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**Missouri Public
Service Commission**

Exhibit No.:

*Issue: Payroll; Payroll Taxes;
401(k) Adjustments; Dental
and Vision Adjustments;
Trustee Fees; Health Care
Expense*

Witness: Leasha S. Teel

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

LEASHA S. TEEL

LACLEDE GAS COMPANY

CASE NO. GR-2001-629

*Jefferson City, Missouri
October 2001*

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DIRECT TESTIMONY
OF
LEASHA S. TEEL
LACLEDE GAS COMPANY
CASE NO. GR-2001-629

Q. Please state your name and business address.

A. Leasha S. Teel, 815 Charter Commons, Suite 100B, Chesterfield, Missouri
63017.

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 Webster University in December 1998, receiving a Bachelor of
Science degree in Accounting.

Q. Have you previously filed testimony before this Commission?

A. Yes, I previously filed testimony in Case No. EC-2002-01, AmerenUE.

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

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

Q. What are your primary areas of responsibility in this case?

A. My primary areas of responsibility include payroll, payroll-related taxes, 401(k)
plan, health care costs and pension plan trustee fees.

1 Q. What adjustments are you sponsoring?

2 A. I am sponsoring the following adjustments:

3 Payroll S-8.1, S-9.1, S-10.1, S-11.1, S-12.1, S-14.1, S-15.1

4 Payroll Taxes S-18.1

5 401 (k) Plan S-15.6

6 Health Care Costs S-15.7, S-15.8 and S-15.9

7 Trustee Fees S-15.2

8 **PAYROLL**

9 Q. Please explain adjustments S-8.1, S-9.1, S-10.1, S-11.1, S-12.1, S-14.1 and
10 S-15.1.

11 A. These adjustments represent the Staff's individual payroll annualizations to the
12 various expense functions (i.e., distribution, customer accounts, sales, and administrative and
13 general (A&G) expense).

14 Q. What are the different components of Staff's payroll annualization?

15 A. The payroll annualization considers both Laclede and Missouri Natural (MoNat)
16 Contract and Management payrolls. In addition, Staff included the normalization of overtime
17 charged by union and management employees, lump-sum payments and summer/temporary
18 employee payroll adjustments.

19 Q. Please explain the methodology you employed to determine annualized payroll.

20 A. The Company categorizes its payroll by the following four categories: Laclede
21 Management, Laclede Contract, MoNat Management and MoNat Contract. Staff's adjustments
22 annualize test year payroll based upon the Company's wage and salary increase for 12 months for

1 these four categories. Management salaries for the Laclede and MoNat categories were based
2 upon straight time salary levels at July 31, 2001. The July 31, 2001 management payroll
3 annualization reflects the current level of employees and wage rates.

4 The payroll annualization includes the union employee pay increases for contract wages
5 for the Laclede Contract category test year, adjusted to reflect the August 1, 2000 wage rate
6 increase and updated to reflect the August 1, 2001 wage rate increases. The payroll annualization
7 includes the union employee pay increases for contract wages for the MoNat Contract category
8 test year, adjusted and updated to reflect the April 15, 2000 and April 15, 2001 wage rate
9 increases. In effect, the payroll annualization for the contract categories restates test year payroll
10 expense as if the August 2000, August 2001, April 2000 and April 2001 wage rate increase were
11 in effect during the entire test year.

12 Q. Why were these contract/salary rates used to calculate the payroll annualization?

13 A. These levels represent the most current indicators of ongoing payroll expense.
14 This is consistent with the ratemaking principle of maintaining the proper relationship of
15 revenues, expenses and investment at a point in time.

16 Q. How did you determine total annualized payroll?

17 A. The sum of the annualized components discussed above (Laclede Contract and
18 Management and MoNat Contract and Management, including overtime, lump-sum payments
19 and adjustments for summer/temporary employees) represents the Company's annualized
20 payroll.

21 Q. Please describe the Staff's calculation of overtime payroll.

22 A. For all four divisions, Staff developed the overtime payroll expense by
23 annualizing a five-year average of overtime hours for the test years 1997 through 2001 multiplied

1 by an overtime hourly rate. The Staff also annualized the overtime rates for all four-payroll
2 categories to reflect the payroll wage increases that occurred during the test year and through the
3 update period (March 1, 2001 through July 31, 2001).

4 Q. Please explain why Staff used a five-year average for overtime hours.

5 A. The fluctuation of overtime hours is caused by internal and external factors
6 affecting the operations of a company. Some examples of these factors include changing
7 operating systems, expanding service territory, storms that cause damage to utility property, and
8 even employee levels. In recent years the overtime hours have varied; therefore, Staff is using a
9 five-year average approach in order to normalize overtime. This five-year average produces a
10 more accurate presentation of an ongoing level of overtime.

