Exhibit No.:	
Issue:	**Pensions and OPEBs**
Witness:	**Steven P. Rasche**
Type of Exhibit:	**Direct Testimony**
Sponsoring Party:	**Laclede Gas Company**
Case No.:	**GR-2013-0171**
Date Prepared:	**December 21, 2012**

LACLEDE GAS COMPANY

GR-2013-0171

DIRECT TESTIMONY

OF

STEVEN P. RASCHE

DECEMBER 2012

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DIRECT TESTIMONY OF STEVEN P. RASCHE

Q. Please state your name and business address.

A. My name is Steven P. Rasche, and my business address is 720 Olive Street, St. Louis, Missouri 63101.

Q. What is your present position?

A. I am Senior Vice President – Finance and Accounting for The Laclede Group and the Chief Financial Officer of Laclede Gas Company.

Q. Please state how long you have held your position and briefly describe your responsibilities.

A. I was elected to my current position in May, 2012. In this position, I am responsible for the Company's accounting, financial reporting and analysis, treasury/cash management, tax, and capital markets/investor relations.

Q. Will you briefly describe your experience with Laclede prior to becoming Chief Financial Officer?

A. I joined Laclede in November, 2009 as Vice President – Finance. Prior to that time, I have held various executive positions in my twenty-nine year career at companies in the non-regulated industries, most recently as the CFO of TLC Vision Corporation and Public Safety Equipment, Inc.

Q. What is your educational background?

A. I graduated from the University of Missouri, Columbia with a Bachelor's of Science in Accountancy. I subsequently received a Master's of Business Administration, with concentrations in Finance and Marketing from Northwestern University.

Q. Have you previously filed testimony before this Commission?

A. No, I have not.

PURPOSE OF TESTIMONY

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present evidence to the Commission concerning the following items:

1. Pension expense and assets; and
2. Post retirement benefits other than pensions;

ADJUSTMENTS TO UTILITY OPERATING INCOME PENSION PLANS

Q. Please describe Laclede's pension plans.

A. Laclede maintains qualified defined benefit pension plans for virtually all employees. These plans date to the early 1950s, and the terms have been negotiated with the Company's unions over the years. The benefits for non-union employees generally are similar to those for the union employees.

Q. Are the plans funded in advance by the Company?

A. Yes. Pension trust funds have been established and the Company funds these trusts pursuant to the requirements specified in ERISA and more recently the Pension Protection Act of 2006 ("PPA") and the "Moving Ahead for Progress in the 21st Century Act" passed in July 2012.

Q. What are the Company's current funding requirements for the trusts?

A. Funding requirements for fiscal 2012 were $33.3 million, including $14.2 million necessary to avoid benefit payment restrictions caused by the passage of the Pension Protection Act of 2006. Prior to passage of the PPA, the Company's funding requirements have been at relatively low levels for many years.

Q. Why has funding been so low?

A. After establishing the plans in the early 1950s, the Company amply funded the plans in a manner consistent with any then-applicable standards, IRS regulations and eventually ERISA requirements. By the mid 1980s, the trusts had accumulated sufficient assets to the point where funding requirements were diminished. In fact further funding could no longer be made on a tax-deductible basis. The accumulated assets, along with good investment returns through the 1980s and 1990s, allowed the Company to cover the benefits being earned by employees without incurring significant funding requirements throughout those years. In contrast, investment returns subsequent to 2000 have generally been much less robust, reflecting overall market conditions. As a result, the surplus assets have declined as employees have also continued to accrue and be paid benefits under the terms of the plans, all the while as funding continued at disproportionately low levels.

Q. What is the Company's goal related to pension plan funding?

A. The goal is to maintain the funded status of the plans so as to meet or exceed the ERISA requirements needed to avoid benefit plan restrictions. In recent years, plan contributions have increased substantially due in large part to lower overall interest rates, which has lowered the discount rate used to value to underlying pension liabilities. This increase has been offset, in part, by the strong investment returns we have earned on the pension funds, but those returns have not been sufficient to offset the impact of lower interest rates and other factors on the liabilities.

Q. Has the Company taken any actions to safeguard the long-term health of its pension plans?

A. Yes. On January 1, 2009 we implemented a change in the benefit formula for almost all of our employees from a traditional final average pay formula to a cash balance plan. Pursuant to ERISA requirements, this change is prospective in nature for employees' service after the effective date. The new formula continues, in modified form, the historical benefit for our employees in a manner that we believe makes better sense for today's workforce. At the same time, we also anticipate that the new formula will benefit our customers by reducing, over the long term, funding requirements that would have otherwise needed to be recovered in rates had the traditional plan remained in effect.

