Exhibit No.:	
Issue:	Return on Equity Accounting Authorizations Tracker Deferral Mechanisms
Witness:	James A. Fallert
Type of Exhibit:	Surrebuttal Testimony
Sponsoring Party:	Laclede Gas Company
Case No.:	GR-99-315

LACLEDE GAS COMPANY

GR-99-315

SURREBUTTAL TESTIMONY

OF

JAMES A. FALLERT

Surrebuttal Tesitmony of James A. Fallert

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SURREBUTTAL TESTIMONY OF JAMES A. FALLERT

General Information

Q. Please state your name and business address.

A. My name is James A. Fallert. My business address is 720 Olive Street, St. Louis, MO.

Q. Are you the same James A. Fallert who previously filed direct and rebuttal testimony in this case?

A. Yes.

Purpose of Testimony

Q. What is the purpose of your surrebuttal testimony?

A. The purpose of my testimony is to comment on the rebuttal testimony filed by Mr. Broadwater of the Staff and Mr. Burdette of the Office of Public Counsel (OPC) regarding certain aspects of return on equity. Additionally, I will respond to the rebuttal testimony of Mr. Rackers of the Staff and Mr. Robertson of OPC regarding the appropriate treatment of accounting authorizations and tracker deferral mechanisms.

Return on Equity

Q. What is the purpose of this portion of your surrebuttal testimony?

A. Laclede rate of return witness Kathleen McShane has proposed that the return on equity calculated pursuant to the discounted cash flow (DCF) method be adjusted to recognize that the market values of Laclede's and comparable gas distributors' common stocks significantly exceed the book value of their assets. The application of the market return arising from the DCF analysis to the book value of rate base under current market conditions is wrong and will significantly understate the appropriate return on equity. This market to book adjustment is essential to development of a fair return. This testimony will comment on Staff's and OPC's stated reasons for ignoring this adjustment.

Q. Please continue.

A. Mr. Broadwater of the Staff cited a 16 year old rate case (TR-83-253) as precedent for Staff's rejection of a market to book adjustment.

Q. How valid is this claim?

A. Not very. As I mentioned, this case was from 16 years ago, a time when the difference between book and market values was considerably less than at present. Furthermore, in that case, the Staff filed two different DCF calculations. Initially, the Staff applied the market to book adjustment to both calculations, then later changed its position to apply it to only one of the two. The Commission indicated that Staff had not adequately explained its adjustment. It would appear that the Commission's decision not to use the market-to-book adjustment in Case No. TR-83-253 was based at least in part on a lack of clarity regarding the issue at the time.

Q. What was the allowed return in Case No. TR-83-253?

A. The Commission found that a reasonable return on equity ranged from 13.87% to 14.90%. The Commission also stated that "This range is also supported by Staff's comparable earnings analysis which the Commission finds to be reasonable".

Q. Have any parties in the instant case performed a comparable earnings analysis?

A. Yes, but only one. Company witness McShane's comparable earnings analysis supports a return on equity in the range of 13.0% to 13.25%.

Q. Do you have any additional observations regarding Mr. Broadwater's rebuttal of the market to book adjustment?

A. Yes. Mr. Broadwater provided an illustration in his testimony (beginning at page 3, line 19). I will repeat it here because it is central to an understanding of the flaws in Staff's approach to this issue. Mr. Broadwater states:

> The DCF model is used to determine the investors required return on equity from the Company. Given that a company's stock is currently trading at book value, and the Company earns a 13% return on common equity while investors are only requiring a 10% return on common equity, the result will be that investors will bid up the company's stock price above book value to a point where they are receiving a 10 percent return on their investment. If the Commission accepts the adjustment Ms. McShane is proposing, the effect will be that investors who are currently requiring between 9 and 10 percent return on common equity will be receiving a 12.75 percent return on common equity, which will drive up the company's market to book ratio. This, in turn will support an even greater adjustment to the DCF model in the next case further driving up the company's allowed return on equity. All this would be taking place during a time when investors are actually requiring a return on common equity of between 9 and 10 percent. (emphasis supplied)

Q. Is there something wrong with Mr. Broadwater's illustration?

A. Yes. Mr. Broadwater assumes that "a Company's stock is currently trading at book value", and the remainder of his illustration flows from this assumption. However, Laclede's stock is not trading at book value, nor are the stocks of comparable gas distributors. In fact, at this writing Laclede's stock is trading at about $22, while the book value of the stock is $15.51 per share (a market to book ratio of 142%). Mr. Broadwater's illustration simply does not work unless an untrue assumption is made.

