

Exhibit No. 23
Issue: Amortization
Witness: Robert W. Sager
Type of Exhibit: Rebuttal Testimony
Sponsoring Party: Empire District Electric
Case No. ER-2008-0093
Date Testimony Prepared: April 2008

**Before the Public Service Commission
of the State of Missouri**

Rebuttal Testimony

of

Robert W. Sager

April 2008

Empire Exhibit No. 23
Case No(s). ER-2008-0093
Date 5-12-08 Rptr xs

REBUTTAL TESTIMONY
OF
ROBERT W. SAGER
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. ER-2008-0093

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

2 A. Robert W. Sager, 602 Joplin Street, Joplin, Missouri 64801.

3 **Q. WHO IS YOUR EMPLOYER AND WHAT POSITION DO YOU HOLD?**

4 A. The Empire District Electric Company ("Empire" or "Company") is my employer. I
5 hold the position of Director of Financial Services.

6 **Q. PLEASE EXPLAIN THE PURPOSE OF YOUR TESTIMONY.**

7 A. My testimony responds to the testimony of the other parties on the issue of
8 regulatory plan amortization.

9 **Q. WHAT IS YOUR UNDERSTANDING OF THE REGULATORY PLAN**
10 **AMORTIZATION?**

11 A. As I indicated in my direct testimony in this case, the purpose of the regulatory plan
12 amortization provisions agreed to in Case No. EO-2005-0263 is to determine
13 whether rate relief calculated for Empire under traditional methods must be
14 supplemented to enable Empire to maintain its investment grade rating, although, the
15 amortization and its effect on the Company's financial ratios by itself does not
16 guarantee that Empire's ratings will be assigned an investment grade.

17 **Q. PLEASE RESPOND TO THE STAFF TESTIMONY ON THIS ISSUE.**

18 A. As a result of our review of the direct testimony filed by Mark Oligschlaeger on
19 behalf of the Staff of the Missouri Public Service Commission ("Staff") and

1 discussions held with the Office of the Public Counsel ("OPC") an agreement
2 between the Staff, OPC, and Empire has been reached concerning the numeric value
3 of the Additional Net Balance Sheet Investment and the basic structure for purposes
4 of calculating the amount of Regulatory Amortization which will result from this
5 case.

6 **Q. PLEASE DESCRIBE THE AGREEMENT REACHED BETWEEN THE**
7 **STAFF, OPC AND EMPIRE ON HOW TO ESTABLISH THE LEVEL OF**
8 **ADDITIONAL NET BALANCE SHEET INVESTMENT FOR PURPOSES OF**
9 **CALCULATING REGULATORY AMORTIZATION IN THIS CASE.**

10 A. The amount of Additional Net Balance Sheet Investment to be included in the
11 calculation of Regulatory Amortization in this case has been established at
12 \$94,500,000 by mutual agreement between the Staff, OPC and Empire. I have
13 attached an illustration of the calculation of the Regulatory Amortization using this
14 Addition Net Balance Sheet Investment as Rebuttal Schedule RWS-1. This schedule
15 is intended to display a hypothetical calculation that incorporates the agreement
16 reached between the Staff, OPC and Empire on the level of Additional Net Balance
17 Sheet Investment and the agreement on the basic structure and is not intended to
18 indicate the overall level of Regulatory Amortization that will ultimately be required
19 in this rate case, which will depend upon the Commission's ultimate findings
20 concerning Empire's overall traditional revenue requirement. The agreed to level of
21 Additional Net Balance Sheet Investment is displayed on Rebuttal Schedule RWS-1
22 on line 1 of the schedule. As indicated on Rebuttal Schedule RWS-1, the

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1 hypothetical calculation results in a Regulatory Amortization requirement of
2 \$19,815,820.

