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September 30, 2002

Mr. Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge
Missouri Public Service Commission
200 Madison Street, Suite 100
P.O. Box 360
Jefferson City, Missouri 65102

RE: *In the Matter of the Tariff Filing of Laclede Gas Company*, Case No. GA-2003-0032.

Dear Mr. Roberts:

Enclosed for filing in the above-referenced matter is an original and eight (8) copies of Laclede Gas Company's Position Statement. In addition, I have enclosed for filing an original and eight (8) copies of the Rebuttal Testimony of R. Lawrence Sherwin and Michael T. Cline.

Copies of the foregoing have been hand-delivered or mailed this date to counsel for all parties of record. Thank you for your attention to this matter.

Sincerely,

James M. Fischer

James M. Fischer

Enclosures

cc: Office of the Public Counsel
General Counsel
Richard Brownlee

Exhibit No.:	
Issue:	**Resale, Capacity Release Other Issues**
Witness:	**Michael T. Cline**
Type of Exhibit:	**Rebuttal Testimony**
Sponsoring Party:	**Laclede Gas Company**
Case No.:	**GT-2003-0032**
Date:	**September 30, 2002**

LACLEDE GAS COMPANY

GT-2003-0032

REBUTTAL TESTIMONY

OF

MICHAEL T. CLINE

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Tariff Filing of	)	Case No. GT-2003-0032
Laclede Gas Company	)	Tariff No. JG-2003-0048

AFFIDAVIT

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

Michael T. Cline, of lawful age, being first duly sworn, deposes and states:

1. My name is Michael T. Cline. My business address is 720 Olive Street, St. Louis, Missouri 63101; and I am Director - Tariff and Rate Administration of Laclede Gas Company.

2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony, including one schedule.

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.

Michael Cline

Michael T. Cline

Subscribed and sworn to before me this 26th day of September, 2002.

Adele M. Follmer

ADELE M. FOLLMER
Notary Public — Notary Seal
STATE OF MISSOURI
Jefferson County
My Commission Expires: June 11, 2004

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REBUTTAL TESTIMONY OF MICHAEL T. CLINE

Q. What is your name and business address?

A. My name is Michael T. Cline, and my business address is 720 Olive Street, St. Louis, Missouri 63101.

Q. Are you the same Michael T. Cline who has previously filed direct testimony in this proceeding?

A. Yes, I am.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to address issues related to gas supply and transportation raised by Staff witness Thomas M. Imhoff and Missouri School Board Association witness Louie Ervin. I am also sponsoring rebuttal Schedule 1 which shows the various revisions that the Company is willing to make to its tariffs to address the concerns that have been raised by other parties.

Q. Do you have any general comments regarding Mr. Ervin's direct testimony?

A. Yes. Mr. Ervin's testimony is full of inaccuracies and misrepresents the facts regarding Laclede's Experimental School District Aggregation Service tariff (the "Tariff").

Resale

Q. Would you please explain?

A. Yes. Mr. Ervin spends more than two pages of his direct testimony, beginning on page 9 line 11 and continuing through page 11 line 20, explaining how the service under Laclede's proposed tariff is unworkable, awkward, expensive and eliminates the schools' ability to aggregate purchases and take title to the natural gas directly from a marketer or supplier. This is simply untrue. Laclede's Tariff allows the schools to aggregate purchases and take title to the natural gas directly from the marketer or supplier at any point upstream of Laclede's city gate. Under the Tariff, the schools or their aggregator can contract for their own supplies and arrange for the delivery of such supplies to Laclede's city gate. It is at Laclede's city gate that Laclede will purchase such supplies for resale pursuant to the terms of its tariff.

Q. Do you agree with Mr. Ervin's statement on page 10, lines 2 through 8, that Laclede's Tariff does nothing to allow experimentation with aggregate natural gas purchasing and transport in a manner that would provide experience for consumers, utilities, marketers, regulators and other parties in how small volume transportation would work if implemented in Missouri on a broader and more permanent basis?

