Exhibit No.:	
Issue:	**Rate Base, Accounting Schedules**
Witness:	**Patricia A. Krieger**
Type of Exhibit:	**Rebuttal Testimony**
Sponsoring Party:	**Laclede Gas Company**
Case No.	**GR-2010-0171**
Date Testimony Prepared	**June 24, 2010**

LACLEDE GAS COMPANY

GR-2010-0171

REBUTTAL TESTIMONY

OF

PATRICIA A. KRIEGER

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GENERAL INFORMATION

Q. Please state your name and business address.

A. My name is Patricia A. Krieger, and my business address is 720 Olive St., St. Louis, Missouri 63101.

Q. Are you the same Patricia A. Krieger who previously submitted direct testimony in this proceeding?

A. Yes.

PURPOSE OF TESTIMONY

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to respond to the direct testimonies of Staff witnesses Erin M. Carle and Anne M. Allee, on the issue of rate base, and Lisa K. Hanneken, on the issues of residential and small industrial customer levels and prepayments. In addition, I will respond to the direct testimony of Staff witness Manisha Lakhanpal, on the matter of Weather Normalization. Other Staff witnesses filed testimony related to various components of the weather normalization adjustment. The Company does not agree with or adopt in principle all of the components of Staff's methodology. However, the only significant difference in the results achieved in this proceeding between the Company's and Staff's calculated adjustments to revenue requirement for weather normalization relates to the appropriate level of normal heating degree days, as sponsored by Ms. Lakhanpal. I will address that particular issue. Finally, I will address the direct testimony of Barbara A. Meisenheimer of the Office of the Public Counsel, with respect to the unregulated activities of the utility.

RATE BASE

Q. Please explain the issues you wish to address pertaining to items included in the Company's original cost rate base.

A. Both the Company and Staff included amounts at March 31, 2010 for inclusion in rate base, with certain exceptions. The issues I address are listed below. Other rate base issues are addressed in the rebuttal testimony of Company witness James A. Fallert.

Propane cavern assets

Non-recoverable natural gas and non-current natural gas inventory

Specific capitalized overheads

Allocation of certain corporate assets

Q. Please continue.

A. The Company has recorded on its books certain fully depreciated plant assets, which comprise its propane cavern. The propane cavern has historically been used principally to store propane inventory used for peak shaving requirements to serve the utility's customers. The Company has proposed to exclude these assets from rate base, for reasons discussed in the testimony of Company witness Michael T. Cline. Staff proposes that these assets remain in utility plant and, as such, have been included in rate base, as sponsored by Ms. Carle.

Q. Please explain the issues pertaining to non-recoverable and non-current natural gas.

A. Recently, the Company undertook an evaluation of its Lange natural gas storage field that has been in operation for more than 50 years. Such evaluation included an assessment of non-recoverable and recoverable volumes of natural gas through December 2008. The results of the study, which was performed by outside consultants, indicated that non-recoverable volumes of natural gas were greater than previous estimates recorded on the Company's books. In light of the advances in technology in recent years associated with underground storage reservoir analysis, the Company concluded that it had reliable information by which to appropriately account for such volumes. As a result of the assessment, the Company recorded adjustments during the test year to balance sheet classifications to reflect the new information provided by the study. Inventory balances were reclassified consistent with the Federal Energy Regulatory Commission's (FERC) Uniform System of Accounts, which includes balance sheet classifications for non-recoverable natural gas (account 352.30), gas stored, non-current (account 117.10), and gas stored, current (account 164). Consistent with past regulatory practice, an adjustment was made to increase the balance in the non-recoverable natural gas account. Pursuant to the FERC and past regulatory practice, this account is included in rate base as property, plant, and equipment and is depreciated. The Company also made an adjustment to increase the balance of its gas stored, non-current account. This account also has historically been included in rate base. The remaining account for gas stored, current was reduced by like amounts to properly reflect expected future annual inventory withdrawal levels. As such, these adjustments realigned the total inventory balance to reflect the results of the study, but did not change the total assets recorded on the Company's books. The Company included the adjustments to accounts 352.30 and 117.10 in rate base, consistent with past regulatory practice, and proposed to depreciate the non-recoverable natural gas plant account at the depreciation rate proposed by Company witness John J. Spanos. Ms. Allee did not agree to inclusion of these amounts by Ms. Carle in rate base (or the applicable depreciation expense), pending receipt of further information from the Company, much of which had been previously provided by the Company through data request responses. The final copy of the engineering study by NITEC, however, has now been provided to the Staff and the Staff is currently in possession of all relevant information pertaining to these adjustments. Therefore, the Company believes these adjustments should be reflected in rate base and depreciation expense, as proposed by the Company.

