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Witness:	Kenneth J. Neises
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LACLEDE GAS COMPANY

GR-2007-0____

DIRECT TESTIMONY

OF

KENNETH J. NEISES

DECEMBER 2006

TABLE OF CONTENTS

DIRECT TESTIMONY OF KENNETH J. NEISES

Q. What is your name and address?

A. My name is Kenneth J. Neises, and my business address is 720 Olive Street, St. Louis, Missouri 63101.

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

A. I am employed by Laclede Gas Company ("Laclede" or "Company") in the position of Executive Vice President-Energy & Administrative Services.

Q. Please state your qualifications and experience.

A. I graduated from Creighton University in 1967, where I received a Juris Doctorate degree. In 1970, I received a L.L.M. degree from Georgetown University Law Center. From 1967 to 1973, I was employed as a litigation and trial attorney for the Federal Power Commission (now the Federal Energy Regulatory Commission). I left the Commission in 1973 to accept an appointment by the U.S. Postal Rate Commission to represent the interests of the general public in proceedings before that Commission. I then served as a partner in the law firm of Debevoise and Liberman in Washington, D.C. until joining Laclede in 1983 as an Associate General Counsel. I was elected to the position of Vice President in January 1987 and Senior Vice President in January 1994. Prior to assuming my current position in 2002, I was Senior Vice President-Gas Supply and Regulatory Affairs. In that position I had overall management responsibility for the Company's gas procurement activities, its participation in proceedings before the Federal Energy Regulatory Commission ("FERC") on matters affecting Laclede and its customers, and Laclede's participation in various regulatory proceedings before this Commission. My current duties include these responsibilities, as well as overall responsibility for labor, community relations and corporate communications.

PURPOSE OF TESTIMONY

Q. What is the purpose of your direct testimony?

A. The primary purpose of my direct testimony is to explain the new "Regulatory Compact" that Laclede is recommending be approved by the Commission in this proceeding to govern the Company's provision of regulated utility service for the next three years. In addition to summarizing how this Regulatory Compact would work, I will also explain the policy considerations that we believe warrant its adoption by the Commission.

Q. Are these items being addressed by any other Company witnesses?

A. Yes. Additional details regarding the various features of the Regulatory Compact will also be provided by Laclede witnesses Michael Cline, Ted Reinhart, James Fallert, Glenn Buck and George Godat in their direct testimony.

NEED FOR REGULATORY COMPACT

Q. Please summarize what you mean by a new Regulatory Compact.

A. The Regulatory Compact being proposed by Laclede in this proceeding is really an umbrella term for an independent series of mutually-acceptable and mutually-beneficial regulatory initiatives, all of which are designed to enhance the way in which Laclede provides and prices utility services for its customers. Each of these features, which are being proposed as part of a single, cohesive package of measures, will be discussed in detail either in my testimony or the testimony of other Company witnesses. When boiled down to its essentials, however, the purpose of the Compact is three-fold. First, it is designed to provide Laclede's customers with more choices in how the Company prices and provides their utility services, as well as additional incentives and tools to conserve on how much of those services they use. Second, it is structured to better ensure that customers will only pay the true cost of those services, not only at the time rates are established in this case, but prospectively as well, by designing rates in a way that will prevent any significant over- or under-recovery of major cost items. Finally, it is designed to provide the Company with a more realistic opportunity to recover its reasonable costs of providing utility service, as reflected in the Company's revenue requirement recommendations in this case, in exchange for providing customers with the right to share in any earnings that the Company might achieve above its authorized rate of return as a result of its efforts to contain costs and increase revenues.

Q. Why does Laclede believe that adoption of such a Compact is appropriate and desirable at this time?

A. There are a number of reasons why we believe it makes sense to move forward with such an initiative at this time. First, it is abundantly clear that we have entered a new period of higher energy prices in this country. In the natural gas industry, prices in the wholesale market have been two to three times higher over the past several years than their historical averages over the past several decades. While prices will continue to fluctuate and experience occasional declines, these higher price levels are likely to prevail for the foreseeable future. The Regulatory

Compact is designed, in part, to provide an effective response to this higher price environment.

