BEFORE THE STATE OF NEW JERSEY
OFFICE OF ADMINISTRATIVE LAW
BEFORE THE HONORABLE GAIL M. COOKSON, ALJ

I/M/O THE PETITION OF SOUTH	)	
JERSEY GAS COMPANY FOR	)	**BPU DKT. NO. GR10010035**
APPROVAL OF INCREASED BASE	)	**OAL DKT. NO. PUC-01598-2010N**
TARIFF RATES AND CHARGES FOR	)	
GAS SERVICE	)	

DIRECT TESTIMONY OF MITCHELL I. SEROTA ON BEHALF OF THE NEW JERSEY DEPARTMENT OF THE PUBLIC ADVOCATE DIVISION OF RATE COUNSEL

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SOUTH JERSEY GAS COMPANY
BPU Docket No. GR10010035
Direct Testimony of Mitchell I. Serota

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I. STATEMENT OF QUALIFICATIONS

Q. WOULD YOU STATE YOUR NAME AND ADDRESS?

A. My name is Mitchell I. Serota and my business address is 5215 Old Orchard Rd., Suite 750, Skokie, IL 60077.

Q. WHAT IS YOUR PRESENT OCCUPATION?

A. I am President and founder of Mitchell I. Serota & Associates, Inc., a consulting actuarial firm.

Q. WHAT IS YOUR REGULATORY EXPERIENCE?

A. I have prepared and presented testimony in the rate proceedings involving Public Service Electric & Gas Company, BPU Docket No. GR09050422, Rockland Electric Company, BPU Docket No. ER09080668, Atlantic City Electric Company, BPU Docket No. ER09080664 and United Water of New Jersey, BPU Docket No. WR09120987.

Q. WHAT OTHER PROFESSIONAL EXPERIENCE HAVE YOU HAD?

A. Currently, I am one of 24 actuaries nationwide on the Pension Committee of the American Academy of Actuaries. The committee addresses actuarial issues affecting public and private pension plans, while monitoring federal tax, Pension Benefit Guaranty Corporation, and other Employee Retirement Income Security Act ("ERISA") -related developments. It consults with Congress and relevant regulatory agencies on the effect of regulation on employer pensions and retirement security, and comments on pending legislation and regulations. I am a Member of the American Academy of Actuaries and a Fellow both of the Society of Actuaries and the Conference of Actuaries in Public Practice. I am an Enrolled Actuary under ERISA. I have attached a copy of my Vita to this testimony.

Prior to the establishment of Serota & Associates in 1988, I was Vice President of Alexander & Alexander Consulting Group and Vice President of Johnson & Higgins, Inc., both international consulting actuarial firms. As a Consulting Actuary, my responsibilities have included meeting with clients, understanding their Human Resource needs and their financial goals, and tailoring employee benefits programs to fit their specific circumstances. I also perform pension valuations for United States corporations with domestic or foreign pension plans; analyze and immunize investment portfolios, research markets for asset management; analyze self-funded group medical and long-term disability programs; value liabilities for post-retirement medical plans; and train and supervise employees.

Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?

A. I earned a Ph. D. from the University of Chicago, Department of History (1976). I also received a Master of Arts from the University Of Chicago Division Of Social Sciences (1972). In addition, I hold two Bachelors of Science from the Massachusetts Institute of Technology, one in Mathematics (1971), the other in Humanities and Science (1971). I am a Visiting Professor of History at Carthage College in Kenosha, Wisconsin.

II. SCOPE AND PURPOSE OF TESTIMONY

Q. WHAT IS THE SCOPE AND PURPOSE OF THIS TESTIMONY?

A. I was engaged by the New Jersey Department of the Public Advocate, Division of Rate Counsel ("Rate Counsel") to conduct a review and analysis and present testimony regarding the Pension Costs proposed by South Jersey Gas, Inc. ("SJG" or "the Company") as part of its gas base rate filing.

The purpose of this testimony is to present to the New Jersey Board of Public Utilities ("BPU" or "the Board") Rate Counsel's recommended position regarding an appropriate level for the expense of the Company's Pension and Other Post-Employment Benfit ("OPEB") Plans.

