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August 23, 1999

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Missouri Public Service Commission

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

RE: GR-99-315 - In the Matter of Laclede Gas Company's Tariff to Revise Natural Gas Rate Schedules

Dear Mr. Roberts:

Enclosed for filing in the above-captioned case are an original and fourteen (14) conformed copies of a **STAFF'S STATEMENT OF POSITION.**

This filing has been mailed or hand-delivered this date to all counsel of record.

Thank you for your attention to this matter.

Sincerely yours,

Marc Poston
Assistant General Counsel
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MP/jb
Enclosure
cc: Counsel of Record

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Laclede Gas Company's Tariff Sheets to Revise Natural Gas Rate Schedules.	)))	**Case No. GR-99-315**

STAFF'S STATEMENT OF POSITION

In its June 7, 1999 *Order Modifying Procedural Schedule,* the Commission ordered all parties to file a Statement of Position with the Commission. Accordingly, the Staff takes the following positions on the remaining issues. The parties will prepare an Order of Witnesses and an Order of Cross-Examination for a separate filing.

A. RATE BASE ISSUES

1. Accounting Authority Orders/Trackers

Staff seeks to eliminate four of the five Accounting Authority Orders (AAOs) currently granted to Laclede Gas Company as of the true-up cutoff date, August 1, 1999. The Staff believes that the AAOs for deferred costs related to Year 2000, Manufactured Gas Plant and Other Post-retirement Employee Benefits (OPEBs) are immaterial and therefore do not meet the extraordinary criteria. In addition, the Staff believes the Year 2000 AAO has been inappropriately used to defer non-extraordinary amounts. Also, the Company's proposed recovery of past over or under recovery of retirement costs as deferred under the OPEBs AAO constitutes retroactive ratemaking.

The Staff believes it is effectively providing recovery of the amounts deferred under the Supplemental Retirement Plan (SERP) AAO by including a normalized expense level based on a five-year average of actual payments. Also, the Company's proposed recovery of past over or under recovery of retirement costs as deferred under the SERP AAO constitutes retroactive ratemaking.

The Staff proposes to allow the Company recovery of the amounts deferred under the AAO for the Safety Replacement Program. Based on Commission precedent from Case No. GR-98-140, the Staff proposes recovery over a ten-year period with no rate base treatment of the unamortized balance and the inclusion of the related deferred taxes as a rate base offset.

2. Cash Working Capital

The Staff proposes a collection lag of 25.4 days based on a sample of actual customer bills.

B. INCOME STATEMENT ISSUES

1. Accounting Authority Orders/Trackers

See A(1) above.

2. Depreciation

The depreciation rates proposed by Staff are rates that will, with reasonable accuracy, charge Laclede's customers annually for a net salvage amount equal to, or nearly equal to, the amount Laclede is spending annually for net salvage. Also, Staff's proposed depreciation rates recognize that Laclede has fully recovered their capital investment in the four gas holders, that there is no interim net salvage and that the current customers should not pay for final removal until Laclede takes a non-reversible action toward the removal of any of the four gas holders.

3. Weather

a. Staff's Position on Normal Heating Degree Days

A significant change occurred at the St. Louis Lambert International Airport (Lambert Field) weather station in June of 1996. The instruments used to measure temperature were moved from a location near an office building onto the airfield and the new Automated Surface

Observing System (ASOS) instrumentation was installed. The Staff's climatologist estimates that this change has resulted in the new Lambert Field weather station measuring temperatures at just over 1.8 degrees Fahrenheit (1.8° F) lower than before the station move. In order for current temperature readings to be consistent with historical readings, either the current or historical readings must be adjusted. The Staff chose to adjust the historical readings. In addition to the weather station change in June of 1996, the Staff's climatologist found significant changes in November 1979 and February 1988, and estimated adjustments for these changes. Laclede has failed to include any adjustments for these changes in its comparison of actual and normal heating degree days (HDD).

The Staff continues to support the use of the NOAA normal weather period, which is the thirty years from 1961 through 1990. The Staff believes that it is important to the regulatory process that the specification of the period of time to be used for calculating normal weather be based on an official standard set by the climatological community as a whole.

Based on these two positions (adjustments for changes in weather station locations and thirty-year NOAA normal period), the Staff supports the calculation of 5,100.8 normal HDD.

b. Staff's Position on Methodology to Normalize Gas Use for Differences Between Normal and Actual HDD

Staff utilizes a standard statistical regression method to estimate the change in gas use per HDD by space heating customers. This method matches monthly use with monthly HDD for each of the various billing cycles over which customers' meters are read. Based on the results of this analysis, the Staff supports a weather normalization adjustment to gas sales for the difference between normal and actual HDD of 119.6 million therms.

c. Staff's Position on Methodology for Adjusting Test Year Therms used by the General Service classes (Residential, Commercial, and Industrial) for Water Heating for Differences Between Actual and Normal Water Heating Degree Days (WHDD)

Staff uses actual WHDD for the test year and normal WHDD with an estimate of monthly usage per WHDD to account for difference between normal and actual water temperatures going into natural gas water heaters. The estimate of monthly usage per WHDD per customer is based on a linear regression from sample data of monthly usage per customer for customers who were screened for having water heating use without having space heating use. The result of this normalization of water heating use is to increase sales by 7.9 million therms.

