

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the matter of the Verified Application)	
and Petition of Laclede Gas Company to)	<u>Case No. GO-2009-0221</u>
Change its Infrastructure System)	Tariff No. JG-2009-0397
Replacement Surcharge.)	

STAFF MEMORANDUM

COMES NOW the Staff of the Commission and submits its Memorandum concerning Laclede Gas Company's (Laclede) Infrastructure System Replacement Surcharge (ISRS) filing and states:

1. On November 21, 2008, Laclede Gas Company (Laclede or Company) of St. Louis, Missouri, filed a tariff sheet with a proposed effective date of January 19, 2009.
2. This tariff sheet (File No. JG-2009-0397) proposes to change its Infrastructure System Replacement Surcharge (ISRS) rates. The plant and the revenue requirement associated with prior ISRS rates were rolled into this calculation.
3. Laclede submitted its Application based upon Missouri statutory sections in Chapter 393.1009 to 393.1015 RSMo 2008, authorizing Infrastructure System Replacement Surcharges.
4. On December 1, 2008, the Commission issued an ORDER SUSPENDING TARIFF. The Commission suspended Laclede's ISRS tariff sheet until March 21, 2009.
5. On November 26, 2008, the Commission issued its Order Directing Filing of Staff Report in which Staff was directed to file a report no later than January 20, 2009. This memo is Staff's response to that Order.

6. The Staff has reviewed Laclede's tariff and has determined that the tariff sheet JG-2009-0397 filed November 21, 2008, should be rejected.

7. The Staff recommends that the Commission direct Laclede to file a revised tariff sheet in compliance with Staff's Memorandum attached hereto.

WHEREFORE, for the foregoing reasons, Staff respectfully requests that the Commission accept Staff's recommendations in this case and issue its Order in accord with those recommendations.

Respectfully submitted,

/s/ Steven C. Reed

Steven C. Reed
Counsel for Staff
MO Bar No. 40616

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Certificate of Service

I hereby certify that copies of the foregoing have been mailed, hand-delivered, or transmitted by facsimile or electronic mail to all counsel of record this 20th day of January, 2009.

/s/ Steven C. Reed

MEMORANDUM

TO: Missouri Public Service Commission Official Case File,
Case No. GO-2009-0221, File No. JG-2009-0397, Laclede Gas Company

FROM: Michael J. Ensrud, Energy – Tariffs / Rate Design
Jeremy Hagemeyer, - Auditing

/s/Thomas Imhoff 01/20/09 /s/ Steven C. Reed 01/20/09
Energy Department/Date General Counsel's Office/Date

SUBJECT: Staff Report and Recommendation Regarding the Application of Laclede Gas
Company Seeking the Missouri Public Service Commission's Approval to
Increase an Infrastructure System Replacement Surcharge

DATE: January 20, 2009

BACKGROUND

On November 21, 2008, Laclede Gas Company (Laclede or Company) of St. Louis, Missouri, filed an Application and Petition (Application) to implement a change in Laclede's Infrastructure System Replacement Surcharge (ISRS) with the Missouri Public Service Commission (Commission) with a proposed effective date of January 19, 2009. Missouri statute Sections 393.1000-1015 and the Commission's Rule 4 CSR 240-3.265; Natural Gas Utility Petitions for Infrastructure System Replacement Surcharges allow gas corporations to recover certain infrastructure system replacement costs outside of a formal rate case through a surcharge on customers' bills. Laclede filed this tariff sheet (File No. JG-2009-00397) proposing to increase its currently established ISRS rates. The prior ISRS was reset to a cumulative \$3,531,066 in Filing GO-2008-0351, which the Commission allowed to become effective June 26, 2008.

On November 26, 2008, the Commission issued its **order, directing notice, setting an intervention date of December 16, 2008, and setting a filing date of January 20, 2009 for Staff's Recommendation. The Commission indicated that it must issue its order regarding this application effective no later than March 21, 2009.**

This Memorandum is in response to that Order.

On December 1, 2008, the Commission issued an order - **ORDER SUSPENDING TARIFF** - which re-enforces the March 21, 2008 effective date.

STAFF'S INVESTIGATION

Staff members from the Auditing and Energy Departments participated in the Staff's investigation of the Application. The Staff's investigation included a review of the Application supporting documentation, Missouri statutory sections 393.1009, 393.1012 and 393.1015 RSMo, Commission rules and all additional data provided by Laclede.

THE APPLICATION

In Case No. GO-2008-0351, Laclede's current ISRS revenues were calculated on ISRS plant that was placed into service during the period October 1, 2007 through March 31, 2008. In Laclede's current ISRS Application, Case No. GO-2009-0221, Laclede seeks to recover costs of ISRS-qualifying plant placed in service from April 1, 2008 through September 30, 2008.

