

*Exhibit No.:*  
*Issue(s):* *Environmental Costs,  
Income Taxes, Riverton 10,  
Customer First, Pensions,  
SERP, Customer Facilities  
Expense, Vegetation  
Management*  
*Witness:* *Matthew R. Young*  
*Sponsoring Party:* *MoPSC Staff*  
*Type of Exhibit:* *Surrebuttal / True-Up Direct  
Testimony*  
*Case No.:* *ER-2024-0261*  
*Date Testimony Prepared:* *September 17, 2025*

**MISSOURI PUBLIC SERVICE COMMISSION**

**FINANCIAL AND BUSINESS ANALYSIS DIVISION**

**AUDITING DEPARTMENT**

**SURREBUTTAL / TRUE-UP DIRECT TESTIMONY**

**OF**

**MATTHEW R. YOUNG**

**THE EMPIRE DISTRICT ELECTRIC COMPANY,  
d/b/a Liberty**

**CASE NO. ER-2024-0261**

*Jefferson City, Missouri  
September 2025*

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**MATTHEW R. YOUNG**

**THE EMPIRE DISTRICT ELECTRIC COMPANY,**  
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**SURREBUTTAL / TRUE-UP DIRECT TESTIMONY**

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d/b/a Liberty**

**CASE NO. ER-2024-0261**

Q. Please state your name and business address.

A. My name is Matthew R. Young. My business address is 615 E. 13<sup>th</sup> Street,  
Kansas City, Missouri 64106.

Q. Are you the same Matthew R. Young that filed direct testimony in this case?

A. Yes.

Q. What is the purpose of your surrebuttal / true-up direct testimony?

A. In my surrebuttal, I will respond to Empire and the Office of the Public  
Counsel (OPC) witnesses regarding the issues listed in the following table. I will also present  
Staff's true-up revenue requirement and identify the adjustments I am sponsoring.

<u>Party</u>	<u>Witness</u>	<u>Issue</u>
Empire	Emery	Iatan/PCB Environmental Costs, Income Taxes, Customer Facilities Exp, Vegetation Management
	McCuen	Income Taxes
	Wilson	Customer First
	Reed	Customer First
	Fallert	Pensions, SERP
	Berkstresser	Riverton 10
OPC	Riley	Income Taxes

**SURREBUTTAL**

**Iatan/PCB Transformer Environmental Costs**

Q. What are the Iatan/PCB Transformer Environmental Costs?

A. These costs are parts of the general retirement obligations associated with owning generating assets. While the entire cost of retiring a generating unit is typically not recovered from customers until they are known and measurable, Empire has settled and paid certain retirement obligations for Iatan/PCB Transformer environmental costs.

Q. What is Empire's recommendation for the ratemaking treatment of these costs?

A. Empire recommends including the amount paid in rate base as a reduction to the accumulated depreciation reserve. Empire states this treatment is in accordance with the guidance the Commission set forth on pages 149 and 150 of its *Amended Report and Order* in Case No. ER-2019-0374.

Q. Does Staff agree with Empire's recommendation?

A. Yes. However, Staff's direct revenue requirement omitted the costs in error. Staff's true-up revenue requirement will reflect the settlements Empire has paid through March 31, 2025.

**Income Tax**

**Accumulated Deferred Income Taxes ("ADIT")**

Q. What is OPC's position on ADIT?

A. In his rebuttal testimony, OPC witness John S. Riley requests the exclusion of Asbury-related deferred tax assets included in Staff's recommended ADIT, among other recommendations.

1 Q. Is OPC's request reasonable?

2 A. Regarding the Asbury-related deferred tax assets, yes. Staff agrees that the  
3 Asbury-related deferred tax assets should not be included in rate base in the current case. In my  
4 rebuttal testimony, the revenue requirement I supported reflects ADIT in rate base excluding  
5 those amounts.

6 Q. Did OPC have other testimony on ADIT?

7 A. Yes. Mr. Riley also makes requests to recognize in the current case additional  
8 tax benefits from Asbury's retirement and the securitization of Winter Storm Uri costs.  
9 However, OPC's requests on this topic would have been more appropriate in its direct  
10 testimony.

11 Q. Did Empire offer any rebuttal testimony on Staff's ADIT balance?

12 A. Yes. Mr. Michael McCuen provided a response to Staff's ADIT. He noted that  
13 Staff's balance is not Missouri-jurisdictional and included ADIT on items that do not flow  
14 through base rates.

