Exhibit No.:	
Issue:	Interim Rates
Witness:	Glenn W. Buck
Type of Exhibit:	Direct Testimony
Sponsoring Party:	Laclede Gas Company
Case No.:	ER-2010-0036
Date Testimony Prepared:	November 3, 2009

ER-2010-0036

DIRECT TESTIMONY

OF

GLENN W. BUCK

LACLEDE GAS COMPANY

NOVEMBER 3, 2009

TABLE OF CONTENTS

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, GR-2005-0284, GR-2007-0208, and GT-2009-0026. 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 address the request for interim rate relief submitted by AmerenUE in this proceeding. Specifically, I will address why the primary problem identified by AmerenUE in support of its request for interim rates – namely, the failure to obtain timely recovery of needed utility investments in Missouri – is a serious one that affects other utilities as well, including Laclede. Second, I will discuss some potential alternatives that the Commission could employ to partially mitigate this problem; one of which, of course, is the interim rate proposal made by AmerenUE in this proceeding.

Need for More Timely Recovery of Utility Investments

Q. What is the basis for your observation that the failure to obtain timely recovery of needed utility investments in Missouri is a serious one that affects utilities throughout the state?

A. To maintain utility service on a safe and reliable basis, utilities have to make significant investments in plant and incur significant operating expenses. For example, Laclede alone invests up to $50 million a year in replacing, retrofitting and expanding the nearly 16,000 miles of pipe through which we deliver natural gas to our customers. We incur hundreds of millions of dollars more to purchase the gas, pay the utility workers and maintain the facilities necessary to operate the distribution system and ensure that service will always be available when our customers need it. Increases and decreases in some of these costs are recoverable through adjustment mechanisms like the Purchased Gas Adjustment (PGA) Clause and the Infrastructure System Replacement Surcharge (ISRS) mechanism; a circumstance that helps to reduce if not completely eliminate over and under recoveries of the particular costs that are covered by these mechanisms. Increases and decreases in other costs, however, are typically recovered only in a general rate case proceeding.

A. Why does limiting the recovery of some costs to a general rate case proceeding create a problem?

Q. Because there is always a lag between the time costs are incurred and when they are ultimately recognized in rates. This lag, often referred to as "regulatory lag," is exacerbated by several factors in Missouri, including the Commission's use of an historic (as opposed to future) test year for measuring the costs that may be reflected in base rates and the rather long period of time (up to eleven months or more) between when that measurement occurs and rate relief is provided.

A. Does this lag between cost incurrence and cost recovery have the same financial effects regardless of the kind of cost involved?

Q. The impact of regulatory lag can vary significantly depending on the nature of the cost at issue. For volatile costs that are unpredictable in nature, the delay in rate recognition can result in substantial under or over-recoveries – a factor that has led to the establishment of adjustment clauses to ensure that rates will more accurately reflect the cost of providing utility service. Other operating costs tend to increase in a fairly predictable manner due to inflationary impacts. For instance, while the date and percent of increases in union wage rates embedded in existing labor contracts are known, they are not reflected in rates until such time as a general rate case is completed. While these types of operating costs cause significant regulatory lag issues that also could properly be addressed by interim rates that are subject to refund, we will limit our comments here to the kind of capital costs that form the basis of AmerenUE's interim rate request in this case.

Q. Please explain the impact of regulatory lag in relation to the recovery of capital investments utilities make in their systems.

A. Because of the way capital investments are accounted for and included in rates, regulatory lag practically ensures that utility shareholders will never achieve a full return of and return on their investment. When utility plant is placed in service, there is no immediate adjustment made to rates to ensure that investors begin to earn a return on the investment in such plant. Nor are rates adjusted to provide immediate recovery of the associated depreciation expense. As a consequence, a part of this investment is <u>never</u> recovered by the utility.

Q. Can you provide an example of how this occurs?

A. Yes. Assume that a utility invests a million dollars in a main, transformer or other item of plant. Assume further that the plant item has a twenty year service life, a 5% depreciation rate, and that there is a gap of one year between when the plant is placed in service and when rates are ultimately adjusted to start providing a return of and return on the investment. Because of that one year gap, the utility will never recover the approximately $50,000 in depreciation expense that accrued during the first year the plant was in service. Nor will the utility earn a return on the plant during this period, a loss that amounts to approximately $100,000, assuming a modest 10% return on the one million dollar investment. In short, this portion of the shareholder's return on and return of its investment simply evaporates.

Q. But won't the shareholder recoup this foregone return if there is a lag in rate recognition at the time the plant is taken out of service?

