

Exhibit No.:

Issue: Merger
Regulatory Plan

Witness: Robert B. Fancher

Sponsoring Party: The Empire District Electric
Company

Case No.: EM-2000-369

Date Prepared: August 23, 2000

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MISSOURI PUBLIC SERVICE COMMISSION
Case No. EM-2000-369

Surrebuttal Testimony

of

Robert B. Fancher

Jefferson City, Missouri

Exhibit No. 10
Date 9-12-00 Case No. EM-2000-369
Reporter RF

**SURREBUTTAL TESTIMONY
ROBERT B. FANCHER**

**THE EMPIRE DISTRICT ELECTRIC COMPANY
CASE NO. EM-2000-369**

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**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI
SURREBUTTAL TESTIMONY OF ROBERT B. FANCHER
ON BEHALF OF THE EMPIRE DISTRICT ELECTRIC COMPANY**

CASE NO. EM-2000-369

1 Q. Please state your name.

2 A. My name is Robert B. Fancher.

3 Q. By whom are you employed and in what capacity?

4 A. The Empire District Electric Company ("Empire") as Vice President-Finance.

5 Q. Did you previously file testimony in this case?

6 A. Yes. I previously filed direct testimony and supplemental direct testimony in this case.

7 Q. What is the purpose of your surrebuttal testimony?

8 A. My surrebuttal testimony will respond to the rebuttal testimony submitted by various
9 parties on the following subjects:

- 10 1. Frozen capital structure
- 11 2. Moratorium
- 12 3. Preferred stock redemption
- 13 4. Bond solicitation
- 14 5. Pre-moratorium rate case
- 15 6. Customers sharing in price appreciation

FROZEN CAPITAL STRUCTURE

17 Q. Please comment on the rebuttal testimony of Mr. Burdette and Mr. Broadwater of the
18 Office of the Public Counsel ("OPC") concerning the frozen capital structure.

19 A. Mr. Burdette discusses frozen capital structure beginning at line 1, page 28 of his

1 testimony. He essentially opposes the frozen capital structure concept because he claims
2 the associated costs would not be representative of current cost of service. The frozen
3 capital structure testimony of these OPC witnesses is basically in two parts. First, they
4 argue that if the rate moratorium is approved, the Pre-Moratorium Rate Case will set rates
5 that will be in place for five years and the capital structure established in that case will be
6 frozen because rates will not change during that period.

7 Q. How do you respond?

8 A. Mr. Burdette's argument is really with the moratorium and not the frozen capital structure
9 concept. The moratorium is discussed later in my testimony.

10 Q. What is the second part of their argument?

11 A. The second part concerns the appropriate capitalization ratios to be used in a capital
12 structure. Mr. Broadwater discusses frozen capital structure beginning on page 3, line 11.
13 On page 4, lines 12-20, Mr. Burdette discusses the capitalized ratios shown in an Empire
14 projection hat UtiliCorp United Inc. ("UtiliCorp") used in due diligence work. He
15 concludes on line 19 that the equity ratio should be ** _____**.

16 Q. How do you respond?

17 A. UtiliCorp and Empire had proposed a 47.5% equity ratio which is simply the midpoint of
18 the targeted range of 45-50% equity. Empire completed a projection run on August 10,
19 2000 to reflect operations if the merger does not close. The equity ratio ranges from
20 ** _____* to ** _____** for the 2001-2004 period. A draft of this projection is attached
21 to my surrebuttal testimony as Schedule RBF-1.

22 **MORATORIUM**

23 Q. Several witnesses, including Mr. Burdette have argued that the five-year rate freeze will

1 prohibit customers from participating in reduced costs. How do you respond?

2 A. I disagree. Actually, Empire's customers will be protected by the moratorium from price
3 increases that would be present absent the merger.

4 Q. Please explain.

5 A. In the Empire projection provided to UtiliCorp during due diligence review, Empire
6 indicated that rate cases were scheduled to be filed in 1999, 2000 and 2003. The 1999
7 rate filing was not made, however, because of concerns about its possible interference
8 with the merger case. Currently, the 2000 rate filing will proceed because of the
9 expected June 2001 in-service date of Empire's State Line Combined Cycle ("SLCC")
10 generating unit. That filing will be made in the fall of this year. Without the merger,
11 Empire would file another electric rate case in 2002. Consequently, customers are not
12 harmed by the moratorium. With the merger and regulatory plan, customer rates are not
13 harmed by the moratorium. With the merger and regulatory plan, customer rates are
14 frozen. Without the merger, further rate increases beyond 2001 will be necessary.

