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LACLEDE GAS COMPANY

GR-2013-0171

DIRECT TESTIMONY

OF

DAVID M. SEEVERS

DECEMBER 2012

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DIRECT TESTIMONY OF DAVID M. SEEVERS

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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 & Benefits.

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

A. I have held this position since October 2011. I am responsible for designing, planning and implementing corporate compensation and benefits programs, policies and procedures. I am also responsible for planning, implementing and administering executive compensation and benefits programs.

Q. Please describe your experience with Laclede.

A. I joined Laclede in March 2009 as Director of Compensation Services. I was promoted to my current position in October 2011.

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 last role at Centene was as the Director of Compensation.

Q. What is your educational background?

1 A. I graduated from the University of Missouri – Columbia in 1999 with a Bachelor of
2 Science degree in Business Administration. I received my MBA in 2004 from the
3 University of Missouri – St. Louis. I am also a Certified Compensation Professional.

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

6 A. Yes, I submitted rebuttal testimony in the Company’s last general rate case proceeding.

7 **PURPOSE OF TESTIMONY**

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

9 A. The purpose of my direct testimony is to provide an overview of the Company’s
10 performance-based incentive plans. Specifically, I will discuss the purpose of these
11 plans, how they are designed, and why it is appropriate for the Commission to permit
12 recovery of the plan-related costs that the Company has included in its rate request.

13 **PURPOSE OF INCENTIVE PLANS**

14 Q. Why does the Company offer incentive plans?

15 A. Incentive plans are designed to motivate, reward and align the interests of employees
16 with all stakeholders, including the customer. Furthermore, the Company feels strongly
17 that we need to have incentive plans in order for us to remain competitive in attracting
18 and retaining talent. It is important to note that Laclede’s incentive AIP and EIP plans
19 have been approved by its shareholders. Many publicly-traded companies that are our
20 size offer incentive plans that are similar to Laclede’s plans, including plans like the
21 LGIP described below. Based on a proxy review of other companies that we consider
22 peers, we found that all of them also offer plans similar to our AIP and EIP. These peers
23 are companies that are similar to our size, have gas utilities, and are publically traded. In

1 fact, I am not aware of any publicly-traded company that does not offer an incentive plan
2 to at least its top management employees.

3 **SUMMARY OF LACLEDE'S ANNUAL AND EQUITY INCENTIVE PLANS**

4 Q. What incentive plans does the Company offer?

5 A. For fiscal 2013, the Company has a new Laclede Gas Incentive Plan (LGIP), along with
6 its Annual Incentive Plan (AIP) and Equity Incentive Plan (EIP).

7 Q. Can you summarize the new LGIP?

8 A. The Company's new LGIP is similar to the original AIP, and is designed to motivate and
9 reward participants for meeting annual results. The LGIP is tied primarily to the
10 Company's annual customer-related, operational and financial objectives. Early in the
11 fiscal year, performance targets and metrics are set for Laclede, along with team and
12 individual objectives.

13 Q. How does the LGIP differ from the previous AIP?

14 A. In fiscal 2012 and previous years, the availability of the AIP was limited to mid and
15 upper level management employees. So for fiscal 2012, 126 employees participated in
16 the AIP. In an effort to motivate, reward and align the interests of the entire employee
17 population with the interests of both customers and other stakeholders, we have created
18 the LGIP to apply to all non-officer management and union employees at Laclede.

19 Q. Why has Laclede included its union workforce in the LGIP along with the non-officer
20 management employees?

21 A. When it comes to providing incentives to motivate employees, there is no reason to
22 distinguish between union and management employees. The Company seeks to attract
23 and retain highly skilled workers in both union and management positions. The

1 Company also feels it is important to align objectives for all employees, and to reward all
2 employees for their contributions to the achievement of performance measures. Laclede
3 believes that we are all in the same boat, and our approach to employee compensation
4 should reflect that.

5 Q. Will the LGIP also include Missouri Natural Division union employees?

6 A. Laclede Division union employees are included in the 2013 LGIP as a result of the
7 Company's 2012 bargaining unit agreement with those employees. The current
8 agreement with MoNat Division union employees has not yet expired, but when it does
9 expire in April, participation in the LGIP will be discussed with that employee group.

10 Q. How is the LGIP structured for fiscal year 2013?

11 A. Under the LGIP, we will have two performance periods for fiscal year 2013. The first
12 one will end on March 31, and the second period will cover April through September.
13 Whether we continue semi-annual performance periods in future years is still to be
14 determined.