A. Not really. Assume that the same million dollar utility plant investment described above ends its 20 year useful life a year before a rate change is made to reflect the fact that it is no longer in service. It is true that the utility will be able to recover in year 21 the same $50,000 in depreciation expense that it had to forego in year 1. Due to the inevitable effects of inflation, however, the $50,000 in year 21 will be worth only a fraction of the $50,000 that was foregone in year 1. This disparate impact is even more pronounced when it comes to the return earned on the investment. In year 1, the foregone return would be calculated based on an undepreciated investment value approaching $1 million. At a 10% authorized return, this would equate to a foregone return of roughly $100,000 if rate recognition is delayed for a year or so. In year 21, however, the return would be based on the depreciated value of the asset which, by that time, would hover around $50,000 (assuming that rates were last set when the $1 million asset had been 95% depreciated). As a consequence, the same 10% authorized return would produce only about $5,000 in "extra" earnings in year 21 compared to the $100,000 in earnings that were foregone in year 1. This wide discrepancy would be further exacerbated, of course, by the lower present value of dollars in year 21 compared to year 1.

Q. Are there any factors that operate to offset this asymmetrical impact of regulatory lag on utility investments?

A. Theoretically, there could be some modest offsets due to tax effects, new revenues and occasional declines in other costs. But given the generally inclining cost structure that Laclede has faced for decades and that nearly all utilities confront today, there is really nothing significant enough to counterbalance the inexorable impact of regulatory lag on capital investments. Indeed, even ratemaking mechanisms like the ISRS, helpful as they are, only serve to mitigate rather than eliminate these asymmetrical effects.

Q. Why is it important to develop measures that can help rectify this problem?

A. There are several considerations that warrant action. First, one of the few unchallenged axioms of fair and effective utility regulation is that utilities should be given a reasonable opportunity to earn a fair return on and return of their shareholders' investments. Preserving a system that is designed to ensure that shareholders can never fully recover their investments is flatly inconsistent with this fundamental ratemaking principle. Second, the chronic and seemingly automatic under-recovery of investments in needed utility plant provides utilities with a strong disincentive to make such investments. If banks were to market their CD's under terms which specified that no interest would be allowed to accumulate until 3, 6 or 12 months after the CD had been purchased, it is doubtful they would find many takers. The same considerations apply to a ratemaking system, like the current one, that seeks investments while deferring for significant periods of time any return on or return of the investment. Finally, such a chronic under-recovery of utility investments can, in the end, only increase the cost of attracting capital, an added cost that must be paid for in any event by utility customers.

Potential Measures for Addressing Delay in Recognizing Investments

Q. Are there measures that the Commission can take to address the asymmetrical impacts of regulatory lag on the recovery of utility investments?

A. Yes. On a shorter term basis, the Commission could take several steps to address this problem. One, of course, would be to adopt the proposal submitted by AmerenUE in this case to implement interim rates so that it can at least begin earning a return of and return on the hundreds of millions of dollars in investments that have already been made by the utility and that are being employed today to provide utility service to its customers. The interim rates proposed by AmerenUE represent a very modest portion of the overall rate increase it has proposed. They are designed to recover only the costs already incurred to install utility plant that is unquestionably being used today to provide utility service. Moreover, even in the unlikely event such rates turn out to have been excessive, ratepayers are completely protected by the Company's proposal to provide refunds, with interest. Given these considerations, it is difficult to understand why anyone would take the position that the Commission should not exercise its discretion to place these interim rates in effect, particularly when the alternative is to simply extend for another 5 or 6 months the asymmetrical denial of any return of or on investments that have already been made.

Q. Are there other measures that the Commission could take over the short-term?

A. Another alternative would be to grant the Company accounting authorization to immediately book both carrying costs and depreciation expense on these investments for ultimate inclusion in any revenue requirement amount approved in this case. Such accounting authorizations have been repeatedly used by the Commission in the past to permit recovery of safety-related and other investments from the time they are placed in service. Permitting AmerenUE to defer and book the incremental amount underlying its interim rate proposal would also provide at least a partial solution to the problem, albeit a less preferable one since it provides no immediate cash resources.

Q. Are there also measures that the Commission could take over the longer-term?

A. Yes. Over the longer-term, I believe the Commission and all stakeholders in the regulatory process could make greater use of the tremendous technological advancements that have been made in accumulating, accessing and managing information to streamline the auditing process and permit more rapid recognition of both increases and decreases in the cost of providing utility service through a continuous updating of "all relevant factors." For now, however, the Commission can and should move forward to address this problem by approving the interim rate proposal made by AmerenUE in this case, or, failing that, the deferral proposal I described above.

Q. Does this complete your direct testimony?

A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION
STATE OF MISSOURI

In the Matter of Union Electric Company d/b/a AmerenUE for Authority to File Tariffs Increasing Rates for Electric Service Provided to Customers in the Company's Missouri Service Area	))))	**Case No. ER-2010-0036**

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 Buck

Glenn W. Buck

Subscribed and sworn to before me this 3rd day of November, 2009.

Karen A. Zurliene

Notary Public

KAREN A. ZURLIENE
Notary Public - Notary Seal
STATE OF MISSOURI
St. Louis City
My Commission Expires: Feb. 18, 2012
Commission # 08382873