Exhibit No.: _____
Issue(s): Pension and OPEB
Witness: James A. Fallert
Type of Exhibit: Rebuttal Testimony
Sponsoring Party: The Empire District Electric Company d/b/a Liberty
Case No.: ER-2024-0261
Date Testimony Prepared: August 2025

Before the Public Service Commission
of the State of Missouri

Rebuttal Testimony

of

James A. Fallert

on behalf of

The Empire District Electric Company d/b/a Liberty

August 18, 2025

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THE EMPIRE DISTRICT ELECTRIC COMPANY D/B/A LIBERTY
BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION
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I. INTRODUCTION

Q. Please state your name and business address.

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

Q. Are you the same James A. Fallert who provided direct testimony in this matter on behalf of The Empire District Electric Company d/b/a Liberty ("Liberty" or the "Company")?

A. Yes.

Q. What is the purpose of your rebuttal testimony in this proceeding before the Missouri Public Service Commission ("Commission")?

A. The purpose of this testimony is to respond to Staff's direct case in regard to pensions, Other Post-Employment Benefits (OPEBs), and the Supplemental Executive Retirement Plan (SERP). Staff's witness in regard to these matters is Matthew Young.

II. PENSIONS – FAS 88 EXPENSE

Q. Please provide an explanation of the FAS 88 portion of pension expense.

A. FAS 88 is the accounting standard that provides for accounting related to pension lump sum settlements. It should be noted that in 2009 FAS 88 was incorporated into a new accounting standard, Accounting Standard Codification Topic 715. I will refer to FAS 88 herein as that term is still commonly used in regulatory settings.

FAS 88 requires recognition in expense of a portion of unamortized gains or losses corresponding to pension liabilities satisfied via lump sum settlements to participants. However, this recognition is only required if a certain threshold is reached (the threshold is when lump sum settlement payments in a year exceed the sum of service and interest cost in the pension plan). As a result, FAS 88 entries can be significant in years where the threshold is reached but can be zero in other years.

Q. What has been the recent history of FAS 88 entries for Liberty?

A. Liberty recorded significant FAS 88 expense amounts in two of the past five years (2021 and 2022) when the aforementioned threshold was reached.

Q. How did the Company and Staff calculate normalized expense in this case related to FAS 88?

A. The Company used a five-year average of FAS 88 expense experience in 2019 through 2023. Staff included no FAS 88 expense in its direct case.

Q. Why do you believe the Company's calculation of ongoing FAS 88 expense is preferable?

A. The Company's approach reflects both recent experience and a realistic view of future obligations. FAS 88 expense, which is triggered by higher-than-expected levels of retirements, has occurred with increasing frequency due to the age profile of the Company's workforce – many employees are currently eligible for retirement. Given this trend, it is reasonable to anticipate future FAS 88 entries. Liberty's proposed five-year average provides a balanced and forward-looking estimate. It accounts for variability, including years with no recorded FAS 88 expense, and helps avoid underestimating future costs. In fact, when FAS 88 expenses do occur, they tend to exceed the average, making this method a prudent and responsible approach to forecasting. Rates will then reflect the likely financial realities of serving customers while maintaining compliance with accounting standards.

Q. Do you have any additional comments in response to Staff's direct position on this issue?

A. Yes. It is important to note FAS 88 expense is included in Liberty's pension tracker mechanism. This means that any difference between the amount included in rates and the actual expense incurred will be deferred and reconciled through the tracker. As a result, there is no risk of over-recovery. The tracker ensures that customers are protected from paying more than the actual cost, while also allowing the Company to recover legitimate expenses in clear and accountable manner.

III. SERP

Q. How did the Company calculate SERP expense for its direct filing?

A. The ongoing expense amount included in the Company's filing was based on the actuarial calculations of expense provided by the Company's independent actuary, CBIZ Cottonwood. These calculations were done in a manner consistent with the calculation of ongoing FAS 87 pension and OPEB expense.

