Exhibit No.:

Issue: Cost of Capital

Witness: Roberta A. McKiddy

Sponsoring Party: MoPSC Staff
Type of Exhibit: Direct Testimony

Case No.: ER-2001-299

Date Testimony Prepared: August 7, 2001

MISSOURI PUBLIC SERVICE COMMISSION UTILITY SERVICES DIVISION

TRUE-UP DIRECT TESTIMONY

OF

ROBERTA A. MCKIDDY

AUG 7 2001
Service Commission

THE EMPIRE DISTRICT ELECTRIC COMPANY

CASE NO. ER-2001-299

Jefferson City, Missouri August 2001

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1	TRUE-UP DIRECT TESTIMONY
2	OF
3	ROBERTA A. MCKIDDY
4	THE EMPIRE DISTRICT ELECTRIC COMPANY
5	CASE NO. ER-2001-299
6	
7	Q. Please state your name.
8	A. My name is Roberta A. McKiddy.
9	Q. Are you the same Roberta A. McKiddy who filed direct, rebuttal and
10	surrebuttal testimony in this proceeding on behalf of the Staff of the Missouri Public Service
11	Commission (Staff)?
12	A. Yes, I am.
13	Q. In your direct testimony, did you recommend a fair and reasonable rate of
14	return for the Missouri jurisdictional electric utility ratebase for The Empire District Electric
15	Company (EDE)?
16	A. Yes, I did.
17	Q. What is the purpose of your true-up direct testimony?
18	A. The purpose of this true-up testimony is to update EDE's capital structure and
19	provide a revised overall rate of return as of June 30, 2001. It is also to update the embedded
20	costs of long-term debt and preferred stock to reflect the actual costs as of June 30, 2001.
21	<u>Capital Structure</u>
22	Q. Did you perform an analysis of EDE's capital structure as of June 30, 2001?
23	A. Yes, I did.
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1	Q. What was the result of your analysis?
2	A. As of June 30, 2001, EDE's capital structure is as follows: 37.76% commo
3	stock equity; 7.88% preferred stock and 54.36% long-term debt. (see Schedule 1)
4	Q. How does this compare to the capital structure used in your direct testimon
5	evaluation of EDE?
6	A. EDE's capital structure as of June 30, 2001 is slightly different from that use
7	for the period ending December 31, 2000, which was as follows: 39.80% common stock
8	equity and 60.20% long-term debt. The major difference in the capital structure from
9	December 31, 2000 and June 30, 2001 is the issuance of Trust Preferred Stock (TOPrS)
10	which occurred on or about March 1, 2001. The common equity and long-term debt ratio
11	were adjusted accordingly to account for the inclusion of TOPrS.
12	Embedded Cost of Trust Preferred Stock (TOPrS)
13	Q. Did you perform an analysis of the embedded cost of preferred stock as o
14	June 30, 2001?
15	A. Yes, I did.
16	Q. What was the result of your analysis?
17	A. As of June 30, 2001, Staff recommends an embedded cost for preferred stoc
18	of 8.88 percent. (see Schedule 4)
19	Embedded Cost of Long-term Debt
20	Q. Did you perform an analysis of the embedded cost of long-term debt as of
21	June 30, 2001?
22	A. Yes, I did.
23	Q. What was the result of your analysis?

True-Up Direct Testimony of Roberta A. McKiddy

- A. As of June 30, 2001, Staff recommends an embedded cost for long-term debt of 7.87 percent. (see Schedules 2 and 3)
- Q. How does this compare with the embedded cost of long-term debt recommended for the period ending December 31, 2000?
- A. EDE's embedded cost of long-term debt is 1 basis point lower than the embedded cost of long-term debt recommended for the period ending December 31, 2000.