15 Q. Is Mr. McCuen correct?

16 A. Yes. Staff's direct case contained an ADIT balance with these issues.  
17 The revenue requirement I supported in my rebuttal testimony addresses these fixes and Staff's  
18 true-up case is also accordingly corrected.

19 Q. Did Mr. McCuen identify other ADIT items that needed to be addressed?

20 A. Yes. Mr. McCuen describes changes that needed to be made to Empire's ADIT  
21 calculations for the Hypothetical Liquidation at Book Value ("HLBV") and Winter Storm Uri.  
22 Staff reflected those changes in its true-up revenue requirement as well.

**Excess Accumulated Deferred Income Taxes (“EADIT”)**

Q. What is EADIT?

A. Generally, federal tax reform passed in the 2017 Tax Cuts and Jobs Act (“TCJA”), and similar tax reform enacted in Missouri law in 2020, made a portion of Empire’s ADIT transition from a temporary timing difference to a permanent timing difference. While ADIT naturally unwinds through base rates of a utility over the course of the underlying tax difference, EADIT needs to be returned to ratepayers through affirmative adjustments to the revenue requirement.

Q. When did Empire’s EADIT begin to flow back to customers?

A. In Case No. ER-2019-0374, the Commission’s *Amended Report and Order* set the protected and unprotected EADIT balances as of March 31, 2019, and annual recovery included in rates.

Q. Will you describe what you mean by protected and unprotected EADIT?

A. Yes. Deferred taxes are generated by a long list of tax deductions claimed by a utility. Protected deferred taxes are those that are generated from life and method differences embedded in the tax accelerated depreciation deduction. These tax benefits are generally protected from flow-through ratemaking treatment by IRS regulations so the EADIT tied to those differences are labeled “protected.” The IRS has no such regulations regarding the ratemaking treatment of the remaining tax deductions so those are classified as “unprotected.”

Q. How was EADIT affected when the Commission approved the securitization of costs tied to the retirement of the Asbury generating station?

A. EADIT tied to Asbury was used to reduce the amount of bonds issued so it reduced the total amount ratepayers are required to pay for the securitization. Since the

1 Asbury EADIT has effectively been recognized outside of base rates, the balance and annual  
2 amount of recovery included in base rates is reduced from the amounts set by the Commission  
3 in ER-2019-0374.

4 Q. Do Staff and Empire agree on the balance of EADIT after the removal of  
5 Asbury's portion?

6 A. There is primarily one difference surrounding the EADIT recovery included in  
7 base rates in Empire's prior rate case, ER-2021-0312. Upon review of the issue Staff agrees  
8 with Mr. McCuen's rebuttal testimony, and the amortization of Empire's prior rate case for  
9 unprotected EADIT should be \$616,638. Staff's true-up revenue requirement includes the  
10 March 31, 2025, balance that reflects this amortization.

11 Q. Do Staff and Empire agree with the amortization of the protected EADIT?

12 A. In principle yes. Staff and Empire's direct cases reflect the amortization under  
13 the IRS' Average Rate Assumption Method ("ARAM") methodology. However, Mr. McCuen's  
14 rebuttal testimony suggests that Empire could switch to the IRS' alternative amortization  
15 methodology, called the Reverse South Georgia Method ("RSGM"). Empire cites concerns  
16 with its historical recordkeeping of the amount embedded in regulated depreciation rates for the  
17 cost of removal as a reason Empire is eligible to use the RSGM.

18 Q. Is the RSGM the IRS's preferred method?

19 A. No. Guidance from the IRS states that utilities should only use the RSGM when  
20 it is not possible to accurately calculate the ARAM amortization. Staff's recommendation is  
21 that Empire continue calculating ARAM going-forward with the prospective rectifications  
22 made to recognize the cost of removal as Staff and Empire has testified to in prior testimonies  
23 in this case.

1 Q. Does Empire disagree with any other aspects of Staff's EADIT balance?

2 A. Yes. Page 20, lines 1 – 9, of Charlotte T. Emery's rebuttal testimony explains  
3 Staff should have included the EADIT gross-up held in account 254.100 to ensure customers  
4 receive the full benefit of the TCJA. Staff agrees and has included this in its EADIT balance  
5 at true-up.

