

Exhibit No.  
Issue: Stock Issuance Cost, Capital  
Structure, & Investment Tax Credits  
Witness: Robert W. Sager  
Type of Exhibit: Direct Testimony  
Sponsoring Party: Empire District Electric  
Case No. ER-2011-0004  
Date Testimony Prepared: September 2010

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

**Direct Testimony**

**of**

**Robert W. Sager**

**September 2010**



**SERVICES YOU COUNT ON**

DIRECT TESTIMONY  
OF  
ROBERT W. SAGER  
THE EMPIRE DISTRICT ELECTRIC COMPANY  
BEFORE THE  
MISSOURI PUBLIC SERVICE COMMISSION  
CASE NO. ER-2011-0004

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

2     A. Robert W. Sager, 602 South Joplin Avenue, 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.  
5     I hold the position of Director of Financial Services.

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

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

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

17    A. Yes I have. I provided testimony before the Missouri Public Service Commission  
18    in the Company's previous electric rate cases, Case Nos. ER-2010-0130, and ER-  
19    2008-0093, and The Empire District Gas Company's, Case No. GR-2009-0434.

1 **Q. PLEASE EXPLAIN THE PURPOSE OF YOUR DIRECT TESTIMONY.**

2 A. My testimony supports the rate case adjustments related to stock issuance costs  
3 and an adjustment to exclude short-term debt from Empire's test year end capital  
4 structure. Additionally I will provide testimony in regard to certain investment tax  
5 credits received in regard to the Iatan II plant.

6 **Q. PLEASE DESCRIBE THE STOCK ISSUANCE ADJUSTMENT.**

7 A. The adjustment for stock issuance costs considers the transactions recorded in  
8 account 214100, Stock Issuance Costs, for the five-year period ending 6/30/10.  
9 Stock issuance costs prior to Empire's acquisition of its gas business were  
10 assigned to the electric business and were included in the cost to be recovered in,  
11 Case No. ER-2008-0093. Costs related to Empire's June 2006 stock issuance  
12 were assigned to our gas operations because this was part of the financing used to  
13 acquire the gas operations from Aquila, Inc., and this is consistent with the  
14 allocations of these costs agreed to in Empire's electric case, Case No. ER-2008-  
15 0093. Stock issuance costs subsequent to the June 2006 financing have been  
16 allocated between our electric and gas operations based on the ratio of plant in  
17 service as of 6/30/10. This allocation necessitates an adjustment increasing  
18 expense by \$214,210 from the amount of stock amortization expense included in  
19 Staff's accounting schedules in Case No. ER-2010-0130.

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

22 A. Empire's filing is based upon the Company's consolidated capital structure at  
23 June 30, 2010, with one 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, Empire has excluded  
4 short-term debt from the capital structure. In past rate cases, this exclusion was  
5 accepted since the balance of short-term debt was assumed to fund construction  
6 work in progress ("CWIP") and is less than the thirteen month average balance of  
7 CWIP. Like short-term debt, CWIP is excluded from the calculation of revenue  
8 requirement in the rate case.

9 **Q. PLEASE EXPLAIN THE NATURE OF THE INVESTMENT TAX**  
10 **CREDITS (ITC) RECENTLY RECEIVED REGARDING THE IATAN II**  
11 **PLANT.**

12 A. On October 31, 2008, the Company submitted an application to the IRS and the  
13 Department of Energy requesting tax credits under Code Section 48A related to  
14 its investment in the Iatan II plant. Empire's application was originally denied  
15 because Kansas City Power & Light had previously applied and was awarded the  
16 entire amount of tax credits (\$125 million) available to the project.

17 Empire requested an allocation of the credits through an arbitration process. The  
18 arbitration panel agreed that the credits should be reallocated to Iatan II joint  
19 owners that directly pay federal taxes. The IRS has recently granted the  
20 reallocation of the credits which amounts to \$17,712,500 of federal tax credits  
21 available to Empire.

22 **Q. HOW IS EMPIRE PLANNING TO ACCOUNT FOR THE CREDITS ON**  
23 **ITS BOOKS/RECORDS?**

1 A. Upon receiving the arbitration decision on December 31, 2009, Empire booked an  
2 asset of \$17,712,500 and a corresponding regulatory liability. The regulatory  
3 liability was booked with the expectation that the credits would be used to lower  
4 the tax provision ultimately paid by the customers. Similar to previous investment  
5 tax credits obtained by Empire in the past, the credits will be amortized through  
6 the income statement over the estimated life of the Iatan II plant.

7 **Q. WHAT ADJUSTMENT ARE YOU PROPOSING RELATED TO THE**  
8 **ITCs?**

9 A. Our filing includes an adjustment of \$509,530. This represents the \$17,712,500  
10 amortized over 30 years after applying the Missouri jurisdictional rate to the  
11 credits.


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

13 A. Yes, it does.

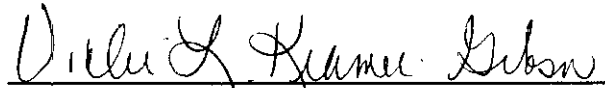
**AFFIDAVIT OF ROBERT W. SAGER**

STATE OF MISSOURI )  
                                  ) ss  
COUNTY OF JASPER )

On the 21st day of September, 2010, 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

Subscribed and sworn to before me this 21st day of September, 2010.

  
\_\_\_\_\_  
Notary Public

My commission expires: 10-30-10.

