Exhibit No.:
Issues: *Payroll, Payroll Taxes, Employee Benefits, Pension Plan, PSC Assessment, Cash Working Capital*
Witness: *MARK D. GRIGGS*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Direct Testimony*
Case No.: *GR-99-315*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

FILED

JUN 28 1999

Missouri Public Service Commission

DIRECT TESTIMONY

OF

MARK D. GRIGGS

LACLEDE GAS COMPANY

CASE NO. GR-99-315

Jefferson City, Missouri
June, 1999

DIRECT TESTIMONY

OF

MARK D. GRIGGS

LACLEDE GAS COMPANY

CASE NO. GR-99-315

Q. Please state your name and business address.

A. Mark D. Griggs, 815 Charter Commons, Suite 100B, St. Louis, Missouri 63017.

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

A. I am a Regulatory Auditor for the Missouri Public Service Commission (Commission).

Q. Please describe your educational background.

A. I graduated from the University of Kentucky in May 1990, at which time I received a Bachelor of Science degree in Accounting with High Distinction. In May 1993, I received a Juris Doctorate from the Ohio State University College of Law. I began my employment with the Commission in July 1997.

Q. What has been the nature of your duties while in the employ of this Commission?

A. I have assisted in audits and examinations of the books and records of public utility companies operating within the state of Missouri.

Q. Have you previously filed testimony before this Commission?

A. Yes. I filed testimony in Case No. GR-98-374, Laclede Gas Company.

Q. With reference to Case No. GR-99-315, have you made an examination of the books and records of Laclede Gas Company (Laclede or Company)?

A. Yes, in conjunction with other members of the Staff.

Q. Please describe your areas of responsibility in this case.

A. My areas of responsibility in this case include the following:

- Payroll
- Payroll-related taxes
- 401(k) Plan
- Health care costs
- Pension plan trustee fees
- Cash Working Capital
- PSC Assessment

Q. What Accounting Schedules and Adjustments to the Income Statement are you sponsoring?

A. I am sponsoring the following Accounting Schedules:

Cash Working Capital	Accounting Schedule 8

I am sponsoring the following Income Statement Adjustments:

PSC Assessment	S-15.25
Payroll	S-7.1, S-8.1, S-9.1, S-10.1, S-11.1, S-12.1, S-14.1, S-15.1
Payroll Taxes	S-18.1
401(k) Plan	S-15.6
Health Care Costs	S-15.9, S-15.10, S-15.11
Trustees Fees	S-15.2

CASH WORKING CAPITAL

Q. What is Cash Working Capital (CWC)?

A. CWC is the amount of cash necessary for a utility to pay the day-to-day expenses incurred in providing service to the ratepayer.

Q. What methodology did the Staff apply in determining the Company's CWC requirement?

A. The Staff's calculation of the Company's CWC requirement is based upon a lead/lag study performed by the Company in 1996 (1996 Study), using year-end December 1995 data. The lags developed in Case No. GR-98-374 were based on the 1996 Study. In its response to Staff Data Request No. 74 in Case No. GR-99-315, the Company stated that no material changes, except in the area of gas cost and the interest synchronization effect of short-term debt, have occurred since the performance of the 1996 Study. Therefore, except as noted, the lags used in the current case are those developed by the Staff in Case No. GR-98-374.

Q. Is the method the Staff used to calculate the CWC requirement consistent with that used in previous rate cases?

A. Yes. The use of a lead/lag study to calculate a company's CWC requirement by the Staff has been adopted by the Commission in numerous rate cases.

Q. How does a lead/lag study calculate cash working capital?

A. In a lead/lag study, an analysis is performed of the cash flows related to the payments received by the Company from its customers for the provision of service and the disbursements made by the Company to vendors to provide that service. These cash flows are measured in numbers of days. A lead/lag analysis compares the number of days the company is allowed or takes to make payments after receiving service from a vendor, with the number of days it takes the Company to receive payment for the service provided to customers. The lead/lag study also determines who provides CWC.

Q. What are the sources of CWC?

A. The ratepayer and the shareholder are the sources of CWC.

Q. How does the ratepayer supply CWC?

A. The ratepayer supplies CWC when payment for service is made before the Company pays for the expenses incurred to provide that service. The ratepayer is compensated for the CWC provided through a reduction to rate base.

