Exhibit No.:	
Issue:	**Policy**
Witness:	**Steven L. Lindsey**
Type of Exhibit:	**Direct Testimony**
Sponsoring Party:	**Laclede Gas Company**
Case No.:	**GR-2013-0171**
Date Prepared:	**December 21, 2012**

LACLEDE GAS COMPANY

GR-2013-0171

DIRECT TESTIMONY

OF

STEVEN L. LINDSEY

DECEMBER 2012

TABLE OF CONTENTS

DIRECT TESTIMONY OF STEVEN L. LINDSEY

Q. Please state your name and business address.

A. My name is Steven L. Lindsey, and my business address is 720 Olive Street, St. Louis, Missouri63101.

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

A. I am employed by The Laclede Group, Inc. as the Executive Vice President and Chief Operating Officer for Distribution Operations and by Laclede Gas Company as its President.

Q. How long have you been with Laclede?

A. I am a newcomer, having officially joined Laclede on October 1 of this year.

Q. Where were you employed prior to joining Laclede?

A. Prior to joining Laclede, I was employed by AGL Resources, Inc. or its subsidiaries for nearly 24 years. Most recently, I served as senior vice president, southern operations of AGL Resources, Inc. and president of its Atlanta Gas Light, Chattanooga Gas and Florida City Gas subsidiaries since December 2011. In these roles, I managed the operations, top-line growth and strategic affairs of the utilities. Before assuming that role, I served as vice president and general manager of Atlanta Gas Light and Chattanooga Gas from 2005 to 2011, overseeing the day-to-day operations and market development of the utilities. Prior to that, I held a variety of positions within Atlanta Gas Light, including: Managing Director – marketing, new business & marketer services; Managing Director, field operations; Manager, engineering & new construction supervisor; Distribution Engineer; and Commercial and Industrial Representative.

Q. What is your educational background?

A I am a graduate of the Georgia Institute of Technology, where I received a bachelor's degree in mechanical engineering.

Q. Have you testified in other regulatory proceedings?

A. Yes. As part of my responsibilities with my prior employer, I had an opportunity to submit testimony in a number of regulatory proceedings on a variety of regulatory issues.

PURPOSE OF TESTIMONY

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

A. The purpose of my testimony is to provide an overview of the Company's filing, while explaining some of the major factors underlying our need to seek rate relief at this time. I will discuss the measures we have undertaken to reduce the frequency of our rate case filings and better tailor our utility services to meet the expectations and needs of our customers in today's changing environment. I will also address some of the more important policy issues that will come before the Commission in this case.

NEED FOR RATE RELIEF

Q. When did Laclede last seek a general increase in its distribution rates?

A. We last filed for a general increase in rates three years ago this month. This marks a continuation of our successful efforts to lengthen the time between general rate case filings, which prior to the last two rate cases were typically made at one to two year intervals.

Q. Why has Laclede traditionally found it necessary to file rate cases on a periodic basis?

A. The need to file for rate relief on a fairly routine basis has resulted from a number of factors. As I previously indicated, Laclede has for some time now experienced extremely limited growth in its service territory, adding less than 1 percent of new net customers per year. Moreover, current customers continue to reduce their average usage from year to year. On top of this, the Company's service territory has been affected by an extraordinary amount of urban sprawl, as customers have moved from the city and inner suburbs to more distant communities at rates that are among the highest in the nation.

Q. How have these demographic factors affected the Company?

A. It has placed a dual burden on the financial resources required by Laclede to provide natural gas service. In effect, it has required the Company to incur both the fixed investment costs and maintenance expenses necessary to continue service to a declining customer base within the inner city as well as incur the costs needed to build new infrastructure in the developing areas to which many of those customers have moved. The end result is a significant net increase in costs with little net customer growth to pay for it. At the same time, Laclede has continued to make significant investments to improve system safety and reliability and acquire new technology to enhance customer service. We have also seen the cost of maintaining experienced, engaged and dedicated employees rise over the past three years.

Q. Can you quantify what effect these factors have had on the Company’s rate request?

A. Sure. In this case, we have requested an increase of approximately $58.4 million. More than a quarter of this request is being driven by a rebasing of approximately $15 million in our current and expected Infrastructure System Replacement Surcharge (“ISRS”) amounts that have been incurred to advance our accelerated cast iron main replacement program and make other safety-related or publicly-mandated investments. I should note that once the existing ISRS charges already being collected by the Company are excluded, the increase will actually be around $48.4 million on an incremental basis.