Q. Which other issues do you wish to address?

A. Ms. Carle has proposed to disallow from rate base certain overhead costs which have previously been capitalized as part of the utility's self-constructed assets. These costs were allocated and capitalized in a manner consistent with other cash compensation in accordance with generally accepted accounting principles (GAAP) and the FERC's Uniform System of Accounts. The specific overhead costs proposed by Ms. Carle for exclusion are the capitalized portions of equity compensation costs and certain incentive compensation costs. The benefits of these specific costs to our customers are described in the testimony of Company witness David M. Seevers. I will address the accounting policy considerations.

Q. Please continue.

A. Consistent with prior practice, the Company sought to earn a return and recover only the capitalized portions of such costs, which represent approximately one-fourth of the total cost incurred by the Company. Such treatment was not objected to previously by any party and formed the basis of multiple rate case settlements. However, in light of this issue being raised, the Company has recently provided documentation and support that it believes justifies recovery in rates of not only the capitalized portion, but also the expensed portion as well.

Q. Please continue.

A. The costs that Ms. Carle proposes to disallow include both cash compensation and share-based compensation provided to employees. The share-based compensation costs are appropriately capitalized with other cash compensation costs in accordance with GAAP. Statement of Financial Accounting Standard (SFAS) No. 123(R), *"Share-Based Payment,"* as codified in the Financial Accounting Standards Boards' (FASB) Accounting Standards Codification (ASC) Topic 718, *"Compensation – Stock Compensation,"* requires capitalization of share-based compensation cost that is part of the cost to acquire or construct an asset. Additionally, the Securities and Exchange Commission's (SEC) Staff Accounting Bulletin No. 107 states that share-based compensation cost should be recorded in the same location in the financial statements as cash compensation costs. Furthermore, the FERC's Gas Plant Instructions require the capitalization of general administrative pay and expenses applicable to construction work. Accordingly, these capitalized costs were appropriately capitalized in various distribution plant accounts and should be properly included in rate base and depreciable property.

Q. Has any party objected to this treatment in prior cases?

A. No. In the past, no party has objected to such treatment and it has formed the basis of multiple rate case settlements. In fact, such costs have been accepted in rate base by the Staff in previous proceedings, a portion of which have already been depreciated and are embedded in the reserve for accumulated depreciation. In addition to changing the terms of prior settlements approved by the Commission, any effort to account for these GAAP overheads (and related depreciation) separately so that these costs can be excluded from rate base for ratemaking purposes would cause an undue and nearly impossible administrative burden, given that these costs represent only a portion of capitalized assets that must be depreciated over very lengthy service lives and eventually retired. In order to exclude these costs from rate base, Ms. Carle estimated the impact on the accumulated depreciation reserve and deferred income taxes since an actual calculation of these amounts is not possible. To track these amounts through the life cycle of depreciable plant would be extremely cumbersome, if not impossible. Even more importantly, Ms. Carle’s position would deny the Company the opportunity to earn a return on and recover these costs, which have resulted in benefits to our customers, as described by Mr. Seevers. Indeed, it is abundantly clear from the information produced in this case, including certain Staff adjustments derived from lower expense levels, that the utility business initiatives underlying these programs have produced qualitative and quantitative benefits that have been passed on to rate payers through a lower cost of service and improved customer service. The Company believes that these benefits to rate payers more than justify the recovery of the capitalized portion of costs excluded by Ms. Carle, and would even justify recovery of the expensed portion through revenue requirement.

Q. Please describe the allocation of corporate assets that the Staff proposes to exclude from rate base.

A. Laclede Gas' parent company, The Laclede Group, Inc., installed and capitalized Laclede Group signage on its corporate office building, The Laclede Gas Building, which houses The Laclede Group's and Laclede Gas' corporate offices. Ms. Carle has excluded the entire cost of the signage from rate base. The Company believes it is appropriate to allocate a portion of these costs to the holding company and Laclede Gas' affiliates, but that a portion of such costs should also be allocated to Laclede Gas and included in rate base, as discussed more fully in the testimony of Company witness James A. Fallert.

Q. Please describe any remaining rate base issues.

A. Both the Company and Ms. Hanneken recognized a working capital item in rate base for the Company's prepaid assets. This balance reflects the average balance in prepayments updated through the period ending March 31, 2010. The Company's methodology for calculating this average balance gives equal weighting to the each month during the year. Ms. Hanneken's methodology employs a 13-month average ended March 31, 2010, which, in this case, gives twice as much weight to the month of March versus the remaining eleven months.

Based on the Company's pattern of prepayments, March typically has a low prepaid asset balance. By giving double weighting to this one month of the year, Ms. Hanneken's method has understated the value of this rate base item. Therefore, the Company's method reflects a more just and reasonable result.

