



paid by LAC and MGE to employees, what adjustment should be made in rates to base salaries paid to employees?

## DISCUSSION

### **I. Pensions**

Pensions are a critical component of the compensation for bargaining unit members represented by USW 11-6. The most experienced of these members have relied on this negotiated benefit through many multiple-year collective bargaining agreements. It is generally recognized that earned pension benefits cannot be compromised. We are concerned, however, that the Company be able to fully and timely recover its pension expense so that its pension obligations to bargaining unit members is not underfinanced.

The testimony at the hearing was consistent that Laclede has systematically underfunded the pension obligation. OPC drew the comparison between Laclede's historical underfunding and MGE's much more responsible handling of its pension obligation, with the result that MGE is  $\frac{3}{4}$  less underfunded than Laclede.

Currently, bargaining unit members have the opportunity to draw a lump sum pension, but only if the pension plan is at least 80% funded. This is extremely important to the bargaining unit: the testimony was that only one employee has requested an annuity, rather than a lump sum pension. Nevertheless, it has been quite difficult to keep the lump sum option available. Company expert Buck testified that Laclede has repeatedly made excess contributions over the minimum ERISA requirement in order to retain the ability to offer lump sum pension benefits to the bargaining unit. These excess contributions have also had the benefit of avoiding penalties to the Pension Benefit Guarantee Corporation (PBGC). Per Mr. Buck, the Company is permitted to recover such excess contributions made for either of these reasons.

Fortunately, Laclede is now attempting to act responsibly with regard to the pension

obligation by proposing a higher percentage of financing and amortizing it over a shorter period of time. The Company should be encouraged in this endeavor by allowing collection through the full weighted cost of capital, as both the Company and the Staff propose, and the shorter, eight-year amortization supported by the Company and OPC. Funding the pension obligation at the proposed higher level would quickly produce a good return to the ratepayer by immediately reducing PBGC penalties.

As a result, USW 11-6 suggested a compromise at the hearing between the position of it and Laclede, on the one hand, that the pension obligation be funded at the 90% level; and the position of Staff that the pension obligation be financed only at the minimum ERISA standard. Specifically, USW 11-6 suggested that the Commission set the goal of 90% funding through incremental change over an eight-year cycle, i.e., increasing the funded percentage by 1.25% each year. This incremental increase in funding level should address the concerns that a precipitous increase in funding level would impose too much of the cost on the current ratepayer, as opposed to spreading it out across future ratepayers.

## **II. Incentive Compensation**

As a general matter, USW 11-6 believes incentive compensation should be recoverable because the ability of bargaining unit members to receive incentive compensation based on their achievement of certain performance goals has been positive for the employees, the Company and its customers. For example, Construction and Maintenance employees have generally worked ten hour days for approximately nine months each year in an effort to replace old, leaky pipe as quickly as possible. This extraordinary effort has improved safety significantly.

USW 11-6 understands that Staff and OPC do not mean to attack the recoverability of the incentive compensation provided to the bargaining unit, who are all compensated on an hourly

basis. However, it is concerned that their focus on prohibiting recovery of earnings-based compensation will indirectly affect bargaining unit incentive compensation. Currently, bargaining unit incentive compensation is tied directly to the Company's overall performance, including to the earnings-based incentive compensation of management employees. USW 11-6 believes that the Company will not offer incentive compensation directed only to bargaining unit employees. It is also concerned that interference by the Commission with the criteria of the incentive compensation plan may dissuade Laclede from offering any incentive compensation at all.

The incentive compensation is part of the collective bargaining agreement. If it is eliminated, the Commission needs to give the Company the latitude to recover through the rate-making process whatever wage adjustment the parties bargain. We anticipate, based on the testimony of Mark Mispagel, that the wage adjustment will be in the range of upward of 3%, i.e., 75% of the 4% annual target incentive. *See* Mispagel Rebuttal Testimony, p. 6 line 22-23.

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I hereby certify that a copy of the foregoing was served on all parties entitled to notice via email and by virtue of the EFIS electronic filing system on January 9, 2018.

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