

Exhibit No.  
Issue: Overview  
Witness: W. L. Gipson  
Type of Exhibit: Surrebuttal  
Sponsoring Party: Empire District  
Case No. ER-2004-0570

Before the Public Service Commission  
of the State of Missouri

**FILED<sup>3</sup>**

DEC 28 2004

Missouri Public  
Service Commission

Surrebuttal Testimony

of

W. L. Gipson

November 2004

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**Before the Public Service Commission  
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**Surrebuttal Testimony**

**of**

**W. L. Gipson**

**November 2004**

**SURREBUTTAL TESTIMONY  
OF  
W. L. GIPSON  
THE EMPIRE DISTRICT ELECTRIC COMPANY  
BEFORE THE  
MISSOURI PUBLIC SERVICE COMMISSION  
CASE NO. ER-2004-0570**

1   **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2   A. William L. Gipson, 602 Joplin Street, Joplin, Missouri 64801.

3   **Q. ARE YOU THE SAME WILLIAM L. GIPSON WHO PREVIOUSLY CAUSED TO**  
4   **BE FILED DIRECT TESTIMONY IN THIS CASE BEFORE THE MISSOURI**  
5   **PUBLIC SERVICE COMMISSION ("COMMISSION") ON BEHALF OF THE**  
6   **EMPIRE DISTRICT ELECTRIC COMPANY ("EMPIRE" OR "COMPANY")?**

7   A. Yes.

8   **Q. MR. GIPSON, WHAT IS THE PURPOSE OF YOUR SURREBUTTAL**  
9   **TESTIMONY?**

10   A. The purpose of this testimony is to respond, in general and in an overview standpoint, to the  
11   rebuttal testimony submitted by the other parties on cost-of-service issues and rate of return.  
12   In this regard, it is imperative to the financial strength of the Company that it be allowed to  
13   recover all of its prudently incurred costs necessary in the provision of service to its  
14   customers and be given the opportunity to earn a fair and reasonable rate of return.

15   **Q. WHY DO YOU FEEL THIS OVERVIEW TESTIMONY IS NECESSARY?**

16   A. The process of the case has entered that phase where the focus is on arguing over  
17   methodology or difference of opinion. Appropriately, the testimony sometimes questions

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1 prudence, but mostly produces voluminous testimony staking out philosophical differences  
2 of opinion on calculation method or allocation approach. Historical averages are used in  
3 some instances while actual test-year expenses are used in others. In my view, the only  
4 logical explanation is that methodologies are developed to keep rates low. The focus on  
5 recovery of cost of service is lost in the volume and confusion.

6 **Q. WHAT IS THE IMPACT OF EMPIRE RECOVERING LESS THAN ITS**  
7 **PRUDENTLY INCURRED COSTS?**

8 A. If Empire is allowed to recover only a portion of the expenses it incurs that are necessary in  
9 the provision of safe and reliable service to customers, the Company, in the short run,  
10 cannot earn its allowed rate of return and will suffer financial harm that cannot be  
11 recovered. In the longer term, Empire's ability to attract necessary capital at a reasonable  
12 cost will be jeopardized and customers will ultimately suffer through higher costs and/or  
13 deterioration in service.

14 **Q. WHAT TYPE OF EXPENSES ARE YOU TALKING ABOUT?**

15 A. I am characterizing the expenses as "non-discretionary". In other words, we must incur  
16 these costs in order to maintain the high quality service our customers expect. The costs  
17 the Commission Staff and others seek to disallow in this case fall into this category.

18 **Q. PLEASE PROVIDE EXAMPLES.**

19 A. Examples of non-discretionary expenses are fuel and purchased power expenses, pension  
20 expenses, payroll expenses and other operating expenses.

21 **Q. PLEASE PROVIDE ONE EXAMPLE OF A COST-OF-SERVICE RECOVERY**  
22 **RECOMMENDATION THAT PROVIDES A CLEAR FOCUS ON YOUR**  
23 **CONCERN AND THE POTENTIAL RESULTS.**

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1 A. The Commission Staff's proposal for recovery of vegetation management or tree-trimming  
2 costs is the most egregious example I have read in the case. A five-year average was used  
3 to arrive at the recommendation with no prudence discussion. The result is the arbitrary  
4 lowering of the cost of service recovery by approximately 17 % versus the test-year average.  
5 Said another way, the proposal is to allow cost of recovery in future years that is nearly  
6 \$500,000 lower than actually incurred in the test year on one cost-of-service line item that  
7 will impact quality of service and reliability. The result is an unnecessary choice between  
8 providing reliable service in the future or cutting the cost to avoid financial harm in the  
9 short run, a lose/lose result from failure to allow for the recovery of prudently incurred  
10 costs.

11 **Q. WHAT ABOUT RATE OF RETURN?**

12 A. Empire should be awarded its requested return on common equity. Through proper rate  
13 treatment of expense recovery, the Company should have the opportunity to earn this  
14 return.

15 **Q. WHAT IS THE SITUATION CONCERNING FUTURE FINANCIAL DEMANDS ON**  
16 **THE COMPANY?**

17 A. For the last several years, Empire has been meeting its increased capacity requirements  
18 through plant additions fueled by natural gas. Due to customer growth and the loss of  
19 baseload capacity in 2010, the Company is currently preparing for more capacity additions.  
20 The opportunity for the Company to earn a fair and reasonable rate of return is imperative as  
21 Empire prepares for this increased construction cycle. A legitimate opportunity to earn a  
22 competitive return will allow the Company to remain financially sound and to prepare for  
23 future demands. Empire must improve its financial health now.

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1 Q. DOES THIS CONCLUDE YOUR PREPARED SURREBUTTAL TESTIMONY AT  
2 THIS TIME?

3 A. Yes, it does.

# AFFIDAVIT

STATE OF MISSOURI )  
 ) ss  
COUNTY OF JASPER )

On the 22nd day of November, 2004, before me appeared W.L. Gipson, to me personally known, who, being by me first duly sworn, states that he is the President and Chief Executive Officer of The Empire District Electric Company and acknowledged that he has read the above and foregoing document and believes that the statements therein are true and correct to the best of his information, knowledge and belief.

William L. Gipson  
W.L. Gipson

Subscribed and sworn to before me this 22nd day of November, 2004

Patricia A Settle  
Pat Settle, Notary Public

**My commission expires**

