Exhibit No.:
Issue: True-up, Franklin County and Pensions
Witness: Stephen M. Rackers
Sponsoring Party: MoPSC Staff
Case No.: GR-92-165

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

LACLEDE GAS COMPANY

CASE NO. GR-92-165

DIRECT TESTIMONY

OF

STEPHEN M. RACKERS

Jefferson City, Missouri
July, 1992

Staff Exhibit No. 277
Date 12-14-17 Reporter KF
File No GR-2017-0215
GR-2017-0216

Exhibit No. 13
Date 8/13/92 Case No. GR-92-165
Reporter GM

DIRECT TESTIMONY

OF

STEPHEN M. RACKERS

LACLEDE GAS COMPANY

CASE NO. GR-92-165

Q. Please state your name and business address.

A. Stephen M. Rackers, 906 Olive Street, Suite 330, St. Louis, Missouri 63101.

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

A. I am an Assistant Manager in the Accounting Department for the Missouri Public Service Commission (Commission).

Q. Please describe your educational background.

A. I graduated from the University of Missouri at Columbia, Missouri in 1978, from which I received a Bachelor of Science degree in Business Administration, majoring in Accounting.

Q. What has been the nature of your duties while in the employ of this Commission?

A. Under the direction of the Manager of Accounting, I have supervised and assisted in audits and examinations of the books and records of public utility companies operating within the state of Missouri. I have listed audits I have previously participated in on Schedule 1 of this direct testimony.

Q. Have you made an examination of the books and records of Laclede Gas Company (Laclede or Company) with regard to Case No. GR-92-165?

A. Yes, I have, with the assistance of other members of the Commission Staff (Staff).

Q. What are your areas of responsibility in Case No. GR-92-165?

A. My areas of responsibility are to provide support and assistance to the Accounting Staff members assigned to the case and to assist in the coordination of the activities of the Accounting Staff with other members of the Commission Staff. With regard to the development of Staff's proposed revenue requirement, I am responsible for test year and true-up, pensions, the Franklin County expansion and post-retirement benefits.

Q. What Accounting adjustments and schedules are you sponsoring?

A. I am sponsoring Income Statement adjustment Nos. S-14-B, S-15-F, S-17-C, S-18-M, and S-20-D regarding the Franklin County expansion, and S-18-H relating to pensions. I am also sponsoring Accounting Schedule 4 - Adjustments to Plant, containing adjustment P-1, relating to the Franklin County expansion, and Accounting Schedule 6 - *Adjustments* to the Depreciation Reserve.

<u>TEST YEAR AND TRUE-UP</u>

Q. What test year has the Staff used in this case?

A. The Staff has used a test year ending February 29, 1992.

Q. How has the Staff examined and adjusted this period?

A. Through the review and analysis of the Company's Annual Reports to both the shareholders and the Commission; the workpapers of Deloitte-Touche, the Company's outside auditors; the Annual Actuarial Report from Towers, Perrin, Forster & Crosby, Inc.; Laclede's Monthly Financial Reports and various other Company reports, the Staff has thoroughly examined the test year ending February 29, 1992. As a result, the Staff has adjusted the test period in an attempt to eliminate the effects of abnormal events, as well as to annualize the effects of those events which reflect ongoing operations. Through this process, the Staff has developed a revenue requirement which appropriately matches revenues, expenses and investment.

Q. Has the Staff updated its test year ending February 29, 1992?

A. Yes. The Staff has updated its determination of revenue requirement to include the effects of specific items through May 31, 1992. Revenue, expense, and rate base items have been considered in the update to maintain the appropriate relationship. The Company's capital structure has also been updated through May, 1992, as discussed by Staff witness Jay W. Moore of the Financial Analysis Department.

Q. Is the Staff recommending a true-up for this case?

A. No. The Staff is not recommending that a true-up be performed in this case as the Staff does not believe the Company has made a reasonable request for a true-up.

Q. Why is the Staff making this recommendation?

A. In the Suspension Order dated February 11, 1992, the Commission addressed the true-up procedure as follows:

> The Commission is of the opinion the Company should submit any requests for true-up in its pre-filed direct testimony. The requests should include a proposed date to which the Company's financial data is to be brought forward as well as a proposed time for a true-up hearing. The Company's proposal should also specify a complete list of accounts or items of expense, revenues and rate base designed to prevent any improper mismatch in those areas. The Commission will not consider isolated adjustments, but will examine only a "package" of adjustments designed to maintain the proper revenue/expense/rate base match at a proper point in time.

