

Exhibit No.:	
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Witness:	Douglas H. Yaeger
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Sponsoring Party:	Laclede Gas Company
Case No.:	GR-2010-
Date Testimony Prepared	December 4, 2009

LACLEDE GAS COMPANY

GR-2010-

DIRECT TESTIMONY

OF

DOUGLAS H. YAEGER

DIRECT TESTIMONY OF DOUGLAS H. YAEGER

Q. Please state your name and business address.

A. My name is Douglas H. Yaeger, 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 in the position of Chairman of the Board, President and Chief Executive Officer.

Q. Have you prepared a schedule that describes your qualifications and experience?

A. Yes, Schedule 1 to my direct testimony describes my qualifications and experience in the natural gas industry.

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

A. The purpose of my testimony is to explain some of the major factors underlying our need to seek rate relief at this time. I will also address the measures we have undertaken in an effort to reduce the frequency of our rate case filings and better tailor our utility services to meet the expectations and needs of our customers in today's changing energy and economic environment. Finally, I will provide an overview of several of the more important policy issues that will come before the Commission in this case.

Q. How long has it been since Laclede last filed for a general rate increase?

A. Our last request for a general increase in rates was filed approximately three years ago.

Q. Why has Laclede traditionally found it necessary to file rate cases on a periodic basis?

A. The need to seek periodic rate relief has resulted from a number of factors, some relating to the unique demographic circumstances faced by Laclede, and others relating to the impact of various regulatory policies and practices. With regard to demographics,

1 Laclede serves a mature market and has, for some time now, experienced extremely
2 limited growth in its service territory. In fact, its recent overall net growth in customers
3 has averaged less than 1 percent per year. At the same time, the Company's service
4 territory has been affected by an extraordinary amount of urban sprawl, as customers
5 have moved from the inner city and surrounding suburbs to more distant communities at
6 rates that were among the highest in the nation. Although this demographic trend has
7 slowed and even briefly reversed in recent years, it has played a significant role in our
8 historical need for rate relief.

9 Q. How have these demographic factors affected the Company?

10 A. It has placed a significant burden on the financial resources required by Laclede to
11 provide natural gas service -- a burden that is not typically imposed on other local
12 distribution companies ("LDCs"). In effect, it has forced the Company to incur both the
13 fixed investment costs and maintenance expenses necessary to continue service to a
14 declining customer base within the inner city as well as the costs required to build new
15 service in the developing areas to which many of those customers have moved. The end
16 result is a significant net increase in costs with little net customer growth to pay for these
17 increased costs. At the same time, Laclede has experienced persistent increases in other
18 costs, some of which are also demographically driven. These include, among others,
19 substantial increases in bad debt expense arising in large measure from the fact that our
20 customer base includes a high proportion of low-income customers who do not have the
21 means to pay their energy bills. The severe economic downturn over the past year has
22 also had an obvious impact as more customers struggle to pay their living expenses while
23 confronting the challenges posed by unemployment, home foreclosures and other effects

1 of the current environment. If one adds to this the normal ongoing cost increases in other
2 areas of operations, including the need to make annual capital and safety-related
3 expenditures of \$50 million and more in recent years, it becomes apparent why the
4 Company has had to seek rate relief on a periodic basis.

5 Q. How then has the Company managed to defer seeking rate relief for a longer period of
6 time than has customarily been the case?

7 A. Well, to begin with, we recognize that we have an obligation to control or minimize costs
8 where we can so that we only seek rate relief as a last resort. To that end, we are now in
9 the eighth year of a more formal business planning process focused on making company
10 management, including myself, more accountable for controlling costs, improving
11 customer service and creating shareholder value. More recently, we supplemented this
12 process with a Company-wide Continuous Improvement Project (CIP) that is designed to
13 involve employees from all segments of the Company in an ongoing, systematic effort to
14 drive greater efficiencies throughout our operations, while enhancing the quality of our
15 service offerings to customers. We have made good progress in all of these areas – a
16 result that has contributed to our ability to defer seeking rate relief as frequently as we did
17 in the past while, at the same time, permitting us to advance the quality of our customer
18 service.

