

FILED⁴

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**Missouri Public
Service Commission**

Exhibit No. _____

**Issue: Test year; Capital Structure;
Rate of Return**

Witness: David W. Gibson

Type of Exhibit: Rebuttal Testimony

Sponsoring Party: Empire District

Case No.: ER-2002-424

Date Testimony Prepared: 09/24/02

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

Rebuttal Testimony

of

David W. Gibson

September 2002

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REBUTTAL TESTIMONY
OF
DAVID W. GIBSON
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. ER-2002-424

1 Q. PLEASE STATE YOUR NAME.

2 A. David W. Gibson.

3 Q. ARE YOU THE SAME DAVID W. GIBSON WHO PREVIOUSLY FILED DIRECT
4 TESTIMONY WITH THE MISSOURI PUBLIC SERVICE COMMISSION
5 ("COMMISSION") IN CASE NO. ER-2002-424 ON BEHALF OF THE EMPIRE
6 DISTRICT ELECTRIC COMPANY ("EMPIRE" OR "COMPANY")?

7 A. Yes, I am.

8 Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

9 A. To respond to certain matters raised by the Missouri Public Service Commission Staff
10 ("Staff") witness David Murray and Office of Public Counsel ("Public Counsel") witness
11 Mark Burdette concerning capital structure and return on common equity.

12

13 CAPITAL STRUCTURE

14

15 Q. DO YOU AGREE WITH THE CAPITAL STRUCTURE PROPOSALS THAT HAVE
16 BEEN PRESENTED BY STAFF WITNESS MURRAY AND PUBLIC COUNSEL
17 WITNESS BURDETTE?

1 A. The capital structure that was presented by Mr. Burdette, in his direct testimony, represents
2 Empire's actual capital structure as of June 30, 2002 and is a reasonable capital structure on
3 which to set rates in this case. The capital structure that was presented by Mr. Murray in his
4 direct testimony, however, includes short-term debt and therefore is not a reasonable one on
5 which to set rates.

6 Q. WHY IS IT NOT REASONABLE TO INCLUDE SHORT-TERM DEBT IN EMPIRE'S
7 CAPITAL STRUCTURE?

8 A. Short-term debt is exactly that, it is of a short duration. Empire has used short-term debt as a
9 bridge to permanent financing and not as a means of permanent financing.

10 Q. PLEASE EXPLAIN.

11 A. In general, the Company uses short-term debt to finance construction projects as well as
12 financing normal fluctuations in cash flow due to operating requirements. Since
13 Construction Work in Progress ("CWIP") is not included in rate base, the financing of that
14 should be excluded from the capital structure.

15 Q. HOW SHOULD SHORT-TERM DEBT BE TREATED?

16 A. A reasonable approach would be to determine if CWIP is greater than short-term debt and if
17 that criteria is met, then exclude the short-term debt from the capital structure.

18 Q. HAS THAT PRACTICE BEEN USED IN PRIOR RATE CASES?

19 A. Yes, both Staff and Public Counsel have utilized this method in the past and appropriately
20 excluded short-term debt from Empire's capital structure.

21 Q. WHY DOES THE STAFF RECOMMEND A DEPARTURE FROM THAT PRACTICE IN
22 THIS CASE?

1 A. As of June 30, 2002, Empire had \$62,000,000 in short-term debt and a CWIP balance of
2 \$21,904,242. On the surface, this would appear to require the inclusion of short-term debt in
3 the capital structure. However, as I indicated previously, short-term debt is used by Empire
4 not only as a bridge to financing CWIP, but it is also used to finance normal fluctuations in
5 the Company's operating requirements. In this instance, the balance of the short-term debt
6 as of May, 31, 2002 was \$11,200,000 and CWIP was \$31,156,612. Clearly, the balance as
7 of the end of May met the criteria for CWIP being greater than short-term debt.

8 Q. DOES EMPIRE HAVE ANY CURRENT PLANS FOR FUTURE FINANCINGS?

9 A. Empire is reviewing its future financing needs in light of operating performance,
10 construction requirements and market conditions. This is the same process that we have
11 historically followed.

12
13 **RETURN ON COMMON EQUITY**
14

15 Q. WHAT RATE OF RETURN ON COMMON EQUITY IS PROPOSED BY MR. MURRAY
16 AND MR. BURDETTE?

17 A. Mr. Murray has recommended a rate of return on common equity ("ROE") of 9.16 to
18 10.16% while Mr. Burdette has recommended 10.1 to 10.4%.

