Exhibit No.:
Issues: Pension Expense
Witness: Steve M. Traxler
Sponsoring Party: MoPSC Staff
Type of Exhibit: Direct Testimony
Case No.: GR-93-172

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

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DIRECT TESTIMONY

OF

STEVE M. TRAXLER

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MISSOURI
PUBLIC SERVICE COMMISSION

MISSOURI PUBLIC SERVICE,

A DIVISION OF UTILICORP UNITED, INC.

CASE NO. GR-93-172

Jefferson City, Missouri
May, 1993

DIRECT TESTIMONY

OF

STEVE M. TRAXLER

MISSOURI PUBLIC SERVICE,

A DIVISION OF UTILICORP UNITED, INC.

CASE NO. GR-93-172

Q. Please state your name and business address.

A. Steve M. Traxler, State Office Building, 615 East Thirteenth Street, Suite 510, Kansas City, Missouri 64106.

Q. By whom are you employed and in what capacity?

A. I am a Regulatory Auditor for the Missouri Public Service Commission (Commission).

Q. Please describe your educational background.

A. I graduated from Missouri Valley College at Marshall, Missouri, in 1974, with a Bachelor of Science degree in Business Administration, with a major in Accounting.

Q. Please describe your employment history.

A. I was employed as an accountant with Rival Manufacturing Company in Kansas City from June, 1974 to May, 1977. I was employed as a Regulatory Auditor with the Missouri Public Service Commission from June, 1977 to January, 1983. I was employed by United Telephone Company as a Regulatory Accountant from February, 1983 to May, 1986. In June, 1986, I began my employment with Dittmer, Brosch & Associates (DBA) in Lee's Summit, Missouri, as a Regulatory Auditor. I left DBA in April, 1988. I was self-employed from May, 1988 until I assumed my current position as a Regulatory Auditor with the Commission in December, 1989.

Q. What has been the nature of your duties while in the employ of this Commission?

A. I am responsible for assisting in the audits and examinations of the books and records of utility companies operating within the state of Missouri, under the direction of the Manager of the Accounting Department.

Q. With reference to Case No. GR-93-172, have you made an examination and study of the books and records of Missouri Public Service (MPS or Company), a division of UtiliCorp United, Inc. (UtiliCorp)?

A. Yes, with the assistance of other members of the Commission Staff (Staff).

Q. What is the purpose of your direct testimony in this proceeding?

A. My testimony will address the Staff's recommended level of pension expense to be included in cost of service.

PENSION EXPENSE

Q. Please explain adjustment S-8.20.

A. Adjustment S-8.20 adjusts MPS' test year pension expense for gas operations to an amount representing the minimum pension contribution required under the regulations of the Employee Retirement Income Security Act (ERISA) of 1974.

Q. Please explain the minimum contribution requirement under ERISA regulations.

A. Funding requirements for defined benefit pension plans have been established by the Federal government under the ERISA and subsequent revisions. The Internal Revenue Service (IRS) has responsibility for monitoring compliance with these Federal regulations.

In accordance with ERISA and IRS regulations, the actuary is required to compute a <u>minimum</u> and a <u>maximum</u> allowable contribution for a company. The minimum contribution requirement is designed to insure that an employer's contributions are sufficient to meet its obligations as defined by the pension plan.

The maximum contribution determination is intended to insure that employers are not allowed a tax deduction for excessive contributions to a defined benefit plan.

Q. Why is it appropriate to determine pension expense for ratemaking purposes based upon the ERISA minimum contribution?

A. The ERISA was enacted to insure that employers' pension obligations be <u>adequately</u> funded. By basing pension expense for ratemaking purposes on the ERISA minimum contribution, the Commission will be providing the utility with an adequate pension cost amount based upon safeguards included in the ERISA regulations.

Q. Are the minimum required contributions under ERISA and the maximum IRS tax deductible contribution calculated by MPS' actuary?

