

Exhibit No.:

Issue(s):

Policy Considerations/
Organizational Structure/
Unregulated Cost Allocation/
Credit Scoring/
Low-Income Program Funding

Witness/Type of Exhibit:

Meisenheimer/Direct

Sponsoring Party:

Public Counsel

Case No.:

GR-2010-0171

DIRECT TESTIMONY

OF

BARBARA A. MEISENHEIMER

Submitted on Behalf of the Office of the Public Counsel

LACLEDE GAS COMPANY

CASE NO. GR-2010-0171

May 10, 2010

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

In the Matter of Laclede Gas Company's)
Tariff to Increase Its Annual Revenues) **Case No. GR-2010-0171**
for Natural Gas Service.)

AFFIDAVIT OF BARBARA A. MEISENHEIMER

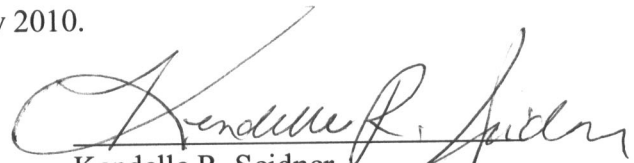
STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Barbara A. Meisenheimer, of lawful age and being first duly sworn, deposes and states:

1. My name is Barbara A. Meisenheimer. I am Chief Utility Economist for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my direct testimony.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.


Barbara A. Meisenheimer

Subscribed and sworn to me this 10th day of May 2010.


Kendelle R. Seidner
Notary Public

My Commission expires February 4, 2011.

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DIRECT TESTIMONY
OF
BARBARA A. MEISENHEIMER
LACLEDE GAS COMPANY
(REVENUE REQUIREMENT)
CASE NO. GR-2010-0171

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, TITLE, AND BUSINESS ADDRESS.

A. Barbara A. Meisenheimer, Chief Utility Economist, Office of the Public Counsel, P. O.
2230, Jefferson City, Missouri 65102.

Q. PLEASE SUMMARIZE YOUR EDUCATIONAL AND EMPLOYMENT BACKGROUND.

A. I hold a Bachelor of Science degree in Mathematics from the University of Missouri-
Columbia (UMC) and have completed the comprehensive exams for a Ph.D. in Economics
from the same institution. My two fields of study are Quantitative Economics and Industrial
Organization. My outside field of study is Statistics.

I have been with the Office of the Public Counsel since January 1996. I have testified on
economic issues and policy issues in the areas of telecommunications, gas, electric, water
and sewer. In rate cases my testimony has addressed class cost of service, rate design,
miscellaneous tariff issues, low-income and conservation programs and revenue requirement
issues related to the development of class revenues, billing units, low-income program costs,
incentive programs and fuel cost recovery.

Over the past 14 years I have also taught courses for the following institutions: University of Missouri-Columbia, William Woods University, and Lincoln University. I currently teach undergraduate and graduate level economics courses and undergraduate statistics for William Woods University.

Q. HAVE YOU TESTIFIED PREVIOUSLY BEFORE THIS COMMISSION IN LACLEDE GAS COMPANY CASES?

A. Yes. Specific to Laclede Gas Company, I testified in the Company's three most recent rate cases; Case No. GR-2002-356, Case No. GR-2005-0284 and Case No. GR-2007-0208. I also testified in Public Counsel's complaint regarding Laclede's estimated billing practices in Case No. GC-2006-0318, on automated meter reading in Case No. GT-2008-0374 and on Laclede's proposed liability language in Case No. GT-2009-0056.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

