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LACLEDE GAS COMPANY

GC-2006-0318

REBUTTAL TESTIMONY

OF

JAMES A. FALLERT

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REBUTTAL TESTIMONY OF JAMES A. FALLERT

Q. Please state your name and business address.

A. My name is James A. Fallert, and my business address is 720 Olive Street, St. Louis, Missouri 63101.

Q. What is your present position?

A. I am Controller for Laclede Gas Company ("Laclede" or "Company").

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

A. I was elected to my present position in February 1998. In this position, I am responsible for the Company's accounting, budgeting, management information reporting and financial planning functions.

Q. What is your educational background?

A. I graduated from Southeast Missouri State University in 1976 with the degree of Bachelor of Science in Business Administration, majoring in administrative management. In 1981, I received a Master's Degree in Business Administration from Saint Louis University.

Q. Will you briefly describe your experience with Laclede prior to becoming Controller?

A. I joined Laclede in July 1976, and held various staff and supervisory positions in the Methods and Procedures Department, Internal Audit Department, and Budget Department until April 1988, when I was promoted to the position of Manager of Budget and Financial Planning. I held this position until being promoted to

Manager of Financial Services in February 1992. I was elected Controller effective February 1, 1998.

Q. Have you previously filed testimony before this Commission?

Yes, I have, in Case Nos. GR-90-120, GR-92-165, GR-94-220, GR-96-193, GR-98-374, GR-99-315, GR-2001-629, and GR-2002-356, GT-2003-0117, GO-2004-0443 and GR-2005-0284.

PURPOSE OF TESTIMONY

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

A. The purpose of my rebuttal testimony is to respond to the allegations made by Commission Staff ("Staff") witnesses Carol Gay Fred and Robert Leonberger and Public Counsel ("Public Counsel") witness Barbara A. Meisenheimer regarding Laclede's use of estimated bills and its method for addressing potential unauthorized use at locations that are supposed to be disconnected from gas service. I will also address these witnesses' recommendations concerning the actions they believe the Commission should take in response to their allegations.

Q. Are other Company witnesses addressing any of the issues that have been raised in these proceedings?

A. Yes. Company witness Mark Lauber will also address the potential unauthorized use issue.

OVERVIEW

Q. What is your understanding of the allegations made by Staff and Public Counsel in their respective complaints and testimony?

A. Staff and Public Counsel have both alleged that Laclede has been estimating bills for too long a period of time without required notices being given. Public Counsel further claims that Laclede has improperly billed customers for undercharges that accrued over a period greater than 12 months prior to the date an actual meter reading was obtained. According to Public Counsel, Laclede is prohibited by Commission rules from accruing and billing customers for more than 12 months of undercharges, regardless of any actions the Company may have taken to procure an actual meter reading sooner. Staff and Public Counsel have also alleged that we have not addressed in a prompt enough manner those situations where service has been disconnected but there are indications that potential unauthorized use is occurring. In addition to proposing various measures for addressing these alleged deficiencies, both Staff and Public Counsel have requested that the Commission authorize its General Counsel to seek penalties, although Public Counsel claims that an additional investigation is necessary before such action should be pursued.

Q. Do you believe that the various measures and penalties proposed by Staff and Public Counsel are appropriate?

A. Some of the measures proposed by Staff and Public Counsel, particularly if modified in accordance with the recommendations discussed later in my testimony, are reasonable and should be implemented. In fact, the Company has already implemented a number of measures on its own which addressed the concerns that have been raised in this case. I strongly disagree, however, with

any recommendation that the Commission should authorize its General Counsel to pursue penalties against Laclede.

Q. Why do you believe penalties are an inappropriate remedy?

A. I believe penalties are an inappropriate remedy for several reasons. First, it is important to recognize that many of the issues that led to the filing of the initial complaint in this case are a by-product of one of Laclede's latest efforts to both improve the quality and reduce the cost of the service it provides. Specifically, they are the temporary fallout of the Company's ambitious program for implementing a new automated meter reading ("AMR") system in a service territory that has always had a disproportionately large portion of homes and businesses served by inside meters. The Company has pursued this AMR program at considerable cost to itself because it is unquestionably the right thing to do, not only to address the issues associated with inside meters but, even more importantly, to provide the long-term savings and service conveniences that customers are now receiving and will continue to receive as a result of this technology. In view of these considerations, I believe any effort to impose penalties because of the temporary dislocations caused by such a huge and profoundly beneficial undertaking would be grossly unfair and send the regulated community a very counter-productive message concerning the wisdom of pursuing such service enhancements.

Second, this is not a situation where specific customers have suffered some kind of recognizable harm due to any action that has or has not been taken by the Company. To the contrary, in every case where an undercharge has

occurred, customers have simply been afforded more time to pay what they owe for the utility service they have received -- an outcome that Public Counsel in particular has endorsed in numerous other contexts as a *desirable* thing for customers.

Third, the vast majority of the customer complaints cited by Public Counsel and Staff in support of their respective positions are, in any event, situations in which Laclede fully complied with its utility obligations pursuant to any reasonable interpretation of the Commission's rules and regulations. Indeed, Laclede would have actually had to *violate* various Commission rules in order to implement some of the rule interpretations that Public Counsel has espoused in its complaint and testimony. For all of these reasons, I believe the Commission should reject any request to seek penalties and instead adopt the recommendations which Mr. Lauber and I discuss in our testimony.

