The following are our additional questions concerning the TFR 2015 Update. Please note that we are reviewing the responses to the initial questions and will provide any follow-up questions, as needed.

1. FERC Form 1 page 302 provides a detailed listed of electric revenues recorded in Account 456. With regard to the revenues listed, please provide the following:
	1. A description of each revenue item and identify the function it is related to (i.e. production, transmission etc.).
2. *Scheduling Fees – Scheduling, system control and dispatch service is required to schedule the movement of power through, out of, within, or into a control area. – Transmission*
3. *Losses – Compensation to transmission owners for losses used to deliver power within or through their balancing authority (Integrated Marketplace now handles losses as a component of its locational marginal pricing (LMP)). – Transmission*
4. *Direct Assignment of transmission facilities – use of transmission facilities by KEPCO to serve load in Sekan and Twin Valley – Distribution*
5. *Firm and non-firm point-to-point revenue – compensation for reserved capacity from the transmission customer to the transmission owner – Transmission*
6. *Regulation service – Compensation by the four municipalities served by Empire District Electric to provide regulation service as required by the Open Access Transmission Tariff (OATT) – Generation*
7. *Spinning Reserves - Compensation by the four municipalities served by Empire District Electric to provide spinning reserves as required by the Open Access Transmission Tariff (OATT) – Generation*
8. *Supplemental Reserves - Compensation by the four municipalities served by Empire District Electric to provide supplemental reserves as required by the Open Access Transmission Tariff (OATT) – Generation*
9. *Network Integration Transmission Service – Compensation by the four municipalities served by Empire District Electric to be served as network customers under the Open Access Transmission Tariff (OATT) – Transmission*
10. *Regional and Zonal Base Plan Funding – Compensation provided by transmission customers for facility upgrades completed by transmission owners to cover revenue requirements as specified in the Open Access Transmission Tariff (OATT) - Transmission*
	1. For each item that is transmission related, identify where in the 2015 Update the revenue amount has been included.
11. *Scheduling Fees (OATT Schedule 1) are derived in the TFR on Lines 129 through 136 of Appendix A. These fees are retained by Empire as part of our Revenue Requirement.*
12. *Losses, although created through the Transmission of energy, are compensated for by the Generation System. Losses are handled by the SPP Integrated Market.*
13. *Direct Assignment of Transmission Facilities are fixed monthly charges billed to KEPCO for use of assigned Distribution facilities as documented in a Wholesale Distribution Agreement (WDA) that is billed through SPP. The 4 separate WDA’s that apply to the Cities are billed directly to the Cities by Empire. None of these agreements relate to Transmission facilities. These revenues are neither Transmission nor Generation related; as such they are not referenced in either the TFR or GFR templates.*
14. *Firm and Non-Firm Point-to-Point Service (Schedules 7 & 8) rates are derived on lines 137 through 150 of Appendix A of the TFR. Since these “excess” revenues are typically derived from non-predictable transmission loads, any revenues derived from these two types of transmission service are credited back to Empire’s Gross Revenue Requirement on Line 122 of Appendix A (and are documented/summarized on Line 4 of Attachment 3).*
15. *Regulation Service is now obtained through the SPPIM. Any costs and/or revenues associated with this Production-related service are passed through the Fuel/Purchased Power component, as described in Item 1 of the GFR.*
16. *Spinning Reserves Service is now obtained through the SPPIM. Any costs and/or revenues associated with this Production-related service are passed through the Fuel/Purchased Power component, as described in Item 1 of the GFR.*
17. *Supplemental Reserves Service is now obtained through the SPPIM. Any costs and/or revenues associated with this Production-related service are passed through the Fuel/Purchased Power component, as described in Item 1 of the GFR.*
18. *Network Integration Transmission Service rates are derived on Lines 125 through 128 of the Appendix A of the TFR. This “base” revenue is retained by Empire as part of our revenue requirement.*
19. *Funding of Transmission Upgrades includes multiple sources of revenues received from the Southwest Power Pool. The largest portion of the revenue is derived in the TFR as “Base Plan Funded” amounts (see Response to Question 14, below).*
	1. If a transmission related revenue has not been included in 2015 Update, please provide an explanation as to why such amounts were not revenue credited.

*See b above.*

* 1. An explanation as to why the “Plum Point Transmission credits” of $37,319.64 have not been included as a revenue credit in the 2015 Update.

*Empire is still studying/researching this issue and will provide a response as soon as possible.*

1. FERC Form 1 page 302, line 9, shows and ending balances of $6,680,496 associated with the funding of network upgrades. Please provide an explanation as to why this amount is different than the amount shown for the SPP network upgrades revenue requirement of $5,400,433 (see line 124 of Appendix A to the 2015 Update).

