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Witness:	**Michael T. Cline**
Type of Exhibit:	**Rebuttal Testimony**
Sponsoring Party:	**Laclede Gas Company**
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LACLEDE GAS COMPANY

GR-2010-0171

REBUTTAL TESTIMONY

OF

MICHAEL T. CLINE

TABLE OF CONTENTS

REBUTTAL 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. Are you the same Michael T. Cline who filed direct testimony in this proceeding?

A. Yes, I am.

PURPOSE OF TESTIMONY

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

A. The purpose of my testimony is to rebut the direct testimony of various witnesses from the MPSC Staff, the Office of the Public Counsel and the Missouri Industrial Energy Consumers pertaining to propone, rate design, the cost allocation manual and several other issues.

BELOW THE LINE TREATMENT OF PROPANE CAVERN

Q. On page 14, lines 8 through 9 of the direct testimony of Staff witness Cassidy, the Staff rejected the adjustments the Company made to move its propane operation below the line presumably because the Staff believes that all of the Company's propane resources are needed for utility service. Do you agree?

A. No, I do not agree with Staff. In planning for the last heating season of 2009/2010, the Company had already cut by over 50% the amount of propane it determined it needed to serve the peaking needs of its customers. I would note that Company witness Robert Glosier has testified in his rebuttal testimony that the propane that was exchanged with and ultimately sold to another party in

December 2009 was not replaced because design winter conditions could be met even with the propane shortfall.

Q. What led to this significant reduction in reliance on propane?

A. The peak requirements of the Company's customers have declined from what they used to be when the Company planned for the possible use of a full cavern of propane.

Q. Is this a recent development?

A. While the Company has suspected for some time during heating seasons that have been generally warmer than normal that its peak sendouts had declined, it was reluctant to plan for such a change until it could validate this reduction during periods of sufficiently cold weather.

Q. Does that mean that there have been periods of cold weather recently that the Company believed provided sufficient proof that peak sendout had declined enough to warrant a change in the planned utilization of propane?

A. Yes. December 2008 through January 2009 provided a period of cold weather that provided sufficient proof that peak sendout has declined enough to warrant a change in the planned utilization of propane. The months of December 2009 through February 2010 indicate even further decline.

Q. Are you surprised by the Staff's recommendation that opposes the Company's proposed below the line treatment?

A. Yes, in a sense I am surprised since one important outcome of the Company's proposal should be a reduction in costs that will be borne by ratepayers which I would expect Staff to support so long as reliability is not sacrificed.

Q. Please explain.

A. The Company built its propane cavern nearly forty years ago in an entirely different gas supply environment in which gas supplies were scarce and constrained in some sections of the country, and only one pipeline served Laclede's market. Since that time, the industry has undergone radical transformations with the deregulation of natural gas prices and the restructuring of interstate pipelines. Also, two other pipelines now deliver gas into the St. Louis market, and today, not only have the Company's peak requirements declined, but gas supplies are plentiful.

Q. What does all of this mean for the propane cavern?

A. The Company last used a full cavern of propane in the 1978-79 winter. Since that time the propane cavern has been used only sparingly, averaging only 13% of the cavern's capacity. Under these vastly changed circumstances from what existed when the cavern was built, in the Company's view, it was its obligation to re-evaluate its continued reliance on a full cavern of propane.

Q. You mentioned reduced costs to customers. Can you be more specific?

A. Up until October 2005, the Company's propane inventory was included in rate base which, assuming a $20 million inventory, would have amounted to over $2 million in carrying costs, at the Company's overall weighted cost of capital, being recovered from the Company's customers each year through base rates.

Q. What changed in October 2005?

A. Since that time, carrying costs associated with the propane inventory have been recovered through the Company's PGA rates based on a much lower cost of short term debt. Notwithstanding the recently depressed short term debt rates, assuming an average short term debt rate over the past thirty years of approximately 6%, customers would still be paying over $1 million each year to the Company just to have it hold this relatively expensive form of peak shaving.

Q. What do you mean by this relatively expensive form of peak shaving?

A. With few if any exceptions, propane historically has been, and continues to be, more expensive on a Btu basis than natural gas. For example, even at the cost of the older propane in the cavern today ($7.20 per MMBtu), propane is more expensive than natural gas today ($4 per MMBtu.) The wholesale market price of propane today is higher yet at $13.00 per MMBtu. That's why it's prudent for the Company to begin to take steps now to reduce its reliance on propane to the extent feasible.

Q. Are there any other costs customers would save through the Company's reduced reliance on propane?

A. Yes, as I stated in the Company's response to Staff Data Request Nos. 136, 137.3 and 137.4, customers would realize savings associated with the depreciation and return on the cavern net plant, as well as the operations and maintenance expense for that portion of the cavern no longer needed to serve the Company's customers.

Q. Are there other reasons for reducing the Company's reliance on propane?

A. As with any investment or property any business owns, the Company hopes to make more efficient use of this asset which has been largely idle over the years. To that end, the Company believes that its proposal will permit it to use the cavern more extensively for other purposes, a result that will hopefully allow it to derive greater economic value from this asset, while still ensuring that the peaking needs of its utility customers are met.

Q. Assuming that the Commission agrees that it would be prudent for the Company to rely on less propane and look for ways to make better use of the propane cavern, why would it be necessary for the Company to move the cavern operation below the line?

A. It's unrealistic to expect the Company to continue to operate under the present regulatory framework and simultaneously attempt to optimize its use of the cavern. Even though the Company has entered into transactions over the years to make fuller use of the cavern, the nature of the propane market in the St. Louis area, along with the relatively small size of the Company in relation to other market players, is such that it is difficult to guarantee revenue streams to ratepayers as a result of these transactions. Couple that uncertainty with the paltry compensation the Company receives today through short term carrying costs for its management of the propane cavern, and the Company is left with an unsuitable economic arrangement. The far more rational arrangement which the Company has proposed in this proceeding is for the entire propane cavern to be removed from the Company's utility operations so that the Company would be at risk for maintaining and hopefully even increasing the utilization of its propane cavern, while at the same time achieving cost savings for its customers and assuring continued supply reliability.

Q. But hasn't the Staff already questioned on pages 26-34 of the Cost of Service Report the Company's ability to meet its customers' requirements without retention of all of its peaking resources for utility operations?

A. The Staff has made that assertion and it is unfounded. The Staff appears to suggest that there is an inconsistency between the Company's reduced reliance on propane in the Company's latest reliability report and a finding by the Company's underground storage consultant, NITEC, in its April 2010 report that another 1 Bcf of gas is needed in the Company's Lange underground natural gas storage field for the Company to be able to withdraw adequate natural gas volumes during a design heating season. As the Company stated in its response to Staff Data Request No. 158.2 part k, the Company intends to adopt the NITEC recommendations and eventually add another 1 Bcf to storage. In any event, if the Staff is challenging the Company's gas supply capabilities, the appropriate forum in which to address this is in a future ACA proceeding, not the Company's general rate case. Finally, if supply reliability truly is the obstacle that is preventing Staff from endorsing the Company's proposal for below the line treatment of the cavern, the Commission should understand that even with such treatment the Company, with its continued obligation to serve its customers, still controls the over 23 million gallons of propane remaining in the cavern which, until any other arrangement is made, would be available to serve customers' peaking needs. As with any other gas supply arrangement, the Company recognizes that it must be prepared to defend the adequacy and cost of any resources it uses to fulfill its gas supply obligation to customers.

