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-2002-356

AFFIDAVIT

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

Michael T. Cline, of lawful age, being first duly sworn, deposes and states:

1. My name is Michael T. Cline. My business address is 720 Olive Street, St. Louis, Missouri 63101; and I am Director of Tariff and Rate Administration for Laclede Gas Company.

2. Attached hereto and made part hereof for all purposes is my direct testimony, consisting of pages 1 to 22, inclusive, and one schedule.

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

Michael T. Cline

Subscribed and sworn to before me this 25th day of January, 2002.

Susan M. Kopp

SUSAN M. KOPP
Notary Public — Notary Seal
STATE OF MISSOURI
St. Louis County
My Commission Expires: Dec. 19, 2003

Exhibit No.:	
Issue:	**Rate Increase Allocation; Weather Mitigation Clause; Rate Design; Gas Inventory Carrying Costs; Other Ratemaking Issues**
Witness:	**Michael T. Cline**
Type of Exhibit:	**Direct Testimony**
Sponsoring Party:	**Laclede Gas Company**
Case No.:	**GR-2002-356**

LACLEDE GAS COMPANY

GR-2002-356

DIRECT TESTIMONY

OF

MICHAEL T. CLINE

January 2002

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DIRECT TESTIMONY OF MICHAEL T. CLINE

Q. Please state your name and address?

A. My name is Michael T. Cline and my business address is 720 Olive Street, St. Louis, Missouri 63101.

Q. What is your present position?

A. I am Director of Tariff and Rate Administration at Laclede Gas Company ("Laclede" or "Company").

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

A. I was promoted to my present position in August 1999. In this position I am responsible for administration of Laclede's tariff. In addition, I perform analyses pertaining to Laclede's purchased gas costs and various federal and state regulatory matters which affect Laclede.

Q. What is your educational background?

A. I graduated from St. Louis University in May 1975, with the degree of Bachelor of Science in Business Administration, majoring in economics.

Q. Please describe your experience with Laclede.

A. I joined Laclede in June 1975 and have held various positions in the Budget, Treasury, and Financial Planning departments of the Company. In 1987, I began work in areas related to many of my duties today.

Q. Have you previously submitted testimony before regulatory bodies?

A. Yes. I have testified before this Commission, the Illinois Commerce Commission and the Federal Energy Regulatory Commission.

PURPOSE OF TESTIMONY

Q. What is the purpose of your testimony in this proceeding?

A. My testimony explains the manner in which the rate schedules filed by the Company on January 25, 2002 were revised to reflect the annual revenue increase of $ 36.092 million requested by the Company in this case. In addition, I will discuss the Weather Mitigation Clause and rate design changes the Company has proposed to address the appropriate recovery of its non-gas costs. Finally, I will explain the inclusion of Gas Inventory Carrying Costs in the Company's Purchased Gas Adjustment ("PGA") clause and several other miscellaneous ratemaking issues.

ALLOCATION OF PROPOSED RATE INCREASE

Q. Please explain how Laclede's rates were adjusted to produce the additional revenues requested by Laclede.

A. The first step in determining the new rates was to allocate the $ 36.092 million revenue increase to each individual rate schedule. This was done by multiplying the non-gas revenues in each rate schedule by a uniform percentage.

Q. What do you mean by non-gas revenues?

A. Non-gas revenues represent that portion of Laclede's revenues which recover Laclede's cost of service, other than the cost of purchased gas, and were derived by multiplying the billing determinants associated with each of the Company's

rate schedules by the non-gas rates stated in Sheet Nos. 2 through 11 and Sheet No. 34 of the Company's tariff.

Q. What billing determinants did you use to allocate the proposed rate increase?

A. I used normalized determinants for the twelve months ended November 2001, consistent with the establishment of the revenue requirement in this case.

Q. How did you derive the uniform percentage increase that was applicable to the non-gas revenues of each rate schedule?

A. The percentage was derived by dividing the $ 36.092 million non-gas revenue increase requested in this proceeding by Laclede's total current normalized non-gas revenues of $ 224 million.