This, in turn, translates into an increase of approximately 6.6% or $4.93 a month for a residential customer with average usage. Approximately $10 million of the request relates to the depreciation expense, taxes and return on our new enterprise-wide information management system that, as I said, will bring the benefits of this new technology to our customers for years to come. All told, almost half of our request is related to long-term investments aimed at improving the safety and reliability of our distribution system and providing more efficient and responsive service to our customers. For additional details on these rate base additions, I would refer the Commission to the direct testimony of Company witness Patricia Krieger.

Q. Can you quantify the effect on your request of the rising costs incurred by the Company as a result of its investments in employees?

A. Yes. These costs are primarily comprised of the contributions made by the Company to fund and amortize its legacy pension obligations, to recognize three years' worth of modestly rising medical, wage and salary costs for union and non-union employees, and to assume the costs associated with the new performance incentive plan for all employees. In total, this amount is approximately $8 million of the request, a figure that is substantially less than in the past, due, in part, to the amount of payroll that has been capitalized rather than expensed as a result of the Company's accelerated cast iron main replacement program. Additional information regarding the nature and amount of these costs can be found in the direct testimony submitted by Laclede witnesses Steven Rasche, Sondra Brown, Glenn Buck and Gina Sparacino. When combined with the capital investments described above, the total investment in infrastructure and employees accounts for over half of the requested increase.

Q. What explains the remaining amount of the increase?

A. Approximately $9.1 million of the remaining amount relates to the Company's proposal to use its actual billing determinants from our last fiscal year to derive the revenue requirement in this case. Under our proposal, if billing determinants turn out to be higher than what we've based our rates on, the Company would flow back part of the difference to customers and use another part to pay down regulatory assets that have previously been established by the Commission to keep track of deferred costs associated with certain utility programs or expenditures. In any case, customers will get the entire benefit of any additional revenues achieved by the Company. Laclede witness Michael Cline addresses the merits of this proposal in greater detail in his direct testimony. Another $2 million is related to the Company's customer-friendly proposal to embed in its cost of service the incremental cost associated with allowing customers to use their credit card to pay their utility bill, without incurring an additional charge. This is something done by a significant majority of businesses today and it has previously been implemented for at least one other utility in Missouri. The remaining portion of the increase is related to the Company's proposed return on equity and miscellaneous other issues.

Q. If the Commission were to grant the entirety of the increase, what incremental impact would it have on the Company's customers?

A. As I said previously, the incremental portion of the increase, after deducting for ISRS charges already being collected, translates into an increase of a little less than $5 a month for the residential customer with average usage. We fully understand that in these challenging economic times, even modest increases of this nature can be problematic for some customers – which is precisely why we have proposed additional measures to assist our most vulnerable customers. To put this increase in perspective, however, I also have to note that the countervailing reductions in gas costs that we've been able to pass along to our customers just since our last rate case more than offsets this increase. In fact, assuming no material change in those gas costs in the near future, even with approval of the full rate base increase proposed by the Company, overall customer rates would still be roughly the same as they were before our PGA filing a few months ago. In fact, on an inflation adjusted basis, they would be less than the rates Laclede was charging 10 years ago. Given these considerations, this case presents an unusually good opportunity for the Commission to provide the kind of financial relief that will enable the Company to remain fully competitive in the capital markets and meet its public utility obligations while still providing the customer with a very favorable pricing result.

Q. Does this mean that the Company has less need to drive efficiencies and reduce costs throughout its utility operations?

A. Not at all, nor do we in any sense view it that way. In fact, our emphasis on containing costs and creating efficiencies has never been higher. As Suzanne Sitherwood stated in her testimony, one of the primary reasons we are pursuing a growth strategy is so that we can further bend down the inclining cost curve that the Company has already managed to mitigate as a result of its other efforts over the past decade to drive efficiencies. Achieving further cost containment as well as enhanced customer service is also at the heart of our decision to create a new incentive compensation program for all employees who can affect those outcomes. It is also why we are devoting additional resources to improving our technology and empowering our employees to measure and exceed our historical performance metrics. In short, we are committed to pursuing these kinds of outcomes regardless of what the external environment may look like because we believe it is always the right thing to do for our customers.

IMPORTANT POLICY ISSUES

Q. You mentioned that you wanted to comment on a number of the important policy issues that will come before the Commission in this case. Please do.

A. As we have in the past, we are hopeful that we can use this proceeding to build upon the measures that have allowed us to reduce the frequency of our base rate filings in the past. We also want to explore programs that will better enable the Company and its customers to cope with the challenge of maintaining service in a difficult economy. As we do, I want to emphasize that the Company intends to work with the Staff, Public Counsel and other parties to develop constructive ways to accomplish these goals. I am optimistic that solutions acceptable to everyone can be reached and recommended to the Commission. To that end, I want to discuss four issues that are of particular importance in this case.

