Exhibit No:	
Issues:	*Test Year and True-Up; Environmental Costs; AAOs; Revenue; Miscellaneous Revenue; Gross Receipts Tax; Gas Costs; Uncollectibles; EWCR; AMR; Acquisition Adjustment*
Witness:	*Kimberly K. Bolin*
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

KIMBERLY K. BOLIN

LACLEDE GAS COMPANY

CASE NO. GR-2007-0208

Jefferson City, Missouri
May 2007

****Denotes Highly Confidential Information****

NP

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 KIMBERLY K. BOLIN

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Kimberly K. Bolin, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Direct Testimony in question and answer form, consisting of 26 pages to be presented in the above case; that the answers in the foregoing Direct Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of her knowledge and belief.

Kimberly K. Bolin

Kimberly K. Bolin

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

Ashley M Harrison

Notary Public

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

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

TABLE OF CONTENTS

DIRECT TESTIMONY OF

KIMBERLY K. BOLIN

LACLEDE GAS COMPANY

CASE NO. GR-2007-0208

DIRECT TESTIMONY

OF

KIMBERLY K. BOLIN

LACLEDE GAS COMPANY

CASE NO. GR-2007-0208

Q. Please state your name and business address.

A. Kimberly K. Bolin, 200 Madison Street, Suite 440, Jefferson City, MO 65102.

Q. By whom are you employed and in what capacity?

A. I am a Utility Regulatory Auditor for the Missouri Public Service Commission (PSC or Commission).

Q. What is your educational and employment background?

A. I graduated from Central Missouri State University in Warrensburg, Missouri, with a Bachelor of Science in Business Administration, major emphasis in Accounting, in May 1993. Before coming to work at the Commission, I was employed by the Missouri Office of the Public Counsel (Public Counsel) as a Public Utility Accountant from September 1994 to April 2005. I commenced employment with the Commission in April 2005.

Q. What was the nature of your job duties when you were employed by Public Counsel and in your current position with the Commission?

A. I was responsible for performing audits and examinations of the books and records of public utilities operating within the state of Missouri.

Q. Have you previously filed testimony before this Commission?

A. Yes. Please refer to Schedule 1, attached to this Direct testimony, for a list of the major audits on which I have assisted and filed testimony with the Public Counsel and with the Commission.

PURPOSE OF TESTIMONY

Q. With reference to Case No. GR-2007-0208, have you examined and studied the books and records of Laclede Gas Company (Laclede, Laclede Gas or Company)?

A. Yes, with the assistance of other members of the Commission Staff (Staff).

Q. What are your areas of responsibility in regard to Case No. GR-2007-0208?

A. I will provide Direct testimony on the areas of: 1) test year and the update period for known and measurable changes; 2) the Staff's recommendations regarding a True-Up audit; 3) environmental costs; 4) accounting authority orders; 5) revenues; 6) miscellaneous revenues; 7)gross receipts tax; 8) gas costs; 9) bad debt expense(uncollectibles); 10) Emergency Cold Weather Rule AAO; 11) AMR costs; and 12) acquisition adjustment for the purchase of Fidelity Natural Gas.

Q. Please list the Staff witnesses who are sponsoring the individual Staff accounting schedules in Case No. GR-2007-0208.

A. The Staff witnesses who are sponsoring specific Staff accounting schedules are:

Accounting Schedule 1	Revenue Requirement	Kimberly K. Bolin
Accounting Schedule 2	Rate Base	Paula Mapeka
Accounting Schedule 3	Total Plant in Service	Paula Mapeka
Accounting Schedule 4	Adjustments to Total Plant	Paula Mapeka
Accounting Schedule 5	Depreciation Expense	Paula Mapeka

Accounting Schedule 6	Depreciation Reserve	Paula Mapeka
Accounting Schedule 7	Adjustments to Depreciation Reserve	Paula Mapeka
Accounting Schedule 8	Cash Working Capital	Paula Mapeka
Accounting Schedule 9	Income Statement	Kimberly K. Bolin
Accounting Schedule 10	Adjustments to Income Statement	Kimberly K. Bolin
Accounting Schedule 11	Income Tax	Paul R. Harrison

Q. Please list the adjustments to Accounting Schedule 9, Income Statement, which you are sponsoring in this case.

A. I am sponsoring the following adjustments to Accounting Schedule 9, Income Statement. These adjustments are individually listed on Accounting Schedule 10, Adjustments to Income Statement:

Environmental Costs	S-16.25
Accounting Authority Orders	S-12.5 and S-18.2
Revenue	S-1.1, S-.3, S-1.4, S-1.5, S-1.6, S-1.8, S-1.9, S-2.1, S-2.3, S-2.4, S-2.5, S-2.6, S-2.8, S-2.10, S-3.2, S-3.4, S-3.7, S-3.8, S-4.2, S-4.3, S-4.4, S-4.5, S-5.4, S-5.5, S-5.7 and S-7.3
Miscellaneous Revenue	S-12.2
Gross Receipts Tax	S-1.2, S-2.2, S-3.1, S-4.1, S-5.2, S-13.4, S-19.5 and S-19.8
Gas Costs	S-8.1, S-8.2, S-8.5, S-9.2, S-9.3
Uncollectibles	S-13.6
Emergency Cold Weather Rule	S-13.9

Automated Meter Reading	S-13.7, S-14.4 and S-16.27

Q. Are you sponsoring any adjustments to the Accounting Schedule 3, Plant in Service and Accounting Schedule 5, Depreciation Reserve?