*Response: Line 124 of the 2015 Annual Update is based on the investment and expenses for the Regional Upgrades constructed and maintained in 2014 and earlier years. The detailed calculations of each such upgrade are displayed on Pages 3 through 13 of Attachment 12 (ATT-12); and summarized on Page 1 of ATT-12. The $5,400,433 amount in the 2015 Annual Update represents the Annual Revenue Requirement going forward for the next year (which will be reported in the 2015 and 2016 FERC Form 1’s). The revenues displayed on Page 302, line 9 of the 2014 FERC Form 1 represent revenues established in prior years Annual Updates. The 2014 Annual Update (using 2013 FF1 data) derived an Annual Revenue Requirement of $5,851,073 (approximately 5/12 of which was generated in the latter part of 2014). The 2013 Annual Update (using 2012 FF1 data) derived an Annual Revenue Requirement of $6,129,459 (approximately 7/12 of which was generated in the first part of 2014). It should be noted that there is a one month lag in the SPP billing of the SPP Regional Upgrade Revenues; which results in the 7 month/5 month “split” of the “booked” revenues, rather than the expected 6 month/6 month split. We have submitted a request to SPP to explain the additional $650,000 to $700,000 that appears to be credited to this account, and will provide supplemental information to this question as it becomes available.*

1. Please provide a detailed explanation of why “Unappropriated Undistrib Subsid Earnings (216.1) - End of Yr” increase by approximately 44% from $12,727,631 to $18,363,820.

*Response: The change reflects earnings for 2014 related to the subsidiary companies, Empire District Gas and Empire District Holdings (Holdings is non-regulated)*

1. Please provide a detailed explanation of why “Other Long Term Debt (224) - Beginning of Year” decreased by approximately 49% from $200,415,302 to $102,000,000.

*Response: Payments were made during 2013.*

1. Please provide a detailed explanation and supporting documentation for why “(561.4) Scheduling, System Control and Dispatch Services” increased by approximately 6% from $454,305 to $479,777.

*Response: Empire allocates its labor costs for its 6 NERC Certified System Operators between Accounts 561.4 and 556.4. In the past, those labor costs were divided evenly; however due to implementation of the SPP Integrated Marketplace and SPP assuming Balancing Authority responsibility, more labor dollars were budgeted/accounted for to account 561.4 for transmission operations dispatching. Such increase, in addition to shift between accounts were due to normal annual union wage increase and overtime allocated to 561.4 due to storm recovery and/or transmission switching activities.*

1. Please provide a detailed explanation and all supporting documentation for why “Depreciation Exp (403) - General Plant (See Note 3, below)” increased by approximately 68% from $3,312,016 to $5,579,203 while Gross General Plant increased by approximately 1% from $77,237,150 to $78,344,767.

*Response: When the vehicle reclassification amounts for Accounts 392 & 396 are disregarded for General Plant for 2013 and 2014, the depreciation expense amounts are $3,312,016 and $3,351,007 respectively, which is a 1% change. See the attached file TFR Question 18 Response.*

1. Please provide a detailed explanation and supporting documentation for why “A&G Wage Expenses” increased by approximately 20% from $11,813,350 to $14,211,590.

*Response: The increase in A&G expense is primarily a result of normal pay increases and a $900,000 adjustment recorded in 2014 that was related to an under accrual of 2013 compensation.*

1. Please verify that the “beginning balance” should be used in the calculation of the "T/D Pole Allocation Factor".

*Response: Response: Yes, the T/D Pole allocation Factor (to estimate the allocation of Pole Attachment Revenues between Distribution Poles and Transmission Poles) was agreed to be based on “Beginning of Year” balances.*

1. Please provide a detailed explanation of why “Undistributed Stores Expense” decreased by approximately 80% from $36,225 to $7073.

*Response: A purchase requisition was entered with incorrect accounting. A correcting entry was made.*

1. Please provide a detailed explanation and supporting documentation for the approximate 13% decrease in the amount for “Transmission Materials and Supplies” which decreased from $2,627,484 to $2,291,764? Also please explain if there been any accounting or other methodology changes?

*Response: The Joplin storeroom was closed and a large amount of obsolete and excess inventory was written off. There has been no accounting or methodology change.*

1. Please provide a detailed explanation and supporting documentation for why “Accumulated Provision for Injuries and Damages (228.2)” decreased by approximately 10% from $3,972,401 to $3,565,671.

