Exhibit No.:	
Issue:	Weather Mitigation Rate Design, Fixed Rate Option, Miscellaneous Tariff and Rate Issues
Witness:	Michael T. Cline
Type of Exhibit:	Direct Testimony
Sponsoring Party:	Laclede Gas Company
Case No.:	GR-2007-_______
Date Testimony Prepared:	December 1, 2006

LACLEDE GAS COMPANY

GR-2007-______

DIRECT TESTIMONY

OF

MICHAEL T. CLINE

DECEMBER 2006

TABLE OF CONTENTS

Page

DIRECT TESTIMONY OF MICHAEL T. CLINE

Q. Please state your name and address?

A. My name is Michael T. Cline and my business address is 720 Olive Street, St. Louis, Missouri 63101.

Q. What is your present position?

A. I am Director of Tariff and Rate Administration at Laclede Gas Company ("Laclede" or "Company").

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

A. I was promoted to my present position in August 1999. In this position I am responsible for administration of Laclede's tariff. In addition, I perform analyses pertaining to Laclede's purchased gas costs and various federal and state regulatory matters which affect Laclede.

Q. Please describe your work experience with Laclede prior to assuming your current position.

A. I joined Laclede in June 1975 and have held various positions in the Budget, Treasury, and Financial Planning departments of the Company. In 1987, I began work in areas related to many of my duties today.

Q. What is your educational background?

A. I graduated from St. Louis University in May 1975, with the degree of Bachelor of Science in Business Administration, majoring in economics.

Q. Have you previously submitted testimony before regulatory bodies?

A. Yes. I have submitted testimony in numerous proceedings before this Commission which I have identified in Schedule MTC-1 that is attached to this testimony. I have also testified before the Illinois Commerce Commission and the Federal Energy Regulatory Commission.

PURPOSE OF TESTIMONY

Q. What is the purpose of your testimony in this proceeding?

A. My testimony explains the manner in which the rate schedules filed by the Company on December 1, 2006 were revised to reflect the annual revenue increase of $44.9 million requested by the Company in this case. In addition, I will discuss: 1) continuation and modification of the weather mitigation rate design that was approved in the Company's 2002 rate case; 2) the Company's proposal to give residential customers the option to lock-in for a twelve month period the gas cost portion of the rate they pay for gas usage; 3) the Company's proposal in this proceeding to modify its Purchased Gas Adjustment ("PGA") clause to include the gas cost portion of bad debts in its recovery of gas costs through PGA rates; 4) the Company's proposal for funding a residential conservation incentive program through the Company's PGA rates; 5) the mechanics of the Earnings Sharing Mechanism that is a major element of the regulatory compact discussed by Company witness Neises; 6) the Company's proposal to eliminate the separate tariff provisions under which former customers of Fidelity Natural Gas Company are presently served; 7) several other miscellaneous tariff and ratemaking issues; and 8) the Company's position regarding the possible future ratepayer-sourced funding of research and development through the Gas Technology Institute.

ALLOCATION OF PROPOSED RATE INCREASE

Q. Please explain how Laclede's rates were adjusted to produce the additional revenues requested by Laclede.

A. The first step in determining the new rates was to allocate the $44.9 million revenue increase to each individual rate schedule. This was done by multiplying the non-gas revenues in each rate schedule by a uniform percentage.

Q. What do you mean by non-gas revenues?

A. Non-gas revenues represent that portion of Laclede's revenues which recover Laclede's cost of service, other than the cost of purchased gas, and were derived by multiplying the billing determinants associated with each of the Company's rate schedules by the non-gas rates stated in Sheet Nos. 2 through 11 and Sheet No. 34 of the Company's tariff.

Q. What billing determinants did you use to allocate the proposed rate increase?

A. I used normalized determinants for the twelve months ended September 2006, consistent with the establishment of the revenue requirement in this case.

Q. How did you derive the uniform percentage increase that was applicable to the non-gas revenues of each rate schedule?

A. The percentage was derived by dividing the $44.9 million non-gas revenue increase requested in this proceeding by Laclede's total current normalized non-gas revenues of $244million, excluding revenues from the Company's Infrastructure System Replacement Surcharge ("ISRS").

Q. What impact did Laclede's non-gas revenue allocation have on the total revenues produced under each rate schedule?

A. The additional revenues expressed as a percent of total normalized current revenues will vary by rate schedule as shown in Schedule MTC-2. Overall, the revenues of the Company would increase by 5.6% as a result of the Company's rate filing compared to the Company's existing revenues including ISRS.

