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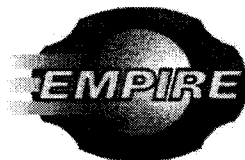
**Before the Public Service Commission
of the State of Missouri**

Direct Testimony

of

Brad P. Beecher

July 2012



SERVICES YOU COUNT ON

Empire Exhibit No. 1
Date 8-10-12 Reporter KF
File No. ER-2012-0345

TABLE OF CONTENT
DIRECT TESTIMONY
OF
BRAD P. BEECHER
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. ER-2012-0345

INTRODUCTION..... 1

DESCRIPTION OF COMPANY..... 2

RATE REQUEST..... 4

TORNADO IMPACTS ON OPERATIONS..... 5

TORNADO IMPACTS ON FINANCIAL CONDITION..... 9

RESOURCE PLANNING DECISIONS..... 13

DIRECT TESTIMONY
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1 **INTRODUCTION**

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

3 A. My name is Brad P. Beecher, and my business address is 602 S. Joplin Avenue, Joplin,
4 Missouri, 64801.

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

6 A. The Empire District Electric Company ("Empire" or "Company") is my employer. I hold
7 the position of President and Chief Executive Officer.

8 **Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL**
9 **EXPERIENCE.**

10 A. I graduated from Kansas State University in 1988 and hold a Bachelor of Science Degree in
11 Chemical Engineering. I was first employed by Empire in May of 1988 through August
12 1999. During that time, I held roles as a Staff Engineer at Empire's Riverton power plant,
13 and in budgeting and fuel procurement in Empire's Energy Supply Department. In 1995, I
14 became Director of Strategic Planning. I held that position until I left Empire in August of
15 1999. Between August of 1999 and February of 2001, I was employed at Black & Veatch
16 in various roles including, Service Area Leader for the Strategic Planning Group and as
17 Associate Director of Marketing and Strategic Planning. I rejoined Empire as General
18 Manager-Energy Supply in February of 2001. I was elected Vice President-Energy Supply

1 in April of 2001. In this position, I was responsible for Empire's energy supply function
2 including power plant construction, operation and maintenance and fuel procurement. In
3 April 2006, I became the Electric Chief Operating Officer, and, in February 2010 I was
4 named Executive Vice President. I assumed my current position on June, 2011.

5 **Q. HAVE YOU PREVIOUSLY PRESENTED TESTIMONY BEFORE THIS**
6 **REGULATORY BODY?**

7 A. Yes, I have previously presented testimony before the Missouri Public Service Commission
8 ("Commission").

9 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

10 A. The purpose of my testimony is to give a brief description of the Company and the amount
11 of the rate increase we are requesting, to describe the impact that the May 22, 2011 Joplin
12 tornado had on Empire's operations and financial condition, and to give an overview of
13 significant resource planning decisions.

14 **DESCRIPTION OF COMPANY**

15 **Q. PLEASE DESCRIBE EMPIRE.**

16 A. Empire is a Kansas corporation with its principal office and place of business at 602 South
17 Joplin Avenue, Joplin, Missouri, 64801. Empire is engaged in the business of providing
18 electrical utility services in Missouri, Kansas, Arkansas, and Oklahoma; water utility
19 services in Missouri; and, through a wholly-owned subsidiary, has a certificate of service
20 authority issued by the Commission to provide certain telecommunications services. In
21 addition, through a wholly owned subsidiary, The Empire District Gas Company, Empire
22 operates a natural gas distribution business in northwest, north central, and west central
23 Missouri and provides gas service in 44 communities.

1 **Q. PLEASE DESCRIBE THE AREA SERVED BY EMPIRE.**

2 A. Empire provides electric service in an area of approximately 10,000 square miles in
3 southwest Missouri and the adjacent corners of the states of Kansas, Oklahoma, and
4 Arkansas. Empire's operations are regulated by the utility regulatory commissions of these
5 four states, as well as by the Federal Energy Regulatory Commission ("FERC"). Empire's
6 service area embraces 121 incorporated communities in 20 counties in the four-state area.
7 Most of the communities in Empire's service area are small, with only 29 containing a
8 population in excess of 1,500. Only 10 communities have a population in excess of 5,000,
9 and the largest city, Joplin, Missouri, has a population of approximately 49,000.
10 The economy in our service area is diversified. The service territory features small to
11 medium manufacturing operations, medical, agricultural, entertainment, tourism, and retail
12 interests.