Q. Do you have any other comments regarding Mr. Broadwater's illustration?

A. Yes. It is informative to note that he uses the terms "return on equity" and "return on investment" interchangeably. These are not the same thing. Return on equity is the return on a company's book value (i. e., about $15 per share for Laclede), while return on investment is the return an investor earns on his purchase of a company's stock (currently about $22 per share for Laclede). The DCF is calculated as a return on market investment (i. e., $22), but is then applied to book value (i. e., $15) in the rate calculation. A market to book adjustment is necessary to recognize the difference between market and book value.

Q. You stated earlier that Laclede's market to book ratio is currently about 142%. Is this a recent occurrence?

A. No, not at all. The Company's market to book ratio has consistently exceeded 100% by a wide margin for many years. In fact, over the past five years, the market to book ratio at Laclede's September 30 fiscal year end has ranged between 158% and 177%. This has been a common experience for companies throughout the gas industry.

Q. Mr. Broadwater's illustration describes an upward spiral of increasing returns which would result from application of a market to book adjustment. Could this happen?

A. No. The upward spiral Mr. Broadwater describes results from his erroneous assumption that "a company's stock is currently trading at book value." In reality, a return on book value that does not include a market to book adjustment would result in a downward spiral in the company's stock price. This downward spiral would occur as investors realize that the allowed return on book value will produce earnings that are insufficient to generate their expected return on their market investment.

Q. Please provide an illustration of the effect of Staff's proposal.

A. Schedule 1 attached to this testimony provides an illustration based on figures provided by Mr. Broadwater in his direct and rebuttal testimony. The illustration indicates that Staff's return on equity recommendation in this case, when applied to book equity, would generate market returns ranging from only 6.0% to 6.6%. This would result in a downward spiral in Laclede's stock price as investors realize returns that are significantly below their expectations.

Q. Do you have any additional comments?

A. It should be noted that Mr. Burdette of the Office of Public Counsel has offered no rebuttal testimony to Ms. McShane's proposed market to book adjustment to the DCF.

Q. Do you have any comments regarding the corrections that Mr. Broadwater has made to his direct testimony?

A. Yes. I will comment on Mr. Broadwater's correction of his calculation of interest coverages on Schedule 19 of his direct testimony.

Q. What was the effect of this correction?

A. The original calculation was based on an incorrect short term interest cost and resulted in coverages ranging from 3.86 times to 4.17 times. The corrected coverages range from 3.21 times to 3.46 times.

Q. Did Mr. Broadwater correct all of the problems in his interest coverage analysis?

A. No. His calculation incorrectly used the marginal tax rate rather than the effective tax rate to calculate income taxes, and he has excluded some utility interest charges, such as interest on customer deposits, which should be included. The interest coverage ratios which would result from Staff's recommended return range would therefore be even lower than Mr. Broadwater's corrected Schedule 19.

Q. What would be the impact on Laclede's credit rating of returns in Staff's proposed range?

A. Laclede's credit rating is currently AA- from Standard & Poor's, Aa3 from Moody's and A+ from Fitch. Staff's proposed returns on equity result in interest coverage ratios that would indicate a downgrade in these ratings, possibly to BBB.

Q. How long has Laclede maintained its current ratings?

A. Laclede has always placed considerable importance on maintenance of a high credit rating, which helps assure adequate access to capital markets at a reasonable price. Moody's has rated the Company at Aa3 or higher since 1966 and A or higher since 1954.

Q. Mr. Burdette has commented that Laclede's demand charge proposal would reduce the variability of revenues and therefore reduce business risk. He goes on to say that such a reduction in risk warrants a reduction in the authorized ROE. Do you have any comments?

A. Yes. Laclede would hope that Mr. Burdette would similarly recognize proposals from other parties to this and other proceedings that would increase the Company's risk. These include such items as Public Counsel's proposal to include off system sales and capacity release charges in cost of service, and Staff's proposal to eliminate the PGA in favor of a fixed gas cost which would be $52 million lower than current prices. These proposals would increase earnings volatility for the Company to a far greater degree than would ever be reduced by the Company's demand charge proposal in this case.

Accounting Authorizations and Tracker Deferral Mechanisms

Q. Please summarize the accounting authorizations and trackers currently in place.

A. Laclede currently has three accounting authority orders (AAOs) and two tracker deferral mechanisms. These are summarized below:

Cash Deferrals:	Deferred Balance @ 7/31/99
Safety Replacement Program AAO (SRP)	$1,485,672
Manufactured Gas Plants AAO (MGP)	505,443
Year 2000 AAO (Y2K)	341,629
FAS 106 (OPEB) Tracker	724,538
SERP/Directors Retirement Plan Tracker	4,397,500
Sub-Total	7,454,782
Accrued Deferrals:	
Manufactured Gas Plants AAO (MGP)	712,089
SERP/Directors Retirement Plan Tracker	2,039,979
Total	$10,206,850

I have discussed the reasons that these mechanisms were established in my direct and rebuttal testimony.

