

BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI

FILED  
MAR 11 1999

Missouri Public  
Service Commission

In the Matter of Laclede Gas Company's)  
Tariff to Revise Natural Gas Rate )  
Schedules. )

Case No. GR-99-315

A F F I D A V I T

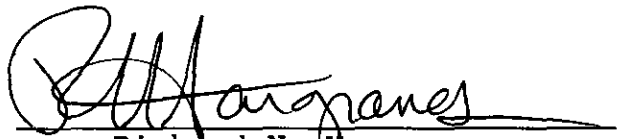
STATE OF MISSOURI )  
 ) SS.  
CITY OF ST. LOUIS )

Richard N. Hargraves, of lawful age, being first duly sworn,  
deposes and states:

1. My name is Richard N. Hargraves. My business address is  
720 Olive Street, St. Louis, Missouri 63101; and I am Director of  
Corporate Communications of Laclede Gas Company.

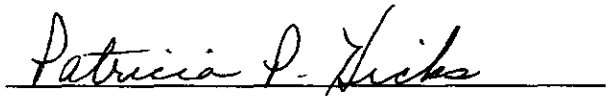
2. Attached hereto and made a part hereof for all purposes is  
my direct testimony, consisting of pages 1 to 11, and Schedule 1,  
inclusive.

3. I hereby swear and affirm that my answers contained in the  
attached testimony to the questions therein propounded and the  
information contained in the attached schedules are true and correct  
to the best of my knowledge and belief.

  
Richard N. Hargraves

Subscribed and sworn to before me this 10<sup>th</sup> day of March, 1999.

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





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Service Commission

Exhibit No:  
Issue: Advertising  
Witness: Richard N. Hargraves  
Sponsoring Party: Laclede Gas Company  
Type of Exhibit: Direct Testimony  
Case No.: GR-99-315

LACLEDE GAS COMPANY

GR-99-315

DIRECT TESTIMONY

OF

RICHARD N. HARGRAVES



DIRECT TESTIMONY OF RICHARD N. HARGRAVES

1 Q. Please state your name and business address.

2 A. My name is Richard N. Hargraves, and my business address  
3 is 720 Olive Street, St. Louis, Missouri, 63101.

4 Q. What is your present business position?

5 A. I am Director of the Corporate Communications Department  
6 of Laclede Gas Company.

7 Q. Please describe your responsibilities.

8 A. I am responsible for the operation of Laclede's Corporate  
9 Communications Department as it functions primarily in  
10 four areas: Advertising, Public Relations, Employee  
11 Communications and, as it relates to the Annual Report,  
12 Stockholder Communications.

13 Q. What is your educational background?

14 A. I was graduated with honors from the University of  
15 Missouri School of Journalism, receiving a Bachelor of  
16 Journalism degree in 1971.

17 Q. Have you attached a description of your business  
18 background?

19 A. Yes, I have. Please see Schedule 1.

20 Q. Have you previously filed testimony before this  
21 Commission?

22 A. Yes, in Case Nos. GR-96-193 and GR-98-374.

23 Q. What is the purpose of your testimony?

24 A. The purpose of my testimony is to support the inclusion

1 of Laclede's advertising expenditures in rates. The  
2 Commission has not addressed this subject for Laclede  
3 since 1978, and its decision in that case has not been  
4 used by the Staff in recent cases. Laclede believes it is  
5 time for the Commission itself to take another look at  
6 the evaluation and treatment of Laclede's advertising  
7 expenditures.

8 Q. Why does Laclede advertise?

9 A. Laclede conducts its advertising program because it  
10 believes that: 1) competing in the marketplace of ideas  
11 is necessary if the Company is to maintain its present  
12 customer base, let alone compete effectively for  
13 additional customers; 2) Laclede's ability to remain  
14 competitive is beneficial to ratepayers; and 3) Laclede's  
15 advertising program provides useful and important  
16 information to its customers that they not only find  
17 helpful, but that they do not receive from any other  
18 source. In short, information consumers receive from  
19 advertising helps customers make informed choices.

20 Q. How has the Commission recently addressed advertising by  
21 Laclede?

22 A. As I previously noted, the Commission has not addressed  
23 Laclede's advertising since Case No. GR-78-148. In that  
24 case, the Commission abandoned a previous policy of  
25 classifying individual advertisements into various  
26 categories on the grounds that "there will always be a

1 problem in determining whether content of advertising  
2 conforms with policy statements which range from  
3 'promotional' to 'informational' to 'political'". In  
4 place of this classification system, the Commission  
5 adopted the New York Rule, determining that it would  
6 "permit informational, institutional and goodwill  
7 advertising in an amount which is based on a percentage  
8 of operating revenues for utility companies."

