

Exhibit No.:

Issue(s):

Witness/Type of Exhibit:

Sponsoring Party:

Case No.:

Cost Allocation Manual

Hyneman/Direct

Public Counsel

AO-2012-0062

DIRECT TESTIMONY

OF

CHARLES R. HYNEMAN

Submitted on Behalf of the Office of the Public Counsel

EMPIRE DISTRICT GAS COMPANY

CASE NO. AO-2012-0062

September 9, 2016

NP

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

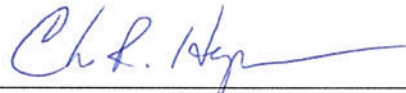
In the Matter of the Application of)
The Empire District Electric)
Company and The Empire District) Case No. AO-2012-0062
Gas Company for Approval of)
Their Cost Allocation Manual)

AFFIDAVIT OF CHARLES R. HYNEMAN

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Charles R. Hyneman, of lawful age and being first duly sworn, deposes and states:

1. My name is Charles R. Hyneman. I am the Chief Public Utility Accountant for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my direct testimony.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.



Charles R. Hyneman, C.P.A.
Chief Public Utility Accountant

Subscribed and sworn to me this 9th day of September 2016.



JERENE A. BUCKMAN
My Commission Expires
August 23, 2017
Cole County
Commission #13754037



Jerene A. Buckman
Notary Public

My Commission expires August 23, 2017.

DIRECT TESTIMONY
OF
CHARLES R. HYNEMAN
THE EMPIRE DISTRICT ELECTRIC COMPANY
THE EMPIRE DISTRICT GAS COMPANY
CASE NO. AO-2012-0062

I. INTRODUCTION

Q. Please state your name and business address.

A. Charles R. Hyneman, P.O. Box 2230, Jefferson City, Missouri 65102.

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

A. I am employed by the Missouri Office of the Public Counsel (“OPC”) as the Chief Public Utility Accountant.

Q. Please describe your educational background.

A. I earned an MBA from the University of Missouri - Columbia, and a Bachelor of Science degree in Accounting (*cum laude*) from Indiana State University at Terre Haute, Indiana.

Q. Please describe your professional work experience.

I was a member of the Missouri Public Service Commission Staff (“Staff”) from April 1993 to December 2015. As a member of the Staff I held various positions including Manager of the Commission’s Kansas City Auditing Office. I left the Commission Staff holding the position of Regulatory Auditor V. Auditor V is the most senior-level professional and supervisory position in the Commission's Auditing Department.

Q. Are you a Certified Public Accountant (“CPA”) licensed in the state of Missouri?

A. Yes. I am also a member of the American Institute of Certified Public Accountants (“AICPA”).

II. COST ALLOCATION MANUAL (“CAM”)

Q. What is included in a CAM?

A. 4 CSR 240-20.015 (“Affiliate Transaction Rule” or “rule”) paragraphs 2(E) requires that a CAM include “the criteria, guidelines and procedures” a utility will follow to be in compliance with the rule.

Q. Is a utility CAM of critical importance for compliance with the rule?

A. Yes. The purpose of the Affiliate Transaction Rule is to prevent regulated utilities from subsidizing their nonregulated operations. In order to accomplish this objective, the rule sets forth financial standards, evidentiary standards and recordkeeping requirements applicable to regulated electric utilities. A utility must have well-developed policies and procedures and internal controls specifically designed to meet these standards. That is the function of a CAM. If a CAM does not include sufficient policies and procedures and internal controls to meet the rule standards, the standards will not be met. That is why a CAM is of critical importance.

Q. Does Empire currently have well-developed CAM policies, procedures and internal controls?

A. No, it does not. A simple comparison of Empire’s current CAM attached to this testimony as Schedule CRH-D-1 with OPC’s proposed CAM attached as Schedule CRH-D-2 shows that Empire’s current CAM is not adequate.

