

Exhibit No.:
Issues: *Update: Pension Expense*
Update: Prepaid Pension
Asset, OPEB's Tracker,
Minimum Pension Liability
Witness: *Dana E. Eaves*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Rebuttal Testimony*
Case Nos. *ER-2006-0315*
Date Testimony Prepared: *July 28, 2006*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

REBUTTAL TESTIMONY

OF

DANA E. EAVES

THE EMPIRE DISTRICT ELECTRIC COMPANY

CASE NO. ER-2006-0315

Jefferson City, Missouri
July, 2006

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

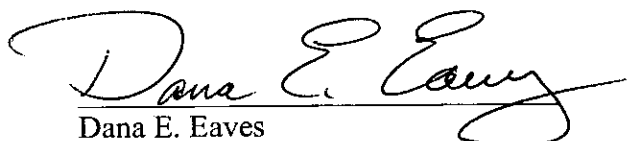
In the matter of The Empire District Company of)
Joplin, Missouri for authority to file tariffs)
increasing rates for electric service provided to)
customers in Missouri service area of the Company.)

Case No. ER-2006-0315

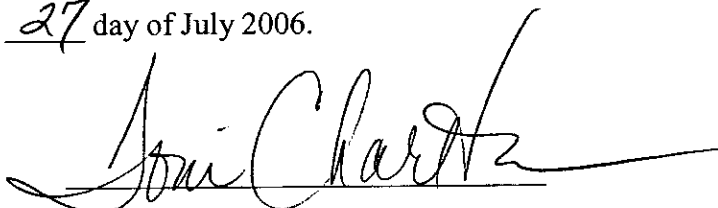
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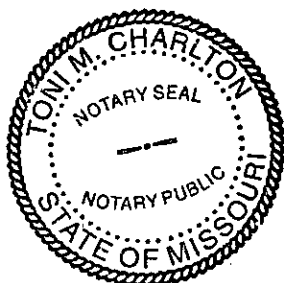
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Dana E. Eaves, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 6 pages to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.


Dana E. Eaves

Subscribed and sworn to before me this 27 day of July 2006.





TONI M. CHARLTON
Notary Public - State of Missouri
My Commission Expires December 28, 2008
Cole County
Commission #04474301

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DANA E. EAVES
THE EMPIRE DISTRICT ELECTRIC COMPANY
CASE NO. ER-2006-0315

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1 The Staff is not opposed in concept to the Company being allowed to use an OPEBs
2 tracker mechanism, under certain conditions described in this testimony.

3 The Staff believes the Company's request for blanket authority to book regulatory
4 assets in order to avoid charges to income related to minimum pension liabilities is premature
5 at this time.

6 **UPDATE: PENSION EXPENSE**

7 Q. Has the Staff changed its pension expense recommendation from its direct
8 case?

9 A. Yes. The Staff has updated its pension expense adjustment to reflect new
10 information provided by the Company. The Company has made the Staff aware of certain
11 out-of-period credits relating to Empire's share of Iatan's pension plan costs, and suggested
12 that Staff's pension adjustment reflect elimination of the out-of-period credits.

13 Q. Is Empire correct?

14 A. Yes, Empire's adjustment is necessary to properly reflect the ongoing level of
15 the Company's share of Iatan's pension plan costs.

16 Q. What is the Staff's current pension expense?

17 A. The Staff's current recommended pension expense is \$3,788,106. The
18 adjustment to the test year level of expense of \$791,952 reflects three separate component
19 parts:

- 20 1) An adjustment to the test year booked expense to reflect the
21 Company's current FAS 87 expense level;

1 2) An adjustment to reflect a reduction to expense attributable to the
2 annual level of additional earnings in Empire's pension trust fund from
3 the \$11.5 million pension contribution in 2005; and

4 3) An adjustment to eliminate the out-of-period Iatan pension credits,
5 discussed above.

6 **UPDATE: PREPAID PENSION ASSET**

7 Q. Is the Staff recommending a change from its direct filing in its recommended
8 rate treatment for the \$11.5 million contribution Empire made to its pension plan in 2005?

9 A. Yes. In direct testimony, the Staff recommended that a separate regulatory
10 asset be established to allow Empire rate recovery of this additional funding amount through
11 a five-year amortization. In contrast, the Company recommended that the amount of the
12 2005 pension funding be combined with the prepaid pension asset (PPA) for purposes of
13 presenting rate base. Empire argued that this approach was more consistent with the
14 language concerning pension expense and the PPA from the Stipulation And Agreement in
15 Case No. ER-2004-0570.

16 Q. Is Empire's suggested approach acceptable to the Staff?

17 A. Yes. There is no change in the aggregate amount of the Staff's recommended
18 rate base as a result of combining the 2005 funding amount with the PPA, as opposed to
19 treating them as separate line items in the Rate Base accounting schedule.