A. Yes, both contribution amounts are calculated by MPS' actuary, William Mercer, Inc.

Q. What has MPS' minimum required pension plan contribution been since 1988?

A. MPS' minimum contribution under ERISA regulations is reflected below:

	Required Minimum Contribution	
	Union	Non Union
1988	0	0
1989	0	0
1990	0	0
1991	0	0
1992	0	0

Q. Your last answer reflects that MPS has not been required to make a pension plan contribution under ERISA regulations for the last five years. Does this give some indication of the funded status of MPS' pension plans?

A. It certainly does. The fact that MPS has not been required to make a pension plan contribution under ERISA regulations is a clear indication that MPS' pension fund is adequately funded.

Q. What is the funded status of MPS' pension funds based upon the 1992 actuarial report from William Mercer, Inc.?

A. MPS' total Company pension fund assets and total accrued benefits to date for the plan year 1992 are reflected below:

	Union	Non Union	Total
Market Value of Fund Assets	$27,355,820	$14,602,117	$41,957,937
Value of Total Accrual Benefits	$13,826,100	$9,293,714	$23,119,814
Excess of Assets over Accrued Benefits	$13,529,720	$5,308,403	$18,838,123
Funded Percentage			181%

MPS' pension fund assets exceed its total accrued benefits to date by 81%.

Q. What is MPS' corporate funding policy with regard to its pension funds?

A. This question can best be answered by comparing MPS' actual pension fund contributions with the ERISA minimum contribution and IRS maximum tax deductible contribution over a period of years. This comparison for the eleven year period from 1982 through 1992 is reflected below (all amounts are total Company):

	ERISA Minimum Contribution	IRS Maximum Contribution	MPS Actual Contribution
1982	$528,581	$1,733,624	$1,302,068
1983	314,946	1,787,529	1,466,136
1984	4,091	1,833,370	1,524,025
1985	15,854	2,146,663	1,524,025
1986	242,847	2,181,454	1,524,025
1987	30,256	1,158,870	1,028,790
1988	0	947,657	947,657
1989	0	306,933	306,933
1990	0	0	0
1991	0	556,082	556,082
1992	0	606,841	606,841
TOTAL	$1,136,575	$13,259,023	$10,786,582

This analysis clearly illustrates MPS' corporate funding strategy. For the period 1982 through 1987, MPS made contributions equal to 77% of the maximum contribution allowable for tax purposes under IRS regulations. For the five year period from 1988 through 1992, MPS' pension fund contributions were equal to 100% of the maximum contribution allowed under IRS regulations.

Q. Is MPS' request for pension expense for ratemaking purposes in this proceeding consistent with its corporate policy of funding the pension plan based upon the maximum tax deductible contribution allowed under IRS regulations?

A. Yes, it is. MPS' revenue requirement calculation for this case includes pension expense based upon the maximum tax deductible contribution under IRS regulations for the year 1992.

Q. Is the overfunded status of MPS' pension fund a direct result of their corporate policy of funding the pension fund based upon the maximum tax deductible contribution allowed under IRS regulations?

A. Yes. Previously, my testimony reflected that MPS' pension fund assets exceed its total accrued benefits to date by $18,838,123, or 81%. From 1982 through 1992, MPS' corporate funding strategy resulted in making pension fund contributions which exceeded the amount considered adequate under ERISA regulations by $9,650,007.

Q. On page 5 of this direct testimony, you provided MPS' value of accrual pension benefits to be $23,199,814 which is reflected in their 1992 actuarial report. What does that amount represent?

A. The $23,119,814 of accrued benefits to date represents the MPS actuarial calculation of projected benefits earned to date by employees and retirees based upon years of service to date and the defined benefits paid under the plan.

Q. Would a substantial amount of the total accrued benefit obligation represent benefits earned to date by existing MPS employees?

A. Although I don't know exactly how much of the total obligation is divided between current employees and retirees, the amount related to current employees would be a substantial amount of the total.

Q. Can you provide the Commission with a conservative estimate as to when the obligation to existing employees will actually have to be paid by MPS?

