

Exhibit No.:

Issue:

Witness:

Type of Exhibit:

Sponsoring Party:

Case No.:

Cost Allocation Manual

Patricia A. Krieger

Surrebuttal Testimony

Laclede Gas Company

GM-2001-342

FILED²

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Missouri Public
Service Commission

LACLEDE GAS COMPANY

SURREBUTTAL TESTIMONY

OF

PATRICIA A. KRIEGER

June 2001

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of the Application of Laclede)
Gas Company for an Order Authorizing)
Its Plan to Restructure Itself Into a Holding) Case No. GM-2001-342
Company, Regulated Utility Company, and)
Unregulated Subsidiaries.)

AFFIDAVIT

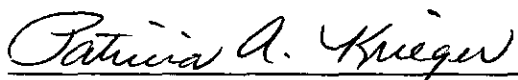
STATE OF MISSOURI)
)
CITY OF ST. LOUIS)

Patricia A. Krieger, of lawful age, being first duly sworn, deposes and states:

1. My name is Patricia A. Krieger. My business address is 720 Olive Street, St. Louis, Missouri 63101; and I am Manager of Accounting of Laclede Gas Company.

2. Attached hereto and made a part hereof for all purposes is my surrebuttal testimony, consisting of pages 1 to 6, inclusive.


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.



Patricia A. Krieger

Subscribed and sworn to before me this 7th day of June, 2001.

PATRICIA P. HICKS
Notary Public — Notary Seal
STATE OF MISSOURI
City of St. Louis
My Commission Expires: June 27, 2002



**SURREBUTTAL TESTIMONY
OF
PATRICIA A. KRIEGER**

1
2 Q. Please state your name and business address.

3 A. My name is Patricia A. Krieger and my business address is 720 Olive St., St.
4 Louis, Missouri 63101.

5 Q. Are you the same Patricia A. Krieger who previously caused direct testimony to
6 be filed in this proceeding?

7 A. Yes.

8 **PURPOSE OF SURREBUTTAL TESTIMONY**

9 Q. What is the purpose of your surrebuttal testimony?

10 A. The purpose of my surrebuttal testimony is to respond to the testimony and
11 recommendations presented in the rebuttal testimony of Stephen M. Rackers on
12 behalf of the Commission ("Staff") and Russell W. Trippensee on behalf of the
13 Office of the Public Counsel ("OPC"). Specifically, I will address their
14 testimony and recommendations as they relate to the Company's proposed Cost
15 Allocation Manual and the allocation and transfer pricing procedures that should
16 govern transactions between Laclede Gas Company and its affiliates upon
17 completion of the corporate restructuring proposed by the Company in this case
18 (the "Proposed Restructuring").

19 **GENERAL COMMENTS**

20 Q. Do you have any general comments to make regarding the testimony and
21 recommendations filed by Mr. Rackers and Mr. Trippensee?

1 A. Yes, I think it is important to bear in mind that the Company voluntarily came
2 forward with a proposed Cost Allocation Manual ("CAM") at the time it filed its
3 direct testimony in this case. The Company did so in an effort to address up front
4 any concerns that might exist regarding potential cross-subsidies taking place
5 between the regulated gas company and its unregulated affiliates following the
6 completion of the Proposed Restructuring. The CAM initially proposed by the
7 Company, while not excessively burdened with technical detail, documented the
8 overall policy for, among other things, the pricing standards and the allocations of
9 direct and indirect costs. Even with these efforts, the Company is always open to
10 suggestions on how the CAM could be further improved and will continue to
11 work with the parties toward that end. At the same time, however, I have to say
12 that a number of the assertions made on this issue, particularly in the rebuttal
13 testimony of Mr. Trippensee, exaggerate both the need for additional
14 improvements and the degree to which they are required to ensure that the
15 Proposed Restructuring will not be detrimental to the public interest.

16 Q. What is the basis for your statement?

17 A. The Company and its subsidiaries have been involved in a variety of unregulated
18 business activities for many years now. Despite the absence of any formal CAM
19 over this extended period of time, the Company has had allocation methodologies
20 in place and the ratemaking process has provided, and could continue to provide,
21 an effective means to safeguard the best interests of the ratepayer with regard to
22 these matters. Therefore, I think certain claims regarding the necessity of an

1 elaborate CAM to avoid the risk of cross-subsidization are at the very least
2 overstated.

