Exhibit No. ______________
Issue: Test year; Capital Structure;
Rate of Return
Witness: David W. Gibson
Type of Exhibit: Direct Testimony
Sponsoring Party: Empire District
Case No.: ER-2002-424
Date Testimony Prepared: 02/25/02

Before the Public Service Commission
of the State of Missouri

Direct Testimony

of

David W. Gibson

February 2002

DIRECT TESTIMONY
OF
DAVID W. GIBSON
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION
CASE NO.

I. Introduction

Q. PLEASE STATE YOUR NAME AND ADDRESS.

A. David W. Gibson. My business address is 602 Joplin Street, Joplin, Missouri 64801.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. The Empire District Electric Company, ("Empire" or "Company"). I am currently Vice President – Finance and Chief Financial Officer.

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A. I was graduated from the University of Nebraska in May of 1972 with a Bachelor of Science degree in Business Administration with a major in Accounting. After graduation, I worked for the public accounting firm of Price Waterhouse & Company for a period of approximately two years in the auditing section. Thereafter until 1979, I held positions as assistant controller or controller with various retail and manufacturing companies.

In April 1979 I accepted a position with Empire in the internal audit department. Since that time, I have been the Director of Corporate Planning, Director of Financial and Regulatory Accounting, and Director of Financial Services and Assistant Secretary. I was appointed to Vice President – Finance and CFO in March 2001. Effective March 15, 2002, I will assume the position of Vice President – Regulatory Services.

II. Purpose and Scope

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. The purpose of my testimony is to recommend a capital structure and rate of return for Empire in this case. I will also discuss the recovery of common stock issuance costs and Empire's future financing plans. I will also recommend a test year for purposes of this case.

TEST YEAR

Q. WHAT TEST YEAR DOES EMPIRE RECOMMEND FOR THIS CASE?

A. Empire is filing this case based on a test year ending September 30, 2001 updated for a common equity issuance which will occur in June 2002. It is our understanding that the Commission Staff would prefer to have a test year ending December 31, 2001. A December 31, 2001 test year is acceptable to Empire so long as the common equity issuance, which is projected for June 2002 is included in the update. If the December 31, 2001 test year is agreeable to all parties and approved by the Commission, the Company will file supplemental direct testimony and schedules to reflect that test year.

CAPITAL STRUCTURE

Q. WHAT IS THE CAPITAL STRUCTURE THAT YOU ARE RECOMMENDING FOR EMPIRE IN THIS PROCEEDING?

A. For purposes of setting rates in this proceeding, I am recommending a capital structure consisting of 47.47% common equity, 7.33% trust preferred stock and 45.20% long-term debt.

Q. HOW DOES THIS CAPITAL STRUCTURE COMPARE TO EMPIRE'S ACTUAL CAPITAL STRUCTURE AT THE END OF THE FILED TEST YEAR, SEPTEMBER 30, 2001?

A. Empire's actual September 30, 2001 capital structure was 33.57% common equity, 7.18% trust preferred stock, 49.85% long-term debt and 9.40% short-term debt.

Q. WHY ARE YOU PROPOSING FOR RATEMAKING PURPOSES IN THIS CASE SOMETHING OTHER THAN THE ACTUAL SEPTEMBER 30, 2001 CAPITAL STRUCTURE?

A. In December 2001, the Company issued approximately $39 million in a new offering of common equity. Also, Empire plans to issue an additional $50 million of common equity in June 2002 to pay down short-term debt and to pay off $37.5 million of long-term debt which exists as a result of the 7½% Series which matures July 1, 2002. The 7½% Series will be defeased at the end of June 2002. These events will result in the adjusted or updated June 30, 2002 capital structure which Empire recommends in this case. This June 30, 2002 capital structure is shown in Section H, Schedule 1 which is included in Schedule KSW-1 to the direct testimony of Empire witness Kelly Walters.

Q. HOW DOES THIS JUNE 30, 2002 CAPITAL STRUCTURE COMPARE WITH EMPIRE'S HISTORICAL CAPITAL STRUCTURE?

A. The June 30, 2002 capital structure is more in line with Empire's historical capital structure which the Company experienced from 1992 to 1999. The following table demonstrates the point as it illustrates Empire's historical capital structure for this period.

Historical Capitalization Ratios:

Year	Common Equity %	Preferred Stock %	Long-term Debt %
1992	50.66	2.56	46.78
1993	49.76	2.40	47.84
1994	46.87	6.25	46.88
1995	45.19	8.01	46.81
1996	46.99	7.59	45.42
1997	47.21	7.33	45.46
1998	45.30	6.74	47.96
1999	44.85	3.72	51.43
Average	46.82	5.74	47.44

Q. WHY IS THERE A DIFFERENCE BETWEEN THE HISTORICAL RATIOS, ON THE ONE HAND, AND THOSE WHICH EXISTED AT SEPTEMBER 30, 2001, ON THE OTHER HAND?

A. The Company entered into a merger agreement during 1999 with UtiliCorp United Inc. ("UtiliCorp"), which precluded Empire from issuing any additional common stock, and also resulted in the redemption of the Company's outstanding preferred stock. All of this occurred at a time when Empire was building the new State Line Combined Cycle plant, which meant that the Company's financing needs were satisfied by issuing additional debt. This resulted in the capital structure of the Company becoming "debt heavy" and is reflected in the September 30, 2001, capital structure. However, the issuance of the new common stock in December 2001 and the June 2002 stock offering, along with the resumption of Empire's common stock dividend reinvestment plan, will move Empire's capital structure closer to its historical capital structure. In other words, use of a December 31, 2001 test year updated through June 2002 will result in the use of an actual capital structure consistent with Empire's historical capital structure.

Q. WHY DID YOU SELECT THE PERIOD OF 1992 TO 1999 FOR YOUR STUDY OF EMPIRE'S HISTORICAL CAPITAL STRUCTURES?

A. I wanted to select a period that was long enough to establish some consistency in the data, but recent enough to have some relevance. Using the period 1992 to 1999, the high ratio for common equity was 50.66% in 1992 and the low ratio for common equity was 44.85% in 1999. This low ratio in 1999 was the result of the UtiliCorp merger and the requirement to redeem the preferred stock. It also reflects the issuance of $100 million in unsecured debt.