PUTTING ESTIMATED BILL CONCERNS IN CONTEXT

Q. You previously stated that many of the estimated bill issues raised by Staff and Public Counsel were the result of Laclede's efforts to improve customer service through implementation of a new AMR system. Please explain what you mean.

A. To understand why implementation of a new AMR system has contributed to the temporary estimated bill issues cited by Staff and Public Counsel, one has to begin with an understanding of one of the primary features of Laclede's distribution system that distinguishes it from many other utilities, namely, the high proportion of customers served by the Company that have meters located

inside their home or business. In total, over 250,000, or about 40%, of Laclede's customers are served through these inside meters.

Q. Why does Laclede have such a large proportion of customers with inside meters?

A. Prior to the 1950's, most of the Company's meters were installed inside the customer's premises to ensure that the meter would not freeze up in extremely cold weather conditions. This potential for freeze-ups, however, only exists on the low pressure distribution system that Laclede operates in the older, primarily urban core section of its service territory. As a result, ever since Laclede began constructing higher pressure distribution facilities in the 1950s, the vast majority of meters have been installed on the outside of the customer's premises.

Q. What operational challenges are presented by having so many inside meters?

A. Obviously, the main challenge is obtaining access to the meter for purposes of procuring actual meter readings, performing any required safety work and restoring or discontinuing service. And that challenge has only grown over the years, as more and more households have no one at home during the day to permit access.

Q. How has this feature of the Company's system affected its provision of utility service?

A. Because of access problems, Laclede has always had to rely on estimated bills more than other utilities that serve all or the vast majority of their customers through outside meters. In addition, customers with inside meters have had to wait at home for gas personnel to arrive when an existing account is terminated or when a new account is initiated so that an ending or starting meter reading can be

obtained. In both cases, customers have had to devote their time to something that they would just as soon not be spending it on. Moreover, customers starting a new account have also had to pay a $36.00 service initiation fee even in circumstances where the flow of gas has not been interrupted because a Company employee has to visit the premises to obtain a starting meter reading. The end result is that customers have had to spend millions of dollars and devote hundreds of thousands of productive hours each year because of this characteristic of the Company's system.

Q. Has the Company previously attempted to implement measures to address these access issues?

A. Yes, in the past Laclede has undertaken a number of measures to address the operational issues associated with having so many inside meters. These have included, among others, the previous installation of remote meter reading devices for those customers who indicated that they would be unable to arrange for regular access to their meter, moving inside meters outside in those rare instances where such actions were feasible, and efforts to advise customers of their option to obtain or provide meter readings. Although each of these measures provided some help, Laclede concluded several years ago that a more comprehensive approach, in the form of implementing a new AMR system across its entire service territory, was the best long-term solution for its customers.

Q. Was the implementation of a new AMR system an overnight development?

A. Not at all. Laclede recognized from the outset that the implementation of a new AMR system across its entire service territory would have significant, long-term

implications for the cost and quality of the service it provides to its customers. Given this consideration, Laclede went to extraordinary lengths over a four year period to make sure that it thoroughly explored the potential technologies, vendors and options for implementing such a system; a process that ultimately led the Company to explore the offerings of several entities. And when negotiations toward the final contract ensued, Laclede went to great pains to fashion the most advantageous arrangement possible in terms of cost, reliability and service.

Q. What was the end result of this effort?

A. The end result was the selection of a state-of-the art AMR system that, once fully implemented, will provide the most significant advancement in customer service ever undertaken by Laclede. With this system, Laclede will be able to virtually eliminate the necessity to estimate bills by ensuring that actual meter readings can be obtained each month from all of the Company meters, including those that are located inside customer's homes or businesses. In addition to obtaining actual reads, customers with manually read inside meters will be further spared the inconvenience of having to wait for a gas company employee to show up and perform meter reading tasks in their homes. AMR will also free tens of thousands of customers each year from the obligation to pay service initiation charges when establishing a new account. Finally, AMR will permit the Company to contain the cost of obtaining and processing meter readings for years to come – a result that will accrue to the long-term benefit of all of Laclede's customers.

Q. What short-term impacts has the transition to a new AMR system had on Laclede?

A. Over the short-term, Laclede has incurred significant, un-recovered cost to implement the new system. Although Laclede has for some time now been paying for meter readings from its new AMR provider, Cellnet, as portions of the new system become activated, it has also continued to retain many of its meter readers in their existing positions during the implementation process to perform various transition functions. The end result is that Laclede has actually incurred a significantly greater level of meter reading-related costs than what was provided for in its last general rate case proceeding and the amount it would have otherwise incurred had it not pursued AMR. Laclede has also spent more on call center and accounting personnel costs in order to handle the increased call volumes and reconciling billing adjustments associated with installing such devices. Aside from these financial impacts, Laclede has also had to face and rebut repeated and unfounded public criticisms by union personnel of its motives and actions in implementing AMR -- all of which have been aimed at reversing these customer service enhancements. Despite these short-term costs and challenges -- burdens that could have been avoided if Laclede had simply taken a "business as usual" approach to meter reading -- the Company has remained steadfast in its commitment to implementing the new AMR system as rapidly as possible because it is the right long-term thing to do for its customers.