13 **Q. HOW MANY ELECTRIC CUSTOMERS DOES EMPIRE CURRENTLY SERVE?**

14 A. At March 31, 2012, Company-wide, Empire served approximately 140,400 residential
15 customers, 24,000 commercial customers, 350 industrial customers, 1,670 public authority
16 and street and highway customers, and four wholesale customers. As of that date in
17 Missouri, Empire served approximately 124,600 residential customers, 21,400 commercial
18 customers, 283 industrial customers, 1,650 public authority and street and highway
19 customers, and three wholesale customers. In addition to electric service, Empire also
20 provides regulated water service to approximately 4,500 customers in the Missouri
21 communities of Aurora, Marionville, and Verona, and through its wholly-owned subsidiary,
22 The Empire District Gas Company, provides natural gas service to approximately 44,000 gas
23 customers in northwest, north central, and west central, Missouri.

1 **RATE REQUEST**

2 **Q. WHAT IS THE AMOUNT OF THE RATE INCREASE EMPIRE IS REQUESTING?**

3 A. Empire is requesting an overall increase in its Missouri retail electric rates of \$30.7 million,
4 exclusive of applicable fees or taxes – approximately a 7.6 percent increase. When the
5 impacts of Empire’s fuel adjustment clause and ongoing fuel costs are considered, the net
6 increase in Empire’s revenue is approximately \$22.1 million or 5.32 percent. As part of this
7 filing, Empire is also requesting that the impact of the May 22, 2011 Joplin tornado, in the
8 amount of \$6.2 million or 1.5 percent, be allowed to go into effect immediately, and subject
9 to refund, on an interim basis.

10 **Q. WHY DOES EMPIRE NEED A MISSOURI RETAIL RATE INCREASE AT THIS**
11 **TIME?**

12 A. The dominant factor driving the need for a Missouri rate increase at this time is the ongoing
13 increase in Empire’s operating costs after the May 22, 2011 Joplin tornado. Among those
14 factors affecting Empire’s cost of providing service is the decline in revenue associated with
15 the loss of customers as a result of the tornado. Empire witness Kelly Walters will discuss
16 Empire’s major cost changes in her direct testimony.

17 **Q. HOW MANY CUSTOMERS DID EMPIRE LOSE AS A RESULT OF THE**
18 **TORNADO?**

19 A. The May 2011 tornado devastated around one-third of Joplin, and, after the initial
20 restoration efforts, resulted in the loss of around 8,000 of Empire’s electric customers and
21 over \$21.4 million in Empire facilities. While over the last year, approximately 6,600 of the
22 customers initially lost due to the tornado have returned to the system, the reduction in the
23 number of customers served has resulted in a loss of revenue used to financially support

1 Empire's existing electric system. Empire witness Rob Sager will discuss Empire's overall
2 financial condition at the time of the tornado in his direct testimony.

3 **Q. HOW DOES EMPIRE'S MISSOURI ELECTRIC CUSTOMER COUNT AT MARCH**
4 **31, 2012 COMPARE TO THE CUSTOMER COUNT AT MARCH 31, 2011?**

5 A. In terms of residential and commercial customers, it is significantly lower. More
6 specifically, at March 31, 2011, Empire served approximately 126,000 residential customers,
7 21,800 commercial customers, 265 industrial customers and 1,650 public authority and
8 street light customers. Since that time, there has been a decline of approximately 1,400
9 residential and 400 commercial customers triggered by the May 2011 tornado.

10 **TORNADO IMPACTS ON OPERATIONS**

11 **Q. HOW DID THE MAY 2011 TORNADO IMPACT EMPIRE'S OPERATIONS?**

12 A. The tornado which struck Joplin on Sunday, May 22, 2011, at 5:41 p.m. was the most
13 devastating weather event to occur in the history of Empire's service territory. In addition to
14 Joplin, the damage path of the tornado extended through the Empire-served communities of
15 Duquesne, Diamond, Granby, Sarcoxie, and Wentworth. The tornado was identified by the
16 National Weather Service as reaching strengths up to an EF-5 rating, with winds in excess of
17 200 miles per hour. It was determined that the tornado had destroyed approximately 4,000
18 poles, thousands of distribution transformers, 110 miles of line, and a complete substation.
19 Two additional substations were damaged and three others were impacted. Of the 60
20 electrical circuits that served the area, 31 were off.

