Exhibit No.:	
Issue:	Cash Working Capital, Capital Structure
Witness:	Glenn W. Buck
Type of Exhibit:	Surrebuttal Testimony
Sponsoring Party:	Laclede Gas Company
Case No.:	GR-99-315

LACLEDE GAS COMPANY

GR-99-315

SURREBUTTAL TESTIMONY

OF

GLENN W. BUCK

Surrebuttal Testimony of Glenn W. Buck

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SURREBUTTAL TESTIMONY OF GLENN W. BUCK

Q. Please state your name and business address.

A. My name is Glenn W. Buck, and my business address is 720 Olive St., St. Louis, Missouri, 63101.

Q. Are you the same Glenn W. Buck who previously filed direct and rebuttal testimony in this proceeding?

A. Yes, I am.

Q. What is the purpose of your testimony?

A. The purpose of my surrebuttal testimony is to respond to the rebuttal testimony filed by Staff Witness Griggs regarding the appropriate calculation of the collection lag portion of the overall revenue lag for use in determining the level of cash working capital for inclusion in rate base. I will also respond to the rebuttal testimony filed by Staff Witness Broadwater and the Office of Public Counsel ("OPC") Witness Burdette regarding the appropriate level of short-term debt to include in the Company's capital structure.

Cash Working Capital – Collection Lag

Q. On page one of his rebuttal testimony, Mr. Griggs states that 34.8 days does not provide a reasonable estimate for the collection lag for residential and commercial/small industrial customers. Do you agree with his assertion?

A. No, I do not. In support of this assertion, Mr. Griggs does an "example" calculation that would indicate that, assuming all customers pay at the delinquent date, the expected lag would be approximately 19.4 days. Mr. Griggs then uses this example to support his contention that the Company's lag is unreasonable. Mr. Griggs example calculation is irrelevant, of course, because it is based on a premise that Mr. Griggs himself knows is false - namely that all of Laclede's customers pay their bills by the delinquent date. His following observation that the Company's collection lag implies that **all** customers delay paying their bills until after the delinquent date is equally false because, as Mr. Griggs also knows, the collection lag is an average. As a result, it reflects not only the collection lag associated with the majority of the Company's customers who pay their bills around the delinquent date, but also the smaller number of customers who pay their bills, or portions thereof, 90 or 180 days (or even longer) after the delinquent date. Obviously, it does not take a large number of customers with 180+ day collection lags to drive up the lag by 12 or 13 days. In fact, without addressing the legitimacy of the Staff's skewed customer sample, it should be noted that the Staff's own calculation supports a **25.4** day collection lag, a result that no more implies that "...all customers delay payment until receiving the following month's bill" than does it imply that "...in the aggregate, all Laclede customers would incur late payment charges" (Griggs Rebuttal, Page 2).

Q. Mr. Griggs implies that it is not reasonable to assume that the impact of Cold Weather Rule ("CWR") customers could increase the collection lag to 34.8 days (Griggs Rebuttal, Page 2, Lines 14 – 23). Do you agree with this conclusion?

A. Of course, but its not just CWR customers whose payment patterns lead to the 34.8 day collection lag. To respond to this assertion, I have done a limited review of the customer sample utilized by Staff **although I do not agree that the sample is representative of Laclede's diverse customer base.**

Q. According to the Staff's sample, do CWR customers, on average, have worse payment patterns than the Company's other customers?

A. Yes. Although I agree that these customers do, in fact, exhibit worse payment patterns than many of our customers (the Staff's own sample supports an 89.3 day lag for this subset including at least one customer with a 568.7 day lag, and another with a 304.2 day lag), there remain other subsets of our customer base in the customer sample utilized by Staff, as well as among those customers arbitrarily excluded, who also have distinct payment patterns different from the average calculated.

Q. Are there other characteristics of the Staff's sample that may, compared to the Company's actual lag and without the effect of CWR customer collection lags, account for the unrealistically short collection lag that it produces?

A. Yes, Mr. Griggs seems to imply that the only subset of Laclede's customers who have a worse-than-average payment pattern is the CWR customers. I have found that the Staff's sample illustrates the unique payment characteristics of various portions of our customer base. The Staff's own collection lag for the remaining customers, other than CWR, was **22.3** days -- a result that would indicate that non-CWR customers are also paying their bills, on average, almost 3 days after the delinquent date cited in Mr. Griggs' "example." However, the Staff sample included a 25% greater level of budget billing customers than our population as a whole. These budget billing customers, in the Staff sample, had an average lag of 18.0 days, which lowered the Staff's calculated collection lag.