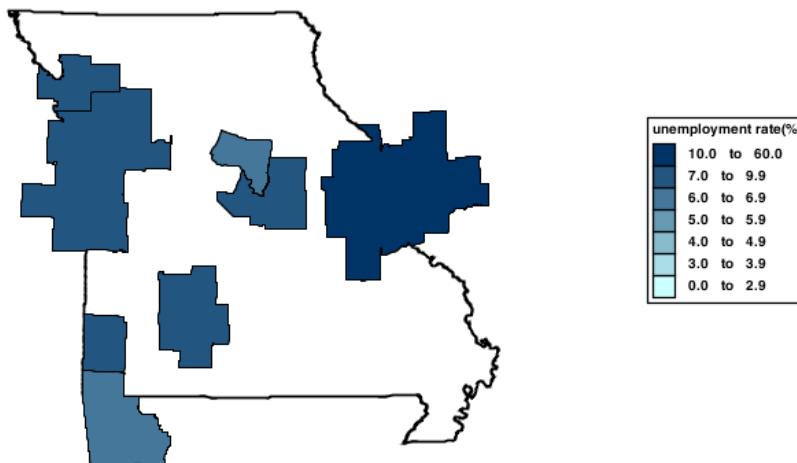
A. My direct revenue requirement testimony addresses economic and public policy considerations that Public Counsel encourages the Commission to consider in resolving the issues in this case. My testimony will also address proposed changes to experimental program funding and deposit policies that might affect the revenue requirement in this case.

II. ECONOMIC CONSIDERATIONS

Q. PLEASE COMMENT ON THE RATE OF UNEMPLOYMENT IN THE ST. LOUIS AREA.

A. The St. Louis area has experienced high unemployment and frequent rate increases in recent years. For example, households in the St. Louis area have been disproportionately hard hit by unemployment. The diagram and table shown below were generated from a mapping program available from the US Bureau of Labor Statistics.

Unemployment rates by MSA, not seasonally adjusted, Missouri March 2010



Metro Areas	March 2010
Columbia, MO	6.9
Fayetteville-Springdale-Rogers, AR-MO	6.6
Jefferson City, MO	7.9
Joplin, MO	9.1
Kansas City, MO-KS	9.3
Springfield, MO	9.4
St. Joseph, MO-KS	9.1
St. Louis, MO-IL	10.9

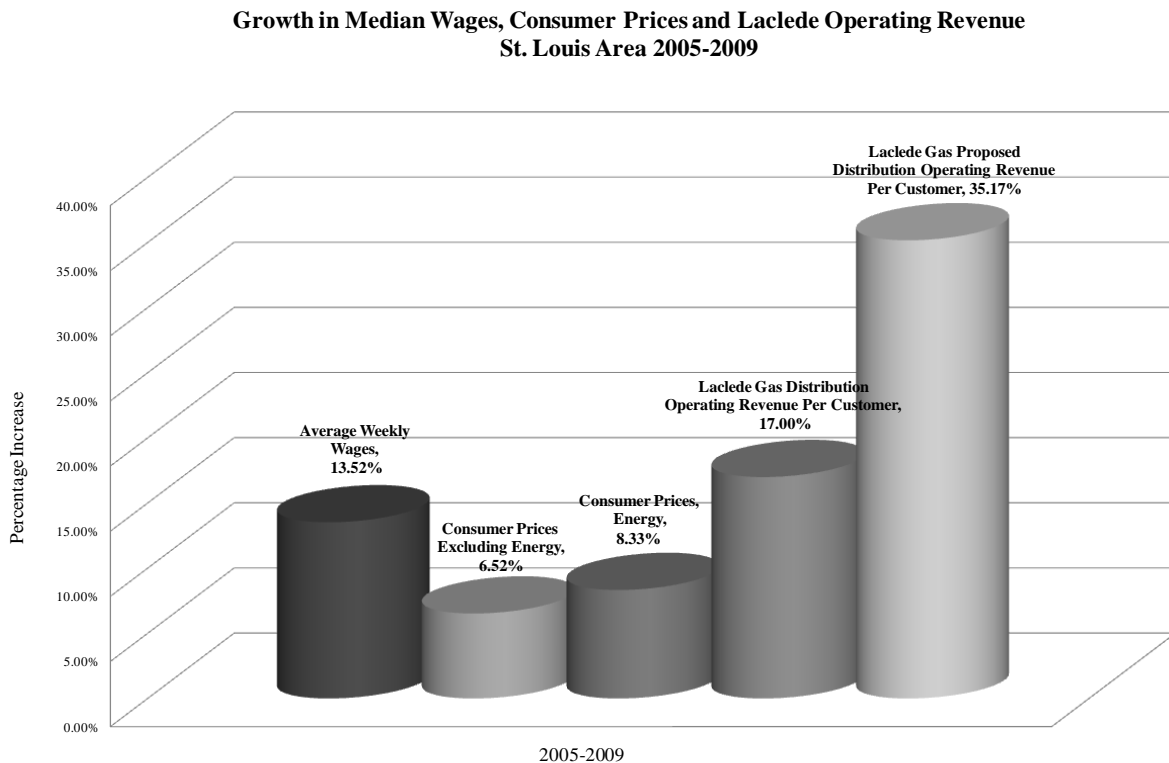
As illustrated, at 10.9%, the St. Louis MSA unemployment rate is the highest among all MSA areas that are wholly or partially contained in Missouri.

