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**DIRECT TESTIMONY OF BRUCE E. GANGNON  
BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION  
ON BEHALF OF  
SOUTHERN STATES UTILITIES, INC.  
AND  
DELTONA UTILITIES, INC.  
DOCKET NO. 920199-WS**

DOCUMENT NUMBER-DATE  
**08062 JUL 22 1992**  
FPSC-RECORDS/REPORTING

1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A. My name is Bruce E. Gangnon. My business address  
3 is Minnesota Power, 30 West Superior Street, Duluth,  
4 MN 55802.

5 Q. WHAT IS YOUR POSITION WITH MINNESOTA POWER?

6 A. I serve as Assistant Corporate Controller for  
7 Minnesota Power.

8 Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?

9 A. I received a Bachelor's Degree in Accounting and  
10 Business Administration from the University of  
11 Minnesota - Duluth in 1968. I received my  
12 certificate as a Certified Public Accountant in  
13 1972. In addition, I have attended a number of  
14 schools, seminars, conferences, workshops and short  
15 courses on various tax and accounting issues  
16 sponsored by various professional associations,  
17 universities and accounting firms.

18 Q. HOW LONG HAVE YOU BEEN EMPLOYED IN THE UTILITY  
19 INDUSTRY AND WHAT POSITIONS HAVE YOU HELD?

20 A. I have been employed in the following accounting  
21 management positions by Minnesota Power since 1975.  
22 1975-1977: Manager - Audit Tax; 1978-1990:  
23 Manager, Taxes; 1991 - May 1992: Director of  
24 Corporate Accounting; and May 1, 1992 to Present:  
25 Assistant Corporate Controller.

1 Q. TO WHAT TRADE AND/OR PROFESSIONAL ORGANIZATIONS DO  
2 YOU BELONG?

3 A. I am a member of the Minnesota Society of Certified  
4 Public Accountants and the Edison Electric Institute  
5 Taxation Committee.

6 Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE A PUBLIC  
7 UTILITIES COMMISSION?

8 A. Yes. I have testified before the Florida Public  
9 Service Commission.

10 Q. WHAT ARE YOUR RESPONSIBILITIES AS ASSISTANT  
11 CORPORATE CONTROLLER?

12 A. As Assistant Corporate Controller, I am responsible  
13 for the tax, accounting systems and procedures,  
14 external and internal reporting functions and  
15 accounting research for Minnesota Power,  
16 subsidiaries and related entities.

17 Q. PLEASE OUTLINE THE SCOPE OF YOUR TESTIMONY IN THIS  
18 PROCEEDING.

19 A. I will testify with respect to the Company's tax  
20 matters, in the cost of service and will sponsor  
21 Schedules C-1 and C-7 contained in Volume I, Book  
22 1 of 4 and Schedules C-1 through C-11 in Volume II,  
23 Book 7 of 11 except for the Topeka Group, Inc.  
24 Schedule C-9 on pp. 0042 & 0044 in said book of the  
25 Minimum Filing Requirements ("MFRs") filed in this

1 case, Exhibit \_\_\_\_ (FLL-1). I will also testify  
2 regarding issues related to the adoption of  
3 Statement of Financial Accounting Standards No. 106,  
4 "Employers Accounting for Post-Retirement Benefits  
5 other than Pensions" (SFAS 106).

6 Q. WOULD YOU DESCRIBE THE SCHEDULES IN THE TAX SECTION  
7 THAT YOU ARE SPONSORING?

8	A. <u>Schedule No.</u>	<u>Title</u>
9	Volume I, Book 1 of 4	Reconciliation of Total Income
10	Tax	Pension
11	W-C-1	Summary of Accumulated Deferred
12		Income Taxes
13	W-C-7	Reconciliation of Total Income
14	Tax	Provision
15	S-C-7	Summary of Accumulated Deferred
16		Income Taxes
17	Volume II, Book 7 of 11	
18	C-1	Reconciliation of Total Income
19	Tax	Provision
20	C-1/A	Reconciliation of Total Income
21	Tax	Provision
22	C-2	State and Federal Income Tax
23	Calculation	- Current
24	C-2/A	State and Federal Income Tax
25	Calculation	- Current

