Exhibit No.:	
Issue:	**Uncollectible Accounts, Emergency Cold Weather Rule, Pensions and OPEBs, Overtime, Lump Sum Payments, Allocations, Gasoline/Diesel, Gas Safety Deferrals, Deferred Taxes on AAOs**
Witness:	**James A. Fallert**
Type of Exhibit:	**Rebuttal Testimony**
Sponsoring Party:	**Laclede Gas Company**
Case No.:	**GR-2010-0171**
Date Testimony Prepared:	**June 24, 2010**

LACLEDE GAS COMPANY

GR-2010-0171

REBUTTAL TESTIMONY

OF

JAMES A. FALLERT

Rebuttal Testimony of James A. Fallert

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REBUTTAL TESTIMONY OF JAMES A. FALLERT

GENERAL INFORMATION

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. Are you the same James A. Fallert who filed direct testimony on behalf of Laclede Gas Company in this case on December 4, 2009?

A. Yes.

PURPOSE OF TESTIMONY

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to address the direct testimony of various Staff and Office of the Public Counsel ("OPC") witnesses regarding the following issues:

1. Level and treatment of uncollectible accounts expense;
2. Cold Weather Rule Amendments;
3. Qualified Pension expense;
4. Non-Qualified Pension expense;
5. Other Postemployment Benefit Expense (OPEBs);
6. Overtime;
7. Lump Sum Payments to Contract Employees;
8. CAM Allocations;

9. Gasoline/Diesel Expense;

10. Gas Safety Accounting Orders; and,

11. Deferred Taxes related to AAOs.

UNCOLLECTIBLE ACCOUNTS EXPENSE

Q. Please describe the position of the parties in this case.

A. Laclede has proposed that the uncollectible portion of bad debts be recovered through the PGA. The mechanism and rationale for this proposal are discussed in my direct testimony in this case as well as that of Company witness Michael Cline. Staff and OPC have not included this treatment in their adjustments. Laclede continues to advocate this proposal. However, in the event that the Commission decides not to implement this proposal, we also disagree with the amount of uncollectible accounts calculated by Staff and OPC on the traditional basis.

Q. What are the amounts proposed on a traditional basis by the parties in this case?

A. Laclede proposes bad debts at a level of $11,744,000 based on a three year average ratio of write-offs for the period ended March 31, 2010. Laclede further proposes that any rate increase resulting from this case should be further increased by the ratio of write-offs to lagged net revenues for the aforementioned period of 1.33% to recognize the impact of the general rate increase on uncollectible expense. Staff witness Lisa Hanneken's proposed level of $10,228,520 is based on the 12 months ended March 31, 2010. OPC witness Russ Trippensee proposed a level of $11,390,223 based on a five-year average of actual experienced write-offs for the periods ended March 31, 2010.

Q. Why do you consider Staff's proposed bad debt level to be inadequate?

A. Staff's adjustment is based on a single year of experience. Historically, bad debts levels have fluctuated considerably from year to year, so in the absence of a clear trend, an average based on multiple periods is most appropriate for normalizing this item. Bad debts over the course of the past six years have varied between $13,175,907 and $10,228,820. Staff's adjustment would artificially use the lowest experience during this period. Moreover, using the 12 months ended March 2010 is particularly inappropriate in that net write-offs in this period were reduced by the impact of record levels of available heat grant money.

Q. Please quantify what you mean by record levels of heat grant money.

A. During the past two years, the appropriations for the Federal Low Income Home Energy Assistance Program (LIHEAP) more than doubled from approximately $2.0 billion in 2008 to $4.5 billion in 2009 and 2010. These increased funding levels at the federal level had a significant impact on Laclede at the state level, resulting in a substantial increase in the amount of energy assistance funding received by the Company on behalf of its customers in each of the past two winter periods.

Q. Would the Company's receipt of these greater energy assistance funding levels reduce its bad debt levels compared to what they would have otherwise been?

A. Although it is not a dollar for dollar relationship, the availability of such increased funding undoubtedly helped to keep bad debt levels below where they would have otherwise been by providing additional resources that allow some of our most vulnerable customers to reconnect by applying heat grant money to pay the portion of their outstanding balance required to reinstate service under the cold weather rule. When these customers' accounts are reinstated, net write-offs are reduced as amounts previously written off are reinstated into accounts receivable. While these reinstatements provided a temporary reduction in net write-offs, the balances remain at risk and will tend to put upward pressure on write-off experience in the future.

