Exhibit No.:	504
Witness:	Michael Gorman
Type of Exhibit:	Rebuttal Testimony
Issues:	Rate of Return
Sponsoring Parties:	Enbridge Energy, LP Explorer Pipeline Company General Mills Praxair, Inc. Wal-Mart Stores, Inc.
Case No.:	ER-2008-0093

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of The Empire District Electric Company of Joplin, Missouri for Authority to File Tariffs Increasing Rates for Electric Service Provided to Customers in the Missouri Service Area of the Company	**))))))**	**Case No. ER-2008-0093**

Rebuttal Testimony and Schedules of

Michael Gorman

On behalf of

Enbridge Energy, LP
Explorer Pipeline Company
General Mills
Praxair, Inc.
Wal-Mart Stores, Inc.

April 4, 2008

BRUBAKER & ASSOCIATES, INC.
ST. LOUIS, MO 63141-2000

Project 8875

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of The Empire District Electric Company of Joplin, Missouri for Authority to File Tariffs Increasing Rates for Electric Service Provided to Customers in the Missouri Service Area of the Company	))))))	**Case No. ER-2008-0093**

STATE OF MISSOURI	)	
	)	**SS**
COUNTY OF ST. LOUIS	)	

Affidavit of Michael Gorman

Michael Gorman, being first duly sworn, on his oath states:

1. My name is Michael Gorman. I am a consultant with Brubaker & Associates, Inc., having its principal place of business at 1215 Fern Ridge Parkway, Suite 208, St. Louis, Missouri 63141-2000. We have been retained by Enbridge Energy, LP; Explorer Pipeline Company; General Mills; Praxair, Inc. and Wal-Mart Stores, Inc. in this proceeding on their behalf.

2. Attached hereto and made a part hereof for all purposes are my rebuttal testimony and schedules which were prepared in written form for introduction into evidence in Missouri Public Service Commission Case No. ER-2008-0093.

3. I hereby swear and affirm that the testimony and schedules are true and correct and that they show the matters and things that they purport to show.

Michael Gorman

Subscribed and sworn to before me this 4th day of April, 2008.

TAMMY S. KLOSSNER
Notary Public - Notary Seal
STATE OF MISSOURI
St. Charles County
My Commission Expires: Mar. 14, 2011
Commission # 07024862

Tammy S. Klossner
Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of The Empire District Electric Company of Joplin, Missouri for Authority to File Tariffs Increasing Rates for Electric Service Provided to Customers in the Missouri Service Area of the Company	**))))))**	**Case No. ER-2008-0093**

Rebuttal Testimony of Michael Gorman

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A My name is Michael Gorman and my business address is 1215 Fern Ridge Parkway, Suite 208, St. Louis, MO 63141-2000.

Q ARE YOU THE SAME MICHAEL GORMAN THAT FILED DIRECT TESTIMONY IN THIS PROCEEDING?

A Yes.

Q WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A The purpose of my rebuttal testimony is to respond to Empire's witness Dr. James H. Vander Weide and his recommended return on equity.

Q WHAT RETURN ON EQUITY DID DR. VANDER WEIDE ESTIMATE FOR EMPIRE?

A Dr. Vander Weide estimated Empire's return on equity to be 11.6%.

Q HOW DID DR. VANDER WEIDE ESTIMATE EMPIRE'S RETURN ON EQUITY TO BE 11.6%?

A Dr. Vander Weide supports his return on equity based on a discounted cash flow analysis, ex-ante and ex-post risk premium analyses, and a capital asset pricing model analysis. Dr. Vander Weide applies these models to a proxy group of electric companies to develop his return estimates.

Q DO YOU BELIEVE DR. VANDER WEIDE'S ESTIMATED RETURN ON EQUITY OF 11.6% IS REASONABLE?

A No. I demonstrate below, using his own rate of return methodologies, that Dr. Vander Weide's 11.6% return is excessive. I also show that Dr. Vander Weide's proxy group has a market cost of common equity within the range of 9.5% to 10.5%, with a midpoint of 10.0%. This return estimate is based on my cost of equity methodologies applied to Dr. Vander Weide's proxy risk group.

Q WOULD YOU SUMMARIZE YOUR CONCERNS WITH DR. VANDER WEIDE'S RETURN ON EQUITY ANALYSES?

A Yes.

<u>DCF Analysis</u>: First, Dr. Vander Weide's DCF analysis relies upon a market weighted dividend yield and growth rate from his 37 proxy companies, rather than a simple average. This reliance on market weighting places greater emphasis on certain companies within his proxy group. Second, Dr. Vander Weide's growth rate for his proxy group exceeds the projected growth in gross domestic product. Academic and economic research has shown that a constant growth DCF that relies on a growth rate that exceeds GDP growth is inherently flawed. By overstating the growth rate, Dr. Vander Weide has overstated his return estimate. Third, Dr. Vander

Weide inappropriately relies on the quarterly version of the DCF model. These criticisms of Dr. Vander Weide's DCF analysis are more thoroughly addressed below, at pages 4-7.

Ex-Ante Risk Premium: Dr. Vander Weide's ex-ante risk premium analysis relies upon a quarterly version of the DCF analysis conducted on a proxy group of electric companies. When compared to the yield for "A" rated utility bonds, Dr. Vander Weide is able to calculate his risk premium. Since it relies on the quarterly version of the DCF, Dr. Vander Weide's risk premium analysis suffers from many of the same flaws as his DCF analysis. Second, by relying on his quarterly DCF, Dr. Vander Weide suggests a return on equity for his proxy group that is significantly inflated compared to authorized returns on equity found reasonable by public utility commissions. These criticisms of the ex-ante risk premium are discussed below, at pages 7-10.

Ex-Post Risk Premium: In his ex-post risk premium analysis, Dr. Vander Weide calculates his risk premium based upon a comparison of the achieved return for the S&P 500 to the yield on "A" rated utility bonds. As explained below, at pages 10-11, the achieved return is not an appropriate risk proxy for Empire. In fact, Empire is recognized to have a lower risk than the overall market and, therefore, a lower risk premium than the market.

CAPM: As reflected below, at pages 12-17, Dr. Vander Weide's CAPM analysis is based upon an inflated market risk premium and outdated beta coefficients and risk-free rate projections. An update to these factors will result in a lower return estimate.

Proxy Group: As discussed below, Dr. Vander Weide's proxy group does not support his recommended return on equity for Empire. My cost of equity model applied to Dr. Vander Weide's proxy group supports a return on equity of 10.0%, as discussed at pages 17-19, below.

Dr. Vander Weide's Return Analyses

Q IS DR. VANDER WEIDE'S CURRENT RETURN ON EQUITY OF 11.6% REASONABLE?

A No. Dr. Vander Weide's 11.6% return on equity is excessive. His return on equity results are shown below in Table 1, Column 1. In Column 2, I show my adjustments to Dr. Vander Weide's analyses, which reduce his equity return from 11.6% to 9.9%. Hence, as set forth below, with reasonable corrections, Dr. Vander Weide's own analyses support my recommended return on equity for Empire.

