Exhibit No.:
Issues: Pension and OPEB Expense
Witness: Laurie A. Delano
Type of Exhibit: Direct Testimony
Sponsoring Party: Empire District Electric
Docket No.:
Date Testimony Prepared: October 2009

Before the Kansas Corporation Commission

Direct Testimony

of

Laurie A. Delano

October 2009

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DIRECT TESTIMONY OF
LAURIE A. DELANO
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
KANSAS CORPORATION COMMISSION
DOCKET NO.

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Laurie A. Delano. My business address is 602 S. Joplin Avenue, Joplin, Missouri 64801.

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

A. I am the Controller, Assistant Secretary, Assistant Treasurer and Chief Accounting Officer of The Empire District Electric Company ("EDE", or "Company").

Q. PLEASE DESCRIBE YOUR EDUCATION AND BACKGROUND.

A. I received a Bachelor of Science in Business Administration degree in accounting from Missouri Southern State University, Joplin, in 1977 and a Masters of Business Administration degree from Missouri State University, Springfield in 1990. I joined EDE in 1979 and served as Director of Internal Auditing from 1983 to 1991. I left EDE in 1991 and was employed as an Accounting Lecturer at Pittsburg State University, and in management positions with TAMKO Building Products and Lozier Corporation before rejoining EDE in December 2002. I am also a Certified Public Accountant (CPA) and a Certified Management Accountant (CMA).

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The first purpose of my testimony, in this case before the Kansas Corporation Commission ("Commission"), is to present the Company's request for the amount of Pension costs to be included in this rate case. Second, I am requesting regulatory treatment for Other Postretirement Welfare ("OPEB") costs. Third, I am requesting the Commission approve language clarifying the regulatory treatment of pension contributions in excess of the actuarially determined costs. And finally, I am requesting clarification for ratemaking purposes of the accounting treatment of any special events under ASC 715-30, formerly Statement of Financial Accounting Standards No. 88 (FAS 88), or ASC 715-60, formerly FAS 106, requiring the recognition of one time charges or credits.

Q. WHAT AMOUNT OF PENSION EXPENSE IS EMPIRE REQUESTING IN THIS CASE?

A. EDE is requesting a negative adjustment of $10,118 resulting in annual Kansas pension expense of $218,718.

Q. WHAT KIND OF REGULATORY TREATMENT IS BEING REQUESTED FOR OPEB EXPENSE?

A. EDE is requesting its OPEB allowance be set equal to its most current annual level of OPEB expense, as calculated under ASC 715-60, formerly FAS 106. EDE is also requesting a tracker mechanism for OPEB expense, where any excess or deficiency of the Company's OPEB rate allowance, compared to its ongoing level of OPEB expense, is treated as a regulatory asset or liability which is then included in EDE's rate base and amortized, as an addition or reduction to OPEB expense, over a five-year period.

Q. HAS THE COMPANY PROVIDED A PROPOSAL FOR THIS REQUEST?

A. Yes. The proposal for the regulatory treatment of OPEB expense is attached in Appendix A.

Q. WHAT AMOUNT OF OPEB EXPENSE IS EMPIRE REQUESTING BE ESTABLISHED AS THE STARTING POINT FOR THE TRACKING MECHANISM?

A. EDE is requesting OPEB expense of $80,602.

Q. WHAT SORT OF CLARIFICATION IS THE COMPANY REQUESTING REGARDING PENSION CONTRIBUTIONS?

A. The Company received regulatory approval for a pension tracking mechanism under Docket 04-EPDE-980-RTS ("980 Docket"). This mechanism was approved in Exhibit A, Section III(B) of the Stipulation and Agreement approved by the Commission in the 980 Docket ("980 S&A"). As noted in this 980 S&A, the procedure was set forth in the pre-filed rebuttal testimony of C.Kenneth Vogl. Mr. Vogl's testimony also discusses the treatment of excess contributions made to the pension trust fund that are higher than the actuarially determined cost. EDE is requesting an update to this language to reflect additional situations that could arise as a result of the enactment of the Pension Protection Act of 2006, as well as provide further clarification regarding the regulatory treatment of such contributions.

Q. WHAT ARE THESE SITUATIONS?

A. The first would be to avoid what is called "at risk" status under PPA. The "at risk" threshold is similar to the benefit restriction threshold, but it is possible to be considered "at risk" without being subject to benefit restrictions. If a plan is "at risk", minimum contribution requirements are greatly accelerated, and both the plan participants and the PBGC must be notified. The Company may desire to make additional contributions to avoid "at risk" status and the accelerated contribution requirements that would result. We are requesting that contributions made to avoid "at risk" status be given the same regulatory treatment as those made to avoid benefit restrictions.

