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OCT 11 2001

Missouri Public
Service Commission

Exhibit No.:

*Issue: Pensions; Post-Retirement
Benefits Other Than
Pensions; Prepaid Pension
Assets; Incentive
Compensation*

Witness: Stephen M. Rackers

Sponsoring Party: MoPSC Staff

Type of Exhibit: Direct Testimony

Case No.: GR-2001-629

Date Testimony Prepared: October 11, 2001

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

STEPHEN M. RACKERS

LACLEDE GAS COMPANY

CASE NO. GR-2001-629

*Jefferson City, Missouri
October 2001*

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DIRECT TESTIMONY

OF

STEPHEN M. RACKERS

LACLEDE GAS COMPANY

CASE NO. GR-2001-629

Q. Please state your name and business address.

A. Stephen M. Rackers, 815 Charter Commons Drive, Suite 100 B,
Chesterfield, Missouri 63017.

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

A. I am a Regulatory Auditor V in the Accounting Department, in the
St. Louis office, 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. Are you a licensed Certified Public Accountant?

A. Yes. I have passed the Uniform Certified Public Accountant examination
and am currently licensed in the state of Missouri.

Q. What has been the nature of your duties while employed by the
Commission?

A. 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
rate cases in which I have previously filed testimony on Schedule 1.

Direct Testimony of
Stephen M. Rackers

1 Q. With reference to Case No. GR-2001-629, have you made an investigation
2 of the books and records of Laclede Gas Company (Laclede or Company)?

3 A. Yes, in conjunction with of other members of the Commission Staff
4 (Staff).

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

6 A. My direct testimony will discuss the following items:

7 1) The Staff's recommendation regarding expense adjustments, included
8 in Staff Accounting Schedule 10, Adjustments To Income Statement, for pension expense
9 calculated according to Statement of Financial Accounting Standard (FAS) 87, other
10 post-retirement benefits (OPEBs) expense as calculated according to FAS 106, other
11 pension and retirement benefits, pension gains and losses as calculated according to
12 FAS 88 and incentive compensation expense.

13 2) The Staff's recommendation regarding the quantification of the rate
14 base amount, included in Staff Accounting Schedule 2, Rate Base, for the prepaid
15 pension asset.

16 3) The Staff's calculation of the true-up estimate, appearing on
17 Accounting Schedule 1, Revenue Requirement.

18 Q. Please list the adjustments you are sponsoring.

19 A. I am sponsoring the following adjustments to Accounting Schedule 10:

20 S-15.3 Annualization of Pension Expense FAS 87

21 S-15.4 Adjustment for Pension Gains FAS 88

22 S-15.5 Annualization of OPEB Expense FAS 106

23 S-15.17 Elimination of Incentive Compensation

24

1 PENSION EXPENSE FAS-87 AND OTHER POST-RETIREMENT
2 EMPLOYMENT BENEFITS (OPEB) EXPENSE-FAS 106

3 Q. Please provide a brief description of FAS 87.

4 A. FAS 87, *Employers' Accounting for Pensions*, presents the accrual
5 accounting method used to determine the liability and annual expense for pensions. This
6 statement was issued by the Financial Accounting Standards Board (FASB) and is
7 required under Generally Accepted Accounting Principles (GAAP) for financial reporting
8 purposes.

9 Q. Please provide a brief explanation of FAS 106.

10 A. FAS 106, *Employers' Accounting for Postretirement Benefits Other Than*
11 *Pensions*, presents the accrual accounting method used to determine the liability and
12 annual expense for providing OPEBs. This statement was also issued by the FASB and
13 is required under GAAP for financial reporting purposes.