Q. HOW DO THESE RATIOS COMPARE TO THE RATIOS OF OTHER UTILITIES THAT HAVE BEEN GRANTED RATE INCREASES SINCE 1990?

A. According to data compiled by Regulatory Research Associates, Inc. ("RRA"), during the period from 1990 to 2000, the average equity portion of the capital structure for the involved companies ranged from a low of 42.42% in 1990 to a high of 48.85% in 2000. For the first quarter of 2001, it was 49.69%.

Q. WHAT DO YOU CONCLUDE FROM THIS?

A. Empire's recommended 47.47% common equity ratio, which will exist at the time of the updated test year, is consistent with the equity ratios of other utilities which have been granted rate relief since 1990.

<u>RETURN ON COMMON EQUITY</u>

Q. ARE YOU FAMILIAR WITH THE RATE OF RETURN RECOMMENDED BY EMPIRE'S WITNESS DR. DONALD MURRY?

A. Yes.

Q. WHAT IS HIS RECOMMENDED RATE OF RETURN ON COMMON EQUITY FOR EMPIRE IN THIS CASE?

A. Dr. Murry has recommended a 12% return on common equity for Empire in this case and I agree that this rate of return is reasonable given the overall environment in which Empire operates.

Q. PLEASE EXPLAIN.

A. Any return must be viewed in the context of the overall environment or surrounding circumstances in which the involved company operates. In other words, all factors surrounding the Company must be carefully considered. In the case of Empire, in order to arrive at an appropriate return on common equity, the risk that is associated with the Company must be taken into consideration.

Q. WHAT RISK ARE YOU TALKING ABOUT?

A. The facts are that, even though Empire has over $1 billion in plant assets, the Company is still considered to be a small utility. This means that, everything else being equal, a company such as Empire is riskier than a utility which is larger. Discussions with rating agency analysts have confirmed this fact time and time again. This fact has also been recognized in other jurisdictions and rates of return have been set accordingly as explained by Dr. Murry through his schedule DAM-22, where he lists recent decisions involving various jurisdictions. As he notes, smaller utilities such as Hawaii Electric Light, CLECO, Otter Tail and Central Vermont have an average authorized return of 11.6875%

Q. HOW DOES THE RECOMMENDED RATE OF RETURN FOR EMPIRE IN THIS CASE COMPARE TO RETURNS AUTHORIZED FOR OTHER UTILITIES?

A. According to RRA, for rate cases that were concluded during the last decade, the high average return on equity award was 12.70% in 1990, while the low was 10.77% in 1999. In 2000, the authorized return averaged 11.43%. The average return award for the first quarter of 2001 was 11.38%.

Q. ARE YOU SUGGESTING THAT THE COMMISSION SET EMPIRE'S RETURN ON COMMON EQUITY BASED ON WHAT OTHER COMPANIES WERE AUTHORIZED DURING THE PERIOD 1990 TO 2000?

A. No. I am merely trying to show for purposes of comparison the authorized rates of return on common equity for the last decade. The awards for 2000 and the first quarter of 2001 are probably of greater significance because they are more timely. Again, however, Empire's circumstances must be considered in determining an appropriate return for the Company.

Q. YOU TESTIFIED THAT EMPIRE ISSUED APPROXIMATELY $40 MILLION IN COMMON STOCK IN DECEMBER 2001. DOES THIS SUGGEST THAT THE MARKET HAS A FAVORABLE OPINION OF EMPIRE?

A. The market did view Empire's recent issuance of common stock favorably in spite of Empire's overall financial circumstances. This should not, however, be taken as an indication of the market's reaction to any future issuances.

Q. PLEASE EXPLAIN.

A. There are many reasons why the last issue was well received by the market. First, Empire was able to sell a large portion of the issue in the State of Missouri. This was due, in part, to the perception that the dividend is safe and at the time was yielding a return around 6%. When contrasted with other potential investments, it was viewed positively. If, in the future, Empire were not able to meet its dividend payment because of inadequate earnings, then people would not be willing to invest in Empire's common equity.

Q. SINCE EMPIRE IS A REGULATED UTILITY, ISN'T THE INVESTMENT IN ITS COMMON STOCK SECURE?

A. Not necessarily. If a utility is not able to sustain its dividend (i.e. earnings greater than the dividend), then the possibility exists that the dividend payment may not be secure. If this were the case, the amount that a potential investor would be willing to invest would probably be reduced. This, in turn, would result in the necessity to issue more stock to raise the same amount of capital and would put further pressure on the dividend resulting in a classic death spiral that could cause a utility to seek bankruptcy protection. In the case of Empire, the Company has maintained its commitment to its customers by continuing to expend funds to serve their needs while not increasing its dividend since 1992. Empire has done this at a time during which it added approximately $529 million in plant assets in order to serve customers. This situation should not be permitted to continue without some recognition of the contributions that have been made by Empire's stockholders. This recognition should be in the form of a higher return.

Q. IF EMPIRE IS UNABLE TO ISSUE ADDITIONAL COMMON STOCK OR COMMERCIAL PAPER, ARE MORE FIRST MORTGAGE BONDS AN OPTION?

A. No.

Q. PLEASE EXPLAIN.

A. There is a provision in Empire's first mortgage bond indenture that requires the Company to maintain an interest coverage ratio of greater than 2 times the annual interest requirement. This means that revenue available for interest payments must be greater than twice the amount of interest on the bonds outstanding. This ratio dropped below that threshold in September 2001. The ratio dropped from a little over 3 times at the end of January 2001 to only a little over 2 times at the end of August 2001. At the end of December 2001, the ratio was at 1.76 times. Since it is currently below 2 times, the Company cannot issue any additional first mortgage bonds. It should be pointed out that this is the first time in the history of Empire that the Company was not able to meet its first mortgage bond coverage requirement.

