Exhibit No.:	
Issue:	Cash Working Capital, Capital Structure, and Accounting Schedules
Witness:	Glenn W. Buck
Type of Exhibit:	Direct Testimony
Sponsoring Party:	Laclede Gas Company
Case No.:	GR-2007-0____
Date Testimony Prepared:	December 1, 2006

LACLEDE GAS COMPANY

GR-2007-0____

DIRECT TESTIMONY

OF

GLENN W. BUCK

DECEMBER 2006

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DIRECT TESTIMONY OF GLENN W. BUCK

Q. Please state your name and business address.

A. My name is Glenn W. Buck, and my business address is 720 Olive St., St. Louis, Missouri, 63101.

Q. What is your present position?

A. I am presently employed as Manager, Financial Services, for Laclede Gas Company ("Laclede" or "Company").

Q. Please state how long you have held your position and briefly describe your responsibilities.

A. I was appointed to my present position in March, 1999. In this position, I am responsible for the financial aspects of rate matters generally, including financial analysis and planning. I am also responsible for preparing various financial forecasts, overseeing the Company's accounts payable functions, and monitoring regulatory trends and developments.

Q. What was your experience with the Company prior to becoming Manager, Financial Services?

A. I joined Laclede in August, 1986, as a Budget Analyst in the Budget Department. I was promoted to Senior Budget Analyst in June, 1988, and transferred to the Financial Planning Department in December, 1988 as an Analyst. I was promoted to Senior Analyst in February, 1990, Assistant Manager in February, 1994, and Manager in January 1996. I acted in that capacity until being appointed to my current position.

Q. What is your educational background?

A. I graduated from the University of Missouri - Columbia, in 1984, with a Bachelor of Science degree in Business Administration.

Q. Have you previously filed testimony before this Commission?

A. Yes, I have, in Case Nos. GR-94-220, GR-96-193, GR-99-315, GR-2001-629, GT-2001-329, GR-2002-356, GO-2004-0443, and GR-2005-0284. Further, I provided oral testimony before the Commission regarding the Infrastructure System Replacement Surcharge rulemaking in Case No. AX-2004-0090.

PURPOSE OF TESTIMONY

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present evidence to the Commission concerning the following:

1. The Company's calculation of cash working capital;
2. The capital structure that the Company recommends be used in this proceeding;
3. Income statement adjustments related to our bill redesign, injuries and damages, dues, fees and other miscellaneous expenses;
4. Tariff changes related to service initiation fees and reconnection charges;
5. A discussion of how earnings will be tracked and calculated for purposes of implementing the earnings sharing mechanism of the Regulatory Compact addressed by Laclede witness Kenneth Neises in his direct testimony; and
6. The Company’s recommended rate of return and return on equity as reflected in the proposed tariffs.

Q. Please list the schedules you are sponsoring.

A. The following schedules were prepared by me or under my supervision:

Schedule 2. This schedule supports the calculation of the Company's cash working capital.

Schedule 3. This schedule provides information regarding the Company's capital structure and includes calculations of the embedded cost of long-term debt and preferred stock.

Schedule 7. This schedule shows the rate of return and the related return on common equity at proposed rate levels based on an original cost rate base.

CASH WORKING CAPITAL

Q. Please discuss Schedule 2.

A. Schedule 2 is a summary schedule showing the computation of cash working capital required for payment of operating expenses.

Q. What is "cash working capital?"

A. Cash working capital is the average amount of capital which must be provided by investors in the Company for the payment of bills, payrolls and other items before the time-corresponding revenues are received from our customers. Cash working capital is included in rate base in order to provide a return allowance for this investment requirement, which is just as essential to the operation of a utility as are the more tangible physical plant components of rate base.