21 **Q. HOW DID EMPIRE RESPOND TO THE TORNADO?**

22 A. As is standard with any storm, Empire immediately mobilized to assess the damage and
23 develop a plan to safely return customers to service. As it turned out, the tornado had

BRAD P. BEECHER
DIRECT TESTIMONY

1 caused significant damage to Joplin's communications infrastructure, which greatly
2 impacted our ability to contact our employees. However, on their own, our employees
3 reported to work. Empire had numerous employees that were personally impacted – but it
4 did not deter them from the work at hand to bring safety and services to a devastated
5 community. In addition to the problems we encountered contacting employees due to the
6 damaged communication systems, Empire utilizes an Outage Management System to
7 determine where outages exist. However, due to the extreme damage and impaired
8 communications, this system was ineffective, and we were forced to rely solely on field
9 inspections and verifications.

10 **Q. HOW WERE THE INSPECTIONS PERFORMED?**

11 A. Many areas were not accessible via car or truck, so inspection was completed on foot with
12 flashlights. This was highly dangerous due to the extent of the debris and potential to come
13 upon an energized line. It was also emotionally taxing, as in addition to the damage and
14 debris from the storm, there were many fatalities caused by the tornado.

15 **Q. WHAT DID EMPIRE'S INITIAL INSPECTION FIND?**

16 A. We found miles of transmission and distribution lines, poles, and transformers were
17 destroyed or damaged. Unlike ice storms, where the majority of lines can be raised and
18 reattached, with a tornado, wires are mangled and entangled with debris and cannot be
19 reused, requiring a significant amount of new materials. The material required far
20 exceeded the amount retained in our inventory for typical storm restoration.

21 **Q. HOW MANY CUSTOMERS LOST SERVICE DUE TO THE TORNADO?**

22 A. Of the approximately 20,000 customers who had power interrupted due to the tornado,
23 approximately 8,000 customers' facilities were destroyed or damaged to a point that they

1 were not able to return to service in the immediate aftermath. For example, St. John's
2 Hospital had been destroyed, as had the main feeder lines to Freeman Hospital -- the only
3 remaining hospital to care for the injured and St. John's critical patients. Joplin also lost five
4 schools and had two others and the school district's administration building severely
5 damaged.

6 **Q. PLEASE CONTINUE WITH AN OVERVIEW OF EMPIRE'S RESTORATION**
7 **EFFORTS.**

8 A. Empire maintains an extensive Power Outage Recovery plan. Through the experience of
9 several major ice storms and severe spring weather in recent history Empire had refined its
10 plan into a very effective disaster management process. That said, a tornado of the
11 magnitude of the May 22nd event created challenges beyond what are encountered with ice.
12 The destruction from this event was so massive, our first efforts were not dedicated to
13 electrical restoration, but rather to ensure lines were de-energized to make the area safe for
14 the public, emergency personnel, and Empire employees, and so roadways could be cleared
15 for emergency vehicles and search and rescue teams.

16 **Q. WERE CRITICAL FACILITIES GIVEN PRIORITY FOR RESTORATION?**

17 A. Yes. Because St. John's Hospital had been destroyed, as had the main feeder lines to
18 Freeman Hospital, which was the only remaining facility to care for the injured and critical
19 patients in Joplin, our line crews and vegetation management group worked through that
20 first night to clear a path and connect an alternate feeder line, returning electricity to the
21 Freeman Hospital before morning. We also focused on critical services and restored
22 Joplin's water and sewer services within 24 hours.

