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Exhibit No.
Issue: Capital Structure
Witness: Robert W. Sager
Type of Exhibit: Direct Testimony
Sponsoring Party: Empire District Electric
Case No.: ER-2016-0023
Date Testimony Prepared: October 2015

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

Direct Testimony

of

Robert W. Sager

October 2015

****Denoted Highly Confidential****



Empire Exhibit No. 15-NP
Date 6.2.16 Reporter KKF
File No. ER-2016-0023



NP

DIRECT TESTIMONY
OF
ROBERT W. SAGER
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. ER-2016-0023

1 **INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. Robert W. Sager, 602 South Joplin Avenue, Joplin, Missouri 64801.

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

5 A. The Empire District Electric Company ("Empire" or "Company") is my employer.

6 I hold the positions of Controller, Assistant Treasurer, and Assistant Secretary.

7 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL**
8 **BACKGROUND.**

9 A. I am a licensed Certified Public Accountant and hold a Bachelor of Science
10 Degree in Accounting from Pittsburg State University, Pittsburg, Kansas. I have
11 been employed by Empire since October of 2006, and was the Director of
12 Financial Services prior to being named to my current positions in August of
13 2011. I worked for a regional public accounting firm for approximately ten years
14 prior to coming to Empire. While practicing public accounting, I was a senior
15 manager providing auditing and consulting services to various clients including
16 corporations that filed with the Securities & Exchange Commission ("SEC").

17 **Q. HAVE YOU PREVIOUSLY PARTICIPATED IN ANY REGULATORY**
18 **PROCEEDINGS?**

1 A. Yes. I provided testimony before the Missouri Public Service Commission
2 (“Commission”) in several previous electric rate cases, Case Nos. ER-2014-0351,
3 ER-2012-0345, ER-2011-0004, ER-2010-0130, and ER-2008-0093, and The
4 Empire District Gas Company’s Case No. GR-2009-0434.

5 **Q. PLEASE EXPLAIN THE PURPOSE OF YOUR DIRECT TESTIMONY.**

6 A. I will support the financial aspects of rate case adjustments related to the overall
7 capital structure of the Company.

8 **Q. WHAT CAPITAL STRUCTURE IS EMPIRE PROPOSING IN THIS**
9 **RATE CASE?**

10 A. Empire’s filing is based upon the Company’s anticipated consolidated capital
11 structure at December 31, 2015. This structure was derived by utilizing the June
12 30, 2015, balances with three specific adjustments. The capital structure, as
13 adjusted, is noted below:

Pro Forma Capital Structure:	% of Total	Cost Rate	Weighted Return on Tariffs Filed
Long-term Debt	50.99%	5.35%	2.730%
Common Equity	49.01%	9.90%	4.852%
Short-term Debt	0.00%	0.58%	0.000%
Total	100.00%		7.582%

14 **Q. PLEASE EXPLAIN THE PROPOSED ADJUSTMENTS TO THE JUNE 30,**
15 **2015 CONSOLIDATED CAPITAL STRUCTURE.**

16 A. Consistent with the Company’s previous electric rate cases, Empire has excluded
17 short-term debt from the capital structure. In past rate cases, this exclusion was
18 accepted, as the balance of short-term debt was assumed to fund construction

1 work in progress (“CWIP”), and the short term debt is less than the thirteen month
2 average balance of CWIP. Like short-term debt, CWIP is excluded from the
3 calculation of revenue requirement in the rate case.

4 **Q. PLEASE EXPLAIN THE SECOND ADJUSTMENT.**

5 A. The Company completed a \$60 million bond financing in August of 2015,
6 subsequent to the June 30, 2015, consolidated capital structure. In order to reduce
7 the number of true-up items in the case, we have included the financing in the pro
8 forma capital structure.

9 **Q. WHAT IS THE FINAL ADJUSTMENT MADE BY THE COMPANY?**

10 A. ** _____
11 _____
12 _____
13 _____
14 _____
15 _____
16 _____.

17 **Q. SHOULD THE CAPITAL STRUCTURE FOR PURPOSES OF THIS CASE
18 BE UPDATED THROUGH THE REQUESTED TRUE-UP PERIOD?**

19 A. Yes. Empire seeks an update to the capital structure as of the requested true-up
20 date of March 31, 2016, to account for all potential changes due to earnings,
21 potential dividends, or other financing activities through the true-up date.

22 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

23 A. Yes, it does.

