

Exhibit No.:
Issue: Pension Asset Transfer
Witness: GRAHAM A. VESELY
Sponsoring Party: MoPSC Staff
Type of Exhibit: Rebuttal Testimony
Case No.: GM-2000-312

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

REBUTTAL TESTIMONY

OF

GRAHAM A. VESELY

ATMOS ENGERY COMPANY

and

ASSOCIATED NATURAL GAS COMPANY

CASE NO. GM-2000-312

Jefferson City, Missouri
February, 2000

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REBUTTAL TESTIMONY
OF
GRAHAM A. VESELY
ATMOS ENERGY CORPORATION
AND
ASSOCIATED NATURAL GAS COMPANY
CASE NO. GM-2000-312

Q. Please state your name and business address.

A. Graham A. Vesely, Noland Plaza Office Building, 3675 Noland Road,
Suite 110, Independence, Missouri 64055.

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. In May of 1985 I received a bachelor's degree in civil engineering from
Saint Martins College, Olympia, Washington. In May of 1998, I completed an MBA
degree with a focus in accounting from Central Missouri State University (CMSU),
Warrensburg, Missouri.

Q. Are you a Certified Public Accountant (CPA)?

A. No. However, I passed the CPA exam in May of 1999. I expect to be
licensed as a CPA after completing two years of employment at the Commission.

Q. Please describe your employment history.

Rebuttal Testimony of
Graham Vesely

1 A. In May of 1985, I began employment as a civil engineer with the United
2 States Air Force. From March 1988 until May 1995, I was employed by the Army Corps
3 of Engineers as a member of a construction management group. At that time, I began
4 working part-time with the engineering firm of Malsy & Associates while attending
5 CMSU on a full-time basis. In February of 1999, I began my current employment with
6 the Commission.

7 Q. What are your job responsibilities with the Commission?

8 A. I am responsible for assisting in the audits and examinations of the books
9 and records of utility companies operating within the state of Missouri.

10 Q. With reference to Case No. GM-2000-312, have you made an examination
11 and study of the records of Atmos Energy Corporation (Atmos) and Associated Natural
12 Gas Company (ANG)?

13 A. Yes, with the assistance of other members of the Staff.

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

15 A. My testimony will address the transfer of employee pension fund assets
16 and liabilities from Southwestern Energy Company (SWEN) (ANG's parent company) to
17 Atmos, under the proposed sale.

18 Q. Please explain how this issue arose.

19 A. In section 7.3.1 of page 19 of the Joint Application filed by the parties
20 (ANG and Atmos) to the transaction, item (ii) states that the seller will transfer to the
21 buyer's pension fund an amount of cash equal to the Projected Benefit Obligation (PBO)
22 of the transferred employees. An examination by Staff of SWEN's December 31, 1998

Rebuttal Testimony of
Graham Vesely

Securities and Exchange Commission (SEC) Form 10-K, Annual Report, (1998 10-K)
showed the following:

SWEN Fair Value of Pension Assets	\$71,518,000
SWEN Projected Benefit Obligation	<u>\$59,194,000</u>
Pension Assets in Excess of PBO	\$12,324,000

Q. What action did Staff take at that point?

A. Staff advised Atmos and SWEN representatives that because the pension plan was overfunded, Staff would consider it a detriment of the transaction if a pro rata share of the overfunding were not transferred to the Atmos plan.

Q. Please define the term Projected Benefit Obligation (PBO).

A. The PBO is a measure of a firm's pension liability. It represents, in current dollars, the total pension benefits earned by each employee in the plan. The PBO is calculated individually for each covered employee. Financial Accounting Standard (FAS) No. 87, "Employers Accounting for Pensions," is the generally accepted accounting principle that describes how to recognize the cost to the employer of providing employee pension benefits. There are two measurements of a firm's pension liability under FAS 87:

(1) The Accumulated Benefit Obligation (ABO) is the present value of the pension obligation for all benefits earned by covered employees as of the specified date based on *current* salary and wage levels.

