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LACLEDE GAS COMPANY

GR-2013-0171

DIRECT TESTIMONY

OF

SUZANNE SITHERWOOD

DECEMBER 2012

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DIRECT TESTIMONY OF SUZANNE SITHERWOOD

Q. Please state your name and business address.

A. My name is Suzanne Sitherwood, 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 The Laclede Group, Inc. in the position of President and Chief Executive Officer. The Laclede Group, Inc, is the parent corporation of Laclede Gas Company, the applicant in this proceeding.

Q. How long have you been with Laclede?

A. I joined The Laclede Group on September 1, 2011, as President of the Company. With the retirement of Douglas Yaeger, I also assumed the position of Chief executive Officer of The Laclede Group on February 1, 2012.

Q. Where were you employed prior to joining Laclede?

A. Prior to joining Laclede, I worked for either Atlanta Gas Light or AGL Resources for 31 years. I joined Atlanta Gas Light right out of college, doing work as a co-op student in the cathodic protection group. During my first 20 years at Atlanta Gas Light, I had the opportunity to serve in a wide variety of roles, including vice president of engineering, environment and construction; chief engineer; director of competition planning; director of rates and regulatory affairs and director of residential markets. In June 2002, I was appointed to the position of vice president of gas operations and capacity planning at AGL Resources. In that capacity, I directed the natural gas distribution infrastructure, gas control, gas measurement, marketer relations, customer-related services, interstate pipeline relationships, asset management and management of storage facilities. In 2004,

I was appointed president of Atlanta Gas Light, Chattanooga Gas and Florida City Gas, which are natural gas utility subsidiaries of AGL Resources. In total, these subsidiaries serve more than 1.6 million customers.

Q. What is your educational background?

A. I graduated from Southern College of Technology in 1983 with a BS in Industrial Engineering Technology. I earned a Master's Degree in Business Administration from Brenau University in 1997.

Q. Have you testified in other regulatory proceedings?

A. Yes. As part of my responsibilities with my prior employer, I had an opportunity to submit testimony in a number of regulatory proceedings on a wide variety of regulatory issues.

PURPOSE OF TESTIMONY

Q. What is the purpose of your testimony in this case?

A. The purpose of my testimony is to provide an overview of the governing principles and objectives that guide Laclede today in its efforts to enhance the quality and value of utility service for our Missouri customers. I strongly believe that having and following a core set of governing principles is essential to ensuring that an enterprise can achieve its fundamental objective of providing high quality customer service at a favorable price, while still serving the needs of its employees, investors, and the communities in which it operates. I will address those principles in some detail. As I do, I will also be introducing a number of the Laclede witnesses in this proceeding who will be submitting testimony on a number of the measures we have taken to put these principles into action.

GOVERNING PRINCIPLES AND OBJECTIVES

Q. You mentioned certain fundamental principles or objectives that govern the Company's efforts to provide high quality and efficient service to its utility customers. What are they?

A. First, and foremost, we believe our most fundamental obligation is to provide utility service in a manner that protects the safety and welfare of our customers, our employees and the public generally. Second, we view open and transparent communication with employees and all stakeholders in the Company as indispensable keys to developing and implementing policies that will promote the best interests of everyone, as well as the communities we serve. Third, we believe our customers are best served by attracting and maintaining an empowered workforce that is fully engaged and that reflects the diversity of our customer base. Fourth, we are committed to growing Laclede, not only because growth has the potential to lower costs for our customers over the long-term, but because growth can also provide both customers and employees with more opportunities and better service options. Finally, and most importantly, we are committed to making the investments in infrastructure, technology and business processes necessary to enable us to "wow" our customers by providing consistently good and, wherever possible, exceptional customer service at a competitive price.

Q. How has the Company attempted to advance its safety objectives?

A. Laclede has always placed the highest possible priority on maintaining its distribution system in a manner that respects the welfare and safety of our customers and the communities in which we operate. Since I joined Laclede, we have attempted to embed this fundamental principle even more deeply in our corporate culture. In fact, that's one

of the main reasons why we review our performance in key safety areas with management each month. It is also why we focus on at least one safety item in our periodic communications with all of our employees. I know this Commission and its Safety Staff have a long history of pursuing safety protocols that are among the most rigorous in the country and, as a gas distribution company in Missouri, we are committed to operating our system with the same degree of rigor.