19 Q. HOW DO YOU CHARACTERIZE THESE RECOMMENDATIONS?

20 A. They are neither just or reasonable as they are unreasonably low.

21 Q. PLEASE EXPLAIN.

1 A. Both Messrs. Murray and Burdette recognize that the in order to have a fair return, that "The
2 return should be *reasonably sufficient to assure confidence in the financial soundness*
3 (italics added) of the utility and should be adequate, under efficient and economical
4 management, to maintain and support its credit and enable it to raise the money necessary
5 for the proper discharge of its public duties." (Murray direct page 4, lines 21-25 and
6 Burdette direct page 25, lines 22-26). In a recent opinion about Empire issued by Moody's
7 rating agency, it was noted that the outlook for the Company was negative for both short-
8 term (Rebuttal Schedule DWG-1) and long-term debt (Rebuttal Schedule DWG-2).
9 Standard & Poor's ("S&P") recently downgraded Empire to BBB for Senior Secured long-
10 term debt (Rebuttal Schedule DWG-3). At the same time, S&P downgraded the Trust
11 Preferred Stock to BB+, which is **not considered to be investment grade**. In addition, a
12 recently released Summary Report by A.G. Edwards (Rebuttal Schedule DWG-4) raises
13 concerns about the historically low allowed rates of return on common equity. All of these
14 opinions do not appear to show the needed confidence in the financial future of Empire.

15 Q. WHAT IS YOUR UNDEDRSTANDING AS TO WHY THESE THREE AGENCIES
16 HAVE CONCERNS WITH THE FINANCIAL FUTURE OF EMPIRE?

17 A. All three cite the need for regulatory support. In addition, S&P and A.G. Edwards cite the
18 regulatory environment in Missouri, which is marked by relatively low returns on common
19 equity.

20 Q. DO THESE OPINIONS AFFECT THE CAPITAL MARKETS FROM WHICH EMPIRE
21 MUST DEPEND ON IN ORDER TO MEET ITS OBLIGATION TO SERVE?

22 A. Yes.

1 Q. PLEASE EXPLAIN.

2 A. Empire competes with all other entities, both regulated and non-regulated, for the necessary
3 capital to carry out its obligation to provide safe and reliable service. If a rating agency
4 lowers a rating for Empire, then the cost of any future issuance will increase. In some cases,
5 if the financial performance of Empire is not sufficient, then a form of capital financing may
6 be not be available to the Company. This was what recently happened with respect to any
7 issuance of secured long-term debt. Empire was not permitted to issue any of these
8 obligations due to not meeting the required interest coverage ratios.

9 Q. DO YOU HAVE AN EXPLANATION AS TO WHY BOTH MR. MURRAY AND MR.
10 BURDETTE COME UP WITH UNREASONABLY LOW RETURNS ON COMMON
11 EQUITY?

12 A. Yes, but first the process for determining a recommended ROE must be considered.

13 Q. PLEASE EXPLAIN.

14 A. The process is comprised of two components. The first is the dividend yield and the second
15 is the growth rate. The determination of an appropriate ROE for Empire has been made
16 more difficult by the need to determine an appropriate growth rate.

17 Q. WHAT DID MR. BURDETTE DETERMINE TO BE AN APPROPRIATE GROWTH
18 RATE?

19 A. Mr. Burdette uses a 3% growth rate for the lower end of his recommended ROE range. This
20 is based on projected Empire data for the period 2005-07 in his retention growth calculation.
21 The curious part of the calculation is that it indicates a ROE of 11% and yet his overall
22 recommendation is for a range of 10.1% to 10.4%. The other assumption is that the

1 dividend is maintained at \$1.28 per share for the same period. This would make it 15 years
2 since the stockholders have received a dividend increase. For this upper end of his
3 recommended ROE range he has used the proxy growth rate of 4.58% along with their
4 dividend yield of 5.81%.

