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Witness:	*Janis E. Fischer*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Direct Testimony*
Case No.:	*GR-2001-292*
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MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

JANIS E. FISCHER

MISSOURI GAS ENERGY,
A DIVISION OF SOUTHERN UNION COMPANY

CASE NO. GR-2001-292

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April 2001

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DIRECT TESTIMONY

OF

JANIS E. FISCHER

MISSOURI GAS ENERGY

A DIVISION OF SOUTHERN UNION COMPANY

CASE NO. GR–2001-292

Q. Please state your name and business address.

A. Janis E. Fischer, 3675 Noland Road, Suite 110, Independence, Missouri 64055.

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

A. I am a Regulatory Auditor with the Missouri Public Service Commission (Commission).

Background of Witness

Q. Please describe your educational background.

A. I graduated from Peru State College, Peru, Nebraska and received a Bachelor of Science degree in Education (Basic Business) and Business Administration. In May 1985, I completed course work and earned a Bachelor of Science degree in Accounting. I passed the Uniform Certified Public Accountant examination in May 1994 and received my license to practice in March 1997. Prior to my employment at the Commission, I worked over six years as the office and accounting supervisor for the Falls City, Nebraska Utilities Department (Utilities Department).

While with the Utilities Department, I completed water and electric rate reviews, developed procedures for PCB monitoring and disposal, implemented a program to verify the accuracy of remote water meters, supervised office staff and handled customer complaints. I assisted with the acquisition of Falls City's natural gas distribution system from Kansas Power and Light Company, predecessor company of Western Resources, Inc. After the acquisition, I compiled asset records for the natural gas distribution system for the utility, nominated gas supplies for the municipal power plant, monitored gas transportation customer loads and billed transportation customers. I as appointed by the Board of Public Works to the Nebraska Public Gas Agency (NPGA) Board and later elected Vice Chairperson of the Board. NPGA is comprised of members from municipal natural gas systems who collectively purchase natural gas and acquire natural gas wells to supply gas to municipal gas systems and power plants at reduced costs.

I also was employed as a staff accountant with the accounting firm of Cuneo, Lawson, Shay and Staley, PC, in Kansas City, Missouri, for approximately two years. While employed as a staff accountant, I assisted in various audits, compilations and reviews of corporations and prepared individual and corporate state and federal tax returns. I researched tax issues, assisted with compliance audits and interacted with various clients.

Q. What has been the nature of your duties with the Commission?

A. I have directed and assisted with various audits and examinations of the books and records of public utilities operating within the state of Missouri under the jurisdiction of the Commission.

Q. Have you previously filed testimony before this Commission?

A. Yes. Please refer to Schedule 1, attached to this direct testimony, for a list of the major audits on which I have assisted and filed testimony.

Purpose of Testimony

Q. With reference to Case No GR-2001-292, have you examined and studied the books and records of Missouri Gas Energy (MGE or Company) relating to the filing in this case?

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

Q. What is the purpose of your direct testimony?

A. The purpose of my direct testimony is to address postretirement benefits expense (OPEB), pension expense (including the supplemental executive retirement plan (SERP)), 401(k) plan, other employee benefits and Company Owned Life Insurance (COLI) amortization.

Q. Are you sponsoring any amounts to be included in rate base in this case?

A. Yes. I am sponsoring the Prepaid Pension Asset reflected on line 9 of Accounting Schedule 2, Rate Base.

Q. What Income Statement adjustments are you sponsoring?

A. I am sponsoring the following Income Statement adjustments:

OPEBs	S-50.11, S-62.4
Pensions	S-50.9, S-62.3
SERP	S-50.4, S-50.5
401(k)	S-50.7, S-50.8
Other Employee Benefits	S-50.1, S-50.2, S-50.3
COLI Amortization	S-50.6

Q. Please provide an overview of your testimony.

A. I will discuss Statement of Financial Accounting Standards No. 106 (FAS 106) and Statement of Financial Accounting Standards No. 87 (FAS 87) and the Staff's application of these standards in its determination of pension and OPEB costs. The Staff's position is to continue the use of a five-year average of the Unrecognized Net Gain/Loss Balance amortized over five years in the calculation of FAS 87 pension and FAS 106 OPEB costs. MGE's present case reflects the same methodology, the use of a five-year average of Unrecognized Net Gain/Loss and amortization over five years, for calculating FAS 87 and FAS 106 costs related to MGE's Pension Plan B and MGE OPEBs. The Southern Union Company (Southern Union) Pension Plan A and Southern Union OPEBs which are allocated in part to MGE, and are included in cost of service of MGE, have not been calculated using the Staff's method in the Company's filing. The Staff is adjusting Southern Union's calculation of FAS 87 Pension Plan A and Southern Union OPEBs to reflect the Staff's methodology for the allocation of these plan expenses to MGE's cost of service.

In addition, the Staff will highlight changes in the terms of pensions and OPEBs made by MGE and Southern Union to their respective employees and retirees that have occurred since the last MGE rate case, No. GR-98-140, and the impact these changes have on the costs of service to MGE ratepayers. The last section of my testimony will describe the other MGE employee benefits and the Staff adjustments to FERC account 926, Employee Pensions and Benefits.