Q. Why is the percentage increase for the LVTSS rate schedule larger than the percentage increase under most of Laclede's other rate schedules?

A. Since LVTSS customers purchase most of their gas from third parties, LVTSS revenues exclude a significant amount of gas costs which will not be billed by Laclede. In contrast, Laclede's sales rates cover all costs, including gas costs. Thus, it is axiomatic that LVTSS revenues will appear to be increasing by a larger percentage than most other rates simply because the LVTSS revenue base is much smaller due to the exclusion of most gas costs. However, if LVTSS customers' total costs for natural gas service (Laclede transportation service as well as the cost of gas) are used as the base from which Laclede's proposed increase is measured, as is the case with the other rate schedules, the percentage for LVTSS customers would be lower and more in line with the increases for customers purchasing gas from Laclede under other rate schedules.

Q. After allocating the rate increase to each rate schedule in proportion to the non-gas revenues derived from such schedule, how were the charges within each rate schedule adjusted to produce the allocated increase?

A. I increased all charges within each rate schedule by approximately the same uniform percentage of overall non-gas revenues that I mentioned earlier.

Q. Were any other rates adjusted as a result of the Company's proposed increase?

A. Yes. The Infrastructure System Replacement Surcharge ("ISRS") amounts reflected on Sheet No. 12 were reduced to zero as required by statute with the Company's filing of a new rate case.

Q. What impact would the general rate increase proposed by the Company in this proceeding have on the bill of a typical residential heating customer?

A. The annual gas bill of a typical residential heating customer would increase by approximately 5.7%. This translates into an average monthly increase of approximately $6.50, or $78 on an annual basis.

WEATHER MITIGATION RATE DESIGN

Q. Is the Company recommending continuation of the weather mitigation rate design ("WMRD") that was initially approved and extended in the Company's 2002 and 2005 rate cases, respectively?

A. Yes. The WMRD has been successful in helping the Company achieve a better matching of its revenues to its costs of providing distribution service. However, as I will explain later in my testimony, the Company is proposing several modifications to the existing WMRD in order to improve its effectiveness in ensuring that the Company does not over or under recover its fixed distribution Company's costs.

Q. Please explain what you mean by a better matching of revenues and costs.

A. Prior to implementation of the WMRD, the Company's distribution revenues were highly dependent on, and fluctuated with, the weather. A mismatch would result because most of the Company's costs, other than the cost of gas, are fixed. As described in more detail in the testimony filed by the Company in its past rate case proceedings, these costs do not fluctuate with the weather. For example, the Company does not reduce its employee levels or physical plant used to provide service just because its sales volumes have decreased temporarily as a result of one winter season being warmer than another. As a result, prior to implementation of the WMRD, the reduction in sales volumes attributable to warmer than normal weather would cause the Company to under-recover its distribution costs and fail to earn its authorized rate of return. Likewise, an increase in sales volumes attributable to colder than normal weather under the Company's former rate design would, everything else being equal, cause the Company to over-recover its costs and potentially achieve earnings above its authorized return. Implementation of the WMRD has significantly alleviated this mismatch of revenues and costs.

Q. Please describe the Company's existing WMRD.

A. In the settlement of the 2002 rate case, the Company designed its charges for gas used, or volumetric charge, in its General Service rate schedules so that during the November through April period, all of the Company's non-gas, distribution charges, other than customer charges, are billed to customers based solely on their consumption in the first rate block.

Q. Please explain.

A. There are two rate blocks in each of the Company's General Service rate schedules. Using residential customers as an example, that means that one set of charges applies to the first 65 therms used during the month and another set of charges applies to consumption in excess of 65 therms. The charges included in these rate blocks cover both the costs Laclede incurs to provide distribution service as well as the PGA-related gas costs it incurs to supply its customers with gas. During the winter season the Company's distribution charge only applies to consumption in the first rate block. There is no charge for distribution service in the second rate block. The Company's PGA rate, on the other hand, applies to consumption in each rate block. However, as agreed to in the 2002 rate case settlement, in order to ensure that the WMRD would not have any material impact on individual customers when measured against the Company's former rate design, the PGA charge for consumption in the first rate block is lower than the PGA for consumption in the second rate block so that the overall rate to the customer remains the same.