Q. DOES THE COMPANY PLAN TO ISSUE ANY FIRST MORTGAGE BONDS IF PERMITTED BY THE COVERAGE RATIO?

A. No. It would be an option that the Company could not use because of inadequate earnings

RATING AGENCIES

Q. ARE YOU FAMILIAR WITH ENTITIES KNOWN AS "RATING AGENCIES"?

A. Yes.

Q. WHAT ARE RATING AGENCIES ACCORDING TO YOUR UNDERSTANDING?

A. Organizations, such as Moody's and Standard & Poor's ("S&P"), provide independent information to the financial community to help investors and others determine the credit risk associated with fixed income securities as well as other credit obligations of the companies which they follow.

Q. DO RATING AGENCIES PERIODICALLY PUBLISH REPORTS CONCERNING THE COMPANIES, WHICH THEY FOLLOW, AND RATE?

A. Yes. I have attached to my testimony Schedules DWG-1 and DWG-2, the most recent published reports of Moody's and S&P's.

Q. IN CONNECTION WITH YOUR DUTIES AND RESPONSIBILITIES AT EMPIRE, DO YOU REVIEW RATING AGENCY REPORTS ON A REGULAR BASIS?

A. Yes.

Q. IN ADDITION, DO YOU HAVE CONTACT WITH REPRESENTATIVES OF THESE RATING AGENCIES?

A. Yes. I speak with representatives of the rating agencies on the telephone on a regular basis. I also meet with them periodically.

Q. WHAT IS YOUR UNDERSTANDING AS TO HOW THE RATING AGENCIES NOW VIEW EMPIRE?

A. It is my understanding that both S&P and Moody's consider Empire debt as investment grade, but with negative implications. Moody's has Empire rated at the lowest investment grade, with S&P one grade above although at the lowest end of the range.

Q. WHAT IS THE RECENT HISTORY OF RATINGS THAT APPLIED TO EMPIRE?

A. Prior to the announced merger with UtiliCorp, Empire was rated A2 by Moody's and A- by S&P.

Q. WHAT HAPPENED AFTER THE MERGER WAS ANNOUNCED?

A. Once the merger was announced, both rating agencies placed Empire on Credit Watch with negative implications. This was due to the fact that UtiliCorp carried a heavier debt ratio than Empire. Subsequently, when the merger was terminated, both rating agencies took Empire off Credit Watch, but continued the negative implications. In addition, Moody's downgraded Empire to Baa1 in May 2001, which is in the lowest investment grade rating band.

Q. WHY DID THIS HAPPEN?

A. From the time of the merger announcement, Empire was not permitted to issue any additional common equity and had to redeem its preferred stock. During this same period, Empire was constructing its new State Line Combined Cycle plant. To finance this construction, Empire issued $100 million in unsecured debt. This skewed the Company's capital structure, resulting in a higher than normal debt ratio. At the end of 2000, Empire's debt ratio was over 59%. This compared to an average of approximately 47% for the period 1992 to 1999.

Q. WHAT IS THE CONSEQUENCE OF THIS HIGHER THAN NORMAL DEBT RATIO?

A. This higher leverage puts more pressure on Empire's debt because more of the capital structure is subject to fixed interest payments and, therefore, more is subject to default. This placed more of the risk on bondholders as opposed to common stockholders. The rating agencies take this into account.

Q. IS EMPIRE INFLUECED IN ANY WAY OR DOES EMPIRE ACT IN RELIANCE ON ITS UNDERSTANDING OF THE OPINIONS OF THE RATING AGENCIES?

A. Yes. The Company responds to the assessments of the agencies by making every effort to maintain or improve its ratings.

Q. WHAT WOULD BE THE RESULT OF FURTHER DOWNGRADES OF EMPIRE BY THE RATING AGENICES?

A. When rating agencies downgrade a company for whatever reason, the one who ultimately pays is the customer. In the case of Empire, the customer could pay directly through higher rates associated with the higher costs of issuing new capital or from the inability of Empire to continue to provide the same level of service that our customers have come to expect.

Q. WHAT WOULD HAPPEN IF MOODY'S WERE TO DROP EMPIRE BELOW INVESTMENT GRADE?

A. Such a downgrade would effectively close off the commercial paper markets to Empire. This would mean that the Company would have to use banks to finance its short-term needs, which would be at a higher rate. This, of course, assumes that the Company would be able to use its bank lines of credit. This is because Empire's bank lines of credit have ratings triggers that would cause the Company to be in default if the Moody's rating dropped below Baa2 for a $20 million credit line or Baa3 for a $55 million credit line or BBB for S&P.

Q IS EMPIRE DOING ANYTHING TO MITIGATE THESE RATINGS TRIGGERS?

A. Yes, the Company is negotiating with the banks in order to remove the ratings triggers. In general, the use of such a line will be more expensive than using the commercial paper market.

Q. HOW DOES THE ASSESSMENT OF EMPIRE BY THE RATING AGENCIES RELATE TO THE RATES WHICH EMPIRE CHARGES AND THE QUALITY OF EMPIRE'S SERVICE?

A. A rating agency views a company in relation to the risks associated with the industry and earnings of the company. In general, the better the financial results, the more positive the assessment by the rating agencies and, in theory, the better the rating. Better financial results and, thus, better ratings should translate into lower costs for the utility and therefore lower costs for customers. Poor financial results, on the other hand, will lead to poorer ratings and higher costs and potentially a decline in service.

Q. PLEASE EXPLAIN.

A. As a public utility serving a diverse customer base, Empire is required to provide safe and reliable service. From a business standpoint, Empire believes its customers deserve this high quality service and this is what the Company strives to provide. Customers cannot receive the highest level of service, however, if Empire is operating under rates of return that are among the lowest in the industry. Low rates of return translate into poor financial results and thus lower ratings. This in turn leads to higher costs for Empire and its customers and, potentially, a lower quality of service.

