the Staff, and the Office of the Public Counsel ("Public Counsel") filed a *Joint Request*  
11 *Regarding Continuing Discussions* regarding continuing to engage in discussions concerning  
12 the contents of the intended CAM asking that the Commission accept the filing of monthly  
13 status reports. To date, I am unaware of any EDE filing of a revised CAM.

14 Given the situation, the purpose of this testimony is to propose a CAM for  
15 consideration and provide the current list of differences regarding EDE's practices  
16 inconsistent with the Commission's affiliate transactions rules.

17 Q. How did you approach the development of a CAM that Staff would  
18 recommend for approval?

19 A. The initial phase is to examine the current compliance level that a utility is  
20 achieving with its current practices. Effective enforcement of the affiliate transactions rules is  
21 noted as a key component in providing the public the assurance that a utility's rates are not  
22 adversely impacted by the utility's nonregulated activities. A utility's current practices can be  
23 supplemented with documentation to develop a CAM ready for Commission approval if the

1 utility is complying with the Commission's affiliate transactions rules. If a utility is not in  
2 compliance with the Commission's affiliate transactions rules, the process is more  
3 complicated and will take more time to develop a CAM ready for Commission approval.

4 Q. Why does it take more time to develop a CAM ready for Commission approval  
5 if a utility is not currently in compliance with the Commission's affiliate transactions rules?

6 A. Two factors cause the need for additional time to develop a CAM ready for  
7 Commission approval. One, additional time is needed to determine the scope and items of  
8 non-compliance with the Commission's affiliate transactions rule. Two, new internal controls  
9 are required to establish a company culture that will provide reasonable assurance that the  
10 Commission's affiliate transactions rules will be effectively enforced.

11 Q. Do the Commission's affiliate transactions rules address CAMs?

12 A. Yes. The Commission's affiliate transactions rules use the words "cost  
13 allocation manual" or the abbreviation "CAM" a limited number of times but the words and  
14 abbreviation are both definitely used. For example, 4 CSR 240-20.015(3)(D) and 4 CSR 240-  
15 40.015(3)(D) state as follows:

16 In 4 CSR 240-20.015(3) Evidentiary Standards for Affiliate Transactions,  
17 subsection (D), states for regulated electrical corporations:

18 (D) In transactions involving the purchase of goods or services by the  
19 regulated electrical corporation from an affiliated entity, **the regulated**  
20 **electrical corporation will use a commission-approved CAM** which sets  
21 forth cost allocation, market valuation and internal cost methods. This  
22 CAM can use benchmarking practices that can constitute compliance with  
23 the market value requirements of this section if approved by the  
24 commission. (Emphasis added).

25 In 4 CSR 240-40.015(3) Evidentiary Standards for Affiliate Transactions, subsection (D),  
26 states for regulated gas corporations:



(D) In transactions involving the purchase of goods or services by the regulated gas corporation from an affiliated entity, **the regulated gas corporation will use a commission-approved CAM** which sets forth cost allocation, market valuation and internal cost methods. This CAM can use benchmarking practices that can constitute compliance with the market value requirements of this section if approved by the commission.  
(Emphasis added).

In 4 CSR 240-20.015(2)(E) and 4 CSR 240-40.015(2)(E) Standards state, in part, as follows:

. . . The regulated electrical corporation shall include in its **annual Cost Allocation Manual (CAM)**, the criteria, guidelines and procedures it will follow to be in compliance with this rule. (Emphasis added).

\* \* \* \*

. . . The regulated gas corporation shall include in its **annual Cost Allocation Manual (CAM)**, the criteria, guidelines and procedures it will follow to be in compliance with this rule. (Emphasis added).

Finally, there is a reference in the Variance section of the affiliate transactions rules 4 CSR 240-20.015(10)(A)(2)B and 4 CSR 240-40.015(10)(A)(2)B regarding that when the regulated electrical corporation or regulated gas corporation makes its annual CAM filing it must provide to the Secretary of the Commission a listing of all non-complying affiliate transactions which occurred between the period of the last filing and the current filing. Any affiliate transaction submitted pursuant to these sections shall remain interim, subject to disallowance, pending final Commission determination on whether the noncomplying affiliate transaction resulted in the best interests of the regulated customers.

Q. Are you aware of the Commission ever approving a Missouri utility's CAM?

A. Yes. Laclede has a Commission approved CAM with a related variance from the Commission.

Q. What is the status of EDE's compliance with the Commission's electric affiliate transactions rules, 4 CSR 240-20.015 and 4 CSR 240-40.015?

1           A.     Staff discovered several areas of EDE and EDG non-compliance with  
2 the Commission's affiliate transactions rules. A list of non-compliance was developed over  
3 time and the current status of these issues was discussed at the August 11, 2016 early  
4 technical settlement conference held in this case. Staff supplied EDE and Public Counsel its  
5 listing of principal areas of non-compliance with the Commission's affiliate transactions rules  
6 on August 15, 2016 and made a filing in this case on August 25, 2016 identifying a clarified  
7 listing of the areas of disagreement with EDE and EDG entitled "Staff Report." The e-mail  
8 providing this information and the "Staff Report" is attached as Schedule RES-d2.

9           Q.     What is the overriding CAM issue regarding a utility such as EDE which also  
10 has a separate gas business unit?

11          A.     EDG needs to comply with 4 CSR 240-40.015 and file a CAM and its own  
12 affiliate transaction report or obtain waivers for non-compliance. EDG is a natural gas  
13 company regulated by the Commission. As a natural gas company under the Commission it  
14 must comply with 4 CSR 240-40.015. EDG makes no filing of a CAM or affiliate transactions  
15 report. In the Commission's Electronic Filing Information System ("EFIS"), there is no  
16 affiliate transactions report or CAM for EDG. There is a report for EDE. The Commission  
17 has granted no waiver for EDG nor has EDG sought any.

18          Q.     Is there an issue regarding EDE and EDG engaging in transactions between  
19 each other at cost if they do not have a waiver similar as the limited waiver obtained in the  
20 context of the Great Plains Energy Incorporated ("GPE") - KCPL - Aquila acquisition case,  
21 Case No. EM-2007-0374?

22          A.     Yes. EDE and EDG are required by the Commission's affiliate transactions  
23 rules, 4 CSR 240-20.015(2)(A) and 4 CSR 240-40.015(2)(A), to sell assets, goods,

1 information, or services to affiliates at the higher of cost or market value. In the alternative,  
2 EDE and EDG are required by the Commission's affiliate transactions rules to purchase  
3 assets, goods, information, or services from affiliates at the lower of cost or market value.  
4 Transactions between EDE and EDG cannot comply with the affiliate transactions rules  
5 requirements in transactions between each other as affiliates. In addition 4 CSR 240-  
6 20.015(2)(D) and 4 CSR 240-40.015(2)(D) of the Commission's affiliate transactions rules  
7 require that EDE and EDG shall not participate in any affiliate transactions which are not  
8 compliant with the affiliate transactions rules unless a variance has been obtained under,  
9 4 CSR 240-20.015(10) and 4 CSR 240-40.015(10). EDE and EDG are engaging in affiliate  
10 transactions which 4 CSR 240-20.015(2)(A) and 4 CSR 240-40.015(2)(A) of the rules  
11 prohibit these companies from conducting.

12 Q. How did the Commission address the asymmetrical pricing issue in its Report  
13 and Order in the GPE - KCPL - Aquila acquisition case?

14 A. The Commission's July 1, 2008 Report and Order in Case No. EM-2007-0374  
15 states in Ordered: 10 at page 284:

16 The Commission grants a limited variance of its Affiliate Transaction Rule  
17 to Kansas City Power & Light Company and Aquila, Inc., as described in  
18 detail in the Conclusions of Law Section of this Report and Order.

19 In the Conclusions of Law Section of the Report and Order on the Affiliate Transactions Rule  
20 the Commission stated in part as follows at page 263:

21 Because both Aquila and KCPL will continue to be regulated electrical  
22 corporations after approval of the transaction and both meet the Rule's  
23 definition of "affiliates," and because many of the synergies to be realized  
24 by the Applicants post-merger are premised on the ability of KCPL and  
25 Aquila to exchange goods and services at cost, the Rule would actually  
26 prevent benefits from accruing to Missouri ratepayers. Consequently, the  
27 Applicants have argued that the Affiliate Transaction Rule does not apply  
28 to transactions between KCPL and Aquila, or in the alternative that they

1 should be granted a waiver from the rule to the extent it would inhibit  
2 transactions at cost between KCPL and Aquila after the close of the  
3 merger.

4  
5 \* \* \* \*

6 Because both Aquila and KCPL will be regulated electrical corporations,  
7 transactions between KCPL and Aquila do not involve cross-subsidization  
8 and these transactions were not intended to be covered by the Rule.  
9 However, because the Commission is imposing a condition on the merger  
10 of having KCPL and Aquila execute a joint operators agreement, the issue  
11 of cross-subsidization becomes blurred and the Commission concludes that  
12 a variance is required.

13 Q. Does the EDE CAM use the Modified Massachusetts Formula as a General  
14 Corporate Allocation Method where EDG and non-regulated companies/business units  
15 receive benefits or services from EDE that cannot be assigned or allocated through another  
16 EDE assignment method?

17 A. Yes.

18 Q. Is the use of the Modified Massachusetts Formula for General Corporate  
19 Allocation inappropriate?

20 A. Yes. It is inequitable to electric customers and causes inadequate cost  
21 assignment to EDG. Several significant utility functions that are recognized in the  
22 determination of the electric factor are excluded from the determination of the natural gas  
23 factor for EDG. The three factors are plant, net revenues, and payroll. The plant component  
24 used to determine the electric factor includes generation and transmission plant. The gas plant  
25 factor has no corresponding component since natural gas is purchased from gas producers and  
26 transported on interstate pipelines. The revenue factor for electric is electric revenues minus  
27 fuel and purchase power while the revenue factor for natural gas is gas revenues minus the  
28 cost of delivered gas. Thus the plant and revenue factors do not consider the cost to produce

1 or transport natural gas while the electric factors consider the full cost to produce and  
2 transport electricity.

3 Staff opposes a general allocator that includes shared costs or assets in the  
4 determination of the EDE factor. Staff supports removing all shared costs from the  
5 determination of the allocation factors.

6 Q. What does Staff propose?

7 A. EDE is more than an electric utility. EDE is a holding company, a service  
8 company, and a water utility. The allocation factors of EDE's non-electric operations should  
9 be disaggregated from the allocation factors of its determination as an electric utility until  
10 these factors represent only the electric utility share of any allocation factors.

11 Q. Does Empire District Industries, Inc. ("EDI") charge EDE the lower of cost or  
12 market for services EDI supplies to EDE?

13 A. No. In addition, EDE shows a preferential treatment to EDI by not allowing  
14 third party opportunities to provide EDI services. EDI services need to be put out for bid to  
15 establish market prices for services EDI provides to EDE.

16 Q. Does EDE charge EDI the higher of cost or market for assets, goods,  
17 information, and services EDE provides to EDI?

18 A. No. The Commission's affiliate transactions rule, 4 CSR 240-20.015, requires  
19 that EDE provide EDI assets, goods, information, and services at the higher of cost or market.  
20 These rules also require EDE to purchase assets, goods, information, and services from EDI at  
21 the lower of cost or market. Unless EDE receives a waiver, EDE is not to conduct business  
22 with EDI under the current terms of the affiliate transactions rules.

1           Q.     Do the Staff's proposed CAM and the affiliate transactions rules require that  
2 there should be contracts for information, assets, goods, and services between affiliated  
3 entities, and if no contract, an explanation why there is no contract?

4           A.     Yes, 4 CSR 240-20.015(4)(B)3 and 4 require a listing of all contracts entered  
5 into with affiliated entities and a listing of all affiliate transactions undertaken without a  
6 written contract and an explanation of why there is no contract. A similar provision is  
7 included in the Commission's natural gas affiliate transactions rule, 4 CSR 240-40.015(4)(B)3  
8 and 4. Written contracts and agreements are a common practice in the way any utility  
9 transacts business with outside entities and it certainly should be the norm among affiliated  
10 entities. Written contracts and agreements define the nature of the commitments of the parties  
11 as well as the consideration to be paid for the fulfillment of those commitments.  
12 Documentation plays a significant role in communication of the transaction to others not  
13 directly involved in creating the transaction. For affiliate transactions, it is important to  
14 have the definition of assets, goods, information, and services being provided to or from an  
15 affiliate settled. Clear understanding of the nature of an affiliate transaction plays an  
16 important role in effective enforcement of the Commission's affiliate transactions rules. It is  
17 important as well that utility personnel understand that they are held accountable for an  
18 explanation for the non-existence of a written contract or agreement by the Commission's  
19 affiliate transactions rules.

20           Q.     Is it important that the Staff's proposed CAM requires more direct time  
21 reporting by employees working on affiliate activities and less reliance on the allocation  
22 method for cost assignment to affiliates?

1           A.     Yes. Direct time reporting is the most accurate form of cost assignment.  
2     The level of accuracy will impact the level of compliance with the Commission's affiliate  
3     transactions rules. Direct time reporting is important in the identification of allocation factors  
4     requiring market values which is necessary to comply with relationship of cost and market  
5     value contained in the affiliate transactions rules "(2) Standards" section.

6           Q.     Is it necessary that the CAM for EDE and EDG be so detailed?

7           A.     Yes. As can be seen in the affiliate transactions rules themselves, they are  
8     detailed. That mere fact itself, that the affiliate transactions rules themselves can be detailed,  
9     does not mean that there does not need to be a CAM or that the CAM itself does not need to  
10    be detailed. The Staff is of the opinion that it is more effective and efficient providing utility  
11    personnel a manual instead of just a copy of the Commission's rules. Among other things it  
12    highlights for them what subject matters are considered the most significant. A manual can  
13    be more expressive than rules and helpful in the education process. The CAM also needs to  
14    be precise. This subject matter is not easy and it covers a lot of material that EDE and EDG  
15    personnel need to be aware of and understand. The CAM defines the particular utility's  
16    policies, procedures, and practices the company intends to follow to comply with the affiliate  
17    transaction rules. It is a manual, i.e., a document that should be able to be referred back to  
18    over a period of time to refresh one's memory and answer questions. Each utility will have its  
19    own policies, procedures, practices and even variances that will define the specifics of  
20    company's compliance with the Commission's affiliate transactions rules.

21          Q.     Does there need to be CAM training for employees, supervisors, and  
22    executives?

1           A.     Yes. There should be formal training, review and audit programs to provide  
2 reasonable assurance that EDE and EDG are complying with the Commission's affiliate  
3 transactions rules.

4           Q.     Did Staff develop a CAM that could form the basis for a CAM suitable for  
5 Commission approval for EDE?

6           A.     Yes. Schedule RES-d3 is a copy of the draft CAM Staff provided to EDE on  
7 February 8, 2016 by e-mail. This version is the most current version of a draft CAM  
8 exchanged between Staff and EDE. The Staff has received no substantive EDE feedback to  
9 this Staff draft CAM. This draft represents the best CAM, in Staff's view, that has been  
10 developed in this case. On the February 8, 2016 version, there was a void in that version for a  
11 section on "customer information." Customer information is covered in the Commission's  
12 affiliate transactions rules at 4 CSR 240-20.015(2)(C), among other places, and the Staff  
13 was waiting for the Commission's Report and Order in the Staff's Complaint case, File No.  
14 EC-2015-0309, before proposing language on customer information for the EDE, EDG,  
15 KCPL, and GMO CAM cases. There should be an additional tab added to the EDE CAM  
16 addressing "Customer Information" that is consistent with the Commission's Report and  
17 Order in File No. EC-2015-0309.