5 Q. PLEASE DISCUSS THE PROXY DATA.

6 A. The use of the proxy growth rate would seem reasonable if it were added to Empire's
7 dividend yield and not the proxy groups dividend yield. If Empire were to have the same
8 dividend yield of 5.81%, the common stock would need to be trading at over \$22, which is
9 over \$4 greater than the amount he used to determine the yield for Empire. It is also higher
10 than any of the 6 month data which was shown on Mr. Burdette's Schedule MB-7, page 2 of
11 2 by approximately \$1.80. It should also be pointed out that the data shown on his Schedule
12 MB-8 indicates that if the negative growth rate of DQE were to be excluded, then the ROE
13 rate would be 11.13% or .73% greater than the 10.4% that is recommended as the top of the
14 ROE range.

15 Q. HOW DID MR. MURRAY ARRIVE AT A GROWTH RATE?

16 A. Mr. Murray used the 3% growth rate that was indicated in an Equity Research Summary
17 Report ("Report") by A. G. Edwards. He chose this over other growth rates that were
18 higher. It is worth noting, that in a more recent Report indicates that the base for the 3%
19 was based on an earned ROE of 11% (see Rebuttal Schedule DWG-4). This is obviously
20 much higher than Mr. Murray's recommendation of a 3% growth rate and resulting 9.16%
21 ROE.

1 Q. WHAT DOES THIS INDICATE IN RELATION TO THE 3% THAT WAS USED BY MR.
2 MURRAY?

3 A. Without the 3% growth rate recommended by A. G. Edwards, there is no support for the
4 growth rate of 3% that is recommended by Mr. Murray. Therefore, it is assumed that the
5 4% would be used for the lower end of the recommended ROE or 10.16%.

6 Q. DO YOU HAVE ANY OTHER COMMENTS ABOUT THE A. G. EDWARDS REPORT?

7 A. Yes. In the Report, it was observed that by establishing a low ROE, the growth rate is also
8 lower. Or to put it another way, by establishing a low growth rate, a low ROE is the result.

9 Q. DO YOU HAVE ANY OTHER COMMENTS?

10 A. Yes. These issues should not viewed as separate and therefore not related. The market for
11 permanent as well as short-term financing is related to the financial health of Empire. If the
12 rate of return is set so low as to jeopardize that financial health, then the access to those
13 markets will become more expensive or may even disappear. Empire has an obligation to
14 serve present and future customers and as such this requires us to maintain and build plant.
15 If the return on common equity is not adequate, then that obligation to serve may be in
16 jeopardy.

17 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

18 A. Yes, it does.



Moody's Investors Service

14 AUG 2002

Liquidity Risk Assessment: Empire District Electric Company (The)

Empire District Electric Company (The)

Joplin, Missouri, United States

Broad Industry:

Public Utility

Specific Industry:

Integrated Electric Utility

Short Term Rating:

P-2

Contacts

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Opinion

The Prime 2 short term rating of Empire District Electric Company (EDE) reflects the utility's stable service territory and financial position. However, the outlook remains negative, as FFO interest coverage ratios are at the low end of the range for the rating category. EDE has increased its use of leverage in recent years to finance the construction of its generating capacity. The result has been a weakening of the company's cash flow coverage levels. Construction expenditures are estimated by the company to average \$70 million a year through 2004, while cash provided by operating activities was \$35 million in fiscal year 2001, creating a funding gap that has been met through external financing. The company issued equity in December 2001 and again in May 2002, demonstrating its willingness to issue equity versus adding more leverage to its capital structure. Continuing favorable regulatory rate rulings, coupled with an improvement in its debt protection measures through deleveraging could serve to strengthen its standing within its rating category.

The company's liquidity is sufficient based on its \$100 million syndicated credit with 6 regional banks in excess of its commercial paper outstanding (peak usage estimated to be \$80 Million). However, concentration among a few financial institutions is an issue investors should note, since the relatively small size of the commercial paper program leaves the company with a small number of banks providing liquidity support. The back up liquidity line of credit expires in May 2003.

The new syndicated credit eliminated rating triggers, however, the size of the short term borrowing program has been large relative to the size of the company. We would expect future construction programs to be financed with long term capital rather than short term debt which could ease any possible liquidity strain.

