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Missouri Gas Energy (MGE)  
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GR-2017-0216  
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LACLEDE GAS COMPANY  
MISSOURI GAS ENERGY

GR-2017-0215  
GR-2017-0216

REBUTTAL TESTIMONY

OF

JAMES A. FALLERT

OCTOBER 2017

*Spire* Exhibit No. 44  
Date 12-14-17 Reporter JF  
File No. GR-2017-0215  
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**REBUTTAL TESTIMONY OF JAMES A. FALLERT**

1 **Q. PLEASE STATE YOUR NAME, BUSINESS AFFILIATION AND BUSINESS**  
2 **ADDRESS.**

3 A. My name is James A. Fallert. I am doing business as James Fallert Consultant LLC and  
4 my business address is 3507 Burgundy Way Dr., St. Louis, Missouri 63129.

5 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL**  
6 **EXPERIENCE.**

7 A. I graduated from Southeast Missouri State University in 1976 with a bachelor's degree in  
8 Business Administration, majoring in administrative management. I received a Master's  
9 in Business Administration in 1981 from Saint Louis University, with a major in Finance.

10 I was employed by Laclede Gas Company from 1976 until February 2012, when I  
11 retired as Controller of the Company. In this position, I was responsible for the  
12 Company's GAAP accounting (including pension accounting), budgeting, management  
13 information reporting, and financial planning functions. Subsequent to my retirement  
14 from Laclede, I have provided consulting services regarding regulatory matters.

15 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE MISSOURI PUBLIC**  
16 **SERVICE COMMISSION ("COMMISSION")?**

17 A. Yes. I have provided testimony in numerous cases before the Commission during my  
18 employment at Laclede Gas. These include Case Nos. GR-90-120, GR-92-165, GR-94-  
19 220, GR-96-193, GR-98-374, GR-99-315, GR-2001-629, GR-2002-356, GT-2003-0117,  
20 GO-2004-0443, GR-2005-0284, GC-2006-0318, GR-2007-0208, GU-2007-0138, and  
21 GR-2010-0171. I also provided testimony as a consultant for Liberty Utilities (MidStates  
22 Natural Gas) Corp. in Case No. GR-2014-0152.

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**I. PURPOSE OF TESTIMONY**

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**Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

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**A.** The purpose of my testimony is to present evidence to the Commission responding to Staff's adjustment reducing Laclede Gas Company's prepaid pension asset.

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**II. NOMENCLATURE**

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**Q. PLEASE DEFINE THE TERMS YOU WILL USE IN THIS TESTIMONY.**

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**A.** Throughout this testimony, I will refer to FAS 87 and FAS 88. These are financial standards issued by the Financial Accounting Standards Board (FASB) in 1985. The official titles of these standards are Statement of Financial Accounting Standards No. 87, Employers' Accounting for Pensions, and Statement of Accounting Standards No. 88, Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits.

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**Q. ARE THESE STANDARDS STILL IN EFFECT?**

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**A.** In 2009, the FASB completed a codification project in which existing standards were reissued under a new codification system. At that time, FAS 87 and FAS 88 were combined as part of Accounting Standard Codification Topic No. 715, Compensation – Retirement Benefits, Sub-Topic 30 – Defined Benefit Plans - Pension. I will refer to FAS 87 and FAS 88 in this testimony since these terms were in effect during the applicable periods and because I believe these terms are commonly used in regulatory settings.

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**Q. HAVE YOU REFERENCED ANY OTHER FASB STANDARDS EFFECTED BY THE NEW CODIFICATION SYSTEM?**

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1 A. Yes. I also discuss Statement of Financial Accounting Standards No. 71, Accounting for  
2 the Effects of Certain Types of Regulation. This standard has been included in the new  
3 codification system under Topic 980 – Regulated Operations. I will refer to this standard  
4 as FAS 71 herein.

5 **III. TREATMENT OF PREPAID PENSION ASSET**

6 **Q. PLEASE DESCRIBE THE PREPAID PENSION ASSET.**

7 A. The prepaid pension asset accrued pursuant to FAS 87 and FAS 88 is the cumulative  
8 excess of cash amounts contributed to the pension plans over the years over amounts  
9 expensed for the plans. Rate recovery of pension costs is based on the amounts  
10 expensed, which in some cases have been credits historically. The prepaid pension asset  
11 is included in rate base since the Company has contributed more in cash than has been  
12 recovered in rates through the amounts expensed.

13 **Q. WHY HAS STAFF REDUCED THE PREPAID PENSION ASSET INCLUDED IN**  
14 **RATE BASE FROM THAT AMOUNT REFLECTED ON LACLEDE'S BOOKS?**

15 A. In its Cost of Service Report, Staff asserts that only balances accrued subsequent to  
16 September 1, 1994 and subsequent to September 1, 1996 (pursuant to FAS 88) should be  
17 included in the prepaid pension asset for rate base purposes. This position results in a  
18 reduction in rate base of \$28,788,411 on a pretax basis.