1 **Q. PLEASE COMMENT ON RECENT RATE INCREASES THAT HAVE IMPACTED THE ST. LOUIS**
2 **AREA.**

3 From 2005 to 2009, investor owned utility customers in the St. Louis area have been
4 impacted by frequent and substantial rate increases. AmerenUE increased companywide
5 electric rates twice for a total of almost 205M. Missouri American Water increased
6 companywide water rates twice for a total of almost 63M. Laclede increased companywide
7 gas distribution rates twice for a total of over 47M. Rate increases are again pending in
8 current cases for each of these utilities.

9 **Q. PLEASE COMMENT ON WAGES AND PRICES IN THE ST. LOUIS AREA.**

10 **A.** Based on data obtained from the US Bureau of Labor Statistics, for the period 2005-2009,
11 wages have exhibited a higher percentage of growth than consumer prices for all goods and
12 services excluding energy and a higher percentage of growth than consumer energy prices.
13 However, the percentage of increase in wages is less than the percentage of growth in
14 Laclede's current operating revenue per customer and less than half the percentage of growth
15 in Laclede's operating revenue per customer that will exist if Laclede's 52.6M proposed
16 increase is granted. The diagram shown below illustrates these comparisons.



While the diagram illustrates a 13.52% increase in average weekly wages over the combined period 2005-2009, it is important to note that the growth occurred in 2006, 2007 and 2008. The quarterly data for 2009 actually shows a slight contraction in average weekly wages.

Q. HAVE CONSUMERS EXPRESSED CONCERNS ABOUT THEIR ABILITY TO AFFORD UTILITY RATE INCREASES?

A. Yes. Customers testifying in the recent AmerenUE and Missouri American Water public hearings have regularly voiced frustration and concerns about the burden of additional rate

1 increases given the current state of the economy. Some customers have testified that they
2 must work extra hours or two jobs just to make ends meet. Some have testified that they
3 must choose between paying utility bills and buying food and medicine.

4 **Q. WHAT DO YOU BELIEVE SHOULD BE THE COMMISSION'S FOCUS IN RESOLVING THIS CASE?**

5 A. In this case, the Commission should focus on ensuring that Laclede tightens its belt just as
6 consumers are doing. The Commission should closely scrutinize Laclede's costs, rate of
7 return, incentive mechanisms and program funding requirements in order to minimize any
8 customer rate increases.

9 **Q. HOW MIGHT THE COMMISSION DECIDE ISSUES IN A MANNER THAT MINIMIZES THE RATE**
10 **IMPACT ON CONSUMERS?**

11 A. With respect to the rate of return, the Commission is generally presented with a range of
12 returns that are considered reasonable by financial analysts. Setting rates to produce a return
13 at the lower end of the range can provide Laclede the opportunity to earn a reasonable return
14 while also minimizing the rate increase imposed on consumers.

15 With respect to incentive compensation, Laclede currently receives a percentage of
16 net off-system sales and capacity release revenues as an incentive to conduct such
17 transactions. However for the period FY 2008-2009, the net revenue generated from these
18 transactions has averaged only 38% of the value of these transactions for the period FY
19 2006-2007. The Commission might consider reducing the incentive compensation

1 mechanisms related to off-system sales and capacity release in order to better reflect the
2 reduced benefit to consumers associated with these activities.

