

Exhibit No.:	
Issue:	Incentive Compensation
Witness:	David M. Seevers.
Type of Exhibit:	Rebuttal Testimony
Sponsoring Party:	Laclede Gas Company
Case No.:	GR-2010-0171

LACLEDE GAS COMPANY

GR-2010-0171

REBUTTAL TESTIMONY

OF

DAVID M. SEEVERS

JUNE 2010

REBUTTAL TESTIMONY OF DAVID M. SEEVERS

General Information

Q. Please state your name and business address.

A. My name is David M. Seevers, and my business address is 720 Olive Street, St. Louis, Missouri, 63101.

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

A. I am employed by Laclede Gas Company (“Laclede” or “Company”) in the position of Director of Compensation Services.

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

A. I have held this position since March 2009. I am responsible for designing, planning and implementing corporate compensation programs, policies and procedures, including the performance appraisal system. I am also responsible for planning, implementing and administering executive compensation programs.

Q. Where did you work prior to Laclede?

A. I worked at Centene Corporation (“Centene”) for approximately 5 ½ years.

Q. What position did you hold at Centene?

A. I worked in the compensation area most of the time I was at Centene. My most recent role at Centene was as the Director of Compensation.

Q. What is your educational background?

A. I graduated from the University of Missouri – Columbia with a Bachelor of Science degree in Business Administration. I then received my MBA from the

1 University of Missouri – St. Louis. I am also a Certified Compensation
2 Professional.

3 Q. Have you ever submitted testimony on behalf of Laclede in any prior Commission
4 proceeding?

5 A. No.

6

7 **Purpose of Testimony**

8 Q. What is the purpose of your rebuttal testimony?

9 A. The purpose of my testimony is to respond to the Staff's proposal to remove the
10 capitalized portion of the Annual Incentive Plan and Equity Incentive Plan
11 ("Plans") compensation programs from rate base. I will explain the purpose of
12 the Plans, their design, and why, at a minimum, the capitalized portion of the
13 costs of the Plans should continue to be included in rate base.

14

15 **Purpose of Incentive Plans**

16 Q. Why does the Company offer incentive plans?

17 A. Incentive plans are designed to motivate, reward and align the interests of
18 employees with all stakeholders and the long-term strategy. Furthermore, the
19 Company feels strongly that we need to have incentive plans in order for us to
20 remain competitive in attracting and retaining talent. I think it is important to
21 note that Laclede's incentive plans have been approved by its shareholders. I
22 believe that the vast majority of publicly-traded companies that are our size offer
23 incentive plans that are similar to Laclede's Plans. Based on a proxy review of

1 other companies that we consider peers, we found that all of them also offer
2 similarly designed incentive plans. These peers are companies that are similar to
3 our size, have gas utilities, and are publically traded. In fact, I am not aware of
4 any publicly-traded company that does not offer an incentive plan to at least its
5 top management employees. Moreover, the near universal use of such plans by
6 publicly-traded companies across the country has been confirmed by our
7 independent compensation consultant who works for one of the largest and most
8 recognized compensation consulting firms in the country.

9

10 **Summary of Laclede's Annual and Equity Incentive Plans**

11 Q. Can you summarize Laclede's Annual Incentive Plan (AIP)?

12 A. The Company's AIP is designed to motivate and reward participants for annual
13 results tied to annual corporate financial, operational and customer related
14 objectives. At the beginning of the fiscal year, corporate performance targets are
15 set by the Compensation Committee of the Board of Directors ("Compensation
16 Committee") based on the strategic plan for the upcoming year. For fiscal year
17 2009, the Board set funding performance metrics related to Earnings Per Share
18 which was 70% of total weighting, J.D. Power Customer Satisfaction Survey
19 (Midwest Local Gas Distribution Companies) weighted 15%, and Strategic
20 Milestones weighted 15%. The level of attainment of those measures determines
21 the extent to which the AIP is funded.