Q. Please describe the employee benefit plans of Southern Union that are being adjusted in your direct testimony.

A. The employee benefit plans of Southern Union include:

FAS 87	Retirement Income Plan A (Plan A)
FAS 87	SERP
FAS 106	OPEBs

These are employee benefit plans of Southern Union at the parent company (corporate) level. Expenses associated with these plans are allocated in part to MGE based upon the Corporate Allocation Model. This model is discussed in the direct testimony of the Staff Accounting witness Charles R. Hyneman.

Q. Please identify the employee benefit plans of MGE that are being adjusted in your direct testimony.

A. The employee benefits plans of MGE include:

FAS 87	Retirement Income Plan B (Plan B)
FAS 87	SERP
401(k)	Regular 401(k), Shadow 401(k) and Retirement Power
FAS 106	OPEBs
Employee Benefits:	Employee Medical, Dental, Life, Accidental Death and Long Term Disability

These are employee benefit plans of MGE. The entire expenses associated with these plans are included in MGE's cost of service.

<u>FAS 87 – PENSIONS AND FAS 106 - OPEBS</u>

Q. Please provide a brief explanation of FAS 106.

A. FAS 106, *<u>Employers' Accounting for Postretirement Benefits Other Than Pensions</u>*, provides the accrual accounting method used in determining the annual expense and liability for providing OPEBs. This method was developed by the Financial Accounting Standards Board (FASB) and is required under Generally Accepted Accounting Principles (GAAP) for financial reporting purposes.

Q. Is the Commission required under GAAP or Missouri law to adopt FAS 106 for determining pension expense for ratemaking purposes?

A. Yes, the Commission is required by Missouri law (Section 386.315 RSMo), passed in 1994, to allow the recovery of OPEB expense as calculated under FAS 106. The Commission must adopt the FAS 106 method for ratemaking purposes as long as the assumptions used by the utility are considered reasonable, and the amounts collected in rates are externally funded by the utility.

Q. Please provide a brief description of FAS 87.

A. The FAS 87, *Employers' Accounting for Pensions*, provides the accrual accounting method used in determining the annual expense and liability for providing pensions. This statement was also issued by the FASB and is considered GAAP for financial reporting purposes.

Q. Is the Commission required under GAAP or Missouri law to adopt FAS 87 for determining pension expense for ratemaking purposes?

A. No. However, since state law beginning in 1994 has required the adoption of FAS 106, the Staff has taken the position that consistent treatment of retirement costs requires the use of FAS 87 for determining pension expense for ratemaking purposes.

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

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

Actuarial Assumptions

Employee Mortality
Employee Turnover
Retirement Age

Financial/Accounting Assumptions

Income Earned on Plan Assets
Future Salary Increases
Time Value of Money (Discount Rate)
Amortization Period for Gains and Losses
Use of Corridor Approach for Gain/Loss Recognition

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

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

A qualified actuary must develop the actuarial assumptions required for these calculations; i.e., such as employee mortality.

On the other hand, someone with a financial and/or accounting background could develop all of the financial assumptions. For example, a decision as to the number of years to use for gain/loss amortization or use of the so-called "corridor approach" for gain/loss amortization is a judgement made based upon the impact on the financial statements and/or impact on utility rates. Under the corridor approach, the amount amortized is the cumulative net gain or loss that exceeds ten percent of the greater of the pension liability or the value of pension plan assets. Use of the corridor approach results in the minimum amount of amortization of gains and losses allowed by the FASB.

Q. Please explain the term "Unrecognized Net Gain/Loss" as it applies to calculating pension expense under FAS 87 and other postretirement benefits expense under FAS 106.

A. FAS 87 and FAS 106 are calculated using numerous actuarial, financial and accounting assumptions. When the actuary changes an assumption to reflect more current information based on updated actual experience data, a change in the total projected liability and/or assets under FAS 87 and FAS 106 will result. This change is accounted for as an unrecognized gain or loss depending upon the impact on the projected liability. The impact of these changes are reflected in expense under FAS 87 and FAS 106 by amortizing the Unrecognized Net Gain/Loss Balance over a period of time not to exceed the remaining service period of active plan participants.

Q. What is the Staff's method for gain/loss recognition in calculating FAS 87 pension expense and FAS 106 OPEB expense?

A. The Staff's method for gain/loss recognition is a two step approach:

> 1. To determine the Unrecognized Net Gain/Loss Balance, subject to amortization, a five-year average historical balance is used for the most current five-year period.
>
> 2. After determining the five-year average of the Unrecognized Net Gain/Loss Balance, the result is amortized (reflected in FAS 87 and FAS 106 expenses) using a five-year amortization period.

Q. Please explain why the Staff has recommended that the Unrecognized Net Gain/Loss Balance, subject to amortization, be calculated based upon a five-year average balance instead of the current year balance.

A. Gains and losses under FAS 87 and FAS 106 result from changes in assumptions (changing the discount rate, for example) and from differences between estimated assumptions and actual results. In dealing with this issue in cases involving major utility companies in Missouri, differences between the expected return on funded assets and the actual return earned on those assets accounts for the majority of the balance in the Unrecognized Net Gain/Loss Balance. Annual differences between the expected rate of return assumption and the actual return earned are often so significant that the Unrecognized Net Gain/Loss Balance experiences considerable annual fluctuation (volatility).