Q. Has Laclede deferred any other related amounts?

A. Yes. As I discussed in my rebuttal testimony, the Company has implemented a bar hole survey of all copper services on the Company's distribution system. The first such survey was completed in March through June 1999 at a cost of $609,575. The Company has proposed that this amount be recovered through the Safety Replacement Program AAO, and that the costs of future surveys be similarly deferred.

Q. Why are the MGP AAO and SERP Tracker separated into cash and accrued amounts?

A. Under Generally Accepted Accounting Principles (GAAP) and the Federal Energy Regulatory Commission's Uniform System of Accounts (USOA), the Company must accrue costs for these items as they are incurred. However, rate recovery of these amounts has been limited to amounts actually paid out in cash. The additional accrued amounts reflect costs that have been incurred but not yet paid. These are amounts that will be recoverable through the AAO or Tracker when they are eventually paid.

Q. Please explain what these balances represent.

A. These amounts were originally recorded as expenses on the Company's books pursuant to GAAP and USOA. However, the Commission's authorization of AAOs and Trackers applicable to these expenses permitted Laclede to transfer these charges from expense to a regulatory asset account. The Company is permitted under the accounting rules to maintain this amount as an asset because of the likelihood that the Commission will grant rate recovery of these amounts. The applicable paragraphs regarding regulatory assets from the USOA are attached in Schedule 2-1 (see section 182.3).

Q. What happens to these balances if the Commission does not provide for recovery of them through rates?

A. These balances would have to be written off as losses. This means that the company would be required under GAAP and USOA to record on its books income deductions in the amount of these balances.

Q. What is the revenue requirement effect of the proposals regarding the AAOs and Trackers?

A. The differences in revenue requirement between Laclede, Staff and OPC are small relative to the balances. Laclede's initial filing, which contemplated continuation of these mechanisms, would result in amortization and ongoing costs $206,000 higher than Staff and $392,000 higher than OPC. Laclede's alternative proposal, which was presented in my rebuttal testimony and contemplates elimination of all of the mechanisms except SRP, would result in higher amortization and ongoing costs of $775,000 vs. Staff and $872,000 vs. OPC.

Q. Are there any other revenue requirement differences?

A. Yes. Laclede has proposed that cash deferred balances be included in rate base while Staff and OPC have not. The revenue requirement associated with this difference would vary depending upon the rate of return granted by the Commission in this case, but would probably be approximately $1 million.

<u>Response to Staff Rebuttal</u>

Q. Please summarize Staff's proposals regarding the accounting authorizations and tracker deferral mechanisms.

A. Staff has recommended no recovery of balances deferred pursuant to the Commission's orders in previous rate cases, with the exception of the SRP accounting authorization. Staff further recommends that all of these mechanisms be discontinued effective July 31, 1999, with the exception of SRP. Staff has recommended 10-year amortization of SRP balances with no inclusion in rate base. Laclede has recommended 5-year amortization of the balances deferred pursuant to all of these mechanisms and inclusion in rate base.

Q. Do you agree with Staff's treatment of balances deferred pursuant to the SRP?

A. No. The reasons are detailed in my rebuttal testimony.

Q. Staff has recommended that the MGP and Y2K AAOs be eliminated as well as the FAS 106 and SERP/Directors Trackers? Do you agree?

A. These mechanisms have served a useful purpose, and we believe that judicious use of accounting authority orders and tracker deferral mechanisms can still be a useful means of accomplishing regulatory goals in certain situations. However, we are in agreement with Staff that some of these mechanisms are no longer necessary, and we are willing to eliminate them in a reasonable manner. The means by which this elimination could reasonably be accomplished were presented in my rebuttal testimony.

Q. Staff has proposed that the Commission grant no recovery of balances deferred pursuant to the MGP and Y2K AAOs and the FAS 106 and SERP/Directors Trackers. What would be the effect of this proposal?

A. If Staff's position was approved, Laclede would be required under the accounting rules to write-off $8,721,178 of prudently incurred expenses.

Q. Should the Commission grant recovery of these balances?

A. Absolutely. These expenses were a legitimate cost of service, which were not recovered in past rates. Laclede's ratepayers have in some instances paid lower rates than the cost of service in the past because of the existence of these very mechanisms. Each of these mechanisms was established for a legitimate purpose and has served that purpose well.

Q. Has Staff expressed any reasons for its recommendation that the Commission deny recovery of these expenses?

A. Yes. Staff has listed six reasons. Following is a point by point rebuttal of Staff's reasons, as listed in Mr. Racker's rebuttal testimony (beginning at page 3, line 11).

