

Exhibit No.:

Issue:

Witness:

Type of Exhibit:

Sponsoring Party:

Case No.:

Advertising

Richard N. Hargraves

Surrebuttal Testimony

Laclede Gas Company

GR-99-315

LACLEDE GAS COMPANY

GR-99-315

SURREBUTTAL TESTIMONY

OF

RICHARD N. HARGRAVES

FILED

AUG 19 1999

Missouri Public
Service Commission

SURREBUTTAL TESTIMONY OF RICHARD N. HARGRAVES

1 Q. Please state your name and business address.

2 A. My name is Richard N. Hargraves, and my business address in 720 Olive Street, St.
3 Louis, Missouri, 63101.

4 Q. Are you the same Richard N. Hargraves who previously filed direct and rebuttal
5 testimony in this case?

6 A. Yes.

7 Q. What is the purpose of your surrebuttal testimony?

8 A. The purpose of my surrebuttal testimony is to respond to the rebuttal testimony of Office
9 of Public Counsel witness Kimberly K. Bolin regarding the regulatory treatment of
10 Laclede's advertising expenditures.

11

12 **Promotional Advertising Under The Existing Standard**

13 Q. In Ms. Bolin's rebuttal testimony (page 5, line 19, continuing through page 6, line 1), she
14 states that, "Promotional advertising is not necessary for Laclede to provide safe and
15 reasonable gas service to its customers, therefore it should not be included in the cost of
16 service recovered from ratepayers." Is this the standard used by the Commission for the
17 inclusion in rates of promotional advertising expense?

18 A. No, it is not. It is not even the same standard Ms. Bolin used in making her adjustments.
19 As she states in her direct testimony (page 5, lines 4-6): "As stated by the Commission in
20 KCPL (pg. 269-271), promotional advertising should be included in the cost of service
21 only if a company can reasonably demonstrate that the benefits received exceed the costs
22 incurred." The KCPL standard also was used by Staff (Boczkiewicz Direct, page 4, lines

1 1-2). However, I believe Ms. Bolin's statements in her rebuttal testimony are noteworthy,
2 because they document the mindset that has long dominated the evaluation of
3 promotional advertising by Public Counsel and Staff and, therefore, explain why not a
4 single utility in Missouri has ever been able to satisfy Public Counsel's and Staff's
5 interpretation of the Commission's benefits standard.

6 Q. How has the Commission itself described its standard for the inclusion in rates of
7 promotional advertising expense?

8 A. The Commission has described the benefits standard in several cases. In KCPL (Case No.
9 EO-85-185), it stated:

10 "The Commission does believe that promotional advertising can be beneficial to
11 the ratepayers and should not be arbitrarily disallowed, but any benefit must be
12 cost-justified. The benefits from those expenditures must be demonstrated to
13 exceed the costs of the promotional advertising itself."

14 *Re: Kansas City Power & Light Company, 28 Mo. P.S.C. (N.S.) 228, 271 (1986).*

15
16 In a Missouri Public Service case (Case No. ER-90-101) the Commission stated:

17
18 "For the past few years the Commission has allowed the expense for
19 advertisements to be reflected in rates ... when the advertisements encourage the
20 use of the Company's service provided the Company can show that the benefits
21 received by ratepayers from the advertising outweigh the costs associated with the
22 advertising and that the benefit to ratepayers is a result of the advertising."

23 *(emphasis added)*

24 *Re: Missouri Public Service, 30 Mo. P.S.C. (N.S.) 320, 327 (1990).*

25
26 Q. Has Laclede met the standard set forth by the Commission for the inclusion in rates of its
27 expenditures for promotional advertising?

28 A. Yes. For the reasons stated in my direct and rebuttal testimonies, I believe we have
29 clearly done so.

30 Q. Ms. Bolin's rebuttal testimony (beginning at page 1, line 9) challenges your testimony
31 that the Commission, in *Southwestern Bell Telephone Company, 29 Mo. P.S.C. (N.S.) 607*
32 *(1989)*, generally found the classification standard to be inappropriate in a competitive

1 environment. She contends the ruling applied only to telephone companies that sell a
2 multitude of services, not a single-product gas utility. How do you respond?