Q. How so?

A. Higher wholesale prices obviously pose significant challenges for both Local Distribution Company's ("LDCs") and many of their customers. Many customers are already stressed by the need to pay more for gasoline, electricity and other essential commodities and must make room in their budgets for higher natural gas bills. At the same time, higher prices simply increase the LDCs' already daunting financial and operational risks associated with procuring and managing the gas supplies necessary to serve their customers.

Q. In what way have higher prices increased the financial and operational risks of LDCs like Laclede?

A. Ever since the issuance of FERC Order 636 in 1992, LDCs, like Laclede, have assumed the responsibility of procuring, storing and transporting the gas supplies necessary to serve their customers – responsibilities that had previously been assumed largely by their interstate pipeline suppliers. As a consequence, Laclede has taken on the responsibility of making the literally thousands of management decisions and actions, as well as assuming the financial and operational risks, associated with performing these complex and demanding tasks. Those tasks have only become more challenging in recent years as prices have risen. In response, some LDCs like Laclede have also taken on the increasingly complicated job of using sophisticated financial instruments in order to mitigate the impact that volatile changes in the price of those supplies can have on their customers. Indeed, Laclede has substantially broadened these risk management activities in the past several years, including the pursuit of increasingly innovative strategies for addressing price volatility, as a result of the challenges posed by the significantly higher price environment we face today. All of these factors have necessarily broadened both the scope and nature of the LDC's exposure to reviews of whether their gas supply decisions and actions were prudent after the fact while also increasing the risk and size of potential regulatory disallowances. In addition, they have increased by literally hundreds of millions of dollars the financial outlays needed to pay for the advanced purchases of natural gas for summer storage and to procure financial instruments.

Q. Are there other risks as well?

A. Yes. For those LDCs like Laclede that have stayed in the merchant function, these factors have also increased the risks and costs associated with trying to collect the customer payments needed to satisfy the higher bills that necessarily result from these increased costs. These increased risks have been reflected in both higher levels of bad debts as well as higher collection costs. In addition, there is a risk that higher gas costs will cause some customers, particularly those in the commercial and industrial markets that may have fuel choices, to turn away from natural gas and toward other fuel alternatives. Finally, increased gas costs have caused customers to increase their conservation efforts. While Laclede strongly encourages its customers to conserve gas, and in fact has programs in place that would assist customers in achieving gas conservation, the fact remains that conservation of gas has the effect of eroding the Company's ability to recover the cost of providing distribution service. In the Regulatory Compact, Laclede is proposing a new program that will further encourage conservation of gas, which will have the effect of sending consumer-friendly price signals back to the wholesale market.

Q. How have some states responded to this new environment?

A. At the state level, a number of commissions have taken unbundling of gas supply a step further by divesting LDCs of their merchant role and permitting gas marketers to sell gas directly, not only to large industrial customers (to whom the marketers were permitted to sell even before FERC Order 636), but also to commercial and residential customers. In states that have unbundled the merchant function, LDCs have been largely relieved of the associated risks and responsibilities, which were assumed by marketers on a for-profit basis. In Missouri, however, there has been no unbundling of the LDCs' distribution and gas supply function for most commercial and residential customers. Accordingly, for the vast majority of their customers, Missouri LDCs, including Laclede, have retained the merchant role of coordinating the procurement, storage and transportation of gas supplies that had previously been performed by the pipeline companies.

Q. Does Laclede agree with this approach?

A. Laclede has always had serious reservations about the merits of deregulating the natural gas industry in Missouri beyond where it is today. Although Laclede's large commercial and industrial customers have been permitted for some time now to purchase their own gas supplies on the deregulated wholesale market, I continue to believe that residential and small commercial customers are very unlikely to benefit from a similar “unbundling” of the natural gas services they receive. And I think that conclusion has been largely borne out by the experience that other states have had with deregulation, not only in the natural gas industry, but in the electric industry as well. Simply put, the transactional costs of having multiple vendors vie for and supply hundreds of thousands of customers with gas supplies are simply too great, and the bargaining power of those individual customers too small, for such a model to produce any measurable benefits for them.