In developing this testimony, I have reviewed SJG's filings, supporting testimonies and exhibits, and responses to initial and follow-up data requests issued by Rate Counsel and the BPU Staff with regard to Pension Expense.

Q. WAS THIS TESTIMONY PREPARED BY YOU OR UNDER YOUR DIRECT SUPERVISION?

A. Yes, this testimony was prepared by me.

III. PENSION EXPENSE

Q. WHAT IS YOUR UNDERSTANDING AS TO THE AMOUNT OF PENSION AND OPEB EXPENSE THAT SJG IS ASKING TO INCORPORATE INTO ITS BASE RATE DETERMINATION?

A. SJG is requesting that its revenue requirement in this case incorporate SJG's actual test year pension and OPEB expenses. The test year Pension Expense, exclusive of SERP amounts, was presented as $3,192,000.[1] This figure is apparently the average of the non-capitalized portion of the 2009 Pension Expense and the 2010 Pension Expense which were allocated to the SJG, Inc. division of South Jersey Industries, Inc.[2] ("SJI")

The test year SERP Expense was presented as $1,745,000.[3] This figure is the non-capitalized portion of the 2009 OPEB Expense allocated to the SJG, Inc. division of South Jersey Industries, Inc.[4]

Q. DO YOU AGREE WITH USING THE ENTIRE PENSION AND OPEB EXPENSES AS A BASIS FOR SETTING RATES? IF NOT, WHAT IS YOUR ALTERNATIVE?

A. No, I do not. I believe the Pension Expense, for purposes of setting rates, should be reduced by $1,003,000. I believe the OPEB Expense, for purposes of setting rates, should be reduced by $275,053. The testimony of Rate Counsel witness, Robert Henkes reflects the effect of these reductions upon the rates for SJG.

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[1] RCR-RR-90.
[2] RCR-PEN-001. Letter dated 1/29/2010 from Towers Watson actuary to Thomas S. Kavanaugh.
[3] RCR-RR-125
[4] RCR-PEN-002. Letter dated 1/29/2010 from Towers Watson actuary to Thomas S. Kavanaugh.

Q. WHAT IS YOUR BASIS FOR REDUCING THE AMOUNT OF PENSION EXPENSE FOR RATE PURPOSES?

A. I believe the "SJI" Pension/Compensation Committee accepted risk on behalf of the Pension Trust that resulted in poor performance in the 2008 fiscal year. It is my contention that the ratepayers should not be required to subsidize the losses associated with the investments in the Pension Trust or the VEBA Trust (for the OPEB plan). My goal in this testimony is to ascertain SJG's Pension and OPEB Expenses if the assets had been invested in a risk-less environment. The calculations supporting this figure are presented later in this testimony and as an attached spreadsheet.

Q. HOW HAVE THE ASSETS BEEN INVESTED?

A. In May 2004, the SJI Trust Committee drafted a "Statement of Investment Policy and Guidelines." (We have no indication that this "Statement" has been updated or amended since that time.) The Statement presented a policy of investing 63% in Equity (38% in domestic; 15% in international, 10% in Alternative Investments) and 37% in Fixed Income.[5] The generic asset allocation in the investment industry is 60% equity and 40% bonds. The SJG investment philosophy and portfolio return do not stray far from the norm, all things being equal. In the Introduction to the Statement, "goals for the investment of the Plans' assets" were to be "stated in writing,"[6] but were not explicitly made in the document. There was, however, a "desire" that the investments "achieve investment

[5] RCR-PEN-004, May 27, 2004, page 5.
[6] *Id.*, page 1.

results that match the actuarially assumed rate of return, while preserving the inflation adjusted value of the Plans."[7]

Q. WAS THE GOAL OR "DESIRE" MET?

A. The Pension Plan was funded at slightly under the Pension Benefit Obligation ("PBO") at the end of 2007 and 101.6% at the end of 2008. Common practice upon fully funding the PBO is to at least consider modifying the asset portfolio to a less risky one, one based on Liability Driven Investing for instance, to lock in the gains that had been achieved. The Target Allocation for 2007, 2008 and 2009 was 58% equity, 27% fixed income and 15% other.[8]

The following chart compares the actuarially assumed rate of return with the actual rate of return for the last three years[9]:

	2007	2008	2009
actuarially assumed rate of return	8.75%	8.50%	8.25%
actual rate of return	7.78%	-25.70%	15.90%

The almost 36% downturn in the equity market during 2008 certainly had a severe effect on the asset performance of the SJI Pension Trust. Its return on investment was negative 25.70%. The result was that the Plan was only funded to 70.4% of PBO at the end of

[7] *Id.*, p. 4.
[8] RCE-PEN-001.
[9] *Id.*; also shown on attached worksheet

2008.[10] The investment balance in the portfolio shifted far from the recommendation. At the end of 2008, equity represented 52%, fixed income, 37% and other, 11%.[11] As far as annual expenses were concerned, the SJG booked $1.6 million in 2006, $1.1 million in 2007 and $0.7 million in 2008. The expense for 2009 was set at $6.2 million.[12] The unexpected increase has a dramatic effect on the petition for increased utility rates.

Q. DIDN'T MANY PENSION PLAN TRUSTS ACROSS THE NATION SUFFER THE SAME DEGREE OF LOSS IN THEIR ASSETS?

A. Absolutely. The issue is not so much the drop in asset value as the attempt by SJG to have the ratepayers subsidize the loss of asset value in the Pension Trust. Inclusion of the investment loss in Pension Expense is an attempt by SJG to have a portion of its Pension Trust bailed out or subsidized by the ratepayers. The ratepayers themselves, who also might have suffered large losses in the equity market, have no comparable source of income to bail themselves out: they must re-build their assets as best they can. My recommendation to the Board is that SJG be treated in the identical fashion to any other investor, and not be accorded the special treatment of having the ratepayers subsidize their asset losses. To accept the level of Pension Expense and OPEB Expense being requested by SJG would retroactively validate a perverse incentive: when they gambled and succeeded, there was no rate reduction; now that they have lost, they are asking the ratepayers to recoup their losses.[13] Fundamentally, the Company is proposing that the

[10] *Id*.
[11] RCR-PEN-001.
[12] RCR-RR-90.
[13] Paraphrase of Nobel Laureate in Economics Joseph E. Stiglitz, "Harsh lessons we may need to learn again", China Daily, 2009-12-31.

responsibility for investment be shifted from the Investment Committee to the rate payer. This shifting of burden is in direct conflict with the fundamentals of financial economics, to say nothing of plain common sense. It is not up to the rate payers to subsidize a downturn in the SJI Pension Trust. It is more suitable for the losses to be sustained by the shareholders.

Q. DID THE SJI PENSION/COMPENSATION COMMITTEE FOLLOW THE PRUDENT STANDARD OF FIDUCIARY RESPONSIBILITY?

A. It is crucial to distinguish between prudence and risk. No one is accusing the Pension/Compensation Committee ("PCC") of abdicating its fiduciary responsibility as regards the "prudent man rule," because there were too many other investment managers following the exact same strategy. The PCC is resting on the herd mentality argument that since other plan sponsors were investing in a comparable fashion, they were all considered "prudent" relative to each other. SJI hired professional advisors to give them investment advice. The 58/27/15 investment balance, although "prudent" had a component of inherent risk in it. "One can expect an increase in portfolio volatility as the stock percentage is increased, particularly over the short term."[14] It is that risk component which we endeavor to quantify.

Q. WHAT CHOICE DID THE PENSION/COMPENSATION COMMITTEE HAVE IN PURSUING ITS INVESTMENT POLICY? WERE NOT ALL INVESTMENT

[14] RCR-PEN-004, p.4.

MANAGERS FOLLOWING THE SAME STRATEGY?

A. Although many investment managers were following the strategy of heavy investment in equities, not all were. An alternative mainstream consulting perspective would advise that at the beginning of 2008, the PPC would have reviewed its investment strategy in light of the fact that the PBO was 101% funded by Trust assets. The following chart illustrates an actuarial approach to investing[15]:

INVESTMENT STRATEGIES FOR PLANS	
Plan Benchmark	**Investment Strategy**
Assets > Present Value of Benefits	Overfunded => Eliminate investment risk
Assets > [Funding Target + Present Value of 5 years of normal cost]	Well funded => Minimal investment risk
Assets < 90% of [Funding Target + Present Value of 5 years of normal cost]	Funded status not a constraint for investment risk

Given that the SJI Plan was 101% funded , the PPC could have chosen to reduce the investment risk of the portfolio.