Q. What impact did Laclede's non-gas revenue allocation have on the total revenues produced under each rate schedule?

A. The additional revenues expressed as a percent of total normalized current revenues will vary by rate schedule as shown in Schedule MTC-1. Overall, the revenues of the Company would increase by 6.3% as a result of the Company's rate filing.

Q. Why does Laclede's proposed increase, as a percent of total revenues, vary by rate schedule?

A. Since the total gas cost per therm applicable to each individual rate schedule is identical within each of the major sales classifications (firm and interruptible), the variance by rate schedule is caused by differences in the amount of non-gas costs recovered by such rates. Although the non-gas rates for all customers are being increased by a uniform percentage, the percentage increase in total revenues

(including gas revenues) will be relatively smaller for those sales customers who purchase gas from Laclede under rate schedules with relatively lower non-gas rates. Conversely, the percentage increase in total revenues will be relatively higher for those customers who purchase gas under rate schedules with relatively higher non-gas rates.

Q. Why is the percentage increase for the LVTSS rate schedule larger than the percentage increase under most of Laclede's other rate schedules?

A. Since LVTSS customers purchase most of their gas from third parties, LVTSS revenues exclude a significant amount of gas costs which will not be billed by Laclede. In contrast, Laclede's sales rates cover all costs, including gas costs. Thus, it is axiomatic that LVTSS revenues will increase by a larger percentage than most other rates simply because the LVTSS revenue base is much smaller due to the exclusion of most gas costs. If LVTSS customers' total costs for natural gas service (Laclede transportation service as well as the cost of gas) is used as the base from which Laclede's proposed increase is measured as is the case with the other rate schedules, the percentage for LVTSS customers would be lower and more in line with the increases for customers purchasing gas from Laclede under other rate schedules.

Q. After allocating the rate increase to each rate schedule in proportion to the non-gas revenues derived from such schedule, how were the charges within each rate schedule adjusted to produce the allocated increase?

A. First, I quantified the increase in revenues the Company expects to realize from its proposed increase in customer charges. In this proceeding the Company proposes

no increased customer charges except for a $2 per month increase in its Commercial & Industrial General Service and Commercial & Industrial Seasonal service rate schedules. The remainder of the Company's proposed rate increase is recovered through increased commodity charges which will vary by rate schedule, as well as through increases in demand or reservation charges, where applicable.

Q. Why were customer charges only increased for Commercial & Industrial General Service and Commercial & Industrial Seasonal customers?

A. Later in my testimony I will explain some rate design changes the Company is proposing to make for residential customers to address the appropriate recovery of costs that are relatively fixed. Such design revises the block rate structure while maintaining the existing residential customer charge. The Company has not proposed a similar rate design change for Commercial & Industrial customers due to the large diversity in their load characteristics. However, in order to at least partially address the appropriate recovery of fixed costs for this group as well, the Company has proposed the $2 increase in the customer charge.

Q. How were the increases in commodity charges computed under the existing rate design?

A. For all rate schedules consisting of only a customer charge and a commodity charge, the increase in the commodity charge was derived by multiplying the existing commodity charge or charges by the ratio of the amount of remaining rate increase (total rate increase allocated to the rate schedule less the increased revenues produced from any increased customer charges) to the total existing non-gas commodity revenues for each rate schedule or group of rate schedules.

Q. Why do you refer to groups of rate schedules?

A. I grouped certain rate schedules in order to increase the commodity charge for each rate schedule within that group by the same per therm amount. This grouping is necessary to maintain the equivalence of the non-gas commodity charges under the seasonal air conditioning rate schedules to the non-gas commodity charges under the summer time general service rate schedules.

Q. How were the commodity charge increases computed in the Large Volume Service and LVTSS rate schedules, which schedules also include demand or reservation charges?

A. For each of these rate schedules, both the commodity charge and demand or reservation charge were increased by comparable percentages.