Q. Does that mean that LDCs like Laclede should continue to provide services to these customers in exactly the same way as they have in the past?

A. Not at all. In fact, I think the experience with deregulation is very instructive on what kind of regulatory measures can and should be taken to not only provide services in a way that captures for customers the most favorable attributes of both the regulated and deregulated models, but also ensure that Missouri LDCs have the financial wherewithal to remain in the merchant function in this higher price environment.

Q. What does that mean in practical terms?

A. It means several things in my view, all of which are reflected in the Regulatory Compact being proposed by Laclede. First, as in a deregulated environment, it means offering customers additional choices and options in how their utility service is priced and provided. Just because consumers are served by a single provider, there is no reason why their pricing or service options should be artificially limited, particularly where it is administratively feasible to offer them additional choices. It also means providing the utility with a realistic opportunity to recover its actual cost of providing service by designing rates in a way that more closely aligns prices with costs and by allowing the utility to retain revenues from its sales of gas to non-traditional customers to the extent necessary to cover those costs. Finally, it means closely aligning the interests of customers and LDCs by maintaining and even enhancing the kind of financial incentives that spur companies in a deregulated environment to achieve superior performance in the acquisition and efficient management of their assets, with provisions to ensure that any resulting benefits will be shared between the Company and its customers.

At the same time, I believe that a well-constructed Regulatory Compact should also incorporate the best of those consumer safeguards and programs that an effective regulatory system has to offer, and that would not ordinarily be found in a deregulated environment. Among these are conservation programs and complementary rate structures that are designed to actually *reduce* the customer's consumption of the utility's product, as well as mechanisms designed to better ensure that customers receive a share when an LDC is able to earn more than its reasonable costs of providing utility service. Also included are provisions for providing customers with additional stability in the base rates they pay for distribution services – provisions which ensure that these rates will remain the same over the three years following the Commission's approval of the Compact.

Q. Are there other reasons why the Company is proposing the Regulatory Compact?

A. Yes. Over the past several years, the Company has struggled to earn the rates of return authorized by the Commission. This is due in part to remarkably warmer weather in recent years and in part to earnings attrition between rate cases.

Q. Please explain the factors leading to these risks and challenges.

A. Rates are designed based upon a thirty-year average of normal weather. In recent years, weather generally has been significantly warmer than the thirty-year average. While Laclede's weather mitigation rate design is intended in part to address this issue, the rate design as currently constituted only provides a partial answer. Regarding earnings attrition, the Company currently experiences an increasing rate base. Because rates in Missouri are typically based on an historic test year and Laclede cannot recover on a timely basis its return on investment, as well as related depreciation expense for much of the plant placed in service after such rates are established, the Company experiences an ongoing "lag" in the recovery of its plant investment between rate cases. Moreover, annual increases in expenses after the close of the update period, which tend to outrun annual decreases in expenses, are not captured in the rates approved in the last rate case. The Regulatory Compact is also designed to help address some of these issues and, at the same time, provide base rate stability for Laclede's customers. Finally, it is important to note that for the Regulatory Compact to work, it is essential that a proper starting point reflecting the Company's revenue requirement recommendations first be established by the Commission.

STRUCTURE AND OPERATION OF REGULATORY COMPACT

Q. How is the Regulatory Compact structured to accomplish these objectives?

A. The Regulatory Compact has a variety of features that are designed to accomplish each of these objectives. I should note that in developing these various features, we have made a concerted effort to incorporate regulatory concepts and approaches that have been used successfully, either here in Missouri or in other states, to enhance the value and efficiency of utility service for consumers. Indeed, many of these concepts and approaches borrow heavily from positions that have previously been taken by various consumer representatives in advocating what measures will best serve the interests of utility consumers. Accordingly, while the Regulatory Compact as a whole may appear to be somewhat novel, its building blocks are firmly rooted in concepts that are tested and fall well within the regulatory mainstream.

