Exhibit No.:	
Issue:	Capital Structure, Cash Working Capital, Injuries and Damages, Laclede Pipeline, Dues and Miscellaneous Expenses
Witness:	Glenn W. Buck
Type of Exhibit:	Rebuttal Testimony
Sponsoring Party:	Laclede Gas Company
Case No.:	GR-2002-356

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Service Commission

LACLEDE GAS COMPANY

GR-2002-356

REBUTTAL TESTIMONY

OF

GLENN W. BUCK

Rebuttal Testimony of Glenn W. Buck

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REBUTTAL TESTIMONY OF GLENN W. BUCK

Q. Please state your name and business address.

A. My name is Glenn W. Buck, and my business address is 720 Olive Street, St. Louis, Missouri, 63101.

Q. Are you the same Glenn W. Buck who previously filed direct testimony in this proceeding on behalf of Laclede Gas Company ("Laclede" or "Company")?

A. Yes.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to respond to the direct testimony of Commission Staff ("Staff") witness Roberta McKiddy and Office of Public Counsel ("OPC") witness Mark Burdette as such testimony relates to the inclusion of short-term debt in capital structure. I will also address the revenue lag time calculation sponsored by Staff witness Lisa Hanneken. Next, I will respond to adjustments sponsored by Staff Witness Leasha Teel relating to Injuries and Damages and for Laclede Pipeline Company. Finally, I will address dues and miscellaneous expense disallowances sponsored by both Staff witness Jeremy Hagemeyer and OPC witness Kimbery Bolin.

Capital Structure

Q. Please explain the Parties' respective positions regarding use of short-term debt in capital structure.

A. Staff witness McKiddy has included a level of short-term debt based on a 13-month average of **month-end** short-term debt balances, adjusted for Construction

Work in Progress ("CWIP") and the gas safety Accounting Authority Order ("AAO") balances. OPC witness Burdette includes the **average daily** balance of short-term debt, adjusted for CWIP. The Company's position is that short-term debt should only be included to the extent that it reflects the seasonal inventory balances and Cash Working Capital included in this case.

Q. Do all of the parties addressing the issue recommend that short-term debt balances and costs be re-examined as part of the true-up process in this proceeding?

A. Yes, they do.

Q. Ms. McKiddy used **month-end** balances in her calculation of short-term debt. Is this appropriate?

A. No. Use of month-end balances for short-term debt is unrepresentative of how short-term debt is actually incurred and utilized. The Company issues/repays short-term debt on a daily basis. For example, it is not uncommon for the Company to issue an increment of debt that may only have a one-day duration. Unless that day happens to be the last day of the month, use of month-end balances would never capture this transaction. Conversely, if that same transaction occurred on the last day of the month, Ms. McKiddy's calculation would weight that issue as if it had been outstanding the entire period. Clearly, such an approach will not result in an accurate representation of the Company's average short-term debt.

Q. Are there other reasons why month-end balances are not representative of the average amount of short-term debt outstanding?

A. Yes. Laclede's use of short-term debt peaks near the end of each month as this is when the Company pays its suppliers for gas. This short-term debt peak is subsequently reduced as the Company pays down these amounts over the following month as funds come in from customers. As a result of this pattern, using month-end balances will overstate the amount of short-term debt utilized for financing the day-to-day activities of the Company. Use of average daily balances, rather than month-end balances, more accurately reflects the actual financing activities of the Company.

Q. Does the Company recommend that the average daily balances be included in the ratemaking capital structure?

A. At a minimum, the average daily balances, rather than month-end balances, should be used in setting rates for Laclede. However, even utilization of the full average daily balances overstates the amount of short-term debt outstanding on a going-forward basis.

Q. Please explain.

A. Laclede uses short-term debt for several purposes: 1) to finance seasonal inventory levels for natural gas stored underground and propane stored in our cavern; 2) to finance the day-to-day operations of the company (cash working capital); and 3) as a bridge to permanent financing. Historical short-term debt levels are also affected by items such as the under-recovery of costs due to warmer-than-normal weather. Ultimately, the short-term debt that is not seasonal in nature will be replaced by other forms of long-term financing, such as common equity or long-term debt.