STAFF REVIEW

The Staff reviewed Laclede's Application, the supporting workpapers and calculations, a sample of plant workorders and participated in meetings and discussions with Laclede personnel. Commission Rule 4 CSR 240-3.265(12) requires the Commission to issue an Order with an effective date no later than 120 days after the utility files an ISRS petition. In the Staff's view the calculation of the ISRS should reflect the revenue requirement at the effective date. To accomplish this, in the most recent ISRS filings for Atmos Energy, Missouri Gas Energy and AmerenUE, the Staff has reflected the depreciation and deferred tax reserves through the implementation date. In discussions with Laclede personnel, Staff indicated that it would pursue this method of calculating the reserves for depreciation and deferred tax. In response, Laclede requested an update of its ISRS eligible plant through the end of November 2008. The ISRS eligible plant closings in October and November are the most recent additions available for examination by the Staff. Including the October and November ISRS plant additions conforms to the Staff's view that the ISRS should reflect the revenue requirement at the effective date. The Staff has examined this additional data and has incorporated it in its calculation of the ISRS revenue requirement. As a result of its review and calculations, the Staff is recommending ISRS revenues of \$2,089,404.

STAFF'S REVENUE CALCULATION

The Staff's determination that the appropriate incremental annual revenue increase for the pending ISRS Application is \$2,089,404 and is based on ISRS plant placed in service during the period covering April 1, 2008 through November 30, 2008. These costs are shown below:

Net ISRS Plant placed in service Apr 2008 thru Nov 2008	\$16,517,515
Accumulated Deferred Taxes for prior ISRSs	(628,859)
Accumulated Depreciation for prior ISRSs	<u>(722,301)</u>
Total ISRS Rate Base	\$15,166,355
Tax Rate of Return per GR-2007-0208	<u>8.4646%</u>
Return on ISRS Rate Base	\$1,283,771
Income Tax	249,270
Annual Depreciation Expense on ISRS Plant Additions	618,358
Annual Depreciation Expense on Plant Retirements	<u>(61,996)</u>

Total ISRS Revenues	<u>\$2,089,404</u>
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The difference between the Staff's recommendation and the Company's original filing is based on two adjustments made to the ISRS petition. The first is the calculation of the depreciation and deferred income tax reserves to reflect the implementation date. In its original filing, Laclede had only calculated the depreciation and deferred tax reserves through September 30, 2008. As previously discussed the Staff calculated the depreciation and deferred tax reserves to reflect the calculation of ISRS revenues that more closely reflects Laclede's net investment in ISRS plant at the date the surcharge will go into effect.

The second adjustment includes all eligible ISRS plant through November 30, 2008. As previously discussed the Staff believes that this update is appropriate as it more closely matches the ISRS plant investment to the time period when the surcharge goes into effect. The Company has agreed with a Staff condition that it will not attempt to seek recovery for any ISRS eligible plant placed into service before November 30, 2008 as part of any future ISRS applications before this Commission.

The overall annual revenue requirement (upon which Staff's attached rates are designed) is a composite figure that is comprised of the current case (GO-2009- 0221) plus continuing revenue recovery from two previous ISRS cases (GO-2008-0155 and GO-2008-0351). The three (3) components of the overall revenue requirement are as follows:

Revenue Requirement ISRS #1 (GO-2008-0155)	\$1,646,284
Revenue Requirement ISRS #2 (GO-2008-0351)	\$1,884,782
Revenue Requirement #3 (GO-2009- 0221)	<u>\$2,089,404</u>
Appropriate Annual Composite Revenue Requirement	<u>\$5,620,470</u>

THE ISRS RATE SCHEDULE

Staff recommends that the proposed ISRS rates that generate \$5,620,470 in revenues annually be implemented. This is a "composite" amount of revenue requirement for ISRS qualifying plant which Laclede has not yet fully recovered from customers. In previous orders, the Commission approved incremental increases in annual ISRS revenues of \$1,646,284 and \$1,884,782 in Case Nos. GO-2008-0155 and GO-2008-0351 respectively. As explained above, the Staff is recommending an incremental increase in annual ISRS revenues of \$2,089,404 in this case for a total annual ISRS revenue requirement of \$5,620,470. Laclede's proposed ISRS rates are based on the twelve-month average of customer counts for the period October 2007 through September 2008.

Using Staff's traditional method of calculating ISRS rates, Attachment B reflects Staff's proposed rates that incorporates the composite revenue requirement computed by Staff in this proceeding. The incremental increase of \$2,089,404 annually reflects ISRS-qualified infrastructure costs that took place between October 1, 2007 and November 30, 2008.