The second situation when it would be advantageous to make additional contributions would be to decrease the variable premiums that could become payable to the PBGC. While the 980 Docket allowed regulatory treatment of contributions made to avoid these premiums, it did not allow for contributions made to reduce the premiums. There could be times when the contributions required to totally avoid the premiums would be excessive, but making additional contributions of a lesser amount would still reduce the premiums. Since it is advantageous for both EDE and ratepayers to reduce the amount of these PBGC variable premiums, we are also requesting contributions made to reduce PBGC variable premiums be provided regulatory treatment.

Q. WOULD MAKING ADDITIONAL CONTRIBUTIONS RESULT IN THE PLAN BEING OVERFUNDED?

A. No. The plan would not have to be funded in excess of 100% in order to avoid benefit restrictions and/or reduce PBGC variable premiums.

Q. IS THE COMPANY OFFERING PROPOSED LANGUAGE FOR THESE CLARIFICATIONS?

A. Yes. The proposal is attached as Appendix B.

Q. WHAT ELSE IS THE COMPANY REQUESTING?

A. The Company is requesting language to ensure the accounting treatment of any special events under ASC 715-30 and ASC 715-60, formerly FAS 88 and FAS 106, respectively, is properly reflected in rates. These special events would require the Company to recognize one time charges or credits.

Q. IS THE COMPANY OFFERING PROPOSED LANGUAGE FOR THIS CLARIFICATION?

A. Yes. The proposal is attached as Appendix C.

Q. ARE THESE PROPOSALS CONSISTENT WITH TREATMENT OF PENSION AND OPEB IN EDE'S MISSOURI JURISDICTION?

A. Yes, EDE is requesting treatment similar to Missouri. Incorporating similar language in both jurisdictions reduces the cost of accounting for these programs, and the percentage allocated to the Kansas jurisdiction is much smaller.

Q. DO YOU HAVE ANY OTHER COMMENTS?

A. Yes. Throughout the testimony there are references to ASC 715-30 and ASC 715-60, formerly FAS 87 and FAS 106, respectively, and other ASC references. In June 2009, the Financial Accounting Standards Board (FASB) issued FAS 168, which established the FASB Accounting Standards Codification (Codification) as the only source of authoritative accounting principles recognized by the FASB. This statement became effective July 1, 2009. It did not change the underlying generally accepted accounting principles, but changed the reference code that supports the principles. Generally accepted accounting principles for pensions and OPEBS, which were formerly FAS 87, 88, 106 and 158 are now referred to as ASC 715-30, ASC 715-30, ASC 715-60, and ASC 715-20, respectively. These standards have been used interchangeably throughout the document. The purpose of this comment is to clarify the reason for the change in reference and to emphasize that this change in accounting standard terminology has no effect on the methodologies established for pension and OPEB reporting that were formerly based on the FASB pronouncements in any prior cases.

Q. DOES THIS CONCLUDE YOUR TESTIMONY AS IT RELATES TO PENSION AND OPEBS?

A. Yes it does.

Appendix A

OPEB Agreement

The intent of this agreement is to:

A. ensure that the amount collected in rates for OPEB cost is based on the actuarially determined cost under ASC 715-60, formerly FAS 106, recognized by the Company for financial reporting purposes, using methodology similar to that used to determine ASC 715-30, formerly FAS 87, pension cost, as described below in item 2; and

B. ensure that all amounts expensed by the Company and contributed by the Company to the VEBA trust are recoverable in rates; and

C. clarify the future treatment of any charges that might otherwise be recorded to equity (e.g., decreases to other comprehensive income) as required by ASC 715-20, formerly FAS 158, or any other FASB codification, statement or procedure relative to the recognition of OPEB costs and /or liabilities.

To accomplish these goals, the following items are included in this agreement:

1. The Company's OPEB cost is currently recognized in rates and for financial reporting purposes.

2. OPEB cost will be calculated based on the following methodology:

   a. A Market Related Value of assets will be used to determine costs, smoothing all asset gains and losses that occur on and after January 1, 2006 over a five-year-period.

   b. Unrecognized gains and losses will be amortized over a 10-year period without respect to the 10% Corridor described in ASC 715-60.

3. In the case that OPEB expense becomes negative, the Company is ordered to set up a regulatory liability to offset the negative expense. In future years, when OPEB

expense becomes positive again, rates will remain zero until the prepaid asset that was created by negative expense is reduced to zero. The regulatory liability will be reduced at the same rate as the prepaid asset. This regulatory liability is a non-cash item and should be excluded from rate base in the future years.

