

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

FILED
AUG 7 2001
Missouri Public
Service Commission

THE EMPIRE DISTRICT ELECTRIC COMPANY

CASE NO. ER-2001-299

Jefferson City, Missouri
August 2001

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TRUE-UP DIRECT TESTIMONY
OF
ROBERTA A. MCKIDDY

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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% common
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 testimony
5 evaluation of EDE?

6 A. EDE's capital structure as of June 30, 2001 is slightly different from that used
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 ratios
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 of
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 stock
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)

<u>Return on Equity</u>	<u>8.50%</u>	<u>9.00%</u>	<u>9.50%</u>
Common Stock Equity	3.21%	3.40%	3.59%
Preferred Stock	.70%	.70%	.70%
<u>Long-term Debt</u>	<u>4.28%</u>	<u>4.28%</u>	<u>4.28%</u>
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:

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

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1 Q. Does this conclude your prepared true-up direct testimony?

2 A. Yes, it does.

THE EMPIRE DISTRICT ELECTRIC COMPANY
CASE NO. ER-2001-299

**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
Electric Utility Companies
(Median)

AA	A	BBB
41%	45%	50%

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.

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

	(1)	(2)	(3)
	Interest	Principal	Annualized
Long-Term Debt	Rate	Amount	Cost to
		Outstanding	Company
		(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		<u>\$334,006,533</u>	<u>\$26,277,938</u>
Embedded Cost of Long-Term Debt		=	<u>\$26,277,938</u>
			<u>\$334,006,533</u>
		=	7.87%

Notes:

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

		(1)	(2)	(3)
		Number of	Unamortized Losses	
		Months to	on Reacquired Debt	
		Maturity	and Unamortized	Annualized
	Maturity	Maturity	Debt Issuance	Debt Issuance
Long-Term Debt	Date	(06/30/01)	Expense	Expense (1)
			(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			<u>\$3,558,612</u>	<u>420,517</u>
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			<u>8,000,420</u>	<u>563,276</u>
Total			<u>\$11,559,032</u>	<u>\$983,793</u>

Notes:

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

Source: The Empire District Electric Company's updated response to Staff'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	Principal 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			52,500 (2)
Total		<u>\$48,442,500</u>	<u>\$4,302,500</u>
			\$4,302,500
		Embedded Cost of Preferred Stock =	-----
			\$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**

Capital Component	Percentage of Capital	Embedded Cost	Weighted Cost of Capital Using Common Equity Return of:		
			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	<u>100.00%</u>		<u>8.19%</u>	<u>8.38%</u>	<u>8.57%</u>

Notes:

See Schedule 10 for the Capital Structure Ratios.

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