

*Exhibit No.:*  
*Issue(s):* Riverton 12 Tracker,  
Non-Labor O & M Expense,  
Software Maintenance,  
Expense, SERP,  
Pensions & OPEB  
*Witness:* Ashley Sarver  
*Sponsoring Party:* MoPSC Staff  
*Type of Exhibit:* Surrebuttal/True-Up  
Testimony  
*Case No.:* ER-2019-0374  
*Date Testimony Prepared:* March 27, 2020

**MISSOURI PUBLIC SERVICE COMMISSION**  
**FINANCIAL AND BUSINESS ANALYSIS DIVISION**  
**AUDITING DEPARTMENT**

**SURREBUTTAL/TRUE-UP TESTIMONY**  
**OF**  
**ASHLEY SARVER**

**THE EMPIRE DISTRICT ELECTRIC COMPANY**

**CASE NO. ER-2019-0374**

*Jefferson City, Missouri*  
*March 2020*

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1                                   **SURREBUTTAL/TRUE-UP TESTIMONY OF**

2                                   **ASHLEY SARVER**

3                                   **THE EMPIRE DISTRICT ELECTRIC COMPANY**

4                                   **CASE NO. ER-2019-0374**

5           Q.     Please state your name and business address.

6           A.     Ashley Sarver, 200 Madison Street, Jefferson City, Missouri 65101.

7           Q.     By whom are you employed?

8           A.     I am employed by the Missouri Public Service Commission (“Commission”) as  
9 a member of the Auditing Staff (“Staff”).

10          Q.     Are you the same Ashley Sarver who contributed to Staff’s Cost of Service  
11 Report filed on January 15, 2020 and Rebuttal Testimony filed on March 3, 2020 in this case?

12          A.     Yes I am.

13                   **EXECUTIVE SUMMARY**

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

15          A.     The purpose of my surrebuttal/true-up testimony is to respond to the Rebuttal  
16 Testimony of Sheri Richard filed on behalf of The Empire District Electric Company, a Liberty  
17 Utilities Company (“Empire” or “Company”), regarding the Riverton 12 Operation and  
18 Maintenance (“O&M”) tracker, non-labor O&M costs for the generating units, and software  
19 maintenance expense. I will also respond to James A. Fallert’s Rebuttal Testimony on behalf  
20 of Empire regarding Other Post Employment Benefits (“OPEBs”) and the Supplemental  
21 Employee Retirement Program (“SERP”). Finally, my testimony will address Staff’s true-up  
22 adjustments to the Riverton 12 O&M tracker balance, pensions, OPEBs and SERP.

**OPEB AND PENSIONS**

Q. Mr. Fallert states that the FAS 87 Missouri Regulatory Asset (Account 926149) for pensions should be directly assigned to Missouri at 100%. Is he correct?

A. Yes. Staff used the Missouri jurisdictional allocation for this account in its direct case; however, Staff has updated this to reflect 100% allocation to Missouri.

Q. Mr. Fallert's rebuttal testimony states on page 3, lines 7 - 11 that "a recent change to the accounting rules requires that non-service pension and OPEB costs that were previously charged to FERC account 926 must now be charged to FERC account 426 instead. Staff's methodology needs to be updated to recognize this change, and Staff needs to include the FERC 426 accounts." Does Staff agree?

A. No. Staff does not typically include "below the line" costs in its rate recommendations. "Below the line" costs refer to certain expenses that are presumptively subject to disallowance from utility rates, such as political lobbying costs. According to the Electric Uniform System of Accounts, account 426 is a "below the line" account.

In addition, Staff's pension expense adjustment incorporates all of the components of financial and regulatory pension expense, including those components Mr. Fallert alleges were booked to account 426, and thus provides Empire the opportunity for full recovery of its pension costs.

Q. Mr. Fallert's rebuttal testimony on page 2, lines 20-22 states "Staff used the acquisition accounting amounts for 2018 rather than regulatory accounting amounts. It appears that there may have been some confusion regarding the appropriate valuation to be used, and this should be corrected by Staff." Is this correct?

1           A.     Staff has requested more information from the Company to support its claims  
2 about this issue by issuing several data requests. After reviewing the data request responses,  
3 Staff may modify its position on this matter at a later time if appropriate.