Q. Even though Ms. Jenkins recommends that there be no change in the regulatory treatment of the propane cavern, is Commission approval even required for the Company to make that change?

A. No, it is not. The propane cavern itself has never been under the jurisdiction of the Commission. Thus, the Company is free to move that operation below the line so long as service to ratepayers is not diminished.

Q. How can you say that the cavern has never been under the jurisdiction of the Commission?

A Fundamentally, the distribution, transportation, storage or sale of propane has never been subject to regulation by the Commission. The propane commodity itself along with the related network of oil product pipelines and storage facilities have had a different regulatory history compared to these same components in the natural gas industry. Furthermore, the production and distribution of propane have always been subject to a different set of market forces than natural gas.

Q. But don’t you agree that the Company used propane as a substitute for natural gas in order to stretch available natural gas supplies farther to serve utility customers?

A. Yes, but the Company’s propane assets didn’t become jurisdictional by virtue of the Company utilizing a supplemental energy source. Moreover, to the extent that propane is a substitute for natural gas supplies, it becomes even more apparent that the Company’s use of this asset is not subject to the Commission’s jurisdiction.

Q. Why is that?

A. The Commission has consistently recognized over the years that it is utility management rather than the Commission that has the duty and authority to determine what particular mix of gas supply or gas supply-related resources should be used to meet the system requirements of jurisdictional customers. In fact, the Commission has specifically rejected the argument that Commission approval is required for an LDC to enter into, terminate or otherwise use such resources in the way it believes is appropriate. Instead, the Commission's sole focus is on ensuring that utility customers receive reliable service at just and reasonable prices, with the LDC responsible for determining how that is done, subject to prudence reviews. Accordingly, while the Staff is undoubtedly free to evaluate such issues in the appropriate ACA proceeding to ensure that Laclede has satisfied these requirements, it is not entitled to dictate what assets Laclede uses to achieve that objective. Since the propane cavern, and the inventories it holds, is simply another of these interchangeable assets, it falls within the prerogative of utility management to determine how that asset will be used.

Q. Please summarize your rebuttal to Staff in this area.

A. The Commission should be encouraging, not thwarting, utilities in their attempts to look for ways to cut costs and change outmoded ways of doing business as is the case with the Company's proposal to move its propane cavern operation below the line.

Q. On pages 13-15 of the direct testimony of Missouri Industrial Energy Consumers ("MIEC") witness Meyer, MIEC also opposes the Company's proposal to move its propane operation below the line on the grounds that there was not sufficient justification for such a move in my direct testimony. What is your response?

A. My testimony above in response to Staff witness Cassidy regarding the same issue provides all of the justification Mr. Meyer should need.

PROPANE SALE

Q. On page 14, lines 4 through 6 of the direct testimony of Staff witness Cassidy, the Staff proposed to increase test year revenues associated with a propane sale that Laclede made in December 2009. Do you agree with the Staff's adjustment?

A. No, I do not agree with Staff for several reasons. First, the PGA/ACA process, rather than a base rate proceeding, provides the appropriate forum for addressing the ratemaking treatment of this issue. Under Laclede's PGA/ACA tariffs, the costs associated with the Company's use of propane isn't reflected in the Company's rates until the ACA recovery year following the period when the Company actually vaporizes propane to meet system requirements. Moreover, those same tariffs also specify which of Laclede's various customer classes are and are not responsible for paying for any propane used by the Company. Accordingly, to the extent the Staff or any other party has an issue with this transaction, the appropriate place to deal with it is in an ACA proceeding in which the cost consequences of this sale, if any, are passed through to customers as propane is vaporized to meet system requirements. Second, ratepayers are not entitled to the proceeds from the sale of propane that Laclede owned. Third, this sale, which Laclede did not solicit and attempted to avoid, as explained in the rebuttal testimony of Company witness Glosier, was the first of its kind by

Laclede and represented an extraordinary and non-recurring transaction that should not be considered for purposes of establishing future rates.

Q. What problems arise if one tries to deal with this issue in a base rate case proceeding instead?

A. In addition to being inconsistent with the Company's tariffs, such an approach raises a score of problematic issues. For example, handling the issue in a rate case proceeding could fundamentally change cost responsibility by customer class compared to that which is contemplated by the Company's PGA/ACA tariffs. Rather than have propane costs allocated solely to sales customers, together with any offsets that might be appropriate in the very unlikely event one were to establish that the Company had somehow been imprudent to the detriment of its customers in conducting its propane activities, imputation of propane revenues in this case could allocate significant revenues to transportation customers who pay little or none of these costs. Moreover, imputing revenues in this case would effectively penalize the Company for a propane transaction outside of the ACA process even though there is absolutely no evidence of the two things that under Missouri law must be demonstrated to support an adjustment to gas costs, namely an act of imprudence and a detrimental impact on customers as a result of that act.

Q. Has Staff or any other party made any allegation that Laclede was imprudent in how it handled this situation?

A. No.

Q. Has Staff or any other party made an allegation that ratepayers have been harmed as a result of this sale?

A. No.

Q. If one were to assume, for the sake of argument, that the imputation of these propane revenues was not directly contrary to Laclede's tariff, would ratepayers have the right to share in these revenues by virtue of the fact that they have paid something in the Company's PGA rates to cover the cost of financing Laclede's propane inventories?

A. No. Simply stated, consistent with long-standing regulatory precedent that has even been recently affirmed by this Commission, paying rates for a service that covers the return *of* an asset and a return *on* an asset does not confer ownership of the asset to the ratepayer. The utility is the entity that expended the funds initially to purchase the asset and has title to the asset. This is the case with any asset purchased by the utility, whether it is a purchase of pipe to distribute gas to a customer's premise or whether it is inventory.

Q. What is this long-standing regulatory precedent to which you refer?

A. In 1926, in *Board of Pub. Utility Com'rs v. New York Telephone Co.*, the Supreme Court stated:

> [c]ustomers pay for service, not for the property used to render it. … By paying bills for service they do not acquire any interest, legal or equitable, in the property used for their convenience or in the funds of the company…

Q. And when did this Commission affirm the rationale in the Supreme Court decision?

A. The Commission cited the Supreme Court ruling in its May 22, 2007 Report and Order in Ameren Case No. ER-2007-0002, in its discussion of the proper treatment of costs in connection with Electric Energy, Inc. and the Joppa Power Plant. Earlier in that same Order the Commission stated:

> The purchase of power does not give the purchaser an ownership interest in the supplier of power any more than the purchase of a new car gives the purchaser an ownership interest in Ford Motor Company.

The same can be said for Laclede customers who have paid rates over the years which included some recovery of carrying costs associated with Laclede's investment in propane inventory. Customers received value for the service they purchased, namely the Company's stand-by ability to vaporize propane that it purchased and stored for customers in the event it was needed to meet customers' peak requirements. Yet the payment for that service did not give customers ownership of such inventories so that they could lay claim to any proceeds the Company received for this unintended sale.

Q. On pages 13-15 of the direct testimony of Missouri Industrial Energy Consumers ("MIEC") witness Meyer, MIEC suggests that the Company's retention of the entire $5.9 million of proceeds from the December 2009 sale of propane is tied to the Company's proposal for below the line rate treatment of the propane cavern. Please comment.

