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Issue(s):	Gas Supply Incentive Plan
Witness/Type of Exhibit:	Busch/Rebuttal
Sponsoring Party:	Public Counsel
Case No.:	GT-2001-329

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Missouri Public Service Commission

REBUTTAL TESTIMONY

OF

JAMES A. BUSCH

Submitted on Behalf of the Office of the Public Counsel

Laclede Gas Company

Case No. GT-2001-329

May 4, 2001

NP

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the matter of Laclede Gas Company's tariff filing to implement an experimental fixed price plan and other modifications to its gas supply incentive plan.	))))	Case No. GT-2001-329

AFFIDAVIT OF JAMES A. BUSCH

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

James A. Busch, of lawful age and being first duly sworn, deposes and states:

1. My name is James A. Busch. I am the Public Utility Economist for the Office of the Public Counsel.

2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony consisting of pages 1 through 23 and Schedules JAB-1 and JAB-2.

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

James A. Busch

Subscribed and sworn to me this 4th day of May, 2001.

Bonnie S. Howard, Notary Public

My Commission expires May 3, 2005.

REBUTTAL TESTIMONY

OF

JAMES A. BUSCH

CASE NO. GT-2001-329

LACLEDE GAS COMPANY

Q. Please state your name and business address.

A. My name is James A. Busch and my business address is P. O. Box 7800, Jefferson City, MO 65102.

Q. By whom are you employed and in what capacity?

A. I am a Public Utility Economist with the Missouri Office of Public Counsel (Public Counsel).

Q. Please describe your educational and professional background.

A. In June 1993, I received a Bachelor of Science degree in Economics from Southern Illinois University at Edwardsville (SIUE), Edwardsville, Illinois. In May 1995, I received a Master of Science degree in Economics, also from SIUE. I am currently a member of the American Economic Association and Omicron Delta Epsilon, an honorary economics society. Prior to joining Public Counsel, I worked just over two years with the Missouri Public Service Commission as a Regulatory Economist in the Procurement Analysis Department and worked one year with the Missouri Department of Economic Development as a Research Analyst. I accepted my current position with Public Counsel in September 1999.

Furthermore, I am currently a member of the Adjunct Faculty of Columbia College, Jefferson City Campus, teaching Economics at both the undergraduate and graduate level.

Q. Have you previously testified before this Commission?

A. Yes. Attached is Schedule JAB-1 which is a list of the cases in which I have filed testimony before this Commission.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to address Laclede Gas Company's (Laclede or Company) proposal to make the experimental Gas Supply Incentive Plan (GSIP) a permanent plan. I will present Public Counsel's concerns and recommendations concerning portions of Laclede's experimental gas supply incentive mechanism. Public Counsel witness Barbara Meisenheimer will present information regarding the pas procurement component, including Laclede's proposed experimental fixed price plan (EFPP).

Q. How is your testimony organized?

A. First I will describe the various parts of the current experimental gas supply incentive plan. I will then give Public Counsel's recommendations.

THE CURRENT EXPERIMENTAL GSIP

Q. What are the current parts of Laclede's experimental GSIP?

A. The current experimental GSIP has four separate and distinct parts: gas procurement, capacity release, transportation and storage discounts, and mix-of-pipeline services.

Q. Please describe the capacity release portion of the experimental GSIP and how Laclede profits from it.

A. Capacity release occurs because LDCs have, at various times, excess capacity due to system requirements. The LDC collects capacity release revenues when it releases excess capacity and a third party pays for that capacity. Currently, Laclede receives profits from these releases pursuant to the following Commission approved sharing grid:

Capacity Release Revenues	Laclede's profit percentage
First $1,500,000	10%
$1,500,000 to $2,500,000	$150,000 plus 20% of difference above $1,500,000.
Amounts over $2,500,000	$350,000 plus 30% of amount over $2,500,000.