PROPOSED WEATHER MITIGATION CLAUSE

Q. What goals would implementation of a weather mitigation clause ("WMC") accomplish?

A. The WMC proposed by the Company would alleviate the mismatching of revenues and costs that occurs under the Company's existing rate design when the weather in the Company's service area is colder or warmer than normal. The WMC would also reduce the bill volatility that occurs as a result of such weather variations.

Q. Please explain what you mean by the mismatching of revenues and costs that occurs under the Company's existing rate design.

A. Presently, over one-half of the non-gas revenues generated by the Company under the Residential General Service ("RG") and Commercial and Industrial General

Service ("CG") rate schedules are derived from the Charge For Gas Used ("CGU"), a volumetric rate that varies based on the time of the year the gas is used (winter or summer) and the rate block into which the customer's usage falls. The balance of the RG and CG revenues are derived from the customer charge. The CGU is determined in the Company's general rate case proceedings based on normalized sales volumes, which, in turn, are based on normal weather. Because the CGU charge is volumetric in nature, the level of revenues received by the Company to recover its costs will, in turn, vary (i.e. be either higher or lower) from the level assumed when rates were established in the event it is colder or warmer than normal.

Q. Why does this result in a mismatch of costs and revenues?

Q. A mismatch results because virtually all of the Company's costs, other than the cost of gas, are fixed. As described in more detail in the testimony filed by the Company in its past rate case proceedings, these costs do not fluctuate with the weather. For example, the Company does not reduce its employee levels, physical plant, number of utility trucks or other assets used to provide service just because its sales volumes have decreased temporarily as a result of one winter season being warmer than another. As a result, under the existing rate structure, the reduction in sales volumes attributable to warmer than normal will cause the Company to under-recover its costs and fail to earn the return it was authorized in its last rate case. Likewise, an increase in sales volumes attributable to colder than normal weather will cause the Company to over-recover its costs and earn in excess of its authorized return. Stated another way, under the Company's existing

rate design, when the weather is either colder or warmer than normal, customers are needlessly forced to pay for costs that do not exist or the Company is prevented from recovering costs that have, in fact, been incurred. Implementation of the WMC proposed by the Company would significantly alleviate this mismatch of revenues and costs.

Q. You also indicated that implementation of the WMC would also serve to reduce customer bill volatility. Please explain.

A. One of the primary factors that increased customer bills during the 2000/2001 winter, particularly during the early winter period, was the impact of record cold weather in November and December on customer usage. As customers used more and more gas because of this colder than normal weather, the volumetric component of the Company's distribution rates required them to pay more in their bills. Unfortunately, this occurred at the very same time that the same cold weather factors were also driving up wholesale gas prices—a factor that also increased customer bills. As I will explain later in my testimony, the WMC could help to alleviate this situation and contribute to more stable bills by reducing the impact that weather would have on the magnitude of customers' bills. Moreover, it would likely do so at the very time that such bill mitigation is most needed. In short, the WMC represents a common sense step toward more bill stability -- a step that the Commission can take immediately, and on its own, if it believes that promoting bill stability is a worthwhile goal.

Q. Did this mismatching of revenues and costs contribute to Laclede's record percentage increase in quarterly earnings for the period ending December 31, 2000?

A. Yes, and this illustrates another important policy goal that would be served by implementing the WMC, namely addressing customer concerns as to why their bills are increasing. Almost all of the Company's earnings increase for the quarterly period ending December 31, 2000 was attributable to the impact of weather-related increases in its distribution throughput. Of particular concern to some during that period was the fact that Laclede was making "record profits" at the very time its customers' bills were increasing; implying, of course, that there was something amiss about a regulatory system that would permit such a result to occur. Adoption of the WMC submitted by the Company in this case is intended to decouple the Company's earnings from the vagaries of weather and eliminate or substantially reduce these profit concerns in the future.

Q. Would implementation of the Company's WMC also help the Company to cope with the financial impact of factors that are beyond its control?

