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



LACLEDE GAS COMPANY

GR-99-315

REBUTTAL TESTIMONY

OF

JAMES A. FALLERT

Rebuttal Testimony of James A. Fallert

Table of Contents

REBUTTAL 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 testimony in this case?

A. Yes.

## Purpose of Testimony

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my testimony is to relate some information which Laclede believes is critical to the Commission's consideration of the return on equity recommendations made by Staff and Public Counsel in their direct testimony. I will also address the positions taken by Staff and Public Counsel in their direct testimony regarding accounting authority orders and tracker deferral mechanisms. Additionally, I will discuss some changes to the Safety Replacement Program deferral, which we believe are necessary as a result of recent developments regarding copper service replacements.

Q. Do you have any other general comments about this testimony?

A. Yes, I do. Staff and Public Counsel have expressed a desire to eliminate all of the trackers and accounting authority orders (excluding the Safety Replacement Program deferral, which all parties agree, should continue). Laclede has considered the concerns expressed by the other parties and will discuss the means by which the mechanisms could be appropriately eliminated in a manner that is fair and reasonable for both the Company and its customers.

## Return on Equity

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

A. We believe that the return on equity recommendations of Staff and Public Counsel in this case are woefully inadequate. The fundamental technical weaknesses in their studies are detailed in the rebuttal testimony of Company Witness Kathleen McShane. The purpose of this testimony is to compare and contrast these recommendations with returns being granted to other utilities and to returns that would be expected by the financial markets in order to maintain an acceptable credit rating.

Q. Please continue.

A. Laclede Gas Company's direct competitor in the St. Louis area is AmerenUE. Ameren has negotiated an agreement approved by the Commission whereby it keeps all earnings up to a return on equity of 12.61%, at which point it begins sharing with its customers. Ameren shares 50% of returns with its customers up to 14.0%, and 90% of earnings on returns up to 16.0%. We are well aware that no two companies are exactly alike, and that the declining-cost environment experienced by an electric utility is the exact opposite of a typical gas distributor's situation. Nevertheless, it is extremely difficult on its face to accept that the Staff and OPC recommendations can in any way be considered reasonable when they are approximately 300 basis points below the point where Laclede's principal competitor even starts to share.

Q. Have you made any other comparisons?

A. Yes. A recent report issued by Regulatory Research Associates presents the average equity returns authorized in the United States during 1998 for gas distributors. The average among cases reported was 11.51% (one of these cases was a Missouri company – Missouri Gas Energy, which was allowed a return of 10.93%). The Staff and OPC recommendations are about <u>200 basis points below</u> this average. Again, we realize that no two company's situations are exactly alike, but the magnitude of this discrepancy certainly brings the reasonableness of these recommendations into question.

Q. Have you evaluated the impact that Staff and OPC's recommendations would have on the credit ratings of Laclede Gas Company?

A. Yes, I have. I have reviewed Mr. Broadwater's analysis of interest coverage ratios which would result from his recommendations. He is certainly correct to examine interest coverage, since it is the primary measure used to assess a company's creditworthiness. Mr. Broadwater has also correctly identified a desirable range for interest coverage, which he has indicated to be about 3.86 to 4.17 times. These coverage ratios should be sufficient to allow the Company to maintain a credit rating in the desirable A to AA range. Laclede's current rating is AA-, a rating which we have worked hard for decades to maintain in the face of declining rate of return allowances.

Q. Did you find any problems with Mr. Broadwater's analysis?

A. Yes. Our review revealed that, in his calculation of interest coverage which would result from his recommended return on equity range, he had inadvertently included <u>only one month</u> of short-term interest <u>rather than an annual amount</u>. This significantly inflated his calculated interest coverage. In his deposition on July 30, 1999, Mr. Broadwater acknowledged that the corrected coverages range from 3.21 to 3.46 times and that Staff's recommended return would produce interest coverages consistent with a credit rating of BBB, a significant downgrade from Laclede's current AA- credit rating.

Q. What return on equity would result in the desirable interest coverage range indicated by Mr. Broadwater in his testimony?

A. As Mr. Broadwater acknowledged in the July 30 deposition, returns in the range of 11.65% to 12.9% would generate these desirable interest coverage ratios. These calculations are included in Schedule 1.

Q. Are there any other problems with Mr. Broadwater's analysis of interest coverage ratios?

A. Yes. His calculation incorrectly used the marginal tax rate rather than 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. Both of these items artificially inflated the calculated interest coverage ratio. However, the above corrections do not include these adjustments, which makes the result, at best, a very conservative view of the returns required to achieve desirable coverage ratios.

Q. Do you have any other observations regarding interest coverage?

A. Yes. It should be noted that Public Counsel's return on equity recommendation falls within Staff's range and would produce similarly poor interest coverage ratios.

Q. Please summarize your observations regarding the equity returns recommended in this case.

A. The following table summarizes the pertinent return on equity percents:

| | |
|---|---|
| AmerenUE – Top of Sharing Grid | 16.0% |
| AmerenUE – Beginning of 90% Sharing | 14.0% |
| Needed to Achieve High End of Staff Coverage Ratio | 12.9% |
| Laclede Recommendation | 12.75% |
| AmerenUE – Beginning of 50% Sharing | 12.61% |
| Needed to Achieve Low End of Staff Coverage Ratio | 11.65% |
| Average Gas Distributor Allowed Return – 1998 | 11.51% |
| Missouri Gas Energy – Case No. GR-98-140 | 10.93% |
| High End of Staff's Recommendation | 10.00% |
| Office of Public Counsel's Recommendation | 9.70% |
| Low End of Staff's Recommendation | 9.00% |

It is clear from this table that the recommendations of Staff and OPC are simply inadequate and completely unrealistic. Company Witness McShane details the reasons that Staff and OPC's analyses have produced these results. One of the principal failings in both of these analyses is the calculation of return based on market prices, which is then recommended as an appropriate return on book value. This is clearly wrong, and results in return recommendations that do not comport with reality.

Q. Please provide an illustration of how application of a market-derived return on equity to book value effects Laclede's return.

A. Schedule 2 attached to this testimony provides such an illustration, based on Mr. Broadwater's analysis. The illustration indicates that Staff's return on equity recommendations in this case, when applied to book equity, would generate market returns ranging from only 6.0% to 6.6%. It should be noted that the low end of this range is below the risk free yield on 30-year treasury bonds, which, at this writing, is about 6.1%.

Mr. Broadwater, in his July 30 deposition, recognized but was unable to explain the shortfall between these market returns and his return on equity recommendations in this case. Clearly, there is a fundamental flaw in Staff's and OPC's rate of return analyses, and it is worth repeating: **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.**

Safety Replacement Program (SRP) Accounting Authorization

Q. You mentioned some changes to the current SRP Accounting Authorization which you believe are necessitated by recent developments regarding copper service line replacements. Please elaborate.

A. Recent events have led to a comprehensive review of the Company's program for the identification and replacement of potential leaking copper services. Discussions between Laclede gas safety engineers and Staff are ongoing, and Laclede intends to implement a revised program soon. In fact, the Company has already initiated this effort through a specific bar hole survey of all copper service lines on the distribution system, to accelerate the identification of potential problems. The first such survey was completed during the period from March through June 1999, and will be repeated in 2000 and, to the extent necessary, in subsequent years. The Company proposes that such surveys, beginning with those performed in 1999, be included in the SRP deferral as an essential part of this program.

Q. Are there any other changes to the SRP deferral that you would propose?

A. Yes. In the past, the SRP deferral has included a provision that declared the deferral null and void in the event that Laclede does not file a rate case within two years. Staff has recommended a continuation of this provision. Laclede understands the reluctance of Staff to support an open-ended deferral with no time limits, but we believe that a two-year period is too brief and arbitrary a period for this purpose. Instead, Laclede proposes that a system of surveillance and monitoring of the SRP deferrals be implemented and that a three-year deadline be established upon which the Commission could decide whether the continuation of the SRP deferral is appropriate, without the necessity of the Company filing for a general increase in rates. The specifics of this proposal are explained in greater detail in Schedule 3 to this testimony.

Q. Please identify the differences between Staff, Public Counsel ("OPC"), and Laclede's positions regarding recovery of existing SRP balances.

A. Laclede proposes inclusion of the balances in rate base and recovery over a 5-year period. Staff has proposed no rate base inclusion and a 10-year amortization period. Public Counsel has proposed no rate base inclusion and a 20-year amortization period.