1 **Q. WERE CREWS FROM OUTSIDE THE AREA BROUGHT IN TO AUGMENT**
2 **EMPIRE'S RESTORATION EFFORTS?**

3 A. Yes. In addition to mobilizing our crews from surrounding communities to the Joplin area,
4 we also enlisted the help of Kansas City Power & Light Company, City Utilities of
5 Springfield, and several contractors – who provided more than 280 personnel to assist our
6 recovery efforts. We brought these crews on in stages, so when they arrived, equipment and
7 materials were ready. Our logistics group was ready with rooms, meals, and laundry service.
8 They even secured a tanker of potable water, as Joplin was under a boil order, so crews
9 could have hot meals each day. Crews worked 16 hour days for the first two weeks and then
10 moved to ten hour days to manage fatigue and avoid accidents.

11 **Q. WHAT WERE THE RESULTS OF EMPIRE'S RESTORATION EFFORTS?**

12 A. Within three days, the Range Line Road circuit was rebuilt. This is a major thoroughfare
13 and retail area that was hard hit by the tornado. Within the first week, a new line was built
14 to a temporary hospital brought in by St. John's, and electric service was restored to
15 customers who were able to receive it. With record-setting summer temperatures that
16 reached 100 degrees or more on 15 days, our crews worked seven days a week to provide
17 service to temporary FEMA housing units. This included the installation of over 25,000 feet
18 of new underground line, approximately 600 meters, more than 70 secondary pedestals, and
19 over 40 pad-mount transformers. The project was completed in less than two weeks.

20 **Q. HOW MUCH DEBRIS WAS REMOVED FROM THE TORNADO'S PATH OF**
21 **DESTRUCTION?**

22 A. It is estimated that over three million cubic yards of debris were removed. That is equivalent
23 to a football field stacked 300 feet higher than the Empire State Building.

1 **Q. HOW DID EMPIRE COMMUNICATE WITH ITS CUSTOMERS DURING THE**
2 **RESTORATION EFFORTS, GIVEN THE LEVEL OF DAMAGE TO THE**
3 **COMMUNICATION SYSTEMS IN THE AREA?**

4 A. During the first nine days following the storm, we issued 16 news releases with updates for
5 our customers regarding the Company's recovery status, safety reminders, and other
6 pertinent information. We also completed numerous media interviews including many
7 updates with a local talk radio station that provided 24-hour storm information for the first
8 two weeks following the tornado. Four days into the recovery, we held a media event where
9 we put the news crews in touch with our operations management team and linemen who
10 were working in the field. We also kept our customer service office open during the
11 Memorial Day holiday weekend to give our customers a place to walk in and talk to us.

12 **TORNADO IMPACTS ON FINANCIAL CONDITION**

13 **Q. DID THE TORNADO IMPACT EMPIRE'S FINANCIAL CONDITION?**

14 A. Yes.

15 **Q. PLEASE EXPLAIN.**

16 A. The loss of customers resulting from the tornado caused a direct reduction in revenue. In
17 addition, the restoration work described previously involved the installation of new
18 facilities, which on the average cost more than the facilities that were destroyed. The
19 reduction in revenue and increase in costs due to the tornado together have reduced Empire's
20 earnings levels and cannot be reflected in rates until the Commission authorizes new rates
21 for Empire. This is the first rate case commenced by Empire since the Joplin tornado.

22 **Q. WHAT WAS EMPIRE'S FINANCIAL CONDITION PRIOR TO THE MAY 2011**
23 **TORNADO?**

1 A. At the time of the tornado, Empire's retained earnings were at a very low level. The balance
2 at March 31, 2011 was \$4.1 million, and dividends of \$13.3 million had been declared in
3 April 2011 further reducing that balance.

4 **Q. DID THE MAY 2011 TORNADO HAVE AN IMMEDIATE FINANCIAL IMPACT**
5 **ON EMPIRE?**

6 A. Yes. Given the low level of retained earnings, the expected lost revenue from lost and
7 displaced customers due to the tornado, and the fact that Empire's ability to pay dividends
8 was tied to retained earnings through a covenant in the Company's mortgage indenture, the
9 Empire board met three days after the storm and suspended the Company's dividend for an
10 estimated duration of two quarters.