A. Yes, I am sponsoring the following adjustments to Accounting Schedule 3, Plant in Service and Accounting Schedule 5, Depreciation Reserve.

Acquisition Adjustment for the Purchase of Natural Gas	P-28.1, P-34.1, P-40.1, P-41.1, P-50.1, P-53.1, P-61.1, P-63.1, P-83.1, P-95.1, P-101.1, R-34.1, R-40.1, R-41.1, R-50.1, R-53.1, R-61.1, R-63.1, R-83.1, R-95.1, R-99.1 and R-101.1

Q. What knowledge, skill, experience, training and education do you have related to your audit assignments in this case?

A. My college education provides a fundamental knowledge base, which I have utilized in my assigned duties both at Public Counsel and at the Commission. I have attended training courses and reviewed in-house training materials both when employed by Public Counsel and while at the Commission. When I was employed at Public Counsel, I received guidance from the Chief Public Utility Accountant, and since I began my employment at the Commission I have continually received guidance from the Senior Auditors in the Auditing Department on my assignments. My work assignments while employed by Public Counsel and my earlier assignments with the Commission Staff have provided me with a general knowledge base upon which I have relied to develop my assigned areas in this rate proceeding. I have reviewed the Company's testimony, workpapers and data request responses for this case.

EXECUTIVE SUMMARY

Q. Please briefly summarize your Direct testimony in this proceeding.

A. The Staff is proposing that a True-Up audit be performed in this proceeding. In my Direct testimony, I propose a list of items the Staff will reexamine in Staff's True-Up audit.

The Staff performed a normalization of revenues for customer growth/loss and adjusted miscellaneous revenues for the increase in the home gas inspection fees.

The Staff analyzed uncollectibles to determine the updated test year balance of bad debt write-offs in the amount of $10,423,508 was appropriate to use. My testimony discusses the costs and benefits associated with the installation of the automated meter reading (AMR) system by Laclede. My testimony also provides the annualization of the AMR costs in the amount of $4,691,379.

Finally, my testimony discusses why the Staff has included a negative acquisition adjustment of $2,117,160 in rate base in this case associated with Laclede's 2006 purchase of the Fidelity Natural Gas properties.

ACCOUNTING SCHEDULES

Q. Please describe Accounting Schedule 1, Revenue Requirement.

A. Accounting Schedule 1 present the Staff's gross revenue requirement calculation. This Accounting Schedule contains information from the Rate Base, Income Statement, and Income Tax Accounting Schedules to determine the actual revenue requirements that the Staff recommends. This Accounting Schedule presents the Staff's net original cost rate base recommendation, taken from Accounting Schedule 2, Rate Base. The Staff's recommended rate of return range, supplied by Staff witness Matthew J. Barnes of the

Financial Analysis Department, is applied to this net original cost rate base to determine the required net operating income requirement before income taxes (NOIBT). Then, the NOIBT amount is compared to the net income available amount determined from Accounting Schedule 9, Income Statement, to determine the Staff's calculation of the overall net revenue deficiency.

Q. Please describe Accounting Schedule 9, Income Statement.

A. Accounting Schedule 9 contains the Staff's adjusted revenues and expenses for the test year ended September 30, 2006, updated through March 31, 2007.

Q. Please explain Accounting Schedule 10, Adjustments to Income Statement.

A. Accounting Schedule 10 contains a listing of the specific adjustments the Staff has proposed to the unadjusted test year income statement to derive the Staff's adjusted net income. A brief explanation for each adjustment and the name of the Staff witness sponsoring the adjustment are listed on Accounting Schedule 10. Each individual adjustment will be discussed by Staff witnesses in their respective direct testimonies.

TEST YEAR AND TRUE-UP

Q. What test year has the Staff utilized in this case?

A. The Staff has used the test year of twelve months ending September 30, 2006, updated through March 31, 2007, as ordered by the Commission in this case.

Q. Is the Staff proposing a True-Up audit in this case?

A. Yes. The Staff is proposing a True-Up audit in this proceeding through June 30, 2007. The following items are significant enough to justify a True-Up audit in this case:

Rate Base:

1. Plant in Service
2. Depreciation and Amortization Reserve
3. Customer Advances for Construction
4. Prepaid Pension Asset
5. Customer Deposits
6. Special Deposits
7. Insulation Finance and Energy Wise Program Loan Balances
8. Deferred Income Taxes
9. Materials and Supplies/Prepayments
10. Related Cash Working Capital effects (Adjusted Test Year Amounts)

Capital Structure

1. Rate of Return – embedded cost of capital components (except return on equity)
2. Capital Structure

Income Statement

1. Revenues for Customer Growth
2. Payroll and Related Payroll Costs as a result of changes in the employee levels and wage rates
3. Rate Case Expense
4. Depreciation Expense
5. Healthcare Costs
6. Property Taxes (reflect assessed values of property at 1/1/07)
7. Related Income Tax effects

To be included in the True-Up audit, all costs (and the events giving rise to them must be known and measurable, and evidenced by documentation (i.e., inspection, monthly operating reports, invoices, Company ledgers, etc).

Q. Are there events occurring after June 30, 2007, that should be considered for inclusion in the True-Up audit in this proceeding?

A. Yes. The Staff is aware of a union contract wage increase effective August 1, 2007, and has agreed to incorporate this wage increase in the True-Up audit.

Q. Has Staff calculated an estimate of the value of the wage increases for the True-Up?

A. Yes. Staff estimates that the value of the wage increase for the True-Up is approximately $1.5 million.

Q. Has the Staff included the estimated impact of the August 1, 2007, wage increases in its recommended revenue requirement amount in this case?