Q. Is there any assurance that such increased funding levels will continue in the future?

A. No. While Laclede and others will continue to press for such increased appropriations, there is no assurance that the federal government will continue to fund LIHEAP at these historically unprecedented levels, particularly in view of the budgetary challenges being faced at the federal level. In fact, recent resistance to extending unemployment benefits because of increasing concerns over the magnitude of the national debt is an early sign that the capacity or will of the federal government to fund these social programs at dramatically higher levels may be waning. Given these considerations, basing a proposed bad debt allowance on the assumption that such funding will continue for the indefinite future is wholly inappropriate.

Q. Please critique the approach employed by OPC witness Trippensee.

A. Mr. Trippensee has used a five year average to determine a normalized expense level. This approach avoids many of the weaknesses to Staff's approach described above. However, bad debts in the first two years of the five-year period used by Mr. Trippensee would not have been fully impacted by the most recent revisions to the cold weather rule. These revisions relaxed the terms under which customers could be reconnected or retain service and therefore impacted bad debts. Therefore, in this instance, Laclede's proposal to base bad debt expense on a three-year average is most appropriate since it includes periods based on consistent cold weather rules.

Q. Do you have any additional comments?

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 has proposed 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. The significant volatility of bad debts and the disparate proposals by the parties in this case demonstrate that this is an item that is appropriate for inclusion in a tracker.

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 cost related to Case No. GX-2006-0434 was determined by the Commission in its order in Case No. GU-2007-0138 to be $2,494,311 ($2,459,653 of uncollectible costs plus $34,658 of interest accrued through September 30, 2007). The Order specified that interest would continue to accrue pursuant to the cold weather rule. In that case, the Commission also required the Company to track additional payments and arrearages and report such in its next rate case. The Commission's Order in Case No. GU-2007-0138 was subsequently upheld by the Cole County Circuit Court and Western District Court of Appeals.

Q. What were the results of the additional payments and arrearages?

A. Balances associated with these customers had increased somewhat as of March 31, 2010. The impact of these changes in balances when applied to the methodology employed in Case No. GU-2007-0138 was to increase the compliance costs from $2,459,653 to $2,479,661. Additional interest has also accumulated pursuant to the Commission's Order to a level of $165,964 at March 31, 2010. Therefore, the total balance to be amortized as of March 31, 2010 is $2,645,625.

Q. What position has Staff taken on this issue?

A. Staff witness John Cassidy indicated in testimony Staff's belief that the balance had declined from that authorized in GU-2007-0138. However, the decline noted by Staff appears to be due to a failure to include interest accrued subsequent to September 30, 2007. It is our belief that Staff and the Company are in agreement on the appropriate balance except for inclusion of this interest.

Q. Has Staff made any other adjustments related to the cold weather rule?

A. Yes, Staff witness Lisa Hanneken reduced normalized bad debt expense by $99,793 "…to eliminate the amount associated with customers who received service under the emergency and new cold weather rule. The write-offs associated with these customers have been specifically identified and is included in the cost of service through an amortization to expense." The Company disagrees with this adjustment, for the same reasons expressed below in response to OPC's approach to this issue

Q. What is OPC's approach?

A. OPC witness Russ Trippensee has proposed elimination of the balance altogether, contending that these amounts have been recognized in the normalized bad debt expense resulting from his proposed five-year average.

Q. Why is this approach inappropriate?

A. This contention ignores the fact that the changes to the cold weather rule were permanent. Likewise, any increases to bad debts caused by these changes are also permanent and will be experienced year after year. The cold weather rule deferrals were intended to reimburse the Company for the impact of the rule change on customers who took advantage of the rule in the year that the changes were implemented. The normalized bad debt expense included in rates in this case recovers future bad debt expense, but it doesn't provide recovery for the period prior to implementation of the new rates.

QUALIFIED PENSION EXPENSE

Q. Please describe the issue in this case regarding Laclede's qualified pension plans.

A. The regulatory methodology originally established in Case No. GR-2002-0356 and continued in Case No. GR-2007-0208 establishes a fixed allowance in rates for pension expense, and specifies deferral of the difference between that amount and pension expense determined for financial reporting purposes. Laclede and Staff are in agreement that this methodology should be continued in this case. The disagreement in this case is in regard to the appropriate amount of the allowance.