Q. How does the shareholder supply CWC?

A. When the Company must pay for an expense incurred to provide service before the ratepayer has paid for the related usage, cash is provided by the shareholder. This cash outlay represents a portion of the shareholder's total investment in the Company. The shareholder is compensated for the CWC provided through an increase in rate base.

Q. How are the results from a lead/lag study interpreted?

A. A negative CWC requirement indicates that the ratepayer provided the working capital in the aggregate during the test year. This means that the ratepayer has provided the necessary cash, on average, before the Company must pay for expenses incurred to provide that service.

A positive CWC requirement indicates that the shareholder provided the working capital in the aggregate during the test year. This means that the Company must pay, on average, for the expenses incurred in providing service before cash is provided by the ratepayer.

Q. Please explain the components of the Staffs calculation of CWC, which appear on Accounting Schedule 8.

A. Column A on Accounting Schedule 8 lists the expenses that the Company pays on a day-to-day basis. Column B lists the Staff's Annualized Expense Amounts. Column C, Revenue Lag, denotes the amount of time, expressed in days, between the midpoint of the period during which the Company provides service and the payment for that service by the ratepayer. Column D, Expense Lag, denotes the amount of time, expressed in days, between the receipt of and payment for the goods and services (i.e., cash expenditures) used by the Company to provide service to the ratepayer. Column E, Net , results from the subtraction of the expense lag from the revenue lag. Column F, Factor, expresses the net lag in days as a fraction of the total days in the year. This result is derived by dividing the net lags in Column E by 365 days. Finally, Column G, CWC Requirement, is the average amount of cash necessary to provide service to the ratepayer, which is calculated by multiplying the annualized test year expense amounts (Column B) by the CWC factor (Column F).

Q. Please explain the revenue lag.

A. The revenue lag is defined as the amount of time between the provision of service by the Company and the receipt of the payment for that service from the ratepayers. The revenue lag on Accounting Schedule 8 is a composite of the revenue lags for utility sales and transportation customers, incidental oil operations, and late payment charges. The utility sales and transportation revenue lag is the summation of three subcomponent lags: usage, billing and collection.

Q. Please explain the subcomponent lags for utility sales and transportation customers.

A. The usage, billing and collection lags are defined as follows:

> ***Usage Lag:*** The midpoint of the average time elapsed from the beginning of the first day of a service period through the last day of that service period.

> ***Billing Lag:*** The period of time between the end of the last day of a service period and the day the bill is placed in the mail by the Company.

> ***Collection Lag:*** The period of time between the day the bill is placed in the mail by the Company and the day the Company receives payment from the ratepayer for services rendered.

Q. Please explain the Staff's analysis of the Company's revenue lag.

A. The Staff has examined the Company's calculation of the revenue lags for utility sales and transportation customers, incidental oil sales, and late payment charges. For this case, the Staff has accepted the Company's usage, billing and collection lags for transportation customers and the revenue lag for incidental oil sales. However, the Staff does not agree with the Company's usage and collection lags for utility sales customers and the revenue lag for late payment charges.

Q. Why was a collection lag of 25.4 days selected for the utility sales customers?

A. The 25.4 days reflects the results of a customer sample computed by the Company in Case No. GR-98-374. This sample was computed by weighting the number of days that amounts billed for service were outstanding for each individual customer in the sample.

Q. Why does the Staff believe the 25.4 days is an accurate reflection of the Company's collection lag?

A. The Company's residential customers have 21 days to make payment after the rendition of their bill before a late payment charge is assessed. The commercial/small industrial customers have only 15 days to make payments. Twenty-one days is also prescribed by the Commission's Service and Billing Practices (4 CSR 240-13.020) as the allowable payment period for residential customers. Therefore the Staff believes the 25.4 day collection lag developed from the customer sample is a reasonable and conservative estimate for the population.