COMMON STOCK ISSUANCE COSTS

Q. ARE THERE COSTS ASSOCIATED WITH EMPIRE'S COMMON STOCK ISSUANCES?

A. Yes.

Q. ARE YOU RECOMMENDING THAT THESE COSTS BE RECOVERED IN THIS RATE PROCEEDING?

A. Yes.

Q. ARE THESE COSTS NORMALLY RECOVERED IN THE RATES?

A. No. For ratemaking purposes, the cost of issuing new common equity is deducted from the issue price of the equity resulting in a lowering of the amount of common equity outstanding, which is used to determine the return on rate base. For example, in December 2001, Empire issued common stock, which is summarized below.

Sale price of 2,012,500 shares at $20.37 per share	$40,994,625
Issue costs	-208,110
Underwriting discount at $.87 per share	-1,750,875
Net proceeds less issue costs	$39,035,640

The result of this financing is that Empire added approximately $39 million to common equity. The issue costs, along with the underwriting fees, are deducted from the common equity and, therefore, are never recovered.

Q. HOW DOES THIS COMPARE TO LONG-TERM DEBT FINANCING?

A. Long-term debt financing is treated in a similar fashion with the exception that the issue costs for bonds are amortized over the life of the bonds. In the case of common equity, there is no amortization that takes place since the issue does not have a definite term (i.e. number of years).

Q. HOW ARE THE COMMON STOCK COSTS ASSOCIATED WITH ISSUING NEW COMMON EQUITY REFLECTED IN EMPIRE'S FILING IN THIS PROCEEDING?

A. The costs are deducted from the sale price and reflected on Section H, Schedule 1. The amortization of these costs over a three-year period is shown on Section J, Schedule 2. These schedules are included in Schedule KSW-1 to the direct testimony of Empire Witness Kelly Walters.

Q. ARE THERE ANY OTHER METHODS WHICH ARE SOMETIMES USED BY THIS COMMISSION TO REFLECT THESE COSTS IN RATES?

A. Yes, sometimes the Commission adjusts the authorized rate of return for flotation costs. This approach is discussed by Dr. Murry in his testimony. It should be pointed out, however, that Empire's recommended return on common equity in this case was not adjusted for flotation costs. Instead, the costs were amortized as previously discussed.

FUTURE FINANCINGS

Q. WHAT ARE THE FUTURE FINANCING PLANS FOR EMPIRE?

A. Empire will have $37.5 million of first mortgage bonds mature on July 1, 2002. The Company's current plans are to issue $50 million in common stock and retire those bonds and reduce short-term debt. This would change Empire's September 2001 capital structure to approximately 47.73% common equity, 7.29% trust preferred and 44.98% bonds, resulting in a capital structure comparable to those experienced by Empire prior to its proposed merger with UtiliCorp.

Q. WHY IS EMPIRE MOVING TOWARD A MORE TRADITIONAL CAPITAL STRUCTURE?

A. In part because a highly leveraged capital structure contributes to lower ratings.

Q. DOES EMPIRE HAVE OTHER FINANCING NEEDS IN THE NEAR FUTURE?

A. Possibly. The construction commitments that the Company has made will be reviewed, as well as the current amount of short-term debt, to determine if there are financing needs in addition to those mentioned above.

Q. WILL THOSE NEEDS BE SUPPLIED BY THE ISSUANCE OF COMMON STOCK OR DEBT?

A. The answer to that question has not yet been determined. It would be good to keep in mind that there are many factors that influence the type of financing to issue at any particular time. Those factors include capital structure composition, impact of issue on ratings, availability of different types of financings, market factors, etc. It should be pointed out that we do this in order to balance the needs of the Company with those of our customers.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

Moody's Investors Service

Global Credit Research
Opinion Update
8 NOV 2001

Opinion Update: Empire District Electric Company (The)

Empire District Electric Company (The)

Joplin, Missouri, United States

Ratings

Category	Moody's Rating
Issuer Rating	Baa2
First Mortgage Bonds	Baa1
Senior Secured Shelf	(P)Baa1
Senior Unsecured	Baa2
Subordinate Shelf	(P)Baa3
Commercial Paper	P-2

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Opinion

Rating Rationale

The Baa1 senior secured rating of Empire District Electric Company (EDE) reflects the utility's capable management, prospects for sales growth, and stable service territory. EDE has increased it use of leverage in recent years to finance the construction of its new State Line combined-cycle facility. In addition the company has faced rising operating costs stemming from higher natural gas fuel prices. The result has been a sustained weakening of the company's cash flow coverage levels; funds from operations (FFO) covered gross interest expense by 2.47 times in 2000.

To limit its exposure to high purchased power costs, the company will continue building new generation facilities. Projected construction expenditures average $72 million annually for the next three years which are expected to tamper off to approximately $50 million a year in 2005. Taking on additional debt to finance these construction expenditures will further pressure EDE's coverage ratios, which are on the low end of its comparable rating category.

Recent Events

On September 21, 2001, the Missouri Public Service Commission (PSC) approved a $17.1 million or 8.4% increase in EDE's base rates. The increase is intended primarily for the recovery of construction expenses associated with the State Line Combined Cycle generating unit and increased natural gas costs. In addition, the PSC approved an interim two-year annual rate increase of $19.6 million to compensate EDE for potential expsure to high natural gas costs and purchased power costs.

Rating Outlook

Negative, given the substantial construction expenditures required to beef up the company's internal generation capability. The company's willingness to use equity to finance these expenditures is positive, however debt protection measures remain weak.

ATTACHMENT DWG-2

STANDARD &POOR'S

STOCK REPORTS

Empire District Electric

NYSE Symbol **EDE**

02-MAR-02

Sub-Industry: Electric Utilities

Summary: EDE provides electric service to parts of Missouri, Kansas, Oklahoma and Arkansas, and also provides water service to three towns in Missouri.