Q. How does the Company determine the amount of cash working capital to reflect in rate base?

A. Since 1978, the Company's cash working capital amount has been determined by performing a "lead-lag" study. As used in this context, "lead" refers to an advance payment for goods or services, such as amounts paid for postage in advance of mailing, while “lag” refers to a payment made or received by Laclede after the receipt or rendering of goods or services by the Company or our vendors. Since our customers pay their gas bills after we render service, I refer to "revenue lag time" in my study. The vast majority of expense items are paid some time after the actual rendering of goods and services to Laclede, so most often I also refer to "expense lag time." Comparisons of our revenue lag time to the lag time for various items of expense results in "net lead" or "net lag" times, depending on whether the expense lag (i.e., the time between when Laclede receives a good or service and pays for that good or service) is longer or shorter than the revenue lag (i.e., the time between when Laclede provides a good or service and receives payment for that good or service). For the most part, the expense lag is shorter than the revenue lag, meaning that expenses are generally paid before revenue is received, resulting in a net lag time for the Company.

Q. How is the lead-lag study performed?

A. The lead-lag study seeks to determine, on average, the net amount of funds required to pay the expenses incurred by the Company for the day-to-day utility operations before the related revenues are received. This is accomplished by calculating: (1) the lag time taken by the customers of the Company for the payment of revenues; and, (2) the lag time taken by the Company for the payment of expenses to outside suppliers and employees. Each of these determinations is in reference to the same starting point - the rendering of service. An overall revenue lag time is then determined by combining data for various items of utility operating revenues. The lag time for each category of operating expenses is subtracted from this overall revenue lag time, and the resultant net lag (or net lead) time, in days, is multiplied by daily expense for the category and reflected in Schedule 2.

The resultant net lag (or net lead) time is multiplied by daily expense to derive the average cash working capital required from (or available to) the Company's investors for each category. These computations are combined to determine the cash working capital required from the Company's investors. This total, as shown at the bottom of Schedule 2, is the amount of cash working capital I am sponsoring for inclusion in rate base.

Q. What time period was utilized to calculate the expense lag times used in Schedule 2?

A. Since there has been no significant change in the manner in which the Company processes payments, the lag times used in Schedule 2 for major expense categories associated with the Company's vendors, suppliers and employees are consistent with those that were utilized in Case No. GR-2005-0284 and GR-2002-356. The one exception is that the expense lag was updated to reflect that no short-term debt is included in the capital structure. Short-term debt was excluded from the capital structure for reasons discussed later in this testimony.

Q. What time period was utilized to calculate the revenue lag used in Schedule 2?

A. In GR-2005-0284, I directed a lead-lag study of the Company's operating expenses, based largely on samples of our payments, and compared them to the actual lag in revenues based upon an accounts receivable turnover analysis covering the universe of our customer base. As discussed more thoroughly in the testimony of Company Witness James Fallert, during the test year in this proceeding, Laclede has been in the process of implementing an Automated Meter Reading system that will virtually eliminate the need for manual meter readings. During the course of this implementation, numerous customer meters that were previously inaccessible were read for the first time in a number of months, resulting in bill readjustments and subsequent bill payment arrangements. Due to these unusual circumstances, I have utilized the revenue lag from the 2005 case as being more representative of our revenue lag experience on a going-forward basis. A proper lead-lag study is an accurate means of determining the cash working capital requirement for an individual company.

Q. Please explain in greater detail how the overall revenue lag time was determined.

A. The revenue lag time total reflects four distinct lag times for four classes of revenue: (1) customer bills for the distribution of natural gas to traditional sales customers; (2) transportation customer bills; (3) incidental oil sales; and, (4) late payment charges. Each respective lag time is weighted into the overall revenue lag time proportionately, based on revenues. Customer bills to sales customers is the most significant item. This total is comprised of three time periods: one-half of the average service period; the average time between meter reading and billing; and, the average time between billing and payment.

Q. How were these time periods determined?

A. The average service period was computed by listing the scheduled number of days in each monthly billing period by cycle and deriving an average period by month. The twelve average periods during the twelve months ended September, 2004 were weighted according to actual revenues over the same months to calculate a weighted average service period, which was, in turn, divided by two to yield the figure shown on the schedule.

The average time between meter reading and billing was computed in a consistent manner, involving monthly averages weighted according to monthly revenues, based on the Customer Accounting work schedule in effect during the review period.

