

Exhibit No.: _____
Issue(s): Pension and OPEB
Witness: James A. Fallert
Type of Exhibit: Rebuttal Testimony
Sponsoring Party: The Empire District Gas
Company
Case No.: GR-2021-0320
Date Testimony Prepared: March 2022

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

Rebuttal Testimony

of

James A. Fallert

on behalf of

The Empire District Gas Company

March 2022



REBUTTAL TESTIMONY OF JAMES A. FALLERT
THE EMPIRE DISTRICT GAS COMPANY
BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. GR-2021-0320

1 **Q. Please state your name and business address.**

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

4 **Q. On whose behalf are you testifying in this proceeding?**

5 A. I am testifying on behalf of The Empire District Gas Company (“EDG” or
6 “Company”).

7 **Q. Are you the same James A. Fallert that submitted Direct Testimony on behalf of**
8 **Empire in this case in August 2021?**

9 A. Yes.

10 **Q. What is the purpose of your Rebuttal Testimony in this proceeding?**

11 A. The purpose of this testimony is to respond to Staff’s direct case regarding pension
12 expense. Staff’s witness in regard to these matters is Ashley Sarver.

13 **Q. Please provide an explanation of the FAS 88 portion of pension expense.**

14 A. FAS 88 is the accounting standard that provides for accounting related to pension lump
15 sum settlements. It should be noted that in 2009, FAS 88 was incorporated into a new
16 accounting standard, Accounting Standard Codification Topic 715. I will refer to “FAS
17 88” herein as that term is still commonly used in regulatory settings.

18 FAS 88 requires recognition in expense of a portion of unamortized gains or losses
19 corresponding to pension liabilities satisfied via lump sum settlements to participants.

20 However, this recognition is only required if a certain threshold is reached (the
21 threshold is when lump sum settlement payments in a year exceed the sum of service

1 and interest cost in the pension plan). As a result, FAS 88 entries can be significant in
2 years where the threshold is reached but can be zero in other years.

3 **Q. What has been the recent history of FAS 88 entries for Empire?**

4 A. EDG recorded significant FAS 88 expense amounts in 2017 and 2018 when the
5 threshold was reached. There were no FAS 88 entries in 2019 and 2020, but FAS 88
6 was again recorded for EDG in 2021.

7 **Q. What did the Commission include for FAS 88 expense in a prior rate case for The
8 Empire District Electric Company?**

9 A. In case No. ER-2019-0374, the Commission included FAS 88 expense in cost of service
10 based on the two-year average of 2017 and 2018.

11 **Q. How did the Company and Staff calculate normalized expense in this case related
12 to FAS 88?**

13 A. The Company used a four-year average of FAS 88 expense experience in 2017 through
14 2020 (the 2021 entry had not yet been recorded at the time of the Company's original
15 calculation). Staff included no FAS 88 expense in its direct case.

16 **Q. Why do you believe that the Company's calculation of ongoing FAS 88 expense is
17 preferable?**

18 A. Recent experience has shown that FAS 88 expense is not an uncommon occurrence for
19 the Company. In fact, the Company has recorded FAS 88 expense in three of the past
20 five years. Furthermore, the age of the Company's workforce is relatively high and
21 many current employees are eligible for retirement. Since FAS 88 expense is caused
22 by high levels of retirements, it is reasonable to base the adjustment in this case on the
23 likelihood of future FAS 88 entries. The Company's proposed four-year average is
24 reasonable, in that, if a FAS 88 entry occurs, it would be likely to be more than that

1 average. This is because the average includes several years with no FAS 88 amounts
2 recorded.

3 **Q. You mentioned that the Company recorded FAS 88 expense in 2021. Was this**
4 **entry included in your calculation of ongoing FAS 88 expense in this case?**

5 A. No. The 2021 FAS 88 expense was recorded in December 2021, which was after the
6 September 30, 2021 close of the update period in this case. Therefore, the Company
7 did not include this entry in its calculation of ongoing expense. I mention it here
8 because it is an important data point as the Commission considers the reasonableness
9 of the Company's request, in that FAS 88 expense has occurred in three of the past five
10 years.

11 **Q. What was the amount of FAS 88 expense recorded in December 2021?**

12 A. FAS 88 expense recorded in December 2021 for EDG was \$488,378. The Company
13 has proposed ongoing expense to be included in rates of \$305,048, which is
14 significantly less than this amount.

15 **Q. Do you have any additional comments?**

16 A. Yes. As mentioned above, it is noteworthy that FAS 88 expense is included in the
17 pension tracker. Therefore, any differences between the amount included in rates in
18 this case and the actual amounts experienced going forward will be deferred and
19 returned to the appropriate party through the tracker mechanism. Therefore, there is
20 no risk that including FAS 88 expense in this case would result in an over recovery.

21 **Q. Does this conclude your Rebuttal Testimony at this time?**

22 A. Yes.

VERIFICATION

I, James A. Fallert, under penalty of perjury, on this 17th day of March, 2022, declare that the foregoing is true and correct to the best of my knowledge and belief.

/s/ James A. Fallert