

Exhibit No.  
Issue: Reason for Rate Case  
Witness: W. L. Gipson  
Type of Exhibit: Direct Testimony  
Sponsoring Party: Empire District Electric  
Case No.  
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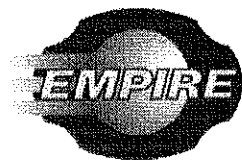
**Before the Public Service Commission  
of the State of Missouri**

**Direct Testimony**

**of**

**W. L. Gipson**

**October 2009**



**SERVICES YOU COUNT ON**

DIRECT TESTIMONY  
OF  
W. L. GIPSON  
THE EMPIRE DISTRICT ELECTRIC COMPANY  
BEFORE THE  
MISSOURI PUBLIC SERVICE COMMISSION  
CASE NO.

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

2 A. William L. Gipson, 602 S. Joplin Avenue, 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 hold  
5 the position of President and Chief Executive Officer.

6 **Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND.**

7 A. I hold a Bachelor of Science Degree in Business Management Technology and an  
8 Associate Degree in Computer Science from Missouri Southern State College (now  
9 University) in Joplin, Missouri.

10 **Q. PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE.**

11 A. Prior to joining Empire, I worked for an international furniture manufacturing company  
12 and a regional bank. I joined Empire as a computer programmer in 1981. I have held  
13 positions in Information Services, Economic Development, and Operations. My  
14 employment with Empire has been continuous since 1981.

15 **Q. HAVE YOU PREVIOUSLY PRESENTED TESTIMONY BEFORE THIS OR ANY  
16 OTHER REGULATORY BODY?**

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1 A. Yes, I have presented testimony before the Missouri Public Service Commission  
2 (“Commission”), the Kansas Corporation Commission, the Oklahoma Corporation  
3 Commission, and the Arkansas Public Service Commission.

4 **Q. MR. GIPSON, WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

5 A. The purpose of my testimony is to give a brief description of the Company, the amount of  
6 the rate increase we are requesting and the significant reasons driving the need for the rate  
7 increase.

8 **Q. PLEASE DESCRIBE EMPIRE.**

9 A. Empire is a Kansas corporation with its principal office and place of business at 602 South  
10 Joplin Avenue, Joplin, Missouri 64801. Empire is engaged in the business of providing  
11 electrical utility services in Missouri, Kansas, Arkansas, and Oklahoma; water utility  
12 services in Missouri; and through a wholly-owned subsidiary has a certificate of service  
13 authority issued by the Commission to provide certain telecommunications services. In  
14 addition, Empire operates a natural gas distribution business in northwest, north central, and  
15 west central Missouri that provides gas service to 44 communities. The gas distribution  
16 business is operated by a wholly-owned subsidiary, The Empire District Gas Company.

17 **Q. WILL YOU PLEASE DESCRIBE THE AREA SERVED BY EMPIRE AND GIVE A  
18 BRIEF DESCRIPTION OF THE CUSTOMERS SERVED?**

19 A. Empire provides electric service in an area of approximately 10,000 square miles in  
20 southwest Missouri and the adjacent corners of the states of Kansas, Oklahoma, and  
21 Arkansas. Empire's operations are regulated by the utility regulatory commissions of these  
22 four states as well as the Federal Energy Regulatory Commission (“FERC”). Empire’s  
23 service area embraces 121 incorporated communities in 20 counties in the four-state area.

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1 Most of the communities in the service area are small, with only 29 containing a population  
2 in excess of 1,500. Only 10 communities have a population in excess of 5,000, and the  
3 largest city, Joplin, Missouri, has a population of approximately 49,000. However, Joplin's  
4 daytime population swells to about 270,000, and the population in a 40-mile radius around  
5 Joplin is about 400,000.

6 The area economy is diversified. The service territory features small to medium  
7 manufacturing operations, medical, agricultural, entertainment, tourism, and retail interests.

8 At June 30, 2009, Empire served 140,815 residential customers, 24,481 commercial  
9 customers, 354 industrial customers, 1,983 public authority and street & highway  
10 customers, and four wholesale customers throughout our system. In Missouri, Empire  
11 served 124,648 residential customers, 21,784 commercial customers, 284 industrial  
12 customers, 1,606 public authority and street & highway customers, and three wholesale  
13 customers as of June 30, 2009. In addition to electric service, Empire also provides  
14 regulated water service to approximately 4,500 customers in the Missouri communities of  
15 Aurora, Marionville, and Verona, and through its wholly owned subsidiary, The Empire  
16 District Gas Company, provides natural gas service to approximately 44,400 gas customers  
17 in northwest, north central, and west central, Missouri.