3 **Q. DOES THIS RESOLVE THE ISSUE FOR THIS CASE?**

4 A. Not necessarily.

5 **Q. ARE THERE OTHER WITNESSES IN THIS CASE THAT HAVE**
6 **PRESENTED TESTIMONY ON REGULATORY AMORTIZATION?**

7 A. Yes. Mr. Gorman on behalf of the industrial interveners has presented direct
8 testimony concerning some aspects of the Regulatory Amortization calculation. The
9 Regulatory Amortization agreement reached between the Staff, OPC and Empire
10 does not address all of the issues Mr. Gorman raised in his direct testimony.

11 **Q. HAS MR. GORMAN BEEN MADE AWARE OF THE AGREEMENT THAT**
12 **HAS BEEN REACHED BETWEEN THE STAFF, OPC AND EMPIRE**
13 **CONCERNING THE APPROPRIATE LEVEL OF ADDITIONAL NET**
14 **BALANCE SHEET INVESTMENT TO BE INCLUDED IN THE**
15 **REGULATORY AMORTIZATION CALCULATION IN THIS CASE?**

16 A. Yes. The hypothetical regulatory amortization calculation that has been attached to
17 my testimony as Rebuttal Schedule RWS-1 has been provided to Mr. Gorman. Mr.
18 Gorman did not have time, however, prior to the deadline to file rebuttal testimony in
19 this case to completely review the calculation and join in the agreement.

20 **Q. DO YOU AGREE WITH MR. GORMAN'S REGULATORY**
21 **AMORTIZATION CALCULATION?**

22 A. No. Mr. Gorman indicated, among other items, that S&P is including an implied
23 depreciation component to the Funds From Operations (FFO) calculation for

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1 purchased power agreements (PPA). Mr. Gorman cited a report issued by S&P in
2 March 2007. We requested this S&P report from Mr. Gorman but at this time it has
3 not been provided. However, reports issued by S&P in a generic context do not
4 necessarily apply to Empire's ratios calculated by S&P, and also do not necessarily
5 apply to the regulatory amortization calculation in this case. My review of reports
6 issued by S&P during 2007 and through the date of this testimony have not
7 discovered that S&P is further adjusting our FFO for Empire's PPAs.

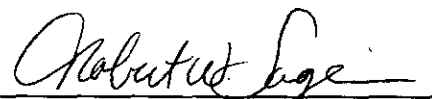
8 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

9 A. Yes, it does.

AFFIDAVIT OF ROBERT W. SAGER

STATE OF MISSOURI)
) ss
COUNTY OF JASPER)

On the 2 day of April, 2008, before me appeared Robert W. Sager, to me personally known, who, being by me first duly sworn, states that he is the Director of Financial Services of The Empire District Electric Company and acknowledges 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.



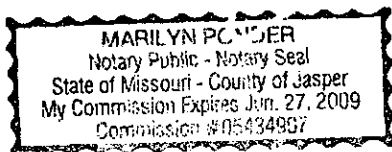
Robert W. Sager

Subscribed and sworn to before me this 2 day of April, 2008.



Notary Public

My commission expires: June 27, 2009



The Empire District Electric Company
Calculation of Amortization to meet Financial Ratio Targets

3/27/2008

Rebuttal Schedule RWS-1

CALCULATION WITH SUGGESTED CHANGES AS OF 3/27/08

		Total Company	Juris Alloc
1	Additional Net Balance Sheet Investment (numeric value for this case only)		94,500,000
2	Rate Base Schedule D		670,433,470
3	Jurisdictional Allocation for Capital		0.837404
4	Total Capital 12/31 Consolidated BS		764,933,470
5	Equity Schedule H1	50.82%	388,739,189
6	Trust Preferred Schedule H1	4.58%	35,033,953
7	Long-term Debt Schedule H1	44.61%	341,236,821
8	Cost of Debt Schedule H4		6.80%
9	Interest Expense L7 * L8 (+\$2,125,000 (TOPRs))		25,329,104
10	Revenue plus staff rate case \$10.3m		353,642,502
11	Other Electric Operating Revenue		3,010,138
12	Operating Revenue L10 + L11		356,652,640
13	Operating and Maintenance Expense Cons income stmt		217,470,936
14	Depreciation		35,721,512
15	Amortization		13,504,374
16	Interest on Customer Deposits		593,870
17	Taxes Other than Income Taxes		13,106,455
18	Federal and State Income Taxes		19,201,605
19	Total Electric Operating Exp Sum of L. 13-18		299,598,752
20	Operating Income - Electric L12 - L19		57,053,888
21	less: Interest Expense L9		-26,427,527
22	Depreciation L14		35,721,512
23	Amortization L 15		13,504,374
24	Deferred Taxes Schedule J		-3,309,636
25	Funds from Operations (FFO) Sum of L20-24		76,542,611

