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Issue:	Gas Supply Incentive Plans; Low Income Energy Assistance Program
Witness:	Kenneth J. Neises
Type of Exhibit:	Direct Testimony
Sponsoring Party:	Laclede Gas Company
Case No.:	GR-2005-_______
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LACLEDE GAS COMPANY

GR-2005-______

DIRECT TESTIMONY

OF

KENNETH J. NEISES

FEBRUARY 2005

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DIRECT TESTIMONY OF KENNETH J. NEISES

Q. What is your name and address?

A. My name is Kenneth J. Neises, and my business address is 720 Olive Street, St. Louis, Missouri 63101.

Q. By whom are you employed and in what capacity?

A. I am employed by Laclede Gas Company ("Laclede" or "Company") in the position of Executive Vice President-Energy & Administrative Services.

Q. Please state your qualifications and experience.

A. I graduated from Creighton University in 1967, where I received a Juris Doctorate degree. In 1970, I received a L.L.M. degree from Georgetown University Law Center. From 1967 to 1973, I was employed as a litigation and trial attorney for the Federal Power Commission (now the Federal Energy Regulatory Commission). I left the Commission in 1973 to accept an appointment by the U.S. Postal Rate Commission to represent the interests of the general public in proceedings before that Commission. I then served as a partner in the law firm of Debevoise and Liberman in Washington, D.C. until joining Laclede in 1983 as an Associate General Counsel. I was elected to the position of Vice President in January 1987 and Senior Vice President in January 1994. Prior to assuming my current position, I was Senior Vice President-Gas Supply and Regulatory Affairs. In that position I had overall management responsibility for the Company's gas procurement activities, its participation in proceedings before the Federal Energy Regulatory Commission ("FERC") on matters affecting Laclede and its customers, and Laclede's participation in various regulatory proceedings before this Commission. My current duties include these responsibilities, as well as overall responsibility for labor, community relations and corporate communications.

PURPOSE OF TESTIMONY

Q. What is the purpose of your direct testimony?

A. The purpose of my direct testimony is threefold. First, I will discuss the modifications that the Company has proposed to make to its Gas Supply Incentive Plan ("GSIP") in this case and explain why we believe the Commission's adoption of such modifications would benefit both the Company and its customers. Second, I will address the Company's proposed treatment of the revenues it produces from the temporary release of interstate pipeline capacity and marketing of gas supplies to customers located off its distribution system. Finally, I will outline the Company's proposal to establish a low-income energy assistance program that would, in part, be funded by a portion of the savings and revenues associated with these items.

Q. Are these items being addressed by any other Company witness?

A. Yes. Additional details regarding these modifications will be provided by Laclede witness M. T. Cline in his direct testimony.

GAS SUPPLY INCENTIVE PLAN

Q. Before addressing the tariff modifications that the Company has proposed to make in this case, would you please provide a brief overview of the GSIP and its history?

A. Laclede has, with only one brief exception, operated under one form of gas supply incentive plan or another since 1996. During this period of time the legality of such incentive plans has been firmly established by the courts, and their use as a tool for producing benefits for utility customers has been endorsed by both the Commission and an independent task force established by the Commission to examine such plans.

Q. Why were such plans initially approved by the Commission?

A. I believe that any discussion of why local distribution companies ("LDCs"), like Laclede, have been permitted to implement gas supply incentive mechanisms has to begin with an understanding of the fundamental changes that took place in the natural gas industry during the early 1990's. Prior to that time, most LDCs purchased all of the gas requirements needed to serve their customers from interstate pipeline companies regulated by the FERC or, in some cases, from intrastate pipeline companies. As a result of this arrangement, the pipelines were basically responsible for undertaking all of the management and operational functions associated with acquiring, storing and transporting the gas supplies needed by the LDC. This included contracting for the gas supplies with producers and marketers in the field and making certain that such supplies were sufficient and flexible enough to meet the dramatically variable demands of their LDC customers. It also included arranging for and financing the storage inventories required to supplement flowing supply during the winter months, and scheduling for the transportation of such supplies to the LDC on an as-needed basis. In contrast, the LDC's gas procurement responsibilities consisted of little more than determining how much gas it required from the pipeline and participating in the various FERC proceedings in which the pipeline's rates and terms for selling the gas to the LDC were established.