18          Q.     You have cited several incidents of EDE and EDG non-compliance with the  
19 Commission's affiliate transactions rules. How do you propose these incidents be treated in  
20 this case?

21          A.     I do not recommend prior non-compliance matters be addressed in this case.  
22 Instead, Staff will file a complaint case if in its opinion these matters need to be addressed.



1           Q.     Will the Algonquin Power & Utilities Corp. (“Algonquin”) acquisition of EDE  
2 need a new CAM to be approved by the Commission?

3           A.     Yes. New criteria, guidelines, and procedures will be required to be compliant  
4 with the Commission’s affiliate transactions rules after the Algonquin acquisition. EDE’s  
5 affiliate transactions will substantially change in a post Algonquin acquisition environment.  
6 EDE will be receiving services from Algonquin affiliates and providing fewer services to its  
7 affiliates. The need for market value data will significantly increase after the Algonquin  
8 acquisition to comply with the Commission’s affiliate transactions rules.

9           Q.     Does this conclude your direct testimony?

10          A.     Yes.

**BEFORE THE PUBLIC SERVICE COMMISSION**

**OF THE STATE OF MISSOURI**

In the Matter of the Application of The )  
 Empire District Electric Company and The ) Case No. AO-2012-0062  
 Empire District Gas Company for Approval )  
 of their Cost Allocation Manual )

# AFFIDAVIT OF ROBERT E. SCHALLENBERG

STATE OF MISSOURI            )  
  )  
COUNTY OF COLE            )            SS.

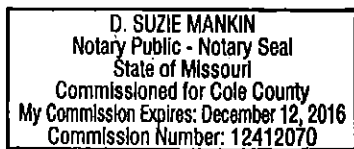
**COMES NOW ROBERT E. SCHALLENBERG** and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing DIRECT TESTIMONY; and that the same is true and correct according to his best knowledge and belief.


Further the Affiant sayeth not.

Robert E. Schallenberg  
ROBERT E. SCHALLENBERG

## JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 9<sup>th</sup> day of September, 2016.



  
Notary Public

# **RATE CASE PROCEEDING PARTICIPATION**

## **ROBERT E. SCHALLENBERG**

<b><u>COMPANY</u></b>	<b><u>CASE NO.</u></b>
The Empire District Electric Company, Liberty Utilities (Central) Co. and Liberty Sub Corp.	EM-2016-0213
Laclede Gas Company	GF-2015-0181
KCP&L Greater Missouri Operations Company	ER-2010-0356
Kansas City Power & Light Company	ER-2010-0355
Great Plains Energy Incorporated, Kansas City Power & Light Company	ER-2009-0090
Great Plains Energy Incorporated, Kansas City Power & Light Company	ER-2009-0089
Great Plains Energy Incorporated, Kansas City Power & Light Company, Aquila, Inc.	EM-2007-0374
Union Electric Company, d/b/a AmerenUE	ER-2007-0002
Missouri Pipeline Company	GC-2006-0491
Aquila, Inc.	ER-2005-0436
Union Electric Company, d/b/a AmerenUE	EA-2005-0180
Union Electric Company, d/b/a AmerenUE	EC-2002-1
Mississippi River Transmission	RP96-199-000
Williams Natural Gas Company	RP96-173-000
Williams Natural Gas Company	RP95-136-000
Williams Natural Gas Company	RP94-365-000
Laclede Gas Company	GR-94-220
Western Resources	GM-94-40
Western Resources	GR-93-240
St. Joseph Light & Power Company	ER-93-41
Southwestern Bell Telephone Company	TC-93-224
St. Joseph Light & Power Company	EC-92-214
Kansas Power & Light Company	GR-91-291
Kansas Power & Light Company	EM-91-213
Arkansas Power & Light Company	EM-91-29

**RATE CASE PROCEEDING PARTICIPATION**

**ROBERT E. SCHALLENGER**

<b><u>COMPANY</u></b>	<b><u>CASE NO.</u></b>
Missouri Public Service Company	ER-90-101
Southwestern Bell Telephone Company	TR-90-98
General Telephone	TR-89-182
Southwestern Bell Telephone Company	TO-89-56
Southwestern Bell Telephone Company	TC-89-14
Union Electric Company	EC-87-114
General Telephone	TC-87-57
General Telephone	TM-87-19
General Telephone	TR-86-148
Southwestern Bell Telephone Company	TR-86-84
Kansas City Power & Light Company	EO-85-185
Kansas City Power & Light Company	ER-85-128
Southwestern Bell Telephone Company	TR-83-253
Kansas City Power & Light Company	ER-83-49
Southwestern Bell Telephone Company	TR-82-199
Kansas City Power & Light Company	HR-82-67
Kansas City Power & Light Company	ER-82-66
Southwestern Bell Telephone Company	TO-82-3
Southwestern Bell Telephone Company	TR-81-208
Kansas City Power & Light Company	ER-81-42
Southwestern Bell Telephone Company	TR-80-256
United Telephone Company of Missouri	TR-80-235
Kansas City Power & Light Company	ER-80-204
Kansas City Power & Light Company	ER-80-48
Kansas City Power & Light Company	ER-80-48
Southwestern Bell Telephone Company	TR-79-213

**RATE CASE PROCEEDING PARTICIPATION**

**ROBERT E. SCHALLENGER**

**COMPANY**

**CASE NO.**

Gas Service Company	GR-79-114
Missouri Public Service Company	ER-79-60
Missouri Public Service Company	ER-79-61
Kansas City Power & Light Company	ER-78-252
Missouri Public Service Company	GR-78-30
Missouri Public Service Company	ER-78-29
Gas Service Company	GR-78-70
Kansas City Power & Light Company	ER-77-118

**CASE SUMMARY OF INVOLVEMENT  
OF  
ROBERT E. SCHALLENBERG**

The Empire District Electric Company,  
Liberty Utilities (Central) Co. and Liberty Sub Corp.

Case No. EM-2016-0213

Date: July 20, 2016

Areas: Affiliated Transactions

Laclede Gas Company

Case No. GF-2015-0181

Date: June 18, 2015

Areas: Finance Authority

KCP&L Greater Missouri Operations Company

Case No. ER-2010-0356

Date: November 4, 2010 (Report)

Areas: Construction Audit and Prudence Review

Kansas City Power & Light Company

Case No. ER-2010-0355

Date: November 4, 2010 (Report)

Areas: Construction Audit and Prudence Review

Great Plains Energy Incorporated,

Kansas City Power & Light Company

Case No. ER-2009-0090

Date: April 9, 2009 (Surrebuttal)

Areas: Iatan Prudence Review

Great Plains Energy Incorporated,

Kansas City Power & Light Company

Case No. ER-2009-0089

Date: April 7, 2009 (Surrebuttal)

Areas: Iatan Prudence Review

Great Plains Energy Incorporated,

Kansas City Power & Light Company, Aquila, Inc.

Case No. EM-2007-0374

Date: October 12, 2007 (Rebuttal and  
Staff Report of Evaluation and Recommendations)

Areas: GPE Acquisition of Aquila

**CASE SUMMARY OF INVOLVEMENT  
OF  
ROBERT E. SCHALLENBERG**

Union Electric Company, d/b/a AmerenUE

Case No. ER-2007-0002

Date: February 28, 2007 (Surrebuttal)

Areas: EEInc.

Date: January 31, 2007 (Rebuttal)

Areas: EEInc. and 4 CSR 240-10.020

Missouri Pipeline Company

Case No. GC-2006-0491

Date: September 6, 2006 (Direct)

November 17, 2006 (Surrebuttal)

Areas: Affiliate Transactions, Tariff Violations and Associated Penalties;  
Transportation Tariffs

Aquila, Inc.

Case No. ER-2005-0436

Date: October, 14 2005 (Direct)

December 13, 2005 (Surrebuttal)

Areas: Unit Ownership Costs

Union Electric Company, d/b/a AmerenUE

Case No. EA-2005-0180

Date: October 15, 2005 (Rebuttal)

Areas: East Transfer

Union Electric Company d/b/a AmerenUE

Case No.: EC-2002-1

Date: June 24, 2002

Area: Overview, 4 CSR 240-10.020, Alternative Regulation Plan

Laclede Gas Company

Case No. GR-94-220

Date: July 1, 1994

Areas: Property Taxes, Manufactured Gas Accruals, Deregulated Cost Assignments

Western Resources

Case No. GM-94-40

Date: November 29, 1993

Areas: Jurisdictional Consequences of the Sale of Missouri Gas Properties

Kansas Power & Light Company

Case No. EM-91-213

Date: April 15, 1991

Areas: Purchase of Kansas Gas & Electric Company

**CASE SUMMARY OF INVOLVEMENT  
OF  
ROBERT E. SCHALLENBERG**

Arkansas Power & Light Company and Union Electric Company

Case No. EM-91-29

Date: 1990-1991

Areas: No pre-filed rebuttal testimony by Staff before non-unanimous stipulation and agreement reached.

General Telephone Company of the Midwest

Case No. TM-87-19

Date: December 17, 1986

Areas: Merger

Union Electric Company

Case No. EC-87-114

Date: April 27, 1987

Areas: Elimination of Further Company Phase-In Increases, Write-Off of Callaway I to Company's Capital Structure

General Telephone Company of the Midwest

Case No. TC-87-57

Date: December 22, 1986

Areas: Background and Overview, GTE Service Corporation, Merger Adjustment, Adjustments to Income Statement

Southwestern Bell Telephone Company

Case No. TR-86-84

Date: 1986

No prefiled direct testimony by Staff - case settled before Staff direct testimony filed.

Kansas City Power & Light Company

Case Nos. EO-85-185 and ER-85-128

Date: April 11, 1985

Areas: Phase I - Electric Jurisdictional Allocations

Date: June 21, 1985

Areas: Phase III - Deferred Taxes Offset to Rate Base

Date: July 3, 1985

Areas: Phase IV - 47% vs. 41.5% Ownership, Interest, Phase-In, Test Year/True-Up, Decision to Build Wolf Creek, Non-Wolf Creek Depreciation Rates, Depreciation Reserve

Southwestern Bell Telephone Company

Case No. TR-83-253

Date: September 23, 1983

Areas: Cost of Divestiture Relating to AT&T Communications, Test Year, True-Up, Management Efficiency and Economy



**CASE SUMMARY OF INVOLVEMENT  
OF  
ROBERT E. SCHALLENBERG**

Kansas City Power & Light Company

Case No. ER-83-49

Date: February 11, 1983

Areas: Test Year, Fuel Inventories, Other O&M Expense Adjustment, Attrition Adjustment,  
Fuel Expense-Forecasted Fuel Prices, Deferred Taxes Offset to Rate Base

Kansas City Power & Light Company

Case Nos. ER-82-66 and HR-82-67

Date: March 26, 1982

Areas: Indexing/Attrition, Normalization vs. Flow-Through, Deferred Taxes as an Offset to  
Rate Base, Annualization of Amortization of Deferred Income Taxes, Cost of  
Money/Rate of Return, Allocations, Fuel Inventories, Iatan AFDC Associated with  
AEC Sale, Forecasted Coal and Natural Gas Prices, Allowance for Known and  
Measurable Changes

Southwestern Bell Telephone Company

Case No. TR-82-199

Date: August 27, 1982

Areas: License Contract, Capitalized Property Taxes, Normalization vs. Flow-Through,  
Interest Expense, Separations, Consent Decree, Capital Structure Relationship

Generic Telecommunications

Straight Line Equal Life Group and Remaining Life Depreciation Methods

Case No. TO-82-3

Date: December 23, 1981

Areas: Depreciation

Southwestern Bell Telephone Company

Case No. TR-81-208

Date: August 6, 1981

Areas: License Contract, Flow-Through vs. Normalization

Kansas City Power & Light Company

Case No. ER-81-42

Date: March 13, 1981

Areas: Iatan (AEC Sale), Normalization vs. Flow-Through, Allocations, Allowance for  
Known and Measurable Changes

Southwestern Bell Telephone Company

Case No. TR-80-256

Date: October 23, 1980

Areas: Flow-Through vs. Normalization

**CASE SUMMARY OF INVOLVEMENT  
OF  
ROBERT E. SCHALLENBERG**

United Telephone Company of Missouri

Case No. TR-80-235

Date: December 1980

Areas: Rate of Return

Kansas City Power & Light Company

Case Nos. ER-80-48 and ER-80-204

Date: March 11, 1980

Areas: Iatan Station Excess Capacity, Interest Synchronization, Allocations

Southwestern Bell Telephone Company

Case No. TR-79-213

Date: October 19, 1979

Areas: Income Taxes, Deferred Taxes

Gas Service Company

Case No. GR-79-114

Date: June 15, 1979

Areas: Deferred Taxes as an Offset to Rate Base

Missouri Public Service Company

Case Nos. ER-79-60 and GR-79-61

Date: April 9, 1979

Areas: Depreciation Reserve, Cash Working Capital

Missouri Public Service Company

Case Nos. ER-78-29 and GR-78-30

Date: August 10, 1978

Areas: Fuel Expense, Electric Materials and Supplies, Electric and Gas Prepayments,  
Electric and Gas Cash Working Capital, Electric Revenues

While in the employ of the Kansas State Corporation Commission in 1978, Mr. Schallenberg worked on a Gas Service Company rate case and rate cases of various electric cooperatives.

## Dottheim, Steve

---

**From:** Dottheim, Steve  
**Sent:** Monday, February 08, 2016 11:18 AM  
**To:** DCarter@brydonlaw.com  
**Cc:** Poston, Marc; Schallenberg, Bob; Oligschlaeger, Mark; McMellen, Amanda; Foster, Keith; Thompson, Kevin; Dietrich, Natelle; Williams, Nathan; Hyneman, Charles (Charles.Hyneman@ded.mo.gov)  
**Subject:** AO-2012-0062 Draft Empire Electric CAM  
**Attachments:** TAB A 1-27-16 Empire Intro\_ Bus Ops\_ Reg Juris\_CAM Team.doc; TAB B 1-27-16 Empire Overview of Cost Methods.doc; TAB C 1-27-16-Empire Shared Services.doc; TAB D 1-27-16 Empire Clearings and Loadings.doc; TAB E 1-27-16 Specific Assignment of Costs Method.doc; TAB F 1-27-16-Empire Affiliate Pricing FDC and FMP.DOC; TAB G 1-27-16 Empire - Affiliate Marketing Materials.doc; TAB H 1-27-16 Empire Record Keeping.doc; TAB I 1-27-16 Empire Training.doc; TAB J 1-27-16 Empire Variances.doc; TAB K 1-27-16 Empire -Reporting Period Results.doc; TAB L 1-27-16 Empire Glossary.doc; TAB M 1-27-16 Empire CAM Team.doc; TAB N 1-27-16 Empire - Tests.doc; TAB O 1-27-16 Empire Audits.doc; TAB P 1-27-16 Appendix 2 List of Empire Services Performed for Affiliate....doc; TAB P 1-27-16-Appendix 3 Current Empire Allocation Factors.doc; Table of Contents 1-27-16-Empire.doc; COVER DOC 1-27-16 Empire.doc

Diana, attached are the Tabs to the Staff's redraft of the Empire Electric CAM. Sorry for the delay in getting this to you.

Steven Dottheim, Chief Deputy Staff Counsel  
Missouri Public Service Commission, 200 Madison St., Ste. 800  
P.O. Box 360, Jefferson City, MO 65102-0360  
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**The Empire District Electric Company**

**Empire Electric**

**Affiliate Transaction Report**

**March 17, 2016**

I. Pursuant to 4 CSR 240-20.015, The Empire District Electric Company (EDE) provides the following information to the Missouri Public Service Commission (MoPSC), the Staff of the Missouri Public Service Commission (Staff) and to the Office of the Public Counsel (OPC):

**1. A full and complete list of all affiliated entities as defined by 4 CSR 240-20.015;**

See attached CAM Exhibit 1, Appendix A.

