

Exhibit No.:  
Issues: FAS 87, FAS 106 Trackers  
Witness: Laurie A. Delano  
Type of Exhibit: Direct Testimony  
Sponsoring Party: Empire District Gas  
Case No.:  
Date Testimony Prepared: June 2009

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

**Direct Testimony**

**of**

**Laurie A. Delano**

**June 2009**

DIRECT TESTIMONY OF  
LAURIE A. DELANO  
THE EMPIRE DISTRICT GAS COMPANY  
BEFORE THE  
MISSOURI PUBLIC SERVICE COMMISSION  
CASE NO. \_\_\_\_\_

1     **I.    INTRODUCTION**

2     **Q.    PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3     A.    My name is Laurie A. Delano. My business address is 602 S. Joplin Avenue, Joplin,  
4           Missouri 64801.

5     **Q.    ON WHOSE BEHALF ARE YOU APPEARING IN THIS MATTER?**

6     A.    I am appearing on behalf of The Empire District Gas Company (“EDG”). EDG is a  
7           wholly owned subsidiary of The Empire District Electric Company (“Empire”) that  
8           was formed to hold the Missouri Gas assets acquired from Aquila, Inc. (“Aquila”) on  
9           June 1, 2006.

10    **Q.    BY WHOM AND IN WHAT CAPACITY ARE YOU EMPLOYED?**

11    A.    I am the Principal Accounting Officer and Assistant Secretary of EDG. I am also the  
12           Controller, Assistant Secretary, Assistant Treasurer and Chief Accounting Officer of  
13           Empire, the parent company of EDG.

14    **Q.    PLEASE DESCRIBE YOUR EDUCATION AND BACKGROUND.**

15    A.    I received a Bachelor of Science in Business Administration degree in accounting  
16           from Missouri Southern State University, Joplin, in 1977 and a Masters of Business  
17           Administration degree from Missouri State University, Springfield in 1990. I joined  
18           EDE in 1979 and served as Director of Internal Auditing from 1983 to 1991. I left

1 Empire in 1991 and was employed as an Accounting Lecturer at Pittsburg State  
2 University, and in management positions with TAMKO Building Products and Lozier  
3 Corporation before rejoining Empire in December 2002. I am also a Certified Public  
4 Accountant (CPA) and a Certified Management Accountant (CMA).

5 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

6 A. The purpose of my testimony, in this case before the Missouri Public Service  
7 Commission (“Commission”), is to present EDG’s request for the amount of Pension  
8 and Other Postretirement Welfare (“OPEB”) costs to be included in this rate case and  
9 to request additional changes to the treatment of pension and OPEB costs, commonly  
10 referred to as FAS 87 and FAS 106, respectively.

11 **Q. WHAT AMOUNT OF PENSION EXPENSE IS EDG REQUESTING IN THIS**  
12 **CASE?**

13 A. EDG is requesting an adjustment of negative \$1,036,037 resulting in a negative  
14 pension expense of \$280,139.

15 **Q. WHAT ARE THE COMPONENTS OF THIS NEGATIVE EXPENSE?**

16 A. The first component of this amount is expense of \$258,793. This amount is the  
17 actuarially determined estimated pension benefit expense of the Company for 2009,  
18 based on Empire’s actuarial assumptions and the regulatory methodology authorized  
19 in the Stipulation and Agreement in Case No. ER-2004-0570, calculated without  
20 regard to the purchase accounting adjustments. Case No. GO-2006-0205 authorized  
21 the use of pension accounting as approved in Case No. ER-2004-0570 and approved  
22 the calculation of pension costs without regard to purchase accounting for regulatory  
23 purposes.

1 **Q. WHAT ARE THE OTHER COMPONENTS OF THE EXPENSE?**

2 A. The second component is negative expense of \$(538,932). This amount is the result  
3 of the “tracking” mechanism established in Case No. ER 2004-0570. The “tracker”  
4 accounts for the increases or decreases in the level of pension costs actually incurred,  
5 versus the level of pension costs included in the current rates. These differences are  
6 recorded in a regulatory asset or liability and amortized over a five year period. The  
7 negative expense mentioned above is one fifth of the estimated liability balance as of  
8 June 1, 2009.

