

Exhibit No.
Issue: Overview
Witness: William L. Gipson
Type of Exhibit: Direct Testimony
Sponsoring Party: Empire District
Case No. EO-2005-0263
Date Testimony Prepared: June 2005

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: EO-2005-0263

DIRECT TESTIMONY

OF

WILLIAM L. GIPSON

ON BEHALF OF

THE EMPIRE DISTRICT ELECTRIC COMPANY

JUNE 2005

AFFIDAVIT

STATE OF MISSOURI)
) ss
COUNTY OF JASPER)

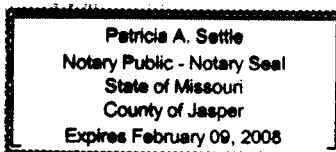
On the 22nd day of June, 2005, before me appeared W.L. Gipson, to me personally known, who, being by me first duly sworn, states that he is the President and Chief Executive Officer of The Empire District Electric Company and acknowledged that he has read the above and foregoing document and believes that the statements therein are true and correct to the best of his information, knowledge and belief.

William L Gipson
W.L. Gipson

Subscribed and sworn to before me this 22nd day of June, 2005

Patricia A Settle
Pat Settle, Notary Public

My commission expires



DIRECT TESTIMONY
OF
W. L. GIPSON
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. EO-2005-0263

1 **I. INTRODUCTION:**

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

3 A. William L. Gipson, 602 Joplin Street, 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. I
6 hold the position of President and Chief Executive Officer.

7 **Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND.**

8 A. I hold a Bachelor of Science Degree in Business Management Technology and an
9 Associate Degree in Computer Science from Missouri Southern State University in
10 Joplin, Missouri.

11 **Q. PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE.**

12 A. Prior to joining Empire I worked for an international furniture manufacturing
13 company and a regional bank. I joined Empire as a Computer Programmer in 1981.
14 I have held positions in Information Services, Economic Development and
15 Operations. My employment with Empire has been continuous since 1981.

16 **Q. HAVE YOU PREVIOUSLY PRESENTED TESTIMONY BEFORE THIS OR**
17 **ANY OTHER REGULATORY BODY?**

1 A. Yes, I have presented testimony before the Missouri Public Service Commission
2 (“Commission”), the Kansas Corporation Commission, the Oklahoma Corporation
3 Commission, and the Arkansas Public Service Commission.

4 **Q. PLEASE DESCRIBE EMPIRE.**

5 A. Empire is a Kansas corporation with its principal office and place of business at 602
6 Joplin Street, Joplin, Missouri 64801. Empire is engaged in the business of
7 providing electrical utility services in Missouri, Kansas, Arkansas and Oklahoma;
8 water utility services in Missouri; and has a certificate of service authority issued by
9 the Commission to provide certain telecommunications services.

10 **Q. WILL YOU PLEASE DESCRIBE THE AREA SERVED BY EMPIRE AND**
11 **GIVE A BRIEF DESCRIPTION OF THE CUSTOMERS SERVED?**

12 A. Empire provides electric service in an area of approximately 10,000 square miles in
13 southwest Missouri and the adjacent corners of the states of Kansas, Oklahoma, and
14 Arkansas. Empire's operations are regulated by the utility regulatory commissions of
15 these four states as well as the Federal Energy Regulatory Commission (“FERC”).
16 The area embraces 121 incorporated communities in 20 counties in the four-state
17 area.

18 The area economy is diversified. The service territory features small to
19 medium manufacturing operations, medical, agricultural, entertainment, tourism, and
20 retail interests all contributing to average or above-average customer growth over the
21 last several years.

22 At the end of 2004, Empire served 133,603 residential customers, 23,536
23 commercial customers, 363 industrial customers, 1,796 public authority customers,

1 and four wholesale customers throughout our system. Most of the communities in
2 the service area are small, with only 29 being in excess of 1,500 population. Only 10
3 communities have a population in excess of 5,000, and the largest city is Joplin,
4 Missouri, with a population of approximately 45,500.

5 In Missouri, at the end of 2004, Empire served 117,015 residential customers,
6 20,742 commercial customers, 291 industrial customers, 1,447 public authority
7 customers, and five wholesale customers. In addition to electric service, Empire also
8 provides regulated water service to approximately 4,500 customers in the Missouri
9 communities of Aurora, Marionville, and Verona.

10 **II. PURPOSE:**

11 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

12 A. The purpose of my testimony is to describe briefly why Empire is seeking a
13 Regulatory Plan and the importance of the Plan to our Company.