3 A. There are three essential points:

- 4 1) Although that ruling applied specifically to Southwestern Bell, the Commission's
5 order made it clear that it was competitive pressures and the mischaracterization of
6 individual ads that made the classification standard inappropriate. Laclede faces
7 significant competition for its heating market, not only from electric companies, but
8 also from vendors of other sources of energy. Within its service area, Laclede holds a
9 large share of heating customers — approximately 85%. Therefore, competitors who
10 would increase their own share of the heating market in our area generally can do so
11 only by taking customers from Laclede. If we do not protect our current customer
12 base, we will be required to distribute our costs over a smaller base and thereby
13 increase the cost to each individual customer. Thus, there is a direct benefit to
14 individual ratepayers by Laclede's ability to maintain, or even expand, its customer
15 base. Advertising helps Laclede to maintain, and grow, its customer base.
- 16 2) The Southwestern Bell ruling was a decade ago, and the environment has changed.
17 The competitive pressures facing the gas and electric industries are much greater than
18 they were ten years ago, and these competitive pressures are increasing.
- 19 3) The fact that Laclede has only one primary product — natural gas — makes it even
20 more vulnerable to the loss of market share than a telecommunications company with
21 many diverse products. If Laclede loses heating customers, it cannot make up for the
22 loss by gaining customers in other product categories.

Impact of Promotional Advertisements

Q. How do you respond to Ms. Bolin's contention (page 5, lines 4-6) that Laclede's ads make general statements that "do not provide useful information and are presented in a manner that I can best describe as a recitation of someone's opinion."

A. Who is to decide what is useful to whom? Ms. Bolin acknowledges, in her own testimony (Bolin Rebuttal, page 5, lines 18-19), that:

"Promotional ads provide useful information to only those who are deciding whether to use natural gas, electricity or other fuels."

And that is precisely the point of Laclede's promotional advertising — to provide useful information to those who are, or may be, making an energy decision. The population of our service area is not growing rapidly, but it is very mobile. Laclede performs about 150,000 customer turn-ons a year. These turn-ons are opportunities for a customer to make an energy decision. When people construct new homes or move from one apartment to another, or from one home to another, or remodel or upgrade appliances in an existing home, they face energy decisions. Professionally conducted research by Marketeam Associates (the Executive Summary of which is attached to my Rebuttal Testimony as Schedule 3) demonstrates that, when asked about what impacted their energy decisions:

"Over half the respondents recalled advertising about a message, said it was important in their decision and believed the statement."

This survey further notes that:

"No other information source [other than advertising] is dominant in the choice of gas heat."

The research concludes that:

"These results strongly support the use of advertising to present information to prospective buyers of natural gas furnaces."

1 Further, the statements in Laclede's advertisements are not "someone's opinion." The
2 statements are supportable assertions that must, and do, comply with laws and regulations
3 regarding the use of comparative advertising.

4 Q. In her rebuttal testimony (beginning on page 4, line 20), Ms. Bolin contends there are
5 other sources besides Laclede's promotional advertising from which consumers can
6 receive information. Is this true?

7 A. Consumers are bombarded with messages from a variety of sources. But the Marketeam
8 Survey I cited earlier demonstrates that advertising was the only source that had an
9 impact in their decision-making process:

10 "No other source of formal communications was noted that had a significant
11 effect on their decision."
12

13 Q. Ms. Bolin disagrees with the conclusion of the Marketeam Survey, stating in her rebuttal
14 testimony (page 5, lines 11-15) that: "Only 4 of 103 customers interviewed cited
15 Laclede's advertising as a source that led he/she to choose gas heat," and that the rest
16 cited other sources. How do you respond?