TABLE 1

Dr. Vander Weide's Return on Common Equity Summary

Description	Dr. Vander Weide's Return (1)	Adjusted Results (2)
DCF	11.3%	9.0%
Risk Premium	11.0%	10.4%
CAPM	12.5%	10.3%
Average	11.6%	9.9%

Source: Vander Weide Direct at 4.

Discounted Cash Flow (DCF) Analysis

Q PLEASE DESCRIBE DR. VANDER WEIDE'S DCF ANALYSES.

A As shown on his Schedule JVW-1, Dr. Vander Weide performed a DCF analysis on a broad-based group of electric companies. As shown on my Schedule MPG-1, page 1, Dr. Vander Weide's electric proxy group DCF was based on an adjusted dividend yield of 3.43% and a market weighted average growth rate of 7.84%. Dr. Vander Weide proposed a <u>market weighted</u> average DCF return of 11.3%. However, a <u>simple average</u> DCF return on this proxy group is 10.7%.

Q IS DR. VANDER WEIDE'S DCF RETURN A REASONABLE ESTIMATE OF EMPIRE'S COST OF EQUITY?

A No. Dr. Vander Weide's DCF return estimate should be rejected for the following reasons. First, the average proxy growth rate used to develop his DCF estimate is excessive. A DCF analysis requires a growth rate that reasonably reflects long-term sustainable growth. The electric proxy group average growth rate of 6.89% is not a reasonable estimate of long-term sustainable growth.

Second, Dr. Vander Weide's proxy group average estimate is based on the market weight, rather than the simple average. By applying the market weight, he is giving inordinately high weight to certain company DCF estimates based on their market value. There is no legitimate basis for giving more weight to DCF results derived from large companies. Adjusting his return estimate to the simple average, rather than the market weighted average, lowers his DCF return to 10.7% from 11.3% (Schedule MPG-1, page 1).

Finally, Dr. Vander Weide used the quarterly version of the DCF model to estimate a market required return. A quarterly DCF model reflects the reinvestment of dividend returns throughout the year. The flaw in the quarterly version of the DCF model is that it allows investors to earn the reinvestment return on dividends twice. Specifically, they earn it a first time by increasing the authorized return on equity used to set the utility's rates. This increases the utility's earnings and dividends if the payout ratio does not change. Second, the investors can earn the dividend reinvestment return a second time themselves after the utility pays dividends and the investors reinvest those dividends in other securities of corresponding risk. Hence, use of a quarterly version of the DCF return to estimate a regulatory authorized return allows investors to earn the reinvestment return on dividends twice – once through the regulatory authorized return on equity, and a second time after the dividends are actually paid to investors and reinvested by investors.

Q WHY DO YOU BELIEVE THAT DR. VANDER WEIDE'S ELECTRIC GROUP AVERAGE GROWTH RATE EXCEEDS A REASONABLE ESTIMATE OF A LONG-TERM SUSTAINABLE GROWTH AND THUS HAS OVERSTATED THE DCF RESULTS?

A Dr. Vander Weide's group average growth rate for his proxy group is 6.89%. As discussed in my direct testimony, a long-term sustainable growth rate cannot exceed the nominal projected growth in the GDP. The projected nominal GDP growth over the next five and ten years is approximately 5.0% and 4.8%, respectively. Because Dr. Vander Weide's group average growth rate exceeds a reasonable and rational estimate of the utilities' long-term sustainable growth rates, his DCF return is inflated, and not reliable. Therefore, his DCF return should be rejected.

As discussed in my direct testimony, academic and economic research practitioners have found that long-term growth in earnings and dividends have not exceeded the nominal growth in GDP. A constant growth DCF model that is based on growth much higher than GDP is flawed.

Q CAN DR. VANDER WEIDE'S DCF BE ADJUSTED TO REASONABLY REFLECT LONG-TERM SUSTAINABLE GROWTH?

A Yes. Considering the current market and industry perspective, the best way to reflect the abnormally high short-term growth is to apply a two-stage DCF model. As I discussed in my direct testimony, a two-stage growth can capture the rational expectation of abnormally high growth experienced in the next three to five years, followed by a more normalized long-term sustainable growth thereafter. This two-stage analysis would be based on Dr. Vander Weide's growth rates in effect over the first five years, followed by a decline to long-term normalized growth of 4.9% starting in Year 6. The long-term normalized growth rate of 4.9% is based on the current average of the consensus economists' projected five and ten-year long-term nominal GDP growth as published in the *Blue Chip Economic Forecasts*.[1] As shown on my Schedule MPG-1, page 2, the DCF return for Empire is 9.0%, rather than 11.3%.

Ex-Ante Risk Premium Analysis

Q PLEASE DESCRIBE DR. VANDER WEIDE'S EX-ANTE RISK PREMIUM ANALYSIS.

A Based on a quarterly version of the DCF analysis of a group of electric companies in comparison to the contemporary "A" rated utility bond yield, Dr. Vander Weide estimates a monthly risk premium for electric companies during the period September 1999 through July 2007 (Schedule JVW-2). Based on this monthly data, he creates a regression analysis that he asserts explains the inverse relationship between equity risk premiums and interest rates during the study time periods.

[1] March 2008.

Using a July 2007 yield on “A” rated utility bonds of 6.25%, he estimates a risk premium for electric companies of 4.72%. This indicates a return on equity of 10.97%. (Vander Weide Direct at 28-29).

Q IS DR. VANDER WEIDE’S EX-ANTE RISK PREMIUM ANALYSIS REASONABLE?

A No. This equity risk premium is overstated for several reasons. First, Dr. Vander Weide employs a quarterly version of the DCF model that overstates a DCF return for use in regulatory proceedings. By inflating the DCF return, he has inflated the market risk premium.

Second, in this analysis Dr. Vander Weide’s DCF return estimates during the period 1999-2007 seem suspiciously high. Specifically, as shown in the table below, in 2006 and 2007 the average annual DCF return estimate is 11.07% and 11.06%, respectively (Schedule JVW-2-2).

TABLE 2

Risk Premium

Line	Date	DCF (1)	“A” Rated Bond Yield (2)	Risk Premium (3)
1	**Average (Sep'99-Jul'07)**	**11.05%**	**6.82%**	**4.22%**
2	2000	12.10%	8.24%	3.86%
3	2001	12.69%	7.76%	4.93%
4	2002	12.46%	7.37%	5.09%
5	2003	10.36%	6.58%	3.78%
6	2004	9.16%	6.16%	3.00%
7	2005	9.21%	5.65%	3.57%
8	2006	11.07%	6.07%	5.01%
9	2007	11.06%	6.03%	5.03%

The DCF returns for 2006 and 2007 of over 11.0% are suspiciously high, when compared to the average industry authorized returns on equity by regulatory commissions for electric utility companies in these same years. Electric utility companies' average authorized returns on equity in 2006 and 2007 were 10.30% and 10.28%,[2] respectively. As such, Dr. Vander Weide's DCF returns are about 77 basis points greater than the industry average authorized returns. As such, the risk premiums of 5.0% estimated in 2006 and 2007 reflect Dr. Vander Weide's very high DCF returns in these two years. Reflecting more reasonable DCF return estimates, more in line with those of regulatory commissions, would suggest an equity risk premium over an "A" rated utility bond of about 4.25% in 2006 and 2007. With this correction to the 2006 and 2007 risk premiums, a majority of the risk premiums during the study period generally fall in the range of 4.0% to 4.5%. This suggests the period average risk premium of 4.22% is reasonable. However, again, Dr. Vander Weide's DCF return estimates are way out of line with reasonable estimates of utility cost of capital for these same time periods.

