Exhibit No.:	
Issues:	*Case Overview; Depreciation Expense/Depreciation Reserve; Affiliated Transactions; Regulatory Compact*
Witness:	*Mark L. Oligschlaeger*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Direct Testimony*
Case No.:	*GR-2007-0208*
Date Testimony Prepared:	*May 04, 2007*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

MARK L. OLIGSCHLAEGER

LACLEDE GAS COMPANY

CASE NO. GR-2007-0208

Jefferson City, Missouri
May, 2007

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-2007-0208

AFFIDAVIT OF MARK L. OLIGSCHLAEGER

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Mark L. Oligschlaeger, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Direct Testimony in question and answer form, consisting of 10 pages to be presented in the above case; that the answers in the foregoing Direct Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

Mark L. Oligschlaeger
Mark L. Oligschlaeger

Subscribed and sworn to before me this 3rd day of May, 2007.

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

ASHLEY M. HARRISON
My Commission Expires
August 31, 2010
Cole County
Commission #06898978

Ashley M. Harrison
Notary Public

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DIRECT TESTIMONY

OF

MARK L. OLIGSCHLAEGER

LACLEDE GAS COMPANY

CASE NO. GR-2007-0208

DIRECT TESTIMONY

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MARK L. OLIGSCHLAEGER

LACLEDE GAS COMPANY

CASE NO. GR-2007-0208

Q. Please state your name and business address.

A. Mark L. Oligschlaeger, P.O. Box 360, Suite 440, Jefferson City, MO 65102.

Q. Please describe your educational background and work experience.

A. I attended Rockhurst College in Kansas City, Missouri, and received a Bachelor of Science degree in Business Administration, with a major in Accounting, in 1981. I have been employed by the Missouri Public Service Commission (Commission) since September 1981 within the Auditing Department. In November 1981, I passed the Uniform Certified Public Accountant (CPA) examination and, since February 1989, have been licensed in the state of Missouri as a CPA.

Q. Have you previously filed testimony before this Commission?

A. Yes, numerous times. A listing of the cases in which I have previously filed testimony before this Commission, and the issues I have addressed in testimony in cases from 1990 to current, is attached as Schedule 1 to this direct testimony.

Q. What knowledge, skills, experience, training and education do you have in the areas of which you are testifying as an expert witness?

A. I have been employed by this Commission as a Regulatory Auditor for over 25 years, and have submitted testimony on ratemaking matters numerous times before the Commission. I have also been responsible for the supervision of other Commission employees in rate cases and other regulatory proceedings many times. I have received training at in-house and outside seminars on technical ratemaking matters since I began my employment at the Commission.

Q. Have you participated in the Commission Staff's (Staff) audit of Laclede Gas Company's (Laclede, Laclede Gas or Company) request for a rate increase in this proceeding?

A. Yes, I have, with the assistance of other members of the Staff.

EXECUTIVE SUMMARY

Q. Please summarize your direct testimony in this proceeding.

A. The Staff's Revenue Requirement Accounting Schedule filing shows that its recommended revenue requirement for Laclede in this proceeding ranges from approximately $12,427,000 to $18,182,000, based upon a recommended rate of return range of 7.51% to 8.04%. The Staff's midpoint revenue requirement recommendation is $15,359,000. The most significant issues between the Company and the Staff in this proceeding on the basis of their respective direct filings include the areas of return on equity, bad debts expense, the prepaid pension asset and payroll.

In this testimony, I will present the Staff's position on certain matters involving depreciation rates and the accumulated depreciation reserve in this proceeding.

I also discuss the Staff's concerns with The Laclede Group's current methods for allocating costs among Laclede Gas and the non-regulated affiliates of the Laclede Group.

Finally, I will briefly address the Company's proposal for a "Regulatory Compact" agreement to result from this case.

CASE OVERVIEW

Q. Please describe the Staff's direct revenue requirement filing in this proceeding.

A. The results of the Staff's audit of Laclede's rate case request can be found in the Staff's filed Accounting Schedules, and is summarized on Accounting Schedule 1, Revenue Requirement. This Accounting Schedule shows the Staff's recommended revenue requirement for Laclede in this proceeding ranges from approximately $12,427,000 to $18,182,000, based upon a recommended rate of return range of 7.51% to 8.04%. The Staff's recommended revenue requirement at the midpoint of the rate of return range is $15,359,000.

The Staff's revenue requirement recommendations are based upon the Commission's ordered test year and update period, ending September 30, 2006, and March 31, 2007, respectively. The Staff is also recommending a true-up audit be performed for Laclede to update major items of its revenue requirement through June 30, 2007. Included in the Staff's revenue requirement recommendations in this proceeding is an estimate of the dollar impact of the Staff's recommended true-up audit for Laclede of $1.5 million. Please refer to the direct testimony of Staff Auditing witness Kimberly K. Bolin for a more detailed discussion of the Staff's proposed true-up audit in this proceeding.