Q. How has the allowance been determined in the past?

A. The allowance has generally been set at a level sufficient to provide for funding of the plans plus an additional amortization of the existing prepaid pension asset.

Q. What allowance has Laclede proposed in this case?

A. Laclede proposed an allowance of $25,000,000 in its direct case. However, upon further review and analysis through the update period, Laclede now believes that an allowance of $17,000,000 should be sufficient in this case. This compares with an allowance of $4,821,245 in Laclede's previous rate case (No. GR-2007-0208). It should be noted that these amounts are all stated prior to application of the transfer rate.

Q. Why has Laclede proposed a significant increase in this case?

A. For reasons detailed in my direct testimony, funding of Laclede's pension plans, which has been at an abnormally low level for many years, will increase substantially in fiscal 2011 (the pension plan year commencing October 1, 2010). The first payment at the higher level is due in January 2011. Laclede believes that recognition of this additional funding is appropriate in this case given the proximity of the increase in funding to the effective date of rates.

Q. What position has Staff taken?

A. Staff witness Doyle Gibbs has included an allowance based on the test year plus an additional amortization, effectively ignoring the pending increase. Mr. Gibbs proposed an allowance of $5,509,517 (prior to application of the transfer rate).

Q. What would be the likely impact of Staff's proposal?

A. Rate recovery from this case would be insufficient to provide for the required contributions to the pension trust, the prepaid pension asset would increase substantially, and Laclede would likely be forced to file another rate case immediately following this one in order to correct these problems.

Q. The first increased payment isn't due until January 15, 2011, which is after the statutory effective date of rates in this case of November 4, 2010. Would Laclede receive an unfair benefit during this period?

A. No. Any timing difference between the allowance in rates and funding of the plans would simply accelerate the amortization of the prepaid pension asset. The regulatory methodology in place ensures that no over or under-recoveries occur.

Q. Is there any need to rely on estimates or out-of-period information to adopt the allowance proposed by the Company?

A. No. The amount of the prepaid pension asset is known and measurable at this time and represents a cost that falls squarely within the test year used in this case. As such, it is a known cost that can be amortized by the Commission at whatever level and whatever rate the Commission believes is appropriate. In effect, the Company's proposal to provide an allowance of $17.0 million for pension costs represents nothing more than a temporary increase in the rate at which this known asset is being amortized. Even in the very unlikely event that the new funding levels never materialize, this amount would still produce a reasonable amortization period for the existing asset – an amortization period that has been routinely used for other costs. And in the likely event that the new funding level does materialize, providing such an allowance now would help ensure that the pension asset does not grow dramatically over the next several years. Either way, the allowance proposed by the Company produces a reasonable and thoroughly supported result.

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, the costs of these plans have been calculated based on benefit payments to participants of the plans.

Q. How did Staff determine the normalized cost for these plans?

A. Staff witness Doyle Gibbs used a five year average of historical payments under these plans to calculate a normalized cost of $406,354 (before transfers to construction) for these plans.

Q. Do you agree with Staff's method for normalizing this item?

A. No. While five-year averages are commonly used to normalize items that exhibit wide fluctuations in the absence of a discernable trend, the nature of the benefit payments in the SERP cause use of a five-year average to be inadequate for this particular item.

Q. Please explain.

A. These plans have relatively few participants. A large portion of the benefits paid from the SERP tend to be in the form of one-time lump sum payments. Therefore, the incidence of payments from the SERP is highly dependent on when participants retire. A five-year average of historical payments is insufficient to accurately normalize this cost since it is significantly influenced by whether applicable retirements happened to occur within the five-year time frame.

Q. How has the Company addressed this problem in its filing?

A. The Company's adjustment is based on calculations performed by its actuary, Towers Watson. Accounting rules require the Company to disclose the amount of benefit payments anticipated from these plans over the next five years in our financial reports, and we have normalized expense based on these calculations. The methodology employed by the actuary effectively normalizes these costs at an appropriate ongoing level. The resulting normalized cost is $1,408,000 (before transfers to construction). It is this amount that should be reflected in the rates established in this proceeding.

