MISSOURI PUBLIC SERVICE COMMISSION

UTILITY DEPARTMENT

LACLEDE GAS COMPANY

CASE NO. GR-90-120

DIRECT TESTIMONY

OF

STEPHEN M. [illegible]

Jefferson City, Missouri
June, 1990

Staff Exhibit No. 276
Date 12-14-17 Reporter KF
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Reporter GM

DIRECT TESTIMONY

OF

STEPHEN M. RACKERS

LACLEDE GAS COMPANY

CASE NO. GR-90-120

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 a Regulatory Auditor for the Missouri Public Service Commission (Commission).

Q. Please describe your educational background.

A. I graduated from the University of Missouri-Columbia with a Bachelor of Science Degree in Business Administration, majoring in Accounting.

Q. What are your job responsibilities with the Commission?

A. I am responsible for supervising and assisting in the audits and examinations of the books and records of utility companies operating within the state of Missouri, under the direction of the Manager of the Accounting Department. A list of cases I have participated in appears in Schedule 1, attached to this direct testimony.

Q. With reference to Case No. GR-90-120, have you examined the books and records of Laclede Gas Company (Laclede, Company)?

A. Yes. With the assistance of other members of the Commission Staff, an investigation was made of the Company's operations.

Q. What are your responsibilities regarding this case?

A. I am responsible for the day to day supervision of the Accounting Staff members assigned to the case, the coordination of the Accounting Staff with other members of the Commission Staff and, with their assistance, the development of the Staff's proposed revenue requirement.

Q. What Accounting Schedules are you sponsoring?

A. I am sponsoring Accounting Schedule 1, Revenue Requirement. This Accounting Schedule calculates the Staff's determination of revenue requirement, based on the other referenced Accounting Schedules.

Q. What Accounting adjustments are you sponsoring?

A. I am sponsoring Income Statement adjustments S-15-D, S-16-C, S-16-G, and S-16-H.

TEST YEAR AND TRUE-UP

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

A. The Staff has used a test year ending December 31, 1989.

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

A. Through the review and analysis of the Annual Reports to both the shareholders and the Commission; the 10K's and 10Q's filed with the Securities and Exchange Commission; the workpapers of Deloitte-Touche, the Company's outside auditors; the Annual Actuarial Report from Towers, Perrin, Forster & Crosby, Inc.; Laclede Gas

Company's Monthly Financial Reports and various other Company reports, the Staff has thoroughly examined the test year ending December 31, 1989. 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 December 31, 1989?

A. Yes. The Staff has updated its determination of revenue requirement to include the affects of specific items through April 30, 1990. 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 April, 1990, by Staff witness Ronald L. Shackelford of the Financial Analysis Department.

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

A. No. The Staff is not recommending a true-up. As will be discussed in the following direct testimony, the Staff does not believe the Company has made a reasonable request for a true-up.

Q. Why is Staff making this recommendation?

A. In the Suspension Order dated January 12, 1990, the Commission addressed true-up as follows:

> The Commission is of the opinion the Company should submit any requests for true-up in its prefiled 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.

In the Staff's opinion the Company's request for true-up through August 31, 1990 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 can not be adequately duplicated to comprise a forward movement of eight months, from December 31, 1989 to August 31, 1990, 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 December 31, 1989 to August 31, 1990, 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.

Company witness Glenn F. Smith states in his direct testimony that August 31, 1990 information will be available by the middle of September, 1990. The Staff had not yet received a monthly financial statement for April, 1990, prior to leaving the Company's premises on June 1, 1990. The Staff did not receive the March, 1990 financial statement until May 1, 1990, and the February, 1990 financial statement until April 16, 1990. The November, 1989 monthly financial statement was being updated as late as April 3, 1990. The Staff continued to receive Company's workpapers supporting its direct case through the middle of April, 1990, well over a month after the March 5, 1990 filing date. Finally, the average turn around time for response to the Staff's data requests was fourteen days. The Company's record for timeliness of providing information to the Staff does not lend itself to a true-up proceeding in the time frame proposed by the Company. The normal course of business, as indicated by experience, would not provide documentation to the Staff for August, 1990, results until sometime in October, 1990. The Commission's usual practice of issuing an order ten days prior to the operation of law date for a rate case would leave barely one month for the Staff to perform a true-up and have a true-up hearing.