14 Q. Is the Commission required to adopt either FAS 87 or FAS 106 in
15 determining expenses for ratemaking purposes?

16 A. Missouri law (Section 386.315, RSMo), passed in 1994, requires the
17 Commission to allow the recovery of OPEB expense as calculated under FAS 106.
18 Under this law, the Commission must adopt the FAS 106 method for ratemaking
19 purposes as long as the utility uses assumptions that are considered reasonable and funds
20 externally the amounts collected in rates. In order to provide consistent treatment for
21 retirement costs, the Staff has taken the position that FAS 87 should be used for
22 determining pension expense for ratemaking purposes.

23 Q. Are the methods used in calculating pension expense under FAS 87 and
24 OPEB expense under FAS 106 similar in many respects?

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1 A. Yes. Many of the same actuarial and financial assumptions are used for
2 both. Some of the assumptions used for both include:

3 <u>Actuarial Assumptions</u>	4 <u>Financial/Accounting Assumptions</u>
5 Employee Mortality	6 Use of Corridor Approach for Gain/Loss Recognition
6 Employee Turnover	7 Use of Fair Value of Assets
7 Retirement Age	8 Amortization Period for Gains and Losses

8 Q. Why have you classified assumptions used in calculating FAS 87 and
9 FAS 106 as either actuarial or financial/accounting?

10 A. The purpose of FAS 87 and FAS 106 is to provide uniform financial
11 statement recognition of a company's total estimated liability for pensions and OPEBs
12 and to reflect the annual cost of these benefits in the income statement ratably over the
13 service life of the employee.

14 A qualified actuary is required to develop the necessary actuarial assumptions for
15 these calculations, such as employee mortality. However, someone with a financial
16 and/or accounting background could develop the financial/accounting assumptions. For
17 example, deciding the number of years to use for gain/loss amortization, or use of the
18 "corridor approach" for gain/loss recognition, is a judgment made based upon the impact
19 the decision has on the financial statements and/or impact on utility rates. Use of the
20 corridor approach, fair value of assets and the amortization of gains and losses is
21 discussed later in my testimony.

22 Q. How does Laclede determine the annual accrual for FAS 87 and 106
23 costs?

24 A. Like other utility companies, Laclede's annual cost for pensions and
25 OPEBs are determined by an outside actuarial firm. The pension and OPEB amounts

1 provided by the actuary are accruals that represent the estimated future cost of providing
2 pension and OPEB benefits to current employees and existing retirees based upon the
3 benefit plans offered by the Company. Accrual accounting under FAS 87 and 106
4 requires that these accrued expense amounts be charged to operations in the current year.

5 Q. What is the basis for the Staff's recommended level of FAS 87 and
6 FAS 106 expense in cost of service for this case?

7 A. In response to Staff Data Request No. 113, Laclede provided copies of the
8 latest actuarial valuations for pension and OPEB costs under FAS 87 and 106. These
9 valuations reflect the use of a five-year amortization of the five-year average balance of
10 unrecognized gains and losses and the fair value of fund assets. These items are
11 specifically discussed later in my testimony. The Staff then made adjustments to these
12 valuations to determine its annualized level of pension and OPEB expenses.

13 Q. Please discuss the adjustments the Staff made to the actuarial valuations.

14 A. The first adjustment eliminates the cost related to incentive compensation.
15 The Staff, as will be discussed later in my testimony, is disallowing all costs related to the
16 Company's incentive compensation program. The second adjustment to the actuarial
17 valuations is the use of actual payments rather than accruals for four specific benefit
18 plans.

19 Q. Why has the Staff used actual payments for these four benefit plans?

20 A. Certain management employees and members of the board of directors
21 receive benefits under the Supplemental Employee Retirement Program, Directors
22 Retirement Program, Group Insurance Program and the Senior Officers Life Insurance
23 Program. Due to the fact that the benefits from these four retirement programs are not
24 available to all employees, these programs are designated as non-qualified plans. As a

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Stephen M. Rackers

1 result, the annual FAS 87 and 106 costs are calculated differently for these programs than
2 for the regular retirement plans.