Q. Has the Company taken any other actions?

A. We routinely review our investment policies and monitor the performance of the professionals hired to manage the assets in the trust to ensure that we are doing everything we reasonably can to protect and enhance the value of our pension assets. This is to ensure that, safeguard both the interests of the employees for whom these pension plans were developed as an integral part of their compensation as well as the interests of customers from whom we must ultimately collect any required contributions. The Company's proactive and conservative approach to management of the pension trust assets has served both interests well over many years.

QUALIFIED PENSION AND OPEB EXPENSE FOR FINANCIAL REPORTING PURPOSES

Q. What basis of accounting does Laclede use to determine pension and other postretirement benefits ("OPEBs") expense for financial reporting purposes?

A. Laclede calculates its pension expense on an accrual basis in accordance with the Financial Accounting Standards Board ("FASB") codification ASC 715, formerly

Statement of Financial Accounting Standard ("FAS") FAS 87 and FAS 88. As these terms (FAS 87 and 88) are commonly used in the regulatory arena, I will continue to utilize them in my testimony in place of the new topic name. These standards were developed by the FASB, which has responsibility for establishing the Generally Accepted Accounting Principles ("GAAP") that must be followed by all companies that are publicly traded in the United States. Laclede was first required to adopt the provisions of these statements effective October 1, 1987.

Q. How does Laclede calculate its OPEBs expense?

A. Laclede also calculates its OPEBs expense on an accrual basis in accordance with ASC 715. The portion of ACS 715 dealing with OPEBs, which was formerly found in FAS No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions, which measures OPEB cost in much the same manner as FAS 87 measures pension cost. Laclede was first required to adopt the provisions of FAS 106 effective October 1, 1994.

Q. Please briefly describe the cost measurement objectives of FAS 87, FAS 88, and FAS 106.

A. One of the primary objectives is to ensure that pension and OPEB costs are assigned to the time periods in which benefits are earned. Another objective of these statements is to provide a basis for ensuring comparability of reported pension and OPEB costs between different companies, and consistency in amounts reported from period to period by an individual company.

Q. How do FAS 87 and FAS 106 advance this objective?

A. FAS 87 and FAS 106 advance this objective by establishing the basic framework for calculating and accruing <u>net</u> pension and OPEB cost to recognize the compensation cost of an employee's benefits over the approximate working life of that employee. Pension and OPEB costs are based on the valuation of two separate components: 1) plan liabilities for benefits earned by employees; and 2) qualified plan assets, if any, to pay such benefits. Changes in the value of liabilities are netted against changes in the value of plan assets to determine periodic net cost. Depending on the magnitude of the changes in these two components, total net pension cost may result in either expense or income to a company. FAS 87 and FAS 106 also provide for systematic recognition (i.e., amortization) of gains and losses arising from differences between a plan's expected and actual experience.

Q. How does FAS 88 affect this calculation process?

A. FAS 88 is merely an extension of the FAS 87 measurement process. It generally requires immediate recognition of all or part of that portion of the FAS 87 gains and losses that have not been recognized as of the date certain specific types of pension plan transactions or triggering events occur. In Laclede's case, this could occur when lump-sum benefit payments are made to retirees in exchange for the full settlement of the Company's retirement obligation to them.

QUALIFIED PENSION PLAN EXPENSE FOR REGULATORY PURPOSES

Q. Does Laclede use the calculation of pension expense for financial reporting purposes as described above in setting customer rates?

A. No. Rates have been set based on the ratemaking treatment recommended by the parties and approved by Commission in the Company's 2002 rate case (Case No. GR-2002-356) and continued thereafter in the Company's subsequent rate cases (Case Nos. GR-2005-0284, GR-2007-0208, and GR-2010-0171).

Q. Why was an alternative treatment of this expense used to set rates in those cases?

A. Prior to the 2002 case, the Company's rates were based on pension expense as calculated pursuant to FAS 87 and FAS 88. Our experience during those years was that FAS 87 and FAS 88 had produced unacceptable volatility and cash flow effects in setting rates. We expressed these concerns in that case, and subsequently worked with the Staff and other parties to develop a ratemaking treatment for this expense that we believe is in the best interests of the Company and its customers.