As previously stated, the Staff has updated major components of its revenue requirement through April 30, 1990, which reflects the last auditable information available to the Staff to reflect in its case. The Staff asserts that its case, as updated through April 30, 1990, 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, 1990. 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 a point in time measure 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, 1990 cut-off for true-up, and beyond the operation of law date. The Company has reflected the 1991 tax base for Social Security taxes, the 1991 tax rate for Federal Unemployment taxes, the October, 1990 increase in lock box fees, the estimated December, 1990 level for the cost of employee benefits associated with health maintenance organizations and some wage and employee changes in Laclede management salaries through December, 1990. Such items do not meet the scope of even the Company's true-up request.

Finally, the Company has not mentioned several items which the Staff asserts should be included in a proposal for true-up. In the Staff's opinion the capital structure, rate base offsets and the effects of cash working capital should be included in any true-up process.

PENSION EXPENSE

Q. Has the Staff utilized the Statement of Financial Accounting Standards No. 87 (FAS 87) in its determination of pension expense?

A. Yes, with regard to funded pensions. Laclede has also used a FAS 87 calculation for unfunded pension related items. The Staff's treatment of unfunded pension items, pertaining to Laclede's

Board of Directors and supplemental retirement is discussed in the testimony of Staff witness Steven J. Ruppel. This testimony will only deal with the Staff's calculation of specific components of funded pension expense under FAS 87.

Q. Please provide a general explanation of the individual components included in the FAS 87 pension cost calculation.

A. Per FAS 87, the following items represent the separate components of pension expense:

<u>Service Cost</u> - the service cost component represents the actuarial present value of pension benefits related to employee service provided during the current year. The actuarial assumptions used by the actuary to determine the current year's service cost component reflect the time value of money (discount rate) and the probability of payment out of the fund (assumptions as to mortality, turnover, early retirement, etc.).

<u>Interest Cost</u> - the interest cost component is defined by FAS 87 as "the increase in the projected benefit obligation due to the passage of time. Measuring the projected benefit obligation as a present value requires accrual of an interest cost at rates equal to the assumed discount rates."

The projected benefit obligation represents the present value of pension benefits attributed to employee service as of a point in time, based upon estimated compensation levels for employees at the time they retire.

<u>Expected Return on Assets</u> - the expected return on assets represents the actuary's estimated annual return earned on the pension plan assets. The expected return on pension plan assets is

used as a deduction in calculating pension costs because the income earned on the fund assets can be utilized to pay the benefits under the plan.

Net Amortization - (a) Net Transition (Asset)/Obligation: The net transition amount arises when the initial change to application of FAS 87 to account for pension costs is made. The initial measure of the gain or loss is the difference between the market value of plan assets and the projected benefit obligation at the implementation date for FAS 87. FAS 87 allows for an amortization of this amount. The negative amortization for Laclede reflects the fact that the plan assets exceeded the projected benefit obligation on the date FAS 87 was initiated. The excess is being amortized as a reduction to pension cost over the remaining service life of employees.

(b) Prior Service Cost - This component represents an amortization of prior service costs related to plan amendments. The inclusion of prior service costs recognizes the retroactive benefits associated with employee service prior to the implementation of a plan amendment.

(c) Unrecognized Net Gain/Loss - FAS 87 defines gains and losses as "changes in the amount of either the projected benefit obligation or plan assets resulting from experience different from that assumed and from changes in assumptions." For example, the expected return on assets for the September 30, 1989 plan year (set by the actuary) was $13,952,728. The actual return on plan assets for 1989 was $39,570,144. The difference of $25,617,416 represents an unrecognized gain and is not reflected in the calculation of pension costs for 1989. If the actual return on plan assets for 1989 had been $13,000,000, then an unrecognized loss would have resulted in the amount of $952,728. Differences between actual assumptions and expected assumptions are not recognized in total in the current year, but are deferred and amortized to pension cost over a period of years.

Q. What are the individual components of pension expense, as calculated under FAS 87, for the Company's pension funds for the plan year ending September 30, 1990?