A. Yes. And it is entirely reasonable to do so when that factor is weather. Subjecting a utility, like Laclede, to millions of dollars in earnings erosion due to warmer than normal weather furthers absolutely no principle of economic efficiency or other recognizable goal of sound ratemaking. Instead, it simply deprives the utility of any opportunity to recover the legitimate costs it has incurred to serve its customers. Moreover, it does so based on an external and unpredictable factor that the utility has no practical way to avoid and that, in the

case of inclining cost utilities like Laclede, it would be difficult to offset with cost reductions in other areas. Furthermore, it clearly weakens the Company's financial ability to perform its functions to the satisfaction of its customers and shareholders. Adoption of the WMC filed by the Company in this case would correct this obvious deficiency by helping to prevent the Company from being financially damaged on a routine basis as a result of events it is powerless to influence, let alone control.

Q. Are there any other reasons for adopting the WMC submitted by the Company?

A. Yes. Such action would do nothing more than prevent the level of revenues that the Commission found to be appropriate when setting Laclede's rates from changing solely because the weather actually experienced by the Company turns out to be different than what the Commission assumed when determining that revenue level. In other words, the Company's proposal gives force and effect to the Commission's ratemaking determinations in this area by ensuring that the Company's revenues remain true to the weather assumptions that were made by the Commission when setting the Company's rates. I do not see how it could be contrary to public policy to perpetuate in practice what the Commission has found to be just and reasonable in theory. Nor can I understand how anyone would claim that public policy is better served by maintaining an approach that, due solely to the uncontrollable vagaries of the weather, virtually guarantees a result different from what the Commission has just determined to be just and reasonable. For all of these reasons, the Company believes the need for, and merits of, its proposed weather mitigation clause, is both clear and compelling.

Q. Please explain how the Company's proposed WMC would work.

A. The WMC proposed by the Company would measure the amount by which the bills of those customers served under the Company's new Residential Space Heating RH rate schedule and existing CG rate schedule for each month during the November through April period are increased or decreased due to the impact of colder or warmer than normal weather on the amount the Company charges customers for the distribution of natural gas. Depending on the direction of the Company's PGA changes, the Company may credit or charge such amounts to customers during the remainder of the winter period at the same time the revised PGA factors would become effective in January and March. This would obviate the need for any additional or separate rate change to reflect the impact of weather. Any amounts that have not been credited or charged to customers during the winter would be reflected on customers' bills during the following winter at the same time the Company's November PGA rates become effective.

Q. You just mentioned that the Company's PGA factors may be adjusted in January and March. How can PGA changes occur at this time when your existing PGA clause provides for only two scheduled PGA changes each year, at the beginning of the winter and the beginning of the summer, and one unscheduled change during the winter?

A. The Company plans to make a filing in the near future to enable it to effectuate PGA changes in November, January, March and June.

Q. How would the Company adjust customers' bills to offset the impact of weather?

A. As described on Sheet No. 41, the Company would divide the amount to be credited or charged to customers for each WMC category by estimated sales to such customers for the period during which customers' bills would be adjusted.

Q. Why is the direction of a concurrent PGA change a consideration in the timing of a bill adjustment for weather?

A. In order to mitigate bill volatility, the Company may only credit customers' bills as a result of a colder than normal period that occurred earlier in the winter if bills were going to increase due to a PGA increase. Likewise, the Company may increase customers' bills as a result of warmer than normal weather that occurred earlier in the winter only if bills were being decreased due to a PGA decrease.

Q. When would the Company file any rate changes in connection with its WMC?

A. The Company would file the Weather Mitigation Factor ("WMF") factor with ten-business days notice at the same time the Company files its PGA changes. The Company would file a new WMF to be effective each November for any adjustment still required for the prior winter season. As stated above, the Company could also file a revised WMF to become effective in January and March, after consideration of the direction of any concurrent PGA changes. A January WMF change would reflect weather variations from normal in the preceding November through December period and a March WMF change would reflect an adjustment for any weather variations from normal for the November through February period.