4. A regulatory asset or liability will be established on the Company's books to track the difference between the level of OPEB expense during the rate period and the level of OPEB expense built into rates for that period. If the OPEB expense during the period is more than the expense built into rates for the period, the Company will establish a regulatory asset. If the OPEB expense during the period is less than the expense built into rates for the period, the Company will establish a regulatory liability. If the OPEB expense becomes negative, a regulatory liability equal to the difference between the level of OPEB expense built into rates for that period and $0 will be established. Since this is a cash item, the regulatory asset or liability will be included in rate base and amortized over 5 years at the next rate case.

5. The Company receives reimbursement in rates for its OPEB cost, including the amortization of unrecognized amounts. Therefore, the Company will be directed to set up a regulatory asset/liability to offset any charges/credits that would otherwise be recorded against equity (e.g., decreases/increases to other comprehensive income) caused by applying the provisions of ASC 715-20, formerly FAS 158, or any other FASB codification statement or procedure that requires accounting adjustments due to the funded status or other attributes of the OPEB plan. The regulatory asset/liability should not be amortized into rates because it is expected to be recovered in rates through future years' OPEB expense. The regulatory asset/liability

will increase or decrease each year by the same amount that the equity charge/credit increases or decreases.

6. The regulatory assets / liabilities identified in the agreement will address all Rate Base amounts.

Appendix B

Pension Agreement

The intent of this settlement is to:

A. ensure that the amount collected in rates is based on the ASC 715-30, formerly FAS 87, cost recognized by the Company for financial reporting purposes, using the methodology described below in item 2; and

B. ensure that, once any prepaid pension asset has been collected in rates by the Company, all pension cost collected in rates is contributed to the pension trust; and

C. ensure that any "prior prepaid pension asset" and all amounts contributed by the Company to the pension trust per items 3 and 5 below are recoverable in rates; and

D. ensure that the Company will receive no more or less than the amount in B before the Company is required to fund the plan; and

E. ensure that additional funding required to ensure compliance with minimum funding requirements to avoid benefit restrictions, "at risk" status, or to reduce or avoid PBGC variable premiums under certain provisions of the Pension Protection Act of 2006 are properly reflected in rates.

To accomplish these goals, the following items are agreed upon as part of this settlement:

1. The Company's pension cost will be recognized in rates consistent with the cost recognized for financial reporting purposes.

2. Pension cost will be calculated based on the following methodology:

    a. Market Related Value for asset determination, smoothing all asset gains and losses that occur on and after January 1, 2004 over a five-year period.

    b. Unrecognized gains and losses will be amortized over a 10-year period without respect to the 10% Corridor described in ASC 715-30.

3. Any ASC 715-30, formerly FAS 87, amount (as calculated above) which exceeds the ERISA minimum required contribution will reduce the prior prepaid asset currently recognized in rate base. When the prior prepaid pension asset currently recognized in rate base is reduced to zero, any amount of pension cost (as calculated above) which exceeds the ERISA minimum required contribution must be funded.
4. In the case that pension expense becomes negative, the Company is ordered to set up a regulatory liability to offset the negative expense. In future years, when pension expense becomes positive again, rates will remain zero until the prepaid pension asset that was created by negative expense is reduced to zero. The regulatory liability will be reduced at the same rate as the prepaid pension asset. This regulatory liability is a non-cash item and should be excluded from rate base in future years.
5. The Company will be allowed rate recovery for contributions made to the pension trust in excess of the actuarially determined cost for the following reasons: the minimum required contribution is greater than the pension expense level, avoidance or reduction of PBGC variable premiums, and avoidance of "at risk" status or benefit restrictions under the Pension Protection Act.
    a. Any additional contributions will increase the prepaid pension asset as described in item 3, so no special regulatory asset needs to be established and no special amortization treatment is necessary. Since additional contributions made per the above provision represent pre-funding of future pension expense amounts, the additional prepaid pension asset that results will receive regulatory treatment as described in item 3. That is, such amounts will increase the prepaid pension asset and will delay the requirement to fund

future pension costs until such time that the entire prepaid pension asset has been reduced to zero.

b. If Empire experiences a situation where a contribution equal to the actuarially determined cost is insufficient to comply with minimum funding requirements, to avoid "at risk" status or avoid the benefit restrictions specified in Pension Protection Act of 2006, thereby causing an inability by Empire to pay out pension benefits to recipients or operate its business in its normal and customary manner, Empire will be allowed to make an additional contribution to alleviate these issues. Additional contributions made pursuant to this Paragraph will increase Empire's rate base by increasing the prepaid pension asset and / or reducing the accrued liability, and will receive regulatory treatment since it is a cash item.

