

Exhibit No.:
Issues: *Rate of Return,
Capital Structure*
Witness: *Shana Atkinson*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *True-Up Direct Testimony*
Case No.: *ER-2011-0004*
Date Testimony Prepared: *May 6, 2011*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

TRUE-UP DIRECT TESTIMONY

OF

SHANA ATKINSON

THE EMPIRE DISTRICT ELECTRIC COMPANY

CASE NO. ER-2011-0004

*Jefferson City, Missouri
May 2011*

TRUE-UP DIRECT TESTIMONY
OF
SHANA ATKINSON
THE EMPIRE DISTRICT ELECTRIC COMPANY
CASE NO. ER-2011-0004

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6 Q. Please state your name.

7 A. My name is Shana Atkinson.

8 Q. Are you the same Shana Atkinson who earlier filed rebuttal and surrebuttal
9 testimony in this proceeding on behalf of the Staff of the Missouri Public Service Commission
10 (“Staff”) and, in addition, was responsible for the Rate of Return Section of Staff’s Cost of
11 Service Report (“COS Report”) filed on February 23, 2011?

12 A. Yes, I am.

13 Q. What is the purpose of your true-up direct testimony?

14 A. The purpose of my true-up testimony is to update my recommended capital
15 structure, embedded costs of capital and consider any possible impacts the updated capital
16 structure could have on an estimated cost of equity in this case. I will provide an updated overall
17 rate-of-return (ROR) recommendation based on my consideration of this information.

18 Q. What is the true-up period in this proceeding?

19 A. The true-up period authorized by the Commission in this proceeding is the months
20 of December 2010 through March 2011.

21 Q. What is your true-up ROR recommendation?

1 A. I recommend an overall ROR range of 7.47% to 7.96%, with a mid-point
2 of 7.72%, which is based on my recommended return on equity (ROE) range of 8.60% to 9.60%,
3 with a mid-point of 9.10%.

4 Q. How does your recommended ROR as of the true-up period compare to your
5 recommendation as of the end of the test year update period, November 30, 2010?

6 A. It is approximately the same. The midpoint of my recommended ROR range
7 based on the midpoint of my ROE recommendation of 9.10 percent is 7.72 percent as of the
8 true-up period. This compares to the midpoint of my recommended ROR range as of the test
9 year update period of 7.71 percent, again premised on the midpoint of my recommended
10 ROE range of 9.10 percent.

11 **CAPITAL STRUCTURE**

12 Q. What is your updated recommended ratemaking capital structure for Empire?

13 A. My updated recommended capital structure is as follows: 49.69 percent common
14 equity and 50.31 percent long-term debt. (see Schedule 2 attached).

15 Q. How does your updated recommended ratemaking capital structure for Empire as
16 of the true-up period compare to your recommendation as of test year update period?

17 A. My recommended capital structure as of the test year update period was
18 49.36 percent common equity and 50.64 percent long-term debt.

19 **EMBEDDED COST OF LONG-TERM DEBT**

20 Q. What is the true-up embedded cost of long-term debt for Empire?

21 A. The embedded cost of long-term debt for Empire was 6.35 percent compared to
22 Empire's embedded cost of long-term debt of 6.36 percent as of the update period. The true-up

1 embedded cost of long-term debt for Empire of 6.35 percent is based on information provided by
2 Empire in response to Staff Data Request Nos. 0099.2 and 0101.2. Consistent with the general
3 rate case proceedings, Staff's cost of debt calculation still excludes the remaining unamortized
4 expense balance associated with Empire's \$1.6 million of debt expenses incurred to amend its
5 mortgage bond indenture in order to allow it to maintain its current dividend per share of \$1.28.
6 The remaining unamortized expense balance is now approximately \$1,092,969. Staff subtracted
7 this amount from Empire's cost of debt calculation for the period ending March 31, 2011.
8 Staff provides the underlying details of its embedded cost of debt estimate in Schedule 1
9 attached hereto.

10 Q. How much short-term debt did Empire have outstanding as of the end of the
11 test year update period, November 30, 2010, and the end of the true-up period of
12 March 31, 2011?

13 A. According to Empire's response to Staff Data Request No. 0004, Empire had no
14 short-term debt outstanding as of the test year update period, November 30, 2010, and
15 \$11 million of short-term debt outstanding as of the true-up March 31, 2011. Staff does not
16 include the \$11 million of short-term debt outstanding in its updated recommended ratemaking
17 capital structure because as of March 31, 2011, Empire's Construction Work in Progress balance
18 exceeded its short-term debt balance.

