Exhibit No.:
Issues: Pension, OPEB Expense and Depreciation
Witness: Laurie A. Delano
Type of Exhibit: Direct Testimony
Sponsoring Party: Empire District Electric
Case No.:
Date Testimony Prepared: October 2009

Before the Public Service Commission of the State of Missouri

Direct Testimony

of

Laurie A. Delano

October 2009

SERVICES YOU COUNT ON

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OF
LAURIE A. DELANO
ON BEHALF OF
THE EMPIRE DISTRICT GAS COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION

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

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

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

A. I am the Controller, Assistant Secretary, Assistant Treasurer and Chief Accounting Officer of The Empire District Electric Company ("Empire" or "Company").

Q. PLEASE DESCRIBE YOUR EDUCATION AND BACKGROUND.

A. I received a Bachelor of Science in Business Administration degree in accounting from Missouri Southern State University, Joplin, in 1977 and a Masters of Business Administration degree from Missouri State University, Springfield in 1990. I joined EDE in 1979 and served as Director of Internal Auditing from 1983 to 1991. I left EDE in 1991 and was employed as an Accounting Lecturer at Pittsburg State University, and in management positions with TAMKO Building Products and Lozier Corporation, before rejoining EDE in December 2002. I am also a Certified Public Accountant ("CPA") and a Certified Management Accountant ("CMA").

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The first purpose of my testimony in this case before the Missouri Public Service Commission ("Commission") is to present the Company's request for the amount of Pension and Other Postretirement Welfare ("OPEB") costs to be included in this rate case and request clarification with regard to pension contributions in excess of the actuarially determined ("FAS 87") costs. Second, I will address the Company's approach to depreciation rates in this case. Last, I will present the Company's request for amortization of deferred Construction Accounting costs as defined in the Case No EO-2005-0263 also known as "The Experimental Regulatory Plan".

II. PENSION AND OPEB EXPENSES

Q. WHAT AMOUNT OF PENSION EXPENSE IS EMPIRE REQUESTING IN THIS CASE?

A. Empire is requesting an adjustment of $1,516,356 Missouri jurisdictional, resulting in total annual Missouri pension expense of $4,912,685.

Q. WHAT AMOUNT OF OPEB EXPENSE IS EMPIRE REQUESTING?

A. Empire is requesting an adjustment of negative $693,725 Missouri jurisdictional, resulting in total OPEB expense of $545,114.

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

A. Yes.

Q. IS THE COMPANY REQUESTING CLARIFICATION WITH RESPECT TO CASE NO. ER-2008-0093?

A. Yes. The Commission approved second Stipulation and Agreement as to Certain Issues in Case No. ER-2008-0093. This stipulation addresses the situation where a contribution equal to the FAS 87 expense is insufficient to avoid the benefit restrictions specified in the Pension Protection Act of 2006 ("PPA"), thereby causing an inability by the Company to pay pension benefits to recipients according to the normal provisions of the plan and operate its business in its normal and customary manner. In that event, the Company is allowed to make an additional contribution to alleviate this issue. The additional contributions would then increase Empire's rate base by increasing the prepaid pension asset and/or reducing the accrued liability, and would receive regulatory treatment since it is a cash item.

Q. WHAT NEEDS CLARIFICATION?

A. There are two additional situations under PPA when it would be advantageous to make additional contributions. The first would be to avoid what is called "at risk" status under PPA. The "at risk" threshold is similar to the benefit restriction threshold, but it is possible to be considered "at risk" without being subject to benefit restrictions. If a plan is "at risk", minimum contribution requirements are greatly accelerated, and both the plan participants and the PBGC must be notified.

The Company may desire to make additional contributions to avoid "at risk" status and the accelerated contribution requirements that would result. We are requesting that contributions made to avoid "at risk" status be given the same regulatory treatment as those made to avoid benefit restrictions.

The second situation when it would be advantageous to make additional contributions would be to decrease the variable premiums that could become payable to the Pension Benefit Guaranty Corporation ("PBGC"). While the Commision approved Stipulations to Certain Issues in Case No. ER-2004-0570, which allowed regulatory treatment of contributions made to avoid these premiums, it did not allow for contributions made to reduce the premiums. There could be times when the contributions required to totally avoid the premiums would be excessive, but making additional contributions of a lesser amount would still reduce the premiums. Since it is advantageous for both Empire and its ratepayers to reduce the amount of these PBGC variable premiums, we are also requesting that contributions made to reduce PBGC variable premiums be provided regulatory treatment.

Q. HOW DO YOU SUGGEST THESE ITEMS BE ADDRESSED?

A. Empire intends to ask the parties to the stipulations to agree to the requested changes described below. If the parties to the stipulations disagree, then the changes will be requested of the Commission.

