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August 23, 1999

The Honorable Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge
Missouri Public Service Commission
P.O. Box 360
Jefferson City, MO 65102-0360

FILED
AUG 23 1999
Missouri Public Service Commission

Re: Case No. GR-99-315

Dear Judge Roberts:

Enclosed for filing please find an original and fourteen copies of Laclede Gas Company's Statement of Position 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,

NEWMAN, COMLEY & RUTH P.C.

By: Mark W. Comley
Mark W. Comley

MWC:ab
Enclosure
cc: Office of Public Counsel
Thomas M. Byrne
All parties of record

FILED

AUG 23 1999

Missouri Public Service Commission

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-99-315

LACLEDE GAS COMPANY'S STATEMENT OF POSITION

COMES NOW Laclede Gas Company ("Laclede") and in compliance with the Commission's Order Modifying Procedural Schedule issued in this proceeding on June 7, 1999, hereby files its Statement of Position with respect to the contested issues in this case.

WEATHER NORMALIZATION

The difference in revenue requirement between the Company's position and that of Staff with regard to the weather normalization issue is approximately $10 million. This amount is comprised of the following five components:

1. Appropriate temperature data to derive normal heating degree days - Laclede is proposing to utilize the official National Oceanic and Atmospheric Administration (NOAA) published temperature data for the St. Louis International Airport (Lambert) station on which to base its calculation of normal heating degree days. Staff

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adjusts NOAA data for certain alleged bias occurring at St. Louis Lambert station. Laclede believes that the Commission should continue to rely on official NOAA data, because it is collected and made available for public use by an expert, independent third party. The variation in revenue requirement due to Staff's calculation of normal heating degree days as a result of incorporating these temperature adjustments is about $4.3 million.

2. Appropriate period for determining normal heating degree days - Laclede proposes use of temperature data from the most recent 10-year period ended December 1998, and Staff proposes use of the 30-year period ended December 1990 for determination of normal heating degree days. It is Laclede's position that a shorter time frame is more reliable in approximating normal weather conditions and is necessary to capture changes in recognized climatic conditions, such as global warming and urbanization, or any other trends that may exist at Lambert, particularly in view of the fact that five of the warmest heating seasons on record this century have occurred since 1990. The revenue requirement variation related to this component is approximately $3.2 million.

3. Appropriateness of using most recent temperature data The Company has used official NOAA data through December 1998 in determining its normal heating degree days. Staff is proposing a normal based on adjusted temperature data through December 1990. It is the Company's position that more recent historical weather data is more indicative of future climate conditions and that the most recent data should be utilized. Even if a 30-year period is used, all data available through 1998 should be incorporated. The revenue requirement related to adjusting Staff's 30-year period through 1998 is approximately $1.2 million.

4. Appropriateness of normalization of water heating usage - Laclede does not believe that water heating baseload requirements should be weather normalized, because year-to-year fluctuations in usage patterns are relatively insignificant regardless of the number of heating degree days experienced. Staff has attempted to weather normalize this load by creating a methodology premised in part on assumed data. The variation in revenue requirement is approximately $.8 million.

5. Appropriateness of methodologies employed to calculate weather normalization adjustments to revenue requirement - The Company uses a ratio methodology to calculate its

weather normalization adjustment. This method effectively factors weather sensitive load to adjust for the difference between actual heating degree days in the test year and normal heating degree days. In contrast, Staff uses a statistical weather normalization methodology based on linear regression analysis. While there are several differences in application, both methodologies are premised on a consistent relationship between heating degree days and usage. It is the Company's position that the ratio methodology should be relied upon by the Commission in this case. The variation in revenue requirement related to the selection of methods is about $.5 million.

RETURN ON EQUITY

Laclede believes that the Commission should establish Laclede's return on equity at 12.75%. This proposed return is based on the comparable earnings, equity risk premium and discounted cash flow (DCF) tests set forth in Laclede witness McShane's direct testimony. Ms. McShane's discounted cash flow test is based on an analysis of gas distribution companies that are comparable to Laclede, because application of the test to Laclede alone entails considerable circularity that would lead to unreasonable results. In addition, Ms. McShane's DCF analysis incorporates a "market to book adjustment" that recognizes that, while the DCF return is designed to measure investors' market return expectations, it is nevertheless applied by Staff and Public Counsel to the book rather than market value of the Company's stock. Because the current market value of Laclede's stock, like that of most other companies, substantially exceeds its book value, it is Laclede's position that such an adjustment is necessary in order to give Laclede's investors an opportunity to earn an <u>effective</u> return of approximately 10% and to give Laclede an opportunity to maintain its AA- credit rating.

CAPITAL STRUCTURE

Laclede recommends a capital structure with a level of short-term debt of approximately $40 million, as part of the true-up in this proceeding. The Company's calculation of its short-term debt begins with the Company's actual average daily balance of short-term debt, offset by the level of construction work in progress, for the 12-month period ended July 31, 1999. This average balance is then adjusted downward to reflect the full year effect of the Company's $24 million common equity offering, which was sold in May, 1999, and the $25 million in long-term debt, which closed in June, 1999. These adjustments are necessary to reflect the fact that the Company has used short-term debt as a "bridge" until long-term debt and equity could replace it.