Q. Why is OPC addressing the issue of a CAM in this case?

A. The Affiliate Transactions Rule as cited above requires Empire to use a Commission-approved CAM as a basis for its transactions with affiliates and nonregulated operations. The requirements for a Commission-approved CAM can be found in 4 CSR 240-20.015 paragraphs 2(E) and 3(D):

1 2(E) The regulated electrical corporation shall include in its annual
2 Cost Allocation Manual (CAM), the criteria, guidelines and
3 procedures it will follow to be in compliance with this rule.
4

5 3(D) In transactions involving the purchase of goods or services by
6 the regulated electrical corporation from an affiliated entity, the
7 regulated electrical corporation will use a commission-approved
8 CAM which sets forth cost allocation, market valuation and internal
9 cost methods. This CAM can use benchmarking practices that can
10 constitute compliance with the market value requirements of this
11 section if approved by the commission.
12
13

14 Empire does not currently have a Commission-approved CAM and thus is not in
15 compliance with 4 CSR 240-20.015. OPC is proposing the Commission order Empire to
16 adopt the CAM that is attached to this testimony as Highly Confidential Exhibit CRH-1.
17 OPC is classifying this proposed CAM as Highly Confidential based on a request from
18 Empire. Empire indicated it would review the draft CAM after OPC's direct filing for
19 possible removal of the Highly Confidential classification.

20 **Q. Over the past several years, have you been involved in reviews of Affiliate**
21 **Transactions Rule compliance and the sufficiency of the CAMs of other major**
22 **Missouri utility companies?**

23 **A.** Yes. I was the Staff expert witness in the Affiliate Transactions Staff Complaint (Case No.
24 GC-2011-0098) against Laclede Gas Company ("Laclede"). In that case, OPC, Laclede,
25 and Staff filed a *Unanimous Partial Stipulation And Agreement And Waiver Request And*
26 *Request For Approval Of Cost Allocation Manual* that, among other things, resolved certain
27 affiliate transaction issues raised in the Staff complaint. The Commission issued an order
28 approving the partial stipulation and agreement on August 14, 2013.

29 I was also the Staff expert witness in Case No. EO-2014-0189 ("0189 Case"). In the 0189
30 Case, KCPL and GMO filed an Application for Approval of its Cost Allocation Manual as
31 required by the Affiliate Transactions Rule.

1 Finally, I was the Staff expert witness in this case, No. AO-2012-0062. On August 23,
2 2011, Empire and its gas-affiliate, Empire Gas, filed for Commission approval of its CAM
3 pursuant to an agreement in Empire's rate case, ER-2011-0004. In that case, I met with
4 Empire personnel and reviewed Empire's affiliate transactions policies, procedures, and
5 internal controls as well as Empire's CAM policies, procedures, and controls.

6 Based on my review of Empire's CAM, I found it to be significantly insufficiently designed
7 to provide criteria, guidelines, and procedures to be in compliance with the Affiliate
8 Transaction Rule.

9 **Q. Were you significantly involved in the drafting of the draft Empire CAM attached to**
10 **your direct testimony as Schedule CRH-D-2?**

11 A. Yes. I was involved in the drafting of this CAM while I was an employee of the
12 Commission Staff in 2014 and 2015. The CAM was essentially completed on my last day
13 as an employee of the Staff on November 30, 2015. The other drafters of this CAM are
14 Staff members Robert Schallenberg and Steve Dottheim.

15 **Q. What is the basis of OPC's proposed CAM for Empire?**

16 A. The proposed CAM for Empire is very similar to the current version of the CAM that Staff,
17 OPC, KCPL and GMO worked on for the past several years and includes very similar
18 criteria, guidelines and procedures a utility should follow to be in compliance with the
19 Affiliate Transaction Rule.

20 **Q. Did Empire also file for Commission approval of a CAM?**

21 A. Yes. Empire filed a joint electric and gas operations application for CAM approval on
22 August 23, 2011 in this docket.

Q. Why has it taken so long to process the Empire CAM application in Case No. AO-2012-0062?

A. My understanding, based on discussions with Staff, is that Staff determined once the KCPL and GMO CAMs were completed and filed for Commission approval, the contents and structure of the KCPL and GMO CAMs would then be used as the basis for the Empire CAM. A CAM for an electric utility is a complex document.

I was involved from the beginning of Staff's work on the KCPL and GMO CAMs. The development of these CAMs involved a significant number of discussions, meetings and negotiations over several years. That process for the KCPL and GMO CAMs has been complete for a long period of time and it is now the right time for Empire to secure a Commission-approved CAM based on the "CAM best practices" that were developed and incorporated into the KCPL and GMO CAMs.

