

Exhibit No. _____
Issue: Reason for Rate Case
Witness: Myron W. McKinney
Type of Exhibit: Direct Testimony
Sponsoring Party: Empire District
Case No.:
Date Prepared: November 2, 2000

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

**Direct Testimony
of
Myron W. McKinney**

Exhibit No. 3
Date 5/29/01 Case No. ER-2001-277
Reporter KEM

November 2000

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI
DIRECT TESTIMONY OF MYRON W. MCKINNEY
ON BEHALF OF THE EMPIRE DISTRICT ELECTRIC COMPANY**

CASE NO.

1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A. Myron W. McKinney, 602 Joplin Street, Joplin, Missouri, 64802.

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

4 A. The Empire District Electric Company ("Empire") is my employer. I am President and
5 Chief Executive Officer. I also serve on Empire's Board of Directors.

6 Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND.

7 A. I was graduated from Southwest Missouri State University in Springfield, Missouri, in
8 1967 with a Bachelor of Science Degree in Business Administration.

9 Q. PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE.

10 A. I joined Empire as a Customer Service Consultant immediately following graduation
11 from Southwest Missouri State in 1967. My employment with Empire has been
12 continuous since then. From 1967 until 1982, I held various positions in Empire's
13 customer service area. In 1982 I was elected Vice President of Customer Services. In
14 that position I was responsible for all customer service activities, industrial and technical
15 services, public information and advertising, legislative affairs, and regulatory contacts.
16 In 1994 I assumed the position of Executive Vice President. In that position I had
17 responsibility for customer services, production, and transmission and distribution. In
18 October 1995 I was appointed Executive Vice President - Commercial Operations. In
19 that position I was responsible for all activities directly affecting customers, including

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1 customer service, line services, and engineering. On April 1, 1997, I was elected to my
2 current position.

3 Q. HAVE YOU PREVIOUSLY PRESENTED TESTIMONY BEFORE THIS OR ANY
4 OTHER REGULATORY BODY?

5 A. Yes, I have presented testimony before the Missouri Public Service Commission
6 ("Commission") on a number of occasions. I have also presented testimony before the
7 Arkansas Public Service Commission, the Kansas Corporation Commission, the
8 Oklahoma Corporation Commission, and the Federal Energy Regulatory Commission
9 ("FERC").

10 Q. PLEASE DESCRIBE EMPIRE.

11 A. Empire is a Kansas corporation with its principal office and place of business at 602
12 Joplin Street, Joplin, Missouri 64801. Empire is engaged in the business of providing
13 electrical and water utility services in Missouri to customers in its service areas and has a
14 certificate of service authority issued by the Commission to provide certain
15 telecommunications services.

16 Q. WILL YOU PLEASE DESCRIBE THE AREA SERVED BY EMPIRE AND GIVE A
17 BRIEF DESCRIPTION OF THE CUSTOMERS SERVED?

18 A. Empire provides electric service in an area of approximately 10,000 square miles in the
19 southwest corner of Missouri and reaches into adjacent corners of the states of Kansas,
20 Oklahoma, and Arkansas. Empire's operations are regulated by the utility regulatory
21 commissions of these four states as well as the FERC. The area embraces 120
22 incorporated communities in 23 counties in the four-state area. In Missouri, Empire's

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1 territory ranges from the Kansas-Missouri state line on the west to a north-south
2 extension of the east boundary of Greene County on the east, and from the Arkansas-
3 Missouri state line on the south to a western extension of the north boundary of Hickory
4 County on the north.

5 While tourism plays an important role in the economic growth of the region, the area
6 economy is well balanced with small to medium manufacturing operations, medical,
7 agricultural, and retail interests all contributing to the economic expansion of Southwest
8 Missouri.

9 At the end of 1999, Empire served 122,212 residential customers, 22,386 commercial
10 customers, 342 industrial customers, 1,763 public authority customers, and 7 wholesale
11 customers throughout our system. Most of the communities in the service area are small,
12 with only 16 being in excess of 1,500 population. Only 7 communities have a population
13 in excess of 5,000, and the largest city is Joplin, Missouri, with a population of
14 approximately 41,000.

15 In Missouri, at the end of 1999, Empire served 106,125 residential customers, 19,504
16 commercial customers, 267 industrial customers, 1,434 public authority customers, and 3
17 wholesale customers. In addition to electric service, Empire also provides regulated
18 water service to approximately 4,500 customers in the Missouri communities of Aurora,
19 Marionville, and Verona.