Q. What reasons did Staff provide for its proposal?

A. Staff cited Commission precedent from Missouri Gas Energy (MGE) Case No. GR-98-140.

Q. Are there any reasons that this precedent should not be applicable to Laclede's SRP deferral?

A. Yes. It is my understanding that the Commission's elimination of SRP balances from rate base centered on concerns that MGE should share in the effect of regulatory lag and that MGE has the ability to control the extent of regulatory lag through scheduling of its replacement program. Laclede's situation is different in two important ways. First, the Company's SRP defers interest at a lower rate than MGE, specifically the short-term AFUDC rate <u>minus 1%</u>. As a result, Laclede has already accepted a lower return on SRP deferrals than other Missouri gas companies. Second, Laclede and Staff are currently in the process of reviewing the program for the replacement of copper services. It is our strong belief that the scheduling and structure of this program should be based on <u>safety considerations, not on financial considerations</u> associated with any attempt to reduce regulatory lag.

Laclede believes that the facts associated with its safety program are sufficiently differentiated from those of MGE to warrant inclusion of SRP deferred balances in rate base.

Q. Please discuss the appropriate amortization period for amounts deferred pursuant to the SRP.

A. OPC supports a 20-year amortization period on the theory that these deferrals should be recovered over a time period close to the useful life of the associated plant. While this argument has some surface plausibility, it does not stand up when examined more carefully. The amounts deferred are related to that portion of the associated plant that was consumed during the deferral period. In other words, the investment in SRP replacements has already been spread over the useful life of the property through the depreciation rates. Only that portion of the depreciation applicable to the deferral period was incurred and deferred during that period. It is therefore inappropriate to spread that depreciation over the useful life of the remaining property. Thus, based on Public Counsel's theory that recovery should occur as closely as possible to the period of use, a short recovery period is most appropriate. Laclede believes that a 5-year amortization reasonably accomplishes this goal.

Q. Do you have any other comments?

A. Yes. Public Counsel contends that inclusion of SRP deferred amounts in rate base would permit the Company to earn return on amounts for which the Company made no actual investment. I disagree with this characterization. These costs were created by the Company's cash investment in replacement of facilities pursuant to its safety program, and all aspects of the SRP deferral deal with a mechanism for return of that investment.

Manufactured Gas Plants (MGP) Accounting Authorization

Q. Please summarize the positions of the parties.

A. Laclede has included paid amounts deferred pursuant to the MGP deferral in its cost of service and rate base, proposing a 5-year amortization of these costs. Staff has included an amount in cost of service for these costs, but has not addressed the recovery of previously deferred balances. It would appear that Staff is proposing to end this deferral mechanism, although this is not specifically addressed in Staff direct testimony. Public Counsel opposes any recovery or future deferral of MGP costs.

Q. What is Laclede's position regarding the suitability of MGP costs for recovery from ratepayers?

A. Laclede believes that these costs are appropriately included in cost of service. Laclede also strongly disagrees with Public Counsel's stated objections to recovery of MGP costs. Presented below is a point by point rebuttal of the arguments raised by Public Counsel Witness Robertson in opposition to such recovery.

(1) OPC Reason:

Neither the Shrewsbury Facility nor the Carondelet Coke manufactured gas plant is currently in operation. Therefore, neither property's manufactured gas plant operation is currently used and useful in providing service to current Laclede customers. In fact, the Carondelet property is not even owned by the Company. The Carondelet Coke property was sold by Laclede on May 27, 1950.

Laclede Response:

The MGP facilities were part of a larger system built to serve the energy needs of Laclede's customers. Much of that system remains in place today, serving current customers, at a cost considerably less than the cost that would have been incurred had the system been built at a later date. Current customers pay lower rates because these MGP facilities were once in service. In addition, the cost of remediating these sites was not foreseeable at the time the MGPs were in operation. The Comprehensive Environmental Response Compensation and Liability Act, which forms the basis of Laclede's liability for MGP cleanup costs, was not even enacted until 1980, about 20 years after Laclede's last MGP ceased operations.

(2) OPC Reason:

If current customers are required to pay for the cost of service not recovered from past customers, i.e., past rates were too low, the result is intergenerational inequity, and possibly retroactive ratemaking. Thus present customers will be required to pay in future rates for past deficits of the Company. Also, recovery of these costs from ratepayers would guarantee the investments of stockholders rather than present the Company with the opportunity to earn a return approved by the Commission.

Laclede Response:

Again, as discussed above, current customers are benefiting from the system built to distribute manufactured gas. Mr. Robertson comments that "recovery of these costs from ratepayers would guarantee the investments of stockholders rather than present the Company with the opportunity to earn a return approved by the Commission". This would seem to imply that by granting cost recovery, the Commission is somehow guaranteeing an investment return. This is not true of recovery of MGP costs, or any other costs for that matter. Public Counsel's proposed denial of these costs would impair the Company's opportunity to earn the return approved by the Commission.

(3) OPC Reason:

The remediation expenditures expensed by the Company may be a non-recurring cost of operations.

Laclede Response:

MGP remediation costs are recurring in that Laclede has incurred them and will continue to incur them each year for the foreseeable future. However, whether they are viewed as recurring or non-recurring, Laclede is entitled to recover the costs as reasonable and recoverable costs associated with its operations.

(4) OPC Reason:

Shareholders are compensated for this particular business risk through the risk premium applied to the equity portion of the Company's weighted average rate of return (WROR).

Laclede Response:

This is not true in the past or present. These costs were certainly not contemplated nor understood when the MGPs were in operation, and Laclede was not compensated at that time. The risk of disallowance of these costs is not reflected in Laclede's current return either, since this risk has never been explicitly discussed or recognized in any return on equity calculation and virtually all jurisdictions have allowed recovery of these costs. Given this history, current market expectations for gas company equity returns would not include compensation for non-recovery of MGP costs. However, a denial of MGP cost recovery would cause investors to demand a higher return.

(5) OPC Reason:

Shareholders not ratepayers receive the benefits or losses (below-the-line treatment) of any sale or removal from service of Company owned real property, e.g., the Carondelet MGP site. Since it is the shareholder who receives either the gain or the loss on the sale of real property, it is the shareholder who should shoulder the responsibility for any legal liability that arises at a later date related to the real property.

Laclede Response:

The Shrewsbury site is still owned and used by Laclede Gas Company, while the Carondelet site was sold at a loss in 1950. The MGP remediation costs arise from activities that were engaged in to serve customers, and therefore are appropriately included in cost of service. This is not an issue of allocation of gains or losses. This is an issue of including prudently incurred expenses in rates.

(6) OPC Reason:

The liability for the remediation costs is not incurred because of any service Laclede currently provides to its customers. Laclede is or may be a potentially responsible party because it either owns former MGP property now, has owned former MGP property at sometime in the past. (sic)

Laclede Response:

This would appear to be a restatement of the objection raised by Public Counsel in (2) above. Our response is also worth repeating: **Current customers are**

**benefiting now from the lower cost associated with development of the distribution system during the MGP era.**

(7) OPC Reason:

Automatic recovery of the remediation costs from Laclede's customers reduces the incentive for the Company to seek partial or complete recovery of the costs from current or prior owners of the plant sites and/or Company's insurers.

Laclede Response:

Laclede has been and will continue to be diligent in its efforts to recover costs from potential responsible parties and insurers. The existence of possible offsets to MGP costs in no way justifies denial of the recovery of these costs (net of those offsets, of course).

For all of the reasons stated above, Laclede asserts that recovery of MGP costs is appropriate.

Q. Why did Laclede originally seek implementation of the MGP deferral?

A. MGP environmental costs can impose a significant liability on the Company, the timing and amount of which is unpredictable. If such an event occurs, the Company can of course seek an accounting authority order from the Commission at that time. Our concern was and is that the Company could be forced to record a significant loss on its books (and report such loss to the public), if a quarterly or annual financial reporting date occurred while the application for an accounting authority order is pending consideration. This was the primary reason for seeking an accounting authority order (AAO) in advance.

Q. What has been the Company's experience with its MGPs to date?

A. While significant costs have been incurred related to these sites, to date the Company has been able to manage the environmental liabilities associated with these sites in a way that has kept their costs within what we believe are very favorable ranges. Although we expect that significant costs will continue to be incurred in connection with these sites, we are nevertheless willing to recommend elimination of the AAO for MGP costs with suitable conditions.

Q. Do you have an alternative proposal for doing so?

A. Yes. Staff and Public Counsel wish to eliminate the AAO. As an alternative to continuing the AAO, Laclede proposes eliminating the existing AAO effective August 1, 1999 in the following manner:

1. The Commission would issue an order indicating that, in the event that Laclede comes forth with a new request for an AAO in the future, any authorization granted would be retroactive to the date of the request. Laclede could not seek such authorization unless a predetermined threshold had been reached. This provision would satisfy the concerns for which the current MGP deferral was implemented. Proposed language detailing this proposal is included as Schedule 4.
2. The balance at August 1, 1999 deferred under the existing AAO would be amortized over 5 years. This balance is estimated at $487,000 of costs that have been paid and $734,000 of costs that have been incurred but not yet paid.
3. Future costs would be included in cost of service for this case.

