

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**

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

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.**

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.

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

3 A. Yes, it does.