6 **Alternative Fuel Tax Credit**

7 Q. What is the alternative fuel tax credit?

8 A. As Mr. Michael McCuen describes in his rebuttal testimony,<sup>1</sup> this tax credit is  
9 available to Empire because it is not using aviation-grade kerosene for its intended purpose but  
10 instead, is using the kerosene for the generation of electricity. For this reason, Empire is able to  
11 claim a tax credit equal to the excise taxes it paid on the purchase of the kerosene.

12 Q. Should the tax credit flow through to Empire's cost of service?

13 A. Yes. Ratepayers are charged an annualized or normalized cost for fuel additives  
14 in the revenue requirement along with all other fuel costs. Ratepayers are also charged any  
15 administrative and labor costs associated with the procurement, storage, and use of the  
16 kerosene. Staff's position is that the ratepayers are responsible for the costs associated  
17 with Empire's use of the alternative fuel so they are also entitled to the tax benefits associated  
18 with it.

19 **Disposition Losses**

20 Q. Please summarize this issue as you understand it.

21 A. This issue is related to the tax benefits created by the early retirement of plant.  
22 Generally speaking, when an asset is placed into service it is subject to a tax life for its class of

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<sup>1</sup> McCuen Rebuttal, page 6 lines 10- 19. ER-2024-0261.

1 assets. For example, a vehicle may have a tax life of three years and the tax depreciation is  
2 spread over that timeline. If the asset is retired before the tax depreciation has completed, the  
3 taxpayer records a disposition loss that acts as a reduction to taxable income. The effect of the  
4 loss is to reduce the amount of tax payable in the year of disposition. My understanding is that  
5 OPC's Mr. Riley recommends flowing losses such as these to ratepayers as an immediate  
6 reduction to the income tax expense included in rates.

7 Q. If the losses are not flowed through rates, are ratepayers excluded from the tax  
8 benefits of the loss under the current ratemaking approach?

9 A. No. It's my understanding that disposition losses increase the ADIT recorded on  
10 the books that ultimately serves to decrease rate base, which is a ratemaking benefit to  
11 customers. Theoretically, the balance booked to ADIT unwinds over the course of book  
12 depreciation tied to the underlying asset account.

13 Q. Is flowing the losses through as an immediate reduction to current income tax  
14 expense an option for the Commission?

15 A. Yes, but doing so is a trade-off of customer benefits. Although the losses have  
16 been normalized in ratemaking historically, the Commission could order losses to be  
17 reflected as Mr. Riley recommends. However, if this approach was used in Empire's cost of  
18 service, the future ADIT reduction to rate base would have a smaller impact than under the  
19 current normalization approach and lead to a higher rate base that Empire would earn a  
20 return on. In the current case, Staff's ADIT reflects the historical approach of normalizing tax  
21 disposition losses.

**Riverton 10**

Q. Did you make an adjustment to the March 31, 2025, plant balances of the Riverton 10 units in Staff's true-up revenue requirement?

A. Yes. Staff witness Brodrick Niemeier explains Staff's response to the direct and rebuttal testimonies of OPC and Empire on this issue in his surrebuttal testimony. For the reasons presented by Mr. Niemeier, I have reduced the March 31, 2025, rate base balance of Riverton 10 to exclude the repair costs that Empire did not support.

**Customer First**

**Rate Base Disallowance**

Q. Please summarize Staff's rate base adjustment for the Customer First software.

A. The direct, rebuttal, and surrebuttal testimonies of Staff witness Charles Tyrone Thomason thoroughly detail operational issues Empire has experienced since the April 2024 implementation of the Customer First software. In reaction to the impaired functionality of the software, Staff removed the rate base amount, as well as amortization expense and ADIT, tied to Customer First's Customer Information System ("CIS") from the revenue requirement. Staff witness Melanie Marek also excluded incentive compensation tied to Customer First implementation metrics from its annualized cost.

Q. What was Empire's response to Staff's adjustments?

A. Generally, the rebuttal testimonies of Empire witnesses Emery, Wilson, and Reed affirm that implementing Customer First was a prudent decision and assert that the software is in-service and used and useful. Empire characterizes Staff's adjustment as punitive, disproportionate, and not supported by Missouri's standard approach to ratemaking.

1 Q. Was the decision to modernize the software platform used at Empire, and all of  
2 its affiliates, a prudent decision?