A. The individual components are listed below for the Company's three pension funds:

Description	Management	Contract	Missouri Natural	Total
1. Service Cost	$1,380,684	$ 3,130,095	$220,256	$ 4,731,035
2. Interest Cost	3,911,521	7,936,648	663,476	12,511,645
3. Expected Return	<4,351,293>	<10,521,302>	<631,096>	<15,503,691>
4. Amortizations:				
a. Transition Asset	< 324,890>	< 1,167,409	< 18,121>	< 1,503,691>
b. Prior Service Cost	313,366	128,351	65,421	507,138
c. Unrecognized Gains	< 157,954>	< 404,381>	0	< 562,335>
Pension Cost	$ 771,434	$< 897,998>	$299,936	$ 173,372

Q. How were these amounts determined?

A. These amounts are the most current quantifications calculated by the Company's actuary, Towers Perrin.

Q. What items from the above calculation are being adjusted?

A. For the Management and Contract Funds, both Item 3, expected return and Item 4.c, amortization of unrecognized gains are being adjusted by the Staff.

Q. Why is the Staff proposing to make adjustments to only the Management and Contract Funds?

A. The Company's Missouri Natural (MoNat) Fund is currently in a funded status, under federal law which requires Laclede to make a contribution to the plan. This cash contribution is approximately equal to the pension cost as calculated under FAS 87. The Staff does not believe that an adjustment for this fund is necessary at this time.

Q. Explain what the MoNat Fund represents.

A. This is the pension fund associated with the employees of the Missouri Natural Division of the Laclede Gas Company.

Q. How are required contributions to pension funds determined?

A. Minimum contributions are determined in accordance with the Employee Retirement Income Security Act (ERISA), to ensure that pension plans are adequately funded.

Q. Are contributions required for the Management and Contract Funds?

A. No. While minimum ERISA contributions have not been required under law since 1983 for the Management Fund and 1984 for the Contract Fund, the Company has poured over $17,000,000 into the these funds since 1985.

Q. What is the current status of the Management and Contract funds (fund)?

A. As of June 30, 1989, the value of the fund is 72% in excess of the accumulated benefit obligation (ABO) and 39% in excess of the projected benefit obligation (PBO). The ABO is the present value of the benefits accumulated to date. The PBO is the present value of the benefits expected to be paid at retirement.

Q. Why are adjustments to the fund necessary?

A. As will be further discussed in my direct testimony, in the Staff's opinion certain calculations utilized by Laclede's actuary are inappropriate for determining the proper level of pension expense in this case.

Q. What adjustment is the Staff proposing to the expected return component?

A. The Staff is proposing that the actual fair market value of plan assets rather than the market related value be used to compute the expected return. This results in an increase in the expected return component and, therefore, a reduction in pension expense.

Q. Explain the difference between the actual fair market value and the market related value of plan assets.

A. The fair market value represents the amount that the fund could expect to receive for the plan assets between a willing buyer and a willing seller. The market related value is a calculated value that recognizes changes in the fair market value, gains and losses, over not more than five years. Use of market related valuation of plan assets is a means of deferring recognition of realized and unrealized gains or losses in the pension expense calculation. For Laclede, the difference equals the sum of a portion of the realized and unrealized gains and losses from the previous three years. The most recent year's gains and losses are multiplied by 75%, the second most recent year's gains and losses are multiplied by 50% and the third year's gains and losses are multiplied by 25%. The following is an illustration of the calculation:

Fund Fair Market Value at 6/30/89	$208,000,000
Realized and Unrealized Gains:	
For the Year Ended 6/30/89 (22,000,000 X.75)	< 16,500,000>
For the Year Ended 6/30/88 (5,000,000 X.50)	< 2,500,000>
For the Year Ended 6/30/87 (8,000,000 X.25)	< 2,000,000>
Fund Market Related Value at 6/30/89	$187,000,000

Q. Is this adjustment to market related value required by FAS 87?

A. No. FAS 87 merely allows the adjustment as a means of reducing volatility in year to year pension expense. However, the Financial Accounting Standards Board (Board) concluded that the fair value provides the most relevant information that can be provided for assessing both the plans ability to pay benefits and the need for future contributions. The Board also concluded that methods used to determine actuarial asset values produce information about the assets that is less relevant and more difficult to understand than fair value.

