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-2010-**
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LACLEDE GAS COMPANY

GR-2010-

DIRECT TESTIMONY

OF

GLENN W. BUCK

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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, GR-2005-0284, GR-2007-0208, GT-2009-0026, and ER-2010-0036. 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 propane expenses, postal rates, energy efficiency advertising, communication equipment, property and liability insurance, injuries and damages, dues, fees and other miscellaneous expenses, line of credit fees, and elimination of the non-recurring gain on the sale of a company asset;
4. The Company's recommended rate of return and return on equity as reflected in the proposed tariffs; and,
5. A discussion on alternatives to mitigate regulatory lag.

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.

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-2007-0208. There is one exception. The expense lag for the interest offset 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 Laclede has not experienced any material changes in either the customer's average service period or our customers payment habits since that time, we propose using the same revenue lag as updated for the shortening of our "meter read to billing" by one day. This change occurred in August of 2009, and reflects an efficiency gain achieved due to the CellNet Automater Meter Reading implementation.

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 based on one less day than was used in the 2007 case to reflect the aforementioned efficiency gain.

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 more 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, 2009. The capital structure components consist of common equity and long-term debt. Schedule 3 contains the adjusted two-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, margin calls on our multi-year hedging program 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 long-term debt.

Q. Are you requesting that these capital structure components be updated through March 31, 2010?

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.

PROPANE EXPENSES

Q. Please describe your adjustment for the propane expenses.

A. Adjustment 3.a. is being made to reflect removal of certain costs from our regulated cost of service related to the Company's propane cavern.

POSTAL RATE INCREASE

Q. Please describe the next adjustment you are sponsoring.

A. Adjustment 5.c adjusts the test year for the full year effect of a postal rate increase. Postal rates from the US Postal Service were increased by approximately 4.8% on May 11, 2009.

ADVERTISING EXPENSES

Q. Please describe your adjustment to advertising expenses.

A. Adjustment 5.d is being made to reflect the effect of a new advertising campaign to be launched in fiscal 2010. The new campaign will focus primarily on encouraging conservation and efficient energy use by Laclede's customers through television and billboard advertising. This is in addition to the usual media placements regarding safety matters and advice for elderly and disabled customers.

COMMUNICATION EQUIPMENT

Q. Please describe your adjustment for the new phone switch.

A. Adjustment 5.e. adjusts for increased lease costs related to the installation of a new phone switch in our customer call center.

Q. Why did the Company install a new switch?

A. The new phone system utilizes new technology that allows our customer service representative to provide improved customer care. The switch allows for improvements such as increased IVR capabilities, automated routing of calls within the call center based on customer needs and service personnel training, and the ability to utilize caller ID in conjunction with our CIS system to have the customer account information displayed on the call representative's screen when the call gets routed. This change occurred in the summer of 2009. The increased lease cost of the new switch is being partially offset by reduced costs for certain other communications related expenses.

PROPERTY AND LIABILITY INSURANCE

Q. Please describe your adjustment to property and liability insurance.

A. Adjustment 6.h. adjusts property and liability insurance for the annualized effect of increased costs experienced in the test year. Many of the policies were renewed on April 1, 2009 at an increased cost. The remainder of the policies were renewed with a

relatively minor price increase on October 1, 2009. As the renewals were for a one-year term, the April 1, 2009 policies will have to be renegotiated before the end of the proposed update period in this proceeding, and expense reflecting the new rates should be included in the operating expenses as updated.

INJURIES AND DAMAGES

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

A. Adjustment 6.i. adjusts injuries and damages expense to a three-year average of actual cash payments, which have demonstrated no discernable trend in the last several years.

Q. Is the Company proposing a tariff change relating to the limits of its liability?

A. The Company is proposing a tariff change that would establish liability parameters for the Company under certain circumstances, including instances where the Company enters a customer's premise to perform utility work.

Q. Won't this proposal decrease the Company's injuries and damages expense?

A. The Company believes that, if the tariff is approved, such expenses should decrease over time. However, benefits from approval of the tariff will likely not be realized for a number of years due to the lag in time between 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 6.l. transfers to "below-the-line" dues and fees related to certain organizational memberships as well as other miscellaneous expenses.

LINE OF CREDIT FEES

Q. Please discuss your adjustment relating to line of credit fees.

A. Adjustment 6.m. reflects Laclede Gas' allocated portion of the increased fees paid to our bankers to secure a $50 million line of credit for Laclede Group. As is commonly known, after the credit crunch of last year, banks have been less willing to provide credit and have required higher fees to offer such lines.

Q. Why should Laclede Gas pay a portion of the parent company's fees for these lines?

A. It is appropriate for Laclede Gas to pay its allocated portion because the Laclede Group lines of credit provide another source of funds to the Gas Company to supplement its own credit lines. In fact, the only instances to date where the Group lines were utilized was on behalf of Laclede Gas to meet a short-term liquidity need.

GAIN ON DISPOSAL OF ASSETS

Q. Please discuss your next adjustment.

A. Adjustment 7.a. removes from the test year a non-recurring gain on the Shrewsbury holder station. The gain reflects the value of the land at the station, which was a "non-depreciating" asset. Therefore, the gain on that land is appropriately allocated to the Company's shareholders.

Q. Did the Company's customers receive any benefits from the sale?

A. Yes. When the holder station was originally removed from active service, there were expectations that the environmental remediation costs from taking down the holder would be substantial. As part of the sale, however, the buyer agreed to assume any remediation costs, thus allowing Laclede's customers to avoid such expenses, while undoubtedly lowering the revenue received from the sale of the property.

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 9.17% at proposed rate levels based on an original cost rate base. This overall rate of return calculation is based on, among other things, an 11.125% 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 10.75% - 11.5%.

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, 2009.

REGULATORY LAG

Q. What does the term "regulatory lag" mean?

A. In the ratemaking process there is usually a lag between the time costs are incurred by a utility 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 a 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 the date that new rates are requested and the date that rate relief is provided.

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

A. The impact of regulatory lag can vary significantly depending on the nature of the cost at issue. For volatile operating 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.

Q. What is the impact of regulatory lag on 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 their 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, regulator station 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. As stated above, at a 10% authorized return, this would equate to a foregone return of roughly $100,000 for a one-year rate recognition delay. 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 of and return on 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 of or return on 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.

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 step, of course, would be to grant the Company an 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. 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 the Company to defer and book this incremental amount would 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 and other stakeholders in the regulatory process could take a positive step in this direction by streamlining and accelerating the processing of general rate requests of the kind that the Company has submitted in this proceeding. The Company intends to work with the Commission and the other parties to this case to explore measures that would contribute to that goal.

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-2010-_____

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

Subscribed and sworn to before me this 4th day of December, 2009.

Notary Public

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