[15] "Stand By Your Plan," presented by R. Evan Inglis, Conference of Consulting Actuaries, Session 49, November 4, 2009.

Another chart[16] states the proposition from a different perspective..

	Discourages Investment Risk	Allows Investment Risk
Plan Profile	Overfunded	Underfunded
	Frozen plan	Open plan
	Many retirees	Few retirees
	Large plan	Small plan
Corporate Profile	Seeking predictability	Can tolerate volatility
	Cyclical business	Non-cyclical business
	Publicly traded	Not publicly traded
	Cash available for funding	No cash for funding

SJI's Pension Plan was 101.8% funded on the PBO basis, had many retirees and was large. The Corporate profile of SJI fits the categories which would discourage investment risk. In further support for reducing the risk, I offer a page from a competing consulting firm's website which offers clients and interested plan sponsors its latest strategy for Liability Driven Investing. The program is called a "Dynamic Investment Policy" which advises investment committees to rebalance its assets as the plan becomes better funded[17].

Q. HOW DO INVESTMENT LOSSES IN 2008 AFFECT THE PENSION EXPENSE?

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[16] Id.
[17] http://www.hewittassociates.com/Lib/assets/NA/en-CA/pdf/cmp_3q_2009.pdf

A. In calculating Pension Expense every year, the Corporation's actuary calculates the Expected Return on Assets. To the extent that the Expected Return on Assets exceeds the Actual Return, an "actuarial loss" develops. This loss is recognized over a period of time, in SJG's case, twelve years for both the Pension Plan and the OPEB plan. The Pension and OPEB Expenses are thus increased by approximately 8% of the actuarial loss.

Q. WHAT IS YOUR PROPOSED TREATMENT OF PENSION EXPENSE FOR RATE MAKING PURPOSES?

A. I believe the whole notion of using the entire Pension Expense for ratemaking is based on an overly technical, "black-box" calculation without examining what factors actually go into the process of calculating the Pension Expense. One of the components of Pension Expense consists of amortization of gains and losses, which has historically been a small correcting mechanism. After the close of the 2008 Plan Year, this amortization blossomed to one-half of the total Pension Expense, which itself was nine-times greater than the previous year![18] The amortization calculation should be scrutinized apart from the other factors. I propose that the Pension Expense for SJG should be separated into two portions for purposes of developing base rates. The "legitimate portion" of Pension and OPEB Expenses should be based on all factors unrelated to investment risk. The second portion, which should be discarded for purposes of ratemaking, is the part related directly to the risk of the assets in the portfolio.

To put a monetary value on the risk of the assets, I compare the actuary's expected return on asset assumption, 8.50% for 2008 and 8.25% for 2009, to the discount rate of 6.24% for

[18] RCR-PEN-001, letter dated 1/27/2010

2008 and 6.22% for 2009.

Q. HOW DID YOU ARRIVE AT THE FIGURE OF $1,003,000 FOR THE REDUCTION IN PENSION EXPENSE?

A. In the first attached spreadsheet, I have examined the components of Pension Expense for the qualified plan to establish and reconfirm the figures offered as Pension Expense for 2009. I summed the figures from the Employees' Plan with the Bargaining Plan.

Of primary significance, the actuarial valuation reports presented a line item showing the loss of assets for the plan. For 2008, the loss in asset value, net of all other considerations, amounted to $25.4 million. In contrast, the Pension Expense had built in an assumption that the assets would gain $8.4 million. The difference between the two figures, $33.8 million is considered an actuarial loss due to assets.[19] This actuarial loss is amortized over 12.07 years. It increases the Pension Expense of the Corporation by $2.8 million per year.

The assumption that the assets would gain $8.4 million was based on the assumption that the assets would return 8.50%. This assumption presumes a degree of risk relative to the rate by which liabilities were discounted, 6.24%. My contention is that in order to *quantify the risk of the portfolio*, the rate of return should be comparable to the long-term rate of investment grade corporate bonds, which forms the basis for the discount rate. Therefore, I calculated the Pension Expense assuming that the return on assets would mimic the liability discount rate.[20] Instead of a $33.8 million actuarial loss, I value the risk component of the

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[19] We are subtracting the difference between the expected gain and the actual gain. Because the actual gain was a loss, in this case we are looking at subtracting a negative number. Consider that if I expect to receive $3 and wind up losing $8 instead, my position is $11 worse than what I expected it to be.