Q. What level of short-term debt is Laclede recommending be used in the ratemaking capital structure?

A. Laclede recommends that the Commission include short-term debt equivalent to inventory levels and cash working capital included in rate base. All other short-term debt is temporary in nature, primarily resulting from bridge financing for our investments in utility property additions or replacements. Short-term debt included at the levels recommended by Staff and OPC are unsustainable and expose the Company to interest rate, refinancing, and liquidity risk that do not comport with the Company's credit ratings, Staff and OPC return recommendations, or current market realities. Laclede further recommends that the level of short-term debt in the capital structure be adjusted to match the level of cash working capital in rate base should the Commission find that it is appropriate to include inventory carrying costs in the PGA.

<u>Cash Working Capital – Collection Lag</u>

Q. Please describe what is at issue regarding the collection lag component of cash working capital.

A. The collection lag component of cash working capital represents the time between when the Company issues a bill for service and when it ultimately receives payment from the customer. Since the Company must provide funds to cover its costs of service during this period between bill issuance and ultimate payment, it is important to ensure that this collection lag is accurately calculated so that the Company is compensated for that investment.

Q. Do you agree with the collection lag proposed by Staff witness Lisa Hanneken?

A. No. It is important to point out that the Company determined the collection lag based on an accounts receivable turnover analysis involving the entire **universe** of our 630,000 customers during the **test-year** approved in this proceeding (the 12 months ended November 2001). This analysis, which took into account the actual payment experience of all of the Company's customers for a full year, resulted in a collection lag of 41.29 days. In contrast, Staff witness Lisa Hanneken based her collection lag on a **point-in-time sample** of 361 customers in August of 2001, and utilized the period ended **February, 2001**. Ms. Hanneken's sample indicated an overall collection lag for sales customers of 25.34 days.

Q. Has the Commission approved the methodology used by the Company in prior cases?

A. Yes. The Commission has historically supported the methodology used by the Company. It was most recently litigated in Case No. GR-99-315 when the Commission **again** found that the use of a turnover analysis utilizing the entire universe of customers was more appropriate than the very limited, and in this case, dated sample analysis sponsored by Staff. The collection lag for sales customers approved by the Commission in that proceeding was 34.8 days.

Q. You stated that the Commission approved a 34.8 day collection lag in Case No. GR-99-315. Does it make any sense that the lag would decrease to 25.34 days as recommended by Staff in the current proceeding?

A. No, it makes absolutely no sense at all. Subsequent to the Commission decision in Case No. GR-99-315, the Company has gone to extraordinary lengths to assist our customers in maintaining gas service in response to the higher bills that were experienced in the winter of 2000-2001 as a result of abnormally cold weather in November and December and escalating wholesale gas prices. The Company has offered "Catch-Up" programs for customers in danger of disconnection, has entered into historically unprecedented short- and long-term payment arrangements with our customers stretching over as many as 24 months, and has been more liberal than the Commission's own rules required for Cold Weather Rule submissions. Given these facts, it is counter-intuitive to assume, as Staff's stale and limited sample analysis does, that the collection lag time for the Company's customers has decreased. In reality, these actions should, and, in fact, have caused the collection lag to increase. This observation is consistent with the collection lag of 41.29 days calculated by Laclede

Q. What would be required for the Company to actually achieve the collection lag of 25.34 days recommended by Staff?

A. To achieve the collection lag suggested by the Staff in this proceeding would require that the Company undertake draconian collection practices -- practices which would result in additional and substantial expense to the Company, and additional dislocation for our customers -- to the detriment of the Company, its customers, and this Commission. Based on its experience with the Commission's emergency amendments to the Cold Weather Rule, the Company believed that all stakeholders in the regulatory process recognized the need to take special measures to keep customers on the system and to restore service to customers who had been disconnected. Unfortunately, Staff's unreasonable, unrepresentative and stale collection lag recommendation seeks to penalize the

Company for its efforts in this regard and in the process sends exactly the wrong message about how a utility's attempt to work with its customers will be subsequently treated in the ratemaking process.

Q. Aside from being inconsistent with reality, are there any specific deficiencies in the analysis performed by Staff in this proceeding?

A. Yes. The Staff's analysis has several serious flaws: 1) the customer sample is based on a point-in-time review of customer demographics that does not fit with Laclede's constantly changing customer base; 2) the sample does not take into consideration the Company's need to carry customers who have substantial "pre-existing" balances; and 3) the period analyzed is extremely dated, reflecting a period ended well over a year ago, and does not reflect the real change in customer payment practices that have occurred subsequent to that time.

Q. You stated that the point-in-time review of customer demographics does not match Laclede's customer base. Please explain.