Since the Unrecognized Net Gain/Loss Balance is amortized in calculating pension and OPEB cost under FAS 87 and FAS 106, significant volatility in the balance subject to amortization has an undesirable impact on the calculation of annual pension and OPEB expense for ratemaking purposes.

Using a five-year average balance to determine the Unrecognized Net Gain/Loss Balance subject to amortization mitigates the effect on rates of any significant volatility experienced.

Q. Please define the term volatility and explain the impact of excessive volatility on determining pension and OPEBs expense for ratemaking and financial reporting purposes.

A. Volatility is the degree to which revenue and expenses are subject to significant increases or decreases on an annual basis, which is beyond the control of management. For example, the cost of gas purchased on the open market in the last two or three years has been subject to considerable fluctuation (volatility).

The Staff's recommended use of a five-year average of the Unrecognized Net Gain/Loss Balance will result in a significant reduction in the potential volatility that may make it difficult to match rate recovery with financial statement recognition.

Using a five-year average for determining the Unrecognized Net Gain/Loss Balance that will be subject to the five-year amortization, will not only limit the potential for volatility for ratemaking purposes, but will also aid the utility company in avoiding significant fluctuations in reported earnings as a result of a potential annual fluctuation in the Unrecognized Net Gain/Loss Balance being amortized over five years in calculating FAS 87 and FAS 106.

Q. Does the use of a five-year average for determining the Unrecognized Net Gain/Loss Balance to be amortized over five years result in a significant difference in the level of pension and OPEBs cost than would result from amortizing the current year balance over five years?

A. In any given year, the answer is yes. (See Schedule 2). However, over an extended period of time, the total amount of gains and losses amortized in calculating FAS 87 and FAS 106 will be approximately the same under either approach. The benefit of using the average balance approach is to stabilize the annual level of gains/losses used in calculating pension and OPEBs costs under FAS 87 and FAS 106. Stabilizing the annual amount of gains/losses used in calculating FAS 87 and FAS 106 is advantageous for both ratemaking and financial reporting purposes, as I have previously explained.

In addition, the primary objective of recognizing gains and losses on a timely basis over five years will still be attained by using the average balance approach in determining the Unrecognized Net Gain/Loss Balance subject to amortization.

Q. Has a five-year average of the Unrecognized Net Gain/Loss Balance been used in setting rates for other Missouri utilities?

A. Yes. Using a five-year average balance of the Unrecognized Net Gain/Loss Balance was used in MGE's prior rate case, No. GR-98-140. It has also been used for Laclede Gas Company (Laclede), and UtiliCorp United, Inc.'s Missouri divisions, Missouri Public Service and St. Joseph Light and Power.

Q. Has MGE adopted the five-year average balance to determine the Unrecognized Net Gain/Loss Balance in its filing of this case?

A. MGE has used the five-year average balance for the calculation of the Plan B pension costs and OPEB costs related to MGE. MGE has not included the use of the five-year average balance for the calculation of the Plan A pension costs and OPEB costs associated with Southern Union that are allocated in part to MGE.

Q. Has a five-year amortization period for Unrecognized Net Gain/Loss been used for the calculation of pension and OPEB expense in Missouri?

A. Yes. The Empire District Electric Company, United Cities Gas Company, Laclede, Missouri Public Service, St. Joseph Light and Power, and St. Louis County Water Company are all using the five-year amortization period for recognizing gains and losses in the calculation of FAS 87 and FAS 106 expense.

Q. Has MGE used a five-year amortization period in calculating FAS 87 and FAS 106 pension and OPEB costs in this case?

A. MGE has used a five-year amortization period for its MGE Plan B FAS 87 and FAS 106 costs. MGE did not use a five-year amortization in calculating its allocated share of Southern Union's Plan A FAS 87 and FAS 106 costs.

Q. Is the Staff's proposed five-year amortization period for unrecognized gains and/or losses consistent with current tax treatment of pension asset gains and losses?

A. Yes. The federal government enacted legislation in 1987 (the Omnibus Budget Reconciliation Act of 1987) that reduced the amortization period for asset gains and losses from 15 years to five years for pension funding requirements. Section 412 (b)(2)(B) of the Internal Revenue Code requires that gains and/or losses from pension plan assets be amortized over a five-year period. A five-year amortization would treat asset gains and losses consistently for pension expense under FAS 87 and funding requirements under Employee Retirement Income Security Act (ERISA)/Internal Revenue Service (IRS) Regulations.

Q. As one of the conditions for adopting the five-year average balance and five-year amortization of Unrecognized Net Gain/Loss, should Southern Union and MGE be required to use this method consistently for both ratemaking and financial reporting purposes?

A. Yes. MGE has adopted this method and is currently calculating pension and OPEBs expense for both ratemaking and financial reporting for Southern Union's Missouri operations. The Staff is also recommending that Southern Union be required to use this method for its financial reports when reporting Missouri's allocated share of Southern Union's FAS 87 and FAS 106 costs. This method cannot be used effectively for ratemaking purposes in future cases unless both MGE and Southern Union use it consistently for both ratemaking and financial reporting purposes. The Commission should order Southern Union in this case to adopt the five-year average balance and five-year amortization of Unrecognized Net Gain/Loss for its Missouri allocated pension and OPEB calculations.