Q COULD AN EX-ANTE RISK PREMIUM ANALYSIS PRODUCE A REASONABLE RETURN ON EQUITY FOR EMPIRE IN THIS PROCEEDING?

A Only generally because the risk premium estimate itself is highly uncertain. Nevertheless, using the study average risk premium estimate of 4.22%, which appears over inflated on its face due to an excessive DCF return estimate, and the current yield on "A" rated utility bonds of 6.1%, would indicate a risk premium return on equity in this case of 10.32%.

Using an average risk premium is likely reasonable at this time because, as I indicated in my direct testimony, the utility industry risk appears to be relatively below

[2] Edison Electric Institute; "Rate Case Summary," Q4 2007 Financial Update at 4.

average as indicated by the bond yield spread between utilities and Treasuries. In any event, Dr. Vander Weide's ex-ante risk premium analysis more reasonably estimates a return on equity of 10.3%, and Dr. Vander Weide's inflated return estimate of 11.0% should be rejected.

Ex-Post Risk Premium Analysis

Q PLEASE DESCRIBE DR. VANDER WEIDE'S EX-POST RISK PREMIUM ANALYSIS.

A Dr. Vander Weide develops his ex-post risk premium analysis by reviewing the historical achieved returns on common equity investments proxy index, relative to the achieved return from investing in Moody's "A" rated utility bonds. Dr. Vander Weide estimates an equity risk premium in the range of 4.45% to 5.10%. The 4.45% equity risk premium is based on the achieved return of the S&P utility stock index relative to the achieved return on Moody's "A" rated utility bonds. The 5.10% equity risk premium is based on the achieved return of the S&P 500 relative to Moody's "A" rated utility bonds.

He adds these equity risk premiums to the July 2007 "A" rated utility bond yield of 6.25%. With this method he estimates a return on equity for Empire in the range of 10.7% to 11.4%, with a midpoint of 11.0% (Vander Weide direct at 35-36).

Q DOES DR. VANDER WEIDE'S EX-POST RISK PREMIUM ANALYSIS OVERSTATE A FAIR RETURN FOR EMPIRE?

A In part, yes. His equity risk premium based on a comparison of the S&P 500 return to "A" rated utility bond yields should be rejected because it does not produce an appropriate risk-adjusted return for Empire. Dr. Vander Weide has not provided any evidence that the S&P 500 is an appropriate risk proxy index for Empire's investment risk. Indeed, his CAPM analysis is an implicit admission that Empire has a lower risk than the overall market. He admits Empire has below market risk at page 31 of his testimony but then opines that an S&P 500 risk premium is a reasonable upper band. Therefore, the equity risk premium to the S&P 500 overstates the equity risk premium for Empire.

His second ex-post analysis also is flawed. It compares the S&P utilities index to the yield on "A" rated utility bonds. The S&P utilities index also includes companies that may not be risk comparable to Empire. Dr. Vander Weide has not shown that this index is a reasonable risk proxy for Empire. Further, Dr. Vander Weide's claim at page 31 that Empire has greater risk than the average utility in the S&P utilities index was not supported and is a baseless assertion.

Nevertheless, applying the equity risk premium derived in the S&P utilities index analysis of 4.45% to the current "A" rated utility bond yield of 6.1% (rather than Dr. Vander Weide's exaggerated projected "A" rated utility bond yield of 6.25%) would produce an ex-post risk premium cost projection of about 10.55%.

Q WHAT IS THE APPROPRIATE RETURN ON EQUITY FOR EMPIRE CONSIDERING THE FLAWS IN DR. VANDER WEIDE'S RISK PREMIUM ANALYSIS?

A My adjustments to Dr. Vander Weide's risk premium studies indicate a return in the range of 10.3% to 10.55%. The midpoint of this range is approximately 10.42%. This return on equity is more reasonable than Dr. Vander Weide's estimated return on his model of 11.0%.

<u>Capital Asset Pricing Model (CAPM) Analysis</u>

Q PLEASE DESCRIBE DR. VANDER WEIDE'S CAPM ANALYSIS.

A Dr. Vander Weide relies on a July 2007 Treasury bond yield of 5.19%, a beta estimate for utility companies of 0.94, and an estimated range of the market risk premium of 7.10% to 8.41%. With these parameters, Dr. Vander Weide estimates a CAPM return of 11.9% to 13.0%, with a midpoint of 12.5% (Vander Weide Direct at 38).

Q IS DR. VANDER WEIDE'S CAPM ANALYSIS REASONABLE?

A No. Dr. Vander Weide's CAPM return estimate would be much lower using current 20-year Treasury bond yields, and current *Value Line* betas for its proxy groups. These adjustments would reduce his CAPM return estimate. However, I take issue with Dr. Vander Weide's market risk premium estimates in the range of 7.1% to 8.41%. These market risk premium estimates are overstated and thereby inflate his CAPM return estimate.

Q WHY IS DR. VANDER WEIDE'S HISTORICAL MARKET RISK PREMIUM ESTIMATE OF 7.1% INFLATED?

A There are several flaws in Dr. Vander Weide's historical market risk premium.

This market risk premium is based on *Morningstar* data and is calculated from the differences between the <u>income</u> return on Treasury bond investments and the <u>total</u> return on market equity investments.

This is not reasonable for at least two reasons. First, the income return on Treasury securities is a forward-looking expected return if the Treasury bond is held to maturity. The income return ignores annual capital gains/losses on Treasury securities. In contrast, his total return on equities is a backward-looking historical review that includes both income return and capital gains/losses. Hence, his market risk premium is based on the mismatch of a forward-looking expected income return on Treasuries, and historical actual achieved total returns on market equity securities. This mixing of forward-looking income returns and historical achieved total returns inflates his estimated market risk premium.

Second, his use of only the income return on Treasury bonds represents an investment annual performance that cannot rationally be expected by investors. Specifically, investors understand that investments in Treasury bond securities will produce both cash coupon yields, based on the income return, and the expectations of bond price changes on an annual basis over the expected holding period. Hence, a risk-free proxy based on an investment that is not reflective of investors' expectations cannot rationally reflect the market's risk-free rate built into security market prices. Hence, his development of an equity risk premium is simply based on an unrealistic premise and does not capture rational expectations.

Q CAN AN HISTORICAL MARKET RISK PREMIUM BE REASONABLY ESTIMATED?

A Yes. In the current edition, *Morningstar* estimated an historical <u>total</u> return on market equity securities above the achieved <u>total</u> return on Treasury bonds to be 6.5% for the period 1926 through 2007.[3] This 6.5% equity risk premium is the actual historical market risk premium earned on market investments (12.3%) relative to the returns earned on long-term Treasury bond investments (5.8%). This market risk premium is

[3] *Morningstar* "Stocks, Bonds, Bills and Inflation," 2008 Yearbook at 31.

more accurate and does not suffer from the same data flaws included in Dr. Vander Weide's market risk premium.

