Exhibit No.:	
Issue(s):	Capacity Release Revenue; Off-System Sales Revenue
Witness/Type of Exhibit:	Shaw/Direct
Sponsoring Party:	Public Counsel
Case No.:	GR-99-315

DIRECT TESTIMONY

OF

THOMAS A. SHAW

Submitted on Behalf of
the Office of the Public Counsel

LACLEDE GAS COMPANY

Case No. GR-99-315

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 THOMAS A. SHAW

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Thomas A. Shaw, of lawful age and being first duly sworn, deposes and states:

1. My name is Thomas A. Shaw. I am a consultant employed by the Office of the Public Counsel in the above referenced proceeding.

2. Attached hereto and made a part hereof for all purposes is my direct testimony consisting of pages 1 through 12 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.

Thomas A. Shaw

Thomas A. Shaw

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

Mary S. Koestner

Mary S. Koestner
Notary Public

My commission expires August 20, 2001.

DIRECT TESTIMONY

OF

THOMAS A. SHAW, CPA

CASE NO. GR-99-315

LACLEDE GAS COMPANY

Q. Please state your name and business address.

A. Thomas A. Shaw and my business address is 8217 Drennan Lane, Centertown, Missouri 65023.

Q. Please describe your educational background.

A. I obtained a Bachelor of Science in Business Administration (emphasis in Accounting) from Central Missouri State University in Warrensburg, Missouri during the summer of 1985 and subsequently obtained my license as a Certified Public Accountant.

Q. Please describe your previous work history with respect to regulatory matters and the natural gas industry.

A. I was previously employed with the Missouri Public Service Commission (MPSC or Commission) for approximately thirteen years. I began my tenure with the MPSC in October 1985 as a Regulatory Auditor in the Electric Department and continued in that position until November of 1990. My responsibilities in the Electric Department included developing methods for estimating short-term electric usage and purchase power opportunities for use in production costing models to simulate electric utility operations.

As a result of MPSC reorganization in November 1990 and continuing through September 1993 I was a Regulatory Auditor in the Energy Department. Responsibilities in the Energy Department included reviewing Purchased Gas Adjustment (PGA) filings, natural gas rate design, reliability of natural gas supply, and general tariff administration for all MPSC regulated gas and electric operations.

I maintained the position of Regulatory Auditor with the Procurement Analysis Department upon its creation by the MPSC in October 1993 until November 1996. My responsibilities with the Procurement Analysis Department primarily included reviewing and analyzing Actual Cost Adjustment (ACA) filings of natural gas local distribution companies. During this period, I also participated in the development and implementation of natural gas incentive mechanisms for Missouri Gas Energy and Laclede Gas Company (Laclede or Company).

From March 1997 through September 1998 I was employed by the MPSC as Assistant Manager of Accounting. My primary responsibilities as Assistant Manager of Accounting included the oversight, administration, supervision, coordination, and participation in case work and personnel matters involving auditors domiciled in the Commission's Kansas City satellite office.

Q. Have you previously filed testimony before the MPSC?

A. Yes, attached as Schedule 1 is a list of cases in which I have filed testimony before the MPSC.

Q. What is the purpose of your testimony in this case?

A. I am sponsoring revenue adjustments for the Missouri Office of the Public Counsel (Public Counsel) designed to incorporate a reasonable amount of capacity release and net off-system sales revenue into the Company's cost of service determined in this case. Each of these adjustments will be discussed in greater detail within this testimony.

OVERVIEW OF GAS COST RECOVERY

Q. Please generally explain the regulatory treatment of natural gas costs prior to Federal Energy Regulatory Commission (FERC) Order No. 636 in November 1993.

A. Prior to FERC Order No. 636, Laclede was purchasing city-gate deliveries of natural gas at a single ***bundled*** FERC-approved rate based on actual purchases. Because the delivered cost of gas was regulated by the FERC, the filed rate doctrine provided local distribution companies with an ability to pass-through actual pipeline charges dollar-for-dollar to ratepayers with limited state regulatory oversight. With this form of federal regulation, the MPSC's PGA/ACA process essentially provided a mechanism for dollar-for-dollar true-up of actual natural gas costs and ratepayer revenue recovery.