3 A. Yes. Thus far, no party has presented a position or support showing that Empire  
4 should have continued to rely on an unsupported patchwork of software that heavily relied on  
5 manual processes to integrate company-wide data. Empire's rebuttal testimony explaining the  
6 need for a new software solution and its ongoing efforts to improve its performance is mostly  
7 irrelevant to this adjustment to rate base. Staff's adjustment addresses the "used and useful"  
8 aspect of Customer First.

9 Q. What does the term "used and useful" mean?

10 A. Used and useful is a standard that regulators have historically relied upon to  
11 decide if an asset should be included in a utility's rate base. With some exceptions, only plant  
12 currently providing or capable of providing utility service to customers is included in rate base.

13 Q. Empire witness Timothy N. Wilson's rebuttal states that a system is in-service  
14 when it is actively used to support core business functions and deliver value to customers.  
15 Do you agree?

16 A. No. The standard Staff applies in determining what criteria to test whether plant  
17 is in-service is from Section 393.135 RSMo. which requires an asset to be both used for service  
18 and fully operational. Specifically, Section 393.135 RSMo. states:

19 Any charge made or demanded by an electrical corporation for service,  
20 or in connection therewith, which is based on the costs of construction  
21 in progress upon any existing or new facility of the electrical corporation,  
22 or any other cost associated with owning, operating, maintaining, or  
23 financing any property **before it is fully operational** and used for  
24 service, is unjust and unreasonable, and is prohibited [Emphasis added.].

25 Q. Has Staff applied an in-service criteria to software property in past cases?

1           A.     No. Staff's in-service criteria is generally referred to regarding generating plants  
2 but the concept of declaring an asset operational is germane to the Customer First issue.

3           Q.     Have there been instances where a generating plant was "used for service" but  
4 not "fully operational"?

5           A.     Yes. An early case in which the Commission considered the in-service standard  
6 specifically was a Missouri Public Service Company Case No. ER-79-60, a rate case in which  
7 the date of Jeffery Energy Center Unit 1 became fully operational and used for service was at  
8 issue. In that case the Commission found that even though the Jeffery Energy Center Unit 1  
9 was used for service it must also be fully operational prior to inclusion in rates:

10                   The question before the Commission in this issue is one of first  
11 impression. Neither this Commission nor the courts have been called  
12 upon to apply the terms of Proposition 1 so specifically. Only the  
13 vagaries of coincidence have presented the question with such  
14 clarity. The transcript in this matter is replete with examples of the  
15 loose and unspecific manner in which the terms "in service",  
16 "commercial service", "used and useful", "fully operational", and  
17 other similar terms are used in the industry. The question would, of  
18 course, never arise unless one is faced with a statute similar to ours.

19  
20                   The Commission recognizes the difficulty of applying a hard and  
21 fast rule as to when the statute is satisfied in every instance, and  
22 indeed believe that such is not possible in view of the different  
23 circumstances which can surround a specific piece of construction  
24 in a specific setting. We do believe, however, that the criteria  
25 proposed by Staff are valid and may properly be used by the  
26 Commission in making individual judgement that it must make in  
27 each specific case. We are particularly persuaded by the ability of  
28 the unit to operate at its expected load factor and its further ability  
29 to achieve its maximum operational capability. As has previously  
30 been noted, both of those occurrences took place on July 30. The  
31 invalidity of the Company's asserted "in service" date is well  
32 illustrated by the fact that the unit was not shown to be able to  
33 function at even its minimum daily load until well after that date.  
34

1           The Commission believes that Section 393.135 RSMo, 1978,  
2           requires an electric generating facility to be not only used for service  
3           but also be shown to be fully operational prior to its inclusion into  
4           rate base. Throughout the months of June and July there is no  
5           question that the machine was used for service to some minimal  
6           degree, but we cannot agree that it became fully operational until  
7           July 30.

8           Q.     Can the CIS portion of Customer First, the asset Staff excluded, be considered  
9           to be in-service as of the March 31, 2025, true-up date?

10          A.     No, certainly not. Empire's billing is not reliable and while the failures do not  
11          affect every customer, the billing function of Customer First is not providing value to a large  
12          portion of customers.

13          Q.     Mr. John J. Reed provides rebuttal testimony asserting that approximately 10%  
14          of customers have experienced billing errors since the implementation of Customer First.  
15          Does this demonstrate reliability and value?

