Exhibit No.:	______________
Issue(s):	Experimental Regulatory Plan Amortization
Witness:	Ted Robertson
Type of Exhibit:	True-Up Direct
Sponsoring Party:	Public Counsel
Case Number:	ER-2006-00315
Date Testimony Prepared:	September 27, 2006

TRUE-UP DIRECT TESTIMONY

OF

TED ROBERTSON

Submitted on Behalf of
the Office of the Public Counsel

THE EMPIRE DISTRICT ELECTRIC COMPANY

Case No. ER-2006-0315

September 27, 2006

NP

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Empire District Electric Company of Joplin, Missouri for Authority to File Tariffs Increasing Rates for Electric Service Provided to Customers in the Missouri Service Area of the Company	)))))	**Case No. ER-2006-0315**

AFFIDAVIT OF TED ROBERTSON

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Ted Robertson, of lawful age and being first duly sworn, deposes and states:

1. My name is Ted Robertson. I am a Public Utility Accountant for the Office of the Public Counsel.

2. Attached hereto and made a part hereof for all purposes is my true-up direct testimony consisting of pages 1 through 6 and Schedule TJR-1 and TJR-2.

3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

Ted Robertson, C.P.A.
Public Utility Accountant III

Subscribed and sworn to me this 27th day of September 2006.

NOTARY PUBLIC
NOTARY SEAL
STATE OF MISSOURI

JERENE A. BUCKMAN
My Commission Expires
August 10, 2009
Cole County
Commission #05754036

Jerene Buckman
Notary Public

My commission expires August 10, 2009.

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TRUE-UP TESTIMONY
OF
TED ROBERTSON

EMPIRE DISTRICT ELECTRIC COMPANY
CASE NO. ER-2006-0315

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. Ted Robertson, P. O. Box 2230, Jefferson City, Missouri 65102.

Q. ARE YOU THE SAME TED ROBERTSON THAT HAS PREVIOUSLY FILED DIRECT, REBUTTAL AND SURREBUTTAL TESTIMONY IN THIS CASE?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR TRUE-UP TESTIMONY?

A. The purpose of this true-up testimony is to address Empire's off-balance sheet obligations debt-equivalency valuation for the amortization requirement identified in the Stipulation & Agreement for the Experimental Regulatory Plan, Empire Case No. EO-2005-0263.

II. EXPERIMENTAL REGULATORY PLAN AMORTIZATION

Q. HAS PUBLIC COUNSEL RECALCUATED THE OFF-BALANCE SHEET OBLIGATIONS' DEBT-EQUIVALENT VALUES TO COINCIDE WITH THE END DATE OF THE TRUE-UP PERIOD FOR THE INSTANT CASE?

A. Yes. The off-balance sheet obligations' debt-equivalent values that OPC is recommending are shown on Schedule TJR-1 attached to this testimony.

Q. WHAT OFF-BALANCE SHEET OBLIGATIONS DID PUBLIC COUNSEL INCLUDE IN ITS ANALYSIS?

A. Public Counsel included in its analysis of the off-balance sheet obligations the operating lease costs for Empire's Unit Trains along with three purchased power contracts, 1) Western Resources, Inc., Jeffrey Energy Center, 2) Elk River Windfarm, and 3) Plum Point.

Q. PLEASE DESCRIBE HOW PUBLIC COUNSEL CALCULATED THE OFF-BALANCE SHEET OBLIGATIONS' DEBT-EQUIVALENT VALUES.

A. To determine the debt-equivalent values of the off-balance sheet obligations, I first calculated their discounted present value as of June 30, 2006. Consistent with Standard & Poor's requirements, the debt-equivalent value for the Unit Train leases is equal to their actual discounted present value. However, Standard & Poor's further adjusts the purchased power contract's discounted present values by an additional risk factor percentage (the risk factors utilized by Standard & Poor's for purchased power contracts range from as low as 10% to as high as 50%) in order to determine their respective debt-equivalent values. Therefore, consistent with Public Counsel's belief that the risk of an earnings stream deficiency and/or default associated with these contracts is low, I further adjusted the three purchased power contracts by a risk factor ratio of 10% to arrive at their debt-equivalent values.