17 A. Ms. Bolin has testified to nothing in her background that qualifies her as an expert in
18 public opinion research. What she has done is taken a single number from pages of
19 tabular data out of its proper context and mischaracterized its meaning. There are other
20 numbers on the very same page as the one Ms. Bolin refers to that show customers found
21 important the information they received from other forms of Laclede advertising. For
22 example: 4 additional customers cited "brochures from the gas company," 3 more cited
23 "display homes/home shows," and 2 more cited "salespersons at the gas company."
24 Furthermore, 14 additional customers cited "price comparisons," which is an important
25 message of Laclede's advertising. An additional customer "read about it" without citing a
26 specific source, although the most likely place in St. Louis to read about gas heat is in a

1 Laclede advertisement. There are lots of numbers in this survey. However, you cannot
2 properly evaluate the meaning of a survey by picking and choosing individual numbers,
3 taking them out of their proper context, and then using them as evidence to refute the
4 studied conclusions of respected professionals in the field of public opinion research.

5 These professionals reported, in the Marketeam Survey's Executive Summary, that:

6 "Over half the respondents recalled advertising about a message, said it was
7 important in their decision and believed the statement."

8
9 "Statements recalled, believed and considered important by one-third or more of
10 each group were 'gas is cheaper than electric' and 'gas is more efficient.' "

11
12 "When asked in an open-ended question, over half of all respondents recalled
13 seeing or hearing advertising about natural gas before choosing gas heat."

14
15 "Eighty percent of those persons who recalled advertising also recalled something
16 specific from the ad."

17
18 These experts in public opinion research concluded:

19
20 "A high percentage of those who made a conscious decision to select natural gas
21 heat recalled, believed, and considered important messages that were included in
22 Laclede Gas advertising. No other source of formal communication was noted
23 that had a significant effect on their decision. These results strongly support the
24 use of advertising to present information to prospective buyers of natural gas
25 furnaces."

26
27
28 **Promotional Advertisements**

29
30 Q. Ms. Bolin provides examples of several phrases from various Laclede promotional
31 advertisements (page 4, lines 9-15). Are these representative of the ads in question?

32 A. These statements are among those included in individual Laclede advertisements, but
33 there are other statements, phrases and messages she could have cited. What she does not
34 discuss is the context in which these messages appear, the publications in which they are
35 published, the stations on which they are broadcast, or the audience reached through
36 these publications and stations. In other words, Ms. Bolin cites words and phrases taken

1 out of the context in which they were delivered. A phrase on paper cannot describe the
2 entire message that was communicated to and perceived by the audience, and that is a
3 major weakness of the current classification system. By requiring individual ads be
4 forcefit into predetermined categories, the system encourages a reviewer to pick lines out
5 of context to justify the chosen classification. Neither Public Counsel nor Staff has
6 considered the audience and how the audience perceived the message. Laclede presented
7 such evidence in the Marketeam Survey, but Public Counsel and Staff ignored that
8 evidence — without providing any controverting evidence of their own.

10 Institutional Advertisements

11 Q. Ms. Bolin provides examples of several phrases from various Laclede institutional
12 advertisements (page 6, lines 17-19). Are these representative?

13 A. Again, these phrases exist within our advertisements, but, at least as they pertain to our
14 commercials that open and close *The Newshour With Jim Lehrer* on public television,
15 they are a mischaracterization of the primary message. These commercials do include the
16 statement cited by Ms. Bolin that “Channel 9’s broadcast of The NewsHour has been
17 locally supported for more than 10 years by Laclede Gas.” But these commercials occupy
18 a combined 40 seconds of air time, and the rest of that time is filled with statements
19 similar to those in advertisements that Public Counsel and Staff have classified as
20 Promotional, such as, “Laclede Gas, bringing you energy that is comfortable, efficient
21 and virtually pollution free.” As I testified in my rebuttal testimony, if these commercials
22 are to be classified, they should be classified as Promotional and submitted to the
23 benefits-justification analysis, which I believe the Company has satisfied.