16          A.     No. Please refer to Staff witness Thomason's surrebuttal for a response to  
17          Mr. Reed's assertion but assuming the 10% figure, an investment that works for 90% of the  
18          customers is not a reliable or valuable investment. By way of analogy, a reasonable person in  
19          the market for a new vehicle would not find value in a car that is propelled as designed 90% of  
20          the time but has to be propelled with manual processes (pushed) 10% of the time. That person  
21          would likely not find value in that car at any price and would shop at another retailer. Unlike the  
22          fictional car shopper that has choice, Empire customers cannot buy electricity from a utility that  
23          can issue accurate bills which is why Empire is regulated by the Commission.

24          Q.     Does Staff expect Empire to permanently write-off the Customer First plant that  
25          Staff has excluded from the revenue requirement?

1           A.     No. Staff's adjustment is based on applying the used and useful standard to  
2 Customer First at March 31, 2025. In the event that the software begins functioning as intended,  
3 the basis for the adjustment to Customer First's CIS system will no longer be applicable in  
4 Empire's future rate cases.

5           Q.     Does Empire have an alternative solution to the ratemaking treatment of  
6 Customer First?

7           A.     Yes. In rebuttal testimony, Mr. Reed recommends reducing annual revenue  
8 by approximately \$4 million (the return on equity of Customer First CIS) until the time  
9 Empire is able to meet certain metrics. Upon meeting Commission-approved metrics,  
10 Empire would be allowed to defer the annual \$4 million into an asset for recovery in Empire's  
11 next rate case.

12          Q.     Did Empire include this solution in its direct case?

13          A.     No. Although Empire delayed filing its case several months while it  
14 tackled billing issues, its direct filing was submitted while the issues were ongoing.  
15 Even though Empire knew it had major problems with its operations, it did not include  
16 any recommendations to address customer and Commission concerns in either of its direct  
17 cases. This recommendation is an alternative to Staff and OPC's recommendations in direct.

18          Q.     Does Staff agree that Empire's latest solution assuages the situation?

19          A.     No. Empire's parent company began evaluating its systems and business  
20 practices in 2017<sup>2</sup> and 18 months have passed from Empire's go-live date to the filing of this  
21 testimony, yet ratepayers still are enduring Customer First's CIS failures. The Commission  
22 should recognize that the problems Empire has created for its ratepayers are serious and span a

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<sup>2</sup> Staff Data Request No. 0253.2.

1 long timeline and the Commission's reaction should be in kind. Allowing Empire to be made  
2 whole once it is able to operate its software as intended ignores the lengthy period of customer  
3 dissatisfaction and hardship. As the Commission is often reminded, one of its duties is to  
4 balance the interests of all stakeholders, including Empire's captive customers.

5 **Operations and Maintenance (O&M) Expense**

6 Q. Please summarize this issue.

7 A. Empire's witness Ms. Emery fairly summarizes the differences between Staff  
8 and Empire. Empire supports an adjustment to the cost of service that is based on the average  
9 Customer First O&M expense projected through 2027 to reflect a time when the software is  
10 fully implemented. Staff supports an annualization of actual cost experienced during April 2024  
11 through September 2024, since that is the only actual experience that exists through Staff's  
12 update period. In rebuttal, Empire suggests that Staff's methodology should be updated so that  
13 it is derived from a full year of actual costs. Empire further explains that this will address any  
14 costs driven by seasonable variation, implementation ramp-up, or other front-loaded costs that  
15 may skew Staff's annualization.

16 Q. Does Staff agree?

17 A. Yes. Staff agrees that this adjustment should be based on actual costs incurred  
18 during the 12-months ending March 31, 2025. Although this is not an item the Commission  
19 ordered to be updated with true-up data, it is in the ratepayer's and Empire's interest to include  
20 an expense in rates that is closest to the ongoing cost. Expanding the annualization from a  
21 six-month period to a 12-month period would be more reliable. Staff reflects 12 months of  
22 actual costs in its true-up revenue requirement.

**Prepaid Pension Asset**

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

A. In rebuttal, Empire's witness James A. Fallert indicates that there is not a dispute on the asset's balance provided that it reflects actual cash contributions to the pension trust. Staff agrees and will include the actual contributions through March 31, 2025, in its true-up balance.

**Pension Expense**

Q. Do Staff and Empire agree on the ongoing level of pension expense to include in current rates?

A. Not entirely. Although terminology has changed, I will use the historical nomenclature for pension expense by referring to the Financial Accounting Standard (FAS) 87 and FAS 88 portions of pension expense. Staff and Empire agree on the appropriate level of FAS 87 expense to include in rates but disagree with the amount of FAS 88.