15 **PREFERRED STOCK REDEMPTION**

16 Q. Mr. Burdette, on page 27, lines 15-20 of his testimony, questions the redemption of
17 preferred stock at 7.59% embedded cost with debt at 7.745% yield. Please respond.

18 A. Mr. Burdette has ignored the tax deductibility of interest on debt which would make the
19 cost to the customer less for debt. The preferred stock covenants limited the amount of
20 unsecured debt Empire could have outstanding at any time. As is the case with many
21 companies, Empire had made plans to issue unsecured debt in the future and would have
22 redeemed the preferred stock in any event even without the merger.

BOND SOLICITATION/INDENTURE CHANGES

1
2 Q. Please explain the bond solicitation matter referenced by Mr. Burdette and Mr.
3 Broadwater.

4 A. Mr. Broadwater discusses the bond solicitation and indenture change beginning on page
5 19, line 35. Mr. Burdette discusses this topic beginning on page 26, line 25. Each
6 concludes these expenses should not be recoverable.

7 Q. How do you respond?

8 A. The indenture provision, correctly stated by Mr. Broadwater, requires that after a merger
9 future dividends are to be paid out of current earnings.

10 The merger did precipitate the need for the indenture change. If the solicitation had not
11 been successful, the merger would not have proceeded. However, without the merger, no
12 savings are generated to benefit the customers and therefore, the costs of the bond
13 solicitation should be considered as recoverable in a rate proceeding.

PRE-MORATORIUM RATE CASE

14
15 Q. Have you read the rebuttal testimony of David Meade on behalf of Praxair, Inc.
16 (“Praxair”)?

17 A. Yes, I have.

18 Q. Which parts of Mr. Meade’s testimony are you rebutting here?

19 A. Mr. Meade refers to the Pre-Moratorium Rate Case as a “stealth” increase on page 14,
20 line 1. He also has a discussion of “Pre-approved Rate Increase proposal” starting on
21 page 14, line 7. In this discussion, Mr. Meade characterizes the rate increase as being
22 pre-approved and bypassing rate case procedures.

23 Q. How do you respond?

1 A. The "stealth" characterization is inappropriate. The discussion of a Pre-Moratorium Rate
2 Case is clearly set out in the Regulatory Plan which has been detailed in the previously
3 filed Joint Application and direct testimony. No secret has been made of the need to
4 include recovery of the new SLCC Plant in rates prior to a rate freeze.
5 Mr. Meade may have misunderstood the Pre-Moratorium Rate Case. It was and is
6 intended to be a full rate case on a normal rate case schedule. The regulatory plan in this
7 merger case, however, calls for resolving certain Pre-Moratorium Rate Case issues in the
8 context of this proceeding. The merger must close by December 31, 2000 which is prior
9 to the time the Pre-Moratorium Rate Case will be decided. To remove some uncertainty
10 surrounding that rate case and to ensure that Empire will be treated in that case as a
11 standalone company without recognition given to the impacts of the merger, those "rate
12 case" issues are presented for resolution in this case.

13 Q. Mr. Meade on page 17, lines 5 and 6, says Praxair's current contract pricing structure
14 should not be disturbed before contract expiration. Do you agree?

15 A. No, I do not. The contract with Praxair does not have a fixed pricing for the term of the
16 contract. The contract refers to a tariff sheet which is subject to change at any time with
17 approval of the Commission. The rate case to include SLCC Plant in rate base will be
18 filed with or without the merger and will affect the Praxair price. The SLCC Plant will
19 be completed in mid-2001 and is too significant an investment to delay rate
20 consideration.

CUSTOMERS SHARING IN PRICE APPRECIATION

21
22 Q. Staff witness, Hyneman states on page 50, line 14 of his rebuttal testimony that Empire's
23 customers have not shared in the stock price appreciation. Do you agree?

- 1 A. I do not. Mr. Hyneman's full sentence from page 50, lines 12-15 is: "The market value
2 appreciation of utility assets are not recognized in regulatory accounting procedures,
3 which means that Empire's customers have not participated in this stock price
4 appreciation through a sharing of any gains from the sale of the appreciated assets."
5 The facts are that Empire's customers have enjoyed rates significantly below average
6 rates in the states where Empire serves and even further below the national average rates.
7 These customers have always paid below what a market price would have been. They
8 have already received their share of the increased value of assets.
- 9 Q. Does this conclude your surrebuttal testimony?
- 10 A. Yes, it does.

