

Exhibit No.
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Witness: W. L. Gipson
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Case No.
Date Testimony Prepared: June 2009

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

Direct Testimony

of

W. L. Gipson

June 2009

DIRECT TESTIMONY
OF
W. L. GIPSON
THE EMPIRE DISTRICT GAS COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION
CASE NO.

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. William L. Gipson, 602 Joplin Street, Joplin, Missouri 64801.

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

4 A. The Empire District Electric Company (“Empire”) is my employer. I hold the position of
5 President and Chief Executive Officer.

6 **Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND.**

7 A. I hold a Bachelor of Science Degree in Business Management Technology and an
8 Associate Degree in Computer Science from Missouri Southern State University in Joplin,
9 Missouri.

10 **Q. PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE.**

11 A. Prior to joining Empire, I worked for an international furniture manufacturing company
12 and a regional bank. I joined Empire as a computer programmer in 1981. I have held
13 positions in Information Services, Economic Development, and Operations. My
14 employment with Empire has been continuous since 1981.

15 **Q. HAVE YOU PREVIOUSLY PRESENTED TESTIMONY BEFORE THIS OR ANY**
16 **OTHER REGULATORY BODY?**

WILLIAM L. GIPSON
DIRECT TESTIMONY

1 A. Yes, I have presented testimony before the Missouri Public Service Commission
2 (“Commission”), the Kansas Corporation Commission, the Oklahoma Corporation
3 Commission, and the Arkansas Public Service Commission.

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

5 A. The purpose of my testimony is to give a brief description of Empire and how the gas
6 operations are handled by The Empire District Gas Company (“EDG”) the wholly owned
7 subsidiary of Empire that was formed to hold The Missouri gas utility assets acquired from
8 Aquila, Inc. (“Aquila”) in June of 2006.

9 **Q. PLEASE DESCRIBE THE EMPIRE DISTRICT ELECTRIC COMPANY.**

10 A. Empire is a Kansas corporation with its principal office and place of business at 602 South
11 Joplin Avenue, Joplin, Missouri 64801. Empire is engaged in the business of providing
12 electrical utility services in Missouri, Kansas, Arkansas, and Oklahoma; water utility
13 services in Missouri; and has a certificate of service authority issued by the Commission to
14 provide certain telecommunications services. In addition, as indicated Empire operates a
15 natural gas distribution business in northwest, north central, and west central Missouri that
16 provides gas service to 44 communities through its wholly owned subsidiary, EDG.

17 **Q. WILL YOU PLEASE DESCRIBE THE AREA SERVED BY EDG OPERATIONS**
18 **AND GIVE A BRIEF DESCRIPTION OF THE CUSTOMERS SERVED?**

19 A. EDG provides natural gas service to approximately 45,000 gas customers in 44 communities
20 in northwest, north central, and west central, Missouri. The larger of the communities
21 served include Sedalia, Nevada, Chillicothe, Platte City and Maryville. The customer count
22 includes approximately 39,500 residential customers, 5,300 commercial and industrial
23 customers, and around 290 large and small transportation customers. The natural gas

WILLIAM L. GIPSON
DIRECT TESTIMONY

1 distribution system is served from three (3) different interstate pipelines, Southern Star
2 Central, Panhandle Eastern and ANR, and the system has historically been split into three
3 different operating areas, each of which is served by one of the interstate pipelines. EDG
4 has designated each of these operating areas has South (Southern Star), North (Panhandle)
5 and Northwest (ANR). As of the end of 2008, the natural gas distribution system(s)
6 consisted of approximately 1,200 miles of various sizes of pipe operated by 71 gas
7 employees (including 18 central support personnel).

8 **Q. HOW LONG HAS EMPIRE OPERATED THE GAS DISTRIBUTION PROPERTY?**

9 A. Empire has been operating the property since June 1, 2006, the day it was acquired from
10 Aquila.

11 **Q. PLEASE DESCRIBE HOW THE GAS OPERATIONS WERE TRANSITIONED TO**
12 **EMPIRE FROM AQUILA.**

13 A. First, all of the Aquila gas employees operating the distribution system in Missouri were
14 offered jobs at EDG. This offer involved 52 employees and all but 4 accepted the
15 employment offer. By keeping the day-to-day operating team intact, we were able to avoid
16 much of the employee confusion that might have taken place if an entirely new team of day-
17 to-day operating managers had been required. No Aquila employees involved with central
18 support services such as accounting, gas supply procurement, billing, treasury, human
19 resources, etc., were considered to be part of the transaction and EDG and its parent
20 company, Empire, had to provide these central support functions. As part of the transaction
21 with Empire, Aquila agreed to continue to perform some of the essential central support
22 services until Empire and or EDG was in a position to take over. A couple of examples of
23 the essential services that Aquila continued to provide after the transaction closed included,

WILLIAM L. GIPSON
DIRECT TESTIMONY

1 customer service billing and gas supply services. Empire, through EDG, was able to fully
2 take over all areas by November 2006, and terminate all of its transition services agreements
3 with Aquila.

