

Exhibit No.:

Issue:

Witness:

Type of Exhibit:

Sponsoring Party:

Case No.:

Advertising

Richard N. Hargraves

Rebuttal Testimony

Laclede Gas Company

GR-99-315

FILED

AUG 5 1999

Missouri Public
Service Commission

LACLEDE GAS COMPANY

GR-99-315

REBUTTAL TESTIMONY

OF

RICHARD N. HARGRAVES

1 **REBUTTAL TESTIMONY OF RICHARD N. HARGRAVES**

2

3 Q. Please state your name and business address.

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

6 Q. Are you the same Richard N. Hargraves who previously filed direct testimony in
7 this proceeding?

8 A. Yes.

9 Q. What is the purpose of your rebuttal testimony?

10 A. The purpose of my rebuttal testimony is to respond to the direct testimony of Staff
11 witness John M. Boczkiewicz and Office of Public Counsel witnesses Kimberly
12 K. Bolin and Ryan Kind as such testimony relates to the regulatory treatment of
13 Laclede's advertising expenditures.

14

15 **Flaws in Existing Standard**

16 Q. Do you believe that the Commission should jettison the current standard for
17 inclusion of advertising in rates in favor of a standard tied to a percentage of
18 revenues?

19 A. Yes. The Commission should abandon the current standard, which was relied
20 upon by both Mr. Boczkiewicz and Ms. Bolin in making their adjustments.

21 Q. Why does the Company believe that the current standard is inappropriate and
22 unworkable?

1 A. As explained more fully in my direct testimony, there are three main reasons that
2 the Company believes the current standard is inappropriate and unworkable:

3 (1) The current standard requires the Company, Staff and OPC to
4 undertake an expensive, time-consuming, ad-by-ad analysis in order to
5 determine which advertisements are eligible for rate recovery. Such
6 analysis often results in inconsistent treatment of advertising costs
7 between companies and even for the same company's advertising in
8 different time periods.

9 (2) It has proven to be very difficult, if not almost impossible, to meet
10 the standard for including promotional advertising costs in rates. In fact,
11 the Staff has admitted in its response to Laclede DR No. 69 that no
12 company has ever met this standard (See Schedule 1 hereto); and

13 (3) The Commission is required by the current standard to force-fit ads
14 into categories in a manner that is not consistent with the way that
15 advertising is budgeted by companies or the way that advertising is
16 viewed by the public.

17 Q. Do you have any examples of inconsistent applications of the categorization
18 standard?

19 A. Yes. A print advertisement entitled "Public Service Is Our Daily Business" was
20 categorized as "institutional" by Staff and as "promotional" by Public Counsel.
21 Another example involves the two commercials that open and close "The
22 Newshour With Jim Lehrer" on public television, known as "Bringing You
23 Energy" and "Our Daily Business". Staff and Public Counsel have categorized

1 these commercials as “institutional”, contending they have no value except to
2 provide good will for the Company. Yet these commercials deal with many of the
3 same messages about expertise, customer service and environmental advantages
4 that are the primary messages of other ads categorized as “promotional”. These
5 commercials are less blatantly promotional than the commercials that air on
6 commercial television, but this is necessitated by the requirements of public
7 television. Therefore, these commercials should be categorized as “promotional”
8 and their cost allowed based on the Company’s demonstration that the benefits of
9 its promotional advertising are greater than its costs.

11 Alternative System

12 Q. Do you have a suggestion for an alternative standard or system for the treatment
13 of advertising expenditures?

14 A. Yes. In lieu of the existing standard advocated by Staff and Public Counsel in
15 their direct testimony, Laclede believes that the Commission should utilize a
16 realistic, reliable, consistent and easy-to-apply advertising standard that focuses
17 on determining whether the overall level of advertising expenditures incurred by a
18 company during any given year is reasonable. Under this standard, rather than
19 being required to spend time categorizing the content of individual ads, the
20 Commission would instead be required to determine only whether a company’s
21 overall advertising expenditure is reasonable. In this case, Laclede’s overall
22 advertising expenditure is equal to only two-tenths of one percent (.2%) of its
23 utility revenues. This is a reasonable amount of advertising expense under any

1 definition of the term, particularly given the increasingly competitive environment
2 in which Laclede operates.