Q. How did this change in the early 1990's?

A. The issuance of FERC Order 636 in 1992 fundamentally changed the gas supply industry by requiring pipeline companies to separate, or "unbundle," their sales service from their transportation service. As a result, pipeline companies were restricted to providing transportation and storage services, and were prohibited from participating in the merchant function. Because LDCs could no longer rely on pipelines for bundled supply and transportation services, the LDCs were thrust into the gas procurement role, and assumed the responsibilities for arranging the procurement, storage and transportation of gas supplies. At the state level, public service commissions deliberated whether to take the unbundling of gas supply a step further by divesting LDCs of this role and permitting gas marketers to sell gas directly, not only to large industrial customers (to whom the marketers were permitted to sell even before FERC Order 636), but also to commercial and residential customers. In states that did unbundle the merchant function, the LDCs were relieved of the associated risks and responsibilities, which were assumed by marketers on a for profit basis. In Missouri, however, there has been no unbundling of the LDCs' distribution and gas supply function for most commercial and residential customers. Accordingly, for the vast majority of their customers, Missouri LDCs, including Laclede, have assumed the merchant role of coordinating the procurement, storage and transportation of gas supplies that had previously been performed by the pipeline companies. As a consequence, Laclede has taken on the responsibility of making the literally thousands of management decisions and actions, as well as assuming the financial and operational risks, associated with performing these complex and demanding tasks. Moreover, those tasks have only become more challenging in recent years.

Q. Please explain.

A. In addition to procuring the physical supplies of natural gas at competitive prices, LDCs like Laclede, that have remained in the merchant function, have also taken on the increasingly complicated job of using sophisticated financial instruments in order to mitigate the impact that volatile changes in the price of those supplies can have on their customers. Indeed, Laclede has substantially broadened these risk management activities in the past several years, including the pursuit of increasingly innovative strategies for addressing price volatility, as a result of the challenges posed by the significantly higher price environment we face today.

Q. How have these structural changes in the natural gas industry contributed to the emergence of gas supply incentive plans for LDCs?

A. I believe there are two primary reasons why the implementation of gas supply incentive plans are an appropriate and necessary response to these structural changes. First, as a matter of simple fairness, LDCs should be given an opportunity to receive some reasonable level of compensation when they respond to these increased risks and responsibilities with positive results. Gas supply incentive plans, if properly structured, can provide such an opportunity. Second, and just as importantly, by allowing the LDC to benefit from decisions and actions that reduce the gas supply and transportation costs that currently account for approximately 70% of the customer's bill, a properly structured gas supply incentive plan can maximize benefits for customers as well.

Q. Turning to the first reason you mentioned, what increased risks are you referring to in connection with the transfer of procurement responsibilities from the pipelines to LDCs like Laclede?

A. As I previously indicated, where the LDC has taken responsibility for the merchant role of providing gas supplies, LDC managers must now make thousands of additional decisions and take thousands of additional actions each year in order to carry out the physical and financial transactions required to fulfill their gas supply obligations. This necessarily increases both the scope and nature of the LDC's exposure to after-the-fact reviews of whether those decisions and actions were prudent and, in doing so, increases the risk for and size of potential regulatory disallowances. Added to this are the increased financial risks and costs associated with having to finance over $100 million in advanced purchases of natural gas for summer storage and having to procure financial instruments. In fact, the use of financial instruments alone can impose cash requirements of upwards of $10 million in a single day to cover dramatic changes in the value of the positions taken to provide price protection. Further, there are operational risks associated with having to assure that gas will be available whenever it is needed by our customers.

Q. Are there other risks as well?

A. Yes. There are also the larger risks and costs attributable to an LDC retaining its role as the primary, if not exclusive, merchant of gas to its customers. As noted above, many LDCs have already abandoned this role, to one degree or another, under state regulatory models that have permitted natural gas marketers to sell gas at a profit directly to commercial and even residential customers. LDCs operating in unbundled environments do not face the risks associated with buying and selling the commodity; those risks are largely shifted to marketers and customers. However, for those LDCs, like Laclede, that have remained in the merchant role, the obligation to procure and sell gas to these customers continues to impose significant costs and risks, ranging from increased exposure to bad debts to financing requirements that can escalate tremendously as gas prices rise. In view of these increased risks, and the new and challenging responsibilities that LDCs have had to shoulder in the post-Order 636 environment, gas supply incentive plans provide a needed opportunity for LDCs to be fairly compensated for undertaking these critical functions.

