

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

FILED

MAR 11 1999

Missouri Public
Service Commission

In the Matter of Laclede Gas Company's)
Tariff to Revise Natural Gas Rate)
Schedules.)

Case No. GR-99-315

A F F I D A V I T

STATE OF MISSOURI)
) SS.
CITY OF ST. LOUIS)

Mark D. Waltermire, of lawful age, being first duly sworn,
deposes and states:

1. My name is Mark D. Waltermire. My business address is
720 Olive Street, St. Louis, Missouri 63101; and I am Director of
Internal Audit for Laclede Gas Company.

2. Attached hereto and made a part hereof for all purposes is
my direct testimony, consisting of pages 1 to 8, inclusive; and
Section C - Schedule 14.

3. I hereby swear and affirm that my answers contained in the
attached testimony to the questions therein propounded and the
information contained in the attached schedules are true and correct
to the best of my knowledge and belief.


Mark D. Waltermire

Subscribed and sworn to before me this 10th day of March, 1999.

PATRICIA P. HICKS
Notary Public — Notary Seal
STATE OF MISSOURI
City of St. Louis
My Commission Expires: June 27, 2002





Exhibit No.:

Issue:

Witness:

Type of Exhibit:

Sponsoring Party:

Case No.:

Pensions and Post-
Retirement Benefits

Mark D. Waltermire

Direct Testimony

Laclede Gas Company

GR-99-315

FILED
MAR 11 1999
Missouri Public
Service Commission

LACLEDE GAS COMPANY

GR-99-315

DIRECT TESTIMONY

OF

MARK D. WALTERMIRE



Direct Testimony of Mark D. Waltermire

Table of Contents

<u>Issue</u>	<u>Page</u>
General Information/Qualifications	1
Pensions	3
Postretirement Benefits Other Than Pensions	6



TESTIMONY OF MARK D. WALTERMIRE

1 Q. Please state your name and business address.

2 A. My name is Mark D. Waltermire and my business address is 720 Olive Street, St.
3 Louis, Missouri 63101.

4 Q. What is your present position?

5 A. I am the Director of Internal Audit for Laclede Gas Company.

6 Q. Please state how long you have held your position and briefly describe your
7 responsibilities.

8 A. I was appointed to my present position in January, 1996. In this position, I am
9 responsible for planning, supervising and performing examinations and evaluations of
10 Laclede's financial and operational activities. Such work encompasses a review of
11 the adequacy and effectiveness of Laclede's system of internal control, as well as its
12 compliance with various federal, state and local rules and regulations.

13 Q. What is your educational background?

14 A. I graduated in 1980 from the University of Illinois at Urbana - Champaign with a
15 Bachelor of Science Degree in Accounting.

16 Q. Have you passed the Uniform CPA exam?

17 A. Yes, I passed the Uniform CPA exam in 1980.

18 Q. Will you briefly describe your experience with Laclede prior to assuming your
19 present position?

20 A. I joined Laclede in February 1990, as Assistant to the Manager of Budget and
21 Financial Planning. In June 1990, I was transferred to the position of Staff Assistant
22 to the Vice President - Finance. I held this position until being promoted to Manager

1 of Rate and Financial Planning in February, 1992, where I had responsibility for the
2 financial aspects of pensions and other postretirement benefits. I worked in this
3 capacity until being promoted to my current position.

4 Q. Please describe your work experience prior to joining Laclede Gas Company.

5 A. From June, 1980 through May, 1983, I worked in the St. Louis office of Deloitte,
6 Haskins & Sells (currently known as Deloitte & Touche LLP) where I attained the
7 position of Senior Accountant. I was employed from May, 1983 to March, 1986 by
8 St. Joe Minerals Corporation where I progressed to the position of Division
9 Controller of St. Joe Resources Company - National Zinc Division. From March,
10 1986 through December, 1989, I was employed by Newhard, Cook & Co.
11 Incorporated where I progressed to the position of Vice President and Treasurer.

12 Q. Are you a member of any professional societies?

13 A. Yes, I am a member of the American Institute of Certified Public Accountants, the
14 Missouri Society of Certified Public Accountants and the Institute of Internal
15 Auditors.

16 Q. Have you previously filed testimony before this Commission?

17 A. Yes, I have, in Case Nos. GR-92-165, GR-94-220, and GR-96-193.

18 Q. What is the purpose of your testimony in this case?

19 A. I am sponsoring income statement adjustments related to pensions and other
20 postretirement benefits. I am also sponsoring inclusion of the Company's net prepaid
21 pension asset in rate base.