3
4 **Application of Existing Standard**

5 Q. Recognizing your concerns about the current categorization system, what if it is
6 nevertheless determined by the Commission that this system should be retained to
7 evaluate Laclede's advertising expenditures?

8 A. If the Commission chooses to retain its existing standard for evaluating Laclede's
9 advertising, the Company believes it has met the standard for recovering the costs
10 of "promotional" advertising, and, therefore, these advertising expenditures
11 should be allowed in rates.

12 Q. Please explain how you believe the Company has met the standard for recovery
13 of its promotional advertising expenses.

14 A. Under the current system, in order to recover the cost of promotional advertising,
15 a company must show that the benefits received by ratepayers from the
16 advertising are greater in value than the cost of the advertisements and that there
17 is a causal relationship between the advertisements and the benefits achieved.

18 Q. Do you believe that Laclede benefits from advertising?

19 A. Absolutely. There can be little doubt that both regulated and non-regulated
20 companies garner benefits from promotional advertising. Advertising would not
21 be the huge industry that it is today in this country if companies, such as
22 Anheuser-Busch and IBM, which purchase millions of dollars of advertising
23 annually, did not believe that advertising results in substantial benefit to their

1 respective businesses. It only stands to reason that, if advertising works for these
2 companies, advertising also works for companies such as Laclede.

3 Q. Do you believe that Laclede's ratepayers also benefit from advertising.

4 A. Ratepayers benefit individually and collectively from Laclede's advertising efforts to
5 retain its market share. First, ratepayers receive information from Laclede's
6 advertisements that they would not obtain elsewhere. This information is useful to
7 ratepayers in making informed energy decisions regarding the wise use of energy
8 resources. Second, ratepayers benefit to the extent that the advertisements result in a
9 larger customer base over which Laclede's fixed costs can be spread.

10
11 It is Laclede's position that all of the evidence that the Company has submitted
12 regarding the effectiveness of its advertising also serves as evidence that
13 ratepayers benefit from advertising. To the extent that advertising works, which it
14 clearly does, and customers choose to purchase natural gas and related products
15 from Laclede as a result of such advertising, which they clearly do, all of
16 Laclede's customers benefit by the dispersion of fixed costs over a larger
17 customer base.

18 Q. Does the value of these benefits to ratepayers exceed the cost of Laclede's
19 advertisements?

20 A. The benefits to ratepayers far exceed the cost of Laclede's advertising. The benefits
21 analysis Laclede submitted in response to Staff DR No. 55 and OPC DR No. 1063
22 (see Schedule 2 hereto) demonstrated that the initial annual loss to Laclede and its
23 ratepayers resulting from the inability to retain existing customers or attract new

1 ones ranges from \$926,000 to \$1,024,000, and can rise to as much as \$2,168,000.

2 Considering that the add-on heat pump customer will probably not be required to
3 make another heating decision for a minimum of ten years, this marginal loss will
4 continue over that period of time, amounting to anywhere from approximately
5 \$50,900,000 to \$119,200,000.

6 Q. Has the Company conducted or commissioned any studies to demonstrate the
7 existence of a “causal relationship” between Laclede’s advertising and these
8 benefits to ratepayers?

9 A. Yes. In 1990, Marketeam Associates, a professional research firm, surveyed
10 Laclede’s customers to determine what factors influenced them to choose natural
11 gas heat and the role that Laclede’s advertising played in that decision. (Copies of
12 the results of this survey, together with Laclede’s cost-benefits analysis, were
13 provided to Staff and Public Counsel in the previously referenced Staff DR No.
14 55 and OPC DR No. 1063.) Three groups of consumers were surveyed:
15 1) consumers living in existing homes who made a conscious decision to convert
16 to natural gas heat from another type of fuel; 2) consumers living in newly
17 constructed homes who chose to build with natural gas heat; and 3) consumers
18 living in newly constructed homes in two large subdivisions who chose natural
19 gas heat despite heavy on-site promotions of electric heat pumps.