Q. Why are MGP costs that have been incurred but not yet paid included in the recovery?

A. MGP costs deferred through the AAO have been recovered in the past as they were actually paid. However, elimination of the AAO eliminates the mechanism for future recovery of these costs. Therefore, it is necessary to include all of the deferred balance in the amortization of such costs. Otherwise, the Company would be required to take a write off for costs that were accrued and deferred pursuant to the accounting authorization granted by the Commission.

Q. Does this mean that ratepayers could end up paying for costs that were never actually paid by the Company?

A. As a practical matter, I believe it is extremely unlikely that this theoretical concern would ever be realized. Nevertheless, the Company feels that it would be appropriate to include a guarantee that, in the event that future costs do not exceed the as yet unpaid amount recovered through amortization, such difference would be returned to ratepayers in some reasonable manner.

Q. Do you have any other comments?

A. Yes. In the event that the Commission finds the above alternative proposal unsatisfactory, Laclede would propose that the existing MGP accounting authority order remain in place.

<u>Year 2000 Costs (Y2K) Accounting Authorization</u>

Q. Please describe the accounting followed by Laclede in relation to year 2000 costs.

A. Prior to July 1, 1998, the Company followed Generally Accepted Accounting Principles as expressed in EITF 96-14, which required that costs associated with correcting Y2K problems in existing software be charged to expense. Subsequent to July 1, 1998, the

Company capitalized these costs pursuant to the Commission's order in rate Case No. GR-98-374.

Q. Have the parties proposed any changes to the treatment authorized in GR-98-374?

A. Yes. Staff has proposed that all Y2K costs subsequent to March 1, 1998 be capitalized. Public Counsel has proposed that all Y2K costs, including those prior to July 1, 1998, be capitalized.

Q. What is Laclede's position regarding these proposals?

A. Laclede is in agreement with Public Counsel that all Y2K charges should appropriately be capitalized and recommends that the Commission issue an order to that effect.

Q. Please describe the parties' positions regarding recovery of depreciation, carrying costs, and property taxes deferred pursuant to the Y2K AAO.

A. Laclede has included amounts deferred pursuant to the AAO in rate base, and has amortized such balance over a 5-year period. Neither Staff nor Public Counsel has included these deferrals in rate base or cost of service. Staff's testimony was silent on the reason for the exclusion, while Public Counsel expressed several reasons.

Q. Please describe Public Counsel's objections to Laclede's proposed recovery of costs deferred pursuant to the Y2K accounting authority order.

A. Public Counsel's principal objection seems to center on the contention that the AAO authorized by the Commission in GR-98-374 should be narrowly interpreted to include only the cost of modifying existing software to fix the Y2K problem. Mr. Robertson states at page 12, line 24, of his direct testimony that Y2K "does not entail a mass replacement or enhancement of computer hardware and computer operating systems such as the projects currently being developed and implemented by the Company."

Q. Do you agree with Mr. Robertson's interpretation of the AAO authorized by the Commission?

A. Absolutely not. The accounting authority order actually granted by the Commission in Case No. GR-98-374 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. Robertson or any other party has explained how any of the amounts deferred by the Company pursuant to this authorization did not meet this specific criteria. Simply put, the language of the order clearly anticipated replacement and enhancement of Laclede's computer systems, and specifically included the related costs in the deferral.

Q. Was the nature of these costs known when the Y2K AAO was authorized in GR-98-374?

A. Yes. OPC Data Request No. 1020 from that case asked for "Year 2000 Replacement expenditures and accruals incurred to date." The response to that data request, which is attached as Schedule 6, clearly lists the very projects that Public Counsel now proposes to exclude from the AAO.

Q. What other objections has Public Counsel raised to recovery of Y2K deferrals?

A. OPC believes that Y2K deferrals in this case are not material or extraordinary.

Q. Please explain.

A. The amounts deferred as of the March 31, 1999 update period in this case were relatively small because most of the Y2K projects had not yet been completed at that date. With the recent completion of these projects, the deferrals have increased to a significant level at the August 1, 1999 true-up and will continue to increase thereafter. At this writing, Laclede has expended about $16 million on these projects. The material and extraordinary nature of the Y2K problem is undeniable.

Q. Public Counsel has recommended that the Y2K deferral be discontinued. Do you agree?

A. Yes, but for different reasons. We feel that the deferral has served an important function by allowing the costs associated with this once-in-a-millenium event to be handled equitably in the ratemaking process. However, work on the Y2K problem is nearing completion. We recommend that the Y2K accounting authority order granted in GR-98-374 be allowed to expire under its own terms effective with the date of rates established in this case.

## FAS 106 Tracker Deferral Mechanism

Q. You refer to the FAS 106 deferral as a "Tracker Deferral Mechanism." Please differentiate between a Tracker and the AAOs described above.

A. An AAO defers costs for consideration of recovery in future rates. A tracker establishes a level of costs in current rates, and provides for deferral of variations in actual costs above or below that level for collection from or refund to ratepayers in a subsequent rate case.

Q. Are there any other differences between AAOs and Trackers?

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 Trackers. The Trackers' function is to ensure the recovery of a specific amount in rates, rather than to defer an unknown amount for future consideration.

Q. Has Staff included recovery of the amount deferred pursuant to the FAS 106 Tracker in rates?

A. No, it has not. This is contrary to the clear intent of the Commission's order in rate case No. GR-98-374. Paragraph 7 of the Stipulation and Agreement in that case described the deferral and subsequent recovery of costs or credits deferred pursuant to the Trackers:

"Notwithstanding any other provision of this Stipulation and Agreement to the contrary, the Parties agree that Laclede shall be granted accounting authorization to continue to defer and book to account 182.3 for inclusion in the rates established in Laclede's next general rate case proceeding the following amounts incurred, received, or recorded by Laclede…" (emphasis added)

The Stipulation and Agreement then went on to describe FAS 106 (OPEB) costs and SERP/Directors Pensions.

Q. Did the Commission's Order in Case No. GR-98-374 provide for the right to challenge the costs or credits deferred pursuant to the Trackers?

A. No. Paragraph 9 of the Stipulation and Agreement specifically reserved the right to challenge costs deferred pursuant to Paragraph 8 (i.e., the SRP, MGP, and Y2K accounting authorizations), but made no mention of the Trackers in Paragraph 7.

Q. What is Laclede's recommendation?

A. Laclede has recommended that such balance be included in rate base and amortized in cost of service over 5 years. We believe that 5 years is an optimal amortization period since gains and losses in the calculation of FAS 106 expense is amortized over 5 years pursuant to the Commission's Orders in rate cases No. GR-96-193 and GR-98-374. I should note that consistent with the Commission's order in Case No. GR-98-374, Laclede could have proposed a much shorter amortization period for the balance.

Q. What was the purpose for establishment of the FAS 106 Tracker?

A. FAS 106 calculates Post Retirement Employee Benefits Other Than Pensions (OPEBs) on an actuarial basis. Prior to the implementation of FAS 106 in 1994, these costs were expensed only as paid. Staff had expressed a concern at the outset of the implementation of FAS 106 that these costs could fluctuate significantly and that the amount allowed in rates and funded into the Company's funding mechanisms would be significantly different from the actual costs. The Tracker was established as a means of dealing with these concerns.

Q. Is the Tracker still necessary?

A. While the Tracker still alleviates the initial concerns, these are less significant today. Laclede would be amenable to allowing the FAS 106 tracker to expire under its own terms effective with the date of rates established in this case. For the reasons I previously discussed, however, the amounts previously deferred pursuant to this Tracker should be fully included in rates in accordance with the Company's amortization recommendation.

SERP/Directors Retirement Plan Tracker Deferral Mechanism

Q. You refer to the SERP/Directors deferral as a "Tracker." Does this Tracker mechanism have the same attributes, in terms of function and assured recovery, as the FAS 106 Tracker?

A. Yes.

Q. What was the purpose underlying implementation of the SERP/Directors Tracker?

A. The SERP/Directors Tracker was made necessary by the ratemaking policy for recovery of the costs of these pension plans. The Company is required under Generally Accepted Accounting Principles to record expense related to these plans on an accrual basis. In other words, expenses are recorded as plan participants earn the benefits over their working lives, as calculated under FAS 87 and 88. However, the longstanding practice for Laclede has been to allow recovery of these costs only as the benefits are actually paid to participants in retirement. This means that, at any point in time, the Company has recorded more costs on its books than have been recovered in rates. The Tracker permits the Company to offset this difference by recognizing that it will be recovered in future rates as the benefits are eventually paid. In effect, the Tracker allows the Company to keep its accounting books in the same manner as rates are established.

Q. Has the Staff included recovery of amounts deferred pursuant to the Tracker deferral mechanism authorized by the Commission in GR-98-374?

A. No, it has not. This is contrary to the clear intent of the Commission's Order in rate Case No. GR-98-374, as detailed in the previous discussion of the FAS 106 Tracker.