Q. To date, what impact has the transition to a new AMR system had on Laclede's customers?

A. That impact has been undeniably favorable. As of this date, Laclede has already installed new AMR devices on over 530,000 of the meters that service its nearly

640,000 customers. As a result, Laclede's customers are already saving what will amount to literally millions of dollars in service initiation charges each year that they would have otherwise had to pay in the absence of such a system. Countless customers have also been spared the inconvenience over the past year of having to wait while gas personnel obtain access to their premises in order to read their meter. And many more with inside meters have begun receiving bills on a regular basis that are based on actual readings rather than estimates. As I mentioned before, these benefits will continue to accumulate, not just in the foreseeable future but for years to come, as the AMR installation process is completed and the system becomes fully operational.

Q. But hasn't the process of implementing a new AMR system also resulted in some short-term inconveniences for some customers?

A. Of course, it has, as one would reasonably expect with a project of this magnitude. And it is these inconveniences that Public Counsel and Staff have focused on in their respective complaints and testimony. For example, because it took several years to properly evaluate, negotiate and implement a new AMR system, there has been a longer than normal lag in the time it took some customers with non-functioning meter reading devices to receive an actual meter reading upon the installation of a new AMR device. As Staff witness Fred recognized in her direct testimony, however, the Company took appropriate measures, in consultation with the Staff, to provide such customers with an alternative way of providing actual meter readings in the interim. In other instances, the rapid installation of AMR resulted in a greater number of bill

adjustments than normal as actual readings were obtained for locations where obtaining access had previously been problematic. And all of these operational and billing challenges were further exacerbated by the impact of historically unprecedented gas prices on customer bills and constant agitation in the media by those with an interest in undermining the successful implementation of the AMR program. Given this environment, it is not surprising that a greater number of customers have complained to the Commission during this process. Even though estimated billing complaints have come from about one-tenth of one percent of Laclede's customers, Laclede does not take them lightly and has taken reasonable steps to address each one. Those complaints in no way, however, warrant the imposition of penalties.

Q. Why do you say that?

A. If the Commission expects utilities to aggressively pursue long-term measures for enhancing the quality and cost of utility service, it must recognize that some temporary customer inconveniences will inevitably occur in the process. That is particularly true when the endeavor involves something as massive as the physical modification of 640,000 individual meters over a relatively short period of time. In this case, Laclede has, at considerable cost to itself, undertaken that precise kind of initiative and it is already providing substantial benefits to Laclede's customers in terms of both time and money saved. Given this good faith effort, it would be unfair to Laclede and inconsistent with the goal of encouraging long-term utility innovation, to penalize the Company for the short-term inconveniences resulting from this effort. This is especially true in this instance

given the absence of any real harm to those customers who have been inconvenienced.

ABSENCE OF HARM

Q. Why do you say that customers who have received estimated bills have not been harmed?

A. It is important to keep in mind that this is not a case where customers have been injured, suffered property losses, been overcharged for service or otherwise been damaged by something that a utility has done or failed to do. Instead, the only customer harm that Public Counsel and, to a lesser extent, Staff, have alleged relates to the fact that some customers have had to pay catch-up bills because they were undercharged for what they were actually using during the time they were receiving estimated bills. Indeed, Public Counsel goes to considerable lengths to portray this as something harmful not only for those customers who were undercharged but also for other customers as well. Although I can certainly understand why some customers would find it irritating to receive a catch-up bill, I do not believe a customer is "harmed" because they are being asked to pay for service that they actually received, albeit later and over a greater period of time than what could have otherwise been demanded.

Q. Has Public Counsel previously taken the position that customers are harmed because full payment of the actual cost of serving them has been deferred?

A. No, in fact just the opposite has generally been true. For example, in various proceedings involving changes to the Commission's Cold Weather Rule, Public Counsel has argued that permitting customers to defer more of their current and

past utility charges for payment at a later time is not only a desirable public policy goal but, indeed, a necessary one. In fact, Public Counsel has, at different times, argued that utilities should be affirmatively *required* to collect less money up front from customers who are in arrears, reduce the proportion of current charges that customers must pay to retain service, and stretch out over longer periods the time within which customers must repay what they owe. Indeed, just within the last several months, Public Counsel urged the Commission to require that utilities reconnect customers upon payment of no more than 50% or $250 of the customer's arrearages, whichever in less, in place of the 80% of arrearages that utilities could demand under the existing Cold Weather Rule. Needless to say, it is difficult to understand how Public Counsel can so vigorously assert, on the one hand, that customers are harmed when a utility company bills them for less than the full cost of utility service while, on the other hand, repeatedly insisting that utilities be required to do just that in other proceedings.

Q. But isn't Public Counsel witness Meisenheimer correct when she says that some customers have been harmed because of the magnitude of the catch-up bills they have received?