3 For the Company's regular retirement programs, the earnings on the assets being
4 accumulated to pay benefits are used as a reduction to the annual cost. For example, the
5 expected earnings on assets for the Company's regular pension plans exceed the total
6 annual costs for these plans. However, for the non-qualified plans, the earnings on the
7 accumulated assets are not included in the FAS 87 or 106 calculations of annual
8 retirement cost and, therefore, are not used to reduce the actual cost of the plans.
9 Therefore the Staff believes that an actual payments method is more appropriate for the
10 non-qualified plans and has included the actual test year payments in calculating its
11 annual cost.

12 Q. Please explain adjustments S-15.3 and S-15.5.

13 A. These adjustments annualize pension and OPEB expenses based on the
14 use of FAS 87 and FAS 106, respectively, for the regular retirement plans and actual
15 payments for the non-qualified retirement plans.

16 Q. Previously, you stated that one of the items reflected in the actuarial
17 calculation of pension expense under FAS 87 and OPEB expense under FAS 106 was the
18 use of a five-year amortization of the five-year-average balance of unrecognized gains
19 and losses. Please explain the term "unrecognized net gains and losses" as it applies to
20 these calculations.

21 A. As explained earlier in my testimony, FAS 87 and FAS 106 are calculated
22 using numerous actuarial, financial and accounting assumptions. When the actuary
23 changes an assumption to reflect more current information based on updated actual
24 experience data, the total projected liability and/or assets under FAS 87 and FAS 106

1 changes as well. This change is accounted for as an unrecognized gain or loss depending
2 upon the impact on the projected liability and/or assets. These changes are reflected in
3 the annual FAS 87 and FAS 106 cost by amortizing the unrecognized net gain/loss
4 balance over a period of time not to exceed the remaining service period of active plan
5 participants.

6 Q. Why is the Staff recommending an amortization of the five-year average
7 unrecognized net gain/loss balance instead of the current year balance?

8 A. Gains and losses under FAS 87 and FAS 106 result from changes in
9 assumptions (changing the discount rate, for example) and from differences between
10 estimated assumptions and actual results. Differences between the expected return on
11 funded assets and the actual return earned on those assets accounts for a significant
12 portion of the unrecognized net gain/loss balance. Annual differences between the
13 expected rate of return assumption and the actual return earned are often so significant
14 that the unrecognized net gain/loss balance experiences considerable annual fluctuation
15 (volatility). Using a five-year average balance to determine the unrecognized net
16 gain/loss balance subject to amortization mitigates the effect on rates of any significant
17 volatility.

18 Q. Has the five-year average balance method been used for any other
19 Missouri utility company to determine the unrecognized net gain/loss balance to be
20 amortized in calculating FAS 87 and FAS 106?

21 A. Yes. This method was stipulated to in cases setting rates for Missouri Gas
22 Energy Company, Case No. GR-98-140 and St. Joseph Light & Power Company, Case
23 No. ER-99-247.

1 Q. Has Laclede previously used the five-year average balance method of
2 determining the unrecognized net gain/loss balance to be amortized in calculating FAS 87
3 and FAS 106?

4 A. Yes. In Case No. GR-98-378 Laclede stipulated to this method. In Case
5 No. GR-99-315, the Company filed its rate case based on this method.

6 Q. What is the basis for the Staff's recommendation to use a five-year
7 amortization of the average unrecognized net gain/loss balance?

8 A. The Staff bases its recommendation for using a five-years' amortization of
9 gains and losses for determining FAS 87 and FAS106 cost on three factors:

10 1) Timely recognition of actual results and assumption changes is necessary
11 for accurate pension and OPEB expense for ratemaking purposes. The Staff considers
12 five years to be a reasonable time period to meet this goal.

13 2) In the Omnibus Budget Reconciliation Act of 1987, the federal
14 government reduced the amortization period for asset gains and losses from 15 years to
15 five years for pension funding requirements. Section 412(b)(2)(B) of the Internal
16 Revenue Code requires that gains and/or losses from pension plan assets be amortized
17 over a five-year period. A five-year amortization treats asset gains and losses for FAS 87
18 and for funding requirements under ERISA/Internal Revenue Service (IRS) Regulations
19 on a consistent basis.