Further, in the Commission's Order Establishing Test Year, the Commission ordered the use of a test year ending February 29, 1992, as updated through May 31, 1992. The Commission stated that it could consider known and measurable changes to the test year as updated, provided that such changes are auditable and do not violate the relationship of revenues, rate base, and expense as established in the Staff's audit.

In the Staff's opinion the Company's request for a true-up through August 31, 1992 and hearings in early to mid-October does not meet the Commission's specifications. Also, the Company's request does not follow the normal practice of the true-up process.

Q. How does the Company's proposal fail to meet the Commission's specifications?

A. The Staff has engaged in a process of examination and adjustment of the test year, as previously discussed. This process assures the proper relationship between revenues, expenses and rate base. This process cannot be adequately duplicated to comprise a forward movement of six months, from February 29, 1992 to August 31, 1992, in the time provided in this case. While the Company has listed specific items it proposes to true-up which in the aggregate increases revenue requirement, insufficient time exists to thoroughly examine and adjust the period from February 29, 1992 to August 31, 1992, so that a proper matching of revenues, expenses, and rate base is maintained. Without this process, adequate assurance cannot be provided that the proper relationship between expenses, revenues, and rate base has been maintained.

Q. What concerns does the Staff have regarding the auditability and availability of the data necessary to perform a true-up through August?

A. The data required to perform a true-up through August 31, 1992 will not be available until approximately September 22, 1992, in all probability. Detailed monthly financial statements for August will probably not be available until September 30, 1992. Additionally, the Company's average response time to Staff data requests in this case is 14 days. The Staff does not believe these circumstances provide sufficient time to perform a true-up and have hearings by mid-October.

As previously stated, the Staff has updated major components of its revenue requirement through May 31, 1992 which reflects the last auditable information available to the Staff to reflect in its case. The Staff asserts that its case, as updated through May 31, 1992, provides an appropriate basis for setting going-forward rates.

Q. How does the Company's request conflict with the normal practice of the true-up process?

A. The Company has included the use of estimated inflation factors through August, 1992, to increase certain expense levels in its case. It is not the usual practice of this Commission to accept inflation factors as a measure of cost increases. The Company has not listed the inflation factors as an item requiring true-up. The Staff does not believe that an estimate of the rate of increase in the cost of selected items is properly included in revenue requirement, and certainly not for a true-up.

Also, the Company has included items in the determination of revenue requirement which are beyond even its own August, 1992 cut-off for true-up. The Company has reflected the 1993 tax base and tax rate for Social Security (FICA) taxes, the estimated December, 1992 level of property taxes and a reclassification of property from personal to real property for merchants and manufacturer's tax calculation purposes which will not take effect until 1993. Such items do not meet the scope of even the Company's true-up request. In addition, the Company has not been consistent in its treatment of all items. While including the tax increases in 1993 for property and social security, Laclede has not proposed to recognize the reduction in the state income tax rate which takes effect on October 1, 1992. Also, the Company has not proposed a true-up for the capital structure. In the Staff's opinion, the capital structure should be included in any true-up process.

Finally, in Case No. WR-91-211 and Case No. WC-91-375, the Commission recently denied a request for true-up by the Missouri-American Water Company, stating:

> The Commission also notes that the mechanism of the true-up hearing was devised a number of years ago during a period of rapid inflation when the value of a company's award would be sharply eroded. As a general practice, true-up audits and true-up hearings are not performed, absent unusual circumstances, since a reduction in the inflation rate has diminished the necessity.

The current inflation rate as measured by the twelve month change in the Consumer Price Index - All Urban Consumers was only 3.1% for June, 1992.

<u>PENSION EXPENSE</u>

Q. What approach has the Staff utilized in determining the appropriate level of pension expense?

A. The Staff has utilized a contribution approach in determining the appropriate level of pension expense. The Staff recommends a contribution equal to the Employee Retirement Income Security Act (ERISA) minimum for the plan year ending September 30, 1992 for qualified pensions and actual payments for supplemental and Directors pensions.

This direct testimony will discuss Staff's recommendation for qualified pensions. The discussion regarding supplemental and Directors pensions appears in the direct testimony of Staff Witness Anne M. Weddie.