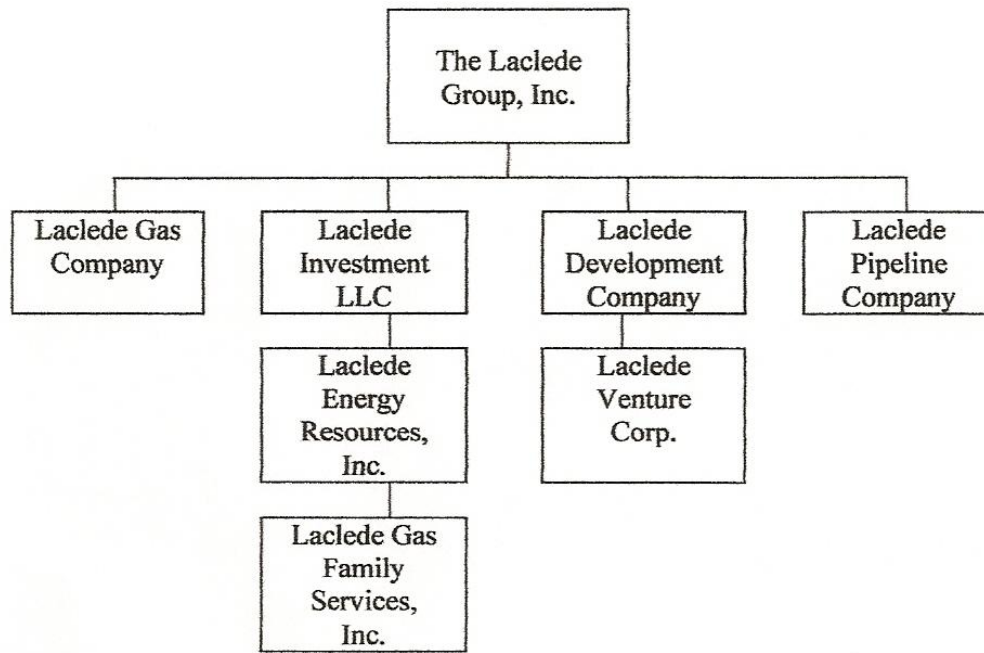
3 With respect to low-income program funding, based on my review of the program
4 expenditures for 2008-2009, Laclede has spent a little more than half of the amount
5 collected in rates over the same period leaving about \$535,000 unspent for 2008-2009, plus
6 the previous unspent balance from earlier years of the program. In Case No. GR-2007-
7 0208, I estimated the previous unspent balance to be just under \$800,000 from the inception
8 of the program through April 2007. Although I have not calculated the exact level of
9 unspent funds for the remaining period May 2007 through December 2007, assuming about
10 50% of the funds were expended and accounting for the change in annual funding that
11 became effective in August 2007, I estimate that the unspent funds for the period May 2007-
12 December 2007 was approximately \$237,500. This brings the combined total of unspent
13 funds to just over \$1.6M excluding interest. At current expense levels, the balance of
14 unspent funds is sufficient to cover program expenses for another 4-5 years. The
15 Commission could lessen the impact of any rate increase resulting from this case by
16 eliminating the current \$600,000 annual collection in rates.

17 ***III. CONSIDERATIONS RELATED TO AFFILIATES***

18 **Q. SHOULD THE INTERACTION AND COSTS ALLOCATIONS AMONG AFFILIATED ENTITIES BE**
19 **CAREFULLY SCRUTINIZED IN THIS CASE?**

1 A. Yes. Laclede Gas Company is one of a number of wholly owned subsidiaries of The
2 Laclede Group. While Laclede Gas Company is a regulated monopoly, the other
3 subsidiaries are not price regulated by the Missouri Public Service Commission. The
4 subsidiaries not price regulated by the Missouri Public Service Commission include Laclede
5 Energy Resources which is engaged in the non-regulated marketing of natural gas and
6 related activities, Laclede Pipeline Company which engages in FERC regulated
7 transportation of liquid propane. Laclede Investment LLC is engaged in business investment
8 and financing of real estate development. Laclede Gas Family Services, Inc. is a registered
9 insurance agency in the State of Missouri. Laclede Development Company participates in
10 real estate development. Laclede Venture Corp. offers services for the compression of
11 natural gas for use or resale of compressed natural gas for use in vehicles. The following
12 diagram taken from the Laclede Group's 2009, Form 10-K filed with the Securities and
13 Exchange Commission illustrates the organizational structure of The Laclede Group.