22 Q. Can you explain a little more about how the final funding of the AIP Plan is
23 determined?

1 A. Yes. Each AIP performance metric has pre-determined funding weight and
2 threshold, target and high performance measures. Target performance results in
3 100% funding for the specific metric; threshold performance results in 50%
4 funding and high performance is 150% of funding. Performance below threshold
5 on any measure would result in 0% funding for that specific measure, and the
6 Plan can not be funded above 150% for any individual metric or in total.
7 Determination of performance between threshold and target performance and
8 between target and high performance is based on a straight-line interpolation.

9 Q. How are individual AIP participants compensated under the Plan?

10 A. Each individual participant's target opportunity is a percentage of his/her base
11 salary. The actual individual award may go up or down based on the funding I
12 described above and the individual's performance against the pre-defined
13 individual goals approved by department heads. The CEO approves executive
14 objectives. Overall, a large portion of the individual objectives are directly tied to
15 customer service and operational efficiency, both of which directly benefit
16 customers. If an employee does not meet these individual objectives, the
17 employee will not receive an incentive payment. Accordingly, for any incentive
18 compensation to be awarded to a particular employee under the AIP, *both* the
19 funding threshold metrics as well as the achievement of these customer-oriented
20 objectives must be achieved.

21 Q. How is individual performance measured at the end of the performance year?

22 A. An extensive year end review and approval process includes supervisors,
23 department heads, internal audit, senior management, the CEO and the

1 Compensation Committee. Supervisors, department heads, senior management
2 and the CEO are involved in the review to determine objective achievement and
3 the appropriateness of the individual awards. Individual objectives are also
4 analyzed by Internal Audit to determine whether objectives have been achieved.
5 Finally, the actual performance versus the funding metrics are reviewed and
6 approved by the Compensation Committee. Individual awards are also reviewed
7 for appropriateness by the Compensation Committee.

8 Q. How many employees participate in the AIP?

9 A. In Fiscal Year 2009, 110 employees participated in the AIP.

10 Q. Can you summarize Laclede's Equity Incentive Plan (EIP)?

11 A. Yes. The EIP is a long-term incentive plan and it is a little less complex since all
12 participants have the same Company metrics. Long-term incentive compensation
13 is designed to further align the interests of employees with stakeholders and the
14 long-term strategy. Currently, the EIP is partially made up of performance-
15 contingent restricted stock grants, with 3 year performance measures. The
16 awards for the fiscal year 2007-2009 performance period included threshold and
17 target performance levels that may be earned. Determination of performance
18 between threshold and target performance is based on a straight-line interpolation.
19 The performance criteria were Earnings Per Share growth and dividend growth
20 over the 3 year period. The Compensation Committee certifies that the
21 performance criteria were met before any vesting of shares occur. Currently, the
22 other portion of the EIP is made up of time-vested restricted shares that vest 3
23 years after the grant date. The time-vested restricted shares are used as a retention

1 tool. These shares also contribute to share ownership which helps align the
2 participant's interest with the shareholder and other stakeholders.

3 **Benchmarking**

4 Q. How does Laclede determine the target amount of an award for a participant in
5 the AIP or EIP?

6 A. An independent compensation consultant provides the Company with market data
7 from surveys and other publically available sources to help determine what
8 competitive individual target amounts are, based on the participant's level and
9 role. The Company's internal value of the role is also factored in when
10 determining targets. Targeted levels for the performance measures in the annual
11 and long-term incentive plan are set at levels that are challenging, yet attainable,
12 and are not expected to be achieved all of the time.

13 **Ratepayer Benefits**

14 Q. How do ratepayers benefit from incentive pay?

15 A. Unlike a base salary or hourly rate, above average Company and individual
16 performance must be achieved before employees are rewarded from an incentive
17 plan. These incentives have driven Laclede to improve operations so that it can
18 become a more efficient and customer-oriented supplier of natural gas. The
19 objectives set forth in the Plans motivate participants to go above and beyond the
20 norm in order to achieve higher results, which in turn ultimately benefits the
21 ratepayer. The Plans have also allowed us to attract and retain talented
22 employees, which eventually benefits ratepayers.