20 Q. What were the results of the survey?

21 A. As shown by the Executive Summary (see Schedule 3 hereto), the survey found
22 that a majority of the consumers surveyed recalled, believed and considered
23 messages that were included in Laclede’s advertising to be important in their

1 decisions to choose natural gas. These results were obtained even though
2 consumers traditionally are reluctant to attribute their purchasing decisions to
3 advertising. Further, the high percentage impacted by Laclede's advertising is
4 significant considering that Laclede's total annual advertising budget is
5 consistently less than one percent (1 %) of its utility revenues.

6 Q. In light of your response to the previous question, how do you explain the
7 testimony of Mr. Boczkiewicz that the Company does not maintain cost
8 justification for promotional advertising and Ms. Bolin that the Company has
9 failed to provide any dollar cost benefit analysis for its promotional advertising?

10 A. I cannot explain either of these statements, because they simply are not accurate.
11 As I previously indicated in response to Staff DR No. 55 and OPC DR No. 1063,
12 Laclede submitted a five-page analysis of the benefits of advertising to ratepayers,
13 including a valuation of these benefits, as well as a copy of the above-mentioned
14 Marketeam survey (see Schedules 2 and 3 hereto). Staff and Public Counsel may
15 contend that they do not agree with Laclede's benefits justification or that they
16 believe Laclede's benefits justification is inadequate, but neither Staff nor Public
17 Counsel can correctly contend that no such justification exists.

18 Q. Do you have any other evidence that promotional advertising benefits Laclede
19 and its ratepayers?

20 A. Yes. Advertising for residential service work is a good example of the revenues
21 Laclede's advertising can generate. In 1995, the year just prior to when Laclede
22 began its current residential service work advertising campaign, Laclede's
23 revenues from residential service work were \$2,463,727.00. In the test year,

1 residential service work produced revenues of \$4,231,445.00. During the test year
2 (1998), Laclede expended \$210,384.87 (which was approximately 66% of its
3 entire expenditures for promotional advertising) for advertisements informing
4 customers about Laclede's service work capabilities, which means that, for every
5 such advertising dollar spent, Laclede received \$20.07 in revenue. To the best of
6 my knowledge, there is no other factor besides the Company's advertising
7 campaign that would have contributed to the increase in service work revenues
8 between 1995 and the test year. If two-thirds of the Company's promotional
9 advertising generates such revenues, it is only logical to assume that the other
10 advertising produces substantial, if not similar, benefits. I should note that these
11 promotional expenses relating to the Company's service work were ultimately
12 excluded by the Company from its regulated cost of service in order to comply
13 with the HVAC Services Act. The point remains, however, that our experience in
14 this area clearly demonstrates the effectiveness of advertising in generating
15 additional revenues.

16 Q. Has Public Counsel or Staff, in its direct testimony, given any indication that it
17 believes that advertising is effective?

18 A. Yes. Public Counsel witness Ryan Kind stated in his testimony that he believed
19 that the Company should once again promote its Insulation Financing Program by
20 advertising the program on its bills twice each year. Mr. Kind states that he
21 believes that more of the Company's customers would become aware of, and
22 utilize, the program if it was more widely promoted. By making this request, Mr.
23 Kind is apparently acknowledging that promoting or advertising programs and

1 services offered by the Company will result in wider use by the public of these
2 programs and services.

3 Q. How do you respond to Mr. Kind's testimony that Laclede's advertisements on
4 public television are misleading in that they claim that "Natural gas is virtually
5 pollution free" and, thus, not only should be disallowed in rates but should not
6 even be aired?

7 A. The St. Louis metropolitan area, which is, of course served by the Company, is
8 under significant pressure from the U.S. Environmental Protection Agency to
9 improve the quality of the air its citizens breathe. To that end, Laclede is an active
10 member of the EPA's Clean Cities Program in St. Louis, which, among other
11 things, is promoting the use of natural gas as an alternative fuel for vehicles that
12 reduces air pollution. It also is a fact that natural gas is the cleanest-burning fossil
13 fuel and that it burns without creating many of the by-products that are major
14 sources of air pollution and acid rain. Additionally, there are virtually no
15 "criteria" emissions from the combustion of natural gas. Given these
16 considerations, the statements in the commercials are not misleading, and anyone
17 who believes that they are has other avenues outside the ratemaking process to
18 pursue such claims.