6. A regulatory asset or liability will be established on the Company's books to track the difference between the level of ASC 715-30 expense during the rate period and the level of pension expense built into rates for that period. If the ASC 715-30 expense during the period is more than the expense built into rates for the period, the Company will establish a regulatory asset. If the ASC 715-30 expense during the period is less than the expense built into rates for the period, the Company will establish a regulatory liability. If the pension expense becomes negative, a regulatory liability equal to the difference between the level of pension expense built into rates for that period and $0 will be established. Since this is a cash item, the regulatory asset or liability will be included in rate base and amortized over 5 years at the next rate case.

7. The Company receives reimbursement in rates for its actuarially determined pension cost, including the amortization of unrecognized amounts. Therefore, the Company will be directed to set up a regulatory asset/liability to offset any charges/credits that would otherwise be recorded against equity (e.g., decreases/increases to other comprehensive income) caused by applying the provisions of ASC 715-30 and ASC 715-20, formerly FAS 87 and FAS 158, or any other FASB codification, statement or procedure that requires accounting adjustments due to the funded status or other attributes of the pension plan. This regulatory asset/liability should not be amortized into rates because it is expected to be recovered in rates through future years' pension expense. The regulatory asset/liability will increase or decrease each year by the same amount that the equity charge/credit increases or decreases.

Appendix C

Pension and OPEB Special Events

Adjustment to Pension and Other Post-Employment Benefits

These provisions are intended to accomplish the following:

To clarify, for ratemaking purposes, the accounting treatment of any special events under ASC 715-30, formerly Statement of Financial Accounting Standards No. 88 ("FAS 88"), and ASC 715-60, formerly FAS 106, that would require the Company to recognize one time charges (expense) or credits (income) and to ensure that any of these one-time charges or credits be properly reflected in rates.

Treatment of special events for pension and OPEB

If The Empire District Electric Company has a curtailment, settlement, or special termination benefits cost or credit due to requirements of applicable accounting rules according to ASC 715-30 and ASC 715-60, the following procedure will be used to address the cost reimbursement for pension and OPEB costs:

a. If the special event triggers a net charge, then Empire will establish an offsetting regulatory asset. This regulatory asset will not be added to rate base (since it is not a cash item), and it will be amortized over five years beginning when new rates are implemented in Empire's next general electric rate increase or decrease proceeding before the Kansas Corporation Commission. Empire shall make additional contributions to the applicable pension or VEBA trust equal to the amount of the amortization.

b. If the special event triggers a net credit, then Empire shall establish an offsetting regulatory liability. This regulatory liability will not be added to rate base (since it is not a cash item), and it will be amortized over five years beginning when new rates are implemented in Empire's next general electric rate increase or decrease proceeding before the Kansas Corporation Commission. Generally, Empire will contribute to the applicable pension or VEBA trust an amount equivalent to its ASC 715-30 or ASC 715-60 costs for the year less the amortization amount, subject to the following condition:

i. If pension or OPEB cost becomes negative as a result of an ASC 715-30 or ASC 715-60 credit, the Parties agree Empire shall set up an offsetting regulatory liability equal to the difference between $0 and the negative cost. If pension or OPEB cost was negative before the ASC 715-30 or ASC 715-60 credit, the Parties agree Empire shall set up an offsetting regulatory liability equal to the full amount of the ASC 715-30 or ASC 715-60 credit. This regulatory liability is a non-cash item which will not require rate base treatment. When pension or OPEB costs become positive again, the regulatory liability will be amortized, beginning at the time new rates are implemented in Empire's next general electric rate increase or decrease proceeding before the Kansas Corporation Commission, over five years, or longer, if necessary to avoid the net of the ASC 715-30 or ASC 715-60 cost and the offsetting regulatory liability amortization yielding a result which is less than $0 in any year.

AFFIDAVIT OF LAURIE DELANO

STATE OF MISSOURI)
) ss
COUNTY OF JASPER)

On the 29th day of October, 2009, before me appeared Laurie Delano, to me personally known, who, being by me first duly sworn, states that she is the Controller and Assistant Secretary/Treasurer of The Empire District Electric Company and acknowledges that she has read the above and foregoing document and believes that the statements therein are true and correct to the best of her information, knowledge and belief.

Laurie Delano

Laurie Delano

Subscribed and sworn to before me this 29th day of October, 2009.

Vicki L. Kramer-Gibson

Notary Public

My commission expires: 10-30-2010.

VICKI L. KRAMER-GIBSON
Notary Public - Notary Seal
STATE OF MISSOURI
Jasper County - Comm#06482169
My Commission Expires Oct. 30, 2010