4           Q.     According to Mr. Fallert's rebuttal testimony on page 2, lines 22-23, "...Staff's  
5 use of 2018 amounts should be updated to 2019." Does Staff agree with Mr. Fallert's statement?

6           A.     In Staff Data Request No. 0087, Staff requested the most recent actuarial report  
7 (FAS 87, 88, 106 and SERP) for all pension and OPEB plans for Empire electric operations;  
8 however, Staff only received from Empire the actuarial valuation for the retirement plan as of  
9 January 1, 2019. Staff had to use the data request response from The Empire District Electric  
10 Company SERP Retirees ("EDES") to obtain the most current actuarial report at the time of  
11 the Direct filing I address Staff's update of pension and OPEB later under the true-up portion  
12 of this testimony.

13          Q.     What actuarial reports did Staff use for FAS 87 and FAS 106 in its direct filing?

14          A.     For FAS 87, Staff used the actuarial valuation as of January 1, 2019 and for  
15 FAS 106 for the fiscal period ending December 31, 2018. As discussed below, Staff used  
16 December 31, 2019 actuarial information for FAS 87 and FAS 106 in its true-up filing.

17           **SERP**

18          Q.     Mr. Fallert states on page 5, lines 22-23 that it would be much more appropriate  
19 to use an allocation percentage directly applicable to SERP for purposes of allocating total  
20 SERP cost to Missouri. Does Staff agree?

21          A.     Staff agrees with Mr. Fallert, and increased its recommended level of SERP  
22 expense by \$254,988.

1 Q. Mr. Fallert states that Staff used a five year average for SERP payments to  
2 determine its proposed rate recovery. Is this correct?

3 A. No. Staff used the update period of the 12 months ending September 30, 2019.

4 Q. At pages 3 and 4 of his rebuttal testimony, Mr. Fallert argues that an accrual or  
5 actuarial calculation should be used to include SERP expenses in rates, not the cash payment  
6 amount recommended by Staff. Does Staff agree?

7 A. No. While regular pension and OPEB expense amounts included in rates are  
8 based on accrual accounting assumptions, these same assumptions form the basis of the  
9 concurrent cash contributions made by Empire and other utilities to external trusts to fund  
10 pensions and OPEBs. In contrast, SERP costs are not pre-funded. Empire's suggested  
11 approach to this matter would require customers to pay in rates estimated amounts for OPEBs  
12 that would not be paid out to eligible Empire retirees for many years.

13 **TRACKER BALANCE**

14 Q. Mr. Fallert had comments regarding the tracker balances included in Staff's  
15 adjustment for account 182359 (Reg. Pension Cost Amortization) and 182358 (MO FAS 106  
16 Reg Asset). Does Staff agree with these changes?

17 A. Yes. Staff inadvertently excluded April 2016 for account 182359. Staff also  
18 inadvertently excluded Account 182358, Staff has now also included this account.

19 **FAS 87 – RATE BASE CORRECTION**

20 Q. Does Staff have corrections to its FAS 87 amortization level?

21 A. Yes, after reviewing its workpapers for pension and OPEB, Staff noticed that  
22 they did not properly account for the FAS 87 general ledger accounts as of September 30, 2019.  
23 The following chart provides detail on the correction:

General Ledger as of 9/30/2019	Acct No.	Direct Testimony	Correction
Reg Pension Costs Amortization	701-182359	\$171,817	\$894,411
MO FAS 87 Pension RegLiab	701-254101	-\$1,569,840	-\$639,992
MO Pension - FAS87 Expense	701-182353	\$1,855,037	-\$1,398,023
<i>Total for FAS 87</i>		\$457,014	-\$1,143,604
<i>Rate Base For Pension</i>		-\$182,978	-\$1,143,604

**RIVERTON 12 O&M TRACKER**

Q. Did Empire witness Richard propose to continue the Company's current Riverton 12 O&M tracker in this case?

A. Yes. In her rebuttal testimony at page 5, lines 12 to 14 Ms. Richard states, "Due to the continued uncertainty of operations and the potential for significant variations in the EOH [equivalent operating hours] charges, the extension of the tracker should be granted in order to continue to protect customers by smoothing the LTSA [Riverton 12 long term maintenance agreement] costs."

Q. Does Staff agree that its approach to Riverton 12 O&M expense reflects "uncertainty of operations and the potential for significant variations?"