A. Mr. Meyer is sorely mistaken. The Company had been contemplating the possibility of below the line rate treatment of the propane cavern for years and began preparations to file the instant case in which it announced such intention before the December 2009 unsolicited sale of propane was even on the Company's radar screen.

Q. On page 14, lines 5-9, Mr. Meyer proposes to flow back the $5.9 million proceeds to ratepayers over a two year period on the basis that rates "include recovery of those propane inventories and expenses". Do you agree?

A. No, I do not agree. First, as I explain below, even though rates may include recovery of costs for carrying the propane inventories, the Company does not recover any of the inventory cost itself until the propane is vaporized and sold to its utility customers. Second, as is amply covered above, ratepayers do not take title to assets simply as a result of paying rates related to the recovery of asset costs.

Q. On page 14, lines 10-14, Mr. Meyer suggests that ratepayers are funding propane inventories. Do you agree?

A. Absolutely not. Ratepayers have not laid out any cash for the Company to acquire such inventories. The Company with its own funds acquired these assets. Funding the acquisition of those assets should not be confused with compensating the Company for the financing cost associated with the Company's outlay of such funds.

Q. Even if the Commission should agree with Mr. Meyer over the objection of the Company that the sale proceeds should be flowed-back to ratepayers over two years, how should Mr. Meyer's clients be affected?

A. As I stated above, since transportation customers pay no carrying costs associated with propane inventory, except in instances in which they purchase gas from the Company under the LVTSS rates schedule, such customers should get credited with none of the proceeds.

Q. Are there any other reasons why the treatment proposed by Staff and MIEC for this item is unreasonable and inappropriate?

A. Yes. Staff proposes to recognize the entire revenues associated with this transaction in a single year while MIEC proposes to flow it through over two years. There is absolutely no basis for either of these extreme positions, even if one were to erroneously assume that any flow-through at all was appropriate. Over the nearly forty years the Company has operated the cavern, this is the first time a transaction like this has occurred. Given this consideration, it is simply ludicrous to assume, as Staff and MIEC do, that rates should be adjusted based on the assumption that such an event will happen every year or every other year. Indeed, under typical normalization principles, the most that they could even possibly propose to include in rates would have been something equivalent to approximately $1/40^{th}$ of the actual sales revenue. Again there is absolutely no basis for recognizing any of these revenues in rates. This is simply another factor, however, that demonstrates the untenable and wholly inappropriate nature of these adjustments.

RATE DESIGN

Q. Do you agree with the Staff's recommendation that rates for residential customers be designed using a Straight Fixed Variable ("SFV") methodology?

A. Consistent with the recommendations I made in my direct testimony, the Company is willing to establish SFV rates, but the Company's preference is for continuation of the Weather Mitigation Rate Design ("WMRD") with some modifications that move the Company closer to what an SFV rate design would do.

Q. Why is WMRD preferred by the Company?

A. Although the Company commends the Staff for endorsing an approach like SFV which, assuming the Company loses no customers as a result of its implementation, addresses the Company's cost recovery concerns with respect to volumetric rates, the Company is concerned about the burden that is shifted to low use customers under such a design and the possible loss of customers who may no longer be able to justify the continued use of natural gas. One of the best features of the WMRD is that it addresses this concern by reducing the amount of costs recovered in the first block of the Company's PGA rate – a rate design component that, in turn, reduces the overall impact on low-use customers of recovering fixed costs on a fixed basis.

Q. Office of the Public Counsel ("OPC") witness Meisenheimer on the other hand, in pages 21-26 of her direct testimony, recommends a two-part residential rate design that is comprised of a $16.50 customer charge and a single non-blocked volumetric rate. What is your reaction to OPC's recommendation?

A. OPC's proposal is a giant and unnecessary step backwards in terms of addressing the Company's cost recovery in periods of warmer than normal weather or conservation. The only way the Company could conceivably abandon WMRD in favor of OPC's proposal would be to couple it with the Customer Usage Adjustment ("CUA") clause I proposed in my direct testimony. However, due to distorted messages and scare tactics that were used by opponents of the statute that authorized the MPSC to approve such a clause, regrettably the CUA irrationally has become a hot potato that leaves the industry with cost recovery solutions that are less than ideal.

Q. Why do you say that OPC's recommendation is an unnecessary step backwards?

A. As I previously indicated, the Company's WMRD already has features that address the main concerns that OPC has raised in opposition to the SVF rate design – namely its impact on low-use customers. Accordingly, OPC's approach seems to be little more than a gratuitous attempt to change the Company's existing rate design for change's sake.

Q. On page 23, lines 14-17 of her direct testimony, OPC witness Meisenheimer states that '[i]n highly competitive markets, it is common for firms to recover all costs through only usage based fees?

A. Do you agree?

Q. No, I do not. Ms. Meisenheimer did not provide any examples in support of her statement. Instead, there is evidence that the opposite is true. For example, charges for most cell phone, cable and satellite services are fixed and, even though in some instances there may be different grades or packages of service from which to choose, charges for these services truly do not fluctuate, as Ms. Meisenheimer suggests, with how much the subscriber uses the service. Moreover, if OPC was serious about relying on what companies in highly competitive markets do for purposes of fashioning regulatory solutions, there would have to be a wholesale modification to OPC's position on a wide variety of other issues, including the use of credit scoring, billing customers in advance for service, being able to collect deposits in advance of providing service, insisting that customers pay the full costs of service each and every month, and being able to discontinue service for non-payment on a much more expedited basis. I have not seen OPC provide much deference to how companies operate in highly competitive markets when it comes to these items.

Q. On page 21 of her direct testimony, Ms. Meisenheimer relies on cost causation to support her recommendation for the establishment of a uniform volumetric rate so that the Company's recovery of cost varies with customer usage. Do you agree that cost causation should be considered in designing rates for distribution service?

A. Absolutely. However, due to the relatively fixed nature of distribution costs, cost causation would appear to be better aligned with a design that provides for fixed distribution charges as opposed to the volumetric aspect of Ms. Meisenheimer's recommended design. When a customer conserves a therm of gas, the gas itself stays in the ground, is not purchased and natural gas savings are achieved and appropriately reflected as a reduced charge to the customer in the PGA portion of the bill. However, there is no corresponding reduction in distribution costs when gas is conserved. For a residential customer the same service pipe is put in the ground and the same meter installed regardless of whether the customer has an efficient gas furnace or not or decides to keep the house at 68 degrees or 60 degrees. Likewise, the same billing system and customer call center is in place regardless of whether the customer conserves or not. Those who suggest that lower distribution charges should also accompany a customer's conservation efforts and that there is some underlying cost justification, ignore the economic realities of the Company's relatively fixed distribution cost structure.

Q. Earlier you mentioned some modifications the Company proposed in conjunction with its preference to retain its WMRD. In light of the testimony of Staff and OPC, are any further comments in order?

A. In the interest of protecting low use customers and still recovering all of its distribution costs, in direct testimony the Company proposed a more moderate increase in customer charges compared to Staff's SFV methodology. Specifically, the Company proposed to increase its customer charge to $19.50 in the summer and $25 in the winter. However, the linchpin to the success of such an approach from the Company's cost recovery standpoint is to simultaneously implement either a Customer Usage Adjustment clause or a one-way refund only tracker, either one of which would likely have a negligible impact on customers' bills. It is important for the Commission to recognize that without the implementation of either one of these trackers, the Company estimates that it could still be exposed to potential residential usage losses alone of $3.5 million, in addition to potential usage losses from C&I General Service customers, that must be addressed by the Commission in this proceeding either through rate design or additional revenue requirement. Even if the Company overcame it reservations about the impact of high customer charges on low use customers and increased its customer charge to $25 in the summer and $35 in the winter, its exposure to residential usage losses could still be in excess of $1 million per year, still a potential impact the Company cannot ignore.

