

Exhibit No.:

Issue(s):

Witness/Type of Exhibit:

Sponsoring Party:

Case No.:

Rate of Return

Burdette/Rebuttal True-up

Public Counsel

ER-2001-299

**REBUTTAL TRUE-UP TESTIMONY**  
**OF**

**MARK BURDETTE**

**FILED<sup>3</sup>**

**AUG 13 2001**

**Missouri Public  
Service Commission**

Submitted on Behalf of  
the Office of the Public Counsel

**THE EMPIRE DISTRICT ELECTRIC COMPANY**

**Case No. ER-2001-299**

August 13, 2001

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**


In The Matter Of The The Empire District Electric )	
Company's Tariff Sheets Designed to Implement )	Case No. ER-2001-299
a General Rate Increase for retail Electric )	Tariff No. 200100518
Service Provided to Customers in the Missouri )	
Service Area of the Company. )	

**AFFIDAVIT OF MARK BURDETTE**

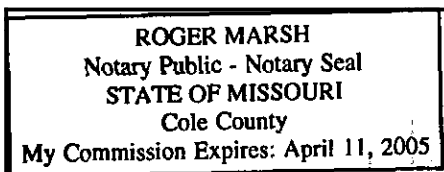
STATE OF MISSOURI    )  
                                  ) ss  
COUNTY OF COLE     )


Mark Burdette, of lawful age and being first duly sworn, deposes and states:

1. My name is Mark Burdette. I am a Financial Analyst for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony consisting of pages 1 through 3.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

  
\_\_\_\_\_  
Mark Burdette

Subscribed and sworn to me this 13<sup>th</sup> day of August 2001.



  
\_\_\_\_\_  
Notary Public

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

A. Mark Burdette, P.O. Box 7800, Jefferson City, Missouri 65102-7800.

A. Yes.

A. I will respond to the Direct True-up testimony of Missouri Public Service Commission Staff witness Roberta A. McKiddy.

A. I believe Ms. McKiddy inappropriately calculated the cost of Empire's Trust Preferred stock (TOPrS), using an embedded cost that is too high.

A. In calculating the embedded cost of Empire's TOPrS, Ms. McKiddy deducted all unamortized issuance expenses from the amount outstanding **and** included a yearly amortization expense (McKiddy-Direct True-up, Schedule 4). Both of these procedures increase the embedded cost. Although this 'double-counting' is the usual procedure used to calculate the embedded cost of **long term debt** (and is the procedure accepted by the

1 MPSC), it is **not** appropriately applied to **equity** components in the capital structure as it  
2 produces an embedded cost that is too high and is unrepresentative of the actual cash cost to  
3 the company. The Commission should distinguish between debt and equity components  
4 and the manner in which the costs are calculated.

5 Q. WHAT IS THE APPROPRIATE METHODOLOGY TO USE TO CALCULATE THE  
6 EMBEDDED COST OF TRUST PREFERRED STOCK?

7 A. As shown in my Direct True-up testimony (page 3, lines 11-14; Schedule MB-3T), the  
8 appropriate methodology is to deduct the unamortized issuance expense from the amount  
9 outstanding, but not include a yearly amortization. This method appropriately considers the  
10 actual cash flow the company received and the actual cash flow the company must pay out  
11 to service the trust preferred stock. Just as important, it produces the accurate level of  
12 revenue needed to service the trust preferred stock.

13 Q. PLEASE EXPLAIN.

14 A. As can be seen on Burdette-Direct True-up, Schedules MB-1T and MB-3T, I included  
15 \$48,442,500 in Trust Preferred Stock in Empire's capital structure at an embedded cost of  
16 8.77%. Applying this embedded cost to the capital structure level produces revenue of  
17 \$4,250,000 ( $8.77\% \times \$48,442,500 = \$4,250,000$ ). This is exactly the amount of money  
18 Empire needs to service the trust preferred stock.

19 Ms. McKiddy utilized an identical level (\$48,442,500) of trust preferred stock in  
20 Empire's capital structure, but she applied an embedded cost of 8.88%. Applying Ms.  
21 McKiddy's embedded cost of 8.88% to the capital structure level she utilized produces  
22 revenue of \$4,301,694. However, as I stated previously and as Ms. McKiddy shows on her  
23 Schedule 4, Empire's revenue requirement to service the trust preferred stock is only

1       \$4,250,000. *Her recommendation therefore produces excess revenue of \$51,694*  
2       *(\$4,301,694 - \$4,250,000).*

3   Q.    COULD YOU PLEASE SUMMARIZE YOUR COMMENTS?

4   A.    Yes. Staff witness McKiddy inappropriately calculated the embedded cost of Empire's  
5       Trust Preferred stock as 8.88% rather than the appropriate 8.77%. This error results in  
6       excessive revenue of \$51,694 built into rate of return. Ms. McKiddy should adjust her  
7       embedded cost of trust preferred for Empire to 8.77%.

8   Q.    DOES THIS CONCLUDE YOUR TESTIMONY?

9   A.    Yes.