11 **Q. PLEASE DISCUSS EMPIRE'S DIVIDEND RESTRICTIONS IN GREATER**
12 **DETAIL.**

13 A. Kansas law and the Federal Power Act both have restrictions. In addition, Empire's Mortgage
14 and the Company's Restated Articles contain certain dividend restrictions. The most
15 restrictive of these is contained in the Mortgage, which provides that the Company may not
16 declare or pay any dividends (other than dividends payable in shares of common stock) or
17 make any other distribution on, or purchase (other than with the proceeds of additional
18 common stock financing) any shares of, common stock if the cumulative aggregate amount
19 thereof after August 31, 1944 (exclusive of the first quarterly dividend of \$98,000 paid after
20 said date) would exceed the sum of \$10.75 million and the earned surplus (as defined in the
21 Mortgage) accumulated subsequent to August 31, 1944, or the date of succession in the event
22 that another corporation succeeds to Empire's rights and liabilities by a merger or

1 consolidation. On June 9, 2011, the Mortgage was amended in order to provide Empire with
2 additional flexibility to pay dividends to our shareholders by permitting the payment of any
3 dividend or distribution on, or purchase of, shares of its common stock within 60 days after
4 the related date of declaration or notice of such dividend, distribution or purchase if: (i) on
5 the date of declaration or notice, such dividend, distribution or purchase would have
6 complied with the provisions of the Mortgage; and (ii) as of the last day of the calendar
7 month ended immediately preceding the date of such payment, our ratio of total indebtedness
8 to total capitalization (after giving pro forma effect to the payment of such dividend,
9 distribution, or purchase) was not more than 0.625 to 1.

10 **Q. WHAT WAS THE IMPACT OF THE DIVIDEND SUSPENSION?**

11 A. The dividend suspension undoubtedly caused hardship for many of Empire's shareholders.
12 However, as the Company indicated in its analyst call on May 26, 2011, this was the "prudent
13 course of action for the long-term viability of our company." Given Empire's bond indenture
14 covenant, the Company did not believe it could absorb the lost revenues from the tornado
15 without taking action. Subsequent to the tornado and Empire's dividend suspension, S&P
16 reversed its positive outlook, returning Empire's outlook to stable. Empire's retained
17 earnings balance at June 30, 2011, following the dividend suspension, was a negative
18 \$167,000. It is estimated that as of March 31, 2012, Empire has lost approximately \$10.6
19 million in revenue due to the customers lost and displaced due to the tornado.

20 **Q. HOW DO EMPIRE'S ACTUAL EARNINGS LEVELS COMPARE TO THE**
21 **EARNINGS LEVELS AUTHORIZED BY THE COMMISSION?**

1 A. Empire's actual earnings have been substantially below the earnings levels authorized by the
2 Commission. For example, the highest return on equity Empire has earned during the last
3 ten calendar years is the 8.4 percent earned during calendar year 2006. By comparison, the
4 lowest rate of return on equity authorized by the Commission for Empire during the last ten
5 years was 10.8 percent. Empire witness Rob Sager will further discuss Empire's actual
6 financial results as part of his direct testimony in this case.

7 **Q. IS IT YOUR UNDERSTANDING THAT THE COMMISSION MAY USE A**
8 **PROCEDURE IN THIS CASE TO REFLECT THE COSTS OF THE TORNADO**
9 **SOONER THAN WOULD BE THE CASE UNDER NORMAL CIRCUMSTANCES?**

10 A. Yes. I believe there is an option the Commission may use to eliminate the delay in recovery
11 of the costs associated with the Joplin tornado and begin the tornado recovery process for
12 Empire. That option is interim rate relief. In this regard, Empire has requested approval of
13 interim rate relief, subject to refund, for up to 100 percent of the increase in costs and
14 decline in revenue associated with the May 2011 tornado. The Commission may accomplish
15 this by allowing Empire's interim tariffs to become effective without suspension.

16 **Q. WHY, IN YOUR OPINION, IS INTERIM RATE RELIEF JUSTIFIED?**

17 Q. It has been over a year since the Joplin tornado, clearly an extraordinary event, and it is time
18 for Empire to begin to recover financially. Absent interim relief, it will take over two years
19 for Empire to begin to recover from the tornado from a financial standpoint. Empire witness
20 Kelly Walters will further discuss the interim rate relief request in her direct testimony in
21 this case.