Q. What level of normal degree days does the Company propose to use in the WMC?

A. The Company will use a normal of 4,718 degree days which is discussed in the testimony of Company witness G.W. Buck. However, should the Commission be receptive to the concept of the Company's proposed WMC, the Company would be agreeable to using a different normal so long as it is consistent with the design of Laclede's rates.

Q. When the Commission approves PGA changes on ten business days notice such changes are made effective on an interim basis subject to refund. Would the same type of approval apply to the WMF?

A. Yes. The Staff would review the accuracy of the Company's WMF calculation during the course of the regular ACA audit, after which it would issue its recommendation.

Q. Would any WMF be in effect between June and November?

A. No. The Company only intends to charge or credit customers for the under-recovery or over-recovery of costs during the winter period since the application of the WMF to customers' usage during this period would more likely capture the amount by which a customer's bill was reduced or increased due to weather than if the WMF was also applied to a customer's summertime usage which is generally not affected by weather.

Q. How many other companies have weather trackers?

A. According to a recent survey performed by the American Gas Association ("AGA"), as of April 2000 weather clauses were in use by approximately 40 LDCs in over 20 states and Canadian provinces. Even though some companies had such clauses as far back as 1980, the average period of time that most clauses

had been in effect at the time of that survey was in excess of eight years. Thus, these clauses appear to have gained widespread acceptance in many jurisdictions throughout North America.

Q. Do all of these clauses operate in the same manner?

A. No. There are two distinct types of weather clauses used by LDCs which the AGA classifies as either Type 1 or Type 2. A Type 1 clause is one in which the company makes a contemporaneous adjustment to customers' bills for weather variations from normal. A Type 2 weather clause, on the other hand, is one in which during the winter the Company records and accumulates in a deferred revenue account the differences due to weather variations from normal and, similar to the operation of an Actual Cost Adjustment under a PGA clause, increases or decreases customers' bills over a subsequent amortization period to offset such weather variation. The WMC proposed by the Company is modeled after the Type 2 weather clause but has been enhanced to allow for bill adjustments during the winter. While it does not make contemporaneous bill adjustments each month as a Type 1 would, it allows for such adjustments to be implemented twice during the winter, in January and March, in order to attempt to stabilize customers' bills.

Q. Why is the Company proposing this modified Type 2 weather clause?

A. The major advantage of the Type 2 clause is that the Company would file rates with the Commission, like it does with gas cost changes, before such rates are applied to customers' bills whereas with the Type 1 clause the company relies on the use of a formula in its tariff that, in effect, adjust customers' bills after the

customers' consumption has already occurred. At the same time, however, the Company has incorporated into its proposed WMC some degree of contemporaneous weather mitigation which can be advantageous to customers.

Q. Please explain.

A. As I previously discussed, if the events of winter of 2000-2001 demonstrated anything, it was that weather-related increases in usage, when combined with rising wholesale gas prices, can have a dramatic and, for some customers, truly challenging impact on their bills for natural gas service. The Type 2 WMC as proposed by the Company would at least partially mitigate the upward increases in customers' bills by addressing the usage side of the equation as it applies to the Company's distribution costs in a reasonably timely manner. Specifically, by ensuring that the amounts collected by the Company through the distribution component of its rates will not increase merely because the weather happens to be colder than normal, a WMC, such as the one proposed by the Company in this case, would have reduced the amounts that customers had to pay for gas service during the kind of record cold weather that was experienced in November and December 2000. Moreover, such a clause would have provided such relief at the same time bills had increased as a result of the higher wholesale gas prices and the increased consumption of the commodity itself that typically accompanies colder weather. While it may only be a modest step in the direction of greater bill stability, what could possibly be wrong with a mechanism that does nothing more than ease the financial burden on utility customers during the same winter when such relief is most needed?

Q. What would have happened to customers' bills this winter in light of the extremely warm November and December we experienced in 2001?

A. The Company's under-recovery of costs in these two months alone amounted to nearly $5 million dollars. If the Company's proposed WMC would have been in effect, the Company could have recouped that loss through a relatively modest increase in its Weather Mitigation Factors during the months of January and February that, when combined with a reduction in the Company's PGA rates, would have still resulted in a net reduction in the typical residential customer's bill.