1) Staff Reason:

The individual actual deferral balances at the end of the update period, March 31, 1999, and the expected deferral balances at the end of the true-up period, July 31, 1999, for the MGP, Year 2000 and OPEB AAOs are not material.

Laclede Response:

Mr. Rackers describes Staff's materiality threshold as follows: "This Commission has adopted the Federal Energy Regulatory Commission Uniform System of Accounts (USOA). The USOA allows the deferral of costs, which meet an extraordinary threshold of 5% of annual net income, without the prior approval of the Commission. The Staff is using this basis to determine materiality as it relates to most extraordinary items."

The USOA threshold cited by Staff does not pertain to the deferral of costs under accounting authorizations. The 5% threshold pertains to the question of where a particular item of income or expense should be reported on the Company's income statement. It is, therefore, irrelevant as to the appropriate treatment of deferrals. The USOA discussion of regulatory assets, which does pertain to deferrals pursuant to accounting authorizations, includes no extraordinary threshold. Pertinent sections of the USOA are attached as Schedule 2-1 and 2-2.

The Staff recommends denial of recovery of balances deferred pursuant to the AAO and Tracker Deferral Mechanisms totaling $8,721,178 ($5,351,751 after tax). Laclede believes that Staff's proposed denial of recovery of these substantial balances on a materiality basis is wholly unjustified. The amount in question is 19% of Laclede's Fiscal 1998 net income.

2) Staff Reason:

The amount the Staff has included for SERP sufficiently recognizes incurred and ongoing payments.

Laclede Response:

Staff has included an amount in cost of service in this case for the recovery of a level of ongoing costs in the future, but does not recognize recovery of past deferred balances. This would result in the write-off of the deferred balances. Under the accounting rules, in order for these deferred balances to remain as an asset on the Company's books, the Commission must grant recovery of these balances. Staff's proposal ignores past balances and only provides for recovery of future costs.

Mr. Rackers notes that the revenue requirement effect of Laclede's and Staff's positions is not much different. The critical difference is that Staff fails to recognize recovery of these balances in future rates, which would lead to a very significant write-off for the Company.

3) Staff Reason:

The MGP AAO deferrals include no recognition of recovery from insurance companies or other liable entities that may significantly reduce the balance.

Laclede Response:

The AAO specifically includes recovery from insurance companies or other potentially responsible parties. Furthermore, Laclede has been, and will continue to be, diligent in its efforts to recover costs from potential responsible parties and insurers. Any recovery from such efforts would of course be included in consideration of the appropriate MGP cost of service at that time. The existence of possible future offsets to MGP costs in no way justifies denial of recovery of these costs (net of those offsets, of course).

4) Staff Reason:

The Year 2000 AAO is being used by the Company in an inappropriate attempt to defer expenses related to the purchase of new hardware and software.

Laclede Response:

Mr. Rackers expresses Staff's understanding of the Y2K AAO as follows (page 7, lines 1-6):

> "The Staff believed that this AAO would be used to accumulate depreciation and other expenses, property taxes and carrying costs associated with the modification of various Company software in an effort to make them Year 2000 compliant. The Staff did not envision that the Company would use this AAO to accumulate costs associated with a comprehensive upgrade, enhancement and replacement (of) its computer systems."

Staff's understanding as expressed above does not agree with the clear language of the Y2K AAO negotiated and signed by the Staff and approved by the Commission in GR-98-374, which states that the Company is permitted to defer:

> "All costs incurred or to be incurred by Laclede through the end of the Deferral Period to replace, enhance, and/or modify its computer information systems and computerized voice and data systems in connection with the Company's efforts to make such systems Y2K compliant, which efforts shall be capitalized and charged to the appropriate gas plant accounts, including, without limitation, property taxes, depreciation and carrying costs (at the overall rate of interest calculated pursuant to the Federal Energy Regulatory Commission formula for computing AFUDC as set out at 18 CFR part 201)." (emphasis supplied)

Neither Mr. Rackers nor any other party has explained how any of the amounts deferred by the Company pursuant to this authorization did not meet these specific criteria. Simply put, the language of the Commission order clearly anticipated replacement and enhancement of Laclede's computer systems, and specifically included the related costs in the deferral.

Furthermore, the nature of those costs considered as Y2K costs was well known to Staff at the time the Y2K AAO was established. Staff Data Request No. 172 from Case No. GR-98-374 asked: "Please provide the dollars the Company has expended to prepare for the Year 2000". The response to that data request, which is attached as Schedule 3, clearly lists the very projects that Staff now proposes to exclude from the AAO.

