

Exhibit No.: \_\_\_\_\_  
Issue: Interim Rates  
Witness: W. L. Gipson  
Type of Exhibit: Direct Testimony  
Sponsoring Party: The Empire District Electric Company  
Case No.: ER- 2001-452  
Date Testimony Prepared: February 15, 2001

DIRECT TESTIMONY  
OF  
W. L. GIPSON  
THE EMPIRE DISTRICT ELECTRIC COMPANY  
BEFORE THE  
MISSOURI PUBLIC SERVICE COMMISSION

**FILED**  
FEB 16 2001  
Missouri Public  
Service Commission

- 1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.
- 2 A. William L. Gipson, 602 Joplin Street, Joplin, Missouri 64802.
- 3 Q. WHO IS YOUR EMPLOYER AND WHAT POSITION DO YOU HOLD?
- 4 A. I am employed by The Empire District Electric Company ("Empire" or "Company") in the  
5 position of Executive Vice President.
- 6 Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND.
- 7 A. I hold a Bachelor of Science Degree in Business Management Technology and an Associate  
8 Degree in Computer Science from Missouri Southern State College in Joplin, Missouri.
- 9 Q. PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE.
- 10 A. Prior to joining Empire I worked for an international furniture manufacturing company and a  
11 regional bank. I joined Empire as a Computer Programmer in 1981. I have held positions in  
12 Information Services, Economic Development and Commercial Operations. In April 1997 I  
13 was elected Vice President – Commercial Operations and in February 2001 was named  
14 Executive Vice President. My employment with Empire has been continuous since 1981.

1 Q. HAVE YOU PREVIOUSLY PRESENTED TESTIMONY BEFORE THIS OR ANY  
2 OTHER REGULATORY BODY?

3 A. Yes, I have presented testimony before this Commission and before the Arkansas Public  
4 Service Commission.

5 Q. MR. GIPSON, WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

6 A. The purpose of my direct testimony is to provide the background for Empire's decision to  
7 request interim rate relief and to explain why the Commission should grant such relief.

8 Q. WHEN DID EMPIRE LAST OBTAIN A PERMANENT ELECTRIC RATE INCREASE  
9 IN MISSOURI?

10 A. Empire received an increase of \$13,589,364 in Missouri jurisdictional revenues or about  
11 8.25% in Case No. ER-97-81. Those rates became effective on September 19, 1997.

12 Q. DO YOU HAVE A PERMANENT RATE CASE NOW PENDING BEFORE THIS  
13 COMMISSION?

14 A. Yes. Empire filed Case No. ER-01-269 on November 3, 2000 seeking an increase in  
15 Missouri jurisdictional revenue of approximately \$41,467,926.

16 Q. WHAT ARE THE MAJOR FACTORS DRIVING THE PENDING PERMANENT CASE?

17 A. Fuel and purchased power costs, along with Empire's new State Line Combined Cycle  
18 generating unit which is scheduled to become operational June 1, 2001, are the driving  
19 factors. The permanent case is timed to pick up the addition of this unit and the related costs.

20 Q. WHY IS EMPIRE REQUESTING INTERIM RATE RELIEF FOUR MONTHS  
21 FOLLOWING THE FILING OF CASE NO. ER-01-269?

22 A. Empire is in a rather unique position in that the Company relies on natural gas for about  
23 40% of its energy generation. Since Empire's last case, natural gas prices have essentially

1 doubled and tripled. For example, in 1997 gas prices were in the \$2.00 - \$3.00 (per million  
2 BTU) range. In addition, the Company is unable to gain any relief from the purchased  
3 power market as prices there are clearly impacted by these rising natural gas prices. These  
4 factors have put the Company in an untenable situation. In other words, the volatility in  
5 natural gas and purchased power prices creates considerable fluctuation and uncertainty in  
6 Empire's operating costs because Empire does not have a fuel adjustment clause or similar  
7 mechanism in Missouri, where it conducts about 85% of its business, as it does in other  
8 jurisdictions, to allow timely recovery of actual costs. As a consequence, the Company now  
9 finds itself in the unenviable position of needing additional rate revenue to earn even a  
10 minimal return for its stockholders and to maintain the financial integrity of the Company.  
11 In fact, interim rate relief has been recognized as a tool in these circumstances. In its Order  
12 Granting Intervention and Adopting A Procedural Schedule in Case No. ER-2001-294, the  
13 Commission noted its Staff's observation that "a mechanism of long standing exists for  
14 electric utilities suffering the adverse effects of rising natural gas prices, namely, the interim  
15 or emergency rate relief request, subject to refund." In that case, the Staff suggested that  
16 MPS (UtiliCorp United Inc. dba Missouri Public Service) should seek quick relief, if such is  
17 indeed necessary, through that mechanism. In this interim case involving Empire, such  
18 relief is "indeed necessary."