Q. Please describe the current ratemaking treatment of pension expense.

A. In Case No. GR-2002-356, pension expense included in rates was based on the expected level of cash contributions into the pension trusts, plus an additional allowance to amortize the existing prepaid pension asset on the Company's books. Laclede's rates in Case No. GR-2002-356 were based on an expected cash contribution of zero (based on the ERISA minimum funding calculation), plus an allowance of $3.4 million for amortization of the prepaid pension asset. The difference between pension expense as calculated pursuant to FAS 87 and FAS 88 for financial reporting purposes and pension expense included in rates is deferred as a regulatory asset or liability. This methodology was continued in Case No. GR-2005-0284, except that the allowance in rates was increased to $4.1 million to reflect the fact that contributions to the pension funds had increased to about $0.7 million. The methodology was again continued in Case No. GR-2007-0208, but with the allowance increased to $4.8 million in partial recognition of anticipated increases in funding requirements. Finally, the allowance was increased in Case No. GR-2010-0171 to $15.5 million to reflect movement toward increased future funding levels that occurred shortly thereafter and that remain in effect today.

Q. What have been the funding requirements subsequent to the settlement of Case No. GR-2010-0171?

A. As can be seen on Schedule SPR-1, the funding level has exceeded the allowance in rates each year since the last rate case was concluded. The current estimate includes the full effect of the 2012 adoption of the "Moving Ahead for Progress in the 21st Century Act" passed in July 2012.

Q. What would be the effect if the funding requirements in 2013 and 2014 turn out to be less than the amount the Company is requesting in rates?

A. This would simply have the net effect of allowing the Company to reduce the Prepaid Pension Asset at a slightly accelerated pace. This would, in turn, benefit our customers by reducing the amount of this regulatory asset, and associated return requirement, that would need to be included in rates and collected from customers in future rate proceedings.

Q. Please describe the adjustment that you have included in this case for pension expense.

A. Laclede proposes the continuation of the successful ratemaking treatment implemented in Case No. GR-2002-356 regarding pension expense. Specifically, we propose that the Commission should continue to defer the difference between pension expense calculated pursuant to FAS 87 and FAS 88 (or any successor issued by the FASB) and the amount included in rates. In recognition of a higher level of funding, we have included pension expense in rates of $26.3 million in this case, in Adjustment 6.a.

NON-QUALIFIED PENSION PLAN EXPENSE

Q. Please describe the Company's non-qualified pension plans.

A. These plans include the Supplemental Retirement Plan ("SERP") and the Retirement Plan for Non-Employee Directors ("Directors Plan"). The SERP provides benefits pursuant to the formulas in the qualified retirement plan that would otherwise not be allowed due to IRS limitations. The Directors Plan provides a retirement benefit for non-employee directors who have satisfied certain service requirements.

Q. What is the basis for rate recovery of the costs associated with these plans?

A. Pursuant to agreements in past rate cases, we have calculated the costs of these plans based on benefit payments to participants of the plans. I have used an average of actual SERP payments from September 2010 through September 30, 2012 to perform this calculation. These adjustments should be trued up to reflect actual payments through July 2013.

Q. Why did you choose this method to determine the appropriate cost of these plans?

A. A SERP Review Methodology was included in Attachment 3 of the Stipulation and Agreement from Case No. GR-2010-0171 (Laclede's previous rate case). I have included an adjustment consistent with this methodology.

PREPAID PENSION ASSET

Q. You are also sponsoring the inclusion of the Company's net prepaid pension asset in rate base. Please describe what this amount represents.

A. While the Company accrues pension expense or income on its books subject to the accounting rules, it also must contribute sufficient funds to the trusts to ensure the trusts' ability to satisfy the plan liabilities. Usually, there will be a timing difference between when pension expense (or income) is accrued and when cash contributions are required to fund benefits. To account for these timing differences, the company has recorded a prepaid asset in its balance sheet for each of its pension arrangements. At any point in time, the balance in the prepaid pension asset account represents the amount by which aggregate contributions and pension income exceeds aggregate pension expense recognized. Correspondingly, accrued pension liabilities result when the opposite situation occurs.

Q. Why is it appropriate to include the net prepaid pension asset in rate base?

A. Over the years, the Company has recognized significant net pension plan gains on its books. As a result, ratepayers during that period have benefited from the inclusion of lower pension costs (or higher credits) in rates. However, the recognition of these gains, which has resulted in the creation of the net prepaid pension asset, has not resulted in additional cash flow to the Company. This is because the gains that have been recognized relate to assets held under a pension trust arrangement. Such assets cannot be withdrawn without incurring severe penalties. The net effect of this treatment has been to lower the Company's revenue requirement and, therefore, its cash flows. In consideration of the above, it is essential that the Company be provided with a return on its net prepaid pension asset in recognition of the fact that its investment in the asset has not been made with ratepayer provided funds, even though customers' rates have been reduced by the gains earned on those assets. This treatment is similar to the Commission's current treatment of deferred income taxes in rate base.