20 Q. Will this change impact Empire's Income Statement?

21 A. Yes. In its direct filing, the Staff proposed to amortize the 2005 pension
22 funding amount over five years. However, per the Stipulation And Agreement in Case No.
23 ER-2004-0570 concerning pensions, the PPA is to be amortized to expense based upon the

1 excess of the annual FAS 87 calculation for pensions over the Minimum ERISA funding
2 amount. In accordance with that agreement, the Staff has eliminated its adjustment in its
3 initial filing from the case to amortize the 2005 funded amount over five years.

4 **Other Post Employee Benefits (OPEBs) TRACKER**

5 Q. Has Empire proposed that the Commission adopt an OPEBs tracker
6 mechanism in this case?

7 A. Yes, in the direct testimony of Ms. Delano, she proposes that the OPEBs
8 tracker be structured similar to the SFAS 87 (pensions) tracker that was agreed to in
9 Empire's last rate case, Case No. ER-2004-0570.

10 Q. Does the Staff agree with this proposal?

11 A. The Staff is not opposed in concept to the Company being allowed to track
12 OPEBs expense in a similar manner as it currently tracks pension expense, as detailed in the
13 Stipulation And Agreement (Appendix A) in Case No. ER-2004-0570. In particular, this
14 would require Empire to book its OPEBs expense using a five-year market-related value
15 asset determination, to forego use of the "corridor approach," and to amortize to expense
16 unrecognized gains or losses over a ten-year period.

17 However, any Staff agreement to an OPEBs tracker proposal in this proceeding is
18 contingent upon agreement between the parties to acceptable language establishing the
19 OPEBs tracker and governing its operation. Also, any such agreement should take into
20 account the reduced risk faced by Empire resulting from the increased certainty of its
21 recovery of OPEBs cost through operation of a tracker mechanism, and provide a means for
22 allocating the benefits of that reduced risk to Empire's customers.

1 **MINIMUM PENSION LIABILITY**

2 Q. What is a “minimum pension liability?”

3 A. Per Statement of Financial Accounting Standards (SFAS) 87, a minimum
4 pension liability (MPL) is the excess of the accumulated benefit obligation (ABO) amount
5 for a company and the fair value of the assets in the company’s trust fund, at a point in time.
6 SFAS 87 defines the ABO as “the actuarial present value of benefits (whether vested of
7 nonvested) attributed by the pension benefit formula to employee service rendered before a
8 specified date and based on employee service and compensation (if applicable) prior to that
9 date...” In her direct testimony, Ms. Delano states that “according to Generally Accepted
10 Accounting Principles (“GAAP”), the offset to the [minimum] pension liability is a charge
11 (debit) to Other Comprehensive Income (OCI)”.

12 Q. What is Other Comprehensive Income?

13 A. OCI is a below-the-line income account. In essence, its use would require
14 Empire to write-off to current earnings the amount of any MPL it may incur.

15 Q. What action does Empire seek from the Commission in this case regarding
16 MPLs?

17 A. Empire seeks blanket authorization from the Commission to book a regulatory
18 asset in the amount of any MPL it may incur under GAAP accounting rules, so that the
19 Company may avoid a current charge to earnings in that amount.

20 Q. Besides booking a regulatory asset, are there other ways a utility can avoid
21 booking MPL amounts?

22 A. Yes, a utility can choose to make a contribution to its pension fund in order to
23 eliminate a requirement to book an MPL amount. In fact, Empire contributed \$11.5 million

1 to its pension trust fund in the test year in order to avoid booking an MPL amount. The
2 Stipulation And Agreement in Case No. ER-2004-0570 concerning pensions contains
3 language authorizing rate treatment of pension contributions made for this reason.

4 Q. What is the Staff's position regarding Empire's request for blanket
5 authorization to book a regulatory asset in order to avoid booking MPL related charges to
6 income?

7 A. The Staff believes it is premature at this time to favorably recommend the
8 Company's proposal. The Staff understands that one of Empire's motivations for its
9 regulatory asset proposal is a fear that pending changes to Financial Accounting Standards
10 Board (FASB) GAAP pronouncements may increase the frequency and number of MPL
11 related income charges much above that currently experienced. However, a possible
12 determination on this matter will not be made by FASB until sometime in late 2006;
13 therefore, the Staff believes it is premature for the Company to be granted blanket
14 authorizations to book regulatory assets related to this item.

15 Q. Are there other options available to the Company in dealing MPL situations?

16 A. Yes, Empire could file for an Accounting Authority Order (AAO) that would
17 allow it to defer MPL amounts for future rate recovery as these situations arise , or it could
18 choose to make an additional funding contribution to its pension plan as the Company did
19 during the test year and as allowed under last case's agreement on rate treatment of
20 pensions.

21 Q. Does this conclude your rebuttal testimony?

22 A. Yes, it does.