A. Obviously, the larger the catch-up bill, the greater the potential effect on a customer. I certainly agree that such effects should be taken into account in determining the amount of time that a customer has to pay the catch-up amount, and they are. At the same time, however, the example of a $750 catch up bill provided by Ms. Meisenheimer was an extreme one and not representative of the average catch-up amounts that have typically been billed to most customers.

Based on a study that was furnished to Public Counsel and used to derive the figures cited by Ms. Meisenheimer, the average catch-up amount billed to customers has been approximately $155.

Q. What does this mean in terms of the impact on the customer?

A. It means that the customer would have to pay a little less than $13.00 a month for twelve months in order to repay the full amount.

Q. How does this additional, monthly amount compare with other adjustments to billed amounts that a customer might encounter for other reasons?

A. It is relatively small. For example, a change in the Company's Purchased Gas Adjustment rate alone can increase or decrease a customer's bill by an amount that is easily double or triple this monthly amount. Similarly, bi-annual adjustments in budget bill amounts to account for past under or over recoveries and future price estimates often exceed this amount. Moreover, even the more extreme example of a catch-up amount cited by Ms. Meisenheimer is small in comparison to the catch-up amounts that many customers end up owing the Company because of policies that Public Counsel has actively promoted to limit the amount that customers must pay to regain or maintain service. Indeed, as of the filing of this testimony, Laclede had literally thousands of customers with unpaid arrearages owed to Laclede that were greater than the $750 catch-up amount cited by Ms. Meisenheimer. And many of those arrearages are as high as they are because customers were required to pay significantly less to have service reconnected due to policies that Public Counsel has previously advocated.

Q. Does that mean that customers should not be compensated in any way for any financial burden that may be posed by having to pay a catch-up bill they were not expecting?

A. No. Laclede recognizes that while the average catch-up amount is relatively small in comparison to other bill adjustments, it may nevertheless impose a financial burden on some customers. Indeed, that is precisely why the Commission's current rules and Laclede's tariffs permit all requesting customers the opportunity to pay any undercharge in installments, without incurring any interest charges.

Q. What does this mean for the customer?

A. It means that the customer is afforded an interest free opportunity to pay for past service over a longer period of time than would have otherwise been the case. While I don't want to overstate the value of this benefit, since it is relatively modest, it is certainly another factor that weighs against Public Counsel's selective attempt, at least in this proceeding, to portray customers who have received a catch-up bill for prior service as having suffered some kind of harm. Simply put, there is no basis for the assertion that customers have somehow been harmed by Laclede's actions. To the contrary, despite any inconveniences caused by Laclede's implementation of AMR, all of Laclede's customers, both individually and collectively, have benefited and will continue to benefit from what Laclede has done in pursuing that initiative. In view of these considerations, I strongly believe that there is no justification for authorizing penalties to be sought against Laclede in this proceeding.

ALLEGED RULE VIOLATIONS

Q. Although all customers are benefiting from the Company's AMR initiative and no customer has been harmed by any of the actions undertaken by Laclede, are penalties nevertheless appropriate given the rule violations alleged by Public Counsel and Staff?

A. No. At the outset, I think it is important for the Commission to bear in mind that while Public Counsel and, to a lesser extent, Staff have attempted to characterize the use of estimated bills as something unusual and even detrimental, the fact remains that using estimates for billing purposes has always been an endemic and welcome feature of providing utility service. Every payment plan that the Company agrees to implement pursuant to the terms of the Cold Weather Rule or otherwise -- and there are tens of thousands of them each year -- uses estimates to derive the amount that is to be billed to the customer. Likewise, every budget or levelized billing arrangement -- and there are over 150,000 of those each year -- uses estimates to determine how much the customer will be billed. Each of these estimate-dependent billing mechanisms has been favorably endorsed over the years by the Commission, Public Counsel, Staff and other utilities as a good thing for consumers. Accordingly, I think some caution should be taken when characterizing the benefits and detriments of using estimates in the utility billing process.

That said, the rule violations cited by Public Counsel and Staff are, by and large, either based on a misinterpretation of the Commission's rules and what they require or a misunderstanding of the actions that Laclede has taken to comply

with them. Public Counsel's assertion that Laclede has violated Commission Rule 4 CSR 240-13.025(1)(B) by adjusting bills for undercharges for a period greater than 12 months from when an actual meter reading is obtained is a good illustration of the first deficiency.

Q. Please explain.

A. Public Counsel's assertion, as addressed in both its Complaint and Ms. Meisenheimer's testimony, is based upon a response to a data request regarding when Laclede might adjust a customer's bill for an undercharge of longer than 12 months. In effect, Laclede's answer to this data request, as set forth on page two of the Complaint, was that Laclede only sought to adjust a customer's undercharge for a period greater than 12 months *from the date of discovery* when it has first made ***inquiry*** seeking the customer's cooperation in obtaining an actual meter reading. In other words, Laclede's billing practice is that it will adjust an undercharge for up to 12 months from the date of discovery (or actual notification of the Company), or inquiry, ***whichever was first***.