9 Q. How has the Commission recently addressed advertising  
10 expenditures made by utilities other than Laclede?

11 A. Different standards have been applied to different  
12 companies. In many proceedings, the Commission has  
13 utilized yet another standard that resumes the use of a  
14 classification system. Under this system, a line-by-line  
15 analysis of each individual advertisement must be  
16 conducted so that each ad may be placed into one of five  
17 categories: General, Safety, Promotional, Institutional  
18 or Political. In this system, the Commission disallows  
19 the expense of advertisements classified as Political and  
20 Institutional, allows the expense of advertisements  
21 classified as General and Safety, and allows the expense  
22 of advertisements classified as Promotional provided the  
23 utility can show that the benefits received by ratepayers  
24 from the advertising outweigh the costs associated with  
25 the advertising.

26 Q. To which utilities has the Commission not applied this

1 classification standard?

2 A. The Commission has not applied this classification  
3 standard in cases involving two other utilities operating  
4 in Laclede's service area: Southwestern Bell and AmerenUE  
5 (Union Electric). In Case No. TC-89-14, the Commission  
6 overruled Staff's attempt to apply the classification  
7 standard to Southwestern Bell's advertising expenses,  
8 declaring such a standard to be inappropriate in a  
9 competitive environment and stating its desire to develop  
10 appropriate standards for advertising expenses in a  
11 competitive environment. And, in Case No. ER-95-411  
12 involving Union Electric (now AmerenUE), the only  
13 advertising expense that was disallowed was \$250,000 of  
14 goodwill advertising.

15 Q. How has Laclede's advertising expense been evaluated in  
16 recent cases.

17 A. In recent cases, Staff has attempted to apply the  
18 classification standard to Laclede. In doing so, however,  
19 Staff has repeatedly rejected Laclede's legitimate  
20 advertising expenditures based upon its interpretation of  
21 an outdated cost-benefit standard for promotional  
22 advertising. The approach taken by Staff is unrealistic,  
23 inappropriate and unfair for a variety of reasons. First,  
24 it focuses solely on content, not cost. Second, it has no  
25 basis in the real world because it ignores the benefits  
26 consumers receive by using the communications process to



1 gather information necessary to make informed choices.  
2 Third, as interpreted by Staff, such an approach requires  
3 a utility to provide a direct revenue-to-expense ratio  
4 for each individual advertisement. As both the Commission  
5 and the Staff acknowledged in the Southwestern Bell case,  
6 however, it is simply "not possible to establish revenue  
7 to expense ratios for individual ads or even for  
8 campaigns." The Commission went on to note in that case  
9 that Staff "was attempting to apply a standard which  
10 appears virtually impossible for SWB to achieve." Despite  
11 this acknowledgment, however, Staff continues to apply a  
12 standard (at least in some cases) that is so restrictive  
13 that, according to Staff itself, no utility has been able  
14 to meet it. Further, this standard has not even been  
15 applied uniformly, and particularly not within Laclede's  
16 service area.

17 Q. Why should the Commission focus its attention on the  
18 evaluation of Laclede's advertising expenditures?

19 A. This is a particularly important issue requiring  
20 Commission direction because, as noted above, the  
21 Commission has dealt with advertising expenditures of  
22 three St. Louis utilities in three entirely different  
23 ways. Staff's application of the unrealistic  
24 classification standard previously discussed in my  
25 testimony was rejected by the Commission when considering  
26 Southwestern Bell's advertising expenditures, and it was

1 not applied to those of AmerenUE. It is time for the  
2 Staff and the Commission to recognize the value of this  
3 information function for Laclede and its customers as  
4 well so that the Company will not have to continue to  
5 absorb the cost of providing this essential component of  
6 natural gas service. This is particularly true given the  
7 fact that a principal competitor of Laclede for the  
8 heating market in the St. Louis area, AmerenUE, is far  
9 larger, spends far more on advertising, and has  
10 significantly increased its size and resources. In order  
11 for St. Louis area consumers to continue having available  
12 to them the information they need to make informed energy  
13 choices, Laclede should be allowed to recover in rates  
14 the reasonable cost of providing this important  
15 information.

16 Q. Why is it important for consumers to receive such  
17 information?

18 A. A fully informed public is especially important in the  
19 highly competitive energy environment that exists for  
20 heating customers within Laclede's service area. If such  
21 competition is to be effective, i.e., provide efficiency  
22 benefits to consumers, it is essential that the  
23 Commission recognize how critical it is to provide  
24 consumers with varied information regarding their energy  
25 choices. Certainly, this Commission has recognized the  
26 beneficial effects of advertising in providing consumers

1 with important information in other areas, as evidenced  
2 by its practice of mandating the use of advertising to  
3 impart information to consumers about safety matters and  
4 the Elderly & Handicapped registration programs. If  
5 advertising is a valid information vehicle for providing  
6 this crucial information, how can it be any less valid  
7 for providing consumers with information that helps them  
8 make wise energy choices?