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Fundamental Credit Research
Opinion Update
Published 14 Aug 2002

Empire District Electric Company (The)

Joplin, Missouri, United States

Ratings

<u>Category</u>	<u>Moody's Rating</u>
Issuer Rating	Baa2
First Mortgage Bonds	Baa1
Senior Secured Shelf	(P)Baa1
Senior Unsecured	Baa2
Subordinate Shelf	(P)Baa3
Commercial Paper	P-2

Contacts

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Robert Johnson/New York	1.212.553.1653
Daniel Gates/New York	

Opinion

Rating Rationale

The Baa1 senior secured rating of Empire District Electric Company (EDE) reflects the utility's management, prospects for sales growth, and its stable service territory. However, EDE has increased its use of leverage to finance the construction of its generating assets, resulting in a sustained deterioration of debt protection measures. FFO/Interest for the first quarter ended March 31, 2002, was 1.8x. Regulatory lag in cost recoveries through rate increases has created funding needs which were met through the capital markets. The company, however, has demonstrated its willingness to issue equity to satisfy its financing needs.

To limit its exposure to high purchased power costs, the company will continue building new generation facilities. Projected construction expenditures average \$70 million annually for the next two years which are expected to taper off to approximately \$50 million a year in 2005. Taking on additional debt to finance these construction expenditures will further pressure EDE's coverage ratios, which are on the low end of its rating category.

Recent Events

As planned, the company issued \$50 million of common stock in May 2002 to pay off short term debt and maturing long term debt.

The company received rate decisions from both the Missouri and the Kansas regulators, helping it to recoup some of its costs. With a natural gas hedging program in place and the establishment of an interim energy charge (IEC), fluctuations in fuel costs are not expected to significantly affect the company's operating results.

Rating Outlook

Negative. Continuing regulatory support, future successes in issuing equity to finance capital expenditures and improvement of debt protection measures through deleveraging would be needed to stabilize the rating outlook, assuming improved coverage ratios.

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Ratings On Empire District Electric Co. Lowered To 'BBB'; Outlook Stable

Todd A Shipman, CFA, New York (1) 212-438-7676; Craig Hauret, New York
(1) 212-438-7938

=====

Summary analysis -- Empire District Electric Co. ----- 02-Jul-2002

=====

CREDIT RATING: BBB/Stable/A-2

Country: United States
State/Province: Missouri
Primary SIC: Electric Services
Mult. CUSIPs: 291641

=====

Credit Rating History:

	Local currency	Foreign currency
02-Jul-2002	BBB/A-2	BBB/A-2
20-May-1994	A-/A-2	A-/A-2

=====

Rationale

On July 2, Standard & Poor's lowered its corporate credit rating on Joplin, Mo.-based Empire District Electric Co. (EDE) to 'BBB' from 'A-'. The rating on the company's commercial paper program remains at A-2. The outlook was revised to stable from negative.

The rating action on energy provider EDE reflects a downward trend in the company's financial profile that was not adequately stemmed in recent regulatory actions. Roughly 80% of EDE's revenues are derived in Missouri, where the regulatory environment is marked by relatively low allowed ROEs, low plant depreciation allowances, and the lack of a permanent fuel adjustment clause to help shield the company from its markedly increased dependence on natural gas. While the temporary fuel and purchased-power mechanism now in place in Missouri helps to mitigate potential volatility in energy prices through 2003, Standard & Poor's is concerned about future regulatory policy

regarding the timely recovery of prudently incurred fuel and purchased-power expenses.

EDE has an average business profile, and a financial position (adjusted for purchased power obligations) that is marginally adequate for the new rating. The business profile is supported by a healthy service area with limited industrial concentration, negligible unregulated activities, and a credit-quality conscious management. In addition to the aforementioned regulatory environment, concerns include EDE's reliance on the Asbury coal plant, illustrated by the company's poor financial performance in 2001 during which the plant experienced extended maintenance. This dependence will diminish as more capacity comes on line through 2004, but Asbury will still provide a significant amount of generation. Furthermore, Nox compliance issues at the plant will affect the company's operating and financial risks going forward.

Continued reductions in capital spending (outside of expansion) and cost controls are leading to improved earnings protection. Rates are higher, but EDE will remain competitive in the region. In addition, the other principal financial measures are expected to fall in line with levels suitable for the established risk profile at the 'BBB' level: funds from operations (FFO) to debt at 20%, FFO coverage at 3.5 times, and debt to capital at 53%.

Outlook

The stable outlook assumes reasonable regulatory response in future rate proceedings, manageable environmental compliance costs that are recoverable through rates, and the continued improvement in risk management of the company's generation fleet, fuel procurement, and purchased-power needs.

Ratings List

Empire District Electric Co.