Quantitative Evaluations

Outlook (1 Lowest—5 Highest)
• 2

Fair Value
• 20.20

Risk
• NA

Earn./Div. Rank
• B

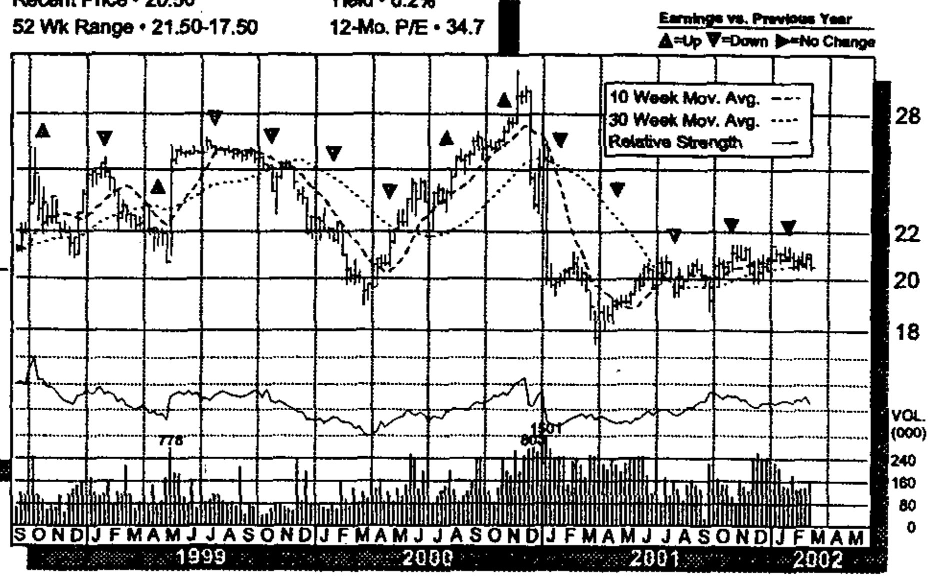
Technical Eval.
• Neutral since 2/02

Rel. Strength Rank (1 Lowest—99 Highest)
• 38

Insider Activity
• NA

Recent Price • 20.50 | Yield • 6.2%

52 Wk Range • 21.50-17.50 | 12-Mo. P/E • 34.7



Business Profile - 28-NOV-01

In September, the Missouri Public Service Commission issued an order granting the company new rates for its Missouri electric customers. As a result of the order, EDE will increase base rates by 8.4%. This increase is designed to provide the company with about $17.1 million in additional revenues per year. In late November, the company said it planned to sell up to 2,012,500 newly issued shares of its common stock to the public in an underwritten public offering later in 2001. Proceeds from the sale would be used to pay short-term debt.

Operational Review - 28-NOV-01

Revenues in the nine months ended September 30, 2001, edged up 2.3%, year to year, primarily reflecting colder than normal temperatures in the first quarter of 2001. The increase in revenues was outweighed by significantly higher natural gas and purchased power costs, as well as merger expenses; net income fell 49%, to $10,306,768 ($0.58 a share), from $20,287,025 ($1.16).

Stock Performance - 01-MAR-02

In the past 30 trading days, EDE's shares have declined 2%, compared to a 0.37% rise in the S&P 500. Average trading volume for the past five days was 30,720 shares, compared with the 40-day moving average of 32,366 shares.

Key Stock Statistics

Dividend Rate/Share	1.28	Shareholders	7,060
Shs. outstg. (M)	17.7	Market cap. (B)	$0.363
Avg. daily vol. (M)	0.030	Inst. holdings	32%
Tang. Bk. Value/Share	13.19		
Beta	-0.13		

Value of $10,000 invested 5 years ago: $ 14,994

Fiscal Year Ending Dec. 31

	2001	2000	1999	1998	1997	1996
Revenues (Million $)						
1Q	60.55	54.03	54.74	51.39	47.31	47.64
2Q	58.40	57.43	53.31	56.27	45.98	47.61
3Q	83.34	86.22	81.46	77.86	68.64	62.74
4Q	61.96	62.32	52.65	54.34	53.39	48.00
Yr.	264.3	260.0	242.2	239.9	215.3	206.0
Earnings Per Share ($)						
1Q	0.13	0.14	0.27	0.16	0.15	0.20
2Q	0.04	0.21	-0.02	0.33	0.12	0.14
3Q	0.42	0.82	0.66	0.80	0.73	0.64
4Q	0.01	0.19	0.21	0.24	0.28	0.23
Yr.	0.59	1.35	1.13	1.53	1.29	1.23

Next earnings report expected: late April

Dividend Data (Dividends have been paid since 1944.)

Amount ($)	Date Decl.	Ex-Div. Date	Stock of Record	Payment Date
0.320	Jul. 26	Aug. 29	Sep. 01	Sep. 15 '01
0.320	Oct. 25	Nov. 26	Nov. 28	Dec. 15 '01
0.320	Oct. 25	Nov. 28	Dec. 01	Dec. 15 '01
0.320	Jan. 31	Feb. 27	Mar. 01	Mar. 15 '02

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STANDARD &POOR'S

The Empire District Electric Company

STOCK REPORTS 02-MAR-02

Business Summary - 28-NOV-01

Empire District Electric (EDE) generates, purchases, transmits, distributes and sells electricity in parts of Missouri, Kansas, Oklahoma and Arkansas. The company also provides water service to three towns in Missouri. In 2000, nearly all gross operating revenues came from electricity sales, with under 1% from water sales.

EDE's service territory consists of approximately 10,000 square miles and a population of more than 330,000, primarily throughout southwestern Missouri and smaller parts of southeastern Kansas, northeastern Oklahoma and northwestern Arkansas. In 2000, 88% of total retail electric revenues were earned in Missouri. Kansas, Oklahoma and Arkansas customers provided 6%, 3% and 3% of total electric revenues, respectively. In 2000, 42% of EDE's operating revenues came from residential customers. Commercial, industrial, wholesale and other customers provided 30%, 16%, 8% and 4%, respectively.

