

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-2001-629

AFFIDAVIT

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

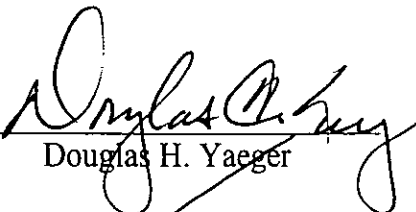
Exhibit No. 24  
Date 6-19-01 Case No. GT-2001-329  
Reporter KF

Douglas H. Yaeger, of lawful age, being first duly sworn, deposes and states:

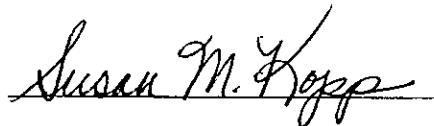
1. My name is Douglas H. Yaeger. My business address is 720 Olive Street, St. Louis, Missouri 63101; and I am Chairman, President & Chief Executive Officer for Laclede Gas Company.

2. Attached hereto and made part hereof for all purposes is my direct testimony, consisting of pages 1 to 18 and Schedule No. 1-2 inclusive.

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

  
Douglas H. Yaeger

Subscribed and sworn to before me this 18th day of May, 2001.



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

Exhibit No.:

Issue:

Witness:

Type of Exhibit:

Sponsoring Party:

Case No.:

Policy

Douglas H. Yaeger

Direct Testimony

Laclede Gas Company

GR-2001-629

LACLEDE GAS COMPANY

GR-2001-629

DIRECT TESTIMONY

OF

DOUGLAS H. YAEGER

**DIRECT TESTIMONY OF DOUGLAS H. YAEGER**

1  
2  
3 Q. Please state your name and business address.

4 A. My name is Douglas H. Yaeger, and my business address is 720 Olive Street, St. Louis,  
5 Missouri 63101.

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

7 A. I am employed by Laclede Gas Company in the position of Chairman of the Board,  
8 President and Chief Executive Officer.

9 Q. Have you prepared a schedule that describes your qualifications and experience?

10 A. Yes, Schedule 1 to my direct testimony describes my qualifications and experience in the  
11 natural gas industry.

12 Q. Why have you submitted testimony in this case?

13 A. The purpose of my testimony in this case is to explain why Laclede is coming before this  
14 Commission seeking rate relief following the burden placed on natural gas customers this  
15 past winter as a result of record cold weather in November and December and the sharply  
16 higher prices which Laclede and virtually every other local distribution company in the  
17 United States had to pay for wholesale natural gas supplies. The simple fact is that we  
18 have no choice. This filing deals with the distribution portion of our customers' bills  
19 through which Laclede must operate its 15,000-plus mile distribution and storage system  
20 (see Chart 1 in Schedule 2 to my direct testimony), not the upstream wholesale gas costs  
21 or pipeline transportation and storage portion.

22 Q. What has Laclede done regarding those upstream costs which represent the majority of  
23 the customer bill?

1 A. We made a concerted effort throughout the heating season to soften the impact of these  
2 weather and market-related forces on our customers. As the Commission knows, we  
3 were able to achieve tens of millions of dollars in price protection benefits for our  
4 customers through the successful operation of our Price Stabilization Program ("PSP").  
5 Additionally, we have benefited our customers by millions of dollars more through the  
6 vigorous pursuit of gas cost savings under the innovative Gas Supply Incentive Plan  
7 ("GSIP") approved by the Commission several years ago. In addition to these efforts, we  
8 also attempted to moderate both the timing and magnitude of the Purchased Gas  
9 Adjustment ("PGA") increases needed to recover these increased wholesale costs and to  
10 expedite reductions in our PGA rates as soon as conditions permitted. Recognizing the  
11 need to supplement these measures, we also liberalized the availability of extended  
12 payment arrangements and worked hard to obtain energy assistance for our most  
13 vulnerable customers.

14 Q. What additional measures have been taken?

15 A. Since the conclusion of the heating season, Laclede has continued to pursue measures  
16 that should help to stabilize the bills of our customers next winter. Our offer to use a  
17 share of our gains under the PSP to supplement that Program's funding for the upcoming  
18 winter, our filing of a Weather Mitigation Clause, and our proposal to add a Fixed Price  
19 Plan to our GSIP are some of the more important steps we have taken in pursuit of that  
20 goal. We also delayed the filing of this rate case for several months in recognition of the  
21 non-distribution-related cost burden imposed on our customers this past winter. In total,  
22 these measures have been taken by Laclede at a considerable cost to the Company.  
23 Nevertheless, we thought these were the right things to better balance the needs of our

1 customers and the financial needs of the Company, and so we did them. However, a  
2 combination of factors have made it impossible to delay our request for rate relief any  
3 longer.