Q. Do all utilities in Missouri base their expected return on a market related value?

A. No. The Missouri Public Service Company uses the fair market value to calculate its expected return on plan assets.

Q. What other factors cause the Staff to recommend the use of fair market value rather than market related value?

A. Currently, the Company is using an 8.25% return on the market related value of plan assets to calculate its annual level of pension expense. This market related value was approximately $21 million less than fair market value at June 30, 1989. For the period from 1979 to 1989, the Company's fund has averaged over a 16% return on the fair market value of plan assets. The Staff believes that the use of only a 8.25% return on the fair market value of plan assets to compute a normalized level of pension expense is very conservative compared to recent actual returns.

Also, the types of investments which make up the fund can be a factor in reducing the exposure to market volatility. The Company's fund is currently invested 85% in bonds and 15% in stocks. The Board specifically uses the following example in its discussion of the use of market-related value versus fair market value: ". . . an employer might use fair value for bonds and a five-year moving-average for equities." Through the structure of its fund, the Company has already positioned itself in a less volatile mode.

Therefore, it is the Staff's conclusion that use of market-related valuation for Laclede's plan assets is not warranted to reduce volatility, and is inappropriate to use for ratemaking purposes.

Q. Is the Staff proposing to adjust the 8.25% rate of return included in the calculation of pension expense?

A. No. An adjustment to increase the expected rate of return of 8.25% is justified based on the 16% return which the fund has earned on average since 1979. However, due to the modest revenue requirement increase which Staff is currently recommending in this case and the financial impact which this additional adjustment would have, the Staff is not proposing to increase the expected rate of return in this case.

Q. What adjustment is the Staff proposing to the amortization of unrecognized gains component?

A. The Staff is proposing that the total unrecognized gains be amortized over a five year period.

Q. Why is the Staff recommending a five year amortization?

A. In the Staff's opinion, use of a five year average spreads the gains and losses over an adequate time frame to provide a normalized level of pension expense. A five year amortization of gains and losses more accurately reflects the current expense level associated with pensions, and therefore is a more appropriate basis for establishing rates. A five year average has been employed by the Company and the Staff to calculate a normalized level of expense in several areas of the case in the determination of revenue requirement.

Q. Will additional gains be experienced by Laclede in the future?

A. While the amount of future pension gains and losses can not be predicted, it is reasonable to believe that additional gains will be generated. The Company has earned an average return of over 16% on the fair market value of plan assets since 1979. However, the Company is calculating its expected return on a market related value of assets at only an 8.25% return. As demonstrated below, a continuation of this trend will produce $18 million of annual additional gains:

Fair Market Value	210,000,000	
Return on Assets	16%	
Actual Return		33,600,000
Market Related Value	190,000,000	
Expected Return on Assets	8.25%	
Expected Return		15,675,000
Gain		17,925,000

Q. Through its implementation of FAS 87, how is the Company proposing to amortize past gains?

A. The Company is amortizing past gains at close to the minimum amount required by FAS 87. The minimum amortization allowed by FAS 87 is determined by deferring a portion of the gains, sheltering an additional portion through the corridor approach and amortizing the remaining gains over a 15 year period. The Company's amortization recognizes the deferral of gains, the use of a corridor approach and an amortization period of 14.94 years to determine the amount of amortization of unrecognized gains.

Q. Explain the "deferral of gains" referenced above.

A. The amount of deferred gain equals the difference between the fair market value and the market related value of plan assets, less the amount of transition gain not yet reflected in the market related value. The difference between fair market value and market related value, as previously discussed, equals the sum of a portion of the realized and unrealized gains and losses for the previous three years. For Laclede, this deferred gain is approximately $21 million. The amount of transition gain not yet reflected in the market related value is approximately $2 million.

Therefore, the Company is providing zero amortization in the calculation of current pension expense of $19 million of unrecognized gains.