RESIDENTIAL AND SMALL COMMERCIAL CUSTOMER CHANGES

Q. Please explain the issue related to the adjustment made to reflect changes in residential and small commercial customers.

A. During the test year, the Company experienced modest increases or decreases, depending on the operating division, in both its residential and small commercial customers billed at the General Service rate. Test year revenues were adjusted to an annualized level that reflects customer changes known and measureable through March 31, 2010.

Q. What is the Company's basis for this adjustment?

A. Several of the Company's operating divisions experience seasonality in the number of customers served during the year. Historically, some customers leave the system during warm weather months and return to the system during cold weather months. The Company's adjustment preserves and annualizes this seasonal pattern by adjusting the actual seasonal pattern experienced during the test year by the level of customer change that is based on the peak period of January when nearly all customers are on the system. The result is to recognize the level of customers known and measureable at March 31, 2010, but with a seasonal pattern representative of the customer levels that will be billed throughout the year.

Q. Do you agree with the results recommended by Ms. Hanneken?

A. No. Ms. Hanneken's adjustment recognizes the seasonality inherent in the Company's customer levels. However, her adjustment is predicated on a five-year average of customer changes that effectively builds in a greater change than that which is known and measureable at March 31, 2010. I have attached Schedule PAK-2 which illustrates Ms. Hanneken's normalized customer levels for the St. Charles residential division of our service area, compared to the past five years of actual customer levels. This exhibit illustrates that Ms. Hanneken's methodology produces a normal level well in excess of the known and measureable customer level at March 31, 2010. In this instance, it is my opinion that Ms. Hanneken's normalized levels are overstated because this particular operating division realized a greater amount of growth in the first three years of the five-year period, compared with recent activity. By incorporating this history, Ms. Hanneken's methodology builds trends into her normalized amounts that are not representative of customer levels that are known and measureable at the update period. Therefore, I believe the Company's methodology is more appropriate.

NORMAL HEATING DEGREE DAYS

Q. Do you agree with Ms. Lakhanpal's recommendation that revenues be weather normalized in this proceeding based on 30 years of temperature data published by the National Oceanic and Atmospheric Association (NOAA) in February 2002?

A. No. NOAA publishes normal heating degree days at the end of each decade based on three decades of data. Therefore, the normals provided by Ms.

Lakhanpal and used in Staff's normalization adjustment reflect the weather conditions experienced during the January 1971 through December 2000 period.

Q. What level of heating degree days did you sponsor in your adjustment?

A. The level of heating degree days included in the Company's weather normalization adjustment reflects the 30-year period ended September 2009. This level of heating degree days was determined by incorporating the historical data utilized in NOAA's 2002 published normals applicable to the October 1979 through December 2000 period with NOAA's weather data for the January 2001 through September 2009 period. NOAA publishes actual heating degree day data on a daily and monthly basis. The Company believes it is important to reflect more recent weather experience in order to capture the meaningful effects of global warming and other trends and factors influencing weather conditions.

Q. Are there other considerations with respect to rolling forward degree day data?

A. Yes. At the end of each decade, NOAA may adjust data published throughout the decade if there is a change in the type and/or location of the instruments used to measure temperatures at the weather sites. This is done to homogenize the data prior to publishing new normals. However, a review of information available from NOAA's web site indicates that there has been no change in the instrument used to measure temperature data at the St. Louis Lambert International Airport weather station. As such, the Company believes that the 30 years of NOAA data for the period ended September 2009 is consistent. Therefore, it is the Company's position that it is reasonable to disregard the weather data applicable to the 1970's in lieu of more recent and meaningful weather experience. It would be unreasonable to ignore the data that is currently available for the most recent and almost entire decade.

