Exhibit No.:
Issue(s): Year 2000 Costs; Safety Replacement Program; Manufactured Gas Plants; Accounting Authority Orders
Witness/Type of Exhibit: Robertson/Direct
Sponsoring Party: Public Counsel
Case No.: GR-99-315

DIRECT TESTIMONY

OF

TED ROBERTSON

Submitted on Behalf of
the Office of the Public Counsel

LACLEDE GAS COMPANY

Case No. GR-99-315

June 28,1999

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June 28,1999

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Laclede Gas Company's	)	
Tariff Sheets to Revise Natural Gas Rates	)	Case No. GR-99-315

AFFIDAVIT OF TED ROBERTSON

STATE OF MISSOURI	)	
	)	ss
COUNTY OF COLE	)	

Ted Robertson, of lawful age and being first duly sworn, deposes and states:

1. My name is Ted Robertson. I am a Public Utility Accountant for the Office of the Public Counsel.

2. Attached hereto and made a part hereof for all purposes is my direct testimony consisting of pages 1 through 58 and Schedule 1.

3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

Ted Robertson

Subscribed and sworn to me this 28th day of June, 1999.

Mary S. Koestner
Notary Public

My commission expires August 20, 2001.

DIRECT TESTIMONY

OF

TED ROBERTSON

LACLEDE GAS COMPANY

CASE NO. GR-99-315

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. Ted Robertson, PO Box 7800, Jefferson City, Missouri 65102.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by the Office of the Public Counsel of the state of Missouri ("OPC" or "Public Counsel") as a Public Utility Accountant III.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND OTHER QUALIFICATIONS.

A. I graduated from Southwest Missouri State University in Springfield, Missouri, with a Bachelor of Science Degree in Accounting. In November, 1988, I passed the Uniform Certified Public Accountant Examination, and obtained C. P. A. certification from the state of Missouri in 1989.

Q. WHAT IS THE NATURE OF YOUR CURRENT DUTIES WHILE IN THE EMPLOY OF THE OPC?

A. Under the direction of the OPC Chief Public Utility Accountant, Mr. Russell W. Trippensee, I am responsible for performing audits and examinations of the books and records of public utilities operating within the state of Missouri.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION?

A. Yes, I have. Please refer to Schedule 1, attached to this direct testimony, for a listing of cases in which I have previously submitted testimony.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my direct testimony is to express the Public Counsel's recommendations regarding the appropriate regulatory treatment of the Year 2000 compliance costs ("Y2K"), Safety Replacement Program ("SRP"), costs, and manufactured gas plant ("MGP") remediation costs and the Company's proposed continuance of the SRP, MGP and Y2K Accounting Authority Orders.

YEAR 2000 COSTS

Q. WHAT IS THE ISSUE?

A. Company has included in the test year cost of service $1,050,011 associated with modifying its internal use software for the Year 2000 computer situation (source OPC DR Nos. 1042 and 1081). The expenditures were recorded to the following work orders and subsequently booked to the operating expense accounts:

Work Order	Description	Amount
52828	Customer Information System	$362,066
52841	Payroll System	$224,982
52842	Materials Management/Service Location/Leak Control	$458,298
52843	LAN Systems	$ 4,665

Additionally, the Company is proposing to include in rate base and its cost of service two adjustments that would recognize depreciation, carrying costs and property taxes on capital investments it has made to replace and/or enhance hardware and software related to a O/S 390 Operating System, Customer Information System, Payroll System, Database Control, Materials Management System, Service Location System and Leak Control System. The proposed adjustments include an addition to rate base of $29,960.16 (rounded to $30,000) that represents the cumulative unamortized balance of the deferred depreciation, carrying costs and property taxes, and an addition to the cost of service expenses of $5,992 (rounded to $6,000) that represents the first year of a five year amortization of the cumulative balance deferred.

Q. WHAT IS THE PUBLIC COUNSEL'S POSITION ON THIS ISSUE?

A. The Public Counsel recommends that all costs booked via the work orders 52828, 52841, 52842 and 52843 that were ultimately expensed should be removed from operating expenses and capitalized. As for the deferred balances including depreciation, carrying costs and property taxes on the capital investments made by the Company to install new computer systems and install or enhance new or existing software, Public Counsel believes that the Company has completely misinterpreted the AAO negotiated by the parties and authorized in Case No. GR-98-374, by the Commission, to account for the costs of efforts to make the Company's computer systems Y2K compliant. It's the Public Counsel's recommendation that the costs booked to the series 5000 work orders should be capitalized and that the rate base and cost of service adjustments related to costs Company deferred via the Y2K AAO be disallowed in their entirety.

Q. WHAT TYPES OF NEW INVESTMENT AND ENHANCEMENTS HAS THE COMPANY UNDERTAKEN?

A. Company's response to MPSC Staff Data Request No. 110 states:

> The project referenced in the September 1996 Board of Director's meeting was undertaken to address the Year 2000 data processing problems as well as to upgrade and replace the Company's aged general ledger and payroll systems. The general ledger system is being totally replaced by a new general ledger module, a fixed asset module, and a project cost management module. The new system will be Year 2000 capable. The existing payroll system is being modified, not only to make the system Year 2000 compliant, but also to provide additional enhancements. Other projects are also underway to modify, upgrade, and enhance the Company's mainframe hardware, operating systems, customer information and billing system, other feeder systems, and

personal computer hardware and software. These projects are ongoing and the costs associated with these projects are included in the Company's response to Staff Data Request No. 112.

Furthermore, included in the Company's Form 10-Q Quarterly Report to the Securities and Exchange Commission, For the Quarterly Period Ended December 31, 1998, pages 12 and 13, it states:

Year 2000 Issue

The Company has undertaken a comprehensive Year 2000 upgrade, conversion and replacement program pursuant to which the Company is upgrading and replacing its mainframe computer hardware and attendant operating system software along with its key mainframe systems and applications, such as the customer records and billing system and the accounting system. The conversion and upgrade of a majority of the Company's systems and applications have been completed, and the Company is currently in the process of testing these systems and applications. Integrated testing with third parties with whom the Company exchanges information is scheduled to occur in the coming months. Also well underway is a comprehensive personal computer hardware and software replacement/upgrade that is part of the aforementioned program.

To date, the Company has incurred total costs of approximately $11.9 million related to replacements and modifications of various computer systems. Of this amount, $10.4 million has been capitalized and $1.5 million has been charged to expense. The Company currently estimates that costs remaining to be incurred during fiscal 1999 will amount to approximately $3.0 million. In the Company's previously concluded rate case, No. GR-98-374, the MoPSC authorized the Company to capitalize the costs incurred in connection with makings its information systems ready for year 2000 operations. In addition, the MoPSC also authorized the Company to defer any interim property tax, depreciation or carrying cost expenses that may be incurred by the Company in connection with these capitalized items. The Company may apply for recovery of these interim expenses in rate proceedings.

Q. HOW HAS THE COMPANY ACCOUNTED FOR THE COMPUTER PROJECTS COST?

A. Company's response to MPSC Staff Data Request No. 159 states:

> Costs related to purchases of hardware (i.e., mainframe units, personal computers, servers, tape drives, infrastructure, etc.) are included in capital work orders and capitalized.
>
> Costs related to the purchase or development of software are capitalized generally in accordance with AICPA Statement of Position 98-1, "Accounting for the Cost of Computer Software Developed or Obtained for Internal Use", which Laclede must adopt in fiscal year 2000. The costs of developing and/or replacing new systems, as well as costs which provide additional enhancements and extend the life of existing systems, are capitalized.
>
> These costs generally include:
> a.) External direct costs of materials and services consumed in developing or obtaining internal-use computer software;
>
> b.) Payroll and payroll-related costs for employees who are directly associated with and who devote time to the internal-use software project; and,
>
> c.) Interest costs capitalized.
>
> Internal and external costs specifically associated with modifying internal-use software for the year 2000 were charged to expense as incurred, in accordance with EITF 96-14 through June 30, 1998.

Q. PLEASE CONTINUE.

A. The Company's response to OPC Data Request No. 1042 states:

The Computer project costs identified in OPC Data Request No. 1014 represent costs for replacements which are capitalized in work orders (6000 series) which close to work in progress and eventually plant accounts for hardware or software. The Company's costs to modify existing systems for Year 2000 were expensed as incurred through June 30, 1998, and capitalized thereafter in accordance with the Stipulation and Agreement in Case No. GR-98-374. The amounts expensed were charged to maintenance work orders (5000 series) which were closed to operating expense accounts.

Q. PLEASE DESCRIBE THE PURPOSE OF THE COSTS RECORDED IN SERIES 5000 WORK ORDERS.

A. Company's response to MPSC Staff Data Request No. 155 provides the following regarding the purpose for the costs recorded to the respective series 5000 work orders:

Work Order 52828:
These costs were incurred to modify the Customer Information System so that it would be year 2000 compliant. These costs were primarily for outside services, and included some in-house labor.

Work Order 52841:
These costs were incurred to modify the Company's existing Payroll System so that it would be year 2000 compliant. These costs were primarily for outside services, and included some in-house labor.

Work Order 52842:
These costs were incurred to modify three of the Company's existing systems so that they would be year 2000 compliant. These costs were primarily for outside services, and included some in-house labor. The costs were incurred to modify the Materials Management System, the Service Location System, and the Leak Control Systems.

Work Order 52843:

These costs were incurred to modify the Company's existing LAN systems, so that they would be year 2000 compliant. These costs were for in-house labor.

Q. WERE THE PROJECTS WHOSE COST WAS RECORDED IN THE SERIES 5000 WORK ORDERS IN-SERVICE AT DECEMBER 31, 1998?

A. According to the Company's response to MPSC Staff Data Request No. 159, the Customer Information System, Materials Management System, Service Location System and Lead Control System were in-service on that date. The Payroll System was not in-service, but is listed as being in-service in March of 1999. The LAN System had no in-service date provided.