4 **Q. HOW MANY EMPLOYEES DOES EDG HAVE DEDICATED EXCLUSIVELY TO**
5 **THE NATURAL GAS DISTRIBUTION BUSINESS AT THE PRESENT TIME?**

6 A. At the present time EDG has 55 employees directly tied to the business of providing natural
7 gas service in Missouri. This compares to the 52 employees that Aquila had operating the
8 system at the time it was acquired by Empire.

9 **Q. HAS EDG BEEN ABLE TO HOLD THE LINE ON OPERATING EXPENSES IN**
10 **THE BUSINESS OVER THE PAST TWO AND ONE-HALF YEARS?**

11 A. Yes, we have been able to reduce expenses in some areas of the operation since the last rate
12 case was filed by Aquila. For example, EDG has been able to reduce the annual
13 administrative and general expenses associated with the gas business from around \$5.5
14 million to \$4.2 million or 23 percent. In addition, there have been other savings realized
15 due to reductions in property taxes and depreciation expenses of around \$650,000 per year.

16 **Q. HAS EDG CONDUCTED ANY CUSTOMER SURVEYS SINCE THE**
17 **ACQUISITION?**

18 A. Yes. In addition to holding periodic meetings with its larger customers since the
19 acquisition, EDG recently conducted a customer survey, which included customer focus
20 groups in four communities to obtain customer feedback on the gas operations.

21 **Q. WHAT HAS EDG LEARNED FROM THIS CUSTOMER INTERACTION?**

22 A. EDG learned of several opportunities where better communication with our customers
23 would be beneficial. The suggestions from our customers will be implemented by several

WILLIAM L. GIPSON
DIRECT TESTIMONY

1 departments throughout EDG. One area where Empire has been able to take immediate
2 action is in our explanation of the current bill. Customers found some of the language
3 confusing. EDG has taken the step to provide a new printable bill explanation on our Web
4 site for our customers. The information gathered from the customer focus groups will assist
5 in EDG's ability to improve customer retainage and improve business to customer
6 interaction.

7 **Q. WHAT PROGRAMS HAS EDG IMPLEMENTED TO BENEFIT CUSTOMERS?**

8 A. In October 2008, EDG announced an expansion of its Project Help program into the gas
9 territory. Project Help is an assistance program created to meet the emergency energy-
10 related expenses of elderly or disabled residents. The program is administered by the
11 Missouri Valley Community Action Agency based in Marshall. The program is based on the
12 idea of "neighbors helping neighbors." EDG provided \$20,000 in seed money to begin the
13 program but additional contributions are received by voluntary donations from customers.
14 There are no deductions for salaries, administrative costs, or other expenses.

15 **Q. HOW MUCH OF A RATE INCREASE IS EDG REQUESTING IN THIS CASE?**

16 A. EDG is requesting an overall increase in its Missouri gas rates of \$2.9 million, or
17 approximately a 4.87 percent increase in overall rates when the cost of natural gas is
18 included.

19 **Q. WHY DOES EDG NEED A MISSOURI RETAIL RATE INCREASE AT THIS**
20 **TIME?**

21 A. The major factors driving the need for a Missouri gas rate increase at this time are the
22 overall contraction in the number of customers served by the system and the continued
23 decline in usage per customer. This latter trend is well known throughout the industry, EDG

WILLIAM L. GIPSON
DIRECT TESTIMONY

1 witness Kelly Walters will provide additional details on the usage per customer in her direct
2 testimony in this case. The per capita consumption statistics we are seeing on our system
3 essentially mirror those seen nationally, with normalized annual residential customer
4 consumption declining to around 73 Mcf.

5 **Q. WHAT IS EDG'S PROPOSED RETURN ON EQUITY ("ROE") IN THIS CASE?**

6 A. EDG is proposing an ROE of 11.3 percent through the direct testimony of Dr. James H.
7 Vander Weide. EDG's ability to provide reliable gas service is directly dependant upon
8 the allowed ROE and overall cost recovery. Dr. H. Edwin Overcast of Black & Veatch
9 also discusses a change in our proposed rate design that will move to decouple our delivery
10 revenue stream (cost recovery) from the volumes delivered, which, as I mentioned earlier,
11 are declining on a per capita basis and are directly affected by the weather.

12 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY AT THIS TIME?**

13 A. Yes, it does.

AFFIDAVIT OF W.L. GIPSON

STATE OF MISSOURI)
) ss
COUNTY OF JASPER)

On the 4th day of June, 2009, before me appeared W.L. Gipson, 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 acknowledges 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
W.L. Gipson

Subscribed and sworn to before me this 4th day of June, 2009

Patricia A. Settle
Notary Public

My commission expires