14 **Q. WHAT IS THE PRIMARY PURPOSE OF THE REGULATORY PLAN?**

15 A. The primary purpose is to enable Empire to participate in the construction of
16 additional coal-fired generation.

17 **Q. WHY IS EMPIRE SEEKING ADDITIONAL GENERATION?**

18 A. Empire District has experienced strong growth for the past several years and we
19 expect this growth to continue at about 1.6 percent for the next several years. To
20 serve this growth, Empire needs to expand its generation portfolio while maintaining
21 a balanced mix of resources. In the past year, Empire has signed a contract to
22 purchase energy from the 150-megawatt Elk River Windfarm and have begun
23 construction of a 155-megawatt, gas-fired combustion turbine at Empire's Riverton

1 Power Plant site. In addition to Empire's strong growth, in 2010 Empire will lose the
2 capacity and energy it is now receiving from a 162-megawatt purchase power
3 contract with Westar's Jeffrey Energy Center which is derived from coal-fired
4 generation.

5 **Q. WHAT IS EMPIRE'S NEXT STEP IN SATISFYING ITS GROWING**
6 **NEEDS?**

7 A. In order to move toward a balanced mix of resources, Empire must obtain additional
8 coal-fired baseload generation.

9 **Q. WHAT POTENTIAL OPTIONS HAS EMPIRE IDENTIFIED AS THE MOST**
10 **VIABLE?**

11 A. We believe participation in the Kansas City Power and Light Company's Iatan Unit
12 2 coal-fired plant with a 100- to 150-megawatt ownership position is the most viable
13 alternative for our customers and shareholders. In order to be in a position to acquire
14 such an ownership position, Empire is proposing a Regulatory Plan that will bring
15 some certainty to the process of completing this participation.

16 **Q. HAS THE COMMISSION BEEN ASKED TO ADDRESS ISSUES RELATED**
17 **TO IATAN UNIT 2 PREVIOUSLY?**

18 A. Yes. On May 6, 2004, Kansas City Power & Light Company (KCPL) filed its
19 Application To Establish Investigatory Docket And Workshop Process Regarding
20 Kansas City Power & Light Company. The Commission subsequently established
21 an informal, investigatory case designated as Case No. EW-2004-0596. The
22 discussions in that workshop included issues related to KCPL's capacity needs for
23 the future, capital investments related to compliance with environmental regulations,

1 infrastructure investments, and customer programs, as well as the likely impact of
2 these investments and programs upon KCPL's future revenue requirements. In
3 particular, the discussions have included the potential development of approximately
4 800-900 MW of new coal-fired, regulated generation capacity located at the Iatan
5 site near Weston (Iatan Unit 2). On March 28, 2005, KCPL filed a Stipulation and
6 Agreement with the Commission thereby creating a case for the purpose of
7 examining the future supply, delivery and pricing of electric service provided by
8 KCPL (Case No. EO-2005-0329). The Agreement provides for certain accounting
9 treatments and financing activities, as well as construction timetables and rate case
10 filings, related to Iatan Unit 2 and other projects.

11 **Q. IS EMPIRE'S POSSIBLE PARTICIPATION IN IATAN UNIT 2**
12 **ADDRESSED IN THE KCPL STIPULATION AND AGREEMENT?**

13 A. Yes. The Stipulation and Agreement in the KCPL regulatory plan case (Case No.
14 EO-2005-0329) identifies Empire as a "preferred potential partner in the Iatan 2
15 generating plant project" if Empire has a "commercially feasible financing plan for
16 meeting its financial commitments to participate in the ownership of the Iatan 2 plant
17 by the later of August 1, 2005, or such date that KCPL shall issue its request(s) for
18 proposal(s) related to Iatan 2." Empire seeks the Commission's order in this case on
19 a schedule that will provide the opportunity for Empire to meet this requirement of
20 the KCPL Stipulation and Agreement.

21 **Q. HAS EMPIRE TAKEN ANY FURTHER ACTIONS IN ORDER TO**
22 **ATTEMPT TO PARTICIPATE IN THE OWNERSHIP OF IATAN UNIT 2?**

1 A. Yes. On June 10, 2005 Empire entered into a Letter of Intent (LOI) with KCPL for a
2 preferred capacity of 150 MW and a minimum allocation of 100 MW ownership in
3 Iatan 2. The LOI is contingent upon providing an acceptable financing and
4 regulatory plan and the execution of acceptable ownership, operating and common
5 facility agreements.