Corporate credit rating BBB/Stable/A-2

A complete list of the ratings is available to RatingsDirect subscribers at www.ratingsdirect.com, as well as on Standard & Poor's public Web site at www.standardandpoors.com under Ratings Actions/Newly Released Ratings.

For a complete list of ratings, please click the hyperlink provided here

<http://www.rtr.standardandpoors.com/NASApp/rtr/InitialRtrServlet>

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Equity Research Summary Report

A.G. Edwards



Empire District Electric

September 19, 2002

Hold/Conservative
EDE/NYSE/16.91

Disclosure Information. Please refer to the final pages of this report for important disclosure information.

Dividend:	\$1.28	Dividend Opinion:	2	Est. L-T EPS CAGR:	3%
Yield:	7.6%	Common Equity/Capital:	39.0%	Est. L-T Div. CAGR:	0%
Book Value Per Share:	\$13.47	S&P Debt Rating:	BBB	Market Cap (mil.):	\$355
Price/Book:	125.5%				

Fiscal Year Ends Dec

2001	EPS:	\$0.68		
2002	EPS est.:	\$1.26	P/E:	13.4X
2003	EPS est.:	\$1.55	P/E:	10.9X
2004	EPS est.:		P/E:	

Analyst: Timothy M. Winter, CFA
Sector: Utilities
AGE Lists:

Associate: Neil Kalton, CFA
Industry: ELECTRIC UTILITIES

Recent Development:

07/26/2002 Second Quarter EPS Improve; More Rate Decisions To Determine Future EPS Power

For more information, see the related Recent Development report.

Company Description: (Joplin, Missouri) EDE is a small electric utility that serves Southwest Missouri (87% of revenues), Southeastern Kansas (7%), Northeastern Oklahoma (3%), and Northwestern Arkansas (3%).

Investment Premise: EDE currently trades at approximately 10.9X our 2003 EPS estimate, which compares to the median of our universe of traditional electric power companies of 10.2X 2003 EPS estimates. We note that EDE has historically traded at a premium multiple reflecting a potential takeover and high interest from retail investors. However, the premium could erode given the credit rating downgrade. Assuming reasonable rate treatment, we believe the \$1.28 dividend will be maintained over the next few years. However, we note that the dividend represents a relatively high 102% and 83% ratio, respectively, of our 2002 and 2003 EPS estimates and will likely remain high over the next years. Should an unexpected event, such as

poor rate treatment in the pending rate case, hamper EPS power, the company could be forced to re-evaluate the dividend policy. Our rating remains Hold.

Attractive Features:

Growing service area economy. EDE's service area, which includes the growing country music capital, Branson, Missouri, is one of the nation's faster growing service areas in terms of customer growth. While customer growth in Branson has slowed, the company estimates that kilowatt per hour sales will continue to grow at an above-industry-average rate.

Pure play electric utility without nuclear exposure. EDE is committed to its core business of providing inexpensive, dependable electric service. EDE has no significant non-utility investments. The company has a favorable fuel mix with no nuclear generation.

Solid financial condition. We consider the company's balance sheet to be solid. Common equity represents 39% of total capitalization as of March 2002 and 46% including a May 2002 common stock offering. However, S&P lowered EDE's credit rating on July 2, 2002 to 'BBB' with a stable outlook from A- with a negative outlook due primarily to poor Missouri regulation.

Potential acquisition candidate. Given a growing service territory, low electric rates, and need for capacity, we believe EDE is an attractive acquisition candidate for larger electric utilities in the area.

Concerns:

Dividend represents a high payout ratio of our 2002 EPS estimate. Assuming reasonable rate treatment, we believe the dividend will be maintained over the next few years. However, we note that the dividend represents a relatively high 102% and 83% ratio of our 2002 and 2003 EPS estimates and will likely remain high over the next few years. Should an unexpected event, such as poor rate treatment in the pending rate case, hamper EPS power, the company could be forced to re-evaluate the dividend policy..

Earnings sensitivity to higher fuel and purchased power costs. Given that EDE purchases a large amount of natural gas and wholesale power to service customers, EDE's earnings have been heavily influenced by changes in the price of purchased power. A recent rate order does allow for some adjustments to changes in energy prices, but a large fluctuation on the upside would negatively impact results. We do note that the additional generating capacity brought on line will mitigate much of the company's sensitivity to volatile purchased power prices.