Q. What is the difference between FAS 87 and FAS 88?

A. There are two primary differences from a regulatory perspective; a difference in accounting and a difference in cash flow impacts. Under Generally Accepted Accounting Principles ("GAAP"), FAS 87 pension expense represents the pension obligation accrued under Empire's pension plans during a given accounting period and is a routine and recurring expense. FAS 88 costs are typically driven by an excessive number of retirements that cause pension expense to require an immediate correction if materiality thresholds are met.

The cash flow difference relates to Empire's funding commitments. Generally, Empire will make cash contributions to an external pension trust of an amount equal

1 to its accrued FAS 87 expense. On the other hand, FAS 88 charges do not trigger an immediate  
2 cash transaction.

3 Q. What is the difference between Empire's and Staff's recommendations for  
4 FAS 88 costs?

5 A. Empire's normalized pension expense includes a five-year (2019 – 2023)  
6 average of FAS 88 charges as ongoing pension expense while Staff includes \$0 for  
7 FAS 88 costs.

8 Q. Why is Empire's approach inappropriate?

9 A. As I described earlier, FAS 88 charges are only incurred if materiality thresholds  
10 are exceeded and, for this reason, FAS 88 charges tend to be volatile and unpredictable. In fact,  
11 during the most recent six accounting periods of 2019 through 2024, Empire has recorded a  
12 FAS 88 charge only twice.

13 Q. Why is Staff's approach preferable?

14 A. Including \$0 recognizes that the next FAS 88 charge is not an ongoing known  
15 and measurable cost. Staff's approach reflects the probability that Empire will not incur a  
16 FAS 88 cost within 12 months of the operation of law date.

17 Q. Is Staff recommending that Empire should not recover its FAS 88 costs at all?

18 A. No. Another aspect of pension expense Staff and Empire are aligned on is the  
19 continuation of the pension tracker. This tracker includes FAS 88 charges recorded in between  
20 rate cases. In the event that Empire does incur a FAS 88 charge subsequent to the true-up period  
21 in this case, Empire will include the cost, and recovery, in its pension asset included in the next  
22 rate case.

**Supplemental Executive Retirement Program (“SERP”)**

Q. What is SERP?

A. In many ways, SERP is similar to Empire’s pension plans. The two primary differences between SERP and pension costs are the tax consequences and plan funding. Unlike Empire’s pensions, SERP is a non-qualified plan under IRS regulations. This means that the underlying compensation of some employees exceed the compensation ceiling set by the IRS and the benefit costs are not tax deductible. Empire accounts for the non-qualified SERP costs using the same GAAP methodology it uses for qualified pension and other retirement benefit costs.

Also unlike Empire’s pensions, Empire disburses benefits directly to former employees as the payments become due rather than make cash contributions to an external trust as a pre-funding mechanism.

Q. What are the differences between Staff and Empire’s annualizations?

A. Empire recommends including SERP costs based on the actuarially calculated expense using the most recent GAAP accrued cost. Staff recommends using the historical cash flow to set a cost reflective of going-forward cash flow.

Q. Why does Staff recommend using actual SERP payments instead of the actuarially determined annual SERP accrual, which would be consistent with pension expense?

A. While regular pension expense (and Other Post-Employment Benefits (“OPEB”)) expense amounts included in rates are based on accrual accounting assumptions, these same assumptions form the basis of Empire’s cash flow for contributions to external pension and OPEB trusts. In contrast, SERP costs are not pre-funded. Empire’s recommended

1 approach would require customers to pay in advance benefits that would not be actually paid to  
2 retired employees until the future.

3 Also, SERP benefits are not in the scope of Empire's pension tracker. The SERP  
4 expense Empire receives from the actuary is an accounting accrual. In layman's terms, the cost  
5 the actuary produces is an expert's best guess of the future SERP costs Empire incurred in the  
6 current period. However, no amount of expertise can amount to clairvoyance and setting rates  
7 based on SERP accruals creates a risk to ratepayers and shareholders of over or under charges.