A. No. Staff has included a reasonable level of ongoing expense based on three years' of actual historical data for the Riverton 12 generating facility. The O&M costs have not shown a significant upward or downward trend in the last three years. There is enough cost information available at this time to determine a reasonable level of ongoing normalized expense without the need for tracker mechanisms.

Q. Did Staff record a regulatory asset or liability for the Riverton 12 O&M tracker in this case?

A. For this case, the Staff reflected a regulatory asset for the Riverton 12 O&M tracker in the amount of \$13,033,719 as of September 30, 2019. This amount represents the

unamortized unrecovered balance from Empire's previous rate cases (Case No. ER-2016-0023 and ER-2014-0351).

**NON-LABOR OPERATIONS AND MAINTENANCE EXPENSE**

Q. On Sheri Richard's rebuttal testimony page 18, lines 8 through 11 she states "As explained above, Staff used varying number of years to average the O&M expenses based on each plant's major overhaul schedule; however, the maintenance schedules stated by Staff are not accurate for many of the plants, and are therefore unreasonable to use to average the O&M costs." Does Staff agree?

A. Staff did record Empire's plant major overhaul schedule incorrectly. However, Staff also reviewed the maintenance accounts and analyzed each plant separately to determine the trend, so mistakenly recording the major overhaul schedule did not affect the final analysis or recommendation.

Q. For which plants did Staff use a five year average for O&M expense?

A. Staff used a five year average for Asbury, State Line Combined Cycle, State Line Common, State Line 1, and Energy Center and Ozark Beach:

	12 Months Ending 3/31/2015	12 Months Ending 3/31/2016	12 Months Ending 3/31/2017	12 Months Ending 3/31/2018	12 Months Ending 3/31/2019
Asbury O&M	\$4,799,085	\$5,163,385	\$6,009,657	\$5,740,420	\$5,357,796
Energy Center O&M	\$2,242,303	\$1,242,692	\$1,835,896	\$1,946,110	\$2,633,946
Iatan Common O&M	\$1,410,163	\$1,797,739	\$1,559,601	\$2,326,892	\$1,383,174
Iatan 2 O&M	\$1,343,178	\$1,174,506	\$2,029,821	\$1,612,614	\$1,500,657
Ozark Beach O&M	\$238,201	\$314,540	\$263,660	\$284,963	\$436,033
Plum Point O&M	\$1,524,615	\$2,026,612	\$1,950,539	\$2,171,696	\$1,503,360
State Line Combined Cycle (Dept 185) O&M	\$6,941,340	\$11,151,926	\$9,649,435	\$10,407,004	\$10,866,416
State Line Combined Cycle Common Facilities (Dept 195) O&M	\$983,145	\$928,062	\$727,801	\$879,129	\$1,216,797
State Line Unit 1 O&M	\$269,827	\$104,273	-\$189,868	\$1,750,222	\$141,264



Q. For which plants did Staff not use a five year average?

A. Staff used a six year average for Iatan 1 and three year for Riverton. For the Iatan 1 the cycle basis for major inspections is 6 years. Staff used a three year average for Riverton 12 since it was converted to a combined cycle unit on May 1, 2016. Therefore, there are over three years of actual cost information for non-labor O&M costs as of the end of the test year period for this proceeding:

	12 Months Ending 3/31/2014	12 Months Ending 3/31/2015	12 Months Ending 3/31/2016	12 Months Ending 3/31/2017	12 Months Ending 3/31/2018	12 Months Ending 3/31/2019
Iatan 1 O&M	\$881,884	\$703,167	\$1,276,551	\$893,065	\$1,570,891	\$1,067,432

	12 Months Ending 3/31/2017	12 Months Ending 3/31/2018	12 Months Ending 3/31/2019
Riverton 12 O&M	\$8,001,539	\$7,564,982	\$8,834,354

Q. On page 18, lines 13-14 Ms. Richard states in her rebuttal testimony that Staff did not propose any adjustments to account for the impact of inflation on any of the plants' O&M costs. How do you respond?

A. It is not appropriate to adjust actual utility expenses for ratemaking purposes based on overall economic indexes that are not Company or utility-specific. Staff believes general economic indicators are not specific to Empire's O&M expenses as these indicators are more reflective of the economic conditions in the United States as a whole, i.e., not Company-specific.

