

*Exhibit No.:*  
*Issue:* *Supplemental Executive Retirement Plan*  
*Witness:* *Paul R. Harrison*  
*Sponsoring Party:* *MoPSC Staff*  
*Type of Exhibit:* *Surrebuttal Testimony*  
*Case No.:* *ER-2016-0023*  
*Date Testimony Prepared:* *May 16, 2016*

**MISSOURI PUBLIC SERVICE COMMISSION**

**COMMISSION STAFF DIVISION**

**AUDITING DEPARTMENT**

**SURREBUTTAL TESTIMONY**

**OF**

**PAUL R. HARRISON**

**THE EMPIRE DISTRICT ELECTRIC COMPANY**

**CASE NO. ER-2016-0023**

*Jefferson City, Missouri*  
*May 2016*



1 Q. Please explain what is meant by a non-qualified retirement plan?

2 A. A non-qualified retirement plan is any type of tax-deferred, employer-  
3 sponsored retirement plan that falls outside of Employee Retirement Income Security Act  
4 (“ERISA”) guidelines. Non-qualified plans are designed to meet specialized retirement needs  
5 for key executives and other select employees. The contributions made to these plans are  
6 usually nondeductible to the employer for tax purposes, and are usually taxable to the  
7 employee as well. However, they allow employees to defer payment of taxes associated with  
8 SERP benefits until retirement, when the employee would presumably be in a lower tax  
9 bracket.

10 Q. What is Empire’s position concerning SERP costs?

11 A. Mr. Beecher states the following in his rebuttal testimony at page 11, line 22  
12 through page 12, line 11:

13 Staff has used a five-year average of the SERP benefits  
14 actually paid by Empire to arrive at an ongoing level of SERP  
15 costs for rate purposes (See Staff Report Revenue  
16 Requirement pages 103-104). The use of a five-year average  
17 of actual benefits paid will understate the ongoing level of  
18 Empire’s SERP payments, since additional Empire executives  
19 have entered the program in the last few years. A five-year  
20 average will reduce the annual impact that the recent  
21 retirements have had on Empire’s SERP costs and understate  
22 the ongoing SERP payments that Empire is currently making.  
23 More specifically, Empire currently makes SERP payments to  
24 seven past executives, including one executive that retired in  
25 late 2014 and one executive that retired in late 2015. In total,  
26 the annualized level of total SERP payments is almost  
27 \$372,000. The Staff annualized level using a five year average  
28 is almost \$306,000. The Staff starting point for SERP  
29 payments is \$66,000 lower than Empire is currently paying  
30 and marks yet another reason it is difficult to achieve  
31 authorized ROEs in Missouri.

1 Q. Has Staff modified its position concerning this issue since it filed its Staff's  
2 Cost-of-Service - Revenue Requirement Report in this case?

3 A. Yes. After reviewing the Company rebuttal testimony, Staff has elected to use  
4 a four-year average (2012 – 2015) instead of a five-year average to normalize Empire's SERP  
5 expense.

6 Q. Why did Staff use a multi-year average to normalize Empire's SERP expense  
7 instead of using the test year amount paid by Empire in this case?

8 A. During CY years 2012 through 2015, Staff noticed that several of Empire's  
9 retired employees are receiving ongoing lump-sum payments instead of spreading their  
10 payments out over a normal period of time. As a result of these employees receiving lump-  
11 sum payments in any given year, Empire's on-going SERP payments will fluctuate from one  
12 year to the next.

13 Q. Is it unusual or abnormal for Staff or a utility to use multiyear averages to  
14 make adjustments to test year expense items in order to normalize ongoing expenses for  
15 utilities?

16 A. No. Staff and utilities both have used multiyear averages in many cases to  
17 determine a utility's normal on-going expenses in the cost of service.

18 Q. What is the total Company revised amount of SERP expense included in  
19 Staff's cost of service for this case?

20 A. Staff's revised total Company SERP expense for this case is \$334,211.

21 Q. Does this conclude your surrebuttal testimony?

22 A. Yes.

**BEFORE THE PUBLIC SERVICE COMMISSION**

**OF THE STATE OF MISSOURI**

In the Matter of The Empire District Electric     )  
Company's Request for Authority to Implement     )     Case No. ER-2016-0023  
a General Rate Increase for Electric Service     )

**AFFIDAVIT OF PAUL R. HARRISON**

STATE OF MISSOURI     )  
   )     ss.  
COUNTY OF COLE     )

**COMES NOW PAUL R. HARRISON** and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing **SURREBUTTAL TESTIMONY**; and that the same is true and correct according to his best knowledge and belief.

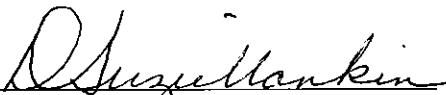
Further the Affiant sayeth not.

  
**PAUL R. HARRISON**

**JURAT**

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 16<sup>th</sup> day of May, 2016.

D. SUZIE MANKIN  
Notary Public - Notary Seal  
State of Missouri  
Commissioned for Cole County  
My Commission Expires: December 12, 2016  
Commission Number: 12412070

  
Notary Public