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September 23, 2002

Secretary of the Commission
Missouri Public Service Commission
200 Madison Street, Suite 100
P.O. Box 360
Jefferson City, Missouri 65102-0360

FILED²
SEP 23 2002
Missouri Public
Service Commission

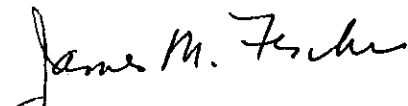
RE: *Laclede Gas Company*
Case No. GT-2003-0032

Dear Mr. Roberts:

Enclosed for filing in the above-referenced matter is the original of the Direct Testimony of Michael T. Cline, on behalf of Laclede Gas Company. A copy of the Direct Testimony has been hand-delivered, mailed, and/or e-mailed to parties of record.

Thank you for your attention to this matter.

Sincerely,


James M. Fischer

/jr
Enclosure

cc: Office of the Public Counsel
Dana K. Joyce, General Counsel
Richard Brownlee

Exhibit No.:
Issue: School Aggregation Service
Witness: Michael T. Cline
Type of Exhibit: Direct Testimony
Sponsoring Party: Laclede Gas Company
Case No.: GT-2003-0032
Date: September 23, 2002

LACLEDE GAS COMPANY

GT-2003-0032

DIRECT TESTIMONY

OF

MICHAEL T. CLINE

FILED²
SEP 23 2002
Missouri Public
Service Commission

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

In the Matter of the Tariff Filing of
Laclede Gas Company

)
)

Case No. GT-2003-0032
Tariff No. JG-2003-0048

AFFIDAVIT

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

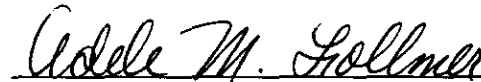
Michael T. Cline, of lawful age, being first duly sworn, deposes and states:

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 direct 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 T. Cline

Subscribed and sworn to before me this 20th day of September, 2002.



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

DIRECT TESTIMONY OF MICHAEL T. CLINE

1 Q. Please state your name and address?

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

4 Q. What is your present position?

5 A. I am Director of Tariff and Rate Administration at Laclede Gas Company
6 ("Laclede" or "Company").

7 Q. Please state how long you have held your present position, and briefly describe
8 your responsibilities.

9 A. I was promoted to my present position in August 1999. In this position I am
10 responsible for administration of Laclede's tariff. In addition, I perform analyses
11 pertaining to Laclede's purchased gas costs and various federal and state
12 regulatory matters that affect Laclede.

13 Q. What is your educational background?

14 A. I graduated from St. Louis University in May 1975, with the degree of Bachelor
15 of Science in Business Administration, majoring in economics.

16 Q. Please describe your experience with Laclede.

17 A. I joined Laclede in June 1975 and have held various positions in the Budget,
18 Treasury, and Financial Planning departments of the Company. In 1987, I began
19 work in areas related to many of my duties today.

20 Q. Have you previously submitted testimony before regulatory bodies?

1 A. Yes. I have testified numerous times before this Commission. In addition, I have
2 testified before the Illinois Commerce Commission and the Federal Energy
3 Regulatory Commission.

4 Q. What is the purpose of your testimony?

5 A. The purpose of my direct testimony is to provide detail on the operation of the
6 tariff sheets filed by Laclede on August 1, 2002 (the "Tariff"), pursuant to Section
7 393.310 of the Revised Statutes of Missouri (the "Statute"), which tariff sheets
8 describe an "Experimental School District Aggregation Service" (the
9 "Aggregation Service"). I will also show how Laclede's Tariff complies with the
10 Statute. For the sake of convenience, a copy of the Tariff, comprised of Sheets
11 41-43, is attached hereto as Schedule 1.