A. The Staff's sample was based on discussions with the Company during the pendancy of Laclede's last rate case, Case No. GR-2001-629. The Staff requested a sample based on the customer demographics of Laclede's service territory in late July of 2001, and billing/payment information for 361 customers was supplied in response to such request. Please note that the Company did not, and does not, agree that such sample adequately represents Laclede's customer population.

Q. Why is that?

A. Staff's point-in-time customer sample does not reflect the true demographic that Laclede's "real-time," universal study captured. To illustrate, Staff's sample was taken from parties who were actual Laclede customers as of July 2001. Staff then looked at the billing and payment information for these customers during the period from March 2000 through February 2001. Therefore, Staff's customer sample is not drawn from all of Laclede's customers who received service during the March 2000-February 2001 period, but only those customers who received service during the period *and* who were still customers as of July 2001. Thus, any parties who were customers during some portion of the period analyzed, *but who had left the system between March 2000 and July 2001 were not counted.*[1] Since Laclede performs approximately 120,000 gas service "turn-ons" per year, the number of customers missing from Staff's study is significant. This fact undermines the reliability of Staff's point-in-time sampling, especially compared to the Company's real-time universal analysis.

Q. Did the Staff's analysis take into consideration customers who had a beginning balance entering the period under review?

A. No. The Staff's analysis did not take into consideration that many customers carry a balance owed to the Company. Customers receiving service under Cold Weather Rule and other payment arrangement procedures will, by design, be carrying a balance at any point in time. This represents a real cash outlay on the

[1] In addition, of the 361 sample customers provided to Staff from Laclede's July 2001 records, 25 were not customers during the March 2000-February 2001 period, but had initiated service after February 2001. Staff deleted these customers from its analysis, leaving Staff with a sample of 336 customers. I do not know how the deletion of 7% of Staff's sample affected Staff's desired demographics.

Company's part. Ignoring such outlays, as Staff's analysis does, deliberately understates the cash working capital needs of the Company.

Q. Is the Staff's analysis based on dated information?

A. Yes. The Staff's analysis is based on customer information from the period of March 2000 through February 2001, whereas the test year in this proceeding is for the period from December 2000 through November 2001.

Q. Have you updated Staff's analysis to reflect the test year in this proceeding?

A. Yes. Although I used a slightly different method than that performed by the Staff, a review of the **same** customers used in the Staff's sample reveals that, had the Staff updated its study for the test period in this proceeding, they would have calculated an average collection lag of approximately 37 days, or roughly 12 days more than indicated in the study Staff used in its direct filing. For the reasons discussed previously, the Company does not advocate a sample-based analysis. However, even this method, as updated, adds additional support to the reasonableness of the Company's filed position.

Q. Does the collection lag advocated by the Company reflect the effects of the Emergency Cold Weather Rule Amendment passed by this Commission in November, 2001?

A. It does not. The changes to the Cold Weather Rule, which would be expected to exert upward pressure on collection lags, occurred at the end of the test year in this proceeding. This, too, while not yet reflected in the analyses performed by any party to the proceeding, adds further support to the reasonableness of the Company's position on this issue.

Injuries and Damages

Q. Do you agree with the injuries and damages position sponsored by Staff witness Leasha S. Teel.

A. No. Once again, I believe it is another example of an adjustment that simply fails to recognize known and measurable changes to the Company's cost of service.

Q. Please explain why you believe Ms. Teel's adjustment is unreasonable?

A. The Staff's position on injuries and damages expense is unreasonable for two basic reasons. First, Staff's use of the actual test year provision as an appropriate level of test year expense based on some unexplained "conclusion" is not determinative of the reasonableness of the going forward level of such expense. Second, effective October 1, 2001, one month before the close of the test year in this proceeding, the Company experienced a known and measurable increase in the level of its insurance deductible (also known as retention). Specifically, the deductible increased by nearly four times, from $200,000 per occurrence to $750,000 per occurrence, which known and measurable cost increase the Staff's position simply ignores.

Q. What adjustment did the Company propose to the test year provision for injuries and damages?

A. The Company adjusted the test year provision to reflect a three-year average of actual cash payments net of reimbursements ending with the test-year's end.

Q. Why is the use of a multi-year average appropriate?

A. Actual cash payments for injuries and damages fluctuate significantly from year to year. The test year provision itself is not likely to be representative of the ongoing level of expense incurred by the company. The use of a multi-year average includes a larger pool of data that is likely to be more predictive of future expense levels and is also consistent with Staff's treatment of other cost components of Laclede's cost of service.