5) Staff Reason:

The OPEB and SERP AAOs represent a preference enjoyed by Laclede that does not exist for any other Missouri utility.

Laclede Response:

Laclede is aware of Staff's desire to end the OPEB and SERP Tracker Deferral Mechanisms, and we have proposed a reasonable basis for doing so in my rebuttal testimony to this case. However, the possible elimination of these mechanisms in the future does not in any way justify denial of recovery of deferred balances. These mechanisms were deemed to be appropriate for Laclede when they were established by Commission orders, and there were legitimate reasons for their implementation. I will discuss the trackers in greater detail later in my testimony.

6) Staff Reason:

The Company is using numerous AAOs in an attempt to circumvent regulatory lag.

Laclede Response:

Each of these mechanisms was established for a legitimate reason (each of which is discussed in my direct testimony to this case) and were established with the agreement of all parties to this case. Three of the four mechanisms have been in effect for three prior rate cases. These mechanisms have served the purposes for which they were intended.

Q. Would it be fair to Laclede to discontinue these mechanisms without recognition of deferred balances?

A. No. These mechanisms have been adopted as ratemaking policy for Laclede, and its past rates were set in part at levels that reflected the existence and expected continuation of these mechanisms. Specifically:

MGP – Nothing has been included in Laclede's cost of service for ongoing MGP costs since renewal of the AAO in 1996. Such costs would certainly have appropriately been included in rates in the absence of the accounting authorization. The AAO allowed deferral of these costs and resulted in lower rates than the true cost of service existing at that time. Since 1996, Laclede has spent $505,000 on MGP costs and incurred an additional $557,000, which has not yet been spent. Test year MGP payments in this case were $216,000, and the twelve months ended July 31, 1999 payments were $292,000. Nevertheless, the cost of service was set at zero through these years because of the existence of the AAO.

FAS 106 – It is worthwhile to note that since its inception in 1994, the FAS 106 Tracker has resulted in net credits to the ratepayer (credits which have reduced rates), even when the current debit balances are considered.

SERP/Directors – The amount included in cost of service in the past for these plans has been reduced below the true cost of service because of the existence of this tracker. Amounts included in cost of service have included only expected annuity payments from these plans, with no consideration of lump sum payments or accrued amounts. This was acceptable ratemaking, because the tracker mechanism provides for the eventual recovery of the missing amounts, but no more or less than that.

This explains why, as Mr. Rackers points out in his rebuttal testimony (page 5, line 10), Staff's recommended ongoing cost can exceed the Company's recommendation, despite the fact that the Company's recommendation includes both ongoing cost and recovery of deferred balances. This is because the Company's recommendation includes only a bare bones annuity cost (which assumes continuation of the tracker), while the Staff has used a 5-year average that includes lump sums.

It is simply not equitable to discontinue these mechanisms without recovery of the deferred balances.

Q. You have discussed the differences between AAOs and Trackers. Are there any other differences?

A. Yes. It is important to note that, while the amounts deferred in the AAOs authorized in GR-98-374 are subject to challenge by the clear language of the Order, no such challenge is mentioned in relation to the OPEB and SERP Trackers. Those amounts were to be included in rates in this proceeding. The Trackers' function is to ensure the recovery of a specific amount in rates, rather than to defer an unknown amount for future consideration.

Response to Rebuttal Testimony of Office of Public Counsel

Q. Have you reviewed the testimony of OPC's Mr. Robertson regarding AAOs?

A. Yes, I have. Mr. Robertson opposes recovery of balances deferred pursuant to the MGP and Y2K AAOs, and advocates 20-year recovery of the SRP balances, with no rate base treatment. Mr. Robertson's rebuttal testimony has repeated many of the reasons for his recommendations that were first enunciated in his direct testimony. I have responded to these in my rebuttal testimony and will not repeat my responses here. However, Mr. Robertson has raised a few new points to which I will respond.

Q. Please continue.

A. In his direct testimony, Mr. Robertson advocated capitalization of all costs associated with the Company's efforts to make its computer systems Y2K compliant. He now advocates that such costs be capitalized beginning March 1, 1998 (this is a position also advocated by Staff).

Q. Why did Mr. Robertson change his position?

A. He feels that Y2K charges incurred prior to March 1, 1998 should not be capitalized because the Company included them as expense in its direct filing in Case No. GR-98-374. He therefore apparently believes that such charges were recovered in Case No. GR-98-374.

Q. Do you agree?

A. No. Case No. GR-98-374 was settled with no change in rates. Furthermore, in response to Company Data Request No. 74, Mr. Rackers of the Staff indicated that the Staff knows of no document that indicates the disposition of these charges in GR-98-374. Under the circumstances, it is difficult to envision how these increased charges have been recovered in rates since there was no increase in rates in Case No. GR-98-374. Therefore, Laclede recommends that all Y2K charges be capitalized without limitation.