NITEC FEES

Q. On page 80 of the Staff's Cost of Service Report, Staff witness Cassidy recommends that test year expense associated with fees paid by the Company to NITEC be reduced by $430,307. Do you agree that the resulting level of NITEC fees of approximately $58,000 is representative of future charges paid to NITEC?

A. No, I do not. The Company's payment to NITEC for the April 2010 report provided valuable information to the Company for purposes of future gas supply planning for the Company's customers. Since the Company expects to update this study every two years at a cost of $100,000 per update for purposes of measuring over or under recoveries of on-going storage losses through the PGA, as the Company has proposed, and since the Company expects that a similar comprehensive study in the range of $500,000 may be required every six years, the Company should be permitted to build into base rates $120,000 of NITEC fees, instead of the $58,000 proposed by Mr. Cassidy.

LEGAL FEES

Q. On page 80 of the Staff's Cost of Service Report, Staff witness Lisa Hanneken removed $181,000 of legal fees from the Company's test year expenses on the grounds that these were non- recurring. Do you agree with Ms. Hanneken's adjustment?

A. No, I do not. First, these fees were incurred by the Company to defend itself before the FERC Enforcement Staff in an investigation it undertook in connection with allegations initially raised by the MPSC Staff, in its audit of the Company's gas supply costs in Case No. GR-2006-0288, relating to certain alleged buy/sell transactions. As a result of such allegations, the Company had to retain outside counsel to represent the Company in the FERC Staff investigation and file a self-report to the FERC Enforcement Staff. Over the ensuing months, the Company incurred over a million dollars in legal and other expenses to gather and provide information to the FERC Enforcement Staff. In the end, the FERC Enforcement Staff determined that there was no basis for pursuing any action against Laclede. Since the MPSC Staff's actions precipitated incurrence of these costs for an enforcement matter which the FERC Staff ultimately decided it would not continue to pursue, such costs should not be disallowed. Second, as I previously noted, these costs represent only a fraction of the total costs the Company incurred in this matter. The vast majority of the Company's expenses were incurred before the start of the test year for which the Company has not sought any recovery in base rates. Third, based on the Staff's Procurement Analysis Department track record in proposing disallowances in Laclede ACA proceedings over the years, $181, 000 is not an unreasonable level of on-going legal expenses the Company may incur in the resolution of future ACA matters.

GAS SUPPLY INCENTIVE PLAN

Q. On page 17 of the Staff's Rate Design and Class Cost of Service Report Staff witness Allee recommends that the Incentive Sharing Ceiling Price in the Company's Gas Supply Incentive Plan ("GSIP") be lowered to $7.50 per MMBtu from the current ceiling price of $8.99. Do you agree with Ms. Allee's recommendation?

A. No, I do not. The GSIP in effect today, which was designed by OPC, unfortunately provides that the Company receive no compensation for the Company's efforts in reducing gas costs if its actual costs are greater than the Incentive Sharing Ceiling Price, presently at $8.99. Ms. Allee's proposal obviously reduces the potential reward to the Company should prices reach the $9 range again.

Q. Please briefly describe the Plan in more detail.

A. A benchmark cost of gas is established that is comprised of a weighted average cost of gas based on published first of the month price indices at the various locations where the Company has historically purchased its gas. If the Company purchases gas below the benchmark, the Company is eligible to retain 10% of such savings up to $3,000,000 each year so long as the benchmark cost of gas falls within a designated price band.

Q. What do you mean by the price band?

A. Presently, the benchmark cost of gas must be between $4.00 and $8.99 MMbtu Incentive Sharing Ceiling Price for the Company to be eligible to be rewarded for its efforts. However, if the Plan is truly intended to encourage the Company to reduce its gas costs, the magnitude of gas prices should have absolutely no bearing whatsoever on whether the Company should be rewarded for its efforts. I am sure that when the NYMEX nearly hit $14 per MMBtu in the summer of 2008 customers would have been grateful for any offset the Company could have provided to such a price. Likewise, when prices dropped to under $4 recently, there should still be an interest in realizing additional savings for customers, especially in today's economy just as the Procurement Analysis Department of the Staff isn't any less vigorous in examining the prudence of the Company's gas purchases simply because gas prices have dropped. Instead, under the existing GSIP if the benchmark price falls below $4 and the Company is able to purchase gas below such price, the Company is not compensated for its efforts.

Q. What do you recommend in response to Ms. Allee's recommendation?

A. Rather than lower an already artificial ceiling price in the GSIP, the Company recommends that the price band be eliminated altogether since the Company should be rewarded any time it achieves savings in relation to a benchmark price, whether gas prices are high or low.

Q. Are there any other changes to the GSIP the Commission should consider at this time?

A. Yes. I also recommend that the Company should retain 10% of all savings achieved under the Plan, regardless of the magnitude of savings. Rewards for beating the benchmark should not cease simply because rewards have reached a designated level. Even though a strong case can be made for the propriety of the Company receiving an increasing share of the savings as the savings it realizes for the Company grows, at the very least a 10% reward should accompany every dollar of savings.

LANGE UNDERGROUND STORAGE

Q. On page 27 of the Staff's Cost of Service Report Staff witness Anne Allee claims that the Company had not provided Staff with information sufficient for it to accept the Company's accounting adjustments with respect to non-recoverable gas. Do you agree that the Company has not provided such information?

A. Although I believe that the information previously provided by the Company would have been sufficient for this purpose, we have now provided the Staff with the final NITEC report which became available shortly after Staff filed its direct testimony. Given the breadth and comprehensive nature of this three volume report, it should be more than adequate for the Staff to now support the Company's adjustments. In addition, as far back as October 2009, before the Company filed the instant case, the Company provided the Staff with an earlier NITEC report in the course of an ACA audit in Case No. GR-2008-0387, which also quantified the Company's non-recoverable gas, albeit as of November 1, 2005 rather than December 31, 2008. Thus, even prior to receiving the latest report from NITEC, the Staff should have been familiar with the type of data and analysis that NITEC was using to arrive at its conclusions based on the earlier NITEC report which exceeded 300 pages in length.

Q. On page 28 of the Staff's Cost of Service Report, Staff witness Anne Allee makes the same argument about not having received adequate information from the Company to accept the Company's proposal to recover on-going losses through the PGA. Does the Staff now have adequate information to justify approval of the Company's proposal?

A. Yes, it does. And if the Company's proposal is adopted, the Company can keep current in recovering from customers, as it should, all of the gas supply costs it incurs in connection with serving its customers.

COST ALLOCATION MANUAL

Q. Has the Staff proposed any changes to the Company's Cost Allocation Manual (CAM) in this proceeding?

A. Yes, as discussed in the rebuttal testimony of Company witness James A. Fallert, the Staff has proposed a number of changes to the methodology underlying how costs are allocated between Laclede and its affiliates under the CAM.