*Response: The decrease is primarily related to changes in open litigation reserves. Throughout 2014 the status of multiple actions were reevaluated by legal counsel and the reserves were adjusted accordingly. These reserve adjustments resulted in a decrease of approximately $850,000. Open worker’s compensation reserves were adjusted downward by approximately $99,000 as a result of normal activity (i.e. settlement of claims). These decreases were partially offset by an increase of approximately $509,000 in the healthcare component of the reserve for long term disability. This increase is primarily due to an increase in the actual healthcare spending for these participants. Please see attached for a reconciliation of the changes.*

*(Attachment - DR 23.Reconciliation of decrease in account 228.2.xlsx)*

1. Please identify the amount of "Debt Hedging Cost" included in the “Amortization Debt Discount and Expense (Acct 428) amount of $558,928 (see Tab 9, Line 62).” Please explain whether the recovery of Debt Hedging Cost is addressed in the TFR formula template.

*Response: Debt hedging cost included in the 428 accounts equals a credit (lowering expense) of $123,779.64. The Debt Hedging expense is included in Attachment 9 of the TFR, Page 2, Line 2.*

1. Please provide a detailed explanation of why “Actual PBOP expense” decreased by approximately 9% from $2,177,753 to $1,988,840.

*Response: The decrease in PBOP expense is primarily related to an increase in the discount rate used to measure the plan. The discount rate is set at the end of the calendar year for the measurement of the plan as of 1/1 the subsequent year. At the end of 2013, discount rates increased approximately 89 basis points. As a result, the discount rate used by the Actuary increased from 4.11% to 5.0% resulting in a decrease in the net periodic benefit cost of the plan.*

1. Please provide a detailed explanation and supporting documentation for why “A&G Salaries” increased by approximately 23% from $9,748,388 to $12,009,587.

*Response: See response to No. 19 above.*

1. Please provide a detailed explanation of why “Office Supplies and Expenses” increased by approximately 6% from $3,288,752 to $3,497,134.

*Response: Corporate donations to United Way agencies were erroneously recorded in this account totaling $194,029 during 2014 only and will be reclassified to the appropriate account and reduce the revenue requirement slightly. The remaining increase in this account is due to fluctuations associated with normal business activity.*

1. Please provide a detailed explanation of why “Transferred Credit” increased by approximately 9% from ($2,661,940 to $2,900,532.

*Response: The increase relates to overhead account increases explained elsewhere. As those costs go up, the “transferred credit” account will also increase as it is reallocating costs from certain expenses to capital for our various business units. (Overhead allocation process)*

1. Please provide a detailed explanation and supporting documentation for why “Outside Services” decreased by approximately 9% from $3,410,479 to $3,110,063.

*Response: We are required to file an Integrated Resource Plan (IRP) every 3 years. The change in outside service expense is mainly related to expenses associated with this required filing.*

1. Please provide a detailed explanation and supporting documentation for why “Injuries and Damages” decreased by approximately 11% from $920,790 to $823,637.

*Response: The decrease in this account is directly related to the decrease discussed in question 23. Throughout 2014 Empire had a positive claims experience that resulted in lower payments. Additionally, as discussed in question 23, the reserve for the provision for injuries and damages was revised downward, which lowers the amount of expense recognized. Please see the attached reconciliation of changes to the reserve account for further detail.*

*(Attachment - DR 23.Reconciliation of decrease in account 228.2.xlsx)*

1. Please provide a detailed explanation of why “Pensions and Benefits” decreased by approximately 5% from $21,715,477 to $20,670,955.

*Response: Decreased costs in the active employee’s healthcare plan accounted for the majority of the decrease ($0.9 million). The Pension, SERP and OPEB plans further reduced expenses ($0.3 million) due to lower net periodic benefit costs as a result of higher discount rates. These decreases were partially offset by an increase of approximately $0.1 million in the 401(k) plan. Please see attached file for further detail.*

*(Attachment - DR 31.Reconciliation of decrease in Pensions and Benefits.xlsx)*

1. Please provide a detailed explanation of why “Regulatory Commission Expenses” decreased by approximately 6% from $1,831,504 to $1,719,496.

*Response: See the attached analysis of regulatory costs.  The primary difference is related to FERC regulatory costs.*

1. Please provide a detailed explanation and supporting documentation for why “Maintenance of General Plant” increased by approximately 68% from $365,732 to $614,892.

*Response: The increase is primarily due to an increase in building maintenance during 2014. Please see attached file for further detail.*

*(Attachment - DR 33.Reconciliation of increase in Maintenance of General Plant.xlsx)*

1. Please provide a detailed explanation and supporting documentation for why “Missouri Property Taxes” increased by approximately 11% from $15,226,824 to $16,935,731.

*Response: The unit values as determined by the Missouri State Tax Commission for the years 2014 and 2013 were $1.275B and $1.075B, respectively. The large increase was due primarily to higher NOI and increased CWIP. The lesser increase in property tax expense (11.2%) versus the overall unit value increase (18.6%) was due to the capitalization of the property tax liability related to the increase in CWIP.*