[20] The FAS87 discount rate was 6.50% for 2009. The discount rate is used to determine the Pension & Benefits Obligation, Service Cost and all related components. The higher the discount rate, the lower the liabilities and costs.

assets at a $31.5 million loss. When amortized over 12.7 years, the Pension Expense due to the risk level of the assets is $2.6 million for 2009.

Q. DOES THE INVESTMENT PERFORMANCE OF 2009 CHANGE YOUR ANALYSIS?

To be fair, I include the fact that the assets did rebound somewhat in 2009. The Corporation and its stockholders deserve the credit for the gain in assets above and beyond expectations. The actuarial gain for the 15.9% return on assets in 2009 translates to $5.6 million above the expected return rate of 8.25%. This figure is amortized over 11.82 years to produce a credit of $599,087. The net amortization of the risk in the investment portfolio thus drops to $2,014,555.

For purposes of setting rates, SJG expenses a bit over 50% of its Pension Expense.[21] With this factor taken into account, I recommend that their proposed Pension Expense for ratemaking purposes be reduced by $1,003,000 for the test year and the following 10 years. This reduction forms the backup for the figures presented in Mr. Henke's testimony.

Q. DO YOU HAVE ANY COMMENTARY REGARDING THE EXPENSE FOR THE OPEB PLAN?

A. I used a similar method to determine the amount by which the OPEB Expense should be reduced for purposes of rate making. The actuarial valuation reports presented a line item

[21] RCR-RR-90

showing the loss of assets for the plan. For 2008, the loss in asset value, net of all other considerations, amounted to $8.0 million. The OPEB Expense had built in an assumption that the assets would gain $2.0 million. The difference between the two figures, $10.1 million is considered an actuarial loss due to assets. This actuarial loss is amortized over 11.97 years. It increases the OPEB Expense of the Corporation by $842,834 per year. The assumption that the assets would gain $2.0 million was derived from the expected return on assets assumption of 7.00%. This assumption presumes a degree of risk relative to the rate by which liabilities were discounted, 6.24%. My contention is that in order to *quantify the risk of the portfolio*, the rate of return should be comparable to the long-term rate of investment grade corporate bonds, which forms the basis for the discount rate. Therefore, I calculated the OPEB Expense assuming that the return on assets would mimic the liability discount rate. Instead of a $10.1 million actuarial loss, I value the risk component of the assets at a $9.9 million loss. When amortized over 11.97 years, the OPEB Expense due to the risk level of the assets is $824,741 for 2009.

To be parallel to the treatment of the Pension Plan, I calculated a credit for the 2009 rebound in assets for the OPEB Plan. When I combine this credit of $269,358 with the charge of $824,741, I arrive at a Net Amortization of Portfolio Risk amounting to $555,383. As with the Pension Expense, SJG chooses to expense a bit over 50% into its ratemaking structure.[22] Thus, my proposed reduction in OPEB expense is $275,053. This figure forms the basis of the proposed reduction found in Mr. Henke's testimony.

[22] RCR-RR-125

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does at this time. Upon receipt of SJG's Pension and OPEB expense figures for 2010, I reserve the right to amend my testimony.

SCHEDULES

Attachment supporting OPEB Expense adjustment
SJG, Inc.

