Exhibit No.:	______________
Issue(s):	Pensions SFAS87/ Post-Retirement Benefits Other Than Pensions SFAS106/ FMGP Remediation
Witness/Type of Exhibit:	Robertson/Rebuttal
Sponsoring Party:	Public Counsel
Case No.:	GR-2014-0007

REBUTTAL TESTIMONY

OF

TED ROBERTSON

Submitted on Behalf of the Office of the Public Counsel

MISSOURI GAS ENERGY
A DIVISION OF LACLEDE GAS

CASE NO. GR-2014-0007

March 4, 2014

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the General Rate Increase Tariffs of Missouri Gas Energy, a Division of Laclede Gas Company	))))	Case No. GR-2014-0007

<u>AFFIDAVIT OF TED ROBERTSON</u>

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Ted Robertson, of lawful age and being first duly sworn, deposes and states:

1. My name is Ted Robertson. I am the Chief Public Utility Accountant for the Office of the Public Counsel.

2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony.

3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

Ted Robertson, C.P.A.
Chief Public Utility Accountant

Subscribed and sworn to me this 4th day of March 2014.

NOTARY PUBLIC
NOTARY SEAL
STATE OF MISSOURI

JERENE A. BUCKMAN
My Commission Expires
August 23, 2017
Cole County
Commission #13754037

Jerene A. Buckman
Notary Public

My Commission expires August 23, 2017.

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REBUTTAL TESTIMONY
OF
TED ROBERTSON

MISSOURI GAS ENERGY
CASE NO. GR-2014-0007

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. Ted Robertson, PO Box 2230, Jefferson City, Missouri 65102-2230.

Q. ARE YOU THE SAME TED ROBERTSON THAT HAS PREVIOUSLY FILED DIRECT AND SUPPLEMENTAL DIRECT TRUE-UP TESTIMONY IN THIS CASE?

A. Yes.

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of this rebuttal testimony is to respond to the direct testimony of Missouri Public Service Commission ("MPSC") Staff witnesses, Mr. Keith Majors regarding pension and postretirement benefits other than pensions ("OPEBs") costs, and Ms. Karon Lyons regarding the ratemaking treatment for environmental remediation of former manufactured gas plant ("FMGP") costs.

III. PENSIONS

Q. DOES PUBLIC COUNSEL SUPPORT THE MPSC STAFF'S RATEMAKING RECOMMENDATIONS FOR PENSION COSTS?

A. Yes. Beginning on page 67, line 4, of the Staff Report Revenue Requirement Cost Of Service, Dated January 29, 2014 ("Staff Report") Mr. Majors discusses his analysis of the pension issues and related costs. He essentially separates his analysis and recommendation for annual pension expense into two (2) subparts, 1) current pension expense and 2) costs associated with several trackers related to pensions that are being amortized and recovered in the current cost of service. On page 74 of the Staff Report, he identifies the MPSC Staff's recommendations, after taking into account an operation and maintenance ("O&M") adjustment, as an annual ongoing pension expense of $8,431,620 and an annual pension tracker amortization of ($1,045,745). Public Counsel believes both recommendations to be reasonable and appropriate.

Q. WHY DOES PUBLIC COUNSEL BELIEVE THAT MR. MAJORS RECOMMENDATION FOR ANNUAL ONGOING PENSION EXPENSE IS REASONABLE AND APPROPRIATE?

A. Public Counsel believes that the annual ongoing portion of the pension expense recommended by Mr. Majors is reasonable and appropriate because it is based on the analysis included in the Rudd & Wisdom, Inc., Plan Year 2013 Valuation Report, dated August 7, 2013. On page IV-6 of the Valuation Report, the actuary identifies that for the 2014 fiscal year, the employer has minimum funding obligations of $9,920,720. Mr. Majors recommends this amount after adjustment for the O&M ratio.