Q. Has the Staff proposed to address all aspect of the CAM as it applies to all affiliate transactions?

A. No. The Staff has proposed to defer any consideration of those provisions of the CAM that relate to gas supply and capacity transactions to the Company's ACA proceedings.

Q. Do you believe deferring an evaluation of these provisions of the CAM is appropriate?

A. No. In our last rate case proceeding, all of the parties agreed – at Staff's insistence – to sit down after the case was over and discuss potential changes to the CAM to address any concerns that the Staff or OPC might have. Although we had a few meetings, progress in discussing such issues came to a grinding halt when Staff proposed various adjustments relating to certain gas supply transactions between Laclede and its affiliate LER.

Q. Were these transactions between Laclede and LER done in compliance with the CAM?

A. Yes. I believe they were done in full compliance with the market pricing standards and principles that are not only set forth in the CAM but also in the Commission's affiliate transactions rules. Unfortunately, the Staff has apparently decided that it wants to eliminate the very ability of utilities, like Laclede, to engage in these kinds of affiliate transactions, even though they are expressly permitted by the CAM and the Commission's affiliate transactions rules. The Staff has attempted to accomplish this unlawful objective in various ACA proceedings, involving not only Laclede but other utilities as well, by proposing pricing standards for such transactions that are directly contrary to those set forth in the rules and Laclede's CAM – standards that would have the inexorable effect of making it economically impossible for any utility to engage in such transactions.

Q. Why would the unauthorized standards advocated by Staff make it impossible to conduct engage in such lawful activities?

A. The Commission's affiliate transactions rules, and the CAM Laclede has implemented in compliance therewith, provide that purchases and sales of natural gas and capacity between Laclede and its marketing affiliate are to be priced based on the competitive market price for such items as determined by reference to market price indices, prices offered by unaffiliated suppliers, etc. Despite this clear direction, the Staff has nevertheless taken the position that such purchases should be priced based not on the fair market price or even on the cost to the utility for acquiring the supplies, but on the *affiliate's* cost of gas. Such a position is in direct conflict with the affiliate transactions rules because it would clearly preclude such lawful purchases from ever being made. Simply put, no affiliate, nor any other unaffiliated supplier for that matter, would ever agree to sell gas to an entity under circumstances where it can never receive any compensation for the risks it has undertaken or the services it has provided in making that sale.

Q. Is the same thing true regarding Staff's position on the sale of gas or capacity to an affiliate?

A. Yes. The Staff's position on sales made to an affiliate is equally designed to foreclose all such transactions. To that end, the Staff has taken the position that Laclede should sell gas supply to LER not at the higher of fair market price or even Laclede's fully distributed cost for such supplies, but at that price plus any profit that LER earned on its resale of gas supply. In other words, Staff contends that, despite the requirements of the Rules, LER should be precluded from having the same opportunity afforded to unaffiliated independent gas marketers to earn profits on gas supply acquired from Laclede for resale. Again, as Staff well knows, no firm would ever do business on such a basis and such discriminatory treatment is simply Staff's way of trying to prevent utilities from engaging in the kind of transactions that the Commission's own rules freely permit.

Q. Are there any recent developments that further illustrate this glaring conflict between the standards invented by Staff for pricing such transactions and those set forth in the Commission's rules?

A. Yes, this conflict has only become more obvious with the passage of time. In a recent ACA proceedings involving Atmos Energy Corporation ("Atmos"), for example, Staff took essentially the same position regarding that utility's purchases of gas from its affiliate, Atmos Energy Marketing, LLC ("AEM") as it has with Laclede's purchases from LER. Specifically, on March 12, 2010, Staff witness David Sommerer filed direct testimony in Atmos' Case No. GR-2008-0364 in which he proposed to disallow approximately $360,000 in gas costs incurred by Atmos as result of purchases it made from AEM to provide gas supply to the Hannibal and Butler, Missouri areas.

Q. How did Staff attempt to justify this proposed disallowance?

A. Amazingly, Mr. Sommerer proposed this disallowance even though he acknowledged the applicability of the fair market pricing standard in the affiliate transactions rules and even though it was undisputed that Atmos had issued a Request for Proposal to a large number of gas supply marketers for its gas supply needs and had awarded AEM the gas supply contract only after AEM tendered the low bid for the Hannibal/Canton and the Butler systems. According to Mr. Sommerer, such a result was appropriate because the fair market price for any purchase made from an affiliate is not the price established through a competitive bidding process but instead is represented by the affiliate's cost of acquiring that gas without any markup of any kind for the services provided or risks undertaken by the affiliate in providing the supply. As Mr. Sommerer stated on page 9 of his sworn testimony: “Profits are disallowed because LDC’s do not mark up the price of gas to their customers. What is to be passed through in the PGA charge is the actual invoiced cost of gas. If Atmos had purchased the gas itself, instead of through its affiliate, the actual cost of the gas, without profit, would be the basis for the Purchased Gas Adjustment charge to customers.”

Q. Is there any basis for such a position?

A. I have been advised by counsel and it is apparent to me as a person who can simply read, that this is a patently false assertion of what the affiliate transaction rules require. If such a tortured construction was correct, then the rules would have to state that if a utility purchases a good or service from an affiliate then it is the lower of the *affiliate's* cost or the fair market price for the good or service that is to be used to price the transaction. They do not. If such a construction was correct, then Staff counsel would have to retract his admission at an earlier oral argument involving Laclede that affiliates are indeed permitted under the affiliate transactions rules to earn a profit when they sell gas to an affiliated utility. He has not. If such a construction was correct, the Commission would also have to revise the provisions of its affiliate transactions rules that prohibit utilities from treating their marketing affiliates differently from unaffiliated suppliers so as to provide that, unlike those unaffiliated suppliers, marketing affiliates may not make any profit on gas they sell to a utility in the wholesale market. It has not. Indeed, if such a tortured construction was correct, the Commission would have to clarify its rules to provide that affiliates are not to be considered separate and distinct companies but simply appendages of the utility that can only do business with the utility if they are willing to forgo all profits and compensation of any kind for the services they provide. It has not.

Q. Why do you believe Staff has taken these positions?

A. As I previously said, it could not be any clearer what Staff is up to here, namely the wholesale elimination – not through a rule change but through a retroactive assault on existing rules – of any ability by utilities to engage in lawful transactions that are freely permitted under those rules. Unfortunately, Laclede and its affiliates have had to endure nearly two years of legal expense, countless procedural skirmishes, trips to circuit court, and other diversions of their resources because of this effort to retroactively rewrite the Commission's rules. Rather than put a stop to such efforts, however, the Staff has simply compounded its unauthorized approach in this case by proposing other adjustments that, as Company witness Fallert explains, are equally baseless and inconsistent with the CAM. Whether those adjustments have been made in an effort to unlawfully appropriate money from Laclede's affiliates or to harass Laclede in yet another venue as retribution for the Company's refusal to buckle under to this patently incorrect construction of the Commission's rules, I do not know. What I do know is that utilities have a right to expect that they will not be unfairly penalized by having the ground rules that they relied upon to conduct lawful activities changed retroactively after the fact. To ensure that this no longer happens, I accordingly recommend that the Commission explicitly endorse the attached CAM provisions which the Company has been operating under with Staff's full knowledge for the past six years. (See Schedule MTC-R1).

Q. Does this conclude your testimony?

A. Yes, it does.

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-2010-0171

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-Tariff & Rate Administration of Laclede Gas Company.