(Laclede tariff P.S.C. MO. No. 5 Consolidated, Sixth Revised Sheet No. 23)

Q. Please describe the mix-of-pipeline services portion of the experimental GSIP and how Laclede profits from it.

A. Laclede has the ability to change its mix of pipeline and storage services to achieve cost reductions. Laclede is currently allowed to extract as profit 30% of any cost changes resulting from its increasing or decreasing the amounts and types of pipeline services that it obtains from various pipeline suppliers. If by chance, Laclede's changes cause detriment to the ratepayers, it would have to pay 30% of the detriment. (Laclede tariffs P.S.C. MO. No. 5 Consolidated, Third Revised Sheet No. 28)

Q. Please describe the transportation and storage discounts portion of the experimental GSIP and how Laclede profits from such discounts.

A. For various reasons, pipelines may offer discounts off of their maximum allowed FERC (Federal Energy Regulatory Commission) rates. Laclede has a baseline amount of $13,000,000 in discounts it must receive before it can profit from discounts. For any amount above $13,000,000, Laclede keeps 30% as profit. Over the past five years, Laclede has received the following discounts:

ACA Period, October - November	Total Discounts
1996 – 1997	** ________ **
1997 – 1998	** ________ **
1998 – 1999	** ________ **
1999 – 2000	** ________ **
2000 – Feb 2001	** ________ **

LACLEDE'S PROPOSAL

Q. What is Laclede's new proposal?

A. Laclede is proposing basically three modifications to the current experimental GSIP. The first modification is the establishment of an EFPP. Ms. Meisenheimer is addressing this modification in her testimony. The next modification is to make the experimental GSIP permanent by removing time limits. The final modification is to remove the profit caps that were placed on the experimental GSIP during Case No. GO-2000-395.

Q. What have been the term limits placed on the experimental GSIP in the past?

A. Originally, the experimental GSIP had an effective period of three years. In Case No. GT-99-303, the Commission modified the experimental GSIP and extended it for one year. An additional one-year extension was made when Commission approved the Stipulation and Agreement in GO-2000-395.

Q. What are the current profit caps on the experimental?

A. The Stipulation and Agreement approved by the Commission in GO-2000-395 limited Laclede's profit level from the experimental GSIP to $9,000,000.

PUBLIC COUNSEL'S RECOMMENDATION

Q. Should the Commission extend the experimental GSIP?

A. No, the Commission should terminate the experimental GSIP at this time.

Q. If the Commission determines that the experimental GSIP should continue, should it have term limits?

A. Yes. Public Counsel believes that if the experimental GSIP is extended, all parties should have a regular opportunity to review and suggest modifications to the program.

Q. Should the Commission abolish the profit caps approved in Case No. GO-2000-395?

A. Due to Public Counsel's recommendation to eliminate the experimental GSIP, the profit caps would not be necessary. In the event the Commission extends the experimental GSIP, the profit caps should remain.

Q. Why is Public Counsel recommending that the experimental GSIP be eliminated?

A. Public Counsel believes that the gas supply incentive plans that have been approved on an **experimental** basis have not been successful and have provided the Company with profit motives at odds with the best interest of ratepayers. These plans have at least in part prevented the Commission from reviewing Laclede's natural gas purchasing practices. When compared to the benchmarks that have been established, Laclede can point to areas where it claims it has reduced the cost of natural gas. Public Counsel believes that the claimed reductions could have been accomplished without an incentive mechanism in place. For example, the activities that Laclede has engaged in since the advent of its incentive plan are basically the same activities that it was performing prior to the experimental GSIP. The Company should not be rewarded for doing business as usual. As pointed out in Public Counsel's testimony in GT-99-303, the most recent case reviewing Laclede's experimental GSIP, Laclede has not incorporated any innovative methods for procuring natural gas at lower prices for its ratepayers. In the two years since GT-99-303, Laclede's profit levels and alleged cost reductions have not increased substantially. According to the monitoring reports received by Public Counsel, Laclede's excess profits have been the following:

ACA Period, October - November	Laclede's Profit
1996 - 1997	** ______ **
1997 - 1998	** ______ **
1998 - 1999	** ______ **
1999 - 2000	** ______ **
Sep 00 – Feb 01	** ______ **

Q. Are the profits from the experimental GSIP accounted for in a normal rate case preceding?

A. No, the profits that Laclede makes from the experimental gas supply incentive plan are in excess of its normal profit levels.