Q. What is Laclede's recommendation?

A. Laclede has recommended that such balance be included in rate base and amortized over a period of 5 years. We believe that 5 years is an optimal amortization period since gains and losses in the calculation of FAS 87 expense are amortized over 5 years pursuant to the Commission's Orders in rate case Nos. GR-96-193 and GR-98-374.

Q. Could the SERP/Directors Tracker be eliminated?

A. Yes, but it would require a change in ratemaking policy to recognize these costs in rates as accrued rather than as paid. There is nothing inherently wrong with rate recognition on an accrued basis, since the Company's other pension plans as well as OPEBs are handled that way.

Q. Are there any problems that would be associated with a transition to recognition of these costs on an accrued basis?

A. Yes, it could be somewhat costly in terms of revenue requirement, since amounts accrued to date for payment of future benefits would need to be recognized (such amount is currently about $2.1 million, an amount which would have to be amortized in future rates).

Q. Is there a way to eliminate the tracker and shift to rate recognition on an accrual basis without adversely impacting current rates?

A. Yes, we believe there is. As I said earlier, Laclede has proposed 5-year amortization of deferrals made pursuant to the SERP/Directors Tracker, and believes that this is the most reasonable amortization period. However, the Company would be willing to stretch out the amortization on this item as well as the $2.1 million accrual discussed above to 15 years. This would result in revenue requirement close to that proposed by Staff in this case:

| | (000) |
|---|---|
| Staff Revenue Requirement | $1,257 |
| Laclede Proposal: | |
| Amortization of SERP/Directors Deferral | 293 |
| Amortization of $2.1 Million Accrual | 142 |
| Ongoing Expense | 881 |
| | $1,316 |

Laclede proposes the above in the event that the Commission wishes to eliminate the Tracker and establish rate recognition of these plans on an accrued expense basis. If the Commission prefers to keep rate recovery on an as-paid basis, then it would be appropriate to continue the Tracker in its present form, with 5-year amortization of deferred balances.

Q. Do you have any other comments?

A. Yes. It is important to note that elimination of the Tracker without a provision for amortization of the $2.1 million accrued balance would result in a write-off of that amount by the Company.

Rate Base Treatment of Accounting Authorizations and Trackers

Q. Has Laclede included amounts deferred pursuant to the accounting authorizations and trackers in rate base?

A. Yes. These amounts represent cash outlays made by the Company which are therefore appropriate for inclusion in rate base.

Q. You have made proposals for elimination of some of these mechanisms which include recovery of certain accrued amounts. Would these amounts be included in rate base?

A. No. Including these amounts would be inappropriate since the Company has not yet made a cash outlay in these instances.

Q. Do you have any other observations regarding rate base treatment of deferred balances?

A. Yes. Despite the fact that Staff has proposed elimination of SRP and Y2K deferred balances from rate base, Staff has included in its filed case a reduction in rate base related to the associated deferred taxes. Staff has not included any explanation in its filed case for this position, which is totally inappropriate. There is simply no basis for excluding a rate base item from the Company's cost of service while simultaneously including an effect that assumes that item has been included in the Company's rate base.

Q. Does this conclude your rebuttal testimony?

A. Yes.

Laclede Gas Company
Correction and Analysis of Staff Interest Coverage Calculation

| | | Staff Filing (Schedule 19) | | | Corrected for Short Term Interest Error (a) | | | Return Corrected to Achieve Staff Coverage | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Low | Mid | High | Low | Mid | High | Low | Mid | High |
| | Return | 9.00% | 9.50% | 10.00% | 9.00% | 9.50% | 10.00% | 11.65% | 12.30% | 12.90% |
| 1. | Common Equity | 274,770,663 | 274,770,663 | 274,770,663 | 274,770,663 | 274,770,663 | 274,770,663 | 274,770,663 | 274,770,663 | 274,770,663 |
| 2. | Earnings Allowed | 24,729,360 | 26,103,213 | 27,477,066 | 24,729,360 | 26,103,213 | 27,477,066 | 32,010,782 | 33,796,792 | 35,445,416 |
| 3. | Preferred Dividends | 97,259 | 97,259 | 97,259 | 97,259 | 97,259 | 97,259 | 97,259 | 97,259 | 97,259 |
| 4. | Net Income Available | 24,826,619 | 26,200,472 | 27,574,325 | 24,826,619 | 26,200,472 | 27,574,325 | 32,108,041 | 33,894,051 | 35,542,675 |
| 5. | Tax Multiplier | 1.6296 | 1.6296 | 1.6296 | 1.6296 | 1.6296 | 1.6296 | 1.6296 | 1.6296 | 1.6296 |
| 6. | Pre-Tax Earnings | 40,457,294 | 42,696,116 | 44,934,939 | 40,457,294 | 42,696,116 | 44,934,939 | 52,323,052 | 55,233,521 | 57,920,108 |
| 7. | Annual Interest Costs | | | | | | | | | |
| | - Long Term | 13,783,997 | 13,783,997 | 13,783,997 | 13,783,997 | 13,783,997 | 13,783,997 | 13,783,997 | 13,783,997 | 13,783,997 |
| | - Short Term | 375,467 | 375,467 | 375,467 | 4,505,600 | 4,505,600 | 4,505,600 | 4,505,600 | 4,505,600 | 4,505,600 |
| | Total | 14,159,464 | 14,159,464 | 14,159,464 | 18,289,597 | 18,289,597 | 18,289,597 | 18,289,597 | 18,289,597 | 18,289,597 |
| 8. | Available for Coverage | 54,616,758 | 56,855,580 | 59,094,403 | 58,746,891 | 60,985,713 | 63,224,536 | 70,612,649 | 73,523,118 | 76,209,705 |
| 9. | Pro Forma Pre-Tax Interest Coverage | 3.86 | 4.02 | 4.17 | 3.21 | 3.33 | 3.46 | 3.86 | 4.02 | 4.17 |

(a) Staff incorrectly divided short term interest by 12, thus including a monthly amount in these annual calculations.

Schedule 2

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 |

SAFETY REPLACEMENT PROGRAM

Laclede shall be granted accounting authorization to continue to defer and book to Account 182.3 for consideration in Laclede's next rate case all costs incurred by Laclede between July 31, 1999, and the earlier of: a) the effective date of the rates established in Laclede's next general rate case proceeding; or b) the beginning of the deferral period of any subsequent accounting authority order granted by the Commission for such costs: (1) to replace Company service and yard lines and to move and reset and/or replace meters in connection therewith; (2) to replace cast iron mains and to transfer services from the old main to the new main in connection therewith; (3) to replace and/or cathodically protect unprotected steel mains and to transfer services from the old main to the new main in connection therewith; and (4) to survey and/or bar hole buried fuel and copper service lines for leaks; including, without limitation, property taxes, depreciation expenses, and all other expenses 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, minus one percentage point). Laclede shall provide to Staff and Public Counsel, as part of its Monthly Surveillance Report to the Financial Analysis Department of the Staff, an ongoing quantification of the amounts deferred pursuant to this accounting authorization. No less than six months prior to the third annual anniversary of the effective date of granting of such accounting authorization, the Company shall submit a request to the Commission addressing whether such authorization should be continued beyond such third annual anniversary date without the necessity of the Company filing for a general increase in rates. After all Parties have had a reasonable opportunity to respond to such request, if any, the Commission may issue an order resolving the question of whether the Company may continue to defer such costs without filing for a general increase in rates. In the event the Company is required to make such a general rate case filing as a condition of continuing such authorization, it shall be given six months from the date of the Commission's order to make such filing. Unless such filing is made within that time period, the accounting authorization will immediately terminate and the Company will not be permitted to defer any such costs incurred after the date of termination and such balances shall not be considered for recovery in any future rate case proceeding. If such filing is made within such time period, the accounting authorization shall continue at least until the effective date of the proposed rates which are the subject of such filing.

# MANUFACTURED GAS PLANTS

In the event and at such time as the cumulative accrued costs, net of receipts, incurred subsequent to July 31, 1999 by Laclede in connection with: (1) the investigation, assessment, removal, disposal, storage, remediation or other treatment of residues, substances, materials, and/or property that are associated with former manufactured gas operations or located on former manufactured gas plant sites; and 2) the dismantling and/or removal of facilities formerly utilized in manufactured gas operations; including all legal and consulting fees, exceeds $1,000,000 in a fiscal year, then Laclede shall be permitted to seek and obtain an accounting authority order allowing it to defer all such cumulative accrued costs incurred for such items. In the event such authorization is granted, it shall be retroactive to the beginning of the fiscal year in which the request for such authorization was filed and shall not apply to the first $216,000 of such costs incurred during such fiscal year plus any costs the Company recovers from insurance companies or other parties during such fiscal year. Laclede's prompt receipt of such accounting authorization shall not be opposed to the extent such authorization is limited to costs actually incurred by Laclede, provided that the right to challenge the recovery in future rates of any costs deferred pursuant to this Paragraph on any grounds remains. Recovery shall only be sought on a payments basis.