Q. What rate increase amount did the Company request from the Commission in this case?

A. Laclede requested that its annual revenues be increased by approximately $44.9 million.

Q. Will the Staff be separately filing a summary of its direct revenue requirement testimony?

A. Yes. The Staff will be filing in a separate binding a compilation of all of the executive summary sections included by Staff witnesses in their direct revenue requirement testimony. Information concerning each Staff witnesses' assigned issues, and the positions taken by the Staff on significant issues in this proceeding, can be found in this filing.

Q. What are the major differences which contribute to the different rate increase recommendations filed by the Company and the Staff in this proceeding?

A. From the Staff's perspective, there are four major differences. The first issue is the return on equity component of the rate of return calculation. The dollar difference between the Company and the Staff on this issue is approximately $16 million. Staff witness Matthew J. Barnes of the Financial Analysis Department addresses this issue in his testimony.

The second difference concerns bad debt expense. The Staff proposes including the entirety of Laclede's adjusted bad debt expense in this case, in accordance with traditional ratemaking practices. Laclede has proposed taking a majority of its bad debt costs out of the general (margin) rate calculation, and allowing recovery of those costs in the purchased gas adjustment/actual cost adjustment (PGA/ACA) process. The Staff opposes this proposal. Because Laclede is proposing to recover a majority of its bad debt costs through the PGA/ACA process, the Staff's recommended level of recovery of bad debt expense in this proceeding is higher than Laclede's by approximately $4.6 million. However, when taking into account Laclede's position on total recovery of bad debt expense through both margin rates and the PGA/ACA, Laclede's request is approximately $5.2 million higher than the Staff's total recommended level of bad debt expense recovery in rates. Staff witness Bolin discusses bad debt expense in her testimony in the case.

Another significant issue concerns quantification of the prepaid pension asset component of rate base. Because the Company and the Staff disagree on how this rate base item should be calculated, the Staff's has a lower revenue requirement associated with the prepaid pension asset of approximately $1.9 million related to this item. This issue is addressed in the direct testimony of Staff Auditing witness Paul R. Harrison.

Finally, the Staff's payroll annualization is approximately $1.2 million less than Laclede's, primarily due to the Staff's use of a different operations and maintenance expense factor to apply to payroll expense, as well as a different annualization of overtime costs. These matters are addressed in the direct testimony of Staff witness "Kofi" Aygenim Boateng.

The Staff has also performed an audit of other various areas of the Company's operations and has proposed adjustments as appropriate to either increase or decrease Laclede's cost of service. However, these adjustments, which are discussed in the individual Staff's witnesses' direct testimonies, are not of the same magnitude of the adjustments discussed above.

Q. Have you prepared a schedule to your testimony providing other key information associated with the Staff's revenue requirement recommendation?

A. Yes, I have. Schedule 2, attached to this direct testimony, is a fact sheet which lists some of the key components of the Staff's revenue requirement recommendations in this case.

Q. When will the Staff be filing its rate design testimony in this proceeding?

A. The Staff's direct rate design recommendations are scheduled to be filed on May 18, 2007.

DEPRECIATION EXPENSE/DEPRECIATION RESERVE

Q. What depreciation rates are the Staff recommending be used to calculate Laclede's revenue requirement in this proceeding?

A. The Staff is recommending that Laclede's current depreciation rates, authorized by the Commission in Case No. GR-2005-0284, be continued. Since a depreciation study was performed by the Staff in conjunction with Case No. GR-2005-0284, the Staff does not believe that the depreciation rates that resulted from the 2005 proceeding need to be re-examined in the context of this rate case. The Staff is also recommending that Laclede's current authorized depreciation rates be applied to the former property of Fidelity Natural Gas (FNG). The assets of FNG were purchased by Laclede in February 2006, after the Commission authorized the transaction in its Order in Case No. GM-2006-0183.

Q. Are you sponsoring any adjustments to Laclede's accumulated depreciation reserve balances as of March 31, 2007, the end of the test year update period?