19 Q. Does this conclude your testimony?

20 A. Yes.

JUL 21 1999

SCHEDULE 1

No. 69

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

Requested From: John M. Boczkiewicz

Requested By: Richard N. Hargraves
Laclede Gas Company

Date of Request: 6/30/99

Information Requested: Please list all cases in which Missouri utilities have provided sufficient cost-justification to support the inclusion of promotional advertising in rates.

Response: _____

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

The attached information provided to Laclede Gas Company in response to the above data information request is accurate and complete and contains no material misrepresentations or omissions, based upon present facts of which the undersigned has knowledge, information or belief. The undersigned agrees to immediately inform Laclede Gas Company if, during the pendency of Case No. GR-99-315, et al. before the Commission, any matters are discovered which would materially affect the accuracy or completeness of the attached information.

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

Signed By: _____ Date Response Received: _____

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

Response to Company Data Request No. 69

No Missouri utility has provided sufficient cost justification to support the inclusion of promotional advertising in rates.

PROPRIETARY

**LACLEDE GAS COMPANY
Case No. GR-99-315
Response to Data Request No. 55**

D. Provide all cost/benefit studies and all other documentation that supports these advertisements. Please quantify all revenues that are directly generated as a result of these advertising costs.

REGARDING BENEFITS RESULTING FROM LACLEDE'S ADVERTISING

Ratepayers benefit individually and collectively from Laclede's advertising efforts to retain its market share, first by receiving information they cannot receive elsewhere that is useful to them in making informed energy decisions regarding the wise use of energy resources, and, second by continuing to allow fixed costs to be spread over as wide a customer base as possible.

Staff asks for a "cost/benefits" analysis of Laclede's advertising expenditures and a quantification of "all revenues that are directly generated as a result of these advertising costs." However, it is important to recognize that "cost/benefit" is not the test established by the Commission; nor is there a "revenues generated" test for advertising expenditures. Evaluating the benefits ratepayers receive as a result of Laclede's advertising is not merely, or even primarily, a matter of determining how much revenue was generated from individual ads. In fact, in previous testimony, Staff has conceded that it is not possible to establish revenue-to-expense ratios for individual ads or campaigns.

The Commission's test regards benefits to ratepayers, not revenues.

As the Commission stated in a case involving Missouri Public Service (ER-90-101), "Company must show that these advertisements resulted in a benefit to the ratepayers which outweighed the cost of the advertising." The Commission also sought a causal relationship between the advertising and the benefits. It suggested a survey of target customers as a means to "exclude other possible causal factors thereby establishing a valid inference that a causal relationship existed between these two variables." **Laclede's advertising efforts meet both the Commission's benefits standard and the "causal relationship" test.**

Benefits to ratepayers derived from Laclede's advertising arise from:

- 1) Retaining existing customers - One of the objectives of Laclede's advertising is the retention of existing customers. This objective is best explained with regard to the potential loss of customers to the electric heat pump. If a gas heating

customer installs an add-on electric heat pump, Laclede loses approximately \$67 a year in marginal profit. If a gas heating customer switches completely from gas heat to electric heat, but retains other gas services, such as water heating and other appliances, Laclede loses approximately \$84 in marginal profit. If a gas heating customer becomes so attracted to the electric heat pump that the customer becomes an all-electric customer, Laclede loses approximately \$282 in marginal profit. Assuming that just one percent of Laclede's customers are retained as a result of these ads, the "savings" to the remaining ratepayers ranges from approximately \$387,000 to \$435,000 or even to \$1,629,000 in the initial year.

- 2) New heating customers - A second objective of this type of advertising is to attract new customers. Laclede has included in its current filing an anticipated customer growth of 3,825 per year. If it is assumed that one-half of these customers would choose an alternative fuel without having the benefit of information provided by Laclede ads of this type, then existing ratepayers would lose the benefit of contribution to fixed costs provided by them. This loss amounts to approximately \$539,000 in the initial year.
- 3) Information provided - Laclede is informing individual ratepayers of important information they need to compare competing claims and thereby make an informed energy decision. Some of this information regards the environmental and other advantages of natural gas. Some of this information regards the difficulties associated with the use of heat pumps in the St. Louis area. The up-front installation costs of an electric heat pump are significant. Further, depending upon the type of equipment, a consumer can spend about a third less to heat a home with a gas furnace than with an electric heat pump. This is important information customers need in order to make an informed energy choice. Absent Laclede's advertising, they would not have this information. By being informed about what they would be buying, consumers need not make an expensive purchase of equipment with which they will be unhappy.