No. 1020

**LACLEDE GAS COMPANY**
PUBLIC COUNSEL DATA REQUEST
CASE NO. GR-98-374

REQUESTED FROM: Michael C. Pendergast

DATE REQUESTED: April 30, 1998

INFORMATION REQUESTED: : Please provide the following:

1. A reconciliation, by USOA account, service provider, date service provided, and amount of the Year 2000 Replacement expenditures and accruals incurred to date.
2. Year 2000 Replacement budgets for the years 1998 and 1999.
3. This is a continuing request, please update as each new month closes.

REQUESTED BY: Kimberly Bolin

INFORMATION PROVIDED:____________________

See attached

The information provided to the Office of the Public Counsel in response to the above information request is accurate and complete, and contains no material misrepresentations or omissions based upon present facts known to the undersigned. The undersigned agrees to immediately inform the Office of the Public Counsel if any matters are discovered which would materially affect the accuracy or completeness of the information provided in response to the above information.

DATE RECEIVED:________________ SIGNED BY: Patricia Krieger

TITLE Mgr.-Accounting

Laclede Gas Company
Response to Public Counsel Data Request No.1020
Case No. GR-98-374

1. Account 107.00 - Work in Progress

| Work Order | Service Provider | Date | Amount | |
|---|---|---|---|---|
| 60325 | IBM | 12/96 | $150,825.81 | |
| | | 1/97 | 94,775.55 | |
| | | 2/97 | 21,525.20 | |
| | | 3/97 | 12,315.00 | |
| | | 4/97 | 20,797.50 | |
| | | 7/97 | 5,162.50 | |
| | | 8/97 | 10,915.00 | |
| | | 9/97 | 18,950.00 | |
| | | 3/98 | 290,538.88 | $625,805.44 |
| | C E Major | 1/97 | 10,000.00 | |
| | | 3/97 | 33,990.00 | |
| | | 5/97 | 10,800.00 | 54,790.00 |
| | Allen Buch - Consulting | 11/97 | 18,342.63 | 18,342.63 |
| | Miscellaneous Vendors | Various | 13,572.05 | 13,572.05 |
| | Interest Capitalized | Various | 23,848.26 | 23,848.26 |
| | Total thru March 1998 | | | $736,358.38 |

| Work Order | Service Provider | Date | Amount | |
|---|---|---|---|---|
| 60462 | Walker Interactive Systems | 4/97 | $434,750.00 | |
| | | 5/97 | 1,484.63 | |
| | | 6/97 | 52,560.00 | |
| | | 7/97 | 336,021.72 | |
| | | 8/97 | 20,591.38 | |
| | | 9/97 | 79,223.19 | |
| | | 10/97 | 192,153.57 | |
| | | 11/97 | 87,556.02 | |
| | | 12/97 | 143,217.23 | |
| | | 1/98 | 382,112.50 | |
| | | 2/98 | 238,073.71 | |
| | | 3/98 | 65,415.08 | $2,033,159.03 |
| | IBM | 11/97 | 171,507.07 | |
| | | 3/98 | 6,000.00 | 177,507.07 |
| | Southwestern Bell | 9/97 | 10,648.20 | |
| | | 1/98 | 180,553.00 | 191,201.20 |
| | Dell | 8/97 | 78,947.00 | |
| | | 11/97 | 837.97 | 79,784.97 |
| | Alan Buch – Consultant | 9/97 | 12,122.10 | |
| | | 10/97 | 18,151.82 | |
| | | 12/97 | 33,553.84 | |
| | | 1/98 | 15,130.09 | |
| | | 2/98 | 14,613.34 | 93,571.19 |
| | Productivity Plus | 7/97 | 19,600.00 | |
| | | 9/97 | 20,300.00 | 39,900.00 |
| | Software Plus | 6/97 | 2,795.03 | |
| | | 7/97 | 4,330.50 | |
| | | 8/97 | 311.43 | |
| | | 9/97 | 12,813.51 | |
| | | 11/97 | 1,795.50 | 22,045.97 |
| | Arthur Anderson | 11/97 | 19,096.00 | 19,096.00 |
| | Boise Cascade Office Products | 8/97 | 9,190.91 | |
| | | 9/97 | 269.39 | |
| | | 12/97 | 330.08 | 9,790.38 |
| | Houlihan Computer Services | 5/97 | 1,912.62 | |
| | | 6/97 | 1,912.62 | |
| | | 7/97 | 1,656.18 | |
| | | 8/97 | 3,312.36 | |
| | | 11/97 | 1,661.51 | 10,455.29 |
| | Gateway 2000 | 10/97 | 6,374.36 | |
| | | 3/98 | 4,663.04 | 11,037.40 |
| | Miscellaneous | Various | 133,137.95 | 133,137.95 |
| | Interest Capitalized | Various | 60,628.60 | 60,628.60 |
| | Total thru March 1998 | | | $2,881,315.05 |

| Work Order | Service Provider | Date | Amount | |
|---|---|---|---|---|
| 60064 | Walker Interactive Systems | 1/98 | $48,280.00 | |
| | | 3/98 | 96,560.00 | $144,840.00 |
| | Miscellaneous | Various | 4,828.00 | 4,828.00 |
| | Interest Capitalized | Various | 110.64 | 110.64 |
| | Total thru March 1998 | | | $149,778.64 |
| 60865 | Walker Interactive Systems | 9/97 | $175,228.57 | |
| | | 11/97 | 214,965.00 | |
| | | 1/98 | 107,482.50 | |
| | | 3/98 | 214,965.00 | |
| | Total thru March 1998 | | | $712,641.07 |
| 60955 | Lucent Technologies | 2/98 | $14,832.00 | $14,832.00 |
| | Miscellaneous | Various | 109.26 | 109.26 |
| | Interest Capitalized | Various | 7.91 | 33.98 |
| | Total thru March 1998 | | | $14,975.24 |

2. Attached are the computer system projects which were anticipated in the fiscal 1998 capital budget. The 1999 capital budget is not yet available; however, the 1998 budget project sheets indicate the related amounts anticipated to occur in fiscal 1999.

CARRYOVER FROM FY 1997

Schedule 5 - 5



**LACLEDE GAS COMPANY - CAPITAL PROJECT SHEET**
**Fiscal Year Ending September 30, 1998**

**Division:** Laclede

**Budget Category:** General Plant **Budget Project No:** 52-4

**Budget Classification:** Office Furniture and Equipment **Plant Account No:** 391.11

**Originating Department:** Information Systems

**TITLE:** OS/390 Software Platform

**DESCRIPTION:**

This project's total cost was estimated to be $700,000 (authorized in FY 1997 budget project 52-15). See budget project 52-5 for additional authorization of $1,100,000 in FY 1998. The project will provide additional hardware, software, and consulting to implement the OS/390 mainframe system.

**PURPOSE AND NECESSITY:**

The project will provide software and hardware to replace mainframe terminal controllers, add DASD, add tape drives, and allow the installation of other pertinent peripherals. These changes will allow more efficient mainframe system processing of network and mainframe applications. It will also prepare the system for anticipated processing requirements.

**ESTIMATED COST OF ADDITIONS THIS YEAR (000)**

**MAN DAYS:** **DEPT:**

| DISTRIBUTION | | ALLOCATION | |
|---|---|---|---|
| Oct | $ 25.0 | Labor- | |
| Nov | 25.0 | Contract | |
| Dec | 25.0 | Management | 30.0 |
| Jan | 25.0 | Sub-total | 30.0 |
| Feb | 25.0 | Mech. Equip. | |
| Mar | 25.0 | Material | |
| Apr | 25.0 | Contract Work | 100.0 |
| May | 25.0 | Equip. Purch. | 170.0 |
| Jun | 25.0 | Other | |
| Jul | 25.0 | Supv. Etc. | |
| Aug | 25.0 | Gen'l Ovhd | |
| Sep | 25.0 | Interest | |
| TOTAL | $ 300.0 | TOTAL | $ 300.0 |

City 100% County

**ESTIMATED RETIREMENTS THIS YEAR (000)**

**MAN DAYS:** **DEPT:**

| | RETIREMENT VALUE | COST OF REMOVAL LABOR | COST OF REMOVAL OTHER | SALVAGE | TOTAL |
|---|---|---|---|---|---|
| Oct | $ | $ | $ | $ | $ |
| Nov | | | | | |
| Dec | | | | | |
| Jan | | | | | |
| Feb | | | | | |
| Mar | | | | | |
| Apr | | | | | |
| May | | | | | |
| Jun | | | | | |
| Jul | | | | | |
| Aug | | | | | |
| Sep | | | | | |
| TOTAL | $ | $ | $ | $ | $ |

| Authorized Carryover to Future Years (if applicable) | $ | Man Days |
|---|---|---|

| Recommended By | Date | Approved By | Date | Approved By | Date | App.Exec.Mgt. | Date |
|---|---|---|---|---|---|---|---|
| M.A. Huneidi | | [signature] | | | | [signature] 1/16/98 | |

[initials] 1/23/98

F-156--Rev. 7-96

195

**LACLEDE GAS COMPANY - CAPITAL PROJECT SHEET**
**Fiscal Year Ending September 30, 1998**

**Division:** Laclede

**Budget Category:** General Plant **Budget Project No:** 52-5

**Budget Classification:** Office Furniture and Equipment **Plant Account No:** 391.11

**Originating Department:** Information Systems

**TITLE:** OS/390 Software Platform

**DESCRIPTION:**

This project requests an additional authorization of $1,100,000 for FY 1998. The revised total project cost is estimated to be $1,800,000. See budget project 52-4 for FY 1997 carryover authorization of $700,000. The project will provide additional hardware, software, and consulting to implement the OS/390 mainframe system.