ACCOUNTING AUTHORITY ORDERS / TRACKERS

Laclede seeks a determination that all of its Accounting Authority Orders (AAOs) are appropriate and should be continued, except for the AAO related to year 2000 (Y2K) costs, which should be permitted to expire by its own terms. All of the payments deferred in the AAOs until August 1, 1999 should be recovered over a 5-year amortization period, with rate base treatment for the unrecovered balances. However, if no rate base treatment is provided for the unrecovered balances, the deferred taxes associated with those balances should not be deducted from rate base. The remaining AAOs should have no specific sunset provision. Instead, the parties should be permitted to file recommendations as to whether the AAOs should be continued prior to the third anniversary following their re-authorization.

Alternatively, Laclede is willing to discontinue all AAOs except the Safety Replacement Program AAO, if the balances that have been accrued in those accounts can be recovered in rates over a reasonable period of time. If any or all of the AAOs are eliminated in this proceeding, Laclede should be permitted to recover the entire amount of the balances in the accounts over a 5-year amortization period, with rate base treatment, to prevent Laclede from having to write off the balances as losses. In addition, a reasonable level of on-going cost related to each discontinued AAO should be incorporated into Laclede's rates.

With regard to the specific AAOs, Laclede takes the following positions:

1. Safety Replacement Program: Laclede's past and present bar hole surveys of copper service lines should be included in this deferral.

2. Manufactured Gas Plant: It is appropriate to permit Laclede to recover MGP investigation and remediation costs, because they are reasonable and necessary costs of providing service to customers.

3. Y2K: All Y2K-related costs dating back to 1997 should be capitalized.

4. OPEBs/SERP/Directors' Pensions: Pursuant to the Stipulation and Agreement approved by the Commission in Laclede's last rate proceeding, the amount subject to these trackers were deferred <u>for inclusion in the rates</u> in this proceeding. It is Laclede's position that in contrast to the reservation language associated with the other AAOs, the Stipulation and Agreement did not offer Parties the opportunity to challenge recovery of these amounts.

CASH WORKING CAPITAL COLLECTION LAG

Cash working capital is the average amount of capital provided by Laclede's shareholders for the payment of bills, payroll, etc. before corresponding revenues are received from customers. In developing its cash working capital requirement, Laclede has calculated a collection lag of 34.8 days, based on an accounts receivable turnover analysis that compares the average daily accounts receivable balance for all of the Company's approximately 600,000 sales and transportation customers to the associated billed revenues. It is Laclede's position that this is a far better method of calculating the collection lag than Staff's method, which utilized a sample of only 275 customers as the basis for its collection lag.

ADVERTISING

It is Laclede's position that fitting each Company advertisement into one of five categories as a means of determining advertising cost recovery in rates is in- appropriate. Instead, the Company proposes that the Commission simply permit the Company to recover a reasonable overall amount of advertising expense for all purposes, based on a percentage of the Company's revenues.

If the Commission rejects Laclede's proposal to allow rate recovery of a reasonable overall amount of advertising expense, and continues the past practice of categorizing each ad, Laclede believes that it should be permitted to recover 100% of its test year expense for promotional advertising.

TREATMENT OF HEATING, VENTILATING AND AIR CONDITIONING (HVAC) SERVICE REVENUES AND COSTS

Pursuant to the specific requirements of the HVAC Services Act, Laclede excluded from its cost of service in this case all revenues and costs that would not have been received or incurred by the Company were it not engaged in providing HVAC services. By doing so, Laclede has accounted for these costs and revenues in a manner that ensures that its rates for regulated service will not be increased or decreased because of the Company's participation in these activities.

DEPRECIATION

Laclede believes that its current depreciation rates, established as part of the settlement in Case No. GR-98-374, should be adjusted to reflect a net annual increase in depreciation accruals of $2,309,799. Laclede is proposing $2,045,883 of this adjustment because it believes that the formula used to establish the existing depreciation rates contains an unconventional and incorrect calculation of net salvage. When the calculation is done in a more conventiaonal manner, the net salvage for each account reflects the estimated cost of removal, as a percent of original cost of plant, amortized over the life of the assets in the account.

Because of the significant impact this change in the net salvage calculation would have on Laclede's depreciation rates, Laclede is proposing a phase-in of the change. In this case, Laclede proposes to adjust its mains and services accounts to reflect 1/3 of the effect of correcting this calculation. In future rate cases, the remainder of the adjustment to Laclede's mains and services accounts, along with similarly derived adjustments to Laclede's other accounts, should be reflected in Laclede's depreciation rates.

Laclede is also proposing to increase the depreciation rate for its natural gas holders. This proposed depreciation rate reflects the estimated cost of removal of the four remaining gas holders, which Laclede has calculated based on studies of the holders it conducted pursuant to the recommendations of Staff. The proposed depreciation rate for the holders utilizes the remaining life method of depreciation and is based on an estimated average remaining life of 10 years. Laclede's proposed annual depreciation amount for the holders is $471,370, an increase of $263,916 from current rates.