Q. Please describe adjustments S-62.3 and S-50.9.

A. Adjustment S-62.3 adjusts MGE's allocated share of Southern Union's Plan A pension cost to reflect the estimated FAS 87 pension cost, using the Staff's method, for the plan year beginning July 1, 2001. Adjustment S-50.9 adjusts MGE's Plan B pension cost to reflect the estimated FAS 87 pension costs, for the plan year beginning July 1, 2001.

Q. Why is the Staff using Southern Union's estimated Plan A and MGE's estimated Plan B pension costs for the plan year beginning July 1, 2001 as a basis for its adjustments?

A. MGE has requested a true-up audit through June 30, 2001. The true-up for this case will allow the Staff to receive final actuarial amounts for both Southern Union's Plan A and MGE's Plan B FAS 87 costs for the plan year beginning July 1, 2001 to incorporate in this case. Adjustment S-62.3 will be restated in the true-up of this case to reflect the final annual FAS 87 Plan A pension costs adjusted to reflect the Staff's method for calculating FAS 87 pension cost. Adjustment S-50.9 will be restated in the true-up of this case to reflect the final annual FAS 87 Plan B pension costs.

Q. Please describe adjustments S-62.4 and S-50.11.

A. Adjustment S-62.4 adjusts MGE's allocated share of Southern Union's OPEBs cost to reflect the estimated FAS 106 OPEBs cost, using the Staff's method, for the plan year beginning July 1, 2001. Adjustment S-50.11 adjusts MGE's OPEBs cost to reflect the estimated FAS 106 OPEBs cost, for the plan year beginning July 1, 2001.

These adjustments will be updated to reflect the final amounts for the plan year beginning July 1, 2001 during the true-up audit.

Q. Why is the Staff recommending that Southern Union's Plan A FAS 87 and FAS 106 costs be calculated using the same method used for MGE's Plan B costs?

A. The allocation of like costs (FAS 87 and FAS 106) from Southern Union to MGE should follow a consistent methodology used in calculating MGE's FAS 87 and FAS 106 costs. As previously stated, the Staff is not suggesting that Southern Union must follow the Staff's proposed methodology company wide but that the five-year average balance method be calculated in conjunction with Southern Union's allocated share to MGE. It would be sufficient for a disclosure included in Southern Union's financial statements to identify the amount of pension expense under the Missouri jurisdictional approach consistent with the Staff's recommendation. The allocation of Southern Union FAS 87 and FAS 106 costs associated with pension Plan A and OPEBs would be consistent with the five-year average balance methodology, and five-year amortization of Unrecognized Gain/Loss Balance, currently adopted by MGE and the Staff for MGE's Plan B pension and OPEB costs.

Q. Please explain the rate base component (prepaid FAS 87 asset) associated with MGE's FAS 87 Plan B.

A. Under FAS 87, pension plans are accounted for on the accrual basis by charging net pension expense against income on the income statement. Any difference between FAS 87 pension expenses recognized on the income statement and the ERISA amount funded to the pension plan is recorded as an accrued liability or prepaid asset. A liability is recognized if contributions are less than the expense. If contributions exceed pension expense, an asset (prepaid pension cost) is recognized. According to the workpapers provided by the Company, MGE has recorded a negative pension expense of ($2,195,835) in the test year, the twelve months ending December 31, 2000. This amount should be added to the beginning balance of the prepaid asset at January 1, 2000 of $5,627,002, for a total balance at December 31, 2000 of $7,822,837. MGE posts the prepaid expense in account 253, Other Deferred Income-Retirement Plan.

RECENT CHANGES IN BENEFIT PLANS

Q. Please explain the recent changes to the MGE and Southern Union pension plans.

A. Prior to 1999, there were two primary pension benefit plans. Southern Union Plan A was a defined benefit plan for Southern Union's corporate and Texas based employees. MGE's Plan B was a defined benefit plan for Missouri based employees. On December 31, 1998 the plans, exclusive of MGE's union employees, were converted from the traditional defined benefit plans with benefits based on years of service and final average compensation, to cash balance defined benefit plans in which an account is maintained for each employee. Each account is credited quarterly with interest credits at an annual rate equal to the yield on 30 Year U.S. Treasury Bonds. The current union contracts maintain the pension plans through the end of the contract period, April 30, 2004. Non-union employees hired after December 31, 1998, are not eligible for the defined cash contribution plan. Employees hired post December 31, 1998 have the 401(k) plan and Company match to the 401(k) plan as their only pension benefit unless they qualify for executive pensions.