**PURPOSE AND NECESSITY:**

The project will provide software and hardware to replace mainframe terminal controllers, add DASD, add tape drives, and allow the installation of other pertinent peripherals. These changes will allow more efficient mainframe system processing of network and mainframe applications. It will also prepare the system for anticipated processing requirements.

**ESTIMATED COST OF ADDITIONS THIS YEAR (000)**

MAN DAYS: DEPT:

| DISTRIBUTION | | ALLOCATION | |
|---|---|---|---|
| Oct | $ | Labor- | |
| Nov | | Contract | |
| Dec | | Management | 80.0 |
| Jan | 300.0 | Sub-total | 80.0 |
| Feb | 250.0 | Mech. Equip. | |
| Mar | 300.0 | Material | |
| Apr | | Contract Work | 290.0 |
| May | | Equip. Purch. | 480.0 |
| Jun | | Other | |
| Jul | | Supv. Etc. | |
| Aug | | Gen'l Ovhd | |
| Sep | | Interest | |
| TOTAL | $ 850.0 | TOTAL | $ 850.0 |

City 100% County

**ESTIMATED RETIREMENTS THIS YEAR (000)**

MAN DAYS: DEPT:

| | RETIREMENT VALUE | COST OF REMOVAL LABOR | COST OF REMOVAL OTHER | SALVAGE | TOTAL |
|---|---|---|---|---|---|
| Oct | $ | $ | $ | $ | $ |
| Nov | | | | | |
| Dec | | | | | |
| Jan | | | | | |
| Feb | | | | | |
| Mar | | | | | |
| Apr | | | | | |
| May | | | | | |
| Jun | | | | | |
| Jul | | | | | |
| Aug | | | | | |
| Sep | | | | | |
| TOTAL | $ | $ | $ | $ | $ |

| Authorized Carryover to Future Years (if applicable) | Man Days |
|---|---|
| | $ 250.0 |

| Recommended By | Date | Approved By | Date | Approved By | Date | App.Exec.Mgt. | Date |
|---|---|---|---|---|---|---|---|
| M.A. Huneidi | | | | | | | 1/16/98 |

F-156-Rev. 7-96

1/23

CARRYOVER FROM FY 1997



**LACLEDE GAS COMPANY - CAPITAL PROJECT SHEET**
**Fiscal Year Ending September 30, 1998**

**Division:** Laclede

**Budget Category:** General Plant **Budget Project No:** 52-6

**Budget Classification:** Office Furniture and Equipment **Plant Account No:** 391.11

**Originating Department:** Information Systems

**TITLE:** General Ledger Project

**DESCRIPTION:**

This project's total cost was estimated to be $5,046,000. It was authorized in the FY 1997 budget (see budget project 52-17). See budget project 52-7 for additional authorization of $654,000 in FY 1998. This project will implement new accounting applications that support existing practices and improve accounting methods and policies.

**PURPOSE AND NECESSITY:**

The general accounting system still follows the basic processes established when these functions were automated in the 1960's. The system was based on limited technology, accounting practices, personnel and their knowledge, and the organization that existed at that time. The new systems will support current and anticipated accounting practices and policies and will remove existing constraints, manual controls and data dependencies.

**ESTIMATED COST OF ADDITIONS THIS YEAR (000)**

**MAN DAYS:** **DEPT:**

| DISTRIBUTION | | ALLOCATION | |
|---|---|---|---|
| Oct | $ 286.1 | Labor- | |
| Nov | 287.1 | Contract | |
| Dec | 287.1 | Management | 375.0 |
| Jan | 287.1 | Sub-total | 375.0 |
| Feb | 287.1 | Mech. Equip. | |
| Mar | 287.1 | Material | |
| Apr | 287.1 | Contract Work | 1,090.0 |
| May | 287.1 | Equip. Purch. | 1,470.0 |
| Jun | 287.0 | Other | 508.8 |
| Jul | 287.0 | Supv. Etc. | |
| Aug | 287.0 | Gen'l Ovhd | |
| Sep | 287.0 | Interest | |
| TOTAL | $ 3,443.8 | TOTAL | $ 3,443.8 |

City 100% County

**ESTIMATED RETIREMENTS THIS YEAR (000)**

**MAN DAYS:** **DEPT:**

| | RETIREMENT VALUE | COST OF REMOVAL LABOR | COST OF REMOVAL OTHER | SALVAGE | TOTAL |
|---|---|---|---|---|---|
| Oct | $ | $ | $ | $ | $ |
| Nov | | | | | |
| Dec | | | | | |
| Jan | | | | | |
| Feb | | | | | |
| Mar | | | | | |
| Apr | | | | | |
| May | | | | | |
| Jun | | | | | |
| Jul | | | | | |
| Aug | | | | | |
| Sep | | | | | |
| TOTAL | $ | $ | $ | $ | $ |

| Authorized Carryover to Future Years (if applicable) | $ 292.2 | Man Days |
|---|---|---|

| Recommended By | Date | Approved By | Date | Approved By | Date | App.Exec.Mgt. | Date |
|---|---|---|---|---|---|---|---|
| M.A. Huneidi | | [signature] | | | | [signature] 1/16/98 | |

1/23

F-156--Rev. 7-96

197

# LACLEDE GAS COMPANY - CAPITAL PROJECT SHEET
## Fiscal Year Ending September 30, 1998

**Division:** Laclede

**Budget Category:** General Plant **Budget Project No:** 52-7

**Budget Classification:** Office Furniture and Equipment **Plant Account No:** 391.11

**Originating Department:** Information Systems

**TITLE:** General Ledger Project

**DESCRIPTION:**

This project requests an additional authorization of $654,000 in FY 1998. The revised total project cost is estimated to be $5,700,000. See budget project 52-6 for FY 1997 carryover of $5,046,000. This project will implement new accounting applications that support existing practices and improve accounting methods and policies.

**PURPOSE AND NECESSITY:**

The general accounting system still follows the basic processes established when these functions were automated in the 1960's. The system was based on limited technology, accounting practices, personnel and their knowledge, and the organization that existed at that time. The new systems will support current and anticipated accounting practices and policies and will remove existing constraints, manual controls and data dependencies.

**ESTIMATED COST OF ADDITIONS THIS YEAR (000)**

MAN DAYS: DEPT:

| DISTRIBUTION | | ALLOCATION | |
|---|---|---|---|
| Oct | $ 54.0 | Labor- | |
| Nov | 54.0 | Contract | |
| Dec | 54.0 | Management | 75.0 |
| Jan | 54.0 | Sub-total | 75.0 |
| Feb | 54.0 | Mech. Equip. | |
| Mar | 54.0 | Material | |
| Apr | 54.0 | Contract Work | 210.0 |
| May | 55.0 | Equip. Purch. | 280.0 |
| Jun | 55.0 | Other | 89.0 |
| Jul | 55.0 | Supv. Etc. | |
| Aug | 55.0 | Gen'l Ovhd | |
| Sep | 56.0 | Interest | |
| TOTAL | $ 654.0 | TOTAL | $ 654.0 |

City 100% County

Authorized Carryover to Future Years (if applicable) $ Man Days

**ESTIMATED RETIREMENTS THIS YEAR (000)**

MAN DAYS: DEPT:

| | RETIREMENT VALUE | COST OF REMOVAL LABOR | COST OF REMOVAL OTHER | SALVAGE | TOTAL |
|---|---|---|---|---|---|
| Oct | $ | $ | $ | $ | $ |
| Nov | | | | | |
| Dec | | | | | |
| Jan | | | | | |
| Feb | | | | | |
| Mar | | | | | |
| Apr | | | | | |
| May | | | | | |
| Jun | | | | | |
| Jul | | | | | |
| Aug | | | | | |
| Sep | | | | | |
| TOTAL | $ | $ | $ | $ | $ |

| Recommended By | Date | Approved By | Date | Approved By | Date | App.Exec.Mgt. | Date |
|---|---|---|---|---|---|---|---|
| M.A. Huneidi | | [signature] | | | | [signature] 1/16/98 | |

F-156-Rev. 7-96

CARRYOVER FROM FY 1997

Schedule 5 - 9



**LACLEDE GAS COMPANY - CAPITAL PROJECT SHEET**
**Fiscal Year Ending September 30, 1998**

**Division:** Laclede

**Budget Category:** General Plant **Budget Project No:** 52-8

**Budget Classification:** Office Furniture and Equipment **Plant Account No:** 391.11

**Originating Department:** Information Systems

**TITLE:** Modify CIS Premise Expansion

**DESCRIPTION:**

This project's total cost is estimated to be $1,030,000 (authorized in FY 1997). The project will modify the CIS system to allow an alpha-numeric premise account number.