12 **Operation of the Tariff**

13 Q. How does the Aggregation Service set forth in the Tariff operate?

14 A. Today, eligible school entities ("ESEs"), as defined in the Tariff and Statute, are
15 generally customers of Laclede's sales service. Under its sales service, Laclede
16 arranges the purchase, transportation and distribution of gas to its customers. The
17 Aggregation Service provides for ESEs to remain sales customers, while
18 permitting them, through an aggregator or agent (the "Association") to make their
19 own gas supply and pipeline transportation arrangements and then have the cost
20 of those arrangements, rather than the gas supply and transportation costs incurred
21 by Laclede to serve its remaining customers, reflected in what they, or the
22 aggregator, ultimately pay for service. All of these service arrangements are
23 subject to certain minimum requirements under the Statute as well as the overall

1 requirement that they have no negative financial impact on Laclede, its remaining
2 customers, or local taxing authorities.

3 Q. What is the effect of this service for ESEs?

4 A. The Company's sales service consists of both a charge for the cost of gas, as
5 delivered into the Laclede distribution system, and a distribution charge. The cost
6 of gas is recovered through a charge known as the Purchased Gas Adjustment
7 charge, or PGA. The PGA charge is the same for all customers receiving gas
8 under the same sales rate schedule, and is based on the Company's cost of gas
9 from all of its suppliers. In other words, gas costs for sales customers are based
10 on the Company's entire gas supply and pipeline transportation costs for firm
11 customers' purchase requirements. However, under the proposed Aggregation
12 Service, the underlying gas supply and pipeline transportation costs ultimately
13 borne by a participating school would be based only on the costs Laclede incurred
14 to purchase gas from the Association on behalf of such entity. In that way, the
15 participating school would ultimately pay for the cost of gas at the costs incurred
16 by the Association as contemplated by the Statute..

17 Q. At what point does Laclede purchase gas from the Association?

18 A. Laclede would purchase gas from the Association and take title at the point where
19 the gas enters the Laclede distribution system. The Association is responsible for
20 purchasing gas supplies from a marketer or producer in the field and making
21 arrangements with pipeline transportation companies to deliver such supplies to
22 the Company's distribution system in the St. Louis area. Essentially, Laclede

1 would be purchasing gas supplies from the Association or its agent and
2 earmarking the costs of such supplies only to those participating customers.

3 Q. Please describe in more detail the Aggregation Service you propose to implement.

4 A. By September 1 of each year, the Association must inform the Company of the
5 specific schools that will be participating in the program.

6 Q. What is the significance of this September 1 deadline and why is it necessary?

7 A. This timing is necessary to enable the Company to make its own supply
8 arrangements for the heating season. Without definitive information as to who is
9 in the program and who is not, the Company could be forced to contract for
10 excessive gas supplies for its other customers – a result that would be inconsistent
11 with the Statute's prohibition against any negative impacts on other customers.

12 Q. How will the ESEs participate in the Aggregation Service for the 2002-03 winter
13 heating season when the September 1 deadline for 2002 has already passed?

14 A. Due to the timing of the initial implementation, Laclede would agree to an
15 exception for the first year, provided that the Company and its other customers are
16 not negatively impacted in accordance with the Statute.

17 Q. How does the individual school know how much gas to arrange for its own use?

18 A. Presumably that assessment would be handled by the Association or its agent on
19 an aggregated basis for all of the participating schools. In addition, the Company
20 will provide the Association with a temperature-based equation that will indicate
21 how much gas the Association should purchase for the aggregated pool of
22 participating schools. Such equation shall also be used to determine how much
23 gas the Company will require the Association to deliver to the Company on a

1 daily basis. So long as the Association delivers that level of supplies, adequate
2 supplies will be available for the Company to continue to provide the Aggregation
3 Service.

4 Q. What happens if the participating schools consume more or less gas than that
5 required by the Company's supply equation?

6 A. So long as the Association delivered the requisite supplies to Laclede, any
7 differences between such amount and what the schools actually used will be
8 accumulated in an imbalance account without penalty to the schools. Any such
9 imbalance shall be used to ratably adjust the Association's daily supply
10 requirements in a succeeding month.

11 Q. Since the participating customers are not Laclede transportation customers who
12 directly purchase their own gas supply and transportation services, how do such
13 customers, who remain sales customers of Laclede, pay for gas at the costs
14 arranged through the Association?