A. Yes. This estimate can be found on Accounting Schedule 1, Revenue Requirement, on the line "Allowance for True-up."

ENVIRONMENTAL COSTS

Q. Please briefly describe Laclede's environmental costs associated with former manufactured gas plant (MGP) sites.

A. The Company has actual or potential liability associated with MGP sites formerly used by the Company or other parties to produce gas from coal. The Company has and continues to incur costs associated with an Environmental Protection Agency mandate to clean up these sites.

Q. Please explain the Staff's treatment of the costs booked during the test year by Laclede associated with the environmental clean up of MGP sites.

A. The Staff is recommending the use of the actual test year payments of environmental clean-up costs to determine a normal level of expense for this item. Adjustment S-16.27 eliminates an accrual of $17,000 recorded on the Company's books during the test year which is related to the clean up of the MGP sites. As accruals represent the Company's estimate of future cash payouts for a cost, the Staff believes use of known and measurable cash payments to set rates for environmental costs is superior to use of accruals.

ACCOUNTING AUTHORITY ORDERS

Q. Please identify the adjustments you are sponsoring related to prior Laclede accounting authority orders (AAOs).

A. I am sponsoring adjustment S-18.2 to reflect the amortization of AAOs that was ordered in Case Nos. GR-99-315, GR-2001-0629 and GR-2002-0356. I am also sponsoring adjustment S-12.5 for the imputed maintenance savings related to the gas safety service line replacement program (SLRP) AAOs for which amortization in rates was ordered in the above cases.

Q. What costs were the Company authorized to defer in the AAOs that granted by the Commission in the previous Laclede rate cases?

A. The Company was authorized to defer depreciation, property taxes, and carrying costs associated with its gas safety service line replacement projects.

Q. How is the Staff proposing to treat the costs deferred in these AAOs?

A. The Staff, as reflected in adjustment S-18.2, is proposing a ten-year amortization of the deferrals, no rate base inclusion of the unamortized balances and a rate base offset for the related deferred income taxes. Additionally, the Staff has made an adjustment to reflect the imputed plant maintenance savings associated with the Company's SLRP AAOs, as directed in the Report and Order from Case No. GR-99-315. Except for the imputation of maintenance savings, Adjustment S-18.2 reflects the prescribed treatment in Case No. GR-98-140 involving Missouri Gas Energy's (MGE's) similar safety deferrals. In the Commission's Order in Case No. GR-98-140, the Commission noted that, by using a 10-year amortization period to reflect the deferral in rates, it was recognizing a shorter amortization period than the 20 years the Staff had recommended, and had been approved by the Commission for MGE, in prior cases. Given this reduced amortization period, the

Commission deemed it proper for the ratepayers and shareholders to share the effect of regulatory lag by allowing the Company to earn a return of, but not a return on, the deferred balance. Given that the Staff is proposing that Laclede's safety deferrals be amortized into cost of service over ten years as well, the Staff believes that the rate base treatment prescribed for MGE's deferrals and associated deferred taxes should also be applied to Laclede.

REVENUE

Q. Please describe Laclede's operations as they pertain to its customer classes and revenues.

A. For purposes of recording revenues and the number of customers, Laclede has five districts: Laclede, St. Charles, Midwest and Missouri Natural (MoNat). Within each district, revenues and customers are divided into the customer classes of residential, commercial and industrial. Finally, customers are further divided within customer classes based upon consumption habits.

The following classifications can be found in the residential customer class: General Service, Heat Pump, Seasonal and Propane. Likewise, the following classifications can be found in both the commercial and industrial customer class: General Service, Large Volume, Basic Transportation, Firm Transportation, Interruptible and Propane.

Q. What is the basis for pricing the revenue adjustments?

A. All revenue adjustments in the Staff's cost of service were priced on the margin (the total rate excluding gas cost) included in the Company's tariffs.

Q. Please describe and discuss the types of adjustments the Staff developed to determine annualized revenues.

A. In general, the Staff annualized revenues reflect the effects of the following conditions:

1. Normalized weather
2. Customers switching customer classes (rate switching)
3. Customer load changes
4. Customer growth or loss

Q. Why is it appropriate to adjust revenues for normalized weather?

A. Revenues used for setting rates should be set at a level that represents a "typical" or "average" amount of the expected actual annual revenues the utility should obtain while rates are in effect. Temperature levels experienced during any twelve-month period could have a significant impact on the Company's revenues. For example, if the overall temperature was colder than normal during the test year, the Company's revenues would be overstated in relation to a year with normal weather. On the other hand, if the test year was warmer than normal, the Company's revenues would be understated in relation to the normal weather. Rates set on the basis of overstated revenues due to a colder than normal test year would potentially under collect revenues for normal weather, whereas rates set on the basis of understated revenues due to a colder than normal year would potentially over collect revenues for normal weather. By using normalized revenues for weather, the Staff eliminates the effects of abnormal temperatures during the test year.

Q. What methodology did the Staff use to normalize for weather?

A. The methodology and weather station data used by the Staff to develop actual and normal weather is discussed in the Direct testimony of Staff witness Curt Wells of the Energy Department. This data was used to develop weather normalized sales and usage per customer, as discussed in the Direct testimony of Staff witness Henry E. Warren, also of the Energy Department. Then Staff witness Warren allocated the weather normalized sales to the appropriate rate blocks. The methodologies used to develop weather normalized revenues for large volume and transportation customers are discussed in the Direct testimony of Staff witness Anne E. Ross of the Energy Department. Based on these analyses, the Staff has adjusted revenue in adjustments S-3.5 and S-5.1 to reflect the normalization of weather for large volume and transportation customers.