The company supplies electric service at retail to 119 incorporated communities, to various unincorporated areas, and at wholesale to four municipally owned distribution systems and two rural electric cooperatives. The largest urban area served is Joplin, MO, and its immediate vicinity, with a population of 144,000. EDE operates under franchises with original terms of 20 years or longer in virtually all of the incorporated communities. About 50% of electric operating revenues in 2000 came from incorporated communities with franchises having at least 10 years remaining, and about 19% were from incorporated communities in which franchises have remaining terms of 10 years or less.

Based on kilowatt hours generated, coal was used to supply 83% of total fuel requirements; natural gas supplied 16%, versus 18% in 1999. EDE expects to increase the amount of gas used as a fuel source. Construction spending totaled about $131.8 million in 2000. The company projects that construction spending will fall to $63.3 million in 2001, and $38.3 million in 2002.

The maximum hourly demand on the company's system reached a record high of 993 megawatts on August 30, 2000. The previous record peak of 979 megawatts was established in August 1999. EDE set a new maximum hourly winter demand of 941 megawatts on December 19, 2000.

In May 1999, the company agreed to be acquired by UtiliCorp United, Inc. (NYSE: UCU), a Kansas City, MO-based electric and gas utility, for approximately $800 million, including $505 million in stock and cash and the assumption of $260 million in debt. In January 2001, UtiliCorp terminated the agreement, citing lack of receipt of all regulatory approvals as its basis for withdrawing from the merger.

Per Share Data ($) (Year Ended Dec. 31)	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992
Tangible Bk. Val.	NA	13.43	13.24	13.18	12.84	12.72	11.72	12.06	11.37	12.29
Earnings	0.59	1.35	1.13	1.53	1.29	1.23	1.18	1.32	1.16	1.26
Dividends	1.28	1.28	1.28	1.28	1.28	1.28	1.28	1.28	1.28	1.26
Payout Ratio	NM	95%	113%	84%	99%	104%	108%	97%	110%	100%
Prices - High	26.56	30.75	26.75	26.12	20.00	19.50	19.75	20.50	24.87	24.75
- Low	17.50	18.93	20.68	18.37	15.75	17.12	15.87	15.00	19.12	20.12
P/E Ratio - High	45	23	24	17	16	16	17	16	21	20
- Low	30	14	18	12	12	14	13	11	16	16
Income Statement Analysis (Million $)										
Revs.	NA	260	242	240	215	206	193	178	168	150
Depr.	NA	27.8	26.4	25.0	23.4	21.6	19.9	18.3	17.4	16.5
Maint.	NA	14.8	16.3	17.5	12.8	13.7	12.8	10.8	10.6	10.3
Fxd. Chgs. Cov.	NA	2.1	2.6	2.9	2.6	2.6	2.7	3.0	2.7	2.9
Constr. Credits	NA	5.8	1.2	0.4	1.2	1.0	2.2	1.0	0.2	0.1
Eff. Tax Rate	NA	33%	42%	36%	35%	35%	35%	35%	33%	33%
Net Inc.	NA	23.6	22.2	28.3	23.8	22.0	19.8	19.7	15.9	16.9
Balance Sheet & Other Fin. Data (Million $)										
Gross Prop.	NA	1,049	920	856	810	757	699	657	587	547
Cap. Exp.	NA	134	71.9	51.9	56.7	62.3	50.8	71.6	44.4	31.4
Net Prop.	NA	720	616	572	547	515	476	446	394	367
Capitalization:										
LT Debt	NA	326	346	246	196	220	195	185	165	144
% LT Debt	NA	58	60	48	44	47	46	47	49	46
Pfd.	NA	Nil	Nil	32.6	32.9	32.9	32.9	32.9	7.9	7.9
% Pfd.	NA	Nil	Nil	6.42	7.30	7.10	7.80	8.40	2.30	2.50
Common	NA	240	234	230	219	213	193	174	168	163
% Common	NA	42	40	45	49	46	46	44	49	52
Total Cap.	NA	657	667	591	527	540	491	459	406	376
% Oper. Ratio	NA	82.2	80.0	80.1	80.9	82.2	82.8	82.0	82.6	80.0
% Earn. on Net Prop.	NA	6.9	7.2	8.5	7.7	7.4	7.2	7.6	7.7	8.3
% Return On Revs.	NA	9.1	9.2	11.8	11.1	10.7	10.3	11.1	9.5	11.2
% Return On Invest. Capital	NA	7.9	6.8	11.2	10.1	9.4	7.0	7.5	7.5	8.1
% Return On Com. Equity	NA	10.0	9.0	11.5	9.9	9.7	9.5	10.6	9.4	10.3

Data as orig reptd.; bef. results of disc opers/spec. items. Per share data adj. for stk. divs. Bold denotes diluted EPS (FASB 128)-prior periods restated. E-Estimated. NA-Not Available. NM-Not Meaningful. NR-Not Ranked.

Office—602 Joplin St., Joplin, MO 64801. **Tel**—(417) 625-5100. **Website**—http://www.empiredistrict.com **Pres & CEO**—M. W. McKinney. **EVP & COO**—W. L. Gipson. **VP-Fin**—R. Fancher. **Secy, Treas & Investor Contact**—Janet S. Watson (417-625-5100 ext 2223). **Dirs**—M. F. Chubb Jr., R. D. Hammons, R. C. Hartley, J. Herschend, F. E. Jeffries, R. L. Lamb, J. S. Leon, R. E. Mayes, M. W. McKinney, M. M. Posner. **Transfer Agent & Registrar**—Mellon Investor Services, South Hackensack, NJ. **Incorporated**—in Kansas in 1909. **Empl**— 603. **S&P Analyst:** Michael Infranco

NEWS HEADLINES

■ **10/25/01** NEW YORK (Standard & Poor's)--Oct 25, 2001, Empire District Electric Co., announced 3Q EPS $0.42 vs. $0.82 and trailing 12 mos. EPS $0.77 vs. $1.37.

■ **07/27/01** NEW YORK (Standard & Poor's)--Jul 26, 2001, Empire District Electric Co., announced 2Q EPS $0.04 vs. $0.21 and trailing 12 mos. EPS $1.17 vs. $1.21. Results for the trailing 12 mos. include merger costs of $0.04 per share for 2001 and $0.17 for 2000.