9 Q. In light of these considerations, what does Laclede  
10 recommend the Commission do?

11 A. Laclede believes the Commission should abandon, or at  
12 least reform, the rigid classification standard that has  
13 been applied in recent years to the advertising  
14 expenditures of some, but not all, utilities. In lieu  
15 thereof, Laclede recommends that the Commission develop  
16 a more appropriate standard to evaluate Laclede's  
17 advertising expenditures that focuses on preventing an  
18 unreasonable level of advertising expenditures from being  
19 included in a utility's cost of service, rather than on  
20 judging and classifying the content of individual  
21 advertisements. Under this approach, the Commission  
22 should intervene only when it deems overall advertising  
23 expenditures to be unreasonable.

24 Q. Why does Laclede believe this is an appropriate way for  
25 the Commission to evaluate Laclede's advertising  
26 expenditures?

1       A.    There are several considerations that lead to this  
2            conclusion.

3           1.   First, the Commission should recognize that Laclede  
4                is in a competitive situation with regard to its  
5                residential heating customers, and it is from this  
6                principal market that Laclede derives the vast  
7                majority of its revenues. This competition has been  
8                acknowledged in testimony in previous cases both by  
9                Staff and by witnesses from competing utilities.  
10              Since significant gains by others in these markets  
11              can only be made by taking new and existing  
12              customers from Laclede, it is essential that  
13              Laclede be allowed to protect its customer base by  
14              reinforcing existing behavior through advertising.  
15              Given these facts, the Commission should apply to  
16              Laclede Gas the same reasoning it applied in  
17              Southwestern Bell Telephone Company Case No. TC-89-  
18              14, namely that a rigid classification standard is  
19              inappropriate in a competitive environment.

20          2.   Second, the Commission should recognize that a  
21                rigid classification standard for advertising is  
22                also inappropriate because it requires an  
23                expensive, time-consuming, line-by-line, ad-by-ad  
24                review of advertising expenditures. Assuming Staff  
25                acts as it has in the past, this will be the third  
26                time in four years that Staff and Laclede have

1           expended considerable time and effort on a  
2           meaningless exercise to provide fodder for a  
3           predetermined outcome. Despite this expensive,  
4           exhaustive ad-by-ad review of minutia, the result  
5           is a series of artificial classifications that  
6           ignore fundamental realities of consumer  
7           communication, such as the way consumers receive  
8           important information through advertising and the  
9           way they rely on the use of advertised information  
10          to help them make informed choices.

11          3. Third, Laclede strongly believes that the  
12          Commission should, within reasonable limits, leave  
13          the evaluation of individual advertisements to the  
14          Company's management. In a continually competitive  
15          energy environment, the competition of ideas in the  
16          marketplace is an important component in the  
17          consumer's ability to receive and evaluate  
18          competing claims. Fair regulatory treatment should  
19          not interfere with the consumer's ability to make  
20          intelligent, informed choices.

21          Q. How does Laclede believe the Commission should accomplish  
22          this?

23          A. Laclede believes that, as it pertains to the evaluation  
24          of advertising expenditures, the Commission should  
25          function as an economic regulatory body and utilize a  
26          realistic, reliable, predictable, and easy-to-apply

1 advertising standard that focuses not on categorizing  
2 individual ads, but on determining whether the overall  
3 level of advertising expenditures incurred by the Company  
4 is reasonable. In this case, Laclede's test-year  
5 advertising expenditures are less than two-tenths of one  
6 percent of its utility revenues, hardly an unreasonable  
7 amount under any standard in today's competitive energy  
8 environment. This is particularly true considering that  
9 unregulated firms with established products in stable  
10 markets generally spend between 4% and 8% of their  
11 revenues on advertising.

12 Q. Recognizing your concerns about the classification  
13 system, what if it is nevertheless determined that this  
14 system should be used to evaluate Laclede's advertising  
15 expenditures?

16 A. Despite our belief that the classification system is  
17 inappropriate, most of Laclede's advertising expenditures  
18 meet the classification standard for inclusion in rates.  
19 There was no political advertising in the test year.  
20 Merchandising expenditures would be charged below-the-  
21 line. Information about Safety, Budget Billing and  
22 similar topics are General advertising expenditures that  
23 would be allowed. The rest of Laclede's advertising  
24 should be considered of General informational value  
25 important in providing consumers information they need to  
26 make informed energy choices, and therefore the

1 expenditures should be allowed in rates. Even if some of  
2 this advertising is instead classified as Promotional,  
3 the overall benefits to ratepayers clearly outweigh the  
4 cost of the advertisements. In this regard, however, it  
5 is important to recognize that the Commission's  
6 cost/benefit test for Promotional advertising is not a  
7 "revenues generated" test. Evaluating the benefits  
8 ratepayers receive as a result of Laclede's advertising  
9 is not merely, or even primarily, a matter of determining  
10 how much revenue was generated from individual ads. In  
11 fact, as noted earlier in my testimony, the Commission  
12 and the Staff have conceded that it is not possible to  
13 establish revenue-to-expense ratios for individual ads or  
14 campaigns. The Commission's test for Promotional  
15 advertising regards benefits to ratepayers, not revenues.  
16 Viewed in their entirety, the decision-making benefits  
17 ratepayers receive from the information provided by  
18 Laclede's advertising far exceed the cost of that  
19 advertising. Therefore, Laclede meets the Promotional  
20 standard and these advertising expenses should be  
21 allowed.