Q. Please describe the Staff's adjustments relating to weather normalization for the general service residential, commercial and industrial customers.

A. Staff witness Warren developed the monthly weather normalized therm sales per customer for the weather sensitive customer classes during the Staff's test year. Generally, these classes consisted of the general service residential, commercial and small industrial heating customers.

Staff witness Warren adjusted the actual monthly therm sales from the test year to reflect normalized weather. Staff witness Warren distributed these test year therm sales and normalized therm sales by season: summer (May-October) and winter (November-April). Staff witness Warren then further distributed the test year and normalized therm sales by usage rate blocks. The totals by season and usage rate block were then priced on the margin to develop the Staff's weather normalized adjustments S-1.1 for residential customer and S-2.1 for commercial and industrial customers.

Q. Please explain adjustments S-1.8, S-2.8, S-3.8, S-4.5, and S-5.7 related to the Company's last general rate increase.

A. The Stipulation and Agreement in Case No. GR-2005-0284 provided for new customer rate schedules to become effective October 1, 2005. Natural gas sales to customers during the test year ending September 30, 2006, included a portion of sales billed at the rate schedules in effect prior to October 1, 2005. Staff adjustments S-1.8, S-2.8, S-3.8, S-4.5 and S-5.7 adjust revenues to the level that would have been realized during the test year if the new rate schedules had been in effect for the entire test year.

Q. Please describe the effects of customers switching between customer classes (rate switching) and customer load changes.

A. Customers switching customer classes or rate switching can occur for several reasons. The nature of a customer's operations may have changed, and the customer may find it more economical to switch to another customer class. Alternatively, the customer may decide to procure its own gas and, thus, a rate switch would be necessary.

Customers also experience load changes. The operations of the customer production facilities may have changed, thereby causing a change in the demand of gas for that customer.

Staff witness Ensrud addresses these two conditions within his analysis. Staff witness Ensrud analyzed the Company's interruptible, firm transportation, basic transportation and large volume customers on a customer by customer basis during the Staff's test year ending September 30, 2006, and update period ending March 31, 2007. Adjustments S-2.9, S-3.6, S-4.6 and S-5.3 reflect the results of his analysis.

Q. Please explain adjustments S-3.3 and S-5.8.

A. Adjustments S-3.3 and S-5.8 are completed in order to annualize large volume revenues and transportation revenues for demand charges. Adjustment S-5.6 represents an adjustment to restate transportation revenues to reflect test year billing units. For a complete discussion of all of these adjustments, please refer to the Direct testimony of Staff witness Ross.

Q. Why is it appropriate to adjust revenue for customer growth or loss?

A. This adjustment is appropriate in order to reflect the ongoing level of revenue based on an analysis of customer counts through the end of the Staff's test year ending September 30, 2006, and update period ending March 31, 2007.

Q. Please explain your analysis related to customer growth/loss for the general service customer class.

A. The Staff analyzed customer growth for each of the four districts of the Company. The analysis was further divided into specific customer classes within those districts. The customer growth adjustments are comprised to two components. The first component annualizes the customer charge based on the annualized level of customers. The second component relates to pricing of normalized therm sales per customer for the annualized level of customers.

Q. Please explain how the Staff determined the annualized level of customers.

A. The Staff analyzed each customer class by district as described earlier in this testimony. Based upon that analysis, the Staff determined that using a single method would not provide the best picture of customer levels. Instead, the Staff used three different methods to determine annualized customer levels by using the method best suited to provide the most accurate annualization for each division and customer class. The following discussion will explain the different methods for the specific customer classes and why each method was utilized.

For residential customers in the St. Charles district, the Staff used the March 31, 2007, level of customers. Since the St. Charles residential customer class has experienced customer growth throughout the years, the most recent month provides the most appropriate basis for annualization.

Customer analysis in the Laclede and MoNat residential, commercial and industrial class 1 customer classes, as well as the St. Charles commercial and Midwest residential and commercial classes, revealed that these customer classes exhibited patterns of seasonality. Seasonality refers to the situation where customer levels tend to decrease in the late winter months (March-April) when demand for gas space heating declines and continues to decline through many of the summer months. Customer levels then begin to increase in anticipation of the beginning of the gas heating season and continue to increase as the need for space heating increases.

A monthly, ongoing level of customers was determined by dividing the March 31, 2007, level of customers by a five-year average percentage of March 31st customers to the succeeding year ending February 28th average customer levels. The monthly level of customers were then distributed over 12-months in order to develop annualized level of customers. This methodology enables the Staff to annualize customer growth and losses for these customer classes while giving consideration for the fluctuation of customer levels caused by seasonality. Through the Staff's analysis of these customer classes, it was observed that seasonality of customers occurred annually and with a high degree of certainty. The Staff analyzed these customers for seasonality over several years.

The Staff used the updated test period (twelve months ending March 31, 2007) actual customer levels for the Class II and Class II commercial and industrial customer classes for all of the divisions.

The Staff will re-examine all the customer levels as part of its planned True-Up audit when this information becomes available.