Q. Has the Company demonstrated its commitment to safety in other ways?

A. Yes. One of the most important initiatives we've undertaken to stay at the forefront in this area is to aggressively accelerate our cast iron main replacement program. Just a few years ago, we were replacing cast iron main at a rate of about 6 or 7 miles per year. We have increased our replacement rate to nearly five times that amount, as we replaced more than 30 miles of cast iron main this past fiscal year. By accelerating the program in this fashion, we are making our system safer more quickly, becoming more efficient in how we go about doing the replacement work, and reducing the number of leak calls to which we have to respond and repair. We think staying ahead of the curve unquestionably has been the right thing to do and I want to thank the members of the Commission's Safety Staff who have been so supportive of this effort. For additional details on this important program, I would direct the Commission's attention to the direct testimony of Craig Hoeflerlin, our Vice President of Engineering and Field Services.

Q. Why do you view open communications and transparency as being critical to the development and effective implementation of the kind of policies and practices that will best serve the interests of the Company's stakeholders?

A. I believe robust communication and transparency are key to achieving these results for several reasons. First, I believe our employees deserve and appreciate being given the “straight story.” I have seen firsthand how communicating Company goals in a clear and consistent manner inspires employees to think creatively and to dedicate their efforts to advance those goals. In many instances, front-line employees have a more nuanced and practical understanding of the most feasible and effective ways to achieve a particular objective, but they can only contribute that knowledge and skill if they know what the objective is. Second, communicating in a consistent and transparent manner with all stakeholders, including employees, customers, investors and our regulators, brings with it a natural discipline to take the interests of all stakeholders into account at the very outset when policies are being created. Such an approach invariably means that all stakeholders will hear the same exact message regarding the merits of the policy, so that message must withstand scrutiny no matter who the audience.

Q. What steps has the Company taken to foster more consistent and transparent communications?

A. We have taken a number of important steps in this direction. Perhaps most significantly, we have established a process for holding face-to-face meetings each month with every one of our employees. Although this requires a significant commitment of time and resources, it provides a unique opportunity to have subject matter experts discuss and receive feedback on issues of vital importance to our employees and the Company's future. I say unique, because I don't believe written communications can fully substitute for the interplay and focus that face-to-face meetings bring. Nor can written communications hold management as accountable for delivering on its assurances to

employees as a meeting in which candid employee feedback in an open environment is actively encouraged. For the same reasons, we have also made a more concerted effort to convey our strategic message in a consistent way to other stakeholders, including investors and regulators.

Q. Has the Company pursued any other measures to complement this increased focus on open and transparent communication?

A. Yes. If an enterprise wants to motivate employees to contribute a more robust effort to achieve the goals of the enterprise, it is important that employees feel that their successful contributions to improve customer service or make operations run more efficiently will be fully recognized, including financially. To that end, the Company recently created a new incentive compensation program to cover all of the Company's employees, both union and non-union. Everyone in the Company is now directly invested in not only doing the routine work for which they were hired, but also in going above and beyond normal expectations to achieve truly superior results or meet special challenges, such as a smooth implementation of the Company's new enterprise-wide information management system. Additional details of the Company's new incentive program are addressed in the direct testimony of David SeEVERS, the Company's Director of Compensation and Benefits.

Q. You also mentioned the Company's emphasis on fostering a diverse workforce as another guiding principle. Why is that important?

A. Institutions today, ranging from corporations, to government agencies, to non-profit organizations, increasingly recognize that their employees are their most important asset and that this critical asset is immeasurably enriched when people from every background

are encouraged and allowed to contribute their skills, knowledge and life perspectives. I think this is particularly true of a public utility like Laclede. Unlike many businesses, utilities are inextricably tied to the communities they serve by virtue of their embedded infrastructure, history, and obligation to serve all members and areas of the community without preference or discrimination. As a result, it is even more important for utilities to build and maintain a workforce and supplier relationships that reasonably reflect the diversity of the communities in which they operate.