19 Q. IN WHAT FACILITIES DOES EMPIRE BURN NATURAL GAS?

20 A. The Company utilizes natural gas in its generating units at the Energy Center, Riverton and  
21 State Line. In total, the Company presently has about 480 MW gas-fired generation and will  
22 add 150 MW with the new State Line Combined Cycle unit.

1 Q. GIVEN THIS DIRE OUTLOOK, WHY HAS EMPIRE WAITED UNTIL NOW TO FILE  
2 THIS INTERIM CASE?

3 A. I respectfully ask the Commission to reflect upon Empire's situation as it has evolved in  
4 recent months. Empire entered into a merger agreement on May 10, 1999 with UtiliCorp  
5 United Inc. We worked diligently to complete that merger up until it was terminated by  
6 UtiliCorp on January 2, 2001. During that time period, Empire lost significant numbers of  
7 talented and long-term employees, many of these in the regulatory and planning area. This  
8 loss of talent, coupled with our work on the permanent rate case, has delayed our action until  
9 now.

10 Q. WHAT IS THE MAGNITUDE OF EMPIRE'S PROPOSED INTERIM CASE ON ITS  
11 CUSTOMERS?

12 A. Using our 2001 forecasted generation mix, for every \$1.00 change (up or down) in the unit  
13 price of natural gas from our existing basis, a typical residential customer (750 kWh/month)  
14 should incur a \$2.25/month surcharge or credit. Considering the existing basis, and our  
15 2001 budget for natural gas, a typical residential customer's monthly bill would increase by  
16 \$4.64. The plant expansion portion of the request would increase the same bill by \$1.67.

17 Q. WHAT IS EMPIRE'S FORECAST FOR GAS COSTS IN THE NEAR TERM?

18 A. Empire's forecast indicates delivered natural gas costs will be in excess of \$4.41 per MMBtu  
19 for the remainder of 2001. Further discussion of anticipated wholesale natural gas prices  
20 can be found in the testimony of Mr. Stan Kaplan.

21 Q. WHAT IF THE GAS COSTS RETURN TO THE EARLIER LEVELS?

22 A. It would be wonderful if that happens because everyone, with the possible exception of gas  
23 producers, would probably like that result. We have structured our request to protect our

1 customers if that were to occur. The interim rider provides for a refund mechanism plus  
2 interest if the revenues authorized by the Commission in Case No. ER-01-269 do not exceed  
3 the revenues produced by the proposed interim rates.

4 Q. ARE YOU FAMILIAR WITH THE COMMISSION'S PAST PRACTICES REGARDING  
5 THE GRANTING OF INTERIM RATE RELIEF?

6 A. I would say I am generally familiar with them. We tried to educate ourselves about the  
7 factors the Commission has discussed in previous cases. From that, we generally  
8 understand that while the Commission has discretion to grant or withhold interim rate relief,  
9 the Commission does not grant such relief lightly, that it expects the utility to seek such  
10 relief only as a last resort, and it expects the utility to take the steps it can to moderate the  
11 need for interim rate relief. We feel we are doing that.

12 Q. HAS THE COMPANY TAKEN ANY STEPS TO REDUCE COSTS?

13 A. As I mentioned earlier, during the merger process Empire lost many talented and long-term  
14 employees due to the uncertainties presented by the pending merger. Now that the merger  
15 has been terminated, the Company must begin to rebuild that base of talent. The Company  
16 could theoretically try to reduce employment expenses, but to implement any sort of hiring  
17 freeze now would only exacerbate the existing problem as well as threaten the ability of the  
18 Company to deliver safe and reliable electric service to its customers. In other words, the  
19 Company is already at a greatly reduced employment level so there is no reasonable  
20 possibility for any program that we could implement to reduce the employment level.