Q. How were the annualized levels of therms and commodity revenues developed?

A. For each residential, commercial and industrial class, the Staff developed an annualized usage per block. Total annualized customers were multiplied by normalized usage per customer, by month, as supplied by Staff witness Warren. This approach results in assignment of an overall normalized usage to the appropriate usage rate blocks based on test year normalized therms and then pricing of these blocks using the appropriate current seasonal (winter and summer) usage tariffed rates. The Company's tariffs currently have two different rates for gas using the summer and winter months within the two seasons. For example, the residential class has a usage block set at 65 therms. For usage below 65 therms per months, one rate is charged while another rate is applied to customer usage greater than 65 therms in a given month. The approach of pricing these rate blocks using the appropriate seasonal and usage rates produced the Staff's annualized commodity revenues for each revenue class.

Finally, all annualized customer charge revenues and annualized commodity revenues were summed by class and this amount was subtracted from the Company's per book revenues already adjusted for Staff's weather adjustment and unrealized rate increase as were previously described in this Direct testimony. These differences represent the Staff's adjustments S-1.5 and S-2.5 for customer growth.

Q. Please explain Adjustments S-1.9, S-2.10 and S-3.7.

A. Adjustments S-1.9, S-2.10 and S-3.7 annualize revenue associated with the Fidelity Natural Gas district of Laclede Gas Company. Laclede Gas purchased the assets of Fidelity Natural Gas (Fidelity) and began serving customers effective March 1, 2006; thus Laclede's test year revenues only include seven months of revenue for the Fidelity district. To annualize Fidelity's revenues, Staff chose to use Fidelity's actual revenue levels for the twelve months ending March 31, 2007, the end of the test year update period.

Q. Please describe adjustments S-1.6, S-2.6, S-3.4, S-4.4 and S-5.4.

A. Adjustments S-1.6, S-2.6, S-3.4, S-4.4 and S-5.4 remove Infrastructure Replacement Surcharge (ISRS) revenue from the Staff's test year. The ISRS rate that was in effect during the test year will no longer be in effect when the new rates from this case are set.

Q. Please explain the Staff's proposed unbilled revenue adjustments.

A. Adjustments S-1.4, S-2.4 and S-4.3 eliminate unbilled revenue from the Staff's test year. For purposes of a rate case, unbilled revenues must be eliminated from the test year to reflect revenues during the test year on an as-billed basis.

Q. Please discuss adjustments S-1.3, S-2.3, S-3.2, S-4.2, S-5.5 and S-7.3.

A. Adjustments S-1.3, S-2.3, S-3.2, S-4.2 and S-5.5 remove the cost of natural gas from revenues. The total test year cost of natural gas was removed from the various revenue classes based on actual test year activity. Adjustment S-7.3 specially removes the revenue associated with the off-system sales and capacity release. Off-system sales and capacity release revenues are discussed in Staff witness David M. Sommerer's Direct testimony. By eliminating test year gas costs from revenue and expense, the Staff has put its direct filing on a margin basis.

MISCELLANEOUS REVENUES – HOME SALES INPSECTION FEES

Q. Please explain Adjustment No. S-12.2.

A. Adjustment S-12.2 adjusts the revenues received for home sales inspection fees to reflect the recent increase in the fees from $100 to $150 per inspection. In August 2006, Laclede raised its home gas inspections fees from $100 to $150 per inspection. Home gas inspection activities by Laclede are not regulated by the Commission, but are booked above-the-line in the Company's books along with the costs of the home sales inspections. These inspections are also discussed in the Direct testimony of Staff Auditing witness Paul R. Harrison.

GROSS RECEIPTS TAXES

Q. What are adjustments S-1.2, S-2.2, S-3.1, S-4.1and S-5.2?

A. Adjustments S- S-1.2, S-2.2, S-3.1, S-4.1and S-5.2 remove gross receipts taxes from test year revenue.

Q. Why did you remove gross receipts taxes in this manner?

A. Gross receipts tax is not a revenue source designed to be collected through the application of a Commission approved tariff. It is a tax imposed by a municipality that the Company is obligated to collect and remit to the municipality. Although there is no impact on earnings related to gross receipts taxes (because the resulting revenue recorded by the Company is offset by a corresponding charge to expense), the Staff's revenue requirement should only reflect the revenue that will be generated through the application of approved

Commission tariffs and be void of any impact related to non-tariff revenue such as gross receipts taxes.

Q. Please explain Staff adjustments S-19.5 and S-19.8 to Taxes Other Than Income Taxes.

A. The Staff made adjustment S-19.5 to remove gross receipts taxes from the Taxes Other Than Incomes Taxes line item of the expense portion of the income statement. Adjustment S-19.8 removes an uncollectible allowance related to gross receipts taxes to recognize that a portion of these gross receipts taxes are not normally collected. Some municipalities allow the Company to pay an amount of gross receipts taxes that is less than the amount that is actually included on customer bills, to allow for the event that some of the gross receipts taxes will be uncollectible. By removing this portion of the gross receipts expense, the Staff acknowledges that it has not recognized the possibility that these taxes may become uncollectible in this area of the case. However, if these taxes are determined to be uncollectible, the amount of gross receipts taxes that are uncollectible are included in the Company's books as uncollectible expense. Therefore, the Staff has included those gross receipts taxes that are uncollectible as a component of the Staff's uncollectibles adjustment, and these amounts should not be double-counted for rate purposes in the gross receipts tax area.

Q. Why is the adjustment for gross receipt tax revenues higher than the adjustment for gross receipt tax expense?

A. A timing difference of $362,904 results from the Company's method of recording gross receipts taxes as an expense in a different period from the revenue billing that includes the gross receipts taxes. The time period difference depends on how a community's applicable statute is written. For example, the gross receipts taxes included on some customers' bills are not recorded as an expense until the second month following the revenue month that contains the billed gross receipts taxes.