Q ARE THERE OTHER CONSIDERATIONS FOR THE USE OF *MORNINGSTAR*'S ESTIMATED MARKET RISK PREMIUM?

A Yes. In addition to my conclusion that *Morningstar*'s method of estimating the market risk premium is flawed for the reasons discussed above, I would note that *Morningstar* has estimated more than one market risk premium using its total stock return less Treasury bond <u>income</u> return methodology and estimated market risk premiums in the range of 6.35% to 7.1%. Importantly, Dr. Vander Weide's use of the *Morningstar* data is based on the <u>highest</u> market risk premium estimate made by *Morningstar*.

In its 2008 *Valuation Edition*, *Morningstar* found that the market risk premium estimate varies depending on the market proxy index used. The long horizon market risk premium using the S&P 500 was 7.1% as relied on by Dr. Vander Weide, but it was 6.8% based on the New York Stock Exchange Index, and 6.35% using the two largest decile portion of the New York Stock Exchange.[4] Further, concerning using the S&P 500 as the index, *Morningstar* found that the return on the stock market outpaced the growth in earnings and dividends during the historical time period. *Morningstar* noted that during the historical period, the price to earnings ratio expanded over this historical time period, and concluded that the expansion to the price earnings ratio could not continue indefinitely. Therefore, *Morningstar* also estimated a market risk premium using a supply-side equity risk premium model to

[4] *Morningstar* SBBI 2008 Yearbook Valuation Edition at 72, Table 5-1.

adjust for the expanding price to earnings ratio. Using this alternative methodology, *Morningstar* estimated a market risk premium of 6.35%.

For all these reasons, a market risk premium of 6.5% is in approximately the middle of *Morningstar*'s various estimates of market risk premium estimate (7.1%, 6.8%, 6.35%) based on various indexes, and reflecting the unsustainability of stock prices increasing faster than earnings and dividends. As such, an estimate of the market risk premium of 6.5% is in fact more in line with the range of *Morningstar*'s market risk premium estimates than is Dr. Vander Weide's use of *Morningstar*'s highest market risk premium estimate.[5]

Q ARE THERE ANY FLAWS IN DR. VANDER WEIDE'S FORWARD-LOOKING MARKET RISK PREMIUM ESTIMATE?

A Yes. Dr. Vander Weide estimates a second CAPM analysis and market risk premium based on a DCF return for the S&P 500 of 13.6%, less his risk-free rate estimate of 5.19%. This implies a market risk premium of 8.41%. This market risk premium is overstated for several reasons.

First, Dr. Vander Weide's estimated return of 13.6% reflects his DCF analysis on the dividend paying stocks in the S&P 500. Because he has only reflected a DCF analysis on the companies that are currently paying dividends, he has likely overstated the growth prospects and expected return on the S&P 500. Indeed, there are equity securities in the marketplace that do not pay dividends, and are not expected to grow at the same rate as other companies. Hence, his analysis of the S&P 500 is incomplete and likely overstates the expected market return.

[5] *Morningstar* SBBI 2008 Yearbook Valuation Edition at 72-98.

Second, the market DCF return of 13.6% is not reasonable. The dividend yield on the S&P 500 is approximately 2.1% currently. Hence, a 13.6% DCF return on the market implies a growth rate of approximately 11.5%. This growth rate is more than two times the expected growth in the U.S. economy of 4.9%, and therefore does not reflect a reasonable sustainable long-term growth rate for the stock market that is required by the DCF model. Further, the expected growth of the market of 11.5% is significantly higher than the historical growth of the market of 7.8%, as estimated by *Morningstar* over the period 1926 – 2007 (SBBI 2008 Yearbook at 119). Dr. Vander Weide's growth rate projection for the S&P 500 is excessive and irrationally high. Therefore, his market risk premium of 8.41% is flawed and should be rejected.

Q WHAT BETA ESTIMATES DID DR. VANDER WEIDE USE IN HIS CAPM ANALYSIS?

A Dr. Vander Weide used a beta estimate for his comparable group of 0.94.

Q WHY DO YOU BELIEVE DR. VANDER WEIDE'S RISK-FREE RATE ESTIMATE AND BETA ESTIMATE OVERSTATE THE CURRENT MARKET DATA?

A Dr. Vander Weide relied on a 20-year Treasury bond in July 2007 of 5.19%. The current Treasury bond yield is 4.6%.[6] Further, the projected 30-year Treasury bond yield out over the next two years is approximately 4.8%. These current and projected yields reflect the market's current cost estimate for Empire today and over the next few years while the rates determined in this proceeding will be in effect.

Second, as shown on my Schedule MPG-2, page 2, I have updated Dr. Vander Weide's beta estimates for his proxy group. The current average and

[6] *Blue Chip Financial Forecasts*, March 1, 2008.

median betas for his proxy group are 0.84 and 0.85, respectively. Hence, updating the estimates used for Dr. Vander Weide's proxy group indicate a beta of 0.85 is reasonable. Dr. Vander Weide's beta estimate of 0.94 is unreasonable and should be rejected.

Q HOW WOULD DR. VANDER WEIDE'S CAPM CHANGE IF YOU USE MORE REALISTIC MARKET ESTIMATES?

A Using a beta estimate of 0.85, a more realistic historical risk premium of 6.5% and the current risk-free rate projection (30-year Treasury bond) of 4.8% will produce a CAPM return on equity for Empire of 10.31% (4.8% + 0.85 x 6.5%).

Q HOW DOES THIS RESULT COMPARE TO THE CAPM RETURN ON EQUITY AS FILED IN YOUR DIRECT TESTIMONY?

A As shown on Schedule MPG-3, my CAPM return estimate is 10.46%, reflecting a risk-free rate of 4.8%.

Dr. Vander Weide's Proxy Group

Q DO YOU BELIEVE THE SIZE OF THE COMPARABLE GROUP MATTERS WHEN ESTIMATING THE RETURN ON EQUITY FOR EMPIRE?

A No. In fact, applying my methodology as discussed in my direct testimony, I updated the DCF analyses for my comparable group and Dr. Vander Weide's comparable group. My recommended return on equity of 10.0% is reasonable based on market return estimates from both proxy groups.

Q IF YOU APPLIED YOUR CONSTANT AND NON-CONSTANT GROWTH DCF METHODOLOGIES TO DR. VANDER WEIDE'S PROXY GROUP, WHAT RETURN ON EQUITY ESTIMATES WOULD YOU PRODUCE?

A As shown on my Schedule MPG-4, using Dr. Vander Weide's proxy group, and my constant growth and two-stage growth DCF return estimates, produces a return on equity in the range of 9.3% to 11.8%.

Just as in my direct testimony, I have the same concerns about the reliability of the constant growth DCF return estimate in this proceeding. Specifically, Dr. Vander Weide's proxy group's average growth rate is 7.36%. This growth rate exceeds a reasonable growth estimate that can be sustained indefinitely. Since the constant growth model requires a growth rate that can be sustained over an indefinite period of time, the constant growth DCF return estimate applied to Dr. Vander Weide's proxy group is not reliable and should be given little to no weight in this proceeding. As such, based on my DCF studies, a return on equity of 9.5% is appropriate for Empire.