Q. Has Laclede recognized the experimental GSIP as a profit center?

A. Yes. In response to Staff Data Request (DR) 5030, Laclede provided a copy of its most current strategic plan. That plan recognized that Laclede could close its **" "**

Q. Please explain schedule JAB-2.

A. Schedule JAB-2 shows the amount of cost reductions and profit levels for each part of the experimental GSIP for the past four ACA periods, plus the most recent information for the current period. This data was derived from the quarterly and annual monitoring reports submitted by Laclede.

Q. What has been the level of total cost reductions during the course of the experimental GSIP?

A. The annual cost reductions claimed by Laclede for the period of the experimental GSIP are as follows:

ACA Period, October - November	Cost Reductions
1996 - 1997	** **
1997-1998	** **
1998 -1999	** **
1999 - 2000	** **
Sep 00 – Feb 01	** **

These totals indicate that during the four and a half years of operating under the experimental GSIP, Laclede has not been able to utilize any innovative cost reduction techniques that have achieved greater levels of cost reductions on a yearly basis. One would think that a company operating under an incentive plan that rewarded it for lowering the cost of natural gas to its consumers would generate greater levels of cost reductions on a consistent basis. However, as noted in Laclede's Strategic Plan, it appears that Laclede is merely managing another profit center.

Q. When comparing the various years of the experimental GSIP, is it an apples to apples comparison?

A. No, it is not. In Case No. GT-99-303, off-system were taken out of the experimental GSIP and the mix-of-pipeline services was added. Also, the demand charge benchmark was modified. Including off-system sales gives Laclede ** ________ ** in additional profit for the ACA period 1999/2000, and ** ________ ** in profit so far during the current ACA period.

Q. What is the level of delivered natural gas costs to Laclede's ratepayers?

A. During the first 4-years of the experimental GSIP that have been concluded, Laclede's ratepayers have paid the following amounts for delivered natural gas:

ACA Period, October - November	Delivered Natural Gas Cost
1996 – 1997	** ________ **
1997 – 1998	** ________ **
1998 – 1999	** ________ **
1999 –2000	** ________ **

Q. What is the percentage of cost reductions Laclede has alleged compared to the overall cost of natural gas to its ratepayers?

A. Starting in the ACA period (November – October) 1996 – 1997, the percentage reductions for each ACA year are as follows: 10.5%, 10.9%, 11.2%, and 11.5%. Taking out Laclede's profits from the cost reductions the percentages of reductions for each ACA year are as follows: 8.3%, 8.7%, 9.1%, and 8.7%. These percentages indicate that Laclede's shareholders receive roughly 20% of the cost reductions as profits.

Q. Why doesn't Public Counsel believe that cost reductions of 8 – 9% represent a good deal for Laclede's ratepayers?

A. Cost reductions are always good. Reductions of 8 – 9% are nice. However, Laclede could have achieved these levels without the incentive plan. Eliminating the incentive plan alone would increase the cost reductions 2 – 3%. Laclede has the ability to do what it is doing in the incentive plan without the need for an incentive plan in place.

Q. In his testimony, Mr. Neises claims that incentives work, and the ratepayers are better off due to the Company having an incentive plan. (Neises' direct, page 13) Does Public Counsel agree with this assertion?

A. No. Public Counsel does not believe that the incentives, as designed in this experimental GSIP, have worked. The design of the experimental GSIP does not properly align ratepayer and Company interests, instead it has produced a situation where excess profits are pursued over ratepayer savings. Ratepayers currently pay the salary of the employees who purchase natural gas and those employees are obligated to acquire natural gas at reasonable rates for their customers.

