

EXHIBIT 3

WILLIAM GIPSON
DIRECT TESTIMONY

CASE NO. ER-2004-0570

Exhibit No.
Issue: Reason for Rate Case
Witness: W. L. Gipson
Type of Exhibit: Direct Testimony
Sponsoring Party: Empire District
Case No.

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

Direct Testimony

of

W. L. Gipson

April 2004

WILLIAM L. GIBSON
DIRECT TESTIMONY

1 through the area. Our employees worked diligently throughout the week to rebuild lines,
2 repair substations and return power to customers. Further details are provided in the
3 testimony of Mr. Mike Palmer, Vice President of Commercial Operations.

4 **Q. PLEASE ELABORATE ON EMPIRE'S HIGHER FUEL COSTS.**

5 A. Thirty percent of the energy during the test year was generated from Empire's natural gas-
6 fired units or purchased on the spot market. In recent years, the wholesale natural gas
7 market has seen a substantial increase in prices. Empire actively worked to mitigate these
8 rising prices by implementing a hedging program in 2001.

9 While less an issue during the last couple of years due to Empire's success in
10 locking in low prices, the current long-term trend in gas prices would create substantial
11 credit pressure if left unaddressed. Mr. Brad Beecher will describe the fuel price increases
12 in detail and explain the elements of the hedging program in his testimony.

13 **Q. WHAT IS EMPIRE RECOMMENDING TO REGULATE THE CURRENT LONG-
14 TERM INCREASES IN GAS PRICES?**

15 A. Empire has put forth three separate methodologies. Those include a Fuel and Purchased
16 Power Adjustment Clause ("FAC"), an Interim Energy Charge ("IEC") and the twelve-
17 month ending forecast that uses production cost modeling. Implementation of one of the
18 alternatives is needed to provide a timely recovery of fuel and purchased-power expenses.
19 This will also allow for fewer rate cases, improved credit risk and financial flexibility and
20 continued customer protection against fuel price volatility through Empire's hedging
21 activities. Testimony by Mr. Brad Beecher discusses these methodologies in detail.