Q. Do you have any other comments regarding non-qualified pension expense?

A. Yes. Laclede's qualified pension plan expenses are currently covered by a tracker mechanism wherein a specified allowance is included in rates, and differences between such allowance and expense for financial reporting purposes are deferred for recovery from or return to customers in the future. I proposed in my direct testimony that this mechanism be extended to the non-qualified pension plans as well. We continue to advocate this proposal, since it would avoid over- or under-recovery of these costs, regardless of which normalized amount the Commission includes in this case, and would provide consistency in the regulatory treatment of all of the Company's pension costs.

OPEB EXPENSE

Q. Please describe the issue in this case in regard to other postemployment benefits ("OPEBs") expense.

A. In Case No. GR-2007-0208, the Commission established a regulatory methodology for OPEBs similar to that described above for pension expense. In its direct testimony, Laclede proposed continuation of this methodology in this case. Staff did not oppose this proposal in its direct filed case. As with pensions, the disagreement in this case is in regard to the appropriate allowance.

Q. Please explain.

A. Currently, two separate amortization methods are employed for calculation of OPEB expense for financial reporting purposes and for regulatory purposes. The difference between the two relates to the method for amortization of unrecognized gains and losses. The financial reporting basis amortizes such gains and losses over the average remaining service life of the participants, while the regulatory method uses one-fifth of the five year average of the previous balances to establish this amortization. Laclede believes that the financial reporting method is preferable since it is permissible under ASC 715 (previously FAS 106) while the regulatory methodology is not, and provides for less volatility in costs and funding. Staff advocates continued use of the regulatory method.

Q. What are the allowances proposed by the parties?

A. Staff's proposed allowance under the regulatory method is $11,913,559. Laclede's proposed allowance under the financial reporting method is $9,713,351. These amounts are before applicable transfers.

Q. Why is Laclede proposing a lower allowance than Staff's?

A. Under the regulatory methodology in place, any differences between the allowance and actual expense are deferred, so the financial impact of changing the allowance is offset by the deferral. We believe that the financial reporting method provides for a better long term indication of the cost of the plan and has less volatility. Using the financial reporting method in this case also would have the benefit of reducing revenue requirement which would help soften the impact of the necessary pension increase discussed above.

OVERTIME

Q. Please explain the issue related to the appropriate level of contract overtime at the Laclede Division to be included in this case.

A. Staff witness Erin Carle adjusted Laclede Division employees to the actual level as of March 31, 2010, but made no adjustment to test year overtime. Laclede accepts that the employee level adjustments are appropriate, but believes that test year overtime levels should be normalized at a higher level.

Q. What is the value of this adjustment?

A. Laclede would add about 15,000 hours to overtime, (the total value after application of the O&M percent and related FICA and 401K costs is

$507,000). By way of comparison, Staff's employee adjustment removed 51 employees from the test year, which equates to about 106,000 hours.

Q. Why do you believe that test year overtime levels are too low for normalization purposes?

A. Laclede's cost saving efforts have resulted in significant reductions in overtime and employee levels in recent years, and these should certainly be reflected in the rates in this case. However, overtime levels are subject to wide fluctuations based on such factors as weather, operating needs, and employee levels, so a single year does not necessarily indicate an appropriate normalized level. An upward adjustment to test year levels is appropriate because the 51 employee reduction from test year levels to March 31, 2010 will tend to put upward pressure on overtime and the test year decline in overtime from previous years indicates a greater reduction than would be expected based on historical trends. Overtime for the past six years is as follows:

	Hours	Change in Hours
Fiscal 2004	227,569	
Fiscal 2005	210,282	(17,287)
Fiscal 2006	206,855	(3,427)
Fiscal 2007	185,125	(21,730)
Fiscal 2008	178,021	(7,104)
Fiscal 2009	129,996	(48,025)

Laclede's proposed overtime level of 144,773 hours would constitute a reduction of 33,248 hours from the level in 2008 and is 44,968 fewer hours than the average level over the above six-year period.

LUMP SUM PAYMENTS TO CONTRACT EMPLOYEES

Q. Please describe lump sum payments made to contract employees.

A. The four-year labor agreement signed August 4, 2008 with Locals 11-6 and 11-194 of the steelworkers union included a provision requiring annual lump sum payments to contract employees.