3 **RESPONSE TO CAM-RELATED RECOMMENDATIONS**

4 Q. Should any of the specific recommendations made by Mr. Rackers or Mr.
5 Trippensee be adopted by the Commission?

6 A. Yes. Laclede has thoroughly reviewed and discussed with Mr. Rackers the
7 various CAM-related recommendations set forth in Section 5 of Schedule 2-2 to
8 his rebuttal testimony, many of which also address Mr. Trippensee's concerns.
9 With only two exceptions, the Company is willing to adopt all of the
10 recommendations made by Mr. Rackers in that section.

11 Q. What exceptions are you referring to?

12 A. In subsection g. of Section 5, Mr. Rackers makes several recommendations
13 related to nonregulated activities engaged in by Laclede Gas Company with non-
14 affiliated third party customers. Nonregulated activities Laclede Gas Company
15 conducts now or undertakes as an ongoing business won't be affected by
16 restructuring in any way. The purpose of the CAM is to set forth policies and
17 procedures to be followed when Laclede Gas Company engages in transactions
18 with its affiliates. Therefore, the CAM is not an appropriate vehicle to
19 incorporate requirements for nonregulated activities. Accordingly, I would
20 recommend that subsection g. of Section 5 be eliminated.

21 Q. What is the other exception to which you refer?

22 A. In subsection h. of Section 5, Mr. Rackers makes a number of recommendations
23 relating to the establishment of a Code of Conduct to ensure compliance with its

1 policies and practices. It is unclear what policies and practices Mr. Rackers is
2 referring to, but I assume he means those adopted by the Company as a result of
3 any CAM-related recommendations approved by the Commission in this
4 proceeding. In any event, the Company already has a Code of Conduct that
5 requires its employees to comply with all applicable laws, rules, regulations and
6 other legal requirements. Accordingly, while the Company is certainly willing to
7 take whatever steps are necessary to ensure that relevant employees are made
8 aware of the fact that its Code of Conduct also requires adherence to any
9 requirements set forth in the CAM, as it may be modified from time to time, it
10 should not be required to develop a brand new Code of Conduct for this one item.
11 Accordingly, I would recommend that subsection h. of Section 5 also be
12 eliminated. With these two changes, the Company will be prepared to incorporate
13 Mr. Racker's recommendations into the CAM and reflect them in the annual
14 filing that Mr. Rackers has proposed be made. Laclede would propose that annual
15 filings be due on April 15 of each year for the previous fiscal year period and that
16 the first annual filing be made for the first full fiscal year period after the
17 Proposed Restructuring becomes effective.

18 Q. Please address Mr. Trippensee's rebuttal testimony related to the CAM.

19 A. To begin with, Mr. Trippensee claims at pages 6 and 7 of his rebuttal testimony
20 that I had erroneously asserted in my direct testimony that the pricing concepts
21 contained in the Company's proposed CAM are consistent with the Commission's
22 Affiliate Transactions Rule. As a correct reading of page 5, lines 14-22, of my
23 direct testimony shows, I only asserted that the pricing standards governing the

1 provision of goods and services from an affiliate to Laclede were consistent with
2 the Commission's Affiliate Transactions Rules, an assertion which was accurate
3 then and remains accurate today. Secondly, I strongly disagree with Mr.
4 Trippensee's recommendation at pages 10 to 11 of his direct testimony that the
5 Commission should require Laclede to submit a "fully developed" CAM to Staff
6 and Public Counsel for their review and for the Commission's approval before the
7 Proposed Restructuring is approved.

8 Q. Why do you object to this recommendation?

9 A. Laclede has already agreed to incorporate many of the specific enhancements to
10 the CAM that have been proposed by Staff in its rebuttal testimony. It is our
11 intention to continue to work with the parties to develop a CAM that provides
12 sufficient detail and addresses any additional concerns they may have. However,
13 approval of the Proposed Restructuring should not be held hostage to Staff's and
14 Public Counsel's review and the Commission's approval of some as of yet
15 unspecified and undefined version of a "fully developed" CAM. In contrast to the
16 Staff, Mr. Trippensee has previously made little effort to advise the Company of
17 what OPC believes should be included in such a CAM. And even at this late date,
18 he suggests in his testimony that the few recommendations he has made in this
19 regard are not "all inclusive" and that further ones may be forthcoming pending
20 his further study of various information. In view of these considerations, I
21 strongly recommend that the Commission reject Mr. Trippensee's
22 recommendation.

23 Q. Does this conclude your surrebuttal testimony?

1 A. Yes, it does.