

Exhibit No.:
Issue:
Witness:
Type of Exhibit:
Sponsoring Party:
Case No.:

Accounting Schedules
Mark D. Waltermire
Direct Testimony
Laclede Gas Company
GR-92-165

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Missouri Public
Service Commission

LACLEDE GAS COMPANY

GR-92-165

DIRECT TESTIMONY

OF

MARK D. WALTERMIRE

~~STAFF~~ Exhibit No. 278
Date 2-14-17 Reporter KF
File No. GR-2017-0215
GR-2017-0216

Exhibit No. 31
Date 8/13/92 Case No. GR 92-165
Reporter GM

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Date 8/13/92 Case No. GR-92-165
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TESTIMONY OF MARK D. WALTERMIRE

- 1 Q. Please state your name and address.
- 2 A. My name is Mark D. Waltermire and I reside at 806 Maple in
3 Collinsville, Illinois.
- 4 Q. What is your present position?
- 5 A. I am Manager, Rate and Financial Planning of Laoclede Gas
6 Company.
- 7 Q. Please tell me how long you have held your position and
8 briefly describe your responsibilities.
- 9 A. I was appointed to my present position in February, 1992.
10 In this position, I am responsible for the financial
11 aspects of rate matters generally, including financial
12 analysis and planning. I am also responsible for the
13 preparation of various financial forecasts and monitoring
14 regulatory trends and developments.
- 15 Q. What is your educational background?
- 16 A. I graduated in 1980 from the University of Illinois at
17 Urbana - Champaign with a Bachelor of Science Degree in
18 Accounting.
- 19 Q. Have you passed the Uniform CPA exam?
- 20 A. Yes, I passed the Uniform CPA exam in 1980 and hold
21 Certificate Number 27,944 in the State of Illinois.
- 22 Q. Will you briefly describe your experience with the Company
23 prior to becoming Manager, Rate and Financial Planning?

1 A. I joined Laclede in February, 1990 as Assistant to the
2 Manager of Budget and Financial Planning. In June, 1990 I
3 was transferred to the position of Staff Assistant to the
4 Vice President - Finance. I held this position until
5 being promoted to Manager, Rate and Financial Planning.
6 Q. Please describe your work experience prior to joining
7 Laclede Gas Company.
8 A. From June, 1980 through May, 1983, I worked in the
9 St. Louis office of Deloitte, Haskins & Sells (currently
10 known as Deloitte & Touche) where I attained the position
11 of Senior Accountant. I was employed from May, 1983 -
12 March, 1986 by St. Joe Minerals Corporation where I
13 progressed to the position of Division Controller of
14 St. Joe Resources Company - National Zinc Division. From
15 March, 1986 through December, 1989, I was employed by
16 Newhard, Cook & Co. Incorporated where I progressed to the
17 position of Vice President and Treasurer.
18 Q. Are you a member of any professional societies?
19 A. Yes, I am a member of the American Institute of Certified
20 Public Accountants and the Missouri Society of Certified
21 Public Accountants.
22 Q. Have you previously filed testimony before this
23 Commission?
24 A. No, I have not.
25 Q. What is the purpose of your testimony?
26 A. I am sponsoring income statement adjustments for various
27 expense categories including pension expense. I will also

1 present Laolede's requests and evidence in support thereof
2 for Commission Orders which will permit the Company to
3 adjust its financial statements to reflect: (1) the use
4 of a contribution basis of accounting for determining the
5 appropriate level of pension expense to be reflected in
6 rates and (2) the continued use of the Company's current
7 basis of accounting for recovering the cost of
8 Post-Retirement Benefits Other than Pensions in rates
9 after the effective date of Statement of Financial Ac-
10 counting Standards No. 106.

11 Q. Please list the schedules you are sponsoring.

12 A. As stated above, I am sponsoring several adjustments to
13 utility operating income listed on Schedule 2 to Section
14 J, TEST YEAR UTILITY OPERATING INCOME AND ADJUSTMENTS. I
15 am also sponsoring Schedules 14, 15, and 19 which were
16 prepared by me or under my supervision and which provide
17 supporting detail for certain of my adjustments to test
18 year utility operating income. These adjustments are
19 described, in detail, below.

20 Adjustments to Utility Operating Income

21 Lock Box Expense

22 Q. Please discuss the adjustment to lock box expense which
23 you are sponsoring on Schedule 2 of Section J.

24 A. Adjustment 4.b., detailed on Schedule 14, increases
25 February 29, 1992 test year lock box expense for the
26 impact of new fee levels which took effect on November 1,
27 1991. Laolede's current contract with Commerce Bank of

1 St. Louis, N.A. dictates that lock box processing fees are
2 subject to annual adjustment on November 1 of each year.
3 This fee increase is based on the annual percentage
4 increase in the September St. Louis Consumer Price Index
5 for all Urban Consumers.