22 Q. Please list the schedules you are sponsoring.

23 A. I am sponsoring Schedule 14 to Section C, TEST YEAR UTILITY OPERATING
24 INCOME AND ADJUSTMENTS. This schedule was prepared by me or under my

1 supervision and provides supporting detail for my adjustments to test year utility
2 operating income listed on Schedule 2 to Section C. These adjustments are described,
3 in detail, below. I am also sponsoring the aforementioned rate base item as listed on
4 Schedule 1 of Section A, RATE BASE.

5 Adjustments to Utility Operating Income

6 Pension Expense (Other than SERP and Directors')

7 Q. Please discuss adjustment 4.a. to pension expense which you are sponsoring on
8 Schedule 2 of Section C.

9 A. Adjustment 4.a., detailed on Schedule 14 of Section C, adjusts test year pension
10 expense to reflect the expected cost of pension and retirement income benefits
11 (exclusive of SERP and Directors' pension plan costs, which are discussed in the
12 testimony of Company witness J. A. Fallert) that will be earned by the Company's
13 employees.

14 Q. What basis of accounting did Laclede use to determine pension expense?

15 A. Laclede calculated its pension expense on an accrual basis in accordance with
16 Statement of Financial Accounting Standards No. 87 (FAS 87), "Employers'
17 Accounting for Pensions," and Statement of Financial Accounting Standards No. 88
18 (FAS 88), "Employers' Accounting for Settlements and Curtailments of Defined
19 Benefit Pension Plans and for Termination of Benefits." These standards were
20 developed by the Financial Accounting Standards Board (FASB), which has
21 responsibility for establishing Generally Accepted Accounting Principles (GAAP) to
22 be followed by all companies that are publicly traded in the United States. Laclede
23 was first required to adopt the provisions of these statements effective October 1,
24 1987.

1 Q. Please briefly describe the cost measurement objectives of FAS 87 and FAS 88.

2 A. One of the primary objectives of FAS 87 and FAS 88 is to ensure that pension cost is
3 assigned to the time periods in which pension benefits are earned. Another objective
4 of these statements is to provide a basis for ensuring comparability of reported
5 pension cost between different companies, and consistency in amounts reported from
6 period to period by an individual company.

7 Q. Please continue.

8 A. FAS 87 establishes the basic framework for calculating and accruing net pension cost.

9 It attempts to recognize the compensation cost of an employee's pension benefits
10 over the approximate working life of that employee. Pension cost is based on the
11 valuation of two separate components: 1) plan liabilities for benefits earned by
12 employees; and 2) qualified plan assets, if any, to pay such benefits. Changes in the
13 value of pension liabilities are netted against changes in the value of plan assets to
14 determine periodic net pension cost. Depending on the magnitude of the changes in
15 these two components, total net pension cost may result in either expense or income
16 to a company. FAS 87 also provides for systematic recognition (i.e. amortization) of
17 gains and losses arising from differences between a plan's expected and actual
18 experience.

19 FAS 88 is merely an extension of the FAS 87 measurement process. It
20 *generally requires immediate recognition* of all or part of that portion of the FAS 87
21 gains and losses that have not been recognized as of the date certain specific types of
22 pension plan transactions or events occur. In Laclede's case, this occurs when lump-
23 sum benefit payments are made to retirees in exchange for the full settlement of the
24 Company's retirement obligation to them.

1 Q. How was the Company's normalized test year pension expense calculated?

2 A. The Company's normalized test year pension expense reflects annualized FAS 87
3 pension cost effective for the fiscal year beginning October 1, 1998, and FAS 88
4 gains expected to be recognized through the twelve months ended March 31, 1999.
5 Pursuant to the Commission's Order in Case No. GR-98-374, pension cost has been
6 calculated using the market value of plan assets and amortization of unrecognized net
7 gains and losses over a five-year period.

8 Q. You are also sponsoring the inclusion of the Company's net prepaid pension asset in
9 rate base. Please describe what this amount represents.

10 A. In addition to accruing FAS 87 and FAS 88 pension cost, the Company must also
11 fund the payment of such benefits. Sources of funding include: 1) cash contributions;
12 and 2) changes in the market value of assets previously set aside for the payment of
13 retirement benefits. Usually, there will be a timing difference between when pension
14 expense (or income) is accrued and when cash contributions, if any, are required to
15 fund benefits. To account for these timing differences, a company will record a
16 prepaid pension asset or an accrued pension liability on its balance sheet for each of
17 its pension arrangements.