**2. A full and complete list of all goods and services provided to or received from affiliated entities;**

The list of goods and services Empire Electric provided to affiliates during the period from January 1, 2015 through December 31, 2015, is in the attachment marked Exhibit 2A.

The list of goods and services EDE received from affiliates during the period from January 1, 2015 through December 31, 2015 is in the attachment marked Exhibit 2B.

EDE is a participant to the EDE Money Pool Agreement. See attached Exhibit 2C for a listing of monies borrowed from and invested in the Money Pool by EDE and its affiliates.

**3. A full and complete list of all contracts entered with affiliated entities;**

See the attached list marked Exhibit 3.

**4. A full and complete list of all affiliate transactions undertaken with affiliated entities without a written contract or memorandum of understanding together with a brief explanation of why there was no contract or memorandum of understanding;**

**5. The amount of all affiliate transactions by affiliated entity and account charged;**

See Exhibits 2A, 2B and 2C.

**6. The basis used (e.g., fair market price, fully distributed cost, etc.) to record each type of affiliate transaction.**

See Exhibits 2A and 28.

See CAM Exhibit 1 Sections B, C, D, E and F for costing information and transfer pricing procedures.

**II. EDE provides the attached additional information:**

1. Cost Allocation Manual (CAM). See Exhibit 1
2. Code of Conduct. See Exhibit 4a and 4b
3. Organizational Charts. See Exhibit 5a, 5b, and 5c and attached CAM Exhibit 1, Appendix A.

# The Empire District Electric Company

## Empire Electric

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## TAB A

**The Empire District Electric Company****Empire Electric****Introduction****Abbreviation Definition**

EDE - The Empire District Electric Company

EDE business lines - Holding company (Parent Company), service company, electric utility, water utility, gas affiliate and fiber optics affiliate.

EDG - The Empire District Gas Company, Inc., a natural gas utility.

EDI – Empire District Industries, Inc., holding company of EDI Fibercom

EDI Fibercom – EDI subsidiary, operating unit of The Empire District Industries, Inc.'s Fiber Optics business operating unit.

EDE affiliates- EDE, electric and water utilities, and EDG, gas utility, directly owned by EDE, and EDI, fiber optics company, indirectly owned by EDE

EDE service company- EDE provides assets, goods, information, and services to EDE's business lines and its affiliates/subsidiaries.

EDE electric utility

CAM – Cost Allocation Manual

FDC – Fully Distributed Costs

FMP – Fair Market Price = FMV = Fair Market Value

**Business Operations**

The purpose of this document is to create a Cost Allocation Manual ("CAM") for approval by the Missouri Public Service Commission ("MoPSC") to satisfy the requirements of the MoPSC affiliate transaction rules related to electric utility corporations providing retail electric service in Missouri.

1 The Empire District Electric Company ("EDE") is a corporation organized under  
2 the laws of the State of Kansas and is qualified to do business in the States of Kansas,  
3 Missouri, Oklahoma and Arkansas. It is an investor-owned electric utility company  
4 engaged in the business of generating, transmitting and distributing electrical power in  
5 the States of Arkansas, Missouri, Kansas and Oklahoma. EDE's retail electric  
6 operations in Missouri are addressed by certain rules and statutes. One of those rules is  
7 the MoPSC affiliate transactions rule; 4 CSR 240-20.015. The stated purpose of this  
8 rule is intended to prevent regulated utilities from subsidizing their non-regulated  
9 operations. An important initial step in this process is to identify the lines of business  
10 that are in operation that impact the electric utility and then determine the extent to  
11 which the electric utility business is impacted by these other business activities

12 At December 31, 2014, EDE had 751 full-time employees including 50  
13 employees charging their time to the operations of The Empire District Gas Company,  
14 Inc. ("EDG"). The operations of EDG are regulated by the MoPSC. EDE's electric  
15 operations serve approximately 167,500 retail customers. EDE's electricity originates  
16 from seven company-owned generating facilities plus purchased power, and it is  
17 delivered across an interconnected transmission and distribution system that spans  
18 over 10,000 square miles.

19 EDE is also a holding company owning two affiliates/subsidiaries, EDG and EDI.  
20 EDE's holding company function is illustrated by the current activity to "explore strategic  
21 alternatives." This activity illustrates the need to capture costs of the development of  
22 strategic alternatives to prevent these costs from being included in the rates of EDE's  
23 Missouri retail electric customers. EDE indirectly owns and provides services to a non-



regulated fiber optics company. EDE also purchases service from this fiber optics affiliate.

EDE is a services company providing assets, goods, information and services to its six business lines, (i.e., holding company, service company, electric utility, gas utility, water utility, and fiber optics company) as well as its two affiliates (natural gas utility and fiber optics company). EDE needs to be able to identify the costs of providing these products and services to ensure these costs are properly charged to the full range of EDE's business activities to ensure costs that actually benefit one of EDE's other business are not included in EDE's Missouri retail electric rates. This CAM is intended to satisfy the requirements of 4 CSR 240-20.015(2)(E) by providing the criteria, guidelines, and procedures EDE will follow to be in compliance with the MoPSC Affiliate Transactions Rule.

It is important that EDE be able to appropriately record costs to these four businesses segments:

1. Electric - The Empire District Electric Company – "Empire Electric" (EDE) regulated electric operations both retail and wholesale
2. Gas - The Empire District Gas Company ("EDG") regulated natural gas retail operations.
3. Water - The Empire District Electric Company – "Empire Electric" (EDE) regulated water operations in Missouri
4. Other – Non-regulated – EDE holding company operations, EDE service company operations, and Empire District Industries, Inc. ("EDI") and EDI Fibercom (fiber optics) – sells fiber optic service to Empire Electric; owned, operated, and managed by Empire Electric – consists of leasing fiber optics cable and equipment (which is also used in utility operations).

**Business Segment Descriptions:**

1. Electric - an investor-owned regulated public utility engaged in the generation, purchase, transmission, distribution and sale of electricity in

parts of Missouri, Kansas, Oklahoma and Arkansas. The "Electric" segment also provides water service to three towns in Missouri. At December 31, 2014, electric operations served approximately 170,000 customers. Retail electric revenues for 2014 by jurisdiction were derived geographically as follows: Missouri 89.7%, Kansas 4.8%, Oklahoma 2.8% and Arkansas 2.7%. At December 31, 2014, Electric's transmission system consisted of approximately 22 miles of 345 kV lines, 441 miles of 161 kV lines, 745 miles of 69 kV lines and 81 miles of 34.5 kV lines. Electric's distribution system consisted of approximately 6,911 miles of line at December 31, 2014.

2. Gas - EDG gas operations serve customers in northwest, north central and west central Missouri. EDG was formed to hold the Missouri gas assets that EDE acquired from Aquila, Inc. on June 1, 2006. At December 31, 2014, EDG had 50 employees. At December 31, 2014, the gas segment's gas utility properties consisted of approximately 87 miles of transmission mains and approximately 1,175 miles of distribution mains. As of December 31, 2014, the gas segment served approximately 43,500 customers. The gas segment provides natural gas distribution to 48 communities and 422 transportation customers as of December 31, 2014. The largest urban area EDG serves is the city of Sedalia with a population of over 20,000. At December 31, 2014, gas segment properties consisted of approximately 87 miles of transmission mains and approximately 1,175 miles of distribution mains.

3. Water – EDE also provides water service to three towns in Missouri

4. Other – Unregulated. EDE holding company activities, service company activities, and unregulated fiber optics business. Empire District Industries, Inc. ("EDI"), provides fiber optics services ("EDI Fibercom"). EDI and EDI Fibercom are non-regulated.

As reported in EDE's December 31, 2014, Form 10-K to the U.S. Securities And Exchange Commission, gross operating revenues in 2014 were derived as follows: electric segment sales 90.8%; gas segment sales 8.0%; and other segment (fiber optic) sales 1.2%. Sales from the electric segment include 0.3% from the sale of water services to three towns in Missouri.

The MoPSC's Affiliate Transactions Rule 4 CSR 240-20.015 specifies that EDE corporate accounting, assignments and allocations will be the basis to rely upon that

EDE's water operations are properly recorded and beyond the scope of EDE's CAM. The Affiliate Transactions Rule further provides that EDE's CAM should include criteria, guidelines, and procedures that EDE will follow to be in compliance with 4 CSR 240-20.015

The MoPSC's Affiliate Transactions Rule applies to EDE's natural gas affiliate, EDG. Currently, EDG has not made a CAM submittal nor sought a variance from the Commission's Affiliate Transactions Rules under the 4 CSR 240-40.015(10) waiver provision. This matter is beyond the scope of Empire Electric's CAM and the requirements of 4 CSR 240-20.015. This matter will be addressed elsewhere.

### **Regulatory Jurisdictions**

As a public utility, EDE's electric segment operations with respect to services and facilities, rates and charges, regulatory accounting, valuation of property, depreciation and various other matters are subject to the jurisdiction of:

1. Missouri Public Service Commission ("MoPSC")
2. Kansas State Corporation Commission ("KCC")
3. Oklahoma Corporation Commission ("OCC")
4. Arkansas Public Service Commission ("ArkPSC")
5. Federal Energy Regulatory Commission ("FERC")

The FERC, under the Federal Power Act ("FPA"), has jurisdiction over the wholesale rates, accounting, sale, lease or other disposition of electric transmission service and electric energy and the associated utility facilities engaged in interstate commerce.

EDE's electric operations related to each of its operations in the five (5) jurisdictions it operates is based on the determination of EDE's electric utility costs and

the application of electric jurisdictional charges, assignments, and allocation addressed in each jurisdictional rate case.

The following table sets forth information found in EDE's Form 10-K for the fiscal year ended December 31, 2014 regarding electric and water rate increases since January 1, 2012:

Jurisdiction	Date Requested	Annual Increase Granted	Percent Increase Granted	Date Effective
Arkansas — Electric . . . .	Dec. 3, 2013	\$ 1,366,809	11.34%	September 26, 2014
Missouri — Electric . . . .	July 6, 2012	\$27,500,000	6.78%	April 1, 2013
Missouri — Water . . . . .	May 21, 2012	\$ 450,000	25.50%	November 23, 2012
Kansas — Electric . . . . .	June 17, 2011	\$ 1,250,000	5.20%	January 1, 2012
Oklahoma — Electric . . . .	June 30, 2011	\$ 240,000	1.66%	January 4, 2012

The above chart is an indication of how often proper assignment / allocation is needed to comply with regulated utility activities.

### **Cost Assignment and Allocation**

The existence and utilization of a Cost Allocation Manual ("CAM") is a requirement of the MoPSC Affiliate Transactions Rule (4 CSR 240-20.015). This rule is intended to prevent MoPSC regulated utilities from subsidizing their non-regulated operations. Empire Electric is directed by MoPSC rule to include in its annual CAM filing the criteria, guidelines, and procedures it will follow to be in compliance with this rule.

It is the objective of the Empire Electric CAM to provide a high level of assurance that Empire Electric has implemented and is monitoring a set of criteria, guidelines, and procedures that also provides a high level of assurance that Empire Electric is not subsidizing its affiliated activities or non-regulated operations to the detriment of its retail regulated electric customers in Missouri.

1 Empire's CAM plays an essential role in determining EDE's electric utility costs  
2 from a cost basis that include other retail regulated utility activities (water), non-  
3 regulated holding company function activities, and non-regulated service company  
4 functions for regulated EDG and non-regulated fiber optics business.

5 Empire Electric's CAM documents the process of cost allocation by Empire  
6 Electric. The cost assignment and allocation methodologies proscribed by this CAM are  
7 the tools which provide for the direct and indirect assignment and allocation of costs to  
8 the relevant regulated business functions and non-regulated business functions,  
9 including business segments and business units, providing a level of assurance that  
10 cross-subsidization is not occurring.

11 The approach of cost assignment and allocation utilized by Empire Electric is  
12 supposed to be as follows:

- 13 1. All costs should be directly assigned, indirectly assigned  
14 or allocated to the relevant regulated business functions and  
15 non-regulated business functions, including business  
16 segments and business units.
- 17 2. Direct and indirect assignment is preferable to allocation  
18 and should be used when reasonable.
- 19 3. Indirect assignment should be based upon a method  
20 which recognizes cost causation or benefits received.
- 21 4. Remaining costs not directly or indirectly assigned on a  
22 causal basis should be allocated on a general allocation  
23 factor ("general allocator"). The general allocator must be  
24 used whenever the costs benefit both regulated and non-  
25 regulated activities. Costs that only benefit regulated  
26 operations may be allocated using an appropriate  
27 Massachusetts Formula.

28 By 2016, EDE/Empire Electric will formally create a fully-functioning Empire  
29 Electric CAM Team consisting of a necessary number of trained employees to oversee  
30  
31  
32  
33

1 the operations and management of Empire Electric's affiliate transactions. The Empire  
2 Electric CAM Team will ensure that all affiliate transactions are either consistent with the  
3 MoPSC's Affiliate Transactions Rule or Empire Electric has followed the required  
4 variance procedures to allow it to participate in non-complying affiliate transactions.

5 Empire Electric will apply for a waiver from applicable affiliate transaction  
6 requirements consistent with the process specified in 4 CSR 240-20.015(10) and 4 CSR  
7 240-2.060(4) or it will not participate in the noncomplying affiliate transaction as required  
8 in 4 CSR 240-20.015(2)(D).

9 Future Empire Electric CAM submittals will identify the management position that  
10 is responsible for the overall governance and enforcement of the Empire Electric CAM  
11 preparation and implementation of criteria, guidelines, and procedures necessary to  
12 provide full compliance with the MoPSC's Affiliate Transactions Rule.

13 The Empire Electric CAM Team will be involved in decision-making regarding all  
14 affiliate transactions to the extent necessary to ensure that these decisions will be  
15 based on information regarding complying with the MoPSC's Affiliate Transactions Rule  
16 and its MoPSC CAM.

17 Anytime there is (1) an addition or (2) a deletion of an affiliated entity or non-  
18 regulated activity, the Empire Electric CAM Team will be notified within the day of  
19 the event.

20 All additions to or deletions of affiliated entities / non-regulated activities will be  
21 submitted in writing to the MoPSC Staff Counsel's Office and the Office of the Public  
22 Counsel ("OPC") within thirty (30) days of the event occurring.

## TAB B

**The Empire District Electric Company****Empire Electric****Overview of Costing Methods**

Empire Electric provides information, assets, goods and services to its multijurisdictional electric operations, its water operations, as well as its natural gas and fiber optic subsidiaries/affiliates and non-regulated activities. Related costs are collected and assigned directly or indirectly to a business line, when applicable, with each business line referring to a legal entity or more within the EDE total company operations. Costs will also be collected that cannot be assigned directly or indirectly to a business line, when applicable, with each business line referring to a legal entity or more within the EDE total company operations. These costs and costs drivers will be the basis for an assignment or allocation of these costs, but will not be included in the determination of the related assignment or allocation factors.

Empire Electric employs three general costing methods:

1. Direct Bill - Costs are charged directly to the business line receiving the benefit. Costs can be direct billed via the payroll system based on hours worked or can be billed from a vendor invoice. The Direct Bill Method is the preferred method of assigning costs and is used to the greatest extent possible.
2. Unit of Service - Costs for which the Direct Bill Method is not practical but have identifiable per unit costs. This method is appropriate for assigning costs of departments that perform the same functions for multiple companies and for which the number of units is ascertainable (i.e., number of vouchers or computers, etc.). The number of units used to determine the assignment factors will exclude the units used to provide service to more than one entity or business function.
3. Specific Assignment - Applies to costs that can be assigned to benefiting business units based on statistical analysis of the underlying cost. The number of units used to determine the assignment factors will exclude the units used to provide service to more than one entity or business function.
4. Corporate Allocation - Costs for which there is no direct relationship between the work performed and the benefiting business unit. The number of units used to determine the allocation factors will exclude the units used to provide service to more than one entity or business function.