Q. Has Public Counsel changed any other positions regarding Y2K?

A. Yes. Mr. Robertson is now advocating 10-year amortization of capitalized Y2K costs. The Company's current depreciation rates as approved by the Commission are 10 years for hardware and 5 years for software. Public Counsel has not filed any position regarding depreciation rates in this case prior to rebuttal testimony. Laclede believes that the time for new depreciation rate proposals in this case has passed.

Q. Do you have any additional comments regarding Mr. Robertson's reasons for recommending disallowance of Y2K deferrals?

A. Yes. On page 22, line 9 of his rebuttal testimony, Mr. Robertson contends that Y2K deferrals should not be recovered because "Year 2000 costs should not be treated as extraordinary expenses." This contention is apparently based on the notion that expenses can't be extraordinary if the timing of such expenses is known. Laclede believes that advance knowledge of an event doesn't make it any less extraordinary. Extraordinary means unusual, not necessarily unexpected.

Q. Please comment on Mr. Robertson's reasons supporting denial of MGP deferrals.

A. I have discussed most of these in my rebuttal testimony. However, Mr. Robertson has raised one new objection that should be answered. On pages 50 and 51 of his rebuttal testimony, Mr. Robertson implies that any contamination at former MGP sites is somehow the fault of management. This is patently untrue and unfair. The MGP sites were managed and operated according to the knowledge and standards of the era. The remediation of these sites is necessitated by more recent understanding of the nature and extent of contamination caused by MGP activities.

Q. Has Mr. Robertson introduced any additional changes to his recommendations?

A. Yes. In an about face, at pages 57-58, he now advocates elimination of the Safety Replacement Program accounting authorization.

Q. What reason does Mr. Robertson give for this proposal?

A. Mr. Robertson states: "Public Counsel's position on this issue is based on the belief that the Company's management is solely responsible for planning and implementing the safety replacement program. As such, it is management's responsibility to correlate its investment program with requested changes in rates when it becomes apparent that its ordered rate of return is not being achieved." Mr. Robertson's point seems to be that Laclede should structure its safety program around rate case filings. Laclede strongly disagrees with this sentiment. It is our firm belief that the scheduling and structure of the safety replacement program should be based on <u>safety considerations, not on financial considerations</u> purportedly associated with any attempt to reduce regulatory lag.

Q. Does this conclude your surrebuttal testimony?

A. Yes.

Laclede Gas Company
Analysis of Effect of Staff Return on Equity Recommendations

		Low	Mid	High
1.	Staff Recommended Return	9.00%	9.50%	10.00%
2.	Common Equity (Broadwater Schedule 19)	274,770,773	274,770,773	274,770,773
3.	Earnings Allowed (Broadwater Sch 19) (1x2)	24,729,370	26,103,223	27,477,077
4.	Common Shares Outstanding @ 3/31/99	17,627,987	17,627,987	17,627,987
5.	Earnings Per Share (3/4)	1.403	1.481	1.559
6.	Avg. High/Low Stock Price*	23.55	23.55	23.55
7.	Market Return (5/6)	6.0%	6.3%	6.6%
8.	Shortfall from Recommended Return (7-1)	-3.0%	-3.2%	-3.4%

* Average of stock prices from Mr. Broadwater's Schedule 16:

	Average High/Low Price
Jan 1999	25.219
Feb 1999	23.281
Mar 1999	22.156
Average Of Above	23.55

Excerpts regarding Regulatory Assets from:
Code of Federal Regulations
Subchapter F – Accounts, Natural Gas Act
Part 201 – Uniform System of Accounts Prescribed for Natural Gas Companies Subject to the Provisions of the Natural Gas Act

Balance Sheet Accounts

182.3 Other regulatory assets.

A. This account shall include the amounts of regulatory-created assets, not includible in other accounts, resulting from the ratemaking actions of regulatory agencies. (*See* Definition No. 31.)

B. The amounts included in this account are to be established by those charges which would have been included in net income determinations in the current period under the general requirements of the Uniform System of Accounts but for it being probable that such items will be included in a different period(s) for purposes of developing the rates that the utility is authorized to charge for its utility services. Where specific identification of the particular source of the regulatory asset cannot be made, such as in plant phase-ins, rate moderation plans, or rate levelization plans, Account 407.4, Regulatory Credits, shall be credited. The amounts recorded in this account are generally to be charged, concurrently with the recovery of the amounts in rates, to the same account that would have been charged if included in income when incurred, except all regulatory assets established through the use of Account 407.4 shall be charged to Account 407.3, Regulatory Debits, concurrent with the recovery of the amounts in rates.