Q. Please continue.

A. Another discrete customer group is the commercial/small industrial ("C&I") group of customers. This set of customers was over-represented, versus our overall customer base, by approximately 100% in the Staff's sample, and would normally be thought to have a lower collection lag than residential customers, as a whole, because Laclede's tariff provisions require C&I customers to pay their bills earlier (15 days for C&I customers versus 21 days for residential customers). However, in this case, the overall collection lag of the C&I customers included in the Staff's sample actually had the net effect of increasing the total collection lag because of the presence of a few slow-paying C&I customers. This illustrates the potentially unpredictable results of using a customer sample to determine collection lags. This is exactly why the Company has advocated utilizing an accounts receivable turnover analysis, covering our **entire universe** of utility customers, so as avoid the type of anomalous results indicated in the Staff's analysis.

Q. Are there any other factors that support the reasonableness of the 34.8 day collection lag, as filed by the Company?

A. Yes. As addressed in my rebuttal testimony (Buck Rebuttal, Page 6, Lines 7 – 23 continuing through Page 7, Lines 1 – 15), the Staff excluded, from its sample, customers for whom less than twelve months of billing data was available. **This exclusion eliminates a significant portion (well over 20%) of our customers from the Staff's sample**. These customers (inactive, final billed, and charge-off) typically have a higher collection lag than Laclede's population as a whole, and are completely unrepresented in Staff's calculation. Additionally, the Staff's sample excludes customers who are new to the system or, for that matter, just new to an address.

Q. Mr. Griggs represents that the Company's approach to uncollectible accounts "actually increased the cash working capital requirement for a portion of uncollectibles." (Griggs Rebuttal, Page 4, Line 11) Is that an accurate statement?

A. No. In fact, the Company's approach has the net effect of only including a future charge-off customer's billing activity while they are still an active customer. In this manner, any actual billings and payments in the customer history prior to disconnection, while they are still active customers, are included in the calculation of the collection lag. Staff's sampling method, on the other hand, eliminates these customers, mistakenly ignoring the fact that these customers are being billed and making payments in the interim. This has a real **cash** impact, both on the customer and Laclede.

Capital Structure – Short –Term Debt

Q. Has a true-up request been made in this proceeding?

A. Yes. The parties in this proceeding have jointly recommended that certain items in cost of service, including all elements of capital structure, be "trued-up" through July 31, 1999.

Q. Please briefly explain the parties' positions concerning capital structure.

A. I am recommending that the actual twelve month ended July 31, 1999 average daily balance of short-term debt, offset by the level of construction work in progress, be used as the starting point. This average balance should then be annualized to include the full year effect of the approximate $25 million common equity offering that occurred in May of 1999 and the $25 million debt issuance that closed at the beginning of June, 1999. This annualization is no different than any of the other annualized adjustments sponsored by the Company and Staff in this proceeding (i.e., Wages and Salaries, Medical). This annualized average balance is estimated to be approximately $40 million in short-term debt. Both the Staff and OPC have included the 12 month March 1999 ended average level of short-term debt adjusted for construction work in progress. Neither Staff nor OPC has adjusted short-term debt for the aforementioned equity and debt issuances.

After discussions between the parties, both Staff and OPC have agreed to make a further adjustment to reflect in their calculations average daily short-term debt balances. Thus, both the Staff and OPC are proposing that $79.231 million of short-term debt be included in capital structure.

Q. On page 6 of his rebuttal testimony, Staff witness Broadwater states that: "The manner that the Company has used to calculate its short-term debt balance is not reflective of...the past levels of short-term debt the Company has had...." Do you believe that that past short-term debt balances are indicative of future levels of short-term debt?

A. No. Short-term debt levels can and, in fact, do vary based on many items, such as the occurrence of abnormal weather or the redemption of long-term debt in advance of refinancing. Unless each item that can influence short-term debt balances is properly accounted for during the periods analyzed, use of historical averages as a proxy for expected averages can yield unreliable results.

Q. Do you believe that Mr. Broadwater's current sponsorship of $79 million in short-term debt is inconsistent with his direct testimony?

A. Yes. In his direct testimony, Mr. Broadwater stated: "In this specific case, the Staff's capital structure includes short-term debt because these funds are supporting certain rate base items. The rate base items supported by short-term debt include natural gas and propane inventories and cash working capital." (Broadwater Direct, Page 22, Lines 7 – 10) Although it should be noted that I do not agree with Mr. Broadwater's premise, the total of these rate base items as represented in the Staff's direct case is $48.188 million, an amount that is nowhere near the $79 million that Mr. Broadwater is now proposing.

Q. At page 7 of his rebuttal testimony, Mr. Broadwater attached a Schedule 3 to his rebuttal testimony, provided in response to Staff Data Request 3811, which he claims: "clearly shows that the company is increasing its use of short-term debt." (Broadwater Rebuttal, Page 7, Lines 5 – 6) Do you have any comments about this statement?