The average time between billing and payment was calculated using a turnover ratio analysis. The analysis involved dividing average daily billings into the average receivable balance to yield the number of days of billing included in receivables. Receivables for the twelve months ended September, 2004 were used. Revenues and other billing items are an average of the twelve months ended August, 2004 and September, 2004. The resulting payment time is shown.

Q. Please explain your use of average billing items for the twelve months ended August, 2004 and September, 2004.

A. By averaging the twelve months ended August, 2004 with the twelve months ended September, 2004, I am giving half-weight to billings during August, 2003, full-weight to billings for September, 2003 through August, 2004, and half-weight to billings during September, 2004. This combination of revenues and other billing is more closely related to the receivables I am using than would be a simple twelve month total. In order to properly determine the length of time certain items (revenue billings) remain unpaid (as receivable balances), it is in many cases inappropriate to divide receivables for a particular period by the billings for the same period in that such a method often does not recognize payment of the latest billings. Such is the case here.

Q. How did you determine revenue lag time for transportation customer bills?

A. The accounts of these customers were individually analyzed to derive daily receivables data. This data was combined to determine the overall lag time for the class. The lag time for incidental oil sales was computed in a similar fashion. The revenue lag time for late payment charges consists solely of the payment time derived for our customers.

Q. Is your determination of a revenue lag based on a sample of customers?

A. No. Unlike the study of expense lags, the revenue lag time is based on the actual history of customer billing and payment activity for the twelve months ended September, 2004 for all of Laclede's customers. As stated earlier in my testimony, it was determined based on an analysis of actual revenue billings and our accounts receivable balances on a daily basis.

Q. The results of your revenue lag study indicate that sales customers, on average, are paying 32.74 days or nearly five full weeks, after the bill is mailed. Is this reasonable?

A. Yes. Although the tariffs require customers to pay their bills within 15 days (commercial and industrial customers) or 21 days (residential customers), the results of the study are not inconsistent with expectations. Rather, they are perfectly reasonable. Obviously, some customers are paying after the required dates as witnessed by the revenues for late payment charges included in our operating revenues. Far more significant, however, is the fact that many of our customers are on special payment plans due to Cold Weather Rule requirements mandated by this Commission. Many of these customers maintain significant outstanding balances while repaying the Company over significant extended periods of time.

Q. Are there any other circumstances which would lengthen the lag time beyond tariffed dates?

A. Unfortunately, and inevitably, there are some customers who never pay the amounts owed and these amounts eventually become uncollectible accounts. From the time these amounts are billed until the time they are written off, approximately 7 months later, they are included in the accounts receivable balance and have the effect of seemingly driving up the revenue lag. Laclede has taken this impact into account, however, by including an adjustment in the study to account for the six month period of time these accounts reside in the receivable balances prior to the date the accounts are charged off as uncollectible. This method of calculation is consistent with past treatment of uncollectible accounts for ratemaking purposes (based on net write-offs). Given this and the impact of the customers who, pursuant to the special payment plans previously discussed, are paying for gas service over periods which can exceed 365 days, it is easy to understand how the average revenue lag for all sales customers would be over 32 days.

Q. Has the Commission previously reviewed the use of an accounts receivable turnover analysis as an appropriate methodology for use in a lead-lag study?

A. Yes. In Southwestern Bell Telephone Company Case No. TC-93-224, the Commission determined that a calculation of revenue lag, based on a receivable turnover analysis on all customer accounts, was more appropriate than the alternative methods submitted in that case, including methods that utilized sampling. Further, in a recent Laclede rate case, GR-99-315, the Commission again confirmed the validity of this methodology.

Q. What amount of cash working capital are you sponsoring for inclusion in rate base?

A. This amount is shown on the bottom of Schedule 2.

Q. Does this complete your testimony with respect to cash working capital?

A. Yes.

CAPITAL STRUCTURE

Q. Please explain Schedule 3.

A. Schedule 3 details the elements of Laclede Gas' capital structure and calculates certain embedded costs for the various kinds of capital used to finance the Company's provision of utility service. Page 1 of Schedule 3 shows the capital structure of Laclede Group, the parent company of Laclede Gas, at September 30, 2006. The capital structure components consist of preferred stock, common equity, and long-term debt. Schedule 3 contains the adjusted three-component capital structure. Short-term debt was not included in the capital structure because the average level of construction work in progress, underground storage inventories, propane, and deferred gas costs subject to PGA carrying costs (none of which are included in base rates) exceeded the average level of short-term debt outstanding during the test year. Page 3 of Schedule 1 shows the embedded cost of preferred stock.