9 **Q. WHAT AMOUNT OF PENSION EXPENSE IS EDG CURRENTLY**  
10 **RECOVERING IN RATES?**

11 A. The total amount of pension expense recovered in rates is estimated to be \$774,036  
12 per year, based on Aquila’s pension accounting at the time of the acquisition. EDG’s  
13 annual pension expense (without regard to the effects of purchase accounting) has  
14 been substantially less than the amount estimated to be recovered in rates.

15 **Q. WHAT AMOUNT OF OPEB EXPENSE IS EMPIRE REQUESTING?**

16 A. EDG is requesting an adjustment of \$235,120 resulting in OPEB expense of  
17 \$690,942.

18 **Q. HOW WAS THIS EXPENSE CALCULATED?**

19 A. This amount reflects the actuarially determined regulatory cost estimate for 2009. It  
20 has been calculated without regard to the purchase accounting adjustments, as  
21 authorized in Case No. GO-2006-0205.

22 **Q. ARE THESE THE FINAL ESTIMATED EXPENSES FOR BOTH PENSION**  
23 **(FAS 87) AND OPEB (FAS 106) COSTS FOR 2009?**

1 A. No. The actuary is currently completing the 1/1/09 actuarial valuations for both the  
2 pension and OPEB plans. Final 2009 expenses will be trued-up based on the results of  
3 the actuarial valuations.

4 **Q. IS EDG REQUESTING MODIFICATIONS TO THE METHODOLOGY**  
5 **CURRENTLY USED TO RECOVER THE COST OF PROVIDING PENSION**  
6 **AND OPEB BENEFITS TO ITS EMPLOYEES?**

7 A. Yes. EDG is requesting that all methodology adopted for pension and OPEB  
8 accounting in the Empire cases be incorporated and granted for EDG in this case.  
9 This includes the following cases: (1) Case No. ER-2004-0570; (2) Case No. ER-  
10 2006-0315, Stipulation and Agreement as to Certain Issues; and (3) Case No. ER-  
11 2008-0093, Second Stipulation and Agreement as to Certain Issues.

12 **Q. WHAT IS THE RATIONALE FOR THESE MODIFICATIONS?**

13 A. This treatment ensures the cost recognition methodology for EDG is consistent with  
14 that used by Empire. This methodology: (1) ensures the amount collected in rates is  
15 based on the actuarially determined cost used for financial reporting purposes; (2)  
16 ensures these costs are funded to their respective trusts; (3) ensures that amounts  
17 contributed by Empire to the pension trust, over and above the actuarial cost due to  
18 the reasons cited in cases ER-2004-0570 and ER-2006-0315, are recovered in rates  
19 and clarifies the treatment of such contributions; (4) establishes a tracking mechanism  
20 for OPEB costs, similar to the one in place for Empire; (5) clarifies the future  
21 treatment of any charges that would otherwise be recorded to equity (e.g. decreases to  
22 Other Comprehensive Income) as required by any other FASB statement or procedure  
23 relative to the recognition of pension and OPEB costs; (6) ensures that any one-time

1 charges or credits recognized in accordance with Statement of Accounting Standard  
2 88 (FAS 88) or FAS 106 are properly reflected in rates; and (7) ensures that  
3 additional contributions required to avoid benefit restrictions under certain provisions  
4 of the Pension Protection Act of 2006, as cited in case ER-2008-0093 are properly  
5 reflected in rates.

6 **Q. HOW WILL YOU ENSURE THE METHODOLOGY USED BY EDG TO**  
7 **COLLECT PENSION AND OPEB COSTS WILL REMAIN CONSISTENT**  
8 **WITH THOSE USED BY EMPIRE?**

9 A. Empire is requesting that any future methodology adopted for pension and OPEB  
10 accounting and cost recovery in Empire cases automatically apply to EDG. This will  
11 both ensure consistent funding and ensure Empire and EDG ratepayers are being  
12 charged on a consistent basis.