(2) The Projected Benefit Obligation (PBO) is the pension obligation for all benefits earned by covered employees as of the specified date based on *future* compensation levels.

1 Q. The 1998 10-K information shown above indicates the SWEN plan (which
2 also covers ANG employees) was funded at a level of 120% (\$71,518,000 in assets
3 divided by a \$59,194,000 liability, times 100 equals 120%) at 12/31/98. If the PBO of
4 ANG's affected employees is transferred under the proposed terms of the sale, what is the
5 funding level that would be transferred from the SWEN pension fund to the Atmos
6 pension fund?

7 A. The Atmos pension fund would receive a liability equal to the PBO of the
8 transferred ANG employees. It would also receive funding assets equal to the PBO. In
9 this way, the funding level would be reduced from 120% to only 100%.

10 Q. Please explain the impact of a reduced funding level on the FAS 87 cost of
11 providing pension benefits.

12 A. The yearly cost of pension benefits earned by ANG employees is an item
13 that is included in ANG's cost of service and thus also in utility rates. In computing
14 yearly net cost of providing pension benefits, FAS 87 requires that pension expenses be
15 offset by investment returns on the pension fund's assets. The following simplified
16 example will illustrate this point:

	Case 1	Case 2
Fund Assets	1,200,000	1,000,000
PBO	1,000,000	1,000,000
<hr/>		
Service Cost	200,000	200,000
Interest on PBO	100,000	100,000
Amortizations	20,000	20,000
Return on Assets		
@10%	(120,000)	(100,000)
Net Pension Cost	200,000	220,000

Rebuttal Testimony of
Graham Vesely

1 In Case 1, the pension plan is overfunded, but in Case 2 there is no overfunding
2 because the assets are just equal to the PBO liability. This shows that, all else being
3 equal, the FAS 87 net pension cost is lower when the fund assets are greater, as in Case 1.

4 Q. How does this principle specifically impact this case?

5 A. If, after the sale of ANG's Missouri properties, the funding level is lower
6 than before, pension cost will be higher for Atmos (due to lower earnings from the fund)
7 resulting in higher overall cost of utility service. If recognized in rates, this higher level
8 of pension cost will be detrimental to ANG's current customers.

9 Q. Why do the parties to the transaction propose to decrease the funding
10 level?

11 A. There are several reasons. First, in a letter to SWEN dated December 8,
12 1999, from its actuary, Arthur Andersen, LLP, provided to Staff in response to its Data
13 Request No. 5, Mr. Douglas E. Black states that in this case, the Internal Revenue Code
14 and the federal Employee Retirement Income Security (ERISA) Act of 1974 only require
15 transfer of "liabilities and assets equal to each participant's accrued benefit liability under
16 the plan."

17 Q. How do you respond to this point?

18 A. ERISA regulations set a minimum requirement for the dollar amount of
19 pension assets to be transferred when selling a company or portion of a company. ERISA
20 regulations do not prevent a transfer of assets that exceeds this minimum. The bottom
21 line is that, in order to prevent a detriment to Missouri ratepayers, the relationship
22 between the pension fund assets and the PBO must be the same after the sale as before
23 the sale.

Rebuttal Testimony of
Graham Vesely

1 Q. What other reasons has SWEN given for limiting the asset transfer to an
2 amount equal to the PBO?

3 A. Other reasons given in response to Staff's Data Request No. 4 were the
4 following:

5 1) When ANG was acquired in 1988 by SWEN, the ANG pension fund
6 required annual contributions while the SWEN plan was overfunded.

7 2) Over the period 1988-1992, the ANG fund required mandatory
8 employer contributions totaling \$1,077,752 while the SWEN plan required none.

9 3) "Any excess overfunding should not inure to the Associated Natural
10 Gas ratepayers, but rightly belongs to the Southwestern Plan."