1	C-3	Schedule of Interest in Tax
2	Expense	Calculation
3	C-4	Book/Tax Differences - Permanent
4	C-5	Deferred Income Tax Expense
5	C-6	Deferred Tax Balance Adjustments
6	C-7 (p. 1 of 3)	Accumulated Deferred Income
7	Taxes -	Summary
8	C-7 (p. 2 of 3)	Accumulated Deferred Income
9	Taxes -	State
10	C-7 (p. 3 of 3)	Accumulated Deferred Income
11	Taxes -	Federal
12	C-7A	Accumulated Deferred Income
13		Taxes - By Company
14	C-8 (p. 1 of 3)	Investment Tax Credits -
15		Analysis
16	C-8 (p. 2 of 3)	Investment Tax Credits - Company
17		Policies
18	C-8 (p. 3 of 3)	Investment Tax Credits - Section
19		46(f) Election
20	C-8/A	Investment Tax Credits -
21		Analysis
22	C-9 (pp. 1-2)	Parent Debt Information
23	C-10	Income Tax Returns
24	C-11	Miscellaneous Tax Information
25	Q.	WHAT DOES SCHEDULE C-1/A OF VOLUME , BOOK 1 OF 4 OF

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**THE MFRS SHOW?**

A. Schedule C-1/A shows the computation of the parent debt amount shown on Schedule C-1.

Q. **WHAT DOES SCHEDULE C-2/A OF VOLUME II, BOOK 7 OF 11 OF THE MFRS SHOW?**

A. Schedule C-2/A shows the detail of the adjustments between the total per books and utility income.

Q. **WHAT DOES SCHEDULE C-7A OF VOLUME II, BOOK 7 OF 11 OF THE MFRS SHOW?**

A. Schedule C-7A shows the detail of accumulated Deferred Income Taxes by timing difference and by Company.

Q. **WHAT DOES SCHEDULE C-8/A OF VOLUME II, BOOK 7 OF 11 OF THE MFRS SHOW?**

A. Schedule C-8/A shows the detail of deferred ITC by company.

Q. **WERE THOSE SCHEDULES PREPARED BY YOU OR UNDER YOUR DIRECTION AND/OR SUPERVISION?**

A. Yes, they were.

Q. **WOULD YOU DESCRIBE THE BACKGROUND LEADING UP TO THE ADOPTION OF SFAS NO. 106?**

A. The Financial Accounting Standards Board ("FASB"), in February 1989, issued a draft of a proposed statement concerning the recognition and measurement of post-retirement benefits other than pensions

1 ("OPEB"). The draft proposed to change the  
2 accounting for OPEBs from a pay-as-you-go method  
3 (cash basis) to an accrual basis (recognizing the  
4 expense when the employee earns the benefits). In  
5 other words, the OPEBs would be recognized on a  
6 company's financial statements when they are earned  
7 (over the employee's working life similar to pension  
8 benefits) and not when the benefits are paid. OPEBs  
9 are benefits that the employee receives from the  
10 employer when the employee retires and are made up  
11 of medical care, dental care, life insurance and  
12 other miscellaneous benefits. The purpose for the  
13 accounting change was to disclose the large  
14 liability that employers had for OPEBs which the  
15 employee had earned but not recorded in the  
16 company's financial statements. In December 1990,  
17 after receiving comments from financial and  
18 accounting professionals, the FASB adopted SFAS No.  
19 106 which is generally effective for fiscal years  
20 beginning after December 15, 1992.

21 **Q. DOES SFAS 106 APPLY TO UTILITY COMPANIES?**

22 **A.** Yes, SFAS 106 applies to all companies, including  
23 utility companies who pay for all or part of their  
24 retirees' OPEBs.

25 **Q. SHOULD THE COMMISSION ALLOW RECOVERY OF THE OPEB**

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**EXPENSES IN ACCORDANCE WITH SFAS 106?**

A. Yes, the expense for OPEBs should be recovered as the employee earns them and be paid for by the ratepayers for whom the employee is performing services rather than future ratepayers.

Q. WILL THE COMPANY ADOPT SFAS 106 PRIOR TO CALENDAR YEAR 1993?

A. No, the Company intends to adopt SFAS 106 in 1993.

Q. IF THE COMPANY IS NOT ADOPTING SFAS 106 UNTIL 1993, WHY SHOULD THE OPEB EXPENSE BE ALLOWED IN THE RATE CASE?

A. The OPEB expenses should be allowed because they are known costs that will be incurred when the final rates in this docket are effective.

Q. ARE THE OPEB EXPENSES INCLUDED IN THIS RATE CASE BASED UPON AN ACTUARIAL STUDY?

A. Yes.

Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.