

Exhibit No.: _____
Issue: Trust Preferred Stock
Witness: David W. Gibson
Type of Exhibit: True-Up Surrebuttal Testimony
Sponsoring Party: The Empire District Electric
Company
Case No.: ER-2001-299
Date Prepared: August 17, 2001

Before the Public Service Commission
Of the State of Missouri

FILED²
AUG 17 2001
Missouri Public
Service Commission

True-up Surrebuttal Testimony

of

David W. Gibson

August 17, 2001

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI
TRUE-UP SURREBUTTAL TESTIMONY OF DAVID W. GIBSON
ON BEHALF OF THE EMPIRE DISTRICT ELECTRIC COMPANY

CASE NO. ER-2001-299

1 Q. STATE YOUR NAME AND ADDRESS PLEASE.

2 A. David W. Gibson. My business address is 602 Joplin Street, Joplin, Missouri.

3 Q. ARE YOU THE SAME DAVID W. GIBSON WHO HAS PREVIOUSLY
4 SUBMITTED DIRECT, REBUTTAL AND SURREBUTTAL TESTIMONY AS
5 WELL AS REBUTTAL TRUE-UP TESTIMONY IN THIS CASE?

6 A. Yes, I am.

7 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY AT THIS TIME?

8 A. I will be responding to the rebuttal true-up testimony of the Office of Public Counsel
9 witness, Mr. Mark Burdette.

10 Q. WHAT IS THE ISSUE THAT WAS RAISED BY MR. BURDETTE?

11 A. Mr. Burdette disagrees with the method that the Staff witness, Ms. Roberta McKiddy,
12 used in calculating her embedded cost of Empire's trust preferred stock which was
13 issued in March of 2001. His position is that it is inappropriate for the amortization of
14 issue costs to be included as part of the embedded cost.

15 Q. DO YOU AGREE WITH THAT POSITION?

16 A. No. Trust preferred stock is different from the usual preferred stock that is issued by
17 companies. It has the characteristics that are normally associated with debt
18 instruments but receives equity treatment by Standard & Poor's. This was one of the
19 reasons that this type of obligation was issued by Empire, because it gave an
20 alternative to issuing additional common stock which would subject the Company to

1 earnings dilution or additional long-term debt with the risk of being further
2 downgraded by the rating agencies.

3 Q. YOU MENTIONED THAT IT HAS THE CHARACTERISTICS OF A DEBT
4 INSTRUMENT. WHAT ARE THEY?

5 A. First of all, Empire has a trust whose sole responsibility is to make payments to the
6 preferred stockholders. Empire has issued \$50,000,000 in unsecured debt to the trust
7 which guarantees the preferred stock dividend payments. Just as with debt
8 instruments, the preferred stock has a definite redemption date. The document under
9 which the trust preferred was issued requires it to be redeemed in 2031. This gives it a
10 definite life as opposed to either traditional preferred or common stock which is issued
11 for an indefinite period of time. The issue costs associated with the trust preferred are
12 being amortized by Empire over the life of the trust preferred. In this instance, it is 30
13 years.

14 Q. WHY ARE THE ISSUE COSTS BEING AMORTIZED OVER 30 YEARS?

15 A. As I mentioned before, the life of the unsecured debt and therefore the trust preferred
16 is 30 years. These costs are required to be amortized over the life of the asset to
17 properly reflect the costs according to Generally Accepted Accounting Principles
18 ("GAAP"). This is exactly the same methodology used by this Commission in prior
19 rate cases for long-term debt, which is the instrument that Empire has issued in order
20 to back up the trust preferred. Without this amortization, the issue costs would not be
21 recovered, only the amount of the dividend. As he appropriately explained in his
22 rebuttal true-up testimony, the amount of the dividend is \$4,250,000 (\$50,000,000 at
23 8.5%). Under his approach, however, when the issue is retired in 2031, the issue costs
24 of \$1,557,500 will not have been reflected or recovered in rates, only the dividend
25 payments. As is the case with long-term debt, there is an issue cost associated with
26 these trust preferred instruments and it should be properly reflected in rates as Ms.
27 McKiddy has proposed.

1 Q. DO YOU AGREE WITH THE ASSERTION OF MR. BURDETTE ON PAGE 3,
2 LINES 5-6 OF HIS REBUTTAL TESTIMONY THAT MS. MCKIDDY HAS
3 COMMITTED AN ERROR IN HER CALCULATION OF THE EMBEDDED COST?

4 A. No, Ms. McKiddy has properly reflected all costs associated with the issuance of the
5 trust preferred.

6 Q. IF THESE COSTS ARE NOT RECOGNIZED AS SUGGESTED BY MR.
7 BURDETTE, WHAT WOULD BE THE RESULT?

8 A. These costs are properly incurred by the Company as part of the financing activity
9 which resulted in the trust preferred. The money raised by this financing was used to
10 fund the general operations of Empire. If these costs are not included as a part of the
11 embedded cost of the trust preferred then the shareholders would be required to bear
12 these costs. There has been no allegation or evidence that these costs were not
13 incurred for the benefit of ratepayers. This is not a cost that should be placed on the
14 shareholders as it represents a legitimate cost incurred by Empire for the benefit of our
15 ratepayers.

16 Q. WHY IS IT A BENEFIT TO RATEPAYERS?

17 A. One of the benefits of the trust preferred is that Empire is not viewed by rating
18 agencies as issuing more debt which would result in a higher cost to issue long-term
19 debt. The other is that Empire receives a tax benefit since it is viewed as issuing debt,
20 while the tax exempt Empire trust is the one that issues the preferred stock. This
21 results in a lower cost to our ratepayers. It would not be appropriate to pass along all
22 of the benefits received by the issuance of the trust preferred to the ratepayers without
23 recognizing the costs that are directly associated with the benefits.

24 Q. WHAT IS YOUR RECOMMENDATION IN THIS REGARD?

25 A Mr. Burdette's stated concerns should be disregarded by the Commission because
26 there is no basis for them.

27 Q. DOES THIS CONCLUDE YOUR TRUE-UP SURREBUTTAL TESTIMONY?

1 A. Yes, it does.

AFFIDAVIT

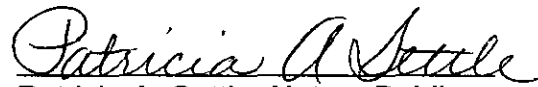
STATE OF MISSOURI)
) ss
COUNTY OF JASPER)

On the 17th day of August, 2001, before me appeared David W. Gibson, to me personally known, who, being by me first duly sworn, states that he is the Vice President - Finance 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.



David W. Gibson

Subscribed and sworn to before me this 17th day of August, 2001.



Patricia A. Settle, Notary Public

My Commission expires: August 16, 2002.