A. No. To the contrary, the Tariff does allow the schools to aggregate their purchases, negotiate and contract directly with marketers or suppliers for natural gas purchases and arrange for and facilitate the delivery of such gas supplies to Laclede's city gate, just as other transportation customers do. Furthermore, just like other transport customers, it is also up to the schools, and not Laclede, to arrange for the flexibility required to meet the schools' weather sensitive supply requirements and to perform the nomination and scheduling function with its marketer or suppliers and on the pipelines needed to transport such supplies to Laclede's city gate. Furthermore, it will be the responsibility of the schools, not

Laclede, to comply with FERC-approved pipeline tariffs and operational matters, such as pipeline critical day operational flow orders, pipeline imbalance or scheduling penalties and any other issues, including lawsuits, related to a loss of supply from the marketer or supplier. As a consequence, while Laclede must effect a gas purchase and resale at its city gate to comply with Section 393.310 RSMo (the "Statute"), as more fully explained in the testimony of R. Lawrence Sherwin, the schools will have an opportunity to gain considerable experience with transportation-related matters. I cannot understand Mr. Ervin's protests to the contrary.

Q. Is Mr. Ervin correct in identifying a problem on page 11, lines 9 through 20, regarding Laclede taking title to gas supply where the marketer or supplier is supplying the gas and then transporting it over capacity that has been released to the schools?

A. No. Again Mr. Ervin is mistaken regarding the operation of the Tariff as well as the Statute. As I previously stated, Laclede has no intention of taking title to the gas supply anywhere upstream of its city gate, and according to our counsel, cannot legally do so in any event. The participating schools, through their aggregator, must receive the gas from the marketer or supplier and transport the gas on the schools' pipeline capacity in order to deliver the gas supply to Laclede at Laclede's city gate.

Capacity Release

Q. Do you agree with Mr. Ervin's statement on page 17, lines 11-12, that "the experimental tariff must meet the legislative mandate that pipeline transportation capacity be made available under the experimental program at the natural gas corporation's cost"?

A. I disagree to the extent that Mr. Ervin's statement implies that the gas corporation has an obligation to make its own transportation available. Section 4 of the Statute specifically requires the gas corporation's tariffs to:

1) Provide for the aggregate purchasing of natural gas supplies and transportation services on behalf of eligible school entities in accordance with aggregate purchasing contracts negotiated by and through a not-for-profit school association; and

2) Provide for the resale of such natural gas supplies, including related transportation service costs, to the eligible school entities at the gas corporation's cost of purchasing such gas supplies and transportation, plus all applicable distribution costs, plus an aggregation and balancing fee to be determined by the commission, not to exceed four-tenths of one cent per therm delivered during the first year.

These provisions basically state that the gas corporation must pass along to the schools whatever gas supply and transportation costs have been negotiated between the schools or their agent and the gas supply and transportation providers. They do not require the gas corporation to sell its own transportation capacity to the schools as Mr. Ervin claims.

Q. But doesn't Laclede's Tariff contemplate the schools taking released capacity from Laclede?

A. Yes.

Q. Why is this so?

A. Section 5 of the Statute also requires that the aggregation program "will not have any negative financial impact on the gas corporation, its other customers or local taxing authorities". In order to ensure that Laclede's other customers will not become saddled with stranded costs resulting from stranded transportation capacity, Laclede is proposing that the schools take a portion of Laclede's firm capacity on MRT that has been previously used to meet Laclede's overall demand requirements.

Q. Why is Laclede not proposing that the schools take a small piece of capacity on all of its pipelines, as suggested by Staff witness Imhoff at page 3, line 5 of his direct testimony?

A. There are at least three reasons. First and most importantly, the capacity on Williams and MPC/PEPL is used to deliver gas into the far west side of Laclede's distribution system and is critical to maintaining operating pressures and system integrity in an area that is the fastest growing area of Laclede's distribution system. Second, Laclede is contractually obligated to maintain the supply source on Williams. Third, it is easier for the schools to buy natural gas and manage the transportation if the supply package is larger and comes from one geographic supply area on one pipeline versus a bunch of smaller supply packages coming from several different geographic areas on multiple pipelines feeding into other pipelines before arriving at the final destination. In fact, even Mr. Ervin agrees, at page 20, lines 1-2 of his direct testimony that it "may be administratively efficient for all capacity to be released on the MRT system…"

Q. Do you agree with Mr. Ervin on page 18, lines 16-17, that under no circumstances should the schools be required to take released capacity for more than one year?