GAS COSTS

Q. Please explain the Staff's proposed adjustments S –8.1, S-8.2, 8.5, S-9.2 and S-9.3.

A. Adjustments S-8.1 and S-9.2 remove the test year cost of natural and manufactured gas from expense. Staff adjustments S-8.2 and S-9.3 eliminates natural gas costs associated with unbilled revenues. Staff adjustment S-8.5 eliminates the gas expense associated with the off-system sales and capacity release. These gas cost adjustments and the corresponding gas revenue adjustments are necessary to restate the Staff's cost of service calculation on a margin basis.

UNCOLLECTIBLES

Q. Please explain adjustments S-13.6.

A. Adjustment S-13.6 annualizes uncollectible expense. The Staff utilized actual net write-offs for the year ending March 31, 2007 to determine this adjustment. The following table shows what appears to be an increasing trend in actual net write-offs over the last five years:

Year	Actual Net Write-offs
March 31, 2003	$7,894,832
March 31, 2004	$8,173,385
March 31, 2005	$10,526,960
March 31, 2006	$10,252,440
March 31, 2007	$10,423,508

The Staff's use of the actual net write-offs for the twelve months ending March 31, 2007, reflects the increasing trend by using the most current actual net write-offs. Actual net-write-offs have been used by the Staff in previous rate cases before this Commission to determine uncollectible expense.

ECWR ACCOUNTING AUTHORITY ORDER

Q. Please provide the history of Laclede's Emergency Cold Weather Rule (ECWR) Accounting Authority Order (AAO) pertaining to the ECWR costs in this case.

A. In Case No. GX-2006-0181, the Commission approved an Emergency Amendment to the Cold Weather Rule, 4 CSR 240-13.055. The amendment contained special provisions only applicable to natural gas residential customers and was in effect from January 1, 2006 through March 31, 2006. This amendment provided additional repayment plans for residential natural gas customers for heating purposes which allowed numerous customers that were unable to pay eighty (80) percent of preexisting bills, under the previous Cold Weather Rule, to be reconnected to receive gas service. The ECWR contained provisions allowing gas utilities to use the AAO mechanism as a means to allowing them subsequent of the reasonable costs of complying with the ECWR.

In August 2006, the Commission adopted on a permanent basis a number of provisions that had been placed into effect as part of the ECWR. In addition to permitting customers to reconnect or maintain service by paying the lesser of 50% or $500 of preexisting arrears, the permanent amendment also set forth terms explaining how gas utilities should calculate and recover the costs of complying with the permanent amendment

Q. Did Laclede apply for an AAO to recover the costs associated with the ECWR?

A. Yes. On September 29, 2006, Laclede filed its Motion for an AAO (Case No. GU-2007-0137) to defer the costs associated with the emergency amendment on terms set forth in the permanent amendment to the Cold Weather Rule adopted on August 11, 2006. On December 7, 2006, the Commission issued an Order granting Laclede's motion for an AAO.

Q. Has Case No. GU-2007-0137, been consolidated with this current rate proceeding?

A. Yes. The Commission found that the issues in the AAO Case and this case were related and that it was reasonable to consolidate theses cases.

Q. What rate treatment is the Staff proposing for the EWCR AAO?

A. The Staff is proposing to amortize over a three-year period the difference between the amount the Company could have collected from customers under the old cold weather rule and the amount that they actually collected under the EWCR for customer that have either disconnected or are scheduled to be disconnected under the terms of the EWCR and, carrying costs on those amounts..

AMR

Q. During the test year did Laclede continue implementation of an automated meter reading (AMR) system?

A. Yes. On March 11, 2005, Laclede entered into a 15-year agreement with Cellnet Technology Inc. (Cellnet) to provide Laclede meter reading information from Laclede customer meters. As of March 31, 2007, 627,000 AMR devices have been installed by Cellnet, with approximately 43,000 AMR devices yet to be installed.

Q. Has the Staff included annualized costs for the AMR in the Staff's cost of service?

A. Yes. I multiplied the number of meters with the AMR installed as of March 31, 2007, by the cost per meter read ** ______ ** as provided for in the contract to arrive at a monthly AMR meter reading expense. I then multiplied this number by 12-months to arrive at an annualized meter reading expense level.

Q. Please explain adjustments S-14.4 and S-16.27.

A. Adjustments S-14.4 and S-16.27 remove one-time costs incurred by Laclede for the implementation of the AMR system. These costs will not be ongoing costs incurred by Laclede in the future, and thus should be removed from the test year cost of service.

Q. Please provide a description of the one-time costs incurred for the implementation of the AMR system.

A. One cost incurred was the cost of producing and distributing information about the implementation of the AMR system to the customers. The other cost was dismissal pay given to 23 meter readers whose services will no longer be needed due to the capability of the AMR system to read customer meters.

Q. Did the Staff have any concerns regarding how the new AMR system was to be reflected in rates in this case?

A. Yes. The Company has justified implementation of the AMR technology on the grounds that, among other benefits, that the costs of the AMR program in the long-term should be less than that required under the old manual meter reading system. The Staff's concern was that it would be inappropriate to reflect a possible short-term detriment in customer rates in this case on account of the AMR system still being in an implementation stage as of the end of the test year update period.

Q. Did the Staff perform any analysis to determine if the cost of the AMR system included in its revenue requirement recommendation was more economical than the cost of the old manual meter reading system?