19 **Q. WHAT REASON DID STAFF PROVIDE FOR THIS ASSERTION?**

20 A. Staff did not provide an explanation for this position in its report. However, based on the  
21 fact that Staff has excluded the balances accrued prior to the aforementioned dates, it  
22 would appear that Staff somehow contends that rates were established based on cash

1 contributions to the pension plans during those years, rather than the amounts expensed  
2 on the Company's books pursuant to FAS 87 and FAS 88.

3 **Q. HOW ARE RATES NORMALLY ESTABLISHED IN MISSOURI RATE CASES?**

4 A. The Commission requires that Missouri companies use the Uniform System of Accounts  
5 (USOA) for its books. The USOA specifies that companies comply with Generally  
6 Accepted Accounting Principles (GAAP). Ratemaking starts with a test year based on  
7 the company's books prepared pursuant to GAAP. Since GAAP requires pension accruals  
8 pursuant to FAS 87 and FAS 88, it logically follows that rates are based on expense  
9 calculated according to these standards unless there is evidence that the Commission has  
10 specifically authorized a different methodology.

11 **Q. HAS THE COMMISSION PROVIDED SUCH AUTHORIZATION THAT**  
12 **WOULD BASE RATES ON CONTRIBUTIONS RATHER THAN GAAP**  
13 **EXPENSE?**

14 A. No. There is nothing in the record to support such a position.

15 **Q. SINCE THIS DISPUTE INVOLVES BALANCES ACCRUED DECADES AGO,**  
16 **PLEASE PROVIDE SOME HISTORICAL BACKGROUND THAT WOULD**  
17 **PROVIDE THE COMMISSION WITH SOME ADDITIONAL CONTEXT FOR**  
18 **THIS ISSUE.**

19 A. Certainly. Prior to October 1, 1987, Laclede calculated pension expense accruals using an  
20 aggregate cost method which complied with the GAAP accounting rules in place at the  
21 time. Laclede pension expense as calculated under this method was used for ratemaking  
22 purposes as it would have been included in the test years of the pertinent rate cases. In  
23 December, 1985, the Financial Accounting Standards Board (FASB) issued FAS 87 and

1 FAS 88, which replaced the previous GAAP accounting standards for calculation of  
2 pension expense. The FASB expressed a desire to improve comparability of pension  
3 reporting among public companies. Laclede adopted these standards on October 1, 1987,  
4 at which time it changed the methodology for calculation of pension expense accruals  
5 under GAAP from the aggregate cost method to that prescribed in FAS 87 and FAS 88.

6 **Q. WHAT WAS THE RATEMAKING TREATMENT OF PENSION EXPENSE**  
7 **SUBSEQUENT TO THE ADOPTION OF FAS 87 AND FAS 88?**

8 A. The two rate cases subsequent to the adoption of these standards (Case Nos. GR-90-120  
9 and GR-92-165) were settled and there was no reference to pensions in the Stipulation &  
10 Agreements. Since expense recognition under normal ratemaking practice starts with the  
11 amounts of expense on the company's books, it follows that rates continued to be based  
12 on expense since there is no indication to the contrary.

13 **Q. PLEASE CONTINUE.**

14 A. In Laclede's next rate case (Case No. GR-94-220), the first specific references were made  
15 to basing rates on FAS 87 calculations. This is likely the genesis for Staff's contention  
16 that FAS 87 was only implemented for ratemaking in this case.

17 **Q. WHY WAS FAS 87 DISCUSSED IN THE STIPULATION & AGREEMENT OF**  
18 **CASE NO. GR-94-220?**

19 A. In that case, the parties agreed to change several of the key underlying assumptions in the  
20 FAS 87 calculations. For instance, the amortization period for gains and losses was  
21 changed from the average remaining service life of covered employees (about 15 years at  
22 the time) to 10 years. The accounting rules in this circumstance would not normally  
23 allow such a significant change. Therefore, specific Commission authorization was

1 needed to institute the agreed upon changes. Laclede's ratemaking for pension costs  
2 remained on a GAAP expense basis. Case No. GR-94-220 simply changed some of the  
3 underlying assumptions in those calculations.

4 **Q. WHY WAS THERE NO REFERENCE TO FAS 88 IN CASE NO. GR-94-220?**

5 A. No changes were made to the methodology for calculation of FAS 88, so therefore no  
6 discussion was necessary in the Stipulation & Agreement.

7 **Q. FAS 88 WAS REFERENCED IN THE STIPULATION & AGREEMENT FOR**  
8 **THE NEXT CASE. (CASE NO. GR-96-193). WHY WAS FAS 88 DISCUSSED**  
9 **THERE?**

10 A. This first reference to FAS 88 in a Stipulation & Agreement was for similar reasons to  
11 the first reference of FAS 87 discussed above. In Case No. GR-96-193, the parties  
12 agreed to a substantial change to the calculation methodology for FAS 88. Previously,  
13 FAS 88 was recognized only if certain thresholds were met. In this case, the thresholds  
14 were eliminated. Again, this significant change required Commission authorization.