19 Q. Have changes in regulatory policies and practices also contributed to the Company's
20 ability to seek rate relief less frequently?

21 A. Yes. Some of these positive regulatory developments have been accomplished in our last
22 several rate case proceedings. Perhaps the most significant change was the
23 Commission's approval of our weather mitigation rate design in our 2002 rate case, as

1 well as several changes that were made to improve that design in our last rate case.
2 Among other things, this rate design has helped to ensure that the Company will not
3 dramatically under- or over-recover its fixed distribution costs simply because the
4 weather happens to be warmer or colder than normal. By attempting to de-couple fixed
5 cost recovery from customer consumption during the winter months, the rate design also
6 serves to lessen, in large part, a major financial disincentive to pursue the kind of
7 aggressive energy conservation and efficiency programs that can significantly reduce
8 energy bills for customers over time. As a result of another regulatory change, the
9 carrying costs associated with deferred purchased gas balances and inventory carrying
10 costs are now being recovered through the PGA, which eliminates the need for the
11 Company to file for base rate increases in the event that these costs escalate. Another
12 beneficial tool has been the Infrastructure System Replacement Surcharge, or “ISRS”
13 mechanism. Since its approval by the Missouri General Assembly in 2003, this
14 mechanism has significantly enhanced our ability to begin recovering on a more timely
15 basis those safety-related and public improvement expenditures that we are obligated by
16 law to make. In addition, there has been a positive impact for both the Company and its
17 customers from the Commission’s approval of incentive programs that provide the
18 Company with an opportunity to retain a share of the savings achieved under a gas supply
19 incentive plan as well as a portion of the revenues realized from our sale of gas and
20 pipeline capacity to customers located off our system.

21 Q. You mentioned that in addition to its efforts to contain costs, Laclede has also focused on
22 improving customer service. What kind of improvements has the Company made to its
23 utility service offerings since its last rate case?

1 A. There have been numerous initiatives, but I will focus here on the ones that have had the
2 greatest impact on our customers. Perhaps the most significant advancement has been in
3 the process by which we meter and bill for utility service. Since the last rate case, we
4 have essentially completed full implementation of the automated meter reading (AMR)
5 system that enables the Company to automatically obtain meter readings on a current
6 basis. Given the large number of inside meters in Laclede's service territory, it was a
7 massive undertaking to complete this installation system wide in just a few years. The
8 results, however, have been profoundly beneficial. For example, as a result of AMR we
9 have substantially reduced the need to render estimated bills to customers, a practice that,
10 while necessary, could be a significant source of customer dissatisfaction. Today, only
11 about 1% of our bills are estimated in any given month, compared to 15% plus of our
12 total bills just a few years ago. In addition to improving our ability to bill for actual
13 usage each and every month, the availability of AMR has also virtually eliminated the
14 occasions on which customers have to be inconvenienced by the need to grant entry to a
15 meter reader, stabilized escalating meter reading costs, and provided a rich source of data
16 that can be used by the Company to evaluate its energy efficiency initiatives and by our
17 customers to better control their usage of natural gas. The Company has also
18 implemented a new phone and interactive voice response system and expanded call
19 center hours to better respond to customer calls and serve customers better.

20 Q. Have comparable enhancements been made to the billing part of the process?

21 A. Yes. Since the last rate case, we have fully implemented a new envelope billing system
22 in lieu of our previous, long-standing use of post-card billings. The additional space
23 afforded by envelope billing has permitted the Company to provide its customers with

1 more robust information regarding the cost and nature of their utility service, including
2 graphic depictions of how their usage compares to prior periods, conservation and energy
3 efficiency tips, safety advice and other materials that they can use to better understand
4 and benefit from the services we provide. At the same time, we have also made a
5 concerted effort to advise our customers of the availability and advantages of electronic
6 billing and payment; a use of technology that is more convenient for the individual
7 customer, good for the environment and that also helps to reduce costs for all customers.