Furthermore, on page 17, lines 14 –22 of Mr. Neises' direct testimony, he, in effect, implies that without incentives, the Company may or may not get the best deal possible for its ratepayers. He states specifically on lines 18 – 20 when discussing the caps on Laclede's profit potential in achieving cost reductions, "that effort will not be assisted, however, by an artificial cap that basically tells the Company that any concession or benefit above a certain level will be financially meaningless to the Company." This could be construed as an admission that the Company may not do its best unless it receives its "fair share." To my knowledge, Laclede is the only LDC in the state that has basically stated that it will not give its best efforts to reduce the cost of natural gas to its captive ratepayers without added compensation for its shareholders.

Q. Why does Public Counsel feel that allowing Laclede to profit is detrimental for its ratepayers?

A. With regard to this experimental GSIP, Public Counsel believes that allowing Laclede the opportunity to receive extra profit above what it is given the ability to attain through the rate case process is not in the ratepayers' best interests. Laclede, and all LDCs for that matter, have already been given special rate making treatment via the use of the purchase gas adjustment clause that allows Laclede to pass gas costs on to ratepayers on a dollar-for-dollar basis. Ratepayers also already pay for the gas supply function in base rates and the ratepayers deserve the best efforts of those individuals in performing their jobs.

Q. In Mr. Neises' direct testimony, page 15, lines 17 – 23, he discusses the substantial benefits that the ratepayers have enjoyed during the course of the experimental GSIP. Does Public Counsel agree that the experimental GSIP has been successful in producing substantial benefits to Laclede's ratepayers?

A. No.

Q. Why does Public Counsel believe that the experimental GSIP has not been successful?

A. Public Counsel would like to remind the Commission of the winter of 2000/2001. This past winter saw the highest level of natural gas prices in history. A company with an incentive plan in place to achieve low cost natural gas supplies should have not been affected as significantly by such occurrence. Laclede's performance this past winter was not stellar. It was the second Missouri LDC to come in for a rate increase this past winter. The Company has claimed cost reductions of ** __________ ** for its ratepayers from October 2000 through February 2001. These cost reductions cost the ratepayers ** __________ **in profits they had to pay to Laclede's shareholders. The ** __________ ** in net reductions reflect only three percent of the total cost of natural gas paid by the ratepayers. Not a substantial cost reduction. Especially considering the high price paid in profits to the Company.

More specifically, Laclede, during the months of December and January when the price of natural gas was at or near its worst, was only capable of lowering the price of natural gas by ** ________ ** in December, and ** ________ ** in January. During the two months December 2000 and January 2001, total gas costs were ** ________ ** and ** ________ ** respectively. (Source: Staff DR 5003) Considering Laclede then keeps half of those "reductions" as profit one can see that the experimental GSIP did not benefit the ratepayers during these two months. Furthermore, since Laclede was able to acquire its supplies below its established benchmark, the Commission is barred in reviewing Laclede's purchasing activities in a prudence review. Since Laclede's incentive plan did not work during the time of greatest ratepayer need, then the plan should be judged a failure.

Q. Why is the Commission barred from doing a prudence review of Laclede's purchasing activity during this time period?

A. Laclede's tariff regarding the gas procurement portion of the experimental GSIP states that actual gas costs purchased within the prescribed profit grid are deemed prudent. (Laclede Gas Company P.S.C. MO. No. 5 Consolidated, Third Revised Sheet No. 26)

Q. Please discuss in detail why each separate portion (transportation and storage discounts, mix-of-pipeline services, and capacity release) of the experimental GSIP is not in the best interest of Laclede's ratepayers.

A. I will discuss transportation and storage discounts, the mix-of-pipeline services, and then capacity release.

TRANSPORTATION AND STORAGE DISCOUNTS

Q. What percentage of a customer's bill do pipeline transportation and storage charges represent?

A. According to Gas Facts, an informational page Laclede has posted on its website, http://www.lacledegas.com, pipeline transportation and storage represents approximately 10% of the typical residential bill.

Q. What percentage of the alleged cost reductions can be attributed to transportation and storage discounts?

A. Since the inception of the experimental GSIP for the 1996 – 1997 ACA period, the percentage of cost reductions attributable to transportation discounts is as follows: 61.9%, 63.5%, 69.9%, 61.1%, 69%. Obviously, the majority of cost reductions come from this portion of the experimental GSIP.

