

Exhibit No.:  
Issues: Pension, OPEB Expense and  
Iatan Construction Accounting  
Witness: Laurie A. Delano  
Type of Exhibit: Direct Testimony  
Sponsoring Party: Empire District Electric  
Case No.: ER-2011-0004  
Date Testimony Prepared: September 2010

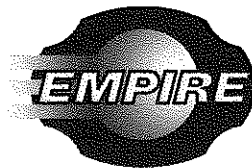
**Before the Public Service Commission  
of the State of Missouri**

**Direct Testimony**

**of**

**Laurie A. Delano**

**September 2010**



**SERVICES YOU COUNT ON**

DIRECT TESTIMONY OF  
Laurie A. Delano  
THE EMPIRE DISTRICT ELECTRIC COMPANY  
BEFORE THE  
MISSOURI PUBLIC SERVICE COMMISSION  
CASE NO. ER-2011-0004

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. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR JOB TITLE?**

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

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

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

18 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

1 A. The first purpose of my testimony in this case before the Missouri Public Service  
2 Commission ("Commission") is to present the Company's request for the amount of  
3 Pension and Other Post-Retirement Welfare ("OPEB") costs to be included in  
4 revenue requirement in this rate case. Second, I will address the Company's  
5 approach to depreciation rates and the related accounting treatment of Regulatory  
6 Amortization, as defined in Case No EO-2005-0263, also known as "The  
7 Experimental Regulatory Plan." Last, I will present the Company's request for  
8 amortization of deferred Construction Accounting costs, as also defined in The  
9 Experimental Regulatory Plan.

10 **II. PENSION AND OPEB EXPENSES**

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

13 A. Empire is requesting total annual Missouri pension expense of \$6,461,409, which  
14 represents an adjustment of \$1,125,829 to Staff's adjusted level recorded in their  
15 accounting schedules in ER-2010-0130. This total includes actuarially determined  
16 expense of \$5,936,941 and the five-year tracker amortization of \$524,468.

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

18 A. Empire is requesting total Missouri OPEB expense of \$1,449,993, which represents  
19 an adjustment of \$826,481 to Staff's adjusted level recorded in their accounting  
20 schedules in ER-2010-0130. This total includes actuarially determined expense of  
21 \$1,983,962 and the five-year tracker amortization of negative \$533,969.

22 **Q. ARE THESE THE FINAL EXPENSES FOR BOTH PENSION ("FAS 87")**  
23 **AND OPEB ("FAS 106") COSTS FOR 2010?**

24 A. Yes.

1 **III. DEPRECIATION AND REGULATORY AMORTIZATION**

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

3 A. Yes.

4 **Q. WHAT CHANGES IN DEPRECIATION RATES IS THE COMPANY**  
5 **REQUESTING?**

6 A. The Company is requesting revised depreciation rates as are explained in the  
7 depreciation study completed by Black and Veatch and filed with the direct testimony  
8 of Empire witness Mr. Thomas Sullivan in this case. The specific depreciation rates  
9 that Empire is requesting are explained in Mr. Thomas Sullivan's direct testimony.

10 **Q. DO THESE DEPRECIATION RATES INCLUDE ANY EFFECTS OF**  
11 **REGULATORY AMORTIZATION?**

12 A. No they do not.

13 **Q. PLEASE EXPLAIN THE COMPANY'S ACCOUNTING TREATMENT OF**  
14 **REGULATORY AMORTIZATION.**

15 A. Regulatory amortization is an additional amortization amount that has been added to  
16 Empire's electric cost of service, as discussed in the direct testimony of Empire  
17 witness Ms. Kelly Walters. Empire has recorded this regulatory amortization as  
18 amortization expense with a corresponding credit to increase the Accumulated  
19 Provision for Depreciation and Amortization.

20 **Q. PLEASE EXPLAIN THE COMPANY'S TREATMENT OF THE**  
21 **REGULATORY AMORTIZATION IN RELATION TO THE**  
22 **DEPRECIATION EXPENSE PROPOSED IN THIS CASE.**

23 A. Empire proposes to apportion the total projected accumulated regulatory amortization  
24 as of the effective date of rates for this case over the estimated life of Iatan 2 and then

1 reflect this apportioned amount as a reduction to depreciation expense. The reduction  
2 to depreciation expense presented in this case is \$744,771 per year.

3 **Q. HOW WAS THE IATAN 2 ESTIMATED LIFE DETERMINED?**

4 A. The Iatan 2 estimated life was based on the average depreciation rate of 2.10% used  
5 for Iatan 2 in the depreciation study referenced above.

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

8 A. In April 2009, concurrent with the Iatan I AQCS environmental upgrade in-service  
9 date, the Company began deferring carrying costs related to the Iatan I project. This  
10 deferral was in accordance with The Experimental Regulatory Plan, which addressed  
11 special accounting treatment for the Iatan 1 AQCS and Iatan 2 projects for the time  
12 period between when these two projects are placed in service and when the projects  
13 are included in rate base. In paragraph 5 of The Experimental Regulatory Plan, the  
14 Commission prescribed the use of "Construction Accounting" during the time period  
15 between Iatan 1 being placed in service and when that facility was included in rate  
16 base. Therefore, the Company is requesting an adjustment to increase amortization  
17 expense by \$143,800 per year to amortize these deferred costs.

18 **Q. HOW DID THE COMPANY CALCULATE THE AMOUNT REQUESTED?**

19 A. The Company used the deferred balance as of June 30, 2010 and added the estimated  
20 additional deferred costs expected through September 10, 2010 the effective date for  
21 rates in Case ER-2010-0130. This amount was then amortized over the estimated life  
22 of Iatan 1. The estimated life was based on the average depreciation rate of 3.12%  
23 used for Iatan I in the depreciation study referenced above.

24 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

1 A. Yes it does.