The Commission Order dated August 21, 1992 in Case No. GR-92-165 states in part,

> Laclede has also agreed:
> ...(b) To provide data on water heating usage by random sampling from extreme winter and summer years, and to work with Staff to determine appropriate procedures for estimating and normalizing monthly water heating use;

Laclede has not complied with this order, and despite this order, Laclede has continued to use the same methodology as it used in GR-92-165. Laclede averages the customer usage in July and August and multiplies it by an arbitrary factor to estimate annual non-space-heating usage. Over various test years, this method varies only with usage in July and August and ignores any variations among test years in the coldness of the water going into the water heaters during the winter months.

4. Advertising

Staff's position is that each advertisement should be categorized in one of five categories—General, Safety, Promotional, Institutional and Political—based on the primary message of the advertisement. These categories were adopted by the Commission in the Kansas City Power and

Light cases of MoPSC Cases Nos. EO-85-185 and EO-85-224. The rate treatment each advertisement receives depends on the foregoing category the advertisement falls into.

5. Appliance Repair/HVAC

The Company has eliminated the net revenues related to the Company's appliance service work, referencing Section 386.75 (RSMo. Supp. 1998).

The Staff made no adjustment in its case because the Staff cannot verify that the revenue from the appliance repair function is covering its cost or if the ratepayers are subsidizing the repairs of appliances.

The Company tracks revenues, however, the actual costs of the specific revenue-producing jobs are not separately accounted for. In its adjustment, the Company allocated the expenses and the net amount of revenues in excess of these expenses was removed from the income statement. The Staff does not believe that the allocated expenses accurately portray the actual expenses related to appliance service repair nor that the items selected for allocation are all-inclusive of expenses incurred in appliance service work. The Staff also believes that the expenses should be calculated at fully distributed costs rather than the Company's use of incremental costing.

6. Capacity Release/Off-System Sales Revenue

See E (1) below.

C. RATE OF RETURN ISSUES

1. Return on Equity

A return on common equity in the range of 9.0 to 10.0 % is reasonable for Laclede Gas Company. The Staff preformed it analysis based on the DCF model as applied to Laclede with other models used and a comparable company group used to check the reasonableness of the results, which is consistent with the way the Staff has historically preformed its analysis and the Commission has ruled.

2. Capital Structure

The Company should use a twelve-month average of the average daily short-term debt balance, less a monthly construction work in progress balance. Staff believes that this is the most appropriate level of short-term debt going forward for Laclede based on their projected and historical use of short-term debt.

D. RATE DESIGN ISSUES

1. Class Cost of Service

a. Allocation of Rate Increase

Staff maintains that the percentage of non-gas revenue contributed by each class, which is often referred to as the class revenue responsibility, should remain the same as it is currently. Therefore, any percentage increase in revenue requirement should be applied to all classes' current revenue.

b. Class Cost of Service

Staff's Class Cost of Service shows that most of the classes are currently contributing all or most of their class revenue responsibility. In fact, Staff's study shows that all but one class is contributing within 10% of the indicated revenue requirement. Staff's study also shows that all but one of the classes have customer charges that are at or above the customer charge that is currently in rates. For the Small General Service (Small Commercial & Industrial) Class, an increase in the customer charge is indicated.

c. Separation of the General Service Rate Class into Residential and C&I

Staff maintains that since these the Residential (RES) and C&I (SGS) rate classes currently have different customer charges, the RES and SGS classes should be considered different revenue and rate classes. This is supported by the fact that RES and SGS contribute approximately 80% and 15% of the Company's current revenues.

d. Residential Customer Charge

Staff maintains that the current Residential customer charge of $12.00 should be maintained.

2. Gas (Supply) Cost Removal From Base Rates

Staff maintains that rates should be separated into gas and non-gas rates. Gas rates should be collected through the PGA mechanism. Currently gas costs are collected through the combination of the PGA mechanism and a portion of the base rates. Laclede is the only Missouri gas utility that does not have a PGA mechanism that reports the current rate charged to offset gas costs.

3. Capacity Charge (Recovery of Fixed Non-Gas Costs from General Service Customers)

Staff maintains that the current non-gas rate design, with the exception of the Small General Service customer charge, should be maintained.

4. Seasonal Air Conditioning/Structure

Staff maintains that the current seasonal differentials should be maintained

E. Tariff Issues

1. Tariff Language for Off-System Sales

The Staff requests that the Commission approve the Staff's proposed off-system sales PGA tariff language regardless of whether or not the Commission allows Laclede to operate under a GSIP in the future. If the Commission does not approve the off-system PGA tariff language, Staff's alternate proposal is to impute, in the rate case revenue requirement, additional off-system sales revenues. Staff's proposed off-system sales net revenue amount is based on a three-year average of the off-system sales profits, which Laclede experienced in its three most recent ACA periods.

2. Reconnection Charge

Staff supports the Company's proposed increase in the reconnection charge from $43.00 to $54.00.

3. Service Territory Description

The Staff believes the company's service territory needs to be more detailed.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed or hand-delivered to all counsel of record as shown on the attached service list this 23rd day of August, 1999.

Marc Poston

SERVICE LIST FOR
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August 23, 1999

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