A. Yes. The Staff examined the annualized cost of the AMR system and compared it to the annualized cost of using meter readers to manually read the meters. The Staff's analysis compared an annualized level of payroll costs and benefits for meter reader positions no longer required at Laclede compared to the annualized AMR costs (payments to Cellnet) at March 31, 2007, as discussed above. This analysis shows an annual savings to customers by use of the AMR system as opposed to using meter readers to manually read the meters of over $200,000.

FIDELITY NATURAL GAS PURCHASE ACQUISITION ADJUSTMENT

Q. When was the purchase of the Fidelity Natural Gas (Fidelity) assets by Laclede approved by the Commission?

A. The Commission issued an "Order Approving Unanimous Stipulation and Agreement for the Sale of Assets and Granting a Certificate of Public Convenience and Necessity" authorizing Laclede's purchase of Fidelity on February 21, 2006.

Q. Please explain what is meant by the accounting term "acquisition adjustment."

A. In traditional accounting, fixed assets, such as plant, are usually recorded at original cost. Original cost, as applied to utility plant, means the cost of property to the utility devoting it to service. An acquisition adjustment results when utility property is purchased or acquired for an amount either in excess of or below net original cost (book value).

Q. Did Laclede purchase the natural gas assets of Fidelity for more or less than net original cost?

A. Laclede purchased the assets of Fidelity Natural Gas for approximately $2.177 million less than Fidelity's net book value of these assets, as measured by original cost.

Q. What ratemaking treatment is the Staff proposing for the negative acquisition adjustment of $2.177 million?

A. The Staff is proposing to include the Fidelity plant in service in rate base valued at Laclede's purchase price for the Fidelity assets. In other words, the Staff is proposing to reflect the Fidelity negative acquisition adjustment in Laclede's rate base.

Q. Why is Staff taking this position?

A. The Staff believes that, at the time the assets of Fidelity were purchased by Laclede, Fidelity's gas rates were not sufficient to cover Fidelity's full cost of operations. Left uncorrected, this situation would result in Laclede's general body of ratepayers covering the shortfall in recovery of Fidelity's full cost of service after the purchase. This subsidy of Fidelity's operations by the existing Laclede customers would be a detriment to the Laclede customers. The Staff believes reflection of the Fidelity negative acquisition adjustment in rates is necessary to remove this potential rate detriment from the Fidelity transaction to Laclede's existing customers.

Another reason the Staff has proposed including the negative acquisition adjustment in rates in this proceeding is that a condition of Fidelity's original certificate to provide natural gas service in this State was that ratepayers would not be asked to assume the economic risk of viability of the natural gas service offering in the Fidelity service territory. The Staff believes inclusion of the Fidelity gas assets in rate base at their original cost, when such original cost far exceeds the market value of those assets, would violate the intent of that certification condition.

Q. Is the Staff's position on rate treatment of the Fidelity acquisition adjustment indicative of a general position on rate treatment of these items?

A. No. The Staff's position on this issue in this proceeding is dependent upon the specific facts and circumstances concerning the Fidelity acquisition adjustment. Staff will always analyze each case regarding rate recovery of either positive or negative acquisition adjustments based on the specific facts and circumstances presented in each case.

Q. Does this conclude your Direct testimony?

A. Yes, it does.

CASE PARTICIPATION
OF
KIMBERLY K. BOLIN

Company Name	Case Number	Testimony/Issues	Contested or Settled
Kansas City Power & Light	ER-2006-0314	**Direct**- Gross Receipts Tax, Revenues, Weather Normalization, Customer Growth/Loss Annualization, Large Customer Annualization, Other Revenue, Uncollectible (Bad Debt) Expense, Payroll, A&G Salaries Capitalization Ratio, Payroll Taxes, Employer 401 (k) Match, Other Employee Benefits **Surrebuttal**- Uncollectible (Bad Debt) Expense, Payroll, A&G Salaries Capitalization Ratio, Other Employee Benefits	Contested
Missouri Gas Energy	GR-2006-0204	**Direct**- Payroll, Incentive Compensation, Payroll Taxes, Employee Benefits, Lobbying, Customer & Governmental Relations Department, Collections Contract	Settled

WHILE EMPLOYED WITH THE OFFICE OF THE PUBLIC COUNSEL

Company Name	Case Number	Testimony/Issues	Contested or Settled
St. Louis County Water Company	WR-95-145	**Rebuttal**- Tank Painting Reserve Account; Main Repair Reserve Account **Surrebuttal**- Main Repair Reserve Account	Contested
Missouri-American Water Company	WR-95-205/ SR-95-206	**Direct**- Property Held for Future Use; Premature Retirement of Sewer Plant; Depreciation Study Expense; Deferred Maintenance **Rebuttal**- Property Held for Future Use; Premature Retirement of Sewer Plant; Deferred Maintenance **Surrebuttal**- Property Held for Future Use; Premature Retirement of Sewer Plant	Contested
Steelville Telephone Company	TR-96-123	**Direct**- Depreciation Reserve Deficiency	Settled
St. Louis Water Company	WR-96-263	**Direct**-Main Incident Repairs **Rebuttal**- Main Incident Repairs **Surrebuttal**- Main Incident Repairs	Contested
Imperial Utility Corporation	SC-96-427	**Direct**- Revenues, CIAC **Surrebuttal**- Payroll; Uncollectible Accounts	Settled