Q. Please describe the 401(k) plan of Southern Union and MGE.

A. The notes to the financial statements of the 401 (k) (Southern Union Savings Plan) provide a description in summary:

> 1. General. The Plan is a defined contribution plan covering many employees of Southern Union Company and its subsidiaries. Employees elect to begin participation on the date of employment. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA)...
>
> 2. Contributions. Participants may contribute up to ten percent pre-tax and ten percent post-tax. Southern Union Company contributes amounts at the discretion of the Board of Directors. Such amounts are funded currently, generally on each pay period. Contributions are subject to IRS discrimination rules and regulations.
>
> 3. Retirement Power Contributions. Effective January 2, 1999 Southern Union Company began contributing retirement power contributions for non-union employees employed previous to January 1, 1999. The contributions to the Plan are a percentage of employee's compensation and range from 3.5% to 8.5% based on the sum of each individual's age plus years of service plus sick leave.
>
> 4. Participant Accounts. Each participant's account is credited with (a) the participant's contribution (b) Southern Union Company's matching contributions, (c) Southern Union Company's retirement power contributions, and (d) an allocation of Plan earnings based on account balances, as defined by the Plan. The benefit to which a participant is entitled is the benefit that can be provided from the participant's account.

[Source: Southern Union Savings Plan – 1999, IRS Form 5500]

Q. Have there been recent changes to Southern Union's and MGE's 401(k) plans?

A. Yes. Effective July 1, 1998 the Company contributes for non-union employees $.50 in stock for every $1 contributed by the employee up to 5% of each employee's salary. Additionally, the Company contributes $.75 of stock for every $1 contributed by each employee contributing from 6% to 10% of each employee's salary.

The Company contributes $.50 in stock for every $1 contributed by union employees up to 7% of each employee's salary.

Q. Does Southern Union provide any other 401(k) employer contributions?

A. Yes. In addition, Southern Union provides a "Shadow 401(k)" plan for certain "key" employees.

Q. Please describe the Company's Shadow 401(k) plan.

A. According to the Company's response to Staff Data Request No. 234, "The intent of this plan is to provide a supplemental savings and retirement benefit for certain key employees who may be adversely affected by the discrimination testing provisions in our Southern Union Savings Plan. Employees who are eligible to join the Shadow 401(k) Plan includes officers, and also those who have been in director positions one year or more at next entry date."

Q. What is the purpose of adjustments S-50.7 and S-50.8?

A. These adjustments reflect annualized MGE costs with the estimated impact on MGE's 401(k), Retirement Power 401(k) and Shadow Plan 401(k) resulting from the estimated wage increases to become effective prior to the June 30, 2001 true-up date. (See Schedule 3). Employee contributions to their 401(k)s, the employer's contributions to employee 401(k)s, Retirement Power accounts and Shadow 401(k)s and these same amounts increased by an estimated 4% wage/salary increase are included in Schedule 3 to calculate the estimated adjustments to June 30, 2001.

Q. Have there been any significant changes to MGE's FAS 106 OPEB costs since the last rate case?

A. Yes, retirees of MGE were required under the MGE Retiree Medical/Pension Buyout elections to accept one of four options for retiree health care and dental care effective February 1, 2001. The options given to MGE's existing retirees are reflected below:

Option 1 - Elect to cancel spouse but continue premium for retiree only

Option 2 - Elect to move from premium to alternate coverage

Option 3 - Elect to opt out of all coverage in return for increased pension

Option 4 - Remain on FAS 106 plan at current benefit level with a significant increase in premium

Q. What is the impact of the FAS 106 change?

A. The net result is to lower MGE's liability for future OPEB benefits by shifting more of the cost to retirees.

SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN-SERP

Q. Does Southern Union or MGE provide any additional pension plan benefits?

A. Yes. The SERP is a supplemental executive retirement plan, which provides significant additional benefits to a select group of current Southern Union employees and retirees who are former Missouri or Texas employees of MGE or Southern Union. The SERP is a non-qualified plan for income taxes purposes.

Q. What makes a plan non-qualified and what are the implications of a plan not being qualified?

A. A qualified plan is one in which the contributions to the plan are tax deductible and the earnings of the assets in the plan are tax-exempt. In a non-qualified plan, only the amounts paid to beneficiaries are tax deductible.

Section 401 of the Internal Revenue Code lists requirements that a plan must meet to be qualified. Two of the more prominent features of a qualified plan are:

> 1. That the company cannot divert assets in the trust for any other purpose than the meeting of the obligations of the plan; and
>
> 2. The plan must be available to a broad range of employees.

The SERP is not available to a broad range of employees, which makes it a non-qualified plan. Since the plan is non-qualified, the Company has not chosen to fund the plan in a qualified trust. The Company still has access to the assets of the plan and because of this access, the Company's actuary, Rudd and Wisdom, treats the SERP assets as zero for the purposes of the FAS 87 pension cost calculation. However, accrued costs for the SERP are posted as expenses on the books of Southern Union and allocated to MGE for this case.

Q. Is there any disagreement with MGE as to whether the Southern Union SERP plan is a non-qualified plan?

A. No. Southern Union's SERP plan includes the following declaration on page 1 of the Introduction:

> WHEREAS it is the intention of Southern Union that the Plan be considered to be unfunded for tax purposes and for purposes of TITLE I of the Employee Retirement Income Security Act of 1974.

Q. Is there any disagreement with MGE as to whether the Southern Union SERP plan is available to a broad range of employees?

