

Exhibit No. _____
Issue: FAS 106/87
Witness: Darryl L. Coit
Type of Exhibit: Direct Testimony
Sponsoring Party: Empire District
Case No.:
Date Prepared: November 2, 2000

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

**Direct Testimony
of
Darryl L. Coit**

Exhibit No. 7
Date 5/29/01 Case No. ER-2001-299
Reporter KRM

November 2000

DIRECT TESTIMONY
OF
DARRYL L. COIT
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
PUBLIC SERVICE COMMISSION
OF THE
STATE OF MISSOURI
CASE NO.

1 Q. STATE YOUR NAME AND ADDRESS PLEASE.

2 A. Darryl L. Coit. My business address is 602 Joplin Street, Joplin, Missouri.

3 Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

4 A. The Empire District Electric Company. I am Controller and Assistant Treasurer.

5 Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL
6 EXPERIENCE.

7 A. I began my employment at Empire in December 1971 holding various clerical jobs in the
8 General and property accounting departments. While working at Empire I attended
9 college and was graduated from Missouri Southern State College, Joplin, in May 1977
10 with a Bachelor of Science degree in Business Administration with a major in marketing
11 and management. Beginning in September 1978 I held various accountant and
12 supervisory level positions in the general, property and regulatory accounting
13 departments. In August 1983, I was promoted to Manager of Property Accounting. I
14 held this position until July 2000 when I was promoted to my current position, Controller
15 and Assistant Treasurer. In this position I function as the Chief Accounting Officer of
16 the Company with responsibility for generation and maintenance of the official books
17 and records of the Company.

1 Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS
2 PROCEEDING?

3 A. My testimony will address the level of pension expense and post retirement
4 benefits expense (OPEB) included in cost of service for the Empire District Electric Co.
5 (Company) in this case.

6 Q. WHAT ITEM ARE YOU SPONSORING ?

7 A. I am sponsoring line item 29, Section J, Schedule 2, page 2, Explanation of Adjustments
8 to Test-Year Revenues & Expenses, Adjustments to reflect amortization of FAS 106
9 and 87 gain/loss.

10 Q. PLEASE PROVIDE A BRIEF EXPLANATION OF FAS 106.

11 A. FAS 106, Employers' Accounting for Postretirement Benefits Other Than Pensions,
12 provides the accrual accounting method used in determining the annual expense and
13 liability for retiree health and life insurance benefits. FAS 106 was adopted by the
14 Company in 1993.

15 Q. WHAT ADJUSTMENT DOES THE COMPANY PROPOSE FOR FAS 106 COSTS?

16 A. The Company proposes an increase in the annual expense accrual of \$304,420, total
17 company, over the test year amount. This increase is based on the Company's most
18 recent actuarial valuation of its FAS 106 obligation.

19 Q. BRIEFLY DESCRIBE THE METHOD IN WHICH THE ACCRUAL AMOUNT
20 WAS CALCULATED.

21 A. The Company health care actuary, Defrain-Mayer LLC, prepares a valuation based on
22 data provided by the Company. The valuation is prepared in accordance with generally

1 accepted actuarial principles and practices. The valuation uses actuarial assumptions
2 such as employee mortality, employee turnover and retirement age. It makes financial
3 and accounting assumptions as to income earned on plan assets, future salary increases,
4 time value of money and amortization period for gains and losses. The result of these
5 calculations is the Net Periodic Postretirement Benefit Cost (NPPBC). From the total
6 NPPBC cost, amounts related to construction, non-utility operations and water utility etc.
7 are subtracted out resulting in the amount applicable to electric operations and
8 maintenance expense.

9 Q. WHAT PERIOD OF TIME WAS USED TO AMORTIZE UNRECOGNIZED
10 GAINS AND LOSSES IN THE ACTUARIAL REPORT ?

11 A. Actuarial gains and losses are a measure of the difference between actual experience and
12 that expected based upon the actuarial assumptions between two measurement dates. The
13 gain in this report was amortized over 5 years. This treatment is consistent with the
14 recommendations of Commission staff witness Steve M. Traxler in Empire rate case, No.
15 ER-95-279.

16 Q. WHAT IS THE REASON FOR THE INCREASE IN THE FAS 106 AMOUNT?

17 A. The increase is primarily due to the rising trend in health care costs particularly the
18 cost of prescription drugs.

19 Q. PLEASE PROVIDE A BRIEF DESCRIPTION OF FAS 87.

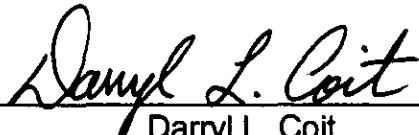
20 A. FAS 87, Employers' Accounting for Pensions, provides the accrual accounting method
21 used in determining the annual expense and liability for providing pensions.
22
23

- 1 Q. WHAT ADJUSTMENT DOES THE COMPANY PROPOSE FOR FAS 87?
- 2 A. The Company proposes a decrease in the annual expense accrual of \$587,364, total
3 company, compared to the test year amount. This decrease is based on the Company's
4 most recent actuarial valuation of its FAS 87 obligation.
- 5 Q. BRIEFLY DESCRIBE THE METHOD IN WHICH THE ACCRUAL AMOUNT WAS
6 CALCULATED.
- 7 A.. The Company pension actuary, Watson Wyatt & Company, prepares a valuation based on
8 data provided by the Company. The valuation is prepared in accordance with generally
9 accepted actuarial principles and practices. The valuation process uses similar actuarial
10 assumptions to the ones used for the FAS 106 valuation. The result of this valuation is
11 the Total Amortization of Unrecognized Net Gain/Loss. The total value is distributed
12 between construction, water and non-utility plant. As with FAS 106 the total gain or loss
13 is amortized over 5 years as a result of case ER 95-279.
- 14 Q. WHAT IS THE REASON FOR THE CHANGE TO THE ACCRUAL AMOUNT?
- 15 A. The amount changed due to the normal changes in the employee mix and investment
16 market conditions.
- 17 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY AT THIS TIME?
- 18 A. Yes.

AFFIDAVIT

STATE OF MISSOURI)
) ss
COUNTY OF JASPER)

On the 27th day of October, 2000, before me appeared Darryl L. Coit, to me personally known, who, being by me first duly sworn, states that he is the Controller and Assistant Treasurer of The Empire District Electric Company and acknowledged that he has read the above and foregoing document and believes that the statements therein are true and correct to the best of his information, knowledge and belief.


Darryl L. Coit

Subscribed and sworn to before me this 27th day of October, 2000.


Donna M. Longan, Notary Public

My commission expires: January 24, 2004.