Below average regulation. We consider the Missouri Public Service Commission (MPSC), governing 87% of electric operating revenues, to be below average. The MPSC has historically authorized low allowed ROE's and lacks a permanent fuel and purchased power adjustment clause.

Interest rate sensitivity. The share price of utilities, like Empire District Electric, typically moves inversely with interest rates. If interest rates rise significantly, EDE shares would likely come under pressure. Conversely, if rates decline, it could favorably impact the share price.

EPS Outlook

Our 2002 and 2003 EPS estimates are \$1.26 and \$1.55, respectively. The primary component of EDE's EPS growth strategy is to receive rate recognition of investments in electric infrastructure. EPS growth over the past several years has been negligible primarily due to below-average allowed returns on common equity. Trailing twelve-months EPS were a depressed \$0.79 (excludes non-recurring items). Our 2002 estimate assumes a strong third quarter driven by the

late 2001 revenue increase's effect and lower fuel costs. Our 2003 EPS estimate assumes a constructive rate decision in early 2003, but we note that our estimate could prove optimistic without an increase in the current 10.0% allowed return on equity. We note that the company's growth rate and earnings power will be primarily determined by the allowed ROE. Our long-term 3% growth rate assumes the company can earn close to an 11% allowed return on common equity. We are somewhat concerned with the Staff of the MPSC's flawed and circular approach to determining an allowed ROE. The method applies the dividend yield to the anticipated growth rate to determine an allowed ROE. This is flawed given the higher the allowed ROE, the higher the growth rate. On the other hand, the lower the allowed ROE, the lower the growth rate. EDE filed for an additional \$19.8 million annual rate increase to be effective by March of 2003. The revenue increase request seeks to recognize the addition of roughly \$90 million in common equity achieved through a November 2001 public stock issuance and an anticipated May 2002 issuance, clerical errors in its October 2001 rate case, and additional investment in the business. The outcome of this case and future rate cases will be primary determinants of EPS power in 2003 and beyond.

The rate filing comes on the heels of the rate increase implemented in October 2001 and an early 2003 rate decision will likely be followed by a third Missouri rate filing in early 2003. The additional filing will be to recognize the addition of 50-megawatts of generating capacity expected to come on line in 2003. We continue to believe that the company will eventually receive the appropriate rate treatment to allow a fair opportunity to earn a reasonable ROE. We do not believe that the MPSC would authorize an allowed ROE below EDE's current low 10% allowed ROE. We also believe that it would be imprudent not to recognize the additional equity and lower debt rating. In addition, the company implemented a \$3.2 million revenue increase for its Kansas jurisdiction effective in June of 2002 and has filed for a \$400,000 revenue increase for its water utility.

S&P Lowers EDE's Credit Rating

On July 2, Standard and Poor's lowered its corporate credit rating on Empire District Electric to 'BBB' with a stable outlook from 'A-' with a negative outlook. While S&P has taken a much more aggressive and proactive approach to its credit ratings in recent periods given several corporate debacles, we were surprised to see the two-notch downgrade given EDE's obvious commitment to credit quality and a very low risk strategy that does include material exposure to non-regulated businesses. We do not expect the lower rating to have a material impact on EDE over the near term, but will raise financing costs if not improved over the long term. The company does not expect any external financing in 2002, but will likely need some in 2003 to finance the capital expenditure program, which includes \$86 million in 2002 and \$70 million in 2003. The addition of two 25-megawatt single cycle generating units is estimated to cost \$55 million over the two-year period. EDE's pro-forma common equity ratio following its May 2002 equity offering was a solid 43% of total capitalization, which is one of the highest equity ratios for 'BBB' rated debt in the electric universe.

The rating action could actually send a signal to the Missouri Public Service Commission regarding the poor regulatory treatment it provides its state's utilities and the higher financings costs associated with such treatment. Such a signal could lead the Missouri Public Service Commission to consider more constructive regulatory treatment in the pending rate case. S&P cited a declining financial profile that was not alleviated in the October 2001 rate case and a poor regulatory environment. The rating agency highlighted the poor regulatory environment in Missouri, including low allowed ROE's, low plant depreciation allowances, and the absence of a permanent fuel and purchased power adjustment clause to shield EDE from an increased reliance on natural gas to fuel its generation portfolio.