15 Q. How is the new LGIP calculated?

16 A. As with previous AIPs, predetermined metrics determine the funding and the weighting
17 of the threshold, target and high performance measures. Target performance results in
18 100% funding for the specific metric; threshold performance results in 50% funding and
19 high performance receives 150% funding. Performance below threshold on any measure
20 would result in 0% funding for that specific measure, and the Plan cannot be funded
21 above 150% for any individual metric or in total. Determination of performance between
22 threshold and target performance and between target and high performance is based on a
23 straight-line interpolation.

- 1 Q. How are individual LGIP participants compensated under the Plan?
- 2 A. Each individual participant's target opportunity is a percentage of his/her base earnings
3 plus overtime if applicable. The actual individual award may go up or down based on the
4 funding described above and on the individual's or team's performance as compared to
5 the defined individual/team goals approved by department heads. Overall, a large portion
6 of the individual objectives are directly tied to customer service, safety and operational
7 efficiency, each of which directly benefits customers. If an employee does not meet these
8 individual/team objectives, the employee will not receive an incentive payment under that
9 major plan component.
- 10 Q. How is individual performance measured at the end of the performance period?
- 11 A. Company leadership and the Board will evaluate the plan results to determine the
12 eligibility for funding and payout. Department heads and supervisors will assist in
13 determining individual/team performance outcomes.
- 14 Q. How many employees will participate in the LGIP and AIP for FY 2013?
- 15 A. We anticipate that approximately 1,580 employees will be eligible for an LGIP incentive
16 in fiscal 2013 and 19 officers will participate in the AIP. Approximately 80 additional
17 employees might participate for a portion of fiscal year 2013 if the Missouri Natural
18 union negotiates this benefit.
- 19 Q. What is the role of the AIP?
- 20 A. The AIP is still in place, but is now applicable only to officers of the Company, so it has
21 fewer participants than in years past. AIP incentives are weighted more toward financial
22 performance that benefits both shareholders and customers but they also focus on
23 operational and other customer factors associated with each individual's position.

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

2 A. Yes. The EIP is a long-term incentive plan and it is a little less complex since all
3 participants have the same Company metrics. Long-term incentive compensation is
4 designed to further align the interests of officers and key employees with stakeholders
5 and the long-term strategy. Currently, the EIP is mostly made up of performance-
6 contingent restricted stock grants, with 3 year performance measures. The awards for
7 the fiscal year 2010-12 performance period included threshold, target and high
8 performance levels that could be earned. Determination of performance between
9 threshold and target performance is based on a straight-line interpolation. The
10 performance criteria were Earnings Per Share growth and Portfolio Development over the
11 3 year period. The Compensation Committee certifies that the performance criteria were
12 met before any vesting of shares occurs. The other portion of the EIP, approximately
13 25%, is made up of time-based restricted shares that vest 3 years after the grant date. The
14 time-based restricted shares are used mainly as a retention tool. These shares also
15 contribute to share ownership which helps align the participant's interest with the
16 shareholder and other stakeholders.

17 **BENCHMARKING**

18 Q. How does Laclede determine the target amount of an award for a participant in the LGIP,
19 AIP or EIP?

20 A. The Company uses market data from surveys and other publically available sources to
21 help determine competitive individual target amounts based on the participant's level and
22 role at the Company. The Company's internal value of the role is also factored in when
23 determining targets. Targeted levels for the performance measures in the annual and

1 long-term incentive plan are set at levels that are challenging, yet attainable, and are not
2 expected to be achieved all of the time.

3 **RATEPAYER BENEFITS**

4 Q. How do ratepayers benefit from incentive pay?

5 A. Unlike a base salary or hourly rate, performance must exceed threshold metrics before
6 employees are rewarded from an incentive plan. These incentives have driven Laclede to
7 improve operations so that it can become a more efficient and customer-oriented supplier
8 of natural gas. The objectives set forth in the plans motivate participants to go above and
9 beyond the norm in order to achieve higher results, which ultimately benefit the
10 ratepayer. When employees respond to financial incentives by decreasing costs and/or
11 increasing revenues, ratepayers ultimately reap the benefits through lower rates and less
12 frequent rate cases. When employees respond to operational incentives, customers see
13 the benefit of more effective service provided in a more efficient manner. When
14 employees respond to customer service incentives, customers obviously benefit through
15 improved service. Finally, the incentive plans have also allowed us to attract and retain
16 talented employees, which also benefits ratepayers.

17 Q. So does Laclede oppose straight base salary or hourly pay?

18 A. Certainly not – in fact, for LGIP participants, the large majority of their compensation
19 remains fixed. However, we join some of our peers in believing that having an incentive
20 component to compensation is beneficial for ratepayers as it aligns employee incentives
21 with customer interests.