8 Q. You mentioned providing customers with the tools necessary to better control and benefit
9 from their natural gas service. What has Laclede done in that regard and why?

10 A. Laclede strongly believes in promoting the direct and efficient use of natural gas, both on
11 environmental grounds and as a way of helping our customers manage their utility costs.
12 Although conservation has always been a sound goal, the significant spikes in gas prices
13 over the past decade and the potential for even steeper increases in the future due to
14 federal efforts to reduce greenhouse gas emissions makes it even more imperative to
15 move in that direction. Fortunately, the implementation of our weather mitigation rate
16 design has enabled us to be even more aggressive in pursuing programs and initiatives
17 that will contribute to this goal. For example, over the last several years, we have been
18 nationally-recognized as a leader in the “Green Building” movement that seeks to
19 promote the use of state-of-the-art energy efficiency measures in new residential and
20 commercial buildings. Together with the help of the Energy Efficiency Collaborative
21 established in our last rate case, we have also rolled out a number of rebate and other
22 programs designed to help residential and commercial customers purchase
23 high-efficiency natural gas equipment and make other improvements that will reduce

1 their energy usage. These are in addition to our traditional programs for financing the
2 acquisition of such energy-saving equipment and materials. Perhaps most importantly,
3 we have made new informational tools available to all of our customers who want to
4 better understand, monitor and control their energy usage. Customers with internet
5 access can now access their account at any time through the Customer Connection feature
6 of our website. By doing so they can obtain individualized information regarding their
7 daily, monthly and annual usage and how such usage compares to their historical usage.
8 We are also constantly looking at ways to build and shape this information base to make
9 it even more helpful for customers. Among other potential enhancements is a process
10 that would allow customers to generally compare their own usage to those of other
11 customers who live in housing stock of a similar size and vintage, so that the feasibility
12 and potential benefits of pursuing energy efficiency measures for each customer could be
13 more readily identified. Laclede witness Ted Reinhart addresses all of these initiatives in
14 greater detail in his direct testimony.

15 Q. You mentioned the financial challenges many customers face today as a result of the
16 economic downturn. Has the Company taken any steps to assist customers in this
17 troubling environment?

18 A. Yes. We have continued to work with others, both inside and outside of our industry, to
19 secure energy assistance funding for our most vulnerable customers at both the federal
20 and state levels. We have also continued our active promotion and support of the
21 Dollar-Help program, under which our customers and the Company have contributed
22 millions of dollars over the years to help financially-challenged customers with their
23 utility bills. In addition, we have maintained those programs approved in our last rate

1 case that are aimed at providing both energy and weatherization assistance to low-income
2 customers.

3 Q. Has Laclede taken other steps to reshape its operations in response to the external
4 developments you have been discussing?

5 A. Yes. We have also taken a number of steps to reevaluate and, where appropriate, make
6 operational changes in that area of our cost structure that has the greatest impact on our
7 customers; namely the costs for gas supplies and related transportation services that make
8 up anywhere from two-thirds to three-fourths of the customer's bill. These actions were
9 prompted by a number of factors. The more notable include reductions in customer
10 demand for the level and type of gas supply resources needed to maintain reliable service
11 for our customers, changes in wholesale gas markets brought about the construction of
12 abundant new interstate pipeline capacity and the emergence of new sources of gas
13 supply, such as "shale" gas, and the impact of extremely volatile changes in gas prices on
14 the cost of maintaining certain kinds of hedging instruments.

