

Exhibit No.: _____
Issues: Pension, OPEB
Witness: James A. Fallert
Type of Exhibit: Direct Testimony
Sponsoring Party: The Empire District
Electric Company d/b/a Liberty
Case No.: ER-2024-0261
Date Testimony Prepared: November 2024

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

Direct Testimony

of

James A. Fallert

on behalf of

The Empire District Electric Company d/b/a Liberty

November 6, 2024



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THE EMPIRE DISTRICT ELECTRIC COMPANY D/B/A LIBERTY
BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION
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BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION
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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 The Empire District Electric Company d/b/a Liberty
9 (“Liberty” 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 the Company and for its
6 following affiliates, Liberty Utilities (Midstates Natural Gas) Corp., Liberty Utilities
7 (Missouri Water) LLC and The Empire District Gas Company. Additionally, I have
8 provided testimony on behalf of Laclede Gas Company. I have also provided testimony
9 on behalf of Liberty in Kansas, Oklahoma, and Arkansas, and on behalf of Liberty
10 Utilities (Midstates Natural Gas) Corp. in Illinois.

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

12 A. I support the Company’s request for the amount of Pension and Other Post-
13 Employment Benefit (“OPEB”) costs to be included in the revenue requirement in this
14 case and the continuation of the pension and OPEB trackers as established in previous
15 cases and most recently continued in Case No. ER-2021-0312. I also support the
16 inclusion of the prepaid pension asset and tracker balances in rate base.

17 **Q. Are you sponsoring any schedules with your testimony?**

18 A. Yes. I am sponsoring **Direct Schedule JAF-1**, which reflects the expense adjustment
19 for Pensions and OPEB (EXP ADJ 22), and **Direct Schedule JAF-2**, which reflects
20 the rate base adjustment for Pension and OPEB (RB ADJ 9 and RB ADJ 10).

21 **Q. Was the information contained in the schedules obtained or derived from the**
22 **books and records of the Company?**

23 A. Yes.

1 **II. PENSION AND OPEB EXPENSE**

2 **Q. What is the amount of pension expense that Liberty is requesting in this case?**

3 A. This case includes total net annual Missouri pension expense of \$278,068. This amount
4 consists of accounts as identified in the “EXP ADJ 22” Tab of the expense schedule
5 provided in the workpapers accompanying this testimony. Specifically, it includes: (1)
6 projected 2024 non-service cost expense in accounts 426581 and 426591 of \$587,950
7 (which is made up of (\$1,252,164) of credits determined by the Company’s actuary and
8 pension settlement expense of \$1,840,114 based on a five-year average of experience
9 in 2019 through 2023); (2) projected 2024 service cost expense in accounts 926148 and
10 926150 of \$1,958,898 as determined by the actuary; and (3) projected five-year
11 amortization of (\$2,268,780) of credits related to trackers authorized in prior cases.

12 **Q. What is the amount of Supplemental Executive Retirement Plan (“SERP”)**
13 **expense that Liberty is requesting in this case?**

14 A. The revenue requirement proposed in this case includes total annual Missouri SERP
15 expense of \$1,108,617 in account 426582, based on the 2024 projection by the
16 Company’s actuary.

17 **Q. What is the amount of OPEB expense that Liberty is requesting in this case?**

18 A. The revenue requirement proposed in this case includes total annual Missouri OPEB
19 credits of (\$1,387,065) in account 926326. This amount is based on the amortization
20 of the accumulated OPEB tracker balance projected through the September 2024
21 update period. The Company has included zero for net projected OPEB costs.

22 **Q. Why has the Company proposed there to be zero OPEB costs?**

23 A. Current projections for 2024 indicate negative OPEB expense. The Company’s
24 proposal would instead set rates at zero, but would accumulate the difference in a

1 regulatory liability to be returned to customers in a future rate case, inclusive of any
2 reductions to the liability as the Company's incurred OPEB expense becomes positive.
3 This treatment is consistent with Paragraph 3 of the OPEB Agreement in Appendix C
4 of the Stipulation and Agreement in Case No. ER-2010-0130 which states:

5 In the case that OPEB expense becomes negative, the Company is
6 ordered to set up a regulatory liability to offset the negative expense.
7 In future years, when OPEB expense becomes positive again, rates
8 will remain zero until the regulatory liability that was created by
9 negative expense is reduced to zero. The OPEB regulatory liability
10 will be reduced by the amount of subsequent positive OPEB expense
11 experienced by the Company. This regulatory liability is a non-cash
12 item and should be excluded from rate base in the future years.
13

14 **Q. Are these the final expenses for both pension and OPEB costs?**

15 A. The pension, SERP, and OPEB costs are based on the initial actuarial projections of
16 2024 costs. To the extent that an updated calculation of these costs becomes available
17 during the pendency of this case, it would be appropriate to consider its valuation.

18 **Q. Have there been any noteworthy changes to the plans of which the Commission
19 should be aware?**

20 A. Yes, since the Company's last rate case certain employees who were moved to the
21 Liberty Utilities plans were reclassified into a separate group termed "Midstates2" in
22 order to expedite the appropriate allocations of the associated expenses. As a result, a
23 portion of the Midstates2 pension has been included for recovery in the cost of service
24 proposed in this case.

25 **III. RATE BASE**

26 **Q. What is the amount of rate base related to pensions and OPEBs that the Company
27 is requesting in this case?**

28 A. This case includes Missouri jurisdictional net rate base related to pensions and OPEBs
29 of \$651,660. This amount includes the prepaid pension asset of \$30,508,886, and

1 regulatory liabilities related to the trackers of (\$22,921,900) for pensions and
2 (\$6,935,326) for OPEBs. The rate base amounts are based on the assets and liabilities
3 authorized by the Commission in Case No. ER-2021-0312 rolled forward to September
4 30, 2024.

5 **Q. Are these the final rate base amounts for both pension and OPEB costs?**

6 A. Since these amounts are based on estimated balances as of September 30, 2024, it
7 would be appropriate to update these calculations to the actual balances as of the final
8 update period in this case.

9 **IV. PENSION AND OPEB TRACKERS**

10 **Q. Please describe the pension and OPEB trackers currently being employed by**
11 **Liberty.**

12 A. These trackers were ordered by the Commission in several prior cases, most recently
13 in Case No. ER-2021-0312. The trackers defer the difference between pension and
14 OPEB expense as recorded and expense allowed in base rates. This difference is
15 accumulated in a regulatory asset or liability account, as appropriate, and is included in
16 base rates in a subsequent rate case via a five-year amortization.

17 **Q. Why were these trackers established?**

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

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

23 A. Yes.

VERIFICATION

I, James A. Fallert, under penalty of perjury, on this 6th day of November, 2024, declare that the foregoing is true and correct to the best of my knowledge and belief.

/s/ James A. Fallert