11 Q. How did Staff determine the portion of annualized payroll to be charged to
12 operation and maintenance (O&M) expense?

13 A. Staff multiplied total annualized payroll by O&M expense factors to derive the
14 total annualized O&M payroll. Total annualized company O&M payroll was distributed to
15 expense functions based upon the actual distribution of test year payroll.

16 Q. How were the O&M factors determined?

17 A. The Staff based its O&M factors on the 12-month period ending September 30,
18 2000. The Staff intends to review this area for adjustment base on the O&M factors for the 12-
19 month period September 30, 2001 as part of its true-up audit.

20 Q. Why did Staff use the 12-month period ending September 30, 2000?

21 A. During the year, a portion of payroll and other expenses are collected in accounts
22 and distributed (cleared) to various expense and construction accounts. This distribution
23 includes an allocation of clearing accounts to O&M expense, construction cost and retirement

1 cost. The clearing account balances fluctuate during the year, but are increased and finally
2 reduced to zero at the end of each fiscal year. To eliminate the effect of the fluctuation in the
3 clearing accounts, the Staff developed its O&M factor based on the Company's fiscal year, rather
4 than the test year.

5 Q. What are the results of the Staff's O&M factor calculations?

6 A. The Staff's calculation produced O&M expense factors of 74.76% for Laclede
7 Payroll and 83.69% for MoNat Payroll.

8 Q. Has the Staff applied the O&M expense factors to other payroll-related
9 adjustments?

10 A. Yes. The Staff applied this O&M expense factor to other payroll-related
11 adjustments, such as 401(k), pension plan trustee fees, dental insurance, payroll taxes vision
12 insurance and health care costs which naturally follow payroll expense.

13 Q. Why did the Staff use the most recent fiscal year rather than an average for the
14 O&M factor?

15 A. The Staff analyzed five years of O&M payroll based on the Company's fiscal
16 year. The Staff's analysis showed that a declining trend existed since 1998. Due to the trend
17 observed by the Staff, the O&M factors from the most recent fiscal year is the best reflection of
18 the ongoing level.

19 The Staff's analysis of the MoNat payroll O&M factors did exhibit year-to-year
20 fluctuations. However, use of an average rather than the most recent fiscal year to develop the
21 O&M factor for the MoNat category would have a very minimal effect on total payroll expense.
22 Therefore, the Staff used the most recent fiscal year to develop its O&M factor for MoNat
23 payroll in a consistent method with that used for Laclede payroll.

1 **PAYROLL TAXES**

2 Q. Please explain the Payroll tax adjustment, S-18.1?

3 A. Adjustment S-18.1 represents the Staff's annualization of Federal Insurance
4 Contributions Act taxes (FICA), Federal Unemployment Tax (FUTA), State Unemployment Tax
5 (SUTA) and the City of St. Louis payroll earnings tax.

6 Q. How did Staff annualize the FICA tax portion of adjustment S-18.1?

7 A. FICA (Social Security) is comprised of Old-Age, Survivors and Disability
8 Insurance (OASDI) taxes and Medicare taxes. The OASDI tax of 6.20% is limited in calendar
9 year 2001 to the first \$80,400 of gross income per employee. The Medicare tax of 1.45% applies
10 to the total gross income with no limit or cap on earnings. The employer matches the OASDI
11 and Medicare tax withheld from employees' wages. Staff applied the appropriate OASDI and
12 Medicare tax rates to the taxable annualized wages/salaries for each payroll category. The last
13 step in computing the FICA expense was derived by applying each category's O&M factor to
14 each annualized payroll tax calculation.

15 Q. How did Staff annualize the FUTA payroll tax portion of adjustment S-18.1?

16 A. The Staff used a 12-month average ending July 31, 2001 to develop the level of
17 contract employees subject to FUTA for both Laclede and MoNat. The Staff used the actual
18 employee levels for July 31, 2001 to develop the level of management employees subject to
19 FUTA. These employee levels were multiplied by the FUTA tax base of \$7,000 for 2001 and
20 then by the FUTA tax rate of .8% for 2001. The annualized amounts were multiplied by their
21 respective O&M percentages and compared to the actual test year amount for the four payroll
22 categories.

23 Q. How did the Staff annualize the SUTA payroll tax portion of adjustment S-18.1?

1 A. The Company's current effective SUTA rate is 0.00%. Therefore, this adjustment
2 removes the test year level of SUTA expense from the cost of service calculation.

3 Q. How did Staff annualize the City of St. Louis payroll earnings tax (PET) portion
4 of adjustment S-18.1?

5 A. Laclede Management and Contract, and MoNat Management annualized payroll
6 levels were multiplied by the percent of taxable wages and then by the PET tax rate. Lastly, the
7 annualized PET tax amounts were multiplied by their respective O&M percentages, to develop
8 the annualized O&M PET taxes.

