1. **Resolved - Transmission Plant In-Service:** The TFR 2017 Update appears to include certain transmission additions that may be “distribution” facilities as opposed to transmission facilities. In response to TFR Q28, Empire stated that $577,951.89 associated with the Hollister Industrial Park Tie, Project 4001008 will be unitized entirely as distribution plant. Missouri Cities believe that inclusion of this cost is not appropriate and these costs should be excluded from the TFR 2017 Update. (See Response to TFR Q28)

***Response****: Empire agrees that the inclusion of $577,951.89 related to the Hollister Industrial Park Tie project should be unitized as distribution plant, and as such should not be included in the 2017 TFR Update. The impacts of the correction are reflected in the TFR 2017 - Informal Challenges Response.xls.*

1. **Resolved - Prepayments - Windfarm**: Empire stated that there was an accounting entry that was made incorrectly in December 2016 with respect to a wind farm prepayment. Empire indicated that a correction will be made to the TFR 2017 Update for this error and the prepayment amount will be changed from $9,368,448 to $9,102,705. (See Response to TFR Q32(a))

***Response****: Empire agrees that an accounting entry was made incorrectly in December 2016 related to a wind farm prepayment and further agrees to correct the 2017 TFR Update. The impacts of the correction are reflected in the TFR 2017 - Informal Challenges Response.xls.*

1. **Transmission Revenue Credits -Seams:** Missouri Cities believe that the portion of the Seams revenues that total $70,049.20 related to Schedules 7 & 8 should be included as a revenue credit in the TFR 2017 Update, line 9 of Attachment 3. These revenues are additional transmission related revenues received by Empire in 2016 that have not been included in the TFR 2017 Update. To the extent Empire received similar additional Seams revenues in prior years that were not included in prior TFR Updates, the Missouri Cities believe that these revenues should also be included as a revenue credit in the appropriate TFR Updates. (See Response to TFR Q35)

***Response****: The Seams revenue is credited back to the Missouri Cities in the form of lower Schedule 9 charges. The $70,049.20 is a component of the $682,032.56 from the SPP RRR file – Attachment H Table 3 Zone 4 column 4 (Base Plan Zonal ATRR). For proof of credit, please see the Muni Audit tab in the attached TFR 2017 – DR 35\_AJD\_10312017.xlsx.*

1. **Transmission Revenue Credits -AECI:** To the extent that AECI is purchasing and paying for transmission service over Empire’s system, Missouri Cities believe that the revenues associated with this service should be included as a revenue credit in the TFR 2017 Update, line 9 of Attachment 3. These revenues would be additional transmission related revenues received by Empire in 2016 that have not been included in the TFR 2017 Update. (See Response to TFR Q36)

***Response****: Empire is not receiving revenue from AECI for the purchase of transmission service over Empire’s system. In fact, the opposite is happening. Empire is purchasing transmission service from AECI to serve Empire’s load. There are no additional revenues from AECI to be included in the 2017 TFR Update.*

***Supplemental Response***: *AECI stopped using Empire’s system in September 2011, and as such, Empire receives no revenue from AECI. However, as previously stated in the Company’s response to DR 36 and its initial response, Empire is paying AECI to purchase transmission service from AECI to serve Empire’s load.*

1. **Depreciation Expense and Accumulated Depreciation Reserve:** Empire has stated that accumulated depreciation reserve used in the 2017 TRF Update and depreciation expense and accumulated depreciation reserve in prior year updates were represented incorrectly. Given the extensiveness of Empire’s data responses and potential adjustments pertaining to these issues, Missouri Cities respectfully request additional time to review the information provided by Empire and also the ability to request additional information. The Missouri Cities are unable at this time to determine if Empire’s proposed adjustments are appropriate. (See Response to TFR Q 26 and Q41)

***Response****: Empire agrees to grant additional time and encourages Missouri Cities to review the calculations provided.*

1. **Prepayments - GLGAS**: Empire stated that the prepayments for GLGAS are amounts prepaid by the electric division and subsequently charged to the affiliated gas company on a monthly basis as the prepayment amount is amortized. Missouri Cities believe that it is not appropriate to include this prepayment in the TFR 2017 Update as it is clearly related to the services provided by Empire’s affiliated gas company, which is a company that is engaged in the distribution of natural gas at retail in Missouri. Therefore, the beginning and ending balances of $20,793.50 and $21,417.20, respectively for the GLGAS prepayments should be excluded from the TFR 2017 Update. This issue also impacts prior Annual Updates to the extent prepayments were made for GLGAS. (See Response to TFR Q32(b))

***Response****: Empire agrees prepayments for GLGAS should not be included in the TFR Update and provides its calculations to correct the 2015, 2016, and 2017 TFR Updates in the TFR 2017 - Informal Challenges Response.xls.*

1. **Merger Lawsuit Reserve Accrual – FERC Acct. 925**: Empire stated that the reserve accrual associated with the merger related lawsuit that was recorded in FERC Account 925 is $0.5 million. Empire indicates that this merger related cost was included in the TFR 2017 Update due to the fact that the actual costs of the merger lawsuit are recorded in FERC Account 426.5 and excluded from the 2017 Annual Update. Empire further explains that the reserve will be reduced upon final resolution of the case. Missouri Cities believe that this merger related accrual should be removed from TFR 2017 Update as it is a merger related cost and Empire has committed to hold wholesale and transmission customers harmless from merger related costs. (See Response to TFR Q37)