Q. PLEASE EXPLAIN THE PURPOSE OF THE Y2K PROJECT.

A. Apparently, many computer systems process transactions based on storing two digits for the year of a transaction (for example, "96" for 1996), rather than a full four digits. Because the computer systems that are based on two-digit years are not programmed to consider the start of a new century they required modification. Systems that processed year 2000 transactions with the year "00" may have encountered significant processing inaccuracies and even inoperability.

Q. DID THE COMPANY BOOK ITS Y2K COSTS IN ACCORDANCE WITH THE EMERGING ISSUES TASK FORCE CONSENSUS NO. 96-14?

A. It's the Public Counsel's understanding that all the costs incurred prior to July 1, 1998, were expensed according to the Company's interpretation of the Emerging Issues Task Force ("EITF") Issue No. 96-14 statement. The EITF states:

> ...the Task Force reached a consensus that external and internal costs specifically associated with modifying internal-use software for the year 2000 should be charged to expense as incurred. (July 18, 1996 EITF Meeting Minutes, p. 13)

Costs incurred after June 30, 1998 were capitalized according to the Company's interpretation of the AAO agreed to in the Stipulation and Agreement of Case No. GR-98-374 and approved by the Commission.

Q. DOES PUBLIC COUNSEL BELIEVE THAT THE COSTS THE COMPANY INCURRED TO MAKE ITS SYSTEMS Y2K COMPLIANT SHOULD HAVE BEEN EXPENSED ACCORDING TO THE DIRECTIVE OF EITF NO. 96-14?

A. No. Public Counsel believes that the costs incurred by the Company to modify its computer systems should have been capitalized and amortized over a period representative of the usefulness or the service life of the modifications. EITF No. 96-14, while an authoritative accounting body, is not the premier body responsible for promulgation of "Generally Accepted Accounting Principles" ("GAAP"). The Financial Accounting Standards Board ("FASB") has that responsibility.

Q. YOU STATED EARLIER THAT YOU BELIEVE THAT THE COMPANY HAS MISINTERPRETED THE Y2K ACCOUNTING AUTHORITY ORDER GRANTED IN CASE NO. GR-98-374, PLEASE EXPLAIN YOUR STATEMENT.

A. As described earlier, the Company has undertaken a comprehensive program to replace, enhance and modify its computer hardware and various operating systems. The Company is upgrading and replacing its mainframe computer hardware and attendant operating system software along with its key mainframe systems and applications, such as the customer records and billing system and the accounting system. Examples of the projects undertaken include enhancements to Company's payroll system software, O/S 390 Mainframe CPU, tape drives, storage units, printer and platform O/S 390 software, customer information system software enhancements, IMS software for database controls, and enhancements to feeder systems such as its material management system, service location system and leak control system. Also well underway is a comprehensive personal computer hardware and software replacement/upgrade.

It's the Public Counsel belief that the Company has inappropriately included the costs of the aforementioned computer system replacements, enhancements and modifications in the category of costs upon which the AAO deferred balances of depreciation, carrying costs and property taxes have been calculated. Public Counsel believes that the Company has taken an overly broad, and incorrect, interpretation of the actual language of the AAO and improperly used the accounting device to inflate the deferred balances with costs

which are not, for the most part, related to making its existing computer systems Y2K compliant.

Q. WHAT COSTS DID THE AAO ACTUALLY ALLOW THE COMPANY TO CALCULATE A DEFERRAL ON?

A. On page 6, item 8(C), of the Stipulation and Agreement of Case No. GR-98-374, it states:

> YEAR 2000 ("Y2K")
>
> (C) All costs incurred or to be incurred by Laclede through the end of the Deferral Period to replace, enhance, and/or modify its information systems and computerized voice and data systems in connection with the Company's efforts to make such systems Y2K compliant, which efforts shall be capitalized and charged to the appropriate gas plant accounts, including, without limitation, property taxes, depreciation and amortization expense, and all other expenses, and carrying costs (at the overall rate of interest calculated pursuant to the Federal Energy Regulatory Commission formula for computing AFUDC as set out in 18 CFR Part 201). (emphasis added by OPC)

In effect, the AAO allowed the Company to defer depreciation, carrying costs and property taxes on costs incurred to make its existing computer systems Y2K compliant. This is accomplished by calculating the depreciation, carrying costs and property taxes on the costs of projects for the period from when the projects were finished and actually placed in-service until, for the purposes of the instant case, the end of March 1999.

Q. DO THE PARTIES TO THE STIPULATION AND AGREEMENT IN CASE NO. GR-98-374 HAVE THE RIGHT TO CHALLENGE WHETHER THE COSTS DEFERRED ARE MATERIAL OR EVEN EXTRAORDINARY?

A. Yes, they do. On page 7, paragraph 9 of the Stipulation and Agreement it states:

> The parties reserve the right to challenge the recovery in future rates of any costs deferred pursuant to Paragraph 8 of this Stipulation and Agreement on any grounds including but not limited to, an argument that the costs deferred are not material or extraordinary.

Paragraph 8 is the section of the Stipulation and Agreement that describes the language granting the accounting authorization to defer the SRP, MGP and Y2K costs.

Q. IS IT THE PUBLIC COUNSEL'S BELIEF THAT THE COMPANY IS INFLATING THE AAO DEFERRED BALANCES BY INCLUDING THE COSTS OF PROJECTS WHICH ARE NOT RELATED TO MAKING ITS COMPUTER SYSTEMS Y2K COMPLIANT?

A. Yes, that's correct. The Company is incorrectly characterizing the replacement, enhancement and modification of many of its computer systems as incurred in order to make them Y2K compliant. The Company's characterization is wrong. The Y2K compliance issue, and the AAO deferrals, pertain only to external and internal costs specifically associated with modifying internal-use software for the year 2000 (source EITF 96-14). It does not entail a mass replacement or enhancement of computer

hardware and computer operating systems such as the projects currently being developed and implemented by the Company.

Q. WERE THE COSTS DEFERRED PURSUANT TO THE AAO INCURRED DUE TO EXTRAORDINARY EVENTS?

A. No. As of the end of March 1999, the Company states that it has put into service projects with a cumulative total cost $1,150,834. The projects include the replacement or enhancement of items such as a O/S 390 Mainframe and O/S 390 Operating System, Customer Information System, Payroll System, IMS Software for Database Controls, Material Management System, Service Location System and Lead Control System. The Company has calculated and recorded a deferral balance of $30,000 (rounded) to represent the deferred depreciation, carrying costs and property taxes on the projects costs for the time period from when the projects were placed in-service until the end of March 1999.

The costs are not extraordinary for several reasons. The least of which is that the projects for which they were incurred are not unusual in nature. It is not an uncommon occurrence for a company to replace its computer hardware and software or to enhance software or operating systems on a regular basis. The Commission is aware that many companies have requested three to five year amortization of their computer based investments because of the quick changing technology and value associated with the investments. The projects for which the Company incurred the costs were also the

subject of close scrutiny and continuous planning and implementation by the Company's management. So it would be irrational to believe that management was somehow surprised by the occurrence of their development and implementation. Furthermore, it is my understanding that there are other computer based projects currently being developed and implemented on an on-going basis. Therefore, any argument regarding the nonrecurring nature of this type of activity is or should be moot.

Q. ARE THE COSTS DEFERRED PURSUANT TO THE AAO MATERIAL IN NATURE?

A. Absolutely not. The $30,000 balance deferred by the Company when compared to the December 31, 1998 Total Utility Operating Income shown on Schedule 1, page 1, of the Company's instant case filing only represents 7.2 hundredths of one percent ($30,000 divided by $41,881,000 equals 0.00072%) of the per book total utility operating income. This amount is certainly not material. In fact, it is miniscule and certainly not worthy of recognition via an AAO. It is far far below the 5% threshold of materiality describe in the FERC Uniform System of Accounts adopted by this Commission. The USOA definition of "extraordinary items" which are defined in the USOA General Instructions, paragraph 15,017, states:

> 7. Extraordinary items. It is the intent that net income shall reflect all items of profit and loss during the period with the exception of prior period adjustments as described in paragraph 7.1 in long-tem debt as described in paragraph 17 below. Those items relate to the effect of events and transactions which have occurred during the current period and which

are not typical or customary business activities of the company shall be considered extraordinary items. Accordingly, they will not be events and transactions of significant effect which would not be expected to recur frequently and which would not be considered as recurring factors in any evaluation of the ordinary operating process of business. (In determining significance, items of similar nature should be considered in the aggregate. Dissimilar items should be considered individually; however, if they are few in number, they may be considered in the aggregate.) To be considered as extraordinary under the above guidelines, an item should be more than approximately five percent of income computed before extraordinary items. Commission approval must be obtained to treat an item of less than five percent as extraordinary.

Q. DID THE COMPANY ACTUALLY DEFER ANY PROPERTY TAXES DURING THE TEST YEAR OR KNOWN AND MEASURABLE PERIOD ENDING MARCH 1999?

A. No, it did not. Company has included $1,575 of property taxes in the $30,000 deferred balance, however, Company's response to OPC Data Request No. 1078 states that property taxes will be booked in May 1999. No property taxes were actually deferred during the period in question. Thus, in the operating income comparison discussed previously, the percentage of operating income that the deferred balance represents is actually slightly less than I identified.