Q. What is the first issue?

A. The first issue centers on providing additional ways to help customers maintain service in an economy that continues to struggle. I know that this is a matter of some concern to the Commission as evidenced by its recent orders requesting that participants in the regulatory process comment on the feasibility and desirability of establishing a special rate for low-income customers. While the comments made by a number of parties suggest that there are legal uncertainties and policy concerns that may preclude establishment of a special rate class, the Company believes there are several measures that could be taken to provide customers with additional help in this area. They include dedicating additional resources so that the Company's current energy affordability and low-income weatherization programs can be expanded; revising these programs where appropriate to make them more effective, and making it easier for customers to have minor repairs made to their gas appliances so that service can be restored on a more immediate basis where a defect is found.

Q. Please identify the additional sources of revenue that could be used to expand the Company's current low-income energy affordability and weatherization programs.

A. As discussed in the direct testimony of Company witness Michael Cline, these potential sources include a portion of the revenues achieved by the Company from temporary sales of gas and pipeline capacity to non-utility customers and the "incentive portion" of the Company's late payment charges. Using even a portion of these revenue sources would allow the Company to enroll thousands of additional customers in these programs.

Q. Why single out these sources of revenue for this purpose?

A. One of the main concerns voiced by those who oppose special rate programs for low-income customers is that the rates of customers who can afford to pay their bills should not be used to subsidize service for other customers, particularly in the absence of explicit statutory authority for such an approach. While I sympathize with that concern, I think it is easier to justify using the revenues received from these sources because those revenues are being produced at absolutely no additional cost to other customers. Accordingly, other customers should have no particular objection, let alone a compelling one, to using a portion of these revenues to help customers with special needs. This is especially true if the low-income programs to which these revenues are being dedicated are redesigned in a way that makes it more likely that other, non-participating customers will benefit from the programs.

Q. What changes to the current programs would you make to achieve this goal?

A. I don't presume to know the precise answer to that, but changes are needed that will give customers a greater incentive to continue paying for utility service after the winter heating season ends so that they are making some contribution to the fixed costs that all customers have to support. I believe strongly that collaboration with other stakeholders is the preferred way for developing such solutions, particularly when those stakeholders bring the type of deep and long-standing experience with the issue that Staff and Public Counsel do. Accordingly, rather than put a stake in the ground on the specific contours of such a program, I am signaling the Company's strong commitment to sit down with these parties during the course of this proceeding to see what sensible solutions we can develop together.

Q. You mentioned the merits of helping customers make minor appliance repairs as another way to help more vulnerable customers maintain service. Please explain.

A. Whenever service needs to be restored or activated, Laclede's field employees will do an inspection of each appliance prior to relighting, and will not relight an appliance that is not operating up to code. Instead, the Company will "red-tag" the appliance and advise the customer that it needs to be repaired before service can be restored or activated. This can obviously be an aggravating experience for the customer and present danger concerns if the customer does not have the repairs performed by a qualified technician.

Q. Has the Company tried to address this problem in the past?

A. Yes, on a very ad-hoc basis, the Company has, with the cooperation of Staff, Public Counsel and concerned community advocates, previously filed temporary tariff changes that permit minor repairs to be made to such equipment, with the funding coming from other existing programs. We believe, however, that there is a compelling enough safety and customer service justification for taking such action that we are proposing to expand the program in this case. We want to do so in a way that will better eliminate this circumstance as an obstacle to maintaining service, while still giving customers the choice of using another firm to perform the required work. Details of this expanded program are addressed in the direct testimony of Company witness Dan Ryan.

Q. What is the second issue you wanted to address?

A. The second issue involves a refinement of the weather mitigation rate design that has been approved and modified by the Commission in our last several rate cases. In contrast to some cases involving other utilities, the parties to prior Laclede cases have been able to reach agreement on and jointly recommend Commission approval of our rate design. This is due, in part, to the fact that the Company's rate design still retains a volumetric component in the distribution rate and therefore places less of a financial burden on the small user. Because it does retain this volumetric component, however, the Company's rate design still exposes it to significant, weather-related losses, compared to what would occur under a pure straight-fixed variable rate design. In fact, the losses incurred by the Company this past fiscal year as a consequence of this feature totaled some $10 million or more than a fifth of the Company's entire net income.

Q. What exactly is the Company proposing to address this concern?

A. As discussed more fully in the direct testimony of Michael Cline, the Company has developed an approach that both retains the attractive volumetric feature of its current rate design, while giving the Company a better opportunity to recover (but never over-recover) its fixed distribution costs. It does so by basing the Company's rates on the billing determinants that were actually experienced by Laclede during the past fiscal year, while establishing a one-way tracker that would flow revenues back to customers (either directly or through a reduction in the Company's regulatory assets) in the event actual billing determinants and associated revenues turned out to be higher than the ones used to establish rates. While this does not provide the Company with the same level of protection that a straight fixed variable rate design would, it moves in that direction while still preserving the volumetric feature of greatest benefit for the small users. This is indeed a "win-win" approach that I would strongly recommend to the Commission for its favorable consideration.