15 Q. How has the Company responded to these developments?

16 A. We have made a number of adjustments as a result of these external developments. In
17 terms of our gas supply resources, we determined that the current and reasonably
18 foreseeable peak demands of our customers could be satisfied in the future with
19 something less than the full level of peak-shaving resources that are currently at our
20 disposal. As an initial response to this new reality, we have therefore removed from our
21 regulated cost of service the most expensive form of peaking resources we have – namely
22 our propane peaking inventories and cavern – and proposed corresponding accounting
23 and tariff changes to ensure that regulated customers will be charged only for that limited

1 portion of this resource that may still be needed to meet peak day requirements. In
2 addition to achieving a better match between our gas supply resources and what our
3 customers actually need and should pay for, I have been advised that such a change is
4 more consistent with the Commission's historical disavowal of jurisdiction over
5 transactions involving propane. The other major adjustment we made in October of last
6 year was to modify our hedging program to make greater use of option-based financial
7 instruments rather than futures contracts as a means of providing price protection for our
8 customers. We continue to believe in the importance of providing price stability for our
9 customers through an active hedging program that can be adapted from time to time to
10 account for significant changes in the wholesale market. And we have made substantial
11 progress in achieving this price stability goal.

12 Q. What does Laclede hope to accomplish in this case?

13 A. As we have in the past, I am hopeful that we can use this proceeding to solidify and build
14 upon the measures that have allowed us to more accurately reflect the on-going cost of
15 providing utility service as well as advance programs that will better enable the Company
16 and its customers to cope with the challenges posed by the current economy and
17 continuing volatility in the wholesale natural gas market. I want to emphasize that the
18 Company intends to work with the Staff, Public Counsel and other parties, as it has in
19 previous cases, to formulate constructive ways to accomplish these goals, and I am
20 optimistic that solutions acceptable to everyone can be reached and recommended to the
21 Commission. To that end, I want to discuss three issues that are of particular importance
22 in this case.

23 Q. What is the first issue?

1 A. The first issue involves the continuation and refinement of the weather mitigation rate
2 design that has previously been approved by the Commission. As discussed by Laclede
3 witness Michael Cline, we think there are a few, pragmatic adjustments that can and
4 should be made to that rate design in this case. With or without those revisions, however,
5 we believe it is absolutely imperative that the basic structure of our current rate design –
6 or as a potential alternative, a straight-fixed variable rate design – be approved.

7 Q. Please explain why.

8 A. There are a number of reasons why the basic structure of our rate design should be
9 preserved. First, in the nearly eight years it has been in effect, our rate design has
10 received virtually no criticism from our customers. In fact, I am not aware of any
11 customer complaints regarding our rate design. This extraordinary level of customer
12 acquiescence is certainly one factor that supports continued use of such a rate design.
13 Second, as this Commission has previously recognized, rate designs like ours, which
14 make the recovery of fixed distribution costs less dependent on how much gas the
15 customer uses, serve to eliminate one of the LDCs' major disincentives to pursuing
16 programs aimed at getting customers to reduce their usage. In effect, it avoids the absurd
17 situation where the more successful a utility is at getting customers to conserve, the less
18 money it makes, weakening its financial strength. At the same time, it still permits
19 customers who reduce their usage as a result of such efforts to save on the single largest
20 item that makes up their bill – the commodity cost of gas that continues to be charged on
21 a usage basis – as well as conserve a domestically-based energy source.

22 Q. Are there other reasons for continuing a rate design of this nature?

1 A. Yes. Such a rate design is also critical to ensuring that the Company has a realistic
2 opportunity to recover the costs it actually incurs each day to fulfill its basic public utility
3 obligations. The vast majority of costs Laclede incurs to provide utility service are
4 non-discretionary expenditures that are essential to providing service to its customers.
5 These include the personnel, equipment and investment costs that must be incurred to
6 maintain our 16,000 miles of distribution facilities on a 24-hour basis in accordance with
7 the Commission's safety rules, as well as the expenditures required to connect new
8 businesses and homes to our distribution system, construct our part of the state's
9 economic infrastructure, and provide service to customers, including those who cannot
10 afford to pay for it, under extremely favorable terms that are virtually unheard of in
11 literally any other business endeavor. Prior to implementation of the weather mitigation
12 rate design, Laclede experienced huge under-recoveries of these costs simply because
13 temperatures happened to be warmer than normal – a factor that was completely beyond
14 the control of the Company. No business enterprise, including a regulated utility, can
15 afford to incur costs year after year that are never paid for by the customers on whose
16 behalf they have been incurred. Nor is it in any sense fair or reasonable to try and require
17 a firm to do so. Similarly, in years when the weather is colder than normal, Laclede's
18 customers should not be expected to pay substantially higher amounts than the cost of
19 providing their service. The weather mitigation rate design is absolutely essential to
20 ensuring this does not happen. I would therefore strongly recommend that the
21 Commission continue this rate design with the changes recommended by Mr. Cline.