Organization Structure



While The Laclede Group identifies the Missouri Public Service Commission regulated gas distribution service provided through its subsidiary Laclede Gas Company as its primary enterprise, however, as illustrated below, the revenue generated through The Laclede Group's non-regulated gas marketing activities conducted through Laclede Energy Resources generates revenue of similar magnitude.

<u>(Thousands)</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Regulated Gas Distribution	\$ 1,053,993	\$ 1,128,287	\$ 1,131,554
Non-Regulated Gas Marketing	836,865	1,075,845	718,704
Other	4,340	4,841	5,603
Total Operating Revenues	<u>\$ 1,895,198</u>	<u>\$ 2,208,973</u>	<u>\$ 1,855,861</u>

1 The Laclede Group, Laclede Gas Company and some affiliates including Laclede
2 Energy Resources share management personnel and other resources. For example, Laclede
3 Group's 2009, Form 10-K filed with the Securities and Exchange Commission lists the
4 following officers as common to Laclede Gas Company and The Laclede Group and/or
5 Laclede Energy Resources.

6 **D. H. Yaeger,**

7 **Laclede Group**

8 Chairman, President and Chief Executive Officer October 2000

9 **Laclede Gas**

10 Chairman, President and Chief Executive Officer January 1999

11 **LER**

12 President January 1999

13 **K. J. Neises,**

14 **Laclede Gas**

15 Executive Vice President October 2007

16 Executive Vice President – Energy and Administrative Services January
17 2002

18 **LER**

19 Vice President February 2002

20 **M. D. Waltermire,**

21 **Laclede Group**

22 Chief Financial Officer October 2007

23 **Laclede Gas**

24 Senior Vice President and Chief Financial Officer October 2007

25 Vice President – Operations & Marketing April 2003

26 **LER**

27 Vice President October 2007

28 **M. C. Darrell,**

29 **Laclede Group**

30 General Counsel May 2004

31 **Laclede Gas**

32 Senior Vice President and General Counsel October 2007

33 General Counsel May 2004

34 **M. C. Kullman,**

35 **Laclede Group**

1 Chief Governance Officer and Corporate Secretary February 2004
2 **Laclede Gas**
3 Chief Governance Officer and Corporate Secretary February 2004
4 **LER**
5 Secretary February 1998
6 **M. C. Geiselhart,**
7 **Laclede Group**
8 Vice President – Strategic Development and Planning (2) August 2006
9 **Laclede Gas**
10 Vice President – Strategic Development and Planning August 2006
11

12 In addition to shared management, in some instances Laclede Gas Company and
13 Laclede Energy Resources participate in affiliate transactions related to commodity gas sales
14 and pipeline transportation capacity. In other instances Laclede Gas Company and Laclede
15 Energy Resources are competitors for the sale and transportation of natural gas. It is
16 imperative that the Commission be assured that affiliate transactions are conducted at arm's
17 length and that the structures of management's incentives do not disadvantage the captive
18 rate-payers of Laclede Gas Company.

19 **Q. HAVE YOU BEEN ABLE TO QUANTIFY THE COMPENSATION RECEIVED BY TOP**
20 **MANAGEMENT?**

21 **A.** I have reviewed the limited compensation information contained in The Laclede Group's
22 January 28, 2010, Proxy Statement filed with the Securities and Exchange Commission.
23 The Proxy Statement provides the following compensation summary for named executives.

Summary Compensation Table

Name	Year	Salary	Stock Awards (1)	Option Awards (1)	Non-Equity Incentive Plan Compensation (2)	Change in Pension Value And Nonqualified Deferred Compensation Earnings (3)	All Other Compensation (4)	Total
Yaeger <i>Chairman of the Board, President & CEO</i>	2009	\$623,333	\$991,049	\$ 5,612	\$ 702,116	\$1,399,223	\$ 246,142	\$3,967,475
	2008	591,667	612,562	72,527	699,277	808,604	230,701	3,015,338
	2007	546,667	321,416	143,987	403,180	754,910	184,792	2,354,952
Waltermire <i>Chief Financial Officer</i>	2009	227,833	243,542	842	116,440	336,361	49,404	974,422
	2008	215,667	126,859	11,138	85,910	104,865	39,646	584,085
Neises <i>Executive Vice President, Laclede Gas</i>	2009	355,000	470,128	2,104	307,053	415,162	213,401	1,762,848
	2008	338,333	267,813	27,198	316,725	334,051	105,219	1,389,339
	2007	321,100	107,139	53,995	217,885	414,941	88,218	1,203,278
Darrell <i>General Counsel</i>	2009	248,167	255,525	842	128,520	119,527	52,426	805,007
	2008	240,000	149,285	10,101	104,000	55,307	44,321	603,014
Spotanski <i>Sr. Vice President of Operations & Marketing, Laclede Gas</i>	2009	227,833	243,542	842	120,620	435,480	48,385	1,076,702
	2008	215,667	126,859	10,879	82,070	144,433	41,137	621,045