Q. What does this mean in actual practice?

A. In actual practice, this means that Laclede will adjust undercharges for up to twelve months from the date of discovery (or actual notification) of the undercharge, unless it has earlier made inquiry informing the customer that the Company needs to obtain an actual meter reading. In that event, Laclede will adjust undercharges for up to twelve months from the date of such inquiry. This practice, which Public Counsel concedes has been followed by Laclede,

demonstrates that Laclede's billing adjustment practice complies with 4 CSR 240-13.025(1)(B).

Q. Is the Company's approach also consistent with the explicit terms of its tariff?

A. Yes. Commission Rule 4 CSR 240-13.025(1)(B) and Laclede's Tariff Rule 10 have virtually identical language. They both state effectively that an adjustment for an undercharge shall not exceed twelve consecutive billing periods, ***calculated from the date of discovery, inquiry or actual notification of the Company, whichever was first.***

Q. Is the Company's approach toward interpreting and implementing these provisions also consistent with a reasonable and common sense view of how the provisions were intended to work?

A. Absolutely. The approach taken by Laclede in implementing these provisions makes sense because it only holds the customer responsible for undercharges over a period greater than 12 months if the customer has failed or refused, after notice, to cooperate in providing or permitting the Company to obtain a reading. From that point on, the undercharge was caused by an act of the customer, by not responding to Laclede's request. The customer should not benefit from that circumstance. Indeed, to interpret the rule otherwise would give customers an incentive not to be cooperative and deny access as long as possible to avoid paying any difference between their estimated bill and actual bill.

Q. Is such an interpretation also consistent with what the Commission has previously said regarding the intended purpose and operation of this rule provision?

A. Yes. At page 34 of her direct testimony, Ms. Meisenheimer quotes from a Commission Report and Order in Case No. GR-93-47. In that Order, the Commission made it very clear that the 12 month undercharge provision was never intended to allow customers to escape undercharges caused by something the customer had done. As the Commission stated:

> "In so finding for the Staff, the Commission is not restricting Company from its right to collect…where the undercharge is caused by an act of the customer."

Q. Is Public Counsel's interpretation of this rule provision equally plausible?

A. No. In fact, it is absurd. In asserting that adjustments for an undercharge must never exceed 12 months regardless of the circumstances, Public Counsel effectively and improperly eliminates the term "inquiry" from both the Company's tariff and the Commission's rules. By doing so, Public Counsel's interpretation would effectively mean that Laclede would have to disconnect customers within twelve months from the date the last actual meter reading was obtained or simply lose the right to collect any portion of an undercharge for service prior to the most recent 12 month period.

Q. Why is such an interpretation absurd?

A. First, as Staff witness Fred recognizes in her testimony, it places no responsibility at all on the customer to cooperate in obtaining meter readings. Instead, it affirmatively rewards them for not doing so, including those customers who intentionally refuse to grant access in order to avoid payment of completely unrelated arrearages. This flies in the face of the Commission's determination

that customers should not be exonerated from the obligation to pay undercharges when they have played a role in creating them.

Q. But what's wrong with Public Counsel's suggestion that the Company simply disconnect service to such customers if they don't grant access within the 12 month period?

A. I am surprised that Public Counsel would even make such a proposal, let alone say that such a result is mandated by the Commission's rules. First, I think it is highly paternalistic for Public Counsel to presume that it knows what is best for each and every customer. There are some customers who, despite being advised of the Company's need to obtain an actual meter reading, are either too busy or have decided that they have other, more important priorities, than waiting at home so that a gas employee can read their inside meter. Although some of these customers may have paid their bills regularly and are perfectly happy to take on the small risk of facing a catch-up bill, Public Counsel would have the Commission tell them that they have no choice but to make themselves available for an actual meter reading or lose service entirely. I do not view such a result as being in any way "consumer friendly" and certainly do not think it is consistent with any reasonable interpretation of the Commission's rules on this issue.

Q. Are there other flaws in Public Counsel's mandatory disconnection position?

A. Yes, while Public Counsel asserts that Laclede could simply disconnect customers after twelve months, it never explains how Laclede is supposed to do that and stay in compliance with other Commission rules. Assume, for example, that the 12 months expires in January when it is 5 degrees below zero. Is Laclede supposed

to disconnect service to the customer notwithstanding the provisions of the Cold Weather Rule that prohibit such action? Public Counsel's interpretation of the rule would say yes, notwithstanding the threat to health and safety that such an action would potentially pose for the customer. And what if the customer is in a multi-family building where service can only be disconnected at a source that serves numerous customers? Is Laclede supposed to disconnect service to those customers who have granted access to their meters, because another customer hasn't done so within the twelve month period? Again, Public Counsel's interpretation would say yes. And what if it was impossible to gain access *or* disconnect service without literally digging up the service line, as it sometimes is with some of the Company's customers? Would Laclede have to either take these extreme actions or simply absorb the uncollected undercharges that it was otherwise powerless to avoid? Presumably, Public Counsel's interpretation would answer that question in the affirmative as well. And that is precisely why Public Counsel's interpretation of the rule is impractical and should be rejected by the Commission.

Q. Isn't Ms. Meisenheimer correct, however, when she says that failure to disconnect customers within 12 months of the last meter reading exposes other customers to the risk of higher costs if the customer fails to pay the resulting catch-up bill?