4 Q. What factors are you referring to?

5 A. The Company's need for rate relief has, of course, continued to be driven in part by the  
6 increasing amount of capital costs and operational expenses required to maintain and  
7 expand the 15,000 miles of pipelines that comprise our distribution system and support  
8 reliable, safe gas service to our customers. Between the time the Company's rates were  
9 last increased and the requested update period in this case, the Company will have  
10 increased its investment in net plant by \$44.7 million and incurred more than \$15.4 in  
11 additional operational and maintenance expenses. Unfortunately, the persistent lack of  
12 net customer growth in our service territory and the status of St. Louis as the second  
13 largest victim of per capita population loss in the United States has made it impossible to  
14 offset these cost increases with additional revenues. Nevertheless, these more traditional  
15 increases in our cost of service account for only about one-half of the Company's  
16 requested increase of \$39.8 million. And as important as it is for the Company to recover  
17 these expenses, we might have been able to defer rate relief for a longer period of time  
18 had it not been for the cumulative impact of several detrimental ratemaking practices that  
19 have had a severe impact on the level of resources available to the Company to meet its  
20 public service obligations.

21 Q. Would you please explain what you mean?

22 A. There are three major areas where the fundamental financial resources of the Company  
23 have been seriously diminished as a result of regulatory actions taken over the past

1 several years. First, there has been a failure to fully recognize and make suitable  
2 adjustments for the financial costs and risks that have been imposed on Laclede as a  
3 result of the additional merchant functions in the wake of FERC Order 636, which shifted  
4 to the Company the responsibility for acquiring and financing volatile natural gas  
5 inventories in the summer period for use in the winter months. Second, the Commission  
6 Staff has taken an extremely aggressive position on recognition of pension plan gains,  
7 thereby creating substantial non-cash credits to reduce current revenue requirement at the  
8 expense of future ratepayers and the Company's ability to finance its operations. Third,  
9 there has been a sea change in depreciation methodology that significantly understates  
10 current depreciation expense, again, at the expense of future ratepayers and a serious  
11 degradation in the level of available cash flow to the Company to meet its public utility  
12 obligations. Altogether, the revenue requirement needed to fix the detrimental and  
13 unsustainable impact of these ratemaking practices on the Company's financial situation  
14 accounts for a large and growing portion of our request for rate relief. In essence, the  
15 future is now when it comes to the practice of putting off timely cost recovery of these  
16 expenditures until the "future."

17 Q. Has the Company been able to quantify the magnitude of the impact from these  
18 regulatory practices?

19 A. Yes, in fact there are a number of ways of doing so. One is to simply look at the specific  
20 impact that each of these practices has had on Laclede. For example, as a result of the  
21 Commission's decision in our last rate case to adopt a new method for determining the net  
22 salvage component of the Company's depreciation rates, Laclede now has among the  
23 lowest depreciation rates of any local distribution company in the country which has

severely reduced needed cash flow. Additionally, the detrimental effect of the currently approved accounting methodology to recognize the Company's pension gains and expenses is dramatically illustrated through a comparison of the impact that Staff's non-cash accounting approach has had on the Company's earnings. This is particularly critical in light of recent serious concerns raised by financial oversight agencies regarding the quality-of-earnings impact of these very practices. As shown in the table presented below, nearly a third of the Company's earnings are now being generated by these non-cash accounting conventions -- an amount that is many times greater than the percentage of the pension-related earnings being experienced by other LDCs.

<b>Fiscal 1999 Pension Expense/(Income)</b>			
Company	Pension Expense/(Income) (Millions)	Pre-tax Income ("IBIT") (Millions)	Pension Expense/(Income) as a % of IBIT
Laclede	(\$12.3)	\$40.4	30.4%
AGL Resources	\$7.5	\$113.5	-6.6%
Connecticut Energy	\$0.8	\$24.6	-3.4%
Indiana Energy	(\$0.6)	\$62.5	0.9%
Northwest Natural Gas	(\$0.4)	\$69.5	0.6%
Peoples Energy	(\$21.9)	\$145.2	15.1%
Piedmont Natural Gas	\$0.2	\$96.6	-0.2%
Washington Gas light	(\$0.3)	\$110.0	0.3%

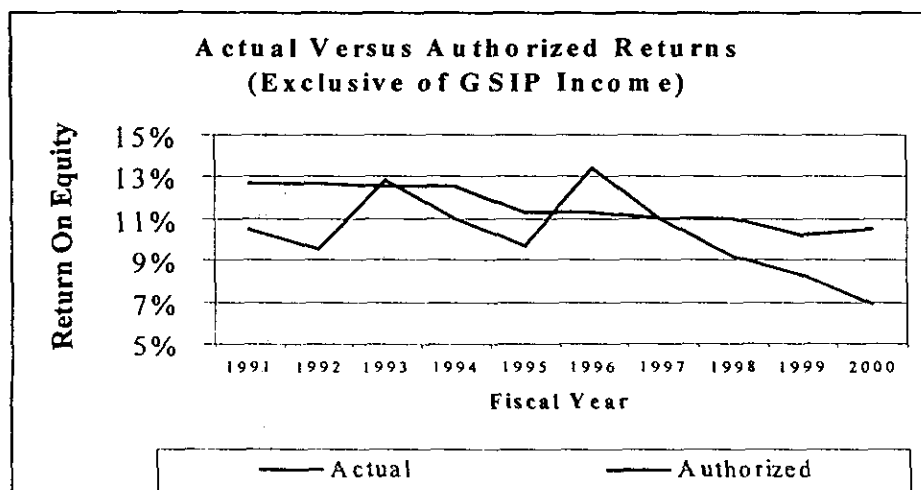
Notably, each of the LDCs depicted in the above table were included in the comparable company analysis performed by Staff in its return on equity testimony in our last rate case.

