

FILED

MAR 11 1999

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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

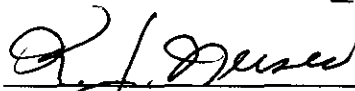
STATE OF MISSOURI)
) SS.
CITY OF ST. LOUIS)

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.

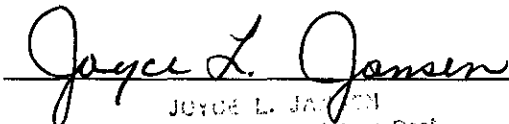
2. Attached hereto and made a part hereof for all purposes
is my direct testimony, consisting of pages 1 to 9, inclusive.

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.


Kenneth J. Neises

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




JOYCE L. JANSEN

Notary Public -- Notary Seal

STATE OF MISSOURI

St. Louis County

My Commission Expires: July 2, 2001

Exhibit No.:

Issue:

Witness:

Type of Exhibit:

Sponsoring Party:

Case No.:

Rate Design Policy

Kenneth J. Neises

Direct Testimony

Laclede Gas Company

GR-99-315

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Missouri Public
Service Commission

LACLEDE GAS COMPANY

GR-99-315

DIRECT TESTIMONY

OF

KENNETH J. NEISES

March 1999

DIRECT TESTIMONY OF KENNETH J. NEISES

1 Q. What is your name and address?

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

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

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

7 Q. Please state your qualifications and experience.

8 A. I graduated from Creighton University in 1967, where I
9 received a Juris Doctorate degree. In 1970, I received a
10 LL.M. degree from Georgetown University Law Center. From
11 1967 to 1973, I was employed as a litigation and trial
12 attorney for the Federal Power Commission (now the
13 Federal Energy Regulatory Commission). I left the
14 Commission in 1973 to accept an appointment by the U.S.
15 Postal Rate Commission to represent the interests of the
16 general public in proceedings before that Commission. I
17 then served as a partner in the law firm of Debevoise and
18 Liberman in Washington, D.C. until joining Laclede in
19 1983 as an Associate General Counsel. I was elected to
20 the position of Vice President in January 1987 and Senior
21 Vice President in January 1994. Prior to assuming my
22 current position, I was Senior Vice President-Gas Supply
23 and Regulatory Affairs. In that position I had overall
24 management responsibility for the Company's gas
25 procurement activities, its participation in proceedings

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

7 PURPOSE OF TESTIMONY

8 Q. What is the purpose of your testimony?

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

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

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

23 DEMAND CHARGE RATE STRUCTURE

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

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

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

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

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

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

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

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

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

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

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

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

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

18 Q. Why is this beneficial to the customer?

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

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

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

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

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

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

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

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

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

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

6 Q. Please summarize your testimony.

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

18 Q. Does this conclude your testimony.

19 A. Yes, it does.