A. Since this has never been an issue before and since such a practice can't be taken in any event given what the Commission's rules require, Laclede has not performed an analysis to assess what the costs and benefits of pursuing such an approach would be. Nor to my knowledge has Ms. Meisenheimer. And because

this problem will be eliminated once AMR is fully operational it would not serve any purpose to do such an analysis now. What I can say, however, is that there would undoubtedly have been additional costs incurred by Laclede had it followed Public Counsel's suggested approach in the past, including the additional hours that would have been spent by field personnel visiting the customer's premises, performing such disconnection work if necessary and, once a reading was obtained, reconnecting service. Once all of these added costs were taken into account and reflected in rates, I would not be surprised if Laclede's other customers would have paid more for utility service had Laclede somehow been able to implement Public Counsel's interpretation of 4 CSR 240-13.025(1)(B).

Q. Is Ms. Meisenheimer correct when she states that Laclede has adopted Public Counsel's interpretation of the rule in resolving complaints lodged by its customers with the Better Business Bureau?

A. No. The Company has acted in accordance with the interpretation I described above, including in situations involving complaints submitted to the Better Business Bureau.

Q. At pages 28 to 30 of her direct testimony, Ms. Meisenheimer provides examples of how she believes the 12 month limitation of 4 CSR 240-13.025(1)(B) is supposed to operate and how Laclede has implemented it. Are her examples correct?

A. No. In fact, they are fundamentally misleading. For instance, in her first example on page 28, Ms. Meisenheimer posits a situation where the undercharge is discovered after 12 months. However, she inexplicably assumes that the

undercharge adjustment is not made for another twelve months. In reality, Laclede's normal practice would have been to render a bill adjusting for the undercharge at the time it was determined to exist, not twelve months later. And Laclede would do the same thing – namely, issue a credit – if the estimate had been too high. Accordingly, Ms. Meisenheimer's example has no relevance to either the rule or Laclede's implementation of it. Similarly, on page 29 of her direct testimony, Ms. Meisenheimer assumes that Laclede has adjusted a bill for an undercharge occurring over 24 months, even though the customer inquired about it after 12 months. If the customer inquired after 12 months, however, the Company would have arranged to obtain a meter reading at which point the adjustment would have been made. Under no circumstances would the Company have billed for more than 12 months had it not made such an effort.

Q. How about the last example given by Ms. Meisenheimer on page 30 of her direct testimony?

A. In that example, Ms. Meisenheimer assumes that Laclede has billed for an undercharge over a 36 month period, after having left one door notice following the 12th month and one documented notice following the 24th month. In fact, under the circumstances assumed by Ms. Meisenheimer, Laclede would have left more than thirty door notices at the customer's premises over this period of time, and would have sent and had multiple notices to the customer documented in its system if it were to bill for an undercharge for more than 12 months. Once again, Ms. Meisenheimer's example is not relevant.

Q. Please summarize your testimony concerning this issue.

A. I think it is abundantly clear from the foregoing that Public Counsel has based its claims regarding alleged violations of 4 CSR 240-13.025(1)(B) on a deeply flawed interpretation of that rule provision and an inaccurate depiction of how Laclede has operated under that provision. Simply put, it is impossible to reconcile Public Counsel's interpretation with either the explicit language of that rule provision or with the contrary requirements set forth in other Commission rules. Nor does Public Counsel's interpretation square with any reasonable assessment of which approach best serves the interests of the Company's customers. For all of these reasons, Public Counsel's position on this issue should be rejected.

Q. In addition to alleging a violation of Commission Rule 4 CSR 240-13.025(1)(B), Ms. Meisenheimer also claims at pages 15 to 17 of her direct testimony that Laclede has not complied with other Commission rule provisions set forth in Commission Rule 4 CSR 240-13.020. Do you have any response?

A. Although Ms. Meisenheimer cites various provisions of 4 CSR 240-13.020 in support of her assertion, she does nothing to explain what those provisions actually mean or require or how they mesh with other rules. For example, in alleging that Laclede has relied too extensively on estimated bills, Ms. Meisenheimer recites various provisions of 4 CSR 240-13.020 that require utilities to obtain actual meter readings under various circumstances. What she ignores, however, is other provisions of 4 CSR 240-13.020 that explicitly permit a utility to use estimated bills, including for periods exceeding one year, when extreme weather conditions, emergencies, labor agreements, work stoppages, an

inability to access the customer's meter, and other conditions are present. 4 CSR 240-13.020(2)(A) and (B). In addition to ignoring these exceptions, Ms. Meisenheimer also fails to relate any of these provisions to specific actions that Laclede has allegedly taken or failed to take with respect to any particular customer. Under such circumstances, many of her contentions on pages 15 to 17 regarding alleged rule violations are nothing more than generalized assertions that can't be proved or disproved without additional information that would permit Laclede's compliance with a particular rule to be evaluated based on a specific fact circumstance.

