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-99-315

A F F I D A V I T

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

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

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

2. Attached hereto and made a part hereof for all purposes is my direct testimony, consisting of pages 1 to 9, 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.

K. J. Neises
Kenneth J. Neises

Subscribed and sworn to before me this 10th day of March, 1999.

Joyce L. Jansen
JOYCE L. JANSEN
Notary Public -- Notary Seal
STATE OF MISSOURI
St. Louis County
My Commission Expires: July 2, 2001

Exhibit No.:
Issue: Rate Design Policy
Witness: Kenneth J. Neises
Type of Exhibit: Direct Testimony
Sponsoring Party: Laclede Gas Company
Case No.: GR-99-315

LACLEDE GAS COMPANY

GR-99-315

DIRECT TESTIMONY

OF

KENNETH J. NEISES

March 1999

DIRECT TESTIMONY OF KENNETH J. NEISES

Q. What is your name and address?

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

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

A. I am employed by Laclede Gas Company in the position of Senior Vice President-Energy & Administrative Services.

Q. Please state your qualifications and experience.

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

before the Federal Energy Regulatory Commission ("FERC") on matters affecting Laclede and its customers, and Laclede's participation in various regulatory proceedings before this Commission. My current duties include these responsibilities, as well as overall responsibility for labor, community relations and corporate communications.

PURPOSE OF TESTIMONY

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to provide the Commission with an overview of the Company's rate design proposal in this case. Specifically, I will discuss the Company's proposal to reduce the commodity charge component of its General Service ("GS") rate schedule in favor of a new demand charge feature. I will also explain why such a rate design change makes sense from both a public policy and cost of service perspective and how its adoption by the Commission would benefit the Company's customers.

Q. Is the Company's rate design proposal addressed by any other Company witnesses?

A. Yes. Laclede witness M. T. Cline provides additional details on how the demand charge feature was developed and how it would work.

DEMAND CHARGE RATE STRUCTURE

Q. Please provide a brief description of how the demand charge rate structure proposed by the Company would operate.

A. The first step involves reducing the commodity charge component of the GS rate schedule. A demand charge component is then added at a rate level sufficient to replace the revenues lost as a result of the reduction in the commodity component. Under the Company's proposal, this demand charge component would be separately derived for both the Winter (November through April) and Summer (May through October) seasonal periods based on the relative level of demand-related costs currently recovered in such periods. The demand charges would then be billed to each customer based on that customer's peak usage during the preceding year. The demand charge would also be adjusted on an annual basis to reflect overall changes in customer usage and to mitigate any over or under recovery of demand-related costs.

Q. Why has the Company proposed to substitute a demand charge for a portion of the commodity charge currently reflected in the GS rate?

A. There are several reasons why such a rate design change in not only appropriate but also preferable to the existing rate structure. First, the incorporation of a demand charge component in the GS rate is far more consistent with well-recognized cost of service principles than is the existing rate structure. Second, such an approach sends more accurate price signals to customers -- a result that should, in turn, benefit all customers over the long term through increased

efficiencies. Third, the use of a demand charge will better enable both the Commission and the Company to ensure the mitigation of any over or under recovery of fixed-demand costs resulting from weather related factors that are beyond the Company's control. This should reduce both bill volatility for the customer as well as earnings volatility for the Company. Finally, the proposed rate design change would accomplish these goals in a moderate fashion, with only very modest rate impacts on individual customers.

Q. Why is the inclusion of a demand charge in the GS rate structure more consistent with cost of service principles than the current rate structure?

A. Presently, the GS rate schedule consists of two types of charges: the customer charge and a commodity charge. The customer charge is designed to recover certain minimum fixed distribution costs which are incurred by the Company simply to make service available to the customer. The remainder of the costs incurred by the Company to serve its GS customers are recovered through volumetric-based, commodity charges. Although the amount paid by the customer under a commodity charge will vary in direct proportion to how much gas the customer consumes, the vast majority of the non-gas costs currently recovered through this charge do not, in fact, vary with usage. Instead, they are fixed costs. Of these remaining fixed costs, over half are directly

related to the Company's need to stand ready to meet the peak demand that each customer places on the Company distribution system. Rather than continue to recover such demand-related costs on a commodity basis, the Company believes it is far more appropriate, from a cost of service perspective, to recover them in the same manner they are caused, i.e., based on a customer's peak usage. Such an approach is also more equitable than the existing rate design since it recovers costs from customers in a manner that more closely reflects each customer's actual responsibility for those costs.