2. Attached hereto and made a part hereof for all purposes is my rebuttal 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.

Michael T. Cline

Michael T. Cline

Subscribed and sworn to before me this 22nd day of June, 2010.

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

COST ALLOCATION MANUAL

The Laclede Group, Inc.
Laclede Gas Company
Laclede Investment LLC
Laclede Development Company
Laclede Pipeline Company
Laclede Energy Resources, Inc.
Laclede Venture Corp.
Laclede Gas Family Services, Inc.
SM&P Utility Resources, Inc.

720 Olive Street - St. Louis, MO 63101

Schedule MTC-R1

I. INTRODUCTION

On August 14, 2001, the Missouri Public Service Commission issued an Order in Case No. GM-2001-342 authorizing the Company to restructure itself into a holding company (The Laclede Group, Inc.), a regulated utility company (Laclede Gas Company), and unregulated subsidiaries. As part of that Order, the Company agreed to periodically submit a revised Cost Allocation Manual (CAM) to Staff, Public Counsel and the Company's Union (PACE) in order to preserve and supplement existing protections against improper cross-subsidization between Laclede Gas Company and its affiliated entities. To that end, Laclede Gas Company submitted a revised Cost Allocation Manual (CAM) to these parties in December, 2001 which set forth the policies and procedures to be followed when Laclede Gas Company engages in any transactions with its affiliates. Laclede Gas Company also committed to resubmitting the CAM to Staff, Public Counsel, and PACE on or before April 15, 2003 and on an annual basis thereafter, for the twelve-month period ended September of the prior year.

The CAM submitted by Laclede Gas Company addressed some, but not all, of the regulations adopted by the Commission in its Affiliate Transactions Rules which were then under appeal. It was noted, however, that the CAM could be readily updated to reflect the outcome of any final judicial resolution of the Commission's affiliate transactions rules. This version of the CAM seeks to accomplish that goal.

II. SCOPE OF AFFILIATE TRANSACTIONS

The number and scope of affiliate transactions are limited. Laclede Gas Company is the largest company in the new structure and remains devoted to providing high quality gas service.

Nonetheless, there are or may be opportunities to share certain administrative and other functions among system companies to introduce efficiencies to purchasers of regulated and unregulated services alike. This CAM is designed to ensure that such cost-saving opportunities are accounted for in a manner that, consistent with applicable law and regulation, reasonably prevents inappropriate cross-subsidization.

III. SERVICES AND FACILITIES AGREEMENT

The Laclede Group and each affiliate taking or receiving services, sharing facilities or having other affiliate transactions with Laclede Gas will sign and become a party to a Services and Facilities Agreement ("SFA"). The SFA establishes procedures, terms and conditions for providing shared services and facilities and other activities. A copy of the SFA is attached hereto as Appendix 1.

IV. ACCOUNTING PROCEDURES

Laclede Gas Company shall maintain adequate books and records with respect to the transactions described in this CAM and in the SFA to record the costs to be apportioned to the other Parties. Laclede Gas Company shall be responsible for ensuring that the costs associated with transactions covered by this CAM are properly and consistently allocated and billed in accordance with the terms and provisions of the SFA.

Laclede Gas Company, each affiliate and The Laclede Group, Inc. will maintain records supporting its affiliated transactions for at least five years. Laclede Gas Company shall conduct audits of this CAM and the SFA on a periodic basis. Computer systems, billings and source documentation will be examined to ensure the services, facilities or other activities provided are authorized, documented and accurately recorded.

V. <u>SERVICES, FACILITIES AND ACTIVITIES</u>

Each company will determine the appropriate level of services, facilities or other activities it requires and will make such requests as it deems appropriate.

A. Facilities. Upon the terms and subject to the conditions of the CAM and SFA, a Party may request, without limitation, the use of:

(a) facilities, including office space, warehouse and storage space, natural gas transportation and storage facilities, including third party facilities reserved for Laclede's use pursuant to contract, repair facilities, manufacturing and production facilities, fixtures and office furniture and equipment;

(b) computer equipment (both stand-alone and mainframe) and networks, peripheral devices, storage media, and software;

(c) communications equipment, including audio and video equipment, radio equipment, telecommunications equipment and networks, and transmission and switching capability;

(d) vehicles, including automobiles, trucks, vans, trailers, transport equipment, material handling equipment and construction equipment; and

(e) machinery, equipment, tools, parts, and supplies.

A Party shall have no obligation to provide any of the foregoing to the extent that such item or items are not available (either because such Party does not possess the item or the item is otherwise being used). A Party has sole discretion in scheduling the use of facilities, equipment or capabilities so as to avoid interference with that Party's operations.

B. Services. Upon the terms and subject to the conditions of the CAM and the SFA, a Party may request, without limitation:

(a) Administrative and management services, including accounting (i.e., bookkeeping, billing, accounts receivable administration and accounts payable administration, and financial reporting); audit; executive; finance; insurance; information systems services; investment advisory services; legal; library; record keeping; secretarial and other general office support; real estate management;

security holder services; tax; treasury; and other administrative and management services;

(b) Personnel services, including recruiting; training and evaluation services; payroll processing; employee benefits administration and processing; labor negotiations and management; and related services;

(c) Purchasing services, including preparation and analysis of product specifications, requests for proposals and similar solicitations; vendor and vendor-product evaluations; purchase order processing; receipt, handling, warehousing and disbursement of purchased items; contract negotiation and administration; inventory management and disbursement; and similar services; and

(d) Operational services, including drafting and technical specification development and evaluation; consulting; engineering; environmental; construction; design; resource planning; economic and strategic analysis; research; testing; training; public and governmental relations; and other operational services.

A Party shall have no obligation to provide any of the foregoing to the extent that it is not capable of providing such service (either because such Party does not have personnel capable of providing the requested service or the service is otherwise being used). A Party has sole discretion in scheduling of services so as to avoid interference with the Party's operations.

C. Joint Purchasing. A party may also request that another Party or Parties enter into arrangements to effect the joint purchase of goods or services from third parties. Under the SFA, Laclede Gas will only participate in such arrangements if its fully distributed cost for such goods or services is not thereby increased.

No Party shall be required to purchase a service that it is otherwise capable of providing or obtaining. In the event that any such arrangements are established, one Party may be designated as, or serve as, agent for the other Parties to the arrangement and may administer the arrangement (including billing and collecting amounts due the vendor(s)) for the other Parties.

D. Cash Management. The Parties may enter into one or more arrangements providing for the central collection, management, investment and disbursement of cash by a Party. If such an arrangement is established, then pursuant to the SFA:

(a) the Parties participating in such arrangement shall establish appropriate inter-company accounts to track the amount of cash transferred and/or received by each Party to such arrangement and the pro rata portion of the earnings received or interest paid by each such party from the investment or borrowing of cash; and

(b) the Party responsible under the arrangement for the management and investment of such cash shall establish a separate account or accounts for such purpose, which account(s) and the records associated therewith shall clearly indicate that other Parties have an interest in said account(s) and the proceeds thereof and shall not be subject to set-off by the bank or other institution holding the same except to the limited extent of expenses arising from the management, handling and investment of the account(s).

E. Agreements, Etc. A Party may evidence their agreement with respect to the availability, provision or use of the facilities, services and activities described in this CAM by entering into an agreement, lease, license or other written memorandum or evidence consistent with the terms of the SFA.

