

Exhibit No.:
Issue(s):
Witness/Type of Exhibit:
Sponsoring Party:
Case No.:

Rate of Return
Burdette/Direct True-Up
Public Counsel
ER-2001-299

DIRECT TRUE-UP TESTIMONY

OF

MARK BURDETTE

FILED³

AUG 07 2001

Missouri Public
Service Commission

Submitted on Behalf of
the Office of the Public Counsel

THE EMPIRE DISTRICT ELECTRIC COMPANY

Case No. ER-2001-299

August 7, 2001

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**


In The Matter Of The The Empire District Electric)	
Company's Tariff Sheets Designed to Implement)	Case No. ER-2001-299
a General Rate Increase for retail Electric)	<u>Tariff No. 200100518</u>
Service Provided to Customers in the Missouri)	
Service Area of the Company.)	

AFFIDAVIT OF MARK BURDETTE

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Mark Burdette, of lawful age and being first duly sworn, deposes and states:

1. My name is Mark Burdette. I am a Financial Analyst for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my direct true-up testimony consisting of pages 1 through 3 and Schedules MB-1T through MB-3T.
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.



Mark Burdette

Subscribed and sworn to me this 7th day of August 2001.

Bonnie S. Howard
Notary Public

My commission expires May 3, 2005.

1 **DIRECT TRUE-UP TESTIMONY**

2 **OF**

3 **MARK BURDETTE**

4
5 **EMPIRE DISTRICT ELECTRIC COMPANY**

6 **CASE NO. ER-2001-299**

7
8
9 **INTRODUCTION**

10 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

11 A. Mark Burdette, P.O. Box 7800, Jefferson City, Missouri 65102-7800.

12 Q. HAVE YOU PREVIOUSLY FILED TESTIMONY BEFORE THE MISSOURI PUBLIC
13 SERVICE COMMISSION (MPSC OR THE COMMISSION) IN THIS PROCEEDING?

14 A. Yes.

15 Q. WHAT IS THE PURPOSE OF THIS TESTIMONY?

16 A. I will present updates to certain calculations pertaining to Empire's cost-of-capital. As in
17 my Direct testimony, I will recommend and testify to the capital structure, individual
18 component costs, and weighted average cost of capital that should be allowed in this
19 proceeding.

20 Q. HAVE YOU PREPARED SCHEDULES IN SUPPORT OF YOUR TESTIMONY?

21 A. Yes. I have prepared an analysis consisting of three schedules that is attached to this
22 testimony (MB-1T through MB-3T). This analysis was prepared by me and is correct to
23 the best of my knowledge and belief.

SUMMARY OF FINDINGS

Q. PLEASE SUMMARIZE YOUR FINDINGS CONCERNING THE OVERALL COST OF CAPITAL FOR THE EMPIRE DISTRICT ELECTRIC COMPANY.

A. Empire should be allowed an overall rate of return of between 8.75% and 8.85% on its net original-cost rate base. This is slightly different than the overall return of 8.78% to 8.88% that I recommended in Direct testimony. This return has been determined using Empire's capital structure and embedded costs at 30 June 2001. The capital structure and weighted average cost of capital are shown on Schedule MB-1T.

ANALYSIS

Q. PLEASE SHOW THE CAPITAL STRUCTURE THAT YOU RECOMMEND.

A. I recommend the following capital structure be used in this proceeding:

	<u>Percent</u>
Common equity	37.75%
Trust Preferred	7.88%
Long-term debt	54.36%
Short-term debt	0.0%

Q. IS THE CURRENT CAPITAL STRUCTURE CONSISTENT WITH HOW EMPIRE HAS BEEN CAPITALIZED IN THE PAST?

A. Yes. Empire retired its preferred stock as part of the failed merger transaction with UtiliCorp United. The current capital structure contains Empire's new Trust Preferred issue.

Q. HAS EMPIRE MADE CHANGES TO ITS CAPITAL STRUCTURE SINCE THE COMPLETION OF THE EVIDENTIARY HEARING IN THIS CASE?

A. Yes. Empire issued \$50 million in Trust Preferred securities. There have also been expected minor changes in the levels of long term debt and common equity.

1 Q. DID YOU INCLUDE SHORT-TERM DEBT IN YOUR RECOMMENDED CAPITAL
2 STRUCTURE?

3 A. No. Although Empire does have an increased level of short-term borrowings in the form of
4 Commercial Paper, the levels are offset by the Company's Construction Work In Progress
5 (CWIP). I consider only short-term debt *in excess of CWIP* for potential inclusion in the
6 capital structure. Therefore, I appropriately excluded short-term debt from Empire's capital
7 structure.

8 Q. IS EMPIRE'S CURRENT CAPITAL STRUCTURE APPROPRIATE TO USE TO
9 CALCULATE ITS OVERALL RATE OF RETURN?

10 A. Yes.

11 Q. WHAT IS THE APPROPRIATE EMBEDDED COST FOR EMPIRE'S LONG-TERM
12 DEBT?

13 A. The embedded cost rate is 7.88% for Empire's long-term debt. Calculation of the
14 embedded cost of long-term debt is shown on Schedule MB-2T.

15 Q. WHAT IS THE APPROPRIATE EMBEDDED COST RATE FOR EMPIRE'S NEW
16 TRUST PREFERRED SECURITIES?

17 A. The embedded cost rate is 8.77% for Empire's Trust Preferred securities. Calculation of
18 the embedded cost is shown on Schedule MB-3T.