15 A. Even though such customers would initially be billed at the Company's system-
16 wide average cost of gas for that sales rate schedule, at the end of each month
17 there would be a reconciliation between the cost of gas billed to the customer
18 through the regular sales service PGA and the cost the Company incurred to
19 purchase gas from the Association on behalf of the participating schools. The
20 Company would credit or charge the Association an amount equal to the
21 difference between the Company's cost of gas from the Association (plus the cost
22 of unused MRT capacity) and the total PGA recovery from all of the participating
23 schools. The Company would also provide individual customer billing data for

1 the Association to make adjustments to the amounts initially paid by each
2 customer to the Company.

3 Q. Are any of the costs incurred by the Company under the supply arrangement with
4 the Association reflected in the rates paid by the Company's other firm sales
5 customers?

6 A. No. Section G of the tariff was specifically created to ensure that there is a
7 separation between the costs borne by the Aggregation Service customers and the
8 Company's other firm sales customers.

9 **Compliance with the Statute**

10 Q. Section A of the Tariff, entitled "Overview," provides that the gas supplies and
11 transportation requirements of the school districts will be aggregated by an
12 Association and then sold to Laclede, which will in turn resell it to the school
13 districts. Why must Laclede buy and resell these products?

14 A. I have been advised by legal counsel that Sections 4(1) and 4(2) of the Statute
15 control this issue. Section 4 requires that the gas corporation's tariffs shall, at a
16 minimum:

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

21
22 (2) Provide for the resale of natural gas supplies, including related
23 transportation service costs, to the eligible school entities at the gas
24 corporation's cost of purchasing such gas supplies and transportation, plus
25 all applicable distribution costs, plus an aggregation and balancing fee to
26 be determined by the commission, not to exceed four-tenths of one cent
27 per therm delivered during the first year;
28

1 As set forth above, Section 4(1) first provides for the Association to buy gas
2 supplies and transportation on behalf of schools. Next, Section 4(2) states that the
3 gas corporation's tariffs must provide for the resale of gas supplies and
4 transportation *at the gas corporation's cost of purchasing such gas supplies and*
5 *transportation*. This clearly indicates that the gas corporation is to purchase the
6 gas supplies and transportation from the Association and resell them to the
7 schools at cost. Laclede's Tariff precisely tracks these requirements.

8 Q. Both Sections A and F of the Tariff state that Laclede will bill the schools at the
9 actual tariff rates. How does this comply with the Statute's requirement to
10 provide gas supplies and transportation service at cost?

11 A. By initially charging the schools at the Company's actual tariff rates, the Tariff
12 permits the Company to comply with the provision of the Statute that prohibits
13 the Aggregation Service from having any negative financial impact on local
14 taxing authorities. In other words, by initially charging the otherwise applicable
15 rate, the Company is able to ensure that local taxing authorities receive no more
16 and no less in tax revenues than they would if the Aggregation Service was not
17 being offered. At the same time, however, Section F of the Tariff contains a
18 reconciling adjustment that results in the schools ultimately paying only for the
19 gas corporation's cost, as required by the Statute. Section F provides that the
20 Company will net the Purchased Gas Adjustment amounts it bills to the schools
21 against the gas supply payments it makes to the Association plus any recoverable
22 transportation costs as described in the Tariff. Laclede will then charge or credit
23 the Association with the difference yielded by this calculation. The result of this

1 reconciliation is that the cost of gas to the schools is the same as Laclede's cost of
2 gas from the Association.

3 Q. The Company is also charging the schools \$.004 per therm for imbalance costs.
4 Are these actual costs?

5 A. Section 4(2) of the Statute permits Laclede to charge an aggregation and
6 balancing fee, as determined by the Commission, of up to \$.004 per therm during
7 the first year of the program. Under Sections C and D of the Tariff, Laclede will
8 provide services to aid the Association in planning aggregated supply purchases
9 and balancing its customers' needs. Laclede expects that the costs of these
10 aggregation and balancing services will equal at least \$.004 per therm.

11 Q. Section J of the Tariff provides for "Transition Costs." Are these costs in addition
12 to the \$.004 aggregation and balancing fee?