Q. Does Staff comment on the use of multi-year averages?

A. Yes. Staff witness Teel, in her direct testimony (Page 4, lines 1- 2), in fact recommends the use of a multi-year average, saying, "Based on Staff's analysis of previous years' cash payments, a multi-year average would be appropriate." Yet, inexplicably, she concludes that the test year provision is appropriate. This results in no adjustment by the Staff.

Q. Does she justify this conclusion?

A. No. Her testimony contained no explanation whatsoever as to her expressed, but unsupported, conclusion that the test year provision is the appropriate level for ongoing injuries and damages.

Q. Should the adjustment submitted by the Company be updated through March 31, 2002?

A. Yes. It is appropriate to update the adjustment through March. This is consistent with the update period established by the Commission in the case and the treatment of other income statement adjustments including, for example, uncollectible expense.

Q. What method has the Staff employed for the injuries and damages adjustment in previous cases?

A. In all of Laclede's rate cases since 1994, the injuries and damages expense has been adjusted by Staff to a multi-year average of cash payments. Additionally, this adjustment has also routinely been updated by Staff through the update period used for the case. The Company's treatment is consistent with historical treatment of injuries and damages expense; but Staff's failure to use a multi-year average or to update is both unexplained and contrary to past Staff methodology in this area.

Q. Please explain the second concern you have with Ms. Teel's testimony.

A. As I mentioned above, the Company has experienced an increase in retention cost as a result of an insurance policy change that became effective prior to the close of the test period, on October 1, 2001. Under the previous policy the Company was reimbursed for all liability expenses above $200,000 per incident. The new policy only reimburses Laclede for expenses that exceed $750,000. This is similar to the familiar concept of an auto insurance deductible. When an accident occurs, there will naturally be a higher level of out-of-pocket expense under the higher deductible. Similarly, any incident that Laclede now experiences that results in a liability exceeding $200,000 will result in an increase in the Company's "out-of-pocket" expense. Under prior policies, these would be reimbursed expenses.

Q. How did the Company calculate its adjustment related to the increased retention?

A. The Company reviewed 11 years of claims history. For any claim the Company incurred that exceeded the $200,000 retention, a pro forma cost was determined based on a retention level of $750,000. The results were averaged over the entire period.

Q. Why did the Company use 11 years of history?

A. Large claims (those that exceed the Company's then-current deductible) occur infrequently and fluctuate from year-to-year. Any individual year may not even have one such occurrence. But over time they are known to happen. Given these circumstances, an average over a long time horizon is the appropriate way to capture the true effect of such events. Eleven years was the longest history of claims the Company had available to analyze.

Q. An 11-year average includes a very long look backward. Is such an average still representative of injuries and damages expense going forward?

A. Because an 11-year average does look so far backward, basing going-forward costs on this average will yield a very conservative result. The effects of inflation and increased damage claims over the past decade are likely to cause this average to understate expected costs going forward. Therefore, Laclede's adjustment of $467,000 to account for the effect of the increased retention is not just reasonable but very conservative.

Q. Does Ms. Teel acknowledge the significant increase in the Company's retention level in her direct testimony?

A. Yes. Ms. Teel acknowledges (Page 3, line 22 through Page 4, line 1 of her direct testimony) that the Company's deductible increased from $200,000 to $750,000 per incident.

Q. Has Ms. Teel made any adjustment to the injuries and damages expense to reflect the uncontroverted, nearly four-fold, increase in expenses that is taking place due to this known and measurable test year change in cost retention?

A. No, she makes no such adjustment. She notes the change in retention, but chooses to completely ignore the known and measurable increase in costs this will represent to Laclede. This glaring omission represents $467,000 of the $683,000 difference between the Staff's direct case and the Company's March 31, 2002 updated position on this issue. Unless recognition is given to this known and measurable increase in injuries and damages expense, the Company's shareholders will be required to absorb this failure to recover a legitimate cost of service. The remaining difference of $216,000 is due to the Company's use, in updating to the March 31, 2002 update period, of the traditional averaging method previously employed in past Laclede cases by the Staff, as discussed above.

Laclede Pipeline Company

Q. Do you agree with Staff's position regarding the treatment of costs related to Laclede Pipeline Company ("LPC").

A. No.

Q. What is LPC?

A. LPC is an unregulated subsidiary of The Laclede Group, Inc. ("Group") that provides transportation services for the utility's propane peak-shaving operations. Prior to the formation of Group on October 1, 2001, LPC was a subsidiary of Laclede Gas Company.