Q. PLEASE SUMMARIZE THE PUBLIC COUNSEL'S POSITION ON THE COMPANY'S ACCOUNTING FOR Y2K COSTS AND OTHER INVESTMENT.

A. Public Counsel believes that all the costs associated with the Y2K issue, and other computer and operating systems projects, should be capitalized and amortized over a period of years comparable to the usefulness and/or service life of the equipment and/or

systems. In addition, the Public Counsel requests that the Commission deny the Company's request for recovery of depreciation, carrying costs and property taxes deferred pursuant to investments the Company made to change its computer systems and systems software code to recognize the date 2000.

Additionally, Public Counsel requests that the Commission deny the Company recovery of any depreciation, carrying costs and property taxes it inappropriately deferred pursuant to other investments it made to replace, enhance and/or modify various computer systems and software systems. These other investments, unrelated to the usual Y2K compliance issue, were made to replace, enhance and/or modify various computer systems and software and they were never intended to be afforded any deferral treatment via the AAO Ordered in Case No. GR-98-374. They are not representative or characteristic of costs or activities normally associated with the Y2K compliance issue. They are, however, characteristic of a company developing and implementing an upgrade of its computer operations thus, they are essentially a normal recurring event or transaction typical of customary business activities. Furthermore, the costs are not extraordinary nor are they material.

Q. HAS THE COMPANY REQUESTED CONTINUANCE OF THE Y2K ACCOUNTING AUTHORITY ORDER?

A. Yes, Laclede has requested that the Commission provide it with authorization to continue the Y2K AAO deferral. On page 22, lines 11-23, of the direct testimony of Company witness, Mr. James A. Fallert, he states:

> Q. Does Laclede propose that the SRP, MGP, and Y2K cost deferral mechanisms continue to be used?
>
> A. Yes, it does. Laclede believes that the reasons which justified the initial grant of authority by the Commission continue to exist. Accordingly, Laclede requests that the Commission authorize the continue use of such cost deferral mechanisms for a period beginning with the update or true-up period of this proceeding and continuing through the effective date of new rates established in its next general rate case proceeding. However, the Company would support eliminating these mechanisms when the reasons prompting their implementation no longer exist.

Q. DOES THE PUBLIC COUNSEL BELIEVE THAT THE Y2K ACCOUNTING AUTHORITY ORDER SHOULD BE CONTINUED?

A. No, the Company's Y2K AAO should be discontinued. The computer projects the Company is developing and implementing are, for the most part, not related to the issue of making its systems Year 2000 compliant. Neither are the projects extraordinary. They are not unusual, they are not material and they are recurring.

SAFETY REPLACEMENT PROGRAM

Q. WHAT IS THE ISSUE?

A. According to Company witness, Mr. James A. Fallert, Laclede has deferred and booked to Account 182.3 the costs it incurred for replacement of service lines and replacement and cathodic protection of bare steel and cast iron mains, as well as associated work on other facilities. Such costs include depreciation, property taxes, and carrying costs which would normally have been expensed beginning with the in-service date. Costs deferred also include inspection of customer-owned buried fuel lines pursuant to the Commission's order in Case No. GO-95-362 and subsequent reauthorization in Case Nos. GR-96-193 and GR-98-374.

Q. WHAT DOES THE COMPANY MEAN WHEN IT USES THE TERM "DEFER"?

A. When a cost (expense) has been deferred, it is removed from the income statement and entered on the balance sheet (e.g., Account 186, Miscellaneous Deferred Debits), pending the final disposition of these costs at some future point, usually a rate case. The Federal Energy Regulatory Commission USOA Account No. 186 Miscellaneous Deferred Debits states:

> A. This account shall include all debits not elsewhere provided for, such as miscellaneous work in progress, construction certificate application fees paid prior to final disposition of the application as provided for in gas plant instruction 15A, and unusual or extraordinary expenses not included in other accounts which are in process of amortization, and items the final disposition of which is uncertain.
>
> B. The records supporting the entries to this account shall be so kept that the utility can furnish full information as to each deferred debit included herein.

Q. WHAT IS THE CURRENT BALANCE OF THE DEFERRED AMOUNTS?

A. The cumulative safety deferral balance as of the end of March 1999 is $1,360,530.62.

Q. IS COMPANY PROPOSING TO INCLUDE THE DEFERRED BALANCE IN RATE BASE?

A. Yes. The Company is proposing to include the $1,361,000 (rounded) in rate base.

Q. WHAT AMOUNT IS THE COMPANY PROPOSING TO INCLUDE IN THE COST OF SERVICE?

A. Company proposes to amortize the deferred balance over five years. The first year amortization amount, which is identified on Schedule 2, page 4, 6.g and 6.h. of the Company's direct testimony filing, is $272,106 ($272,000 rounded).

Q. IS THE 5 YEAR AMORTIZATION PERIOD UTILIZED BY THE COMPANY THE APPROPRIATE TIME PERIOD TO USE IN DETERMINING THE ANNUAL AMORTIZATION OF THE DEFERRED BALANCE?

A. No, a five year amortization does not represent a reasonable amortization time period. It is too short a period for providing the Company recovery of the deferred balance. It is unfair and arbitrary. A more reasonable and realistic time period is one that allows the Company to recover the deferred amounts parallel with the recovery of the investment upon which the

deferral was calculated. Under normal regulatory accounting carrying costs (AFUDC) and taxes (property) are added to an investment's balance during the period that the investment is categorized as construction work in progress. These additional costs appropriately follow the investment to plant-in-service upon its completion. The total cost of the investment, including carrying costs and taxes, are then recovered by the Company over the used and useful life of the investment. In many instances these costs are associated with plant that is normally recovered over periods that far exceed a twenty year used and useful life. Public Counsel believes that, at a minimum, the time period for recovery of the deferred balances should not be less than twenty years.

Q. YOU STATED EARLIER THAT THE COMPANY HAS INCLUDED THE SRP DEFERRED BALANCE IN RATE BASE, IS THAT AN APPROPRIATE ADJUSTMENT?

A. No, it is not. The Public Counsel recommends that the SRP deferred balance not be included in the Company's rate base. The rationale for this position is based on the view that the Company is being given a guaranteed "return of" the deferrals associated with the Safety Replacement Program; therefore, it should not be also provided with a guaranteed "return on" those same amounts.

Q. IS IT TRUE THAT THE SRP DEFERRED CARRYING COST AND DEPRECIATION EXPENSE ARE NOT ACTUALLY FUNDED BY THE COMPANY?

A. Yes, that is a true statement. The carrying cost and depreciation expense associated with the SRP deferral are not actually dollars of investment funded by the Company, they are merely paper accounting entries on the financial books of the Company. Neither the carrying cost nor the depreciation expense causes the Company to forego any actual outlay of cash. However, the dollars associated with these book entries will be recovered from ratepayers through the SRP amortization included in the Company's cost of service.

Q. IF THE SRP DEFERRAL BALANCE IS INCLUDED IN RATE BASE WOULDN'T THAT PERMIT THE COMPANY TO EARN A RETURN ON AMOUNTS FOR WHICH THERE WAS NO ACTUAL INVESTMENT MADE BY THE COMPANY?

A. Yes, it would. In fact, allowing the Company to earn a "return on" the SRP deferrals has the same effect of allowing it to earn a return on a return. Stated another way, the Company will recover (receive a "return of") the deferred carrying cost and depreciation expense by way of the amortization included in rates and then will earn a "return on" those same amounts.

Q. PLEASE EXPLAIN THE TERMS "RETURN OF" AND "RETURN ON".

A. If an expenditure is recorded on the income statement as an expense it is compared dollar for dollar to revenues. This comparison is referred to as a "return of" because a dollar of expense is matched by a dollar of revenue. A "return on" occurs when an expenditure is capitalized with the balance sheet and then included in the calculation of rate base. This

calculation is a preliminary step in determining the earnings a company achieves on its total regulatory investment.

Q. DOES THE AAO INSULATE THE COMPANY FROM THE EFFECTS OF REGULATORY LAG?

A. Yes, it does. The SRP AAO insulates the Company's shareholders from some of the risks associated with regulatory lag that may occur if the SRP construction projects are completed and placed in service before the operation of law date of a general rate increase case.

Q. PLEASE EXPLAIN THE CONCEPT OF REGULATORY LAG.

A. This concept is based on a difference in timing of a decision by management and the Commission's recognition of that decision and its effect on the rate base rate of return relationship in the determination of a company's revenue requirement. Management decisions that reduce or increase the cost of service without changing revenues result in a change in the rate base rate of return relationship. This change either increases or decreases the profitability of the Company in the short-run until such time as the Commission reestablishes rates to properly match revenues with the new level of service cost. Companies are allowed to retain cost savings (i.e., excess profits during the lag period between rate cases) and are required to absorb cost increases. When faced with escalating costs regulatory lag places pressure on management to minimize the change in the

relationship because it cannot be recognized in a rate increase until the Commission approves such in a general rate proceeding.

Q. HAS THIS COMMISSION RULED THAT IT IS NOT REASONABLE TO PROVIDE SUCH PROTECTION TO SHAREHOLDERS?

A. Yes, it has. In Missouri Public Service Co., 1 Mo. P.S.C. 3d 200 (1991), Case Nos. EO-91-358 & EO-91-360, the Commission stated:

> Lessening the effect of regulatory lag by deferring costs is beneficial to a company but not particularly beneficial to ratepayers. Companies do not propose to defer profits to subsequent rate cases to lessen the effects of regulatory lag, but insist it is a benefit to defer costs. Regulatory lag is a part of the regulatory process and can be a benefit as well as a detriment. Lessening regulatory lag by deferring costs is not a reasonable goal unless the costs are associated with an extraordinary event.