Q. Isn't it true, however, that the ability to retain some of the benefits achieved under a gas supply incentive plan will allow an LDC to achieve earnings that are in excess of those normally permitted under traditional regulation?

A. Given the risks and responsibilities assumed by Laclede for providing the merchant service, the fact that gas marketers provide similar services for a profit, and the tenet that regulation serves as a surrogate for competition, any benefits retained by the Company under a GSIP should be viewed as justly earned. This is especially true under the proposed incentive structure, wherein Laclede would not be compensated for performing this role unless it also produced meaningful benefits for its customers. Indeed, by its very nature, an effective incentive plan has to provide the utility with at least some opportunity to retain for itself a percentage of the revenues or savings it achieves under the plan. In any event, there is nothing in the history of how Laclede has operated under its various gas supply incentive plans to suggest that such plans have resulted in financial outcomes that could be viewed as inappropriate under any regulatory model.

Q. What do you base that conclusion on?

A. As I previously indicated, Laclede has been operating for nearly a decade under some form of gas supply incentive plan or other regulatory model where it has been permitted to retain a portion of the revenues or savings it achieves from the management of its gas supply assets. Laclede's first GSIP originated as the result of a stipulation and agreement that resolved the Company's 1996 rate case proceeding, Case No. GR-96-193. Since that time, one version or another of the GSIP has been in effect with the exception of a short period of time between October 1, 2001 and November of 2002. Even during this brief hiatus, however, the Company still had the opportunity to achieve additional earnings between rate cases from its successful marketing of temporarily unneeded pipeline capacity and its sale of gas supplies to customers located off its distribution system.

Q. How did the Company's opportunity to achieve additional earnings under these arrangements affect its overall financial performance?

A. As shown by Schedule 1 to my direct testimony, the existence of these arrangements over this entire period of time has not resulted in Laclede earning amounts that could in any way be viewed as excessive. To the contrary, during the eight year period depicted on Schedule 1, Laclede earned an average return on equity of 10.3% in connection with its regulated utility operations, even with the additional earnings achieved by the Company as a result of its efforts under these plans. This was actually less than the 10.5% return that Laclede was authorized to earn by the Commission in the 1999 rate case that was litigated in the middle of this period. In other words, the Company's opportunity to retain a portion of the revenues and savings achieved through the management of its gas supply assets has done nothing more than give Laclede a realistic chance to achieve the kind of earnings that traditional regulation would deem appropriate. In view of these results, I believe it is critical for the Commission to recognize that gas supply incentive plans, at least for Laclede, have become an institutionalized, indispensable and entirely appropriate part of its regulated business operations.

Q. You previously said that gas supply incentive plans were also appropriate because they helped ensure that the utility would carry out its new gas supply management responsibilities in a way that would maximize benefits for all stakeholders, including its customers. Please explain what you meant by that.

A. One of the bedrock principles of our free enterprise system is that firms, as well as individuals, respond with greater creativity, energy and innovation when they have an opportunity to benefit financially from their endeavors. And by doing so, they achieve not only more favorable outcomes for themselves but also for society as a whole. That time-tested principle is also one of the central justifications for implementing gas supply incentive plans for LDCs like Laclede. Simply put, by designing incentive plans that allow LDCs to benefit from decisions and actions that also produce positive results for their customers, such arrangements maximize benefits for everyone concerned.

Q. Have the gas supply incentive plans previously approved by the Commission actually worked to produce these kind of benefits for the Company's customers?

A. Yes, I believe the historical evidence regarding the efficacy of such incentive mechanisms in producing real benefits for utility customers is overwhelming. On at least two prior occasions, Laclede has presented extensive evidence on this subject. In each instance, we were able to demonstrate that tens of millions of dollars in additional revenues and savings were produced and passed along to customers as a result of the Company's successful efforts under various gas supply incentive plans that were in place from 1996 to 2001. And over the past three years, Laclede has continued to achieve and flow through to its customers tens of millions in net savings and/or revenues as a result of its efforts under the Gas Supply Incentive Plan and process for imputing off-system sales and capacity release revenues that were approved in its last rate case.

Q. Has the effectiveness of the Company's efforts to reduce gas costs been reflected in other ways as well?

A. Yes. I think it is fair to say that Laclede has operated under a more comprehensive series of gas supply incentive plans than any other LDC in Missouri during the past decade. In fact, virtually every aspect of Laclede's efforts to procure gas supplies and related transportation services, and to obtain price protection for those supplies through the use of financial instruments, has at one time or another been subject to some form of incentive provision. It is important to note that over this same period of time, the purchased gas adjustment ("PGA") rates charged by Laclede to recover these costs have been consistently below the average PGA rates charged by other Missouri utilities.

Q. Does this factor alone suggest that the Company's ability to produce superior results for its customers has been due to the existence of these incentive plans?

A. I would be the first to recognize that there are a variety of factors, including differences in the location of each LDC and the characteristics of its gas supply and customer profile, that can influence the magnitude of the gas costs they must incur to serve their customers. However, when one considers the period of time over which Laclede has achieved this result, together with the extensive evidence that the Company has previously provided to quantify specific benefits achieved under its incentive plans, I do believe that such rate comparisons provide a meaningful indicator of the overall effectiveness of such incentive plans.

PROPOSED MODIFICATIONS TO GSIP

Q. Please describe the specific modifications that Laclede is proposing the Commission make to its existing GSIP in this case.

A. As presently structured, the GSIP only allows Laclede to retain savings associated with reducing the commodity cost portion of its gas supplies. These reductions in commodity costs are measured by comparing what Laclede pays for its physical gas supplies, as adjusted up or down by the gains or losses associated with the Company's financial hedging program, to a benchmark based on a basket of physical gas indices. The modifications being proposed by Laclede would revise this existing structure in several ways. These include: (a) separating the Company's financial hedging activities from its procurement of physical gas supplies so that such transactions would be governed by two distinct GSIP provisions; (b) eliminating the current $5.00 price cap and $3.00 floor above and below which no sharing is permitted and removing certain price indices that are no longer in effect; and (c) broadening the GSIP to include the demand charges that the Company must pay in order to reserve the gas supplies it requires to serve its customers, as well as any discounts negotiated by the Company in the amount it pays to have interstate pipeline companies transport and store those supplies. The significance of gas supply and transportation demand charges is illustrated by the fact that the combined cost of these two items exceeds $80 million per year.

Q. Why is the Company proposing that its financial hedging activities and its procurement of physical gas supplies be governed by separate GSIP provisions?

A. First of all, such a separation is consistent with how the Company actually does business. When Laclede expanded its hedging program after the winter of 2000/2001, the Company decided to utilize only those financial instruments that could be purchased through the New York Mercantile Exchange (NYMEX) rather than attempt to embed hedges in its physical gas contracts with individual suppliers. We pursued this strategy in part because of the superior financial security offered by an entity with the financial resources of the NYMEX – security that was particularly important given the collapse of Enron and other gas suppliers who had previously offered hedges as part of their supply contracts. As a result, Laclede operates a financial hedging program that is used to offset the prices of its physical purchases and the two activities are both operated and accounted for in a completely separate manner. The GSIP should accordingly recognize this business reality.

Q. Are there other reasons why these financial and physical activities should be governed by separate GSIP provisions?

A. Yes, the magnitude of the potential savings from the use of financial instruments is so significant that I do not believe that the 50/50 split we are proposing to apply to the other elements of the GSIP would be appropriate for these transactions. Laclede is therefore proposing that these financial hedging instruments be governed by a separate sharing grid under which Laclede would earn 20% of the first $25 million in savings achieved through financial instruments, 15% of the next $25 million, and 10% of any savings over $50 million. Finally, it is important to keep in mind that, unlike other elements of the GSIP, the procurement of financial instruments is not just about lowering costs or increasing revenues. Instead, one of the key goals of such activities is to achieve greater price stability even though, as the Commission itself has recognized, achieving such stability can result in somewhat higher prices. On those occasions when the Company's hedging activities do result in somewhat higher prices, however, the consideration of such results in determining whether Laclede may share savings achieved through reducing the cost of physical gas supplies and transportation services could effectively negate any incentive in these areas. Such an outcome would be counterproductive to the goal of any effective incentive plan. Given these considerations, I believe that addressing these financial activities under a separate and distinct provision of the GSIP is most appropriate.

Q. You also indicated that the Company was proposing to eliminate the current $5.00 cap and $3.00 floor above and below which savings cannot be shared, as well as certain indices that are used to measure savings. Please explain why these revisions are appropriate.

A. Placing an artificial price cap or price floor on when savings can be shared as a result of the Company's efforts to hedge the impact of extreme price fluctuations does not make sense to me. To the contrary, it is precisely when prices have escalated to historically high levels or declined significantly below such levels that the kind of innovative hedging strategies encouraged by an effective incentive plan are needed most.

Q. Why are innovative hedging strategies, and thus incentives, particularly important when prices vary significantly from historical levels?

A. Laclede is continuously hedging throughout the entire year. When prices are high, the cost of acquiring effective coverage also increases. Given the fact that there are limits on the amount of funds available to obtain such coverage, Laclede must be even more innovative in its hedging strategies during such times in order to acquire the quantity of coverage required to provide price protection for its customers. Conversely, when prices are lower than recent historical levels, the Company must make critical decisions and potentially commit additional resources to place hedges further into the future. In view of these considerations, I believe it is counterproductive to place limits on when incentive sharing can occur. The existing price cap and price floor in the GSIP should therefore be eliminated.

Q. You also indicated that the use of certain price indices identified in the current GSIP should be eliminated. Why?

A. Because they are no longer in use as a result of various changes in the natural gas market. As a result, it is obviously no longer appropriate to include them in the calculation of the benchmark against which the success of the Company's efforts are measured.

Q. Please describe the Company's proposal to extend the GSIP to cover the demand charges paid by the Company to reserve gas supply.

A. When contracting for firm gas supplies, Laclede must pay not only for the commodity itself, which is usually priced based on a first-of-the-month index, but also for the demand-related costs required to ensure that the gas supplies will be available when the Company needs them. Because the customer loads served by Laclede can vary greatly from month-to-month and even day-to-day due to the impact of weather and other factors on the heating requirements of its customers, these demand charges can also vary in amount depending on how much flexibility the Company requires from a particular supplier to take gas only when it is needed. For example, the amount of the demand charge required to reserve gas supplies will generally be higher if the LDC only has to take the supplies sporadically when they are needed to meet its peak demands during cold weather. Conversely, they will usually be lower, to the extent supplies are being purchased as "baseload" supplies under which the LDC essentially agrees to take the gas year round at a constant volume. In any event, the need for such flexibility, together with the increase in price volatility that has occurred over the past several years, has resulted in annual demand charges approaching $20 million. Since an LDC can, through superior negotiation, insightful market judgments, and other efforts have a significant impact on the level of demand charges that are ultimately paid, this is clearly an area that should also be subject to the GSIP.

Q. How is the Company proposing to structure the GSIP to address this cost area?

A. We believe that the benchmark for measuring the success of the Company's efforts to reduce demand charges should be established through a competitive "request for proposal" process, consistent with the Commission Staff's recommendation in its recent management audit of the Company's gas supply function. Under this process, Laclede would solicit proposals each year from a variety of suppliers for various types of gas supply, ranging from baseload supplies to swing or peak supplies. The resulting bids would then be used to establish a benchmark representing a reasonable and competitive level of demand charges against which the Company's performance should be measured.

Q. What is the second cost area that the Company proposes to add to the GSIP?

A. The second cost area concerns the amounts that the Company pays its pipeline suppliers to transport and store the gas supplies that Laclede requires to serve its customers. Although the maximum rates for these services are still set by the FERC, each pipeline supplier has the flexibility to discount what it charges in order to attract or retain business. In some instances, an LDC may be able to influence the level of discounts it receives through superior negotiation and by creating competitive leverage. Accordingly, we believe that this area should also be included in the GSIP by incorporating provisions that would permit the Company and its customers to share in savings generated as a result of the Company's efforts to negotiate discounts from the cost of service based transportation and storage tariff rates charged by those pipeline suppliers.

Q. What sharing percentage does the Company propose be established for these three areas?

A. Laclede believes that any savings achieved as a result of the Company's success in lowering commodity, demand and transportation costs should be split 50/50 between the Company and its customers.

Q. Why do you believe this is a reasonable allocation of any savings?

A. There are several reasons why I think a 50/50 split of any achieved savings is reasonable. First, it represents an allocation of savings that has already been accepted as reasonable by the Commission for certain elements of the gas supply incentive plans that it has previously approved. Second, it should be recognized that all LDCs, including Laclede, are operating in a "sellers" market today for both gas supplies and transportation services. As a result, it is increasingly difficult for a buyer to achieve meaningful savings in the purchase of such supplies and services. In view of this fact, I believe a more even allocation of savings between the Company and its customers is fully warranted.

Q. Does the Company believe that its gas procurement activities should continue to be subject to prudence reviews?

A. In my view, implementation of financial incentives that allow the Company to benefit only if it is also undertaking actions that benefit its customers should reduce, if not completely eliminate, the need for prudence reviews. Nevertheless, I recognize that such reviews, and the risks they impose, may be viewed as an appropriate and necessary quid-pro-quo for the Company's opportunity to share in the benefits it achieves under the GSIP. I therefore have no objection to having the Company's activities under the GSIP remain subject to reasonable prudence reviews.

OFF-SYSTEM SALES/CAPACITY RELEASE REVENUES

Q. What are off-system sales and capacity release revenues?

A. As a general matter, these are revenues that the Company achieves by selling gas supplies or pipeline capacity to customers located off its distribution system when such supplies or capacity are temporarily unneeded to meet the demands of its customers.

Q. How are these revenues treated today?

A. Currently, the revenues achieved by the Company from these activities are imputed at some level in the Company's base rates as an offset to its cost of service. At the present time, our rates reflect an imputation of approximately $3.8 million in such revenues. In effect, this treatment acts as another form of incentive plan for the Company, with the primary difference being that Laclede is allowed to retain the additional revenue it achieves between rate cases in return for guaranteeing customers lower base rates.

Q. Does the Company propose to change either this treatment or the amount that is currently imputed in rates?

A. No. Laclede recommends that the revenues achieved from its off-system sales and its release of pipeline capacity continue to be imputed in its base rates at an annual level of $3.8 million.

Q. Why is this an appropriate level?

A. I think it is important to recognize that the level of revenues achieved from off-system sales and capacity release can be profoundly influenced by factors such as weather and price volatility. For example, in order for Laclede to be able to make sales to customers not located on its distribution system, the weather driven demand must be low enough that extra firm gas supplies are available for sale. At the time such supplies are available, however, prices must also be higher than the price Laclede is paying for gas supplies so that a margin can be made on any sales. As a result, if the Company experiences either an extremely cold period or a period of falling market prices, the opportunities to make such sales will not exist. These factors, as well as others, can have a significant impact on the Company's ability to achieve revenues from its release of pipeline capacity.

Q. What does this mean in terms of the level of off-system sales and capacity release revenues that the Company may achieve in any given year?

A. It means that the level of such revenues can vary dramatically from year to year. In other words, such revenues are extremely volatile and impossible to predict with any degree of certainty.

Q. Has this revenue volatility been borne out by the Company's experience?

A. Yes. In the past five years alone, the annual level of off-system sales and capacity release revenues achieved by Laclede has varied tremendously, from a low of \$2.8 million to a high of just over \$12 million. In view of this volatility, I believe the \$3.8 million dollar level currently imputed in rates for such revenues is reasonable.