Q. How did Staff normalize this item in its adjustment?

A. Staff witness Carle reduced test year payroll by the amount of lump sums paid during the year ($392,447), effectively including an amount of zero in Staff's direct filed case. However, it is my belief that Staff included an allowance for lump sum payments in its true-up allowance.

Q. Why are you raising this issue?

A. I have raised this issue simply to point out that the annual expense associated with lump sum payments to contract employees should be added to Staff's case, regardless of the disposition of the true-up in this case.

ALLOCATIONS OF COSTS TO AND FROM AFFILIATED ENTITIES

Q. Please describe this issue.

A. Staff witness Hanneken has made a number of adjustments which had the effect of reducing the amount of corporate and labor costs charged to Laclede Gas Company. Laclede disagrees with many of these adjustments for reasons detailed below. However, we have made some adjustments in response to Ms. Hanneken's comments.

Corporate Costs

Q. Please describe the costs included in this category.

A. These costs include items such as annual reporting costs, directors and officers, auditing costs, general and administrative expenses, and Laclede Group costs.

Q. How has Laclede allocated these costs?

A. Laclede uses a Three Factor Allocation method. This commonly used method is also referred to as the "Massachusetts Formula". This method is described as follows by the American Gas Association: (http://www.aga.org/Kc/aboutnaturalgas/glossary)

Massachusetts Formula
A method used to allocate costs incurred by a parent company on behalf of its affiliates to those affiliates. The "Mass Formula" has three parts using the allocation factors (ratios comparing the affiliate to the company as a whole) of gross plant, gross revenues, and labor, which are added together and then divided by three to arrive at a simple average of the three factors. This formula attempts to weight various aspects of each of the affiliates so that a fair distribution of the overhead cost is allocated to each affiliate member.

Q. Why does Laclede use the Three Factor Allocator?

A. Laclede Gas Company and its affiliates are very disparate businesses in terms of revenues, operational requirements, employees, asset base, customers, and other factors. The Three Factor Allocator provides a fair and reasonable method for allocating corporate costs among these businesses since it takes into account multiple factors. It is a commonly-used methodology in the utility industry and has been in use by Laclede since implementation of its cost allocation manual in 2002.

Q. How did Staff allocate these corporate costs in its filing?

A. At page 48 of Staff's cost of service report, Ms. Hanneken states "The Staff adjusted the Corporate Cost category of Company's CAM to reflect allocations based on a revenue factor." Staff's testimony provides no rationale for this proposed change, which had the effect of reducing revenue requirement by $1,025,757 in this case.

Q. Is there any justification to use revenue to allocate corporate expenses?

A. No, none whatsoever. Laclede Gas Company's largest affiliate is Laclede Energy Resources, which is a gas marketing company. A marketing company by its nature generates considerable revenue with small resources and activity relative to a gas utility like Laclede Gas. As a consequence, the functional demands placed on shared corporate services – and hence the time and human resources required to perform various administrative and managerial tasks – will vary significantly from one entity to the next.

Q. Have you prepared a table that demonstrates the relative differences in these functional demands and how they compare to the Three Factor Allocator?

A. Yes, the table below quantifies the relative magnitude of the more common functional demands imposed by Laclede versus its affiliates and depicts how they compare to a Three Factor Allocator :

Fiscal 2009 Factor	Laclede Gas Company	Affiliates	Total	Laclede Gas %
Revenue	$1,053,992,760	$838,959,367	$1,892,952,127	55.68%
Payroll	$110,931,391	$2,105,465	$113,036,856	98.14%
Fixed Assets	$896,477,941	$7,168,460	$903,646,401	99.21%
	Three Factor Allocator **			84.34%
Customers	630,000	250	630,250	99.96%
Ledger Transactions (DR 229)	679,161	16,269	695,430	97.66%
Employees	1,740	16	1,756	99.09%
Miles of Pipe	16,000	39	16,039	99.76%

