Issue:	Financial Impact of GSIP
Witness:	Glenn W. Buck
Type of Exhibit:	Surrebuttal Testimony
Sponsoring Party:	Laclede Gas Company
Case No.:	GT-2001-329

LACLEDE GAS COMPANY

SURREBUTTAL TESTIMONY

OF

GLENN W. BUCK

May 30, 2001

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) Case No. GT-2001-329
To Its Gas Supply Incentive Plan.)

AFFIDAVIT

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

Glenn W. Buck, of lawful age, being first duly sworn, deposes and states:

1. My name is Glenn W. Buck. My business address is 720 Olive Street, St. Louis, Missouri 63101; and I am Manager, Financial Services for Laclede Gas Company.

2. Attached hereto and made a part hereof for all purposes is my surrebuttal testimony, consisting of pages 1 to 5, inclusive.

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

Glenn W Buck

Glenn W. Buck

Subscribed and sworn to before me this 29th day of May, 2001.

Joyce L. Jansen

JOYCE L. JANSEN
Notary Public — Notary Seal
STATE OF MISSOURI
St. Louis County
My Commission Expires: July 2, 2001

SURREBUTTAL TESTIMONY OF GLENN W. BUCK

Q. Please state your name and business address.

A. My name is Glenn W. Buck, and my business address is 720 Olive St., St. Louis, Missouri 63101.

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

A. I am employed by Laclede Gas Company as Manager, Financial Services.

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

A. I was appointed to my present position in March, 1999. In this position, I am responsible for the financial aspects of rate matters generally, including financial analysis and planning. I am also responsible for the preparation of various financial forecasts and monitoring regulatory trends and developments.

Q. What is your educational background?

A. I graduated from the University of Missouri - Columbia, in 1984, with a Bachelor of Science degree in Business Administration.

Q. Will you briefly describe your experience with the Company prior to becoming Manager, Financial Services?

A. I joined Laclede in August, 1986, as a Budget Analyst in the Budget Department. I was promoted to Senior Budget Analyst in June, 1988, and transferred to the Financial Planning Department in December, 1988 as an Analyst. I was promoted to Senior Analyst in February, 1990, Assistant Manager in February, 1994, and Manager in January 1996 . I acted in that capacity until being appointed to my current position.

Q. Have you previously filed testimony before this Commission?

A. Yes, I have, in Case Nos. GR-94-220, GR-96-193, GR-99-315 and GR-2001-629.

PURPOSE OF TESTIMONY

Q. What is the purpose of your surrebuttal testimony?

A. The purpose of my surrebuttal testimony is to sponsor several analyses relied upon by Laclede witness Kenneth J. Neises in his response to the rebuttal testimony which has been presented by Staff and Public Counsel relating to the Company's Gas Supply Incentive Plan and whether it provides the Company with "enhanced" or "excess" profits. Specifically, I will present evidence to the Commission quantifying the unrecovered costs actually incurred by the Company in connection with its performance of its merchant role on behalf of its customers. I will also provide a comparison of the Company's actual versus authorized returns and show the impact that the GSIP has had on the Company's ability to achieve those returns.

COST OF PERFORMING THE MERCHANT ROLE

Q. Why have you attempted to quantify the unrecovered costs incurred by the Company in connection with its performance of its merchant role?

A. In his surrebuttal testimony, Company Witness K. J. Neises discusses the costs and risks associated with Laclede's requirement to procure, store, and transport natural gas into the local market (the "Merchant Function") in response to a number of assertions made by Staff and Public Counsel in their rebuttal testimony. I have been asked to quantify the costs incurred by the Company in connection with its performance of this Merchant Function as well as the adverse impact gas costs have had on the Company relative to recoveries embedded in the rates resulting from the Company's last general rate proceeding.

Q. What Merchant related costs are not covered as a flow-through in the PGA clause?

A. I have identified six specific areas where gas cost related expenses are not covered under our current PGA clause. They are: 1) financing costs associated with underground storage and propane inventories; 2) the Cash Working Capital effect of natural gas purchases; 3) the gas cost portion of customer deposits; 4) the carrying costs associated with deferred gas costs exclusive of the GSIP and PSP programs; 5) the gas cost related portion of payment plan arrangements mandated under the Cold Weather Rule; and 6) the gas cost component of uncollectible accounts. Further, this calculation excludes salaries associated with the Gas Supply function as well as those of Customer Relations personnel who answer "high bill" calls, Billing and Collections personnel who calculate and process bills and also perform collection activities for slow/no-pay customers and numerous others at the Company who spend some portion of their time on activities prompted by the Merchant Function.

Q. What is the magnitude of the costs associated with the Company's involvement in the Merchant Function for its customers?

A. For the twelve months ended February, 2001, I have conservatively estimated that the Company has or will incur approximately $12.3 million in merchant-related costs that are not currently recovered through the Company's PGA mechanism. Of this amount, only $7.5 million is presently being recovered in rates. The rest, or approximately $4.8 million, is being absorbed by the Company's shareholders. Contrary to the common perception that gas costs are passed through the PGA clause without risk to the Company, my analysis indicates that Laclede faces a very real and potentially significant risk exposure in its Merchant role.

ACTUAL VERSUS AUTHORIZED RETURNS

Q. How long has Laclede been operating under the GSIP?

A. The GSIP was initiated in October, 1996 as a part of the comprehensive settlement of Case No. GR-96-193. In the Stipulation and Agreement for that proceeding, the parties agreed that "amounts realized by Laclede pursuant to the Gas Supply Incentive Plan shall not be reflected in the determination of revenue requirement in any general rate proceeding before the Commission." (Stipulation and Agreement, GR-96-193, Paragraph 3.B)

Q. Has the Company experienced "excess profits" subsequent to initiation of the GSIP, as some have asserted in the proceeding?

A. No. As can be demonstrated from the following chart, in three of the last four years, even with the amounts retained from the GSIP, Laclede has still failed to earn the returns that were explicitly or implicitly authorized by the Commission. Moreover, without the income from GSIP, the income earned by the Company in 1999 and 2000 would have been less than the amount paid out in dividends to our shareholders. Over time, this cannot continue if the Company is expected to have the financial resources available to maintain a safe and reliable distribution system.

Fiscal Year	Authorized/Implied Return	Actual Return on Average Equity	Return On Equity Excluding GSIP Income
1997	11.00%	12.66%	10.88%
1998	11.00%	10.65%	9.15%
1999	10.19%	9.48%	8.27%
2000	10.50%	8.95%	6.90%

Q. Does this complete your testimony?

A. Yes.