2000-2004 Financial Projection
For internal EDE use

Assumptions for scenario B2000:

(Financial Statements attached)

Horizon: 2000 - 2004

Fuel & Purchased Power: Based on 2000-2004 Fuel Budget.
Updated to 6 mths actual + 6 mths budget for 2000.

Financing: Common \$80 Mil issued in February 2001 @ \$20/share,
DRIP is stopped after 3rd quarter 2000,
ESPP continues throughout,
Dividends remain at \$1.28 / share throughout

Senior Notes used 8.35% for 30 years for the following,
\$50 Mil issued in 2002, (\$37.5 M retired),
\$100 Mil issued in 2004, (\$100 M retired)

All other financing is Short Term Debt at 7.00% interest rate in 2000 and 7.50% thereafter.

Rate Relief: None allowed through 2000. A \$15.0 Mil case effective 10/2001.
10.50% ROE driver in 2003 and beyond.

Construction Budget: 2000 Construction Budget (7/99),
Adjusted only for SLCC +\$6.000 Mil in 2000.
2001-2005 Construction Budget (7/00).

O&M Budget: Based on 2000 O&M Budget escalated at 2.5% annually as
appropriate. Adjusted for Vacant Jobs; -\$.407 Mil in 2000,
-\$.242 Mil in 2001.

Additional Merger related O&M (Non-Tax Deductible) expense:
\$.597 Mil in 2000,
(\$122K YTD 6/2000)
\$.288 Mil in 2001

Note: Wherever possible, the above projections have been updated with actuals through 6/2000.

Potential impact of Fuel & Purchased Power and Natural Gas Price variability

Fuel & Purchased Power Budget for 2000

NSI w/o Capacity Charge	MWh:	4,666,710	
	\$ Mil:	73.287	
	\$/MWh:	15.70	

6 + 6 (6 months actual + 6 months budget)

NSI w/o Capacity Charge	MWh:	4,624,045	
	\$ Mil:	74.032	(\$.745 Mil over Budget)
	\$/MWh:	16.01	

Year To Date cost trend continues -- \$1.33/Mwh higher than Budget

NSI w/o Capacity Charge	MWh:	4,624,045	
	\$ Mil:	78.747	(\$5.460 Mil over Budget)
	\$/MWh:	17.03	

Natural Gas Prices

Gas purchased with Firm Transportation @ \$2.08/MMBtu:

May	500,000 MMBtu,
June	800,000
July	900,000
August	900,000

The F&PP Budget for July through December has an additional 2.5 million MMBtu spread over the various combustion turbines at prices ranging from \$2.30 to \$2.66 per MMBtu.

Potential (approximate) impacts would be partially captured in the sections above:

If gas prices are \$1.00 higher than this → \$2.5 Mil → \$1.7 Mil to EPS → \$0.10/share.
 If gas prices are \$2.00 higher than this → \$5.0 Mil → \$3.4 Mil to EPS → \$0.20/share.

INCOME STATEMENT	2000	2001	2002	2003	2004
(\$ Millions)					

BALANCE SHEET	1999	2000	2001	2002	2003	2004
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CHANGE IN CASH	2000	2001	2002	2003	2004
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TAX DETAIL (\$ Millions)	2000	2001	2002	2003	2004
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FINANCIAL RATIOS	2000	2001	2002	2003	2004
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**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of the Joint Application of)
UtiliCorp United Inc. and The Empire)
District Electric Company for Authority to)
Merge The Empire District Electric)
Company with and into UtiliCorp United)
Inc., and, in Connection Therewith, Certain)
Other Related Transactions.)

Case No. EM-2000-369

County of Jasper)
)
State of Missouri)

AFFIDAVIT OF ROBERT B. FANCHER

Robert B. Fancher, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled surrebuttal testimony; that said testimony was prepared by him and or under his direction and supervision; that if inquiries were made as to the facts in said testimony and schedules, he would respond as therein set forth; and that the aforesaid testimony and schedules are true and correct to the best of his knowledge, information, and belief.


Robert B. Fancher

Subscribed and sworn before me this 16th day of August, 2000.


Notary Public

My Commission Expires:

