Exhibit No.:	
Issue:	**Test Year and Update, Accounting Schedules, Uncollectible Accounts, Pensions and OPEBs, Wages**
Witness:	**James A. Fallert**
Type of Exhibit:	**Direct Testimony**
Sponsoring Party:	**Laclede Gas Company**
Case No.:	**GR-2010-_____**
Date Testimony Prepared:	**December 4, 2009**

LACLEDE GAS COMPANY

GR-2010-_____

DIRECT TESTIMONY

OF

JAMES A. FALLERT

Direct Testimony of James A. Fallert

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DIRECT TESTIMONY OF JAMES A. FALLERT

GENERAL INFORMATION / QUALIFICATIONS

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 appointed 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. 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. 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. Have you previously filed testimony before this Commission?

A. 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, GR-2002-356, GT-2003-0117, GO-2004-0443, GR-2005-0284, GC-2006-0318, GR-2007-0208 and GU-2007-0138.

PURPOSE OF TESTIMONY

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present evidence to the Commission concerning the following items:

1. Recommendations regarding test year, update and true-up;
2. Adjustments to utility operating income;
3. Level and treatment of uncollectible accounts expense;
4. Cold Weather Rule Amendments;
5. Pension expense and assets;
6. Post retirement benefits other than pensions;
7. Board of Directors fees;
8. Wages and salaries;
9. Incentive compensation plan/Bonus plan/Equity plan;

10. Gasoline/Diesel Expense; and

11. Gas Safety Accounting Orders

Q. Please list the schedules you are sponsoring.

A. The following schedules were prepared by me or under my supervision:

Schedule 4 contains the income statement for the test year, a summary of normalization and annualization adjustments, and the resulting pro forma income. Schedule 5 contains detail of the adjustments that are summarized on Schedule 4, and which are sponsored by various Company witnesses. Schedule 6, sponsored by Company witness Christopher Reck, contains the calculation of income taxes included on Schedule 4. I am also sponsoring several rate base items listed on Schedule 1, as well as various adjustments listed on Schedule 5. Specific items are detailed later in my testimony.

TEST YEAR, UPDATE, and TRUE-UP

Q. What test period has Laclede used in this filing?

A. We have used the Company's actual operating results as recorded on the books for the twelve months ended September 30, 2009, as a starting point. As is usually done in rate cases, we have made adjustments to this period to reflect normal operations. We have also "annualized" certain items. This means that we have made adjustments to reflect the status of the item at the end of the period as though it existed for twelve months. We have made other adjustments to provide for changes which have occurred since September 30, 2009 and to provide for reasonable changes which will be known and measurable by March 31, 2010, or, in certain instances, July 31, 2010. These adjustments to the test period reflect data that are more contemporaneous to the time when rates will go into effect.

Q. Why was the historical test year ending September 30, 2009 selected?

A. This period represented the most recent annual period ending in a quarter for which actual booked results were available prior to this filing as well as the most recent results that were available in sufficient time to prepare the filing.

Q. Would it be appropriate for the Commission Staff to update the test period for this case?

A. I believe that the Staff should, as it has in the past, look at subsequent months to confirm the appropriateness of the Company's adjustment to the September 30, 2009 test year data. This is the same approach used in the Company's prior rate cases (*See* Case Nos. GR-90-120, GR-92-165, GR-94-220, GR-96-193, GR-98-374, GR-99-315, GR-2001-629, GR-2002-356, GR-2005-0284 and GR-2007-0208).

Q. Please explain what information you believe Staff should review.

A. The Staff should look at the latest information available prior to filing its testimony in this proceeding. Such information would most likely be available following the closing of March 31, 2010 business, depending upon the procedural schedule established in this case. The Company's filed case includes the estimated effect of a March 31 update.

Q. Is the Company requesting a true-up in this case?

A. Yes. Laclede requests a true-up through a date no earlier than July 31, 2010. It is essential that the most recent available information be included in the calculation of rates. Additionally, there are several significant events that will occur between the proposed update period of March 31, 2010 and July 31, 2010. These include, but are not limited to, changes in labor rates paid under the Company's union labor contracts, a possible change in the annual assessment paid to the Commission, changes in the annual contracts with health plan providers, and changes in insurance premiums. Depending on the Commission's disposition of the Company's tariff filing in Case No. GT-2009-0056, it may also be necessary make adjustments relating to revenues and expenses associated with the Company's performance of service work on customers' premises.

ADJUSTMENTS TO UTILITY OPERATING INCOME

Q. Please explain what is contained in Schedule 4.

A. This schedule shows the amounts recorded in the Company's books and records for the year ended September 30, 2009 for all the items of utility operating revenues and operating expenses as well as a final total for the Company's utility operating income for that period. The second column shows a summary of the normalization and annualization adjustments made to the actual test year results to arrive at the third column, which is the pro forma statement of operating income for the year ended September 30, 2009.

Q. Please explain what is contained on Schedule 5.

A. The adjustments shown in the second column of Schedule 4 are listed and detailed on pages 1 through 5 of Schedule 5. Each of these adjustments is described by the sponsoring Company witnesses in their testimony.

UNCOLLECTIBLE ACCOUNTS EXPENSE

Q. Please describe your calculation relating to uncollectible accounts expense.

A. I am sponsoring an adjustment to uncollectible accounts based on the appropriate level of expense using the traditional treatment of this item. I have also included a calculation of an alternative adjustment that would need to be made based on the Company's proposed change to this treatment.

Q. Please describe the Company's proposed change to the traditional treatment of uncollectible accounts expense.

A. Consistent with the regulatory treatment that has been increasingly adopted in other states, Company Witness Michael Cline has submitted specimen tariff sheets proposing to shift collection of the gas cost portion of uncollectible accounts expense into the Purchased Gas Adjustment Clause ("PGA"). Such tariff change would have the net effect of reducing the uncollectible accounts expense included in base rates. A corresponding reduction to such expense in the amount of $9,568,000 would need to be made to the Company's base rate request in the event the Commission adopted the Company's proposal. This adjustment would be similar to the Company's proposal in Case No. GT-2009-0026. In that case the Commission determined that it lacked the authority to implement this proposed methodology. The Company disagreed with this conclusion and has pursued judicial review of this legal issue. Since the matter is currently under consideration by the court, we have included a calculation of a potential adjustment in this case for the Commission's consideration in the event that the courts determine that the Commission does, in fact, have the authority to recover the gas cost portion of uncollectible expenses through the PGA.

Q. Why has the Company proposed this change in the regulatory treatment of uncollectible accounts?

A. We believe that the gas cost portion of uncollectible accounts expense is most appropriately recovered through the PGA, because it was, is, and remains indistinguishable from other gas costs that are appropriately reflected in rates through this mechanism. The clear intent of the PGA is to permit recovery of <u>all</u> gas costs incurred by the Company, subject to a review of the prudence of such costs. Simply because a customer ultimately fails to pay for such gas costs does not in any way change the character or nature of the costs. Given this consideration, there is no sound reason why such gas costs, in contrast to all other gas costs, should be recovered through base rates where they are subject to over- or under-recovery due to weather or other factors.

Q. But wouldn't recovery of this gas cost through the PGA eliminate the Company's incentive to collect delinquent accounts from its customers?

A. No, not at all. The portion of uncollectible accounts attributable to Laclede's margin would remain a component of base rates. Such amount in this case is about $4 million, which is a significant portion of our operating income and which provides considerable incentive for the Company to continue its aggressive collection efforts.

Q. Total uncollectible accounts, including gas costs, have been included as a component of base rates for many years. Why are you suggesting a change to this longstanding practice now?

A. Uncollectible accounts are influenced by many factors, the most significant of which is the cost of gas. The extreme volatility in gas prices experienced in recent years has had a similar impact on uncollectible accounts. This subjects the Company and its customers to the risk of substantial over- or under-recovery of these costs.

Q. How did you calculate the level of bad debt expense to be included in base rates?

A. This calculation reflects a normalized level of expense. Calculation of this amount is determined by multiplying the "percentage loss factor" times applicable normalized Company revenues.

Q. How was the percentage loss factor derived?

A. Uncollectible account write-offs for the two years ending September 30, 2009 were allocated between the portions applicable to gas cost and distribution margin by comparing gas cost to net revenues. Net revenues used for this calculation are customer revenues less transportation revenues, and less gross receipts tax expensed. Both the total write-offs and the distribution margin portion were then divided by net revenues for the two years ending November, 2008. This calculation results in the percentage loss factor used to determine normalized bad debts applicable to both total uncollectible accounts and the distribution margin. The total normalized uncollectible accounts were included as an adjustment in this case. Under the Company's proposal, only the distribution margin portion would be recoverable through base rates, while the gas cost portion would be recovered through the PGA. Future allocations of write-offs between distribution margin and gas cost would be calculated in the same manner.

Q. Why are different time periods used for purposes of determining the uncollectible accounts and revenue amounts used in the calculation?

A. There is generally a ten-month lag between the revenue period when the customer is rendered service and the period when the customer's account will be written off. Uncollectible accounts written off for the year ending September are, therefore, compared with revenues for the year ending the prior November because such a ten-month lag period allows us to better compare write-offs with the revenue period that actually generated the write-off amount.

Q. Why did you base the percentage loss factor on a two-year period?

A. This was the longest period available that includes the full effect of the emergency cold weather rule amendment.

Q. Does this pro forma level of Uncollectible Accounts Expense include the effect resulting from higher revenues associated with this rate request?

A. Yes. The Company is entitled to recognition of the increased bad debt expense from higher revenues associated with this rate request.

Q. Are you aware of any other factors that could significantly affect Laclede’s uncollectible accounts expense in the future?

A. In general, the Commission’s rules regarding service disconnection and restoration can also have a significant impact on the level of uncollectible expense incurred by the Company. Experience has shown that more lenient disconnection and restoration rules will result in greater uncollectible expense to the Company and its paying customers. One need look no further than the Commission’s decision to adopt the Cold Weather Rule Amendments to demonstrate the impact of loosening of the Commission’s service disconnection policies. Other, lesser factors include the economy in the service area, the collection policies of the Company, and the level of energy assistance (heat grant) payments. A major cut in such payments, or a shortfall between the level of energy assistance available and the growing amount required by customers, would have a significant adverse impact on Laclede’s uncollectible accounts. All of these factors, in addition to increases and decreases in gas prices, have historically caused significant volatility in uncollectible accounts.

Q. Considering all of these factors, does the Company exert significant control over the level of uncollectible expense it incurs?

A. No. I believe factors beyond the Company's control impact the level of uncollectible expense ultimately incurred by Laclede to a far greater degree than do any of the actions or policies the Company could possibly undertake within the relatively narrow confines of the Commission's rules.

Q. Do you have any other comments regarding the appropriate method for recovery of uncollectible accounts?

A. Yes. In the event that the Commission does not choose to include the gas cost portion of bad debts in the PGA, then Laclede would propose as an alternative an uncollectible accounts expense tracker. Under such mechanism, the Company would be authorized to defer for recovery from, or return to, customers in a subsequent general rate case proceeding, 90% of the difference between the cumulative monthly net write-off amounts reflected in the base rates established in this case and the cumulative monthly net write-off amounts actually experienced subsequent to the effective date of rates in this case. Such deferred amounts, either negative or positive, would be amortized over a three year period as a component of the rates established in the next general rate proceeding.

Q. Why would the mechanism only defer 90% of the difference between the amount of this expense included in rates and the amount actually incurred by Laclede?

A. Once again, by only deferring for future inclusion in rates a portion of any change which occurs in this expense item, the tracker mechanism ensures that the Company will retain an incentive to pursue whatever limited collection and other activities it can within the confines of the Commission's rules to mitigate the level of uncollectible expense it incurs.

Q. Is there any precedent for such a tracker mechanism?

A. Yes, such a tracking mechanism is very similar to ones that have previously been used by this Commission to address other volatile cost items that can also increase or decrease dramatically because of changes in market conditions and other factors beyond the control of the Company and are therefore difficult to predict with any precision when establishing rates. Among these are pension expense and even uncollectible expense increases associated with changes to the Commission's Cold Weather Rule..

COLD WEATHER RULE AMENDMENTS

Q. Please describe the Cold Weather Rule Amendments approved by the Commission in Case Nos. GX-2006-0181 and GX-2006-0434.

A. In Case No. GX-2006-0181, the Commission significantly relaxed the terms under which customers who had service discontinued as a result of nonpayment or were in threat of disconnection for nonpayment could regain or retain service from January 1, 2006 through March 31, 2006. In Case No. GX-2006-0434, the Commission adopted certain of these terms on a permanent basis effective November 1, 2006 and also prescribed a specific mechanism designed to provide for the recovery of costs related to the amendments.

Q. Have you calculated the costs related to the amendments to the Cold Weather Rule?

A. Yes. The costs related to Case No. GX-2006-0181 were included in the rates resulting from the Company's 2007 rate case (GR-2007-0208) and are currently being amortized. Therefore, no further adjustment is required for those costs. The costs related to Case No. GX-2006-0434 were determined by the Commission to be $2,494,311 plus interest in Case No. GU-2007-0138 based on activity through September 30, 2007. Adjustment No. 5.a. includes a five year amortization of this balance.

PENSION PLANS

Q. Please describe Laclede's pension plans.

A. Laclede maintains qualified defined benefit pension plans for virtually all employees. These plans date to the early 1950s and the terms have been negotiated with the Company's unions over the years. The benefits for non-union employees generally are similar to those for the union employees.

Q. Are the plans funded in advance by the Company?

A. Yes. Pension trust funds have been established and the Company funds these trusts pursuant to the requirements specified in ERISA and more recently the Pension Protection Act of 2006.

Q. What are the Company's current funding requirements for the trusts?

A. Funding requirements for fiscal 2009 were only $2.6 million, which is a very low amount for plans the size of Laclede's. The Company's funding requirements have been at relatively low levels for many years.

Q. Why has funding been so low?

A. After establishing the plans in the early 1950s, the Company amply funded the plans in a manner consistent with any then-applicable standards, IRS regulations and eventually ERISA requirements. By the mid 1980s, the trusts had accumulated sufficient assets to the point where funding requirements were diminished. In fact further funding could no longer be made on a tax-deductible basis. The accumulated assets, along with good investment returns through the 1980s and 1990s, allowed the Company to cover the benefits being earned by employees without incurring significant funding requirements throughout those years. In contrast, investment returns during the 2000s have generally been much less robust. As a result, the surplus assets have declined as employees have also continued to accrue and be paid benefits under the terms of the plans, all the while as funding continued at disproportionately low levels.

Q. What is the current funded status of the plans?

A. The plans are still adequately funded, but the surplus has decreased to a point where we anticipate the need to resume the funding of ongoing benefits being earned by our employees. Actuarial studies indicate the need for a substantial increase in funding requirements, starting with the plan year beginning October

1, 2010, and amounting to over $20 million annually. While we have, up to this point, been able to pass along the benefit of the funded status of Laclede's pension plans to our customers, this is a more normal funding level for plans of Laclede's size and for the benefits being earned by our employees than the unusually low funding levels previously experienced.

Q. Have the recent difficulties in the financial markets caused this higher funding requirement?

A. Our trusts weathered the recent difficulties in relatively good shape, but suffered losses like virtually all others. While this may have impacted the timing of when increased funding would be required, we have been anticipating such increase for some time. In fact, we discussed this expectation in testimony submitted in our 2007 rate case, well before the market melt-down of 2008.

Q. Has the Company taken any actions to safeguard the long-term health of its pension plans?

A. Yes. On January 1, 2009 we implemented a change in the benefit formula for almost all of our employees from a traditional final average pay formula to a cash balance plan (the formula will change for the rest of the employees on January 1, 2010). Pursuant to ERISA requirements, this change is prospective in nature for employees' service after the effective date. The new formula continues, in modified form, an historical benefit for our employees in a manner that we believe makes better sense for today's workforce. At the same time, we also anticipate that the new formula will reduce funding requirements over the long term.

Q. Has the Company taken any other actions?

A. We routinely review our investment policies and monitor the performance of the professionals hired to manage the assets in the trust to ensure that we are doing everything we reasonably can to protect and enhance the value of our pension assets, both to safeguard the interests of the employees for whom these pension plans were developed as an integral part of their compensation as well as the interests of customers from whom we must ultimately collect any required contributions. The Company's proactive and conservative approach to management of the pension trust assets has served both interests well over many years.

QUALIFIED PENSION AND OPEB EXPENSE FOR FINANCIAL REPORTING PURPOSES

Q. What basis of accounting does Laclede use to determine pension and other postretirement benefits ("OPEBs") expense for financial reporting purposes?

A. Laclede calculates its pension expense on an accrual basis in accordance with Statement of Financial Accounting Standards No. 87 ("FAS 87"), "Employers' Accounting for Pensions," and Statement of Financial Accounting Standards No. 88 ("FAS 88"), "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination of Benefits." These standards were developed by the Financial Accounting Standards Board ("FASB"), which has responsibility for establishing Generally Accepted

Accounting Principles ("GAAP") to be followed by all companies that are publicly traded in the United States. Laclede was first required to adopt the provisions of these statements effective October 1, 1987. Laclede calculates its OPEBs expense on an accrual basis in accordance with Statement of Financial Accounting Standard No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions ("FAS 106"), which measures OPEB cost in much the same manner as FAS 87 measures pension cost. Laclede was first required to adopt the provisions of FAS 106 effective October 1, 1994. Recently, the SEC adopted a revised reporting structure for accounting pronouncements. Under the new structure, the old FAS designations as mentioned herein have been replaced by new Accounting Standard Codification designations. This did not change the underlying accounting rules. It should be noted that, for ease of comparison with past testimonies and discussions, I have continued to use the old FAS designations herein.

Q. Please briefly describe the cost measurement objectives of FAS 87, FAS 88, and FAS 106.

A. One of the primary objectives is to ensure that pension and OPEB costs are assigned to the time periods in which benefits are earned. Another objective of these statements is to provide a basis for ensuring comparability of reported pension and OPEB costs between different companies, and consistency in amounts reported from period to period by an individual company.

Q. Please continue.

A. FAS 87 and FAS 106 establish the basic framework for calculating and accruing net pension and OPEB cost. They attempt to recognize the compensation cost of an employee's benefits over the approximate working life of that employee. Pension and OPEB costs are based on the valuation of two separate components: 1) plan liabilities for benefits earned by employees; and 2) qualified plan assets, if any, to pay such benefits. Changes in the value of liabilities are netted against changes in the value of plan assets to determine periodic net cost. Depending on the magnitude of the changes in these two components, total net pension cost may result in either expense or income to a company. FAS 87 and FAS 106 also provide for systematic recognition (i.e., amortization) of gains and losses arising from differences between a plan's expected and actual experience.

FAS 88 is merely an extension of the FAS 87 measurement process. It generally requires immediate recognition of all or part of that portion of the FAS 87 gains and losses that have not been recognized as of the date certain specific types of pension plan transactions or events occur. In Laclede's case, this could occur when lump-sum benefit payments are made to retirees in exchange for the full settlement of the Company's retirement obligation to them.

Q. Have there been any changes to FAS 87, FAS 88, and FAS 106 recently?

A. Yes. In 2006 the FASB issued SFAS No. 158, "Employers Accounting for Defined Benefit Pension and Other Postretirement Plans", which, among other things, requires that certain pension and OPEB balances previously disclosed only in the footnotes to the financial statements, be included on the balance sheet. Furthermore, the FASB has initiated a project that will re-examine all of the cost measurement principles set forth in FAS 87, FAS 88, and FAS 106. It is likely that this effort will result in a new standard that will replace FAS 87, FAS 88, and FAS 106. At this time, however, existing accounting standards are still in full force and effect.

QUALIFIED PENSION PLAN EXPENSE FOR REGULATORY PURPOSES

Q. Does Laclede use the calculation of pension expense for financial reporting purposes as described above in setting customer rates?

A. No. Rates were set based on a new ratemaking treatment pursuant to the terms of the stipulation and agreements approved in the Company's 2002 rate case (No. GR-2002-356) and continued in the Company's subsequent rate cases (GR-2005-0284 and GR-2007-0208).

Q. Why was an alternative treatment of this expense used to set rates in those cases?

A. Prior to the 2002 case, the Company's rates were based on pension expense as calculated pursuant to FAS 87 and FAS 88. Our experience during those years was that FAS 87 and FAS 88 had produced unacceptable volatility and cash flow effects in setting rates. We expressed these concerns in that case, and subsequently worked with the Staff to develop a ratemaking treatment for this expense that we believe is in the best interests of the Company and its customers.

Q. Please describe the current ratemaking treatment of pension expense.

A. In GR-2002-356, pension expense included in rates was based on the expected level of cash contributions into the pension trusts, plus an additional allowance to amortize the existing prepaid pension asset on the Company's books. Laclede's rates in GR-2002-356 were based on an expected cash contribution of zero (based on the ERISA minimum funding calculation), plus an allowance of $3.4 million for amortization of the prepaid pension asset. The difference between pension expense as calculated pursuant to FAS 87 and FAS 88 for financial reporting purposes and pension expense included in rates is deferred as a regulatory asset or liability. This methodology was continued in GR-2005-0284, except that the allowance in rates was increased to $4.1 million to reflect the fact that contributions to the pension funds had increased to about $.7 million. The methodology was again continued in GR-2007-0208, but with the allowance increased to $4.8 million in partial recognition of anticipated increases in funding requirements.

Q. Has the current ratemaking treatment of pension expense had the intended effect?

A. Yes, this methodology has been advantageous to both the Company and customers by providing for consistent rate recovery of pension expense. The methodology has also resulted in a slow but steady decrease in the prepaid pension asset included in rate base, since it has provided for rate recovery in excess of cash contributions.

Q. Please describe the adjustment that you have included in this case for pension expense.

A. Laclede proposes the continuation of the successful ratemaking treatment implemented in Case No. GR-2002-356 regarding pension expense. Specifically, we propose that the Commission should continue to defer the difference between pension expense calculated pursuant to FAS 87 and FAS 88 (or any successor issued by the FASB) and the amount included in rates. As discussed above, a substantial increase in pension funding to a more normal level is anticipated to begin for the plan year commencing on October 1, 2010. In recognition of this higher level of funding, we have included pension expense in rates of $25 million in this case, in Adjustment 6.a. This amount provides for recovery of the anticipated required pension funding, plus a continued amortization of the existing prepaid pension asset.

Q. This is a substantial increase. Why should ratepayers bear such an increase at this point in time?

A. It is important to remember that for decades pension costs included in rates for Laclede have been much lower than the cost of service being earned by employees. In fact, for a number of years the pension plans actually produced credits to rates. Indeed, that is precisely why the Company has accumulated a regulatory asset that must be worked down over time. Such a situation is no longer sustainable, however, under current conditions. Accordingly, the proposed adjustments set pension cost in rates to a level appropriate for the benefits being earned by employees as they provide service to today's customers and allow for continued amortization of the prepaid pension asset.

NON-QUALIFIED PENSION PLAN EXPENSE

Q. Please describe the Company's non-qualified pension plans.

A. These plans include the Supplemental Retirement Plan ("SERP") and the Retirement Plan for Non-Employee Directors ("Directors Plan"). The SERP provides benefits pursuant to the formulas in the qualified retirement plan that would otherwise not be allowed due to IRS limitations. The Directors Plan provides a retirement benefit for non-employee directors who have satisfied certain service requirements.

Q. What is the basis for rate recovery of the costs associated with these plans?

A. Pursuant to agreements in past rate cases, we have calculated the costs of these plans based on benefit payments to participants of the plans. I have used a 5-year average of expected benefit payments as determined by our actuary to perform this calculation.

Q. Why did you choose a 5-year average to determine the appropriate cost of these plans?

A. These plans have relatively few participants who are entitled to benefit payments at sporadic intervals. Additionally, a large portion of the benefits paid from the SERP tend to be in the form of one-time lump sum payments.

Therefore, it is necessary to examine a long period of time in order to determine an appropriate normalized level of payments made by these plans. Normalization of these expenses is also included in Adjustment 6.a. I would further suggest that, consistent with the Company's other pension plans, the difference between the amount included in rates for these plans and expense as accrued under FAS 87 and FAS 88 be deferred in a regulatory asset or liability.

PREPAID PENSION ASSET

Q. You are also sponsoring the inclusion of the Company's net prepaid pension asset in rate base. Please describe what this amount represents.

A. While the Company accrues pension expense or income on its books subject to the accounting rules, it also must contribute sufficient funds to the trusts to ensure the trusts' ability to satisfy the plan liabilities. Usually, there will be a timing difference between when pension expense (or income) is accrued and when cash contributions, if any, are required to fund benefits. To account for these timing differences, a company will record a prepaid asset or an accrued pension liability on its balance sheet for each of its pension arrangements.

At any point in time, the balance in the prepaid pension asset account represents the amount by which aggregate contributions and pension income exceeds aggregate pension expense recognized. Correspondingly, accrued pension liabilities result when the opposite situation occurs.

Q. Why is it appropriate to include the net prepaid pension asset in rate base?

A. Over the years, the Company has recognized significant net pension plan gains on its books. As a result, ratepayers during that period have benefited from the inclusion of lower pension costs (or higher credits) in rates. However, the recognition of these gains, which has resulted in the creation of the net prepaid pension asset, has not resulted in additional cash flow to the Company. This is because the gains that have been recognized relate to assets held under a pension trust arrangement. Such assets cannot be withdrawn without incurring severe penalties. The net effect of this treatment has been to lower the Company's revenue requirement and, therefore, its cash flows.

In consideration of the above, it is essential that the Company be provided with a return on its net prepaid pension asset in recognition of the fact that its investment in the asset has not been made with ratepayer provided funds, even though customers' rates have been reduced by the gains earned on those assets. This treatment is similar to the Commission's current treatment of deferred income taxes in rate base.

Q. How was the amount of the net prepaid pension asset included in rate base determined?

A. The prepaid pension asset included in rate base was calculated by netting estimated March 31, 2010 accrued pension liability balances against estimated March 31, 2010 prepaid pension asset balances, for all qualified retirement plans (including the regulatory asset or liability recorded pursuant to the regulatory treatment of pension expense specified in Case Nos. GR-2002-356, GR-2005-0284, and GR-2007-0208 discussed above). Balances for the SERP and Directors Plans are excluded since rate recovery for these plans has been based on actual payments rather than expense recovery.

OPEBs

Q. Please describe the types of OPEBs provided by Laclede to its employees when they retire.

A. Laclede provides certain health and life benefits to eligible employees retiring from active service.

Q. What basis of accounting was used to determine the amount of postretirement benefit expense to include in cost of service?

A. As previously authorized by the Commission, postretirement benefit expense was calculated on an accrual basis in accordance with FAS 106. Pursuant to such authorization, Laclede calculates FAS 106 on a financial reporting basis that comports with the requirements of FAS 106, and a regulatory basis that includes an amortization basis not permissible under FAS 106. The regulatory basis is included in the Company's rates, and the difference between the two is deferred as a regulatory asset or liability. Normalization of FAS 106 expense based on the most recent actuarial valuation is included in Adjustment 6.b. FAS 106 measures OPEB cost in much the same manner as pension cost is measured by FAS 87.

Q. Have previous Commission Report and Orders contained any other conditions or authorizations pertaining to FAS 106?

A. Yes, they have. Beginning with the Commission's Report and Order in Case No. GR-94-220, and continuing in all the Company's general rate proceedings thereafter, the Company has been directed to fund its annual FAS 106 OPEB expense levels in accordance with the provisions of Section 386.315 (RSMo. 2000), which requires the use of an external funding mechanism.

Q. Is Laclede currently funding its accrued FAS 106 costs in an external trust, or other external funding arrangement?

A. Yes, it is. Consistent with the Commission's previous orders and Section 386.315, the Company is currently contributing its annual FAS 106 cost levels into three external trust arrangements. Disbursements from these trusts can only be used for the payment of OPEB obligations.

Q. How have OPEBs been recovered in rates?

A. Beginning with Case No. GR-2007-0208, OPEB expenses have been recovered in a manner similar to that described above for pension expense, for the same reasons. In other words, a fixed recovery amount was included in rates, and the difference between this amount and expense for financial reporting purposes has been deferred. Laclede recommends that this methodology be continued.

Q. Do you have any additional recommendations regarding OPEB expense?

A. Yes. Currently, two separate amortization methods are employed for calculation of OPEB expense for financial reporting purposes and for regulatory purposes. We recommend that the financial reporting method be used for both purposes since the regulatory method is likely not permissible under GAAP. Adjustment 6.b. includes OPEB expense on a financial reporting basis based on the most recent available actuarial valuation.

PREPAID OPEB ASSET

Q. You are also sponsoring the inclusion of the Company's net prepaid OPEB asset in rate base. Please describe what this amount represents.

A. As described above, the amount of OPEB expense recovered in rates is based on a fixed amount. Cash contributions to the trusts are based on yearly actuarial valuations. Pursuant to the Stipulation & Agreement in Case No. GR-2007-0208, the difference between the amount of OPEB expense included in rates and the amount funded by Laclede is included in rate base.

BOARD OF DIRECTORS FEES

Q. Please describe your next adjustment.

A. Adjustment 6.n. normalizes retainer fees and meeting fees paid to the Board of Directors to current levels.

WAGES AND SALARIES

Q. Please explain the adjustment you are sponsoring related to the level of Laclede's wages and salaries.

A. Adjustment 8 on Schedule 5 is made to reflect known and measurable changes in the level of wages and salaries applicable to operation and maintenance expense.

Q. Please explain how the adjustment to Laclede Division contract wages is calculated.

A. The Company's current labor contract with its Laclede Division union employees includes, among other changes, annual increases in wage rates for physical and clerical workers effective August 1, 2009, and August 1, 2010. Laclede Division contract wages charged to operation and maintenance were normalized to include the current labor contract provisions which were effective August 1, 2009, in order to present the full twelve-month impact of changes in those provisions. In addition, this adjustment increases wage expense for the effect on operation and maintenance expenses of the change in labor contract provisions which will occur on August 1, 2010.