Q. What percentage of Laclede's profits can be attributable to these discounts?

A. Since the inception of the experimental GSIP for the 1996 – 1997 ACA period, the percentage of profits received by Laclede attributable to transportation discounts is as follows: 31.9%, 32.7%, 41.8%, 31.2%, and 42.3%. Approximately one-third of Laclede's experimental GSIP profits are a result of the discount portion of the experimental GSIP.

Q. How did the establishment of a benchmark affect the cost reductions attributable to discounts and Laclede's related profits?

A. After a year and half of operating with the $13,000,000 benchmark, overall discounts have remained relatively flat, and Laclede's profit level from this portion of the experimental GSIP has increased.

Q. Please provide a table illustrating this point.

A. Based on the data in schedule JAB-3, the following table shows overall discounts and Laclede's profit level:

ACA Period (Oct – Nov)	Overall Discount	Laclede's Profit
1996 – 1997	** ________	________ **
1997 – 1998	** ________	________ **
1998 – 1999	** ________	________ **
1999 – 2000	** ________	________ **
Oct 2000 – Feb 2001	** ________	________ **

Q. Please discuss Laclede's transportation portfolio.

A. Currently, Laclede has transportation on 5 interstate pipelines and 1 intrastate pipeline. The one intrastate pipeline allows Laclede access to another interstate pipeline, in effect giving Laclede access to 6 interstate pipelines. Laclede's 1999 – 2000 Reliability Report lists the following pipelines and capacity:

Pipeline	Maximum Daily Quantity (MMBtus/Day)
MRT (Mainline)	** **
MRT (East Line)	** **
MRT (Southbound)	** **
NorAm	** **
Natural Gas Pipeline (NGPL)	** **
Trunkline	** **
Williams (WNG)	** **
Missouri Pipeline Company	** **

As I stated earlier, each pipeline has a FERC maximum tariffed rate. If Laclede is able to get a lower rate, a discount, the Company is able to keep a percentage of that discount as profit.

Q. How is Laclede able to receive a discount?

A. Laclede claims that the discounts it receives are the result of Laclede's hard work and the incentive plan. However, considering there are six interstate pipelines capable of serving Laclede, the discounts will be there. Further, Laclede's gas supply personnel who are in charge of the negotiations between Laclede and the pipelines are already paid by the ratepayers to perform this function.

Q. Is Laclede locked in to the amounts of capacity it receives from each pipeline?

A. No. In reviewing DR responses to Staff DRs 5005 and 5051, there have been pipelines over the past few years that have made proposals to Laclede to increase pipeline capacity to the St. Louis area. When more competitors enter the transportation market in St. Louis, the ability to receive discounts on the new capacity or receive discounts on current capacity increases. This happens without Laclede having to exert any extra effort. Pipeline companies have a profit motive and are always looking for ways to increase market share. This competition between the pipelines to provide service into the St. Louis area means, in theory, that prices charged by the pipelines will be lower. Lower prices from pipelines are passed through to LDCs by offering discounts off of maximum rates.

Q. Does Laclede recognize this fact?

A. Yes. In its most recent strategic plans under the heading ** ______ ______ ** Laclede recognized that it had ** ______ ______ ** (Source: Staff DR 5030)

Q. Do other LDCs receive transportation discounts?

A. Yes.

Q. Was Laclede receiving discounts prior to the advent of incentive plans?

A. Yes. The first experimental GSIP, approved by the Commission in Case No. GR-96-193, had a discount portion. The profit grid for Laclede allowed it to receive 10% of discounts that were negotiated prior to the experimental GSIP, but after December 1, 1995 (Laclede Gas Company, cancelled tariffs, P.S.C. MO. No. 5 Consolidated, Third Revised Sheet No. 24).

MIX-OF-PIPELINE SERVICES

Q. Please discuss the mix-of-pipeline services.

A. Laclede can profit by decreasing capacity or rearranging pipeline services from its current pipeline suppliers.

Q. What does that mean?

A. It means that as Laclede determines that its previous mix was uneconomical, implying that ratepayers had been paying for unneeded services in the past, it can profit by eliminating excess capacity and/or rearranging services among the various pipelines willing and able to provide service to Laclede and its ratepayers.

