

Exhibit No.:
Issue: Pension and OPEB Costs and
Trackers
Witness: James A. Fallert
Type of Exhibit: Direct Testimony
Sponsoring Party: The Empire District
Electric Company
Case No.: ER-2019-0374
Date Testimony Prepared: August 2019

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

Direct Testimony

of

James A. Fallert

on behalf of

**The Empire District Electric Company
a Liberty Utilities Company**

August 2019



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DIRECT TESTIMONY OF
JAMES A. FALLERT
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. ER-2019-0374

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DIRECT TESTIMONY
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THE EMPIRE DISTRICT ELECTRIC COMPANY
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CASE NO. ER-2019-0374

1 **I. INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME, BUSINESS AFFILIATION, AND BUSINESS**
3 **ADDRESS.**

4 A. My name is James A. Fallert. I am doing business as James Fallert Consultant LLC and
5 my business address is 3507 Burgundy Way Dr., St. Louis, MO 63129.

6 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

7 A. I am testifying on behalf of The Empire District Electric Company, a Liberty Utilities
8 company (“Liberty-Empire” or the “Company”).

9 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL**
10 **EXPERIENCE.**

11 A. I graduated from Southeast Missouri State University in 1976 with a Bachelor’s degree in
12 Business Administration, majoring in administrative management. I received a Master’s
13 in Business Administration in 1981 from Saint Louis University, with a major in Finance.
14 I was employed by Laclede Gas Company (now known as Spire Missouri Inc.) from
15 1976 until February 2012, when I retired as Controller of the Company. In this position,
16 I was responsible for the Company’s GAAP accounting (including pension accounting),
17 budgeting, management information reporting, and financial planning functions.

1 Subsequent to my retirement from Laclede, I have provided consulting services regarding
2 regulatory matters.

3 **II. PURPOSE OF TESTIMONY**

4 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE?**

5 A. I support the Company’s request for the amount of Pension and Other Post-Employment
6 Benefit (“OPEB”) costs to be included in the revenue requirement in this case and the
7 continuation of the pension and OPEB trackers as established in previous cases and most
8 recently continued in Case. No. ER-2016-0023. I also support the inclusion in rate base
9 of the prepaid pension asset and tracker balances.

10 **Q. ARE YOU SPONSORING ANY SCHEDULES IN CONNECTION WITH YOUR**
11 **TESTIMONY?**

12 A. Yes. I am sponsoring Schedule JAF-1 and Schedule JAF-2.

13 **III. PENSION AND OPEB EXPENSE**

14 **Q. WHAT IS THE AMOUNT OF PENSION EXPENSE THAT LIBERTY-EMPIRE**
15 **IS REQUESTING IN THIS CASE?**

16 A. This case includes total annual Missouri pension expense of \$17,280,271. This amount
17 consists of 2019 pension expense of \$7,346,423 determined by the Company’s actuary,
18 pension settlement expense of \$6,573,354 based on experience in 2017 and 2018, five-
19 year amortization of \$2,478,211 related to the trackers authorized in prior cases, and
20 actuarially determined expense of \$882,283 for the Supplemental Executive Retirement
21 Plan (“SERP”).

22 **Q. WHAT IS THE AMOUNT OF OPEB EXPENSE THAT LIBERTY-EMPIRE IS**
23 **REQUESTING IN THIS CASE?**

1 A. This case includes total annual Missouri OPEB expense of \$125,448, which includes
2 2019 OPEB expense of \$1,172,266 determined by the Company's actuary and five-year
3 amortization of \$(1,046,818) related to the tracker authorized in prior cases.

4 **Q. ARE THESE THE FINAL EXPENSES FOR BOTH PENSION AND OPEB**
5 **COSTS?**

6 A. The pension, SERP, and OPEB costs are based on the most recent available actuarial
7 valuations of 2019 costs as of this filing. To the extent that a newer valuation of pension
8 and OPEB costs becomes available during the pendency of this case, it would be
9 appropriate to consider this valuation. The tracker amortization is based on estimated
10 balances as of January 31, 2020. It would be appropriate to update these calculations to
11 the actual balances as of the final update or true-up period in this case.

12 **IV. RATE BASE**

13 **Q. WHAT IS THE AMOUNT OF RATE BASE RELATED TO PENSIONS AND**
14 **OPEBS THAT YOU ARE REQUESTING IN THIS CASE?**

15 A. This case includes total rate base related to pensions and OPEBs of \$18,935,359. This
16 amount includes the prepaid pension asset of \$24,925,101, partially offset by regulatory
17 liabilities related to the trackers of \$755,653 for pensions and \$5,234,089 for OPEBs.

18 **Q. ARE THESE THE FINAL RATE BASE AMOUNTS FOR BOTH PENSION AND**
19 **OPEB COSTS?**

20 A. These amounts are based on estimated balances as of January 31, 2020. It would be
21 appropriate to update these calculations to the actual balances as of the end of the true-up
22 period in this case.