18 At any point in time, the balance in the prepaid pension asset account
19 represents the amount by which aggregate contributions and pension income booked
20 since the adoption of FAS 87 and FAS 88, exceeds aggregate pension expense
21 recognized during the same period. Correspondingly, accrued pension liabilities
22 result when the opposite situation occurs.

23 Q. Why is it appropriate to include the net prepaid pension asset in rate base?

24 A. Over the years, the Company has recognized significant net pension plan gains

1 through its FAS 87 and FAS 88 calculations. As a result, ratepayers have benefited
2 from the inclusion of lower pension costs in rates. However, the recognition of these
3 gains, which have resulted in the creation of the net prepaid pension asset, have not
4 resulted in additional cash flow to the Company. This is because the gains that have
5 been recognized relate to assets held under a pension trust arrangement. Such assets
6 cannot be withdrawn without incurring severe penalties. The net effect of this
7 treatment has been to lower the Company's revenue requirement and, therefore, its
8 cash flows.

9 In consideration of the above, I believe it is appropriate that the Company be
10 provided with a return on its net prepaid pension asset in recognition of the fact that
11 its investment in the asset has not been made with ratepayer provided funds. This
12 treatment is similar to the Commission's current treatment of deferred income taxes in
13 rate base.

14 Q. How was the amount of the net prepaid pension asset included in rate base
15 determined?

16 A. The prepaid pension asset included in rate base was calculated by netting estimated
17 March 31, 1999 accrued pension liability balances against estimated March 31, 1999
18 prepaid pension asset balances, for all Company sponsored retirement plans
19 (excluding the SERP and Directors' plans).

20 Other Postretirement Benefits Expense

21 Q. Please explain your next adjustment related to the cost of postretirement benefits other
22 than pensions.

23 A. Adjustment 4.b. on Schedule 2 of Section C, adjusts test year expense to reflect the
24 Company's expected cost of postretirement benefits other than pensions (OPEBs).

- 1 Details of this adjustment are contained on Schedule 14 of Section C.
- 2 Q. Please describe the types of OPEBs provided by Laclede to its employees when they
3 retire.
- 4 A. Laclede provides certain health and life benefits to eligible employees retiring from
5 active service.
- 6 Q. What basis of accounting was used to determine the amount of postretirement benefit
7 expense to include in cost of service?
- 8 A. As previously authorized by the Commission¹, postretirement benefit expense was
9 calculated on an accrual basis in accordance with Statement of Financial Accounting
10 Standards No. 106 (FAS 106), "Employers' Accounting for Postretirement Benefits
11 Other Than Pensions." FAS 106 measures OPEB cost in much the same manner as
12 pension cost is measured by FAS 87.
- 13 Q. Have previous Commission Report & Orders contained any other conditions or
14 authorizations pertaining to FAS 106?
- 15 A. Yes they have. Beginning with the Commission's Report and Order in Case No. GR-
16 94-220, and continuing in all the Company's general rate proceedings thereafter, the
17 Company has been directed to fund its annual FAS 106 OPEB expense levels in
18 accordance with the provisions of Section 386.315 (RSMo. 1994), which requires the
19 use of an external funding mechanism.
- 20 Q. Is Laclede currently funding its accrued FAS 106 costs in an external trust, or other
21 external funding arrangement?
- 22 A. Yes it is. Consistent with the Commission's previous orders and Section 386.315,
23 the Company is currently contributing its annual FAS 106 cost levels into three

¹ See Case Nos. GR-94-220, GR-96-193 and GR-98-374.

1 external trust arrangements. Disbursements from these trusts can only be used for the
2 payment of OPEB obligations.

3 Q. How was the amount of normalized OPEB expense to be included in the Company's
4 cost of service determined?

5 A. Laclede adjusted test year expense to reflect its estimated OPEB expense level for the
6 fiscal year beginning October 1, 1998, as calculated by its actuary in accordance with
7 the provisions of FAS 106. As with its calculation of pension expense, FAS 106 cost
8 was determined using the market value of plan assets and amortization of
9 unrecognized net gains and losses over a five-year period.

10 Q. Does this conclude your testimony?

11 A. Yes, it does.