20 3) Use of a five-year amortization period is consistent with the Commission's
21 long-standing precedent for amortizing abnormal, significant, expenses/losses over five
22 years for ratemaking purposes.

23 Q. Are Laclede and any other major Missouri utility companies using a five-
24 year amortization for unrecognized gain/loss under FAS 87 and FAS 106?

1 A. Yes. Laclede, as well as UtiliCorp United, Inc.-Missouri Division,
2 Missouri Public Service and St. Joseph Light & Power, Empire District Electric
3 Company and Missouri Gas Energy currently amortize gains and losses under FAS 87
4 and FAS 106 over five years. All major utility companies in Missouri that have had rates
5 set since §386.315 was enacted in 1994 requiring the adoption of FAS 106 for
6 ratemaking purposes, amortize gains and losses under FAS 87 and FAS 106 over a five-
7 year period.

8 Q. Does Laclede have flexibility in determining the number of years to use in
9 amortizing the net gain/loss balance under FAS 87 and FAS 106?

10 A. Yes. Paragraph 33 of FAS 87 explains the wide flexibility allowed in
11 choosing the amortization period for gains and losses:

12 Any systematic method of amortization of unrecognized gains and
13 losses may be used in lieu of the minimum specified in the
14 previous paragraph provided that (a) the minimum is used in any
15 period in which the minimum amortization is greater (reduces the
16 net balance by more), (b) the method is applied consistently, (c)
17 the method is applied similarly to both gains and losses, and (d) the
18 method used is disclosed.

19 Similar language appears in FAS 106 addressing the flexibility allowed in
20 choosing the amortization period for gains and losses.

21 Q. Please define the terms "fair value" and "market related" value used in
22 calculating pension cost under FAS 87.

23 A. The fair value of assets reflects the actual value of the assets included in
24 the funds that are being accumulated to pay retirement benefits. Market related value
25 reflects the fair value of assets decreased or increased by gains and losses which have
26 occurred during the last five years.

1 Q. Why is Staff opposed to using the "market related value" for valuing
2 pension and OPEB fund assets?

3 A. Staff opposes the use of market related value for pension and OPEB fund
4 asset valuation for the following reasons:

5 1) Annual investment gains are the rule rather than the exception because the
6 expected rate of return is usually lower than the actual return earned, resulting in an
7 "unrecognized" gain at the end of the year. The market-related approach results in a
8 continual understatement of the value of the pension fund assets and an overstatement of
9 retirement costs for FAS 87 and FAS 106.

10 2) Gains and losses used in determining the market related value calculation
11 are not fully subject to amortization for up to five years.

12 3) The Staff's position on gain and loss recognition in calculating FAS 87
13 and FAS 106 is that gains and losses need to be reflected on a timely basis in order to
14 accurately reflect a utility's pension and OPEB costs.

15 Q. You previously used the term "corridor approach" for gain/loss
16 recognition, please explain this term.

17 A. The corridor approach allows a company to defer the amortization of gains
18 and losses until the unamortized gain/loss balance exceeds the higher of 10% of the value
19 of the accumulated assets in the fund or 10% of the pension liability. Use of the corridor
20 approach allows the company to experience gains and losses, but requires no
21 amortization until the 10% threshold is exceeded.

22 Q. Why is the Staff opposed to the use of the corridor approach?

23 A. As with the use of the market related value approach and an amortization
24 period longer than five years, use of the corridor approach does not meet the objective of

1 reflecting gains and losses on a timely basis in order to accurately determine a utility's
2 pension and OPEBs cost.