Furthermore, Public Counsel supports Mr. Majors recommendation for this cost because for several years this utility, and others within the state of Missouri, have been authorized by the Commission to book, via tracker mechanisms in its financial records, any differences between the amount of pension expense authorized in rates versus actual contributions made by the utility to the pension fund. Any resulting over-collections or under-collections are then ultimately recovered from or returned to ratepayers through the amortization of the tracker balances. The intent of this process is that the utility will be made whole for the costs it incurs to fund its pension obligations. So, even if Mr. Majors recommendation turns out not to be the exact contribution level incurred by the utility for future years, the amounts booked in the tracker will be later utilized to correct any imbalances in the recovery of the costs.

Q. WHY DOES PUBLIC COUNSEL BELIEVE THAT MR. MAJORS RECOMMENDATION FOR THE AMORTIZATION OF THE CURRENT PENSION TRACKER BALANCES IS REASONABLE AND APPROPRIATE?

A. Public Counsel believes that Mr. Majors recommendation is reasonable and appropriate because it is based on an analysis of the actual amortization/recovery of the costs booked in the individual pension trackers authorized by the Commission. Mr. Major's recommendation clearly identifies that on a net basis (i.e., all trackers combined) the utility has recovered far more from ratepayers than the costs it has incurred to fund the pension plan; thus, the over-recovery of the costs authorized for recovery should be recognized as an adjustment to reduce the pension tracker balances and related amortization.

The expense/funding/recovery process currently in place was setup to make the utility whole with regard to pension costs because of the volatility and unpredictability inherent in this specific category of cost. It was not intended by Public Counsel or any of the other parties, that I'm aware of, while developing the processes years ago to make the utility whole to also allow it to keep for its shareholders over-recoveries of funding from ratepayers. Public Counsel believes it is not only reasonable that the over-recovered balances be recognized in the development of rates for the instant case, it is also appropriate because the current pension recovery process was not intended to enrich or harm the utility's shareholders or ratepayers. It was designed and implemented to protect both the utility's shareholders and ratepayers. Thus, ratepayers are similarly protected when over-recovered tracker balances are recognized in the ratemaking process.

IV. <u>OPEBS</u>

Q. DOES PUBLIC COUNSEL SUPPORT THE MPSC STAFF'S RATEMAKING RECOMMENDATIONS FOR OPEB COSTS?

A. Yes and no. Beginning on page 76, line 5, of the Staff Report, it states,

> Staff used the FAS 106 expense calculation for the 2013 Plan Year as reflected in a report from MGE's actuary, Rudd & Wisdom, dated August 5, 2013 as the basis to determine the level of OPEBs expense to include in this case. This report provides the level of FAS 106 OPEBs expense applicable to the fiscal year ending December 31, 2013, without consideration of the effects of the purchase of Southern Union by ETE on Other Comprehensive Income (OCI). This amount, referred to as Net Periodic Postretirement Benefit Cost (NPPBC) is $(410,923) for the fiscal year 2013.
>
> Per the Stipulation and Agreement in the 2009 Rate Case, Paragraph 32, in the event that FAS 106 expense becomes negative, MGE is required to create a regulatory liability to offset the negative expense. If Staff were to reflect the negative OPEB expense in the cost of service, it would represent a reduction in cash flow to MGE. This reduction in cash flow cannot be mitigated by withdrawing funds from MGE's VEBA OPEB trust. Therefore, Staff reflected an ongoing FAS 106 expense in the current case of $0. In future years, when FAS 106 expense becomes positive, the amount in rates will remain zero until the regulatory liability is reduced to zero, per the 2009 Stipulation and Agreement. This regulatory liability represents the reduction in rates that ratepayers would have realized if the negative expense were reflected in the cost of service.

Public Counsel supports the MPSC Staff's position regarding the above annual OPEB expense and the ratemaking to be afforded to it, however, Public Counsel does not agree, in part, with the MPSC Staff's recommendation for the over-amortization of the associated transition benefit obligation (TBO) discussed on page 77 and 78 of the aforementioned Staff Report.

Q. PLEASE CONTINUE.

A. Beginning on page 77, line 26, of the Staff Report, the MPSC Staff recommendation for the over-amortized TBO states, "the cumulative amount of over-collection through the projected effective date of rates in this case, $4,619,406, be treated in a similar manner of the negative FAS 106 expense. This cumulative balance is a prepaid asset that will be reduced as FAS 106 expense becomes positive." The Staff's recommendation continues with it recognizing, beginning on page 77, line 29, that the over-amortized TBO represents money actually paid by ratepayers while the previously discussed negative FAS 106 expense is a non-cash item. Staff then recommends that, as recommended for the non-cash negative FAS 87 expense, the amount of over-amortized TBO should not be included in rate base at this time.

