

Exhibit No.: 1013
Issue: Commissioner Questions – Pension
and OPEBs
Witness: James A. Fallert
Type of Exhibit: Supplemental Testimony
Sponsoring Party: The Empire District
Electric Company
Case No.: ER-2019-0374
Date Testimony Prepared: May 2020

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

Supplemental Testimony to Address Commissioner Questions

of

James A. Fallert

on behalf of

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

May 6, 2020



SUPPLEMENTAL TESTIMONY TO ADDRESS COMMISSIONER QUESTIONS
OF
JAMES A. FALLERT
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. ER-2019-0374

1 **I. INTRODUCTION**

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

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

5 **Q. Are you the same James A. Fallert who filed direct, rebuttal, and true up direct**
6 **testimony in this matter on behalf of The Empire District Electric Company**
7 **(“Empire”)?**

8 A. Yes.

9 **Q. What is the purpose of your supplemental testimony in this proceeding?**

10 A. My supplemental testimony addresses certain questions directed to Empire by the
11 Missouri Public Service Commission (“Commission”). In particular, I address
12 questions one and three regarding Pension and OPEB (FAS 87 and FAS 106) (issue
13 17) that were contained within the “Commissioner Questions” issued April 28, 2020.

14 **II. PENSION AND OPEB (FAS 87 AND FAS 106)**

15 **Q. Cite to the ASC accounting rule for acquisition accounting treatment of pension**
16 **asset/liability of an acquired company (Liberty acquisition of Empire) (question**
17 **1).**

18 A. The referenced accounting rule is ASC 805-20-25-23 which states:

1 “Guidance on defined benefit pension plans is presented in Subtopic 715-30. If an
2 acquiree sponsors a single-employer defined benefit pension plan, the acquirer shall
3 recognize as part of the business combination an asset or a liability representing the
4 funded status of the plan (see paragraph 715-30-25-1). Paragraph 805-20-30-15
5 provides guidance on determining that funded status. If an acquiree participates in a
6 multiemployer plan, and it is probable as of the acquisition date that the acquirer will
7 withdraw from that plan, the acquirer shall recognize as part of the business
8 combination a withdrawal liability in accordance with Subtopic 450-20.”

9 **Q. Please explain Commission question three under pension and OPEB.**

10 A. Question three has four parts. The first part is as follows: “Provide the ASC
11 accounting rule cite that designates prior A/C 926 pensions and OPEBs be posted to an
12 A/C 426 subaccount.”

13 **Q. Please provide your response.**

14 A. The referenced rule is FASB Accounting Standards Update No. 2017-07,
15 Compensation – Retirement Benefits (Topic 715), issued in March 2017. The
16 Summary of main provisions from this Update provides the following explanation:
17 “The amendments in this Update require that an employer report the service cost
18 component in the same line item or items as other compensation costs arising from
19 services rendered by the pertinent employees during the period. The other components
20 of net benefit cost as defined in paragraphs 715-30-35-4 and 715-60-35-9 are required
21 to be presented in the income statement separately from the service cost component
22 and outside a subtotal of income from operations, if one is presented. If a separate line
23 item or items are used to present the other components of net benefit cost, that line
24 item or items must be appropriately described. If a separate line item or items are not

1 used, the line item or items used in the income statement to present the other
2 components of net benefit cost must be disclosed.”

3 **Q. What is the second part of question three?**

4 A. The second part of this question is “Cite to the USOA A/C 426 subaccount where
5 pension and OPEB expenses are to be posted.”

6 **Q. Please provide your response.**

7 A. As discussed above, the rule requires that the non-service cost components of pension
8 and OPEB expense be reported outside of the subtotal of income from operations.
9 Empire determined that account 426500, Other Income Deductions, would be an
10 appropriate place to record these expenses in compliance with this rule.

11 **Q. What is the third part of question three?**

12 A. The third part of this question was “When did this accounting change become
13 effective?”

14 **Q. Please provide your response.**

15 A. The amendments in this Update are effective for public business entities for annual
16 periods beginning after December 15, 2017, including interim periods within those
17 annual periods.

18 **Q. What is the final part of question three?**

19 A. The final part of this question is “Is it Empire’s opinion that the Commission must
20 follow this accounting rule? If yes, please explain why.”

21 **Q. Please provide your response.**

22 A. Empire’s opinion for regulatory purposes is that the Commission has the authority to
23 direct Empire as it deems appropriate. However, it is the Company’s suggestion, to
24 aid the Company in complying with accounting changes, that it would be appropriate

1 for the Commission to authorize Empire to record these costs in the manner it has
2 presented in this case.

3 **Q. Does this conclude your supplemental testimony?**

4 A. Yes.

VERIFICATION OF JAMES A. FALLERT

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

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