1 Q. In Ms. Richard's rebuttal testimony, page 19, lines 5-11 she states that:

2 Although Staff was correct in saying that Liberty-Empire jointly owns  
3 the plant with Westar, 60% of SLCC and 66.7% of State Line Common,  
4 this is not how Liberty-Empire's portion of the maintenance costs are  
5 calculated. While Liberty-Empire's portion of operation costs are based  
6 solely on ownership percentages, Liberty-Empire's portion of  
7 maintenance costs are weighted; 75% of the costs are based on  
8 ownership percentage while 25% are based on the net generation ratio.

9 Does Staff agree?

10 A. Staff reviewed the maintenance net generation ratio calculation in question and  
11 agrees with the Company. However, the numerical difference between the Staff's approach in  
12 direct and Empire's suggested approach is minor. For State Line Combined Cycle ("SLCC")  
13 the five year average expense is \$4,926,846 and utilizing the net generation ratio the total  
14 maintenance five year average is \$4,917,179. For the State Line Common the five year average  
15 expense was \$214,214 then using the net generation ratio the total maintenance five year  
16 average is \$208,656.

17 Q. In Ms. Richard's rebuttal testimony, page 19, line 24 through page 20, line 4  
18 she states that:

19 . . . the Company has not had this contract with Siemens since the early  
20 2000s. The current contract with Siemens is not based on operating  
21 hours, but includes purchase prices for parts and repair services, with an  
22 inflation index included in the contract. As such, Staff's adjustment is  
23 inappropriate, and the test year balances for State Line 1 O&M expenses  
24 should be used in the cost of service.

25 Does Staff agree?

26 A. No. Staff reviewed five years of data for State Line 1 maintenance expense and  
27 there is no apparent trend. For that reason, Staff determined a five-year average is appropriate  
28 for the normalized level.

**SOFTWARE MAINTENANCE EXPENSE**

Q. Ms. Richard's rebuttal testimony, page 36, lines 21 - 22 states that "It appears Staff inadvertently excluded vendor costs for a vendor that started in 2019 that is indirectly allocated to Liberty-Empire." Does Staff agree?

A. Yes. Staff has now updated the normalized level to include the excluded vendor. Staff normalized expense level for software maintenance costs was (\$826,466) and after correcting for the one vendor it is now (\$836,858).

Q. Ms. Richard's rebuttal testimony, page 36, line 23 through page 37, line 1 states that "Staff should also update in January to include a vendor that had costs that started in October 2019." Does Staff agree?

A. No. Staff used the expense based on the update period ending September 30, 2019. This expense item will not be trued-up in this case.

**TRUE-UP TESTIMONY**

**RIVERTON 12 O&M TRACKER BALANCE**

Q. Has Staff updated the Riverton 12 O&M tracker balance (regulatory asset) as part of its true-up filing?

A. Yes. Staff updated the rate base and expense accounts from its direct testimony with amounts through January 31, 2020.

**PENSION AND OPEB**

Q. Has Staff updated pensions and OPEBs as part of its true-up filing?

A. Yes. Staff updated the pension and OPEB from its direct testimony with the most current actuarial report data. In Staff's Data Request No. 0087, Empire provided a

1 supplemental response for the most recent actuarial report for all pensions and OPEB plans. For  
2 OPEBs and pensions, Staff used December 31, 2019 values for inclusion in the true-up.

3 **SERP**

4 Q. Has Staff updated SERP as part of its true-up filing?

5 A. Yes. Staff has updated the SERP expense from its Cost of Service Report with  
6 actual amounts through January 31, 2020.

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

8 A. Yes, it does.

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

In the Matter of The Empire District Electric	)	
Company's Request for Authority to File	)	Case No. ER-2019-0374
Tariffs Increasing Rates for Electric Service	)	
Provided to Customers in its Missouri	)	
Service Area	)	

AFFIDAVIT OF ASHLEY SARVER

STATE OF MISSOURI	)	
	)	ss.
COUNTY OF COLE	)	

COMES NOW ASHLEY SARVER and on their oath declares that they are of sound mind and lawful age; that they contributed to the foregoing Surrebuttal/True-Up Direct Testimony; and that the same is true and correct according to their best knowledge and belief, under penalty of perjury.

Further the Affiant sayeth not.

/s/ Ashley Sarver  
ASHLEY SARVER