Q. PLEASE DESCRIBE THE CHANGES BEING REQUESTED?

A. For the "at risk" item discussed, we propose the first sentence in the last paragraph in Appendix B of Case No. ER-2008-0093, Second Stipulation and Agreement as to Certain Issues, be amended as follows:

> "If Empire experiences a situation where a contribution equal to the FAS 87 expense is insufficient to avoid an "at risk" status or the benefit restrictions specified in the Pension Protection Act of 2006, thereby cause an inability by Empire to pay out pension benefits to recipients or operate its business in its normal and customary manner, Empire will be allowed to make an additional contribution to alleviate this issue."

For the variable premium item, we suggest the words "avoidance of PBGC variable premiums" be changed to "avoidance or reduction of PBGC variable premiums" in item 5 of Appendix B to Case No. ER-2004-0570, Stipulation as to Certain Issues.

Q. WOULD MAKING ADDITIONAL CONTRIBUTIONS IN EITHER OF THESE SITUATIONS RESULT IN THE PLAN BEING OVERFUNDED?

A. No. The plan would not have to be funded in excess of 100% in order to avoid benefit restrictions and/or reduce PBGC variable premiums.

Q. IS EMPIRE REQUESTING ANY ADDITIONAL CLARIFICATIONS?

A. Yes. Since The Company's pension plan includes the employees of the electric segment and the gas segment (The Empire District Gas Company or "EDG"), any additional contributions would need to be allocated between Empire and EDG. Therefore, an allocation method is needed.

Q. WHAT ALLOCATION METHOD IS EMPIRE REQUESTING?

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

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

A. As discussed previously, benefit restrictions, "at risk" status and PBGC variable premiums become issues when the pension plan's funded status drops below certain thresholds. Additional contributions may be required to increase the funded status of the plan and avoid these situations. The Company is requesting to allocate the additional contributions in a way that increases the funded status of both Empire and EDG to the same funded percentage. The IRS and PBGC specify the methodology used to determine the funded status for these purposes but the calculations are not performed for Empire and EDG separately because the employees are participants in the same pension plan. Since the PPA liability measure is similar to the FAS 87, ABO and separate FAS 87 calculations are performed for both Empire and EDG, we are requesting the ABO funded status as an allocation basis. This is a reasonable proxy and is consistent with the measurement basis for both Empire and EDG's rate recovery.

Q. DO YOU HAVE ANY OTHER COMMENTS?

A. Yes. The Company's Pension and OPEB regulatory treatment is based on methodologies established in agreements in the following cases: (1) Case No. ER-2004-0570; (2) Case No. ER-2006-0315, Stipulation and Agreement as to Certain Issues; and (3) Case No. ER-2008-0093, Second Stipulation and Agreement as to Certain Issues. In all of these agreements, references are made to Financial Accounting Standards (FAS) 87, 88, 106 and 158. These standards are the basis for generally accepted accounting principles (GAAP) for pensions and OPEB. In June 2009, the Financial Accounting Standards Board (FASB) issued FAS 168, which established the FASB Accounting Standards Codification (Codification) as the only source of authoritative accounting principles recognized by the FASB. This statement became effective July 1, 2009. It did not change the underlying generally accepted accounting principles, but only changed the reference code that supports the principles. Generally accepted accounting principles for pensions and OPEBS, which were formerly FAS 87, 88, 106 and 158, are now referred to as ASC 715-30, ASC 715-30, ASC 715-60, and ASC 715-20, respectively. The purpose of this comment is to clarify that this change in accounting standard terminology has no effect on the methodologies established for pension and OPEB reporting in the prior cases.

III. DEPRECIATION

Q. IS THE COMPANY FILING NEW DEPRECIATION RATES IN THIS CASE?

A. No.

Q. WHAT DEPRECIATION RATES WERE USED FOR IATAN I AND 2?

A. The Company used the rates currently approved for its Asbury generating station.

Q. PLEASE EXPLAIN THE COMPANY'S REQUEST FOR DEFERRED COSTS RELATED TO CONSTRUCTION ACCOUNTING.

A. In April 2009, concurrent with the Iatan I AQCS environmental upgrade in service date, the Company began deferring carrying costs related to the Iatan I project. This deferral was in accordance with Case No EO-2005-0263 also known as "The Experimental Regulatory Plan", which addressed special accounting treatment for the Iatan 1 AQCS and Iatan 2 projects for the time period between when they are placed in service and when the projects are placed in rate base. In paragraph 5 of the plan, the Commission prescribed the use of "Construction Accounting" during the time period between Iatan 1 being placed in service and being included in rate base. Therefore, the Company is requesting amortization of $102,006 per year to amortize these deferred costs.

Q. HOW DID THE COMPANY CALCULATE THE AMOUNT REQUESTED?

A. The Company used the monthly deferral amount at August 2009 and projected an estimated deferred amount as of September 1, 2010. This estimated amount was then amortized over the life of the asset. The asset life was based on the depreciation rate assumption used for Iatan I, as discussed above.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes it does.