

Exhibit No.
Issue: FAS 87, OPEB / FAS 106
Witness: Laurie Delano
Type of Exhibit: Rebuttal Testimony
Sponsoring Party: Empire District
Case No: ER-2006-0315

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

Rebuttal Testimony

of

Laurie Delano

July 2006

REBUTTAL TESTIMONY
OF
LAURIE DELANO
ON BEHALF OF
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. ER-2006-0315

1 **INTRODUCTION**

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

3 A. My name is Laurie Delano. My business address is 602 Joplin Street, Joplin,
4 Missouri 64802.

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

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

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

9 A. I received a Bachelor of Science in Business Administration from Missouri
10 Southern State University and a Master of Business Administration from Missouri
11 State University. I joined the Company in 1979 and served as Director of Internal
12 Auditing from 1983 to 1991. I left the Company in 1991 and was employed as an
13 Accounting Lecturer at Pittsburg State University, and in management positions
14 with TAMKO Roofing Products, Inc. and Lozier Corporation before rejoining the
15 Company in December 2002.

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

1 A. The purpose of my testimony is to respond to the Pension (“FAS 87”) and Other
2 Post Employment Benefits (“OPEB / FAS 106”) adjustments in Staff’s Revenue
3 Requirement filed on July 10, 2006 and supported by Dana Eaves of the Staff.

4 **Q. PLEASE DESCRIBE THE DIFFERENCE BETWEEN THE STAFF’S AND**
5 **EMPIRE’S FAS 87 AND OPEB/FAS 106 BALANCES.**

6 A. In Staff’s July 10th reconciliation filing, Staff indicated there was a net difference
7 of \$189,530 Missouri jurisdictional between the FAS 87 and OPEB/FAS 106
8 expense of Empire and Staff’s presented cases.

9 **Q. DO YOU AGREE WITH THIS DIFFERENCE?**

10 A. No. After further analysis Empire believes the difference should be \$207,927 for
11 Empire’s Missouri Jurisdiction. This adjustment is detailed on Schedule LD-1,
12 which is attached to my rebuttal testimony. As indicated on LD-1, Empire has
13 calculated a FAS 87 expense that is \$1,399,349 higher than the Staff has included
14 in its cost of service. The proper level of OPEB/FAS 106 expense calculated by
15 Empire is \$1,191,422 lower than Staff’s calculation. As I mentioned earlier, these
16 two differences result in a net increase in expense of \$207,927.

17 **Q. WHAT CAUSED THE DIFFERENCES BETWEEN THE EMPIRE AND**
18 **STAFF CALCULATIONS?**

19 A. The difference of \$1,399,349 in FAS 87 expense consists of two components.
20 First, Empire recorded \$905,169 in additional FAS 87 expense for the Missouri
21 jurisdiction to reflect the current level of expense for the test year ended
22 December 2005. Under Empire’s proposal, this “rebased” amount will be the
23 amount allowed in rate recovery for the FAS 87 expense under the FAS 87 tracker

1 until the next rate case. Empire recommends the FAS 87 be rebased to recognize
2 the current level of expense in rates.

3 **Q. PLEASE EXPLAIN THE SECOND COMPONENT OF THE**
4 **DIFFERENCE.**

5 A. The second component of the difference is related to an adjustment to reverse a
6 prior period adjustment booked by Empire during the twelve months ending
7 December 2005, the test year. Empire's calculation of ongoing FAS 87 expenses
8 included the reversal of a prior period adjustment to bring the Iatan pension
9 expense to the actual 2005 expense level of \$494,180 for the Missouri
10 jurisdiction. Empire recommends the Iatan pension expense be normalized to the
11 2005 test year level by reversing the prior period adjustment.

12 **Q. WHY IS THERE A DIFFERENCE BETWEEN THE OPEB/FAS 106**
13 **EXPENSE PROPOSED BY EMPIRE AND STAFF IN THIS RATE CASE?**

14 A. The OPEB/FAS 106 expense level for Empire in this rate case is \$1,191,422
15 lower than Staff's on a jurisdictional basis. Empire recommends making a small
16 adjustment to rebase the FAS 106 cost to the 2005 level. The Staff, on the other
17 hand, made a large adjustment to FAS 106 to reflect a proposed change in the
18 FAS 106 amortization method. Empire's recommendation is based upon a
19 recalculation made by the Company's actuary using the proposed method.
20 Empire recommends Staff's proposed adjustment be reversed and that Empire's
21 calculation be based on the cost estimate of the Company's actuary.

22 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

23 A. Yes, it does.

Schedule LD-1

Adjustment to Account 926 - Pension		5,201,609
Adjusted 926 account due to pension changes		15,141,972
<u>Empire District Adjustment:</u>		
<i>EDE FAS 87 expense</i>		\$ 1,092,012
<i>Iatan Pension Expense</i>		<u>596,188</u>
Empire District Adjustment		\$ 1,688,200
Staff 's adjustment in filing		-
Additional Expense		1,688,200
<u>FAS106</u>		
<u>Empire District Adjustment:</u>		
PAYGO adjustment		389,712
Deduct new methodology amortization		<u>(334,999)</u>
Total FAS 106 Cost		54,713
Staff 's adjustment in filing		1,492,066
Additional Expense		(1,437,353)
Net Change		250,847
MO Jurisdiction		82.89%
Additional Expense		207,927