Exhibit No.:	
Issue:	PGA revisions to address gas cost portion of bad debt write-offs/cold weather rule changes
Witness:	Michael T. Cline
Type of Exhibit:	Direct Testimony
Sponsoring Party:	Laclede Gas Company
Case No.:	GT-2009-0026
Date Testimony Prepared:	September 16, 2008

LACLEDE GAS COMPANY

GT-2009-0026

DIRECT TESTIMONY

OF

MICHAEL T. CLINE

SEPTEMBER 2008

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DIRECT TESTIMONY OF MICHAEL T. CLINE

Q. Please state your name and address?

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

Q. What is your present position?

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

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

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

Q. Please describe your work experience with Laclede prior to assuming your current position.

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

Q. What is your educational background?

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

Q. Have you previously submitted testimony before regulatory bodies?

A. Yes. I have submitted testimony in numerous proceedings before this Commission which are identified in the attached Schedule MTC-1. I have also testified before the Illinois Commerce Commission and the Federal Energy Regulatory Commission.

Purpose of Testimony

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

A. The purpose of my testimony is to address the two major proposals made by the Company in its July 9, 2008, tariff filing in this case. These include its proposal to use the Purchased Gas Adjustment ("PGA")/Actual Cost Adjustment ("ACA") mechanism to track and reconcile increases and decreases in the gas cost portion of the Company's bad debt write-offs and its proposal for early implementation of the provisions of the Commission's Cold Weather Rule. With regard to the first proposal, I will discuss how use of the Company's PGA/ACA mechanism to reflect all changes in gas costs, including those associated with its bad debt write-offs, would work. I will also explain why such an approach would provide for a more equitable and more accurate recovery of these costs than that afforded by the current approach which simply provides an estimated allowance for such costs in base rates. In terms of the second proposal, I will briefly discuss why the Company's attempt to implement the provisions of the Cold Weather Rule in advance of its normal start date has now been effectively mooted by the calendar.

PGA/Bad Debt Write-offs Modifications

Q. Please briefly describe the Company's proposed tariff revisions as it relates to reflecting the gas cost portion of its bad debt write-offs in the PGA/ACA mechanism.

A. The Company has revised Section C of its PGA clause so as to permit the Company to recover from or refund to its customers the difference between the gas cost portion of the Company's actual bad debt write-offs and the gas cost portion of write-offs that is currently being recovered through the Company's non-gas rates.

Q. What do you mean by the gas cost portion of the Company's bad debt write-offs?

A. The Company's rates are comprised of both gas and non-gas charges. Gas charges, which are represented by the Company's PGA rates, generally recover the costs the Company incurs for the purchase of gas supply and transportation of gas through interstate or intrastate pipelines to the St. Louis area, and account for the vast majority of a customer's total gas bill. Non-gas charges, sometimes referred to as base rates or distribution charges, generally are designed to recover the investment, operating and maintenance costs the Company incurs to deliver gas through the Company's distribution system to a customer's facility. Thus, when a customer fails to pay their gas bill and the Company ultimately writes-off the amount owed by that customer, it includes both the gas charge and non-gas charge portions of the bill that are associated with the write-off.

Q How are bad debt write-offs recovered from customers today?

A. Bad debt write-offs are recovered through the Company's base rates, even though, as discussed above, most of what the Company writes-off relates to gas supply and transportation charges that are otherwise recovered through the Company's PGA rates.

Q. How much is built into the Company's existing rates for the recovery of the gas cost portion of bad debts?

A. The Company's base rates became effective August 1, 2007 as a result of the settlement of Case No. GR-2007-0208. The latest bad debt write-offs that were available to parties for review in that case, and that can be considered to be representative of the bad debts included in the Company's base rates, were based on the twelve months ended March 31, 2007 and amounted to approximately $10.8 million. Due to the time that generally elapses between billing and write-off, the foregoing write-offs were associated with revenues for the twelve months ended May 31, 2006. Since approximately 75% of those revenues were gas cost related, $8.1 million represents the Company's recovery of the gas cost portion of bad debts that is included in base rates.

Q. Why do you believe that the Company's proposed tariff revisions would be more equitable than what the Company's current base rates provide for the recovery of the gas cost portion of bad debts?

A. Various factors can have an impact on the level of bad debts, most of which are beyond the control of the Company, and may change from what existed during the period used for setting the Company's rates in its last general rate proceeding. If the gas cost portion of the Company's actual bad debt write-offs is greater than the amount built into base rates in the Company's last rate case, the Company is harmed because it under recovers its gas costs. Conversely, if the gas cost portion of the Company's actual bad debt write-offs is less than the amount built into base rates, the customer pays more than the actual gas costs the Company incurs. I do not think either result is particularly equitable to the harmed party, especially when there is an easy way to fix the problem.