Overall Rate of Return

- Q. How have the changes to capital structure and embedded costs affected the overall rate of return for EDE?
- A. EDE's overall rate of return as of June 30, 2001 has increased slightly. Staff recommends the following overall rates of return based on a return on equity range of 8.50 percent to 9.50 percent with a midpoint of 9.00 percent. (see Schedule 5)

Return on Equity	8.50%	9.00%_	9.50%
Common Stock Equity	3.21%	3.40%	3.59%
Preferred Stock	.70%	.70%	.70%
Long-term Debt	4.28%	4.28%	4.28%
Overall Rate of Return	8.19%	8.38%	8.57%

- Q. For comparison purposes, what was the overall rate of return recommended for the period ending December 31, 2000?
- A. Staff's recommended overall rates of return for MAWC for the period ending December 31, 2000, based on the above-referenced range for return on equity, were as follows:

Return on Equity	<u>8.50%</u>	9.00%	9.50%
Common Stock Equity	3.38%	3.58%	3.78%
Preferred Stock	.00%	.00%	.00%
Long-term Debt	4.74%	4.74%	<u>4.74%</u>
Overall Rate of Return	8.13%	8.33%	8.52%

True-Up Direct Testimony of Roberta A. McKiddy

- Q. Does this conclude your prepared true-up direct testimony?
- A. Yes, it does.

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BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of The Empire District Electric Company for a General Rate Increase. Case No. ER-2001-299)					
AFFIDAVIT OF ROBERTA A. MCKIDDY					
STATE OF MISSOURI)) ss.					
COUNTY OF COLE)					
Roberta A. McKiddy, being of lawful age, on her oath states: that she has participated in the preparation of the foregoing True-Up Direct Testimony in question and answer form, consisting of pages to be presented in the above case; that the answers in the foregoing True-Up Direct Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of her knowledge and belief.					
Roborta A. McKiddy					
Subscribed and sworn to before me this day of August 2001.					
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TONI M. CHARLTON NOTARY PUBLIC STATE OF MISSOURI COUNTY OF COLE My Commission Expires December 28, 2004

Capital Structure as of June 30, 2001 for The Empire District Electric Company

Capital Component	Amount in Dollars	Percentage of Capital
Common Stock Equity	\$231,960,394	37.76%
Preferred Stock	48,442,500	7.88%
Long-Term Debt	334,006,533	54.36%
Short-Term Debt	0	0.00%
Total Capitalization	\$614,409,427	100.00%

Financial Ratio Benchmarks Total Debt / Total Capital - Including Preferred Stock

Standard & Poor's Corporation's				
Utility Rating Service as of July 7, 2000	AA	Α	BBB	
Electric Utility Companies	41%	45%	50%	•
(Median)				

Note: See Schedule 11-1 for the amount of Long-Term Debt at June 30, 2001;
Short-term debt, net of construction work in progress (CWIP), is negative and, therefore, is assumed to be zero (12-month average short-term debt of \$48,166,667 less 12-month average Missouri Allocation of CWIP of \$92,472,478).

Source: The Empire District Electric Company's updated response to Staff's Data Information Request No. 3802.

Updated Schedule 10

Embedded Cost of Long-Term Debt as of June 30, 2001 for The Empire District Electric Company

	(1)	(2)	(3)
		Prinicipal Amount	Annualized Cost to
Lorg Town Dobt	Interest	Outstanding	Company
Long-Term Debt	Rate	(06/30/01)	(1*2)
First Mortgage Bonds:			
9 3/4% Series, due 2020	9.750%	\$2,250,000	\$219,375
7 1/2% Series, due 2002	7.500%	37,500,000	2,812,500
6 1/2% Series, due 2010	6.500%	50,000,000	3,250,000
8 1/8% Series, due 2009	8.125%	20,000,000	1,625,000
7% Series, due 2023	7.000%	45,000,000	3,150,000
7 1/4% Series, due 2028	7.250%	13,212,000	957,870
5.3% Series, due 2013	5.300%	8,000,000	424,000
5.2% Series, due 2013	5.200%	5,200,000	270,400
7.6% Series, due 2005	7.600%	10,000,000	760,000
7.2% Series, due 2016	7.200%	25,000,000	1,800,000
7 3/4% Series, due 2019	7.750%	30,000,000	2,325,000
7.7% Series, due 2004	7.700%	100,000,000	7,700,000

Less: Unamortized Premium & Debt Discount	(596,435)		
Less: Unamortized Debt Issuance Expense	(3,558,612)		
Less: Unamortized Losses on Reacquired Debt	(8,000,420)		
Add: Annual Amortized Debt Discount Expense			0
Add: Annual Amortized Debt Issuance Expense			420,517
Add: Annual Amortized Losses on Reacquired Debt Expense			563,276
Total	\$334,006,533		\$26,277,938
Embedded Cost of Long-Term Debt	_	\$26,277,938	
Embedded Cost of	Long-Term Debt	_	\$334,006,533
		=	7.87%

Notes:

Sources: The Empire District Electric Company's updated response to Staff's Data Information Requests No. 3802.