3 **PENSION GAINS AND LOSSES-FAS 88**

4 Q. Please explain Adjustment S-15.4.

5 A. Adjustment S-15.4 eliminates the FAS 88 gains and losses recorded in the
6 test year.

7 Q. Please provide a description of FAS 88, as it pertains to Laclede.

8 A. FAS 88 applies to an employer that sponsors a defined benefit pension
9 plan accounted for under the provisions of FAS 87 when all or part of the plan's pension
10 benefit obligation is settled or the plan is curtailed. It also applies to an employer that
11 offers benefits to employees in connection with their termination of employment. In
12 Laclede's specific case, FAS 88 gains and or losses have been recognized due to retirees
13 taking lump-sum cash settlements for their pension benefits, as opposed to receiving
14 those benefits annually after retirement. Laclede's current policy requires recognition of
15 a FAS 88 gain or loss with the first dollar of lump-sum settlements. Over the past ten
16 years, Laclede has experienced from \$0 to \$7 million annually in FAS 88 gains.

17 Q. Why has the Staff eliminated the test year FAS 88 gains and losses?

18 A. The Staff recommends that Laclede be authorized to recognize the effect
19 of lump-sum gains and losses only to the minimum extent allowed by FAS 88. This
20 should result in a zero level of FAS 88 recognition in the future and further reduce the
21 volatility associated with pension expense. These gains and losses will then be amortized
22 in the same manner as other unrecognized gains and losses under FAS 87.

1 **PREPAID PENSION ASSET IN RATE BASE**

2 Q. Please explain the term "Prepaid Pension Asset" as it applies to pension
3 cost under FAS 87.

4 A. A Prepaid Pension Asset is established on the balance sheet when the cash
5 contributions to the pension fund exceed the pension cost recorded on the income
6 statement under FAS 87. The Prepaid Pension Asset is increased in subsequent years
7 when the cash contributions to the fund exceed the FAS 87 expense on the income
8 statement. The Prepaid Pension Asset will be reduced in subsequent years when the
9 pension cost under FAS 87 exceeds the cash contribution to the pension fund.

10 Any gain or loss resulting from a FAS 88 transaction is also included under the
11 FAS 87 pension cost in determining the net impact on the Prepaid Pension Asset in any
12 given year.

13 Q. Why do the cash contributions to the pension fund differ from the pension
14 expense calculated under FAS 87 for financial reporting purposes?

15 A. Funding requirements for defined benefit pension plans are provided for
16 under ERISA and IRS regulations. ERISA regulations determine the minimum annual
17 cash contribution that must be funded. IRS regulations govern the maximum cash
18 contribution that is tax deductible.

19 ERISA regulations are designed to ensure that defined benefit pension plans are
20 adequately funded. The ERISA minimum contribution is intended to fund the pension
21 liability, while FAS 87 is intended to ratably charge the liability to expense over the
22 service life of the employee. Since both ERISA and FAS 87 are concerned with the same
23 pension liability, differences between contributions under ERISA and expense under
24 FAS 87 can be viewed as a timing difference caused by the fact that the actuarial method

1 used for FAS 87 is not the same method used for funding measurements under ERISA
2 regulations.

3 Q. Explain the relationship between Laclede's Prepaid Pension Asset at
4 July 31, 2001 and their cost of service for this case.

5 A. Laclede's Prepaid Pension Asset at July 31, 2001 must be adjusted before
6 putting it in rate base for this case. The Prepaid Pension Asset at July 31, 2001 represents
7 the accumulated difference between FAS 87 and 88 pension cost and cash contributions
8 to the pension fund since 1987, when Laclede adopted FAS 87 for financial reporting
9 purposes. However, FAS 87 was not used for regulatory purposes for Laclede prior to
10 September 1, 1994, the effective date of rates in Case No. GR-94-220. The Prepaid
11 Pension Asset included in rate base should include only the accumulated difference
12 between FAS 87 pension cost included in rates and the cash contributions to the pension
13 fund since September 1, 1994.