Costs are either assigned on a fully distributed cost ("FDC") basis to reflect all costs incurred in providing goods, assets, information, and services, or the current fair market price ("FMP"). Costs specifically related to one business line are billed directly to that unit while costs related to more than one business line are assigned first based on a cost causative relationship with residual costs being allocated by using the a general allocator applied to truly common costs. The number of units used to determine the allocation factors will exclude the units used to provide service to more than one entity or business function.

Since all EDE business lines, subsidiaries/affiliates are operated and managed by Empire Electric employees, Empire Electric will be required to bill out labor charges and related loadings incurred by and benefiting other business functions and operating units. Residual costs cannot become electric operations' cost by default.

The allocation and billing of costs is designed to reflect benefits received as closely as possible and to prevent subsidization involving Empire Electric and any business line or affiliated activity. A second level of protection against subsidization is the MoPSC's affiliate transactions rule that requires use of the appropriate FMP instead of FDC distributions when the nature of the transaction warrants such treatment. The number of units used to determine the allocation factors will exclude the units used to provide service to more than one entity or business function. For example, EDE payroll (e.g., Administrative and General) related to any business activity benefiting more than one entity will be excluded from the determination from any payroll factor assigning costs to EDE.

Empire Electric understands that failure to fully charge affiliates or non-regulated activities for the relevant FMP or FDC of goods, services, assets, or information provided to or on the behalf of these affiliated entities or non-regulated operations is expressly prohibited by the MoPSC's Affiliate Transactions Rule.

The regulated utility's billing of directly or indirectly assigned and allocated common costs FDC or FMP, whichever is higher, is designed to prevent providing a



financial advantage to or subsidization of any business line or non-regulated activity, while also ensuring appropriate charging is being done among EDE business lines and its subsidiaries/affiliates.

As noted above, affiliates are billed on an FDC or FMP basis, whichever is higher, for assets, goods, information, and services provided by EDE. HOW DOES EDE HAVE ANY PROFIT FROM THE SERVICES PROVIDED TO EDE? The FDC basis includes all direct and indirect costs, including cost of capital and overheads and an allocated portion of common costs. The following three types of cost assignments are utilized to determine proper FDC billings:

1) **Billing between Business Lines (TAB C)** – Applies to balance sheet and income statement costs between Empire Electric and affiliates. For billing purposes, costs are grouped into two basic groups: (a) direct billed projects and (b) indirect billed projects. Direct billed projects are assigned directly to a business line based on the operating unit, while the indirect billed projects are assigned based on relevant cost causative factors exclusive of factors related to activities benefitting more than one entity. In addition, all business lines will be charged for the use of common plant and for the use of capital whenever such charges are appropriate.

2) **Clearings and Loadings (TAB D)** – Applies to types of costs that are assigned based on the usage related to other costs. In some applications, costs are distributed, or "cleared" over a distribution of direct costs, such as fleet clearings. In other applications, costs are distributed, or "loaded" onto a related cost, such as paid absence, and distributed based on a payroll distribution.

3) **Specific Assignment Method (TAB E)** – Applies to costs that can be assigned to the benefiting business unit based on a statistical analysis, usage study, or association with the underlying asset or liability. For instance, depreciation expense is assigned based on the related plant asset.

Empire Electric will rely upon its Accounting Department or the group responsible for control of the costs to determine the specific assignments. Empire Electric and affiliates shall enter into service agreements which establish the terms and conditions for affiliate transactions, including a general description of assets, goods, information and services provided, pricing, billing and payment methods and dispute resolution.

1. **Direct Bill** - Costs are charged directly to the company or business line receiving the benefit. Costs can be direct billed via the payroll system based on hours worked or can be billed from a vendor invoice. The Direct Bill Method is the preferred method of assigning costs and is used to the greatest extent possible.

2. **Unit of Service** - Costs for which the Direct Bill Method is not practical but have identifiable per unit costs. This method is appropriate for assigning costs of departments that perform the same functions for multiple business lines and for which the number of units is ascertainable (i.e., number of vouchers or computers, miles driven, etc.). The number of units used to determine the assignment factors will exclude the units used to provide service to more than one entity or business function.

3. **Specific Assignment** - Applies to costs that can be assigned to benefiting business units based on statistical analysis (e.g., floor space study) of the underlying cost.

4. **Corporate Allocation** - Costs for which there is no direct relationship between the work performed and the benefiting business unit.

Empire Electric provides goods, services, assets, and information to other business lines within EDE, including EDE electrical utility operations.

Empire Electric may employ either of the following two methods to ensure that the appropriate dollar amount (FMP or FDC) is charged to an affiliate or business line in each and every affiliate transaction in which Empire Electric provides a good, asset, information or service:

1. For each transaction, Empire Electric will determine the current FMP on the date of the transaction, compare that amount with Empire Electric's FDC for that good or service on the date of the transaction, and charge the affiliate the greater of these two, dollar amounts.

2. On a monthly basis, the FDC for each affiliate transaction is accumulated and then compared with the FMP of the good or service. After the comparison is made, if the FMP for an affiliate transaction is higher than the FDC to Empire Electric an adjustment will be made for the difference and Empire Electric will make a journal entry to record the additional revenue and submit an invoice or charge to the business line for the difference.

**Income Statement Billings** – Income and expenses are classified into the following groups for billings purposes—direct, indirect, and common costs.

**Direct Billings** – These are costs incurred by Empire Electric to provide a specific benefit (e.g., preparation and filing federal income tax returns) to a specific business line. There is a direct relationship between the cost incurred and the business unit receiving the benefit of the cost. These costs are billed to the business line based

on the owner of the operating unit charged, such as Empire Gas, or EDI Fiber Operations. EDE will also continue to charge costs to its internal business lines.

The Direct Billing Method is considered the preferred method of assigning costs to the appropriate business units and will be used to the maximum extent practicable.

There are two primary methods of Direct Billing:

**Vendor Invoices** - Vendor invoices that include charges for goods or services that are for the benefit of a single business line will be coded to the appropriate business line/account number at the time of input into PeopleSoft. WILL INVOICE COSTS BE LOADED FOR THE COSTS OF PROCUREMENT?

**Labor** - All employees are required to record their time in PeopleSoft. Part of this time entry includes the business line for which the employee was working. PeopleSoft then records the appropriate portion of the salary of that person to the appropriate business line. In addition to assigning salary, PeopleSoft also allocates an amount to cover payroll taxes and fringe benefits. The fringe benefit amount is based on a percentage determined by Accounting with support from Human Resources. The labor overhead rate consists of Healthcare, 401K, Pension and other similar costs.

**Unit of Service Method** - For costs incurred on behalf of multiple business lines that do not allow for practical application of the Direct Billing Method, the Unit of Service Method is used in instances where there is a quantifiable unit driver (purchase orders, personal computers, etc.) for which a "per unit" cost can be calculated and charged.

Each Unit of Service billing has a calculated rate that is based on various General Ledger accounts and costs and is adjusted periodically. Each rate is then applied to the appropriate volume driver to determine the monthly cost assignment to the business lines. The number of units used to determine the allocation factors will exclude the units used to provide service to more than one entity or business function.

**Indirect Billings** - These are costs incurred by Empire Electric to provide services benefiting more than one business unit that do not vary due to usage. These costs are billed to the business units based on predetermined factors or the results of periodic studies. The factors are determined based on a cost causative relationship as well as in the aggregate by a general allocator of truly common costs. Empire Electric is aware that all costs are to be directly or indirectly charged to EDE, its lines of business, or its affiliates, to the maximum extent possible. Common costs result from residual costs that could not reasonably be directly or indirectly assigned. The number of units

1 used to determine the allocation factors will exclude the units used to provide service to more  
2 than one entity or business function. Refer to Appendix 3 for a list of factors and how the  
3 factors are calculated.

4 The Massachusetts Formula will only be used as a general allocator to  
5 allocate common costs that apply to Empire Electric, Empire Gas, and EDE's regulated  
6 water operations and activities. All other residual common costs will be allocated using  
7 the General Allocator, which allocates costs based on an entity's relative ratio of direct  
8 and assigned costs to total direct and assigned costs incurred. A General Allocator is a  
9 "last resort" allocation method which should only be used when neither direct nor  
10 indirect measures of cost causation can be found to assign the cost to a specific entity.

#### 11 **Unit of Service Billing Method Details**

12  
13 For costs incurred on behalf of the business units that do not allow for application  
14 of the Direct Billing Method, the Unit of Service Method is used in instances where there  
15 is a quantifiable unit driver (purchase orders, personal computers, etc.) for which a "per  
16 unit" cost can be calculated and charged. The number of units used to determine the  
17 allocation factors will exclude the units used to provide service to more than one entity or  
18 business function. For example, for assigning costs to EDE related to personal computers, the  
19 computers that are used by EDE for activities that benefit entities other than EDE will not be  
20 used to assign costs to EDE. The appropriate assignment may use the personal computers that  
21 are solely used for EDE's electric or water service supplemented with EDE's share of common  
22 use computers with the remaining portion of EDE's common use computers included in the  
23 assignment factors of EDE's affiliates.

24 The Unit of Service Billing method will be used as a part of the process to  
25 determine the FDC when Empire Electric provides the asset, good, information, service  
26 to a line of business or an affiliate. Added to the dollar amount of the costs arrived at by  
27 this cost method will be other components of FDC (such as capital costs, depreciation,  
28 etc.) to arrive at the fully-loaded costs to charge an affiliate in circumstances where the  
29 FDC is determined to be the appropriate charge in lieu of FMP.

30 Each Unit of Service billing has a calculated rate that is based on various  
31 General Ledger accounts and costs and is adjusted periodically. Each rate is then

applied to the appropriate volume driver to determine the monthly allocation to the business units.

**1. Accounts Payable - Purpose:** To assign expenses associated with the processing of vendor payments for business units. **Basis of Assignment:** The assignment is based on the number of lines keyed by Accounts Payable with lines associated with common use included only after the benefitting entities are assigned their respective share of common use lines. The number of lines keyed for each business unit is determined by running the "EDE\_AP\_VCHR\_LINES\_KEYED\_USER" query. **Assignment Update Frequency:** Driver: Monthly. Rate: Annually. **Responsible party:** An analyst in Financial Services will create a manual voucher each month for the assignment entry. **Accounting Distribution to be charged:** Business Unit: GLGAS and GLFIB Account: 417310 (EDE Billed Services – Non Regulated Businesses) 920264 & 921244 (Gas Businesses) Department: Business Unit Cost Center that had Accounts Payable transactions Product Code: NAP (Non-Regulated – Accounts Payable Assignment) GAP (Gas – Accounts Payable Assignment) **Accounting Distribution to be Credited:** Business Unit: GL001 (Electric Business Unit) Account: 920264 & 921244 Department: 000 (Corporate Department) Product Code: NAP (Non-Regulated – Accounts Payable Assignment) GAP (Gas – Accounts Payable Assignment)

**2. Customer Billing – Purpose:** To assign expenses associated with the processing of customer invoices to the appropriate business units. **Basis of Assignment:** The assignment is based on the number of active account packages at the end of each month excluding common use account packages. Common use account packages are properly assigned to benefitting entities before these packages are included in any factor to any entity. The number of active account packages is determined by obtaining a query report on the last day of the month from IT and adding the number of active account packages processed for the business unit. Gas costs assignment will be based on the computed rate. Nonregulated costs assignment will be the computed rate for non-regulated only bills and ½ the computed rate for bills shared with regulated bills (common bills). **Assignment Update Frequency:** Driver: Monthly. Rate: Annually. **Responsible party:** An analyst in Financial Services will create a manual voucher each month for the assignment entry. **Accounting Distribution to be Charged:** Business Unit: GLGAS and GLFIB Account: 417310 (EDE Billed Services – Non Regulated Businesses) All accounts associated with Billing & Collection (Gas Businesses) Department: Business Unit Cost Center that had Customer Billing transactions Product Code: NCB (Non-Regulated – Customer Billing Assignment) GCB (Gas – Customer Billing Assignment)

**Accounting Distribution to be Credited:** Business Unit: GL001 (Regulated Business Unit) Account: All accounts associated with Billing & Collection Department: 000 (Corporate Department) Product Code: NCB (Non-Regulated – Customer Billing Assignment) GCB (Gas – Customer Billing Assignment)

**3. Purchasing - Purpose:** To assign expenses associated with the processing of purchase orders to the appropriate business units. **Basis of Assignment:** The assignment is based on the number of purchase orders processed by the Purchasing Department excluding the purchase orders benefitting more than one entity. The assignment factor will consider only purchase orders benefitting that entity and the entity's proper assignment of purchase orders benefitting more than one entity. The number of purchase orders generated for each business unit is determined by running the "EDE\_PO\_ISSUED\_TO\_BU" query. **Assignment Update Frequency:** Driver: Monthly. Rate: Annually. **Responsible party:** An analyst in Financial Services will create a manual voucher each month for the assignment entry. **Accounting Distribution to be Charged:** Business Unit: GLGAS and GLFIB Account: 417310 (EDE Billed Services – Non Regulated Businesses) All accounts associated with Purchasing (Gas Businesses) Department: Business Unit Cost Center that has Purchasing Transactions Product Code: NPO (Non-Regulated – Purchasing Assignment) GPO (Gas – Purchasing Assignment) **Accounting Distribution to be Credited:** Business Unit: GL001 (Regulated Business Unit) Account: All accounts associated with Purchasing Department: 000 (Corporate Department) Product Code: NPO (Non-Regulated – Purchasing Assignment) GPO (Gas – Purchasing Assignment)

**4. IT Technical Support Purpose:** To allocate expenses associated with computer maintenance and support to the appropriate business units. **Basis of Assignment:** The assignment is based on the number of personal computers maintained for each business unit and benefitting only that unit plus the proper share of common use computers. IT maintains an inventory of the personal computers and compiles the number. **Assignment Update Frequency:** Driver: Monthly. Rate: Annually. **Responsible party:** An analyst in Financial Services will create a manual voucher each month for the assignment entry. **Accounting Distribution to be Charged:** Business Unit: GLGAS and GLFIB Account: 417310 (EDE Billed Services – Non Regulated Businesses) All accounts associated with Technical Support (Gas Businesses) Department: Business Unit Cost Center that has Technical Support Transactions Product Code: NTS (Non-Regulated – Technical Support Assignment) GTS (Gas – Technical Support Assignment) **Accounting Distribution to be Credited:** Business Unit: GL001 (Regulated Business Unit) Account: All accounts associated with Technical Support Department: 000

(Corporate Department) Product Code: NTS (Non-Regulated – Technical Support Assignment) GTS (Gas – Technical Support Assignment)

**5. Pole Attachments - Purpose:** To allocate expenses associated with having fiber optic cable attached to utility poles to the Fibercom unit. **Basis of Assignment:** The assignment is based on the number of pole attachments used by Fibercom at the end of each month. **Assignment Update Frequency:** Driver: **Responsible party:** An analyst in Financial Services will create a manual voucher each month for the allocation entry. **Rate to be used for Assignment:** TBD **Accounting Distribution to be Charged:** Business Unit: GLFIB Account: 417310 (EDE Billed Services – Non Regulated Businesses) Department: EDI Fibercom which has Pole Attachment transactions Product Code: NAT (Non-Regulated – Pole Attachment) **Accounting Distribution to be Credited:** Business Unit: GL001 (Regulated Business Unit Account: 922101 (Transfer Charges – Subsidiaries) Department: 000 (Corporate Department) Product Code: NAT (Non-Regulated – Pole Attachment)