15 **Q. STAFF SEEMS TO CONTEND THAT FAS 88 WAS ADOPTED FOR**  
16 **RATEMAKING PURPOSES ON SEPTEMBER 1, 1996 VS. SEPTEMBER 1, 1994**  
17 **FOR FAS 87. DOES THIS MAKE SENSE TO YOU?**

18 A. No. It appears that Staff based this belief on first references to these standards in  
19 Stipulations & Agreements as discussed above. But it really wouldn't make any sense to  
20 separate the two. One of the opening remarks in FAS 88 says it best: "This Statement is  
21 closely related to FASB Statement No. 87, Employer's Accounting for Pensions, and  
22 should be considered in that context." In fact, FAS 87 and FAS 88 are both part of the  
23 same measurement process. Amortizations pursuant to both FAS 87 and FAS 88



1 originate from the same pot of unrecognized gains and losses. It wouldn't make sense to  
2 implement one without the other.

3 **Q. ARE THERE ANY OTHER REASONS THAT YOU BELIEVE THAT FAS 88**  
4 **WAS IN EFFECT FOR RATEMAKING PRIOR TO CASE NO. GR-96-193?**

5 A. Yes. The Report and Order from that case, in the WHEREFORE section (c), stated that  
6 the Commission was "granting Laclede Gas Company authorization to *continue* to utilize  
7 FAS 87, 88, and 106 for regulatory purposes..." (emphasis added). The language clearly  
8 implies that FAS 88 was considered as being used for regulatory purposes prior to this  
9 case since authorization was continued.

10 **Q. HOW HAS THIS ISSUE BEEN HANDLED IN RATE CASES SUBSEQUENT TO**  
11 **CASE NO. GR-96-193?**

12 A. This issue has been included in black box settlements in all subsequent cases with no  
13 discussion of the issue in the applicable Stipulation & Agreements.

14 **Q. HAS STAFF MADE ANY ACCOUNTING RECOMMENDATIONS RESULTING**  
15 **FROM ITS PROPOSAL REGARDING THE PREPAID PENSION ASSET?**

16 A. Yes. In its Cost of Service Report (page 67, line 18) Staff states: "Staff recommends that  
17 LAC reclassify the prepaid pension asset amounts related to these time periods to a non-  
18 regulatory asset account so that the book asset amounts represent the accumulation of  
19 cash flow differences as represented in prior cases."

20 **Q. PLEASE COMMENT.**

21 A. FAS 87 and FAS 88 require Laclede to carry the total prepaid asset on its books which is  
22 also the amount that the Company is supporting for inclusion in rate base. While Staff's

1 proposal would not change the prepaid asset on the books pursuant to FAS 87 and FAS  
2 88, it would possibly have the effect of requiring regulatory entries pursuant to FAS 71.

3 **Q. WHAT WOULD BE THE LIKELY IMPACT OF STAFF'S PROPOSAL TO THE**  
4 **COMPANY'S BOOKS PURSUANT TO FAS 71?**

5 A. Staff's proposal could well require the Company to record a regulatory liability to  
6 recognize that a portion of the prepaid pension asset is not recoverable through rates. The  
7 other side of this regulatory liability entry would be a charge to pension expense.

8 **Q. WOULD THIS BE AN APPROPRIATE ADJUSTMENT?**

9 A. No. This eventuality was considered and dealt with in Case No. GR-94-220. The  
10 Stipulation & Agreement in that case (paragraph 5) stated: "The parties agree that in  
11 setting rates for Laclede and in determining Laclede's funding obligation for FAS 87 and  
12 106 expenses, the Commission shall not consider the following items existing on the  
13 books of Laclede as of the effective date of the tariff sheets authorized in this case: A.  
14 any regulatory liability balances related to FAS 87; and B. any OPEB liability previously  
15 accrued by Laclede." Staff's proposed adjustment would result in the very regulatory  
16 liability balances denied by this statement. The Stipulation & Agreement in Case No.  
17 GR-94-220 precludes the adjustment to prepaid pension asset balances proposed in this  
18 case by Staff and the resulting impact on the Company's books.

19 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

20 A. The adoption of FAS 87 and FAS 88 on October 1, 1987 changed Laclede's methodology  
21 for calculating pension expense under GAAP and the requirement to book a prepaid asset  
22 on its books began then. It wasn't until the implementation of these pronouncements was  
23 later modified in 1994 and 1996 with significantly different assumptions that any

1 Commission order was required related to Laclede following GAAP for its pension  
2 accounting. There is also no reason to believe and nothing in the record which would  
3 indicate that these changes in expense calculations somehow resulted in a change in  
4 ratemaking methodology from expense recognition to cash contributions, as Staff seems  
5 to contend. Furthermore, this issue was specifically addressed in Case No. GR-94-220,  
6 and language included in the Stipulation & Agreement in that case precludes the  
7 adjustment and resulting accounting proposed by Staff in this case.

8 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

9 **A Yes.**