Q DID YOU CONDUCT A CAPM ANALYSIS ON DR. VANDER WEIDE'S PROXY GROUP?

A Yes. The CAPM return for Dr. Vander Weide's proxy group using a proxy group beta of 0.85, market risk premium in the range of 6.5% to 6.8%, and a projected 30-year Treasury bond yield of 4.8%, produces a CAPM return for this group in the range of 10.3% to 10.6% with a midpoint of 10.46%.

Q PLEASE SUMMARIZE YOUR RETURN ON EQUITY ESTIMATES USING DR. VANDER WEIDE'S PROXY GROUP.

A My DCF return of 9.5% and CAPM return of 10.46% would support my return on equity of 10.0% for Empire in this proceeding. As a result, my analyses consistently produce a fair return on equity for Empire of 10.0% when they are applied to either my proxy group or Dr. Vander Weide's proxy group.

Q DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A Yes.

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The Empire District Electric Company

Schedule JVW-1
Summary of Discounted Cash Flow Analysis

Line	Electric Utility	Last Dividend (1)	Annual Dividend (2)	Stock Price (3)	Annual Adjusted Div. Yield (4)	Annual Growth (5)	Market Cap $ (Mil) (6)	Quarterly Cost of Equity (7)
1	Alliant Energy	$0.32	$1.27	$41.09	3.25%	4.83%	$ 4,225	7.8%
2	Amer. Elec. Power	$0.39	$1.56	$46.57	3.54%	5.72%	$ 19,102	9.1%
3	Ameren Corp.	$0.64	$2.54	$51.49	5.25%	6.42%	$ 10,610	11.7%
4	Black Hills	$0.34	$1.36	$40.21	3.61%	6.67%	$ 1,559	12.4%
5	Consolidated Edison	$0.58	$2.32	$47.11	5.09%	3.45%	$ 12,736	9.3%
6	Constellation Energy	$0.44	$1.74	$89.82	2.20%	13.67%	$ 15,946	16.3%
7	Dominion Resources	$0.71	$2.84	$86.40	3.52%	7.17%	$ 31,914	9.2%
8	DPL Inc.	$0.26	$1.04	$29.50	3.80%	7.75%	$ 3,235	12.4%
9	DTE Energy	$0.53	$2.12	$50.63	4.43%	5.75%	$ 8,784	8.7%
10	Edison International	$0.29	$1.16	$56.04	2.23%	7.54%	$ 18,343	11.4%
11	Entergy Corp.	$0.54	$2.16	$109.20	2.16%	9.17%	$ 20,259	11.0%
12	Exelon Corp.	$0.44	$1.76	$75.13	2.57%	9.70%	$ 51,200	12.3%
13	FirstEnergy Corp.	$0.50	$2.00	$66.76	3.24%	8.29%	$ 19,589	10.7%
14	FPL Group	$0.41	$1.64	$60.65	2.96%	9.57%	$ 25,442	12.0%
15	Great Plains Energy	$0.42	$1.66	$30.15	5.74%	4.25%	$ 2,527	7.7%
16	Hawaiian Electric	$0.31	$1.24	$24.16	5.35%	4.30%	$ 1,847	8.7%
17	IDACORP Inc.	$0.30	$1.20	$32.26	3.93%	5.67%	$ 1,511	8.4%
18	Integrys Energy	$0.66	$2.64	$53.91	5.16%	5.33%	$ 4,073	8.4%
19	MDU Resources	$0.14	$0.54	$29.25	1.98%	7.35%	$ 5,140	11.7%
20	NiSource Inc.	$0.23	$0.92	$21.63	4.41%	3.62%	$ 5,179	8.9%
21	Northeast Utilities	$0.19	$0.75	$29.51	2.83%	11.00%	$ 4,477	14.7%
22	NSTAR	$0.33	$1.30	$33.70	4.10%	6.25%	$ 3,511	12.1%
23	Otter Tail Corp.	$0.29	$1.17	$32.16	3.82%	4.75%	$ 1,053	7.7%
24	Pepco Holdings	$0.26	$1.04	$28.76	3.91%	8.00%	$ 5,192	11.9%
25	PG&E Corp.	$0.36	$1.44	$47.36	3.30%	8.63%	$ 16,339	13.8%
26	Pinnacle West Capital	$0.53	$2.10	$43.18	5.14%	5.73%	$ 4,084	8.9%
27	PNM Resources	$0.23	$0.92	$28.71	3.54%	10.47%	$ 1,837	16.2%
28	PPL Corp	$0.31	$1.22	$46.47	2.98%	13.57%	$ 20,040	16.6%
29	Progress Energy	$0.61	$2.44	$48.02	5.30%	4.36%	$ 12,354	8.2%
30	Puget Energy Inc.	$0.25	$1.00	$24.74	4.26%	5.32%	$ 2,854	10.7%
31	SCANA Corp.	$0.44	$1.76	$40.52	4.54%	4.45%	$ 4,481	7.9%
32	Sempra Energy	$0.31	$1.24	$60.07	2.22%	7.45%	$ 14,822	9.2%
33	Southern Co.	$0.40	$1.61	$35.37	4.79%	5.02%	$ 27,385	11.5%
34	Vectren Corp.	$0.32	$1.26	$27.79	4.71%	3.87%	$ 2,029	7.5%
35	Wisconsin Energy	$0.25	$1.00	$46.19	2.34%	8.30%	$ 5,269	10.5%
36	Westar Energy	$0.27	$1.08	$25.65	4.43%	5.31%	$ 2,324	9.2%
37	Xcel Energy Inc.	$0.23	$0.92	$21.89	4.47%	6.33%	$ 8,876	10.7%
38	**Average**	**$0.38**	**$1.51**	**$44.92**	**3.81%**	**6.89%**		**10.7%**
39	**Market Weighted Average**				**3.43%**	**7.84%**		**11.3%**

Source:
Vander Weide's Schedule JVW-1.