**6. Phone Service - Purpose:** To assign expenses associated with phone maintenance and support to the appropriate business unit. **Basis of Assignment:** The assignment is based on the number of phone lines maintained for each business unit and only benefitting that business unit plus the business unit's proper share of phone lines benefitting more than one entity compared to the total phone lines for the company. **Assignment Update Frequency:** Driver: Monthly. Rate: Annually. **Responsible party:** An analyst in Financial Services will create a manual voucher each month for the assignment entry. **Accounting Distribution to be charged:** Business Unit: GLGAS and GLFIB Account: 417310 (EDE Billed Services – Non Regulated Businesses) All accounts associated with Phone Service (Gas Businesses) Department: Business Unit Cost Center that had Accounts Payable transactions Product Code: NPH (Non-Regulated – Phone Assignment) GPH (Gas – Phone Assignment) **Accounting Distribution to be Credited:** Business Line: GL001 (Regulated Business Line) Account: 922101 (Transfer Charges – Subsidiaries) Department: 000 (Corporate Department) Product Code: NPH (Non-Regulated – Phone Assignment) GPH (Gas – Phone Assignment)

**7. Two-way Radio - Purpose:** To assign expenses associated with two-way radio maintenance and support for nonregulated business units to the appropriate business unit. **Basis of Assignment:** The assignment is based on the number of radios maintained for each business unit and only benefitting that business unit plus the business unit's proper share of phone lines benefitting more than one entity. **Assignment Update Frequency:** Driver: Monthly. Rate: Annually. **Responsible party:** An analyst in Financial Services will create a manual voucher each month for

the assignment entry. **Accounting Detail: Accounting Distribution to be charged:** Business Unit: GLFIB Account: 417310 (EDE Billed Services – Non Regulated Businesses) Department: Non-Regulated Business Unit Cost Center that had Accounts Payable transactions Product Code: NRA (Non-Regulated – Two-Way Radio Allocation) **Accounting Distribution to be Credited:** Business Unit: GL001 (Regulated Business Unit) Account: 922101 (Transfer Charges – Subsidiaries) Department: 000 (Corporate Department) Product Code: NRA (Non-Regulated Two-Way Radio Assignment)

**8. Regulated Vehicle - Purpose:** To assign expenses associated with the use of regulated vehicles for non-regulated business units to the appropriate business unit. **Basis of Assignment:** The assignment is based on the number hours the non-regulated or gas laborer uses vehicle and the class of vehicle that is used plus the respective share of hours a regulated laborer uses the vehicle in performing an activity benefitting non-regulated or gas entity. **Assignment Update Frequency:** Driver: Monthly. Rate: Annually. **Responsible party:** Senior Budget Accountant in Financial Services will create a manual voucher each month for the assignment entry. **Accounting Detail: Accounting Distribution to be charged:** Business Unit: GLFIB Account: All accounts associated with labor costs Department: Non-Regulated Business Unit Cost Center that had labor transactions Product Code: NVH (Non-Regulated – Vehicle Hours) **Accounting Distribution to be Credited:** Business Unit: GL001 (Regulated Business Unit) Account: 922101 (Transfer Charges – Subsidiaries) Department: 000 (Corporate Department) Product Code: NVH (Non-Regulated –Vehicle Hours)

#### **General Allocators (Corporate Allocation Method)**

When costs that cannot be directly or indirectly assigned by using a cost-causative assignment factor, a "general allocation" method must be used. Empire Electric will use the following two general allocation methods.

A General Allocator is a "last resort" allocation method only used when neither direct nor indirect measures of cost causation can be found to charge a cost to a specific entity. The Massachusetts Formula approved for this allocation is an arithmetic average of total company revenues (electric, water, and gas), total company payroll (Electric and Gas) excluding EDE payroll related to the provision of activities that benefit common entities, and net plant in service (electric, water, and gas) excluding EDE plant in service that benefit common entities.



1 For all other revenues, expenses, gains and losses that are to be allocated using  
2 a general allocation method, a "general allocator" will be used. A General Allocator  
3 allocates costs based on an entity's relative ratio of direct and indirect assigned costs to  
4 total direct and indirect assigned costs incurred.

## TAB C

**The Empire District Electric Company****Empire Electric****Shared Services**

Asset Transfers – Empire Electric will not sell, lease, assign, mortgage, transfer, or otherwise dispose or encumber the whole or any part of its franchise, works, or system, necessary or useful in the performance of its duties to the public, nor by any means, direct or indirect, merge or consolidate such works or system, or franchises, or any part thereof, with any other corporation, person, or public utility, without having first secured from the MoPSC an order authorizing it so to do. (Section 393.190 RSMo).

**Cash Management Policy**

**Compensation for the Use of Capital** – Transactions between legal entities result in the creation of intercompany receivables or payables with settlement due in the following month. In addition to the above charges, a charge for the use of capital based on the outstanding intercompany receivable balance and the daily Commercial Paper Rate published by the Board of Governors of the Federal Reserve System for A2/P2 non-financial issuers will be applied. Any receivables outstanding after thirty (30) days from month-end will result in a late payment fee which will be based on the late payment fee charged to Empire Electric regulated customers.

**Establishment and Operation of the Cash Management Program:**

A. EDE is authorized to maintain a pooled master bank account (with various sub accounts) through which all of the cash receipts and cash disbursements of the Participants will be administered.

B. EDE is authorized to act as the administrator of the cash management program and to be responsible for meeting the daily cash needs of the Participants. Upon the request for cash to meet the daily operations of any of the Participants made in accordance with the requirements authorizing expenditures for the Participants, EDE is authorized to request the necessary funds either from available investments, if any, or from EDE's revolving credit facility.

C. Cash generated from the Affiliates will be deposited in the EDE master bank account. Deposits to and withdrawals from the EDE master bank account by the Affiliates will be recorded to intercompany accounts between Affiliates and EDE. Documentation for the deposits to and withdrawals by the Affiliates from the EDE master bank account will be maintained in the financial and supporting systems of EDE.

D. The Affiliates are authorized to maintain a zero balance bank account that will automatically sweep from EDE's master bank account. Transactions between EDE and the Affiliates will be recorded to inter-company accounts between EDE and the Affiliates. Funding the Affiliate's cash accounts will be recorded through an inter-company receivable/payable account. Documentation for the transactions between the Affiliates and EDE will be maintained in the financial and supporting systems of EDE.

E. No security will be required to be posted by any of the Affiliates as collateral for any net borrowing positions. Loans to the Affiliates will be made pursuant to open-account advances. At the end of each month, interest expense will be charged to the Participants. The short-term borrowing rate will be the weighted average short-term borrowing rate calculated on all EDE's short-term borrowings outstanding during the month. FMP equals the rate an entity would be charged from a third party lender. FMP interest for loans would be greater than EDE's borrowing rate for EDI, it may be EDE's borrowing rate for EDG with a fee for performing the financial services. However, if EDE has no outstanding third-party short-term debt, a proxy interest rate will be charged or credited to the Participant. The proxy interest rate shall be the London Inter-Bank Offered Rate ("LIBOR") plus a certain number of basis points added (the "LIBOR Rate") so that the LIBOR Rate most closely mirrors the pricing the Participant would expect if it had outstanding short-term borrowings. If no LIBOR Rate is established for that day, then the applicable rate will be the LIBOR Rate for the next day for which a rate is established.

F. Excess funds which are not required to satisfy the borrowing needs of the Participants will be invested in short-term instruments according to the guidelines of the EDE Corporate Investment Policy approved by the Board of Directors. At the end of the month, the interest income will be allocated back to the Participants at the weighted average short-term interest rate of all EDE's short-term investments during the month on the basis of their relative contribution to the pooled funds. Interest income resulting from the investment of the pooled funds will be used to repay the principal amount of any inter-company loan. If no inter-company loans exist, the interest income will be credited to the Participants as appropriate.

G. Costs to administer the pooled master bank account is separately identified and assigned to business functions on the basis of usage and benefits.

**EDI Fibercom Lease and Tariffed Pole Attachment Fee With Empire Electric**

EDI Fibercom built storage sheds on regulated land as well as shares storage space within regulated storage sheds. The square footage occupied by EDI Fibercom was calculated and is the basis for a lease agreement with EDE, which must receive in payment from EDI Fibercom the higher of FMP or FDC.

EDI Fibercom also must pay Empire Electric's tariffed pole attachment fee.

**CANNOT FIND EDI Fibercom registered at Missouri**

**Secretary of State**

## TAB D

**The Empire District Electric Company****Empire Electric****Clearings & Loadings**

1       **Paid Absence Loadings** – Empire Electric is required to follow the FERC  
2 Uniform System of Accounts ("USOA"). The USOA describes how the various paid  
3 absence costs will be allocated over the "at work" activities. Monthly, costs charged to  
4 the various paid absence accounts are allocated to capital and expense accounts  
5 based on each account's respective straight-time payroll activity for the month.

6       Empire Electric employees will directly or indirectly charge labor to EDE business  
7 lines and its affiliates for each and every activity performed by Empire Electric that  
8 benefits EDE business lines and its affiliates or collect the costs that benefit more than  
9 one entity for proper assignment to those entities. Paid absence loading will be  
10 assigned to these labor charges at the time of these direct and indirect charges.

11       **Payroll Tax Loadings** – Payroll taxes are loaded to labor charged to expense  
12 accounts, work orders and clearing accounts based on a projected rate applied to direct  
13 labor charged to these accounts. This process allows for payroll taxes to follow the  
14 original labor distribution and to be included in construction costs. EDE employees will  
15 directly or indirectly charge labor to EDE business lines, its affiliates, and non-regulated  
16 operations for each and every activity benefitting EDE business lines, its affiliates and  
17 non-regulated operations or collect the costs that benefit more than one entity for  
18 proper assignment to those entities. Payroll taxes will be assigned to these labor  
19 charges at the time of these direct and indirect charges.

20       **Pensions and Other Benefits Loadings** – Pension, post-retirement, employee  
21 insurance and other benefits are applied to labor costs to ensure that an appropriate  
22 portion of benefits is capitalized and to provide management with costs per project.  
23 Loadings are based on a projected rate applied to direct labor. EDE employees will  
24 directly or indirectly charge labor to EDE business lines, its affiliates, and non-regulated  
25 operations for each and every activity benefitting EDE business lines, its affiliates, and  
26 non-regulated operations or collect the costs that benefit more than one entity for

proper assignment to those entities. Pensions and other benefit costs will be assigned to these labor charges at the time of these direct and indirect charges.

**Material and Tool Loading** – The FERC USOA requires the use of undistributed stores expense accounts (163 accounts) to accumulate purchasing and store keeping costs of inventory materials. These costs are cleared based on historical loading rates. The rates are applied to materials issued to O&M and capital projects.

**Administrative and General (A&G) Loading** – The purpose of this loading is to capitalize a portion of the various A&G costs that are incurred in support of capital activities. Based on a time study, specific departments monthly labor charges are assigned to all open construction projects.

**T&D Division Overheads** – The purpose of this loading is to capitalize a portion of the delivery division service costs that are related to construction and removal activity but impractical to charge directly. Certain capital projects are loaded with a flat rate per labor dollar using account \_\_\_\_\_ to accumulate and clear the applicable charges.

**Generation Division Clearing** – The purpose of this clearing is to capitalize a portion of the generation service costs that are related to construction and removal activity but impractical to charge directly. The overhead costs are cleared through account \_\_\_\_\_ based on current month generation labor charges.

## TAB E

## The Empire District Electric Company

## Empire Electric

Specific Assignment of Costs Method

Specific assignment of costs among business lines is used when (1) a statistical analysis of the underlying costs indicates the benefiting business lines or (2) the costs can be assigned based on the ownership of the related assets or liabilities. Specific assignment methods could be used for such transactions as property insurance premiums which are assigned based on an appropriate cost causative driver or depreciation expense which follows the ownership of the related assets.

For example, property insurance premiums may provide coverage to more than one business line but the premiums are billed with one invoice. Under the FDC method, to allocate the premium to the benefiting business lines, an analysis is done to determine the appropriate cost causative driver which determines the amount related to each business line. The invoice amount is then charged to all applicable business lines.

In addition, the specific assignment method may be utilized to track costs that are beneficial to non-regulated activities. When a potential new non-regulated activity is identified, a work order may be created to help identify and accumulate costs associated with the new non-regulated activity. Ultimately, these projects will be used to segregate those costs from regulated activities.

## TAB F

## The Empire District Electric Company

## Empire Electric

Affiliate Pricing

Affiliate transactions between regulated and non-regulated affiliates follow a "best for the business" affiliate pricing policy designed to prevent cross subsidization between regulated and non-regulated affiliates or activities.

For example, a business would not provide a good, service, information, or asset below fully distributed cost unless it was operating under distressed circumstances. Similarly, a business would not provide a good, service, information, or asset at fully distributed cost if the fair market price was greater than the cost to create or provide the good or service.

The MoPSC's Affiliate Transactions Rule is predicated on the utility acting in the utility's best interests when dealing with affiliates or its non-regulated activities. If a utility provides a good, service, asset, or information to an affiliate at cost when the fair market value is greater than fully distributed cost, the utility will experience the opportunity loss while the affiliate or non-regulated activity extracts the higher fair market value that the utility forfeited when it charged the affiliate the lower fully distributed cost-based price, thus subsidization occurs.

This section, TAB F, of the CAM provides detailed information about the requirements of the pricing part of affiliate transactions. EDE may use as a guide the following indications of affiliate pricing put forth by the FERC.

The FERC has developed standards for review of cost- or market-based power purchase agreements between affiliates by application of *Boston Edison Co. re: Edgar Electric Energy Co.*, 55 FERC ¶ 61,382 (1991) ("Edgar"). Examples of how to demonstrate lack of affiliate abuse, i.e., the purchaser has chosen the lowest cost supplier considering price and nonprice terms include:

- Evidence of direct head-to-head competition between affiliated and unaffiliated suppliers;
- Evidence of the prices that non-affiliated buyers were willing to pay for similar service from the affiliate; and,



- Benchmark evidence of the prices, terms and conditions of sales made by non-affiliate sellers.

EDE should use the requirements of the MoPSC's Affiliate Transactions Rule and the policies and procedures outlined in this CAM, with a focus on the requirements of this TAB F, to provide the evidence that demonstrates compliance with the Rule and this CAM.

The MoPSC's affiliate transaction pricing standard requires that:

- 1) All information, assets, goods or services provided by EDE to an affiliate or deregulated service will be recorded at the greater of fair market price or the fully distributed cost.
- 2) Information, assets, goods or services provided by a non-regulated affiliate to EDE will be recorded at the lower of fair market price or Empire Electric's fully distributed cost to provide the good or service.

EDE will document the FMP either through competitive bids or other measures and will compare FMP to the FDC to determine the appropriate amount to be recorded.

**Fully Distributed Costs ("FDC"):** FDC as described in this CAM includes all costs to produce a product or service including direct, indirect, capital and overhead costs.

The capital costs will be based on the capital structure and cost components reflected in the last Empire Electric rate case. If the last rate case was settled without a reference to the authorized capital structure and capital cost components, an average of the capital structure and capital cost components of all parties to the case will be used for the purposes of the FDC capital cost component.

First, labor and non-labor costs that are directly assignable to an affiliate are billed to that affiliate. These include costs that directly benefit the affiliate or deregulated service. Secondly, indirect costs are billed. These include costs attributable to affiliates which are allocated based on a cost causative relationship and general service costs that are allocated using the general allocator.