Q. Prior to FERC Order No. 636, did LDCs receive gas cost revenues from any party other than its ratepayers?

A. No, prior to FERC Order No. 636, LDCs were simply ***purchasers*** of natural gas supplies, transportation and storage services.

Q. Please generally explain FERC Order No. 636.

A. With implementation of FERC Order No. 636 in November 1993, interstate pipelines were required to eliminate the gas procurement function of its business and establish ***unbundled*** rates for providing various transportation and/or storage services. Order No. 636 provided open-access ability for LDCs and other interested parties to essentially acquire ***ownership*** of a contractually specified amount of pipeline services to utilize or market as provided by the FERC.

Q. Did FERC Order No. 636 have an impact on LDCs?

A. Yes, as a result of FERC Order No. 636, LDCs were responsible for natural gas procurement, determining an appropriate level and mix of pipeline services, nominations, balancing, and many other items. LDCs were also provided the ability to mitigate ratepayer charges by marketing (i.e. selling) its unutilized natural gas services at any time.

Q. Did FERC Order No. 636 have an impact on state regulatory bodies?

A. Yes, due to FERC Order No. 636, state regulatory agencies were required to more closely scrutinize LDC decisions for determining a reasonable amount of contractual services and utilization of gas supply assets to minimize ratepayer costs. The MPSC's Procurement Analysis Department was established in October 1993 to address the increased state regulatory oversight necessary as a result of FERC Order No. 636.

Q. Did the recovery mechanism for natural gas costs change with implementation of FERC Order No. 636?

A. No, prudently incurred natural gas costs continued to be passed-through dollar-for-dollar under the traditional PGA/ACA process subsequent to FERC Order No. 636.

Q. Are Laclede's actual gas costs currently being passed-through dollar-for-dollar to ratepayers?

A. No, Laclede was granted the authority to implement an experimental gas supply incentive plan (GSIP) as a result of Case No. GR-96-193. As a result of Laclede's GSIP effective October 1996, the Company is currently achieving enhanced shareholder earnings that increase ratepayer charges to more than actual cost.

Q. When does Laclede's current GSIP expire?

A. Laclede's three-year experimental GSIP expires on September 30, 1999.

Q. How does Laclede propose to recover its gas costs subsequent to September 30, 1999?

A. Laclede has filed Case No. GT-99-303 that proposes modifications to and extension of the Company's current GSIP.

Q. Is Public Counsel currently participating in Case No. GT-99-303?

A. Yes, Public Counsel has proposed significant modifications to Laclede's gas cost recovery mechanism in Case No. GT-99-303. This case provides the mechanism to reflect Public Counsel's recommendations that it is now appropriate to include a reasonable amount of annual capacity release and off-system sales revenue in the determination of Laclede's base rates.

CAPACITY RELEASE REVENUES

Q. Please explain Public Counsel's adjustment for capacity release revenues.

A. This adjustment represents a reasonable amount of annual capacity release revenues achieved by Laclede as a result of FERC Order No. 636.

Q. Did FERC Order No. 636 affect pipeline rate structures?

A. Yes, FERC Order No. 636 implemented what is considered a straight-fixed variable (SFV) rate design. Under SFV rate design, a significant portion of the pipelines cost of providing transportation and/or storage service is recovered through a fixed monthly ***reservation*** charge based on contracted capacity. The pipelines remaining cost of service is recovered through variable commodity charges based on actual utilization of the contracted service.

Q. Did the FERC develop measures to mitigate the fixed monthly reservation charges associated with SFV rate design?

A. Yes, the FERC allows firm purchasers of transportation and/or storage services to ***release*** (i.e. market) capacity that is not currently being utilized. The capacity release revenues are then credited as a dollar-for-dollar offset to the monthly pipeline charges.

