Exhibit No. 122
Issues: Depreciation Reserve Deficiency and Embedded Cost of Debt
Witness: Robert W. Sager
Type of Exhibit: Rebuttal Testimony
Sponsoring Party: Empire District Electric
Case No. ER-2014-0351
Date Testimony Prepared: March 2015

Before the Public Service Commission
of the State of Missouri

Rebuttal Testimony

of

Robert W. Sager

March 2015

EMPIRE
SERVICES YOU COUNT ON

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OF
ROBERT W. SAGER
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
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INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. Robert W. Sager, 602 Joplin Street, Joplin, Missouri, 64801.

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

A. The Empire District Electric Company ("Empire" or "Company") is my employer. I hold the positions of Controller, Assistant Treasurer, Assistant Secretary, and Principal Accounting Officer.

Q. ARE YOU THE SAME ROBERT W. SAGER THAT PROVIDED DIRECT TESTIMONY IN THIS CASE BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION ("COMMISSION")?

A. Yes, I am.

Q. PLEASE EXPLAIN THE PURPOSE OF YOUR REBUTTAL TESTIMONY.

A. My rebuttal testimony responds to the testimony of the other parties concerning depreciation reserves for Riverton Unit 7 and Asbury Unit 2 and embedded cost of debt.

DEPRECIATION RESERVE DEFICIENCY

Q. DOES THE CASE PRESENTED BY THE COMMISSION STAFF ("STAFF") INCLUDE DEPRECIATION FOR RIVERTON UNIT 7 AND ASBURY UNIT 2 CONSISTENT WITH EMPIRE'S FILED REQUEST?

A. No. It appears Staff has not adjusted depreciation expense for Riverton Unit 7 and Asbury Unit 2. Empire included an adjustment of $342,574 (total company basis) regarding this issue for the reasons stated in my direct testimony.

Q. IF STAFF WOULD INCLUDE THIS ADJUSTMENT IN ITS CASE, WOULD THE DEPRECIATION COST BE FULLY COLLECTED PRIOR TO EMPIRE'S NEXT ANTICIPATED RATE CASE?

A. No. As was indicated in my direct testimony in this case and in testimony filed in Case No. ER-2012-0345, Riverton Unit 7 costs would still not be fully collected prior to Empire's next anticipated rate case. Overall reserves for both Riverton Unit 7 and 8 will still need to be addressed at that time. If the Commission does not include the adjustment, as suggested by Staff, overall collection would be further delayed for a unit that is no longer in service. This will result in higher customer rates in the next case than what would have been otherwise necessary.

EMBEDDED COST OF DEBT

Q. WHAT IS THE BASIS OF THE ADJUSTMENT MADE BY STAFF TO EMPIRE'S EMBEDDED COST OF DEBT?

A. Staff has removed approximately $1.5 million of unamortized expense related to costs incurred to amend the Company's electric bond indenture in 2008. These costs were incurred in order to provide a larger cushion in Empire's retained earnings balance so that shareholder dividends could continue to be paid during the Company's largest construction period.

Q. WHY DO YOU DISAGREE WITH THE STAFF'S PROPOSED DISALLOWANCE OF THESE EXPENSES AS PART OF THE COMPANY'S DEBT COSTS?

A. The costs were incurred as an integral part of Empire's overall financing plan related to the construction of the Asbury SCR, Riverton Unit 12, Iatan Unit 1 AQCS, Plum Point, and Iatan Unit 2 from 2006-2011, a plan that was approved by the Commission. The Staff's disallowance is based on the premise that costs related to the amendment of the Indenture were solely to benefit shareholders. This notion is incorrect.

Q. PLEASE EXPLAIN.

A. Empire completed the largest construction program in its history in 2011, and this construction program required significant financing from both the equity and debt markets. The equity markets were attracted to Empire as an "income stock" due to the dividend yield at that time. Had Empire reduced, or been unable to pay its dividend, the underlying stock value likely would have eroded, which would have made it difficult for the Company to raise the equity funds necessary to complete the construction cycle. Had Empire not been able to raise equity funds, the Company would have been required to increase its debt issuances to support the construction program. This would have caused Empire's debt to equity ratio to exceed acceptable rating agency guidelines for an investment-grade company. This would have led to a downgrade from the rating agencies, which would have raised Empire's costs associated with any future debt issuances. Therefore, the amendment to the Indenture was necessary to keep borrowing costs low which ultimately benefits its customers.

Q. WHAT IS THE RELATIONSHIP BETWEEN THE AMENDMENT COSTS AND THE FINANCING NOTED PREVIOUSLY?

A. An amendment to the Indenture's retained earnings clause was necessary so investors would continue to be attracted to the Company's stock. The Company's retained earnings balance had dropped to approximately $17.2 million (12/31/07), in part because the Company had absorbed $85.5 million of fuel and purchased power costs in the 2003-2006 period due to the lack of a fuel adjustment clause in Missouri (Staff's Cost of Service Report, Case No. ER-2008-0093). The Company's Indenture did not allow Empire to pay dividends with a negative retained earnings balance. The amendment to the Indenture was made in the first quarter of 2008, roughly half way through the construction and financing program noted above, in order to relax this restriction and to signal to investors that Empire understood the importance of the dividend. Ultimately, Empire was able to complete a successful equity distribution program during 2009/2010 subsequent to the amendment.

Q. WAS THE RATIO OF DEBT TO TOTAL CAPITAL ADDRESSED IN EMPIRE'S COMMISSION-APPROVED REGULATORY PLAN?

A. Yes. The Regulatory Plan approved by the Commission in Case No. EO-2005-0263 outlined three primary financial ratios at Appendix C-1. Debt to total capital was one of the three financial ratios outlined. This debt ratio was to be maintained by Empire through future financing during the term of the Regulatory Plan and was not a component of regulatory amortization (Regulatory Plan-Appendix D). Empire successfully maintained this important financial ratio during the term of the Regulatory Plan through its external financing efforts.

Q. HOW DID THIS BENEFIT EMPIRE'S CUSTOMERS?

A. As previously explained, a balanced approach to Empire's financing program was essential to maintaining an investment-grade rating. In fact, this has been known and acknowledged since the beginning of the construction program, as the Regulatory Plan (Case No. EO-2005-0263) itself included the following statement: "Empire understands that it is responsible to take prudent and reasonable actions to maintain Empire's debt at investment grade levels and avoid actions that result in a downgrade." This language was included in the Regulatory Plan as an acknowledgement of how important it is to keep financing costs low for customers by maintaining an investment grade rating. The actions taken in 2008 to amend Empire's Indenture were prudent in order to finance the recent construction cycle. The costs associated with those actions should be included in the debt costs related to the capital structure.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes, it does.

AFFIDAVIT OF ROBERT W. SAGER

STATE OF MISSOURI)
) ss
COUNTY OF JASPER)

On the 6th day of March, 2015, before me appeared Robert W. Sager, to me personally known, who, being by me first duly sworn, states that he is the Controller, Assistant Secretary, Assistant Treasurer, and Principal Accounting 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.

Robert W. Sager

Robert W. Sager

Subscribed and sworn to before me this 6th day of March, 2015.

ANGELA M. CLOVEN
Notary Public - Notary Seal
State of Missouri
Commissioned for Jasper County
My Commission Expires: November 01, 2015
Commission Number: 11262659

Angela M. Cloven

Notary Public

My commission expires: 11/01/2015.