A. Not exactly. Laclede will certainly offer the capacity for release to the participating schools through their Association. The Association will decide how much of this capacity it wants to purchase on behalf of the schools. Of course, any stranded capacity that is not resold and that must be retained by Laclede due to contractual commitments will be charged to the schools as a "Recoverable Transportation Cost" under Section F of the Tariff. Incidentally, even if such contract expired, it may be unwise for Laclede not to retain capacity for the schools' use unless the Commission released Laclede from its utility service obligations to the schools.

Q. What rate should be used for capacity that is released to the schools?

A. Consistent with the statute, the appropriate rate is the rate that the gas corporation is paying for the specific capacity that is being released, not some average system rate. That is precisely what Laclede's tariff provides.

Q. Do you agree with Mr. Imhoff's statement on page 3, line 17 of his direct testimony that Laclede should not recall released capacity unless specifically requested by a participant in the Program?

A. Laclede's Tariff provides that it will recall the capacity only in the event the Association fails to deliver gas supplies in accordance with the Delivery Schedule. This provision is meant to protect the schools from non-performance by the Association. If for some reason the Association is not delivering adequate supplies in accordance with the Delivery Schedule, Laclede must be in a position to recall the capacity and serve the schools, as provided in Section E of the Tariff. However, in response to the concerns raised by Mr. Imhoff, and by Mr. Ervin on page 25, lines 10-16 of his direct testimony, regarding his fear that the program might be terminated upon a minor error, Laclede has revised Section H of the Tariff to provide that the Association would have a five business day opportunity to remedy such an error.

Q. Do you agree with Mr. Imhoff's statement on page 4, lines 10-11 of his direct testimony that all revenues received by Laclede from capacity releases should be credited to transportation cost through the PGA?

A. Not entirely. The Company's base rates reflect the imputation of a certain amount of revenues to Laclede to cover capacity release, which imputation has been approved by the Commission. Because of this imputation, Laclede is entitled to retain actual capacity release revenues. Laclede bears the risk or receives the reward to the extent that these revenues differ from the imputed amount. By releasing this capacity to the schools, Laclede is prevented from an opportunity to obtain capacity release revenues on such capacity. Therefore, Laclede should be permitted to retain an amount of these revenues proportionate to the percentage of capacity release revenues it normally earns. The remaining revenues from capacity release under the program should be credited through the PGA as suggested by Mr. Imhoff. This result is both fair and mandated by Section 5 of the Statute, which requires that the Aggregation Service cause no negative financial impact to the Company or its customers.

Other Issues

Q. Switching to other issues, on page 16, lines 10-17, Mr. Ervin criticizes Laclede for not providing the association with a temperature-based equation or "Delivery Schedule". Why hasn't Laclede provided such an equation?

A. Laclede has not provided the Association with an equation because the Company does not yet know what schools will be participating in the program. Once the schools are known, the Company will use its estimated billing factors to develop a reasonably accurate temperature-sensitive aggregated supply equation for the entire group. I would note, however, that Laclede has provided the Association with historical usage information.

Q. At page 24, line 17-18, of his direct testimony, Mr. Ervin asserts that Laclede's PGA charge results in a double recovery. Is this true?

A. Absolutely not. Under its Tariff, the Company will substitute the schools' cost of gas for what the schools were initially billed by Laclede through its PGA factors, thereby ensuring that they will ultimately pay no more than their actual costs. There is no double-recovery of any kind.

Q. Has Laclede proposed any changes to the Tariff to respond to Mr. Ervin's complaint at page 23, lines 1-3 of his direct testimony that the MSBA cannot meet the September 1 or October 1 planning deadlines contained in the tariff for the upcoming winter?

A. Yes. Since the Commission's order in this proceeding will occur after certain annual planning deadlines in Sections B and C of the Company's Tariff, Laclede has modified such deadlines for the first year of the program only so that schools can begin receiving Aggregation Service during the upcoming heating season.