Q. How did Staff determine ongoing SERP expense?

A. Rather than use the actuarially determined annual expense amount provided by CBIZ Cottonwood, Staff followed its long-standing approach of basing recovery on actual payments made from the plan. Staff reviewed historical payments and based the adjustment on annualization of payments made during the 3 months ending September 30, 2024.

Q. What reasoning does Staff provide for basing SERP expense to be recovered in rates on cash payments rather than actuarially determined expense?

A. On page 23 of Mr. Young's direct testimony, he notes that the SERP benefits are not funded through an external trust.

Q. Please comment on Staff's approach.

A. Booked expense is normally the starting point for determining an appropriate amount to be included in rates. The absence of an external trust for SERP benefits is not a valid reason to base recovery of this expense on an unusual cash payments basis.

Q. Why is it preferable to base SERP recovery on actuarially determined expense rather than the cash payment basis advocated by Staff?

A. The expense amount is independently determined by the Company's actuary. It is consistent with the calculation of similar items (qualified pensions and OPEBs). The recognition of SERP on an expense basis, rather than a payment basis, more closely matches the period during which the SERP benefits are earned by employees with the services provided by those employees to customers.

Q. What is the impact of Staff's long-standing policy of basing SERP rate recovery on cash payments rather than actuarially determined expense?

A. The Company has experienced a significant under-recovery of this item for many years over the life of the SERP.

IV. AMORTIZATION OF FAS 88 SETTLEMENT EXPENSE

Q. How is FAS 88 settlement expense treated in the pension tracker?

A. FAS 88 expense is included in the tracker and recovered via a five-year amortization, but the associated regulatory balances are excluded from rate base.

Q. Why are these balances excluded from rate base?

A. The Commission has determined that regulatory assets associated with FAS 88 are a non-cash item and are therefore excluded from rate base. This necessitates that a calculation be made of the portion of the tracker asset or liability which is associated with FAS 88 so that it can be excluded from rate base.

Q. Please describe the Company's calculation of the amount to be excluded from rate base.

A. FAS 88 expense was included in the tracker balances in the Company's 2019 rate case (No. ER-2019-0374). The Company calculated a straight five-year amortization of this balance beginning with the operation of law date in that case.

Q. How did Staff calculate the amount to be excluded from rate base?

A. Staff began its calculation in the same manner as the Company. However, Staff began a new five-year amortization of the remaining balance as of the operation of law date in the next rate case (No. ER-2021-0312).

Q. Please comment.

A. Arguments can be made in favor of either of these methodologies. However, for this case, the Company does not object to and accepts the use of Staff's methodology. This brings the Company's and Staff's calculation of tracker balances to be included in rate base for pension and OPEBs in the respective direct cases into agreement. These balances are regulatory liabilities of $23,567,325 for pensions and $6,935,326 for OPEBs as of September 30, 2024.

V. PREPAID PENSION ASSET

Q. Please describe the issue regarding the prepaid pension asset.

A. Both the Company and Staff included a prepaid pension asset of $30,508,886 in rate base as of September 30, 2024. However, both of these calculations were based on a preliminary calculation of pension contributions. Therefore, it is necessary to adjust the prepaid pension asset as of September 30, 2024 to $31,273,623 in order to include the actual contributions.

VI. TRUE-UP

Q. Are the calculations cited herein the final amounts that should be included in this case?

A. No. The expenses, prepaid pension asset and tracker balances associated with pensions and OPEBs should be revised pursuant to the March 31, 2025, true-up ordered by the Commission in this case.

VII. CONCLUSION

Q. Does this conclude your rebuttal testimony at this time?

A. Yes.

VERIFICATION

I, James A. Fallert, under penalty of perjury, on this 18th day of August, 2025, declare that the foregoing is true and correct to the best of my knowledge and belief.

/s/ James A. Fallert