11 Q. Please respond to these points.

12 A. The ANG and SWEN pension plans were combined on January 1, 1993.
13 Pension cost has been calculated based on the combined assets and liabilities of the two
14 formerly separate plans since 1993. Therefore, the transactions and historical experience
15 of the individual plans prior to 1993 are not relevant at this time.

16 As discussed earlier in my testimony, the plan's assets exceed the PBO liability
17 by about 20% as of December 31, 1998. The overfunded status of the pension plan, at
18 the date of the sale, must be preserved after the sale. This is necessary to prevent the
19 detrimental impact of higher pension cost on ANG ratepayers.

20 Q. You have used December 31, 1998, figures in your testimony. Is more
21 recent financial data available?

22 A. The December 31, 1998, figures are the most recent audited data. SWEN
23 has informed the Staff that at December 31, 1999, the market value of its pension plan

Rebuttal Testimony of
Graham Vesely

1 assets was \$70,478,259, and the PBO was \$61,515,449. This would indicate excess
2 funds of \$8,962,910. SWEN's responses to Staff Data Request Nos. 4 and 5 show that
3 the PBO of employees to be transferred to the Atmos plan is approximately 9.3% of the
4 total SWEN pension plan PBO. The excess plan assets of \$8,962,380 times 9.3% equals
5 \$833,380. This would be the tentative transfer of excess funds required above the PBO
6 based on December 31, 1999, figures.

7 Q. What dollar amount of asset transfer is necessary, in your opinion, to
8 prevent the transaction from being detrimental?

9 A. On the date of the sale, the PBO liability for the transferred employees
10 will represent some percentage of the PBO for the whole SWEN pension plan. That same
11 percentage of the pension plan's assets should be transferred to the Atmos pension plan.
12 If SWEN would agree to transfer this amount of excess pension assets to the Atmos plan,
13 it would remove any detriment to Missouri ratepayers from this transaction.

14 Q. Please summarize your testimony.

15 A. Staff was not privy to the decision-making process that led to the merging
16 of the ANG pension plan with the SWEN plan. We assume that it was a prudent business
17 decision. Any attempt at this time to go back seven years and try to separate the plan into
18 two separate pieces is of questionable feasibility and, even more important, has no
19 relevance to this proceeding. The issue before the Commission is one of detriment. As
20 explained in the rebuttal testimony of Staff Accounting witness Charles R. Hyneman,
21 ANG's current rates are based on the overfunded status of the combined SWEN plan.
22 Taking the benefits of this overfunding away from Missouri ratepayers makes the

Rebuttal Testimony of
Graham Vesely

1 transaction detrimental. To remedy this, the Staff proposes a transfer of excess pension
2 funds in an amount to be determined in the manner described above.

3 Q. Does this conclude your rebuttal testimony?

4 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

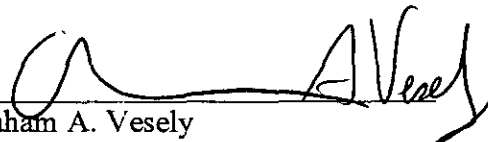
OF THE STATE OF MISSOURI

In the Matter of the Joint Application of Atmos)
Energy Corporation and Arkansas Western Gas) CASE NO. GM-2000-312
Company, d/b/a Associated Natural Gas Company,)
for an order authorizing the sale and transfer of)
certain assets of Associated Natural Gas Company)
located in Missouri to Atmos Energy Corporation)
and either authorizing the transfer of existing)
certificates of public convenience and necessity or)
granting a new certificate of public convenience)
and necessity to Atmos Energy Corporation in)
conjunction with same.)

AFFIDAVIT OF GRAHAM A. VESELY

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Graham A. Vesely, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 8 pages to be presented in the above case; that the answers in the foregoing Rebuttal 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.


Graham A. Vesely

Subscribed and sworn to before me this 27th day of February, 2000.




Notary Public, State of Missouri
My Commission Expires _____

TONI M. WILLMENO
NOTARY PUBLIC STATE OF MISSOURI
COUNTY OF CALLAWAY
My Commission Expires June 24, 2000