Q. How do you respond to Mr. Ervin's complaint at page 26, line 4, that Laclede will only have one enrollment per year ending September 1st?

A. Laclede has revised Section B of the Tariff to allow the Association an opportunity to add participants to its program between September 1 and November 1. This revision is shown in Schedule 1 to my rebuttal testimony.

Q. What is your response to Mr. Ervin's comment at page 23, beginning at line 18, that the Association does not need a daily temperature forecast outside the winter heating season?

A. Laclede has revised Section C of the Tariff, as shown in Schedule 1, to provide that a daily temperature forecast will only be provided between October 15 and April 30.

Q. On page 14, line 17, Mr. Ervin refers to applicable out-of-period ACA supply costs. How do you respond?

A. Laclede agrees that Aggregation Service customers should be subject to ACA adjustments based on the year before the Aggregation Service began, and should not be subject to ACA adjustments based on the last year of the Aggregation Service. Laclede's revision to Sections F and K effects this change.

Q. Does this conclude your testimony?

A. Yes, it does.

SCHEDULE 1

EXPERIMENTAL SCHOOL DISTRICT AGGREGATION SERVICE

A. Overview:

Pursuant to Section 393.310 of the RSMo, the Company shall permit eligible school entities, as defined in such section, to participate in an experimental program under which the natural gas supply and transportation requirements of such entities are aggregated by a not-for-profit school association ("Association"). Such aggregated supplies shall be sold to the Company, which, in turn, will deliver gas to such entities at the rates and charges provided for in the Company's applicable sales service rate schedules.

B. Availability of Service:

This service shall be available to eligible public school districts only during the first year following the initial effective date of such service ("First Aggregation Year") and to all eligible school districts thereafter. By September 1 of each year except for the First Aggregation Year, the Association shall provide the Company with an initial list of each school premise, including the address and the Company account number, where such service is to be provided starting the following November. By November 1 the Association may supplement such list so long as the additional projected aggregation volumes resulting from such supplement do not exceed the original projected volumes by more than 20%. The aggregation service for any customers added between September 1 and November 1 shall commence January 1. For the First Aggregation Year only, the Association shall provide the Company with a list of participating customers anytime after the effective date of the Commission's order approving aggregation service.

C. Supply Planning Obligations:

1. By October 1 each year, except for the First Aggregation Year, the Company shall provide the Association with an initial temperature based equation ("Delivery Schedule") which will be used by the Association to determine the daily amount of natural gas the Association must arrange for delivery into the Company's distribution system to meet the gas supply requirements of the participating schools during the subsequent 12 months ended October period ("Aggregation Year"). (The equation will reflect, among other factors, unaccounted-for-gas, as a percentage of sales, that will be determined annually by the Company. The Company shall notify the Association of such percentage by October 1, which percentage shall consist of a base level of 2.5%, adjusted for the departure of actual unaccounted-for-gas from such base level in the previous Actual Cost Adjustment year). By December 1 the Company shall provide the Association with a revised Delivery Schedule which will be used by the Association to determine the daily amount of natural gas the Association must arrange for delivery into the Company's distribution system to meet the gas supply requirements of the participating schools during the subsequent January 1 through October 31 period. For the First Aggregation Year only, the Company shall provide the Association with a Delivery Schedule within twenty business days of receipt of the list of participating customers, after which aggregation service may commence as early as the first day of the month following the provision of such Delivery Schedule.
2. By 9:00 a.m. of each business day during the October 15 through April 30 period, the Company shall provide the Association with the applicable following day's (days') forecasted daily temperature that is to be used by the Association with the Delivery Schedule to determine the applicable following day's (days') delivery requirements. Such information shall normally be provided by email.

D. Imbalances:

Any difference between the total volumes sold to all of the participating entities and the volumes of gas purchased by the Company from the Association, after adjusting for the differences that arise from the Company's revenue cycle billing of customers and the calendar month purchases of gas supplies, shall be accumulated in an imbalance account. Any over-delivery or under-delivery of gas in such imbalance account shall be used to ratably increase or reduce the amount of gas the Association must arrange for daily delivery into the Company's distribution system in the subsequent month.