The Massachusetts Formula is currently based on a three-factor formula which includes investments/net fixed assets, operating revenues and labor charged to operations and maintenance. The Massachusetts Formula will only be used as a general allocator to allocate common costs that apply only to Empire Electric utility

operations and Empire Gas' ("EDG") regulated operations and activities. All other residual common costs will be allocated using the General Allocator, which allocates costs based on an entity's relative ratio of direct and assigned costs to total direct and assigned costs incurred. A General Allocator is a "last resort" allocation method only used when neither direct nor indirect measures of cost causation can be found to charge a cost to a specific entity business line.

FDC includes but is not limited to billings for the following:

- 1) Labor - the cost of human capital associated with the service provided.
- 2) Loadings - the benefits, pensions, OPEBs, insurance, paid absences, payroll taxes, etc. associated with labor and capital loadings associated with functional parts of the organization.
- 3) Plant - including Common Use Plant, which includes the use of common facilities such as telecommunication and network systems used in support of the organization.
- 4) Non-Labor - all other charges for materials, services and overheads.

**Fair Market Price ("FMP"):** The fair market price is the price that would be received to sell or acquire a good or service in an orderly transaction (i.e., not a forced liquidation or distressed sale) between market participants at or near the measurement date, under current market conditions. The fair market price will be used to document the pricing of goods and services to Empire Electric's business lines. In the absence of current comparable market prices, benchmarking, if approved by the MoPSC, may be used. The transaction to sell a good or provide a service is a hypothetical transaction at the measurement date, considered from the perspective of a market participant that holds the good or provides the service. The objective is to determine the price that would be received to sell or paid to acquire the good or service at or near the measurement date (an exit price).

**Fair Value Measurement ("FMV"):** Fair value measurement guidelines under generally accepted accounting principles ("GAAP") can be found in Accounting Standards Codification 820 ("ASC" 820, formerly Financial Accounting Standard ("FAS") 157).

For purposes of this CAM, assets and liabilities in this definition will be the same for goods and services. Also for the purposes of this CAM, the term "fair value" or "fair value measurement" has the same meaning as "fair market price" as used in this CAM, ASC 820 and the MoPSC's Affiliate Transactions Rule. Empire Electric shall use a valuation technique that is appropriate for the circumstances and for which sufficient data is available to measure the fair market price, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. The objective of using a fair market valuation technique, such as the one reflected in this CAM, is to determine the price at which an orderly transaction to transfer or acquire goods or provide or acquire services would take place between market participants at the measurement date under current market conditions. Empire Electric will use the market approach described in this CAM to determine fair market prices. The market approach is described in ASC 820.

The market approach is a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable (i.e., similar) goods and services. (A quoted price in an active market provides the most reliable evidence of fair value.) A fair market price is a market-based measurement that should be determined based on the assumptions that market participants would use in pricing the good or service. As a basis for considering market participant assumptions in fair market price determinations, this CAM uses a fair value hierarchy (described below) that distinguishes between:

- 1) market participant assumptions developed based on market data obtained from sources independent of the regulated utility (observable inputs), and
- 2) the regulated utility's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs).

The use of unobservable inputs is allowed only in situations in which there is little, if any, market activity for the good or service at or near the measurement date. In those situations, Empire Electric need not undertake all reasonable efforts to obtain information about market participant assumptions. However, Empire Electric must not

1 ignore information about market participant assumptions that is reasonably available  
2 without undue cost and effort.

3 The fair market price of the good or service should be determined based on the  
4 assumptions that market participants would use in pricing the good or service. In  
5 developing those assumptions, Empire Electric may, but need not identify specific  
6 market participants. Rather, Empire Electric should identify characteristics that  
7 distinguish market participants generally, considering factors specific to:

- 8 a) the good or service
- 9
- 10 b) the principal (or most advantageous) market for the good or service,
- 11 and
- 12
- 13 c) market participants with whom Empire Electric would transact business
- 14 regarding the good or service in that market.
- 15

16 Market participants are buyers and sellers in the principal (or most  
17 advantageous) market for goods or services that are:

- 18 a) Not related parties,
- 19
- 20 b) Knowledgeable, having a reasonable understanding about the good or
- 21 service and the transaction based on all available information,
- 22 including information that might be obtained through due diligence
- 23 efforts that are usual and customary,
- 24
- 25 c) Able to transact for the good or service, and
- 26
- 27 d) Willing to transact -- motivated but not forced or compelled to do so.
- 28

29 Inputs refer broadly to the assumptions that market participants would use in  
30 pricing a good or service. Inputs may be observable or unobservable:

- 31 a) Observable inputs are inputs that reflect the assumptions market
- 32 participants would use in pricing the good or service developed based
- 33 on market data obtained from sources independent of the regulated
- 34 utility.
- 35
- 36 b) Unobservable inputs are inputs that reflect the regulated utility's own
- 37 assumptions about the assumptions market participants would use in
- 38 pricing the good or service developed based on the best information
- 39 available in the circumstances.
- 40

1 Fair Market Pricing Process: In the process of determining the fair market price  
2 for a good or service provided to or received from an affiliate, Empire Electric will use a  
3 process based on obtaining the highest quality of information reasonably available to  
4 determine the fair market price of an affiliate transaction. The process for determining  
5 fair market price prioritizes the inputs to valuation techniques used to measure fair  
6 market price into three broad levels based on quality of information. The process used  
7 by Empire Electric gives the highest priority to quoted prices (unadjusted) in active  
8 markets for identical goods and services and the lowest priority to unobservable inputs.

9 **High Quality Inputs (observable)**

10 High quality inputs are quoted prices (unadjusted) in active markets for identical  
11 goods or services that the regulated utility has the ability to access at or near the  
12 measurement date (date of the transaction). An active market for a good or service is a  
13 market in which transactions for the good or service occurs with sufficient frequency and  
14 volume to provide pricing information on an ongoing basis. A quoted price in an active  
15 market provides the most reliable evidence of a fair market price and shall be used to  
16 measure the fair market price (as required by 4 CSR 240-20.015(2)(A)) whenever  
17 available.

18 The MoPSC's Affiliate Transactions Rule requires at 4 CSR 240-20.015(3)(A)  
19 that when a utility purchases information, assets, goods or services from an affiliate, the  
20 utility shall either obtain competitive bids or demonstrate why competitive bids were  
21 neither necessary nor appropriate. Assuming a reasonably-designed bidding process,  
22 the obtaining of competitive bids for the purchase of goods or services by the utility may  
23 constitute a high quality input for the purposes of this CAM.

24 **Medium Quality Inputs (observable)**

25 Medium quality inputs are inputs other than quoted prices that are observable for  
26 the good or service, either directly or indirectly. If the good or service has a specified  
27 (contractual) term, a medium quality input must be observable for substantially the full  
28 term of the good or service. Medium quality inputs include the following:

- 29 a) Quoted prices for similar goods or services in active markets.  
30  
31 b) Quoted prices for identical or similar goods or services in markets that  
32 are not active.

c) Inputs other than quoted prices that are observable for the good or service.

d) Inputs that are derived principally from or corroborated by observable market data by correlation or other means (market-corroborated inputs).

Depending on the nature of the benchmark, benchmarking practices that have the characteristics of medium quality inputs (if approved by the MoPSC - 4 CSR 240-20.015(3)(D)), can constitute a medium quality input.

#### **Lower Quality Inputs (unobservable)**

Lower quality inputs are unobservable inputs for the good or service. Unobservable inputs shall be used to measure the fair market price to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the good or service at or near the measurement date. Unobservable inputs shall reflect the regulated utility's own assumptions about the assumptions that market participants would use in pricing the good or service. Unobservable inputs shall be developed based on the best information available in the circumstances, which might include the regulated utility's own data.

Due to the lower quality nature of these unobservable inputs, greater effort will be made to ensure the fair market price determination using this data reviewed closely for reasonableness using the Conservatism Principle of Accounting. In developing unobservable inputs, Empire Electric need not undertake all possible efforts to obtain information about market participant assumptions. However, Empire Electric shall not ignore information about market participant assumptions that is reasonably available without undue cost and effort. Therefore, Empire Electric's own data used to develop unobservable inputs shall be adjusted if information is reasonably available without undue cost and effort that indicates that market participants would use different assumptions.

#### **Empire Electric Labor Costs**

Because EDE and all its subsidiaries/affiliates are operated and managed by Empire Electric employees, Empire Electric will be required to bill out labor costs benefiting, its business lines, affiliates and non-regulated operations. To determine the

1 fair market price of a good or service provided by Empire Electric to an affiliate, the  
2 market approach as described above will be used.

3 Empire Electric's CAM Team, which includes representatives across several  
4 Empire Electric functions, including Empire Electric's Procurement Department, will  
5 conduct current fair market pricing analysis which will determine whether the  
6 appropriate amount to record an affiliate transaction is at FDC or FMP.

## TAB G

**The Empire District Electric Company**  
**Empire Electric**

**Affiliate Marketing Materials and Customer Information**

Any marketing materials or advertisements for the unregulated affiliates with similar names, logos or trademarks to regulated affiliates will state in a font size no smaller than the smallest font size on the page and will clearly display that it is "Not Regulated by the Missouri Public Service Commission."

Copies of all such material for each reporting period will be available for review on or before the submittal date of the CAM to the MoPSC.

When a customer of the regulated utility requests information about a product or service provided by an unregulated affiliate, the customer may receive the requested information. In order to prevent an unfair advantage to the unregulated affiliate, the customer will be provided with an oral or written disclaimer that the unregulated affiliate is not tied to the regulated utility and that other service providers may be available.

In addition, access to customer specific information by an affiliated or an unaffiliated entity will be prohibited unless authorized with the consent of the customer or as otherwise provided by law or MoPSC rules or orders, and any marketing materials or advertisements for the unregulated affiliates with similar names, logos or trademarks to regulated affiliates will state it is not regulated.



**The Empire District Electric Company****Empire Electric****Record Keeping**

EDE affiliate transactions policies and procedures are governed by the rules and regulations of the MoPSC, the FERC and other state regulatory bodies. Empire Electric will maintain each affiliate's books and records separately and each will be maintained so affiliate transactions are auditable on Empire Electric's books.

Affiliate transaction records will document the cost of transactions, the methods used to assign costs and descriptions of the services provided. Affiliate transactions will be retained for a period of at least six years or as required to meet MoPSC rules. Any non-assignment of affiliate costs or variances from the costing methods outlined in the CAM will be tracked and provided for MoPSC regulatory review on an annual basis.

An Affiliate Transactions Report will be submitted annually for review or as required to meet all regulatory requirements.

The annual filing will include the following:

- 1) A list of affiliate entities
- 2) A description and dollar amount of all affiliate transactions
- 3) A list of all contracts between affiliates
- 4) A list of affiliate transactions without a written contract
- 5) The basis used for pricing the affiliate transactions (FDC or FMP)
- 6) A Code of Conduct which discusses training, enforcement and audits
- 7) Cost Allocation Manual
- 8) A list of all reports EDE submits to regulatory bodies regarding affiliate transactions

EDE will conduct periodic audits to review affiliate transactions for compliance with the CAM's documented policies and procedures and with MoPSC rules and orders.

## TAB I

**The Empire District Electric Company****Empire Electric****Training**

Annually, employees are required to complete EDE's Code of Ethical Business Conduct which includes training and proper compliance with accounting and record keeping rules and procedures, antitrust regulations, fair trading and various ethical issues. The on-line training is mandatory for all employees and requires passage of an on-line test following completion of the training and a compliance questionnaire and certification.

New supervisors are required to complete Supervisor's Training. Beginning in 2016, a portion of the training will be dedicated to the rules governing affiliate transactions to ensure new supervisors are properly trained and informed regarding Empire Electric's affiliate transaction policies and procedures and how they impact their departments.

EDE will identify the functional areas that will be involved in the provision of goods, services, information, or assets to EDE business lines and its affiliates per executed written agreements or memoranda of understanding ("MOUs").

All EDE employees (including supervisors and executives) who will be involved in the provision of goods, services, information, or assets to EDE's business lines, affiliates, and non-regulated activities are to receive overall training regarding the MoPSC's Affiliate Transactions Rule.

All EDE employees (including supervisors and executives), who will be involved in the provision of goods, services, information, or assets to EDE business lines,

1 affiliates and non-regulated activities, will be given training materials that (1) cover all of  
2 the goods, services, information, or assets identified in service agreements between  
3 EDE and its affiliates and MOUs regarding non-regulated activities and (2) indicate that  
4 goods, services, information, or assets are not to be provided between EDE business  
5 lines, its affiliates and non-regulated activities in the absence of a service agreement or  
6 MOU.

7 In addition, EDE employees (including supervisors and executives) are to be  
8 trained as to the proper recording required for the goods, services, information, or  
9 assets they will be providing to EDE's business lines, affiliates and non-regulated  
10 activities. The training materials are maintained to provide continued support for affiliate  
11 transactions reporting and recording questions and issues. EDE will provide individual  
12 training as needed.

13 Beginning in 2016, training courses will be enhanced to include detailed  
14 information regarding the MoPSC Affiliate Transactions Rule and expectations of each  
15 designated employee (including supervisors and executives) regarding the specific  
16 goods, services, information, or assets he/she provides to EDE's business lines,  
17 affiliates and non-regulated activities.

18 Employees will be requested to certify that they have no knowledge of any  
19 unreported potential abuses specific to EDE business lines, affiliate transactions and  
20 non-regulated activities that have not been communicated in writing to the CAM Team.  
21 Internal communications, department Intranet sites and new employee orientation will  
22 be updated and maintained to provide additional information on affiliated entities and  
23 non-regulated activities and affiliate rules and requirements. Internal communications

1 | may include company-wide leadership meetings, various staff meetings, manager-  
2 | specific communications, company-wide e-mail announcements and printed  
3 | communications regarding the MoPSC's Affiliate Transactions Rule and related topics.

## TAB J

**The Empire District Electric Company****Empire Electric****Affiliate Transactions Rule Variances**

1 The Affiliate Transactions Rule variance process is described in 4 CSR 240-  
2 20.015(10). (Also see 4 CSR 240-20.015(2)(D)).

3 Empire Electric understands that with limited exceptions an exemption needs to  
4 be granted, or be in process before the MoPSC from an applicable standard, pursuant  
5 to the Affiliate Transactions Rule 4 CSR 240-20.015 before Empire Electric may  
6 participate in an affiliate transaction that is not consistent with the MoPSC's Affiliate  
7 Transactions Rule.

8 The limited exception as outlined in the rule is related to the affiliated transaction  
9 pricing standard. Only when EDE believes complying with the standards set out in the  
10 Affiliate Transactions Rule would, to its best knowledge and belief, not be in the best  
11 interests of its regulated customers, may Empire Electric engage in an affiliate  
12 transaction not in compliance with the rule. But if it does so, Empire Electric must  
13 request a variance through a written application to the MoPSC in accordance with 4  
14 CSR 240-2.060(4) or in accordance with 4 CSR 240-20.015(10)(A)2.B provide notice to  
15 the Secretary of the MoPSC and the OPC within ten (10) days of the non-complying  
16 transaction.

17 Furthermore to comply with Missouri Affiliate Transactions Rule 4 CSR 240-  
18 20.015(2)(D) and (10)(A)2.B, the notice of any non-complying affiliate transaction  
19 occurrence that EDE will file with the MoPSC and OPC will contain a detailed  
20 explanation of why the affiliate transaction should be exempt from affiliate transaction  
21 requirements of 4 CSR 240-20.015(2)(A) and why the affiliate transaction was in the  
22 best interest of regulated customers.

23 At this time, EDE has no variances granted by the MoPSC. Also, EDE has no  
24 variances pending before the MoPSC or noticed in accordance with the requirements of  
25 4 CSR 240-20.015(10)(A)(2).