Q. What methodology did the Staff use to calculate the usage and billing component of the utility sales revenue lag?

A. As previously stated in this direct testimony, the usage lag is the midpoint of the average time elapsed between the beginning of a service period through the last day of that service period. Therefore, based on a 365-day year and 12 service periods, the midpoint of a service period would be 15.21 days. The Staff reviewed and accepts the

Company's billing lag of 2.93 days. Therefore, the Staff's utility sales revenue lag is 43.54 days (15.21 usage, 2.93 billing, and 25.4 collection). The composite of the revenue lags for utility sales and transportation customers, incidental oil sales, and late payment charges produces the overall revenue lag of 43.31 days.

Q. What methodology did Staff use to calculate the late payment charges component of the overall revenue lag?

A. The late payment charges lag is calculated by weighting the collection lags for utility sales and transportation customers by their respective late payment charges revenue. The collection lags of 25.4 days and 19.6 days for utility sales and transportation customers, respectively, when weighted by the associated late payment charges revenue, yields a weighted lag of 25.35 days.

Q. Why is the revenue lag for sales and gross receipts taxes set at 25.4 days?

A. The amounts of sales and gross receipts taxes are not known until the customer's bill is prepared. The Company acts solely as an agent of the taxing authority in collecting gross receipts tax and sales tax from the ratepayer and paying the proper institution. The Company has not provided any service to the ratepayer associated with the gross receipts and sales taxes. Since the taxes are not known until the bill is prepared, the only portion recognized in the revenue lag is the collection lag.

Q. Please explain the expense lag for uncollectible accounts.

A. Uncollectible accounts is an expense in name only. It is actually a lack of revenue collection and, therefore, does not represent a cash flow for payment of an expense. An expense lag equal to the revenue lag has been assigned to this item so that a zero CWC effect is produced.

Q. Please explain the gross receipts tax expense lag.

A. The gross receipts tax expense lag was calculated by summing the days between the average bill mail date and the required payment date for each municipality. The average bill mail date was computed by calculating the midpoint of the actual beginning and ending bill mail dates for each calendar month of 1997. The lags for each municipality were weighted together based on annual tax payments to derive an overall gross receipts tax expense lag.

Q. Please explain the expense lag for natural gas costs.

A. In its response to Staff Data Request No. 15 in GR-99-315, the Company stated that it currently purchases gas from multiple suppliers and pays transportation charges related to the purchase of natural gas. The Company also provided an updated calculation of the natural gas cost expense lag for the test year in its workpapers. Total payments to each of the five vendors for purchases, storage, and/or transportation were weighted according to their respective lags. The Staff has reviewed and accepts the Company's calculation for this case.

Q. Please explain the expense lag for pension fund contributions.

A. The expense lag for pension fund contributions is based on the actual amounts and dates of contributions made for the 1997 plan year for Laclede and MoNat divisions. Contributions for each plan year are made the following June. Therefore, the lag is 440.5 days. The expense lag reflects the elapsed time between the midpoint of the plan year and the date of the contribution.

Q. Please explain the expense lag for interest.

A. Lag days developed in the 1996 Study were used to derive the long-term interest expense lags. The short-term interest expense lag reflects a company recalculation using 1998 data. The interest expense lag was developed by weighting the long- and short-term debt expense lags by their respective interest rates and weighted costs.

The income taxes and interest amounts used in the calculation of CWC are computer generated and tied to the revenue requirement calculation. Accordingly, offsets for income taxes and interest have been separated from the CWC Schedule and included on Accounting Schedule 2, Rate Base.

Q. Why is a rate base offset for interest expense appropriate?

A. Interest expense is a cost of doing business like any other expense and is recoverable from the ratepayers through the Company's tariffs. This interest is prepaid by the ratepayer and the Company has the use of the funds until payment is made to the bondholder, creating a negative CWC requirement.

PAYROLL

Q. Please explain adjustments S-7.1, S-8.1, S-9.1, S-10.1, S-11.1, S-12.1, S-14.1, and S-15.1.

A. These adjustments annualize test year payroll based upon the Company's wage, salary and employee levels. The Company categorizes its payroll by the following four operating divisions: Laclede Management, Laclede Contract, Missouri Natural (MoNat) Management and MoNat Contract. Management salaries for the Laclede and MoNat Divisions were based upon straight time salary and employee levels at March 31, 1999. Contract wages for the Laclede Division were based upon test year straight time payroll expense adjusted to reflect the August 1, 1998 wage rate increase and the March 31, 1999 employee levels. The MoNat Division contract wages were based upon test year straight time expense adjusted to reflect the April 15, 1998 and April 15, 1999 wage rate increases for contract operations employees and the March 31, 1999, employee levels. The contract wage annualizations restate test year payroll expense as if the August 1998 Laclede contract wage rate increase and the April 1998 and April 1999 MoNat contract wage rate increases were in effect during the entire test year.