E. Transportation Capacity:

The Company will make available to the Association on an annual basis firm transportation capacity on Mississippi River Transmission Corporation ("MRT") at the Company's cost of such capacity in accordance with the capacity release procedures contained in MRT's Federal Energy Regulatory Commission approved tariff. Such capacity shall be made available on a recallable basis and may be recalled by the Company only in the event the Association fails to deliver gas supplies in accordance with the Delivery Schedule, adjusted for any imbalance.

F. Payments By The Customer And The Company:

Each month the Company shall bill each eligible entity for gas metered at each entity's premise at the rates in effect for the sales service rate schedule under which the customer would otherwise receive gas if it were not participating in the program. At the end of each billing month the Company shall also credit or charge the Association an amount equal to the difference between the total Purchased Gas Adjustment recovery from all of the entities (except for the first year of the program during which only Current Purchased Gas Adjustment recovery shall be used) and the sum of the gas cost paid by the Company to the Association for gas delivered to the entities and any recoverable transportation cost ("Recoverable Transportation Cost"). The gas costs paid shall include the effect of any imbalance volumes and corresponding costs from the previous month. The Recoverable Transportation Cost shall consist of the costs of MRT transportation capacity previously reserved by the Company for serving the demand requirements of the participating schools that the Association has not elected to acquire from the Company through the capacity release provision provided for above. In addition, the amount credited or charged to the Association shall be adjusted to reflect the Company's retention of a $.004 per therm aggregation and balancing fee on every therm sold plus any additional charges and Transition Costs as described in Sections H and J below. The Company's periodic remittance of gross receipts taxes to each municipality for the most recent applicable billing period shall be based on billings made to each customer under the applicable sales service rate schedule as adjusted, as soon thereafter in the Company's next such remittance, for the other credits or charges made pursuant to this paragraph.

G. Accounting For Costs On The Company's Books:

The costs of gas supply and transportation services purchased by the Company from the Association shall be debited to a separate School District Aggregation account and shall not affect the costs borne by other sales customers. Such account shall also be credited for the PGA recovery from participating customers plus the aforementioned credits or charges to the Association.

H. Failure To Deliver Supplies:

As described above, the Association is obligated to deliver supplies into the Company's distribution system in accordance with the Delivery Schedule, adjusted for any imbalance. In the event such supplies are not so delivered, such entities shall revert to regular sales service from the Company until the Association is able to resume the delivery of such supplies, and the aggregation service with the Association shall be temporarily suspended. The aggregation service shall be permanently suspended for the remainder of the Aggregation Year if the Association is unable to resume the delivery of such supplies within five business days or if the Association has failed to make deliveries in accordance with the Delivery Schedule for a second time after the first five-day period within the same Aggregation Year. In addition, to the extent that the delivery failure occurs during a period when the Company's Basic Transportation customers are limited to their Daily Scheduled Quantities as described in Section C of the Company's Large Volume Transportation and Sales Service rate schedule, the Company shall bill the Association the Unauthorized Use Charge set forth in such section for each therm not delivered in accordance with the Delivery Schedule.

I. Availability Of Individual Customer Billing Data:

The Company shall cooperate fully with the Association in sharing individual customer billing data in order for the Association to make adjustments to the amounts initially paid by each customer to the Company.

J. Incremental Costs:

So as to ensure that this aggregation program will not have any negative impact on the Company or its other customers, and that the charges for the service produce revenues sufficient to recover all incremental costs of the service, charges for this service shall be adjusted, as necessary, to fully recover the incremental cost of providing the service, to the extent such costs are not otherwise recovered through other provisions of this tariff. Any undercollection shall be recovered over a period of twelve months. Information documenting this undercollection shall be provided at the time the Company files to adjust its rates.

K. Term of Experiment:

Consistent with Section 393.310 of the RSMo, this service will expire June 30, 2005. At the end of the twelve months ended June 30, 2006 period, any customer who participated in the aggregation program during its final year, shall be subject to a one-time separate charge or credit that is intended to offset the flow-through of any ACA or refund credits or charges that were billed to such customer for sales service rendered by the Company during the twelve months ended June 30, 2006 period.