<u>Company Name</u>	**<u>Case Number</u>**	**<u>Testimony/Issues</u>**	**<u>Contested or Settled</u>**
		Expense; Rate Case Expense, Revenues	
Missouri-American Water Company	WA-97-45	**<u>Rebuttal</u>**- Waiver of Service Connection Charges	Contested
Associated Natural Gas Company	GR-97-272	**<u>Direct</u>**- Acquisition Adjustment; Interest Rates for Customer Deposits **<u>Rebuttal</u>**- Acquisition Adjustment; Interest Rates for Customer Deposits **<u>Surrebuttal</u>**- Interest Rates for Customer Deposits	Contested
St. Louis County Water Company	WR-97-382	**<u>Direct</u>**- Interest Rates for Customer Deposits, Main Incident Expense	Settled
Union Electric Company	GR-97-393	**<u>Direct</u>**- Interest Rates for Customer Deposits	Settled
Gascony Water Company, Inc.	WA-97-510	**<u>Rebuttal</u>**- Rate Base; Rate Case Expense; Cash Working Capital	Settled
Missouri Gas Energy	GR-98-140	**<u>Direct</u>**- Payroll; Advertising; Dues & Donations; Regulatory Commission Expense; Rate Case Expense	Contested
Laclede Gas Company	GR-98-374	**<u>Direct</u>**- Advertising Expense; Gas Safety Replacement AAO; Computer System Replacement Costs	Settled
St. Joseph Light & Power	ER-99-247	**<u>Direct</u>**- Merger Expense; Rate Case Expense; Deferral of the Automatic Mapping/Facility Management Costs **<u>Rebuttal</u>**- Merger Expense; Rate Case Expense; Deferral of the Automatic Mapping/Facility Management Costs **<u>Surrebuttal</u>**- Merger Expense; Rate Case Expense; Deferral of the Automatic Mapping/Facility Management Costs	Settled
St. Joseph Light & Power	HR-99-245	**<u>Direct</u>**- Advertising Expense; Dues & Donations; Miscellaneous Expense; Items to be Trued-up **<u>Rebuttal</u>**- Advertising Expense **<u>Surrebuttal</u>**- Advertising Expense	Settled

Company Name	**Case Number**	**Testimony/Issues**	**Contested or Settled**
Laclede Gas Company	GR-99-315	**Direct**- Advertising Expense; Dues & Donations; Miscellaneous Expense; Items to be Trued-up	Contested
Missouri American Water Company	WR-2000-281/ SR-2000-282	**Direct**- Water Plant Premature Retirement; Rate Case Expense **Rebuttal**- Water Plant Premature Retirement **Surrebuttal**- Water Plant Premature Retirement	Contested
St. Louis County Water Company	WR-2000-844	**Direct**- Main Incident Expense	Settled
Osage Water Company	SR-2000-556/ WR-2000-557	**Direct**- Customer Service	Contested
Empire District Electric	ER-2001-299	**Direct**- Payroll; Merger Expense **Rebuttal**- Payroll **Surrebuttal**- Payroll	Settled
Gateway Pipeline Company	GM-2001-585	**Rebuttal**- Acquisition Adjustment; Affiliated Transactions; Company's Strategic Plan	Contested
Laclede Gas Company	GR-2001-629	**Direct**- Advertising Expense; Safety Replacement Program; Dues & Donations; Customer Correspondence	Settled
Warren County Water & Sewer	WC-2002-160 / SC-2002-155	**Direct**- Clean Water Act Violations; DNR Violations; Customer Service; Water Storage Tank; Financial Ability; Management Issues **Surrebuttal**- Customer Complaints; Poor Management Decisions; Commingling of Regulated & Non-Related Business	Contested
Environmental Utilities	WA-2002-65	**Direct**- Water Supply Agreement **Rebuttal**- Certificate of Convenience & Necessity	Contested
Missouri-American Water Company	WO-2002-273	**Rebuttal**- Accounting Authority Order **Cross-Surrebuttal**- Accounting Authority Order	Contested
Laclede Gas Company	GR-2002-356	**Direct**- Advertising Expense; Safety Replacement Program and the Copper Service Replacement Program; Dues & Donations; Rate	Settled

Company Name	**Case Number**	**Testimony/Issues**	**Contested or Settled**
		Case Expense **Rebuttal**- Gas Safety Replacement Program / Deferred Income Taxes for AAOs	
Empire District Electric	ER-2002-424	**Direct**- Dues & Donations; Memberships; Payroll; Security Costs **Rebuttal**- Energy Traders' Commission **Surrebuttal**- Energy Traders' Commission	Settled
Missouri American Water Company	WR-2003-0500	**Direct**- Acquisition Adjustment; Water Treatment Plant Excess Capacity; Retired Treatment Plan; Affiliated Transactions; Security AAO; Advertising Expense; Customer Correspondence	Settled
Osage Water Company	ST-2003-0562 / WT-2003-0563	**Direct**- Payroll **Rebuttal**- Payroll; Lease Payments to Affiliated Company; alleged Legal Requirement of a Reserve	Case Dismissed
Missouri Gas Energy	GR-2004-0209	**Direct**- Safety Line Replacement Program; Environmental Response Fund; Dues & Donations; Payroll; Customer & Governmental Relations Department Disallowance; Outside Lobbyist Costs **Rebuttal**- Customer Service; Incentive Compensation; Environmental Response Fund; Lobbying/Legislative Costs **True-Up**- Rate Case Expense	Contested
Missouri American Water Company & Cedar Hill Utility Company	SM-2004-0275	**Direct**- Acquisition Premium	Settled
Empire District Electric	ER-2004-0570	**Direct**- Payroll	Settled
Missouri Gas Energy	GU-2005-0095	**Rebuttal**- Accounting Authority Order **Surrebuttal**- Accounting Authority Order	Contested