Q. Are you requesting that these capital structure components be updated through March 31, 2007?

A. Yes. The Company is requesting an update of all elements of the capital structure as addressed in the testimony of Company Witness James Fallert.

ADJUSTMENTS TO UTILITY OPERATING INCOME

Q. Please explain the adjustments you are sponsoring to utility operating income.

A. I am sponsoring several adjustments to the income statement. These adjustments appear on Schedule 5 and are discussed below.

BILL REDESIGN

Q. Please describe your adjustment for the bill redesign.

A. Adjustment 4.c. adjusts for increased postage and printing costs related to the redesign of customer bills.

Q. Why is the Company changing the look of the customer bill?

A. The intention of the entirely new design of the bill is to provide customers with more meaningful information regarding the cost and character of their service. Laclede will be migrating its bill design from a postcard format to a full letter-sized envelope bill. We anticipate that the first bills under the new design will be mailed in the late spring or early summer of 2007.

INJURIES AND DAMAGES

Q. Please describe your adjustment to injuries and damages expense.

A Adjustment 5.h. adjusts injuries and damages expense to the test year actual cash payments, which have demonstrated an upward trend in the last several years. This trend is partially due to the increase in the Company's deductible, so the Company believes that the test year level of payments is most representative of costs on a going-forward basis.

Q. The Company is proposing a tariff change that will limit liability in instances where the Company enters a customer's premise to perform utility work. Won't this proposal cause the Company's liability to lessen?

A. Over time, the liability should lessen, subject to approval of the proposed tariff. However, even if approved, benefits from approval of the tariff will likely not be realized for a number of years due to the lag in time from when potentially actionable incidents occur and when lawsuits are actually filed and adjudicated.

DUES, FEES AND MISCELLANEOUS EXPENSES

Q. Please discuss your adjustment relating to club memberships and miscellaneous expenses.

A. Adjustment 5.k. transfers to "below-the-line" dues and fees related to certain organizational memberships as well as other miscellaneous expenses.

TARIFF CHANGES

Q. Are you sponsoring any other adjustments to the Income Statement?

A. Yes. Adjustment 3.a. reflects additional revenues from an increase in the rate charged for the Service Initiation Fee. The Service Initiation Fee was first approved in GR-2001-629 and has not been adjusted since then. Since that time, the cost of doing the subject inspection, required when the physical supply of gas has been interrupted, has increased. Company Witness James Fallert is also sponsoring an adjustment related to Service Initiation Fees for the reduced number of "turn-on" inspections required due to AMR implementation. Adjustment 4.e. reflects additional revenues related to the Company's proposal to increase the Reconnection Fee. This proposal is necessary to reflect the increased costs incurred to perform such services and also serves to discourage customers from seasonally leaving the system to avoid customer charges. I should note that the Reconnection Fee would have to be increased by an additional amount in the event the Commission were to adopt a rate design similar to that proposed in the Missouri Gas Energy rate case.

SURVEILLANCE MONITORING

Q. Is the company proposing an earnings sharing grid in this proceeding?

A. Yes. As discussed more fully in the testimonies of Company Witnesses Kenneth Neises and Michael Cline, Laclede is proposing a sharing grid as part of its new Regulatory Compact to ensure that customers share in any earnings that Laclede is able to achieve above its authorized return as a result of the Company's efforts to reduce costs and maximize revenues from non-traditional sources.

Q. How does the Company propose to monitor and evaluate its earnings for purposes of determining when and to what extent they should be shared with their customers?