Q. What are some of the "CAM best practices" you refer to above?

A. Some of the best practices that were developed by Staff and included in this proposed draft Empire CAM include:

1. Employee training of affiliate transaction requirements (TAB I);
2. Internal and independent audits of affiliate transactions (TAB O);
3. Substantive guidelines (based on generally accepted accounting principles) related to the development of a "fair market price" to use as a component of all affiliate transactions (TAB F);
4. Guidelines on utility marketing materials (TAB G);
5. Development of a utility CAM Team consisting of a necessary number of trained employees to oversee the operations and management of Empire Electric's affiliate transactions (TAB M);

1 6. Utility Chief Executive Officer ("CEO") and its Chief Financial Officer ("CFO")
2 certification of compliance with the MoPSC's Affiliate Transactions Rule for the
3 preceding calendar year (TAB M).
4

5
6 **Q. Does this conclude your direct testimony?**

7 A. Yes, it does.

AO-2012-0062

Hyneman Direct

Schedule CRH-D-1

has been deemed

****Highly Confidential****

in its entirety

The Empire District Electric Company

Empire Electric

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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-

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

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

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

- 15 1. Electric - The Empire District Electric Company – "Empire Electric" (EDE)
16 regulated electric operations both retail and wholesale
17
- 18 2. Gas - The Empire District Gas Company ("EDG") regulated natural gas retail
19 operations.
20
- 21 3. Water - The Empire District Electric Company – "Empire Electric" (EDE)
22 regulated water operations in Missouri
23
- 24 4. Other – Non-regulated – EDE holding company operations, EDE service
25 company operations, and Empire District Industries, Inc. ("EDI") and EDI
26 Fibercom (fiber optics) – sells fiber optic service to Empire Electric; owned,
27 operated, and managed by Empire Electric – consists of leasing fiber optics
28 cable and equipment (which is also used in utility operations).
29

30 **Business Segment Descriptions:**

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

1 parts of Missouri, Kansas, Oklahoma and Arkansas. The "Electric"
2 segment also provides water service to three towns in Missouri. At
3 December 31, 2014, electric operations served approximately 170,000
4 customers. Retail electric revenues for 2014 by jurisdiction were derived
5 geographically as follows: Missouri 89.7%, Kansas 4.8%, Oklahoma 2.8%
6 and Arkansas 2.7%. At December 31, 2014, Electric's transmission
7 system consisted of approximately 22 miles of 345 kV lines, 441 miles of
8 161 kV lines, 745 miles of 69 kV lines and 81 miles of 34.5 kV lines.
9 Electric's distribution system consisted of approximately 6,911 miles of line
10 at December 31, 2014.

11
12 2. Gas - EDG gas operations serve customers in northwest, north central
13 and west central Missouri. EDG was formed to hold the Missouri gas
14 assets that EDE acquired from Aquila, Inc. on June 1, 2006. At December
15 31, 2014, EDG had 50 employees. At December 31, 2014, the gas
16 segment's gas utility properties consisted of approximately 87 miles of
17 transmission mains and approximately 1,175 miles of distribution mains.
18 As of December 31, 2014, the gas segment served approximately 43,500
19 customers. The gas segment provides natural gas distribution to 48
20 communities and 422 transportation customers as of December 31, 2014.
21 The largest urban area EDG serves is the city of Sedalia with a population
22 of over 20,000. At December 31, 2014, gas segment properties consisted
23 of approximately 87 miles of transmission mains and approximately 1,175
24 miles of distribution mains.

25
26 3. Water – EDE also provides water service to three towns in Missouri
27

28 4. Other – Unregulated. EDE holding company activities, service
29 company activities, and unregulated fiber optics business. Empire District
30 Industries, Inc. ("EDI"), provides fiber optics services ("EDI Fibercom").
31 EDI and EDI Fibercom are non-regulated.
32

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

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

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

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

10 **Regulatory Jurisdictions**

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

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

19
20 The FERC, under the Federal Power Act ("FPA"), has jurisdiction over the
21 wholesale rates, accounting, sale, lease or other disposition of electric transmission
22 service and electric energy and the associated utility facilities engaged in interstate
23 commerce.

24 EDE's electric operations related to each of its operations in the five (5)
25 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.

26 By 2016, EDE/Empire Electric will formally create a fully-functioning Empire
27 Electric CAM Team consisting of a necessary number of trained employees to oversee
28 the operations and management of Empire Electric's affiliate transactions. The Empire
29

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

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

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

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

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

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

22

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.