Maintaining the financial integrity of a utility is also a reasonable goal. The deferral of costs to maintain current financial integrity, though, is of questionable benefit. If a utility's financial integrity is threatened by high costs so that its ability to provide service is threatened, then it should seek interim rate relief. If maintaining financial integrity means sustaining a specific return on equity, this is not the purpose of regulation. It is not reasonable to defer costs to insulate shareholders from any risks. Id. at 207.

Q. HASN'T THE COMMISSION MADE A DETERMINATION THAT THE SRP IS AN EXTRAORDINARY EVENT?

A. Yes, however, the Commission stated on page 13 of its Report and Order in St. Louis County Water Company, Case No. WR-96-263:

> As both the OPC and the Staff point out, the Commission has to date, granted AAO accounting treatment exclusively for one-time outlays or capital caused by unpredictable events, acts of government, and other matters outside the control of the utility or the Commission. It is also pointed out that the terms "infrequent, unusual and extraordinary" connote occurrences which are unpredictable in nature. (emphasis added by OPC)

Q. ARE THE SRP COSTS COMPANY IS INCURRING UNPREDICTABLE IN NATURE?

A. No, they are not. The SRP project is a continuing construction project that has existed for many years, and it is my understanding that it is expected to last for several more years. It would be unrealistic to believe that a construction project that has lasted as long as the SRP could not be predicted and planned for by management with a minimum of error in their results.

Q. SHOULD RATEPAYERS BE REQUIRED TO PROVIDE COMPANY WITH A GUARANTEED RETURN ON THE SRP CONSTRUCTION EXPENDITURES JUST BECAUSE THE COMPANY'S MANAGEMENT CHOOSES NOT TO EXERCISE ITS PLANNING AND OPERATING RESPONSIBILITIES?

A. No, ratepayers should not be required to fund such a return. Planning and operation of the Company's construction projects are a fundamental responsibility of Laclede's management. Only management has complete access to the data and resources necessary to

fulfill these responsibilities, and as such, management should be able to implement a SRP construction program that minimizes the effects of regulatory lag on the Company finances. To the extent regulatory lag moves against the Company, the Commission has already decided, as mentioned earlier, that lessening regulatory lag by deferring costs is not a reasonable goal.

Q. PLEASE CONTINUE.

A. The purpose of the accounting variance is to protect the Company from adverse financial impact caused by the regulatory delay period and to afford it the opportunity to recover these charges. The accounting variance should not be used to place the Company in a better position than it would have been in had plant investment and rate synchronization been achieved. Just as it would be unfair to deny Laclede recovery of its reasonable and prudent investment due to regulatory delays which the Company could not control, it would be unfair if the Company were allowed to reap a windfall, at ratepayer expense, due to a regulatory delay that ratepayers could not control. Public Counsel's position is that issues caused by regulatory lag must be treated in a fair manner for both ratepayers and the Company.

Q. PLEASE RECAP THE PUBLIC COUNSEL'S RECOMMENDATION REGARDING LACLEDE'S SRP ACCOUNTING AUTHORITY ORDER.

A. The Public Counsel believes that the Commission should order the Company to exclude the deferred balance from rate base thus, eliminating the Company's earning a return on

the balance. We also recommend that the Commission order the Company to amortize the deferred balance over a period more representative of the useful life of the plant to which the amounts are associated. It's the Public Counsel's belief that an amortization period of 20 years or greater is a more realistic and reasonable time period for the Company to recover these costs.

OPC believes that guaranteeing the Company a "return of" and "return on" the SRP deferred balance is not a fair allocation of regulatory lag resulting from the Company's on-going construction project. This view is based on the fact that OPC believes management is responsible for planning and operating the activities of the Company. If management is unable to or chooses not to implement processes and procedures which would limit the effect of regulatory lag on the its finances, the Company should not be protected by the Commission with guaranteed earnings. Therefore, in order that ratepayers and shareholders both share in the effect of regulatory lag, the Public Counsel is recommending that Company be allowed to earn a "return of" the SRP deferred balance, but not a "return on" the SRP deferred balance.

MANUFACTURED GAS PLANT REMEDIATION COSTS

Q. WHAT ARE MANUFACTURED GAS PLANT REMEDIATION COSTS AND WHAT IS THE ISSUE?

A. Remediation costs can be defined as all investigations, testing, land acquisition if appropriate, litigation costs, and expenses or other liabilities, excluding personal injury claims, specifically relating to gas manufacturing facility sites, disposal sites, or sites to which material may have migrated, as a result of the operation or decommissioning of gas manufacturing facilities. The issue relates to the Company's present request for ratemaking treatment of remediation costs for sites where it either formerly operated manufactured gas plant or where it has been involved in a civil lawsuit pertaining to MGP remediation efforts on property it has not owned (i.e., Superior Oil Company site).

Q. WHAT IS THE COMPANY'S REQUEST?

A. Company response to OPC Data Request No. 1040 states that Laclede has incurred MGP related expenditures of $459,221 for the period May 1, 1996 through March 31, 1999. Company is requesting that the $459,221 be afforded rate base treatment, and amortized to expense over a five year period (i.e., $91,844 rounded).

Q. WHAT IS THE PUBLIC COUNSEL'S POSITION ON THE MANUFACTURED GAS SITE REMEDIATION COSTS AS PROPOSED BY LACLEDE?

A. The Public Counsel recommends that the Commission disallow all MGP remediation costs from the Company's instant case rate base and cost of service. It is the Public Counsel's position that the Company has requested inappropriate regulatory ratemaking treatment for the MGP remediation expenditures.

Q. PLEASE EXPLAIN WHY THE PUBLIC COUNSEL IS RECOMMENDING THAT THE COMMISSION EXCLUDE THE MGP COSTS FROM LACLEDE'S RATE BASE AND COST OF SERVICE.

A. The Public Counsel's opposition to the inclusion of the manufactured gas plant site remediation costs in Laclede's rate base and cost of service is based on a plethora of reasons. They include: (1) neither the Shrewsbury Facility or the Carondelet Coke manufactured gas plant is currently in operation. Therefore, neither properties' manufactured gas plant operation is currently used and useful in providing service to current Laclede customers. In fact, the Carondelet property is not even owned by the Company. The Carondelet Coke property was sold by Laclede on May 27, 1950, (2) if current customers are required to pay for the cost of service not recovered from past customers, i.e., past rates were too low, the result is intergenerational inequity, and possibly retroactive ratemaking. Thus present customers will be required to pay in future rates for past deficits of the Company. Also, recovery of these costs from ratepayers would guarantee the investments of stockholders rather than present the Company with the opportunity to earn a return approved by the Commission, (3) the remediation expenditures expensed by the Company may be a non-recurring cost of operations, (4) shareholders are compensated for this particular business risk through the risk premium applied to the equity portion of the Company's weighted average rate of return (WROR), (5) shareholders not ratepayers receive the benefits or losses (below-the-line treatment) of any sale or removal from service of Company owned real property, e.g., the Carondelet MGP site. Since it is the shareholder who receives either the gain or the loss on the sale of real property, it is the shareholder who

should shoulder the responsibility for any legal liability that arises at a later date related to the real property, (6) the liability for the remediation costs is not incurred because of any service Laclede currently provides to its customers. Laclede is or may be a potentially responsible party because it either owns former MGP property now, has owned former MGP property at sometime in the past, and (7) automatic recovery of the remediation costs from Laclede's customers reduces the incentive for the Company to seek partial or complete recovery of the costs from current or prior owners of the plant sites and/or Company's insurers.

Q. WHY IS THIS GENERAL RATE CASE IMPORTANT AS IT RELATES TO THE RESPONSIBILITY FOR AND RECOVERY OF MANUFACTURED GAS PLANT SITE REMEDIATION COSTS?

A. Because this Commission has never had the opportunity to review a complete record of the issues surrounding federally mandated environmental cleanup costs, and decide, by contested hearing, who should be held responsible for the costs. The likelihood of environmental cleanup costs associated with the remediation of manufactured gas plant sites like Laclede's has created a situation that is of vast potential harm to the Company's ratepayers. Because the costs are being incurred to remediate manufactured gas plant sites that have not provided any services to past or current customers for many years, the Public Counsel believes that the Commission should weigh all the issues of the instant case with ample care and thoughtfulness. How the Commission resolves the cost recovery issues of

the instant case will likely set a precedent that will resonate to all other Missouri utilities expecting to incur similar costs.

Q. WHY IS THE COMPANY POTENTIALLY LIABLE TO INCUR MANUFACTURED GAS CLEANUP EXPENDITURES?

A. To deal with the contamination and cleanup problems presented by abandoned and/or inactive hazardous waste sites, Congress in 1980 enacted the Comprehensive Environment Compensation and Liability Act ("CERCLA" or "Superfund"). CERCLA provided funding and enforcement authority to the Environmental Protection Agency ("EPA") to enable it to respond to hazardous substance releases and to enable the EPA to undertake or regulate the cleanup of those hazardous sites where owners/operators were either without resources or unwilling to implement such cleanup. In 1986 CERCLA was amended by the Superfund Amendments and Reauthorization Act ("SARA") which intensified Superfund activities and set a goal of achieving "permanent" solutions at Superfund sites. CERCLA imposes strict, joint, and several liability on present or former owners or operators of facilities where substances have been or are threatened to be released into the environment. Potentially responsible parties ("PRP") include owners of contaminated land from point of contamination to date, operators (which is interpreted as any party that had possession, control, or influence over the premises during the same period), transporters, and generators of the contaminants regardless of whether they directly released such substances into the environment.