Q. Explain the corridor approach.

A. The corridor approach allows the Company to shelter an additional amount of gains and losses from current amortization. This amount equals 10% of the larger of the market related value of the fund or the projected benefit obligation. For Laclede this amount is approximately $19 million. Through the use of the corridor approach the Company is providing zero amortization of an additional $19 million of unrecognized gains. The following shows the Company's calculation of the amortization of unrecognized gains and losses.

1.	Fair Market Value 6/30/89	$208,090,395	
2.	Market Related Value	186,773,878	
3.	Difference Between 1. and 2.	21,316,517	
4.	Unreflected Transition Gain	2,071,226	
5.	Deferred Gain (4.-3.)		$19,245,291
6.	Projected Benefit Obligation	150,114,169	
7.	Corridor (10% of the larger of 2. and 6.)		18,677,388
8.	Accumulated Unamortized Gains		46,324,171
9.	Amount Subject to Amortization (8.-7.-6.)		8,401,492
10.	Average Expected Future Service Period of Participants		14.94 Years
11.	Amortization of Unrecognized Gains (9./10.)		$ 562,335
12.	Effective Amortization Period (8./11.)		82 Years

Q. Why is the Company's method of amortization inappropriate?

A. The Company's method provides zero amortization of over 80% of the unrecognized gains at June 30, 1989. Also, the Company's method effectively amortizes the unrecognized gains over 82 years. The Staff does not believe that an approach which amortizes gains over such a long period appropriately reflects the current level of pension expense which should be used in the determination of revenue requirements. The use of both the deferred gains and corridor approach overstates pension expense by $2.5 million, using even the Company's amortization period of 14.94 years [(5.+7.)/14.94]. As long as the Company's pension fund or projected benefit obligation remains at the $150-200 million level, the corridor will generally allow the Company to shelter and provide zero amortization of $15-20 million of gains or losses. The significance of Laclede's very minimal amortization of unrecognized gains is that it by necessity increases current ratepayer funding of the plan. The Staff, by proposing to increase the amortization of unrecognized gains for ratemaking purposes, will lower current ratepayer funding of the plan to a more appropriate and realistic level.

Q. Has the Internal Revenue Service recognized a five year amortization of gains and losses for tax purposes?

A. Yes. The Omnibus Budget Reconciliation Act of 1987 (OBRA) was designed to strengthen the funding rules of defined benefit pension plans and to ensure that excessive contributions were not made to the plan. The OBRA included the following tax changes regarding pension plan funding:

(1) The full funding limitation has been capped at 150 percent of current liabilities.

(2) The period for amortizing gains and losses has been reduced from 15 years to 5 years.

As previously stated in this direct testimony, the fund is currently 72% in excess of the accumulated benefit obligation and 39% in excess of the projected benefit obligation.

Q. Has the Staff updated its pension expense adjustments based on April 30, 1990 data?

A. Yes.

Q. What changes has the Staff made in recognition of this data?

A. The Staff has recognized the loss in the fair market value of the fund assets experienced through April 30, 1990. Staff measured this loss by comparing the fund balance at April 30, 1990 and April 30, 1989. The annual change was approximately a $7 million reduction in asset value. This amount was subtracted from the June 30, 1989 fair market valuation used by the Company's actuary to determine the pension expense for the plan year ending September 30, 1990.

The Staff also recognized the loss of estimated earnings which had been included in the calculation of pension expense for the plan year ending September 30, 1990. This amount and the loss in asset value were subtracted from the balance of unrecognized gains.

Q. What affect did the recognition of this data have on Staff's adjustments?

A. The reduction in fair market value reduced the Staff's adjustment to the expected return. The reduction in the amount of unrecognized gains reduced the Staff's adjustment to the amortization of unrecognized gains.

Q. Please summarize the Staff's adjustments to pensions as discussed in this direct testimony.

A. The Staff in Adjustment S-16-H, is proposing to calculate the expected return on fund assets using the fair market value of plan assets rather than the market related value. The Staff is also proposing to amortize the total unrecognized gains and losses over a five year period. This is reflected in adjustment S-16-G. Both adjustments can be found in Accounting Schedule 11, Adjustments to Income Statement.