Q. Please explain the adjustment to Missouri Natural Division contract wages.

A. Missouri Natural Division contract wages charged to operation and maintenance were normalized to give effect to the wage increase for field unit workers and clerical workers effective April 15, 2009, in accordance with the current labor agreement. In addition, this adjustment increases wage expense for the effect on operation and maintenance expense of an increase in labor rates on April 15, 2010, which will occur as a result of the labor contract.

Q. Please explain the adjustment to management salaries.

A. Management salaries were adjusted to reflect anticipated salary levels at March 31, 2010.

Q. Have you made adjustments for fringe benefits as a result of the wage and salary adjustments discussed above?

A. Yes. The impact of the adjustments on costs which are directly related to wages and salaries has been included in the FICA tax adjustment sponsored by Company witness Christopher Reck and in the 401(k) adjustment discussed in the testimony of Company witness Elizabeth Wotawa.

Q. Have you made any other adjustments to wages and salaries?

A. Yes. I have removed from cost of service the bonus plan and incentive compensation plan expense experienced in the test year.

INCENTIVE COMPENSATION PLAN/BONUS PLAN/EQUITY PLAN

Q. Please describe Laclede's Incentive Compensation Plan.

A. The Plan permits Laclede's Board of Directors to pay selected employees a portion of their salary and pension benefits in the form of share units. Employees who qualify receive quarterly payments which are the product of the share units and the Company's quarterly dividend paid on each common share of stock. Employees who meet certain criteria can continue to receive these payments after retirement. The Plan provides Laclede's Board of Directors with a means of compensating selected executives in a manner which provides them an incentive to remain with the Company to retirement, and to keep working until normal retirement age rather than retiring early.

Q. Please describe the Company's Bonus Plan.

A. This plan provides for a portion of certain executives' and employees' total compensation to be paid in the form of an annual bonus. Payment of such bonuses is dependent on achievement of initiatives that improve the efficiency of the Company's operations, which benefits Laclede's customers.

Q. Please describe the Equity Plan.

A. Under the Equity Plan, a portion of certain executives' and employees' compensation is paid in the form of stock options or restricted stock. This plan is designed to align employees' interests with the long-term health of the Company.

Q. Have you included adjustments to test year expenses related to these plans?

A. Yes. I have removed expenses related to the equity plan from test year expenses in Adjustment 6.k. Expenses related to the incentive compensation and bonus plans have been removed from cost of service as part of the pension and wage and salary adjustments.

Q. Why have you excluded these expenses from cost of service?

A. The Company has proposed a comprehensive package which would govern the provision of service to its customers in a reasonable manner going forward. Laclede believes that these plans provide significant value to its customers by encouraging retention of competent management and improvements in the Company's operations. Nevertheless, the Company is willing to exclude such costs as part of the shareholders' contribution to the proposals included in this case.

GASOLINE/DIESEL EXPENSE

Q. Please describe the adjustment you are sponsoring related to gasoline and diesel expense.

A. Adjustment 9.a. on Schedule 5 reflects current price levels for gasoline and diesel fuel costs included in O&M expense.

GAS SAFETY ACCOUNTING AUTHORITY ORDERS

Q. Please explain the deferrals related to the Gas Safety Replacement Program and Copper Service Replacement Program.

A. The Commission previously permitted deferral of costs related to these programs for recovery in subsequent rate cases since mandated replacements under these programs produce higher costs but have no effect on revenues. New deferrals under these AAOs were discontinued in the Company's 2005 rate case (GR-2005-0284) since the Infrastructure System Replacement Surcharge now provides a mechanism for partial recovery of these costs.

Q. Have you included any adjustment related to amounts previously deferred under these accounting authority orders?

A. It is not necessary to make an adjustment to expense since the amortization expense included in the test year pursuant to past Commission orders is equal to a normalized amount going forward. However, I have included in rate base the outstanding balances accrued pursuant to the authority granted in prior cases.

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-2010-_____

AFFIDAVIT

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

James A. Fallert, of lawful age, being first duly sworn, deposes and states:

1. My name is James A. Fallert. My business address is 720 Olive Street, St. Louis, Missouri 63101; and I am Controller 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.

Jas A. Fallert
James A. Fallert

Subscribed and sworn to before me this 4th day of December, 2009.

Karen A. Zurliene
Notary Public

KAREN A. ZURLIENE
Notary Public - Notary Seal
STATE OF MISSOURI
St. Louis City
My Commission Expires: Feb. 18, 2012
Commission # 08382873