

Exhibit No.
Issue: Amortization
Witness: W. L. Gipson
Type of Exhibit: Rebuttal Testimony
Sponsoring Party: Empire District
Case No. ER-2006-0315

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

Rebuttal Testimony

of

W. L. Gipson

July 2006

REBUTTAL TESTIMONY
OF
W. L. GIPSON
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. ER-2006-0315

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

2 A. William L. Gipson, 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 President and Chief Executive Officer.

6 **Q. ARE YOU THE SAME WILLIAM GIPSON THAT FILED DIRECT**
7 **TESTIMONY IN THIS RATE CASE BEFORE THE MISSOURI PUBLIC**
8 **SERVICE COMMISSION ("COMMISSION")?**

9 A. Yes.

10 **Q. PLEASE EXPLAIN THE PURPOSE OF YOUR REBUTTAL TESTIMONY.**

11 A. To respond to the supplemental direct testimony of Commission Staff witness Mark
12 Oligschlaeger and the "amortization" apparently proposed by that testimony.
13 Specifically, I will discuss my understanding of the purpose of the amortization
14 addressed in Empire's Regulatory Plan, which resulted from Commission Case No.
15 EO-2005-0263, and why it should have no implication in this case.

16 **Q. WHAT IS YOUR UNDERSTANDING OF THE PURPOSE OF THE**
17 **REGULATORY PLAN?**

18 A. As outlined in the press release issued by the Commission, "The Agreement strikes a
19 reasonable and appropriate balance between the interests of Empire's customers and

1 shareholders regarding Empire's participation in Iatan 2. The Agreement is designed
2 to positively impact Empire's credit ratings. Thus Empire should have lower debt
3 costs to pass on to consumers in the form of lower future rates."

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

6 A. The major factors driving the request for a Missouri adjustment at this time are
7 increases in fuel and purchased power expense, not the construction of Iatan 2.

8 **Q. HAS CONSTRUCTION STARTED ON IATAN 2?**

9 A No substantial construction is underway to my knowledge. In any event, the
10 construction of Iatan 2 is not a driving factor in this rate case.

11 **Q. HOW DO YOU THINK THE FINANCIAL COMMUNITY WILL REACT TO**
12 **AN AMORTIZATION IN THIS CASE?**

13 A. As I stated in my supplemental direct testimony, the amortization mechanism was
14 designed to maintain certain S&P ratios during the construction of Iatan 2. It was
15 not designed as a substitute for the timely recovery of prudently incurred fuel and
16 purchased power expense or as a substitute for an adjustment to the Company's
17 authorized return on equity in the absence of timely recovery of those costs.
18 Therefore, I do not believe that the financial community will react favorably to an
19 amortization as a substitute for prudently incurred expense. This will be discussed
20 further in the rebuttal testimony of Empire witness Steve Fetter.

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

22 A. Yes, it does.