Selected Financial Statistics

(Dollars in millions except per share)

Fiscal Year Ends Dec	1997	1998	1999	2000	2001	CAGR (%)	2002E	2003E	2004E
Revenues	\$215	\$240	\$242	\$260	\$264		\$290	\$303	
Net Income	24	28	23	24	2		29	36	
Cash Earnings	55	59	49	56	35		69	76	
Shares Outstanding	17	17	17	18	18		21	23	
Earnings Per Share	1.29	1.53	1.46	1.37	0.68		1.26	1.55	
Dividends Per Share	1.23	1.23	1.23	1.23	1.23		1.23	1.30	
Price Range (High)	19	26	27	31	22				
Price Range (Low)	16	19	19	19	13				
P/E Range (High)	15	17	18	23	32				
P/E Range (Low)	12	12	13	14	26				
Return on Equity (%)	9.9	11.5	10.9	10.1	5.0		8.8	10.2	

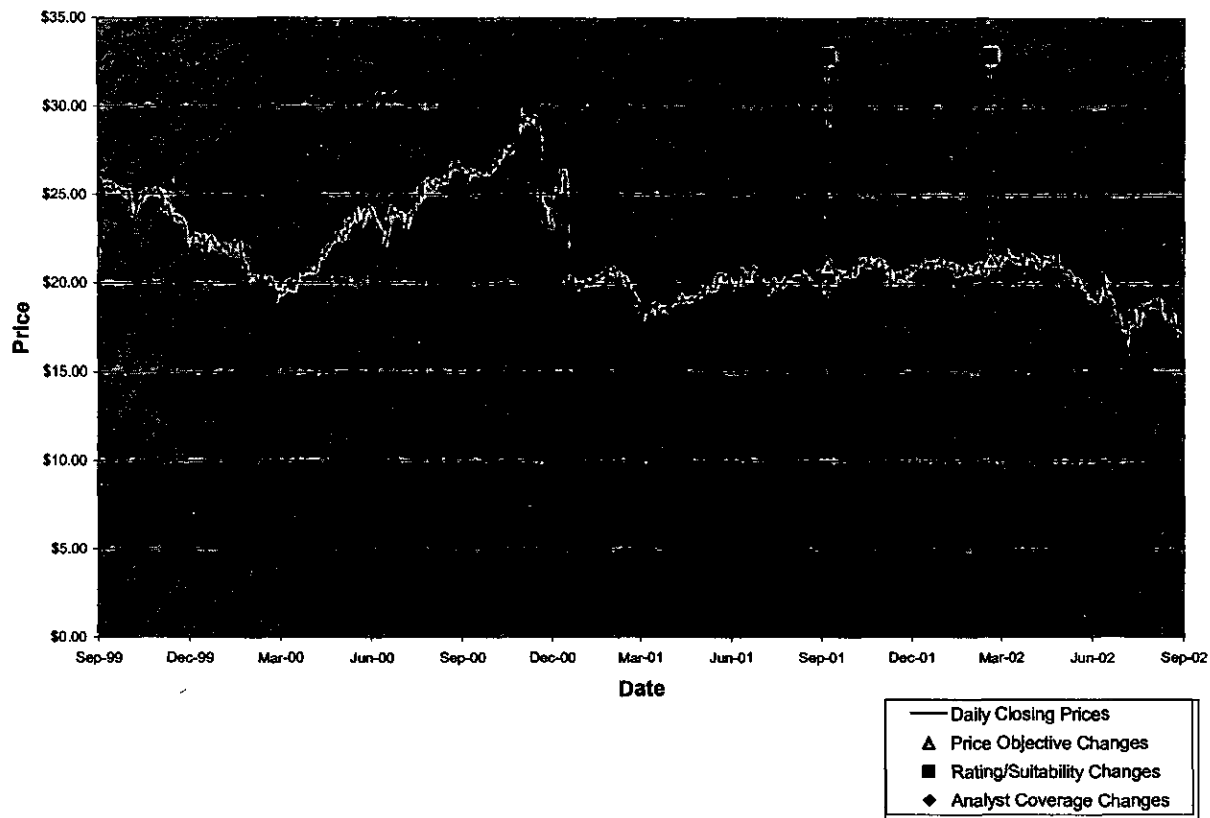
CAGR - Compound Annual Growth Rate

Cash Earnings - Net Income plus goodwill amortization

Dividend Opinions: 1 - Secure with growth; 2 - Secure with little or no growth; 3 - Secure intermediate term, might not be secure long term; 4 - Not secure