Q. What amount of capacity release revenue has Laclede achieved since FERC Order No. 636?

A. Laclede has achieved the following capacity release revenues:

- 1993 – 1994 ACA period (eleven months) – excess of $3 million
- 1994 – 1995 ACA period – excess of $5.3 million

Source: Shaw Direct Testimony, Case No. GR-96-193

- 1996 – 1997 ACA period – excess of $3.8 million
- 1997 – 1998 ACA period – excess of $3.3 million

Source: Laclede Annual GSIP Monitoring Report's

Q. Is it reasonable to assume Laclede will continue to market capacity release?

A. Yes, due to the nature of its service requirements, Laclede can not fully utilize its contractual capacity rights at all times. Therefore, it would be imprudent for the Company not to market any unutilized capacity.

Q. Does Laclede make decisions that effect capacity release revenue?

A. Yes, Laclede controls the timing, amount, and type of capacity to market.

Q. Please explain how the timing of released capacity can affect revenues.

A. Laclede has the ability to execute prearranged and multi-month transactions rather than release capacity at current market rates. It is generally assumed capacity release revenues are maximized at current market rates, while prearranged and multi-month transactions provide a certain ***guaranteed*** level of revenue regardless of market conditions at the later date.

Q. Please explain how the amount of released capacity can affect revenues.

A. It is generally assumed additional released capacity will result in increased revenues. The only situation additional released capacity would not provide increased revenue is if the capacity could not be marketed at any price.

Q. Please explain how the type of released capacity can affect revenues.

A. Capacity can be marketed as either recallable or non-recallable. A recallable capacity release can be terminated at any time while a non-recallable release guarantees the capacity will remain available to the purchaser of that released capacity at all times. It is generally assumed non-recallable capacity provides greater value than recallable capacity due to the guarantee of availability.

Q. What is the traditional regulatory treatment for capacity release revenues in Missouri?

A. Capacity release revenues are passed-through to ratepayers as a dollar-for-dollar ***offset*** to monthly pipeline charges under the annual PGA/ACA process.

Q. Does Laclede currently pass-through capacity release revenues dollar-for-dollar to its ratepayers?

A. No, as a result of Case No. GR-96-193, Laclede now retains a portion of capacity release revenues previously used to offset pipeline charges as shareholder earnings.

Q. Does it appear ratepayers have benefited from Laclede's capacity release GSIP?

A. No, ratepayer costs have increased. The net capacity release revenues passed-through to ratepayers decreased from approximately $8.3 million under the traditional PGA/ACA process during the first two years of FERC Order No. 636 to approximately $5.9 (after shareholder earnings of approximately $1.4 million) during the first two years of Laclede's experimental capacity release GSIP.

Q. What is a reasonable estimate of Laclede's annual capacity release revenue for purposes of this case?

A. Public Counsel believes $3.3 million is a reasonable estimate of Laclede's annual capacity release revenue.

Q. What is Public Counsel's recommended regulatory treatment for Laclede's annual capacity release revenue?

A. Consistent with its recommendation in Case No. GT-99-303, Public Counsel proposes to increase Laclede's test year revenues by $3.3 million to reflect a reasonable amount of capacity release revenue being included in the Company's base rates. Public Counsel believes including $3.3 million capacity release revenue in the determination of base rates in this case results in a reasonable balance of Company and ratepayer interests.

Q. How does Public Counsel's proposal result in a reasonable balance of Company and ratepayer interests?

A. Public Counsel's recommendation provides Laclede the opportunity to increase shareholder earnings as a result of maximizing the efficient management and utilization of its gas supply assets above historical levels. The efficient management and utilization of Laclede's gas supply assets was a stated goal of the MPSC when it authorized the Company's current GSIP in Case No. GR-96-181 (Report and Order, page 12).

OFF-SYSTEM SALES

Q. Please explain Public Counsel's adjustment for off-system sales.

A. This adjustment represents a reasonable amount of annual off-system sales revenue achieved by Laclede during the historical three ACA periods (Oct. 1995 – Sept. 1998) the Company has been utilizing this strategy.