The Staff has verified that this company has filed its annual report and is not delinquent on any assessment. Staff is not aware of any other matter before the Commission that affects or is affected by this filing.

RECOMMENDATION

Based upon the above, the Staff recommends that the Commission issue an order in this case that:

1. Rejects the ISRS tariff sheet (JG-2009-0397) filed by Laclede on November 21, 2008;
2. Approves the Staff's determination of the ISRS surcharge increment in the amount of annual pre-tax revenues of \$2,089,404; and
3. Authorizes Laclede to file an ISRS rate for each customer class as reflected in Attachment B.

LACLEDE GAS COMPANY
CASE NO. GO-2009-0221
ISRS RATE DESIGN

Staff's Total ISRS Revenue Calculation

\$5,620,470

Customer Rate Class	Cust # Sept. 03	Customer Charge	Ratio To Res	Weighted Cust #	Customer Percentage	ISRS Charge	ISRS Revenues
Residential	599,857	\$15.50	1	599,857	87.66%	\$0.68	\$4,926,743
Com & Ind. Class 1	31,237	\$20.25	1.3065	40,809	5.96%	\$0.89	\$335,172
Com & Ind. Class 2	9,518	\$32.25	2.0806	19,803	2.89%	\$1.42	\$162,644
Com & Ind. Class 3	668	\$64.50	4.1613	2,781	0.41%	\$2.85	\$22,839
Large Volume	93	\$720.00	46.4516	4,308	0.63%	\$31.79	\$35,386
Interruptible	15	\$640.00	41.2903	637	0.09%	\$28.26	\$5,228
Transportation	146	\$1,703.00	109.871	15,986	2.34%	\$75.20	\$131,298
Transportation - Other	-	\$1,376.00	88.7742	0	0.00%	\$0.00	\$0
Gas Light	107	\$4.70	0.3032	32	0.00%	\$0.21	\$266
Vehicular Fuel	4	\$18.20	1.1742	5	0.00%	\$0.80	\$39
Liquid Propane	120	\$13.50	0.871	104	0.02%	\$0.60	\$855
TOTAL	641,763			684,321	100.00%		\$5,620,470

* Due to rounding to the nearest penny, the designed ISRS rates will under collect by \$33,923. However, it should be noted that the total amount collected will be true-up at a later date.

ATTACHMENT B

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

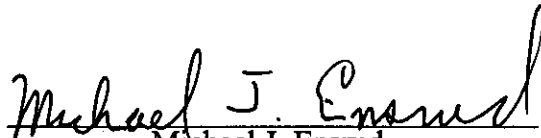
In the Matter of the Verified Application)
and Petition of Laclede Gas Company to)
Change its Infrastructure System)
Replacement Surcharge.)

Case No. GO-2009-0221

AFFIDAVIT OF MICHAEL J. ENSRUD

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Michael J. Ensrud, of lawful age, on oath states: that he participated in the preparation of the foregoing Staff Recommendation in memorandum form, to be presented in the above case; that the information in the Staff Recommendation was provided to him; that he has knowledge of the matters set forth in such Staff Recommendation; and that such matters are true to the best of his knowledge and belief.


Michael J. Ensrud

Subscribed and sworn to before me this 20th day of January, 2009.



SUSAN L. SUNDERMEYER
My Commission Expires
September 21, 2010
Callaway County
Commission #06942086


Notary Public

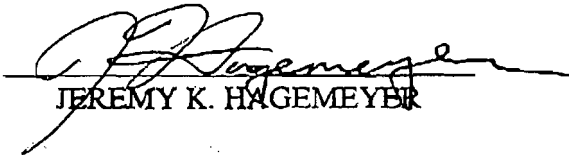
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Petition of Laclede Gas Company to Change its) Case No. GO-2009-0221
Infrastructure System Replacement Surcharge)

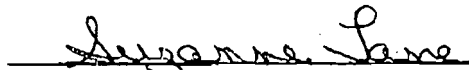
AFFIDAVIT OF JEREMY K. HAGEMEYER

STATE OF MISSOURI)
) ss.
COUNTY OF ST. LOUIS)

Jeremy K. Hagemeyer, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Recommendation in memorandum form, to be presented in the above case; that the information in the Staff Recommendation was developed by him; that he has knowledge of the matters set forth in such Staff Recommendation; and that such matters are true and correct to the best of his knowledge and belief.


JEREMY K. HAGEMEYER

Subscribed and sworn to before me this 20 day of January, 2009.


Notary Public