Q. How was the amount of the net prepaid pension asset included in rate base determined?

A. The prepaid pension asset included in rate base should be calculated by netting estimated July 31, 2013 accrued pension liability balances against estimated July 31, 2013 prepaid pension asset balances, for all qualified retirement plans (including the regulatory asset or liability recorded pursuant to the regulatory treatment of pension expense specified in Case Nos. GR-2002-356, GR-2005-0284, GR-2007-0208, and GR-2010-0171 discussed above). Balances for the SERP and Directors Plans are excluded since rate recovery for these plans has been based on actual payments rather than expense recovery.

OPEBs

Q. Please describe the types of OPEBs provided by Laclede to its employees when they retire.

A. Laclede provides certain healthcare and life insurance benefits to eligible employees retiring from active service.

Q. What basis of accounting was used to determine the amount of postretirement benefit expense to include in cost of service?

A. As previously authorized by the Commission and explained in my testimony, postretirement benefit expense was calculated on an accrual basis in accordance with FAS 106. Pursuant to such authorization, Laclede calculates FAS 106 on a basis that complies with the requirements of FAS 106. Normalization of FAS 106 expense based on the most recent estimated actuarial valuation is included in Adjustment 6.b. FAS 106 measures OPEB cost in much the same manner as pension cost is measured by FAS 87.

Q. Have previous Commission Report and Orders contained any other conditions or authorizations pertaining to FAS 106?

A. Yes, they have. Beginning with the Commission's Report and Order in Case No. GR-94-220, and continuing in all the Company's general rate proceedings thereafter, the Company has been directed to fund its annual FAS 106 OPEB expense levels in accordance with the provisions of Section 386.315 (RSMo. 2000), which requires the use of an external funding mechanism.

Q. Is Laclede currently funding its accrued FAS 106 costs in an external trust, or other external funding arrangement?

A. Yes, it is. Consistent with the Commission's previous orders and Section 386.315, the Company is currently contributing its annual FAS 106 cost levels into three external trust arrangements. Disbursements from these trusts can only be used for the payment of OPEB obligations.

Q. How have OPEBs been recovered in rates?

A. Beginning with Case No. GR-2007-0208, OPEB expenses have been recovered in a manner similar to that described above for pension expense, for the same reasons. In other words, a fixed recovery amount was included in rates, and the difference between this amount and expense for financial reporting purposes has been deferred. Laclede recommends that this methodology be continued.

PREPAID OPEB ASSET

Q. You are also sponsoring the inclusion of the Company's net prepaid OPEB asset in rate base. Please describe what this amount represents.

A. As described above, the amount of OPEB expense recovered in rates is based on a fixed amount. Cash contributions to the trusts are based on yearly actuarial valuations. Pursuant to the Stipulation & Agreement approved by the Commission in Case No. GR-2007-0208, the difference between the amount of OPEB expense included in rates and the amount funded by Laclede is included in rate base.

Q. Does this conclude your direct testimony?

A. Yes, it does.

STEVEN P. RASCHE

PENSION PLAN CONTRIBUTIONS

SCHEDULE SPR-D1

Pension Plan Contributions Fiscal Years 2011 - 2013

Year	Contribution
2011	16,815,000
2012	33,310,000
2013	23,310,000

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Laclede Gas Company's Filing of	)	
Revised Tariffs to Increase its Annual Revenues	)	Case No. GR-2013-0171
For Natural Gas Service	)	

AFFIDAVIT

STATE OF MISSOURI)
) SS.
CITY OF ST. LOUIS)

Steven P. Rasche, of lawful age, being first duly sworn, deposes and states:

1. My name is Steven P. Rasche. My business address is 720 Olive Street, St. Louis, Missouri 63101; and I am Senior Vice President – Finance and Accounting of Laclede Gas Company.

2. Attached hereto and made a part hereof for all purposes is my direct testimony, on behalf of Laclede Gas Company.

3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct to the best of my knowledge and belief.

Steven P. Rasche

Subscribed and sworn to before me this 11 day of December, 2012.

Lisa M. Reed
Notary Public

LISA M. REED
Notary Public - Notary Seal
STATE OF MISSOURI
St. Charles County
My Commission Expires: Nov. 7 2015
Commission # 11265169