22 Q. Please discuss the second area where you believe positive Commission action is required.

1 A. As the Commission knows, there has been significant discussion over the past several
2 months regarding the adverse impact that regulatory lag has on the ability of Missouri
3 utilities to recover on a timely basis the investments and other costs that must be incurred
4 to provide safe and reliable utility service. Some of the mechanisms I have previously
5 mentioned have, of course, been helpful in addressing this situation, but in an
6 environment of limited growth and escalating costs, the problem still persists. As
7 discussed in the direct testimonies of Michael Cline, James Fallert and Mark Waltermire,
8 our proposals to track and reconcile actual increases and decreases in uncollectible gas
9 costs, as well as achieve more timely recognition of our investments, would positively
10 impact this situation. I would also hope that we could make strides in this case in
11 shortening the time between when rate relief is sought and ultimately granted. To that
12 end, we have attempted wherever possible and appropriate to use the ratemaking
13 adjustments that were proposed by the Staff in our last rate case for traditional expense
14 and revenue items. We also intend to expedite – again wherever possible – the exchange
15 of pertinent information necessary to review our filing. I am hopeful that with these steps
16 and the cooperation of the other parties, we can both streamline and accelerate the
17 ultimate disposition of our case as a means of addressing this problem in a manner that
18 should be legally acceptable to all parties.

19 Q. Does the Company's proposal to track and reconcile increases and decreases in gas cost
20 uncollectibles involve the use of the Company's PGA mechanism?

21 A. Yes. As discussed in greater detail by Mr. Cline and Mr. Fallert, while our filing in this
22 case was based on the traditional method for recovering uncollectible expenses, we
23 continue to believe that the PGA mechanism should be used to reflect changes in the gas

1 cost amounts that are billed to customers, but not collected, because of customers' failure
2 to pay. Although we recognize that the Commission recently determined that it did not
3 have the legal authority to approve such a proposal, we have submitted this proposal
4 pending the outcome of our appeal of the Commission's decision. We have also offered
5 for the Commission's consideration an alternative mechanism that would simply track
6 such changes between rate cases for recognition in future rates. For reasons we have
7 previously discussed with the Commission, we continue to believe that it is appropriate to
8 track and reconcile these changes to prevent over- and under-recoveries of costs that are
9 largely beyond the control of the Company.

10 Q. What is the third issue that you believe deserves special attention by the Commission in
11 this proceeding?

12 A. The other major issue that I believe requires special attention in this case relates to the
13 establishment of a fair and reasonable return on and return of the Company's investment
14 in its utility infrastructure. To that end, we are hopeful that the Commission will give due
15 consideration to the need to establish a return on equity that falls in the mainstream of
16 what other regulatory commissions are authorizing. As the Commission itself has
17 repeatedly recognized, Laclede and other Missouri utilities have to compete with other
18 firms to attract the capital required to fulfill our public utility obligations. When doing
19 so, it is essential that Missouri be viewed by those investors as a place where their
20 discretionary investments are welcomed with a realistic opportunity to earn competitive
21 returns. Reliable utility service, and the infrastructure necessary to provide it, is a key
22 element of our state's ability to attract and retain the businesses which provide jobs for
23 Missouri citizens and therefore to develop economically. By helping to attract the capital

1 necessary to support and maintain those services, I truly believe that the establishment of
2 a competitive return will benefit not only the Company and our customers, but the state
3 of Missouri as well. Accordingly, I would strongly recommend that the Commission
4 adopt the return recommendations submitted on behalf of the Company by Laclede
5 witness Mr. Donald Murry which reflects not only today's market realities but also a
6 return that will make Laclede competitive with other investment options.