Q. Why is that?

A. First, such an imputation represents a guaranteed amount that customers will receive in rates, even though experience indicates that the Company cannot be assured that it will achieve this amount. In exchange for undertaking the significant financial risks associated with providing such a guarantee, it is entirely appropriate for Laclede to have the kind of upside potential that this area provides. This is particularly true since such upside potential, if realized, would provide the Company with the means to defer seeking general rate relief for a longer period of time -- something that can only benefit our customers. Second, given the opportunistic and volatile nature of the upstream markets, it makes eminent sense for any imputation to the Company's cost of service for off-system sales and capacity release to be on the conservative side. It makes no sense to increase the imputed amount, which would serve only to penalize the Company during periods when conditions beyond Laclede's control in the Company's own market or in the interstate markets do not permit the Company to release pipeline capacity or make significant off-system sales. Third, as with the financial parameters of the GSIP, adopting the Company's proposed treatment for off-system sales and capacity release revenues is also necessary if Laclede is to have a reasonable opportunity to achieve the level of financial resources required to fund its proposed low-income energy assistance program.

LOW-INCOME ENERGY ASSISTANCE PROGRAM

Q. You previously indicated that in the event the Commission approved the Company's incentive proposals, Laclede was prepared to fund a low-income energy assistance program. Please discuss what kind of funding the Company contemplates providing for such a program.

A. In the event our proposals in these areas are approved by the Commission, Laclede would commit to funding a low-income energy assistance program at a level of $2 million per year.

Q. How would the program be structured?

A. The specific features of the program are set forth in the testimony of Laclede witness M. T. Cline. In general, the program would provide eligible low-income customers with bill credits of up to $375 per quarter that could be used to reduce their arrearages. In exchange, the customer must agree to make timely bill payments, apply for other forms of energy assistance, and agree to implement, where feasible, cost-free energy conservation measures designed to reduce energy consumption. In addition to assisting individual customers with their bills, the program would also make additional funds available to customers for intensive weatherization measures by increasing the funding for the Company's existing low-income weatherization program.

Q. Is the Company's proposal designed to benefit all customers, including those who are not eligible to participate in it?

A. Yes. On the one hand, the program as proposed by Laclede would give our most vulnerable customers a way to cope with their energy bills that are simply beyond their ability to pay at a point in time. At the same time, however, the program would also seek to reduce costs that must now be paid for by non-participating customers by requiring that those receiving assistance reform their payment behavior, implement simple conservation measures and do other things that will hopefully reduce bad debt and collection expenses in the future.

Q. Why does it make sense to fund the program by using a portion of the benefits that Laclede is able to achieve as a result of its successful incentive-related efforts?

A. The Commission has broad discretion to approve incentive programs as a way of maximizing benefits for all customers. By using a portion of those benefits to fund a low-income assistance program, the Company's proposal effectively allows it to use money that it has been permitted to retain as compensation for its successful efforts to obtain price concessions from out-of-state marketers, transporters and buyers – price concessions that benefit all customers – to help the Company's most vulnerable customers. In doing so, the proposal provides a way to benefit all customers in a manner that I believe is both legally sound and fair.

