

Exhibit No. 48

Exhibit No.: _____
Issue(s): Pension and OPEB
Witness: James A. Fallert
Type of Exhibit: Direct Testimony
Sponsoring Party: The Empire District
Electric Company
Case No.: ER-2021-0312
Date Testimony Prepared: May 2021

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

Direct Testimony

of

James A. Fallert

on behalf of

The Empire District Electric Company

May 2021



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FOR THE DIRECT TESTIMONY OF JAMES A. FALLERT
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. ER-2021-0312

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DIRECT TESTIMONY OF JAMES A. FALLERT
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. ER-2021-0312

1 **I. INTRODUCTION**

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

3 A. My name is James A. Fallert and 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 a 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 (“Empire” or
9 “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 have provided consulting
20 services regarding regulatory matters.

21

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 in numerous rate cases and other matters. As a consultant, I have provided
5 testimony before the Commission on behalf of Liberty Utilities, Laclede Gas Company,
6 and Empire. Additionally, I have provided testimony on behalf of Empire in Kansas
7 and Oklahoma.

8 **Q. What is the purpose of your Direct Testimony in this proceeding?**

9 A. I support the Company’s request for the amount of Pension and Other Post-
10 Employment Benefit (“OPEB”) costs to be included in the revenue requirement in this
11 case and the continuation of the pension and OPEB trackers as established in previous
12 cases and most recently continued in Case. No. ER-2019-0374. I also support the
13 inclusion in rate base of the prepaid pension asset and tracker balances.

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

15 A. Yes. I am sponsoring Direct Schedule JAF-1 which is the expense adjustments for
16 Pension and OPEB (Exp ADJ 28) and Direct Schedule JAF-2 which is the rate base
17 adjustments for Pension and OPEB (RB ADJ 9 and RB ADJ 10).

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

20 A. Yes.

21 **II. PENSION AND OPEB EXPENSE**

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

23 A. This case includes total annual Missouri pension expense of \$10,883,867. This amount
24 consists of (1) 2021 non-service cost expense of \$7,260,296 (which is made up of

1 \$3,819,109 of 2021 FAS 87 expense as determined by the Company's actuary and
2 pension settlement expense of \$3,441,188 based on experience in 2017 through 2020),
3 (2) 2021 service cost expense of \$3,173,626 as determined by the actuary, and (3) five-
4 year amortization of \$449,944 related to the trackers authorized in prior cases.

5 **Q. What is the amount of Supplemental Executive Retirement Plan (SERP) expense**
6 **that Empire is requesting in this case?**

7 A. This case includes total annual Missouri SERP expense of \$1,602,395 based on the
8 actuarially determined amount for 2021.

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

10 A. This case includes total annual Missouri OPEB expense of \$5,078,386, which includes
11 2021 OPEB expenses determined by the Company's actuary of \$2,601,682 (non-
12 service cost) and \$2,570,975 (service cost). Additionally, five-year amortization of
13 \$(94,272) related to the tracker authorized in prior cases is included in the requested
14 amount.

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

16 A. The pension, SERP, and OPEB costs are based on the most recently available actuarial
17 calculation of 2021 costs as of this filing. To the extent that a newer valuation of these
18 costs becomes available during the pendency of this case, it would be appropriate to
19 consider this valuation. The tracker amortization is based on estimated balances as of
20 June 30, 2021. It would be appropriate to update these calculations to the actual
21 balances as of the final update period in this case.

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

1 A. Yes. Empire's Employee's Retirement Plan was merged into the Liberty Utilities
2 Defined Benefit Pension Plan on December 31, 2019. As part of this merger, a portion
3 of the Empire Plan, which consisted of the benefits for participants hired after January
4 1, 2014, was spun-off and merged with the Liberty Utilities Cash Balance Pension Plan.

5 **Q. What are the implications of these changes on calculation of the appropriate**
6 **expense for ratemaking purposes?**

7 A. The Empire employees are now included in the broader Liberty Utilities defined benefit
8 and cash balance plans. However, the actuary will still track and report the portion of
9 the plans applicable to Empire separately. It will simply be necessary to include in the
10 adjustment the Empire portion of both the defined benefit and cash balance plans as
11 reported by the actuary.

12 **III. RATE BASE**

13 **Q. What is the amount of rate base related to pensions and OPEBs that you are**
14 **requesting in this case?**

15 A. This case includes total rate base related to pensions and OPEBs of \$19,192,514.
16 This amount includes the prepaid pension asset of \$27,061,540, and regulatory
17 liabilities related to the trackers of \$(7,397,668) for pensions and \$(471,358) for
18 OPEBs. The rate base amounts are based on the assets and liabilities authorized by
19 the Commission in Case No. ER-2019-0374 projected forward to June 30, 2021.

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

21 A. Since these amounts are based on estimated balances as of June 30, 2021, it would be
22 appropriate to update these calculations to the actual balances as of the final update
23 period in this case.

1 **IV. PENSION AND OPEB TRACKERS**

2 **Q. Please describe the pension and OPEB trackers currently being employed**
3 **by Empire.**

4 A. These trackers were ordered by the Commission in several prior cases, most
5 recently in Case No. ER-2019-0374. The trackers defer the difference between
6 pension and OPEB expense as recorded and expense allowed in rates. This
7 difference is accumulated in a regulatory asset or liability account, as
8 appropriate, and is included in rates in a subsequent rate case via a five-year
9 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
14 in rates. The Company believes that the trackers are beneficial to all parties
15 and should be continued in this case.

16 **V. CONCLUSION**

17 **Q. Does this conclude your direct testimony?**

18 A. Yes.

VERIFICATION

I, James A. Fallert, under penalty of perjury, on this 28th day of May, 2021, declare that the foregoing is true and correct to the best of my knowledge and belief.

/s/ James A. Fallert