Quarterly Summary

Fiscal Year Ends Dec	2001A	2002E	2003E	2004E
EPS				
Qtr1	\$0.04	\$0.02A		
Qtr2	\$0.04	\$0.19		
Qtr3	\$0.56	\$0.85		
Qtr4	\$0.01	\$0.20		
Year	\$0.68	\$1.26	\$1.55	



Price Objective (PO) Changes *								
Date	Closing Price	PO	Date	Closing Price	PO	Date	Closing Price	PO
		NA	09/25/2001	19.38	21.00	03/08/2002	21.35	NA

* NA: Positive rating removed; no price objective supplied.

Rating/Suitability Changes					
Date	Closing Price	Rating/Suitability	Date	Closing Price	Rating/Suitability
09/25/2001	19.38	Maintain/Conservative Accumulate/Conservative	03/08/2002	21.35	Hold/Conservative

Analyst Coverage Changes						
Analyst	From	To	Analyst	From	To	
Timothy M. Winter	02/26/1996					

Rating	Master List Companies	Current Rating Distribution	Past 12 months	
			Investment Banking Clients	% of Investment Banking Clients *
Buy	292	42%	55	19%
Hold/Neutral	387	55%	30	8%
Sell	20	3%	2	10%

* Percentage of Investment Banking Clients on Master List by rating.

OUR 3-TIER RATING SYSTEM (12-18 month time horizon)

Buy: A total return is anticipated in excess of the market's long-term historic rate (approximately 10%). Total return expectations should be higher for stocks which possess greater risk.

Hold: Hold the shares, with neither a materially positive total return nor a materially negative total return is anticipated.

Sell: Stock should be sold, as a materially negative total return is anticipated.

RISK SUITABILITY (Relates to fundamental risk, including earnings predictability, balance sheet strength and price volatility)

Conservative: Fundamental risk approximates or is less than the market.

Aggressive: Fundamental risk is higher than the market.

Speculative: Fundamental risk is significantly higher than the market.

On 9/28/01 AGE changed its rating system from 5 tiers to 4 tiers. "Strong Buy" replaced the previous "Buy" rating, "Buy" replaced the previous "Accumulate" rating, and "Hold" replaced the previous "Maintain" rating. We compressed the previous ratings of "Reduce" and "Sell" into one rating, "Sell".

On 9/13/02 AGE changed its rating system from 4 tiers to 3 tiers. We eliminated the "Strong Buy" rating, and we changed the rating on all stocks with that rating to "Buy". All other ratings and their definitions remained in place.

COMPANY SPECIFIC DISCLOSURES:

AGE has managed/co-managed a public offering within the past 12 months.

AGE has managed/co-managed a public offering within the past three years.

AGE's research analysts receive no direct compensation in connection with the firm's investment banking business. Analysts may be eligible for annual bonus compensation based on the overall profitability of the firm, which takes into account revenues derived from all of the firm's business activities, including its investment banking business.

Price objectives and recommendations contained in this report are based on a time horizon of 12-18 months, but there is no guarantee the objective will be achieved within the specified time horizon. Price objectives are determined by a subjective review of fundamental and/or quantitative characteristics of the issuer and the security that is the subject of this report. Specific information is provided in the text of the research report.

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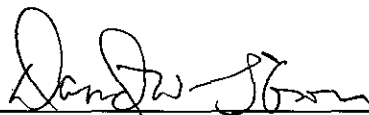
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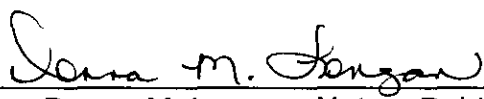
STATE OF MISSOURI)
) ss
COUNTY OF JASPER)

On the 20th day of September, 2002, before me appeared David W. Gibson, to me personally known, who, being by me first duly sworn, states that he is the Vice President – Regulatory and General Services of The Empire District Electric Company and acknowledged that he has read the above and foregoing document and believes that the statements therein are true and correct to the best of his information, knowledge and belief.



David W. Gibson

Subscribed and sworn to before me this 20th day of September, 2002



Donna M. Longan, Notary Public

My commission expires: January 24, 2004