REGULATORY TREATMENT OF OFF-SYSTEM SALES AND CAPACITY RELEASE REVENUES

The Staff and Public Counsel have proposed to impute $2.5 million and $2.4 million, respectively, of off-system sales net revenues in this proceeding. In addition, the Public Counsel has proposed to impute $3.3 million of capacity release revenues in this proceeding. It is Laclede's position that these imputations are inappropriate and that these items should continue to be addressed as part of the GSIP provisions of the Company's Purchased Gas Adjustment clause.

CLASS COST OF SERVICE ALLOCATIONS

Laclede proposes no revenue shifts between rate classes in this case. Its Class Cost of Service (C-O-S) study was performed using the method generally known as the Average and Excess method. Laclede's C-O-S study supports the level of Customer Charge proposed for Residential customers served under the General Service rate and supports the requested Demand Charge for this rate schedule. Laclede's C-O-S study encompasses all costs, including the cost of gas.

ALLOCATION OF RATE INCREASE

The Company proposes to allocate the rate increase in this proceeding to each rate schedule proportionally based on the non-gas revenues in each such rate schedule.

The Company proposes to allocate the rate increase within each rate schedule to each rate component by first increasing the customer charge component of each rate schedule to levels that are closer to the full-recovery of customer-related costs. The Company proposes to increase the commodity and demand (reservation) components of each rate schedule by comparable percentages within each rate schedule to generate the remaining revenue increase not recovered through the increased customer charge.

RATE DESIGN

Recovery of Fixed Non-Gas Costs From General Service Customers

The Company proposes to re-design its General Service (GS) rate schedule by reducing its existing commodity charges and adding a new demand or capacity charge. The primary purpose of such design is to provide for a better matching of fixed costs incurred to the recovery of those costs from the GS customers, so that the Company will not over-recover costs in a colder than normal period and under-recover costs in a warmer than normal period.

The capacity charge proposed by the Company would be designed to recover 100% of the Company's demand-related fixed non-gas costs allocable to the GS rate schedule. The Staff has suggested other ways by which the Commission could address the Company's cost recovery concerns. In response to those suggestions, the Company is willing to either: (1) accept Staff's recommendation that, should the Commission agree with the Company's proposal from a policy perspective, 50% of the Company's demand-related fixed costs should be recovered through the capacity charge; or (2) implement the foregoing modified capacity charge proposal for commercial and industrial customers only, and for residential customers revise the Company's commodity block rate structure so as to produce the same effect on the Company's recovery of fixed costs from such customers as the foregoing modified capacity charge proposal.

Residential Customer Charge

Public Counsel has proposed a decrease in the charge from $12.00 to $10.00. The Staff has proposed no change in the customer charge. The Company has proposed to increase the customer charge from $12.00 to $12.50 as part of the allocation of the proposed rate increase as noted above.

Separation Of The GS Class Rate Into Residential And Commercial and Industrial (C&I)

Presently, all classes of customers are served under the same GS rate schedule. The commodity charges are common to all classes, but there are two customer charges: one for residential customers and one for C&I customers. It is the Company's position that there should be no revenue shift between these classes.

Separation Of All Rates Into Gas and Non-Gas Components

It is the Company's position that its rates should not be separated into gas and non-gas components.

Seasonal Allocation Of Non-Gas Costs In The GS Rate Schedule

Due to the small magnitude of the changes proposed by Union Electric Company (UE), it is Laclede's position that no adjustment to reflect the rates changes suggested by UE are warranted.

Seasonal Air Conditioning (AC) Service

The Company has no objection to the development of a three-part rate design (customer charge, capacity charge and commodity charge) for seasonal AC service to mirror its GS rate schedule should the Commission approve the Company's proposed GS rate design.

The Company opposes UE's recommendation that the lower AC rate shall apply only to a customer's air conditioning usage.

Seasonal Allocation Of Fixed Gas Costs In The GS Rate Schedule

UE recommends that the Company allocate 90% of its demand-related gas costs to the winter season. The Company opposes any change to its existing allocation of fixed gas costs.

TARIFF ISSUES

Service Territory Description

The Staff has recommended that the Company revise its tariff to include a list of all communities served "along with township, section and range numbers by Missouri county." It is the Company's position that Commission orders determine the limits of the service territory, and the form of the existing tariff provides an adequate description of the Company's service area.

Reconnection Charge

The proposed increase in the reconnection charge is cost-justified.

Respectfully submitted,

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CERTIFICATE OF SERVICE

Thomas M. Byrne, Associate Counsel for Laclede Gas Company, hereby certifies that Laclede Gas Company's Statement of Position in this case has been duly served upon all parties of record to this proceeding by placing a copy thereof in the United States mail, postage prepaid, on this 23rd day of August, 1999.

Mark A. Comley for Thomas M. Byrne