Q. Why is that necessary?

A. Under the Company's former rate design, the Company applied a distribution charge in both rate blocks, with the first block charge being only slightly higher than the second block charge, while the same PGA rate applied to both rate blocks. When the first block of the distribution charge was increased to prevent over and under recoveries of the Company's fixed distribution costs, the amount of PGA charges in the first block were reduced by a corresponding amount. Similarly, the PGA charges in the second block were increased to offset the elimination of distribution charges in the second block. The net result of these changes is to keep the total rate charged to the customer the same in both rate blocks and thereby negate any material impacts that a simple change in how distribution costs are recovered would have otherwise had on customers.

Q. Are the rate blocks different for Commercial and Industrial customers?

A. Yes, there are different rate blocks for each of the three Commercial and Industrial general service rate schedules. However, in each rate schedule, as with the residential customers, the Company's distribution charges only apply to the first rate block during the winter and the PGA rates in each block were adjusted to maintain the same total volumetric rate.

Q. How does the WMRD provide for a better matching of revenues to costs than the former rate design?

A. Since the first rate block for each general service rate schedule is not particularly weather sensitive in most winter months it follows that the amounts billed to customers to cover the Company's distribution costs under the WMRD are more stable from one winter season to the next and are less sensitive to weather. Thus, the Company's revenue stream is more likely to match the costs that the Company's rates were designed to cover.

Q. Is the purpose of, and rationale for, WMRD unique?

A. No, it is not. Even though the specific features of Laclede's WMRD may be unique among local distribution companies ("LDCs"), its overall goal of decoupling distribution revenues from costs is not only common in other jurisdictions, but has been gaining increasing acceptance in recent years by utilities and regulators alike as a way of removing disincentives to the aggressive pursuit of conservation programs. These decoupling mechanisms have taken a variety of forms, ranging from weather normalization clauses to rate designs that seek to recover all distribution costs through a flat monthly customer charge. At the time it was approved in the Company's 2002 rate case proceeding, however, the WMRD appeared to be the only acceptable way to accomplish this goal. Specifically, it was the only way to ensure that individual customers would not be impacted by significant increases in the first block distribution charge and that the solution approved by the Commission would not run afoul of what some parties believed were potential legal barriers arising from a 1979 Missouri Supreme Court decision that found no statutory authority for fuel adjustment clauses that were being used by electric utilities at that time.

Q. Has the Company's WMRD been 100% effective in eliminating the impact of weather on the Company's recovery of its distribution costs?

A. No, it has not been 100% effective. Unusually warm weather in shoulder months, such as October, November, April and May, can still subject the Company to earnings losses due to weather. Similarly, unusually cold weather in those same months results in earnings increases.

Q. Why is that?

A. Since the weather in these months is normally warmer than the other winter months, customers are less likely to use all of the therms in the first rate block. Because of weather, block 1 usage in these months may vary substantially from year to year, unlike the other winter months when many customers' usage exceeds the first rate block. Thus, if block 1 billing determinants are based on normal weather in these shoulder months, and the weather turns out to be warmer than normal, the Company is likely to under-recover its distribution costs. Similarly, the Company could recover more than its distribution costs if weather during these periods was materially colder than the normals established in developing the billing determinants.

Q. Doesn't Senate Bill 179, which was signed into law in July 2005, provide explicit authority for adjustment mechanisms that would keep utilities whole for lost revenues due to warmer weather and reduced usage?

A. Yes, it does. However, since rules codifying such an adjustment mechanism have not yet been promulgated, the Company is attempting to work within the framework of its existing rate design to fix this problem rather than resort to SB179 or other solutions. Indeed, given how well the WMRD has been accepted by the Company's customers over the past four years, Laclede believes that with only a few modifications it represents a superior alternative to other rate design or adjustment mechanisms that otherwise might be adopted to address this issue.

Q. How do you propose to modify the WMRD to fix the remaining problems you have described?

A. I am proposing to make several changes to the Company's existing rate design which include: a) reducing the range of consumption that defines block 1 therms; b) adding the billing months of May and October to the existing November through April period during which WMRD applies; and 3) using test year block 1 therms to derive the new block 1 rates

Q. Please explain what you mean by reducing the range of consumption that defines block 1 therms.

A. For residential customers I am proposing that the upper end of the block be reduced from 65 therms down to 30. By reducing the amount of therms covered in the first rate block, the amount by which the Company could potentially under- or over-recover its fixed costs would be reduced since far more customers will have consumption that will fill up a 30 therm first block as opposed to a 65 therm first block.

Q. What about the first block therms for the commercial and industrial customers who are billed under the General Service rate schedule? Have you made any modifications there?

