

Exhibit No.: 14  
Issues: FAS 87, FAS 106 Trackers  
Witness: Laurie A. Delano  
Type of Exhibit: Direct Testimony  
Sponsoring Party: Empire District Electric  
Case No.:  
Date Testimony Prepared: October 2007

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

**Direct Testimony**

**of**

**Laurie A. Delano**

**October 2007**

Empire Exhibit No. 14  
Case No(s). ER-2008-0093  
Date 5-12-08 Rptr KS

DIRECT TESTIMONY OF  
LAURIE A. DELANO  
THE EMPIRE DISTRICT ELECTRIC COMPANY  
BEFORE THE  
MISSOURI PUBLIC SERVICE COMMISSION  
CASE NO.

1     **I.   INTRODUCTION**

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

3     A.   My name is Laurie A. Delano. My business address is 602 Joplin Street, Joplin,  
4         Missouri 64801.

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

6     A.   I am the Controller, Assistant Secretary / Treasurer and Chief Accounting Officer of  
7         The Empire District Electric Company (the "Company" or "Empire").

8     **Q.   PLEASE DESCRIBE YOUR EDUCATION AND BACKGROUND.**

9     A.   I received a Bachelor of Science in Business Administration degree in accounting  
10        from Missouri Southern State University, Joplin, in 1977 and a Masters of Business  
11        Administration degree from Missouri State University, Springfield in 1990. I joined  
12        the Company in 1979 and served as Director of Internal Auditing from 1983 to 1991.  
13        I left the Company in 1991 and was employed as an Accounting Lecturer at Pittsburg  
14        State University, and in management positions with TAMKO Building Products and  
15        Lozier Corporation before rejoining the Company in December 2002. I am also a  
16        Certified Public Accountant (CPA) and a Certified Management Accountant (CMA).

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

18    A.   The purpose of my testimony, in this case before the Missouri Public Service  
19        Commission ("Commission"), is to present Empire's requested rate treatment for

1 Pension costs and Other Postretirement Welfare ("OPEB") costs, commonly referred  
2 to as FAS (Financial Accounting Standard) 87 and FAS 106, respectively.

3 **Q. WHAT METHODOLOGY DOES EMPIRE CURRENTLY USE TO**  
4 **RECOVER THE COST OF PROVIDING PENSION AND OPEB BENEFITS**  
5 **TO ITS EMPLOYEES?**

6 A. In accordance with a stipulation and agreement entered into and approved by the  
7 Commission in 2005 (Case No. ER- 2004-0570), Empire recovers pension cost equal  
8 to the FAS 87 cost. A regulatory asset or liability is established on Empire's books to  
9 track the difference between the level of FAS 87 expense, on an annual basis, and the  
10 level of pension expense built into rates for that period. If the FAS 87 expense during  
11 the period is more than the expense built into rates for the period, a regulatory asset is  
12 established. If the FAS 87 expense during the period is less than the expense built  
13 into rates for the period, a regulatory liability is established. The regulatory asset or  
14 liability that results from this accounting process is amortized over five years at the  
15 next rate case. In addition, the regulatory asset or liability is included in rate base. In  
16 Case No ER-2006-0315, the Company's most recent rate case, similar rate treatment  
17 was granted to Empire for FAS 106 costs.

18 **Q. WHAT AMOUNT OF FAS 87 COST IS EMPIRE CURRENTLY**  
19 **RECOVERING?**

20 A. In Case No. ER-2006-0315, FAS 87 pension costs was a settled issue. The agreement  
21 reached included an allowance of \$3,920,894 for FAS 87 costs. In addition, Empire  
22 is currently recovering \$237,321 in amortization costs per year for the five-year  
23 amortization of the regulatory asset that had been established at the time of the last  
24 rate case. This regulatory asset reflected the excess FAS 87 costs that had been

1 incurred over the FAS 87 expense levels that were built into rates for the period  
2 March 1, 2005 through December 31, 2005. These FAS 87 cost recovery levels  
3 became effective January 1, 2007, at the time the new rates were placed into effect.

4 **Q. DID EMPIRE MAKE AN ADJUSTMENT TO THE TEST YEAR EXPENSES**  
5 **IN THIS CASE FOR PENSION (FAS 87) COSTS?**

6 A. Yes. Empire is currently recording estimated FAS 87 costs for its Missouri  
7 jurisdiction at an annual rate of \$2,439,448. Therefore, Empire has adjusted its FAS  
8 87 costs to reflect this rate of accrual. In addition, the regulatory asset balance as of  
9 June 30, 2007, is \$1,620,674, reflecting an additional under-recovery of FAS 87 cost  
10 in 2006, net of the amortization mentioned earlier in my testimony. This amortization  
11 began January 1, 2007. In addition to the regulatory asset, Empire has also recorded a  
12 regulatory liability of \$740,724 as of June 30, 2007. This regulatory liability reflects  
13 that the estimated FAS 87 expense during 2007 has been less than the expense built  
14 into rates in the last rate case. The net of these two accounts is an asset of \$879,950 as  
15 of June 30, 2007. Therefore, the Company has included a five-year amortization of  
16 the net of these two accounts of \$175,990 per year. An adjustment has also been  
17 made to reflect this new amortization amount in the cost of service.

