

Exhibit No.:
Issues: Pension, OPEBs, SERP
Witness: James A. Fallert
Type of Exhibit: True-Up Direct Testimony
Sponsoring Party: The Empire District
Electric Company
Case No.: ER-2019-0374
Date Testimony Prepared: March 2020

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

True-Up Direct Testimony

of

James A. Fallert

on behalf of

**The Empire District Electric Company
a Liberty Utilities Company**

March 2020



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JAMES A. FALLERT
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION
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1 **I. INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME, BUSINESS AFFILIATION, AND BUSINESS**
3 **ADDRESS.**

4 A. My name is James A. Fallert. I am doing business as James Fallert Consultant LLC and
5 my business address is 3507 Burgundy Way Dr., St. Louis, MO 63129.

6 **Q. ON WHOSE BEHALF IS YOUR TRUE-UP DIRECT TESTIMONY**
7 **PRESENTED?**

8 A. The Empire District Electric Company, a Liberty Utilities company (“Liberty-Empire” or
9 the “Company”).

10 **Q. ARE YOU THE SAME JAMES A. FALLERT THAT SUBMITTED DIRECT AND**
11 **REBUTTAL TESTIMONY ON BEHALF OF LIBERTY-EMPIRE IN THIS**
12 **CASE?**

13 A. Yes.

14 **II. PURPOSE OF TESTIMONY**

15 **Q. WHAT IS THE PURPOSE OF YOUR TRUE-UP DIRECT TESTIMONY IN THIS**
16 **CASE?**

1 A. The purpose of this testimony is to support the normalized pension, OPEB, and SERP
2 expense included in Liberty-Empire's true up filing (IS ADJ 11), as well as, the related
3 rate base amounts (RB ADJ 4).

4 **III. ONGOING PENSION AND OPEB EXPENSE**

5 **Q. HOW DID LIBERTY-EMPIRE DETERMINE THE APPROPRIATE AMOUNT**
6 **OF ONGOING PENSION AND OPEB EXPENSE FOR ITS TRUE-UP FILING?**

7 A. The ongoing expense amounts were based on the most recent available final 2019
8 regulatory expense amounts as calculated by the Company's actuary, CBIZ Cottonwood.

9 **Q. PLEASE EXPLAIN WHAT YOU MEAN BY REGULATORY EXPENSE**
10 **AMOUNTS?**

11 A. When Liberty-Empire was acquired by Liberty Utilities, the accounting rules required
12 that certain pension and OPEB balances be eliminated as part of the acquisition
13 accounting. However, these balances should remain in place for regulatory purposes. As
14 a result, CBIZ Cottonwood provides two actuarial valuations. One valuation is based on
15 acquisition accounting and is used for external financial reporting purposes. The second
16 valuation is done as if the acquisition did not occur and is used for regulatory purposes.
17 The Company's direct filing, September 2019 update, and January 2020 true up are all
18 based on the valuation for regulatory purposes.

19 **Q. WHY IS IT APPROPRIATE TO USE THE REGULATORY VALUATION**
20 **RATHER THAN THE VALUATION BASED ON ACQUISITION**
21 **ACCOUNTING?**

22 A. The acquisition of Empire by Liberty Utilities was approved by the Commission in Case
23 No. EM-2016-0213. Paragraph 3 of the Stipulation & Agreement in that case stated in

1 part: “The Joint Applicants will ensure that the merger will be rate-neutral for Empire’s
2 customers.” It is necessary to utilize the regulatory valuation (expense) approach to
3 determine cost of service as it relates to ongoing Pension and OPEB balances to comply
4 with this provision within the Order.

5 **Q. PLEASE EXPLAIN.**

6 A. Acquisition accounting requires that certain unamortized balances in the plans be
7 immediately recognized as part of the business combination. Since amortization of these
8 balances is a key component of pension and OPEB expense, eliminating them from the
9 rate calculation would have a substantial impact on customer rates. This would violate
10 the aforementioned paragraph 3 of the Stipulation & Agreement in Case No. EM-2016-
11 0213. Therefore, rates are based on the regulatory valuation, which continues
12 amortization as if the acquisition did not occur, and therefore, is rate neutral for
13 customers and compliant with Paragraph 3.

