

Exhibit No. 18

Issue: FAS 87, FAS 88 and FAS 106 cost of  
Pension and OPEB Plans

Witness: C. Kenneth Vogl

Type of Exhibit: Rebuttal Testimony

Sponsoring Party: Empire District Electric

Case No. ER-2008-0093

Date Testimony Prepared: April 2008

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

**Rebuttal Testimony**

**of**

**C. Kenneth Vogl**

**April 2008**

Empire Exhibit No. 18  
Case No(s) ER-2008-0093  
Date 5-12-08 Rptr KE

REBUTTAL TESTIMONY  
OF  
C. KENNETH VOGL  
ON BEHALF OF  
THE EMPIRE DISTRICT ELECTRIC COMPANY  
BEFORE THE  
MISSOURI PUBLIC SERVICE COMMISSION  
CASE NO. ER-2008-0093

1 **INTRODUCTION**

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

3 A. My name is C. Kenneth Vogl. My business address is 120 South Central Avenue,  
4 Suite 1400, St. Louis, Missouri 63105.

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

6 A. I am the retirement practice leader of the St. Louis office of Watson Wyatt  
7 Worldwide.

8 **Q. PLEASE DESCRIBE WATSON WYATT WORLDWIDE.**

9 A. Watson Wyatt Worldwide is the leading human resources consulting firm with  
10 more than 60 years of experience. We have 7,000 associates in 32 countries  
11 providing services to our clients in the following primary areas: Technology  
12 Solutions, Benefits Consulting, Human Capital Strategies, Insurance and  
13 Financial Services.

14 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL**  
15 **BACKGROUND FOR THE COMMISSION.**

16 A. I received a Bachelor of Science degree in mathematics from University of  
17 Missouri, Columbia in 1988 and a Doctorate of Philosophy in mathematics from  
18 Washington University in 1994. I completed the examination requirements for

1 designation as a Fellow of the Society of Actuaries and received such designation  
2 in August 2000. I completed both the examination and experience requirements  
3 for designation as an Enrolled Actuary under the Employee Retirement Income  
4 Security Act of 1974 ("ERISA") and received such designation in 1998.

5 **Q. PLEASE DESCRIBE YOUR QUALIFICATIONS.**

6 A. I have been employed with Watson Wyatt Worldwide as a consulting actuary  
7 since 2007; I was employed with Towers Perrin in St. Louis from 1995 to 2007  
8 and William Mercer in St. Louis from 1994 to 1995. I have substantial technical  
9 and consulting experience relative to employee benefit plans — including the  
10 design, funding, accounting, and communication of pension and postretirement  
11 welfare programs.

12 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

13 A. I am testifying in this case before The Missouri Public Service Commission  
14 ("Commission") on behalf of The Empire District Company ("Empire"). The  
15 purpose of my rebuttal testimony is to respond to the position taken by the Staff  
16 of The Missouri Public Service Commission ("Staff") on the FAS 87 and FAS 88  
17 pension costs and the FAS 106 other post retirement benefit costs ("OPEB")  
18 matters as set out on pages 41 and 42 of the Staff Report filed in this case. I also  
19 will submit modifications to the current tracker mechanism that address how  
20 Special Events would be handled under Empire's tracking mechanism. This  
21 Special Event situation was initially referenced in Empire witness Laurie  
22 Delano's direct testimony at page 5. The Staff Report did not respond to the  
23 request for a wording change in the tracking mechanism to handle Special Events.

1    **Q.    HAVE YOU PREPARED ANY SCHEDULES?**

2    A.    Yes. Rebuttal Schedule CKV-1 contains the proposed modifications to the prior  
3           Stipulation and Agreement for pension benefits and OPEB. These provisions are  
4           intended to accomplish the following:

5

6           A.    To clarify, for ratemaking purposes, the accounting treatment of any  
7           special events under Statement of Financial Accounting Standards No. 88  
8           (“FAS 88”) and FAS 106 that would require the Company to recognize  
9           one time charges (expense) or credits (income) and to ensure that any of  
10          these one-time charges or credits be properly reflected in rates.

11          B.    To ensure that additional funding required to avoid benefit restrictions  
12          under certain provisions of the Pension Protection Act of 2006 are  
13          properly reflected in rates.

14   **Q.    DID STAFF WITNESS DANA EAVES ADDRESS THE WORDING**  
15   **CHANGES RECOMMENDED BY EMPIRE WITNESS LAURIE DELANO**  
16   **IN HER DIRECT TESTIMONY?**

17   A.    No. Staff witness Dana Eaves does not address Empire’s request on pages 41 and  
18          42 of the Staff Report. Empire submits that it is very important that this issue be  
19          addressed in the tracking mechanism before such an event occurs so that the  
20          tracking mechanism captures the impact of a Special Event properly.