		RCR-PEN-002	RCR-PEN-002	RCR-PEN-002	
		1/31/2008	1/30/2009	1/29/2010	
		2007	2008	2009	2010
Post Retirement Benefit Plan					
Expense	Service Cost	$ 661,200	$ 604,604	$ 621,626	
from Wyatt	Interest Cost	$ 2,294,708	$ 2,497,112	$ 2,712,428	
documentation	Return on Assets	$ (1,894,752)	$ (1,994,718)	$ (1,405,167)	
	Amortization				
	Prior Service Cost	$ (253,894)	$ (253,894)	$ (253,894)	
	(Gain)/Loss	$ 559,415	$ 676,465	$ 1,746,157	
Bottom Line	Net Periodic Pension Cost (NPPC)	$ 1,366,677	$ 1,529,569	$ 3,421,150	$ -
	NPPC recognized on 12 + 0				
	SJG's OPEB Expense RCR-RR-125	$ 719,000	$ 765,000	$ 1,745,000	$ 1,745,000
OPEB					
Status	APBO	$ (39,499,083)	$ (42,487,524)	$ (46,754,261)	
from Wyatt	Market value of Assets	$ 28,284,069	$ 20,664,236	$ 25,850,541	
documentation	Funded Status	$ (11,215,014)	$ (21,823,288)	$ (20,903,720)	$ -
	Unrecog (g)/l	$ 11,239,535	$ 23,598,864	$ 22,462,641	
	Unrecog past service cost	$ (976,765)	$ (722,871)	$ (468,977)	
	Transition Obligation				
	(Accrued) Benefit Cost	$ (952,244)	$ 1,052,705	$ 1,089,944	$ -
	Additional Unrecognized G/(L) from one year to the next (financial and demographic)	(1,287,914)	$ (13,035,794)	$ (609,934)	
Assets/PBO	**Funding Percentage APBO**	**71.61%**	**48.64%**	**55.29%**	
	Discount rate	6.36%	6.24%	6.22%	
	Current health care trend rate	10.00%	9.00%	9.00%	
	Return on assets	7.25%	7.00%	6.80%	
	Cash contribution	$ 147,227	$ 163,992	$ 192,240	$ 200,000
	Return on investments	$ 1,272,780	$ (8,094,001)	$ 4,684,614	
	Expected Return per Wyatt	$ 1,894,752	$ 1,994,718	$ 1,405,167	
	Actuarial Gain(Loss) on Plan Assets	$ (621,972)	$ (10,088,719)	$ 3,279,447	
	Remaining Service for Pension	13.5	11.97	12.62	
	Annual Amortization of gain/(loss) in Pension Expense		$ (842,834)	$ 259,861	
	Expected Return per prevailing discount rate	**$ 1,662,155**	**$ 1,778,149**	**$ 1,285,315**	
	Actuarial Gain(Loss) on Plan Assets (value of risk)	**$ (389,375)**	**$ (9,872,150)**	**$ 3,399,299**	
	Remaining Service for OPEB	13.5	11.97	12.62	
	Proposed Reduction in Expense		$ (824,741)	$ 269,358	
	Accumulated for 2010			**$ (555,383)**	
	Prorata portion expensed for rate purposes		50.01%	51.01%	
			$ (412,453)	**$ 137,400**	
	Proposed Reduction in Expense for ratemaking			**$ (275,053)**	
		11,239,535	23,598,864	22,462,641	
		(3,949,908)	(4,248,752)	(4,675,426)	
		7,289,627	19,350,112	17,787,215	
		539776	1616160	1408939	
		13.5	11.97	12.62	

Attachment supporting Pension Expense adjustment

South Jersey Gas, Inc.