7 Q. Would adoption of the measures you have discussed in your testimony impose a
8 significant financial burden on the Company's customers?

9 A. While it would be an increase over the current return on equity, in relative terms, granting
10 the Company's entire request for rate relief would represent an overall increase in rates of
11 only 2% to 3% per year since the Company last obtained a general rate increase. Indeed,
12 even with the full amount of rate relief requested by the Company, the amount of the
13 customer's bill designed to compensate our shareholders for constructing and maintaining
14 the 16,000 miles of pipe required to provide customers with natural gas service will still
15 be a small percent of the customer's bill. Moreover, I am confident that adoption of these
16 proposals would permit the Company to make further progress in breaking out of its
17 pattern of revolving rate cases and allow us to bring stability to our distribution rates for a
18 number of years to come. Such measures will also provide the Company with the modest
19 amount of rate relief that is necessary to enable it to carry out its fundamental public
20 utility obligations. Indeed, the establishment of just and reasonable rates at compensatory
21 levels, as well as the adoption or continuation of measures designed to make sure that
22 they will be translated into actual revenues, are absolutely critical to ensuring -- both now
23 and in the future -- the type and level of service that our customers expect and that will

1 ultimately attract new customers and investment to our service territory and the State of
2 Missouri.

3 Q. Does this conclude your direct testimony?


4 A. Yes, it does.

In the Matter of Laclede Gas Company's)
Tariff to Revise Natural Gas Rate Schedules) Case No. GR-2010-

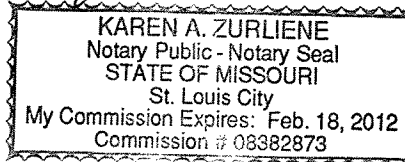
STATE OF MISSOURI)
) SS.
CITY OF ST. LOUIS)

1. My name is Douglas H. Yaeger. My business address is 720 Olive Street, St. Louis, Missouri 63101; and I am Chairman of the Board, President and Chief Executive Officer 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.


Douglas H. Yaeger

Karen R. Justice
Notary Public



**QUALIFICATIONS AND EXPERIENCE
OF
DOUGLAS H. YAEGER**

Educational Qualifications

Mr. Yaeger received a Bachelor of Science Degree in Business Administration in 1971 from Miami University, in Oxford, Ohio. In 1976, he graduated from St. Louis University, St. Louis, Missouri, where he received a Master of Business Administration Degree. In May 1992, he completed the Advanced Management Program in the Harvard Business School, in Boston, Massachusetts.

Employment Experience

During most of the period from July 1971 through November 1990, Mr. Yaeger was employed by Mississippi River Transmission Corporation (MRT), an interstate natural gas pipeline, which primarily serves the Greater St. Louis Metropolitan Area. While employed at MRT, he held various positions in that Company's rates, regulatory affairs, gas supply, sales, marketing and accounting departments. At the time he left MRT, he held the position of Executive Vice President, with management responsibility for the areas of marketing, planning, budgets and administration, transportation and exchange and information services.

Mr. Yaeger joined Laclede as Vice President-Planning in December 1990. From September 1992 to September 1995, he served as Vice President and then Senior Vice President-Operations, Gas Supply and Technical Services. In September 1995, he was elected to the position of Executive Vice President-Operations and Marketing, where he assumed management responsibility for both operations and the Company's marketing activities. With his election to the position of President and Chief Operating Officer, effective in December of 1997, Mr. Yaeger assumed overall management responsibility for all of the Company's day-to-day operations. He was elected to his current position effective January 1, 1999 and assumed the position of Chairman of the Board of Laclede on January 28, 1999.