Q. WAS THE COMPANY PROVIDED WITH ACCOUNTING AUTHORITY ORDER AUTHORIZATION TO DEFER THE MGP EXPENDITURES?

A. Yes. Per the Stipulation and Agreement Ordered in Laclede Gas Company Case No. GR-96-193, paragraph 14, pages 16 and 17:

> The Parties agree, subject to the conditions specified herein, that Laclede should be granted accounting authorization to continue to defer and book to Account 186, all costs to be incurred by Laclede (including, but not limited to, all legal and consulting fees) in connection with (1) the investigation, assessment, removal, disposal, storage, remediation or other treatment of residues, substances, materials, and/or property that are associated with former manufactured gas operation or located on former manufactured gas sites, (2) the dismantling and/or removal of facilities formerly utilized in manufactured gas operations, (3) efforts to recover such costs from potentially responsible third parties and insurance companies, and (4) payments received by Laclede as a result of such efforts; including all such costs to be incurred or payments received by Laclede beginning May 1, 1996, to the earlier of : (a) the effective date of the rates established in Laclede's next general rate case proceeding, or (b) the beginning of the deferral period of any subsequent Accounting Authority Order granted by the Commission for such costs, The Parties further agree that such authorization shall become null and void in the event Laclede does not file tariff sheets proposing a general increase in rates by September 1, 1998. The Parties also reserve the right to challenge the recovery in future rates of any costs deferred under this Paragraph 14.

The accounting authorization was rolled forward by the Commission per the Stipulation and Agreement Ordered in Laclede Gas Company Case No. GR-98-374, page 6, paragraph 8 (B):

> All costs incurred or payments received by Laclede during the Deferral Period (including, but not limited to, all legal and consulting fees) in

> connection with: 1) the investigation, assessment, removal, disposal, storage, remediation or other treatment of residues, substances, materials, and/or property that are associated with former manufactured gas operations or located on former manufactured gas plant sites; 2) the dismantling and/or removal of facilities formerly utilized in manufactured gas operations; 3) efforts to recover such costs from potentially responsible third parties and insurance companies; and 4) reimbursement and recoveries of costs from third parties and insurance companies.

Q. DO THE PARTIES TO THE STIPULATION AND AGREEMENT IN CASE NO. GR-98-374 HAVE THE RIGHT TO CHALLENGE WHETHER THE COSTS DEFERRED ARE MATERIAL OR EVEN EXTRAORDINARY?

A. Yes, they do. On page 7, paragraph 9 of the Stipulation and Agreement it states:

> The parties reserve the right to challenge the recovery in future rates of any costs deferred pursuant to Paragraph 8 of this Stipulation and Agreement on any grounds including but not limited to, an argument that the costs deferred are not material or extraordinary.

Paragraph 8 is the section of the Stipulation and Agreement that describes the language granting the accounting authorization to defer the MGP costs.

Q. LACLEDE GAS COMPANY IS A POTENTIALLY RESPONSIBLE PARTY FOR HOW MANY SITES?

A. Laclede has recognized that it currently or formerly has had ownership interests in two sites that could involve it as a potentially responsible party under the Superfund statute. One site, the Shrewsbury Facility, is currently owned by Laclede while a second site, Carondelet

Coke, was sold in 1950. Laclede's claims regarding a third MGP site (the Superior Oil Company MGP site) relate solely to a civil lawsuit in which the Company had been named as a defendant and which has subsequently been dismissed without prejudice. According to the Company's response to OPC Data Request No. 1019:

> 1) The information requested relating to former manufactured gas plant sites addressed in this case is as follows:
>
> Shrewsbury - The Shrewsbury site is a portion of the Shrewsbury Facility which was acquired as part of the acquisition of St. Louis County Gas Company on Feb. 28 1947, by purchase of all of its outstanding capital stock in considerations of a cash payment of $11,298,978. Cost of all utility plant so acquired, plus expenses of the Company attributable to such acquisition, exceeded the original cost of such utility plant at the date of acquisition by $4,189,419. This amount was amortized over a 25 year period pursuant to MPSC Case No. 10,987,27 MPSC 561 (1947). While certain items of property at the Shrewsbury site have been retired or sold over the years, the Company continues to own and utilize the Shrewsbury Facility.
>
> Carondelet Coke - The land was purchased during the early 1900's and the building and related equipment were constructed or purchased about 1915. The site was sold on May 27, 1950 for $700,000. This plant was carried on the books at $3,520,000, and the resultant capital loss amount to $2,820.000.
>
> Station A - The land was purchased and the site was constructed by Laclede during the mid-1800's. This property was retired and sold in 1959. There was a net unrecovered loss, after income tax, of $300,000.

Q. DOES THE COMPANY ACTUALLY KNOW THE AMOUNT OF COSTS THAT WILL BE INCURRED TO REMEDIATE THE MGP SITES?

A. Company's response to MPSC Staff Data Request No. 118 states that it estimates it will incur additional expenditures of $768,616 subsequent to March 31, 1999. However, it states further, "Additional costs may be incurred. While the scope or costs relative to the site in Shrewbury will not be material, the scope or costs relative to the St. Louis City site (Carondelet) are unknown and may be material."

Q. ARE THERE ANY OTHER KNOWN POTENTIALLY RESPONSIBLE PARTIES FOR THESE MGP SITES?

A. Yes, there are. According to the Company's response to OPC Data Request No. 1018:

> The following are possible PRPs for each site listed to the best of Laclede's knowledge.
>
> A) Carondelet Coke Site
>
> 1. Various iron and steel companies (Owned the site in mid to late 1800's; manufactured iron and steel products, now defunct).
>
> 2. Laclede Gas Company (Owned the site early 1900's - 1950; manufactured coke, gas and by-products; ongoing business).
>
> 3. Great Lakes Carbon Corporation (Owned the site 1950-late 1970's/early 1980's; manufactured coke and by-products; ongoing business).
>
> 4. Carondelet Coke Corporation (Owned the site from late 1970's/early 1980's to early 1990's; manufactured coke and by-products; now defunct).
>
> 5. Land Re-Utilization Authority of the City of St. Louis (Owned the site early 1990's - present; no operation; ongoing municipal agency).

B) Shrewsbury Site

1. Laclede Gas Company (Owned the site from its 1947 acquisition of St. Louis County Gas Company; manufactured gas and by-products, conducted and continues to conduct LDC operation on site; ongoing business.

C) Superior Oil Site

1. Laclede Gas Company (Previous owner of adjacent MGP site, mid-1800's - 1959; ongoing business).

2. Superior Oil Company (Current owner of a portion of the site; ongoing business).

3. Union Pacific Railroad Company (Current owner and lessee of a portion of the site; ongoing business).

4. AlliedSignal, Inc. (successor to The Barrett Company, which manufactured and refined coal tar products on the site in the past; ongoing business).

5. Monsanto Company (successor to Wood Treating Chemical Company which manufactured, blended and stored wood treating and agricultural chemicals on the site; ongoing business).

Q. WILL LACLEDE RECOVER ANY OF ITS MGP COSTS FROM INSURERS OR THESE OTHER POTENTIALLY RESPONSIBLE PARTIES?

A. Company's response to MPSC Staff Data Request No. 118 states:

4. At this time, Laclede us unable to estimate what current of future remediation costs, if any, will be recovered from each insurer. The Company has notified its insurers that it intends to seek reimbursement from them of its costs at both their sites. None of the Company's insurers have agreed that its insurance covers the costs

for which the Company intends to seek reimbursement. The majority of the insurers have sent Laclede letters reserving their rights with respect to the manufactured gas plant issues addressed in the Company's notices to them. While some of the insurers have denied coverage with respect to these issues, the Company continues to seek reimbursement from them.

And:

6. At this time, Laclede is unable to estimate what current or future remediation costs, if any, will be recovered from other parties involved.

Q. WHAT IS THE CURRENT STATUS OF THE NEGOTIATIONS WITH THE EPA REGARDING COMPANY'S SHREWSBURY AND CARONDELET MGP REMEDIATION EFFORTS?

A. Laclede's response to OPC Data Request No. 1020 states:

With regard to the Shrewsbury site, the EPA has approved the proposed Engineering Evaluation/Cost Analysis (EE/CA) provided by Laclede in February, 1998. Laclede and the EPA are currently negotiating a new Administrative Order on Consent, and Laclede is preparing a work plan to implement that actions required by the EE/CA. With regard to the Carondelet Coke site, Laclede is conducting a comprehensive investigation of the site pursuant to a work plan approved by the Missouri Department of Natural Resources.

Q. IS THE EPA INVOLVED IN THE INVESTIGATION OF THE CARONDELET COKE SITE?

A. It's my understanding that the only parties currently involved in the investigation associated with the Carondelet Coke site are Laclede and the MDNR. On page 10, lines 18-23, and page 11, lines 1-7, of the direct testimony of Company witness, Mr. Craig R. Hoeferlin , he states:

> Q. Is the Company currently investigating any other MGP sites?
>
> A. Yes. The Company entered the MDNR's Voluntary Cleanup Program in March 1996 to address the characterization of the Carondelet Coke Plant Site located in the City of St. Louis (Carondelet Site). This Facility was owned and operated as a manufactured gas plant by Laclede from 1917 to 1950 when it was subsequently sold to another party. The site is currently owned by the City of St. Louis as a result of a former owner defaulting on payment of property taxes. It has not been utilized by or in the control of the Company for nearly 50 years.

Thus, the Company is not acting upon any actions requested by the EPA. It is proceeding with the testing of this MGP site pursuant to a "gentleman's agreement" with the MDNR, and as such, it can withdraw from the agreement at any time. Furthermore, its testing activities have, to-date, not included the participation of any other PRP associated with the site. Laclede would have this Commission hold its ratepayers responsible for recovery of all costs associated with the activities on this site even though it is fully aware that other PRPs should and are responsible for the costs associated with the testing and/or remediation costs to be incurred.

Q. WHAT IS THE CURRENT STATUS OF THE STATION "A" SITE (SUPERIOR OIL)?

A. As I stated earlier, it's my understanding that Laclede is no longer a defendant in the lawsuit. All legal actions against the Company pertaining to this site have ceased.