13 **Q. IS EMPIRE REQUESTING CLARIFICATION WITH RESPECT TO CASE**  
14 **NO. ER-2008-0093?**

15 A. Yes. Case No. ER-2008-0093 addresses the situation where a contribution equal to  
16 the FAS 87 expense is insufficient to avoid the benefit restrictions specified in the  
17 Pension Protection Act of 2006 (PPA), thereby causing an inability by Empire to pay  
18 pension benefits to recipients according to the normal provisions of the plan and  
19 operate its business in its normal and customary manner. Case No. ER-2006-0315  
20 addresses the situation where either the minimum required contribution or the  
21 contribution necessary to avoid PBGC variable premiums is greater than FAS 87  
22 expense. In these cases, Empire is allowed rate recovery for the additional  
23 contribution needed to alleviate these issues. The additional contributions would then

1 increase Empire's rate base by increasing the prepaid pension asset and/or reducing  
2 the accrued liability, and would receive regulatory treatment since it is a cash item.  
3 Since EDG and Empire employees are in the same pension plan, any contributions  
4 above the FAS 87 expense would need to be allocated between EDG and Empire.  
5 Therefore, an allocation method is needed.

6 **Q. WHAT ALLOCATION METHOD IS EMPIRE REQUESTING?**

7 A. The additional contribution would be used to fund EDG and Empire to the same  
8 funded percentage, where funded percentage is defined as the FAS 87 Fair Value of  
9 Assets divided by the FAS 87 Accumulated Benefit Obligation "ABO" as of the  
10 preceding measurement date.

11 **Q. WHY IS EMPIRE REQUESTING TO USE THIS ALLOCATION BASIS?**

12 A. Benefit restrictions, PBGC variable premiums and minimum required contributions  
13 apply when the pension plan's funded status drops below certain thresholds. An  
14 additional contribution may be required to increase the funded status of the plan to  
15 avoid benefit restrictions or PBGC variable premiums or to satisfy the minimum  
16 required contribution. EDG is requesting to allocate the additional contribution such  
17 that it increases the funded status of both Empire and EDG to the same funded  
18 percentage. The IRS specifies the PPA methodology for the benefit restriction  
19 measurement, PBGC variable premiums and minimum required contributions, but the  
20 calculations are not performed for Empire and EDG separately because the  
21 employees are participants in the same pension plan. Since the PPA liability measure  
22 is similar to the FAS 87 Accumulated Benefit Obligation (ABO) and separate FAS 87  
23 calculations are performed for both Empire and EDG, we are requesting the ABO

1 funded status as an allocation basis. This is a reasonable proxy and is consistent with  
2 the measurement basis for both EDG and Empire's rate recovery.

3 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

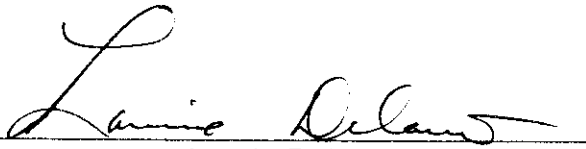
4 A. Yes it does.



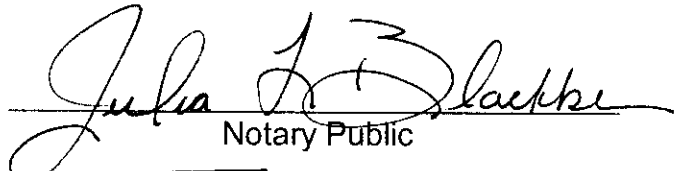
**AFFIDAVIT OF LAURIE DELANO**

STATE OF MISSOURI )  
  ) ss  
COUNTY OF JASPER )

On the 4<sup>th</sup> day of June, 2009, before me appeared Laurie Delano, to me personally known, who, being by me first duly sworn, states that she is the Controller and Assistant Secretary/Treasurer of The Empire District Electric Company and acknowledges that she has read the above and foregoing document and believes that the statements therein are true and correct to the best of her information, knowledge and belief.

  
Laurie Delano

Subscribed and sworn to before me this 4<sup>th</sup> day of June, 2009.

  
Notary Public

My commission expires: \_\_\_\_\_