Q. What is an off-system sale?

A. Off-system sales as defined in Laclede's current tariff (P.S.C. MO. No. 5 Consolidated, First Revised Sheet No. 26) are a sale of natural gas, or natural gas bundled with pipeline transportation service, to parties other than Laclede's transportation customers or their agents.

Q. When did Laclede begin its off-system sales strategy?

A. During the ACA period immediately prior to the GSIP, Laclede received approximately $3.6 million in net off-system sales revenue. Laclede also executed six off-system sales transactions for approximately $24,000 during the 1995-1996 ACA period.

Q. Have Laclede's annual off-system sales revenues increased as a result of its GSIP?

A. No, Laclede's off-system sales revenue has decreased to approximately $2.3 and $1.6 million during the 1996-1997 and 1997-1998 ACA periods respectively.

Q. Is it reasonable to assume Laclede will continue to market off-system sales?

A. Yes, due to the nature of its service requirements, Laclede can not fully utilize its total available gas supplies or transportation and storage capacity rights at all times. Furthermore, the Commission determined in Case No. GR-96-181 (Report and Order, page 6) that Laclede ***was able to purchase gas for the express purpose of reselling it at a profit.***

Q. What is a reasonable estimate of Laclede's annual off-system sales revenue for purposes of this case?

A. Public Counsel believes $2.4 million is a reasonable estimate of Laclede's annual off-system sales revenue.

Q. What is Public Counsel's recommended regulatory treatment for Laclede's annual off-system sales revenue?

A. Consistent with its recommendation in Case No. GT-99-303, Public Counsel proposes to increase Laclede's test year revenues by $2.4 million to reflect a reasonable amount of off-system sales revenue being included in the Company's base rates. Public Counsel believes including $2.4 million of off-system sales revenue in the determination of base rates in this case results in a reasonable balance of Company and ratepayer interests.

Q. How does Public Counsel's proposal result in a reasonable balance of Company and ratepayer interests?

A. Public Counsel's recommendation provides Laclede the opportunity to increase shareholder earnings as a result of maximizing the efficient management and utilization of its gas supply assets above historical levels. The efficient management and utilization of Laclede's gas supply assets was a stated goal of the MPSC when it authorized the Company's current GSIP in Case No. GR-96-181 (Report and Order, page 12).

SUMMARY

Q. Would you please summarize your direct testimony in this case.

A. Consistent with its recommendations in Case No. GT-99-303, Public Counsel proposes to include a reasonable amount of annual capacity release and net off-system sales revenue in the determination of the Company's base rates. Public Counsel believes its proposal provides the Company with shareholder opportunities to obtain additional revenue from parties other than the Company's ratepayers as a result of FERC Order No. 636. Public Counsel believes a reasonable amount of capacity release and off-system sales revenue included in base rates provides a reasonable balance of ratepayer and shareholder interests. Public Counsel's proposal would also result in consistent regulatory treatment of

LDC revenue from parties outside its service territory similar to the electric industry.

RATE CASE PROCEEDINGS PARTICIPATION

THOMAS A. SHAW

Company Name	Case No.
St. Joseph Light & Power	HR-88-116
UtiliCorp Untied, Inc.	ER-90-101 et al.
Ozark Natural Gas Company, Inc.	GA-90-321
The Kansas Power & Light Company	GR-91-291
UtiliCorp United, Inc.	ER-93-37
St. Joseph Light & Power Company	ER-93-41
Gas Service, A Western Resources Company	GR-93-140
Western Resources, Inc.	GR-94-101
Missouri Gas Energy	GR-94-228
Missouri Gas Energy	GR-94-318
Laclede Gas Company	GR-96-193
Missouri Gas Energy	GR-96-450
UtiliCorp United, Inc.	ER-97-394
UtiliCorp United, Inc.	GM-97-435
Missouri Gas Energy	GC-98-335
Missouri Gas Energy	GR-98-140
Laclede Gas Company	GT-99-303