A. Yes, I am sponsoring Reserve adjustments R-77.1, R-79.1, R-85.1, R-88.1 and R-91.1, relating to Laclede's data processing systems accounts, and Reserve adjustment R-82.1, relating to Laclede's data processing equipment account. In Attachment 3 to the Stipulation And Agreement in Case No. GR-2005-0284, which set forth the depreciation rates agreed to by the signatory parties in that proceeding, the respective depreciation rates for Laclede's data processing systems and equipment accounts were apparently accidentally transposed from what the parties intended. The rates approved and authorized by the Commission, which became effective January 1, 2006, reflected this error contained in the Stipulation And Agreement. Either unaware of the transposition or disregarding it, Laclede booked the depreciation rates intended by the parties for these accounts during the test year and update period, not the rates actually authorized by the Commission. The Staff believes that utilities should always record depreciation expense using the actual depreciation rates authorized by the Commission for regulatory reporting purposes. The Reserve adjustments I am sponsoring serve to restate Laclede's accumulated depreciation reserve to reflect the amount of depreciation expense that would have been booked by the Company if it had used the depreciation rates for data processing systems and data processing equipment authorized by the Commission from January 1, 2006 through March 31, 2007. The adjustments reflect a decrease to Laclede's accumulated depreciation reserve of over $500,000.

AFFILIATED TRANSACTIONS

Q. Did the Staff perform an examination of Laclede's affiliated transactions as part of its rate audit?

A. Yes, it performed a limited review of some of Laclede Gas' cost allocations from The Laclede Group, the holding company that owns Laclede Gas and its non-regulated affiliates. The Staff's audit of these activities in this case was limited because Laclede did not file its Cost Allocation Manual (CAM) for its fiscal year 2006 (the twelve months ending September 30, 2006) until April 15, 2007, approximately three weeks prior to the Staff's direct filing in this proceeding.

Q. Does the Staff have concerns regarding the Laclede Group's current approaches to allocating costs among its regulated and non-regulated affiliates?

A. Yes. Among these concerns are:

1) Laclede Group executives with oversight responsibilities over both Laclede Gas and non-regulated Laclede Group subsidiaries are charging only a minimal amount of their time to non-regulated operations;

2) The Laclede Group's allocation process currently assigns many common/overhead costs to its affiliates based upon an overall labor

allocator. This allocator currently assigns approximately 98.9% of the Laclede Group's total labor costs to Laclede Gas. Therefore, to the extent Laclede Group executives and employees are not charging their time accurately to the regulated and non-regulated affiliates, this problem carries over in large degree to the allocation of the Laclede Group's common/overhead costs; and

3) Some of the common cost allocations of the Laclede Group on their face appear to be unreasonable. As an example, Laclede Group data processing costs were allocated 99.94% to the regulated Laclede Gas entity. For fiscal year 2006, Laclede Gas was allocated $5.8 million of common data processing costs. In contrast, Laclede Energy Resources, Inc. (LER), a Laclede Group gas marketing subsidiary with total revenues of approximately $690 million in fiscal year 2006, was allocated $500 for data processing services during that same time period;

Q. How does the Staff propose to handle its affiliate transaction concerns in this proceeding?

A. As discussed in the direct testimony of Staff witness Harrison, the Staff has proposed an adjustment to the salary of the Laclede Gas Executive Vice-president/LER Vice-president, Mr. Kenneth J. Neises, in order to allocate a more reasonable portion of this cost to The Laclede Group's non-regulated operations. Beyond this adjustment, however, the Staff believes that a more detailed review of The Laclede Group's cost allocation process is warranted at this time in light of the concerns cited in this and in Staff witness Harrison's testimony. The Staff recommends that the Commission order that a separate investigatory docket be opened to allow an in-depth review of Laclede's affiliated transactions by the Staff and other interested parties. The Staff's intent in suggesting this new docket be opened is to explore the need for changes to The Laclede Group's current cost allocation system and procedures to allow for a more fair and accurate assignment of The Laclede Group costs between its regulated and non-regulated operations.

REGULATORY COMPACT

Q. What is the "regulatory compact" in the context of this proceeding?

A. The "regulatory compact" is a package of proposals by Laclede in this proceeding concerning, among other items, a "fixed bill" approach to charging customers for gas costs; issuance of conservation credits to customers under certain conditions; modifications to Laclede's existing rate design; changes in how rates are set for bad debt expense; and a rate moratorium/earnings sharing plan extending over a three-year period. Laclede's proposal shares some characteristics of what has been in the past been called "incentive regulation" or "alternative regulation."

Q. Is the Staff willing to consider incentive/alternative regulation proposals?

A. Generally, the Staff is always willing to discuss with utilities and other rate case parties new approaches and ideas to setting rates, if such approaches and ideas will provide a proportionate benefit to ratepayers as well as the utility. However, we would also argue that traditional rate base/rate of return regulation has generally worked well in this jurisdiction. The Staff's specific response to the Company's regulatory compact proposal will be provided at the time of rebuttal testimony in this proceeding. At this time, we will offer these general remarks on incentive/alternative regulation proposals:

1) Changes to traditional regulatory practices for setting rates are best pursued in a modest and incremental fashion, as opposed to trying to "change everything at once";

2) Incentive/alternative regulation proposals that are premised upon single-issue ratemaking treatment of costs normally reviewed in conjunction with all relevant factors in general rate proceedings, such as bad debt expense, are not viewed favorably by the Staff; and

3) The operation of incentive or earnings sharing plans in practice as applied to a utility's entire cost of service have proven to be very contentious when employed in the past in this jurisdiction, and the Staff does not believe that this type of arrangement has worked well.