21 Q. HOW MANY EMPLOYEES DEPARTED THE COMPANY DURING THE MERGER  
22 PROCESS?

1 A. Excluding retirements, terminations, long-term disability and deaths, sixty-two (62)  
2 employees left the Company. Areas most heavily impacted were skilled crafts, planning,  
3 regulatory, information technology, engineering, accounting and finance.

4 Q. IS EMPIRE TAKING ANY STEPS TO CURTAIL THE ADDITION OF NEW HIRES?

5 A. Yes. All vacancies must be approved by Mr. Myron McKinney, President and Chief  
6 Executive Officer, prior to being filled.

7 Q. HAS EMPIRE INSTITUTED ANY SORT OF SALARY FREEZE OR PAY CUTS?

8 A. Yes. The Company has decided to forego any structural increase in non-union employee job  
9 values for 2001. The Company did, however, examine base pay for all non-union  
10 employees and created a pool of some \$300,000 or 0.1% of 2001 projected operating costs.  
11 This pool was allocated to each manager in the organization to apply – based on  
12 performance - to the employees in their work group. The Company awarded incentive  
13 payments based on 2000 performance. Incentive pay was accrued and expensed in 2000 and  
14 totaled approximately \$323,000. The Company has a contractual obligation with  
15 International Brotherhood of Electrical Workers, Local 1474 that would call for a market-  
16 based wage increase for its members effective October 22, 2001.

17 Q. HAS EMPIRE INSTITUTED ANY OTHER COST CONTROL MEASURES?

18 A. Yes. Travel and seminars or conferences have been curtailed. In fact, any travel involving  
19 air travel or overnight accommodations now requires senior officer approval. Other  
20 expenses, both capital and operating, have been reduced or delayed to the greatest extent  
21 possible.

22 Q. IS ANY PART OF THE PERMANENT RATE CASE, OR THIS INTERIM REQUEST,  
23 CAUSED BY EXPENSES INCURRED BY EMPIRE DUE TO THE FAILED MERGER?

1 A. No.

2 Q. HOW MUCH INTERIM RATE RELIEF IS THE COMPANY REQUESTING?

3 A. The Company is requesting an immediate interim rate increase in the amount of  
4 \$16,770,495 for the months March through September 2001. This amount would be  
5 collected on an equal percentage basis utilizing the existing approved rate design using a  
6 kWh surcharge basis.

7 Q. HOW WAS THIS AMOUNT DETERMINED?

8 A. There are two components. The first is determined by simply calculating the difference  
9 between the cost of natural gas used during the period March 2000 through September 2000  
10 and the projected cost for the same period during 2001. The result is that our total Company  
11 natural gas cost is projected to increase by \$17,450,117 during the period of March through  
12 September 2001. The second component is related to the addition of generation capacity at  
13 State Line. The entire Company portion totals \$3,041,690 for the period of July through  
14 September 2001. The portion of this related to Missouri retail customers is \$16,770,495 or  
15 81.84% of 2000 system Kwh sales. These costs represent a major portion of Empire's  
16 overall operating expense and can be recovered without distorting any other ratemaking  
17 principles. There are no other significant factors which offset these rapidly rising costs.  
18 Further details can be found in the testimony of David W. Gibson.

19 Q. WHAT ABOUT A CLAIM THAT THIS WOULD CONSTITUTE UNLAWFUL SINGLE  
20 ISSUE RATEMAKING BY ONLY FOCUSING ON SEVERAL ASPECTS OF YOUR  
21 COSTS?

22 A. I do not think that would apply. Considering all relevant factors, it is clear that Empire's  
23 actual return is inadequate and rate relief is necessary and appropriate, as explained by Mr.

1 Gibson. In its Case No. ER-01-269, I am confident that Empire will be entitled to a  
2 permanent rate increase in excess of the requested \$16.8 million interim amount.