A. Yes. For the same reasons I discussed above for residential customers, I have reduced the amount of block 1 therms in roughly the same proportion for the C1, C2 and C3 customers to 50 therms, 500 therms and 3,000 therms, respectively.

Q. Please explain the second change you are proposing?

A. When the Company first implemented WMRD in the settlement of the 2002 rate case, its main focus was on reducing the variation in its recovery of its fixed costs during the months of November through April in which it and its customers had the greatest exposure. However, the Company's customers also have some space heating requirements in May and October during which weather variations from normal can also expose both the Company and its customers to decreased revenues or higher gas bills. In order to address the revenues and cost mismatch that can occur in these shoulder months the Company has expanded the months during which the WMRD would apply.

Q. Would all customers use at least as many therms as are defined in block 1 in a warm shoulder month?

A. No, they will not and that is the basis for the third change in WMRD I mentioned above. To ensure that the Company will not continue to under-recover its fixed costs even with a reduced first rate block, the Company will derive a first rate block charge using October 2005 through May 2006 actual block 1 billing determinants under the new definitions to derive the Company's block 1 rates.

Q. Does that mean that, if the Company realizes more block 1 volumes than were used to derive the Company's block 1 rates, the Company will over recover its costs?

A. No. While this approach is intended to better ensure the recovery of the Company' costs, it also eliminates the Company's upside potential. If the Company realizes more block 1 therms than it established in this case, after adjustment for the difference between actual customer growth and the customer growth projected in the rate case, the Company will defer those additional revenues with interest and refund such amounts to customers each year though a reduction in its next succeeding ACA filing.

Q. Even though the Company will not be permitted to retain revenues derived from the potential realization of more block 1 therms than the amount used to establish the rates in this case, in colder than normal years won't the Company be temporarily withholding large credits from the Company's ratepayers?

A. No, this is not a likely outcome because by reducing the amount of therms in the first rate block, as explained above, the Company has diminished the variability of its non-gas distribution revenue stream between colder than normal and warmer than normal years.

Q. Is the Company's objective in achieving a better matching of its distribution revenues to its fixed distribution costs supported by developments in other parts of the country?

A. Yes. As I previously mentioned decoupling, as it is commonly referred to in the industry, is being increasingly embraced by regulatory bodies around the country. Even NARUC has endorsed such rate design measures which run the gamut from usage trackers, similar to the kind that would be permissible under Senate Bill 179, to full recovery of costs through the customer charge. The Staff of this Commission has also begun recommending full recovery of costs through a fixed monthly delivery charge for some LDCs in Missouri so that such recovery will not vary with the customer's consumption. Even though the Company's proposal in this case is different from what the Staff has been recommending, the cost recovery objectives of the Company and Staff are aligned, while the Company's enhanced WMRD strives to most closely mirror the type of rate design that has been in place in recent years. Nevertheless, should the Commission ultimately conclude that other alternatives are more appropriate, I have included as Schedule MTC-3 to my direct testimony one set of specimen tariff sheets that would establish a weather normalization clause which is illustrative of another way to address this issue. Since I filed these tariff sheets in the Company's 2001 rate case the specific charges and underlying rate structure in such sheets are different from what the Company would ultimately file today should the Commission prefer this type of a solution. Alternatively, if the Commission prefers full recovery of costs through the customer charge the Company has determined that its residential customer charge for the winter and summer months would have to be increased to $43 and $19, respectively.

Q. Has there been any adverse reaction from customers relating to the Company's existing WMRD?

A. No. And I am not surprised that there has been no such reaction since the WMRD keeps the overall rate to the customer exactly the same as it was under the Company's prior rate design, with only very small positive or negative effects on subsequent ACA adjustments levels.

FIXED RATE OPTION

Q. In his direct testimony, Laclede witness Kenneth Neises referred to a new fixed rate option that is being considered by the Company. Can you describe how this would work in greater detail?

A. Yes. Although Laclede intends to work with the other parties to this case to finalize the details on how such an option would be structured and implemented, we believe it should be consistent with options that have been offered by suppliers in areas where deregulation of the supply function has occurred. Once approved, the Company would for the first time make available to its residential customers the option of locking-in the gas cost portion of the rate they pay for natural gas service.