1 **V. PENSION AND OPEB TRACKERS**

2 **Q. PLEASE DESCRIBE THE PENSION AND OPEB TRACKERS**
3 **CURRENTLY BEING EMPLOYED BY LIBERTY-EMPIRE.**

4 A. These trackers were ordered by the Commission in several prior cases, most
5 recently in Case No. ER-2016-0023. The trackers defer the difference between
6 pension and OPEB expense as calculated pursuant to GAAP¹ and expense
7 allowed in rates. This difference is accumulated in a regulatory asset or liability
8 account, as appropriate, and is included in rates in a subsequent rate case via a
9 five-year amortization.

10 **Q. WHY WERE THESE TRACKERS ESTABLISHED?**

11 A. Pension and OPEB costs are subject to considerable volatility due to forces
12 outside of the control of the Company. The trackers ensure that the costs
13 associated with these employee benefits are neither over nor under recovered in
14 rates. The Company believes that the trackers are beneficial to all parties and
15 should be continued in this case.

16 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY IN THIS**
17 **PROCEEDING?**

18 A. Yes.

¹ The accounting rules required that certain pension and OPEB deferred balances be eliminated upon acquisition of The Empire District Electric Company by Liberty Utilities. However, these balances remained in place for regulatory purposes so that the pension and OPEB accounts are treated as if the acquisition did not occur. References to Generally Accepted Accounting Principles (“GAAP”) herein refer to GAAP as adjusted for regulatory purposes.



The Empire District Electric Company

Missouri Jurisdiction

Docket No. ER-2019-0374

Schedule JAF-1

Normalized Expense	<u>Pension</u>	<u>OPEB</u>	<u>Total</u>
FAS 87/FAS 106 Actuarial Cost	\$ 7,346,423	\$ 1,172,266	\$ 8,518,689
FAS 88 Expense	6,573,354	-	6,573,354
SERP Actuarial Cost	882,283	-	882,283
Tracker Amortization	2,478,211	(1,046,818)	1,431,393
Total	<u>17,280,271</u>	<u>125,448</u>	<u>17,405,719</u>
Test Year Expense			
FAS 87/106 Expense	9,208,842	1,732,670	10,941,512
FAS 87/106 Tracker Deferral	(1,545,492)	-	(1,545,492)
FAS 88 Pension Settlement Expense	-	-	-
FAS 88 Tracker Deferral	-	-	-
SERP	974,982	-	974,982
Tracker Amort effective Sept. 2016	-	960,770	960,770
Total	<u>8,638,332</u>	<u>2,693,440</u>	<u>11,331,772</u>
Adjustment	<u>\$ 8,641,939</u>	<u>\$ (2,567,992)</u>	<u>\$ 6,073,947</u>



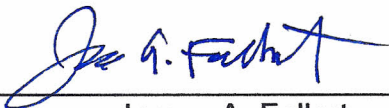
The Empire District Electric Company
Missouri Jurisdiction
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Schedule JAF-2

Line No.	Account (a)	Description (b)	Reference (c)	Missouri Test Year Balance 3/31/2019 (d)	Missouri Projected Balance 1/31/2020 (e)	Missouri Adjustment (f) = (e) - (d)
<u>PENSION</u>						
1		Prepaid Pension Asset		\$ 14,134,287	\$ 24,925,101	\$ 10,790,815
2	182359	Reg Pension Costs Amortization	WP 2.6	1,196,991	692,689	(504,303)
3	254101	MO FAS87 Pension RegLiab	WP 2.7	(639,992)	(639,992)	-
4	182353	MO Pension-FAS87 Expense	WP 2.6	743,025	761,490	18,465
5	182353	Adjustment to remove FAS 88 Settlements from tracker		-	(1,569,840)	(1,569,840)
6		Total Pension		<u>15,434,311</u>	<u>\$ 24,169,448</u>	<u>8,735,137</u>
<u>OPEB</u>						
7	254111	Reg OPEB Costs Amortization	WP 2.7	23,628	63,008	39,380
8	254108	MO FAS106 over recd amt	WP 2.7	(3,895,220)	(5,297,097)	(1,401,877)
9	182361	Balance in Regulatory Asset being tracked		-	-	-
10		Total OPEB		<u>(3,871,592)</u>	<u>(5,234,089)</u>	<u>(1,362,497)</u>
11		Total Rate Base		<u>\$ 11,562,719</u>	<u>\$ 18,935,359</u>	<u>\$ 7,372,640</u>
12		Summary:				
13		Prepaid Pension Asset		\$ 14,134,287	\$ 24,925,101	\$ 10,790,815
14		Pension/OPEB Regulatory Liabilities		(2,571,567)	(5,989,742)	(3,418,175)
15		Total Pension/OPEB Rate Base		<u>\$ 11,562,719</u>	<u>\$ 18,935,359</u>	<u>\$ 7,372,640</u>

AFFIDAVIT OF JAMES FALLERT


STATE OF MISSOURI)
) ss
COUNTY OF ST. LOUIS)

On the 2nd day of August, 2019, before me appeared James A Fallert, who, being by me first duly sworn, states that he is doing business as James Fallert Consultant LLC and acknowledges that he has read the above and foregoing document and believes that the statements therein are true and correct to the best of his information, knowledge and belief.



James A. Fallert

Subscribed and sworn to before me this 2nd day of August, 2019



Notary Public

My commission expires: 05-23-2022

ANDREW SANDERSFELD
Notary Public - Notary Seal
State of Missouri
St. Louis County
My Commission Expires 05-23-2022
Commission # 18589702