**PURPOSE AND NECESSITY:**

This modification will allow the premise database to expand beyond 999,999 entries. This expansion is required for proper premise database processing.

**ESTIMATED COST OF ADDITIONS THIS YEAR (000)**

MAN DAYS: DEPT:

| DISTRIBUTION | | ALLOCATION | |
|---|---|---|---|
| Oct | $ 52.5 | Labor- | |
| Nov | 52.5 | Contract | |
| Dec | 52.5 | Management | 25.0 |
| Jan | 52.5 | Sub-total | 25.0 |
| Feb | 52.5 | Mech. Equip. | |
| Mar | 52.5 | Material | |
| Apr | 52.5 | Contract Work | 605.0 |
| May | 52.5 | Equip. Purch. | |
| Jun | 52.5 | Other | |
| Jul | 52.5 | Supv. Etc. | |
| Aug | 52.5 | Gen'l Ovhd | |
| Sep | 52.5 | Interest | |
| TOTAL | $ 630.0 | TOTAL | $ 630.0 |
| City | 100% | County | |

**ESTIMATED RETIREMENTS THIS YEAR (000)**

MAN DAYS: DEPT:

| | RETIREMENT VALUE | COST OF REMOVAL LABOR | COST OF REMOVAL OTHER | SALVAGE | TOTAL |
|---|---|---|---|---|---|
| Oct | $ | $ | $ | $ | $ |
| Nov | | | | | |
| Dec | | | | | |
| Jan | | | | | |
| Feb | | | | | |
| Mar | | | | | |
| Apr | | | | | |
| May | | | | | |
| Jun | | | | | |
| Jul | | | | | |
| Aug | | | | | |
| Sep | | | | | |
| TOTAL | $ | $ | $ | $ | $ |

| Authorized Carryover to Future Years (if applicable) | $ | Man Days |
|---|---|---|

| Recommended By | Date | Approved By | Date | Approved By | Date | App.Exec.Mgt. | Date |
|---|---|---|---|---|---|---|---|
| M.A. Huneidi | | [signature] | | | | [signature] 1/16/98 | |

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F-156—Rev. 7-96

Schedule 5 - 10

199

**LACLEDE GAS COMPANY - CAPITAL PROJECT SHEET**
**Fiscal Year Ending September 30, 1998**

**Division:** Laclede

**Budget Category:** General Plant **Budget Project No:** 52-9

**Budget Classification:** Office Furniture and Equipment **Plant Account No:** 391.11

**Originating Department:** Information Systems

**TITLE:** Payroll System

**DESCRIPTION:**

This project's total cost is estimated to be $2,600,000. The project will implement new payroll/human resource systems that will provide for existing payroll functions, add human resource functions, and improve job tracking, work flow, and data flow.

**PURPOSE AND NECESSITY:**

The existing payroll systems were implemented in 1967. There have been changes to these systems as required. However, the basic principles in place at that time are still being used. The new systems will eliminate duplication of effort in terms of processing data. They will provide for timely updating of master records. Information related to employees will be in one database, thereby eliminating the extensive transfer of data that currently exists.

**ESTIMATED COST OF ADDITIONS THIS YEAR (000)**

**MAN DAYS:** **DEPT:**

| DISTRIBUTION | | ALLOCATION | |
|---|---|---|---|
| Oct | $ 159.0 | Labor- | |
| Nov | 159.0 | Contract | |
| Dec | 159.0 | Management | 250.0 |
| Jan | 159.0 | Sub-total | 250.0 |
| Feb | 159.0 | Mech. Equip. | |
| Mar | 160.0 | Material | |
| Apr | 160.0 | Contract Work | 600.0 |
| May | 160.0 | Equip. Purch. | 915.0 |
| Jun | 160.0 | Other | 150.0 |
| Jul | 160.0 | Supv. Etc. | |
| Aug | 160.0 | Gen'l Ovhd | |
| Sep | 160.0 | Interest | |
| TOTAL | $ 1,915.0 | TOTAL | $ 1,915.0 |

City 100% County

**ESTIMATED RETIREMENTS THIS YEAR (000)**

**MAN DAYS:** **DEPT:**

| | RETIREMENT VALUE | COST OF REMOVAL LABOR | COST OF REMOVAL OTHER | SALVAGE | TOTAL |
|---|---|---|---|---|---|
| Oct | $ | $ | $ | $ | $ |
| Nov | | | | | |
| Dec | | | | | |
| Jan | | | | | |
| Feb | | | | | |
| Mar | | | | | |
| Apr | | | | | |
| May | | | | | |
| Jun | | | | | |
| Jul | | | | | |
| Aug | | | | | |
| Sep | | | | | |
| TOTAL | $ | $ | $ | $ | $ |

| Authorized Carryover to Future Years (if applicable) | $ 685.0 | Man Days |
|---|---|---|

| Recommended By | Date | Approved By | Date | Approved By | Date | App.Exec.Mgt. | Date |
|---|---|---|---|---|---|---|---|
| M.A. Huneidi | | | | | | 1/16/98 | |

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F-156-Rev. 7-96

**LACLEDE GAS COMPANY - CAPITAL PROJECT SHEET**
**Fiscal Year Ending September 30, 1998**

**Division:** Laclede

**Budget Category:** General Plant **Budget Project No:** 52-10

**Budget Classification:** Office Furniture and Equipment **Plant Account No:** 391.11

**Originating Department:** Information Systems

**TITLE:** Communication Platform

**DESCRIPTION:**

This project's total cost is estimated to be $510,000. The project will replace the company's present network environment with a network that will support client/server and Intranet/Internet business solutions. Development will include but is not limited to the purchase, installation, customization, and configuration of networking equipment and pertinent network peripherals required to process expected corporate network applications.

**PURPOSE AND NECESSITY:**

The company's present network was constructed on a piece-meal basis using differing technology and protocols. This design led to poor response times and administration difficulties. The refurbished network will eliminate these infrastructure problems, will provide quicker remote user response times, and will reduce dedicated telephone line costs.

**ESTIMATED COST OF ADDITIONS THIS YEAR (000)**

**MAN DAYS:** **DEPT:**

| DISTRIBUTION | | ALLOCATION | |
|---|---|---|---|
| Oct | $ 34.0 | Labor- | |
| Nov | 34.0 | Contract | |
| Dec | 34.0 | Management | 10.0 |
| Jan | 34.0 | Sub-total | 10.0 |
| Feb | 33.0 | Mech. Equip. | |
| Mar | 33.0 | Material | |
| Apr | 33.0 | Contract Work | 90.0 |
| May | 33.0 | Equip. Purch. | 300.0 |
| Jun | 33.0 | Other | |
| Jul | 33.0 | Supv. Etc. | |
| Aug | 33.0 | Gen'l Ovhd | |
| Sep | 33.0 | Interest | |
| TOTAL | $ 400.0 | TOTAL | $ 400.0 |
| City | 100% | County | |

**ESTIMATED RETIREMENTS THIS YEAR (000)**

**MAN DAYS:** **DEPT:**

| | RETIREMENT VALUE | COST OF REMOVAL LABOR | COST OF REMOVAL OTHER | SALVAGE | TOTAL |
|---|---|---|---|---|---|
| Oct | $ | $ | $ | $ | $ |
| Nov | | | | | |
| Dec | | | | | |
| Jan | | | | | |
| Feb | | | | | |
| Mar | | | | | |
| Apr | | | | | |
| May | | | | | |
| Jun | | | | | |
| Jul | | | | | |
| Aug | | | | | |
| Sep | | | | | |
| TOTAL | $ | $ | $ | $ | $ |

| Authorized Carryover to Future Years (if applicable) | Man Days |
|---|---|
| | $ 110.0 |

| Recommended By | Date | Approved By | Date | Approved By | Date | App.Exec.Mgt. | Date |
|---|---|---|---|---|---|---|---|
| M.A. Huneidi | | [signature] | | | | [signature] 1/6/98 | 1/20/98 |

F-156—Rev. 7-96

**LACLEDE GAS COMPANY - CAPITAL PROJECT SHEET**
**Fiscal Year Ending September 30, 1998**

**Division:** Laclede

**Budget Category:** General Plant **Budget Project No:** 52-11

**Budget Classification:** Office Furniture and Equipment **Plant Account No:** 391.11

**Originating Department:** Information Systems

**TITLE:** Network Interface

**DESCRIPTION:**

This project's total cost is estimated to be $225,000. The project will establish a seamless user network interface to the refurbished Laclede network. Development will include but is not limited to interface technology identification, interface development, package installation, customization, configuration, and network implementation.