Q. WHAT IS THE BASIS FOR THE LACLEDE GROUP'S COMPENSATION STRUCTURE FOR TOP MANAGEMENT?

A. The Laclede Group's compensation philosophy described in the January 28, 2010, Proxy Statement is as follows:

In determining compensation of our named executive officers and other key employees, the Company's compensation philosophy is to pay for performance by:

Making compensation decisions based on what promotes our corporate strategy, creates shareholder value, and remains equitable for the Company, its executives and its shareholders.

Providing an executive compensation program to attract, motivate and retain key executives, and to drive the development of value for the shareholders.

1 The compensation philosophy indicates that substantial weight in determining
2 executive compensation is given to enhancing shareholder value. It is important for the
3 Company to demonstrate that enhancing shareholder value is not achieved at the expense of
4 captive ratepayers.

5 ***IV. ALLOCATION ISSUES RAISED IN CASE NO. GT-2009-0056***

6 **Q. IN ADDITION TO SCRUTINIZING COST ALLOCATIONS AND ACTIVITIES BETWEEN**
7 **AFFILIATED ENTITIES IN THIS CASE, SHOULD THE COMMISSION SCRUTINIZE THE COST**
8 **ALLOCATIONS FOR UNREGULATED ACTIVITIES PERFORMED BY LACLEDE GAS COMPANY?**

9 **A.** Yes. In Case No. GT-2009-0056 the Commission indicated that the treatment of unregulated
10 costs and revenues should be reviewed in the context of a rate case. Specifically, the
11 Commission found that;

12 Laclede is unique in that it has been authorized to conduct unregulated
13 activities and many of those expenses and revenues have traditionally
14 been combined in rate base because of the difficulty in determining which
15 part of the activity can be attributed specifically to the regulated activity.
16 Laclede's litigation expenses involving these types of claims have not
17 been separated into regulated and unregulated categories either. And, the
18 evidence showed that, at least in recent history, Laclede has not fully
19 litigated any of these cases. Rather, it has settled each one and included or
20 expects to include the settlement amounts in rate base. It seems that
21 Laclede has no incentive to proceed to trial in any case where the
22 settlement costs will be fully recovered from the ratepayers instead of the
23 shareholders. The Commission has concerns about this method of
24 attributing expenses, and a closer examination and understanding of this
25 policy may be necessary in Laclede's next rate case.
26

1 The Commission also has concerns about the co-mingling of regulated
2 and unregulated activities. There is insufficient information in this case,
3 however, to determine whether the method of ratemaking which includes
4 the revenues and expenses from unregulated HVAC services is lawful.
5 That concern is also more appropriately addressed in the context of a rate
6 case where all factors affecting rates can be examined.

7 **Q. DID LACLEDE SUBMIT TESTIMONY PROPOSING METHODS FOR SEPARATING THE COSTS AND**
8 **REVENUES FOR REGULATED ACTIVITIES FROM THE COSTS AND REVENUES FOR ITS**
9 **UNREGULATED ACTIVITIES?**

10 A. No.

11 **Q. WOULD IT BE APPROPRIATE FOR THE COMMISSION TO REQUIRE LACLEDE TO PROVIDE**
12 **SUPPLEMENTAL TESTIMONY ON THIS ISSUE?**

13 A. Yes. Laclede bears the responsibility for demonstrating that its proposed rates are just and
14 reasonable.

15 **V. REVIEW OF EXPERIMENTAL CREDIT SCORING**

16 **Q. HAVE YOU BEEN ABLE TO EVALUATE THE FOLLOW-UP STUDY THAT WAS TO BE PROVIDED**
17 **IN SUPPORT OF LACLEDE'S EXPERIMENTAL USE OF CREDIT SCORING?**

