Exhibit No.:	
Issue:	Rate Design and Tariff Issues
Witness:	Michael T. Cline
Type of Exhibit:	Rebuttal Testimony
Sponsoring Party:	Laclede Gas Company
Case No.:	GR-99-315

Laclede Gas Company

CASE NO. GR-99-315

REBUTTAL TESTIMONY

OF

MICHAEL T. CLINE

August 1999

REBUTTAL TESTIMONY OF MICHAEL T. CLINE

Q. Please state your name and business address.

A. My name is Michael T. Cline and my business address is 720 Olive Street, St. Louis, Missouri 63101.

Q. Are you the same Michael T. Cline who previously filed direct testimony on behalf of Laclede Gas Company ("Company") in this proceeding?

A. Yes, I am.

PURPOSE OF TESTIMONY

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to respond to the direct testimony of the following witnesses pertaining to rate design and certain tariff issues: Daniel Beck, James Gray and Michael Wallis, appearing on behalf of the Missouri Public Service Commission Staff ("Staff"); Donald Johnstone, appearing on behalf of Missouri Industrial Energy Consumers ("MIEC"); Richard Kovach and Philip Difani, Jr., appearing on behalf of AmerenUE ("UE"); and Thomas Shaw, appearing on behalf of the Office of the Public Counsel ("OPC").

The issues I will be addressing include (a) the separation of the Company's rate into the recovery of gas costs and non-gas costs, (b) the regulatory treatment of off-system sales and capacity release revenues; (c) tariff description of service territory; (d) seasonal differentiation of the General Service

("GS") rate schedule; (e) computation of demand units for the Company's GS rate schedule, and (f) Seasonal Air Conditioning ("AC") service rate design.

THE SEPARATION OF THE COMPANY'S RATE INTO THE RECOVERY OF GAS COSTS AND NON-GAS COSTS

Q. Please summarize this issue.

A. Several witnesses (Messrs. Beck, Kovach and Johnstone) make various proposals concerning the elimination of gas cost from Laclede's tariff rates. Specifically, Mr. Beck recommends on page 4 of his direct testimony that the Company exclude the base cost of gas from its tariff rates. On pages 7 and 8 of his direct testimony, Mr. Kovach recommends the segregation of the Company's rates into gas and non-gas components. Mr. Johnstone recommends on page 17 of his direct testimony that the gas component of rates be determined and maintained.

Q. Do you agree with these recommendations?

A. No, I do not. As I explained on pages 3 and 4 of my direct testimony, there is no agreement as to the level of base gas costs that is currently included in each rate schedule. Neither Mr. Beck nor Mr. Kovach indicate the amount of base gas costs that should be removed from each rate schedule. As a result, I do not see how the Commission can take their testimony seriously. Similarly, OPC did not address this issue. While MIEC witness Johnstone does include in his workpapers a methodology for determining gas costs separately, I believe his methodology is flawed because it relies on coincident peak demand to allocate demand- related gas costs to the various rate classes. Thus, there is no reasonable basis upon which the Commission can approve rate splits between gas and non-gas costs in this proceeding.

Q. Do you have any other reasons for opposing these parties' recommendation?

A. Yes. None of these parties have explained adequately why the exclusion of gas costs from base rates is necessary. The only reason cited by the Staff is that Laclede is the only Company in the State that includes gas costs in its base rates. Aside from Staff's apparent desire for consistency, it has offered no other benefits to be derived from such a change. Similarly, Mr. Kovach and Mr. Johnstone have failed to explain the benefits of a gas cost and non-gas cost segregation. I am aware of no instance in which the class cost of service information traditionally provided by the Company, including gas costs, has been a hindrance to any party in developing its rate design proposals in past Company rate proceedings. This lack of benefits is especially significant in light of the costs required to implement a segregation of the Company's rates into gas and non-gas components.

Q. What types of costs would the Company incur?

A. Assuming there is a different level of gas costs embedded in each of the Company's sales rate schedules, recognition of these different levels would require establishment of a different Purchased Gas Adjustment ("PGA") factor for each such schedule. Today, there are only three different PGA factors used in the Company's billing system, whereas a separation of the Company's rates into gas and non-gas components would necessitate nine factors. To provide for six additional PGA factors will require substantial reprogramming of the Company's billing system. Since no party has quantified any benefits associated with the exclusion of gas costs from base rates, the Company cannot justify the expenditure of resources to effectuate such exclusion.

Q. Has some level of gas costs always been included in the Company's base rates?

A. Yes.

Q. Are you aware of any complaints by customers alleging that the Company's rates are unjust or unreasonable or that customers have been overcharged or undercharged because there is no separation of gas costs and non-gas costs in the Company's rate schedules?