Q. Do Ms. Meisenheimer's allegations on pages 15 to 17 of her direct testimony suffer from other deficiencies as well?

A. Yes. Even without the benefit of customer-specific information, it is clear that some of them are demonstrably untrue on their face. For example, on page 16 of her direct testimony, Ms. Meisenheimer states that Laclede's estimating procedures were not approved by the Commission as required by 4 CSR 240-13.020(2)(C)(1). This is simply inaccurate. Not only have the Company's estimating procedures been approved by the Commission, they are set forth in Laclede's filed and approved tariff sheets. They can be found at P.S.C. Mo. No. 5 Consolidated, Original Sheet No. R-40. By its own terms, that tariff sheet became effective October 27, 1998, or nearly eight years ago.

Q. Ms. Meisenheimer also attached a number of customer complaints to her direct testimony, as Schedule BAM 1. Do you have any response to the information set forth in that schedule?

A. Yes. First, it appears that Ms. Meisenheimer simply attached copies of all of the customer complaints that had been received and addressed by Laclede over several years without any effort to explain whether, or to what extent, those complaints relate to the issues raised in this case. In fact, it is clear from a review of those complaints that many of them have nothing whatsoever to do with the allegations made in this case, while others show on their face that the Company complied fully with its obligations under the Commission's rules. Indeed, much of the material provided by Ms. Meisenheimer shows that the Company takes its customer service obligations seriously and, in many instances, will go to extraordinary lengths to work with its customers and resolve their inquiries or complaints, even in those instances where those complaints are unreasonable or exaggerated.

Q. Can you provide some examples of what you mean?

A. Yes. Based on a review of the first 25 customer inquiry/complaints contained in Ms. Meisenheimer's schedule, I could find only seven instances in which a customer's bill was actually estimated for more than 12 months. Of these seven, one was clearly related to a situation where the Company was simply unable to obtain access to the customer's meter despite repeated attempts, while another involved a situation where the Company actually obtained a reading within the 12 month period, but that reading turned out to be erroneous. The other five were instances where a trace device had malfunctioned. As previously indicated, these devices were originally installed in locations where the Company was very unlikely to gain access. Rather than charge its customers for a new trace device

that would soon become obsolete with the advent of the new AMR system, the Company exercised its right under Rule 12 of its approved rules and regulations for gas service to estimate the customer's bill pending the installation of the new technology. And in doing so, Laclede complied with the terms of an agreement with its union concerning the establishment of meter routes, all as permitted by 4 CSR 240-13.020(2)(A) and (B). At the same time, these inquiries/complaints also show that in accordance with an agreement reached with Staff, Laclede sent such customers a special, documented notice advising them of their right to provide self-meter reads in the interim – a notice that was in addition to the multiple notices already mailed to trace customers in an effort to obtain an actual meter reading. Copies of these notices are attached in Schedule JAF-1 to my rebuttal testimony. Finally, these inquiries/complaints show that Laclede limited any adjustments for undercharges in a manner that was fully consistent with the Commission's rules and its own tariff. In short, the examples provided by Ms. Meisenheimer clearly establish that Laclede has complied -- and complied fully -- with its obligations under the Commission's rules. Moreover, it shows that Laclede did so in a way that was calculated to result in the most efficient, least costly service for all of its customers.

Q. Do the same considerations also rebut Staff witness Fred's assertions that Laclede has violated various Commission rules relating to estimated bills and customer notices?

A. Yes. Although I think it is important to make two, separate points regarding Ms. Fred's testimony. First, Laclede appreciates her common sense response to

Public Counsel's assertion that Laclede has violated 4 CSR 240-13.025(1)(B) by assessing undercharges in some cases for more than twelve months. As Ms. Fred observes at pages 9 – 13 of her direct testimony, Public Counsel's "just cut them off" position ignores the important legal and policy constraints that affirmatively preclude disconnection under various circumstances as well as the customer's responsibility not to contribute to an undercharge by ignoring notices or denying access. Along the same lines, Laclede also appreciates Ms. Fred's endorsement of the notice used to advise trace customers of their option to provide self reads pending the installation of a new AMR device.

Q. But doesn't Ms. Fred complain that this notice wasn't provided to other customers who were also receiving estimated billings?

A. Yes. And that leads me to my second point. Although Ms. Fred claims that non-trace customers may not have been notified of the fact that their bills were being estimated and of their rights to receive or provide actual meter readings, I believe that claim is based on a fundamental misunderstanding of the steps Laclede regularly takes to provide such notice.

Q. What do those steps consist of for non-trace customers?

A. Each month that a meter reader fails to gain entry to read an inside meter a door notice is left at the customer's door indicating that an unsuccessful meter reading attempt was made and that the customer's bill will be estimated. Correspondingly, each bill sent to the customer for those months states on the bill that it is estimated. Increasingly more insistent door notices urging the customer to arrange an appointment for a meter reading or provide self reads are left after

the third and seventh consecutive, unsuccessful attempt. Finally, a letter seeking a meter reading is sent if a meter reading has not been obtained after a year of unsuccessful attempts.

Q. Are all of these notice procedures consistent with the Commission's rules?

A. Yes. They are entirely consistent with notice requirements set forth in the Commission's rules.

Q. Why then has Ms. Fred ignored these efforts by the Company in alleging that Laclede has failed to properly notify customers of their options in situations where the Company has not been able to obtain access?