A. Yes. A conservative estimate can be made. MPS' expected average remaining years of service for current employees has been calculated by this actuary to be approximately 15 years. If we make a conservative assumption that employees will live only five years beyond retirement, then payments by MPS to existing employees for pension benefits would not even begin on the average for 15 years and would not completely be paid for another five years, or a total of 20 years from now.

Q. What is the relevance of estimating the time lag between recognition of the accrued pensions benefits earned to date by employees and the date that MPS will actually make pension benefit payments to employees at retirement?

A. The Commission should consider the relationship between the funded status of MPS' pension fund and the time lag when the accrued benefit obligation will actually require payment by MPS.

Page 5 of my direct testimony reflects that MPS' total accrued benefit obligation to date is $23,119,814 and that not only does the pension fund have adequate funds to cover that entire obligation today, the pension fund has an additional $18,838,123 in assets over and above the total accrued benefit obligation to date. If a large percentage of the total obligation represents future benefits paid to current employees 15 to 20 years from now, how could anyone justify asking ratepayers to make an additional contribution into MPS' pension fund when the total pension obligation earned to date is 181% funded today, a large percentage of which will not be payable as benefits for 15 to 20 years on the average. It is also important to remember that the federal government, responsible for insuring that pension funds in the United States are adequately funded, has come to the same conclusion for the last five years in a row. MPS has not been required to make a minimum contribution under ERISA regulations since 1987.

Q. Has the Commission recently decided a pension issue based upon the use of the ERISA minimum contribution for determining the proper level of pension cost to be used setting rates?

A. Yes, they have. The Staff's position on pension cost in Case Nos. WR-92-207 and SR-92-208, Missouri Cities Water Company, was based upon the ERISA minimum contribution. The Commission's Report and Order in those cases upheld the Staff's position on pension cost.

Q. Please summarize the Staff's position on pension cost determination for cost of service treatment in this proceeding.

A. The Staff's position on a proper level of pension cost for cost of service treatment in this proceeding can be summarized as follows:

1. Federal legislation, the Employee Retirement Securities Act of 1974, was intended to insure adequate funding for defined benefit pension plans in the United States. All companies with defined benefit pension plans are required under ERISA regulations to

make contributions when necessary to adequately fund their pension plans.

2. Pension determination under ERISA regulations will protect utility company employees because rates will include the necessary contributions to adequately fund their pension plans.

3. Pension cost determination under ERISA regulations will put an end to excessive pension funding, which is evident for MPS and most large utilities in the state of Missouri.

4. MPS' corporate funding policy of funding its pension plan at or near the maximum allowable tax deductible contribution has resulted in a pension fund which exceeds MPS' total accrued benefits earned to date by \$18,838,123 or 81%. Just and reasonable customer rates do not result from allowing utility companies to fund a pension plan to the point that it exceeds the total earned benefit obligation to date by 81%. MPS' pension fund was overfunded 79% in 1989. Overfunded pension funds for Missouri utilities will not self-correct.

5. ERISA minimum funding requirements, calculated by MPS' actuary, is zero for the current year and has been zero since 1987.

6. MPS' request for pension cost for this case is based upon the maximum tax deductible contribution allowed under IRS regulations. MPS' corporate policy of determining pension cost for

ratemaking purposes based upon the maximum tax deductible amount ignores the funded status of the plan and the lack of need for additional funding.

Q. Does this conclude your direct testimony in this proceeding?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the matter of Missouri Public Service tariff sheets designed to increase rates for gas service provided to customers in the Missouri service area of the Company.	)))))	Case No. GR-93-172

AFFIDAVIT OF STEVE M. TRAXLER

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Steve M. Traxler, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Direct Testimony in question and answer form, consisting of 11 pages to be presented in the above case; that the answers in the foregoing Direct Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

Steve M. Traxler

STEVE M. TRAXLER

Subscribed and sworn to before me this 25th day of May, 1993.

Judy Fritsch

Notary Public

My Commission Expires: JUDY FRITSCH NOTARY PUBLIC STATE OF MISSOURI COLE COUNTY MY COMMISSION EXP AUG. 15,1993