Q. Isn't this beneficial to the ratepayers?

A. It is beneficial to the ratepayers that they will not be paying for excess capacity and will be provided with the most economical mix of pipeline services. However, Laclede does not need an incentive to perform these activities. Reducing capacity because too much is under contract is a job that should be done regularly. Consistently reviewing services to ensure that the mix is the most economical for its captive ratepayers should be common. The ratepayers do not have the ability to determine what is the best mix of transportation services for them. They already pay Laclede's employees to do this for them. They should not have to pay Laclede's shareholders more to incent Laclede's employees to do a job they should already be doing.

Q. Is altering pipeline services a new function that Laclede is performing?

A. No, Laclede has had the ability to alter its mix of services to provide the best mix for its captive ratepayers prior to the inclusion of this activity in the experimental GSIP.

CAPACITY RELEASE

Q. Please describe the capacity release portion of the incentive plan.

A. The Company earns profit on certain percentages of capacity release revenues it makes by selling on the open market. This profit percentage was described earlier in my general discussion of the experimental GSIP.

Q. How has Laclede's profit increased due to capacity release?

A. The profits from capacity release, as well as overall cost reductions have fallen substantially since the inception of the experimental GSIP.

Q. What could be a cause for this reduction?

A. A possible cause could be the decision to separate off-system sales and put them in base rates. Since these two components are generally interdependent, off-system sales can not be made unless there is excess capacity available; Laclede has had the incentive to increase off-system sales at the expense of capacity release.

Q. Have off-system sales increased since that component was added to base rates?

A. Yes, the following table illustrates off-system sales and capacity release since the 1996 – 1997 ACA period:

ACA Period (Oct – Nov)	Off-System Sales	Capacity Release
1996 – 1997	** ________	________ **
1997 – 1998	** ________	________ **
1998 – 1999	** ________	________ **
1999 – 2000	** ________	________ **
Oct 2000 – Feb 2001	** ________	________ **

Q. Does Public Counsel have recommendations for how the Commission should treat the various components of the experimental GSIP once it is terminated?

A. Yes.

Q. How should transportation and storage discounts be treated?

A. Discounts should be flowed through to the ratepayers on a dollar-for-dollar basis like they were prior to the experimental GSIP.

Q. How should mix-of-pipeline services be treated?

A. Any changes in the mix of services that Laclede initiates would be evaluated as previously under the old PGA/ACA process.

Q. How should capacity release revenues be treated?

A. Capacity release revenues should be included in base rates like off-system sales.

Q. What amount should be included in base rates with off-system sales?

A. The amount to be included in base rates will be determined at the time of Laclede's next rate case filing. Currently, the amount to be included in base rates would be $1,900,000. This amount was derived by rounding down the average of 1999 – 2000 totals and the annualized amount from 2000 – 2001.

Q. Does Public Counsel have recommendations for each portion of the experimental GSIP if the Commission determines that Laclede should still have an experimental GSIP?

A. Yes.

Q. What is Public Counsel's recommendation regarding discounts if the Commission decides to continue the experimental GSIP?

A. Transportation and storage discounts should be rebased in that instance. The new benchmark level should be set at $22,000,000. This amount was determined by rounding down the average of discounts for 1999 – 2000 and the annualized total for 2000 – 2001.

Q. Why should a new benchmark be set for discounts?

A. Laclede has shown the ability over the past four and a half years to consistently achieve discounts of approximately $20,000,000. This amount was pointed out earlier in my testimony. The concept of an incentive plan is to give the Company an incentive to do better. The current system rewards the Company for maintaining the status quo. In fact, since GT-99-303, Laclede has been given greater reward for maintaining the status quo. Rebasing will give the Company a real incentive to increase its efforts in the area of pipeline and transportation discounts.

Q. What is Public Counsel's recommendation regarding the mix-of-pipeline services if the Commission rules that this portion should remain in the experimental GSIP?