A. I'm not entirely sure. I know that the Company has previously provided copies of the door notices and letters to both Staff and Public Counsel. In addition, we have provided copies of the meter reading procedures that require that such notices be left when the meter reader can not gain access. And I have included copies of all of these documents in Schedule JAF-2 to my rebuttal testimony. In addition, we have also advised Staff and Public Counsel of our efforts to remind meter readers of their obligation to leave such notices and to send supervisors to monitor whether they are, in fact, performing this required task.

Q. Do these measures guarantee that the required notices have been provided in each and every case?

A. In situations involving millions of discrete actions by hundreds of employees each year, I think it is impossible to provide absolute assurances that each and every action was carried out in compliance with the Company's policies and procedures. And that may be the root of Ms. Fred's uncertainty, particularly in the face of

claims by some customers that they never received door notices or other notices. I strongly believe, however, that the Company has taken every reasonable measure possible to ensure that the requirements are fulfilled and that there is no basis for concluding that Laclede has somehow failed to comply with its obligations under the Commission's rules in this regard.

Q. But couldn't the Company have required its meter readers to make a special notation on their meter routing sheets whenever they left a door notice, as suggested by Ms. Meisenheimer, in order to ensure this requirement was being fulfilled?

A. It is always tempting in hindsight to suggest measures that could have been implemented to prove that some requirement was, in fact, met. From a practical standpoint, however, I do not believe that such a measure would have made sense regardless of when it was proposed. One could just as easily suggest that there be multiple check-off boxes on the meter reading sheet, each one separately confirming that the meter reader walked to and knocked on the customer's door, waited for a reasonable period of time for the customer to come to the door, and left the door notice. The problem with such an approach is that for those meter readers who already do their jobs consistent with the Company's approved practices, maintaining a running diary of each of these actions would have only been an inefficient and almost demeaning exercise. And in the event there ever was an employee who was not inclined to leave the required notice, it would be an easy enough matter for the employee to just check the box and claim that he or she had. Given these considerations, I think it is unreasonable to suggest that the

Company should have somehow determined that this was a reasonable practice to implement. Notwithstanding the fact that AMR will virtually eliminate the need for such a practice in any event, it would be grossly unfair to hold Laclede accountable for not implementing such a practice in the past, particularly since it was never required by any existing law, rule or regulation.

LOCKED METER SHOWING CONSUMPTION

Q. Are the same principles applicable to Staff and Public Counsel's assertions regarding those instances where potential unauthorized usage is detected at a location where service has supposedly been disconnected?

A. Yes. Both Public Counsel and Staff have offered suggestions on how quickly Laclede should be required to respond to situations where service has been disconnected, but there are indications of potential unauthorized use. Although Laclede witness Mark Lauber will address the merits of those recommendations from a safety and policy standpoint, I think it is important to point out that the practices these parties recommend Laclede follow have never been mandated by any existing law, rule or regulation. Indeed, if such practices had been spelled out in some existing rule provision, Public Counsel and Staff would presumably know what the law requires and would not be proposing that Laclede implement two different practices to address these situations. Again, this is not a situation where any law, rule or regulation has been violated and there is absolutely no basis for authorizing any penalties in connection with this issue.

LACLEDE'S RECOMMENDATIONS

Q. Do you agree with the recommendations that Staff and Public Counsel have made to address the concerns raised in their testimony?

A. For all the reasons I've previously discussed, I strongly disagree with any recommendation that the Commission authorize its General Counsel to seek penalties for any alleged violations of Commission rules. I do, however, agree that certain measures would be helpful to address some of the concerns raised by these parties.

Q. Have some of these measures already been taken?

A. Yes. In order to accommodate the increased call volume and billing adjustments associated with transitioning to a new AMR system, Laclede has spent or committed over a million dollars to hire new call center personnel and increase the hours worked by existing and new personnel on customer accounting issues.

Q. Does this represent an incremental increase in the resources and expenditures that the Company had devoted to these functions?

A. Yes. I should note that when this past winter began, Laclede already had more personnel employed in its call center than ever before in anticipation of any challenges that would arise in connection with the deployment of AMR. This additional expenditure is on top of that already historically high level. In addition to helping with the transition to a new AMR system, these additional resources have also allowed Laclede to expand its call center hours - a service enhancement that will benefit the Company's customers for years to come.

Q. Is Laclede also willing to implement any of the recommendations made by Public Counsel regarding how Commission Rule 4 CSR 240-13.025(1)(B) should be administered.

A. Yes. While Laclede does not believe that Public Counsel's interpretation of this rule provision is the correct one, it is willing to file tariffs implementing that interpretation on a going forward basis, assuming that the parties agree and the Commission approves suitable provisions to handle situations where disconnection would not be appropriate because of cold weather rule restrictions, multi family conditions and other constraints. I should note that while the tariff would be effective on a going forward basis, it would still have a financial impact on Laclede in that it would limit its recoveries in a way that was not contemplated or provided for in its last general rate case proceeding.

Q. Is Laclede also willing to implement additional measures to address situations where there may be unauthorized use at a location where service has been disconnected?

A. Yes. Laclede's proposal in this regard is addressed in the rebuttal testimony of Company witness Lauber.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.