Q. HAS ANY ACTUAL MGP SITE CLEANUP OCCURRED TO DATE?

A. No. Charges have not been incurred for the actual cleanup of either the Shrewsbury or the Carondelet sites. Expenditures, however, have been incurred relating to MGP site identification, engineering investigations, attorney fees, personnel training, etc. Pages 5-13 of the direct testimony of Company witness, Mr. Craig R. Hoeferlin, explain in detail the types of MGP related costs Laclede has actually incurred. None of the costs he identifies appear to be related to actually incurred cleanup activities.

Q. PLEASE PROVIDE A DETAILED DESCRIPTION OF THE CURRENT SERVICES PROVIDED TO RATEPAYERS BY EACH OF THE COMPANY'S ACTIVE MGP SITES.

A. According to Laclede's response to OPC Data Request No. 1016:

> The Company does not have any manufactured gas plants (MGPs) which are active. However, some of the facilities which were associated with the MGPs, such as the holders, buildings, and the land on which certain MGPs were located are still used in Laclede's operations.

Q. IS THE PLANT AND LAND DESCRIBED IN YOUR PRIOR ANSWER LIMITED TO THE SHREWSBURY FACILITY?

A. Yes.

Q. IF THE SHREWSBURY PLANT AND LAND DESCRIBED IN THE PREVIOUS ANSWER ARE STILL IN USE ISN'T LACLEDE EARNING A RETURN ON THEM IN RATES?

A. Yes, it is. To my knowledge, no adjustment has been proposed to disallow a return on or expenses associated with the operation of this specific plant facility.

Q. ISN'T IT TRUE THEN THAT THE ONGOING OPERATION OF THE SHREWSBURY FACILITY IS A NORMAL RECURRING ACTIVITY OF LACLEDE'S BUSINESS?

A. Yes.

Q. DID AUTHORIZATION OF THE CURRENT AAO REPRESENT THAT THIS COMMISSION HAS PREAPPROVED THE INCLUSION IN LACLEDE'S RATE BASE OR COST OF SERVICE THE MGP EXPENDITURES?

A. No, it did not. The Commission's policy towards recovery of costs deferred pursuant to an Accounting Authority Order is clearly stated in Item No. 5, pages 14 & 15, of its Report & Order in Missouri Public Service Company, Case Nos. EO-91-358 & EO-91-360, it states:

> That nothing in this order shall be considered as a finding by the Commission of the in-service criteria regarding the costs to be deferred by ordered paragraph 1, the reasonableness of the expenditures, or the recovery of the expenditures.

Furthermore, as I stated earlier, in paragraph 9 on page 7, of the Stipulation and Agreement in Case No. GR-98-374, it states:

> The Parties reserve the right to challenge the recovery in future rates of any costs deferred pursuant to Paragraph 8 of this Stipulation and Agreement on any grounds including, but not limited to, an argument that the costs deferred are not material or extraordinary.

Q. YOU STATE THAT LACLEDE MAY OR MAY NOT BE CONSIDERED A PRP FOR THE CARONDELET COKE SITE. PLEASE EXPLAIN YOUR REMARK.

A. It's my understanding that the Carondelet Coke site is being investigated in conjunction with the MDNR not the EPA, and thus, remediation efforts may or may not occur pursuant to the Superfund statutes.

Q. PLEASE PROVIDE A DETAILED DESCRIPTION OF LACLEDE'S ACCOUNTING TREATMENT OF MGP SITE REMEDIATION COSTS FOR FINANCIAL PURPOSES.

A. Laclede's accounting treatment of MGP site investigation and remediation costs for financial reporting purposes is as follows; the estimated and actual liabilities associated with the former MGP sites are currently credited to Account 242.55 with a corresponding debit to Account 930.40. The liabilities include costs of the investigation, any resultant cleanup, and other associated costs. A debit for the same amount was made to Account 186.21, later transferred to Account 182.33, and credited to Account 930.40 to record the deferral of

amounts to be recovered in future rates. The amounts booked to Account 186.21 were then amortized monthly to expense via Account 930.40. However, in December 1998 Company made an accounting entry to transfer the balance in the expense account back to Account 186.21. Effectively, all costs have been deferred and none have been expensed.

Q. DID THE COMPANY BOOK ANY MGP REMEDIATION COSTS TO ITS USOA EXPENSE ACCOUNTS DURING THE TEST YEAR?

A. Yes, it did. The Company booked several EPA expense accruals in USOA Account No. 930.40, however, offsetting entries resulted in the account having a net zero balance at December 31, 1998. Thus, the only MGP expense in this case are Adjustments 6.i - $43,000 and 6.j - $68,000 listed on Schedule 2, Page 4 of 5 of the Company rate increase filing. The two adjustments which total $111,000 represent the first year amortization of Laclede's proposed 5-year amortization of the estimated MGP expenditures balance of $554,000. Subsequent to its direct testimony filing, the Company revised these amounts as shown in its response to OPC Data Request No. 1040.

Q. HAS THE COMMISSION DETERMINED THAT LACLEDE'S MGP EXPENDITURES ARE EXTRAORDINARY?

A. Yes, but only for the specific purpose of cost deferral pursuant to an Accounting Authority Order.

Q. DOES PUBLIC COUNSEL AGREE THAT THE MGP EXPENDITURES DEFERRED SHOULD BE CLASSIFIED AS EXTRAORDINARY EXPENSE?

A. No.

Q. DIDN'T THE PUBLIC COUNSEL AGREE WITH THE STIPULATION IN CASE NOS. GR-96-193 AND GR-98-374 THAT LACLEDE SHOULD BE ALLOWED TO DEFER THE MGP COSTS PURSUANT TO AN ACCOUNTING AUTHORITY ORDER?

A. Yes.

Q. HASN'T THE PUBLIC COUNSEL CHANGED ITS OPINION OF THE MGP COSTS?

A. No. During Laclede's last general rate case GR-98-374 (and Case No. GR-96-193) various discussions with the Company regarding the potential magnitude of the future MGP costs led Public Counsel to agree that an AAO, while not the appropriate ratemaking process, was a methodology that could be used to record the MGP costs for later ratemaking resolution. The Company has identified that it has incurred approximately $459,221 of MGP related costs which it is requesting be included in its rate base and amortized to the cost of service. Public Counsel does not believe that the level of MGP expenditures incurred are of such a magnitude so as to jeopardize the financial or operational viability of a company as large as Laclede. Therefore, at a minimum, the materiality threshold necessary for treatment of the MGP costs as an extraordinary expense item has not been met, and as such, the Company should not be afforded either rate base treatment or allowed an annual expense amortization for the MGP related costs.

Q. WHAT ACTIVITIES HAS LACLEDE PURSUED TO ACHIEVE RECOVERY OF COSTS INCURRED FROM ALL PRPS OF THE SHREWSBURY MGP SITE?

A. To my knowledge, the Company's only attempts in this area have resulted in it creating a listing of potential PRPs. The Company has taken no legal action to enforce recovery of the costs incurred, or to be incurred, if any. Laclede appears to have taken the position of considering its customers as the "cash cow" to be milked for all current and future costs irrespective of where the actual responsibility for remediation lies.

Q. WHAT ACTIVITIES HAS LACLEDE PURSUED TO ACHIEVE RECOVERY OF COSTS INCURRED FROM ALL PRPS OF THE CARONDELET COKE MGP SITE?

A. The Company has achieved some success in its recovery efforts for this site. A former owner of the site has committed to sharing certain costs with Laclede. Company has also created a listing of all potential PRPs. To my knowledge, the Company has taken no other legal action to enforce recovery of the costs incurred, or to be incurred, if any.

Q. WOULD IT BE REASONABLE TO CLASSIFY THE MGP EXPENDITURES INCURRED AS AN EXTRAORDINARY LOSS?

A. Yes, that is a possibility.

Q. WHAT PARTY WOULD BE HELD RESPONSIBLE FOR THE MGP EXPENDITURES IF THEY WERE DETERMINED TO BE AN EXTRAORDINARY LOSS?

A. The Company's shareholders. In the Union Electric Callaway II cancellation case, State ex rel. Union Electric Company v. Public Service Commission, 765 S.W. 2d, 618 (Mo. App. 1988), the Commission determined that the cancellation costs were not ordinary expenses but were similar to extraordinary losses. For extraordinary losses the Court has upheld the Commission's decision to place initial risk of cancellation on the shareholders since to do otherwise would be to make the investment practically risk-free. The Commission found that investors had been compensated for their investment through the use of the Discounted Cash Flow (DCF) method for calculating a return on equity for Union Electric and therefore rate recovery was not reasonable. Id. at 622

Q. IF THE MGP EXPENDITURES WERE CONSIDERED AS AN EXTRAORDINARY LOSS ITEM COULDN'T LACLEDE ATTEMPT TO RECOVER THE EXPENDITURES FROM ITS INSURERS?

A. Quite possibly, yes.

Q. WHAT ACTIVITIES HAS LACLEDE PURSUED TO ACHIEVE RECOVERY OF MGP EXPENDITURES INCURRED FROM ITS INSURANCE PROVIDERS?

A. Laclede, to its credit, has made an extensive search of its insurance providers for many years. The result was the creation of a listing of insurance providers with potential liability for MGP claims from the Company. Once the listing was complete the Company then undertook a "shotgun" approach in contacting the insurance companies to notify them of the potential for MGP claims.

Public Counsel's review of the insurance companies responses to Laclede's notification letter seem to indicate that, of the insurance companies contacted, most stated that their coverage limits far exceed the level of MGP costs that the Company is incurring. Indeed, a large percentage of the insurance companies contacted stated that the types of costs Laclede was incurring were not even covered by the policies, and this was despite the fact that they were carriers of excess liability coverage whose limits would probably never be met.

