

LACLEDE GAS COMPANY
720 OLIVE STREET
ST. LOUIS, MISSOURI 63101

AREA CODE 314
342-0532

MICHAEL C. PENDERGAST
ASSOCIATE GENERAL COUNSEL

September 9, 1999

HAND DELIVERED

Mr. Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge
Missouri Public Service Commission
Harry S Truman Building
301 W. High Street, 5th Floor
Jefferson City, MO 65101

FILED²

SEP 9 1999

Missouri Public
Service Commission

RE: Case No. GR-99-315

Dear Mr. Roberts:

Enclosed for filing please find the original and fourteen copies of the Verified Response of Laclede Gas Company to Late-Filed Exhibit No. 117 in the above referenced case. Please see that this filing is brought to the attention of the appropriate Commission personnel.

Thank you for your consideration in this matter.

Sincerely,


Michael C. Pendergast

MCP:jaa

Enclosures

cc: All parties of record

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

FILED²
SEP 9 1999

In the Matter of Laclede Gas Company's)
Tariff Sheets to Revise Natural Gas)
Rate Schedules.)

Missouri Public
Service Commission
Case No. GR-99-315
GR-99-315

VERIFIED RESPONSE OF LACLEDE GAS
COMPANY TO LATE-FILED EXHIBIT NO. 117

COMES NOW Laclede Gas Company ("Laclede" or "Company")
and for its Verified Response to Late-Filed Exhibit No. 117
in the above-referenced case, states as follows:

1. On September 1, 1999, the Staff of the Missouri
Public Service Commission ("Staff") submitted late-filed
Exhibit No. 117 in response to a request made by Vice Chair
Drainer during the course of the hearing in this case.
Subsequently, on September 2, 1999, the Staff submitted a
revised version of Exhibit No. 117 that had been modified to
correct certain errors included in Staff's original filing
(hereinafter "Corrected Exhibit No. 117").

2. It is evident from a review of Corrected Exhibit
No. 117 that Staff has not incorporated any market to book
adjustment in its various analyses, despite the fact that the
seven companies included in those analyses had an average
market to book ratio of 1.73 times. Although Laclede
believes that such an omission substantially understates the
required returns derived by Staff, it does not object to
Corrected Exhibit No. 117 on those grounds, recognizing that
the appropriateness of such an adjustment is one of the
ultimate issues to be decided by the Commission in this

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case. Laclede also fully supports making more, rather than less, information available to the Commission regarding the return requirements of Missouri utilities. Laclede does, however, have concerns with the submission of information which, on its face, is incorrect. Unfortunately, the analyses furnished by Staff as part of Corrected Exhibit No. 117 once again contain several significant errors of this nature.

Mathematical and Other Plain Errors

3. Several of the errors contained in Staff's analyses are purely mathematical or factual in nature. These include:

(a) Misidentification of Companies: Staff has included "Southwest Gas - ANG" in its analysis of Missouri gas distribution companies. It is clear, however, that Southwest Gas has no Missouri operations, as evidenced by its recent description in Value Line as a "regulated gas distributor serving approximately 1.2 million customers in sections of Arizona, Nevada and California." Laclede believes that the Staff may have confused Southwest Gas with Southwestern Energy, a company that is headquartered in Fayetteville Arkansas. Southwestern Energy, not Southwest Gas, is the actual parent of Associated Natural Gas Company ("ANG"), the gas distributor with operations in Missouri.

(b) Estimated Costs of Common Equity Schedule: This Schedule sums "Projected Dividend Yield" (column 3) and "Average Projected Dividend Growth" (column 4) to obtain "Estimated Cost of Common Equity" (column 5). The addition shown at the bottom of column 5, however, is mathematically incorrect.

(c) Estimated Costs of Common Equity Schedules Staff also erred in presenting the "Average Projected Growth Rate" set forth in this Schedule by using data from the "Historical & Projected Growth Rate" column from the Schedule entitled "Historical and Projected Growth Rates" rather than data from the "Average Projected Growth Rate" column on that same Schedule. This error significantly reduces the calculated returns.

Conceptual Errors and Inconsistencies

4. In addition to these purely mathematical and factual errors, the Staff's analyses also contain a number of conceptual errors and inconsistencies. These include:

(a) Historical and Projected Growth Rates Schedule: The "Average Positive Historical Growth Rate" calculated for Laclede in column (1) of this Schedule is 1.45%. This is a full 110 basis points less than the 2.55% historical growth rate calculated for Laclede on Schedule 15 of Staff witness Broadwater's direct testimony. Since both calculations were based on 1988 to 1998 data, there is no apparent explanation for this substantial difference.

(b) Total Debt to Total Capital Ratios, Market-to-Book Values and Returns on Common Equity Schedule: Staff's Schedule includes a comparison of "Total Debt to Total Capital Ratio (1998)" for the Missouri companies. The ratio of 40.90% presented for Laclede, however, includes only long-term debt, not total debt as referenced in the title of the Schedule. By excluding short term debt, which Staff has argued should be included in the Company's capital structure as a part of its total debt, Staff's analysis understates this ratio and, in the process, implies a lower cost of common equity for Laclede than would be warranted by a higher debt to total capital ratio.

(c) Dividends Per Share, Earnings Per Share & Book Value Per Share Growth Rates Schedule: Staff calculates historical growth rates for Ameren based on 1988 and 1998 financial information published in Value Line on July 9, 1999. Value Line notes: "Ameren was formed on December 31, 1997 through the merger of Union Electric and CIPSCO ... Premerger data are for Union Electric only and are not comparable to Ameren data." (emphasis supplied). Under these circumstances, the historical growth rates developed by Staff are extremely problematic since they are based on both pre-merger data that considers Union Electric's operations only and post-merger data that considers the entirety of the combined companies' operations under Ameren.

5. In light of the numerous and significant errors discussed above, Laclede requests that the Commission consider this Response in evaluating the evidentiary value of

Corrected Exhibit No. 117 filed by the Commission Staff on September 2, 1999.

WHEREFORE, for the foregoing reasons, Laclede Gas Company respectfully requests that the Commission consider this response in evaluating the evidentiary value of late-filed Exhibit No. 117.

Respectfully Submitted,

A handwritten signature in cursive script, reading "Michael C. Pendergast", is written over a horizontal line.

Michael C. Pendergast #31763
Thomas M. Byrne #33340
Laclede Gas Company
720 Olive Street, Room 1521
St. Louis, MO 63101
(314) 342-0532

CERTIFICATE OF SERVICE

Michael C. Pendergast, Associate General Counsel for Laclede Gas Company, hereby certifies that the foregoing Verified Response to Late Filed Exhibit No. 117 has been duly served upon all parties of record to this proceeding by placing a copy thereof in the United States mail, postage prepaid, or by hand delivery, on this 9th day of September 1999.

Michael C. Pendergast

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

VERIFICATION

James A. Fallert being duly sworn, on his oath states that he is Controller of Laclede Gas Company, that he has read the foregoing Verified Response of Laclede Gas Company to Late-Filed Exhibit No. 117, and that the matters set forth therein are true and correct to the best of his knowledge, information and belief.



James A. Fallert

Subscribed and sworn to before a Notary Public in the City of St. Louis, State of Missouri, this 8th day of September, 1999.

My commission expires: 6-27-02

PATRICIA P. HICKS
Notary Public — Notary Seal
STATE OF MISSOURI
City of St. Louis
Commission Expires: June 27, 2002



Notary Public