8 Q. Has the Commission provided guidance on how SERP costs should be reflected  
9 in Empire's rates?

10 A. Yes. In Empire's rate case ER-2019-0374, the Commission stated:

11 The Commission finds that the payment basis is appropriate to calculate  
12 SERP costs because SERP costs are not pre-funded and Empire's own  
13 analysis indicates that costs to ratepayers to reimburse the SERP benefits  
14 are lower under the payment basis.<sup>3</sup>

15 Q. Is there new information surrounding Empire's SERP that may change the  
16 Commission's decision?

17 A. No. Empire's SERP and the related costs are substantially the same as the facts  
18 that were presented to the Commission in ER-2019-0374.

19 **Customer Facilities Expense**

20 Q. What is the issue?

21 A. In Empire's direct case, it recognized that the test year expense in account  
22 587.038 was abnormal due to an errant inventory adjustment. To correct the abnormality,  
23 Empire recommended to reflect a three-year average of the account balance. In rebuttal

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<sup>3</sup> Page 128 of *Amended Report and Order*, Case No. ER-2019-0374.

1 testimony, Ms. Emery again requests that this adjustment be reflected in the approved cost of  
2 service although no other party addresses the abnormal account balance.

3 Q. Does Staff agree?

4 A. Yes. It is appropriate to adjust expense accounts to reflect ongoing amounts  
5 and this account is abnormal. Staff will adopt Empire's adjustment into its own  
6 revenue requirement.

7 **Vegetation Management**

8 Q. Please summarize this issue.

9 A. In her direct testimony, Ms. Emery explains that the test year vegetation  
10 management expense does not reflect Empire's on-going level of costs so an upward adjustment  
11 of \$563,276 is necessary. In her rebuttal testimony, she notes that other parties, including Staff,  
12 did not have a recommendation for vegetation management. Her testimony repeats the assertion  
13 that the test year is not representative and states that Empire's adjustment captures the recurring  
14 level of activity.

15 Q. On what basis did Empire adjust the test year expense?

16 A. Empire replaced the test year expense with its 2024 budgeted costs for  
17 vegetation management. This adjustment amounts to a 5% increase to the test year expense.

18 Q. What was Staff's position on vegetation management in its direct case?

19 A. Staff's direct case did not explicitly address vegetation management and also  
20 did not make an affirmative adjustment to the test year. In other words, Staff's revenue  
21 requirement included the test year cost.

1 Q. Has Staff examined the actual costs Empire recorded subsequent to the  
2 test year?

3 A. Yes. Using the accounts listed in Empire's EXP ADJ 3 workpaper to isolate  
4 vegetation management costs in the general ledger, Staff examined expenses during the year  
5 following the test year, the 12-months ending September 30, 2024. The actual results during  
6 this trailing 12 months shows a 47% increase in vegetation management costs from test year  
7 levels. The actual results are also 40% higher than the budgeted amount Empire recommends  
8 including in the revenue requirement. Clearly, Empire's 2024 budgeted amounts do not reflect  
9 ongoing operations as Ms. Emery suggests.

10 Q. Would it be appropriate to adjust the test year to reflect the 12-months ended  
11 September 30, 2024?

12 A. No. It is not reasonable to expect that an annual cost that exceeds the test year,  
13 and the budget, to such an extent to be the ongoing experience. Instead, it is more reasonable to  
14 conclude that the cost recorded through the 12-months ended September 30, 2024, is an outlying  
15 data point. As such, Staff concludes that the only data point that is reliable and based on actual  
16 costs is the test year expense and the test year should remain unadjusted.

17 **TRUE-UP DIRECT**

18 **Revenue Requirement**

19 Q. What items did Staff update to reflect actual cost experience through  
20 March 31, 2025?

21 A. The Commission provided guidance on the true-up items in its April 23, 2025,  
22 *Order Establishing the True-Up Period*. Items identified for true-up in the order are:

- Capital structure;
- Cost of debt;
- All rate base components;
- Customer growth/loss;
- Depreciation expense;
- Amortization expense (intangible & regulatory assets/liabilities);
- Property tax
- Payroll and associated items (i.e., overtime, benefits, payroll taxes);
- Pension and Other Post-Employment Benefits (OPEBs) (Financial Accounting Standard 87 and 106);
- Fuel and purchased power expense, to include, but not be limited to, updated contract prices for fuel, wind power, fuel transportation and fuel storage;
- Rate case expense; and
- Income tax expense.

Additionally, Staff revised its adjustment for Customer First O&M to include data through March 31, 2025.

