

EXECUTIVE SUMMARY
FOR DIRECT TESTIMONY OF DR. JAMES H. VANDER WEIDE
ON BEHALF OF
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION

Dr. Vander Weide is Research Professor of Finance and Economics at the Fuqua School of Business, Duke University, and he has provided testimony on financial and economic issues in numerous proceedings before state and federal jurisdictions over the past 30 years.

Purpose of Testimony:

The purpose of Dr. Vander Weide's testimony is to provide an independent appraisal of the cost of equity of the Empire District Electric Company ("Empire") and to recommend a rate of return on equity for Empire that is fair, that allows Empire to attract capital on reasonable terms, and that allows Empire to maintain its financial integrity.

Summary:

Dr. Vander Weide estimated Empire's cost of equity in several steps. First, he applied several standard cost of equity methods, including the discounted cash flow model, the risk premium approach, and the capital asset pricing model, to market data for several groups of comparable companies. On the basis of his studies, he finds that the average cost of equity for his proxy companies is equal to 11.3 percent. Second, Dr. Vander Weide adjusted the 11.3 percent cost of equity result for the difference between the financial risk embedded in the average capital structures of his proxy groups and the financial risk embedded in Empire's recommended capital structure.

Conclusion:

Dr. Vander Weide recommends that Empire be allowed a rate of return on equity equal to 11.7 percent. Dr. Vander Weide's 11.7 percent recommended cost of equity reflects both the 11.3 percent cost of equity of his proxy companies and the greater risk associated with Empire's more highly leveraged proposed capital structure.