6 New Customer Safety Information

7 Q. Please describe the next adjustment you are sponsoring.
8 A. Adjustment 4.c., detailed on Schedule 14 of Section J,
9 includes the cost of postage and paper stock associated
10 with mailing safety information to new customers. The
11 Company is required to provide this information to new
12 customers as mandated by the Commission. During the test
13 year Laclede met this requirement by an information
14 mailing to new customers with their first bill. However,
15 as a result of recent discussions with the Staff of the
16 Commission, the Company will accelerate the time frames
17 within which this information will be provided to new
18 customers. This adjustment reflects the incremental costs
19 associated with this change.

20 Costs Related to Customer Growth

21 Q. Please explain your next adjustment for costs associated
22 with customer growth.
23 A. Adjustment 4.d., detailed on Schedule 14 of Section J,
24 adjusts customer accounts expense for increased postage
25 and card stock expenses directly related to the growth in
26 customer levels discussed in Company witness
27 J. A. Fallert's testimony.

1 Pension Expense

2 Q. What is your next adjustment?

3 A. Adjustment 5.a., detailed on Schedule 15 of Section J,
4 adjusts the combined cost of all Company pension and
5 retirement income plans, (hereafter referred to collec-
6 tively as "pension" or "pensions") to a contribution (or
7 cash payment) level.

8 Q. What is the basis of this adjustment?

9 A. The basis of this adjustment is to record and include in
10 the Company's cost of service annualized pension cost of
11 \$1.9 million to be paid by Laclede to fund pensions for
12 the plan year ending September 30, 1992.

13 Q. Does the Company currently employ a contribution basis to
14 determine the level of pension costs for financial report-
15 ing purposes?

16 A. No, for financial reporting purposes, the Company records
17 its pension cost on an accrual basis in accordance with
18 Generally Accepted Accounting Principles (GAAP).

19 Q. Why has Laclede proposed using annualized contribution
20 levels as the appropriate basis for establishing rates?

21 A. The Company has proposed using annualized contribution
22 levels as the appropriate basis for establishing rates
23 because it provides a less volatile, more stable determi-
24 nation of overall pension costs from year to year. Since
25 stability in rates is an important objective in
26 ratemaking, the contribution method would be a more
27 appropriate basis to use in new rates.

1 Q. Why will pension costs determined on a contribution basis
2 be less volatile and more stable than the method used by
3 Laclede for financial reporting purposes?
4 A. Under the contribution method proposed by Laclede, the
5 ERISA minimum and IRS maximum contribution limits impose a
6 floor and a ceiling on the levels of contributions which
7 may be made to the Company's funded pension plans. ERISA
8 minimum and IRS maximum contribution limits are each based
9 on long-term interest rate assumptions which are not
10 generally expected to change from year to year. As a
11 result, the amount of annual pension expense is less
12 likely to fluctuate from year to year.

13 On the other hand, pension costs determined on the
14 basis used for financial reporting can and have fallen
15 below and exceeded these limits, thus creating volatility
16 in determining an annual pension expense. Under the
17 method used for financial reporting purposes, interest
18 rate assumptions are expected to be reviewed in relation
19 to various interest rate benchmarks and, if necessary, to
20 be adjusted annually. As these interest assumptions
21 change from year to year, so does the level of pension
22 expense booked by a company, thus introducing volatility.

23 In addition to fluctuations in accrued pension cost
24 due to changes in interest rate assumptions, volatility
25 may also result when, under certain circumstances, the
26 Company is required by GAAP to accelerate the recognition
27 of certain pension debits or credits in its income

1 statement. Due to the nature of the circumstances which
2 lead to the recognition of these items, the Company is
3 unable to forecast with any certainty their possible
4 occurrence and amount. As a result, significant fluctua-
5 tions in pension cost can occur during a year if circum-
6 stances arise which cause the Company to record these
7 pension debits or credits immediately, rather than in the
8 future as would otherwise occur.

9 Q. How was the level of pension cost proposed by Laclede in
10 this case determined?

11 A. The contribution basis proposed by Laclede incorporates
12 contribution levels recommended by our actuary. Their
13 recommendation was designed to avoid year to year fluctua-
14 tions in the Company's required contributions to its
15 funded pension plans. The Company has also included
16 annualized levels of payments which will be made pursuant
17 to the provisions of its unfunded pension plans for the
18 pension plan year ending September 30, 1992.

