

Exhibit No.:
Issues: Pension, OPEB Expense and
Depreciation
Witness: Laurie A. Delano
Type of Exhibit: Rebuttal Testimony
Sponsoring Party: Empire District Electric
Case No.: ER-2011-0004
Date Testimony Prepared: April 2011

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

Rebuttal Testimony

of

Laurie A. Delano

April 2011



SERVICES YOU COUNT ON

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LAURIE A. DELANO
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. ER-2011-0004

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REBUTTAL 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. ARE YOU THE SAME LAURIE A. DELANO WHO FILED DIRECT**
6 **TESTIMONY IN THIS CASE?**

7 A. Yes.

8 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

9 A. First, I will address the direct testimony of staff witness Amanda C. McMellen and
10 Office of Public Counsel (“OPC”) witness Shawn Lafferty regarding Pension and
11 OPEB expense. Second, I will address the direct testimony of Mr. John Robinette
12 regarding depreciation expense and the related accounting treatment of Regulatory
13 Amortization, as defined in Case No EO-2005-0263, also known as “The
14 Experimental Regulatory Plan.”

15 **II. PENSION AND OPEB EXPENSES**

16 **Q. WHAT AMOUNT OF OPEB EXPENSE IS PROPOSED BY STAFF EXPERT**
17 **AMANDA C. MCMELLEN?**

18 A. In Ms. McMellen’s testimony dated February 23, 2011 she proposed recovery of
19 \$1,559,331 in OPEB expense. After further discussions between Ms. McMellen and

1 Empire, she revised her recommendation to \$1,604,245. This amount includes
2 actuarially determined expense of \$2,028,876, including substantive plan
3 amortization, and five year amortization of (\$424,631) for previously over recovered
4 costs.

5 **Q. DO YOU AGREE WITH MS. MCMELLEN'S FINAL RECCOMENDATION?**

6 A. I agree with the amount.

7 **Q. DO YOU HAVE ANY OBSERVATIONS REGARDING THE DIRECT**
8 **TESTIMONY OF OPC WITNESS SHAWN LAFFERTY?**

9 A. Yes. In Mr. Lafferty's direct testimony he made a request of Empire regarding
10 explanation of the substantive plant amortization. Empire's explanation is as that the
11 accrued postretirement benefit costs at December 31, 2003 were increased by \$3.3
12 million related to an adjustment to recognize incremental substantive plan (as defined
13 in ASC 715-60) benefit costs identified in 2004. A corresponding regulatory asset
14 was recorded for this amount since we believed it was probable that these costs would
15 be afforded rate recovery. Subsequently, this amount has been afforded rate recovery
16 in Missouri, beginning with our Missouri rate case effective March 27, 2005 (ER-
17 2004-0570). These costs have also been afforded rate recovery in our other
18 jurisdictions. A separate tracker was not established as a substantive plan is
19 considered part of the postretirement benefit cost of the plan and subject to the tracker
20 that is in place.

21 **Q. WHAT AMOUNT OF PENSION EXPENSE IS PROPOSED BY STAFF**
22 **EXPERT AMANDA C. MCMELLEN?**

23 A. In Ms. McMellen's testimony dated February 23, 2011 she proposed recovery of
24 \$6,293,464 in pension expense. After further discussions between Ms. McMellen and

1 Empire, she revised her recommendation to \$6,591,581. This amount is comprised of
2 actuarially determined expense of \$5,918,419, and five year amortization of \$673,162
3 to recover under recovered costs.

4 **Q. HOW DOES THIS AMOUNT DIFFER FROM EMPIRE'S REQUEST AND**
5 **WHY?**

6 A. Ms. McMellen's revised amount is \$8,556 lower than Empire's calculated amount due
7 to Ms. McMellen's utilization of a three year average of Empire's jurisdictional
8 allocation rates. Empire does not agree with this methodology. Pension expense
9 represents the one year cost of the plan. Because of this, Empire believes that the cost
10 should be based on the year's associated allocation factors. A three year average of
11 Empire's jurisdictional allocation rates distorts the link between the location where
12 the expense was incurred, and the recovery in that location. Additionally, this
13 methodology is inconsistent with that used by Ms. McMellen in determining her
14 recommendation for OPEB expense recovery. Empire believes that, given the similar
15 nature of these expenses, the methodology should be consistent.

16 **III. DEPRECIATION AND REGULATORY AMORTIZATION**

17 **Q. DO YOU AGREE WITH THE SIX RECOMMENDATIONS OF JOHN A.**
18 **ROBINETT REGARDING DEPRECIATION?**

19 A. We agree with recommendations 2 through 4 regarding the treatment of Regulatory
20 Amortization. Empire will establish a depreciation reserve in the sub-accounts
21 recommended and apply the regulatory amortization at the recommended percentages
22 to these sub accounts. As to Mr. Robinette's recommendation 5 requesting that
23 Empire maintain a separate record of amounts accrued for net salvage, starting with

1 an estimated amount as of December 31, 2003, Empire advises that we are already in
2 compliance with this request.

3 **Q. PLEASE COMMENT ON RECOMMENDATION 1.**

4 A. We do not agree with Mr. Robinette's recommendation 1 which calls for Empire to
5 utilize the recommended depreciation rates premised on the treatment of Empire's
6 steam generation units as a fleet and Empire's combustion turbine generation units as
7 a fleet. The reasons are presented in the rebuttal testimony of Mr. Tom Sullivan.

8 **Q. DO YOU HAVE ANY FURTHER COMMENTS REGARDING**
9 **RECOMMENDATION 1 TO ADD TO MR. SULLIVAN'S COMMENTS?**

10 A. Yes. As Mr. Sullivan points out, our concern over the use of the mass property
11 approach for life span property is that it could result in the failure to recover plant
12 investment over the life of the plant. Applying the mass property approach to life
13 span property shifts the recovery of a portion of the investment in plants used to serve
14 today's customers into the future, to be paid by customers who are then not taking
15 service from the plants. Another concern is that this methodology could result in a
16 reserve deficiency for Generally Accepted Accounting purposes (GAAP) if a large
17 generating unit was forced into retirement prior to all the costs being recovered.
18 Empire has submitted a data request to staff asking for clarification on how this
19 would be recorded to ensure any shortfall was ultimately recovered in rates.

20 **Q. DO YOU HAVE ANY COMMENTS ON RECOMMENDATION 6 IN MR.**
21 **ROBINETTE'S TESTIMONY?**

22 A. Yes. We strongly disagree with Mr. Robinette's recommendation that Empire adopt
23 and maintain the data used by Staff for the depreciation study it undertook in this
24 proceeding. As Mr. Sullivan points out in his testimony, great effort was put forth to

1 compile the best available data into a representative depreciation base. We undertook
2 this effort to address concerns that Staff and Public Counsel raised in an October 28,
3 2009 letter to our counsel, Mr. Jim Swearingen and to ensure we had a solid data base
4 to use for future depreciation studies. The process and approach used was discussed
5 with Staff in May and July 2010.

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

7 A. Yes it does.

