

*Exhibit No.:*  
*Issues:* *Pensions, Supplemental  
Employee Retirement  
Plan (SERP) and SERP Tracker*  
*Witness:* *Doyle L. Gibbs*  
*Sponsoring Party:* *MoPSC Staff*  
*Type of Exhibit:* *Surrebuttal Testimony*  
*Case No.:* *GR-2010-0171*  
*Date Testimony Prepared:* *July 20, 2010*

**MISSOURI PUBLIC SERVICE COMMISSION**

**UTILITY SERVICES DIVISION**

**SURREBUTTAL TESTIMONY**

**OF**

**DOYLE L. GIBBS**

**LACLEDE GAS COMPANY**

**CASE NO. GR-2010-0171**

*Jefferson City, Missouri  
July, 2010*

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SURREBUTTAL TESTIMONY OF  
DOYLE L. GIBBS  
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1 | disagreement in the appropriate amount of allowance. Do you agree with the Company's  
2 | characterization of the issue?

3 |       A.     Generally, yes. The Staff and Laclede are in agreement to the continuation of  
4 | the regulatory methodology established in Case No. GR-2002-0356 where pension expense is  
5 | based on an allowance for rates that contain an amount for pension fund contributions as well  
6 | as an amortization of the existing prepaid pension asset. While the issue, in terms of dollars,  
7 | is certainly the level of pension fund contributions, the Staff contends that the issue is also a  
8 | product of Laclede's timing with regard to its filing of this case.

9 |       Q.     Please explain.

10 |       A.     Laclede's position includes a contribution level that is based on an estimate for  
11 | its 2011 fiscal year which begins October 1, 2010. Contributions for any given Laclede fiscal  
12 | year would be made in five installments spread over twenty and a half months with the first  
13 | payment due mid January following the start of the applicable fiscal year. This would mean  
14 | that the first contribution installment for fiscal 2011 would not be until mid January 2011,  
15 | approximately five months after the ordered hearing dates and two and a half months beyond  
16 | the November 3, 2010 operation of law date in this case. The measurement date used by  
17 | Laclede's actuary, Towers Watson, to determine Laclede's 2011 fiscal year contribution is  
18 | October 1, 2010, will also be after the hearing dates in this case. Staff's position is that the  
19 | contribution amount from Laclede's latest available actuarial report issued in February 2010  
20 | for the fiscal year ending September 30, 2009 represents the appropriate known and  
21 | measureable amount for inclusion in this rate proceeding.

22 |       Q.     It is almost three quarters into Laclede's 2010 fiscal year. Why wouldn't the  
23 | 2010 contribution level be more appropriate?

1           A.     The actuarial report for Laclede's 2010 fiscal year has yet to be issued. But,  
2 more importantly, when you compare the actual quarterly contribution amount for 2009 to the  
3 January, 2010 quarterly contribution applicable to the 2010 fiscal year, \$425,000 and  
4 \$405,000 respectively, it would appear that there is a very real possibility that the 2010  
5 contribution will be less than the contribution made for 2009.

6           Q.     On page 14 and continuing on page 15 of Mr. Fallert's direct testimony in this  
7 case he states "Actuarial studies indicate the need for a substantial increase in funding  
8 requirements, starting with the plan year beginning October 1, 2010 and amounting to over  
9 \$20 million annually". Has the contribution level requested by Laclede in this case been  
10 actuarially calculated?

11          A.     No. The Laclede division contribution levels have been estimated by  
12 Towers Watson for each of the years ending September 30, 2010 through 2018 but there have  
13 been no actuarial report issued for any of these years. As indicated above, the measurement  
14 date for the 2011 actuarial report has yet to occur.

15          Q.     Is there some doubt as to the accuracy of the estimates?

16          A.     Yes. As Mr. Fallert indicates on page 9 of his rebuttal testimony, upon further  
17 review and analysis, he now believes that instead of the \$25 million pension level originally  
18 requested in his direct testimony that an allowance of \$17 million for pensions would now be  
19 sufficient. If one assumes the level of amortization of the prepaid pension asset in the  
20 allowance remained unchanged, then the level of estimated contributions had to be reduced by  
21 approximately 38 percent to equal Laclede's current cost position. Nothing has been provided  
22 to the Staff in support of this substantial reduction. The Staff has submitted data requests to

1 the Company to obtain additional information regarding these matters and will review this  
2 information once it is made available.

3 Q. On page of 11 of Mr. Fallert's rebuttal testimony he supports the inclusion of  
4 an estimated contribution level. He states that the prepaid pension asset would be able to  
5 absorb any cost in the event that estimated contribution funding levels do not materialize and  
6 would still produce a reasonable amortization period for the existing asset. Do you agree?

7 A. I agree that the current unamortized prepaid pension asset balance may absorb  
8 Laclede's pension contribution estimate in the event funding does not materialize. However,  
9 Staff does not believe the prepaid pension asset should be used as a safety net just in case an  
10 estimate does not turn out to be accurate, particularly given the magnitude of the estimate.  
11 Under the current Missouri Public Service Commission (Commission) authorized level of  
12 amortization, \$3.9 million per year, the current prepaid pension asset would be written off in  
13 just under 17 years. If Laclede's contribution estimate does not materialize, the amortization  
14 of the prepaid pension asset would be accelerated four-fold to approximately 4 years. The  
15 Staff believes that this change in magnitude of the prepaid pension amortization, possible  
16 under Laclede's request, is not reasonable.