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

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

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

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

27 The regulated utility's billing of directly or indirectly assigned and allocated
28 common costs FDC or FMP, whichever is higher, is designed to prevent providing a
29 financial advantage to or subsidization of any business line or non-regulated activity,

1 while also ensuring appropriate charging is being done among EDE business lines and
2 its subsidiaries/affiliates.

3 As noted above, affiliates are billed on an FDC or FMP basis, whichever is
4 higher, for assets, goods, information, and services provided by EDE.. The FDC basis
5 includes all direct and indirect costs, including cost of capital and overheads and an
6 allocated portion of common costs. The following three types of cost assignments are
7 utilized to determine proper FDC billings:

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

17
18 2) **Clearings and Loadings (TAB D)** – Applies to types of costs that are
19 assigned based on the usage related to other costs. In some applications, costs
20 are distributed, or “cleared” over a distribution of direct costs, such as fleet
21 clearings. In other applications, costs are distributed, or “loaded” onto a related
22 cost, such as paid absence, and distributed based on a payroll distribution.

23
24 3) **Specific Assignment Method (TAB E)** – Applies to costs that can be
25 assigned to the benefiting business unit based on a statistical analysis, usage
26 study, or association with the underlying asset or liability. For instance,
27 depreciation expense is assigned based on the related plant asset.

28
29 Empire Electric will rely upon its Accounting Department or the group responsible
30 for control of the costs to determine the specific assignments. Empire Electric and
31 affiliates shall enter into service agreements which establish the terms and conditions
32 for affiliate transactions, including a general description of assets, goods, information
33 and services provided, pricing, billing and payment methods and dispute resolution.

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

38 2. **Unit of Service** - Costs for which the Direct Bill Method is not practical but
39 have identifiable per unit costs. This method is appropriate for assigning costs of

1 departments that perform the same functions for multiple business lines and for which
2 the number of units is ascertainable (i.e., number of vouchers or computers, miles
3 driven, etc.). The number of units used to determine the assignment factors will exclude the
4 units used to provide service to more than one entity or business function.

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

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

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

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

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

20
21 2. On a monthly basis, the FDC for each affiliate transaction is accumulated and
22 then compared with the FMP of the good or service. After the comparison is
23 made, if the FMP for an affiliate transaction is higher than the FDC to Empire
24 Electric an adjustment will be made for the difference and Empire Electric will
25 make a journal entry to record the additional revenue and submit an invoice or
26 charge to the business line for the difference.

27
28 **Income Statement Billings** – Income and expenses are classified into the
29 following groups for billings purposes—direct, indirect, and common costs.

30 **Direct Billings** – These are costs incurred by Empire Electric to provide a
31 specific benefit (e.g., preparation and filing federal income tax returns) to a specific
32 business line. There is a direct relationship between the cost incurred and the business
33 unit receiving the benefit of the cost. These costs are billed to the business line based
34 on the owner of the operating unit charged, such as Empire Gas, or EDI Fiber
35 Operations. EDE will also continue to charge costs to its internal business lines.

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

3 There are two primary methods of Direct Billing:

4 **Vendor Invoices** - Vendor invoices that include charges for goods or services
5 that are for the benefit of a single business line will be coded to the appropriate
6 business line/account number at the time of input into PeopleSoft.

7
8 **Labor** - All employees are required to record their time in PeopleSoft. Part of
9 this time entry includes the business line for which the employee was working.
10 PeopleSoft then records the appropriate portion of the salary of that person to the
11 appropriate business line. In addition to assigning salary, PeopleSoft also
12 allocates an amount to cover payroll taxes and fringe benefits. The fringe benefit
13 amount is based on a percentage determined by Accounting with support from
14 Human Resources. The labor overhead rate consists of Healthcare, 401K,
15 Pension and other similar costs.
16

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

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

26 **Indirect Billings** – These are costs incurred by Empire Electric to provide
27 services benefiting more than one business unit that do not vary due to usage. These
28 costs are billed to the business units based on predetermined factors or the results of
29 periodic studies. The factors are determined based on a cost causative relationship as
30 well as in the aggregate by a general allocator of truly common costs. Empire Electric is
31 aware that all costs are to be directly or indirectly charged to EDE, its lines of business,
32 or its affiliates, to the maximum extent possible. Common costs result from residual
33 costs that could not reasonably be directly or indirectly assigned. The number of units
34 used to determine the allocation factors will exclude the units used to provide service to more
35 than one entity or business function. Refer to Appendix 3 for a list of factors and how the
36 factors are calculated.