A. The mix-of-pipeline services should have a benchmark established that the Company would have to attain before being allowed to profit. This benchmark should be established at $1,500,000. This level was determined by rounding down the average of the annualized current level of mix-of-pipeline reductions and last years overall cost reductions.

Q. Why should a baseline amount be established for the mix-of-pipeline services?

A. As noted earlier, the Company should have to achieve a real level of cost reductions before it is allowed to profit. Especially considering that the Company is already compensated for looking after the ratepayers best interests by searching for the best, most economical services.

Q. What is Public Counsel's recommendation concerning capacity release?

A. Regarding capacity release, Public Counsel believes that this portion belongs in a rate case as a revenue stream along with off-system sales. However, if the Commission decides to leave capacity release in the experimental GSIP, a benchmark level of capacity release should be included. This benchmark amount should be $1,900,000. Any amounts over this benchmark would then be subject to the grid currently in Laclede's tariffs.

Q. Would the decision to keep capacity release in the experimental GSIP have an effect on off-system sales?

A. Yes. Since these two activities are interdependent, they should be treated in the same manner. Therefore, if the Commission determines that capacity release revenues should remain in the experimental GSIP, Public Counsel recommends the removal of off-system sales from the rate case and placement back into the experimental GSIP. The amount of off-system sales to be included in the experimental GSIP as a benchmark would be established at $2,100,000. Any amounts over this benchmark would then be subject to the grid currently in Laclede's tariffs and described above concerning capacity release would be used to determine Laclede's profit potential.

Q. Should the experimental GSIP have a term limit if the Commission approves it?

A. Yes. If the Commission approves an extension of the experimental GSIP, it should be limited to a three-year term. In this way, parties will have the opportunity to re-evaluate the various components to determine if any changes should be made.

Q. Should any party have the ability to move for termination of the experimental GSIP if the Commission extends it if market conditions or the regulatory environment changes?

A. Yes, all parties should have the ability to move for termination if conditions change enough to effect the performance of the experimental GSIP.

Q. Should the profit caps approved in Case No. GO-2000-395 be extended if the experimental GSIP is continued?

A. Yes.

Q. Please summarize your testimony.

A. My testimony gives Public Counsel's recommendation regarding incentive plans. It is Public Counsel's belief that the experimental incentive plan that Laclede has been operating under for the past five-years is not successful and therefore should be terminated. Public Counsel recommends putting capacity release revenues in base rates with off-system sales and passing the other reductions through the ACA process on a dollar-for-dollar basis. If the Commission still desires to have Laclede operate with an incentive plan, it should be modified. The baseline amount for discounts should be adjusted up to $22,000,000. A baseline amount of mix-of-pipeline services should be established at $1,500,000. If the Commission decides that capacity release should remain in the experimental GSIP, off-system sales should be reestablished in the experimental GSIP and a base amount of $1,900,000 for capacity release and $2,100,000 for off-system sales should be established as benchmarks. Then the current profit mechanism currently in use for capacity release could be used to determine Laclede's profit potential from these two components. The establishment of benchmarks gives the Company goals to attain before it is allowed to receive excess profit.

Q. Does this conclude your testimony?

A. Yes.

Cases of Filed Testimony
James A. Busch

Company	Case No.
Union Electric Company	GR-97-393
Missouri Gas Energy	GR-98-140
Laclede Gas Company	GO-98-484
Laclede Gas Company	GR-98-374
St. Joseph Light & Power	GR-99-246
Laclede Gas Company	GT-99-303
Laclede Gas Company	GR-99-315
Fiber Four Corporation	TA-2000-23; et al.
Missouri American Water Company	WR-2000-281/SR-2000-282
Union Electric Company d/b/a AmerenUE	GR-2000-512
St. Louis County Water	WR-2000-844
Empire District Electric Company	ER-2001-299
Missouri Gas Energy	GR-2001-292

SCHEDULE JAB-2

HAS BEEN DEEMED

HIGHLY CONFIDENTIAL

IN ITS ENTIRETY.