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Witness: James A. Fallert
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Sponsoring Party: Liberty Utilities
(Missouri Water) LLC d/b/a Liberty
Case Nos.: WR-2024-0104 and
SR-2024-0105
Date Testimony Prepared: March 2024

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

Direct Testimony

of

James A. Fallert

on behalf of

Liberty Utilities (Missouri Water) LLC d/b/a Liberty

March 13, 2024



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LIBERTY UTILITIES (MISSOURI WATER) LLC D/B/A LIBERTY
BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION
CASE NOs. WR-2024-0104 and SR-2024-0105

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1 **I. INTRODUCTION**

2 **Q. Please state your name and business address.**

3 A. My name is James A. Fallert. My business address is 3507 Burgundy Way Dr., St.
4 Louis, MO, 63129.

5 **Q. By whom are you employed and in what capacity?**

6 A. I am an independent consultant doing business as James Fallert Consultant LLC.

7 **Q. On whose behalf are you testifying in this proceeding?**

8 A. I am testifying on behalf of Liberty Utilities (Missouri Water) LLC d/b/a Liberty
9 (“Missouri Water” or the “Company”).

10 **Q. Please describe your educational and professional background.**

11 A. I graduated from Southeast Missouri State University in 1976 with a bachelor’s degree
12 in Business Administration, majoring in administrative management. I received a
13 Master’s in Business Administration in 1981 from Saint Louis University, with a major
14 in Finance.

15 I was employed by Laclede Gas Company (now known as Spire Missouri Inc.)
16 from 1976 until February 2012, when I retired as Controller of the Company. In this
17 position, I was responsible for the Company’s GAAP accounting (including pension
18 accounting), budgeting, management information reporting, and financial planning
19 functions. Subsequent to my retirement from Laclede, I founded James Fallert
20 Consultant LLC and have provided consulting services regarding regulatory matters.

1 **Q. Have you previously testified before the Missouri Public Service Commission**
2 **(“Commission”) or any other regulatory agency?**

3 A. Yes, while employed at Laclede Gas Company I provided testimony before the
4 Commission regarding numerous rate cases and other matters. As a consultant, I have
5 provided testimony before the Commission on behalf of Liberty Utilities (Midstates
6 Natural Gas) Corp., The Empire District Electric Company (“Liberty-Empire”), The
7 Empire District Gas Company, and Laclede Gas Company. Also, I have provided
8 testimony on behalf of Liberty-Empire in Kansas, Oklahoma, and Arkansas, and on
9 behalf of Liberty Utilities (Midstates Natural Gas) Corp. in Illinois.

10 **Q. What is the purpose of your direct testimony in this proceeding?**

11 A. I support the Company’s request for the amount of Pension and Other Post-
12 Employment Benefit (“OPEB”) costs to be included in the revenue requirement in these
13 cases. Additionally, I support the inclusion in rate base of the prepaid pension asset. I
14 also support the establishment of Pension and OPEB trackers similar to those in place
15 for Liberty Utilities (Midstates Natural Gas) Corp.’s Missouri gas operations.

16 **II. PENSION AND OPEB EXPENSE**

17 **Q. Please describe the pension and OPEB plans applicable to Missouri Water.**

18 A. The Company has included Missouri Water employees in its National Cash Balance
19 Plan effective in 2023. Additionally, a portion of the pension costs related to a separate
20 group termed “Midstates2”, which includes employees (who supply services to
21 multiple Liberty entities) that are allocated to Missouri Water. Also, certain of the
22 Company’s employees participate in the Liberty-Empire pension and OPEB plans.

23 The actuaries track and report these groups separately.

1 **Q. What is the amount of pension expense that Missouri Water is requesting in**
2 **these water and wastewater cases?**

3 A. These cases include total annual Missouri pension expense of \$30,346. This amount is
4 based on projected 2023 net periodic benefit cost provided by the Company's actuary,
5 reduced for allocations to construction and other jurisdictions. The following table
6 shows the breakdown of the pro forma ending balance between water and wastewater:

EXP ADJ 12 – Pension and OPEB Expenses	Amount
Water	\$24,553
Wastewater	\$5,793
Consolidated	\$30,346

7 **Q. What is the amount of OPEB expense that Missouri Water is requesting in these**
8 **cases?**