VI. ASSET TRANSFERS

Laclede Gas Company shall not sell, lease, assign or transfer to any affiliate or third party any of its utility assets that are used and useful in the performance of Laclede's public utility obligations without obtaining Commission approval.

VII. CHARGES; PAYMENT

A. Charges. Charges for the use of facilities, equipment, capabilities or services shall be determined in accordance with the section below regarding cost principles. By requesting the use of facilities, equipment, capabilities and/or services, a Party shall be deemed to have agreed to pay, and shall pay, to the Provider or Providers the charge determined therefor in accordance with the CAM and the SFA.

B. Payment. Payment for the facilities, services and other activities shall be accounted for on a monthly basis and shall accrue interest if not made by the last day of the month following the month in which the service was rendered. Late payments shall bear interest at a simple rate per annum equal to the prime bank lending rate as published in The Wall Street Journal (on the first day of the month) minus one percentage point. Such interest shall be based on the period of time that the payment is late.

VIII. ANNUAL REPORTING REQUIREMENTS

The following information, as required to administer, audit, and verify the Transfer Pricing and Costing Methodologies set forth in Section IX of this CAM or such other Transfer Pricing and Costing Methodologies as may become applicable to the company in the future, shall be submitted on an annual basis to Staff, the Office of the Public Counsel and PACE beginning April 15, 2003 and continuing each year thereafter.

(A.) For all Laclede Gas Company functions that provide support to nonregulated affiliates and the holding company:

- (a) A list and description of each function;
- (b) The positions and numbers of employees providing each function; and
- (c) The procedures used to measure and assign costs to nonregulated affiliates and the holding company for each function.

(B) A list and description of each service and good provided to Laclede Gas Company from each affiliate and the holding company.

(C) A list and description of each service and good provided by Laclede Gas Company to each affiliate and the holding company.

(D) The dollar amount of each service and good charged to each affiliate and the holding company by Laclede Gas Company, and the total cost related to each service and good listed.

(E) The dollar amount of each service and good purchased from each affiliate and the holding company by Laclede Gas Company, and the total cost related to each service and good listed.

(F.) For each line of business engaged in by Laclede Gas Company with non-affiliated third party customers following formation of a holding company and that would not reasonably be considered as a component of its regulated utility business, Laclede shall provide:

(a) A list and description of each nonregulated activity;
(b) The total amount of revenues and expenses for each nonregulated activity for the last fiscal year; and
(c) A listing of all Laclede Gas Company cost centers and/or functions that directly assign cost, indirectly assign cost and/or allocate cost to each nonregulated activity engaged in by Laclede Gas Company with non-affiliates.

(G.) As part of its CAM submittal, Laclede Gas Company will provide a list of all jurisdictions in which Laclede Gas Company, the holding company, affiliates, and service company, if formed, file affiliate transaction information.

(H.) As part of its CAM submittal, Laclede Gas Company will also provide Organizational Charts for The Laclede Group, Inc. (corporate structure), Laclede Gas Company and any other affiliate doing business with Laclede Gas Company and a copy of the annual holding company filing The Laclede Group, Inc. is required to file with the Securities and Exchange Commission.

IX. TRANSFER PRICING/COSTING METHODOLOGY

A. Use of Facilities or Services. (i) Facilities or services provided to Laclede Gas Company by an affiliated Provider shall be charged at the lesser of the fair market price for such facilities or services or the fully distributed cost to Laclede Gas Company to provide the goods or services for itself, if different.

(ii) Facilities or services provided by Laclede Gas Company to an affiliate shall be charged by Laclede Gas Company at the tariffed rate or, if no such tariffed rate exists, at the greater of the fair market price of such good or service or the fully distributed cost incurred by Laclede Gas Company in providing such facility or service, if different, unless an alternative method for determining such charges is provided by law.

B. Fair Market Price. Except as otherwise provided in this CAM, the fair market price of an asset or service as used in subsection A (i) and (ii) means: (1) the prevailing price for which the same or similar facilities, services or goods are offered for sale by the affiliate or, if no such prevailing price exists, (2) the price at which nonaffiliated vendors offer the same or similar facilities, services or goods for sale determined by reference to quoted market prices, independent appraisals, benchmarking studies or other objectively determinable evidence or; (3) in the case of corporate support services, the fully distributed cost of such services if the salaries and benefits of the personnel providing such corporate support services have been determined with a consideration of market-based wage, salary and benefit surveys or other benchmarking information relating to the compensation being provided for comparable corporate support positions in other companies.

C. Fully Distributed Costs. The fully distributed cost of an asset or service as used in subsections A (i) and A (ii), means: (1) Laclede Gas Company's cost of labor, materials and services that can be directly attributed and charged to the asset or service; and (2) an allocated share of Laclede Gas Company's indirect joint or common labor and administrative and general costs. The fully distributed cost of an asset or service shall be identified and charged or allocated to the asset or service in accordance with these general principles, as more fully outlined below:

(i) Direct Costs. Costs incurred for materials or services that are specifically attributable to goods or services provided to an affiliate shall be charged directly to the

books and records of the affiliate, using standard voucher account distribution procedures. Such charges will be visible in the accounting records through cash vouchers, invoices, or other source documents.

(ii) Direct Labor Costs. Amounts for direct labor used in providing a service to an affiliate shall be charged to the accounts of affiliates based on direct labor rates as applied to time-keeping records. For most employees, direct labor shall be charged under a positive time reporting methodology under which an employee shall report each pay period the amount of time incurred in performing the service. Based on the time reported each pay period, the regular, predetermined account distribution for the employee shall be adjusted to reflect the distribution of direct labor charges to the service.

Some departments or organizations are expected to provide a recurring, predictable level of services to a Party or Parties. For these departments or organizations, periodic reviews shall be performed to determine a normal distribution of time to such services. The distribution percentages derived from such reviews shall then be used to allocate time with respect to each pay period. For these departments or organizations, direct labor shall be charged to the service under an exception time reporting methodology. That is, significant deviations of actual activity from these predetermined percentages shall be reported and shall result in adjustments to the predetermined distribution of direct labor charges to the affiliate functions. Officers of Laclede Gas Company shall also utilize either a positive time or an exception time reporting methodology.

Overtime shall be reflected in the direct labor rates charged to a service. Direct labor shall be charged based either on the base and overtime pay amounts actually incurred by Laclede Gas Company or, as adjusted on a departmental or organizational basis, to reflect estimated overtime incurred based on an overtime review performed periodically.

All charges for direct labor charges shall reflect a cost for nonproductive time. The cost for nonproductive time shall be based either on actual nonproductive time incurred by Laclede Gas Company, or as adjusted on a departmental or organizational basis, to reflect estimated nonproductive time derived from a periodic review. The cost for nonproductive time reflects time incurred for vacations, holidays, and other paid absences.

Many payroll-related costs are charged through separate journal entries via clearing account distributions that directly follow the payroll charged to the accounts of the affiliate and as described below.