19 Q. Is there another reason why the Company has proposed using
20 contribution levels of pension cost for ratemaking?

21 A. Yes. Laclede believes its use of contribution levels for
22 determining allowable pension expense in its cost of
23 service is consistent with the ratemaking methodology
24 cited in the Commission's Report and Order in Kansas Power
25 and Light Company's (KPL) Rate Case No. GR-91-291. In
26 that case, the Commission ruled in favor of KPL and
27 included contributions to their pension plan in cost of

1 service. The Commission's decision was based on its
2 finding that KPL had been advised to make contributions to
3 its plan by "an expert in the management of pension plans
4 whose recommendation was designed to avoid wide swings in
5 the yearly contribution to the plan." This same situation
6 is applicable to Laclede in this case.

7 Q. Will the Company's financial statements be affected if
8 pension costs to be recovered in rates are determined on a
9 contribution basis without also changing its book method?

10 A. Yes. The amount of pension expense (determined on a
11 financial reporting basis) reported in the Company's
12 financial statements will be different from the amount of
13 pension expense (determined on a contribution basis)
14 allowed to be recovered in revenue. The difference in
15 pension expense determined under each methodology is
16 basically a timing difference which would result in a
17 distortion to the Company's financial statements since the
18 expense and revenue recovery of such costs will not occur
19 in the same reporting periods.

20 Q. Is there a way to mitigate the effect of this timing
21 difference in the Company's financial statements?

22 A. Yes. Under Statement of Financial Accounting Standards
23 No. 71 (FAS 71), "Accounting for the Effects of Certain
24 Types of Regulation," Laclede may, under certain condi-
25 tions, record a Regulatory Asset or Liability in its
26 balance sheet for the amount of the difference between
27 GAAP and ratemaking methods of determining costs. Future

1 years' differences between accrued pension cost and actual
2 contributions made to the Company's pension plan will
3 likewise be reflected in Laclede's income statement, and
4 will act to increase or decrease the balance in a Regula-
5 tory Asset or Liability account. In essence then, FAS 71
6 enables Laclede to reflect revenues and expenses in its
7 financial statements on the same basis as that used for
8 ratemaking purposes.

9 Q. What actions of the Commission would allow the Company to
10 implement the provisions of FAS 71?

11 A. Laclede could implement the provisions of FAS 71 if the
12 Commission would issue an order authorizing Laclede to
13 create a Regulatory Asset or Liability which would reflect
14 the difference between the contribution level and the
15 financial reporting level of pension cost. The order
16 would state that for both current and future rate proceed-
17 ings, the contribution basis of determining pension cost
18 was the most appropriate method to use for establishing
19 rates. Further, if at some later date, the Commission
20 determines that a method other than the contribution basis
21 is more appropriate for determining pension cost, any
22 deferred amounts remaining in the Regulatory Asset or
23 Liability account at that time would be subject to recov-
24 ery from or reversion to ratepayers in the future.

25 Q. Is Laclede requesting that the Commission issue such an
26 order in this proceeding?

1 A. Yes, Laclade is hereby requesting that such an order be
2 issued by the Commission in this proceeding.

3 Trustee Fees and Administration Expense

4 Q. Please continue your explanation of the adjustments you
5 are sponsoring.

6 A. Adjustment 5.b., detailed on Schedule 15 of Section J,
7 reflects increased trustee fees based on the increased
8 value of projected pension plan assets managed by the
9 trustees at August 31, 1992. In addition, Company contri-
10 butions to 401(k) Wage and Salary Deferral Savings Plans
11 have been normalized to reflect (1) increased Company
12 matching contribution levels effective May 1, 1992 and (2)
13 adjusted wage and salary levels.

14 Rate Case Expense

15 Q. Please explain your Adjustment 5.h. to rate case expense.

16 A. This adjustment is necessary to increase February 29, 1992
17 test year expense to reflect the anticipated level of
18 out-of-pocket costs to be incurred by Laclade in connec-
19 tion with this proceeding.

20 Materials and Supplies Expense

21 Q. Please explain your next Adjustment.

22 A. Adjustment 7.b., Schedule 19, reflects the expected
23 increases in prices of materials and supplies (issued from
24 stock) charged to operation and maintenance to August 31,
25 1992 levels. This adjustment is designed to allow in
26 rates sufficient expense to cover price changes for the

1 wide variety of materials and supplies the Company uses
2 for operation and maintenance.

3 Other Post-Retirement Benefits

4 Q. Please briefly describe Statement of Financial Accounting
5 Standards No. 106 (FAS 106), "Employers' Accounting for
6 Post-Retirement Benefits Other Than Pensions."

7 A. FAS 106 was issued by the Financial Accounting Standards
8 Board (FASB) in December, 1990. It is considered GAAP for
9 financial reporting purposes and companies, such as
10 Laclede, are required to adopt its provisions for fiscal
11 years beginning after December 15, 1992.

