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Executive Retirement
Plan (SERP) Benefits
Witness: William L. Gipson
Sponsoring Party: The Empire District
Electric SERP Retirees
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MISSOURI PUBLIC SERVICE COMMISSION

FILE NO. ER-2019-0374

SURREBUTTAL TESTIMONY OF

WILLIAM L. GIPSON

ON BEHALF OF

THE EMPIRE DISTRICT ELECTRIC SERP RETIREES

MARCH 27, 2020

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**SURREBUTTAL TESTIMONY OF
WILLIAM L. GIPSON
THE EMPIRE DISTRICT ELECTRIC SERP RETIREES
BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. ER-2019-0374**

7 **Q. PLEASE STATE YOUR NAME.**

8 A. My name is William L. Gipson.

9
10 **Q. ARE YOU THE SAME WILLIAM L. GIPSON WHO HAS PREVIOUSLY FILED DIRECT**
11 **TESTIMONY IN THIS CASE?**

12 A. Yes, I filed direct testimony on behalf of The Empire District Electric SERP Retirees
13 (“EDES”). My direct testimony provided recommendations regarding the external
14 funding of SERP benefits through a Rabbi trust. In that testimony I point out that,
15 while Empire does not currently provide for external funding of its SERP benefits, it
16 does externally fund its pension and other post-retirement benefits. Through the
17 use of this external funding, it is also possible for the fund contributions to grow as a
18 result of being invested. This would provide the possibility of reducing the level of
19 customer contributions going forward. Finally, I point out that the use of an external
20 fund would also help address issues of intergenerational inequity that results from
21 future ratepayers being required to pay for costs associated with benefits being paid
22 to Empire officers that have been retired for many years.

1 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

2 A. The purpose of my surrebuttal testimony is to respond to rebuttal testimony of
3 Empire witness Fallert and Staff witness Sarver.

4

5 **Q. WHAT APPROACH DOES THE COMPANY RECOMMEND BE USED TO DETERMINE**
6 **THE LEVEL OF SERP EXPENSE TO BE INCLUDED IN RATES?**

7 A. Mr. Fallert states in his testimony that if the Commission decides to continue the use
8 of a payment basis to determine the amount included in rates, the Company has no
9 issue with using a 5 year average of actual historical SERP payments.

10

11 **Q. HOW WILL THIS APPROACH IMPACT CUSTOMERS IN THE FUTURE?**

12 A. Under the 5 year average approach, Empire customers will pay more in rates than if
13 the actual amount of payments to SERP recipients were used to calculate rates.

14

15 **Q. PLEASE EXPLAIN.**

16 A. According to the Company's study of SERP, beginning in the year 2022 SERP
17 payments decline every year for the next 70 years. During a period of declining
18 expenses, the use of a 5 year average of historical costs will result in the customer
19 paying more than actual payments.

20

21

1 **Q. WILL FUNDING A RABBI TRUST, AS PROPOSED BY EDESR, ELIMINATE THE**
2 **CUSTOMER OVERPAYING SERP BENEFITS?**

3 A. Yes. Over the life of the plan, the amount included in rates will match actual SERP
4 payments.

5
6 **Q. DO YOU AGREE WITH MR. FALLERT THAT MATCHING THE RECOVERY OF AN**
7 **EXPENSE WITH THE BENEFITS TO CUSTOMERS IS AN IMPORTANT FACTOR IN**
8 **DETERMINING THE LEVEL OF EXPENSE INCLUDED IN RATES?**

9 A. Yes.

10
11 **Q. HOW DOES THIS APPLY TO THE SERP PLAN?**

12 A. The SERP plan has been terminated and the officers that are currently receiving SERP
13 benefits have, in many cases, ceased employment with Empire years or even decades ago.
14 According to the study completed by Liberty, using a 5 year average of actual payments will
15 mean that customers continue paying for a terminated plan for another 70 years.

16
17 **Q. HOW DOES FUNDING A RABBI TRUST CHANGE THIS SCENARIO?**

18 A. The study, as provided to EDESR by Empire, was recently provided to Staff in a confidential
19 data request response. This study illustrates examples whereby the funding of the
20 Trust would be completed in a range of five to ten years. This shorter period
21 alleviates the burden of future generations paying for this cost of service.

22

1 **Q. DID YOU REVIEW THE REBUTTAL TESTIMONY OF STAFF WITNESS SARVER?**

2 A. Yes. In her rebuttal testimony, Ms. Sarver suggests that Staff is not taking a position on
3 EDES^R's proposal until such time as a meeting has occurred between Empire, Staff and the
4 Office of the Public Counsel and Staff has had an opportunity to review the underlying
5 actuarial study.

6

7 **Q. HAS THE UNDERLYING ACTUARIAL STUDY BEEN PROVIDED TO STAFF?**

8 A. Yes, the study, as provided to EDES^R by Empire, has recently been provided to Staff in a data
9 request response.

10

11 **Q. IS EDES^R WILLING TO HAVE A MEETING WITH THE COMPANY, STAFF AND OPC TO DISCUSS**
12 **THE SERP STUDY AND THE EDES^R EXTERNAL FUNDING RECOMMENDATION?**

13 A. Yes. EDES^R welcomes the opportunity to have a meeting to discuss the SERP analysis in
14 detail.

15

16 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

17 A. Yes.