Q. How would this option be different from what is available to the Company's residential customers today?

A. Today the gas cost portion of the rate paid by residential customers is determined in the purchased gas adjustment ("PGA") filings made by the Company. In those filings, the Company estimates what it will pay to its suppliers for the gas it will need to purchase as well as withdraw from underground storage to meets its customers' requirements including the costs associated with the use of financial hedging instruments. The Company must adjust its PGA rates at the beginning of each heating season in November and may make up to three additional PGA filings each year so long as the effective date of each new PGA rate is separated by at least 60 days. In addition, to the extent that the Company's actual gas costs differed from the gas cost assumptions used to bill customers, customer's bills are adjusted in the following year to make up the difference. In contrast, under a fixed rate concept the gas cost portion of the customer's rate would be determined once a year and would generally not change over the next twelve months.

Q. Why would a customer choose a fixed rate option over the traditional sales service that is available today?

A. Under traditional sales service, even though the Company hedges its cost of gas by using both financial instruments and supplies from underground storage, the gas costs incurred by the Company still fluctuate with the market price for gas which may result in the Company making an adjustment to its PGA rate, up or down, to reflect these changed costs. Thus, under traditional sales service there is some uncertainty about what a customer will pay for the gas that is being delivered by Laclede. If the customer prefers to avoid this uncertainty, the customer may elect a fixed rate option.

Q. Would the customer's choice of a fixed rate option completely stabilize the customer's gas bill?

A. No. The customer's bill would still fluctuate with the amount of gas consumed. As a result, while customers would have greater certainty relating to what price they are paying for the largest portion of their bill, they would still have a significant incentive to conserve on their usage.

Q. Even though the details of such an option need to be finalized, would the Company limit the amount of customers who will be permitted to participate in the program?

A. Yes. Until the Company gains some experience with the structure of such a service, the Company intends to limit participation to 25,000 residential customers. As indicated by Mr. Neises, however, the Company is strongly committed to expanding the availability of this option in the future assuming it proves successful and workable terms for doing so can be established.

PGA MODIFICATIONS

Q. What changes are you proposing in the Company's PGA clause in this proceeding?

A. I am proposing two changes. The first change relates to the Company's proposal to include in its current recovery and reconciliation of gas costs the gas cost portion of the Company's bad debts. The second change is related to the Company's new Conservation Incentive Program ("CIP").

Q. Please explain the first change relating to PGA treatment of the gas cost portion of bad debts?

A. As explained in the direct testimony of Company witness Fallert, these costs have traditionally been recovered through the non-gas rates established in the Company's general rate case proceedings. In this proceeding, however, the Company proposes to recover such costs from its customers through the Company's PGA clause since these costs are directly attributable to the Company's procurement of the gas supplies that are already recovered through the PGA. Due to the volatility of the prices applicable to these supplies, it is unlikely that any price estimate established in a rate case would appropriately reflect the costs that the Company ultimately incurs in this area. The inclusion of this cost in the Company's PGA clause would ensure that the amount of such costs recovered from customers corresponds to the Company's actual costs, no more and no less. At the same time, by only permitting the Company to recover the gas cost portion of uncollectible expense through the PGA, the Company would still be at risk for any changes in the non-gas portion of this expense – a factor that would ensure the Company still has incentive to aggressively pursue collection and other activities aimed at keeping such expenses down.

Q. Earlier you testified that it is unlikely this cost can be accurately projected in a general rate case. How would the Company's PGA treatment of such cost represent an improvement?

A. As with the recovery of the Company's purchased gas costs, the Company would initially charge its customers for the recovery of this cost based on a projection of such costs that would be included in the Company's Current PGA factors. Any differences between such projection and the Company's actual accrual of this cost would be adjusted pursuant to the Actual Cost Adjustment accounting described in Sheet No. 28-i.

Q. Are you aware of any other LDCs that recover this type of cost through their PGA rates?

A. Yes. I'm aware of several LDCs that recover the gas cost portion of bad debts through their PGA rate and several more that are allowed to recover the entirety of their bad debt write-offs, including both gas and distribution costs.

Q. What impact would this PGA modification have on the Company's rates?

A. Such modification would have the effect of reducing the Company's non-gas rates in the filed tariff sheets and increasing the Company's PGA rates.

Q.. Please explain the second PGA change related to the Company's new Conservation Incentive Program.

A. As explained in the direct testimony of Company witness Reinhart, the Company proposes to reward customers who are able to reduce their gas usage by at least 10% from a prior period with bill credits or rebates based on the percentage of gas conserved on their December through February gas bills. Since such rewards are intended to encourage savings in the gas cost portion of customers' bills and hopefully ultimately result in reduced purchased gas costs by the Company, the PGA clause is being use to fund such payments by the Company. Sheet Nos. R-53, R-54 and 28-j have been revised to provide for the description and funding of this program.