■ **04/25/01** NEW YORK (Standard & Poor's)--Apr 25, 2001, Empire District Electric Co., announced 1Q EPS $0.13 vs. $0.14.

■ **02/02/01** NEW YORK (Standard & Poor's)--Feb 1, 2001, Empire District Electric Co., announced 4Q EPS $0.19 vs. $0.21 and annual EPS $1.35 vs. $1.13.

■ **01/03/01** DOWN 5 7/8 to 19 7/8... UTILICORP terminates merger agreement due to lack of receipt of all regulatory approvals.

■ **01/03/01** DOWN 5 5/8 to 19 7/8... UTILICORP terminates merger agreement due to lack of receipt of all regulatory approvals.

■ **01/03/01** DOWN 5 3/4 to 20... UTILICORP terminates merger agreement due to lack of receipt of all regulatory approvals.

■ **12/08/00** DOWN 3 3/8 to 24 3/4... Arkansas judge rules co., UTILICORP's regulatory plan should not be approved... As such, judge cannot conclude EDE, UTLILICORP merger in public interest.

■ **12/08/00** DOWN 3 5/8 to 24 5/8... Arkansas judge rules co., UTILICORP's regulatory plan should not be approved... As such, judge cannot conclude EDE, UTLILICORP merger in public interest.

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■ **12/08/00** DOWN 3 5/8 to 24 1/2... Arkansas judge rules co., UTILICORP's regulatory plan should not be approved... As such, judge cannot conclude EDE, UTLILICORP merger in public interest.

■ **10/31/00** NEW YORK (Standard & Poor's)--Oct 26, 2000, Empire District Electric Co., announced 3Q EPS $0.82 vs. $0.66 and trailing 12 month EPS $1.37 vs. $1.16.

STANDARD
&POOR'S
STOCK REPORTS

Empire District Electric

02-MAR-02

SUB-INDUSTRY OUTLOOK

Our outlook for the S&P Electric Utilities Index in 2002 is slightly negative. The industry Index underperformed in 2001, falling 18.8%, versus the 11.8% drop for the S&P 1500. In contrast to its outperformance in 2000, when the index gained 45.5%, versus an 8.2% decline for the S&P 1500, electric utilities did not benefit from the weakness in the broader market in 2001. In 2002, the Index was down 3.0% as of February 1, 2002, versus a 2.1% decline for the S&P 1500. Due to its concerns about the economic aftermath of September 11, the Fed reduced interest rates an additional 100 basis points and another 25 basis point reduction is possible. Given the economic uncertainties, we expect the group to continue to consolidate.

While prospects for 2002 will reflect, as usual, the impact of the weather, much will also be dependent upon how well the economy has recovered by the all important summer months. The greatest concern is with those utilities that have a high exposure to industrial and commercial customers hurt by the economic slowdown. Over the long term, demand in the southeast and southwest of the U.S. will increase, due to strong customer growth in these regions. The trend to merge will also benefit the industry. In an effort to become "total energy providers," many electric companies are combining forces with natural gas companies.

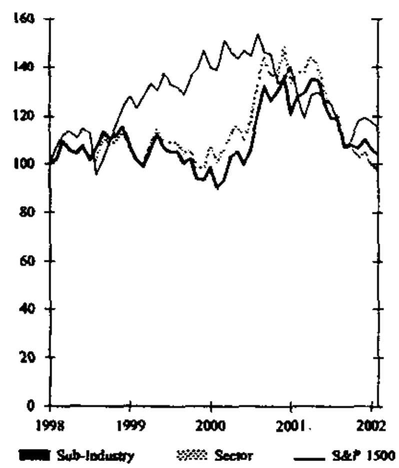
Given the impact of the California power crisis, the deregulation that has been taking place within the industry will proceed in a much more cautious manner. While power prices dropped sharply in 2001, the astronomical highs reached in 2000 led many states to adopt a go-slow approach to the separation of generation from transmission and distribution units. In states that did require this separation, the utilities were generally allowed to recover their "stranded costs" (costs related to power generating plants that are not economical in a competitive market or long-term purchased-power contracts). A strong rebound in the economy should increase the demand for electricity in the Northeast, Midwest and California, as the industry seeks to accelerate the approval process for the new power plants that will be required. The most successful utilities will be those that pay down debt, lower dividend payouts, expand their service area, and add attractive unregulated products and services.

—Justin McCann

STOCK PERFORMANCE

GICS SECTOR: Utilities
SUB-INDUSTRY: Electric Utilities
Based on S&P 1500 Indexes

Month-end Price Performance
As of 02/28/02



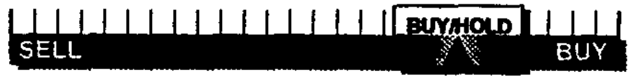
NOTE: All Sector & Sub-Industry Information is based on the Global Industry Classification Standard (GICS)

SUB-INDUSTRY: ELECTRIC UTILITIES
*PEER GROUP: ELECTRIC COS. (DOMESTIC) - SMALLER

Peer Group	Stock Symbol	Recent Stock Price	P/E Ratio	12-mth. Trail. EPS	30-day Price Chg %	1-year Price Chg. %	Beta	Yield %	Quality Ranking	Stk. Mkt. Cap. (mil. $)	Ret. on Equity %	Pretax Margin %	LTD to Cap. %
Empire District Electric	**EDE**	**20.50**	**35**	**0.59**	**-3%**	**1%**	**-0.13**	**6.2**	**B**	**363**	**10.0**	**NM**	**NA**
BayCorp Holdings	MWH	9.15	3	2.67	-4%	1%	0.64	Nil	NR	78	NM	NM	Nil
Central Vermont Public Service	CV	17.05	NM	0.08	0%	9%	0.26	5.2	B	197	8.7	NM	NA
Cleco Corp.	CNL	21.54	15	1.47	1%	-4%	0.10	4.1	A-	969	84.4	NM	NA
El Paso Electric	EE	14.83	12	1.27	6%	18%	0.24	Nil	NR	747	14.4	NM	NA
Green Mountain Power	GMP	17.23	9	1.85	-6%	18%	-0.32	3.2	B-	98	NM	NM	NA
Maine Public Service	MAP	29.45	9	3.35	0%	19%	-0.05	4.8	B	46	13.8	NM	NA
Otter Tail	OTTR	28.91	17	1.69	2%	15%	-0.04	3.7	A-	712	15.2	12.3	NA
UIL Holdings	UIL	55.63	13	4.19	5%	13%	0.20	5.2	B+	797	13.0	NM	NA