9 A. These cases include total annual Missouri OPEB expense of \$13,568. This amount is
10 based on projected 2023 net periodic benefit cost provided by the Company's actuary,
11 reduced for allocations to construction and other jurisdictions. The following table
12 shows the breakdown of the pro forma ending balance between water and wastewater:

EXP ADJ 12 – Pension and OPEB Expenses	Amount
Water	\$13,568
Wastewater	\$0
Consolidated	\$13,568

13 **III. PREPAID PENSION ASSET**

14 **Q. What is the rationale for including the prepaid pension asset in rate base?**

15 A. The prepaid pension asset is the cumulative difference between the amount of
16 contributions the Company has made to the pension trusts and cumulative net periodic
17 benefit cost. In an ongoing plan, the net periodic benefit cost is the amount of funds
18 provided by customers through rates. The prepaid pension asset is the amount of

1 funding by the Company in excess of the amount provided through rates and is
2 therefore appropriately included in rate base.

3 **Q. Please describe how you have calculated the prepaid pension asset in these water
4 and wastewater cases.**

5 A. The portion applicable to Midstates2 employees and employees participating in the
6 Liberty-Empire plans is based on an allocated portion of cumulative funding in excess
7 of cumulative net periodic benefit cost. In the case of the Cash Balance Plan, I have
8 included the forecasted pension contributions through the true-up date. Since the plan
9 is newly established for Missouri Water employees in 2023, there is nothing included
10 in current rates for the plan, and it would therefore be inappropriate to include net
11 periodic benefit cost in the calculation.

12 **Q. What is the amount of prepaid pension asset that you have included in rate base
13 in these cases?**

14 A. The prepaid pension asset in these cases is \$86,942. The following table shows the
15 breakdown of the pro forma ending balance between water and wastewater:

RB ADJ 12 – Prepaid Pension Asset	Amount
Water	\$81,867
Wastewater	\$5,075
Consolidated	\$86,942

16 **IV. PROPOSED PENSION AND OPEBS AGREEMENTS AND TRACKER**

17 **Q. Please explain what you mean by tracker.**

18 A. A tracker in this instance is a regulatory mechanism that tracks the difference between
19 the amount allowed in rates for a specific expense and the subsequent actual experience
20 for that expense. The difference is accumulated in a regulatory asset or liability as
21 appropriate and either collected from or returned to customers in a subsequent general

1 rate proceeding, typically via a five-year amortization. There is no request for rate
2 changes between general rate cases.

3 **Q. Why is implementation of a tracker appropriate for pension and OPEB expenses?**

4 A. Pension and OPEB expenses are subject to considerable volatility and are difficult to
5 forecast and predict. Variations in these expenses are caused by factors largely outside
6 of the Company's control such as investment returns, interest rates, and demographic
7 factors. The trackers would ensure that the costs associated with these employee
8 benefits are neither over nor under recovered in rates. The Company believes
9 that the trackers are beneficial to all parties and should be established in these
10 cases.

11 **Q. What is required to establish a tracker?**

12 A. The Commission's order in these cases would need to specify the amount of pension
13 expense and OPEB expense included in rates and approve language authorizing
14 establishment of the tracker. Attached as **Direct Schedule JAF-1** is my proposal of
15 the Missouri Water Pension and OPEB Agreements tracker language that the Company
16 requests be approved by the Commission.

17 **Q. What is the source of the tracker language that you have proposed in Direct**
18 **Schedule JAF-1?**

19 A. The source of the language and the applicable framework of my proposed Pension and
20 OPEB tracker is derived from and very closely mirrors the tracker that currently is
21 authorized for Liberty Utilities (Midstates Natural Gas) Corp.'s Missouri gas
22 operations, most recently approved in Case No. GR-2018-0013. Pension and OPEB
23 trackers have been in place in Missouri for many years. The trackers have worked well

1 and ensured that all parties are fairly treated in regard to the amount of pension and
2 OPEB expense included in rates.

3 **Q. Does this conclude your direct testimony at this time?**

4 **A. Yes.**

VERIFICATION

I, James A. Fallert, under penalty of perjury, on this 13th day of March, 2024, declare that the foregoing is true and correct to the best of my knowledge and belief.

/s/ James A. Fallert