Inconsistencies in Classification

Q. In her rebuttal testimony (page 7, lines 3-6), Ms. Bolin states that she mistakenly listed a General ad as Promotional in her original advertising adjustment, so she is now changing such classification to General. Do you agree with her new classification?

A. To the extent it is possible to classify individual advertisements, I would agree that this particular ad is "General" in nature. However, Staff disagrees, having classified the ad as Institutional. So, now Public Counsel believes the ad should be totally included in rates, while Staff believes the same ad should be totally excluded from rates. I have attached to my testimony a copy of this particular advertisement as Schedule 1. I also have attached, as Schedule 2, a chart detailing the inconsistent manner in which this one particular advertisement has been classified by Staff and Public Counsel in general rate cases through the years. This chart demonstrates the faults of a system that relies on such classifications.

Q. Are there other examples of inconsistent classifications by Staff and Public Counsel?

A. Yes. There are several examples:

- 1) In each Laclede general rate case since 1990, Staff has classified as General the Company's advertisements informing customers of the Elderly & Handicapped Registration Program. So has Public Counsel, except once when it classified the same advertisements as Institutional.
- 2) In each of these cases, Staff and Public Counsel have classified as Safety the Company's advertisements informing customers of safety-related information, except for the case in which Public Counsel classified half of the cost of our safety-related bill enclosures as Institutional.

1 3) In that same case, while classifying as Institutional half of the safety-related bill
2 enclosures, Public Counsel classified as Safety the very same information when
3 presented in the form of a newspaper ad.

4 4) Public Counsel once classified the same television commercial in two different ways,
5 in one place classifying it as Promotional and in another place classifying it as
6 Institutional. This was a commercial using the “Ernest” character called “Roof
7 Anchor.”

8 Q. How do you explain these inconsistencies?

9 A. I explain them by restating my belief that it is not possible to neatly classify individual
10 advertisements. What I find strange, considering the inconsistencies demonstrated above
11 regarding this and previous cases, is the assurance with which Public Counsel and Staff
12 claim they are able to make accurate classifications. In Company Data Requests No. 67
13 and No. 90 (attached hereto as Schedule 3), we asked each to “Describe the process by
14 which you determined what ‘primary message’ each Laclede advertisement was designed
15 to communicate. Further, describe whether this determination of a primary message was
16 complex or whether individual ads clearly fell into one category or another?” Public
17 Counsel responded:

18 “The ‘primary message’ in each ad was very clear to me, thus it was very clear as
19 to which category each ad fell into.”
20

21 Staff responded similarly:

22 “Most of the ads clearly fell into one category or another.”

23 I believe the examples set forth on this page and the previous page, as well as Schedule 2,
24 clearly demonstrate why the Commission should abandon the classification system —

1 even though Laclede's promotional advertising meets its requirements — and adopt a
2 new system based on allowing advertising expenditures up to a percentage of revenues.

3 Q. Does this conclude your testimony?

4 A. Yes, it does.

AT LACLEDE GAS, PUBLIC SERVICE IS OUR DAILY BUSINESS

Smell gas? Experiencing a disruption in your gas service? Call Laclede Gas at 621-6960 day or night for emergency repair service. If our regular number is busy and the situation is an emergency, call 342-0800. During regular business hours, call 621-6960.

- Establishing and Discontinuing Service
- Gas Appliance Service
- Customer Account Information
- Budget Billing Information
- Collection and Credit Information

For Gas Appliance Sales, call 342-0709

- Clothes Dryers
- Ranges
- Space Heaters
- Water Heaters
- Grills
- Gas Lights

And don't forget the special Elderly and Handicapped Registration Program - If you're 60 years or older or handicapped you can register with the Gas Company by giving the name of a friend, relative, social service agency or charitable organization to contact if there is a billing problem with your account.