1 All residual common costs will be allocated using the General Allocator,
2 which allocates costs based on an entity's relative ratio of direct and assigned costs to
3 total direct and assigned costs incurred. A General Allocator is a "last resort" allocation
4 method which should only be used when neither direct nor indirect measures of cost
5 causation can be found to assign the cost to a specific entity.

6 **Unit of Service Billing Method Details**

7
8 For costs incurred on behalf of the business units that do not allow for application
9 of the Direct Billing Method, the Unit of Service Method is used in instances where there
10 is a quantifiable unit driver (purchase orders, personal computers, etc.) for which a "per
11 unit" cost can be calculated and charged. The number of units used to determine the
12 allocation factors will exclude the units used to provide service to more than one entity or
13 business function. For example, for assigning costs to EDE related to personal computers, the
14 computers that are used by EDE for activities that benefit entities other than EDE will not be
15 used to assign costs to EDE. The appropriate assignment may use the personal computers that
16 are solely used for EDE's electric or water service supplemented with EDE's share of common
17 use computers with the remaining portion of EDE's common use computers included in the
18 assignment factors of EDE's affiliates.

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

25 Each Unit of Service billing has a calculated rate that is based on various
26 General Ledger accounts and costs and is adjusted periodically. Each rate is then
27 applied to the appropriate volume driver to determine the monthly allocation to the
28 business units.

29
30 **1. Accounts Payable - Purpose:** To assign expenses associated with
31 the processing of vendor payments for business units. **Basis of**
32 **Assignment:** The assignment is based on the number of lines keyed by
33 Accounts Payable with lines associated with common use included only
34 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:** **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 benefiting 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 benefiting 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)

1 **8. Regulated Vehicle - Purpose:** To assign expenses associated with
2 the use of regulated vehicles for non-regulated business units to the
3 appropriate business unit. **Basis of Assignment:** The assignment is
4 based on the number hours the non-regulated or gas laborer uses vehicle
5 and the class of vehicle that is used plus the respective share of hours a
6 regulated laborer uses the vehicle in performing an activity benefitting
7 non-regulated or gas entity. **Assignment Update Frequency:** Driver:
8 Monthly. Rate: Annually. **Responsible party:** Senior Budget Accountant
9 in Financial Services will create a manual voucher each month for the
10 assignment entry. **Accounting Detail: Accounting Distribution to be**
11 **charged:** Business Unit: GLFIB Account: All accounts associated with
12 labor costs Department: Non-Regulated Business Unit Cost Center that
13 had labor transactions Product Code: NVH (Non-Regulated – Vehicle
14 Hours) **Accounting Distribution to be Credited:** Business Unit: GL001
15 (Regulated Business Unit) Account: 922101 (Transfer Charges –
16 Subsidiaries) Department: 000 (Corporate Department) Product Code:
17 NVH (Non-Regulated –Vehicle Hours)
18

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

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

23 A General Allocator is a "last resort" allocation method only used when neither
24 direct nor indirect measures of cost causation can be found to charge a cost to a
25 specific entity.

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

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

1 bank account by the Affiliates will be recorded to intercompany accounts
2 between Affiliates and EDE. Documentation for the deposits to and
3 withdrawals by the Affiliates from the EDE master bank account will be
4 maintained in the financial and supporting systems of EDE.
5

6 D. The Affiliates are authorized to maintain a zero balance bank account
7 that will automatically sweep from EDE's master bank account.
8 Transactions between EDE and the Affiliates will be recorded to inter-
9 company accounts between EDE and the Affiliates. Funding the
10 Affiliate's cash accounts will be recorded through an inter-company
11 receivable/payable account. Documentation for the transactions
12 between the Affiliates and EDE will be maintained in the financial and
13 supporting systems of EDE.
14