19 **COST OF COMMON EQUITY**

20 Q. Did you true-up your cost of common equity analysis?

21 A. No. The parties did not specify the cost of common equity as component to
22 be trued-up in this proceeding. Therefore, my recommended ROE is still based on my

1 | estimated cost of common equity range of 8.60 percent to 9.60 percent, with a mid-point of
2 | 9.10 percent.

3 | Q. Does this conclude your true-up direct testimony?

4 | A. Yes.

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

File No. ER-2011-0004

AFFIDAVIT OF SHANA ATKINSON

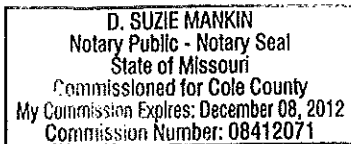
STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

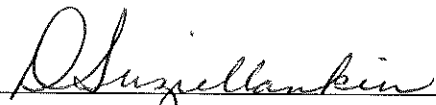
Shana Atkinson, of lawful age, on her oath states: that she has participated in the preparation of the foregoing True-Up Direct Testimony in question and answer form, consisting of 4 pages to be presented in the above case; that the answers in the foregoing True-Up Direct Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of her knowledge and belief.



Shana Atkinson

Subscribed and sworn to before me this 5th day of May, 2011.





Notary Public

The Empire District Electric Company
File No. ER-2011-0004

Embedded Cost of Long-Term Debt
as of March 31, 2011

	<u>Amount Outstanding</u>	<u>Annual Cost</u>
Bonds and Unsecured Notes Series:		
7.2% Series, Due 2016	\$25,000,000	\$1,800,000
5.2% Pollution Control Series, Due 2013	\$5,200,000	\$270,400
5.3% Pollution Control Series, Due 2013	\$8,000,000	\$424,000
5.2% Series, due in 2040	\$50,000,000	\$2,600,000
6.7% Sr. Notes, Series, Due 2033	\$62,000,000	\$4,154,000
5.8% Sr. Notes, Series, Due 7/1/2035	\$40,000,000	\$2,320,000
4.65% Series, Due 6/1/2020	\$100,000,000	\$4,650,000
4.5% Sr. Notes, Series, Due 2013	\$98,000,000	\$4,410,000
5.875%, Due 2037	\$80,000,000	\$4,700,000
6.82% Series, Due 6/1/2036-EDG	\$55,000,000	\$3,751,000
FMB 6.375% Series, Due 6/1/2018	\$90,000,000	\$5,737,500
7.0% Series, Due 2/28/2024	\$74,854,000	\$5,239,780
Premium, Discount and Expense	-\$19,574,199 ¹	\$2,383,422 ¹
Total	<u>\$668,479,801</u>	<u>\$42,440,102</u>

Embedded Cost of Long-term Debt

6.35%

Source: Response to DR No. 0099.2 and 101.2.

¹ Adjustment made for disallowance associated with Empire's debt expenses incurred to amend its mortgage bond indenture in order to allow it to maintain its current dividend per share.

The Empire District Electric Company
File No. ER-2011-0004

Capital Structure as of March 31, 2011
The Empire District Electric Company

Capital Component	Dollar Amount (000's)	Percentage of Capital
Common Stock Equity	\$ 660,157,402	49.69%
Preferred Stock	\$ -	0.00%
Long-Term Debt	\$ 668,479,801	50.31%
Short-Term Debt	\$ -	0.00%
Total Capitalization	\$ 1,328,637,203	100.00%

Source: Responses to Staff DR Nos. 0099.2 and 0004.

The Empire District Electric Company
File No. ER-2011-0004

Weighted Cost of Capital as of March 31, 2011
for The Empire District Electric Company

Capital Component	Percentage of Capital	Embedded Cost	Weighted Cost of Capital Using Common Equity Return of:		
			8.60%	9.10%	9.60%
Common Stock Equity	49.69%	-----	4.27%	4.52%	4.77%
Preferred Stock	0.00%	0.00%	0.00%	0.00%	0.00%
Long-Term Debt	50.31%	6.35%	3.19%	3.19%	3.19%
Short-Term Debt	0.00%	0.00%	0.00%	0.00%	0.00%
Total	100.00%		7.47%	7.72%	7.96%

Notes:

See Schedule 2 for the Capital Structure Ratios.