Laclede Gas

CASE	AD COST	STAFF CLASSIFICATION	STAFF ADJUSTMENT	PUBLIC COUNSEL CLASSIFICATION	PUBLIC COUNSEL ADJUSTMENT
GR-90-120	\$1,250.00	GENERAL	\$0.00	N/A	\$0.00
GR-92-165	\$1,875.00	GENERAL	\$0.00	N/A	\$0.00
GR-94-220	\$1,875.00	GENERAL/ PROMOTIONAL/ INSTITUTIONAL	(\$562.50)	N/A	\$0.00
GR-96-193	\$1,875.00	GENERAL/ PROMOTIONAL/ INSTITUTIONAL	(\$375.00)	SAFETY/ GENERAL/ PROMOTIONAL/ INSTITUTIONAL	(\$937.50)
GR-98-374	THE AD WAS NOT PUBLISHED DURING THIS TEST PERIOD				
GR-99-315	\$1,875.00	INSTITUTIONAL	(\$1,875.00)	PROMOTIONAL GENERAL	(\$1,875.00) \$0.00

**LACLEDE GAS COMPANY
DATA INFORMATION REQUEST**

Rate Case No. GR-99-315

Data Request: 90

Requested From: Kimberly Bolin

Requested By: Richard N. Hargraves

Date Requested: 6-30-99

Information Requested: Describe the process by which you determined what "primary message" each Laclede advertisement was designed to communicate. Further, describe whether this determination of a primary message was complex or whether individual ads clearly fell into one category or another.

Information Provided: I determined the "primary message" of each ad by reading copies of the printed ads copies of the scripts for the radio and television ads that were provided to me in OPC Data Request number 1005. The "primary message" in each ad was very clear to me, thus it was very clear as to which category each ad fell into. Also, various data requests were sent to the Company to determine the message.

Date Response Received: _____

Signed By: _____

Date: _____

**LACLEDE GAS COMPANY
CASE NO. GR-99-315**

Response to Company Data Request No. 67

Each advertisement was reviewed to determine its primary message. A check was also made of previous Laclede cases to make sure the standards were being consistently applied. Most of the ads clearly fell into one category or another.

JUL 21 1999

No. 67

Data Information Request
From: LACLEDE GAS COMPANY
Case No. GR-99-315

Requested From: John M. Boczkiewicz

Requested By: Richard N. Hargraves
Laclede Gas Company

Date of Request: 6/30/99

Information Requested: Describe the process by which you determined what "primary message" each Laclede advertisement was designed to communicate. Further, describe whether this determination of a primary message was complex or whether individual ads clearly fell into one category or another.

Response: _____

Response Provided By: A. Kachura Date: 7/20/99

The attached information provided to Laclede Gas Company 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 Laclede Gas Company if, during the pendency of Case No. GR-99-315, et al. 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 at a 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 or data recordings, transcriptions and printed, typed or written materials of every kind in your possession, custody or control or within your knowledge. The pronoun "you" and "your" refers to the person identified in the "Requested From" block above and all other employees, contractors, agents or others employed by or acting on behalf of the organization, group or governmental unit associated with that person.

Signed By: _____ Date Response Received: _____

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

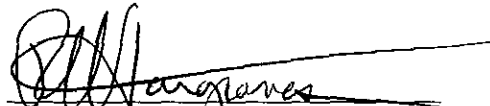
STATE OF MISSOURI)
) SS.
CITY OF ST. LOUIS)

Richard N. Hargraves, of lawful age, being first duly sworn, deposes and states:

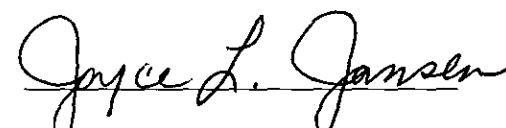
1. My name is Richard N. Hargraves. My business address is 720 Olive Street, St. Louis, Missouri 63101; and I am Director of Corporate Communications of Laclede Gas Company.

2. Attached hereto and made part hereof for all purposes is my surrebuttal testimony, consisting of pages 1 to 10, 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.


Richard N. Hargraves

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


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