		2007	2008	2009	2010	2011	2012	2013	2014
		PEN-1 letter, 1/30/08	PEN-1 letter, 2/2/09	PEN-1 letter 1/27/10	PEN-1				
Employees		2007	2008	2009	2010	2011	2012	2013	2014
Pension									
Expense	Service Cost	668,729	634,632	626,935					
from Wyatt	Interest Cost	2,444,335	2,554,372	2,558,330					
documentation	Return on Assets	(3,537,511)	(3,627,673)	(2,583,524)					
	Amortization								
	Prior Service Cost	89,943	89,139	77,600					
	(Gain)/Loss	580,022	485,138	1,696,019					
Bottom Line	Net Periodic Pension Cost (NPPC)	245,518	135,608	2,375,360					
	NPPC recognized on 12 + 0								
	SJG's Pension Expense								
Pension	ABO	(37,780,634)	(39,486,157)	(40,637,869)					
Status	PBO	(40,804,752)	(42,546,206)	(43,705,721)					
from Wyatt	Market value of Assets	41,998,382	30,469,502	35,986,389					
documentation	Funded Status	1,193,630	(12,076,704)	(7,719,332)					
	Unrecog (g)/l								
	Unrecog past service cost								
	(Accrued) Benefit Cost								
Additional Unrecognized G/(L) from one year to the next (financial and demographic)		871,039	(15,816,430)	1,279,113					
Bargaining									
Pension									
Expense	Service Cost	1,609,584	1,579,683	1,608,098					
from Wyatt	Interest Cost	3,202,060	3,378,929	3,549,205					
documentation	Return on Assets	(4,530,855)	(4,766,797)	(3,451,286)					
	Amortization								
	Prior Service Cost	149,493	149,923	149,803					
	(Gain)/Loss	387,961	205,591	1,945,604					
Bottom Line	Net Periodic Pension Cost (NPPC)	818,243	547,329	3,801,424					
	NPPC recognized on 12 + 0								
	SJG's Pension Expense								
Pension	ABO	(47,963,948)	(51,302,974)	(54,316,476)					
Status	PBO	(54,264,008)	(57,697,077)	(60,854,279)					
from Wyatt	Market value of Assets	54,542,803	40,118,388	48,694,759					
documentation	Funded Status	278,795	(17,578,689)	(12,159,520)					
	Unrecog (g)/l								
	Unrecog past service cost								
	(Accrued) Benefit Cost								
Additional Unrecognized G/(L) from one year to the next (financial and demographic)		2,623,571	(20,353,998)	2,908,616					
TOTAL									
Pension									
Expense	Service Cost	$ 2,278,313	$ 2,214,315	$ 2,235,033					
from Wyatt	Interest Cost	$ 5,646,395	$ 5,933,301	$ 6,107,535					
documentation	Return on Assets	$ (8,068,366)	$ (8,394,470)	$ (6,034,810)					
	Amortization	$ -	$ -	$ -					
	Prior Service Cost	$ 239,436	$ 239,062	$ 227,403					
	(Gain)/Loss	$ 967,983	$ 690,729	$ 3,641,623					
		$ -	$ -	$ -					
Bottom Line	Net Periodic Pension Cost (NPPC)	$ 1,063,761	$ 682,937	$ 6,176,784	$ -	$ -	$ -	$ -	$ -
	NPPC recognized on 12 + 0								
	SJG's Pension Expense RCR-RR-90	$ 543,000	$ 342,000	$ 3,150,000	$ 3,233,000				
Pension	ABO	$ (85,744,582)	$ (90,789,131)	$ (94,954,345)					
Status	PBO	$ (95,068,760)	$ (100,243,283)	$ (104,560,000)					
from Wyatt	Market value of Assets	$ 96,541,185	$ 70,587,890	$ 84,681,148					
documentation	Funded Status	$ 1,472,425	$ (29,655,393)	$ (19,878,852)					
	Unrecog (g)/l	$ -	$ -	$ -					
	Unrecog past service cost	$ -	$ -	$ -					
	(Accrued) Benefit Cost	$ -	$ -	$ -					
Additional Unrecognized G/(L) from one year to the next (financial and demographic)		$ 3,494,610	$ (36,170,428)	$ 4,187,729					
Assets/PBO	**Funding Percentage PBO**	**101.55%**	**70.42%**	**80.99%**					
	Funding Percentage ABO	**112.59%**	**77.75%**	**89.18%**					
	Discount rate	6.36%	6.24%	6.22%					
	Return on assets	8.75%	8.50%	8.25%					
	Cash contribution	$ -	$ 4,795,756	$ 8,244,000					
	Return on investments	$ 7,172,106	$ (25,384,128)	$ 11,631,092					
	Expected Return per Wyatt	$ 8,068,366	$ 8,394,470	$ 6,034,810					
	Actuarial Gain(Loss) on Plan Assets	$ (896,260)	$ (33,778,598)	$ 5,596,282					
	Remaining Service for Pension		12.07	11.82					
	Annual Amortization of gain/(loss) in Pension Expense		$ (2,798,558)	$ 473,459					
	Actual Rate of return on Plan assets	7.78%	-25.70%	15.90%					
	Expected Return per prevailing discount rate	**$ 5,864,549**	**$ 6,162,529**	**$ 4,549,881**					
	Actuarial Gain(Loss) on Plan Assets (value of risk)	**$ 1,307,557**	**$ (31,546,657)**	**$ 7,081,211**					
	Remaining Service for Pension		12.07	11.82					
	Proposed Reduction in Expense (SJG)		**$ (2,613,642)**	**$ 599,087**					
	Accumulated for 2010			**$ (2,014,555)**					
	Prorata portion expensed for rate purposes		50.08%	51.00%					
			$ (1,308,912)	$ 305,534					
	Proposed Reduction in Expense for ratemaking (SJG)			**$ (1,003,377)**					
			$ 25,745,092	22769960					
			28648219	23793999					
			$ 54,393,311.0	46563959					
			$ (9,078,913.10)	$ (9,495,434.50)					
			$ 45,314,397.90	$ 37,068,524.50					
			12.07150076	11.81786705					
			1833219	1596074					
			1920614	1540577					
			3753833	3136651					