22 **Q. DID EMPIRE RECEIVE ANY FEDERAL OR STATE AID IN CONNECTION**
23 **WITH THE TORNADO?**

1 A. No. Although there has been tremendous assistance provided to the area from state and
2 federal agencies in connection with tornado, Empire has received no direct financial aid.
3 We worked with the legislators representing Missouri in an attempt to get assistance to help
4 offset the cost of the tornado, but were unsuccessful. All of the extraordinary cash outlays
5 due to the storm have been borne by Empire and its shareholders.

6 **RESOURCE PLANNING DECISIONS**

7 **Q. PLEASE BRIEFLY DESCRIBE THE STATUS OF EMPIRE'S MAJOR**
8 **CONSTRUCTION PROGRAM.**

9 A. All of the major construction projects undertaken during 2005 through 2010 timeframe,
10 which were part of Empire's Regulatory Plan, were concluded successfully and are in
11 service. During the period 2005 through 2010 Empire embarked upon the largest
12 construction program in its 100 year history. This construction program resulted in the
13 addition of three new power plants and the upgrading of environmental facilities to meet
14 new environmental regulations at two of Empire's existing coal-fired power plants. During
15 this construction program, Empire expended over \$487 million on these major projects and
16 overall investment in electric facilities went from about \$860 million to around \$1.5 billion
17 by the end of 2010.

18 **Q. SINCE THE COMPLETION OF THE IATAN AND PLUM POINT PROJECTS, HAS**
19 **EMPIRE STARTED ANY NEW MAJOR CONSTRUCTION PROJECTS?**

20 A. Yes. Recently, the Environmental Protection Agency issued new air quality rules that affect
21 the operations of several of Empire's power plants. Empire's Asbury and Riverton power
22 plants were most affected by these new rules. Empire has implemented a compliance plan
23 and strategy (Compliance Plan) in response to these new EPA rules. Empire's Compliance

BRAD P. BEECHER
DIRECT TESTIMONY

1 Plan calls for the installation of a scrubber, fabric filter, and powder activated carbon
2 injection system at the Asbury plant (collectively referred to as the Asbury air-quality
3 control system or AQCS) by early 2015 at a cost ranging from \$112 million to \$130 million.
4 The addition of this air quality control equipment will require the retirement of Asbury Unit
5 2, an 18 megawatt (MW) steam turbine that is currently used for peaking purposes. The cost
6 of this new Asbury project is not included as part of this case.

7 Empire's Compliance Plan also calls for the transition of the Riverton Units 7 and 8
8 from operation on coal to full operation on natural gas after the summer of 2013. Riverton
9 Units 7 and 8, along with Riverton Unit 9, a small combustion turbine that requires steam
10 from Unit 7 for start-up, will be retired upon the conversion of Riverton Unit 12 to a
11 combined cycle unit. This conversion is currently scheduled for the 2016 timeframe.

12 **Q. PLEASE CONTINUE WITH A DESCRIPTION OF THE RIVERTON PROJECT.**

13 A. The Riverton coal units are two small coal-fired units known as Riverton Units 7 and 8. Unit
14 7 is rated at 38 MW but operates at a maximum of 24 MW net on coal; it was installed in
15 1950. Unit 8 is rated at 54 MW and operates at a maximum of 45 MW net on coal; it was
16 installed in 1954. Both units can also operate solely on natural gas or over-fire with natural
17 gas while burning coal to reach the rated capacity levels. Riverton Units 7 and 8, along with
18 Riverton Unit 9, will be retired upon the conversion of Riverton Unit 12 to a combined cycle
19 unit. As I mentioned earlier, this conversion is currently scheduled for the 2016 timeframe.

20 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY AT THIS TIME?**

21 A. Yes, it does.

AFFIDAVIT OF BRAD P. BEECHER

STATE OF MISSOURI)
) ss
COUNTY OF JASPER)

On the 2nd day of July, 2012, before me appeared Brad P. Beecher, to me personally known, who, being by me first duly sworn, states that he is the President and CEO of The Empire District Electric Company and acknowledged 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.

Brad P. Beecher
Brad P. Beecher

Subscribed and sworn to before me this 2nd day of July, 2012

Sherril J. Blalock
Notary Public

My commission expires: Nov. 16, 2014