Therefore, as demonstrated above, the initial loss to Laclede and its ratepayers resulting from the loss of new or existing customers ranges from \$926,000 to \$1,024,000 or even as much as \$2,168,000. Considering that the add-on heat pump customer will probably not be required to make another heating decision for a minimum of ten years, this marginal loss will continue over that period of time, amounting to anywhere from approximately \$50,900,000 to \$56,300,000 or even to \$119,200,000.

It is important to realize that the largest part of Laclede's sales is space heating. This heating saturation makes the Company extremely vulnerable to penetration of this market by alternate heating methods, especially the electric heat pump mentioned

PROPRIETARY.

previously. Given: 1) the repeatedly stated goal of the electric utility to attract new heating customers; 2) the extensive promotional efforts of that utility and of the large electric appliance manufacturers and dealers; and 3) the inability of the generally smaller gas appliance manufacturers to match or even approach the amount of unregulated advertising placed by their larger counterparts, it is not unreasonable to conclude that a serious threat exists to Laclede's customer base. Although Laclede's advertising has had a significant impact on preventing an increased penetration of electric heat pumps into its service area, the Company contends that, absent such efforts in defense of its heating market, a 1% annual loss of its customer base, as detailed in Item 1, would be the minimum to be expected.

In a competitive environment such as that which exists in the St. Louis heating market, the messages of others will inevitably persuade some of Laclede's customers (or potential new customers) to utilize non-gas heating. This is normal and to be expected, but it must be counteracted if Laclede is to maintain its overall market share and keep costs spread over as large a customer base as possible. In today's mobile society, people are more frequently moving from one residence to another. When they move, they face a buying decision. So, even if they have been using gas, in reality they become "new" customers. Laclede's ads provide valuable information to non-gas customers and to current and prospective gas customers who may be considering non-gas alternatives for space heating.

In summary, Laclede has designed its advertising to prevent any future erosion of the Company's current sales. Also, Laclede's advertising attempts to expand its current market share by presenting the consumer with facts about the most environmentally attractive and cost-effective way to utilize energy. These goals serve to increase sales, enabling the Company to spread fixed costs over the largest possible customer base, resulting in the lowest possible cost per ratepayer. The program also informs the customer of the environmental, convenience and efficiency advantages of natural gas energy as well as the negative operational aspects of the electric heat pump -- all of which information, were it not for Laclede, would never reach the consumer.

It is extremely important that the Company safeguard its current load and continue to attract new customers so that fixed costs are spread over the largest possible customer base. But the retention of Laclede's existing customer base is critical because there is not a particularly large growth of new customers.

REGARDING QUANTIFICATION OF REVENUES DIRECTLY GENERATED BY ADS

It must be noted that the exact dollars generated by any advertising budget is something that is not subject to a scientific analysis that can demonstrate precisely with any degree of certainty an exact amount of revenue produced. In previous testimony, Staff itself has conceded the impossibility of establishing such a link. Perhaps that is why the Commission has never established a "revenue generated" test as part of its advertising evaluation standard. In that light, Laclede once again wonders why Staff continues to ask for information that is not possible to produce. What can be said is that consumers in Laclede's service area have received, considered important and acted upon the information delivered in Laclede's advertising in a manner that, as is demonstrated above, benefits all ratepayers. However, absent the information provided in Laclede's advertising, consumers would behave differently and in a manner that is detrimental to all ratepayers.

