

Exhibit No.:  
Issue: Electric Rate Case  
Witness: Robert B. Fancher  
Type of Exhibit: Direct Testimony  
Sponsoring Party: The Empire District Electric  
Company  
Case No.:

Before the Public Service Commission  
of the State of Missouri

Direct Testimony

of

Robert B. Fancher

December 1999

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI  
DIRECT TESTIMONY OF ROBERT B. FANCHER  
ON BEHALF OF THE EMPIRE DISTRICT ELECTRIC COMPANY**

**CASE NO.**

1 Q. State your name, please.

2 A. Robert B. Fancher.

3 Q. Where do you reside?

4 A. 2519 South Kingsdale Road, Joplin, Missouri.

5 Q. By whom are you employed and in what capacity?

6 A. I am employed by The Empire District Electric Company ("Empire"). I am Vice  
7 President of Finance and Chief Financial Officer.

8 Q. Please describe briefly your educational and professional background for the commission.

9 A. I was graduated from Oklahoma State University, Stillwater, Oklahoma, in 1966 with a  
10 Bachelor of Science degree in Electrical Engineering. In December 1971, I received a  
11 Master of Science degree from the University of Arkansas, Fayetteville, Arkansas. I am  
12 a registered Professional Engineer in the State of Missouri.

13 Q. When were you first employed by Empire?

14 A. In January 1972. My employment has been continuous since that time.

15 Q. Please review your employment experience at Empire.

16 A. In January 1972, I began as an Engineer in the Transmission Section of the Engineering  
17 Department. I was promoted through the positions of Assistant System Protection  
18 Engineer, Rate Engineer, Director of Computer Services, and Director of Corporate

1 Services until in July 1984 I was elected to the position of Vice President - Corporate  
2 Services where I was responsible for rates, corporate planning, computer services, and  
3 purchasing. In October 1995 I was elected to my current position of Vice President -  
4 Finance and Chief Financial Officer. In this position I am responsible for accounting,  
5 financing, treasury, and regulatory activities.

6 Q. What is the purpose of your testimony?

7 A. My testimony will discuss the electric rate case which Empire will file in the second half  
8 of 2000 (the "Pre-Moratorium Rate Case"). Certain details concerning this rate case are a  
9 part of the proposed regulatory plan proposed in this case by Empire and UtiliCorp  
10 United Inc. ("UtiliCorp") Missouri Public Service Commission ("Commission") approval  
11 of the Pre-Moratorium Rate Case details described in my testimony is sought in this  
12 proceeding.

13 Q. Why will Empire file the Pre-Moratorium Rate Case?

14 A. Empire is constructing the State Line Combined Cycle Plant ("SLCC"), a 500-mw plant  
15 of which 300-mw will belong to Empire. This investment along with the associated  
16 transmission lines and combustion turbine ("CT") work will total over \$100 million. This  
17 will be the largest single investment in Empire's history and is a significant addition to its  
18 rate base. This investment must be recognized and included for recovery in rates before  
19 the rate moratorium proposed in this merger case as a part of the regulatory plan can be  
20 implemented.

21 Q. Is the regulatory plan described in other testimony?

22 A. Yes. Mr. John McKinney's testimony will discuss the proposed regulatory plan which is  
23 set forth in the Joint Application in this case. UtiliCorp and Empire expect that the details

1 concerning the Pre-Moratorium Rate Case discussed in my testimony be addressed and  
2 decided in the context of the merger case.

3 Q. Why?

4 A. To remove the uncertainty of these matters prior to the closing of the merger which  
5 should occur by the end of 2000.

6 Q. Please discuss the timing for the Pre-Moratorium Rate Case.

7 A. The case will be filed in the second half of 2000, preferably around September 1, 2000.  
8 This would establish an operation of law date near the end of July 2001, which is two  
9 months after the expected June 1, 2001, in-service date for SLCC.

10 Q. Describe the test year Empire proposes for the Pre-Moratorium Rate Case.

11 A. The test year should be the twelve months ending December 31, 2000, or the twelve  
12 months ending at the Effective Time, as defined in the Agreement and Plan of Merger, if  
13 earlier. In essence, the Effective Time is the date for the combination of UtiliCorp and  
14 Empire to occur once all approvals are obtained.

15 Q. Do you propose any updates or adjustments to the test year or a true-up?

16 A. The test year must be updated, adjusted or trued-up to June 1, 2001, or the in-service  
17 date of SLCC, if later. In other words, some action must be taken to ensure that SLCC  
18 will be recognized in rates.

19 Q. What items are to be included in the update or adjustment period or true-up?

20 A. The following items related to SLCC:

21 \_ SLCC plant and associated transmission plant, less accumulated depreciation.

22 \_ O&M (fixed and variable) for SLCC.

- 1       \_ Depreciation and property taxes for above items.
- 2       \_ The cost of gas and fixed gas transportation charges for SLCC.
- 3       \_ The demand charges for purchased power contracts that would be in effect
- 4       June 1, 2001.
- 5       \_ Wage rates in effect June 1, 2001.
- 6       \_ Revenues and fuel expense associated with customer growth to June 1, 2001.
- 7       \_ Redispatch of fuel and purchase power to include SLCC in the mix.
- 8    Q.    What does Empire propose as the capital structure for the Pre-Moratorium Rate Case?
- 9    A.    Empire proposes a normalized Empire only capital structure.
- 10   Q.    Why?
- 11   A.    Empire, in the normal course of business, maintains a common equity ratio of 45-50%.
- 12       A normalized capital structure would be 47.5% common equity and 52.5% debt.
- 13       Consequently, for purposes of the Pre-Moratorium Rate Case Empire proposes using
- 14       52.5% debt at the current embedded cost and 47.5% common equity at a return on
- 15       equity for Empire as a stand alone entity.
- 16   Q.    Why not use the capital structure existing at the end of the test year?
- 17   A.    As a consequence of the pending merger, Empire is unable to issue common stock as a
- 18       financing option. Our recent November 1999, financing consisted of \$100 million in
- 19       unsecured notes, which increased our debt ratio above its normal level. A normalized
- 20       structure would be more appropriate.
- 21   Q.    How do you propose that merger synergies be treated in the Pre-Moratorium Rate Case?

1 A. One purpose of the moratorium is to allow some recovery by UtiliCorp of acquisition  
2 premium and transaction costs. It would be inconsistent, therefore, to include synergies in  
3 the Pre-Moratorium Rate Case. Consequently, Empire proposes that no merger synergies  
4 be flowed-through the rates established in that case.

5 Q. How do you propose that positions that are now open as a result of the merger be  
6 treated for ratemaking purposes in the Pre-Moratorium Rate Case?

7 A. All Empire positions that have become vacant due to the pending merger will be included  
8 in the cost of service as if these positions were filled. To do otherwise would be to flow  
9 merger synergies through the rates.

10 Q. How will merger costs, transition costs, and transaction costs be treated?

11 A. Just as it would be inappropriate to prematurely flow-through synergies, these types of  
12 costs will not be included in cost of service in the rate case.

13 Q. What in-service criteria do you propose for SLCC?

14 A. Empire's proposed criteria will be filed as Supplemental Direct Testimony after  
15 consultations with the Commission Staff. The criteria should be finally determined in the  
16 context of this merger case.

17 Q. Please summarize Empire's position on the Pre-Moratorium Rate Case details which you  
18 have discussed.

19 A. The details concerning the Pre-Moratorium Rate Case which I have discussed in this  
20 testimony should be addressed and decided by the Commission as a part of its order in  
21 this merger case.

22 Q. Does this conclude your testimony?

1 A. Yes it does.