15 E. No security will be required to be posted by any of the Affiliates as
16 collateral for any net borrowing positions. Loans to the Affiliates will be
17 made pursuant to open-account advances. At the end of each month,
18 interest expense will be charged to the Participants. The short-term
19 borrowing rate will be the weighted average short-term borrowing rate
20 calculated on all EDE's short-term borrowings outstanding during the
21 month. FMP equals the rate an entity would be charged from a third
22 party lender. FMP interest for loans would be greater than EDE's
23 borrowing rate for EDI, it may be EDE's borrowing rate for EDG with a
24 fee for performing the financial services. However, if EDE has no
25 outstanding third-party short-term debt, a proxy interest rate will be
26 charged or credited to the Participant. The proxy interest rate shall be
27 the London Inter-Bank Offered Rate ("LIBOR") plus a certain number of
28 basis points added (the "LIBOR Rate") so that the LIBOR Rate most
29 closely mirrors the pricing the Participant would expect if it had
30 outstanding short-term borrowings. If no LIBOR Rate is established for
31 that day, then the applicable rate will be the LIBOR Rate for the next day
32 for which a rate is established.
33

34 F. Excess funds which are not required to satisfy the borrowing needs of
35 the Participants will be invested in short-term instruments according to
36 the guidelines of the EDE Corporate Investment Policy approved by the
37 Board of Directors. At the end of the month, the interest income will be
38 allocated back to the Participants at the weighted average short-term
39 interest rate of all EDE's short-term investments during the month on the
40 basis of their relative contribution to the pooled funds. Interest income
41 resulting from the investment of the pooled funds will be used to repay
42 the principal amount of any inter-company loan. If no inter-company
43 loans exist, the interest income will be credited to the Participants as
44 appropriate.
45

1 G. Costs to administer the pooled master bank account is separately identified
2 and assigned to business functions on the basis of usage and benefits.
3

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

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

9 EDI Fibercom also must pay Empire Electric's tariffed pole attachment fee.
10
11
12

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.

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.

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.

All 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

1 method only used when neither direct nor indirect measures of cost causation can be
2 found to charge a cost to a specific entity business line.

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

- 4
- 5 1) Labor - the cost of human capital associated with the service provided.
- 6
- 7 2) Loadings - the benefits, pensions, OPEBs, insurance, paid absences,
- 8 payroll taxes, etc. associated with labor and capital loadings
- 9 associated with functional parts of the organization.
- 10
- 11 3) Plant - including Common Use Plant, which includes the use of
- 12 common facilities such as telecommunication and network systems
- 13 used in support of the organization.
- 14
- 15 4) Non-Labor - all other charges for materials, services and overheads.
- 16

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

28 **Fair Value Measurement ("FMV"):** Fair value measurement guidelines under
29 generally accepted accounting principles ("GAAP") can be found in Accounting
30 Standards Codification 820 ("ASC" 820, formerly Financial Accounting Standard ("FAS")
31 157).

32 For purposes of this CAM, assets and liabilities in this definition will be the same
33 for goods and services. Also for the purposes of this CAM, the term "fair value" or "fair
34 value measurement" has the same meaning as "fair market price" as used in this CAM,
35 ASC 820 and the MoPSC's Affiliate Transactions Rule. Empire Electric shall use a
36 valuation technique that is appropriate for the circumstances and for which sufficient

1 data is available to measure the fair market price, maximizing the use of relevant
2 observable inputs and minimizing the use of unobservable inputs. The objective of
3 using a fair market valuation technique, such as the one reflected in this CAM, is to
4 determine the price at which an orderly transaction to transfer or acquire goods or
5 provide or acquire services would take place between market participants at the
6 measurement date under current market conditions. Empire Electric will use the market
7 approach described in this CAM to determine fair market prices. The market approach
8 is described in ASC 820.

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

- 17 1) market participant assumptions developed based on market data
18 obtained from sources independent of the regulated utility (observable
19 inputs), and
20
- 21 2) the regulated utility's own assumptions about market participant
22 assumptions developed based on the best information available in the
23 circumstances (unobservable inputs).
24

25 The use of unobservable inputs is allowed only in situations in which there is
26 little, if any, market activity for the good or service at or near the measurement date. In
27 those situations, Empire Electric need not undertake all reasonable efforts to obtain
28 information about market participant assumptions. However, Empire Electric must not
29 ignore information about market participant assumptions that is reasonably available
30 without undue cost and effort.