14 The July 31, 2001 Prepaid Pension Asset must also be adjusted to exclude the
15 impact of all FAS 88 gains recognized from September 1, 1994 through September 1,
16 1996. Prior to September 1, 1996, which reflects the effective date of the rates from Case
17 No. GR-96-193, FAS 88 gains were not included in Laclede's cost of service in a rate
18 case. Therefore, the Prepaid Pension Asset balance at July 31, 2001 should also exclude
19 the impact of all FAS 88 gains recognized from September 1, 1994 to September 1, 1996.

20 Finally, the July 31, 2001 Prepaid Pension Asset must also be adjusted to exclude
21 the impact of an accelerated payment made to the pension fund in June of 2001.
22 Payments to the pension fund are normally made in June following the pension plan year,
23 which ends on the previous September 30. Laclede made its regular payment in June of
24 2001 for the pension plan ending September 30, 2000. However, the Company also

1 made a payment, applicable to the 2001 pension plan year that would normally be made
2 in June of 2002. As a result of this accelerated payment, the prepaid pension asset was
3 increased approximately \$4,000,000. Also as a result of this accelerated payment, no
4 contribution is necessary in 2002 for the 2001 plan year. Laclede has provided an
5 explanation stating that the accelerated payment was required to allow the Company to
6 make lump-sum payments. The Staff is currently reviewing information and references
7 to the Internal Revenue Code provided by the Company. However, the Staff believes that
8 this accelerated payment, which would normally be made in June of 2002, should not be
9 reflected in this case.

10 **INCENTIVE COMPENSATION**

11 Q. Please explain adjustment S-15.17.

12 A. This adjustment removes the test year cost of Laclede's incentive
13 compensation plan. Adjustment S-15.17 removes from the cost of service the accrual of
14 expense for the deferred portion of dividend equivalents and compensation included in
15 booked pension expense. As part of the calculation of payroll, actual payments that were
16 made during the test year were also eliminated.

17 Q. Please explain the incentive compensation plan.

18 A. From time to time, the Board of Directors (Board) awards share units, or
19 common stock equivalents, to key executives. Incentive compensation is awarded to
20 participants based on these share units as follows:

21 1. When the Company pays a cash dividend on its common stock, it
22 shall pay a dividend to each awardee for each share unit held on the date
23 of that payment. These equivalents are paid to each awardee until his or

1 her death. If survived by a spouse, dividend equivalents will be paid to
2 such spouse for life. This cost is expensed as the dividends are declared
3 (quarterly).

4 2. At fiscal year-end, the difference between Earnings Per Share
5 (EPS) and dividends paid during the fiscal year is treated as a defined
6 contribution to deferred compensation. The awardees receive this amount
7 plus interest during retirement. Upon the awardees' death, the remaining
8 payments are made to the designated beneficiaries. Deferred compensation
9 is accrued in September, the end of Laclede's fiscal year, when EPS is
10 known.

11 Q. What criteria exists for awarding share units or common share
12 equivalents?

13 A. No specific criteria exists for awarding share units. According to
14 information provided by the Company, the granting of awards is not based on specific
15 criteria, but rather involves the evaluation of each individual's unique accomplishments
16 and potential. The Board of Directors has the sole authority to award equivalents at its
17 discretion. Once an equivalent has been awarded, the only criteria for receiving quarterly
18 payments is a dividend declaration by the Board. Declaring dividends is a standard form
19 of business practice within the utility industry, as it is with Laclede. As stated in the
20 Company's 2000 Annual Report, Laclede "[h]as paid dividends on a continuous basis
21 since 1946."

22 Q. If EPS does not exceed dividends, can awardees still receive deferred
23 compensation?

1 A. Yes. Deferred compensation may still be awarded even if EPS does not
2 exceed dividends at fiscal year end. As stated in the incentive compensation plan:

3 The Calculation of Deferred Compensation shall be subject to the
4 power of the Board of Directors from time to time to (i) adjust the
5 amount of Consolidated Retained Earnings to reflect events or
6 transactions which have a significant relation to the efforts and
7 performance of any or all Awardees, or (ii) exclude from the
8 computation of Consolidated Retained Earnings all or any portion
9 of Consolidated Earnings deemed to reflect events or transactions
10 which have no significant relation to the efforts and performance
11 of any or all Awardees.