RATE DESIGN CHANGES

Q. Please explain the rate design changes proposed by the Company.

A. The Company has developed a revised rate structure for customers billed under its RG rate schedule that, if approved, would represent an improvement over the existing rate structure in terms of recovery of the Company's relatively fixed non-gas costs.

Q. Please explain.

A. Specifically, for residential customers currently served under the RG rate schedule, the Company proposes to reinstate a separate rate schedule for customers who do not use gas for space heating. Such a rate schedule was in place prior to August 1990 and since that time, even though space heating and non-space heating residential customers have been billed under the same rate schedule, the Company has continued to separately identify such customers within its billing system. Since such customers are not as weather sensitive as

space heating customers, a flat CGU would apply to their usage on a year-round basis. However, for residential space heating customers during the winter months, the CGU for the first rate block (first 65 therms) would be increased while the CGU for the second rate block (over 65 therms) would be reduced. Since, as discussed above, the Company's distribution costs are virtually fixed, it follows that more of those costs should be recovered in a rate block that is not particularly weather sensitive so that the amounts paid by customers to cover the Company's distribution costs are relatively stable from one winter season to the next.

Q. Would the revised block rate structure discussed above mitigate all of the effects of weather variations from normal?

A. No, it would only adjust for approximately one-third of the Company's weather variations from normal for residential customers. As a result, the implementation of the Company's proposed WMC is still necessary to ensure adequate recovery of the fixed non-gas costs to which the Company is entitled.

RATE IMPACT

Q. What impact would the general rate increase proposed by the Company in this proceeding have on the bill of a typical residential heating customer?

A. The annual gas bill of a typical residential heating customer would increase by approximately 6.8%. This translates into an average monthly increase of approximately $4.40, or $53 on an annual basis.

GAS INVENTORY CARRYING COSTS

Q. Please describe the ratemaking change the Company is proposing with respect to gas inventory carrying costs.

A. Gas inventory carrying costs have traditionally been recovered through the non-gas rates established in the Company's general rate case proceedings. In this proceeding, however, the Company proposes to recover such costs from its customers through the Company's PGA clause.

Q. What do you mean by gas inventory carrying costs?

A. Such costs reflect the Company's cost to finance its investment in the various types of gas inventories necessary to meet its customers' wintertime gas requirements. As set forth on Sheet No. 28-h, such inventories consist of Non-Current and Current Gas Stored Underground (Account Nos. 117 and 164) for both Company-owned storage and leased storage and L.P. Gas Stock (Account No. 154). These inventories have traditionally been included in the Company's rate base.

Q. Why is the Company proposing to use the PGA clause to recover these costs?

A. These costs are directly attributable to the Company's procurement of the natural gas and propane supplies that are already recovered through the PGA. Due to the volatility of the prices applicable to these supplies, it is unlikely that any price estimate established in a rate case would appropriately reflect the amount of Company funds required to carry these inventories. The inclusion of gas inventory carrying costs in the Company's PGA clause would ensure that the

amount of such costs recovered from customers corresponds to the Company's actual investment in these inventories, no more and no less.

Q. Please explain how the PGA treatment of gas inventory carrying costs would work.

A. A Gas Inventory Carrying Cost Recovery ("GICCR") component would be added to the calculation of the Company's Current PGA based on an estimate of the carrying costs on the average gas inventory balances established in the resolution of the Company's most recent general rate case

Q. Mr. Cline, you just testified that it is unlikely that gas inventory carrying costs can be accurately projected in a general rate case. How would the Company's PGA treatment of carrying costs represent an improvement?

A. As with the recovery of the Company's purchased gas costs, the Company would initially charge its customers for the recovery of carrying costs based on a projection of such costs that would be included in the Company's Current PGA factors. Any differences between such projection and the Company's actual accrual of the recovery of carrying costs would be adjusted pursuant to the Actual Cost Adjustment accounting described in Sheet No. 28-h.