Updated Schedule 11-1

Annual Amortized Debt Issuance Expense as of June 30, 2001 for The Empire District Electric Company

		(1)	(2) Unamortized Losses on Reacquired Debt	(3)
		Number of	and Unamortized	Annualized
		Months to	Debt Issuance	Debt Issuance
	Maturity	Maturity	Expense	Expense (1)
Long-Term Debt	Date	(06/30/01)	(06/30/01)	(06/30/01)
First Mortgage Bonds:				
9 3/4% Series, due 2020	(12/01/20)	236.5	\$24,745	\$1,256
7 1/2% Series, due 2002	(07/01/02)	12.2	49,047	48,243
6 1/2% Series, due 2010	(04/01/10)	106.6	404,325	45,529
8 1/8% Series, due 2009	(11/01/09)	101.5	138,244	16,339
7% Series, due 2023	(10/01/23)	270.9	466,378	20,657
7 1/4% Series, due 2028	(06/01/28)	327.8	605,259	22,159
5.3% Series, due 2013	(11/01/13)	150.2	298,340	23,830
5.2% Series, due 2013	(11/01/13)	150.2	233,338	18,638
7.6% Series, due 2005	(04/01/05)	45.7	78,277	20,554
7.2% Series, due 2016	(12/01/16)	187.8	366,028	23,393
7 3/4% Series, due 2019	(06/01/19)	218.2	350,179	19,261
7.7% Series, due 2004	(11/01/04)	40.7	544,452	160,658
Subtotal			\$3,558,612	420,517
Losses on Reacquired Debt				
7 1/2% Series, due 2002	(07/01/02)	12.2	179,511	176,568
7% Series, due 2023	(10/01/23)	270.9	4,708,118	208,529
5.3% Series, due 2013	(11/01/13)	150.2	175,812	14,043
5.2% Series, due 2013	(11/01/13)	150.2	104,184	8,322
7 3/4% Series, due 2019	(06/01/19)	218.2	2,832,795	155,815_
Subtotal			8,000,420	563,276
	Total		\$11,559,032	\$983,793_

Notes:

(1) Column 3 = [(Column 2 / Column 1) * 12].

Source: The Empire District Electric Company's updated response to Staffl's Data Information Request No. 3802

Embedded Cost of Preferred Stock as of June 30, 2001 for The Empire District Electric Company

	(1)	(2)	(3)
Preferred Stock	Dividend Rate	Prinicipal Amount Outstanding (6/30/01)	Annualized Cost to Company (1*2)
Subject to Mandatory Redemption: Stated Value of \$25 Per Share			
Preferred Securities of a Subsidiary Trust Holding Solely Junior Subordinated Debentures of Empire, due 2031	8.500%	\$50,000,000	\$4,250,000
Less: Net Unamortized Issuance		(1,557,500) (1)	
Add: Annual Amortization of Issuance Expense Total		\$48,442,500	52,500 (2) \$4,302,500
	Embedded Cost	t of Preferred Stock =	\$4,302,500 \$48,442,500
		=	8.88%

Notes:

- (1) Net Unamortized Issuance is equal to Total Issuance Cost less 4 months of Amortized Issuance Expense
- (2) Annual Amortization of Issuance Expense is equal to Total Issuance Expense divided by Number of Years to Maturity

Source: The Empire District Electric Company's response to Staff's Data Request No. 3811.

Weighted Cost of Capital as of June 30, 2001 for The Empire District Electric Company

Weighted Cost of Capital Using Common Equity Return of:

Capital Component	Percentage of Capital		Continion Equity Neturn of.		
		Embedded Cost	8.50%	9.00%	9.50%
Common Stock Equity	37.76%		3.21%	3.40%	3.59%
Preferred Stock	7.88%	8.88%	0.70%	0.70%	0.70%
Long-Term Debt	54.36%	7.87%	4.28%	4.28%	4.28%
Short-Term Debt	0.00%		0.00%	0.00%	0.00%
Total	100.00%		8.19%	8.38%	8.57%

Notes:

See Schedule 10 for the Capital Structure Ratios.

See Schedule 11-1 for the Embedded Cost of Long-Term Debt.