A. No.

Q. Would customers acquire a better understanding of the breakdown of their bills between gas costs and non-gas costs if the Commission were to order the Company to segregate its rates into gas and non-gas cost components?

A. No. Customers are already receiving such information through the Company's reporting of the total gas cost per therm that appears on the Company's bills as a result of the Commission's Order Approving Stipulation and Agreement in Case No. GO-97-401.

THE REGULATORY TREATMENT OF OFF-SYSTEM SALES AND CAPACITY RELEASE REVENUES

Q. Please summarize the off-system sales and capacity release revenue issue.

A. Staff witness Wallis recommends alternative approaches to the treatment of off-system sales net revenues should the Commission not approve an extension of the Company's existing Gas Supply Incentive Plan ("GSIP") in Case No. GT-99-303. OPC witness Shaw recommends the imputation of both off-system sales net revenues and capacity release revenues in the instant proceeding consistent with his recommendation in Case No. GT-99-303.

Q. Do you agree with these recommendations?

A. Absolutely not. For reasons that were fully explained by Company witnesses Neises and Jaskowiak in Case No. GT-99-303, the Company opposes either the flow-through or the imputation of capacity release revenues and off-systems sales net revenues. These items are intrinsically gas cost-related and therefore properly subject to the GSIP provisions of the Company's PGA clause. The GSIP proposed by the Company in Case No. GT-99-303 provides the best means to encourage the Company to maximize capacity release revenues and off-system sales net revenues and at the same time affords the Company some measure of protection from any significant decline in these revenues.

Q. In Case No. GT-99-303, what level of revenues did the Company estimate it could reasonably be expected to achieve for purposes of establishing a baseline in the GSIP above which the Company would retain a share of any excess revenues?

A. The Company proposed an aggregate level of $2 million for both capacity release revenues and off-system sales net revenues. However, as I just explained, such level was proposed only in the context of a baseline in the GSIP. Unlike the GSIP, the imputation of revenues in the establishment of base rates would put the Company at risk for absorption of any shortfall from the imputed level of revenues. Thus, the $2 million proposed by the Company in Case No. GT-99-303 is substantially in excess of the level that would be appropriate for purposes of revenue imputation in this rate proceeding.

TARIFF DESCRIPTION OF SERVICE TERRITORY

Q. Please summarize the tariff description of service territory issue.

A. On pages 21 through 24 of his direct testimony, Staff witness Gray recommends that the Company list in its tariff all communities it serves "along with township, section, and range numbers by Missouri county."

Q. Do you agree that such a requirement is necessary?

A. No. The main reason Mr. Gray provides for imposing such a requirement is to minimize future territorial disputes between the Company and other LDCs. However, as the Commission Staff should recognize, inclusion of more precise territory descriptions in the Company's tariff will not eliminate such disputes, since only a franchise or certificate application approved by the Commission determines territorial boundaries. The tariff only serves to document the boundaries after Commission approval has been obtained. However, often, Commission orders are not specific as to the legal description of each Company's service area. Certainly, the Company has no objection to specifying such territories within its tariff if the Commission has specified them. For example, this is exactly what occurred when the Company made compliance tariff filings in Case Nos. GA-99-107 and GA-99-236, Consolidated and Case No. GA-91-82.

Q. What do you recommend?

A. The form of the Company's existing tariff with respect to service areas provides an adequate description of the Company's service area, has been in place for years and has caused little, if any, confusion. Since territorial clarifications or modifications are relatively rare and generally must be preceded by other Commission action, the Staff's recommendation that the Company modify its tariff to include a listing of existing communities served and a legal description by Missouri county is unnecessary and burdensome. Instead, the Company's tariff should be modified on a case by case basis, when and if necessary, after approval of a service area change by the Commission.

SEASONAL DIFFERENTIATION OF THE GENERAL SERVICE RATE SCHEDULE

Q. Please summarize the issue pertaining to the seasonal differentiation of the demand and commodity charges within the General Service rate schedule.

A. On page 2 of his direct testimony Mr. Kovach alleges that the Company's rates "do not properly reflect Laclede's actual system seasonal cost differentials." On page 3 of his direct testimony, Mr. Difani states that the Company's proposed General Service rates do not "continue the level of Laclede's existing differential with respect to non-gas costs." Mr. Defani then goes on to develop proposed rates that he believes correct this alleged deficiency.

Q. Do you agree with these positions?

A. Absolutely not. The Company's proposed rates are, in fact, seasonally differentiated and vary only slightly from the rates proposed by Mr. Difani.