31 The fair market price of the good or service should be determined based on the
32 assumptions that market participants would use in pricing the good or service. In
33 developing those assumptions, Empire Electric may, but need not identify specific

1 market participants. Rather, Empire Electric should identify characteristics that
2 distinguish market participants generally, considering factors specific to:

- 3 a) the good or service
- 4
- 5 b) the principal (or most advantageous) market for the good or service,
- 6 and
- 7
- 8 c) market participants with whom Empire Electric would transact business
- 9 regarding the good or service in that market.

10
11 Market participants are buyers and sellers in the principal (or most
12 advantageous) market for goods or services that are:

- 13 a) Not related parties,
- 14
- 15 b) Knowledgeable, having a reasonable understanding about the good or
- 16 service and the transaction based on all available information,
- 17 including information that might be obtained through due diligence
- 18 efforts that are usual and customary,
- 19
- 20 c) Able to transact for the good or service, and
- 21
- 22 d) Willing to transact -- motivated but not forced or compelled to do so.
- 23

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

- 26 a) Observable inputs are inputs that reflect the assumptions market
- 27 participants would use in pricing the good or service developed based
- 28 on market data obtained from sources independent of the regulated
- 29 utility.
- 30
- 31 b) Unobservable inputs are inputs that reflect the regulated utility's own
- 32 assumptions about the assumptions market participants would use in
- 33 pricing the good or service developed based on the best information
- 34 available in the circumstances.
- 35

36 Fair Market Pricing Process: In the process of determining the fair market price
37 for a good or service provided to or received from an affiliate, Empire Electric will use a
38 process based on obtaining the highest quality of information reasonably available to
39 determine the fair market price of an affiliate transaction. The process for determining
40 fair market price prioritizes the inputs to valuation techniques used to measure fair
41 market price into three broad levels based on quality of information. The process used

1 by Empire Electric gives the highest priority to quoted prices (unadjusted) in active
2 markets for identical goods and services and the lowest priority to unobservable inputs.

3 **High Quality Inputs (observable)**

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

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

18 **Medium Quality Inputs (observable)**

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

- 23 a) Quoted prices for similar goods or services in active markets.
24
25 b) Quoted prices for identical or similar goods or services in markets that
26 are not active.
27
28 c) Inputs other than quoted prices that are observable for the good or
29 service.
30
31 d) Inputs that are derived principally from or corroborated by observable
32 market data by correlation or other means (market-corroborated
33 inputs).
34

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

4 **Lower Quality Inputs (unobservable)**

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

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

23 **Empire Electric Labor Costs**

24 Because EDE and all its subsidiaries/affiliates are operated and managed by
25 Empire Electric employees, Empire Electric will be required to bill out labor costs
26 benefiting, its business lines, affiliates and non-regulated operations. To determine the
27 fair market price of a good or service provided by Empire Electric to an affiliate, the
28 market approach as described above will be used.

29 Empire Electric's CAM Team, which includes representatives across several
30 Empire Electric functions, including Empire Electric's Procurement Department, will

1 | conduct current fair market pricing analysis which will determine whether the
2 | appropriate amount to record an affiliate transaction is at FDC or FMP.
3 |
4 |

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
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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.

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, affiliates and non-regulated activities, will be given training materials that (1) cover all of

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

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

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

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

- 1 specific communications, company-wide e-mail announcements and printed
- 2 communications regarding the MoPSC's Affiliate Transactions Rule and related topics.

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.

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.

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 For all costs, Empire Electric uses a General Allocator which allocates based on an
9 entity’s relative ratio of direct and assigned expenses to total direct and assigned
10 expenses incurred.

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

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

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

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

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

28 OCC – Oklahoma Corporation Commission

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

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

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.

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.

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.

**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.

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

5
6 Transmission and Distribution Operations and Maintenance: Provides first response to
7 outage and irregular system operations and coordinates and supports work to restore
8 service.

9
10 Transmission, Distribution and Substation Engineering and Asset Management:
11 Analyzes, coordinates and supports work for delivery and substation system
12 expansions, improvements, and provides corrective and preventive maintenance. Also
13 provides engineering, planning, design, mapping services, right-of-way and zoning
14 services.

15
16 Transmission Policy, Planning and Compliance Services: Develops policies, monitors
17 key developments, policies and procedures and participates in industry groups related
18 to transmission reliability, operations and policy issues including Federal Energy
19 Regulatory Commission ("FERC"), North American Electric Reliability Corporation
20 ("NERC", Southwest Power Pool ("SPP"), Midcontinent Independent System Operator,
21 Inc. ("MISO"), Edison Electric Institute ("EEL"), Kansas Electric Transmission Authority
22 ("KETA"). Services also include monitoring system reliability and security.