** Average of Revenue, Payroll, and Fixed Asset Percent

Q. What in your opinion does this data substantiate?

A. It shows that the functional demands imposed on shared corporate services by Laclede Gas are significantly greater in every major functional area than the costs actually allocated to Laclede Gas under the Three Factor Allocator. Whether it is the number of employees who must be managed, the number of transactions that must be accounted for, or the quantity and nature of the assets that must be maintained, the Three Factor Allocator proposed by Laclede allocates substantially less to the regulated utility than what these functional demands might otherwise suggest. Nevertheless, Laclede believes that the Three Factor Allocator remains the most appropriate basis for allocating such costs. The same cannot be said for Staff's use of a single Revenue Factor which suggests that Laclede's affiliates should be allocated almost 50% of these shared costs even though they account for only about 1% to 2% of these functional demands. In my view, that is a completely indefensible result which, contrary to long-standing principles of appropriate cost allocation, simply treats these functional demands – and the costs they impose – as if they did not exist.

Labor Costs

Q. Please explain how Laclede allocates employee's pay among affiliates.

A. Laclede uses a dual reporting system. Fixed time allocations are established for each employee based on a review of typical work distribution. In addition, a variable reporting system is also in place. If an employee's distribution of time is close to the fixed distribution, then he or she need take no action and the system will automatically allocate their time according to the established fixed allocations. However, employees have the ability to report their time for any individual month on a variable basis and such reporting supersedes the fixed distribution. This allows for accurate reporting of special projects and for employees whose time distributions vary over time.

Q. How often are fixed distributions updated?

A. Employees are required by Laclede's Code of Conduct Policy to maintain a distribution that accurately reflects where they spend their time, and changes can be made whenever appropriate. On March 31, 2008, Laclede Group sold one of its affiliates (SM&P Utility Resources). In June 2008, the Company reminded all impacted employees to review and update their distributions in response to this event. The resulting changes were completed prior to the test year in this case.

Q. What adjustment did Staff make to labor costs?

A. Staff reviewed numerous employees' time allocations and proposed a revised allocation of some of these employees' time based on its review.

Q. Do you agree with Staff's proposed adjustments?

A. We have accepted some of Staff's adjustments. However, Staff made a number of arbitrary adjustments to officers' payroll that we consider to be inappropriate. These adjustments reduced revenue requirement by $300,000.

Q. How did Staff make these adjustments?

A. Ms. Hanneken's testimony discussed criticisms of the above procedures, and then indicated that "the Staff has made adjustments to appropriately attribute officers' work hours to affiliated companies." Her testimony was silent in regard to how she determined these allocation percents. Nevertheless, it is difficult to accept that any arbitrarily determined allocation could be preferable to those determined by an actual allocation determined by the people involved.

Q. Do you have any other comments regarding adjustment's that Staff made to labor allocations?

A. Yes. Staff reduced revenue requirement by $7,000 to allocate payroll from an employee who prepares the Cost Allocation Manual annual report, apparently to charge the cost of this report to Laclede Gas Company's affiliates. We believe that this adjustment is wholly inappropriate since the CAM annual report is prepared at the direction of the Commission and for the Commission Staff.

Q. Is there an indication of why the Staff's proposed adjustments to labor allocations produce an unreasonable result?

A. Yes. If one looks only at the result of Staff's proposed allocation, it effectively assumes that Laclede's largest affiliate should have almost one corporate support or administrative employee for every operational employee at the affiliate, to handle accounting, human resource, legal and other corporate support functions. Such an overloading of corporate support personnel has absolutely no basis in reality.

<u>Laclede Group Sign</u>

Q. Please describe the Laclede Group sign.

A. Laclede Group installed a lighted sign on the outside of its corporate headquarters. The sign is visible from many vantage points in downtown St. Louis.

Q. What is the purpose for the sign?

A. Among other things, such signage provides visibility to the Group and conveys stability and substance to potential investors.

Q. What benefit does the sign provide to Laclede Gas Company?

A. Laclede Group has flowed the capital associated with virtually all of Laclede Group's common equity issuances to Laclede Gas Company. Therefore, Laclede Gas benefits from positive perceptions engendered among investors by enhanced corporate visibility generated by the sign. Therefore, we believe that it is appropriate for Laclede Gas to bear a portion of the cost of this sign.

Laclede proposes that such costs be included based on the aforementioned Three Factor Allocator.

Q. What position has Staff taken on this issue?

A. Staff excludes capital and maintenance costs associated with the sign. For the reasons stated above, Laclede disagrees, and proposes inclusion of rate base totaling $231,000 and annual maintenance totaling $4,000 in this case (based on the Three Factor Allocator).