This is not the first time Laclede has detailed the benefits ratepayers receive from Laclede's advertising, nor is it the first time Laclede has reminded Staff of the impossibility of a quantification of revenue generated by particular ads or ad campaigns and of the simple fact that the Commission's test regards benefits to ratepayers, not revenues. However, in yet another attempt to assist Staff's consideration of our advertising program, Laclede offers as an example the following information about one segment of its advertising program -- residential service work -- for which it is somewhat easier to isolate revenues and advertising expenditures. The revenue figures are an approximation, but are as close as we can get in a timely manner. The advertising expenditures are from DR No. 55.

In the test year for this case, residential service work produced revenues of \$4,231,445. Advertising expenditures informing customers about Laclede's service work capabilities totalled \$210,804.87 during that same period, or roughly \$20.07 in revenue for each \$1 in ad costs. Note that this example is developed solely in an attempt to further illustrate to Staff the benefits resulting by Laclede's advertising. Laclede does not make the case that all this revenue was directly generated as a result of our advertising because, as stated above, such a direct link is impossible to make. However, Laclede does note that the 1998 residential service revenues of \$4,231,445 are 72% higher than the \$2,463,727 in residential service revenues we received during the same period in 1995, just prior to when Laclede began its current service work ad campaign.

REGARDING A "CAUSAL LINK" BETWEEN ADVERTISING AND BENEFITS

In regard to a "causal link" between Laclede's advertising expenditures and these benefits to ratepayers, Laclede has found, through professionally conducted survey research, that consumers consider Laclede's advertising informative and important in helping them make the type of energy decisions (and thereby receive the type of benefits) described above. A copy of this survey is attached. Its conclusion, as stated on page 7, is:

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

(emphasis added)

PART III
EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

1. Over half the respondents recalled advertising about a message, said it was important in their decision and believed the statement (recalled, believed and considered important). This varied from 52% for New Construction to 57% for Heat Pump (Question 7a, 7b, 7c).
2. Statements recalled, believed and considered important by one-third or more of each group were "gas is cheaper than electric" and "gas is more efficient".
3. Similar points were mentioned when respondents were asked in an open-ended questions why they chose a gas furnace instead of electric heat pump (Q.3). Fifty-four percent of all respondents mentioned the cost of gas heat as a reason for their preference. Past experience with either gas or an electric heat pump was mentioned by twenty-seven percent of all respondents. None of these issues differed significantly among the groups.
4. Efficiency of natural gas heat was frequently mentioned as a reason for choosing gas. More respondents from the Heat Pump group (28%) than from the Main Extension group (6%) mentioned this issue.

5. When asked in an open-ended question, over half of all respondents recalled seeing or hearing advertising about natural gas before choosing gas heat, (Q.5). The highest percentage of people who recalled advertising were from the Heat Pump group. There was little difference between the other two groups.

	<u>MAIN EXTENSION</u>	<u>NEW CONSTRUCTION</u>	<u>HEAT PUMP</u>
Recall	48.6%	50.0%	66.7%

6. Eighty percent of those persons who recalled advertising also recalled something specific from the ad (Q.6). Common messages recalled include Ernest and Vern, the fact that gas is less costly than other forms of energy, and that gas is cleaner or more efficient than other heat sources. These items were consistent across the groups. Additionally, members of the Heat Pump group recalled advertising about Laclede Gas Company, gas heat in general, and heat pumps in general. Nineteen percent of those that recalled having seen or heard advertising about natural gas were unable to remember the topic of the ads.

7. No other information source is dominant in the choice of gas heat. When asked in an open-ended fashion most respondents mentioned past experience as their source of information. Formal communications that might be used at the time of purchase, such as display home materials, were mentioned very little. It is to be expected in a question such as this that most people would not say their information came from advertising.

CONCLUSION:

A high percentage of those who made a conscious decision to select natural gas heat recalled, believed, and considered important messages that were included in Laclede Gas advertising. No other source of formal communication was noted that had a significant effect on their decision.

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

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

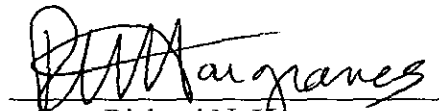
STATE OF MISSOURI)
)
CITY OF ST. LOUIS) SS.

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

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

2. Attached hereto and made part hereof for all purposes is my rebuttal testimony, consisting of pages 1 to 9, inclusive; and Schedules 1 to 3 inclusive.

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


Richard N. Hargraves

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

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