26 Any revisions, additions and deletions, to the CAM will be filed with the Secretary  
27 of the MoPSC and OPC within ten (10) days of the occurrence of the change as a

1 variance application either (1) in accordance with 4 CSR 240-20.015(10)(A)1 and 4  
2 CSR 240-2.060(4) Empire Electric cannot act in accordance with the variance  
3 application until the request receives MoPSC approval) or (2) in accordance with 4 CSR  
4 240-20.015(10)(A)2 Empire Electric can operate under the revised CAM before final  
5 MoPSC determination as explained below. Within thirty (30) days of the notice to the  
6 MoPSC and OPC of the noncomplying affiliate transaction, Staff, OPC, or any party  
7 shall have the right to request a hearing regarding the noncomplying affiliate  
8 transaction. The MoPSC may grant or deny a request for a hearing. If the MoPSC  
9 denies a request for hearing, the denial shall not in any way prejudice an entity's ability  
10 to challenge the noncomplying affiliate transaction at the time of the annual Empire  
11 Electric CAM filing. At the time of the filing of Empire Electric's CAM, Empire Electric  
12 shall provide to the Secretary of the MoPSC a list of all noncomplying affiliate  
13 transaction, which occurred between the period of the last filing and the current filing.  
14 Any such noncomplying affiliate transaction shall remain interim, pending final MoPSC  
15 determination on whether each is in the best interests of the regulated customers.

**TAB K**

**The Empire District Electric Company**

**Empire Electric**

**REPORTING PERIOD RESULTS**

1 Reporting period results should include:

- 2 • A summary of charges by absolute total with the amount charged to or billed
- 3 from each subsidiary or affiliate of EDE including EDE. The EDE portions
- 4 should identify charges to both regulated and each of its non-regulated
- 5 activities.
- 6 • A schedule listing all changes from the prior CAM filing.
- 7 • A listing of all CAM changes that have not been approved by the MoPSC.

## TAB L

**The Empire District Electric Company**  
**Empire Electric**

**Glossary of Terms**

ArkPSC – Arkansas Public Service Commission

Cost Allocation Manual (CAM) – a document that includes the criteria, guidelines and procedures a regulated utility will follow to be in compliance with the MoPSC's Affiliate Transactions Rule (4 CSR 240-20.015).

EDE – The Empire District Electric Company operates as an electric utility in five regulated jurisdictions (four state (retail) and one federal (wholesale)), performs two non-regulated business functions (holding company and service company), operates a water utility company in Missouri, and performs services for a gas affiliate and a fiber optics affiliate:

1. Electric - The Empire District Electric Company – “Empire Electric”
2. Gas - The Empire District Gas Company (“EDG”) – “Empire Gas”
3. Other - Empire District Industries, Inc. (“EDI”) and EDI Fibercom

Empire District Industries, Inc. (“EDI”), provides fiber optic services (“EDI Fibercom”). EDI and EDI Fibercom are non-regulated. This “other” segment consists of leasing fiber optics cable and equipment (which is also used in utility operations).

Empire Electric CAM Team – Team made up of Empire Electric employees to implement and supervise the Empire Electric CAM.

Empire Electric – an investor-owned regulated public utility engaged in the generation, purchase, transmission, distribution and sale of electricity in parts of Missouri, Kansas, Oklahoma and Arkansas (retail). The electric segment also provides water service to three towns in Missouri.

Empire Gas – EDG gas operations serve customers in northwest, north central and west central Missouri. EDG was formed to hold the Missouri gas assets that EDE acquired from Aquila, Inc. on June 1, 2006. At December 31, 2014, EDG had 50 employees

Empire Gas CAM Team – Team made up of Empire Gas employees to implement and supervise the Empire Gas CAM.



1 FERC – Federal Energy Regulatory Commission regulates the wholesale electric  
2 operations of Empire Electric.

3 GAAP – Generally accepted accounting principles. As used in this CAM refers to FASB  
4 Statement 157 and ASC 820 (Codification Topic 820) *Fair Value Measurements and*  
5 *Disclosures* (on July 1, 2009, FASB Statement 157 was codified into ASC Topic 820).

6 General Allocator – A “last resort” allocation method only used when neither direct nor  
7 indirect measures of cost causation can be found to charge a cost to a specific entity.  
8 Empire Electric may use a three factor formula made up of operating, revenues, labor  
9 charged to O&M and Net Plant as an allocator for costs allocated between Empire  
10 Electric and Empire Gas. For all other costs, Empire Electric uses a General Allocator  
11 which allocates based on an entity's relative ratio of direct and assigned expenses to  
12 total direct and assigned expenses incurred.

13 Empire's Code of Business Conduct and Ethics guides Empire's Officers, Board of  
14 Directors and employees with a set of principles that reflect the EDE's long established  
15 standards and values governing its ethical behavior. People are not merely following  
16 laws and regulations. They are striving to abide by the highest ethical standards in  
17 order to accomplish EDE's vision, “Making lives better every day with reliable energy  
18 and service.” Empire's Code of Business Conduct and Ethics is located on EDE's  
19 website. It provides the structure for decisions EDE makes and how EDE deals with  
20 legal and ethical issues. In addition, it describes how EDE treats its employees,  
21 customers, shareholders, regulators, legislators and communities.

22 IRS Form 7004 (Rev Dec 2012) – *Application for Automatic Extension of Time To File*  
23 *Certain Business Income Tax, Information, and Other Returns* for GPE's and  
24 Subsidiaries Affiliated Group Information Statement 1 which lists the name and address  
25 of each member of the affiliated group.

26 KCC – The State Corporation Commission of the State of Kansas.

27 Memorandum of Understanding – a written directive specifying how a certain  
28 transaction is to be performed and reported.

29 MoPSC – Public Service Commission of the State of Missouri.

30 OCC – Oklahoma Corporation Commission

31 Service Agreement – a written agreement detailing the scope of any information,  
32 assets, goods or services that Empire Electric is obligated to provide to any affiliated  
33 entity or Empire Electric is obliged to receive and compensate any affiliated entity.

34 Variance – A variance from the standards of the MoPSC's Affiliate Transactions Rule  
35 may be obtained by compliance with paragraphs (10)(A)1 or (10)(A)2 of the MoPSC  
36 Affiliate Transactions Rule (4 CSR 240-20.015).

**TAB M****The Empire District Electric Company****Empire Electric****CAM Team and Officer Certifications**

In 2016, Empire Electric will create a fully-functioning Empire Electric CAM Team consisting of a necessary number of trained employees to oversee the operations and management of Empire Electric's affiliate transactions. The Empire Electric CAM Team will ensure that all affiliate transactions are either consistent with the MoPSC's Affiliate Transactions Rule or Empire Electric has followed the required variance procedures under 4 CSR 240-20.015(10)(A)1 and 4 CSR 240-2.060(4) or 4 CSR 240-20.015(10)(A)2 to allow Empire Electric to participate in non-complying affiliate transactions.

Empire Electric will apply for a waiver from applicable affiliate transaction requirements consistent with the process specified in 4 CSR 240-20.015(10) and 4 CSR 240-2.060(4) or it will not participate in the noncomplying affiliate transaction as required in 4 CSR 240-20.015(2)(D).

Future Empire Electric CAM submittals will identify the Empire Electric management position that is responsible for the overall governance and enforcement of Empire Electric CAM preparation and implementation of criteria, guidelines, and procedures necessary to provide full compliance with the MoPSC's Affiliate Transactions Rule.

The Empire Electric CAM Team will be involved in decision-making regarding all affiliate transactions to the extent necessary to ensure that these decisions will be based on information regarding complying with the MoPSC's Affiliate Transactions Rule.

Anytime there is (1) an addition or (2) a deletion of an affiliated entity or non-regulated activity, the Empire Electric CAM Team will be notified within the day of the event.

All additions to or deletions of affiliated entities / non-regulated activities will be submitted in writing to the MoPSC Staff Counsel's Office and the Office of the Public Counsel ("OPC") within thirty (30) days of the event occurring.

Empire Electric's President and Chief Executive Officer ("CEO") and its Chief Financial Officer ("CFO") will certify that Empire Electric has complied with the MoPSC's Affiliate Transactions Rule for the preceding calendar year. Empire's President or CEO and CFO will sign and attest to the following statements that will be included in Empire Electric's annual CAM and CAM Report filings with the MoPSC, the Staff and the OPC.

As President and Chief Executive Officer of Empire District Electric Company, I, \_\_\_\_\_, hereby certify to the Missouri Public Service Commission that the Empire District Electric Company has complied to the best of my knowledge with the Affiliate Transaction Rule of the Missouri Public Service Commission for the 20XX calendar year.

As Chief Financial Officer of Empire District Electric Company, I, \_\_\_\_\_, hereby certify to the Missouri Public Service Commission that the Empire District Electric Company has complied to the best of my knowledge with the Affiliate Transaction Rule of the Missouri Public Service Commission for the 20XX calendar year.

#### **CAM Team Responsibilities**

The Empire Electric CAM Team, under the direction and supervision of The Empire District Electric Company's Controller, will be responsible to ensure that:

1. All contracts or MOUs that exist for all business lines in the Total Company operations are reported in the CAM.
2. All contracts or MOUs reported in the CAM are currently in effect.
3. Contracts or MOUs no longer in effect have been removed from being reported in the CAM.
4. All affiliates that engage in transactions with Empire Electric have a current contractor, MOU or the CAM includes an explanation of why no contract or MOU exists and a certification that this treatment (engaging in transactions with no written contract or MOU) is consistent with the treatment Empire Electric provides to nonaffiliated entities.
5. To the extent Empire Electric finds that contracts or MOUs exist that were not reported and contracts or MOUs reported in the CAM are no longer effective, Empire Electric will take action to correct the

discrepancies and institute appropriate controls to minimize the likelihood of future discrepancies.

6. Internal controls are created, employed and tested to ensure that employees who provide or assist in the provision of affiliate services are appropriately charging time to the affiliates.

7. All documents used to support affiliate transaction fair market price ("FMP") determinations are reasonable and current.

8. In all cases where Empire Electric affiliates have no charges during the reporting year, Empire Electric will provide an explanation of how it did not provide any goods or services for that entity to exist and/or that none of its employees or officers are employees or officers of the affiliate.

9. All employees who are responsible for preparing or approving accounting records are knowledgeable of the MoPSC's Affiliate Transactions Rule and the specific requirements of the CAM.

10. Conduct current fair market pricing ("FMP") analysis which will determine whether the appropriate amount to record an affiliate transaction is at fully distributed cost ("FDC") or FMP.

## TAB N

## The Empire District Electric Company

## Empire Electric

Tests

Empire Electric will complete the following tests and report the results of the tests in its annual CAM filing as a function of quality control for each future reporting period:

- Employees who complete or assist in the completion of IRS Form 7004 are to notify the CAM Team within five business days of any material changes from Empire's prior year tax return filing. The Empire Electric CAM will be checked to see whether entities identified in the Form 7004 are addressed in the CAM or an explanation is included in the CAM justifying why no costs were assigned to entities that are included on the Form 7004.

- Annual charges to EDE and each of its subsidiaries/affiliates will be identified in a Summary Schedule and included in Tab K Reporting Period Results. An explanation must be given as to the appropriateness of the absence of any charges to EDE or any of its affiliates.

## TAB O

**The Empire District Electric Company****Empire Electric****Audits****Audits Completed or Currently Pending**

Empire Electric shall list all audits completed or currently pending regarding affiliate transactions or non-regulated utility activity. The list shall contain the title of the audits as well as a reference to the location where each audit report is or will be retained. Empire Electric should consider that the Staff and OPC will want to receive a copy of each audit report in a mutually agreeable medium with work papers upon completion of the audit.

**Audits Planned**

Empire Electric shall list all audits planned regarding affiliate transaction or non-regulated utility activity that will occur in the upcoming year (or a longer period of time if consistent with the audit planning horizon) following the reporting period. Empire Electric shall provide a description of the audit areas of each planned audit.

**Independent Attestation**

Staff and/or OPC may request the MoPSC establish an independent attestation engagement of the CAM and propose a cost allocation proposal for the engagement. Any settlement agreement in a general rate case does not, and is expressly not intended, to prohibit any party from proposing or supporting this request and cost allocation proposal on any grounds.

## TAB P

## Appendix 2

**The Empire District Electric Company  
Empire Electric**

**List and Description of Services Provided by Empire Electric to its Affiliates**

Service Agreements: Additional services to those listed below may be provided if needed. The list below will be updated if additional services are provided or services are removed. Service Agreements will comply with all applicable MoPSC rules and orders and will be designed to prevent any preferential treatment between the utility and the affiliate or otherwise violate the MoPSC's rules and orders.

**Corporate Services**

Corporate Services is responsible for providing information technology, purchasing and facilities and resource protection services.

Information Technology: Supports existing applications, technology and infrastructure to ensure business continuity and leverage capabilities. Systems include Customer Information System, PeopleSoft, desktop, real-time systems, radio and telecommunications.

Purchasing: Provides procurement services in acquiring goods and services for operations, maintenance and construction projects.

Facilities: Responsible for planning and management of existing company buildings and grounds as well as new building construction and remodeling. Also provides print, courier, mailroom and records management services.

**Delivery**

Delivery is responsible for providing customer, transmission and distribution services. This includes business performance services, claims services, customer services, major outage event management services, energy efficiency and demand response services, metering, resource management, safety training and incident

1 response services. Delivery also includes transmission and distribution operations,  
2 maintenance and construction, engineering, planning and compliance.

3  
4 Business Performance Services: Develops and gathers data to create financial and  
5 reliability delivery reports.

6  
7 Claims Services: Administers claims received for property damage and/or service  
8 issues.

9  
10 Community Liaison and Communications Services: Acts as a liaison with government  
11 agencies, civic organizations and other community stakeholders.

12  
13 Customer Services: Receives and processes customer requests through all customer  
14 contact channels; answers customer questions, creates and enters service orders,  
15 educates customers and manages energy assistance programs. Also records meter  
16 data and manages field collection process at the customer premise, invoices customers,  
17 manages payment process and investigates complaints.

18  
19 Economic Development Services: Manages and administers business development  
20 initiatives, and programs for retention, expansion and recruitment of customers.

21  
22 Energy Efficiency and Demand Response Service ("EE/DSM"): Identifies and develops  
23 EE/DSM projects including market analysis, technology reviews, load research and tariff  
24 development. Also provides marketing and education of EE/DSM programs to  
25 customers.

26  
27 Major Outage/Catastrophic Event Management Services: Provides "command and  
28 control" management including allocation of resources, communication with  
29 stakeholders, coordination with the Mutual Assistance Group, and analysis of operation  
30 and performance data.

31  
32 Metering and Infrastructure Technology Services: Plans, designs and implements  
33 integrated technologies to supply, manage, and enable more efficient use of energy for  
34 utility and customers.

35  
36 Resource Management: Provides supervision of resource procurement, including  
37 strategic sourcing, vendor development, order and supplier management, consignment  
38 systems and contract governance. Also manages vegetation, infrastructure and fleet  
39 services.

40  
41 Safety Training and Incident Response Services: Creates and presents public safety  
42 education and training demonstrations and responds to incidents of personal injury and  
43 property damage.



Transmission and Distribution Construction Maintenance Management: Analyzes coordinates and supports work for system expansion, system improvements, construction and corrective and preventive maintenance. Also provides patrolling services of infrastructure and acts as company liaison.

Transmission and Distribution Operations and Maintenance: Provides first response to outage and irregular system operations and coordinates and supports work to restore service.

Transmission, Distribution and Substation Engineering and Asset Management: Analyzes, coordinates and supports work for delivery and substation system expansions, improvements, and provides corrective and preventive maintenance. Also provides engineering, planning, design, mapping services, right-of-way and zoning services.