CAM Annual Report

Q. Do you have any additional comments?

A. Yes. Ms. Hanneken made a number of criticisms of Laclede’s Cost Allocation Manual annual report in her testimony, comparing its ease of use and transparency unfavorably to the reports filed by several other utilities in Missouri. She also made a number of observations and expressed concerns regarding various procedures. I have not addressed all of these observations in this testimony to the extent that they did not result in an adjustment by Staff, but do not in so doing accede to the opinions expressed. Laclede would point out that the CAM has been submitted in its current form since 2002 and has apparently been adequate up to now. Nevertheless, the Company is very willing to work with Staff to revise the report in a manner that will facilitate Staff’s analysis in future reviews.

GASOLINE / DIESEL

Q. Please describe this issue.

A. In its direct filed case, Laclede adjusted gasoline and diesel costs based on prices in effect at the end of the test year. Staff witness Lisa Hanneken also included this adjustment in Staff's direct case.

Q. Did Staff update this expense to the March 31, 2010 update period?

A. No, it did not. Laclede believes that such update would be appropriate. This additional adjustment would increase revenue requirement by $187,837.

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. In its direct filed case, Laclede included in rate base the outstanding balances accrued pursuant to the authority granted in the aforementioned prior cases, since the deferrals represent reasonable and prudent expenditures made by the Company to provide utility service which have not yet been recovered.

Q. Did Staff include this adjustment in its case?

A. Staff did not include this rate base item in its direct filed case. However, Staff Witness Doyle Gibbs reduced rate base by the related deferred tax offset of $401,600. The deferred balances associated with these AAOs of $932,000 should be included in rate base for the reasons discussed above. Moreover, while it is unreasonable enough to exclude these balances from rate base, it is doubly inappropriate for Staff to simultaneously reduce rate base by the related deferred taxes.

DEFERRED TAXES RELATED TO ACCOUNTING AUTHORITY ORDERS

Q. Has the Staff also inappropriately reduced rate base to reflect deferred taxes supposedly associated with other AAO items that are not in rate base?

A. Yes. Staff Witness Doyle Gibbs has included reductions to rate base related to deferred tax offsets on AAOs that are not in rate base. The resulting decrease in rate base totaled $3,154,766. Laclede contends that it is inappropriate to include a deferred tax offset in rate base when the offset is based on an item that itself is not in rate base.

Q. Please describe the AAOs involved.

A. These AAOs fall into three categories:

1. AAOs amortized as a result of the stipulation in Case No. GR-99-315: Laclede had a number of AAOs in the 1990s related to gas safety, OPEBs,

SERP, Y2K, and MGP costs. The Stipulation and Agreement in Case No. GR-99-315 provided for amortization of the associated balances, and specified that the parties would not in the future propose to include such balances in rate base. Staff proposes to reduce rate base by $1,280,936 in this case due to deferred taxes on the remaining balances.

2. Emergency Cold Weather Rule Balances from the stipulation in Case No. GR-2007-0208: This AAO included compliance costs incurred from January 1, 2006 through March 31, 2006 associated with the emergency cold weather rule. Such costs included interest at short term rates, and therefore this item has not been included in rate base. Staff proposes to reduce rate base by $905,021 in this case due to deferred taxes on the remaining balance.

3. Emergency Cold Weather Rule Balances from the stipulation in Case No. GU-2007-0138: This AAO included compliance costs incurred from November 1, 2006 through March 31, 2007 associated with the permanent amendments to the Cold Weather Rule. Such costs included interest at short term rates, and therefore this item has not been included in rate base in this case. Staff nevertheless proposes to reduce rate base by $968,808 in this case due to deferred taxes on the outstanding balance.

Q. What is the reason for reducing rate base by deferred tax offsets?

A. Certain rate base items generate tax timing benefits that should appropriately serve as an offset to the rate base item since the Company receives a cash benefit in the form of reduced tax payments. Staff's proposed reductions have no relationship to a rate base item, however, and should therefore be rejected.

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-2010-0171

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 rebuttal 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.

J. A. Fallert

James A. Fallert

Subscribed and sworn to before me this 23rd day of June, 2010.

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