**PURPOSE AND NECESSITY:**

Today's corporate network does not provide users with standardized methods to access applications and data. The methods that do exist consist of in-house developed menus that depend on obsolete technologies to properly operate. A seamless interface will allow users to securely communicate, collaborate, and share information across any company platform or operating system, regardless whether the information is within the company or outside the company.

**ESTIMATED COST OF ADDITIONS THIS YEAR (000)**

**MAN DAYS:** **DEPT:**

| DISTRIBUTION | | ALLOCATION | |
|---|---|---|---|
| Oct | $ 14.0 | Labor- | |
| Nov | 14.0 | Contract | |
| Dec | 14.0 | Management | 15.0 |
| Jan | 14.0 | Sub-total | 15.0 |
| Feb | 14.0 | Mech. Equip. | |
| Mar | 15.0 | Material | |
| Apr | 15.0 | Contract Work | 160.0 |
| May | 15.0 | Equip. Purch. | |
| Jun | 15.0 | Other | |
| Jul | 15.0 | Supv. Etc. | |
| Aug | 15.0 | Gen'l Ovhd | |
| Sep | 15.0 | Interest | |
| TOTAL | $ 175.0 | TOTAL | $ 175.0 |
| City | 100% | County | |

| Authorized Carryover to Future Years (if applicable) | Man Days |
|---|---|
| | $ 50.0 |

**ESTIMATED RETIREMENTS THIS YEAR (000)**

**MAN DAYS:** **DEPT:**

| | RETIREMENT VALUE | COST OF REMOVAL LABOR | COST OF REMOVAL OTHER | SALVAGE | TOTAL |
|---|---|---|---|---|---|
| Oct | $ | $ | $ | $ | $ |
| Nov | | | | | |
| Dec | | | | | |
| Jan | | | | | |
| Feb | | | | | |
| Mar | | | | | |
| Apr | | | | | |
| May | | | | | |
| Jun | | | | | |
| Jul | | | | | |
| Aug | | | | | |
| Sep | | | | | |
| TOTAL | $ | $ | $ | $ | $ |

| Recommended By | Date | Approved By | Date | Approved By | Date | App.Exec.Mgt. | Date |
|---|---|---|---|---|---|---|---|
| M.A. Huneidi | | [illegible signature] | | | | [illegible signature] 1/23 | |

F-156-Rev. 7-96

# LACLEDE GAS COMPANY - CAPITAL PROJECT SHEET
## Fiscal Year Ending September 30, 1998

**Division:** Laclede

**Budget Category:** General Plant — **Budget Project No:** 52-12

**Budget Classification:** Office Furniture and Equipment — **Plant Account No:** 391.11

**Originating Department:** Information Systems

**TITLE:** Database Controls (IMS)

**DESCRIPTION:**

This project's total cost is estimated to be $525,000. The project will make necessary changes to applications and data files for installation of mainframe database controls (IMS).

**PURPOSE AND NECESSITY:**

These database controls will replace existing IMS DL/I controls which are no longer supported and which are not compatible with OS/390 requirements. The new control package will take advantage of OS/390 technologies and will meet new mainframe system requirements.

**ESTIMATED COST OF ADDITIONS THIS YEAR (000)**

MAN DAYS: | DEPT:

| DISTRIBUTION | | ALLOCATION | |
|---|---|---|---|
| Oct | $ 36.0 | Labor- | |
| Nov | 36.0 | Contract | |
| Dec | 36.0 | Management | 15.0 |
| Jan | 36.0 | Sub-total | 15.0 |
| Feb | 36.0 | Mech. Equip. | |
| Mar | 35.0 | Material | |
| Apr | 35.0 | Contract Work | 410.0 |
| May | 35.0 | Equip. Purch. | |
| Jun | 35.0 | Other | |
| Jul | 35.0 | Supv. Etc. | |
| Aug | 35.0 | Gen'l Ovhd | |
| Sep | 35.0 | Interest | |
| TOTAL | $ 425.0 | TOTAL | $ 425.0 |

City 100% County

**ESTIMATED RETIREMENTS THIS YEAR (000)**

MAN DAYS: | DEPT:

| | RETIREMENT VALUE | COST OF REMOVAL LABOR | COST OF REMOVAL OTHER | SALVAGE | TOTAL |
|---|---|---|---|---|---|
| Oct | $ | $ | $ | $ | $ |
| Nov | | | | | |
| Dec | | | | | |
| Jan | | | | | |
| Feb | | | | | |
| Mar | | | | | |
| Apr | | | | | |
| May | | | | | |
| Jun | | | | | |
| Jul | | | | | |
| Aug | | | | | |
| Sep | | | | | |
| TOTAL | $ | $ | $ | $ | $ |

| Authorized Carryover to Future Years (if applicable) | Man Days $ 100.0 |
|---|---|

| Recommended By | Date | Approved By | Date | Approved By | Date | App.Exec.Mgt. | Date |
|---|---|---|---|---|---|---|---|
| M.A. Huneidi | | [signature] | | | | [signature] 1/16/98 | |

F-156—Rev. 7-96

**LACLEDE GAS COMPANY - CAPITAL PROJECT SHEET**
**Fiscal Year Ending September 30, 1998**

**Division:** Laclede

**Budget Category:** General Plant **Budget Project No:** 52-13

**Budget Classification:** Office Furniture and Equipment **Plant Account No:** 391.11

**Originating Department:** Information Systems

**TITLE:** Language Upgrade

**DESCRIPTION:**

This project's total cost is estimated to be $250,000. The project will make necessary changes to applications and data files for installation of COBOL LE370.

**PURPOSE AND NECESSITY:**

This upgrade will allow mainframe applications to take advantage of current technologies, and is required to remain compatible with system operating requirements. It will also allow optimal processing of current mainframe applications and of new software package installations.

**ESTIMATED COST OF ADDITIONS THIS YEAR (000)**

**MAN DAYS:** **DEPT:**

| DISTRIBUTION | | ALLOCATION | |
|---|---|---|---|
| Oct | $ 11.0 | Labor- | |
| Nov | 11.0 | Contract | |
| Dec | 11.0 | Management | 2.8 |
| Jan | 11.0 | Sub-total | 2.8 |
| Feb | 11.0 | Mech. Equip. | |
| Mar | 10.0 | Material | |
| Apr | 10.0 | Contract Work | 122.2 |
| May | 10.0 | Equip. Purch. | |
| Jun | 10.0 | Other | |
| Jul | 10.0 | Supv. Etc. | |
| Aug | 10.0 | Gen'l Ovhd | |
| Sep | 10.0 | Interest | |
| TOTAL | $ 125.0 | TOTAL | $ 125.0 |

City 100% County

**ESTIMATED RETIREMENTS THIS YEAR (000)**

**MAN DAYS:** **DEPT:**

| | RETIREMENT VALUE | COST OF REMOVAL LABOR | COST OF REMOVAL OTHER | SALVAGE | TOTAL |
|---|---|---|---|---|---|
| Oct | $ | $ | $ | $ | $ |
| Nov | | | | | |
| Dec | | | | | |
| Jan | | | | | |
| Feb | | | | | |
| Mar | | | | | |
| Apr | | | | | |
| May | | | | | |
| Jun | | | | | |
| Jul | | | | | |
| Aug | | | | | |
| Sep | | | | | |
| TOTAL | $ | $ | $ | $ | $ |

| Authorized Carryover to Future Years (if applicable) | $ 125.0 | Man Days |
|---|---|---|

| Recommended By | Date | Approved By | Date | Approved By | Date | App.Exec.Mgt. | Date |
|---|---|---|---|---|---|---|---|
| M.A. Huneidi | | | | | | 1/16/98 | 1/18/98 |

F-156—Rev. 7-96

FILED
AUG 5 1999
Missouri Public
Service Commission

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 rebuttal testimony, consisting of pages 1 to 25, inclusive; and Schedules 1 to 5, 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.

Jm A. Fallert
James A. Fallert

Subscribed and sworn to before me this 5th day of August, 1999.

Patricia P. Hicks

PATRICIA P. HICKS
Notary Public — Notary Seal
STATE OF MISSOURI
City of St. Louis
My Commission Expires: June 27, 2002