22 Q. Does this conclude your testimony?

23 A. Yes, it does.

BACKGROUND INFORMATION ON RICHARD N. HARGRAVES

Q. How long have you held your current position?

A. I was promoted to my current position in May 1994.

Q. Please describe your responsibilities with Laclede prior to that time.

A. I joined Laclede in May 1987 as Senior Staff Assistant in the Public Relations and Advertising Department, reporting directly to the Vice President-Administration. I held that position until I was promoted to Manager of the Department in 1989. I was promoted to Director of the Department in May 1994, and the Department was renamed Corporate Communications in May 1996.

Q. Please discuss your work experience prior to joining Laclede.

A. Prior to joining Laclede, I spent much of my professional career as a newspaper editor and manager. From 1974 to 1977, I and a partner owned and published two weekly newspapers in North Central Illinois, where, in addition to ownership and editorial responsibilities, I also was responsible for developing and placing effective advertising for area businesses, and I served as an officer of the Board of Directors of the Business, Industry and Professional Services organization, the local chamber of commerce. After selling the business, I

SCHEDULE 1



1 joined the Belleville News-Democrat, the daily newspaper  
2 in Belleville, Ill., that was owned by Capital  
3 Cities/ABC. There I served first as Political Editor,  
4 then as City Editor and finally as Editorial Page Editor,  
5 in which position I joined the Publisher and Editor on  
6 the newspaper's three-member Editorial Board. In 1982, I  
7 became an Editorial Writer for the Fort Lauderdale News  
8 and Sun-Sentinel, a daily newspaper in Florida that is  
9 owned by the Chicago Tribune. In 1984, I joined the St.  
10 Louis Globe-Democrat as an Editorial Writer and member of  
11 the Editorial Board, and in 1985 was promoted to  
12 Metropolitan Editor, a senior position in which I was  
13 responsible for local news coverage in Missouri and  
14 Illinois outside the city limits of St. Louis. As I  
15 previously stated, I joined Laclede Gas in May 1987. I am  
16 a member of the International Association of Business  
17 Communicators, the Advertising Club of Greater St. Louis,  
18 and the Press Club of Metropolitan St. Louis. I also  
19 serve on the American Gas Association's Public Relations  
20 Committee.

21 Q. Since much of your background is in newspapers, are you  
22 qualified to testify as an expert on advertising?

23 A. First of all, I am testifying to provide the Commission  
24 with information about Laclede's advertising and the  
25 foundations upon which it is based, a subject on which I  
26 am qualified to speak because I am largely responsible

1       for it and have dealt directly with it for the past 12  
2       years while at Laclede. Second, my educational training  
3       and professional experience is in the use of the  
4       communications process to inform and persuade the public  
5       through the mass media. Throughout my career I have been  
6       aware of advertising's role, its purpose and its impact.  
7       As an editor, I frequently worked with my advertising  
8       department on special projects, and, when publishing my  
9       own newspapers, I spent more than half my time working  
10      directly on advertising. Third, I have continued to study  
11      advertising through reading professional publications and  
12      textbooks on the subject and by attending professional  
13      development seminars. I studied more formally by  
14      attending seminars and/or reading publications of the  
15      professional associations to which I belonged, such as  
16      the Society of Professional Journalists, the National  
17      Conference of Editorial Writers, the American Society of  
18      Newspaper Editors, the Investigative Reporters and  
19      Editors Association, the Illinois and Florida Press  
20      Associations, and the communications committees of the  
21      American Gas Association, the Southern Gas Association  
22      and Midwest Energy Association.

23      Q.    Have you been recognized by your peers as an effective  
24             communicator?

25      A.    Over the years, I have received more than two dozen major  
26             awards from a variety of organizations of professional

1 communicators, such as the Inland Daily Press  
2 Association, the William Randolph Hearst Foundation, the  
3 United Press International Illinois Editors' Association,  
4 the Illinois Press Association, the Southern Illinois  
5 Editorial Association, the Wall Street Journal's  
6 Newspaper Fund, and the Missouri College Newspaper  
7 Association, as well as the American Gas Association and  
8 the Midwest Gas Association's Communications Section.  
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