13 A. Yes. Section 5 of the Statute requires that implementation of the aggregation
14 service program "will not have any negative financial impact on the gas
15 corporation, its other customers or local taxing authorities..." The Transition
16 Costs covered in Tariff Section J capture any additional costs that result from
17 providing the aggregation service so that such service will not negatively impact
18 the Company or its other customers.

19 Q. Can you explain why, in Section H of the Tariff, Laclede provides that the schools
20 will revert to their prior status as regular sales customers if the Association fails to
21 deliver gas supplies into Laclede's distribution system?

22 A. Yes. Tariff Section H is again intended to comply with the terms of Section 5 of
23 the Statute that prohibits the aggregation service from having any negative

1 financial impact on the Company and its remaining customers. Laclede is
2 concerned that the Association's failure to deliver gas supplies would have
3 negative operational and financial consequences for the Company and customers
4 in the form of imbalance penalties, potential service interruptions for other
5 customers, and even system pressure problems. In order to minimize these
6 negative impacts, the Tariff seeks to remedy such a situation by having the
7 schools revert to their former status as sales customers.

8 Q. Does this conclude your direct testimony?

9 A. Yes, it does.

**P.S.C. MO. No. 5 Consolidated, Original Sheet No. 41
CANCELLING All Previous Schedules**

Laclede Gas Company

Name of Issuing Corporation or Municipality

For

Refer to Sheet No. 1

Community, Town or City

SCHEDULE OF RATES

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 and to all eligible school districts thereafter. By September 1 of each year, the Association shall provide the Company with a list of each school premise, including the address and the Company account number, where such service is to be provided starting the following November.

C. Supply Planning Obligations:

1. By October 1 each year the Company shall provide the Association with a 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. (The equation will reflect, among other factors, unaccounted-for-gas.)
2. By 9:00 a.m. of each business day 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.

DATE OF ISSUE

August 1, 2002

Month Day Year

DATE EFFECTIVE

November 1, 2002

Month Day Year

ISSUED BY

R.L.Sherwin,

Assistant Vice President,

720 Olive St., St. Louis, MO 63101

Name of officer

title

P.S.C. MO. No. 5 Consolidated, Original Sheet No. 42
CANCELLING All Previous Schedules

Laclede Gas Company

Name of Issuing Corporation or Municipality

For

Refer to Sheet No. 1

Community, Town or City

SCHEDULE OF RATES

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 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 \$.004 per therm for the occurrence of any imbalances and any transition costs as described below.

DATE OF ISSUE

August 1, 2002

Month Day Year

DATE EFFECTIVE

November 1, 2002

Month Day Year

ISSUED BY

R.L. Sherwin,

Assistant Vice President,

720 Olive St., St. Louis, MO 63101

name of officer

title

address

**P.S.C. MO. No. 5 Consolidated, Original Sheet No. 43
CANCELLING All Previous Schedules**

Laclede Gas Company

Name of Issuing Corporation or Municipality

For

Refer to Sheet No. 1

Community, Town or City

SCHEDULE OF RATES

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 and the aggregation service with the Association shall be terminated. In addition, to the extent that the Company incurs additional supply and/or transportation costs, including any penalties and imbalance charges, in the absence of the supplies formerly provided by the Association such incremental costs will be borne entirely by such customers.

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. Transition Costs:

Any costs the Company incurs as a result of reforming any contracts or that may be deemed to be unnecessary as result of providing this service are recoverable from such customers. So as to ensure that this aggregation program will not have any negative impact on the Company or its other customers, charges for this service shall be adjusted, as necessary, to fully recover the cost of providing the service and shall be deemed to be prudently incurred by the Company upon implementation of this tariff.

K. Term of Experiment:

Consistent with Section 393.310 of the RSMo, this service will expire June 30, 2005.

DATE OF ISSUE

August 1, 2002

Month Day Year

DATE EFFECTIVE

November 1, 2002

Month Day Year

ISSUED BY

R.L. Sherwin, Assistant Vice President, 720 Olive St., St. Louis, MO 63101

name of officer

title

address