Customer Choice and Conservation

Q. How does the Regulatory Compact promote customer choice?

A. Over the years, a significant percentage of our customers have demonstrated a strong preference for greater stability in the amount they pay each month for their utility service. Laclede, like other utilities, has attempted to at least partially accommodate that preference by offering levelized or budget bill arrangements to customers who request them. The Regulatory Compact, however, would provide an additional and more robust choice in this area by implementing a new fixed price option under which customers would be able to lock in the price they pay for gas costs each year for their expected usage. To the extent the customer desires additional certainty and stability in what his or her gas bill will be, this fixed price option would help to provide it.

Q. Has this concept been tried elsewhere?

A. Yes, in areas where the commodity element of natural gas service has been deregulated, there are numerous instances of gas providers offering fixed rates on the gas supplies and services they sell to residential and commercial customers. Such options have also been provided on a more limited basis even where services to residential and small commercial customers remain fully regulated. One of the most notable examples of the latter is the fixed commodity price option that Aquila has offered to its customers in Lincoln, Nebraska over the past five years. It is my understanding that a significant and growing number of its customers have utilized this option when offered and that it has generally been well-received.

Q. Has the Company made any effort to determine whether its own customers might be interested in such an option?

A. While the experience with customer participation in other states provides a good indication that such an option would be of interest to many of Laclede's customers as well, we also conducted a series of customer focus groups to better assess whether that was indeed the case. As one might expect, there were customers who showed a strong preference for such an option and others who did not. But in the end, that is what customer choice is all about – offering different customers different options tailored to their individual preferences.

Q. Is the Company committed to making this option available to all of its customers?

A. Although the Company is proposing to limit the availability of this option during its first year of operation to approximately 25,000 customers, we have every intention of expanding it to additional customers in future years, assuming that it is well-received and that we can fashion terms for its implementation that are workable and acceptable. To that end, Laclede intends to consult with interested stakeholders at the time the first year of the program is nearing completion and apprise the Commission of any changes we believe should be made to the program and our recommendations for expanding it. I should note that additional details on this new service option are included in the direct testimony of Michael Cline.

Q. You previously mentioned that the Regulatory Compact is designed to promote customer conservation. Please explain what it proposes in this area.

A. As part of the Regulatory Compact, we have also developed a new conservation program that will reward customers with credits or rebates on their bills in increasing amounts based on how much weather-normalized usage they have conserved. Promoting customer conservation with the attendant reduction in gas consumption is the single, most direct and most significant way that the Commission, utilities and consumers can effectively work together to respond to and mitigate the impact of higher gas prices. I believe the program being proposed by Laclede as part of the Regulatory Compact is ideally designed to do just that.

Q. Will the conservation program being proposed by Laclede require customers to make significant investments in equipment and appliances in order to benefit financially?

A. No. Although Laclede currently has a number of energy conservation programs that provide low-income and other customers with significant financial assistance or rebates to install such measures, this program will provide *every* customer with the opportunity to benefit by simply turning down the thermostat, implementing modest weatherization measures such as weather-stripping, caulking, etc., and taking other relatively inexpensive or cost free steps.

Q. Will all customers benefit from this program?

A. Certainly all customers who make the effort to participate in the program by reducing their usage will benefit. Even if a particular customer's usage reduction is not great enough to qualify him or her for a rebate on their bill, the customer will still save by avoiding payment for the commodity cost of gas that is not used, which is the single largest component of the customer's bill. In addition, even those customers who do not participate in the program will benefit from the Company's ability to reduce over the long-term any fixed or variable gas supply costs that the Company would otherwise have to pay to acquire, store and transport gas supplies for all of its customers. The bottom line, however, is that customers who conserve the most will benefit the most and that is precisely how the program is and should be designed.