Q. What are those factors that could contribute to the Company's over or under recovery of the gas cost portion of bad debts?

A. The two most significant factors are the price of natural gas which in recent years has been extremely volatile, and changes in regulatory policies that govern when and under what credit and payment terms the Company must provide service to customers. As an example of the first factor, natural gas prices peaked near $14 per MMBtu on the New York Mercantile Exchange earlier this summer, well above the prices underlying the levels of write-offs used in the Company's last rate case to set base rates. Yet today prices have dropped precipitously in a relatively short period of time back to levels experienced near the start of 2008. An example of the second factor are the multiple changes that the Commission has made to its Cold Weather Rule provisions over the past years. Still other factors that could affect the level of bad debt write-offs are the economy in the service area, weather, the Company's collection efforts and the level of energy assistance available. All of these factors, most of which are beyond the Company's control, can cause bad debts to be greater than or less than the amount used to set base rates.

Q. Since these factors have an impact on total bad debts, including the non-gas portion of the revenues written-off, why is the Company only proposing to address the gas cost portion of bad debts?

A. The clear intent of the PGA clause, which has been a part of the Company's tariff since 1962, is to permit recovery of all gas costs incurred by the Company, subject to a review of the prudence of such costs. This principle should apply regardless of the amount by which the gas cost portion of write-offs may change as result of any of the above factors, and whether or not the Company is able to collect what it is owed. The Company should be entitled to be kept whole for all of the gas costs it incurs, and customers should be entitled to pay only for gas costs that were actually incurred, no more and no less. As for the non-gas portion of bad debts, the Company accepts that such revenues are not subject to PGA treatment but are, instead, subject to the same treatment as other expense categories.

Q. Doesn't the PGA clause in its present form keep the Company whole for gas costs since it provides for an annual reconciliation between the gas charges billed to customers and the Company's actual gas costs?

A. It does, except for the mismatch that exists with the current treatment of bad debts. Presently, the PGA reconciliation assumes that all bills rendered to customers <u>are paid</u>, when in reality, a small percentage of those bills, albeit millions of dollars in gas costs, are written-off annually. The gas cost amounts actually written-off will inevitably differ from what is built into base rates. As a result, under the present rate structure, the degree to which the Company is kept whole for its actual gas costs is dependent on whether or not a customer's bill is written-off. This is a senseless result, especially in today's volatile gas price environment. The nature or character of the Company's gas costs do not change simply because a customer has failed to pay for them and in the process left the Company with a write-off. For this reason, the Company has revised its tariff to eliminate this unnecessary mismatch that can occur today in the recovery of the gas cost portion of bad debts.

Q. Please explain how the proposed tariff revisions will accomplish this.

A. In Section C of the PGA clause, which describes how the Company will perform its annual gas cost reconciliation, the Company will adjust the gas revenues it has billed to customers for the difference between the gas cost portion of net write-offs included in the Company's base rates and the gas cost portion of the Company's actual write-offs. If the gas cost portion of the Company's actual write-offs is greater than the amount included in base rates, gas cost revenues will be reduced and thereby cause the ACA factor to be greater than it otherwise would have been. If the gas cost portion of the Company's actual write-offs is less than the amount included in base rates, gas cost revenues will be increased and thereby cause the ACA factor to be lower than it otherwise would have been. In this way, any over or under recovery of the gas cost portion of bad debts, which is bound to occur under the present rate structure given the factors that can affect bad debts, can be eliminated without changing the Company's existing base and Current Purchased Gas Adjustment rates or establishing a separate tracker.

Q. Would the proposed changes reduce the Company's incentive to pursue collection activities aimed at reducing the level of the Company's bad debt write-offs?

A. No. By only permitting the Company to recover the gas cost portion of uncollectible expense through the PGA, the Company would still be at risk for any changes in the non-gas portion of this expense – a factor that would ensure the Company still has sufficient incentive to aggressively pursue collection and other activities aimed at keeping such expenses down. Company Witness Buck addresses this matter in more detail in his direct testimony.

Q. Are you aware of jurisdictions where gas utilities have been permitted to recover bad debts other than through base rates?

A. Yes. Numerous jurisdictions have authorized mechanisms that provide for a more equitable recovery of bad debts costs than the ratemaking treatment traditionally afforded to Laclede. In Tennessee, the gas cost portion of bad debts has been removed from base rates and recovered through a tracker. In Ohio, the entire cost of write-offs, including both gas costs and non-gas costs, was removed from base rates and instead recovered through a tracker. Michigan also allows gas utilities to defer and recover up to 90% of any changes in their bad debts. In addition, I am aware that at least Kansas, Utah, Wyoming, Maine, New Hampshire, Rhode Island and Massachusetts have all provided for some type of recovery of the gas cost portion of bad debts in the PGA.