Q. You also indicated that the Company's proposed rate structure would send better, more accurate, price signals to its customers. Please explain.

A. As I previously indicated, the proposed rate structure would actually bill each customer for his or her share of the Company's peak demand related costs based on the customer's actual contribution to those peak demands. In doing so, the proposed rate structure gives the customer a financial incentive to conserve energy, particularly over the long term, through the installation of more energy efficient appliances, the use of various conservation measures and other means. More importantly, it gives the customer an incentive to conserve at those times (i.e., during peak usage conditions) when such conservation will net the biggest benefits for the Company and its customers by reducing the need for

peaking gas supply arrangements and potentially forestalling the need to add or reinforce distribution facilities. Obviously, the long-term savings associated with this reduction in peak usage are ultimately shared by all customers.

Q. In what way would the Company's proposed rate structure reduce the potential that fixed demand costs may be over or under recovered by the Company due to colder or warmer than normal weather?

A. By recovering a significant portion of the Company's fixed demand-related costs on a fixed rather than volumetric basis, the proposed rate structure would limit the Company's ability to over-recover its gas costs in the event usage increases because of colder than normal weather. Conversely, if usage declines because of warmer than normal weather, the Company's under-recovery of such costs would also be limited.

Q. Why is this beneficial to the customer?

A. Although the proposed demand charge would provide individual customers with a financial incentive to reduce usage during peak periods, it would not make customers as a whole over compensate the Company for its fixed demand costs simply because the weather was abnormally cold. Anytime customers can avoid paying for costs that don't exist, they are benefitted. By the same token, it does no disservice to customers to require that they pay for such fixed costs when the weather is warmer than normal.

After all, such costs do not simply go away because the temperature has risen. The fact that customers will pay slightly less for gas service during cold weather conditions (when gas prices and bills are already at their highest levels) also recommends the approach proposed by the Company, in that such an approach furthers this Commission's recent interest in promoting bill stability.

Q. In the event the Company's recovery of its distribution costs is made less dependent on customer usage, won't the Company have less incentive to retain or seek out new customer loads that could benefit other customers by making a contribution to the Company's fixed costs?

A. No. It is important to note in this regard that even under the Company's proposal, approximately $26 million dollars of its fixed distribution costs will continue to be recovered on a volumetric basis. Accordingly, the Company will continue to have a substantial incentive to retain existing customer loads and attract new ones.

Q. You indicated that the impact of the Company's rate design proposal on individual customers would be relatively modest. Please explain.

A. Because the demand charge increase and commodity charge decrease proposed by the Company tend to offset each other, most customers should see relatively little change in their overall bills in the event the Company's proposal is implemented. In fact, the typical heating

customer should actually see a very slight reduction in his or her bill as a result of the Company's proposal. A notable exception to this generally neutral impact is in those instances where customers manage to significantly reduce their peak consumption through the installation of high efficiency equipment or other conservation measures. Of course, those are the precise circumstances under which one wants to have an impact on the customer so that such behavior will be encouraged.

Q. Should the Commission be concerned over the fact that the Company's rate design proposal represents a new approach for setting rates in the GS class?

A. No. I think it is important for the Commission to recognize that the use of demand charges as an integral part of a utility's rate structure is nothing new. Virtually all interstate pipelines utilize demand or "capacity reservation" charges as their primary method for billing and recovering the costs associated with their provision of transportation and storage services. A demand charge component has also been included for many years now in the rate structures under which Laclede bills its larger customers for sales and transportation services. In fact, demand charges have been incorporated in the rate schedules for Laclede's larger customers since at least the late 1940's, and are currently included in the rates for the Company's Large Volume sales service and Large Volume Transportation and Sales

Service customer classifications. Our proposal would do nothing more than extend this well-accepted rate design concept to the GS rate schedule, with a few modifications designed to address the unique characteristics of the customers served under that rate schedule.

Q. Please summarize your testimony.

A. With its demand charge proposal, the Company believes that it has developed a rate design structure for its GS rate schedule that makes sense from both a public policy and cost of service perspective. By sending more accurate price signals, better reflecting the manner in which the Company incurs its costs, and better protecting both the Company and its customers from the financial vagaries of changing weather conditions, the proposed rate design represents a significant improvement over the existing rate structure. It should accordingly be approved by the Commission.

Q. Does this conclude your testimony.

A. Yes, it does.