12 FAS 106 prescribes a method which requires companies
13 to accrue a liability for the cost of Post-Retirement
14 Benefits Other than Pensions (PBOPs) currently being
15 earned by employees, but which are not expected to be paid
16 until sometime in the future. PBOPs include, but are not
17 limited to, benefits such as retiree medical and life
18 insurance programs.

19 Most companies currently report PBOP costs on a
20 pay-as-you-go basis. It is expected that the movement to
21 an accrual basis under FAS 106 will result in expenses
22 which will be significantly larger than the pay-as-you-go
23 expenses currently being recorded for financial reporting
24 purposes.

25 Q. When will Laclede be required to adopt the provisions of
26 FAS 106 for financial reporting purposes?

1 A. The Company will be required to adopt FAS 106 for its
2 fiscal year beginning October 1, 1993 (fiscal 1994).

3 Q. Is Laclede currently planning to adopt the provisions of
4 FAS 106 prior to October 1, 1993.

5 A. No, it is not.

6 Q. Has Laclede made a determination of its expected FAS 106
7 cost for fiscal 1994?

8 A. The Company is still in the process of analyzing the
9 requirements of FAS 106 and has not yet commissioned its
10 outside actuary to make the calculations necessary to
11 project its FAS 106 cost for fiscal 1994. However, the
12 Company expects that its FAS 106 costs will result in a
13 higher level of expense than that currently reported in
14 its financial statements.

15 Q. On what basis has Laclede sought recovery of its PBOP
16 costs in this filing?

17 A. At this time, the Company believes that the continuation
18 of its current practice of recording PBOP costs is more
19 appropriate for ratemaking purposes than requesting
20 recovery of such costs on a FAS 106 basis. The Company's
21 position is based on the facts that (1) it is not planning
22 to adopt the provisions of FAS 106 prior to fiscal 1994,
23 and (2) the current method of recording PBOP costs has
24 been used, and accepted by Staff, in previous rate
25 filings.

26 Laclede does, however, reserve the right to change
27 its position on this subject at some future date. If it

1 does, any such change would be subject to review by the
2 Commission.

3 Q. To your knowledge, has the Commission indicated how it
4 will treat FAS 106 costs for ratemaking purposes?

5 A. To my knowledge, the Commission has not, as yet, specifi-
6 cally addressed this issue.

7 Q. Will there be an effect on the Company's financial state-
8 ments if the Commission determines subsequent to Laclade's
9 adoption of FAS 106 that it is not the appropriate basis
10 for determining ratemaking PBOP costs, or the Company is
11 required to adopt FAS 106 prior to its next general rate
12 filing?

13 A. Yes.

14 Q. What will be the initial effect of these actions on
15 Laclade's financial statements?

16 A. As mentioned previously, the Company expects its FAS 106
17 PBOP costs to be higher than those currently proposed for
18 recovery in rates. As a result, the impact on the Compa-
19 ny's income statement will be that FAS 106 expense will be
20 greater than the level of PBOP costs being recovered in
21 revenues. This mismatch of revenue and expense levels
22 will result in the Company earning less than its author-
23 ized rate of return unless FAS 106 costs are recognized
24 for ratemaking purposes.

25 Q. Is there a way to avoid this revenue shortfall and to
26 prevent this difference from impacting the Company's
27 financial statements?

- 1 A. Yes. The Company is hereby requesting that the Commission
2 issue an order, similar to that requested in my pension
3 testimony, stating the Commission's finding that the
4 Company's current accounting procedures for recording PBOP
5 cost is the appropriate method to use for ratemaking
6 purposes, and, concurrent with the Company's required
7 adoption of FAS 106, Laclède is authorized to defer the
8 difference between ratemaking and FAS 106 PBOP expense
9 levels in a Regulatory Asset account. Further, if at some
10 future date the Commission determines that some other
11 method of determining PBOP cost is more appropriate for
12 ratemaking purposes, the Commission's order should provide
13 that any deferred amounts remaining in the Regulatory
14 Asset account at that time would be subject to recovery
15 from ratepayers. Such an order would allow the Company to
16 implement regulatory accounting under FAS 71 and adjust
17 its financial statements to properly reflect the impact of
18 recovering PBOP costs in rates at levels other than that
19 required by FAS 106.
- 20 Q. Does Laclède know of any other State Commissions that have
21 granted similar orders pertaining to FAS 106 such as the
22 one requested above?
- 23 A. Yes. Such an order was granted by the Georgia Public
24 Service Commission to Georgia Power Company in Docket
25 No. 4007-U.
- 26 Q. Does this conclude your testimony?
- 27 A. Yes, it does.

The following information is provided for your reference:
 1. The total number of units is 100.
 2. The number of units sold is 75.
 3. The number of units remaining is 25.
 4. The number of units returned is 0.