26	Additional Financial Information Needed for Calculation of Ratios		
27	Capitalized Lease Obligations EDE Accounts 227 + 243	479,951	401,913
28	Short-term Debt Balance EDE Form 10-Q, p. 8	33,040,000	27,667,828
29	Short-term Debt Interest EDE Accounts 417.891 + 431.400	2,940,317	2,462,233
30	Cash Interest Paid Information Supplied by EDE	35,781,815	29,963,835
31	AFUDC Debt (capitalized interest) EDE Form 10-Q, p. 4	4,732,378	3,962,913
32	Adjustments Made by Rating Agencies for Off-Balance Sheet Obligations		
33	Debt Adj for Off-Balance Sheet Oblig		
34	Operating Lease Debt Equivalent Information Supplied by EDE/S&P	2,937,000	2,459,456
35	Purchase Power Debt Equivalent Information Supplied by EDE	86,546,000	72,473,967
36	Total OBS Debt Adjustment L34 + L35	89,483,000	74,933,423
37	Operating Lease Deprec Adjustment Information Supplied by EDE/S&P	1,255,000	1,050,942
38	Interest Adjustments for Off-Balance Sheet Obligations		
39	Present Value of Operating Leases L34 * 10%	293,700	245,946
40	Purchase Power Debt Equivalent L35 * 10%	8,654,600	7,247,397
41	Total OBS Interest Adjustment L39 + L40	8,948,300	7,493,342
42	Ratio Calculations		
43	Adjusted Interest Expense L9 + L29 + L41		35,284,679
44	Adjusted Total Debt 12/31/07 1/2 of L6 + L7 + L27 + L28 + L36		461,756,961
45	Adjusted Total Debt 12/31/06 Same as L65, but for prior year		443,934,000
46	Adjusted Total Capital L4 + L27 + L28 + L36		867,936,634
47	Adj. FFO Interest Coverage (L25 + L37 + L43)/L43		3.20
48	Adj. FFO as a % of Ending Debt (L25 + L37)/L44		0.1680
49	Adj. Total Debt to Total Capital L44/L46		0.5320
50	Changes Required to Meet Ratio Targets		
51	Adj. FFO Interest Coverage Target Target		3.20
52	FFO Adjustment to Meet Target (L51 - L47) * L43		32,740
53	Interest Adjustment to Meet Target L25 * (1/L51 - 1) - 1/L47 - 1)		-14,680
54	Adj. FFO as a % of Average Total Debt Target		0.195
55	FFO Adjustment to Meet Target (L54 - L48) * (Avg of L44 + L45)		12,208,799
56	Debt Adjustment to Meet Target L25 * (1/L54 - 1/L48)		-62,976,626
57	Adj. Total Debt to Total Capital Target Target		56.50%
58	Debt Adjustment to Meet Target (L57 - L49) * L46		28,627,237
59	Total Capital Adjustment to Meet Target L44/L57 - L46		-50,667,676
60	Amortization and Revenue Needed to Meet Targeted Ratios		
61	FFO Adj Needed to Meet Target Ratios Maximum of L52, L55 or zero		12,208,799
62	Effective Income Tax Rate Schedule G3		0.3839
63	Deferred Income Taxes L61 * L62/(1 - L62)		-7,607,021
64	Total Amortization Req for FFO Adj L61 - L63		19,815,820