Q. Please describe the Staff's overtime calculation.

A. For all four divisions, an adjustment for overtime payroll expense was developed by using a five-year average of overtime hours, ending December 31, 1998, multiplied by an overtime rate. The overtime rates for all four divisions were computed by increasing test year overtime payroll by wage increases and then dividing by test year overtime hours.

For Laclede Management and MoNat Management, the Staff calculated annualized overtime hours by multiplying the March, 1999 level of overtime hours by 12 months. This annualized number was compared to the five-year average overtime hours for each division. The difference was multiplied by the average overtime rate to determine the overtime adjustment. For the Laclede contract and Missouri Natural contract, Staff multiplied the difference between the five-year average of overtime hours and actual test year overtime hours by the overtime rate per hour at December 31, 1998 to calculate the overtime adjustments.

Q. Please explain the Staff's use of a five-year average for overtime hours.

A. Staff examined overtime hours for all Laclede divisions for the 12 months ended December 31, 1994 through December 31, 1998. Overtime levels during these years for the Laclede and MoNat divisions have varied significantly. Due to the fluctuations in the yearly overtime levels, Staff used a five-year average approach to normalize overtime. This five-year average produces a more accurate representation of an ongoing level of overtime.

Q. Is the Staff proposing an adjustment for the Martin Luther King Day holiday, which occurs in January?

A. Yes. For Laclede management and contract, Staff developed a five-year average of overtime hours for the month of January ending January 31, 1998. Staff then compared this five-year average for January to the actual overtime hours worked during January 1999 for each division. The excess of actual overtime hours worked over the five-year average was multiplied by the applicable average hourly overtime rate at December 31, 1998 to allow for the effect of additional overtime hours worked due to the Martin Luther King Day holiday.

Q. How did the Staff determine the portion of annualized payroll to be charged to operation and maintenance (O&M) expense?

A. Staff's total annualized payroll was multiplied by O&M expense factors to derive total annualized O&M payroll.

Q. How were the O&M expense factors determined?

A. The Staff examined O&M percentages for Laclede and MoNat for each of the 12 months ended December 31, 1994 through December 31, 1998. These percentages varied and did not exhibit a strong upward or downward trend. Based upon this analysis, Staff selected a five-year average of O&M percentages. The Staff developed the O&M factors by summing the amounts charged to O&M and total payroll for each of the 12 months ended December 31, 1994 through December 31, 1998. The five-year total amount charged to O&M was divided by the five-year total payroll to develop a five-year average O&M factor. The Staff's calculations produced O&M expense factors of 76.30% for the Laclede Division and 83.83% for the MoNat Division.

Q. How was total annualized O&M payroll distributed to the various expense functions?

A. Total annualized O&M payroll was distributed to expense functions based upon the actual distribution of test year payroll.

Q. Has the Staff applied the O&M expense factors to other payroll-related adjustments?

A. Yes. The Staff applied these O&M expense factors to other payroll-related adjustments such as 401(k), pension plan trustee fees, dental insurance, vision insurance and health care costs which naturally follow payroll expense.

Q. Please explain adjustment S-14.2 and S-18.2.

A. Adjustment S-14.2 removes merchandise sales salaries charged to utility operations from the cost of service calculation because these salaries pertain to non-utility operations and thus are charged below-the-line. Adjustment S-18.2 removes the payroll taxes associated with these salaries.

PAYROLL TAXES

Q. What is adjustment S-18.1?

A. This adjustment represents the Staff's annualization of Federal Insurance Contributions Act taxes (FICA), State Unemployment Tax (SUTA) and the City of St. Louis payroll earnings tax (PET).