A. No. Southern Union's SERP plan is defined as follows on page 1 of the Introduction to the plan:

> WHEREAS the purpose of the Plan is to retain the service of and to provide rewards and incentives to members of a select group of management employees who contribute to the success of Southern Union.

Q. How much is MGE requesting in this case to include in cost of service related to Southern Union's SERP plan?

A. MGE is requesting approximately **_______** related to the SERP liability related specifically to retirees who were former MGE employees. MGE is requesting an additional **_______** related to MGE's allocated share of annual SERP accrued costs for eight Southern Union executive employees who work at its headquarters in Austin, Texas.

Q. What is the Staff's position regarding MGE's request of accrued costs for Southern Union's SERP?

A. The Staff opposes cost of service recovery for MGE's share of Southern Unions SERP costs for the following reasons:

> 1. The eight existing Southern Union executives who participate in the plan are also participants in Southern Union's other pension and 401(k) plans offered to all Southern Union corporate employees.
>
> 2. In addition to the normal pension and 401(k) plans, these executive employees also participate in another 401(k) plan limited to employees who hold an office or director level position. This plan is called the "Shadow 401(k)" benefit plan and is intended to provide supplemental savings and retirement benefit for certain key employees.
>
> 3. Amendments to the Southern Union SERP effective January 1, 1999 and January 1, 2000 have resulted in increases in accrued costs of approximately $3.1 million annually since 1998. The accrued cost of the Southern Union SERP in 1998 was

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> approximately $196,000. The accrued annual cost of the SERP as of December 31, 2000 is $3,325,000. MGE is requesting that its allocated share of this $3.3 million total be included in cost of service in this case. (Response to Staff Data Request No. 208).
>
> 4. Southern Union's SERP includes a "Change in Control" provision effective January 1, 1999. This provision requires a funding of the plan in the event of a change in ownership as defined in the "Change in Control" provision of the plan. Southern Union's decision to tie the benefits of the SERP to a "Change in Control" provision and significantly increase the benefits under the plan are intended in the Staff's opinion to make a takeover of Southern Union more costly and to protect against the loss of top level executive personnel.

These objectives in the Staff's view are related to the protection of shareholders interests and, therefore, the costs of the SERP should be borne by the shareholders of Southern Union. The amendment to the SERP, which provides for the change in control, creates in effect an executive severance package. Executive severance packages within an organization are compensation packages that guarantee payments to top executives and key employees in the event of a takeover, merger or some other related situation. The industry refers to these severance packages as "golden parachutes." The Staff's position is that no recovery of these costs from ratepayers is warranted. These are costs that benefit only a very few employees, and are primarily created for their personal protection. Of course, Southern Union/MGE has the right to compensate their executives however they see fit, but the Staff's contention is that the shareholders should pay for these potentially excessive costs, not the ratepayers.

Q. What is the purpose of adjustment S-50.5?

A. Adjustment S-50.5 eliminates the cost related to Southern Union's SERP from cost of service.

Q. What is the purpose of adjustment S-50.4?

A. The Staff is recommending the allowance of pay-as-you-go (cash payments) for the expense included in cost of service for MGE's SERP. Adjustment S-50.4 reduces the Company's accrual to the actual amount paid out to MGE retirees under the MGE SERP during the test year.

OTHER EMPLOYEE BENEFITS

Q. Please list the employee benefits included in account 926, which were included in the Staff's annualization.

A. Employee benefits included in account 926 include pensions, OPEBs, medical and dental insurance, Life Insurance, Accidental Death & Dismemberment Insurance (AD&D), and Long Term Disability Insurance (LTD).

Q. Please describe adjustments S-50.1 and S-50.2.

A. Adjustments S-50.1 and S-50.2 adjust the test year medical and dental costs of MGE based upon a three-year average of actual claims experience. The analysis of these expenses included total employee contributions and total claims paid in each account for the calendar years 1998 through 2000. A three-year average was used to normalize the costs since the actual expenses fluctuated over time. (See Schedule 4).

Q. Please describe adjustment S-50.3.

A. Adjustment S-50.3 adjusts the test year Life Insurance, Accidental Death and Dismemberment (AD&D) Insurance and Long Term Disability Insurance to an annualized expense level.

COLI AMORTIZATION

Q. Please explain adjustment S-50.6 related to the COLI expense.

A. This Commission ruled in Case No. GR-96-285 that the final COLI loss incurred by MGE of $613,545 should be amortized over a five-year period. The loss represents the unrecovered costs of administering the COLI at the time the COLI was discontinued because of the loss of favorable tax treatment previously allowed. This amortization was also included in cost of service in Case No. GR-98-140. The unamortized balance at December 31, 2000 is $132,935. **__________________

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I have combined this tax liability with the previously mentioned unamortized balance at December 31, 2000 and amortized the total over a new five-year period resulting in annual expense of $303,491.

Q. Why is it appropriate to allow MGE cost recovery for the income tax liability related to its former COLI program?

A. MGE's former COLI program was an accepted funding method for funding FAS 106 OPEBs. The costs related to the COLI program were assumed to be tax deductible for ratemaking and financial reporting purposes.

MGE's tax liability resulting from the **____________________

____** which has not been recovered in rates. Amortizing this cost over five years for ratemaking purposes is consistent with the Staff's treatment of other abnormal costs.