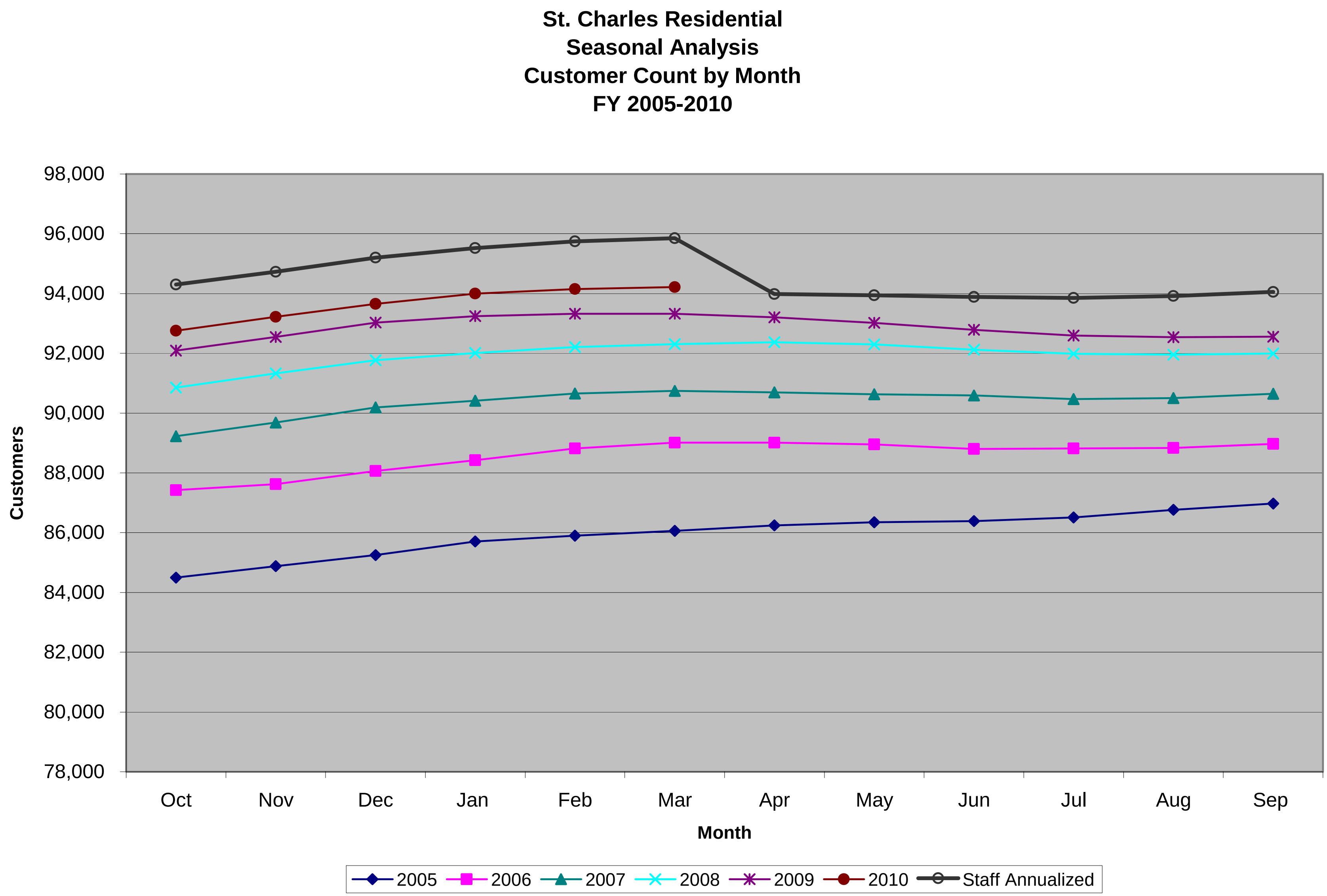
UNREGULATED ACTIVITIES OF LACLEDE GAS

Q. Please address pages 13-14 of Ms. Meisenheimer's direct testimony in this proceeding which cited the Commission's order in Case No. GT-2009-0056 and challenged whether unregulated revenues and costs should be included in utility rates.

A. Laclede Gas' unregulated services are primarily comprised of appliance service work and house sale inspections. While I did not sponsor an adjustment in this proceeding, I have in previous rate proceedings sponsored adjustments to eliminate the net revenues related to the Company's appliance service work, pursuant to Section 386.756 (RSMo. Supp. 1998). Consistent with the statute, such adjustment effectively excluded all of the revenues received by the Company and costs incurred by the Company as a result of the Company's involvement in HVAC service work during the test year. Costs incurred included labor, materials, advertising, administrative and general expenses, and transportation costs (including related depreciation expense). Based on my analysis, a comparable adjustment to eliminate test year net revenues in this proceeding for both appliance service work and house sale inspections, including related legal and claims expenses, would increase revenue requirement by approximately $1.2 million.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.



Schedule PAK - 2

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Laclede Gas Company's Tariff to Revise Natural Gas Rate Schedules	))	Case No. GR-2010-0171

AFFIDAVIT

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

Patricia A. Krieger, of lawful age, being first duly sworn, deposes and states:

1. My name is Patricia A. Krieger. My business address is 720 Olive Street, St. Louis, Missouri 63101; and I am Director, External Financial Reporting for Laclede Gas Company.

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

Patricia A. Krieger

Patricia A. Krieger

Subscribed and sworn to before me this 24th day of June, 2010.

Karen A. Zurliene

Notary Public