A. Mr. Broadwater's statement demonstrates that he does not have a clear understanding of the workpaper he received from the Company nor does he have a clear understanding of how Laclede finances its assets. The workpaper supplied to Mr. Broadwater does show increases in short-term debt in 2000 and 2001. However, what Mr. Broadwater does not understand is that: (1) this schedule was assembled to indicate cash needs, not for determining the appropriateness of financing alternatives; and (2) such small increments of required cash could not be obtained through permanent financing in a cost-effective manner (Please see the discussion of this matter on page 10, lines 8 – 16 of my rebuttal testimony).

Q. Do you have any further comments on this matter?

A. Yes. Mr. Broadwater is apparently stating that, in future years, the Company will be utilizing additional short-term debt to finance construction activity. There is nothing wrong with this approach, assuming that the Staff also includes the additional plant associated with that financing in rate base.

Q. Under Mr. Broadwater's proposal, what percentage of capital structure will consist of short-term debt?

A. Upon reviewing true-up information, his proposed level of short-term debt will comprise approximately 13.8% of capital structure.

Q. What would be the total level of debt included in Mr. Broadwater's capital structure?

A. Total debt, which includes both short-term and long-term debt, will be approximately 49% of total capital structure under Mr. Broadwater's proposal.

Q. What are the implications of including this level of debt in the Company's capital structure?

A. According to the Standard & Poors ("S&P") benchmarks for rating a company's debt, Mr. Broadwater's capital structure proposal has effectively placed the Company in the "A" rating category. The Company's current rating with S&P is "AA-". This "AA-" rating allowed the Company to issue 30-year debt in June at an approximate cost to the Company and our ratepayers of 7.04%, a historically favorable rate. The implications of this theoretical bond downgrade on the rate of return and overall return on capital structure has not apparently been quantified or included in Mr. Broadwater's analysis on Laclede's cost of capital. It should be further noted, as stated in the Direct Testimony of OPC witness Burdette, that S&P considers any level of short-term debt above 10% of total capitalization to be "problematic" (Burdette Direct, Page 5, Lines 28 – 30). Both the percentage of short-term debt (13.8%), as well as the level of total debt (49.0%) included in Mr. Broadwater's proposed capital structure should be cause for alarm.

Q. Do you have any other comments regarding the rebuttal testimony of Mr. Broadwater?

A. Yes. Based upon Mr. Broadwater's return on equity and capital structure recommendations in this proceeding (based upon the true-up capital structure that will be recognized in this case), the other S&P quantitative benchmark calculations used in determining Laclede's debt ratings would yield equally disastrous ratios when applied to Mr. Broadwater's analysis. Based on the regulatory models currently utilized by Staff, any analysis of cost of capital premised on a company with an "AA-" rating while only supporting S&P quantitative measures for a lower-rated company is completely without merit.

Q. Do you have any concerns with the rebuttal testimony of OPC witness Burdette?

A. Generally, on the issue of capital structure, Mr. Burdette's analysis suffers from the same fundamental flaws as does Mr. Broadwater's.

Q. Mr. Burdette alleges that the Company's proposed capital structure "would arbitrarily increase the Company's overall rate of return by lowering the level of low-cost short-term debt, thereby artificially increasing the levels of higher cost common equity and long-term debt." (Burdette Rebuttal, Page 10 Lines 1 – 3) Do you agree with this assertion?

A. No. Mr. Burdette seems to imply that the Company is somehow trying to "game" the regulatory process. In fact, Laclede's actions have been straight-forward and consistent throughout, in identifying the use of proceeds from both the recent equity and bond offerings as being used to reduce short-term debt, with the SEC, the rating agencies, our investors, and the Missouri Public Service Commission.

Q. Please continue.

A. Mr. Burdette's testimony seems to suggest that Laclede should finance all of its assets with only short-term debt, because it's the "low-cost" finance alternative. Operating in a vacuum, Mr. Burdette might be correct, but credit rating agencies, stock analysts and markets require the stability that longer term vehicles, such as common equity and long-term bonds provide to a capital structure.

Q. Does this complete your testimony?

A. Yes.

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

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

Glenn W. Buck, of lawful age, being first duly sworn, deposes and states:

1. My name is Glenn W. Buck. My business address is 720 Olive Street, St. Louis, Missouri 63101; and I am Manager of Financial Services for Laclede Gas Company.

2. Attached hereto and made part hereof for all purposes is my surrebuttal 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.

Glenn W. Buck

Glenn W. Buck

Subscribed and sworn to before me this 19th day of August, 1999.

Joyce L. Jansen

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