Q. Does this conclude your direct testimony?

A. Yes, it does.

NP

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In The Matter of Missouri Gas Energy's Tariff Filing For General Rate Increase	))	Case No. GR-2001-292

AFFIDAVIT OF JANIS E. FISCHER

STATE OF MISSOURI	)	
	)	ss.
COUNTY OF COLE	)	

Janis E. Fischer, 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 23 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.

Janis E. Fischer

Janis E. Fischer

Subscribed and sworn to before me this 18th day of April 2001.

D Suzie Mankin

D SUZIE MANKIN
NOTARY PUBLIC STATE OF MISSOURI
COLE COUNTY
MY COMMISSION EXP. JUNE 21,2004

SUMMARY OF RATE CASE TESTIMONY FILED

Janis E. Fischer

COMPANY	CASE NO.
Empire District Electric Company	ER-97-81
Union Electric Company (AmerenUE)	GR-97-393
Osage Water Company	WA-98-236/ WC-98-211
Western Resources/Kansas City Power & Light Company	EM-97-515
UtiliCorp United, Inc./St. Joseph Light & Power Company	EM-2000-292
UtiliCorp United, Inc./Empire District Electric Company	EM-2000-369
KLM Telephone Company	TT-2001-120
Empire District Electric Company	ER-2001-299

Missouri Gas Energy
Case No. GR 2001-292
Staff's Calculation of OPEB Expense under FAS 106
For Southern Union OPEBs

Line No.	Description	Company Original OPEB Cost 2001	*Adjustment to Amortize Gains/Losses Over 5 Yrs.	Staff OPEB Cost as Adjusted
1	Service Cost	60,000		60,000
2	Interest Cost	275,000		275,000
3	Expected Rate of Return	(160,000)		(160,000)
4	(Gain)/Loss Amortization	0	(213,789)	(213,789)
5	Prior Service Cost Amortization			
6	Transition (Asset)/Obligation	225,000		225,000
7	Total Pension Cost	400,000	(213,789)	186,211
8	Pension Cost as Adjusted Total Company			186,211
9	Less Total FAS OPEB Cost in Corp. Model			70,355
10	Total Southern Union Adjustment			115,856
11	Allocation Factor to MGE from Corp. Model			33.6504%
12	Southern Union OPEB cost to MGE			38,986
13	Expense Ratio			79.44%
14	**Adjustment S-62.4**			**$30,970**

*5 Year Average of Unrecognized (Gains)/Losses
From DR 280 Rudd and Wisdom Actuary Updated Estimates

	Period		(Gain)/Loss
15	FY 1998		(1,960,271)
16	FY 1999		(1,623,069)
17	FY 2000		(876,673)
18	FY 2001		(734,714)
19	FY 2002		(150,000)
20		5 Year Total	(5,344,727)
21		5 Year Average	(1,068,945)
22		Amortized 5 Years	(213,789)

Missouri Gas Energy
Case No. GR-2001-292
From Payroll Annualization Workpaper
401(k) Adjustments for Test Year Annualization and True up

Annualization Adjustments to Test Year

Type Code	Annualized 401(k) Employee	**True-up 401(k) Employee**	Annualized 401(k) Employer	**True-up 401(k) Employer**	Annualized Shadow Employer	**True-up Shadow Employer**	Annualized Retirement Power Employer	**True-up Retirement Power Employer**	Description
311	459,877	**478,272**	295,573	**282,819**	92,642	**96,348**	419,936	**436,733**	
312	246,980	**256,859**	137,007	**131,095**			100,681	**104,708**	
313	1,923,885	**2,000,840**	521,946	**499,424**					
314	24,367	**25,342**	13,358	**12,782**			5,472	**5,691**	
	2,655,109	**2,761,313**	967,884	**926,120**	92,642	**96,348**	526,089	**547,133**	Annualized Expenses
			92,642	**96,348**	(92,642)	**(96,348)**			Includes $179,062 401(k) Fees in 8.69%
			1,060,526	**179,062**	0	**0**			
				1,201,530					
			401(k)				Retirement Power		
			1,000,372				536,523		Test Year Expenses Booked
			1,201,530				**547,133**		**AnnualizedTrue-up Estimates**
			201,158				10,610		
			0.750935				0.750935		Expense Factor
			151,056				**7,967**		
Adjustments			**S-50.7**				**S-50.8**		

Test Year 401 (k) costs have been annualized and then increased by 4% to reflect estimated wage increases prior to 6/30/01
401 (k) and Shadow 401(k) have been combined for the adjustment
401(k) related fees have not been increased by 4%

Missouri Gas Energy
Case No. GR-2001-292
Response to DR 92/DR 170
Medical/Dental Employee Contributions and Claims Paid