MISCELLANEOUS EXPENSE

Q. Please explain adjustment S-15-D and S-16-C.

A. These adjustments disallow certain miscellaneous expenses charged to Sales and Administrative and General expense.

Q. What types of expenses are being disallowed?

A. The Staff's adjustments address several types of expenses. The first type is tickets and related expenses for various sporting events and theater performances. The second type is the cost of dues or contributions to various organizations and clubs. The third type is for Company sponsored employee dinners, awards and sports teams. The final type is for various nonrecurring or promotional items.

Q. Why has the Staff disallowed these expenses?

A. The Staff's primary basis for disallowance is that these expenses provide no benefit to ratepayers or no quantifiable savings to the Company. It is also the opinion of the Staff that these types of expenses should not be borne by ratepayers.

Q. Has the Staff requested that the Company identify the benefits of such expenses?

A. Yes. Company's general response is

> ". . . that expenditures of this type are prudent, and that all ratepayers are benefitted. Further, these expenses are

considered ordinary expenses for any business organization."

The Staff does not believe this response justifies the inclusion in rates of these expenses.

Q. Has the Staff allowed some portion of the dues related to civic organizations?

A. Yes. The Staff has historically allowed local Chamber of Commerce dues. In this case the Staff has allowed the Chambers for the Kirkwood area, Florissant Valley, St. Charles, Northwest Communities and the St. Louis Regional Commerce & Growth Association.

SAFETY RULES

Q. Please describe this item.

A. On December 15, 1989, the Commission put into effect new Pipeline Safety Regulations applicable to natural gas utilities.

Q. Is the Staff recommending the inclusion of any amount in its determination of revenue requirement associated with these regulations?

A. No.

Q. Why is the Staff making this recommendation?

A. Based on Company response to Staff data requests, Laclede has no detailed accounting of the amount spent to date to meet the Commission's safety rules. Laclede also stated in its response that it has not prepared a detailed estimate of the amount which will be spent by August, 1990, the Company's requested cut-off for true-up. The costs associated with the Company's compliance with the new safety rules are therefore unauditable. No assessment can be made at this time as to what amount should be included in the ongoing expenses of the Company for these rules.

Q. Was the Staff provided with any estimates of the cost of Company's compliance?

A. Yes. The Staff was provided with the Company's estimates of the cost of compliance.

Q. Has the Staff reviewed these estimates?

A. Yes. However, these estimates are based on the Company's quantification of compliance at the time it filed its direct testimony. Since that time, the Company has received several waivers and stays from the Commission regarding specific sections of the rules. Also, the Company and the Staff have worked out several agreements and understandings regarding the rules. These items are discussed in the testimony of Staff witness Walter R. Ellis of the Gas Engineering Department.

Q. Was the Staff provided with an update in the cost of compliance based on these changed circumstances?

A. No, Staff was not provided with a complete update. Staff Data Request No. 185 requested an update of the Company's cost estimates reflecting waivers, stays and Staff indications of interpretation and enforcement. In response, the Company stated that it had not estimated the impact of specific stays since the process of seeking waivers was not complete and that it had not speculated on the Commission Staff's intentions absent definitive rulings. In response to Staff Data Request No. 1027, the Company stated that the cost of compliance with rule 13.H had substantially been eliminated by the Commission's Order granting a waiver.

As discussed in the direct testimony of Staff witness Ellis, a large portion of the costs quantified in the Company's present case deals with rules for which the Company has received a waiver, stay or interpretation from Staff. His direct testimony also discusses discrepancies with the Company's main replacement quantifications. In the Staff's opinion, the Company should have provided updated calculations of the cost of compliance with the Commission's safety rules as waivers, stays and interpretations became known to them.

Q. What portion of the cost of compliance, as calculated by the Company, has been impacted by waivers or stays pending waivers?

A. Section 9.V - Cathodic protection mapping, Section 13.H - Survey of customer-owned buried fuel lines and Section 13.V - Increased valve inspection requirements have been waived or stayed pending waiver. The estimated impact of this is a reduction of $3,074,700 in the Company's cost calculations given in the direct testimony of Company witness Harry R. Haury.

Q. For the safety items which did not receive a waiver or stay, what problems does the Staff have with the Company's calculation of increased cost?