C. If rate recovery of all or part of an amount included in this account is disallowed, the disallowed amount shall be charged to Account 426.5, Other Deductions, or Account 435, Extraordinary Deductions, in the year of the disallowance.

D. The records supporting the entries to this account shall be kept so that the utility can furnish full information as to the nature and amount of each regulatory asset included in this account, including justification for inclusion of such amounts in this account.

Definitions

31. *Regulatory Assets and Liabilities* are assets and liabilities that result from rate actions of regulatory agencies. Regulatory assets and liabilities arise from specific revenues, expenses, gains, or losses that would have been included in net income determinations in one period under the general requirements of the Uniform System of Accounts but for it being probable: 1) that such items will be included in a different period(s) for purposes of developing the rates the utility is authorized to charge for its utility services; or 2) in the case of regulatory liabilities, that refunds to customers, not provided for in other accounts, will be required.

Income Accounts

426.5 Other deductions.

This account shall include other miscellaneous expenses which are nonoperating in nature, but which are properly deductible before determining total income before interest charges.

ITEMS

1. Loss relating to investments in securities written-off or written-down.
2. Loss on sale of investments.
3. Loss on reacquisition, resale or retirement of utility's debt securities, when the loss is not amortized and used by a jurisdictional regulatory agency to increase embedded debt cost in establishing rates. See General Instruction 17.
4. Preliminary survey and investigation expenses related to abandoned projects, when not written-off to the appropriate operating expense account.
5. Costs of preliminary abandonment costs recorded in accounts 182.1, Extraordinary Property Losses, and 182.2, Unrecovered Plant and Regulatory Study Costs, not allowed to be amortized to account 407.1, Amortization of Property Losses, Unrecovered Plant and Regulatory Study Costs.

435 Extraordinary deductions.

This account shall be debited with losses of unusual nature and infrequent occurrence, which would significantly distort the current year's income computed before Extraordinary Items, if reported other than as extraordinary items. Income tax relating to the amounts recorded in this account shall be recorded in account 409.3, Income Taxes, Extraordinary Items. (See General Instruction 7.)

Excerpts regarding Extraordinary Items from:
Code of Federal Regulations
Subchapter F – Accounts, Natural Gas Act
Part 201 – Uniform System of Accounts Prescribed for Natural Gas Companies Subject to the Provisions of the Natural Gas Act

General Instructions

7. *Extraordinary items.* It is the intent that net income shall reflect all items of profit and loss during the period with the exception of prior period adjustments as described in paragraph 7.1 and long-term debt as described in paragraph 17 below. Those items related to the effects of events and transactions which have occurred during the current period and which are of unusual nature and infrequent occurrence shall be considered extraordinary items. Accordingly, they will be events and transactions of significant effect which are abnormal and significantly different from the ordinary and typical activities of the company, and which would not reasonably be expected to recur in the foreseeable future. (In determining significance, items should be considered individually and not in the aggregate. However, the effects of a series of related transactions arising from a single specific and identifiable event or plan of action should be considered in the aggregate.) To be considered as extraordinary under the above guidelines, an item should be more than approximately 5 percent of income, computed before extraordinary items. Commission approval must be obtained to treat an item of less than 5 percent, as extraordinary. (See accounts 434 and 435.)

Income Accounts

434 Extraordinary income.

This account shall be credited with gains of unusual nature and infrequent occurrence, which would significantly distort the current year's income computed before Extraordinary Items, if reported other than as extraordinary items. Income tax relating to the amounts recorded in this account shall be recorded in account 409.3, Income Taxes, Extraordinary Items. (See General Instruction 7.)

435 Extraordinary deductions.

This account shall be debited with losses of unusual nature and infrequent occurrence, which would significantly distort the current year's income computed before Extraordinary Items, if reported other than as extraordinary items. Income tax relating to the amounts recorded in this account shall be recorded in account 409.3, Income Taxes, Extraordinary Items. (See General Instruction 7.)

No. 172

DATA INFORMATION REQUEST
LACLEDE GAS COMPANY
CASE NO. GR-98-374

Requested From: Susie Kopp
Date Requested: 06/01/98
Information Requested:
Please provide the dollars the Company has expended to prepare for the year 2000. Provide a description of the activity, dates performed, and accounts charged.

Requested By: GREG MEYER

Information Provided: See Attached.

The attached information provided to the Missouri Public Service Commission Staff in response to the above data information request is accurate and complete, and contains no material misrepresentations or omissions, based upon present facts of which the undersigned has knowledge, information or belief. The undersigned agrees to immediately inform the Missouri Public Service Commission Staff if, during the pendency of Case No. GR-98-374 before the Commission, any matters are discovered which would materially affect the accuracy or completeness of the attached information.