Q. Please explain the annualization of the FICA portion of Adjustment S-18.1.

A. FICA (Social Security) is comprised of Old-Age, Survivors and Disability Insurance (OASDI) taxes and Medicare taxes. Annualized payroll was multiplied by the test year ratio of OASDI taxable wages to test year wages in order to determine annualized taxable payroll. This annualized dollar amount was increased to recognize the January 1, 1999 taxable OASDI wage base increase from $68,400 to $72,600. The Medicare portion of FICA tax is applicable to total annualized wages. The annualized taxable wages were then multiplied by the applicable tax rates.

Q. Please explain the SUTA payroll tax portion of adjustment S-18.1.

A. The Company's current effective SUTA rate is 0.00%. Therefore, this adjustment removes the test year level of SUTA expense from the cost of service calculation.

Q. Please explain the annualization of the PET portion of adjustment S-18.1.

A. Staff's annualized Laclede Division Management and Contract payroll levels were multiplied by the test year ratio for St. Louis payroll earnings taxable wages to total wages in order to determine the annualized taxable wages. The annualized taxable wages were then multiplied by the applicable tax rate in order to calculate the annualized level of PET taxes.

401(k) PLAN

Q. Please explain adjustment S-15.6.

A. Adjustment S-15.6 reflects the increase in expenses for the 401(k) Wage and Salary Deferral Savings Plan which have been adjusted based on the Staff's annualized payroll. Under the 401(k) Plan, employees have the option of deferring for receipt in the future a portion of their salaries or wages. The Company matches a percentage of the amount the employee defers. The Staff used the March 31, 1999 ratios of Company contributions to deferred payroll to total payroll for each plan. These ratios were used to calculate the Company contributions to deferred payroll for each plan based on the Staff's annualized payroll. The Staff used the results from March 1999 to calculate the percentage since this level reflects the most current indicator of the ongoing expense level for the plan.

HEALTH CARE EXPENSES

Q. Please explain adjustments S-15.10 and S-15.11.

A. Adjustments S-15.10 and S-15.11 annualize dental and vision insurance expense, respectively, based on March 1999 levels. The Staff multiplied the results from March 1999 by 12 months to calculate its annualization. This was done in order to obtain the most current level of ongoing expense for dental and vision insurance. The Staff subtracted test year expense from these levels to complete the adjustment.

Q. Please explain adjustment S-15.9.

A. Adjustment S-15.9 reflects the Staff's annualized health care expense in excess of the Company's test year health care costs.

Q. What are the components of the Company's health care plan?

A. The Company offers a Comprehensive plan or the choice of one of four Health Maintenance Organizations (HMOs): United HealthCare HMO, Mercy HMO, Mercy Referred HMO or Group Health Plan HMO. Under the Comprehensive plan, the Company pays claims out-of-pocket, plus a small administrative fee to the insurance company. Under the four HMOs, the Company simply pays a negotiated rate per employee with the monthly premium to the respective insurance company.

Q. How has the Staff annualized health care costs in this case?

A. The Staff used the actual test year expense for the Company's Comprehensive medical payments. Administrative fees related to the comprehensive plan were based on December 31, 1998 expense levels. For the Company's four HMO premiums, the Staff used the December, 1998 expense level multiplied by 12 months.

Q. Please explain adjustment S-15.2.

A. This adjustment annualizes pension fund trustee fees based on the March 1999 asset levels. Overall the Staff's adjustment increases expense by approximately $11,606.

OTHER INCOME STATEMENT ADJUSTMENTS

Q. Please explain adjustment S-15.25.

A. Adjustment S-15.25 reflects the difference between the Company's expense for the PSC Assessment during the test year and the actual PSC assessment as of July 1, 1998.

Q. Does this conclude your testimony?

A. Yes, it does.

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

AFFIDAVIT OF MARK D. GRIGGS

STATE OF MISSOURI COUNTY OF COLE	)))	ss.

Mark D. Griggs, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Direct Testimony in question and answer form, consisting of 16 pages to be presented in the above case; that the answers in the foregoing Direct Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

Mark D. Griggs

Subscribed and sworn to before me this 25th day of June 1999.

Toni M. Willmeno
Notary Public, State of Missouri
County of Callaway
My Commission Expires June 24, 2000

TONI M. WILLMENO
NOTARY SEAL
NOTARY PUBLIC
STATE OF MISSOURI