22 Q. Do you have a schedule identifying some of the customer-oriented objectives underlying
23 the Company's plans?

1 A. Yes. Schedule DMS-D1 provides a summary of the fiscal year 2012 individual
2 objectives for each of the Laclede Gas participants in the AIP. As shown there, the
3 achievement of meaningful goals that directly benefit the customer by either improving
4 customer service or making our provision of service more efficient is a core element of
5 virtually every employee's incentive compensation award. Whether it is a more general
6 metric of reducing operational costs below budgeted levels, a more specific metric of
7 streamlining processes and procedures to make them more efficient, or a service metric to
8 ensure that Company personnel maintain safety practices or keep appointment times, the
9 end result is either a reduction in our cost of service or an improvement in the quality of
10 that service.

11 Q. Does the fact that the Plans also focus on financial results and, in the case of the EIP,
12 portfolio development, mean that they are designed to benefit shareholders rather than
13 ratepayers?

14 A. Not at all. The primary way of maximizing earnings is through operating more
15 efficiently and effectively. I understand that while such efforts to become more efficient
16 may benefit shareholders by increasing net income between rate cases, it ultimately
17 benefits customers through decreased costs and rates that are lower than they otherwise
18 would have been. The fact that this is only the second rate case that the Company has
19 filed in the past six years is evidence that customers are capturing these benefits. In
20 addition, a portion of the annual incentive plan funding is directly tied to customer
21 satisfaction and continuous improvements through strategic milestones. In fiscal 2012,
22 15% of Laclede's annual incentive pool was based on improvement made in an RDA

1 Customer Satisfaction Survey. Increased customer satisfaction is clearly a customer-
2 oriented metric.

3 Q. What about portfolio development?

4 A. Growth also benefits customers. As Laclede witness Suzanne Sitherwood explains in her
5 testimony, growth can permit the Company to spread its utility costs over a larger
6 customer base, thus lowering the cost for each customer

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

8 A. No. I must emphasize that the target LGIP, AIP and EIP awards are pay at risk, unlike
9 base pay, and require above threshold Company or individual performance before being
10 earned. Also, some of Laclede's jobs lagged the market rate of pay when it came to
11 targeted total direct compensation (base salary + short-term incentives (AIP or LGIP) +
12 long-term incentives (EIP)) prior to the introduction of our incentive plans. Therefore, the
13 LGIP, AIP and EIP put many participants' targeted total direct compensation more in line
14 with peers at other companies. For many positions, if we did not have these incentive
15 plans, Laclede would likely have to pay significantly higher base salaries to attract and
16 retain key talent since our total direct compensation package would not be as competitive
17 with many other publicly traded companies. Incentive pay at risk is a superior way to
18 compensate employees in that it better motivates and rewards them when they achieve
19 objectives that also benefit customers. That is undoubtedly why it is used today by many
20 companies throughout the country.

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

22 A. No. Laclede does seek recovery of all of the costs of the LGIP and AIP in rates. As
23 indicated earlier in my testimony, incentive payments under these programs are a

1 common and normal part of compensation, an expense that the Company should be able
2 to recover. With respect to the EIP, however, while the Company believes that this
3 program also provides significant value to its customers, the non-capitalized portion of
4 these costs were excluded in order to make sure that shareholders were also contributing
5 to the cost of incentive pay. In other words, the Company is seeking to recover only the
6 portion of EIP incentive pay that is required to be capitalized under accounting rules.
7 However, the considerable benefits provided to customers by these plans would justify a
8 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 EIP in rate
10 base previously?

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

13 Q. Does that conclude your testimony?

14 A. Yes, it does.

**SCHEDULE DMS-D1 CONSISTING OF 14 PAGES IS
HIGHLY CONFIDENTIAL IN ITS ENTIRETY**

SCHEDULE DMS-D1

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

In the Matter of Laclede Gas Company's Filing of)
Revised Tariffs to Increase its Annual Revenues) Case No. GR-2013-0171
For Natural Gas Service)

AFFIDAVIT

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

David M. Seevers, of lawful age, being first duly sworn, deposes and states:

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

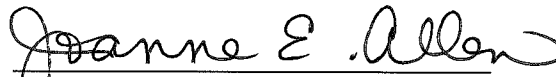
2. Attached hereto and made a part hereof for all purposes is my direct testimony, on behalf of Laclede Gas Company.

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.



David M. Seevers

Subscribed and sworn to before me this 19th day of December, 2012.



Notary Public