Q. How much does the base rate seasonal differential proposed by UE differ from that proposed by the Company?

A. For the first 65 therms, UE's proposed differential is only $.00104 per therm higher than the Company's proposed differential, which difference represents only 0.3% (three tenths of one percent) of the Company's proposed first block General Service summer rate. For consumption over 65 therms per month, UE's proposed differential is only $.00088 per therm higher than the Company's proposed differential, which difference also represents only 0.3% of the Company's proposed General Service second block summer rate. Even the difference between the Company and UE in the demand charge seasonal differential is less than $.01 per demand therm. Obviously, even if UE's calculations are correct, UE's suggested improvements are petty indeed. Rate design is not an exact science and fine-tuning of this magnitude should not drive a change in Laclede's rates.

Q. Mr. Kovach recommends that the Company be required to seasonally differentiate demand-related gas costs. Do you have any comments on this recommendation?

A. Yes. In Case No. GR-94-328, UE raised this identical issue before the Commission, and after extensive litigation the Commission issued its Report and Order in 1995 in which it rejected UE's proposal. Since UE tried this issue so recently, and none of the relevant circumstances have changed, it is unnecessary for the Commission to revisit the seasonal differentiation of gas costs in this proceeding.

Q. Does UE provide any reasons for its proposal in this case that the Commission did not hear and consider in Docket No. GR-94-328?

A. No. Mr. Kovach claims that such costs should be "allocated to seasons in accordance with the results of Mr. Difani's analyses," which analyses allegedly support an allocation of 90% of such costs to the winter and 10% of such costs to the summer. This was similar to the recommendation that UE made in Case No. GR-94-328. However, the Company's rates already result in the recovery of approximately 83% of such costs in the winter period, and this would not change under the Company's proposed rate design. Consequently, UE's proposal would only serve to impose a greater hardship on low income customers who struggle today to pay high winter heating bills. Such hardship was a major factor in the Commission's 1995 decision rejecting UE's proposal. Nothing has changed since that order was issued that would warrant a different result.

Q. What are the deficiencies in Mr. Difani's analysis that lead him to conclude that the Company's proposed recovery of costs is inappropriate?

A. Mr. Difani makes the same errors as he did in the prior case. Most importantly, Mr. Difani drastically understates the amount of pipeline capacity which the Company needs to meet its summertime load requirements.

Q. What do you mean?

A. In allocating costs to the summer period, Mr. Difani assumed that the Company only requires 147,000 MMBtu of pipeline capacity to meet the Company's summer requirements.

Q. Where did he get this number?

A. Apparently that represents the average daily capacity required by the Company to serve customers during the Company's peak summer month of October.

Q. Why isn't that quantity appropriate to use in allocating costs to the summer period?

A. As the Company explained in Case No. GR-94-328, costs should be allocated to the summer period based not on the amount of capacity required to meet the Company's <u>average</u> daily load during a peak summer month but based on the <u>maximum</u> load the Company could experience during any one day during the summer period.

Q. Please explain.

A. Since firm pipeline capacity can't be adjusted up and down on a daily basis to meet customers' changing requirements, if the Company were in business only to serve its customers' summer requirements, it would have to contract for enough transmission capacity to enable it to satisfy customers on that day when summer use is greatest.

Q. What is the Company's maximum daily summer load?

A. It is not uncommon for the Company's requirements to exceed 300,000 MMBtu per day in October. In fact there have been instances when requirements exceeded 450,000 MMBtu per day. Nevertheless, for purposes of making an appropriate allocation of costs to the summer period, I have conservatively assumed that at least 283,000 MMBtu of the Company's total daily pipeline capacity is needed just to satisfy customers demands during this period.

Q. What is the significance of 283,000 MMBtu?

A. This represents the total firm year-round capacity under contract on the Company's upstream pipelines, consistent with my rebuttal testimony in Case No. GR-94-328, plus the Williams Pipelines Central, Inc. capacity which was added in September 1998. Since on some summer days, the Company could utilize all of this pipeline capacity and more to meet its customers requirements, Mr. Difani's analysis should use such capacity levels rather than average daily usage during a peak summer month.

Q. What happens when you make this adjustment to Mr. Defani's analysis?

A. As can be seen from my Schedule 1, approximately 20% of pipeline reservation costs should be allocated to the summer period rather than the 10% derived by Mr. Difani. The significance of this adjustment is that it reflects the percentage of demand-related gas costs recovered by the Company under its existing and proposed rate structure. Thus, contrary to UE's claim, there is no need to seasonally differentiate such gas costs.

Q. Are there any other deficiencies in Mr. Difani's analysis?

A. Yes. Rather than applying a single allocation percentage to all of the Company's demand-related gas costs, it would be more appropriate to analyze the various upstream and downstream contracts separately. However, such an approach, compared to the existing and proposed rate design, would allocate even more costs to the summer and less to the winter, a result which the Company is not recommending.