Q. Are there any other utilities that have implemented a similar plan?

A. Yes, PG&E has had a similar program in effect in California for some time now. That program was so successful during its initial offer, that PG&E has now expanded it so that additional customers with more modest conservation results can also participate in it. As Ted Reinhart discusses in his direct testimony, our program has been designed in a way that is similar to the initial PG&E initiative.

Q. Do you believe your customers will be receptive to such a program?

A. Absolutely. In fact, during the focus groups we held to discuss various proposals, our customers were, without exception, very enthusiastic about the concept. Laclede is equally enthusiastic and we hope that this ambitious program can be implemented in the near future as part of our Regulatory Compact.

Better Aligning Utility Prices and Costs

Q. How does the Regulatory Compact better align the prices and costs of utility service so that customers only pay the true cost of their utility service?

A. First and foremost, the Compact incorporates refinements to Laclede's existing weather mitigation rate design to better ensure that the Company's distribution rates will not over- or under-recover its fixed distribution costs. Given the fact that this rate design has been well received by Laclede's customers since it was implemented nearly four years ago, the Company would prefer to retain it with the modest revisions we have proposed. The nature of these revisions, as well as the Company's reasons for making them, is addressed in the Direct Testimony of Michael Cline.

Q. Is Laclede willing to consider alternatives to its existing rate design?

A. Our existing rate design has worked well and should work even better with the revisions we are proposing. Nevertheless, to provide the Commission with a broader set of options, we have also submitted tariff sheets that would collect all of Laclede's distribution costs through the customer charge, as Staff has proposed to do in other recent gas rate proceedings involving gas utilities. In addition, we have included a weather normalization adjustment mechanism as an additional option for the Commission's consideration. Whichever option is deemed most appropriate, however, it is imperative for the Commission to recognize that a rate design that decouples usage from distribution revenues is not only appropriate in its own right, but absolutely essential to the pursuit and implementation of the kind of effective customer conservation initiatives that the Company has proposed in this proceeding. I would also refer the Commission to the Direct Testimony of Michael Cline for more details on these alternative proposals.

Q. Does the Regulatory Compact include other mechanisms for better aligning prices and costs for utility service so that the Company does not over- or under-recover those costs?

A. Yes. The Compact also includes a mechanism designed to reduce over- and under-recoveries of uncollectible accounts expenses between rate cases. The details of this mechanism are addressed in the direct testimony of James Fallert. I should add that while the Company's proposal is designed to reduce the gap between what is reflected in rates for this expense and what the Company actually incurs, it still requires that a portion of any change in these costs be absorbed or retained by Laclede between rate cases. By placing Laclede at risk for a portion of these cost changes, the mechanism provides an additional incentive for Laclede to continue to pursue collection activities and other actions designed to hold such costs down.

Customer Benefits When Earnings Are Above Authorized Return

Q. How else does the Regulatory Compact benefit customers when the Company's earnings are above the return authorized by the Commission, while still providing the Company with additional incentives to reduce costs and maximize revenues from non-traditional sources for the benefit of those customers?

A. One way the Compact benefits customers when earnings are above the Company's authorized return is by implementing the mechanisms I just discussed for reducing any over- or under-recovery of major expense items. In addition to those features, however, Laclede is also recommending that the Commission approve an earnings sharing mechanism. Under this mechanism, the Company's earnings would be tracked on an ongoing basis pursuant to the earnings surveillance procedures described by Laclede witness Glenn Buck in his direct testimony. Should the Company's earnings exceed its authorized return over the three year initial term of the Compact, whether as a result of Laclede's successful efforts to reduce costs, to maximize revenues or for any other reason, the mechanism would ensure that an increasing share of those additional earnings would be flowed through to Laclede's customers.