Q. Does this conclude your direct testimony in this proceeding?

A. Yes, it does.

MARK L. OLIGSCHLAEGER

Company Name	Case Number	Issues
Western Resources	GR-90-40 and GR-91-149	Take-Or-Pay Costs
Missouri-American Water	WR-91-211	True-up; Known and Measurable
Missouri Public Service	EO-91-358 and EO-91-360	AAO
Generic Telephone	TO-92-306	Revenue Neutrality; Accounting Classification
Generic Electric	EO-93-218	Preapproval
Western Resources & Southern Union Company	GM-94-40	Regulatory Asset Transfer
St. Louis County Water	WR-95-145	Policy
Union Electric Company	EM-96-149	Merger Savings; Transmission Policy
St. Louis County Water	WR-96-263	Future Plant
Missouri Gas Energy	GR-96-285	Riders; Savings Sharing
Empire District Electric	ER-97-82	Policy
Missouri Public Service	ER-97-394	Stranded/Transition Costs; Regulatory Asset Amortization; Performance Based Regulation
Western Resources & Kansas City Power & Light	EM-97-515	Regulatory Plan; Ratemaking Recommendations; Stranded Costs
United Water Missouri	WA-98-187	FAS 106 Deferrals
Laclede Gas Company	GR-99-315 (remand)	Depreciation and Cost of Removal
Missouri-American Water	WM-2000-222	Conditions
UtiliCorp United & St. Joseph Light & Power	EM-2000-292	Staff Overall Recommendations
UtiliCorp United &	EM-2000-369	Overall Recommendations

Company Name	**Case Number**	**Issues**
Empire District Electric		
Green Hills Telephone	TT-2001-115	Policy
IAMO Telephone Company	TT-2001-116	Policy
Ozark Telephone Company	TT-2001-117	Policy
Peace Valley Telephone	TT-2001-118	Policy
Holway Telephone Company	TT-2001-119	Policy
KLM Telephone Company	TT-2001-120	Policy
Missouri Gas Energy	GR-2001-292	SLRP Deferrals; Y2K Deferrals; Deferred Taxes; SLRP and Y2K CSE/GSIP
Empire District Electric	ER-2001-299	Prudence/State Line Construction/Capital Costs
Ozark Telephone Company	TC-2001-402	Interim Rate Refund
Gateway Pipeline Company	GM-2001-585	Financial Statements
Missouri Public Service	ER-2001-672	Purchased Power Agreement; Merger Savings/Acquisition Adjustment
Union Electric Company	EC-2002-1	Merger Savings; Criticisms of Staff's Case; Injuries and Damages; Uncollectibles
Laclede Gas Company	GA-2002-429	AAO Request
Aquila, Inc., d/b/a Aquila Networks-MPS-Electric and Aquila Networks-L&P-Electric and Steam	ER-2004-0034 and HR-2004-0024 (Consolidated)	Aries Purchased Power Agreement; Merger Savings
Missouri Gas Energy	GR-2004-0209	Revenue Requirement Differences; Corporate Cost Allocation Study; Policy; Load Attrition; Capital Structure
Empire District Electric	ER-2006-0315	Fuel/Purchased Power; Regulatory Plan Amortizations; Return on Equity; True-Up
Missouri Gas Energy	GR-2006-0422	Unrecovered Cost of Service Adjustment; Policy

Cases prior to 1990 include:

Kansas City Power and Light Company	ER-82-66
Kansas City Power and Light Company	HR-82-67
Southwestern Bell Telephone Company	TR-82-199
Missouri Public Service Company	ER-83-40
Kansas City Power and Light Company	ER-83-49
Southwestern Bell Telephone Company	TR-83-253
Kansas City Power and Light Company	EO-84-4
Kansas City Power and Light Company	ER-85-128 & EO-85-185
KPL Gas Service Company	GR-86-76
Kansas City Power and Light Company	HO-86-139
Southwestern Bell Telephone Company	TC-89-14

LACLEDE GAS COMPANY
CASE NO. GR-2007-0208
STAFF REVENUE REQUIREMENT
FACT SHEET

Annualized Missouri Margin Retail Revenues (excludes gas cost revenues)	$252,749,000
Test Year Gas Cost Revenues	$701,368,000
Profit (Return on Common and Preferred Equity)	$30,397,000
Interest Expense	$21,468,000
Annualized Payroll	$77,320,000
Depreciation Expense	$31,595,000
Net Investment in Plant	$703,977,000

Schedule 2