Q. What is Staff's true-up revenue requirement recommendation?

A. The results of Staff's true-up audit can be found in Staff's filed true-up Accounting Schedules and is summarized on Accounting Schedule 1, Revenue Requirement. Accounting Schedule 1 demonstrates that Staff's recommended true-up revenue requirement in this proceeding is \$121,069,506. The recommended revenue requirement after a reduction equal to 100 basis points of return on equity<sup>4</sup> is premised on a mid-point recommended rate of return ("ROR") after tax of 7.024%. Staff's recommendation for a midpoint ROE of 9.50%, with a range of 9.00% to 10.00% as calculated by Staff witness Christopher C. Walters remains consistent with its direct case. Staff's revenue requirement at the low and high ROR range is \$111,968,690 to \$130,136,106.

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<sup>4</sup> See the direct testimony of Staff witness James A. Busch.

1 Q. What cost of service items, other than those previously addressed in your  
2 surrebuttal above, are you sponsoring for the true-up revenue requirement?

3 A. I have revised Staff's rate base amounts and adjustments for Income taxes,  
4 ADIT, EADIT, amortization of plant, Asbury AAO liability, Customer First disallowance,  
5 Customer First O&M, Iatan Environmental costs, SERP, pensions, and OPEBs to reflect data  
6 through the March 31, 2025, true-up date. Except for the revisions I explain in my rebuttal and  
7 surrebuttal testimonies, the methodology I use for these items is substantially the same as the  
8 methodology I supported in my direct case with the exception of income tax expense and the  
9 Accumulated Depreciation Reserve ("Reserve") for the Asbury coal plant.

10 Q. What changed with Staff's methodology for income tax expense?

11 A. Staff's direct case included a reduction to income tax expense for ongoing tax  
12 credits that Empire earns. However, Staff omitted the Production Tax Credits ("PTC") earned  
13 with power generated at Empire's wind production plants. Staff has included wind PTCs  
14 retained by Empire in its true-up revenue requirement.

15 Q. Are there new adjustments for the Asbury coal plant's Reserve?

16 A. Yes. Empire's response to Staff Data Request No. 0016 shows approximately  
17 \$10 million of Reserve in the Asbury coal plant accounts at March 31, 2025, that did not exist  
18 as of September 30, 2024. In response to OPC Data Request No. 8509, Empire explains that,  
19 "This balance represents the retail portion of Asbury stranded plant costs that was inadvertently  
20 allocated to the Company's Transmission Formula Rate (TFR) and Generation Formula Rate  
21 (GFR) wholesale customers at the time of the plant's retirement."

22 Q. Is it appropriate to charge Missouri ratepayers for this Reserve?

1           A.     No. A portion of the Asbury plant was serving wholesale customers and the  
2 stranded plants costs are also appropriately charged to wholesale customers. In the event that  
3 the stranded costs should have been recovered from Missouri ratepayers, Empire should have  
4 included the cost in the securitization case it presented to the Commission. An attempt to  
5 include stranded costs in this rate case is retroactive ratemaking, which is prohibited.

6           Q.     Does this conclude your surrebuttal / true-up direct testimony?

7           A.     Yes it does.

**BEFORE THE PUBLIC SERVICE COMMISSION**  
**OF THE STATE OF MISSOURI**

In the Matter of the Request of The Empire     )  
District Electric Company d/b/a Liberty for     )  
Authority to File Tariffs Increasing Rates     )  
for Electric Service Provided to Customers     )  
in Its Missouri Service Area                     )

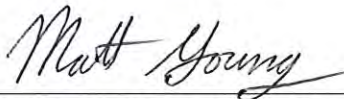
Case No. ER-2024-0261

**AFFIDAVIT OF MATTHEW R. YOUNG**

STATE OF MISSOURI                     )  
   )  
COUNTY OF Jackson                 )     ss.

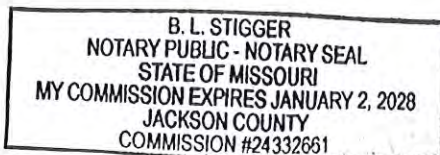
COMES NOW MATTHEW R. YOUNG and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Surrebuttal / True-Up Direct Testimony of Matthew R. Young*; and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.

  
\_\_\_\_\_  
MATTHEW R. YOUNG

**JURAT**

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Jackson, State of Missouri, at my office in Kansas City, on this 11th day of September 2025.



  
\_\_\_\_\_  
Notary Public