Q. What impact would the Company's proposed PGA modifications have on the Company's rates?

A. Since any rate change will be implemented as a result of the annual reconciliation covered by the Company's Actual Cost Adjustment ("ACA") in Section C of its PGA clause, as I stated above there will be no immediate rate impact on customers as far as projecting any new cost or changing any existing rates. However, beginning in November of 2009 and each November thereafter, when the Company files a revised ACA factor, such factor could be either slightly lower or higher as a result of the proposed change.

Q. Why do you believe there will only be a slight impact on the Company's ACA rates?

A. For example, in an unlikely case where the gas cost portion of bad debts varied by 50% from the level built into base rates, based on the gas cost portion of bad debts in the last rate case, the impact on the Company's ACA rates would be less than $5 per year, or 50 cents a month, to a typical residential customer, even though the change could affect the Company's earnings by millions of dollars.

Q. Please summarize this section of your testimony.

A. The Company's proposed tariff sheets in this proceeding give the Commission an opportunity to enhance the PGA clause as it relates to the gas cost portion of bad debt write-offs and ensure that customers are charged for gas costs that are actually incurred, regardless of whether such gas costs relate to a bill that has been paid or not. Since this change will eliminate the potential for both the customer and the Company to either gain or lose unnecessarily without disrupting the Company's existing rate structure, the Commission should adopt such proposal.

Early Implementation of Cold Weather Rule Provisions

Q. What is the status of the Company's July 9, 2008 tariff proposal for early implementation of the provisions of the Commission's Cold Weather Rule?

A. The purpose of this proposal was to provide customers with arrearages an opportunity to get a head start on reducing their past due amounts in advance of the winter heating season when gas prices were expected to be higher. Our proposal was to provide customers the ability to begin paying down those arrearages during the summer months by offering them the more flexible payment terms afforded under the Commission's Cold Weather Rule. This, in turn, may enable some customers to make greater progress in achieving this goal than would otherwise have been the case. Due to concerns expressed by Staff and Public Counsel, however, the tariff provisions implementing this proposal were suspended until sometime after the normal November commencement date of the Cold Weather Rule's payment provisions. As a result, there is really no substantive issue for the Commission to decide at this point in regard to this proposal.

Q. Does this conclude your testimony?

A. Yes, it does.

MPSC CASES IN WHICH TESTIMONY WAS FILED BY MICHAEL T. CLINE

GR-2007-0208-Laclede Rate Case
GR-2005-0284-Laclede Rate Case
GT-2003-0032 - School Aggregation
GR-2002-356 - Laclede Rate Case
EC-2002-1 - UE d/b/a AmerenUE
GR-2001-629 & GT-2001-662-Laclede Rate Case
GR-2001-387/GR-2000-622-Laclede ACA
GR-99-315 – Laclede Rate Case
GT-99-303 – Laclede GSIP
GO-98-484 – Laclede Price Stabilization
GR-98-374 – Laclede Rate Case
GR-96-193 – Laclede Rate Case
GA-96-130 – MPC
EO-96-15 – UE Class Cost Service
GC-96-13 – Industrials v. Laclede
GR-94-328 – Laclede PGA Rate Design
GO-94-318 – MGE PGA issues
GM-94-252 – MPC/UtiliCorp
GR-94-220 – Laclede Rate Case
GR-93-149 – Laclede's ACA
GR-92-165 – Laclede Rate Case
GA-90-280 – InterCon Gas
GA-89-126 – MPC
GR-84-161 – Laclede Rate Case
GR-83-233 – Laclede Rate Case
GR-82-200 – Laclede Rate Case
GR-81-245 – Laclede Rate Case

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Laclede Gas Company's Tariff	)	
Designed to Permit Early Implementation of	)	Case No. GT-2009-0026
Cold Weather Rule Provision and to Permit	)	
Laclede to Collect Bad Debt Through the PGA	)	

AFFIDAVIT

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

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

1. My name is Michael T. Cline. My business address is 720 Olive Street, St. Louis, Missouri 63101; and I am Director - Tariff and Rate Administration of Laclede Gas Company.

2. Attached hereto and made a part hereof for all purposes is my direct testimony, on behalf of Laclede Gas Company.

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

Michael T. Cline
Michael T. Cline

Subscribed and sworn to before me this 16th day of September, 2008.

M D Wilson
Notary Public

My Commission expires: M. D. WILSON
Notary Public — Notary Seal
STATE OF MISSOURI
St. Louis County
My Commission Expires: Feb. 21, 2009
Commission # 05668798