23 24 **Supply**

25
26 Supply is responsible for all aspects of providing the electric energy necessary to
27 reliably fulfill the electric demands of customers. Supply may provide the following
28 services: resource planning, plant operations and maintenance, fuel procurement,
29 generation dispatch, power purchases and sales, new construction and black start.

30
31 Resource Planning: Develops integrated resource plans, provides capacity testing,
32 reliability reporting and interconnection applications and maintains fleet generation
33 statistics.

34
35 Plant Operations and Maintenance: Conducts safety training and incident
36 investigations, manages plant operation and maintenance, maintains facilities and
37 equipment, and manages inventory, environmental compliance and reporting.

38
39 Fuel Procurement and Logistics: Develops fuel procurement plans, arranges fuel
40 delivery handling and storage, and the sale or off-site disposal of coal combustion
41 products.

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

4
5 Power Purchases and Sales: Manages day ahead and real time sales and/or
6 purchases to meet customer demand, secure transmission paths, manage wholesale
7 customers and tracks and manages RTO transactions.

8
9 New Unit Construction: Organizes and manages the construction efforts to place new
10 generating assets into service or to retro-fit existing facilities and also manages the
11 removal of abandoned equipment.

12
13 Black Start: Maintains and periodically tests the system black start capability.

14 15 **Human Resources**

16
17 Human Resources ("HR") is responsible for the planning, development and
18 implementation of all aspects of human capital.

19
20 Employee Relations: Provides generalists to work with operating groups as business
21 partners to support operating needs.

22
23 Labor Relations: Works with the International Brotherhood of Electrical Workers
24 ("IBEW") locals in labor strategy, negotiations, grievances, arbitration, job bidding and
25 other union activities.

26
27 Staffing and Recruitment: Oversees the recruiting, interviewing, testing, placement and
28 on-boarding processing. Also manages internship and diversity programs.

29
30 Compensation and Benefits: Develops and maintains the overall reward programs
31 including base salary, incentives and benefits. Also oversees the Affirmative Action
32 programs.

33
34 Safety and Medical: Manages worker's compensation, return-to-work, Department of
35 Transportation and other health and safety programs.

36
37 Training and Development: Ensures an effective professional workforce through the
38 development and delivery of training programs, leadership development, work force
39 planning, surveys and performance management systems.

40
41 Human Resource Information System: Ensures secure and effective systems to report
42 employee-related information, provide employee self-service and other HR systems.

43
44 HR Strategy and Planning: Establishes goals, metrics and plans to enhance HR
45 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.

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

4
5 Strategic Planning and Development: Provides long-term strategic development and
6 coordination for major asset decisions, renewable energy, climate change, nuclear
7 power, energy efficiency and other energy related issues.

8 9 **Legal and Environmental Services**

10
11 Legal and Environmental Services is responsible for providing legal advice and
12 representation and environmental services.

13
14 Legal Advice and Representation: Empire Electric services include advising and
15 representing the affiliate company on litigation matters, contract negotiations, regulatory
16 compliance, security filings and general corporate matters.

17
18 Environmental Services: Responsible for compliance with applicable environmental
19 laws and regulations and obtainment of environmental permits.

20 21 **Regulatory Affairs**

22
23 Empire Electric's Regulatory Affairs, on behalf of affiliates, is responsible for
24 supporting and representing the affiliate company in all regulatory processes and
25 procedures including developing regulatory strategies and policies, filing for changes in
26 rate levels, responding to MoPSC investigations and the administration of tariff filings
27 and rate designs.

28 29 **Corporate Secretary and Governance**

30
31 Empire Electric's Corporate Secretary and Governance is responsible for
32 compliance with applicable corporate laws and regulations, development and
33 maintenance of corporate documents, compliance with corporate policies and
34 procedures, and acts as a liaison between the affiliate company's management and the
35 Board of Directors.

36 37 **Management Services**

38
39 Empire Electric's Management Services provides overall management advice,
40 guidance and/or direction concerning the affiliate company's corporate functions and
41 operations.

42 43 **Board Services**

1 Empire Electric's Board Services provides oversight to the management of
2 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. For all 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.	