Q. HAS LACLEDE ACTUALLY FILED A MONETARY CLAIM WITH EITHER ITS CURRENT OR PRIOR INSURERS?

A. The Company has only notified the insurers of the potential for MGP claims, it has not actually requested recovery of any specific monetary amount. It would seem that the Company has begun but not followed through on an organized approach to enforcing a MGP cost claim against any of its present or former insurers. It's the Public Counsel's opinion that the Company's efforts in this area are incomplete.

Q. IF LACLEDE IS NOT AGGRESSIVELY PURSUING COST REIMBURSEMENT FROM ALL OTHER POTENTIALLY RESPONSIBLE PARTIES OR ITS INSURANCE PROVIDERS, IS IT FAIR TO LOAD ALL THE MGP COSTS ON THE SHOULDERS OF RATEPAYERS?

A. No, it is neither a fair nor reasonable proposal.

Q. PLEASE REITERATE THE PUBLIC COUNSEL'S POSITION REGARDING THE RECOVERY OF THE MGP COSTS REQUESTED BY THE COMPANY.

A. Public Counsel recommends that this Commission disallow the Company's request for rate base and cost of service treatment for MGP costs deferred pursuant to the Accounting Authority Orders in Case Nos. GR-96-193 and GR-98-374. The Company has not shown that the ratepayer has responsibility, much less sole responsibility, for their reimbursement or recovery. Potentially many other parties (PRPs and insurers), and Laclede's shareholders, have the responsibility to either reimburse or accept responsibility for all or most of the remediation costs incurred, and until such time as their respective share of the remediation costs is determined, the ratepayer should not be held liable.

MGP ACCOUNTING AUTHORITY ORDER

Q. HAS THE COMPANY REQUESTED CONTINUANCE OF THE MGP ACCOUNTING AUTHORITY ORDER?

A. Yes, it has. As I discussed earlier, Laclede has requested that the Commission provide it with authorization to continue the MGP AAO deferral. On page 22, lines 11-23, of the direct testimony of Company witness, Mr. James A. Fallert, he states:

> Q. Does Laclede propose that the SRP, MGP, and Y2K cost deferral mechanisms continue to be used?
>
> A. Yes, it does. Laclede believes that the reasons which justified the initial grant of authority by the Commission continue to exist. Accordingly,

> Laclede requests that the Commission authorize the continue use of such cost deferral mechanisms for a period beginning with the update or true-up period of this proceeding and continuing through the effective date of new rates established in its next general rate case proceeding. However, the Company would support eliminating these mechanisms when the reasons prompting their implementation no longer exist.

Q. HOW WOULD YOU CLASSIFY THE COMPANY'S AAO REQUEST?

A. I would classify the Company's request for continuing authorization of AAO treatment as an attempt to insulate its shareholders from any risks associated with potential MGP remediation costs.

Q. ISN'T THE COMPANY'S ASSESSMENT OF THE POTENTIAL EFFECTS OF MGP REMEDIATION EFFORTS SPECULATIVE?

A. Yes, I believe that it is. Item 6 of MPSC Staff Data Request No. 110 requested how much Company expected to recover from others in the future. Company's response stated:

> At this time, Laclede is unable to estimate what current or future remediation costs, if any, will be recovered from other parties involved.

Q. DOESN'T THE COMMISSION'S DEFINITION OF EXTRAORDINARY COSTS STATE THAT SPECULATIVE COSTS SHOULD NOT BE ALLOWED AAO TREATMENT?

A. Yes. On page 7, of the Commission's Report and Order in Missouri Public Service Company, Case No. EO-91-358 & EO-91-360, it states:

> The Commission agrees with Staff that whether the event has occurred or is certain to occur in the near future is a relevant factor. **Utilities should not seek deferral of speculative events since it is hard to determine whether an event is extraordinary or material unless there is a high probability of its occurring within the near future.** (emphasis added by OPC)

By its own admission the Company has recognized that it does not know the extent of its potential MGP cost liabilities. They may be large, they may be small or nil, Laclede does not know for sure, and neither does the Public Counsel or the Commission. Therefore, the level of the Company's future MGP cost liability is at best only speculative. This Commission has ruled, and OPC agrees, that speculative costs should not be afforded AAO treatment.

Q. HAS THIS COMMISSION RULED THAT IT IS NOT REASONABLE TO PROVIDE ABSOLUTE PROTECTION TO SHAREHOLDERS FOR THE EFFECTS OF REGULATORY LAG?

A. Yes, it has. As I discussed earlier, in Missouri Public Service Co., Case Nos. EO-91-358 & EO-91-360, the Commission stated:

> Lessening the effect of regulatory lag by deferring costs is beneficial to a company but not particularly beneficial to ratepayers. Companies do not propose to defer profits to subsequent rate cases to lessen the effects of regulatory lag, but insist it is a benefit to defer costs. Regulatory lag is a part of the regulatory process and can be a benefit as well as a detriment. Lessening regulatory lag by deferring costs is not a reasonable goal unless the costs are associated with an extraordinary event.

> Maintaining the financial integrity of a utility is also a reasonable goal. The deferral of costs to maintain current financial integrity, though, is of questionable benefit. If a utility's financial integrity is threatened by high costs so that its ability to provide service is threatened, then it should seek interim rate relief. If maintaining financial integrity means sustaining a specific return on equity, this is not the purpose of regulation. It is not reasonable to defer costs to insulate shareholders from any risks. 1 Mo. P.S.C. 3d 200, 207 (1991).

Q. WHAT DOES THE COMPANY MEAN WHEN IT USES THE TERM "DEFER"?

A. When a cost (expense) has been deferred, it is removed from the income statement and entered on the balance sheet (e.g., Account 186, Miscellaneous Deferred Debits), pending the final disposition of these costs at some future point, usually in a rate case. The National Association of Regulatory Utility Commissioners (NARUC), Uniform System Of Accounts For Class A and B Gas Utilities 1976, approved for use by Laclede by this Commission states on page 53:

> 186. Miscellaneous Deferred Debits.
>
> A. This account shall include all debits not elsewhere provided for, such as miscellaneous work in progress, losses on disposition of property, net of income taxes, deferred by authorization of the Commission, and unusual or extraordinary expenses, not included in other accounts, which are in process of amortization and items the proper final disposition of which is uncertain.

Q. DIDN'T THIS COMMISSION ADOPT THE FEDERAL ENERGY REGULATORY COMMISSION'S ("FERC") UNIFORM SYSTEM OF ACCOUNTS?

A. Yes, it did. The Commission by authority promulgated rule 4 CSR 240-40.040, which requires that every gas company subject to the Commission's jurisdiction shall keep all accounts in conformity with the Uniform System of Accounts prescribed for natural gas companies subject to the provisions of the Natural Gas Act, as prescribed by the Federal Energy Regulatory Commission.

Q. DOES THE FERC USOA INCLUDE ACCOUNTS WHICH ARE UTILIZED SPECIFICALLY FOR THE BOOKING OF THE TYPES EXPENDITURES COMPANY IS REQUESTING TO DEFER?

A. Yes, it does. Most of the expenditures Laclede has deferred relate to services provided to the Company by outside consultants, engineers, laboratory testing, and legal counsel. The proper account in which to record these types of expenses is USOA Account No. 923. Account No. 923 states:

> A. This account shall include the fees and expenses of professional consultants and others for general services which are not applicable to a particular operating function or to other accounts. It shall include also the pay and expenses of persons engaged for a special or temporary administrative or general purpose in circumstances where the person so engaged is not considered as an employee of the utility.
>
> B. This account shall be so maintained as to permit ready summarization according to the nature of service and the person furnishing the same.
>
> 1. Fees, pay and expenses of accountants and auditors, actuaries, appraisers, attorneys, engineering consultants,

management consultants, negotiators, public relations counsel, tax consultants, etc.

2. Supervision fees and expenses paid under contracts for general management services.

Q. DOES OPC BELIEVE THAT THE COMPANY'S PROPOSAL FOR DEFERRAL OF THE MGP EXPENDITURES IS APPROPRIATE FOR RATEMAKING?

A. No, we do not. The key to this issue is determining whether Laclede's earnings provide an insufficient return so as to be unable to absorb the MGP costs through net income. If the conditions are such that the utility is earning a sufficient return, and the Company has ample time to recover the MGP costs, Laclede should definitely not be allowed to defer the costs for future recovery.

Q. HAS LACLEDE MET ITS "BURDEN OF PROOF" THAT THE INCURRANCE OF THE MGP COSTS WOULD NOT ALLOW IT THE OPPORTUNITY TO EARN ITS COMMISSION ORDERED RATE OF RETURN?

A. No, it has not. The Public Counsel believes that it is Laclede's responsibility to clearly demonstrate that any deviation from normal accounting and ratemaking practices is justified based on extraordinary circumstances (i.e., that the event is unusual in nature and infrequent in occurrence, and that the impact on financial results is material and the accounting treatment sought is necessary to maintain financial integrity).