EARNINGS SHARING MECHANISM

Q. Please explain the basis for the Earnings Sharing Mechanism set forth in Sheet Nos. 13 and 13-a.

A. These sheets describe how the Company will quantify and flow-through to customers any earnings above its authorized return that the Company may realize in connection with the Regulatory Compact described in the testimony of Company witness Kenneth Neises.

Q. The Company describes this as an Earnings Sharing Mechanism. What happens if the Company's actual earnings are less than authorized by the Commission? Can the Company's rates be increased in this instance?

A. No. The Company's rates can only be reduced under this mechanism. Deficient earnings in any year will only be used to offset any earningst in excess of the Company's authorized return in other years.

ELIMINATE SEPARATE TARIFF FOR SULLIVAN CUSTOMERS

Q. How are the Company's customers in areas previously served by Fidelity Natural Gas Company ("Fidelity") affected by the Company's proposed tariff filing?

A. The Company's rate schedules, rules and regulations that apply to all customers other than those in areas previously served by Fidelity would now also apply to these customers as well. The Company acquired Fidelity's distribution system of effective February 28, 2006. In the Stipulation and Agreement in Case No. GM-2006-0183 the Company agreed to provide gas service to the former Fidelity customers under the Fidelity tariff provision until the effective date of a report and order in a subsequent Laclede rate case. Serving these customers under the Laclede tariff that applies to all other service areas is warranted because it will be more administratively efficient to serve all customers under one set of tariff provisions and rules and because no customers will harmed by such an action. In addition, other parts of Laclede's service area in close proximity to these customers are already served under the Laclede tariff and share similar operating and supply characteristics. Under such circumstances, it only makes sense to provide service to all of these customers under the same rates, terms and conditions.

RATE ADJUSTMENTS UPON RESOLUTION OF CASE

Q. What rate adjustments should be made upon resolution of the case?

A. Two adjustments are in order. First, the Company's PGA factors should be adjusted to reflect the normalized throughput in this proceeding. Second, the Company's non-gas rates should be adjusted for any potential rate switching.

Q. Please explain the PGA adjustment.

A. The Company's Current PGA rates include certain costs recovery components that are derived by dividing the Company's fixed gas costs by normalized volumes. Presently, such cost recovery components are based on the settlement volumes determined in Case No. GR-96-193. In order to avoid the temporary over-or under-recovery of fixed gas costs that would result when PGA rates are applied to volumes different from those volumes used to establish PGA rates, such cost recovery components should be adjusted to reflect the normalized volumes established in the Company's latest rate case.

Q. Why is such over-or under-recovery only temporary?

A. Absent the change in PGA rate, the over-or under-recovery is corrected through the Deferred Purchased Gas Costs Account provisions of the Company's PGA clause.

Q. What will happen when PGA rates are adjusted?

A. By adjusting the PGA rates whenever new normalized volumes are established in a general rate case proceeding, the Company can minimize the potential over-or under- recovery of gas costs that would otherwise occur in the short term due to the change in the Company's throughput.

Q. Please explain the need for a rate switching adjustment.

A. Before the Company's rates in this proceeding are finally established, it is important that the effect of potential rate switching be reflected in the Company's rates.

Q. What do you mean by rate switching?

A. Some customers qualify for gas service under more than one rate schedule, most notably commercial and industrial customers who are large enough to qualify for the Company's Large Volume Service rate but who otherwise would be billed under one of the Commercial & Industrial General Service rate schedules. Presumably such customers choose to be billed under the rate schedule that results in the lowest cost consistent with the type of service the customer desires. However, it is possible that, after making the rate adjustments ordered or agreed to in this proceeding, some customers would receive a lower overall gas bill if they switch to a different rate schedule.

Q. Why do the Company's rates need to be adjusted to reflect rate switching?

A. To keep the Company whole, the Company's rates must be adjusted to offset the revenue anticipated to be lost from customers who switch rates due to rate changes resulting from this proceeding.

MISCELLANEOUS TARIFF CHANGES

Q. Are there any other tariff revisions the Company is proposing in this proceeding?

A. Yes, there are several. First, I have revised Sheet Nos. 28-b.1 and 28-b.2 for the changes to the Company's Gas Supply Incentive Program that are discussed by Laclede witness Godat. Second, Sheet Nos. R-11-a through R-11-d clarify the Company's liability and, derivatively, its customers' liability, for damages related to services the Company provides behind the meter and for damages involving the Company's facilities. Third, I have revised Sheet No.29 for the Company's recovery of gas inventory carrying costs ("GICC") to reflect the Company's latest estimate of inventory balances and the gas cost portion of bad debts. Fourth, Sheet No. R-5-c clarifies the Company's right to collect a deposit from a potential customer in advance of establishing service as discussed in the direct testimony of Company witness Fallert. Fifth,, Sheet Nos. 30 and 31-a reflect the increases in the Company's reconnection fee and service initiation fee, respectively, which are discussed in the direct testimony of Company witness Buck. Finally, Sheet Nos.