Q. What is the third issue you want to address?

A. This issue involves one of the most critical matters in any rate proceeding, namely the need for the Commission to provide the Company with an adequate opportunity to earn a fair and reasonable return on its investments in utility infrastructure, as well as to achieve a return of that investment through appropriate depreciation rates. In terms of the latter issue, I would direct the Commission to the direct testimony of Laclede witness John Spanos who has prepared and submitted a new depreciation study and revised depreciation rates for the Commission's consideration in this case. Mr. Spanos has extensive experience in developing depreciation rates for regulated utilities, including many that are regulated by this Commission. By virtue of that experience, Mr. Spanos has an exceptional sense for what rates are necessary and appropriate to obtain a return of utility investments over the useful life of the associated assets, and I would strongly urge the Commission to adopt his recommendations in this area.

Q. Do you have any comments on what the Commission should keep in mind in establishing a return on those assets?

A. Yes. We are also hopeful that the Commission will fully recognize the need to establish a return on equity that enables Laclede to attract the capital required to fulfill our public utility obligations. When doing so, it is essential that Missouri be viewed by those investors as a place where their discretionary investments are welcomed with a realistic opportunity to earn competitive returns. Maintaining reliable utility service, and the infrastructure necessary to provide it, not only produces jobs directly, as evidenced by the 50 to 60 workers that Laclede has recently hired in connection with its accelerated cast iron program, but it is also a key element of our state's ability to attract and retain the businesses which provide additional jobs for Missouri citizens. By helping to attract the capital necessary to support and maintain those services, I truly believe that the establishment of a competitive return will benefit not only the Company and our customers, but the state of Missouri as well.

Q. Are you aware of the Commission's interest in exploring the merits of adopting a return on equity that falls at the top of the utility's range in exchange for the utility's successful ability to prolong the period between general rate case proceedings?

A. Yes, and I am intrigued by the Commission's effort to consider approaches that would foster greater rate stability, including the potential use of the high end of its approved return on equity range in exchange for a utility's success at deferring a base rate filing for some period of time. Laclede would certainly be interested in exploring that concept in more detail in this proceeding. In the meantime, I would strongly recommend that the Commission adopt the return recommendations submitted on behalf of the Company by

Laclede witness Robert Hevert which reflects not only today's market realities but also a return that will make Laclede competitive with other investment options.

Q. Is there a final issue you would like to address?

A. Yes. Laclede would also be interested in exploring with the Commission, as well as the other parties to this case, the possible establishment of a distribution incentive mechanism. Various stakeholders in the regulatory process routinely point out what they view as one of the primary benefits of regulatory lag. Specially, they argue that by allowing the utility to retain savings or by requiring it to absorb cost increases in between rate cases, regulatory lag provides a strong incentive to drive efficiencies for the benefit of customers. One of the problems with this argument, however, is that this incentive tends to be diminished by the fact that any benefit to the utility from achieving these savings and efficiencies is entirely eliminated at the time new rates are established. To rectify this flaw, the Company would recommend that the Commission seriously consider the establishment of a distribution incentive mechanism that would permit the Company to retain a portion of the savings achieved between rate cases for at least one additional rate case period. Such savings would be calculated based on whether the Company beat a benchmark or series of benchmarks that would be established in this case based on historical data of the Company prior performance. If appropriately designed and complemented by a few basic customer service metrics that prevented any material diminution in the quality of service, I think such an incentive mechanism could produce real benefits over the long term for customers. We will certainly be open to discussing the merits and possible features of such a mechanism with this Commission and other parties as this case proceeds to see if an acceptable mechanism can be developed, perhaps on an experimental basis.

Q. Does this conclude your direct testimony?

A. Yes, it does. Thank you.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Laclede Gas Company's Filing of	)	
Revised Tariffs to Increase its Annual Revenues	)	Case No. GR-2013-0171
For Natural Gas Service	)	

AFFIDAVIT

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

Steven L. Lindsey, of lawful age, being first duly sworn, deposes and states:

1. My name is Steven L. Lindsey. My business address is 720 Olive Street, St. Louis, Missouri 63101; and I am Executive Vice President and Chief Operating Officer of Distribution Operations of The Laclede Group, Inc., and President 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.

Steven L. Lindsey

Subscribed and sworn to before me this 11th day of December, 2012.

Notary Public

KAREN A. ZURLIENE
Notary Public - Notary Seal
STATE OF MISSOURI
St. Louis City
My Commission Expires: Feb. 18, 2016
Commission # 12382873