14 **Q. WHAT CHANGES WERE MADE TO ONGOING PENSION AND OPEB**
15 **EXPENSE IN THE TRUE-UP ADJUSTMENT, IS ADJ 11?**

16 A. The Missouri allocation percentages were trued up to the amounts being used by the
17 Company for Missouri retail customers as of January 31, 2020.

18 **IV. FAS 88 SETTLEMENT EXPENSE**

19 **Q. WHAT CHANGES WERE MADE TO FAS 88 SETTLEMENT EXPENSE IN THE**
20 **TRUE-UP ADJUSTMENT, IS ADJ 11?**

21 A. The Missouri allocation percentages were trued up to the amounts being used by the
22 Company for Missouri retail customers as of January 31, 2020.

1 V. **SERP**

2 Q. **WHAT CHANGES WERE MADE TO SERP EXPENSE IN THE TRUE-UP**
3 **ADJUSTMENT, IS ADJ 11?**

4 A. The Missouri allocation percentages were trued up to the amounts being used by the
5 Company for Missouri retail customers as of January 31, 2020.

6 Q. **DO YOU HAVE ANY ADDITIONAL COMMENTS REGARDING SERP**
7 **EXPENSE IN THE TRUE-UP?**

8 A. Yes. The Company's true-up calculation is based on expense as determined by the
9 Company's actuary. My rebuttal testimony explained why this method is preferable to
10 the payment basis advocated by Staff. However, my rebuttal testimony also pointed out
11 that, in the event that a payment basis is used, the allocation factor included in Staff's
12 adjustment should be specific to SERP rather than the factor used by Staff (which was
13 based on the ongoing FAS 87 pension expense). When this correction was applied,
14 normalized expense on a payment basis was calculated in rebuttal as \$426,454 (Total
15 Allowance of \$519,132 x 82.1474% allocation factor). This calculation changes slightly
16 to \$428,660 using the true-up allocation factor (Total Allowance of \$519,132 x
17 82.5724% allocation factor).

18 VI. **TRACKER BALANCES**

19 Q. **WHAT CHANGES WERE MADE TO THE TRACKER BALANCES AND THE**
20 **RESULTING AMORTIZATION IN THE TRUE-UP CALCULATION FOR IS**
21 **ADJ 11?**

22 A. Balances were adjusted to actual levels at January 31, 2020, compared with the estimates
23 included in the previous calculations.

1 **Q. WHAT ARE THE PENSION TRACKER BALANCES IN THE TRUE-UP FILING**
2 **COMPARED WITH STAFF'S DIRECT FILING?**

3 A. The True-up filing includes a total tracker balance of \$12,260,836, which is an increase
4 of \$226,954 from the \$12,033,882 balance in Staff's direct filing.

5 **Q. PLEASE EXPLAIN THE \$226,964 INCREASE.**

6 A. The increase consists of three items:

7	1. Activity between Sept. 30, 2019 and Jan. 31, 2020	\$(382,259)
8	2. Errors in Staff's development of the balance in account 182359	\$(960,627)
9	3. Doublecount of adjustment to remove FAS 88 settlements	
10	(acquisition accounting basis) in Staff's direct filing	<u>\$1,569,840</u>
11	Total	\$ 226,954

12 **Q. WHAT CAUSED THE DOUBLECOUNT REFERENCED IN ITEM THREE**
13 **ABOVE?**

14 A. It is necessary to remove FAS 88 settlements on an acquisition accounting basis and
15 replace it with FAS 88 settlements on a regulatory accounting basis. Staff included an
16 entry removing this amount from the tracker balance. However, the FAS 88 entry which
17 added FAS 88 on a regulatory accounting basis was already net of the acquisition
18 accounting amount, hence the doublecount.

19 **VII. PREPAID PENSION ASSET**

20 **Q. WHAT CHANGES WERE MADE TO PREPAID PENSION ASSET BALANCES**
21 **IN THE TRUE-UP CALCULATION FOR RB ADJ 4?**

22 A. Balances were adjusted to actual levels at January 31, 2020, compared with the pro forma
23 estimates included in the previous calculations.

1 **Q. DOES THIS CONCLUDE YOUR TRUE-UP DIRECT TESTIMONY IN THIS**
2 **PROCEEDING?**

3 A. Yes.

VERIFICATION OF JAMES A. FALLERT

James A. Fallert, under penalty of perjury, declares that the foregoing true-up direct testimony is true and correct to the best of her/his knowledge, information, and belief.

/s/James A. Fallert _____
James A. Fallert