18 **Q. DID EMPIRE MAKE ANY OTHER ADJUSTMENT TO THE TEST YEAR**  
19 **EXPENSES FOR PENSION (FAS 87) COSTS?**

20 A. Yes. An adjustment of \$182,959 has also been made to reflect the FAS 87 costs  
21 related to the Company's Supplemental Retirement Plan ("SERP") for designated  
22 Officers of the Company.

23 **Q. WHAT AMOUNT OF FAS 106 COST IS EMPIRE CURRENTLY**  
24 **RECOVERING?**

1 A. In Case No. ER-2006-0315, the most recent rate case, an allowance of \$3,313,892  
2 was identified for FAS 106 costs.

3 **Q. DID EMPIRE MAKE AN ADJUSTMENT TO THE TEST YEAR EXPENSES**  
4 **FOR OPEB (FAS 106) COSTS?**

5 A. Yes. Empire is currently recording estimated FAS 106 costs for its Missouri  
6 jurisdiction of \$2,114,017 on an annual basis. Therefore, Empire has made an  
7 adjustment reflecting this level of estimated cost. In addition, Empire has also  
8 recorded a regulatory liability of \$599,860 as of June 30, 2007. This regulatory  
9 liability reflects that the FAS 106 expense during 2007 has been less than the expense  
10 built into rates in the last rate case. Therefore, the Company has included a five-year  
11 amortization of this amount as a reduction in our cost of service of \$119,972 per year.

12 **Q. DID EMPIRE MAKE ANY OTHER ADJUSTMENT TO THE TEST YEAR**  
13 **EXPENSES FOR OPEB (FAS 106) COSTS?**

14 A. No.

15 **Q. ARE THESE THE FINAL TEST YEAR EXPENSES FOR BOTH PENSION**  
16 **(FAS 87) AND OPEB (FAS 106) COSTS?**

17 A. No. The actuary is currently completing the 2007 actuarial valuations for both the  
18 pension and OPEB plans. Final test year expenses will be trued-up based on the  
19 results of the actuarial valuations.

20 **Q. IS EMPIRE REQUESTING MODIFICATIONS TO THE METHODOLOGY**  
21 **CURRENTLY USED TO RECOVER THE COST OF PROVIDING PENSION**  
22 **AND OPEB BENEFITS TO ITS EMPLOYEES?**

23 A. Yes. In the case of certain "special events", Statement of Financial Accounting  
24 Standards No. 88 ("FAS 88") and FAS 106 require the Company to recognize one-

1 time charges (expense) or credits (income). Consistent with the stipulation and  
2 agreement in AmerenUE's recent cases (GR-2007-0003 and ER-2007-0002), we are  
3 requesting a procedure to ensure that any one-time charges or credits recognized in  
4 accordance with FAS 88 or FAS 106 be properly reflected in rates. We are also  
5 requesting modifications to provide additional funding flexibility that would enable  
6 the Company to avoid benefit restrictions due to certain provisions of the Pension  
7 Protection Act of 2006.

8 **Q. WHAT "SPECIAL EVENTS" WOULD REQUIRE THESE ONE-TIME**  
9 **CHARGES OR COSTS UNDER FAS 88 AND FAS 106?**

10 A. The special events include the following:

11 (1) A significant reduction in the expected years of service of present employees,  
12 such as the layoff of a large number of employees.

13 (2) The elimination of benefit accruals for some or all the future service of a  
14 significant number of participants under the plan, such as would occur if pension  
15 benefits were frozen or OPEBs were eliminated.

16 (3) Settlement of all or a significant portion of the plan's liability for benefits, such as  
17 through the purchase of a non-participating annuity contract from an insurance  
18 company or the payment of lump sums to participants.

19 (4) The provision of special termination benefits to employees, such as might be  
20 provided under an early retirement incentive program or in the case of the closing of a  
21 facility.

22 **Q. HAVE ANY SUCH EVENTS OCCURRED DURING THE CURRENT**  
23 **PERIOD?**

1     A.   No such events have occurred in the current period. Although Empire does not  
2           anticipate that such events will occur, the changes to methodology would ensure that  
3           rate payers will not be undercharged or overcharged for pension and OPEB costs if  
4           Empire is required to recognize such one-time costs or income in the future.

5     **Q.   DOES THIS CONCLUDE YOUR TESTIMONY?**

6     A.   Yes it does.