

Exhibit No. _____
Issue: Finances; Test Year True-Up;
Capital Structure
Witness: Robert B. Fancher
Type of Exhibit: Direct Testimony
Sponsoring Party: Empire District
Case No.: ER-2001-299
Date Prepared: November 2, 2000

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

Direct Testimony

of

Robert B. Fancher

November 2000

FILED
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Missouri Public
Service Commission

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI
DIRECT TESTIMONY OF ROBERT B. FANCHER
ON BEHALF OF THE EMPIRE DISTRICT ELECTRIC COMPANY**

CASE NO.

1 Q. STATE YOUR NAME, PLEASE.

2 A. Robert B. Fancher.

3 Q. WHERE DO YOU RESIDE?

4 A. 2519 South Kingsdale Road, Joplin, Missouri.

5 Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

6 A. I am employed by The Empire District Electric Company ("Empire" or "Company"). I am
7 Vice President - Finance and Chief Financial Officer.

8 Q. PLEASE DESCRIBE BRIEFLY YOUR EDUCATIONAL AND PROFESSIONAL
9 BACKGROUND FOR THE COMMISSION.

10 A. I was graduated from Oklahoma State University, Stillwater, Oklahoma, in 1966 with a
11 Bachelor of Science degree in Electrical Engineering. In December 1971, I received a
12 Master of Science degree from the University of Arkansas, Fayetteville, Arkansas. I am a
13 registered Professional Engineer in the State of Missouri.

14 Q. WHEN WERE YOU FIRST EMPLOYED BY EMPIRE?

15 A. In January 1972.

16 Q. HAS YOUR EMPLOYMENT BEEN CONTINUOUS SINCE THAT TIME?

17 A. Yes.

18 Q. PLEASE REVIEW YOUR EMPLOYMENT EXPERIENCE AT EMPIRE FOR THE
19 COMMISSION.

20 A. In January 1972, I began as an Engineer in the Transmission Section of the Engineering
21 Department. I was promoted through the positions of Assistant System Protection Engineer,
22 Rate Engineer, Director of Computer Services, and Director of Corporate Services. In July

1 1984 I was elected to the position of Vice President - Corporate Services where I was
2 responsible for rates, corporate planning, computer services, and purchasing. In October
3 1995 I was elected to my current position of Vice President - Finance and Chief Financial
4 Officer. In this position, I am responsible for accounting, financing, and treasury and
5 regulatory activities of the Company.

6 Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS CASE?

7 A. I will be testifying concerning: (1) Empire's financial outlook; (2) normalized capital
8 structure; (3) the test-year period; and (4) the true-up period.

9 **I. FINANCIAL OUTLOOK**

10 Q. MR. FANCHER, PLEASE DESCRIBE THE CURRENT FINANCIAL SITUATION OF
11 EMPIRE.

12 A. It is not as good as it should be or needs to be to be financially solid and attractive to
13 investors. At the end of September the total Company return on average equity was 10.1%.
14 This is below what Empire or any electric utility should be earning.

15 Q. DOES THIS SITUATION EXIST BECAUSE OF THE PENDING MERGER WITH
16 UTILICORP UNITED ("UCU")?

17 A. The merger-related expenses have played a part in the lower return, but the construction of
18 State Line Combined Cycle Plant ("SLCC") and the drastic increase in natural gas prices
19 have been the more dominant factors.

20 Q. IF THE MERGER WITH UCU IS COMPLETED, WILL THIS RATE INCREASE BE
21 NECESSARY?

22 A. Yes, Empire must earn a proper return as a division of UCU.

23 Q. IF THE MERGER DOES NOT CLOSE, IS THE INCREASE STILL NECESSARY?

24 A. Absolutely, the SLCC will be the largest single plant investment Empire has made.
25 Recovery on this investment is critical for Empire to remain financially viable. In addition,
26 natural gas prices have increased dramatically and have had a significant impact on

1 Empire's earnings. There is no other mechanism to recover these costs than a general rate
2 increase.

3 Q. HOW WILL EMPIRE'S FINANCIAL OUTLOOK BE AFFECTED IF THE MERGER
4 DOES NOT CLOSE?

5 A. Empire's earnings will suffer significantly for two years and then begin to gradually
6 improve. This improvement can only happen if adequate rate relief is received in this case.

7 **II. NORMALIZED CAPITAL STRUCTURE**

8 Q. WHAT IS THE CAPITAL STRUCTURE EMPIRE IS RECOMMENDING IN THIS
9 CASE?

10 A. Empire is recommending a capital structure of 47.5% common equity, 0% preferred equity,
11 and 52.5% long-term debt. This was derived as the mid point of Empire's long-term goals
12 for capital structure of 45-50% common equity. It also fits with Empire's history of
13 maintaining common equity in that range.

14 Q. WHAT IS EMPIRE'S ACTUAL CAPITAL STRUCTURE FOR THE TEST YEAR?

15 A. Empire's actual capital structure is 38.9% common equity, 0% preferred equity, and 61.1%
16 debt.

17 Q. WHY IS EMPIRE RECOMMENDING A CAPITAL STRUCTURE THAT IS
18 DIFFERENT THAN ACTUAL?

19 A. In the Merger Agreement Empire agreed to refund the preferred stock and to not issue
20 additional common equity prior to close. In late 1999, Empire needed to issue new
21 financing of \$100,000,000 (\$100M) due to SLCC construction expenditures and to redeem
22 short-term debt issued to refund the preferred equity. This \$100M was financed by an issue
23 of long-term unsecured notes. Absent the restriction in the Merger Agreement, part of this
24 financing would have been common equity.

25 Q. WHAT ARE FUTURE FINANCING PLANS?

1 A. If the merger closes, future financings will be provided by UCU. UCU will assume all
2 Empire debt and there will not be any Empire common equity. If the merger doesn't close,
3 further financing to cover SLCC expenditures will be required and to balance the capital
4 structure, Empire will need to issue common equity early in 2001.

5 **III. TEST YEAR**

6 Q. WHAT IS EMPIRE'S RECOMMENDATION FOR THE TEST YEAR FOR USE IN THIS
7 CASE?

8 A. The recommended test year is the twelve months ended December 31, 2000 with proper
9 adjustments for the Company's new State Line Combined Cycle Plant. This plant is
10 scheduled to be operational June 1, 2001 and have costs booked by July 31, 2001.

11 Q. WILL MERGER COSTS AND EXPENSES BE INCLUDED IN THE RATE CASE?

12 A. Empire is filing the rate case as a stand alone Company without merger effects. The merger
13 related costs that have been incurred will not be included in the cost of service. The
14 personnel vacancies that have been created due to the merger will be included in cost of
15 service as if jobs are filled.

16 Q. DOES THE COMPANY REQUEST A TRUE-UP AUDIT AND HEARING?

17 A. Empire believes a true up for SLCC costs will be necessary. The SLCC costs should be
18 reflected in the Company's books by July 31, 2001 and available for audit by the Staff in
19 August 2001.

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

21 A. Yes.

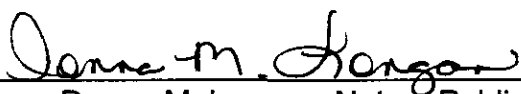
AFFIDAVIT

STATE OF MISSOURI)
) ss
COUNTY OF JASPER)

On the 27th day of October, 2000, before me appeared Robert B. Fancher, 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.


Robert B. Fancher

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


Donna M. Longan, Notary Public

My commission expires: January 24, 2004.