20 Q. PLEASE DESCRIBE EMPIRE TELECOMMUNICATION OPERATIONS.

21 A. Empire began installing fiber optics in 1996 for internal purposes; but, due to the
22 economics, the cables contained excess capacity beyond that which Empire had plans to

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1 use. Some of this excess capacity has since been leased to customers such as cellular
2 phone companies, long distance carriers, hospitals, schools, and manufacturing. This
3 capacity is either a number of dedicated dark fibers or an amount of bandwidth on the
4 SONET (Synchronous Optical Network) network. In January of 1998 Empire became
5 certified (Case No. TA-98-233) as an intrastate interexchange and local exchange
6 telecommunications company.

7 Q. EXPLAIN, GENERALLY, EMPIRE'S NEED FOR A RATE INCREASE AT THIS
8 TIME.

9 A. Since the Company's last rate increase, which became effective in September of 1997,
10 Empire has continued to construct facilities necessary for the provision of service to its
11 customers. We are currently involved with the construction of the State Line Combined
12 Cycle project which is planned to be available for use on June 1, 2001. This rate request
13 is largely driven by the State Line construction, but it is also necessary to include other
14 capital expenditures and operating cost increases which have occurred since the 1997
15 case. That case produced rates which reflected a test year ending December 31, 1996,
16 with adjustments for the State Line Combustion Turbine #2. By the time the rates we are
17 requesting in this case become effective in the third or early fourth quarter of 2001, the
18 existing rates will be based on a test year which is four years old. Unfortunately, in
19 Missouri there is no other means for achieving any relief from major construction
20 expenditures or increased operating expense except the initiation of a general rate case.

21 Q. OTHER THAN PLANT IN SERVICE, WHAT ADDITIONAL FACTORS
22 CONTRIBUTE TO THE NEED FOR THIS INCREASE?

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1 A. Despite Empire's best efforts, we continue to experience the normal escalations in the
2 cost of providing service. Payroll increases, maintenance expense, and health care are
3 examples. However, a significant portion of the increase we are requesting is represented
4 by the increased cost of natural gas. As the Commission is undoubtedly aware, natural
5 gas prices are at levels not seen since the energy crisis of the late 70's. Since no
6 mechanism exists to recover these costs outside of the rate case scenario, they must be
7 included in rates. It is Empire's belief that Missouri electric consumers would be well
8 served if the Commission would actively support an adjustment clause to mitigate the
9 fluctuation of fuel prices on rates while at the same time providing the utility with some
10 opportunity to recover fuel costs which may be well above those included in its tariffs.
11 Empire intends to request the introduction of legislation to this end and encourages the
12 Commission to support such legislation.

13 Q. DOES THE PROPOSED MERGER BETWEEN UTILICORP UNITED AND EMPIRE
14 HAVE ANY BEARING ON THIS CASE?

15 A. Absolutely not. This case is necessary to reflect the cost of providing service. The case
16 would have been processed exactly as it is with or without the Merger Agreement. The
17 test year that we are suggesting contains no expenses which are related to merger
18 activities and we have made a sincere effort to prepare and present this case in a matter
19 that will represent a proper cost of service regardless of the outcome of the merger case.
20 Mr. Fancher discusses this issue more extensively in his testimony.

21 Q. ARE THERE OTHER COMMENTS YOU WOULD LIKE TO MAKE?

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1 A. Yes. Historically, Empire customers have enjoyed rates which were among the lowest in
2 the state. I realize that the magnitude of this increase will likely move our rates closer to
3 the statewide average. However, the return on rate base for the test year is 4.62% without
4 rate relief and, with the full amount requested, the return on rate base would be 9.61%.
5 The Company worked diligently to make the proper decision regarding the construction
6 of the new State Line Combined Cycle Plant, and we believe that construction of the
7 facility is still the best long-term solution for supplying our customers' needs in this
8 rapidly developing area. I would only request that the Commission give this request a
9 full and impartial review.

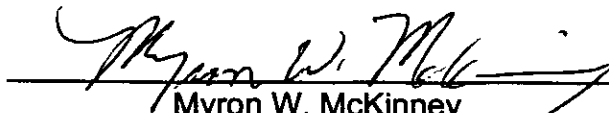
10 Q. DOES THIS CONCLUDE YOUR PREPARED DIRECT TESTIMONY AT THIS
11 TIME?

12 A. Yes.

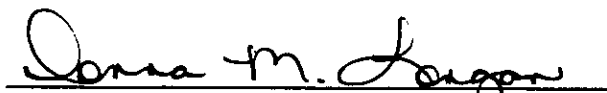
AFFIDAVIT

STATE OF MISSOURI)
) ss
COUNTY OF JASPER)

On the 27th day of October, 2000, before me appeared Myron W. McKinney, to me personally known, who, being by me first duly sworn, states that he is the President and Chief Executive Officer 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.


Myron W. McKinney

Subscribed and sworn to before me this 27th day of October, 2000.


Donna M. Longan, Notary Public

My commission expires: January 24, 2004.