19 Q. WHAT IS YOUR RECOMMENDED COST OF COMMON EQUITY FOR EMPIRE?

20 A. Empire should be allowed a return on common equity of 10.0% to 10.25%.

21 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

22 A. Yes, it does.

BURDETTE - DIRECT**ER-2001-299 Empire District Electric Company****Empire District Electric Company****True Up Capital Structure and Weighted Average Cost of Capital****as of 30 June 2001**

	<u>Amount</u>	<u>Percent</u>	<u>Cost Rate</u>	<u>Weighted Cost</u>
Common Stock Equity \$	231,960,394	37.75%	10.00%	3.78%
Preferred Stock \$	48,442,500	7.88%	8.77%	0.69%
Long Term Debt \$	334,006,532	54.36%	7.88%	4.29%
<hr/>				
\$	614,409,426	100.00%		8.75%

	<u>Amount</u>	<u>Percent</u>	<u>Cost Rate</u>	<u>Weighted Cost</u>
Common Stock Equity \$	231,960,394	37.75%	10.25%	3.87%
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<hr/>				
\$	614,409,426	100.00%		8.85%

Pre-Tax Interest Coverage at 10% ROE

Tax factor = 1.62308

	<u>Weighted Cost</u>	<u>Pre-tax Weighted Cost</u>
Common Stock Equity	3.78%	6.13%
Preferred Stock	0.69%	1.12%
Long Term Debt	4.29%	4.29%
Total	<hr/> 8.75%	<hr/> 11.54%

Pre-tax weighted cost: 11.54%

Cost of Debt: 4.29%

Pre-tax Interest Coverage **2.69**

BURDETTE - DIRECT

ER-2001-299 **Empire District Electric Company**

Empire District Electric Company

TRUE UP Embedded Cost of Long Term Debt as of 30 June 2001

Description:	Issue Date	Maturity Date	a Amount Outstanding	b Interest Rate	c Annual Interest	d	e	f	g	h=c+f	i=a-d-g
						Unamortized Issuance Expense/ Premium	Accrual Adjustment	Annual Amortization Issuance Expenses/ Premium	Unamortized Loss/ Discount	Total Annual Issuance Cost and Interest	Carrying Value
General mortgage	12/01/90	12/01/20	\$2,250,000	9.750%	\$ 219,375	\$ 24,745		\$ 1,650	\$ 7,292	\$ 221,025	\$ 2,217,963
	07/01/92	07/01/02	\$37,500,000	7.500%	\$ 2,812,500	\$ 49,047		\$ 228,559	\$ 179,511	\$ 3,041,059	\$ 37,271,442
	11/01/94	11/01/09	\$20,000,000	8.125%	\$ 1,625,000	\$ 138,244		\$ 24,923	\$ 69,445	\$ 1,649,923	\$ 19,792,311
	10/01/93	10/01/23	\$45,000,000	7.000%	\$ 3,150,000	\$ 466,378		\$ 239,717	\$ 4,867,317	\$ 3,389,717	\$ 39,666,305
	06/01/93	06/01/28	\$13,212,000	7.250%	\$ 957,870	\$ 605,259		\$ 22,486		\$ 980,356	\$ 12,606,741
	11/01/93	11/01/13	\$8,000,000	5.300%	\$ 424,000	\$ 298,340	\$ (156)	\$ 38,445	\$ 175,812	\$ 462,445	\$ 7,525,848
	11/01/93	11/01/13	\$5,200,000	5.200%	\$ 270,400	\$ 233,338	\$ (120)	\$ 27,367	\$ 104,184	\$ 297,767	\$ 4,862,478
	04/01/95	04/01/05	\$10,000,000	7.600%	\$ 760,000	\$ 78,277		\$ 20,874		\$ 780,874	\$ 9,921,723
	12/01/96	12/01/16	\$25,000,000	7.200%	\$ 1,800,000	\$ 366,028		\$ 23,742		\$ 1,823,742	\$ 24,633,972
	06/01/95	06/01/25	\$30,000,000	7.750%	\$ 2,325,000	\$ 350,179	\$ 8,796	\$ 133,086	\$ 2,832,795	\$ 2,458,086	\$ 26,817,026
Unsecured	04/01/98	04/01/10	\$50,000,000	6.500%	\$ 3,250,000	\$ 404,325		\$ 73,542	\$ 239,167	\$ 3,323,542	\$ 49,356,508
	11/01/99	11/15/04	\$100,000,000	7.700%	\$ 7,700,000	\$ 544,452		\$ 199,736	\$ 121,333	\$ 7,899,736	\$ 99,334,215
			\$346,162,000		\$ 25,294,145	\$3,558,612	\$ 8,520	\$1,034,127	\$ 8,596,856	\$ 26,328,272	\$334,006,532

Total carrying value \$ 334,006,532

Total annual expense \$ 26,328,272 =c+e+f

Overall embedded cost **7.883%**

BURDETTE - DIRECT**ER-2001-299 Empire District Electric Company****Empire District Electric Company****TRUE UP Embedded Cost of Trust Preferred Stock as of 30 June 2001**

	<u>Amount</u>	<u>Annual Dividend</u>
Preferred Stock	\$ 50,000,000	\$ 4,250,000
less Issuance costs	<u>\$ 1,557,500</u>	
Net Proceeds	\$ 48,442,500	

Embedded Cost of Preferred Stock**8.77%**

Source: Company response to Staff DR 3802