Q. How would the customers' share of these earnings be determined?

A. Under the earnings matrix being proposed by the Company, if the earnings achieved by Laclede exceeded its authorized return on equity over the three year term of the Compact by any amount between 1 and 100 basis points, Laclede would share 50% of those additional earnings with its customers and retain an equivalent amount. Similarly, Laclede would flow through to its customers 60%

of any earnings between 101 and 150 basis points and 70% of any earnings between 151 and 200 basis points. Finally, in the event the level of earnings achieved by the Company exceeded its authorized rate of return by 201 or more basis points, the Company would share 90% of those additional earnings to its customers and retain only 10%.

Q. How would the customers' share of these earnings be distributed?

A. To the extent customer savings were achieved, they would be distributed directly to customers through a bill credit upon completion of the three year period. Moreover, this distribution would be made regardless of whether the Company had a general rate case on file at the time. Thereafter, Laclede would intend to distribute any customer savings on an annual basis.

Q. How would savings and earnings achieved by the Company from the management of its gas supply assets be treated under this earnings sharing mechanism?

A. Earnings achieved by the Company from the management of its gas supply assets, including earnings realized from the sale of gas to off-system customers, the release of interstate pipeline capacity and savings from its gas supply incentive plan would all be subject to the earnings sharing grid described above. That means that to the extent such earnings exceeded the Company's authorized return, such amounts would be flowed through to customers in accordance with the sharing percentages provided for in the grid.

Q. Would this be in lieu of the ratemaking treatment that has previously been accorded these items?

A. Yes. At various times in the past, the Company has been permitted to retain a portion of the savings or revenues it achieves from the management of its gas supply assets as an incentive to maximize results for its customers. Laclede has been permitted to retain such amounts without regard to the level of the Company's earnings. On other occasions, some of these items, most notably off-system sales and capacity release revenues, have been imputed in the Company's base rates at some estimated level, despite significant uncertainty regarding the level of revenues that might actually be realized in the wake of changing market conditions and the beneficial or adverse impact that a wrong guess could have on the Company's earnings. In contrast, the approach being taken by the Company as part of its Regulatory Compact, does away with the guesswork in attempting to forecast these inherently volatile items, while simultaneously ensuring that Laclede's overall earnings will be taken into account in determining the extent to which the Company may retain a share of the savings or revenues generated by its efforts. At the same time, by permitting Laclede to retain some amount -- albeit at much lower levels as the Company's earnings potential rises -- this approach continues to offer real incentives for Laclede to maximize favorable results for its customers as it goes about the task of managing its gas supply assets. In my view, this approach is superior to any of the other alternative approaches that have previously been used to address these items.

Q. Do the difficulties associated with forecasting what will happen with these revenue and cost items remain?

A. Unquestionably, they do. For example, while Laclede has successfully achieved fairly robust levels of off-system sales over the past several years on behalf of both the Company and its customers, changes in market conditions and purchasing practices make it far more likely that the volumes and margins associated with such sales will decline, and decline significantly, during the period new rates established in this proceeding will be in effect. The changes in market conditions include, among other things, a tremendous increase in new interstate pipeline capacity that will have the effect of significantly shrinking the price differentials between various gas producing areas that Laclede has previously relied on to increase the margins it can demand on its off-system sales. A reduction in the percentage of gas supplies that Laclede places under contract to hedge its supplies at first of the month prices will also reduce the opportunities to make such sales and the margins that Laclede can expect to receive when such sales are, in fact, made. If Laclede is to have a realistic opportunity to make even a substantially reduced level of such sales in the future, it will need the kind of regulatory assurances that Laclede witness George Godat has indicated in his direct testimony are necessary to continue the Company's use of this hedging mechanism. Of course I understand that other parties may, as they have in the past, disagree with the Company's analysis in this regard and propose other estimates. The attractiveness of the approach reflected in the Regulatory Compact, however, is that differences over such estimates no longer need to be an issue since such revenues will be tracked on an ongoing basis and shared with

Laclede's customers if they are, in fact, realized and the Company exceeds its authorized return.

Q. How does the Regulatory Compact treat those expenses and costs for which Laclede has not sought recovery or that the Commission has disallowed as a result of its review of the Company's rate case filing?