17 Staff's opinion is that the current available pension contribution level, supported by an  
18 actuarial study along with the continuation of the current amortization of the prepaid pension  
19 asset, best reflects the known and measurable amount that should be included in the  
20 determination of rates in this case.

21 Q. Please explain your previous statement regarding Staff's contention that the  
22 pension issue is also a product of Laclede's timing with regard to its filing of this case.

23 A. The timing of Laclede's rate case filing causes the alleged increase in fiscal

1 2011 pension expense to not be known and measureable for this rate case. The Company is  
2 asking the Commission to include extremely large increases in the cost of service that are  
3 based on estimates. Furthermore, the Staff cannot rely on the accuracy of these estimates due  
4 to the significant change that has already occurred in the short period from the filing date of  
5 Mr. Fallert's direct testimony to the filing date of his rebuttal testimony. As previously  
6 discussed, the measurement date for the 2011 pension cost is October 1, 2010 and, if the  
7 issuance of the 2009 actuarial report is indicative, the actuarial calculations supporting the  
8 2011 pension expense will not be reported until February of 2012.

9 **NON-QUALIFIED PENSION EXPENSE**

10 Q. Regarding the cost associated with non-qualified pensions for Directors and  
11 SERP, is the issue between Laclede and Staff accurately depicted in the rebuttal testimony of  
12 Mr. Fallert as the difference created by the use of different time frames to compute the  
13 average cost?

14 A. Yes, with one exception. Mr. Fallert indicated that I used a five-year average  
15 to compute a normalized cost. This is only true with respect to SERP. As indicated on  
16 page 71 in Staff's Cost of Service Report filed in this case, Director's pension was determined  
17 using the actual test year payments. However, noting this, there is not a significant difference  
18 between a five-year historical average, actual test year or Laclede's five-year 2010 to 2014  
19 prospective average of payments with regard to Director's pension. The non-qualified  
20 pension issue is predominantly related to SERP where the historic five-year average of  
21 \$303,000 is \$995,000 less than the \$1,298,000 average (before transfers to construction)  
22 based on estimated payments to be incurred in years 2010 through 2014

1           Q.     Why is Staff recommending the historical five-year average instead of an  
2 average based on future payments, as proposed by Laclede?

3           A.     The five-year historical average is based on known and measurable data.  
4 There is no question as to the level of payments. On the other hand, it's hard to imagine  
5 under any scenario how an average extending that far into the future as has been proposed by  
6 Mr. Fallert could possibly be considered known and measureable.

7           Furthermore, it is highly probable that Laclede will file a new rate case even before  
8 the final years incorporated in its prospective average have occurred. The actual amount of  
9 these costs can be examined and considered in a future rate case.

10          Q.     Laclede has attempted to address its estimated future payments by  
11 requesting that the tracker mechanism used for qualified pensions be extended to include the  
12 non-qualified pension expense for Directors and SERP. Should the tracker mechanism be  
13 extended to include Director's pension and SERP?

14          A.     No. The level of historical payments does not reflect a variation in cost that  
15 would justify a tracker for nonqualified pension costs. However, Laclede's request for a  
16 tracker is based upon estimates of future substantial cost increases, especially with regards to  
17 SERP. Although, trackers have been used in special circumstances to address certain  
18 situations where cost volatility is outside the control of the company, the Staff does not  
19 believe that the Company's estimated SERP and Director's pensions costs warrant the use of  
20 a tracker. The tracker mechanism was extended to the regular pension cost because the  
21 volatility associated with the returns experienced in the stock market have a significant effect  
22 on the pension expense calculation. The actual payments made for Directors and SERP are  
23 not subject to this same stock market volatility.



Surrebuttal Testimony of  
Doyle L. Gibbs

1           In addition, Laclede is requesting a guaranty of the recovery of future SERP and  
2 Director's pensions. They are asking that these future costs be captured in between rate cases  
3 through a tracker mechanism and then included in the cost of service for guaranteed recovery  
4 in future rates.

5           Q.     Has the Commission recently provided some guidance regarding the  
6 proliferation of trackers?

7           A.     Yes. In its order in the recent Union Electric rate case, ER-2010-0036, the  
8 Commission denied the Company's request for a new tracker related to storm cost. In its  
9 Order, the Commission stated: "The Commission is unwilling to implement another tracker.  
10 As the Commission has previously indicated, trackers should be used sparingly because they  
11 tend to limit a utility's incentive to prudently manage its costs".

12          Q.     Does this conclude your surrebuttal testimony?

13          A.     Yes, it does.

**BEFORE THE PUBLIC SERVICE COMMISSION**  
**OF THE STATE OF MISSOURI**

In the Matter of Laclede Gas Company's Tariff    )  
to Increase Its Annual Revenues for Natural    )     Case No. GR-2010-0171  
Gas Service    )

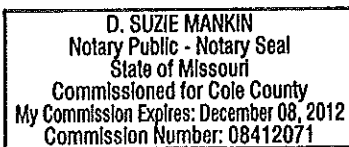
AFFIDAVIT OF DOYLE L. GIBBS

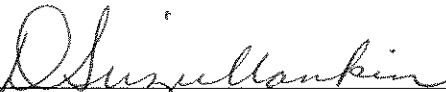
STATE OF MISSOURI     )  
                                  )     ss.  
COUNTY OF COLE     )

Doyle L. Gibbs, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, consisting of   7   pages to be presented in the above case; that the answers in the foregoing Surrebuttal 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.

  
\_\_\_\_\_  
Doyle L. Gibbs

Subscribed and sworn to before me this   15<sup>th</sup>   day of   July  , 2010.



  
\_\_\_\_\_  
Notary Public