

Exhibit No.
Issue: Stock Issuance Cost, Capital
Structure, Financing
Witness: Robert W. Sager
Type of Exhibit: Direct Testimony
Sponsoring Party: Empire District Electric
Case No.
Date Testimony Prepared: October 2009

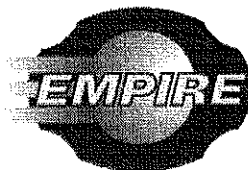
**Before the Public Service Commission
of the State of Missouri**

Direct Testimony

of

Robert W. Sager

October 2009



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OF
ROBERT W. SAGER
ON BEHALF OF
THE EMPIRE DISTRICT GAS COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION

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

1 **I. INTRODUCTION**

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

3 A. Robert W. Sager, 602 South Joplin Avenue, Joplin, Missouri 64801.

4 **Q. WHO IS YOUR EMPLOYER AND WHAT POSITION DO YOU HOLD?**

5 A. The Empire District Electric Company ("Empire" or "Company") is my employer. I
6 hold the position of Director of Financial Services.

7 **Q. WHAT ARE YOUR RELEVANT QUALIFICATIONS AND PREVIOUS**
8 **WORK EXPERIENCES?**

9 A. I am a licensed Certified Public Accountant with a Bachelor of Science Degree in
10 Accounting from Pittsburg State University, Pittsburg, Kansas. I have been
11 employed by Empire since October of 2006. I worked for a regional public
12 accounting firm for approximately ten years prior to coming to Empire. While
13 practicing public accounting, I was a senior manager providing auditing and
14 consulting services to various clients including corporations that filed with the
15 Securities & Exchange Commission ("SEC").

16 **Q. HAVE YOU PREVIOUSLY PARTICPATED IN ANY REGULATORY**
17 **PROCEEDINGS?**

18 A. Yes, I have. I provided testimony before the Missouri Public Service Commission
19 ("Commission") in Empire's previous electric rate case, Case No. ER-2008-0093,

1 and The Empire District Gas Company's pending gas rate case, Case No. GR-2009-
2 0434.

3 **Q. PLEASE EXPLAIN THE PURPOSE OF YOUR TESTIMONY.**

4 A. My testimony will support the rate case adjustments related to stock issuance costs
5 and banking fees associated with the Company's line of credit facilities. I will also
6 describe the capital structure being proposed by Empire in this rate case.

7 **II. STOCK ISSUANCE AMORTIZATION**

8 **Q. PLEASE DESCRIBE THE ADJUSTMENT TO AMORTIZE STOCK**
9 **ISSUANCE COST.**

10 A. The adjustment for stock issuance cost amortization considers the transactions
11 recorded and anticipated in account 214100, Stock Issuance Costs, for a five year
12 period. Costs relating to Empire's June 2006 stock issuance were assigned to our gas
13 operations as this was part of the financing put in place to acquire the gas operations
14 from Aquila, Inc., and this is consistent with the allocations of these costs agreed to
15 in Empire's previous electric case, Case No. ER-2008-0093. Stock issuance costs
16 subsequent to the financing of the gas operations have been allocated between our
17 electric and gas operations based on the plant in service as of 12/31/08. ** _____

18 _____
19 _____

20 _____** This results in an adjustment increasing expense of \$1,481,613 per
21 year based on a five year amortization.

22 **III. BANKING FEES**

1 **Q. PLEASE DESCRIBE THE ADJUSTMENT TO THE BANKING FEES**
2 **RELATING TO THE COMPANY'S LINE OF CREDIT?**

3 A. The banking fees in the test period include fees relating to our \$150 million line of
4 credit and the additional \$50 million line of credit we entered into in March of 2009.

5 ** _____
6 _____
7 _____
8 _____
9 _____
10 _____

11 _____ ** The adjustment increases test year expense \$2,895,550.

12 **Q. WILL THE RENEWAL OF YOUR \$150 MILLION LINE OF CREDIT BE**
13 **COMPLETED PRIOR TO A POTENTIAL TRUE-UP PERIOD IN THIS**
14 **CASE?**

15 A. Empire anticipates obtaining an extension or new line of credit agreement within the
16 next 6 months, allowing for the contracted amounts to be included in the update or
17 true-up portion of this case.

18 **IV. CAPITAL STRUCTURE**

19 **Q. WHAT CAPITAL STRUCTURE IS EMPIRE PROPOSING IN THIS RATE**
20 **CASE?**

21 A. Empire's filing is based upon a projected consolidated capital structure similar to the
22 expected capital structure for Empire at the end of this rate case, with one
23 adjustment.

1 **Q. PLEASE EXPLAIN THE PROPOSED ADJUSTMENT TO THE**
2 **CONSOLIDATED CAPITAL STRUCTURE.**

3 A. Consistent with the Company's previous electric rate cases, the Company excluded
4 short-term debt from the capital structure. In the past rate case, this exclusion was
5 accepted since the balance of short-term debt was less than construction work in
6 progress ("CWIP"). The balance in CWIP is expected to exceed the short-term debt
7 balance until the Plum Point and Iatan II facilities are placed into service; therefore,
8 short-term debt was eliminated from the capital structure.

9 **Q. WHY IS THE COMPANY FILING A CASE BASED ON A PROJECTED**
10 **CAPITAL STRUCTURE?**

11 A. The capital structure used in this case should reflect the timing and treatment of the
12 in-service dates of the Plum Point and Iatan II facilities and the requisite financing
13 needed in the same time frame. We have also estimated the impact of future
14 financings on our capital structure to reflect the same time frame.

15 **Q. PLEASE EXPLAIN WHY THE PROJECTED EQUITY TO**
16 **CAPITALIZATION RATIO SHOWS A HIGHER LEVEL OF EQUITY**
17 **THAN THE COMPANY'S CURRENT FINANCIAL STATEMENTS.**

18 A. The Company has been very clear on multiple occasions that it intended to finance
19 this construction cycle with a relatively balanced mix of debt financing and equity
20 financing. In fact, until the economic and market turmoil that began in the latter half
21 of 2008, Empire's financings consistently reflected this plan. Due to the market
22 turmoil of the past twelve to fifteen months, Empire was compelled to issue long-
23 term debt in March of 2009 instead of an equity issuance. This is the first time the

1 Company issued two long-term debt financings consecutively during this current
2 construction cycle. Moreover, in the month prior to the March 2009 debt issuance,
3 Empire implemented an equity distribution program (“EDP”) that enables Empire to
4 offer and sell up to \$60 million of common stock through its agent, UBS Securities
5 LLC. We have been able to successfully sell common stock under this program in
6 recent months, but the Company has not completely negated the impact of issuing
7 two debt financings consecutively. We expect to not only continue the EDP program
8 but to also expand the EDP program by selling up to a total of \$120 million of
9 common stock which in part would grow the equity component of the capitalization
10 ratio during this case. Other financing transactions will be considered during the next
11 several months which may impact the ratio as well, and our consideration of those
12 transactions will depend on several factors, including market conditions.

13 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

14 A. Yes, it does.