1 Q. Do you have a schedule identifying some of the customer-oriented objectives
2 underlying the Company's Plans?

3 A. Yes. Schedule DMS-1 provides a summary of the fiscal year 2009 individual
4 objectives for each of the Laclede Gas participants in the AIP. As shown there,
5 the achievement of meaningful goals that directly benefit the customer by either
6 improving customer service or making our provision of service more efficient is a
7 core element of virtually every employee's incentive compensation award.
8 Whether it is a more general metric of reducing operational costs below budgeted
9 levels, a more specific metric of streamlining processes and procedures to make
10 them more efficient, or a service metric of ensure that Company personnel keep
11 appointment times, the end result is a either a reduction in our cost of service or
12 an improvement in the quality of that service.

13 Q. Does the fact that the Plans also focus on earnings per share and dividend growth
14 mean that they are designed to benefit shareholders rather than ratepayers?

15 A. Not at all. The primary way of achieving either of these objectives is through
16 operating more efficiently and effectively. Although I am new to the regulatory
17 process, I have been advised that while such efforts to become more efficient may
18 benefit shareholders by increasing net income between rate cases, it ultimately
19 benefits the ratepayer through decreased costs. In fact, it is my understanding that
20 the Staff's revenue requirement recommendations in this case have already
21 captured many of these benefits for customers. In addition, a portion of the
22 annual incentive plan funding is directly tied to customer satisfaction and
23 continuous improvements through strategic milestones. In Fiscal Year 2009, 15%

1 of Laclede's annual incentive pool was based on the overall satisfaction of
2 Laclede's customers relative to the median overall results of the Midwestern gas
3 utilities reported in the J.D. Power survey. This metric is also currently being
4 used. Increased customer satisfaction clearly benefits ratepayers.

5 Q. Did the introduction of incentive plans just give employees more money?

6 A. I will reiterate that the target AIP and EIP awards are pay at risk, unlike base pay,
7 and require above average Company and individual performance before being
8 earned. Also, many of Laclede's jobs lagged the market rate of pay when it came
9 to targeted total direct compensation (base salary + short-term incentives (AIP) +
10 long-term incentives (EIP)) prior to the introduction of our incentive plans.
11 Therefore, the addition of the AIP and EIP approximately 7 years ago put many
12 participants' targeted total direct compensation more in line with peers at other
13 companies. Moreover, the awarding of incentive compensation has also been
14 reflected in lower base salaries. For example, this fiscal year, the base salary
15 increase budget for participants in the Plans is lower than the increases for our
16 union employees. If we did not have these incentive plans, Laclede would likely
17 have to pay drastically higher base salaries to attract & retain key talent since our
18 total direct compensation package would not be as competitive with many other
19 publicly traded companies. Incentive pay at risk is a superior way to compensate
20 and it is a better motivator that benefits ratepayers through the objectives that are
21 accomplished. That is undoubtedly why it is so universally used today by
22 companies throughout the country.

23 Q. Has the Company sought to recover all of its incentive pay in rates?

1 A. Laclede did not include recovery in rates in its direct filed case for the portion of
2 its incentive pay that is normally expensed. Although the Company believes that
3 these plans provide significant value to its customers, these costs were excluded
4 in order to provide for a contribution from shareholders to the comprehensive
5 package of proposals in its direct case. The Company only sought to recover the
6 portion of incentive pay that is required to be capitalized under accounting rules.
7 However, the considerable benefits provided to customers by these plans would
8 justify a much higher allowance in rates of the costs associated with these plans.

9 Q. Has the Commission allowed Laclede to recover the capitalized portion of its
10 Plans in rate base previously?

11 A. Yes, I have been informed that, in prior rate cases, Laclede has included the
12 capitalized cost of its Plans since their inception.

13 Q. Does that conclude your testimony?

14 A. Yes

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HIGHLY CONFIDENTIAL IN ITS ENTIRETY**

SCHEDULE DMS-1

In the Matter of Laclede Gas Company's)
Tariff to Revise Natural Gas Rate Schedules) Case No. GR-2010-0171

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

1. My name is David M. Seevers. My business address is 720 Olive Street, St. Louis, Missouri 63101; and I am Director-Compensation Services of Laclede Gas Company.

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

Subscribed and sworn to before me this 24th day of June, 2010.

Karen C. Justice
Notary Public