The Empire District Electric Company

Schedule JVW-1
Summary of Discounted Cash Flow Analysis

Line	Electric Utility	Last Dividend (1)	Annual Dividend (2)	Stock Price (3)	First Stage Growth (4)	Second Stage Growth (5)	Two-Stage Growth DCF (6)
1	Alliant Energy	$0.32	$1.27	$41.09	4.83%	4.90%	8.13%
2	Amer. Elec. Power	$0.39	$1.56	$46.57	5.72%	4.90%	8.54%
3	Ameren Corp.	$0.64	$2.54	$51.49	6.42%	4.90%	10.42%
4	Black Hills	$0.34	$1.36	$40.21	6.67%	4.90%	8.73%
5	Consolidated Edison	$0.58	$2.32	$47.11	3.45%	4.90%	9.75%
6	Constellation Energy	$0.44	$1.74	$89.82	13.67%	4.90%	7.87%
7	Dominion Resources	$0.71	$2.84	$86.40	7.17%	4.90%	8.71%
8	DPL Inc.	$0.26	$1.04	$29.50	7.75%	4.90%	9.09%
9	DTE Energy	$0.53	$2.12	$50.63	5.75%	4.90%	9.46%
10	Edison International	$0.29	$1.16	$56.04	7.54%	4.90%	7.32%
11	Entergy Corp.	$0.54	$2.16	$109.20	9.17%	4.90%	7.39%
12	Exelon Corp.	$0.44	$1.76	$75.13	9.70%	4.90%	7.93%
13	FirstEnergy Corp.	$0.50	$2.00	$66.76	8.29%	4.90%	8.54%
14	FPL Group	$0.41	$1.64	$60.65	9.57%	4.90%	8.38%
15	Great Plains Energy	$0.42	$1.66	$30.15	4.25%	4.90%	10.52%
16	Hawaiian Electric	$0.31	$1.24	$24.16	4.30%	4.90%	10.15%
17	IDACORP Inc.	$0.30	$1.20	$32.26	5.67%	4.90%	8.94%
18	Integrys Energy	$0.66	$2.64	$53.91	5.33%	4.90%	10.13%
19	MDU Resources	$0.14	$0.54	$29.25	7.35%	4.90%	7.02%
20	NiSource Inc.	$0.23	$0.92	$21.63	3.62%	4.90%	9.11%
21	Northeast Utilities	$0.19	$0.75	$29.51	11.00%	4.90%	8.38%
22	NSTAR	$0.33	$1.30	$33.70	6.25%	4.90%	9.19%
23	Otter Tail Corp.	$0.29	$1.17	$32.16	4.75%	4.90%	8.69%
24	Pepco Holdings	$0.26	$1.04	$28.76	8.00%	4.90%	9.24%
25	PG&E Corp.	$0.36	$1.44	$47.36	8.63%	4.90%	8.65%
26	Pinnacle West Capital	$0.53	$2.10	$43.18	5.73%	4.90%	10.19%
27	PNM Resources	$0.23	$0.92	$28.71	10.47%	4.90%	9.17%
28	PPL Corp	$0.31	$1.22	$46.47	13.57%	4.90%	8.89%
29	Progress Energy	$0.61	$2.44	$48.02	4.36%	4.90%	10.11%
30	Puget Energy Inc.	$0.25	$1.00	$24.74	5.32%	4.90%	9.22%
31	SCANA Corp.	$0.44	$1.76	$40.52	4.45%	4.90%	9.37%
32	Sempra Energy	$0.31	$1.24	$60.07	7.45%	4.90%	7.30%
33	Southern Co.	$0.40	$1.61	$35.37	5.02%	4.90%	9.70%
34	Vectren Corp.	$0.32	$1.26	$27.79	3.87%	4.90%	9.44%
35	Wisconsin Energy	$0.25	$1.00	$46.19	8.30%	4.90%	7.53%
36	Westar Energy	$0.27	$1.08	$25.65	5.31%	4.90%	9.40%
37	Xcel Energy Inc.	$0.23	$0.92	$21.89	6.33%	4.90%	9.59%
38	**Average**	**$0.38**	**$1.51**	**$44.92**	**6.89%**	**4.90%**	**9.0%**

Source:
Vander Weide's Schedule JVW-1

The Empire District Electric Company

Gorman Proxy Group
Comparable Group Beta

Line	Electric Utility*	2003 (1)	2004 (2)	2005 (3)	2006 (4)	2007 (5)	5-Yr. AVG (6)
1	Ameren Corp.	0.65	0.75	0.75	0.75	0.80	0.74
2	Avista Corp.	0.75	0.85	0.90	0.95	0.95	0.88
3	Cleco Corp.	0.90	1.05	1.15	1.25	1.15	1.10
4	DTE Energy	0.60	0.65	0.70	0.75	0.80	0.70
5	Empire District	0.60	0.65	0.70	0.80	0.85	0.72
6	Entergy Corp.	0.65	0.75	0.75	0.85	0.85	0.77
7	Exelon Corp.	0.70	0.70	0.75	0.80	0.85	0.76
8	FirstEnergy	0.70	0.75	0.75	0.80	0.80	0.76
9	IDACORP.	0.75	0.85	0.95	1.00	0.95	0.90
10	OGE Energy	0.60	0.70	0.75	0.75	0.85	0.73
11	NiSource, Inc.	0.65	0.75	0.80	0.90	0.90	0.80
12	Pepco Holdings	N/A	0.90	0.90	0.85	0.90	0.89
13	PG&E Corp.	0.90	1.05	1.10	1.15	0.85	1.01
14	Pinnacle West	0.70	0.85	0.90	1.00	0.80	0.85
15	PNM Resources	0.70	0.85	0.90	1.00	0.90	0.87
16	Xcel Energy, Inc.	0.70	0.80	0.80	0.90	0.80	0.80
17	**Average**	**0.70**	**0.81**	**0.85**	**0.91**	**0.88**	**0.83**
18	**Median**	**0.70**	**0.78**	**0.80**	**0.88**	**0.85**	**0.80**

Source:
The Value Line Investment Survey; December 28, 2007; February 8 and February 28, 2008.
* The historical data was obtained from the Value Line Investment Analyzer.

The Empire District Electric Company

Vander Weide Proxy Group
Comparable Group Beta

Line	Electric Utility*	2003 (1)	2004 (2)	2005 (3)	2006 (4)	2007 (5)	5-Yr. AVG (6)
1	Alliant Energy	0.70	0.80	0.85	0.90	0.80	0.81
2	Amer. Elec. Power	0.95	1.15	1.20	1.25	0.95	1.10
3	Ameren Corp.	0.65	0.75	0.75	0.75	0.80	0.74
4	Black Hills	0.80	0.90	1.00	1.05	0.90	0.93
5	Consolidated Edison	0.55	0.65	0.60	0.70	0.75	0.65
6	Constellation Energy	0.75	0.85	0.95	1.00	0.90	0.89
7	Dominion Resources	0.75	0.85	0.90	1.00	0.75	0.85
8	DPL Inc.	0.80	0.90	0.95	0.95	0.85	0.89
9	DTE Energy	0.60	0.65	0.70	0.75	0.80	0.70
10	Edison International	0.90	1.05	1.05	1.15	0.85	1.00
11	Entergy Corp.	0.65	0.75	0.75	0.85	0.85	0.77
12	Exelon Corp.	0.70	0.70	0.75	0.80	0.85	0.76
13	FirstEnergy Corp.	0.70	0.75	0.75	0.80	0.80	0.76
14	FPL Group	0.60	0.70	0.75	0.85	0.75	0.73
15	Great Plains Energy	0.70	0.80	0.85	0.90	0.80	0.81
16	Hawaiian Electric	0.55	0.65	0.70	0.70	0.75	0.67
17	IDACORP Inc.	0.75	0.85	0.95	1.00	0.95	0.90
18	Integrys Energy	0.70	0.75	0.75	0.80	0.80	0.76
19	MDU Resources	0.75	0.85	0.90	1.00	0.90	0.88
20	NiSource Inc.	0.65	0.75	0.80	0.90	0.90	0.80
21	Northeast Utilities	0.65	0.75	0.80	0.85	0.75	0.76
22	NSTAR	0.65	0.70	0.70	0.80	0.75	0.72
23	Otter Tail Corp.	0.55	0.55	0.55	0.65	0.95	0.65
24	Pepco Holdings	N/A	0.90	0.90	0.85	0.90	0.89
25	PG&E Corp.	0.90	1.05	1.10	1.15	0.85	1.01
26	Pinnacle West Capital	0.70	0.85	0.90	1.00	0.80	0.85
27	PNM Resources	0.70	0.85	0.90	1.00	0.90	0.87
28	PPL Corp	0.85	0.95	0.95	1.00	0.90	0.93
29	Progress Energy	0.85	0.85	0.85	0.85	0.80	0.84
30	Puget Energy Inc.	0.65	0.75	0.80	0.80	0.90	0.78
31	SCANA Corp.	0.60	0.70	0.75	0.80	0.80	0.73
32	Sempra Energy	0.80	0.90	1.00	1.10	0.90	0.94
33	Southern Co.	0.65	0.65	0.65	0.65	0.70	0.66
34	Vectren Corp.	0.60	0.75	0.85	0.90	0.90	0.80
35	Wisconsin Energy	0.60	0.70	0.70	0.80	0.85	0.73
36	Westar Energy	0.60	0.75	0.85	0.90	0.85	0.79
37	Xcel Energy Inc.	0.70	0.80	0.80	0.90	0.80	0.80
38	**Average**	**0.70**	**0.80**	**0.84**	**0.89**	**0.84**	**0.81**
39	**Median**	**0.70**	**0.75**	**0.85**	**0.90**	**0.85**	**0.80**