R-27, R-28, R-37, R-38, R-44, R-45, R-47 and R-48 reflect various modifications proposed by Company witness Reinhart to the Company's Insulation Financing Program, Energy Wise Dealer program, Weatherization program and Appliance and HVAC Rebate Program.

RESEARCH AND DEVELOPMENT FUNDING

Q. Do the Company's current or proposed rates include any funding for research and development ("R&D") efforts by the Gas Technology Institute "("GTI")?

A. No. Up until several years ago, the Company had paid a surcharge in the rates of its interstate pipeline providers to fund the R&D efforts of GTI's predecessor, the Gas Research Institute. Such surcharge had been authorized for years by the Federal Energy Regulatory Commission ("FERC") for inclusion in pipeline rates. However, in the late 1990s the FERC approved a gradual phasing out of the mandatory surcharge. 2004 was the last year of the phase out plan. As a result, GTI can no longer rely on the level of funding that was previously made possible by the FERC surcharge.

Q. Even though Laclede is no longer required to fund R&D in this manner, would the Company support other means to fund GTI's programs?

A. Yes. The Company believes R&D is important to the health of the gas industry. Although the Company's filing in this case does not address future funding of GTI, the Company would be prepared to address the need for ratepayer-sourced funding, preferably in a generic proceeding before this Commission. In addition, it is the Company's position at this time that any new funding of GTI should be effectuated through the Company's PGA clause where it has historically and appropriately resided.

Q. Does this conclude your direct testimony?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Laclede Gas Company's)
Tariff to Revise Natural Gas Rate Schedules) Case No. GR-2007-0___

AFFIDAVIT

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

Michael T. Cline, of lawful age, being first duly sworn, deposes and states:

1. My name is Michael T. Cline. My business address is 720 Olive Street, St. Louis, Missouri 63101; and I am Director-Tariff & Rate Administration 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.

Michael T. Cline

Subscribed and sworn to before me this 29th day of November, 2006.

Notary Public

KAREN A. ZURLIENE
NOTARY PUBLIC - NOTARY SEAL
STATE OF MISSOURI, CITY OF ST. LOUIS
MY COMMISSION EXPIRES FEBRUARY 18, 2008

MPSC CASES IN WHICH TESTIMONY WAS FILED
BY MICHAEL T. CLINE

GR-2005-0284-Laclede Rate Case
GT-2003-0032 - School Aggregation
GR-2002-356 - Laclede Rate Case
EC-2002-1 - UE d/b/a AmerenUE
GR-2001-629 & GT-2001-662-Laclede Rate Case
GR-2001-387/GR-2000-622-Laclede ACA
GR-99-315 – Laclede Rate Case
GT-99-303 – Laclede GSIP
GO-98-484 – Laclede Price Stabilization
GR-98-374 – Laclede Rate Case
GR-96-193 – Laclede Rate Case
GA-96-130 – MPC
EO-96-15 – UE Class Cost Service
GC-96-13 – Industrials v. Laclede
GR-94-328 – Laclede PGA Rate Design
GO-94-318 – MGE PGA issues
GM-94-252 – MPC/UtiliCorp
GR-94-220 – Laclede Rate Case
GR-93-149 – Laclede's ACA
GR-92-165 – Laclede Rate Case
GA-90-280 – InterCon Gas
GA-89-126 – MPC
GR-84-161 – Laclede Rate Case
GR-83-233 – Laclede Rate Case
GR-82-200 – Laclede Rate Case
GR-81-245 – Laclede Rate Case

LACLEDE GAS COMPANY
ALLOCATION OF PROPOSED RATE INCREASE

Rate Schedule	% Change In Total Revenues
Residential General	6.0%
Commercial and Industrial General Class 1	5.4%
Commercial and Industrial General Class 2	3.8%
Commercial and Industrial General Class 3	3.9%
Residential Seasonal Air Conditioning	5.4%
Commercial and Industrial Seasonal Service	4.1%
Large Volume	3.3%
Interruptible	3.7%
General LP	4.6%
Vehicular Fuel	2.6%
Unmetered Gas Lights	4.8%
Large Volume Sales and Transportation	11.6%
Total	5.6%

Laclede Gas Company
Name of Issuing Corporation or Municipality

For Refer to Sheet No. 1
Community, Town or City

SCHEDULE OF RATES

WEATHER MITIGATION CLAUSE

1. The Company shall maintain a Weather Mitigation Account ("WMA") which shall be credited by the amount of increased non-gas revenues attributable to colder than normal weather and debited by the amount of decreased non-gas revenues attributable to warmer than normal weather as such revenue increases and decreases are computed below.