Q. What are the Parties' respective positions regarding LPC?

A. Staff witness Leasha Teel included the pre-tax income for the 12 months ended March 2002 in the Staff's operating income. Staff also includes LPC net plant in rate base. For purposes of determining Capital Structure, the Staff has ignored the equity investment LPC carries on its books. The Company's filed position sought to recover costs related to LPC through a service fee arrangement that essentially recovers the costs and investment on a fully distributed cost basis.

Q. Is the Staff's treatment of LPC in this proceeding a departure from past practice?

A. Yes. In the past, prior to formation of Group, the Staff's capital structure included the equity of LPC, as well as that of the other subsidiaries of Laclede Gas. In this proceeding, Staff is utilizing the stand-alone capital structure of Laclede Gas, a practice that is consistent with how Laclede filed in both the current proceeding and in Case No. GR-2001-629.

Q. Should the Commission endorse the use of a stand-alone capital structure for regulated subsidiaries of holding companies?

A. Yes, Laclede believes that the Commission should endorse this treatment and urges the Commission to incorporate such language into its decision in this proceeding. Such language will provide guidance to the Parties in future rate proceedings.

Q. You stated that the Staff included the pre-tax income for LPC in Staff's operating income. Is the level of pre-tax income proposed by Staff indicative of the actual costs of providing this service to Laclede?

A. No. The pre-tax income for the 12 months ended March 2002 is overstated due to a timing difference related to LPC's accounting as compared to the accounting on

Laclede's books and, to a much lesser extent, due to revenues (offset by related expenses) for LPC transactions with third parties. As the transactions with third parties in this period were negligible, I will focus only on the timing difference.

Q. What is the timing difference you refer to?

A. Under normal circumstances, the amount of net margin on LPC's books related to the transportation services provided to Laclede Gas should match the amount of expense on Laclede Gas' books in any given fiscal year, resulting in no revenue requirement effect. In other words, the expense reflected on Laclede Gas' books would be completely offset by the net margin included from LPC, as they are essentially mirror transactions. However, during any given 12-month period that spans multiple heating seasons, the amount of net margin on LPC's books may be different than that on Laclede Gas' books because of timing differences due to their respective accounting recognition methods. Such is the case at the March 2002 ended period. In order to bring the income of LPC in line with the expenses and adjustments reflected on Laclede's books, LPC pre-tax income must be reduced by approximately $141,000. Simply put, the adjustment is doing nothing more than normalizing for a timing difference in order to synchronize the books of Laclede Gas and LPC. Beyond this adjustment, the Staff's filing and the Company's filing, in result, are essentially the same.

Dues and Miscellaneous Expenses

Q. What is the next topic you will address?

A. I will be addressing miscellaneous dues and other expenses excluded by the Staff and OPC. The Company's filing removed certain expenses from cost of service.

These expenses were primarily related to the Company's leases at sports venues in the St. Louis area and certain membership dues. The Staff and OPC recommended removal of certain additional expenses, of which many were duplicative of each other. Some of these expenses were related to economic development and others included professional dues, service awards and expenses related to employee involvement in the community. The Company continues to believe that many of these expenses are ordinary business expenses that will be incurred by any company in the course of doing business. However, to resolve the issue in this proceeding, the Company has come to an agreement with the Staff that excludes nearly $400,000 of additional expense, or nearly all of Staff's filed adjustments, beyond those initially proposed by the Company. As this amount is substantially higher -- over two times -- the level of additional exclusions recommended by OPC, the Company assumes that there is no issue to be litigated at this time.

Q. Does this conclude your testimony?

A. Yes.

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-2002-356

AFFIDAVIT

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

Glenn W. Buck, of lawful age, being first duly sworn, deposes and states:

1. My name is Glenn W. Buck. My business address is 720 Olive Street, St. Louis, Missouri 63101; and I am Manager, Financial Services for Laclede Gas Company.

2. Attached hereto and made part hereof for all purposes is my rebuttal testimony, consisting of pages 1 to 17, inclusive.

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.

Glenn W Buck

Glenn W. Buck

Subscribed and sworn to before me this 1st day of August, 2002.

Susan M. Kopp

SUSAN M. KOPP
Notary Public — Notary Seal
STATE OF MISSOURI
St. Louis County
My Commission Expires: Dec. 19, 2003