Exhibit No.
Issue: Amortization
Witness: Robert W. Sager
Type of Exhibit: Direct Testimony
Sponsoring Party: Empire District Electric
Case No.
Date Testimony Prepared: October 2007

Before the Public Service Commission
of the State of Missouri

Direct Testimony

of

Robert W. Sager

October 2007

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

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. Robert W. Sager, 602 Joplin Street, Joplin, Missouri 64801.

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

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

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

A. I am a licensed CPA with a bachelor of science degree in accounting from Pittsburg State University, Pittsburg, Kansas. I have been employed by Empire since October of 2006. I worked for a regional public accounting firm, BKD, for approximately ten years prior to coming to Empire. While at BKD, I was a senior manager providing auditing and consulting services to various corporations, including SEC filers.

Q. PLEASE EXPLAIN THE PURPOSE OF YOUR TESTIMONY.

A. I will discuss the regulatory plan amortization, which resulted from Commission Case No. EO-2005-0263, and the amortization calculation which has been included in this case.

Q. WHAT IS YOUR UNDERSTANDING OF THE REGULATORY PLAN AMORTIZATION?

A. I believe the intended purpose of the regulatory plan amortization provisions is to determine whether rate relief calculated under traditional methods must be supplemented in order to allow Empire to be rated at investment grade levels as provided for in the regulatory plan.

Q. HOW DOES THE AMORTIZATION WORK?

A. The amortization is an amount built into rates in addition to those costs traditionally recovered through rates. Concurrent with cost recovery, the Company records amortization expense equal to the additional amortization costs billed to customers. As a result, the increase to revenues is offset by a non-cash expense so the Company does not recognize additional net income, but does have additional cash from the amortization.

Q. IS THE AMORTIZATION CALCULATION IN THIS CASE CONSISTENT WITH EMPIRE'S REGULATORY PLAN?

A. Yes. The regulatory plan amortization was not designed as a substitute for the timely recovery of prudently incurred costs. I believe that Empire has appropriately requested rate relief under traditional methods and under the Company's filing Empire is not requesting additional amortization because the calculation indicated that additional amortization was not necessary. Attached is Schedule RWS-1 which provides that calculation.

Q. DOES THE LEVEL OF RATE RECOVERY OR AMORTIZATION PROVIDE ASSURANCE THAT EMPIRE WILL HAVE INVESTMENT GRADE CREDIT IN THE NEAR FUTURE?

A. No. While we take prudent and reasonable actions seeking to be assigned investment grade credit ratings by the agencies, we do not assign the ratings ourselves and cannot provide assurance that we will be assigned investment grade ratings. While I believe the amortization calculation is consistent with the regulatory plan, the amortization, if any, and its effect on our financial ratios by itself does not guarantee that Empire's ratings will be assigned at investment grade levels.

Q. WHY DO YOU BELIEVE THAT TO BE THE CASE?

A. Comments from S&P's Corporate Ratings Criteria 2006 guidebook (page 42) may articulate this best. It states, "The ratio medians are purely statistical, and are not intended as a guide to achieving a given rating level. They are not hurdles or prerequisites that should be achieved to attain a specific debt rating. Caution should be exercised when using the ratio medians for comparisons with specific company or industry data because of differences in method of ratio computation, importance of industry or business risk, and the impact of mergers and acquisitions." They further state, "particular caution should be used when making cross—border comparisons, because of differences in accounting principles, financial practices, and business environments." To summarize, S&P is indicating that they assess companies as a whole and meeting certain financial ratios does not guarantee a certain credit rating.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

AFFIDAVIT OF ROBERT W. SAGER

STATE OF MISSOURI)
) ss
COUNTY OF JASPER)

On the 1st day of October, 2007, before me appeared Robert W. Sager, to me personally known, who, being by me first duly sworn, states that he is the Director of Financial Services of The Empire District Electric Company and acknowledges 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.

Robert W. Sager
Robert W. Sager

Subscribed and sworn to before me this 1st day of October, 2007.

Sherri J. Blalock
Notary Public

My commission expires: Nov. 16, 2010

SHERRI J. BLALOCK
Notary Public - Notary Seal
State of Missouri
Commissioned for Newton County
My Commission Expires: November 16, 2010
Commission Number: 06969626