Source:
The Value Line Investment Survey; December 28, 2007; February 8 and February 28, 2008.
* The historical data was obtained from the Value Line Investment Analyzer.

The Empire District Electric Company

CAPM Return Estimate

Line	Description	Historical Premium (1)
1	Risk-Free Rate[1]	4.8%
2	Risk Premium[2]	6.5%
3	Beta[3]	0.85
4	CAPM	10.3%

Line	Description	Prospective Premium (1)
5	Risk-Free Rate[1]	4.8%
6	Risk Premium[2]	6.8%
7	Beta[3]	0.85
8	CAPM	10.6%
9	**CAPM Average**	**10.46%**

Sources:
[1] Blue Chip Financial Forecasts; March 1, 2008 at 2.
[2] Morningstar SBBI; 2008 Yearbok at 31 and 120.
[3] The Value Line Investment Survey; December 28, 2007; February 8 and February 28, 2008.

The Empire District Electric Company

Gorman Proxy Group
Constant Growth DCF Model

Line	Electric Utility	13-Week AVG Stock Price[1] (1)	AVG (%) Growth (2)	Annual Dividend[2] (3)	Adjusted Yield (4)	Constant Growth DCF (5)
1	Ameren Corp.	$48.22	5.67%	$2.54	5.57%	11.23%
2	Avista Corp.	$20.35	4.67%	$0.60	3.09%	7.75%
3	Cleco Corp.	$25.95	13.67%	$0.90	3.94%	17.61%
4	DTE Energy	$43.37	5.67%	$2.12	5.17%	10.83%
5	Empire District	$22.16	7.20%	$1.28	6.19%	13.39%
6	Entergy Corp.	$112.51	11.24%	$3.00	2.97%	14.20%
7	Exelon Corp.	$79.64	11.11%	$2.00	2.79%	13.90%
8	FirstEnergy Corp.	$71.98	8.42%	$2.20	3.31%	11.73%
9	IDACORP Inc.	$32.87	5.67%	$1.20	3.86%	9.52%
10	NiSource Inc.	$18.46	3.12%	$0.92	5.14%	8.25%
11	OGE Energy	$34.16	3.50%	$1.39	4.22%	7.72%
12	Pepco Holdings	$27.22	11.57%	$1.08	4.43%	15.99%
13	PG&E Corp.	$42.06	8.41%	$1.44	3.71%	12.12%
14	Pinnacle West Capital	$39.68	2.42%	$2.10	5.42%	7.84%
15	PNM Resources	$18.26	9.93%	$0.92	5.54%	15.47%
16	Xcel Energy Inc.	$21.50	6.11%	$0.92	4.54%	10.65%
17	**Average**	**$41.15**	**7.40%**	**$1.54**	**4.37%**	**11.8%**

Sources:
[1] http://moneycentral.msn.com, downloaded on March 12, 2008.
[2] The Value Line Investment Survey; December 28, 2007; February 8 and February 28, 2008.

The Empire District Electric Company

Vander Weide Proxy Group

Constant Growth DCF Model

Line	Electric Utility	13-Week AVG Stock Price[1] (1)	AVG (%) Growth (2)	Annual Dividend[2] (3)	Adjusted Yield (4)	Constant Growth DCF (5)
1	Alliant Energy	$38.54	7.33%	$1.40	3.90%	11.23%
2	Amer. Elec. Power	$44.76	5.83%	$1.64	3.88%	9.70%
3	Ameren Corp.	$48.22	5.67%	$2.54	5.57%	11.23%
4	Black Hills	$40.18	6.40%	$1.40	3.71%	10.11%
5	Consolidated Edison	$45.25	3.54%	$2.32	5.31%	8.85%
6	Constellation Energy	$97.12	15.95%	$1.91	2.28%	18.23%
7	Dominion Resources	$44.48	9.68%	$1.58	3.90%	13.57%
8	DPL Inc.	$28.19	8.67%	$1.10	4.24%	12.91%
9	DTE Energy	$43.37	5.67%	$2.12	5.17%	10.83%
10	Edison International	$52.73	9.41%	$1.22	2.53%	11.94%
11	Entergy Corp.	$112.51	11.24%	$3.00	2.97%	14.20%
12	Exelon Corp.	$79.64	11.11%	$2.00	2.79%	13.90%
13	FirstEnergy Corp.	$71.98	8.42%	$2.20	3.31%	11.73%
14	FPL Group	$65.86	10.09%	$1.78	2.98%	13.06%
15	Great Plains Energy	$27.91	7.60%	$1.66	6.40%	14.00%
16	Hawaiian Electric	$22.59	4.37%	$1.24	5.73%	10.09%
17	IDACORP Inc.	$32.87	5.67%	$1.20	3.86%	9.52%
18	Integrys Energy	$49.74	6.68%	$2.64	5.66%	12.34%
19	MDU Resources	$26.56	7.53%	$0.58	2.35%	9.88%
20	NiSource Inc.	$18.46	3.12%	$0.92	5.14%	8.25%
21	Northeast Utilities	$29.06	9.31%	$0.80	3.01%	12.32%
22	NSTAR	$33.54	6.12%	$1.40	4.43%	10.55%
23	Otter Tail Corp.	$33.82	6.38%	$1.17	3.69%	10.06%
24	Pepco Holdings	$27.22	11.57%	$1.08	4.43%	15.99%
25	PG&E Corp.	$42.06	8.41%	$1.44	3.71%	12.12%
26	Pinnacle West Capital	$39.68	2.42%	$2.10	5.42%	7.84%
27	PNM Resources	$18.26	9.93%	$0.92	5.54%	15.47%
28	PPL Corp	$49.84	12.49%	$1.22	2.75%	15.24%
29	Progress Energy	$46.08	4.74%	$2.46	5.59%	10.33%
30	Puget Energy Inc.	$26.88	5.56%	$1.00	3.93%	9.48%
31	SCANA Corp.	$39.88	4.55%	$1.84	4.82%	9.37%
32	Sempra Energy	$58.06	6.98%	$1.24	2.28%	9.26%
33	Southern Co.	$37.31	4.95%	$1.61	4.53%	9.49%
34	Vectren Corp.	$27.91	4.96%	$1.30	4.89%	9.84%
35	Wisconsin Energy	$46.61	8.78%	$1.00	2.33%	11.11%
36	Westar Energy	$24.55	5.22%	$1.08	4.63%	9.85%
37	Xcel Energy Inc.	$21.50	6.11%	$0.92	4.54%	10.65%
38	**Average**	**$43.06**	**7.36%**	**$1.54**	**4.11%**	**11.5%**