Q. What has the Company done recently to foster this kind of diversity and inclusion?

A. Inside the Company, we've created a 15 member diversity and inclusion committee made up of employees tasked with making these values an everyday component of our corporate fabric. And the Company has made sure that its senior officers demonstrate their full support for these efforts by attending meetings of the group, by developing and implementing policies that reflect these values, and by actively participating in events like the Annual Diversity Summit in St. Louis, as well as organizations like the St. Louis Minority Supplier Development Council (MSDC). Our recent establishment of a domestic partner benefit is one example of a policy initiative in this regard. There will be more. In the area of supplier diversity, we are an enthusiastic and constructive force in working with other MEDA members on the supplier diversity initiative in which the Commission, and Commissioner Kenney in particular, have taken such a strong interest. For many years, Laclede has been a strong supporter and Board member of the MSDC, and the Company was a sponsor of the MSDC's Business Opportunity Fair. Tom Schaller, our Director of Strategic Procurement, was nominated by the MSDC for the 2012 Buyer/Coordinator of the Year Award. To make diversity and inclusion a living,

breathing part of our corporate culture, we really have to drive it both internally and externally.

Q. Why is the Company emphasizing growth as a key governing principle?

A. One of the main reasons I was selected by the Board of Directors to lead this Company was my experience in helping to grow AGL from a company that was about the size of Laclede 15 or 16 years ago to what it is today, the largest gas-only utility in the country. We are strongly committed to moving Laclede in a similar direction and, as the smallest LDC by far in our peer group, we have plenty of room to do just that. Laclede has been a proud Missouri company for over a century and a half. Unlike all too many other companies that have moved or reduced their corporate presence in the St Louis area, we want St. Louis and Missouri to be and remain the headquarters of a thriving and growing business. I want to emphasize, however, that Laclede is not pursuing growth just for growth's sake. To the contrary, we believe growth, if done sensibly, will redound to the interests of our customers, our employees and our investors, as well as the communities we serve.

Q. Why is that?

A. First, it is important to recognize that Laclede operates in a mature market where there is little organic customer growth. Moreover, like many other LDC's, we have seen average customer usage continue to decline year after year, as a result of new and more efficient housing stock, appliances and weatherization measures. That's not a bad thing in and of itself. In fact, aggressively helping our customers to be as efficient as possible in their use of natural gas is by now an integral part of our corporate culture. But these factors

have and will continue to put upward pressure on rates, as increases in the costs of serving our customers need to be recovered over the same or fewer volumes.

Q. How does growth serve to ameliorate these factors?

A. It does so in a number of ways, but probably the most significant is by expanding the base over which administrative, corporate support, information system, and other relatively fixed costs can be recovered. This, in turn, reduces the proportion and amount of such costs that must be borne by each utility customer.

Q. How does the Company intend to pursue its growth objectives?

A. In a word or two, we want to grow aggressively yet prudently. We believe in sticking with what we know, but being open to sensible opportunities to expand into related areas. Acquisitions of other local distribution or pipeline companies is obviously an example of the former, provided those acquisitions can be achieved under workable terms that make them financially and operationally feasible over the long term. We believe our recent proposed acquisition of Missouri Gas Energy and New England Gas fully satisfies this standard for sensible growth that benefits both shareholders and customers.

Q. What did you mean by expanding into related areas?

A. In terms of expanding into related areas, we're very excited about the joint business arrangement that we recently entered into with a premier, world-class engineering firm, to build, own and operate compressed natural gas fueling stations in St. Louis and other promising markets throughout the United States. With the incredible expansion of domestic natural gas supplies brought about by the revolution in shale field drilling, we now have an opportunity to make real progress in reducing our dependence on foreign oil with an environmentally-friendly and incredibly competitive alternative to diesel and

gasoline. And while we are pursuing this opportunity on an unregulated basis, we can do it in a way that helps to make greater use of an LDC infrastructure that's already in place – a circumstance that will unquestionably benefit our utility customers. No one, including me, knows what the real, long-term potential of CNG is in the United States. That's exactly why we're proceeding under a framework that permits us to carefully evaluate each station opportunity before we commit investment dollars and why we're not seeking any subsidy for this venture in our regulated rates. Because the economics and environmental benefits of CNG are so extraordinary, however, and because it has gained such wide acceptance in other countries, I think it is one of those growth opportunities at which we have to take a serious run.