Transmission Policy, Planning and Compliance Services: Develops policies, monitors key developments, policies and procedures and participates in industry groups related to transmission reliability, operations and policy issues including Federal Energy Regulatory Commission ("FERC"), North American Electric Reliability Corporation ("NERC", Southwest Power Pool ("SPP"), Midcontinent Independent System Operator, Inc. ("MISO"), Edison Electric Institute ("EEI"), Kansas Electric Transmission Authority ("KETA"). Services also include monitoring system reliability and security.

## **Supply**

Supply is responsible for all aspects of providing the electric energy necessary to reliably fulfill the electric demands of customers. Supply may provide the following services: resource planning, plant operations and maintenance, fuel procurement, generation dispatch, power purchases and sales, new construction and black start.

Resource Planning: Develops integrated resource plans, provides capacity testing, reliability reporting and interconnection applications and maintains fleet generation statistics.

Plant Operations and Maintenance: Conducts safety training and incident investigations, manages plant operation and maintenance, maintains facilities and equipment, and manages inventory, environmental compliance and reporting.

Fuel Procurement and Logistics: Develops fuel procurement plans, arranges fuel delivery handling and storage, and the sale or off-site disposal of coal combustion products.

Generation Dispatch: Provides unit scheduling, maintenance of reserve requirements, coordination with the Regional Transmission Organization ("RTO") and coordination of generation stations and load balancing.

Power Purchases and Sales: Manages day ahead and real time sales and/or purchases to meet customer demand, secure transmission paths, manage wholesale customers and tracks and manages RTO transactions.

New Unit Construction: Organizes and manages the construction efforts to place new generating assets into service or to retro-fit existing facilities and also manages the removal of abandoned equipment.

Black Start: Maintains and periodically tests the system black start capability.

### **Human Resources**

Human Resources ("HR") is responsible for the planning, development and implementation of all aspects of human capital.

Employee Relations: Provides generalists to work with operating groups as business partners to support operating needs.

Labor Relations: Works with the International Brotherhood of Electrical Workers ("IBEW") locals in labor strategy, negotiations, grievances, arbitration, job bidding and other union activities.

Staffing and Recruitment: Oversees the recruiting, interviewing, testing, placement and on-boarding processing. Also manages internship and diversity programs.

Compensation and Benefits: Develops and maintains the overall reward programs including base salary, incentives and benefits. Also oversees the Affirmative Action programs.

Safety and Medical: Manages worker's compensation, return-to-work, Department of Transportation and other health and safety programs.

Training and Development: Ensures an effective professional workforce through the development and delivery of training programs, leadership development, work force planning, surveys and performance management systems.

Human Resource Information System: Ensures secure and effective systems to report employee-related information, provide employee self-service and other HR systems.

HR Strategy and Planning: Establishes goals, metrics and plans to enhance HR services and implement workforce strategies.

## Finance and Accounting Services

Finance and Accounting Services is responsible for all aspects of financial services to the affiliate company.

Accounting Systems: Provides system support operations and maintenance of all financial systems including PeopleSoft financial and HR systems, CIS customer billings systems, and PowerPlant.

Accounts Payable: Provides accounts payable transaction processing and reporting.

Audit Services: Examines and evaluates the adequacy and effectiveness of the affiliate company's governance and risk management processes and internal control structure. This includes the review of reliability and integrity of financial and operation information, compliance with Sarbanes-Oxley Act of 2002 and other laws and regulations and safeguarding of assets.

Corporate Accounting: Empire Electric on behalf of affiliates maintains the accounting books and records of all Empire District Electric Company entities and provides internal and external reporting and other financial support as required.

Corporate Finance: Empire Electric directs the affiliated entities corporate finance function including development, analysis and implementation of financial plans and capital structure. Corporate finance is also responsible for the management of relationships with rating agencies and the financial community.

Corporate Planning and Budgeting: Develops budgets and financial forecasts including total company and department operating and capital budgets.

Corporate Treasury: Responsible for all cash management activities including short-term financing facilities, cash monitoring and controls and customer remittance activities.

Income and Transaction/Sales Taxes: Responsible for all aspects of maintaining the tax books and records including the preparation and filing of consolidated and separate federal, state and local income, franchise, sales, use, gross receipts, fuel excise, property and other miscellaneous tax returns and payments

Insurance: Provides insurance services including management of insurance policies and filing of claims.

Property Accounting: Maintains all fixed assets and intangible property records.

Risk Management: Provides credit risk management services related to wholesale counterparties, reviews contracts, monitors credit markets and develops policies to mitigate market risk.

Strategic Planning and Development: Provides long-term strategic development and coordination for major asset decisions, renewable energy, climate change, nuclear power, energy efficiency and other energy related issues.

### **Legal and Environmental Services**

Legal and Environmental Services is responsible for providing legal advice and representation and environmental services.

Legal Advice and Representation: Empire Electric services include advising and representing the affiliate company on litigation matters, contract negotiations, regulatory compliance, security filings and general corporate matters.

Environmental Services: Responsible for compliance with applicable environmental laws and regulations and obtainment of environmental permits.

### **Regulatory Affairs**

Empire Electric's Regulatory Affairs, on behalf of affiliates, is responsible for supporting and representing the affiliate company in all regulatory processes and procedures including developing regulatory strategies and policies, filing for changes in rate levels, responding to MoPSC investigations and the administration of tariff filings and rate designs.

### **Corporate Secretary and Governance**

Empire Electric's Corporate Secretary and Governance is responsible for compliance with applicable corporate laws and regulations, development and maintenance of corporate documents, compliance with corporate policies and procedures, and acts as a liaison between the affiliate company's management and the Board of Directors.

### **Management Services**

Empire Electric's Management Services provides overall management advice, guidance and/or direction concerning the affiliate company's corporate functions and operations.

**Board Services**

Empire Electric's Board Services provides oversight to the management of affiliates.

## TAB P

## APPENDIX 3

## Empire District Electric Company

## Empire Electric

## Allocation Factors

Allocation Factor	Description
Customers/Transmission Miles	Company/business unit average of jurisdictional retail customers and transmission pole miles as a percent of total.
Number of Customers	Jurisdictional retail customers as a percent of total retail customers.
Plant Capacity Factor	Jurisdictional plant capacity as a percent of total plant capacity.
Transmission Miles	Jurisdictional transmission pole miles as a percent of total pole miles.
Massachusetts Formula	Utility companies Empire Electric and Empire Gas average of 1) Operating revenues, 2) Labor charged to O&M, and 3) Net plant excluding common costs that benefit other entities.
General Allocator	A General Allocator is a "last resort" allocation method only used when neither direct nor indirect measures of cost causation can be found to charge a cost to a specific entity. Empire Electric may use a Massachusetts Formula general allocator for costs allocated between Empire Electric and EDG. For all other costs, Empire Electric uses a General Allocator which allocates costs based on an entity's relative ratio of direct and assigned costs to total direct and assigned costs incurred.
(1) Factors are updated annually or as necessary if allocation basis changes significantly.	

## **Dottheim, Steve**

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**From:** Dottheim, Steve  
**Sent:** Monday, August 15, 2016 4:18 PM  
**To:** DCarter@brydonlaw.com; 'Poston, Marc'  
**Cc:** Schallenberg, Bob; Hyneman, Charles (Charles.Hyneman@ded.mo.gov)  
**Subject:** AO-2012-0062 Follow-Up To Pre-Hearing Conference Held On 8/11/16  
**Attachments:** AO-2012-0062-DraftEmpireCAMList-8-11-16.doc

I believe the Staff said last Thursday that it would provide the attached document.

Steven Dottheim, Chief Deputy Staff Counsel  
Missouri Public Service Commission, 200 Madison St., Ste. 800  
P.O. Box 360, Jefferson City, MO 65102-0360  
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At the early prehearing conference, on August 11, 2016, the Staff indicated that it would provide to Empire District Electric (EDE) and Empire District Gas (EDG) and the Office of the Public Counsel (OPC) a list of matters in the Empire CAM filed in File No. AO-2012-0062 that the Staff had disagreements with. Below is a list of those items. Bob Schallenberg was in the midst of making his final preparations for his departure for Ethiopia on a work assignment so hopefully the following list is as complete as possible under the circumstances.

1. EDG needs to comply with 4 CSR 240-40.010 and file a CAM and its own affiliate transaction report or obtain waivers for non-compliance.
2. In the context of the GPE - KCPL - Aquila acquisition case a limited waiver was obtained from Commission so that transactions between KCPL and Aquila could occur at cost rather than higher or lower of cost or market. EDE and EDG have no such waiver.
3. Staff opposes the use of the Modified Massachusetts Formula for General Corporate Allocation as being inequitable to electric customers and causing inadequate cost assignment to EDG.
4. Staff opposes a general allocator that includes shared costs or assets in the determination of the EDE factor. Staff supports removing all shared costs from the determination of the allocation factors.
5. EDE does not charge EDI the higher of cost or market for service EDE provides to EDI. EDI does not charge EDE the lower of costs or market for services EDI supplies to EDE. EDE shows a preferential treatment to EDI by not allowing third party opportunities to provide EDI services. EDI services need to be put out for bid to establish market prices for services EDI provides to EDE.
5. There should be contracts for information, assets, goods, and services between affiliated entities, and if no contract, an explanation why there is no contract.
6. There should be more direct time reporting by employees working on affiliate activities and less reliance on the allocation method for cost assignment to affiliates.

8/15/16

"4 CSR 240-40.010" in item 1. above should be "4 CSR 240-40.015."



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

In the Matter of the Application of The Empire District Electric )  
Company and The Empire District Gas Company for ) **File No. AO-2012-0062**  
Approval of Their Cost Allocation Manual )

**STAFF REPORT**

**COMES NOW** the Staff of the Missouri Public Service Commission (“Staff”) and submits this Staff Report in response to the Missouri Public Service Commission’s August 5, 2016, Order Accepting Joint Proposal Regarding Certain Procedural Matters. In this regard, the Staff respectfully states as follows to the Missouri Public Service Commission (“Commission”):

1. The July 29, 2016, Joint Proposal Regarding Certain Procedural Matters of The Empire District Electric Company (“Empire Electric”) and The Empire District Gas Company (“Empire Gas”) (collectively, “Empire”), the Staff, and the Office of the Public Counsel (“OPC”) (collectively, the “Parties”) by and through their respective counsel, among other things, suggested that an Early Technical Settlement Conference be ordered for August 11, 2016, to identify the items in dispute. The Joint Proposal Regarding Certain Procedural Matters suggested that at the conclusion of this early Technical Settlement Conference, the Parties may be able to file portions of a proposed CAM all Parties can support and a list of the portions of a proposed Electric CAM that need to be resolved by the Commission. The Parties noted that direct testimony and responsive testimony would need to be filed in support of the Parties’ positions concerning the disputed portions of the proposed Electric CAM that need to be (a) resolved by the Commission, (b) an evidentiary hearing held before the Commission, and (c) briefs submitted to the Commission based on the testimony filed and the hearing held. The Parties then proposed the remainder of a schedule in this regard which the Commission adopted directing a list of areas of agreement and non-agreement on August 25, 2016.

2. The Commission's August 5, 2016 Order Accepting Joint Proposal Regarding Certain Procedural Matters directed that an early technical conference occur on August 11, 2016, in Room 310 in the Commission's offices and in Ordered item "1." directed "The Joint Proposal Regarding Certain Procedural Matters is adopted, and the parties are ordered to comply with the Joint Proposal."

3. The early technical conference occurred on August 11, 2016, attended by Empire, the Staff, and Public Counsel, and general discussion was engaged in by the Parties. Empire requested an identification of the Staff's areas of disagreement. The Staff said it could provide such a list in writing if desired by the Parties which was concurred in by the Parties. On August 15, 2016, the Staff e-mailed such a list to the Parties indicating it was as complete as possible under the circumstances.

4. At the moment the principal areas of disagreement between the Staff and Empire Electric and Empire Gas are as follows below in no particular order. Items "h" and "i" were not on the list e-mailed to Empire and Public Counsel on August 15, 2016, but they are reflected in the draft CAM provided to Empire and Public Counsel by the Staff on February 8 of this year. The Staff also has sought to clarify its list:

- a. Staff asserts that Empire Gas needs to comply with the Commission's gas affiliate transactions rule, 4 CSR 240-40.015, file a gas CAM and a gas affiliate transactions report or obtain waivers for non-compliance with the gas affiliate transactions rule. (For purposes of the items that follow, the Empire Gas CAM should follow all the components of the Empire Electric CAM, including customer information, to ensure compliance with the gas affiliate transactions rule.)
- b. In the context of the GPE - KCPL - Aquila acquisition case (EM-2007-0374), the Commission granted a limited waiver to KCPL and Aquila so that transactions between KCPL and Aquila could occur at cost rather than the higher or lower of cost or market consistent with the Commission's electric affiliate transactions rule, 4 CSR 240-20.015. Empire Electric and Empire Gas have no such waiver. As a consequence, the Staff asserts that Empire Electric

and Empire Gas must conduct their affiliate transactions consistent with the market and costs provisions of the electric and gas affiliate transactions rules or obtain waivers.

- c. Staff opposes the use of the Modified Massachusetts Formula for general allocation utilized by Empire Electric and Empire Gas as being inequitable to electric customers and causing inadequate cost assignment to Empire Gas.
- d. Staff opposes a general allocator that includes shared costs or assets in the determination of the Empire Electric allocation factor. Staff supports removing all shared costs from the determination of the allocation factors.
- e. Staff asserts that Empire Electric does not charge Empire Industries the higher of cost or market price for services Empire Electric provides to Empire Industries. Staff asserts that Empire Electric does not pay Empire Industries the lower of cost or market price for services Empire Industries supplies to Empire Electric. Staff asserts that Empire Electric shows preferential treatment to Empire Industries by not allowing third party vendor opportunities to provide services provided by Empire Industries. Staff contends that the services Empire Electric purchases from Empire Industries need to be put out for bid to establish market prices for services Empire Industries provides to Empire Electric.
- f. Staff asserts that the electric and gas affiliate transactions rules require that there should be contracts for information, assets, goods, and services provided and received between affiliated entities, and if no contract exists, then there should be a record of an explanation why there is no contract.
- g. Staff asserts that Empire Electric should utilize more direct time reporting by employees working on affiliate activities and reduce its reliance on the general allocation method for cost assignment to affiliates. Staff asserts that general allocation methods are relied upon by Empire Electric or Empire Gas instead of more accurate direct assignment of costs. Staff contends that market value is not determined, thus transactions cannot be shown to be in compliance with the MoPSC electric and gas affiliate transactions rules regarding the relationship of cost and market.
- h. Staff asserts that Empire Electric must have a formal training, review, and audit programs regarding Empire Electric's compliance with the MoPSC affiliate transactions rules to provide reasonable assurance that Empire Electric and Empire Gas are complying with the MoPSC's affiliate transactions rules.

- i. Staff asserts that Empire Electric needs to designate an officer in charge of enforcement to ensure compliance with the MoPSC affiliate transactions rules. This individual must have the authority over compliance with an affiliate transaction group charged with oversight responsibilities regarding Empire Electric's and Empire Gas' overall compliance with the MoPSC's electric and gas affiliate transactions rules.

**WHEREFORE**, the Staff respectfully submits this Staff Report in response to the Missouri Public Service Commission's August 5, 2016 Order Accepting Joint Proposal Regarding Certain Procedural Matters.

Respectfully submitted,

/s/ Steven Dottheim  
Steven Dottheim  
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Attorney for the Staff of the  
Missouri Public Service Commission

**CERTIFICATE OF SERVICE**

I hereby certify that a true and correct copy of the above and foregoing document was sent via electronic mail on this 25th day of August, 2016, to all counsel of record.

/s/ Steven Dottheim