3 Q. WHY IS THE COMPANY REQUESTING PERMANENT RATE RELIEF?

4 A. The timing of the permanent case is driven in part by the need to include in rate base a new  
5 Combined Cycle generating unit which is being installed at the State Line location. This  
6 new unit will not likely be operational before June 1, 2001. Consequently, the Company  
7 could not expect any permanent rate increase based on this new plant to be effective before  
8 the third quarter of 2001. The costs of financing this new plant, plus the significant and  
9 unforeseen cost increases of natural gas as a fuel for electric generation, have combined to  
10 seriously impact Empire's earnings in the short term. This is why Empire must have interim  
11 relief as soon as possible. As Mr. Gibson explains in his direct testimony, Empire's rate of  
12 return is falling below acceptable limits with no hope for recovery without additional  
13 revenue. To wait for the permanent case to be completed without attempting to stop the  
14 financial deterioration which is occurring as a result of the rapid and dramatic increase in  
15 gas prices and purchased power prices clearly impacted by natural gas is simply not good  
16 stewardship of our stockholders' resources and will impair our ability to provide safe and  
17 reliable electric service to our customers.

18 Q. JUST HOW COULD THE COMMISSION'S FAILURE TO PROVIDE TIMELY  
19 INTERIM RATE RELIEF IMPACT ON EMPIRE'S ABILITY TO PROVIDE SERVICE?

20 A. I am not saying that the lights are going to go out because we cannot pay our bills if we do  
21 not get interim relief. I am saying that it is not prudent to allow Empire's financial condition  
22 to deteriorate, even for a short period of time, because of the long-term consequences. For  
23 example, debt is priced, in large part, on the ability of the issuer to repay it. Those agencies

1 that rate our Company are going to take a dim view of any material financial deterioration.

2 That, in turn, will raise the cost of debt plus have a compounding effect on our ability to

3 raise equity capital.

4 A. IS EMPIRE SEEKING INTERIM RATE RELIEF IN ANY OF ITS OTHER  
5 JURISDICTIONS?

6 A. Not immediately.

7 Q. WHY NOT?

8 A. As I indicated earlier, approximately 85% of our business is in Missouri and, accordingly,  
9 we are focusing our efforts on this, our largest jurisdiction. Furthermore, changes in our fuel  
10 and purchased power costs are adjusted automatically in Oklahoma and Arkansas as well as  
11 our FERC-regulated accounts, so we are already recovering those increased natural gas costs  
12 in those jurisdictions. With those adjustment mechanisms in place, there is no need to seek  
13 interim relief in those jurisdictions. Furthermore, because of their relatively small size in  
14 comparison to Missouri, interim relief there would not go very far to cover the underlying  
15 costs. In addition, the loss of talent in our regulatory area greatly restricts our capacity to  
16 make unscheduled filings in other jurisdictions. We have given notice in Arkansas of our  
17 intention to file a general rate case there in the near future, and will expect the new  
18 generating plant additions to be dealt with in that case.

19 Q. IN THE EVENT THE COMMISSION CONCLUDES IT DOES NOT HAVE THE  
20 RESOURCES TO PROCESS THIS CASE IN A TIMELY MANNER, WHAT  
21 SUGGESTIONS DO YOU HAVE?

22 A. In previous similar cases in other jurisdictions the Company has paid the costs for outside  
23 independent auditors to perform some or all of the required audit work.

1 Q. WHAT ACTION DO YOU WANT THE COMMISSION TO TAKE WITH RESPECT TO  
2 THIS INTERIM FILING?

3 A. The Company is requesting that the Commission allow the implementation of the interim  
4 surcharge on the requested effective date, March 1, 2001, for recovery of increased natural  
5 gas prices and July 1, 2001, for recovery of the plant addition at State Line, all without  
6 suspension. Empire realizes that this would be an extraordinary action on the part of the  
7 Commission. However, Empire's existing situation justifies a timely regulatory response  
8 which this Commission is fully capable of providing.

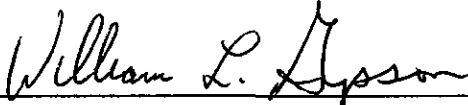
9 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

10 A. Yes, it does.

AFFIDAVIT

STATE OF MISSOURI )  
 ) ss  
COUNTY OF JASPER )

On the 15th day of February, 2001, before me appeared W.L. Gipson, to me personally known, who, being by me first duly sworn, states that he is the Executive Vice President 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.

  
\_\_\_\_\_  
W.L. Gipson

Subscribed and sworn to before me this 15th day of February, 2001

  
\_\_\_\_\_  
Patricia A. Settle, Notary Public

My commission expires: August 16, 2002

