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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

Staff Exhibit No. 12
Date 6-02-16 Reporter XF
File No. ER-2016-0023

1 SURREBUTTAL TESTIMONY

2 OF

3 PAUL R. HARRISON

4 THE EMPIRE DISTRICT ELECTRIC COMPANY

5 CASE NO. ER-2016-0023

6 Q. Please state your name and business address.

7 A. Paul R. Harrison, P. O. Box 360, Jefferson City, Missouri 65102.

8 Q. By whom are you employed and in what capacity?

9 A. I am a Regulatory Auditor with the Missouri Public Service Commission
10 ("PSC" or "Commission").

11 Q. Are you the same Paul R. Harrison who has previously filed portions of the
12 Commission Staff's ("Staff") Cost-of-Service - Revenue Requirement Report in this
13 proceeding?

14 A. Yes, I am.

15 PURPOSE OF TESTIMONY

16 Q. What is the purpose of your surrebuttal testimony for this case?

17 A. The purpose of my surrebuttal testimony in this case is to address The Empire
18 District Electric Company ("Empire" or "Company") witness Brad P. Beecher's rebuttal
19 testimony concerning Empire's Supplemental Executive Retirement Plan ("SERP") costs.

20 SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

21 Q. What is SERP?

22 A. SERP is a non-qualified retirement plan for key company employees, such as
23 executives, that provides benefits above and beyond those covered in other retirement plans
24 such as individual retirement plans, a 401(k) or pension and other post-employment plans.

Surrebuttal testimony of
Paul R. Harrison

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.

Surrebuttal testimony of
Paul R. Harrison

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.

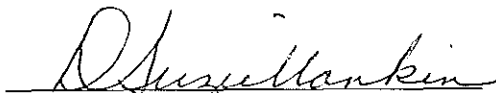


PAUL R. HARRISON

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 16th 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