18 **Q. HOW MUCH OF A RATE INCREASE IS EMPIRE REQUESTING?**

19 A. Empire is requesting an overall increase in its Missouri retail rates of \$68.2 million,  
20 approximately a 19.6 percent increase.

21 **Q. WHY DOES EMPIRE NEED A MISSOURI RETAIL RATE INCREASE AT THIS**  
22 **TIME?**

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1 A. The dominant factor driving the need for a Missouri rate increase at this time is the capital  
2 additions we have made or are making to our electric system, specifically Iatan 1 Air  
3 Quality Control Systems ("AQCS"), the coal-fired Plum Point Generating Station, and Iatan  
4 2, and the increase in annual operating costs that will accompany these units as they go into  
5 service.

6 **Q. PLEASE BRIEFLY DESCRIBE THE MAJOR INVESTMENTS IN PRODUCTION**  
7 **FACILITIES MENTIONED ABOVE.**

8 A. Empire is a 12 percent owner in Iatan 1 and 2, located near Weston, Missouri. Kansas City  
9 Power and Light ("KCPL") is the majority owner, builder and operator of both units. Iatan  
10 1 was completed in 1980 and recently KCPL completed an upgrade to the AQCS at Iatan 1.  
11 The AQCS went into service on April 19, 2009. Empire's share of this upgrade is expected  
12 to be \$62.2 million. The new Plum Point Generating Station is located near Oceola,  
13 Arkansas and is scheduled to come on line during the summer of 2010 with a net generating  
14 capacity of 665 megawatts ("MW"). Empire is a 7.5 percent owner of Plum Point and our  
15 investment is expected to be about \$104.2 million and result in a direct ownership interest of  
16 50 MW of generating capacity. The annual operating costs are anticipated to be about \$3  
17 million. In addition to its direct ownership interest, Empire also has a power contract for  
18 capacity and energy from Plum Point equal to its ownership share of 50 MW. The annual  
19 capacity payments and O&M expenses related to the purchase power contract are expected  
20 to be about \$10.7 million annually. Iatan 2 is a new generating unit scheduled to come on  
21 line in the late summer of 2010. Empire's investment in Iatan 2 is expected to total about  
22 \$258.8 million with annual operating costs of about \$4 million and result in a direct  
23 ownership of approximately 100 MW of new generation capacity. The Iatan 1 AQCS

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1 upgrade and Iatan 2 were contemplated by our Experimental Regulatory Plan, which was  
2 approved by the Commission in Case No. EO-2005-0263. In total, our investment in these  
3 facilities is expected to be about \$425 million. Empire witnesses Kelly Walters and Blake  
4 Mertens will discuss each of these construction projects and the interplay with the  
5 Regulatory Plan in greater detail in their direct testimony.

6 **Q. HOW HAS EMPIRE MANAGED THE EXTERNAL FINANCING OF THESE**  
7 **SIGNIFICANT CAPITAL ADDITIONS DURING THEIR CONSTRUCTION**  
8 **PHASE?**

9 A. Throughout this long construction and investment cycle (significant investments in Plum  
10 Point, Iatan 1 AQCS and Iatan 2 began in February, June and August 2006, respectively)  
11 Empire has worked diligently to finance these projects in such a way as to minimize the  
12 costs to our consumers, control the dilutive effect of new equity issues and maintain the  
13 investment grade ratings on our debt. To that end, we issued long-term debt in March 2007,  
14 May 2008 and March 2009 for \$80, \$90 and \$75 million respectively. In addition, Empire  
15 issued new common equity in June 2006 and December 2007 for \$66.8 and \$69 million,  
16 respectively. In February 2009 we began a \$60 million Equity Distribution Program which  
17 we recently expanded so we may sell up to \$120 million of common stock. To-date \$30.6  
18 million of new common equity has been issued under this program. To support and  
19 maintain our investment grade financial profile and to provide a fair and reasonable return  
20 to our shareholders, it is imperative that we begin to recover the ongoing costs of these  
21 investments from our customers as soon as possible after these assets go into service.

22 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY AT THIS TIME?**

23 A. Yes, it does.