Q. PLEASE EXPLAIN THE ACCOUNTING TERM "EXTRAORDINARY".

A. This accounting term as described in the Federal Energy Regulatory Commission's, Accounting, and Reporting Requirements For Public Utilities and Licensees, February 12, 1985, paragraph 15,017, pp. 11,511-11,512, states:

> It is the intent that net income shall reflect all items of profit and loss during the period with the exception to prior period adjustments as described in paragraph 7.1 and long-term debt as described in paragraph 17 below. Those items related to the effects of events and transactions which have occurred during the current period and which are of unusual nature and infrequent occurrence shall be considered extraordinary items. Accordingly, they will be events and transactions of significant effect which are abnormal and significantly different from the ordinary and typical activities of the company, and which would not reasonably be expected to recur in the foreseeable future. (In determining significance, items should be considered individually and not in the aggregate. However, the effects of a series of related transactions arising from a single specific and identifiable event or plan of action should be considered in the aggregate.) **To be considered as extraordinary under the above guidelines, an item should be more than approximately 5 percent of income, computed before extraordinary items.** Commission approval must be obtained to treat an item of less than 5 percent, as extraordinary. (emphasis added by OPC)

The FERC recognizes that only extraordinary items can be deferred. The definition cited states the intent that net income shall reflect all items of profit and loss during the period and exceptions are only for those items which are of significant effect, not expected to recur frequently, and which are not considered in the evaluation of ordinary business operations.

Q. ARE THE MGP EXPENDITURES LACLEDE INCURRED OF AN UNUSUAL NATURE AND INFREQUENT OCCURRENCE?

A. Perhaps, however, Public Counsel believes that the MGP expenditures incurred by the Company to-date have not been of significant effect to justify them as an extraordinary expense according to the FERC definition above. In my opinion, Laclede is requesting an AAO to protect its shareholders from what it believes may be significant future expenses; however, the Company has provided no information that would accurately quantify its future MGP liabilities.

Q. IS THE IMPACT ON THE FINANCIAL RESULTS OF THE COMPANY FOR THE MGP COSTS INCURRED MATERIAL, AND IS THE ACCOUNTING TREATMENT SOUGHT NECESSARY TO MAINTAIN FINANCIAL INTEGRITY?

A. The answer to both parts of the question is no. The FERC's USOA states that to be considered as extraordinary under the guidelines discussed above, an item should be more than approximately 5% percent of income, computed before extraordinary items. The MGP expenditures identified by Laclede are not significant enough to satisfy the 5% threshold requirement. For example, the Company is requesting a five-year amortization of approximately $459,221. This would calculate into an annual amortization (revenue requirement) of approximately $91,844 before taxes. Based on the per book total utility operating income for the year ended December 31, 1998 (see Company instant case filing, Section C, Schedule 1, page 1 of 1, $41,881,000), the $91,844 annual amortization represents only approximately 2.2 tenths of one percent (0.22%) of the operating income of Laclede. If the Company's rate base request (at a 10% WROR and tax factor of 1.62) is also considered the percentage only rises by an additional approximate 1.8 tenths of one percent

(0.18%). Finally, if you calculate the percentage of operating income that the entire $166,238 (i.e., $91,844 cost of service amortization and $74,394 approximate rate base return) requested represents, it only comes to 4.0 tenths on one percent (0.40%) of the Company's total utility operating income. This percentage is also far below the 5% of income threshold described by the FERC. Surely, a series of events or transactions that represent approximately 4.0 tenths of one percent of Laclede's total operating income does not meet the significant effect (or materiality) standard described by the FERC in its definition of an extraordinary item.

Q. PLEASE CONTINUE.

A. A fundamental principle of ratemaking is that of matching. This principle as quoted in the regulatory accounting guide, Accounting for Public Utilities, page 7-2, Hahne & Aliff, states, "The approach most often used by regulators has been to measure the total costs incurred in conducting operations over a twelve-month period (i.e., the test period cost of service) and to fix rates that will produce revenues to match costs of that period."

The Missouri Commission has traditionally utilized historic data as a starting point in setting rates. This data is maintained consistent with USOA procedures and if applied properly should assist the regulator in matching an annual level of revenue with an annual level of expense and investment in order to determine the appropriate level of revenue on a going forward basis. Absent this information it is likely that any attempt to determine the reasonableness of the Company's MGP costs will be a act of futility.

Q. HOW DOES RECOVERY OF AAO DEFERRALS UNFAIRLY FAVOR SHAREHOLDERS OVER RATEPAYERS?

A. The purpose of the accounting variance is to protect Laclede shareholders from adverse financial impact caused by the regulatory delay period and to afford Laclede the opportunity to recover these charges regardless of the timing of MGP expenditures. The accounting variance should not be used to place the Company in a better position than it would have been in had synchronization been achieved. Just as it would be unfair to deny Laclede recovery of its reasonable and prudent investment due to regulatory delays which the Company could not control, it would be unfair if Laclede were allowed to reap a windfall, at ratepayer expense, due to a regulatory delay that ratepayers could not control. Public Counsel's position is that issues caused by regulatory lag must be treated in a fair manner for both ratepayers and the Company.

Q. PLEASE EXPLAIN THE RELEVANCE OF THE TERM "SYNCHRONIZATION".

A. Synchronization deals with the theoretical possibility of having rate orders concurrent with in-service dates. The need for a rate change due to new plant being placed in service occurs only if a change in the relationship between revenues, expenses, and investment occurs that causes the Company's return to be below that approved by the Commission. If this relationship does not change, then there is no need to change rates because rates are adequate to cover the Company's allowed return.

Q. WHAT IS THE EFFECT ON RATEPAYERS IF A COMPANY IS ALLOWED TO RECORD DEFERRED MGP EXPENDITURES DURING A PERIOD IN WHICH IT IS EXPERIENCING A RETURN THAT EQUALS OR EXCEEDS ITS AUTHORIZED RETURN?

A. The ratepayers may be required to pay the costs (i.e., earnings) twice, once in actual rates paid in the historic period and then a second time in the future when the deferred charges are amortized to the cost of service. This results in a double recovery of these earnings from the ratepayer. The deferral would then have the effect of placing the Company in a better position than it would have been had a rate change been synchronized with the new investment.

In a period of overearnings, the synchronization would have recognized not only the costs which would have marginally raised the revenue requirement, but also the overearnings status would have been accounted for in the revenue requirement determination. The overearnings would have the marginal effect of lowering the revenue requirement. The Company would be in a better position using the deferral because the marginal increase in revenue requirement is accounted for and may be collected from ratepayers at a later date. However, the marginal decrease related to the overearnings would not be reflected in the accounting authority order and the ratepayer is adversely affected with no recourse.

Q. DOES OPC BELIEVE THAT A VARIANCE FROM THE UNIFORM SYSTEM OF ACCOUNTS IS APPROPRIATE FOR LACLEDE'S MGP EXPENDITURES?

A. No.

Q. DO YOU BELIEVE THAT LACLEDE'S MGP EXPENDITURES QUALIFY AS EXTRAORDINARY ACCORDING TO PRECEDENT SET BY THIS COMMISSION FOR ISSUANCE OF AN AAO?

A. Public Counsel believes that it is the Company's responsibility to clearly demonstrate that deviation from normal accounting and ratemaking practices is justified based on extraordinary circumstances (the occurrence of events and transactions during the current period which are of unusual nature and infrequent occurrence, and of significant effect to materially affect the financial results of a company). Absent compelling evidence that the extraordinary circumstance requirements defined by this Commission are satisfied, the expenditures associated with Laclede's MGP remediation efforts should not be categorized as extraordinary nor should they be deferred. The Public Counsel submits that AAO variances, if granted at all, should only be granted in extraordinary circumstances. Public Counsel has shown that the level of MGP expenditures incurred by Laclede do not justify classification as extraordinary nor should the costs be allowed deferral treatment.

Q. WHAT IS THE PUBLIC COUNSEL'S RECOMMENDATION REGARDING LACLEDE'S REQUEST FOR A CONTINUANCE OF THE MGP ACCOUNTING AUTHORITY ORDER?

A. The Public Counsel believes that the use of an accounting authority order, absent evidence that Laclede's MGP expenditures are extraordinary, and the financial integrity will be

impaired is wholly inappropriate. Granting Laclede's request to receive an accounting authority order would isolate one set of events from the entire cost of service determination and preserves the deferred expenses for recovery from ratepayers. Only if the Commission considers all relevant factors within a prescribed test year will the ratepayer be dealt with fairly. Regulatory lag can benefit either the Company or the ratepayer. The use of an accounting authority order circumvents the normal regulatory rate setting process and allows a company the opportunity to game the system to its advantage. The Public Counsel recommends that the Commission not approve the Company's request for a continuance of the MGP AAO.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

CASE PARTICIPATION
OF
TED ROBERTSON

Company Name	Case No.
Missouri Public Service Company	GR-90-198
United Telephone Company of Missouri	TR-90-273
Choctaw Telephone Company	TR-91-86
Missouri Cities Water Company	WR-91-172
United Cities Gas Company	GR-91-249
St. Louis County Water Company	WR-91-361
Missouri Cities Water Company	WR-92-207
Imperial Utility Corporation	SR-92-290
Expanded Calling Scopes	TO-92-306
United Cities Gas Company	GR-93-47
Missouri Public Service Company	GR-93-172
Southwestern Bell Telephone Company	TO-93-192
Missouri-American Water Company	WR-93-212
Southwestern Bell Telephone Company	TC-93-224
Imperial Utility Corporation	SR-94-16
St. Joseph Light & Power Company	ER-94-163
Raytown Water Company	WR-94-211
Capital City Water Company	WR-94-297
Raytown Water Company	WR-94-300
St. Louis County Water Company	WR-95-145
United Cities Gas Company	GR-95-160
Missouri-American Water Company	WR-95-205
Laclede Gas Company	GR-96-193
Imperial Utility Corporation	SC-96-427
Missouri Gas Energy	GR-96-285
Missouri-American Water Company	WR-97-237
St. Louis County Water Company	WR-97-382
Union Electric Company	GR-97-393
Missouri Gas Energy	GR-98-140
Laclede Gas Company	GR-98-374
Union Electric Company	EO-96-14
Union Electric Company	EM-96-149
United Water Missouri Inc.	WR-99-326