Sources:
[1] http://moneycentral.msn.com, downloaded on March 12, 2008.
[2] The Value Line Investment Survey; December 28, 2007; February 8 and February 28, 2008.

The Empire District Electric Company

Gorman Proxy Group
Two-Stage Growth DCF Model

Line	Electric Utility	13-Week AVG Stock Price[1] (1)	Annual Dividend[2] (2)	First Stage Growth (3)	Second Stage Growth[3] (4)	Two-Stage Growth DCF (5)
1	Ameren Corp.	$48.22	$2.54	5.67%	4.90%	10.61%
2	Avista Corp.	$20.35	$0.60	4.67%	4.90%	7.95%
3	Cleco Corp.	$25.95	$0.90	13.67%	4.90%	10.16%
4	DTE Energy	$43.37	$2.12	5.67%	4.90%	10.20%
5	Empire District	$22.16	$1.28	7.20%	4.90%	11.57%
6	Entergy Corp.	$112.51	$3.00	11.24%	4.90%	8.58%
7	Exelon Corp.	$79.64	$2.00	11.11%	4.90%	8.35%
8	FirstEnergy Corp.	$71.98	$2.20	8.42%	4.90%	8.64%
9	IDACORP Inc.	$32.87	$1.20	5.67%	4.90%	8.86%
10	NiSource Inc.	$18.46	$0.92	3.12%	4.90%	9.73%
11	OGE Energy	$34.16	$1.39	3.50%	4.90%	8.91%
12	Pepco Holdings	$27.22	$1.08	11.57%	4.90%	10.41%
13	PG&E Corp.	$42.06	$1.44	8.41%	4.90%	9.08%
14	Pinnacle West Capital	$39.68	$2.10	2.42%	4.90%	9.88%
15	PNM Resources	$18.26	$0.92	9.93%	4.90%	11.42%
16	Xcel Energy Inc.	$21.50	$0.92	6.11%	4.90%	9.63%
17	**Average**	**$41.15**	**$1.54**	**7.40%**	**4.90%**	**9.6%**

Sources:

[1] http://moneycentral.msn.com, downloaded on March 12, 2008.

[2] The Value Line Investment Survey; December 28, 2007; February 8 and February 28, 2008.

[3] Blue Chip Economic Indicators, March 10, 2008.

The Empire District Electric Company

Vander Weide Proxy Group
Two-Stage Growth DCF Model

Line	Electric Utility	13-Week AVG Stock Price[1] (1)	Annual Dividend[2] (2)	First Stage Growth (3)	Second Stage Growth[3] (4)	Two-Stage Growth DCF (5)
1	Alliant Energy	$38.54	$1.40	7.33%	4.90%	9.14%
2	Amer. Elec. Power	$44.76	$1.64	5.83%	4.90%	8.90%
3	Ameren Corp.	$48.22	$2.54	5.67%	4.90%	10.61%
4	Black Hills	$40.18	$1.40	6.40%	4.90%	8.80%
5	Consolidated Edison	$45.25	$2.32	3.54%	4.90%	9.97%
6	Constellation Energy	$97.12	$1.91	15.95%	4.90%	8.21%
7	Dominion Resources	$44.48	$1.58	9.68%	4.90%	9.48%
8	DPL Inc.	$28.19	$1.10	8.67%	4.90%	9.71%
9	DTE Energy	$43.37	$2.12	5.67%	4.90%	10.20%
10	Edison International	$52.73	$1.22	9.41%	4.90%	7.85%
11	Entergy Corp.	$112.51	$3.00	11.24%	4.90%	8.58%
12	Exelon Corp.	$79.64	$2.00	11.11%	4.90%	8.35%
13	FirstEnergy Corp.	$71.98	$2.20	8.42%	4.90%	8.64%
14	FPL Group	$65.86	$1.78	10.09%	4.90%	8.45%
15	Great Plains Energy	$27.91	$1.66	7.60%	4.90%	11.88%
16	Hawaiian Electric	$22.59	$1.24	4.37%	4.90%	10.53%
17	IDACORP Inc.	$32.87	$1.20	5.67%	4.90%	8.86%
18	Integrys Energy	$49.74	$2.64	6.68%	4.90%	10.90%
19	MDU Resources	$26.56	$0.58	7.53%	4.90%	7.46%
20	NiSource Inc.	$18.46	$0.92	3.12%	4.90%	9.73%
21	Northeast Utilities	$29.06	$0.80	9.31%	4.90%	8.40%
22	NSTAR	$33.54	$1.40	6.12%	4.90%	9.52%
23	Otter Tail Corp.	$33.82	$1.17	6.38%	4.90%	8.78%
24	Pepco Holdings	$27.22	$1.08	11.57%	4.90%	10.41%
25	PG&E Corp.	$42.06	$1.44	8.41%	4.90%	9.08%
26	Pinnacle West Capital	$39.68	$2.10	2.42%	4.90%	9.88%
27	PNM Resources	$18.26	$0.92	9.93%	4.90%	11.42%
28	PPL Corp	$49.84	$1.22	12.49%	4.90%	8.46%
29	Progress Energy	$46.08	$2.46	4.74%	4.90%	10.46%
30	Puget Energy Inc.	$26.88	$1.00	5.56%	4.90%	8.92%
31	SCANA Corp.	$39.88	$1.84	4.55%	4.90%	9.67%
32	Sempra Energy	$58.06	$1.24	6.98%	4.90%	7.34%
33	Southern Co.	$37.31	$1.61	4.95%	4.90%	9.44%
34	Vectren Corp.	$27.91	$1.30	4.96%	4.90%	9.80%
35	Wisconsin Energy	$46.61	$1.00	8.78%	4.90%	7.56%
36	Westar Energy	$24.55	$1.08	5.22%	4.90%	9.58%
37	Xcel Energy Inc.	$21.50	$0.92	6.11%	4.90%	9.63%
38	**Average**	**$43.06**	**$1.54**	**7.36%**	**4.90%**	**9.3%**

Sources:
[1] http://moneycentral.msn.com, downloaded on March 12, 2008.
[2] The Value Line Investment Survey; December 28, 2007; February 8 and February 28, 2008.
[3] Blue Chip Economic Indicators, March 10, 2008.