6 **Q. WHAT IS EMPIRE'S PROPOSED REGULATORY PLAN DESIGNED TO**
7 **DO?**

8 A. It is designed to address some of the regulatory risk that would otherwise be present
9 in this type of transaction. It is Empire's belief that providing this measure of
10 regulatory certainty will allow Empire to maintain its current credit rating. In turn
11 Empire should be able to access the capital it will need to finance the project at a
12 lower cost – something that is good for both our customers and investors.

13 **Q WHAT WILL HAPPEN IF EMPIRE DOES NOT RECEIVE APPROVAL OF**
14 **THE PROPOSED REGULATORY PLAN?**

15 A. I believe, if Empire fails to get the requested support, the consequences of
16 participation in Iatan Unit 2 will require Empire to seriously under earn during the
17 period of construction, Empire's shareholders will be sorely disappointed, its stock
18 price will suffer, and Empire will likely be downgraded. The result of all this is that
19 Empire's customers will ultimately pay more for their electrical service.

20 **Q. HAS EMPIRE HAD ANY INTERACTION WITH THE INVESTMENT**
21 **COMMUNITY REGARDING THE PROPOSED REGULATORY PLAN?**

22 A. Yes. Prior to determining the preferred generation project, Empire submitted a
23 variety of generation plan options to Standard and Poor's Rating Evaluation Service

1 (RES) for their review. All of the plans reduced Empire's natural gas exposure to
2 approximately twenty percent from the current level of thirty percent.

3 **Q. WHAT WAS THE RESULT OF THIS REVIEW?**

4 A. It is our interpretation of the RES review, that given a fuel recovery mechanism in
5 Missouri, timely rate relief during the construction period to bolster cash flow and
6 credit quality, and decisional prudence for large construction projects, we could
7 maintain our investment grade credit rating during the period of construction.

8 **Q. WHAT IS THE BENEFIT OF THE PROPOSED PLAN?**

9 A. We believe the financial community will be satisfied with the Regulatory Plan thus
10 allowing Empire to access the capital markets to finance the capital projects during
11 the Regulatory Plan. Additionally, we believe that KCPL will accept this Plan as
12 meeting its requirement for a commercially feasible financing plan.

13 **Q. WILL EMPIRE BE SEEKING ANY SPECIAL FUEL RECOVERY**
14 **MECHANISMS?**

15 A. Empire is planning to use measures found in Senate Bill 179 to recover our fuel
16 costs, if Senate Bill 179 is enacted. If it is not enacted, or if it is found to be
17 unlawful for some reason, Empire will request an Interim Energy Charge.

18 **Q. WHAT RATE RELIEF WILL EMPIRE BE SEEKING?**

19 A. Empire will need additional amortization in order to maintain financial ratios that
20 will support investment grade status as discussed in the testimony of Dr. James H.
21 VanderWeide.

22 **Q. FOR WHAT CONSTRUCTION PROJECTS WILL EMPIRE SEEK**
23 **DECISIONAL PRUDENCE?**

1 A. We are seeking decisional prudence related to certain large projects, including the
2 V84 at our Riverton Power Plant, environmental improvements related to Iatan Unit
3 1 and Asbury, and the Iatan 2 addition. These items will be discussed Ms. Jill
4 Tietjen in her Direct Testimony.

5 **Q. WHAT DO YOU MEAN BY “DECISIONAL PRUDENCE?”**

6 A. A finding by the Commission that Empire’s investment in the identified projects
7 should not be excluded from Empire’s rate base on the ground that the projects were
8 not necessary, or that Empire should have used alternative technologies.

9 **Q. WILL THESE ADDITIONS SATISFY YOUR CUSTOMERS' NEEDS?**

10 A. No. Even with this Plan and the subsequent addition of Iatan 2, Empire will still not
11 have its dependence on natural gas reduced to a level that we believe is acceptable.
12 We are presently working to secure an additional purchased power agreement and
13 are evaluating our options in this area.

14 **Q. WHAT HAVE YOU DONE TO PREPARE FOR THIS MAJOR**
15 **CONSTRUCTION UNDERTAKING?**

16 A. We have expanded our \$100 million bank line of credit by 50 percent and
17 lengthened it from two to five years. We again chose UMB as the lead bank in the
18 syndicate. The Line is scheduled to close July 6, 2005.

19 **III. SUMMARY:**

20 **Q. PLEASE SUMMARIZE YOUR REQUEST.**

21 A. In order to optimize the cost of capital for the benefit of the Company and its
22 customers, Empire is asking the Commission to approve a regulatory plan granting
23 Empire decisional prudence of major construction projects during the next five

1 years. In addition, we are asking the Commission to approve an additional
2 amortization during this period.

3 **Q. DOES THIS COMPLETE YOUR TESTIMONY?**

4 A. Yes.