A. The Staff has arranged its comments on a section specific basis.

<u>4.BE - Installation of failure indicating devices and valves</u>

This item deals with the cost of installing additional plant. The cost should not be included in ongoing maintenance expense but should be capitalized and recovered through depreciation expense over the life of the plant.

9.P - Inspection and painting of exposed pipe

This item includes the cost of painting exposed pipe and monitoring pipe for corrosion. The Company, after receiving a clarification from the Staff regarding the definition of corrosion, withdrew its request for a waiver from this rule. Further, the Company stated in response to a Staff data request that it had been painting its exposed pipe for twenty five years. Finally, as stated in Staff witness Ellis' testimony, the requirement to inspect this piping over a three year period has been in effect since 1971. Therefore, the additional cost calculated by the Company appears overstated based on the programs and practices already in place.

12.C - Expansion of procedures manual

This item requires the update of the procedures manual and an annual re-evaluation. The initial update constitutes a one-time cost associated with the updating and consolidation of various existing procedures manuals. This must be accomplished by December 15, 1990. Therefore, the ongoing annual cost of re-evaluating the manual would not begin until sometime in 1991.

12.D - Expansion of personnel training

This item reflects the increased cost of additional training. The workpapers provided to the Staff states that the Company has 18 months from the effective date to implement the program. Therefore, the ongoing cost of training will not begin until May 15, 1991. Any initial cost of setting up the training and qualification program constitutes a one time cost, not an ongoing annual expense.

13.Z - Service transfers - protection program

When a main is replaced, the cost associated with transferring the service connections to that main are expensed. The amount quantified by the Company is the cost of service transfers associated with the mains that will be replaced under the protection program. As discussed in the testimony of Staff witness Ellis, the amount of pipe scheduled by the Company for replacement under this section, when combined with the pipe replacement under Sections 15.D and E, far exceeds the levels discussed in the Company's Replacement Program, as submitted to the Commission. These calculations are inconsistent and do not provide an appropriate estimate of the ongoing expense levels.

14.B - Repeat leak investigation

The Company withdrew its original request for waiver regarding this item. As discussed in the testimony of Staff witness Ellis, additional testing and data are necessary regarding this item. The Staff expects the Company to again apply for a waiver when it has gathered this additional data. The cost calculated by the Company for this item may not reflect the continuing future level.

15.D and E - Service Transfers - Replacement Program.

The amount quantified by the Company under this section reflects the cost of service transfers associated with mains replaced under an acceleration of the Company's current replacement program. As previously discussed under Section 13.2, the calculations are inconsistent with those provided by the Company in its Replacement Program submitted to the Commission. Also, as stated in the testimony of Staff witness Ellis, the Company is under no obligation or requirement to accelerate its current replacement program as there are no established time frames or deadlines for these programs.

Q. Please summarize the Staff's position on the cost of compliance with the Commission's safety rules.

A. In the Staff's opinion, the amount of ongoing expense associated with the Company's compliance with the Commission rules cannot be determined at this time. The Company has no detailed accounting of the costs incurred to date and no estimate of the costs which will be incurred by August 31, 1990. The Staff has not received a complete update of the estimated cost of compliance which includes the effect of waivers and stays which the Commission has granted and the effect of clarifications provided by the Staff. Finally, as previously discussed, the estimates provided by the Company are in some instances inappropriate and inconsistent, therefore, providing no basis for determination of ongoing expense levels.

Q. Does this conclude your direct testimony?

A. Yes, it does.

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 in the Missouri service area of the Company.	)	Case No. GR-90-120

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 24 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 14th day of June, 1990.

Janis Kay Musick
Notary Public

My Commission expires November 10, 1990

JANIS KAY MUSICK
NOTARY PUBLIC, STATE OF MISSOURI
COLE COUNTY
MY COMMISSION EXPIRES:
NOVEMBER 10 1990

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
Union Electric Company	ER-80-17
Fidelity Telephone Company	TR-80-269
St. Louis County Water Company	WR-80-314
Union Electric Company	ER-81-180
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
St. Louis County Water Company	WR-82-249
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

SCHEDULE 1