APPENDIX

VITA
MITCHELL I. SEROTA

Professional Credentials

Fellow, Society of Actuaries, 1983
Fellow, Conference of Consulting Actuaries, 1988
Member, American Academy of Actuaries, 1980
Enrolled Actuary, 1983

Professional Service

Member, Pension Committee of American Academy of Actuaries, 2009-10
Vice-chair, Smaller Consulting Firms Council of Society of Actuaries, 2002-05
Conference of Consulting Actuaries, Program Committee and Moderator on Comprehensive Medical Reform, 1992-94
Society of Actuaries Examination Committee Member, 1984-87
Society of Actuaries Education Coordinator, 1986-87
Society of Actuaries Lead Workshop Co-Chairperson, 1989
Society of Actuaries Speaker, 1983, 2000, 2004, 2005, 2008
Chicago Actuarial Association, Vice President, 1980-1985

Professional Experience

Mitchell I. Serota & Associates, Inc. (April, 1988 to present)
President
Serota & Associates is a corporation dedicated to Employee Benefit Consulting.

Alexander & Alexander Consulting Group, Inc. (April, 1987 to April, 1988)
Vice President
Consulting Actuary responsibilities included meeting with clients, understanding their Human Resource needs and their financial goals, and tailoring employee benefits programs to fit their specific circumstances.

Johnson & Higgins of Illinois, Inc. (October, 1978 to April, 1987)
Vice President, 1986
Assistant Vice President, 1982
Consulting Actuary responsibilities included performing pension valuations for United States corporations with domestic or foreign pension plans; analyzing and immunizing investment portfolios, researching markets for asset management; analyzing self-funded group medical and long-term disability programs; valuing liabilities for post-retirement medical plans; training employees.

Professional Experience (cont.)

CNA Insurance (July, 1976 to October, 1978)
Actuarial Assistant responsibilities included organizing, writing, and revising the Major Group Claims Cost Manual; researching the utilization and cost of non-standard group health benefits; determining the fluctuation of utilization and prices of group health and dental care across the country.

Academics

Visiting Professor, Carthage College, Kenosha, Dept. of History, 2010

University of Chicago, Ph.D., History, March, 1976
University of Paris-I (1973-74)
University of Chicago, M.A., History, June, 1972
Massachusetts Institute of Technology, S.B., Mathematics, June, 1971
Massachusetts Institute of Technology, S.B., History, June, 1971

Publications

"QDROs with Fewer Hassles," *Pension Section News,* June, 2001, #46, pp. 6-7.

"Lump sum distributions for QDROs," speech at Society of Actuaries, October 16, 2000.

"Actuarial Considerations," *Employee Benefits Law Handbook,* Chapter 20, Illinois Institute for Continuing Legal Education, May, 1998.

"Effect of the Social Security Act of 1983 on the Funding of Pension Plans," *Record of the Society of Actuaries,* IX, 521ff.

"Government Health and Welfare Programs in the United States and West Germany," *Benefits International,* December, 1979, pp. 15-18.

Personal Data
Born January 24, 1950 in Chicago, Illinois

Community service

Glenview School District 34 Caucus, 1994-2002
    Chairman, 2000-2002
Northfield School District 225 Caucus, 2000-2004
Substitute Teacher at Glenbrook South H.S.: History, Mathematics, French
Surrey Lane Civic Association, President 1999-2005