2. Each month, during the November through April period, the Company shall compute such non-gas revenue increases and decreases for each of the customer categories set forth below through the use of the following formula and parameters:

3. NON-GAS REVENUE INCREASE/(DECREASE) =
CGU x UCDD x (ABCDD-NBCDD) x CUST

where:

CGU = The second block Charge For Gas Used for the applicable rate schedule

UCDD = Use per customer per degree day established in the resolution of the Company's most recent general rate case

ABCDD = Actual average billing cycle degree days for all twenty-one cycles during a billing month

NBCDD = Normal average billing cycle degree days for all twenty-one cycles during a billing month based on 4,718 annual degree days or the annual degree days established in the resolution of the Company's most recent general rate case

CUST = Total number of customers billed during the month in the applicable customer category.

DATE OF ISSUE ________ Month Day Year

DATE EFFECTIVE ________ Month Day Year

ISSUED BY K.J. Neises, Senior Vice President 720 Olive St., St. Louis, MO 63101
Name of Officer Title Address

Laclede Gas Company
Name of Issuing Corporation or Municipality

For Refer to Sheet No. 1
Community, Town or City

SCHEDULE OF RATES

WEATHER MITIGATION CLAUSE (continued)

Category	Division	Revenue Class	Rate Schedule	UCDD (therms)
1	Laclede	Residential	RG	.148
2	Laclede	Commercial	CG	.821
3	Laclede	Industrial	CG	2.645
4	Mo. Natural	Residential	RG	.106
5	Mo. Natural	Commercial	CG	.377
6	Mo. Natural	Industrial	CG	3.021
7	St. Charles	Residential	RG	.114
8	St. Charles	Commercial	CG	.549
9	St. Charles	Industrial	CG	6.925
10	Midwest	Residential	RG	.100
11	Midwest	Commercial	CG	.472
12	Midwest	Industrial	CG	4.982

4. For each November through April period, the increases and decreases described above and any balance or credit for the previous year shall be accumulated to produce a cumulative balance of excess or deficiency of non-gas revenues for each customer category. A Weather Mitigation Factor ("WMF") for each such category, which shall be implemented concurrent with the Company's Winter PGA rates, shall be computed by dividing such balance by the total estimated sales volumes for such category during the subsequent November through April period. The WMFs shall be applied to all therms sold to customers in the applicable customer category and shall remain in effect until the effective date of the Company's Summer PGA. All actual WMF revenue recovered for each category shall be debited or credited to the appropriate customer category balance within the WMA and any remaining balance shall be reflected in the subsequent WMF computations.

5. The WMFs shall be effective on a pro-rata basis beginning with the effective date of the revised Sheet No. 43 and shall be fully effective one month thereafter.

DATE OF ISSUE ______ Month Day Year

DATE EFFECTIVE ______ Month Day Year

ISSUED BY K.J. Neises, Senior Vice President 720 Olive St., St. Louis, MO 63101
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Name of Issuing Corporation or Municipality

For Refer to Sheet No. 1
Community, Town or City

SCHEDULE OF RATES

WEATHER MITIGATION CLAUSE (continued)

In accordance with the Company's Weather Mitigation Clause contained in Sheet Nos. 41 through 42, inclusive, the following adjustments per therm will become effective on and after the effective date of this tariff.

Category	Division	Revenue Class	Rate Schedule	WMF ($/therm)
1	Laclede	Residential	RG	
2	Laclede	Commercial	CG	
3	Laclede	Industrial	CG	
4	Mo. Natural	Residential	RG	
5	Mo. Natural	Commercial	CG	
6	Mo. Natural	Industrial	CG	
7	St. Charles	Residential	RG	
8	St. Charles	Commercial	CG	
9	St. Charles	Industrial	CG	
10	Midwest	Residential	RG	
11	Midwest	Commercial	CG	
12	Midwest	Industrial	CG	

DATE OF ISSUE ________ Month Day Year

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