COMPUTATION OF DEMAND UNITS FOR THE COMPANY'S GENERAL SERVICE RATE SCHEDULE

Q. Please summarize the demand units issue.

A. On page 10 of his direct testimony, Mr. Kovach alleges that the Company will not develop a reasonable estimate of demand therms for each General Service customer since the Company proposes to divide each customer's peak monthly usage by the actual number of days in such billing month. Instead, Mr. Kovach claims that UE's load research data would indicate that it would be more appropriate to divide the peak month by 20 days.

Q. What is your response to Mr. Kovach's theory?

A. Inasmuch as the Company appreciates Mr. Kovach's efforts to improve upon the Company's determination of a customer's billing demand, the divisor the Company uses is totally irrelevant to the determination of each customer's demand cost responsibility.

Q. Why is that?

A. As I explained on page 14 of my direct testimony, a customer's peak monthly consumption should be indicative of a customer's relative peak day cost responsibility. Thus, as long as the Commission uses the same divisor for each customer, it makes absolutely no difference whether the Company divides the peak month by 30 days, 20 days or even 5 days. Certainly, the choice of a divisor affects the determination of total billing demand therms. However, the level of billing demand therms has an offsetting effect on the derivation of the demand rate. In other words, the use of a lower divisor will produce greater overall demand determinants for the entire General Service rate schedule, which, in turn, will produce a lower rate. The lower rate would then be applied to the greater calculated billing demands of each individual customer with the result that each customer's level of demand charges would be identical to that obtained through the use of a higher divisor.

SEASONAL AIR CONDITIONING SERVICE RATE DESIGN

Q. Please summarize the seasonal air conditioning issues.

A. On page 12 of his direct testimony, Mr. Kovach complains about the Company's proposed AC rate schedule remaining a two-part rate when the General Service rate is proposed as a three-part rate. He also suggests that the rate apply to air conditioning usage only. Also, Mr. Difani claims that this rate is subsidized by other rates.

Q. Please comment on Mr. Kovach's three-part rate proposal.

A. Certainly, the Company has no objection to developing a three-part rate schedule (customer charge, demand charge, commodity charge) for its AC customers should the Commission approve a similar rate design for the General Service rate. However, since there are less than 500 AC customers, amounting to less than one-tenth of 1% of the Company's customer base, the Company elected not to modify such rate structure at the time of its filing. Furthermore, contrary to the belief expressed by Mr. Kovach, any new AC rate structure should continue to be based on the Company's interruptible cost of gas as it is today and has been for some time, in order to encourage the off-peak use of natural gas.

Q. Do you agree with Mr. Kovach that the AC rate should not apply to other base uses of natural gas?

A. No. It is simply not practical to sub-meter these other uses of gas. Accordingly, the AC rate schedule should continue to apply to all gas consumed by the customer during the summer.

Q. Please discuss the subsidy allegation.

A. On page 9 of his testimony, Mr. Difani alleges that the Company's AC rate schedule customers are being subsidized by all other firm customers.

Q. Do you agree?

A. No. I do not agree that the reduction in AC rates can or should be confined to air conditioning usage. The tariff requires that the quantity of gas used during the summer period for air conditioning be at least twice the quantity of gas used for all other purposes and makes no distinction in the rates to be charged for these various uses of natural gas. In addition, I believe it is important for the Commission to keep this alleged subsidy in perspective. As I stated above, there are only approximately 500 AC customers. Even if the Commission were to correct for this alleged subsidy, the average General Service customer's bill would be at most approximately 30 cents per year higher than if the Company had a means by which it could practically bill customers separately for air conditioning usage. In my judgment, given the de minimis magnitude of UE's issue, it would be a wasteful use of resources for the Company to alter its billing system to address UE's exaggerated claim.

Q. Does this conclude your testimony?

A. Yes, it does.

LACLEDE GAS COMPANY
DEMAND-RELATED GAS COSTS
ALLOCATION TO SUMMER AND WINTER

	AmerenUE	AmerenUE Method Adjusted by Laclede
Firm Pipeline Capacity into St. Louis Held By Laclede	753,418	698,418
Months	12	12
Annualized CDs	9,041,016	8,381,016
Summer Requirements	146,794	283,000
Months	6	6
Summer-related CDs	880,764	1,698,000
% Summer	9.742%	20.260%
% Winter	90.258%	79.740%

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Laclede Gas Company's Tariff to Revise Natural Gas Rate Schedules	)))	Case No. GR-99-315

A F F I D A V I T

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

Michael T. Cline, of lawful age, being first duly sworn, deposes and states:

1. My name is Michael T. Cline. My business address is 720 Olive Street, St. Louis, Missouri 63101; and I am Manager of Tariff and Rate Administration of Laclede Gas Company.

2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony, consisting of pages 1 to 16, and Schedule No. 1, 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 schedule are true and correct to the best of my knowledge and belief.

Michael T. Cline

Michael T. Cline

Subscribed and sworn to before me this 5th 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