21   **Q.    HAVE OTHER UTILITIES IN MISSOURI INCORPORATED**  
22   **LANGUAGE TO COVER THOSE SPECIAL EVENTS MENTIONED**  
23   **ABOVE?**

C. KENNETH VOGL  
REBUTTAL TESTIMONY

1 A. Yes. Ameren has been allowed to incorporate language into its tracking  
2 mechanism in Case No. GR-2007-0003 and Case No. ER-2007-0002 to cover  
3 Special Events. Laclede Gas Company was also permitted to add language in  
4 Case No. GR-2007-0208 to ensure contributions necessary to avoid benefit  
5 restrictions under the Pension Protection Act would also receive rate recovery.

6 **Q. DO YOU HAVE ANY ADDITIONAL COMMENTS ABOUT THE STAFF**  
7 **REPORT?**

8 A. Yes. The second sentence of the second paragraph on page 41 in the section on  
9 "FAS 87 and FAS 88 Pension Costs" does not accurately describe how Empire's  
10 Prepaid Pension Asset is impacted by Empire's Stipulation and Agreement.  
11 Empire's pension methodology is not based on ERISA minimum funding.

12 **Q. DOES THIS COMPLETE YOUR REBUTTAL TESTIMONY?**

13 A. Yes.

REBUTTAL SCHEDULE CKV-1

**Modifications to the Stipulation and Agreement to Pension and Other Post-Employment Benefits**

These provisions are intended to accomplish the following:

- 1) To clarify, for ratemaking purposes, the accounting treatment of any special events under Statement of Financial Accounting Standards No. 88 ("FAS 88") and FAS 106 that would require the Company to recognize one time charges (expense) or credits (income) and to ensure that any of these one-time charges or credits be properly reflected in rates.
- 2) To ensure that additional funding required to avoid benefit restrictions under certain provisions of the Pension Protection Act of 2006 are properly reflected in rates.

**Treatment of special events for pension and OPEB**

If The Empire District Electric Company has a curtailment, settlement, or special termination cost or credit due to requirements of applicable accounting rules according to FAS 88 and FAS 106, the following procedure will be used to address the cost reimbursement for pension and OPEB costs:

- a. If the special event triggers a charge, then Empire will establish an offsetting regulatory asset. This regulatory asset will not be added to rate base (since it is not a cash item), and it will be amortized over five years beginning when new rates are implemented in Empire's next general electric rate increase or decrease proceeding before the Missouri Public Service Commission. Empire shall make additional contributions to the applicable pension or VEBA trust equal to the amount of the amortization.
- b. If the special event triggers a credit, then Empire shall establish an offsetting regulatory liability. This regulatory liability will not be added to rate base (since it is not a cash item), and it will be amortized over five years beginning when new rates are implemented in Empire's next general electric rate increase or decrease proceeding before the Missouri Public Service Commission. Generally, Empire will contribute to the applicable pension or VEBA trust an amount equivalent to its FAS 87/106 costs for the year less the amortization amount, subject to the following condition:
  - i. If pension cost becomes negative as a result of a FAS 87 and /or FAS 88 credit, the Parties agree Empire shall set up an offsetting regulatory liability. This regulatory liability is a non-cash item which will not require rate base treatment. When FAS 87 costs

C. KENNETH VOGL  
REBUTTAL TESTIMONY

REBUTTAL SCHEDULE CKV-1

becomes positive again, the regulatory liability will be amortized over five years, or longer, if necessary to avoid the net of the FAS 87 cost and the offsetting amortized regulatory liability yielding a result which is less than \$0 in any year.

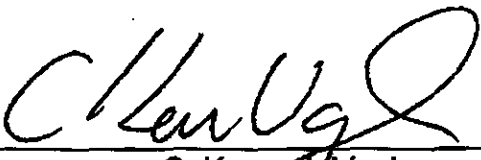
**Treatment of contributions in excess of FAS87 expense needed to avoid benefit restrictions**

If Empire experiences a situation where a contribution equal to the FAS 87 expense is insufficient to avoid the benefit restrictions specified in Pension Protection Act of 2006, thereby causing an inability by Empire to pay out pension benefits to recipients or operate its business in its normal and customary manner, Empire will be allowed to make an additional contribution to alleviate this issue. Additional contributions made pursuant to this Paragraph will increase empire's rate base by increasing the prepaid pension asset and / or reducing the accrued liability, and will receive regulatory treatment since it is a cash item.


**AFFIDAVIT OF C. KENNETH VOGL**

STATE OF MISSOURI     )  
                                      ) ss  
COUNTY OF ST. LOUIS   )

On the 3 day of April, 2008, before me appeared C. Kenneth Vogl, to me personally known, who, being by me first duly sworn, states that he is a Consultant with Watson Wyatt Worldwide 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.

  
\_\_\_\_\_  
C. Kenneth Vogl

Subscribed and sworn to before me this 3rd day of April, 2008

  
\_\_\_\_\_  
Notary Public

My commission expires: 5/14/09



ANDREA L. ESSMYER  
My Commission Expires  
May 14, 2009  
St. Charles County  
Commission #06404421