	Medical Employee Contributions			Medical Claims Paid			Claims - Contributions			Contributions	Employee Dental Claims Paid	Net
Year	Retiree	Active	Total	Retiree	Active	Total	Retiree	Active	Total	Active	Active	Active
1998	17,653	14,438	32,091	165,042	449,753	614,795	147,389	435,315	582,704	15,438	1,460	(13,979)
	15,442	10,377	25,819	194,708	281,053	475,761	179,266	270,676	449,942	15,320	13,966	(1,354)
	11,632	4,734	16,366	381,978	365,646	747,624	370,346	360,912	731,258	7,675	24,174	16,499
	16,869	23,188	40,057	253,301	451,226	704,527	236,432	428,038	664,470	23,034	34,389	11,355
	15,642	15,849	31,491	147,170	312,672	459,842	131,528	296,823	428,351	15,647	21,156	5,509
	16,716	16,022	32,739	175,081	317,213	492,294	158,365	301,191	459,555	15,411	24,629	9,218
	16,463	15,888	32,351	255,317	384,549	639,866	238,854	368,661	607,515	15,651	31,622	15,971
	16,890	15,948	32,838	220,541	382,172	602,713	203,651	366,224	569,875	15,415	37,037	21,622
	17,233	15,687	32,921	245,479	275,535	521,014	228,246	259,848	488,093	15,386	33,082	17,696
	16,502	23,275	39,777	216,213	401,555	617,768	199,711	378,280	577,991	22,883	32,973	10,090
	16,460	16,664	33,124	195,937	275,465	471,402	179,477	258,801	438,278	15,201	16,166	965
	20,241	16,025	36,266	277,761	322,858	600,619	257,520	306,833	564,353	15,114	14,336	(778)
Total 1998	197,745	188,094	385,840	2,728,528	4,219,697	6,948,225	2,530,783	4,031,603	6,562,385	192,175	284,988	92,813
1999	16,676	14,961	31,637	189,941	318,760	508,701	173,265	303,799	477,064	15,092	34,240	19,148
	26,276	14,324	40,600	221,961	344,288	566,249	195,685	329,964	525,649	14,830	44,969	30,139
	18,848	15,719	34,567	186,427	346,246	532,673	167,579	330,527	498,106	15,703	40,143	24,440
	6,781	20,638	27,419	214,022	386,294	600,316	207,241	365,656	572,897	23,053	28,286	5,233
	16,175	16,663	32,838	243,488	295,155	538,643	227,313	278,492	505,805	14,878	38,338	23,461
	28,049	14,144	42,193	200,293	355,350	555,643	172,244	341,206	513,450	15,479	37,344	21,865
	3,946	13,572	17,517	431,171	772,401	1,203,572	427,225	758,829	1,186,055	15,192	42,354	27,162
	18,244	14,825	33,070	195,462	258,453	453,915	177,218	243,628	420,845	14,888	30,928	16,040
	14,085	21,380	35,465	248,981	459,773	708,754	234,896	438,393	673,289	22,216	28,615	6,399
	16,447	14,472	30,919	199,999	325,090	525,089	183,552	310,618	494,170	15,044	44,614	29,570
	15,398	14,607	30,005	335,021	281,520	616,541	319,623	266,913	586,536	14,374	26,145	11,771
	17,017	16,505	33,522	238,948	286,897	525,845	221,931	270,392	492,323	15,060	24,473	9,413
Total 1999	197,942	191,811	389,752	2,905,714	4,430,227	7,335,941	2,707,772	4,238,416	6,946,189	195,809	420,448	224,639
2000	16,365	10,884	27,249	214,177	251,239	465,416	197,812	240,355	438,167	15,356	33,961	18,606
	28,387	11,194	39,581	258,467	364,956	623,423	230,080	353,762	583,842	15,352	23,281	7,929
	15,031	20,050	35,081	331,984	440,501	772,485	316,953	420,451	737,404	22,189	25,887	3,698
	5,177	11,887	17,064	204,102	297,588	501,690	198,926	285,701	484,626	15,482	38,141	22,659
	26,228	12,007	38,235	169,997	395,235	565,232	143,769	383,228	526,997	15,054	37,232	22,177
	5,877	9,330	15,207	255,235	327,875	583,110	249,358	318,545	567,903	14,982	34,607	19,625
	10,170	11,348	21,518	183,387	282,727	466,114	173,217	271,379	444,596	14,434	30,942	16,508
	13,174	16,591	29,765	205,915	348,270	554,185	192,741	331,679	524,420	21,819	27,492	5,674
	6,650	11,036	17,685	180,335	393,798	574,133	173,685	382,762	556,448	15,123	33,053	17,930
	12,563	11,761	24,323	204,309	301,244	505,553	191,746	289,483	481,230	14,772	34,792	20,021
	28,661	11,575	40,236	194,556	327,405	521,961	165,895	315,830	481,725	14,804	24,233	9,429
	16,662	11,183	27,845	245,463	422,086	667,549	228,801	410,903	639,704	15,396	27,658	12,262
Total 2000	184,944	148,845	333,789	2,647,927	4,152,924	6,800,851	2,462,983	4,004,079	6,467,062	194,763	371,280	176,517
3 Yr Avg	193,544	176,250	369,794	2,760,723	4,267,616	7,028,339	2,567,179	4,091,366	6,658,545	194,249	358,906	164,656
DR 170 - Test Year Expensed to A/C 926								4,508,618				211,018
								(417,252)				(46,362)
Expense Factor								0.750935				0.750935
								($313,329)				**($34,815)**
Adjustment								**S-50.1**				**S-50.2**