9 **401(k) PLAN**

10 Q. How did Staff annualize the 401(k) adjustment S-15.6?

11 A. Adjustment S-15.6 reflects the increase in expenses for the 401(k) Wage and
12 Salary Deferral Savings Plans, which have been adjusted based on the Staff's annualized payroll
13 for each payroll category. Under the 401(k) Plan, employees have the option of deferring for
14 receipt in the future a portion of their salaries or wages. The Company matches a percentage of
15 the amount the employee defers. The Staff developed a ratio based on the July 2001 Company
16 contributions to deferred payroll for each payroll category's plan. The ratios were then
17 multiplied by annualized payroll for each payroll category. The normalized payroll calculation is
18 then multiplied by the respective payroll category. The actual test year amount is then multiplied
19 by the respective payroll category and compared to the normalized 401(k) amount.

20 **HEALTH CARE EXPENSES**

21 Q. How did Staff annualize dental and vision adjustments S-15.8 and S-15.9?

1 A. Adjustments S-15.8 and S-15.9 annualize dental and vision insurance expense,
2 respectively, based on July 2001 costs. The Staff multiplied the July 2001 costs by 12 months to
3 calculate its annualized amount. Then the annualized amount was multiplied by the category's
4 respective O&M percentage. This calculation reflects the most current level of ongoing expense
5 for dental and vision insurance. The Staff subtracted test year expense from these levels to
6 complete the adjustment

7 Q. How did Staff annualize the health care adjustment S-15.7?

8 A. Adjustment S-15.7 reflects the Staff's annualized health care expense in excess of
9 the Company's test year health care costs.

10 Q. What are the components of the Company's health care plan?

11 A. The Company offers a Comprehensive Plan or the choice of one of four Health
12 Maintenance Organizations (HMOs): United HealthCare HMO, Mercy HMO, Group Health
13 Plan HMO or Mercy Ref'd HMO. Under the Comprehensive Plan, the Company pays claims
14 out-of-pocket, plus a small administrative fee to the insurance company. Under the four HMOs,
15 the Company simply pays a negotiated rate per employee through the monthly premium to the
16 respective insurance company.

17 Q. How has the Staff annualized health care costs in this case?

18 A. The Staff used the actual test year expense for the Company's comprehensive
19 medical payments. Administrative fees related to the Comprehensive Plan were based on
20 February 28, 2001 expense levels. For the Company's four HMO premiums, the Staff used the
21 February 28, 2001 expense level multiplied by 12 months.

22 The Company has notified the Staff that it has had a significant change in health care
23 costs and providers as of August 1, 2001. The Company has, at the recommendation of an

1 outside consultant, eliminated Group Health Plan HMO, Mercy Medical Group HMO and United
2 Health Care HMO due to their proposed increase in premiums. At this time, the Company is
3 unable to quantify the costs. Staff will be examining this item at greater length as a part of true-
4 up.

5 **PENSION PLAN TRUSTEE FEES**

6 Q. How has Staff annualized Pension Plan Trustee Fees to determine adjustment
7 S-15.2?

8 A. This adjustment annualizes pension fund trustee fees based on the July 2001 level.
9 The Staff's adjustment reflects the effect of new fee agreements with investment managers to
10 handle the Company's pension, 401(k) and employee benefit trusts.

11 Q. Does this conclude your direct testimony?

12 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

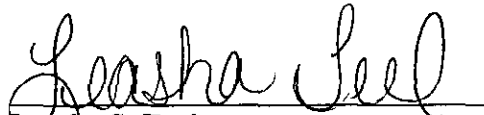
OF THE STATE OF MISSOURI

In The Matter of Laclede Gas Company's Tariff)
To Revise Natural Gas Rates) Case No. GR-2001-629

AFFIDAVIT OF LEASHA S. TEEL

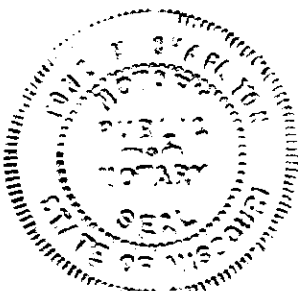
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Leasha S. Teel, being of lawful age, on her oath states: that she has participated in the preparation of the foregoing Direct Testimony in question and answer form, consisting of 9 pages to be presented in the above case; that the answers in the foregoing Direct Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of her knowledge and belief.


Leasha S. Teel

Subscribed and sworn to before me this 10th day of October 2001.





TONI M. CHARLTON
NOTARY PUBLIC, STATE OF MISSOURI
COUNTY OF COLE
My Commission Expires December 28, 2004