RATE ADJUSTMENTS UPON RESOLUTION OF CASE

Q. What rate adjustments should be made upon resolution of the case?

A. Two adjustments are in order. First, the Company's PGA factors should be adjusted to reflect the normalized throughput in this proceeding. Second, the Company's non-gas rates should be adjusted for any potential rate switching.

Q. Please explain the PGA adjustment.

A. The Company's Current PGA rates include certain costs recovery components that are derived by dividing the Company's fixed gas costs by normalized volumes. Presently, such cost recovery components are based on the settlement volumes determined in Case No. GR-96-193. In order to avoid the temporary over or under recovery of fixed gas costs that would result when PGA rates are applied to volumes different from those volumes used to establish PGA rates, such cost recovery components should be adjusted to reflect the normalized volumes established in the Company's latest rate case.

Q. Why is such over or under recovery only temporary?

A. Absent the change in PGA rate, the over or under recovery is corrected through the Deferred Purchased Gas Costs Account provisions of the Company's PGA clause.

Q. What will happen when PGA rates are adjusted?

A. By adjusting the PGA rates whenever new normalized volumes are established in a general rate proceeding, the Company can minimize the potential over or under recovery of gas costs that would otherwise occur in the short term due to the change in the Company's throughput.

Q. Please explain the need for a rate switching adjustment.

A. Before the Company's rates in this proceeding are finally established, it is important that the effect of potential rate switching be reflected in the Company's rates.

Q. What do you mean by rate switching?

A. Some customers qualify for gas service under more than one rate schedule, most notably commercial and industrial customers who are large enough to qualify for the Company's Large Volume Service rate but who otherwise would be billed under the Commercial & Industrial General Service rate schedule. Presumably such customers choose to be billed under the rate schedule that results in the lowest cost consistent with the type of service the customer desires. However, it is possible that, after making the rate adjustments ordered or agreed to in this proceeding, some customers would receive a lower overall gas bill if they switch to a different rate schedule.

Q. Why do the Company's rates need to be adjusted to reflect rate switching?

A. To keep the Company whole, the Company's rates must be adjusted to offset the revenue anticipated to be lost from customers who switch rates due to rate changes resulting from this proceeding.

OFF-SYSTEM SALES AND CAPACITY RELEASE REVENUES

Q. Are any changes required in the Company's tariff with respect to the treatment of off-system sales revenues and capacity release revenues in this case?

A. No changes are necessary at this time. However, it is my understanding that the Company, other Missouri LDCs, the Staff and the Office of the Public Counsel have been discussing the proper structure of gas incentive plans and, depending on the progress of those discussions or other actions by this Commission, some changes in the treatment of off-system sales revenues and capacity release revenues, including removal of such revenues from the determination of the

Company's non-gas rates, may be warranted before the conclusion of this proceeding.

Q. Does this conclude your testimony?

A. Yes, it does.

LACLEDE GAS COMPANY
ALLOCATION OF PROPOSED RATE INCREASE

Rate Schedule	% Change In Total Revenues
Residential General	6.8%
Commercial and Industrial General	4.6%
Residential Seasonal Air Conditioning	7.8%
Commercial and Industrial Seasonal Service	4.3%
Large Volume	3.8%
Interruptible	4.0%
General LP	5.4%
Vehicular Fuel	1.8%
Unmetered Gas Lights	5.2%
Large Volume Sales and Transportation	10.6%
Total	6.3%

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Q. Does this conclude your testimony?

A. Yes, it does.

LACLEDE GAS COMPANY
ALLOCATION OF PROPOSED RATE INCREASE

Rate Schedule	% Change In Total Revenues
Residential General	6.8%
Commercial and Industrial General	4.6%
Residential Seasonal Air Conditioning	7.8%
Commercial and Industrial Seasonal Service	4.3%
Large Volume	3.8%
Interruptible	4.0%
General LP	5.4%
Vehicular Fuel	1.8%
Unmetered Gas Lights	5.2%
Large Volume Sales and Transportation	10.6%
Total	6.3%