(iii) Indirect and Allocated Costs. When costs benefit more than one entity or when costs cannot be specifically associated with a particular activity, the fully distributed cost of each expense item (including administrative and general costs, and the cost of facilities, equipment, machinery, furniture and fixtures used to provide the service) shall be allocated as set forth below. For some expense items, three components are combined to determine an allocation factor. This three-component allocation factor is derived by calculating the percent of each affiliate's share of the total for fixed assets and investments, revenues, and direct payroll. These three amounts are averaged to determine the three-component allocator for each affiliate. The following expense items are allocated as indicated below:

Administrative & General Expenses – Total miscellaneous administrative and general expenses charged to the utility shall be allocated to affiliated entities based on the percentage of each affiliates direct payroll charges as compared with total payroll charges. These expenses include phone charges, office and computer supplies, printing, subscriptions, travel, and other general expense items. Administrative and general expenses identifiable and specific to a particular affiliate will be charged directly to that affiliate.

Annual Report & SEC Reporting Costs – These costs shall be allocated to each affiliated entity based on the three-component allocation method as applied to the previous fiscal year.

Board of Director Fees – These costs shall be allocated to each affiliate based on the three component allocator.

Depreciation – An allocation of depreciation expense related to the cost of utility-owned facilities, equipment, machinery, furniture or fixtures utilized by an affiliate or in providing a service to an affiliate shall be charged to each affiliate based on the portion of time each asset or class of asset is dedicated to non-utility work. Furniture and fixtures will be allocated on a cost per employee basis as applied to direct manhours reported for each affiliate.

Employee-Related Costs – Expenses related to payroll taxes, medical, dental, and vision insurance costs, pension and other post-retirement benefit costs, incentive compensation plan costs, and employee savings plan costs will be allocated based on direct payroll hours charged to each affiliate.

Information Systems – The costs of projects dedicated to affiliates will be charged directly to each affiliate. All costs related to the operation of mainframe systems will be allocated based on a percentage of operating and production time dedicated to routine affiliate activities as compared to the total for each system. Such allocations shall be based on a study performed annually. Costs related to network applications will be allocated based on the number of personal computers assigned on a departmental basis. The departmental allocation of costs will be appropriately allocated to affiliates based on the proportion of direct labor reported by each department for an affiliate.

Insurance – The cost of insurance directly related to the property or activities of any affiliate will be charged directly to each affiliate. The cost of insurance policies applicable to more than one entity will be allocated based on the proportion of each affiliate's share as compared with the total company as follows:

> Property & Liability Insurance – fixed assets at book value (net plant)
>
> Workmen's Compensation – actual claims cost will be charged directly and the administrative fees will be allocated based on number of employees
>
> Officers & Directors Liability Insurance – three-component allocator as described above

Such allocations shall be based on the above parameters at September 30 of the previous fiscal year.

Rent – Rent expense for space dedicated to affiliated operations will be priced on a cost per square foot basis and charged directly to each affiliate. In addition, an allocation of indirect costs for rent will be made based on an annual cost per manhour of rent expense as applied to direct payroll hours charged to each affiliate.

Vehicle costs – The operating costs related to applicable vehicle groups will be allocated based on direct payroll hours charged to each affiliate and/or through the allocation of administrative and general expense described above.

Energy-Related Goods and Services – To ensure compliance with both the transfer pricing and anti-discrimination provisions of the affiliate transactions and marketing affiliate transactions rules as well as the requirements of federal law, the following standards will be applied to the purchase and sale of energy-related goods and services, including natural gas supplies, transportation and storage capacity, between Laclede Gas Company and affiliated and unaffiliated entities alike.

The following energy-related goods and services that are provided to Laclede Gas Company by affiliates will be priced in accordance with the following provisions:

> Gas supply purchases – shall be the fair market price which shall be determined as the average price of similar purchases made by Laclede Gas Company or other firms from non-affiliated entities entered into at similar times for similar duration and location of such purchases. If such purchases do not exist, the fair market price will be determined for the location and period in question by using an industry accepted index price or index prices applicable to such location published in either Gas Daily, Inside FERC, or other similar publication widely accepted in the industry for determining the value of such gas supplies.

Pipeline transportation and storage capacity releases – shall be the fair market price which shall be determined as the price of similar capacity transactions made by Laclede Gas Company or other firms with non-affiliated entities entered into at similar times for similar duration and location of transportation capacity. If such transactions do not exist, the fair market price will be a price as posted on the applicable pipeline's bulletin board for similar capacity for a similar duration. If such postings do not exist, the fair market price shall be determined by using an industry accepted index price or index prices published in either Gas Daily, Inside FERC, or other similar publication widely accepted in the industry for determining the value of such capacity.

The following energy-related goods and services that are provided by Laclede Gas Company to its affiliates will be allocated costs and priced in accordance with the following provisions:

Gas supply sales – shall be the fair market price, which shall be determined as the average price of similar sales made by Laclede Gas Company or other firms to non-affiliated entities, entered into at similar times for similar duration and location of such sales, provided that such price shall, at a minimum, reflect the reasonable allocation of costs for off-system sales of gas established under Laclede Gas Company's approved tariffs applicable to such sales. If such sales do not exist, the fair market price for the location and period in question will be determined using an industry accepted index price or prices applicable to such location published in either Gas Daily, Inside FERC, or other similar publication widely accepted in the industry for determining the value of such gas supplies, provided that such price shall, at a minimum, reflect the appropriate allocation of costs for off-system sales of gas established under Laclede Gas Company's approved tariffs applicable to such sales.

Pipeline transportation and storage capacity releases – shall be the higher of: (a) a fully distributed cost calculation in which the price charged to an affiliate is equal to all variable costs, if any, incurred by Laclede Gas Company to complete the transaction plus an appropriate allocation of joint and common costs given the nature, location and timing of the transaction, or (b) the fair market price as determined through a posting and bidding process in accordance with the capacity release provisions contained in the pipeline's FERC approved tariff or through similar capacity transactions made by Laclede Gas Company or other firms with non-affiliated entities; provided that if the resulting price for the specific transaction as determined under (a) or (b) exceeds the maximum price authorized by Federal law, the price charged to the affiliate shall equal such maximum lawful price.

X. CUSTOMER REQUESTS ABOUT GOODS AND SERVICES

Where requirements relating to customer requests for information concerning the goods and services provided by an affiliated entity are applicable, Laclede Gas Company will provide customers with an oral or written disclaimer indicating that regulated services are not tied to the use of the affiliated entity and that other service providers may be available.

XI. DISPUTE RESOLUTION

If there is a dispute between Laclede Gas Company and any affiliate regarding a billing, representatives of all involved parties will meet to resolve the issues. Managers and other executives of the affected parties may also be consulted. In the event that a resolution cannot be reached, the issue will be referred to senior management for final resolution.

XII. EXCEPTIONS TO APPLICATION OF METHODOLOGIES

The methodologies set forth in this CAM provide general guidelines to govern how Laclede Gas Company will allocate costs to or pay for services received from or provided to affiliates. Such guidelines shall not be applicable in the event another methodology is prescribed by law for allocating costs to or pricing such services. Laclede Gas Company may also employ a different allocation or pricing methodology than those described herein in the event it determines that application of the methodologies or costing principles described herein would not be in the best interests of its utility customers, provided that Laclede Gas Company shall maintain information sufficient to show how costs would have been allocated to such services pursuant to the methodologies set forth in this CAM, and provided further that such alternative methodology will be subject to review and adjustment in any subsequent rate case proceeding.

Submitted,

The Laclede Group, Inc.
Laclede Gas Company
Laclede Investment LLC
Laclede Development Company
Laclede Pipeline Company
Laclede Energy Resources, Inc.
Laclede Venture Corp.
Laclede Gas Family Services, Inc.
SM&P Utility Resources, Inc.