Q. DID YOU ALSO CALCULATE AN OPERATING LEASE DEPRECIATION ADJUSTMENT?

A. Yes. This amount is also provided on Schedule TJR-1.

Q. HAS PUBLIC COUNSEL DETERMINED THE AMORTIZATION THAT SHOULD BE INCLUDED IN THE INSTANT CASE AS OF THE TRUE-UP DATE?

A. No. The determination of the actual amortization is subject to several variables; such as, the Commission's ultimate decision on the remaining contested issues in the instant case. Once those issues are decided, the procedure to calculate the amortization is not in dispute and is rather mechanical.

Q. IS THERE ANY OTHER ISSUE CONCERNING THE VALUATION OF THE OFF-BALANCE SHEET OBLIGATIONS' DEBT-EQUIVALENCY WHICH PUBLIC COUNSEL BELIEVES RELEVANT?

A. Yes. During the hearing in the instant case, both the MPSC Staff and Company alleged that the Standard & Poor's report upon which their recommendations were based treated the Elk River Windfarm as an operating lease. Public Counsel believes that assumption is not mathematically possible.

Q. PLEASE EXPLAIN WHY YOU BELIEVE THAT THE ELK RIVER WINDFARM IS NOT BEING TREATED AS AN OPERATING LEASE BY STANDARD & POOR'S.

A. Standard & Poor's defined methodology for calculating the debt-equivalent value of an operating lease states they are to be assigned a value equal to their discounted present value without further adjustment. According to my calculations (attached as Schedule TJR-2), the discounted present value of the Elk River Windfarm alone, at June 30, 2006, is almost double the total debt-equivalent value (includes all off-balance sheet obligations) recommended by Staff and Company. Therefore, I believe that the total debt-equivalent value recommended by Staff and Company cannot be based on a calculation wherein the Elk River Windfarm is treated as an operating lease. For if it were, the actual total debt-equivalent value would approach an amount nearly 2.25 times what those parties currently recommend this Commission accept.

Q. IF THE ELK RIVER WINDFARM IS NOT BEING TREATED AS AN OPERATING LEASE, HOW DOES THE STAFF AND COMPANY RECOMMENDATION DIFFER WHEN COMPARED TO PUBLIC COUNSEL'S RECOMMENDATION FOR THE OFF-BALANCE SHEET OBLIGATIONS' DEBT-EQUIVALENT VALUES?

A. The sole difference, I believe, is the assignment of an appropriate risk factor to the purchased power agreements. Standard & Poor's utilizes a range of risk factors to determine the debt-equivalency values of these contracts. Staff and Company's recommendation appears to utilize a 30% risk factor to value the contracts whereas Public Counsel has utilized a 10% risk factor.

Q. DOES PUBLIC COUNSEL CONTINUE TO BELIEVE THAT A 10% RISK FACTOR IS THE MOST REASONABLE TO USE?

A. Yes. Public Counsel continues to believe that the likelihood Empire will default on any one of these contracts is very near to nil. That means that the earnings stream required to satisfy their payment, for the Missouri-regulated operations portion, is almost guaranteed, and as such, they should be valued utilizing a risk factor at the bottom of the risk range defined by Standard & Poor's. Utilization of a higher risk factor will result in higher costs than necessary being reimbursed by ratepayers.

Q. DOES THE RISK OF POSSIBLE THIRD PARTY DEFAULTS ASSOCIATED WITH EMPIRE'S PURCHASED POWER CONTRACTS INCREASE THE LIKELIHOOD THAT THE REGULATED UTILITY WILL NOT BE ABLE TO SATISFY ITS DEBT OBLIGATIONS?

A. No. In the state of Missouri there are various other regulatory processes available to address the financial impact of such events on Empire should they occur. For example, if such an event would occur, and to my knowledge none are imminent, the utility could, at its option, request emergency rate relief and/or seek an accounting authority order to track any additional costs incurred. The structure of the regulatory processes in Missouri effectively eliminate any additional risk the utility could incur should a third party to an Empire purchase power contract fail to meet its responsibilities.

Q. DOES THIS CONCLUDE YOUR TRUE-UP TESTIMONY?

A. Yes, it does.

Schedules TJR-1 and TJR-2
have been deemed
“Highly Confidential”
in their entirety.