Q. WHAT PART OF THE MPSC STAFF'S RECOMMENDATION FOR THE OVER-AMORTIZED TBO DOES OPC AGREE WITH AND DISAGREE WITH?

A. Public Counsel agrees with the Staff's calculation of the amount of the over-amortization through the effective date of rates in the current case and the fact that the amount represents an actual cash item funded by ratepayers for an expense that had ceased to exist. However, Public Counsel does not necessarily support the MPSC Staff's recommendation for the refunding of the amount back to ratepayers and does not support the MPSC Staffs recommendation that the over-amortized balance not receive rate base treatment.

Q. WHAT IS THE PUBLIC COUNSEL'S RECOMMENDATION?

A. It is Public Counsel's belief that the funds represented by the over-amortization represents actual monies paid by ratepayers for a cost that had already been fully recovered by the Company and that the excess monies paid should be returned to ratepayers as quickly as possible and should receive rate base treatment too because they represent an interest free loan of the funds from ratepayers to the Company during the future periods that they will be held by the Company. As stated above, Staff's recommendation for refunding the balance in future years as positive FAS 106 expense is incurred is one way to account for the monies, but Public Counsel believes that the refunding process would be more transparent if the current process of accounting for the over-collection or under-collection of FAS 87 costs was utilized. Therefore, Public Counsel recommends that the over-amortized TBO balance be included in the development of the current case rates as an amortization (reduction) to expense for a period of five (5) years, and that the unamortized balance be included as an offset in Company's rate base.

VI. FORMER MANUFACTURED GAS PLANT REMEDIATION

Q. WHAT IS THE STAFF'S RECOMMENDATION FOR THE FMGP COSTS?

A. Beginning on page 88, line 4, of the Staff Report, it states,

> As previously discussed, Staff reviewed remediation costs for the period of 1994 through August 2013. Although costs have fluctuated over this period of time, the last three years including the test year, have been consistent. Consequently, Staff has included the test balance as reflective of future remediation expenses that will be incurred by the Company. This is consistent with MGE's position.

Q. DOES PUBLIC COUNSEL SUPPORT THE MPSC STAFF'S RATEMAKING RECOMMENDATIONS FOR ENVIRONMENTAL COSTS RELATED TO FORMER MANUFACTURED GAS PLANT REMEDIATION?

A. No.

Q. WHY DOES PUBLIC COUNSEL BELIEVE THAT THE MPSC STAFF'S, AND COMPANY'S, RECOMMENDATION IS NOT APPROPRIATE?

A. Public Counsel has opposed the Company's recovery of FMGP costs from ratepayers in all cases where it has been an issue since the Southern Union Company first purchased the utility in 1994. The reasons for our opposition are stated in greater detail in my direct testimony in the instant case, but the likelihood of extremely large environmental cleanup costs associated with the remediation of FMGP has created a situation that is of vast potential harm to all Missouri ratepayers. Because the costs are being incurred to remediate FMGP sites that have not provided any services to past or current customers for many years, Public Counsel believes that the Commission should not require current or future customers to pay for these activities.

Of upmost importance is the fact that the associated FMGP from which the costs at issue are derived no longer exists and is not used and useful in the provision of service to ratepayers today. Also, when Southern Union Company and the current owner, Laclede Gas Company, purchased the utility both were aware of the potential future FMGP costs and should have adjusted their purchase prices accordingly to account for the associated risks. Southern Union Company recognized the risks to its shareholders in its purchase negotiations and its subsequent decision to have its shareholders assume responsibility for $3 million of the costs outright and to share in the payment of an additional larger portion with Western Resources, Inc. (the former owner of the Missouri utility). Laclede Gas Company is now the new current owner, but it too should have recognized those same risks in its purchase negotiations. Public Counsel firmly believes that all the costs associated with the FMGP remediation are shareholders costs and that they should not be passed on to ratepayers for recovery.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes, it does.