A. On a monthly basis, Laclede supplies information to the Staff showing our rate base and income statement for the trailing 12 months. On a quarterly basis, we furnish the average common equity. Such information would be used by the Company as a basis for determining the extent to which earnings sharing is appropriate. Interim calculations of any earnings above the authorized amount, and related workpapers, would be furnished to the Staff and Office of Public Counsel on a regular basis following the end of each year of the Regulatory Compact. A final reconciliation of earnings and calculation of sharing amounts would then be provided to both parties following the end of the third year of the Regulatory Compact.

Q. Please explain Schedule GWB-1.

A. Schedule GWB-1 shows a hypothetical example of how a revenue sharing determination would be made. It simply starts with the trailing 12 month average common equity multiplied by the authorized return resulting from this proceeding. This generates an allowed income before adjustments. This allowed income is then reduced by a predetermined level of miscellaneous dues and expenses (discussed earlier in my testimony), goodwill advertising, if any, and any further disallowed items as determined in this proceeding to produce an adjusted allowed income and adjusted return on equity. It is then compared to the actual return on equity for the fiscal year. The applicable sharing percentage, if any, based on the company's proposed sharing grid will then generate the amount of earnings to be shared with our customers. This method is extremely simple to understand and implement and would not require extensive audit.

Q. How and when would the customers' share of such earnings be distributed?

A. The customers' share of such earnings would be distributed upon completion of the third year that the Regulatory Compact is in effect based on an analysis of the Company's earnings over that period. In the event the Regulatory Compact remains in effect after that date, a determination of earnings sharing would be made on an annual basis thereafter, with any customer share being distributed upon the completion of each annual period through a credit on the customer's bill.

Q. If the Commission does not approve the earnings sharing aspects of the Regulatory Compact as proposed in the testimonies of Company witnesses Neises and Cline, would this earnings surveillance you are proposing be necessary?

A. No.

RATE OF RETURN

Q. Have you prepared an exhibit showing the calculation of the rate of return the Company is seeking on its original cost rate base?

A. Yes. Schedule 7 demonstrates the calculation of Laclede's rate of return to be 9.30% at proposed rate levels based on an original cost rate base. This overall rate of return calculation is based on, among other things, an 11.75% return on common equity.

Q. What is the cost of common equity recommended by Company Witness D. A. Murry?

A. Dr. Murry is recommending a return on equity range of 11.5% - 12%.

Q. On this exhibit, you have used capitalization ratios derived from Page 1 of Schedule 3. What do these ratios represent?

A. These capitalization ratios represent the ratios found in The Laclede Group's capital structure at September 30, 2006.

Q. Does this complete your direct testimony?

A. Yes.

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-2007-0___

AFFIDAVIT

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

Glenn W. Buck, of lawful age, being first duly sworn, deposes and states:

1. My name is Glenn W. Buck. My business address is 720 Olive Street, St. Louis, Missouri 63101; and I am Manager-Financial Services of Laclede Gas Company.

2. Attached hereto and made a part hereof for all purposes is my direct testimony, on behalf of Laclede Gas Company.

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

Glenn W Buck

Glenn W. Buck

Subscribed and sworn to before me this 30th day of November, 2006.

Karen A. Zurliene

Notary Public

KAREN A. ZURLIENE
NOTARY PUBLIC - NOTARY SEAL
STATE OF MISSOURI, CITY OF ST. LOUIS
MY COMMISSION EXPIRES FEBRUARY 18, 2008

Illustration of Calculation of Earnings Sharing
Per Report Supplied to the Financial Analysis Department

12 Month Average Equity	340,636
Allowed Return	11.75%
Allowed Income Before Adjustments	40,025
Illustrative Adjustments	
Misc. Dues and Expenses	(369)
Goodwill Advertising	(92)
Equity Compensation	(582)
Incentive Compensation	(345)
Bonus Plan	(600)
Adjusted Allowed Income	38,037
Adjusted Allowed Return on Equity	11.17%
Actual Income	41,000
12 Month Average Equity	340,636
Actual Return on Equity	12.04%
Percentage Above Authorized Adjusted Return	0.87%
Sharing Percentage based on Sharing Grid	50%
Amount to Share with Customers	1,482