Q. How about growing organically?

A. As I said before, although the Company's opportunities for organic growth have been relatively limited, that doesn't mean new ones can't be created. We constantly evaluate whether there are better or different ways to provide utility service to our customers. If our evaluation shows that there is a better or more efficient way to provide service or to offer entirely new services, we will pursue them.

Q. Please explain what you mean by "wowing" the customer.

A. In the end, all of our other governing principles are aimed at advancing this final objective. We only exist as an enterprise because we have customers who need and want our service, and I firmly believe that we have to strive every day to provide the kind of exceptional, high value service that will engender this kind of response from the customer. I know how rare it is for any business to elicit that kind of response from

customers these days, but great customer service is all about stretching to achieve the extraordinary.

Q. How has the Company's implementation of its other governing principles advanced this last one?

A. Just to give a few examples, our investment in the accelerated cast iron main program has not only enhanced the safety and integrity of our distribution system, but it has also enabled the Company to move thousands of customer meters from the inside to the outside of the customer's home. In today's busy world, requiring customers to take off work or change plans so that the Company can replace an inside meter or perform a corrosion inspection can be a source of some frustration for the customer. Our investment to reconfigure the system where possible will make our service even more seamless and convenient for the customer. Another example is the enhanced service experience we will be able to afford customers as a result of our investment in our new enterprise-wide information management system. Among other things, this system will allow our call center professionals to more easily access and manage customer and operational information. This should, in turn, enhance our ability to provide the customer what they want and need in a more timely and responsive manner – something that customers really value. The system should also allow us to develop better tools for all customers that will empower them to understand and take greater control over their energy usage. Ryan Hyman, the Company's Vice President for Information Technology Service, provides additional information on this new system and its capabilities in his direct testimony.

Q. Has the Company also made an effort to enhance the service experience for its most vulnerable customers?

A. Yes. Laclede has long been an industry leader in pursuing initiatives aimed at assisting our most vulnerable customers to maintain utility service. The Company has consistently advocated on behalf of increased energy assistance funding for low income customers. This has included support for governmental assistance such as LIHEAP funding at the federal level and UtiliCare funding at the state level. We have also been a strong supporter of Dollar-Help, a program we helped create that has raised millions of dollars in customer contributions over the years to help customers of Laclede as well as customers that use other energy services. We have also supported the establishment of utility programs aimed at complimenting these assistance programs, including our low-income energy affordability program and low-income weatherization program.

Q. Does the Company also support those community action agencies, charitable and religious organizations, and other institutions that play such a significant role in assisting vulnerable customers?

A. Yes. Among other efforts, we have for decades held an annual agency luncheon where we take the opportunity to thank these dedicated people for their outstanding efforts to help our customers. More recently, we have also embedded customer service personnel with a number of the agencies to help facilitate the flow of energy assistance and conducted outreach efforts at local schools, churches, and other community venues to ensure that people in the community are aware of the programs available to help them. Additional details about our efforts in this regard are presented in the direct testimony of Dan Ryan, our Director of Customer Care.

Q. Does the Company have any proposals in this case to provide additional resources to help its most vulnerable customers?

A. Yes. As discussed more fully in the direct testimony of Laclede witness Steve Lindsey, the Company is presenting a number of proposals in this case that we believe could address this critical concern in a way that is truly meaningful for our most vulnerable customers and fair to our other customers.

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 Filing of)
Revised Tariffs to Increase its Annual Revenues) Case No. GR-2013-0171
For Natural Gas Service)

A F F I D A V I T


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

Suzanne Sitherwood, of lawful age, being first duly sworn, deposes and states:

1. My name is Suzanne Sitherwood. My business address is 720 Olive Street, St. Louis, Missouri 63101; and I am President and Chief Executive Officer of The Laclede Group, Inc.

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.



Suzanne Sitherwood

Subscribed and sworn to before me this 10th day of December, 2012.



Notary Public