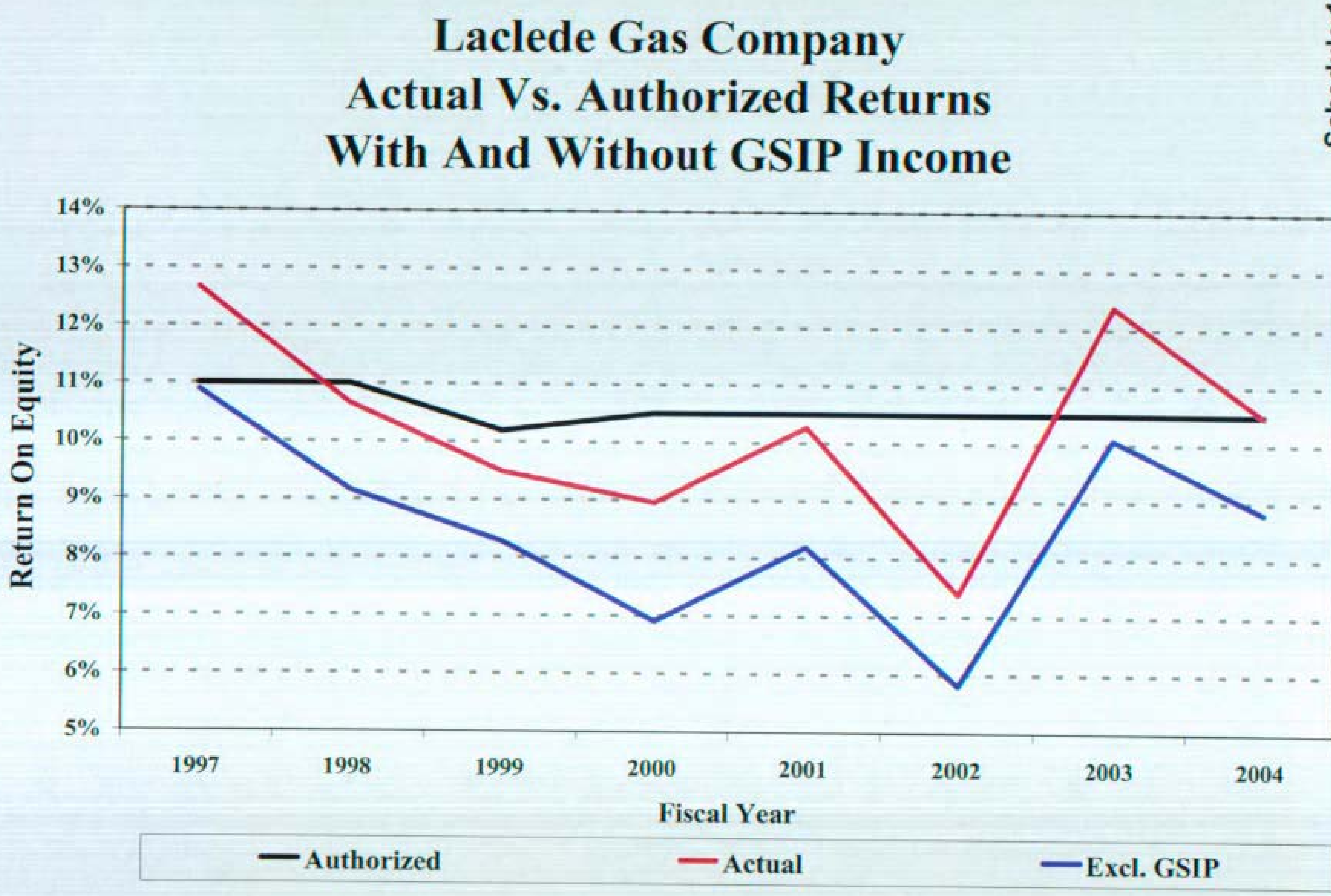
Q. Is the Company willing to consider modifications to its proposal?

A. Although Laclede believes that its proposal represents a superior vehicle for addressing these concerns, it recognizes that the Commission has established a task force to review and present options for addressing long-term energy affordability issues. Laclede has been a very active participant in that process. As part of its ongoing participation in such efforts, Laclede will certainly be willing, as this proceeding unfolds, to incorporate any recommendations that the task force may make relating to the funding and structuring of low-income energy assistance programs that Laclede believes are suitable.

Q. Does this conclude your direct testimony?

A. Yes, it does.

Schedule 1



Laclede Gas Company
Actual Vs. Authorized Returns
With And Without GSIP Income
Return On Equity
14%
13%
12%
11%
10%
9%
8%
7%
6%
5%
1997
1998
1999
2000
2001
2002
2003
2004
Fiscal Year
Authorized
Actual
Excl. GSIP

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Laclede Gas	)	
Company's Tariff to Revise Natural	)	Case No. GR-2005-
Gas Rate Schedules.	)	

AFFIDAVIT

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

Kenneth J. Neises, of lawful age, being first duly sworn, deposes and states:

1. My name is Kenneth J. Neises. My business address is 720 Olive Street, St. Louis, Missouri 63101; and I am Executive Vice President-Energy and Administrative Services 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.

K. J. Neises
Kenneth J. Neises

Subscribed and sworn to before me this 17th day of February, 2005.

Joyce L. Jansen

JOYCE L. JANSEN
Notary Public — Notary Seal
STATE OF MISSOURI
ST. CHARLES COUNTY
My Commission Expires: July 2, 2005