A. Without conceding its right to seek judicial review of any disallowance, the Company would make an adjustment to its authorized return to reflect the accumulated value of such costs and expenses. By doing so, the Regulatory Compact would ensure that such costs and expenses are not being counted in determining whether the Company's earnings have exceeded its authorized return. As a result, the realized return being used for sharing purposes would be based on a cost of service that is reflective of what the Commission has determined is necessary and appropriate to provide utility service.

Q. What happens if the Company does not achieve its authorized return after this adjustment is made to reflect disallowed costs?

A. Although the Regulatory Compact would require the Company to share with its customers any earnings above its authorized return, the Company would have to absorb any earnings shortfall until and unless it received a new increase in its base rates. In other words, Laclede would not be permitted to adjust its base rates upward between general rate case proceedings to recover these shortfalls, but instead would remain at risk for them.

Q. But can't Laclede mitigate this risk by simply filing a new rate case?

A. As I indicated before, even a rate case filing won't mitigate this risk entirely given the 8 to 11 month lag between when a filing is made and when new rates are established. This is particularly true for inclining cost utilities like Laclede since the new rates will generally be based on an historical cost of service that is already inadequate by the time those new rates go into effect. Nevertheless, as part of the Regulatory Compact, the Company is willing to forgo even this limited measure for mitigating the risks associated with such shortfalls by agreeing to a three year moratorium on increasing its base rates. Except for an extremely limited set of circumstances involving legislative, regulatory or other extraordinary events beyond Laclede's control, this effectively means that all of the risks for such shortfalls in its base earnings will be borne and, if realized, absorbed by Laclede and Laclede alone during this period. It also means that Laclede's customers will be protected from such increases during the same period while still remaining eligible to share in any earnings that Laclede may achieve above its authorized return.

Q. Please summarize why Laclede believes the approach reflected in its Regulatory Compact is preferable to other potential alternatives.

A. In addition to providing customers with additional choices and incentives to conserve on their natural gas usage, the approach reflected in the Regulatory Compact also makes it far more likely that the charges utility customers pay will be more reflective of the costs Laclede is actually incurring to serve them. It also takes the guesswork out of trying to predict inherently unpredictable revenue or cost items while simultaneously *guaranteeing* that the Company's customers "will be at the table" in the event the Company is able to achieve earnings in excess of its authorized return as a result of its efficient management of these items. Moreover, customers would be entitled to the lion's share of such benefits, ranging from 50% to 90% depending on how successful the Company was in its efforts. At the same time, the Regulatory Compact provides the Company with real incentives to achieve favorable results on behalf of its customers and shareholders while completely protecting customers from the risk of any earnings shortfalls in its base rates over an extended period of time. Consistent with traditional ratemaking theory, it also gives Laclede a more realistic opportunity to earn its authorized rate of return, a goal that is vitally important to credit agencies and investors who determine the availability and cost of the money needed to finance our operations and that has been increasingly embraced by regulators elsewhere. Given all of these considerations, I would strongly recommend that the Commission adopt the Regulatory Compact that has been proposed by the Company in this case.

Q. Does this conclude your direct testimony?

A. Yes, it does.

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-2007-0___

AFFIDAVIT

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

Kenneth J. Neises, of lawful age, being first duly sworn, deposes and states:

1. My name is Kenneth J. Neises. My business address is 720 Olive Street, St. Louis, Missouri 63101; and I am Executive Vice President-Energy & Administrative Services of Laclede Gas Company.

2. Attached hereto and made a part hereof for all purposes is my direct testimony, on behalf of Laclede Gas Company.

3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct to the best of my knowledge and belief.

K. J. Neises

Kenneth J. Neises

Subscribed and sworn to before me this 29th day of November, 2006.

Karen A. Zurliene

Notary Public

KAREN A. ZURLIENE
NOTARY PUBLIC - NOTARY SEAL
STATE OF MISSOURI, CITY OF ST. LOUIS
MY COMMISSION EXPIRES FEBRUARY 18, 2008