ATTACHMENT DWG-2

STANDARD
&POOR'S
STOCK REPORTS



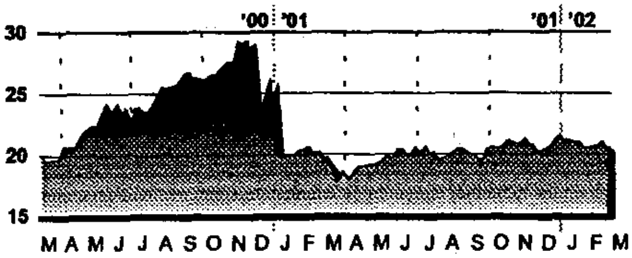
Empire Dist Elec

WALL STREET CONSENSUS

01-MAR-02

Analysts' Recommendations

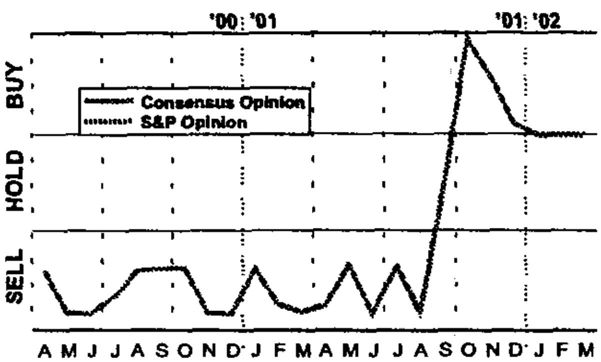
Stock Prices



Analysts' Opinion

	No. of Ratings	% of Total	1 Mo. Prior	3 Mo. Prior	Nat'l	Reg'l	Non-broker
Buy	1	33	1	1	1	0	0
Buy/Hold	2	67	2	1	1	1	0
Hold	0	0	0	0	0	0	0
Weak Hold	0	0	0	0	0	0	0
Sell	0	0	0	0	0	0	0
No Opinion	0	0	0	0	0	0	0
Total	3	100	3	2	2	1	0

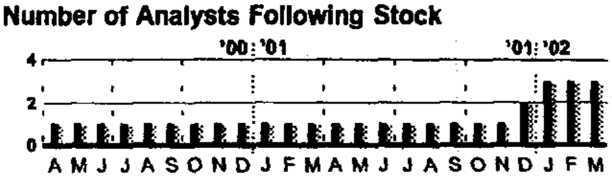
Analysts' Opinions



Analysts' Consensus Opinion

The consensus opinion reflects the average buy/hold/sell recommendation of Wall Street analysts. It is well-known, however, that analysts tend to be overly bullish. To make the consensus opinion more meaningful, it has been adjusted to reduce this positive bias. First, a stock's average recommendation is computed. Then it is compared to the recommendations on all other stocks. Only companies that score high relative to all other companies merit a consensus opinion of "Buy" in the graph at left. The graph is also important because research has shown that a rising consensus opinion is a favorable indicator of near-term stock performance; a declining trend is a negative signal.

Number of Analysts Following Stock

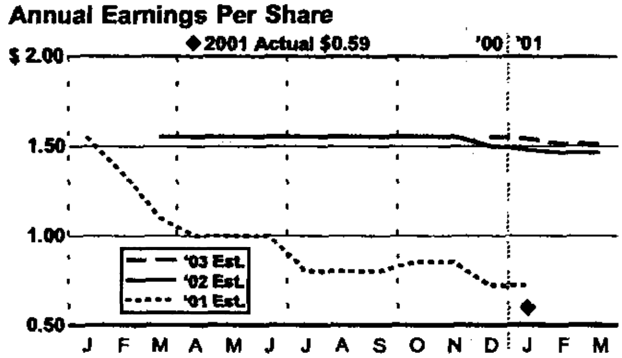


Standard & Poor's STARS na
(Stock Appreciation Ranking System)

★★★★★	Buy	Standard & Poor's STARS ranking is our own analyst's evaluation of the short-term (six to 12 month) appreciation potential of a stock. Five-Star stocks are expected to appreciate in price and outperform the market.
★★★★	Accumulate	
★★★	Hold	
★★	Avoid	
★	Sell	

Analysts' Earnings Estimate

Annual Earnings Per Share



Current Analysts' Consensus Estimates

Fiscal years	Avg.	High	Low	S&P Est.	No. of Est.	Estimated P-E Ratio	Estimated S&P 500 P-E Ratio
2002	1.46	1.55	1.40	—	3	14.0	21.4
2003	1.51	1.52	1.50	—	2	13.6	—
1Q'02	0.09	0.09	0.09		1		
1Q'01	0.13 Actual						

A company's earnings outlook plays a major part in any investment decision. S&P organizes the earnings estimates of over 2,300 Wall Street analysts, and provides you with their consensus of earnings over the next two years. The graph to the left shows you how these estimates have trended over the past 15 months.

AFFIDAVIT

STATE OF MISSOURI)
) ss
COUNTY OF JASPER)

On the 25th day of February, 2002, before me appeared David W. Gibson, to me personally known, who, being by me first duly sworn, states that he is the Vice President - Finance 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.

David W. Gibson

Subscribed and sworn to before me this 25th day of February, 2002

PATRICIA A SETTLE
Notary Public - Notary Seal
STATE OF MISSOURI
JASPER COUNTY
MY COMMISSION EXP. AUG. 16,2002

Patricia A. Settle, Notary Public

My commission expires: August 16, 2002