18 A. Laclede did not provide the study at the time it filed this rate case as it agreed to do in the
19 Stipulation and Agreement resulting from GR-2007-0208. Even after the study was
20 requested by Public Counsel and Staff, the Company did not provide documentation related
21 to the study. It provided only data for certain customers and certain summary results for

1 those customers. Alone, the data provided is insufficient to verify that the Company used
2 the same methods, sampling techniques or definitions as presented to Staff and Public
3 Counsel in Case No. GR-2007-0208.

4 **Q. ASSUMING THAT THE COMPANY USED THE SAME METHODS, SAMPLING TECHNIQUES AND**
5 **DEFINITIONS, WERE YOU ABLE TO EVALUATE WHETHER THE 2010 DATA PROVIDED IS**
6 **CONSISTENT WITH THE COMPANY'S PAST JUSTIFICATION FOR THE USE OF CREDIT**
7 **SCORING?**

8 A. I did attempt to compare the results from the 2010 sample to the results of the 2005 sample.
9 I found that the results from the 2010 sample were dissimilar to the 2005 sample results.

10 **Q. PLEASE EXPLAIN.**

11 A. The Company proposed that deposits be collected from new customers that had low scores
12 or no scores as calculated by a national credit rating agency. Currently the Commission's
13 Rules do not include credit scoring as a basis for collecting a deposit. The Company
14 proposed to use a credit rating product developed by Equifax that included utility payment
15 history as a factor in determining credit scores. The credit scores produced by the product
16 ranged from 0 to 999. The Company argued that customers with scores below 800 should
17 be required to provide a deposit as a condition of service. Public Counsel argued that since
18 natural gas service is a monopoly service, customers are more likely to pay their arrears
19 balances when disconnected. In support of its position, Laclede scored a sample of

customer accounts and hypothesized correlations between score ranges and the customers' likelihood of disconnect, arrears and ultimately write-offs.

My comparison of the samples found that;

For every score range a substantially lower percentage of customers in 2010 were disconnected than suggested by the 2005 sample;

Customers from the 2010 study with no score and customers in score ranges at or below 800 had average arrears balances substantially below the average arrears suggested by the 2005 sample.

In 2010 the average arrears for customers in the lowest range was only about 41% of that suggested in the 2005 response;

Customers in the 2010 response that had no score represented on average, a lower percentage of new connections, a lower percentage of disconnections and a lower percentage of total arrears/write offs than suggested by the 2005 response.

Q. DO THESE RESULTS UNDERMINE THE COMPANY'S JUSTIFICATION FOR THE USE OF CREDIT SCORING?

A. Yes. The results of the comparison undermine the Company's original assumptions regarding the level of customer write-offs and the Company's hypothesized correlation between a customer's score and payment characteristics.

1 **Q. WHAT CRITERIA SHOULD THE COMPANY USE TO DETERMINE IF A NEW CUSTOMER SHOULD**
2 **PROVIDE A DEPOSIT?**

3 A. Public Counsel's primary recommendation is that Laclede's deposit requirements mirror
4 those contained in the Commission's Rules. Rule 4 CSR 240-13.030 (1)(C) lists a number of
5 circumstances under which new customers are not required to post a deposit such as
6 owning a home, having regular full-time employment or an adequate regular source of
7 income.

8 ***VI. REVIEW OF EXPERIMENTAL LOW-INCOME PROGRAM***

9 **Q. HAVE YOU BEEN ABLE TO REVIEW THE PERFORMANCE OF LACLEDE'S EXPERIMENTAL**
10 **LOW-INCOME PROGRAM?**

11 A. Not in adequate detail. Laclede has provided some data regarding the program, however,
12 the Company will be unable to meet the deadline for the evaluation report that according to
13 the Stipulation and Agreement in Case No. GR-2007-0208 was to be provided to Public
14 Counsel and Staff prior to our filing direct testimony. The Company, Staff and Public
15 Counsel are working to determine how the issue should be addressed in this case.

16 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

17 A. Yes, it does.