***Response****: Empire acknowledges Missouri Cities’ challenge but does not believe a correction is necessary for the 2017 TFR Update. The entry to record the actual costs of the lawsuit to FERC account 426.5 was processed in 2017 and will be automatically reflected in the 2018 TFR Update when the accrual amount is credited back to Account 925 in the 2017 FERC Form 1, without the need to make a formal adjustment on ATT-11, Page 2.*

***Supplemental Response:*** *In 2016 a $0.5 million reserve accrual associated with the merger related lawsuit was recorded to FERC Account 228 and offset to FERC Accounts 101 and 925 (approximately $0.25 million each). In 2017 an entry was processed to record the actual cost of the lawsuit to FERC Account 426.5. Additionally, during 2017, the reserve accrual in FERC Account 228 was reversed and offset to FERC Accounts 101 and 925. The credit of $0.25 million to FERC Accounts 101 and 925 will be included in the 2017 FERC Form 1 and reflected in the 2018 TFR Update. In reviewing the mechanics of the formula the Company noted that while the inclusion of $0.25 million in FERC Accounts 101 and 925 increased rates, the inclusion of the $0.5 million reserve in FERC Account 228 also reduced rate base by an offsetting amount. The Company believes that this offsetting, coupled with the reversal of the accrual in 2017 (to be reflected in the 2018 update) makes the Cities’ whole.*

1. **Merger related Board Compensation**: Empire indicates that no merger related costs have been included in FERC SubAccount 930220. A review of the merger related costs associated with Empire’s Board of Directors as shown in “TFR DR39 – Merger Costs to Date 12-2016-Confidential.xlsx” appears to indicate that Board of Director expenses associated with consideration of the merger have been recorded in FERC Account 426.5 as merger related costs. However, it does not appear that Board of Director compensation associated with these related merger costs has been recorded in FERC Account 426.5. Costs associated with a Board’s consideration of a merger is a merger related costs based on FERC treatment of merger related costs. Missouri Cities believe that Empire’s Board of Directors’ compensation that is related to its consideration of the merger should be treated as a merger related costs, recorded in FERC Account 426.5, and removed from the TFR 2017 Update. (See Response to TFR Q25 Q39, and Q40)

***Response****: Empire has reviewed all of the accounting associated with the acquisition of Empire by Liberty Utilities and believes all merger related costs are appropriately recorded to FERC account 426.5 and as such not included in the 2017 TFR Update.*

***Supplemental Response****: The stock unit accrual recorded to FERC Account 930.220 on 12/31/2016 relates to the Empire Board of Director compensation for 2017. However, as a result of the completion of the acquisition by Liberty Utilities on 1/1/2017 the independent board members were reduced from 9 members to 2 independent members for 2017. Empire agrees the 2017 stock unit accrual recorded on 12/31/2016 for seven of the nine independent board members who no longer served on the Empire Board of Directors following the close of the acquisition should not be included in the TFR Update and provides its calculations to correct the 2017 TFR Update in the TFR 2017 - Informal Challenges Response.xls.*

1. **2000 Attempted Merger Costs – Employee Pension and Benefits:** Empire states that in connection with an attempted merger in 2000 an enhanced retirement benefit was offered to select employees as either an inducement, or compensation, for their separation from Empire. The benefit is a payment for the remainder of their life. Empire further states that due to an accounting change, these benefits should have been recognized when accepted by the employees rather than recognizing these benefits as a monthly expense in FERC Account 926. Therefore, for 2016, Empire reflected $1 million associated with these benefits ($0.1 million of annual benefit and $0.9 million for the remainder of the period). The inclusion of the $1.0 million of merger related employee pension and benefits in the TFR 2017 Update is inconsistent with FERC’s treatment with respect to the recovery of costs incurred for a merger transaction that never occurs. FERC’s treatment of costs associated with attempted mergers is that such costs are considered to be nonoperational in nature and to the extent recorded on a jurisdictional entity’s books should be included in a non-operating expense account – Account 426.5 other Deductions. FERC considers severance payments as transition costs which are subset of transaction related costs incurred in connection with a merger or proposed merger. Empire notes that the annual cost associated with this merger related pension benefit was included in its costs when FERC initially approved Empire’s wholesale end transmission rates. Missouri Cities believe that the referenced FERC approval was not an express approval of the inclusion of merger related costs in Empire’s wholesale end transmission rates. The $1 million of merger related costs should be removed from the TRF 2017 Update. In addition, the annual merger related benefit cost of $109,000 recorded in FERC Account 926 and included in prior TFR Updates should be removed and a refund provided. (See Responses to TFR Q18 and Q38)

***Response****: Empire agrees to make a credit adjustment of $898,997 in the 2018 Annual Update that reflects the removal of the one-time fixed cost associated with such future pension payments.*

***Supplemental Response****: As previously stated, Empire agrees to make a credit adjustment of approximately $900,000 to reflect the removal of the one-time fixed cost associated with future pension payments. Empire does not agree that the costs are merger related expenses to be removed from the TFR Updates. The costs recorded are severance costs for employees who exercised options available to them in accordance with their employment contracts. These costs are appropriately accounted for as severance costs.*