

Exhibit No.  
Issue: Amortization  
Witness: Robert W. Sager  
Type of Exhibit: Rebuttal Testimony  
Sponsoring Party: Empire District Electric  
Case No. ER-2008-0093  
Date Testimony Prepared: April 2008

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

**Rebuttal Testimony**

**of**

**Robert W. Sager**

**April 2008**

REBUTTAL TESTIMONY  
OF  
ROBERT W. SAGER  
THE EMPIRE DISTRICT ELECTRIC COMPANY  
BEFORE THE  
MISSOURI PUBLIC SERVICE COMMISSION  
CASE NO. ER-2008-0093

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

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

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

7 A. My testimony responds to the testimony of the other parties on the issue of  
8 regulatory plan amortization.

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

11 A. As I indicated in my direct testimony in this case, the purpose of the regulatory plan  
12 amortization provisions agreed to in Case No. EO-2005-0263 is to determine  
13 whether rate relief calculated for Empire under traditional methods must be  
14 supplemented to enable Empire to maintain its investment grade rating, although, the  
15 amortization and its effect on the Company's financial ratios by itself does not  
16 guarantee that Empire's ratings will be assigned an investment grade.

17 **Q. PLEASE RESPOND TO THE STAFF TESTIMONY ON THIS ISSUE.**

18 A. As a result of our review of the direct testimony filed by Mark Oligschlaeger on  
19 behalf of the Staff of the Missouri Public Service Commission ("Staff") and

1 discussions held with the Office of the Public Counsel (“OPC”) an agreement  
2 between the Staff, OPC, and Empire has been reached concerning the numeric value  
3 of the Additional Net Balance Sheet Investment and the basic structure for purposes  
4 of calculating the amount of Regulatory Amortization which will result from this  
5 case.

6 **Q. PLEASE DESCRIBE THE AGREEMENT REACHED BETWEEN THE**  
7 **STAFF, OPC AND EMPIRE ON HOW TO ESTABLISH THE LEVEL OF**  
8 **ADDITIONAL NET BALANCE SHEET INVESTMENT FOR PURPOSES OF**  
9 **CALCULATING REGULATORY AMORTIZATION IN THIS CASE.**

10 A. The amount of Additional Net Balance Sheet Investment to be included in the  
11 calculation of Regulatory Amortization in this case has been established at  
12 \$94,500,000 by mutual agreement between the Staff, OPC and Empire. I have  
13 attached an illustration of the calculation of the Regulatory Amortization using this  
14 Addition Net Balance Sheet Investment as Rebuttal Schedule RWS-1. This schedule  
15 is intended to display a hypothetical calculation that incorporates the agreement  
16 reached between the Staff, OPC and Empire on the level of Additional Net Balance  
17 Sheet Investment and the agreement on the basic structure and is not intended to  
18 indicate the overall level of Regulatory Amortization that will ultimately be required  
19 in this rate case, which will depend upon the Commission’s ultimate findings  
20 concerning Empire’s overall traditional revenue requirement. The agreed to level of  
21 Additional Net Balance Sheet Investment is displayed on Rebuttal Schedule RWS-1  
22 on line 1 of the schedule. As indicated on Rebuttal Schedule RWS-1, the

1       hypothetical calculation results in a Regulatory Amortization requirement of  
2       \$19,815,820.

3       **Q. DOES THIS RESOLVE THE ISSUE FOR THIS CASE?**

4       A. Not necessarily.

5       **Q. ARE THERE OTHER WITNESSES IN THIS CASE THAT HAVE**  
6       **PRESENTED TESTIMONY ON REGULATORY AMORTIZATION?**

7       A. Yes. Mr. Gorman on behalf of the industrial interveners has presented direct  
8       testimony concerning some aspects of the Regulatory Amortization calculation. The  
9       Regulatory Amortization agreement reached between the Staff, OPC and Empire  
10      does not address all of the issues Mr. Gorman raised in his direct testimony.

11      **Q. HAS MR. GORMAN BEEN MADE AWARE OF THE AGREEMENT THAT**  
12      **HAS BEEN REACHED BETWEEN THE STAFF, OPC AND EMPIRE**  
13      **CONCERNING THE APPROPRIATE LEVEL OF ADDITIONAL NET**  
14      **BALANCE SHEET INVESTMENT TO BE INCLUDED IN THE**  
15      **REGULATORY AMORTIZATION CALCULATION IN THIS CASE?**

16      A. Yes. The hypothetical regulatory amortization calculation that has been attached to  
17      my testimony as Rebuttal Schedule RWS-1 has been provided to Mr. Gorman. Mr.  
18      Gorman did not have time, however, prior to the deadline to file rebuttal testimony in  
19      this case to completely review the calculation and join in the agreement.

20      **Q. DO YOU AGREE WITH MR. GORMAN'S REGULATORY**  
21      **AMORTIZATION CALCULATION?**

22      A. No. Mr. Gorman indicated, among other items, that S&P is including an implied  
23      depreciation component to the Funds From Operations (FFO) calculation for

ROBERT W. SAGER  
REBUTTAL TESTIMONY

1 purchased power agreements (PPA). Mr. Gorman cited a report issued by S&P in  
2 March 2007. We requested this S&P report from Mr. Gorman but at this time it has  
3 not been provided. However, reports issued by S&P in a generic context do not  
4 necessarily apply to Empire's ratios calculated by S&P, and also do not necessarily  
5 apply to the regulatory amortization calculation in this case. My review of reports  
6 issued by S&P during 2007 and through the date of this testimony have not  
7 discovered that S&P is further adjusting our FFO for Empire's PPAs.

8 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

9 A. Yes, it does.