12
13 Essentially, the Board may grant compensation even when Laclede experiences
14 poor earnings.

15 Q. According to the Company, why was the plan established and what was its
16 purpose?

17 A. According to information provided by the Company, the plan was
18 established to give officers and managerial employees of the Company an increased
19 incentive to achieve outstanding performance, to reward this performance, and to attract
20 and retain highly qualified persons as officers and managers.

21 Q. Does this plan provide an incentive for outstanding performance?

22 A. No. Once individuals are awarded share units, they are practically
23 guaranteed to receive dividend equivalents for the rest of their lives. The Staff does not
24 believe there is any incentive for an officer to achieve higher performance standards for
25 the Company when dividend equivalents (a bonus) are virtually guaranteed.
26 Furthermore, the awarding of share units is not based upon any specific criteria.

27 Q. In past cases, has the Commission set minimum standards for an incentive
28 compensation plan to qualify for inclusion in the cost of service?

1 A. Yes. In its Report And Order in Case Nos. EC-87-114 and EC-87-115,
2 Union Electric Company, the Commission stated:

3 At a minimum, an acceptable management performance plan
4 should contain goals that improve existing performance, and the
5 benefits of the plan should be ascertainable and reasonably related
6 to the plan.

7
8 Q. Under the Company's plan, can awardees ascertain what they must
9 individually achieve in order to receive incentive compensation?

10 A. No. As mentioned earlier, once a share unit has been awarded, incentive
11 compensation relies upon quarterly dividends and EPS at fiscal year-end. The Staff
12 believes that it is difficult, if not impossible, to ascertain what the impact of any
13 individual's performance may have been in relation to the level of EPS for any given
14 year. The Staff believes that there is insufficient evidence to connect incentive
15 compensation expense for a given employee with the Company's overall EPS
16 performance.

17 **TRUE-UP ESTIMATE**

18 Q. Please discuss the Staff's true-up estimate appearing on Schedule 1,
19 Revenue Requirement.

20 A. The Staff has calculated an estimate of the change in the revenue
21 requirement due to true-up. The estimate addresses only three significant areas of the
22 Staff's cost of service and is not indicative of all the items and areas that will be
23 examined during the Staff's true-up audit. Also, the method of quantifying the estimate
24 is greatly simplified from the manner in which the actual value will be determined during
25 the true-up.

26 Q. What areas are addressed in the true-up estimate?

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Stephen M. Rackers

1 A. The Staff calculated an estimate of the value associated with changes in
2 the following items:

- 3 1) Net plant in service
4 2) Payroll
5 3) Employee health care costs

6 These and any other items addressed in true-up will be reconsidered as to both
7 inclusion and quantification in the Staff's cost of service.

8 Q. Does this conclude your direct testimony?

9 A. Yes, it does.

RATE CASE PROCEEDING PARTICIPATION

STEPHEN M. RACKERS

<u>Company</u>	<u>Case Number</u>
Bowling Green Gas Company	GR-78-218
Central Telephone Company	TR-78-258
Empire District Electric Company	ER-79-19
Fidelity Telephone Company	TR-80-269
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
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
Laclede Gas Company	GR-92-165
Missouri Pipeline Company	GR-92-314
St. Louis County Water Company	WR-92-204

<u>Company</u>	<u>Case Number</u>
St. Louis County Water Company	WR-94-166
St. Louis County Water Company	WR-95-145
Union Electric Company	ER-95-411
St. Louis County Water Company	WR-96-263
St. Louis County Water Company	WR-97-382
Laclede Gas Company	GR-99-315
Missouri-American Water Company	WR-2000-281 et al
St. Louis County Water Company	WR-2000-844
Union Electric Company d/b/a AmerenUE	EC-2002-1