Q. Please explain the Staff's usage of minimum ERISA pension contributions.

A. ERISA was enacted in 1974 in order to safeguard employees' pension rights by legally requiring a minimum funding amount for pension plans to ensure proper pension funding. Thus, by using the minimum ERISA contributions to determine annualized pension expense, the Staff is including in the cost of service an amount which assures employees of adequate pension funding.

Q. What has been the level of Laclede's ERISA minimum contributions?

A. The ERISA minimum contribution for Laclede's three pension funds for the plan years ending in September are as follows:

		MILLIONS		
Plan	1989	1990	1991	1992
Management	0	0	0	0
Contract	0	0	0	0
Mo. Natural	0	$.2	$.3	$.3

The above table shows that the ERISA minimum contribution has been very stable in recent history and will remain so through September of 1992.

Q. What is the status of Laclede's pension funds?

A. The most recent information shows the following level of funding status:

MILLIONS

Plan	Fair Value of Assets	Accumulated Benefit Obligation	Excess	Ratio of Assets to Obligation
Management	$ 56.3	42.2	14.1	133%
Contract	142.0	82.6	59.4	172%
Mo. Natural	8.9	7.5	1.4	119%

The above table shows that assets exceed the accumulated benefit obligation for all the Company's funds. In the case of the Contract fund, this excess is quite significant.

Q. Will the use of the ERISA minimum contribution in determining pension expense to be included in rates address the significant excess which exists in the Contract plan?

A. No. The ERISA minimum cannot be negative and will not immediately reduce the level of pension over-funding. However, it will insure that ratepayers do not pay any more through the cost of service than is required to assure employees of adequate funding.

Q. What was the level of pension expense recorded by the Company during the test year?

A. The Company recorded approximately $<4.6> million in pension expense during the test year in accordance with the Statements of Financial Accounting Standards Nos. 87 and 88 (FAS 87 and 88). Staff adjustment S-18-H increases this level to the operating and maintenance expense portion of the ERISA minimum contribution for 1992, $301,465, to reflect the Company's test year contribution for the Missouri Natural Division.

ACCOUNTING FOR PENSIONS AND POST-RETIREMENT BENEFITS

Q. What are the Staff's recommendations regarding accounting for pensions and post-retirement benefits?

A. The Staff recommends that accounting for these items be based on the minimum ERISA contribution for qualified pensions and actual payments for Supplemental and Directors pensions and pay-as-you-go for post-retirement benefits.

Q. Explain the Staff's recommendation for pensions.

A. Currently, the Company is required by Generally Accepted Accounting Principles to record pension expense according to FAS 87 and 88. However, under FAS 71 Laclede may under certain conditions record a regulatory asset or liability on its balance sheet for the difference between the amount determined under FAS 87 and 88 and the amount determined through ratemaking. A Commission Order in this case establishing rates based on the minimum ERISA contribution and actual payments along with a statement regarding probable recovery of any resulting regulatory asset or liability should allow the Company to implement FAS 71 to book pension expense in accordance with the ratemaking treatment specified by the Commission.

Q. Explain the Staff's accounting recommendation for post-retirement benefits.

A. Beginning October 1, 1994, Laclede will be required to record the expense for post-retirement benefits on an accrual basis according to FAS 106. However, as with pensions, FAS 71 should allow for the creation of a regulatory asset or liability associated with the difference between pay-as-you-go and the level of accrued expense recorded under FAS 106. A Commission Order establishing rates in this case based on the Company's actual payments for post-retirement benefits and a statement regarding probable recovery of the regulatory asset or liability created as a result should allow the Company to implement FAS 71 to book post-retirement benefit expense in accordance with the ratemaking treatment specified by the Commission.

Q. Has the Commission recently authorized the use of the pay-as-you-go methodology for calculating post-retirement benefit expense for financial reporting purposes?

A. Yes. In Case No. EO-92-179, the Commission authorized Union Electric Company to continue to use the pay-as-you-go methodology for calculating the amount charged to post-retirement benefits expense for financial statement reporting. The Commission also authorized the establishment of a regulatory asset for the difference between the amount calculated under FAS 106 and the pay-as-you-go. Finally, the Commission stated its intent to allow prudently incurred post-retirement benefits to be recovered in the future on a pay-as-you-go basis, and its belief that recovery of the resulting regulatory asset was probable.