If these data are voluminous, please (1) identify the relevant documents and their location (2) make arrangements with requestor to have documents available for inspection in the LACLEDE GAS COMPANY office, or other location mutually agreeable. Where identification of a document is requested, briefly describe the document (e.g. book, letter, memorandum, report) and state the following information as applicable for the particular document: name, title, number, author, date of publication and publisher, addresses, date written, and the name and address of the person(s) having possession of the document. As used in this data request the term "document(s)" includes publication of any format, workpapers, letters, memoranda, notes, reports, analyses, computer analyses, test results, studies of data, recordings, transcriptions and printed, typed or written materials of every kind in your possession, custody or control within your knowledge. The pronoun "you" or "your" refers to LACLEDE GAS COMPANY and its employees, contractors, agents or others employed by or acting in its behalf.

Signed By: ____________________

Date Response Received: ____________________

Prepared By: ____________________

Schedule 3-1

Laclede Gas Company
Response to Data Request No.172
Case No. GR-98-374

Following are the charges booked through May 1998 related to ongoing computer projects which either replace or modify systems to enable Year 2000 compliance and provide other benefits:

Project		General Ledger	Payroll System	Payroll System	OS/390 System	CIS System	CIS System	Communication Platform	Network Interface	LAN System	Other Systems	Other Systems	Total Projects
Work Order		60462	60064	52841	60325	60865	52828	60955	60956	52843	60065	52842	
Account Charged		107	107	920&921	107	107	903&184	107	107	920	107	920,921,184	Amount
Dec.	1996				218,423.55								218,423.55
Jan.	1997				49,364.67								49,364.67
Feb.	1997				11,473.38								11,473.38
Mar.	1997				62,484.66								62,484.66
Apr.	1997	435,336.41			8,387.21								443,723.62
May	1997	7,802.41			10,800.00								18,602.41
June	1997	132,149.17			2,193.41								134,342.58
July	1997	401,322.11			5,560.17								406,882.28
Aug.	1997	125,026.30			10,921.10								135,947.40
Sept.	1997	118,573.37			34,222.69	400,228.57	400,228.56						953,253.19
Oct.	1997	302,125.28			189.57	0.00	0.00						302,314.85
Nov.	1997	179,011.47			22,161.39	(10,035.00)	(10,035.00)						181,102.86
Dec.	1997	527,100.15			2,075.53	0.00	0.00						529,175.68
Jan.	1998	255,504.10	48,280.00	72,420.00	2,115.50	107,482.50	107,482.50	14,832.00					608,116.60
Feb.	1998	272,036.77			280,466.23	0.00	0.00	0.00					552,503.00
Mar.	1998	125,327.51	101,498.64	6,778.13	15,519.32	214,965.00	5,861.30	143.24				46,890.40	516,983.54
Apr.	1998	345,964.45	196,319.06	15,503.58	667,111.57	169,294.00	29,449.85	6,716.22	1,200.00	6,000.00	6,605.00	60,462.05	1,504,625.78
May	1998	512,057.91	(188,497.37)	74,541.68	26,802.86	(143,458.82)	189,674.95	4,601.87	2,239.84	(1,335.06)	5,917.27	65,601.16	548,146.29
Total to Date		3,739,337.41	157,600.33	169,243.39	1,430,272.81	738,476.25	722,662.16	26,293.33	3,439.84	4,664.94	12,522.27	172,953.61	7,177,466.34
Closed to Account:													
Plant													
391.11		293,032.14			800,000.00			26,293.33					1,119,325.47
391.30					630,272.81								630,272.81
391.00		4,011.32											4,011.32
Expense													
Various				169,243.39			722,662.16			4,664.94		172,953.61	1,069,524.10
Balance @ May 31, 1998		3,442,293.95	157,600.33	0.00	(0.00)	738,476.25	0.00	0.00	3,439.84	0.00	12,522.27	0.00	4,354,332.64

Schedule 3-2

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-99-315

AFFIDAVIT

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

James A. Fallert, of lawful age, being first duly sworn, deposes and states:

1. My name is James A. Fallert. My business address is 720 Olive Street, St. Louis, Missouri 63101; and I am Controller of Laclede Gas Company.

2. Attached hereto and made part hereof for all purposes is my surrebuttal testimony, consisting of pages 1 to 20, inclusive; and Schedules 1 to 3, inclusive.

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

J. A. Fallert
James A. Fallert

Subscribed and sworn to before me this 19th day of August, 1999.

Joyce L. Jansen

JOYCE L. JANSEN
Notary Public — Notary Seal
STATE OF MISSOURI
St. Louis County
My Commission Expires: July 2, 2001