<u>FRANKLIN COUNTY</u>

Q. Please briefly define this section of your direct testimony.

A. Laclede has expanded its service territory into Franklin County, Missouri, per the Commission's Order in Case No. GA-90-280, et al. The Company is in the process of building distribution systems in the cities of Washington, Union and St. Clair, Mo. These distribution systems will receive gas from a new transmission line built by Missouri Pipeline Company (MPC). This section of my direct testimony will address the Staff's proposed treatment of the plant facilities and costs associated with the distribution systems in Washington, Union and St. Clair.

Q. Please explain adjustments P-1 and S-14-B, S-15-F, S-17-C, S-18-M and S-20-D.

A. These adjustments eliminate the plant and expenses associated with Laclede's establishment of distribution systems in Franklin County.

Q. Why are these adjustments necessary?

A. These adjustments synchronize the recovery of the cost associated with serving the Franklin County area with the revenue/benefits from customers served. As of May

31, 1992, no customers were being served by the distribution networks in Washington, Union and St. Clair.

Q. As of May 31, 1992, were any Franklin County customers receiving service?

A. As of May 31, 1992, Laclede was serving only two Franklin County customers. However, these customers are receiving service through connections to the Washington-Ellisville pipeline which interconnects MPC and Laclede's distribution network in St. Louis County. The Staff has not eliminated any plant used to specifically provide service to these customers.

Q. What level of investment associated with the Franklin County distribution systems was in service at May 31, 1992?

A. There was approximately $1 million of investment in service at May 31, 1992. The revenue requirement associated with this investment is approximately $190,000, including return, income taxes, depreciation and property taxes.

Q. What level of operation and maintenance expense was incurred in the test year associated with the Franklin County distribution systems?

A. Laclede incurred approximately $140,000 of expense during the test year.

Q. What is the nature of the investment and expenses?

A. While a specific categorization is not available, a portion of the investment is for regulators, 8" pipe and general plant facilities which are built to support the distribution system and not any one individual customer. The expenses were incurred to start-up a new operation prior to the actual delivery of gas to customers.

Q. Please summarize the Staff's recommendation regarding the investment and expenses associated with the Franklin County distribution systems.

A. The Staff believes it is inappropriate to include these costs in the determination of revenue requirement. These costs, a portion of which are related to the start-up of the Company's Franklin County operations, should be recognized in a future period and matched against the benefit of future anticipated customer growth.

Q. Does this conclude your direct testimony?

A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the matter of Laclede Gas Company of St. Louis, Missouri, for authority to file tariffs increasing rates for gas service provided to customers in the Missouri service area of the Company.	))))	Case No. GR-92-165

AFFIDAVIT OF STEPHEN M. RACKERS

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Stephen M. Rackers, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Direct Testimony in question and answer form, consisting of 11 pages to be presented in the above case; that the answers in the foregoing Direct 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.

Stephen M. Rackers

Stephen M. Rackers

Subscribed and sworn to before me this 16th day of July, 1992.

Wanda J. King

Notary Public

My Commission Expires: 9/4/95

OFFICIAL NOTARY SEAL
WANDA J KING
Notary Public State of Missouri
COLE COUNTY
My Commission Expires SEP 04,1995

RATE PROCEEDING PARTICIPATION

Company	Case Number
Bowling Green Gas Company	GR-78-218
Central Telephone Company	TR-78-258
Empire District Electric Company	ER-79-19
Fidelity Telephone Company	TR-80-260
St. Louis County Water Company	WR-80-314
Laclede Gas Company GR-81-245	
Great River Gas Company	GR-81-353
Union Electric Company	ER-82-52
Laclede Gas Company GR-82-200	
Union Electric Company	ER-83-163
Union Electric Company	ER-84-168
Arkansas Power and Light Company	ER-85-20
Kansas City Power and Light Company	ER-85-128
Arkansas Power and Light Company	ER-85-265
Union Electric Company	EC-87-114 & EC-88-115
Union Electric Company	GR-87-62
Southwestern Bell Telephone Company	TC-89-14
St. Louis County Water Company	WR-89-246
Laclede Gas Company	GR-90-120
Missouri Cities Water Company	WR-91-172
St. Louis County Water Company	WR-91-361

SCHEDULE 1