The detrimental financial impact of unrecovered costs associated with providing a reliable merchant function to meet the Company's obligation to serve has also been significant. In addition to financing the huge costs associated with the gas supply storage inventories needed to serve our customers, the Company has also incurred significant

1 carrying costs in connection with permitting customers to make extended payment  
2 arrangements and with any increase in uncollectibles that may occur between rate cases.  
3 The vast majority of the deferred recoveries to which these carrying costs apply relate to  
4 gas supply costs that are incurred by Laclede because it is in the merchant function with a  
5 strong storage position. As discussed in the direct testimony of Laclede Witness G.W.  
6 Buck, at least \$12.3 million of these merchant-related costs are not currently recovered  
7 through the PGA process. And of this amount, nearly \$5 million are also not being  
8 recovered through base rates. In other words, they are being absorbed by the Company  
9 and its shareholders.

10 Q. Can the impact of these regulatory practices on the Company's financial condition also be  
11 seen on a more macro basis?

12 A. Yes. One only has to look at the annual returns actually earned by the Company in  
13 connection with its distribution operations compared to the returns that were explicitly or  
14 implicitly authorized for Laclede over that same period. Excluding the income earned by  
15 the Company as a result of the GSIP, the graph presented below shows that the Company  
16 has routinely earned significantly less than its authorized return. And, even with GSIP  
17 income included, the Company has still failed to achieve the authorized return in three of





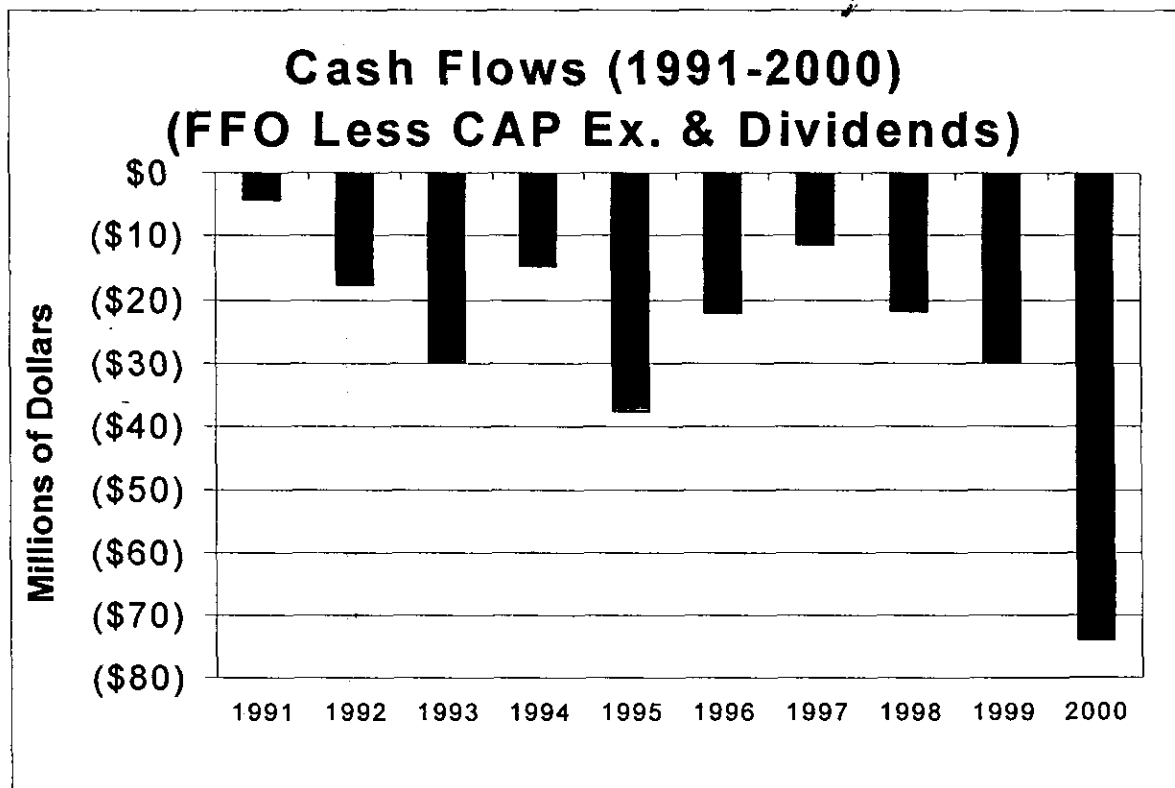
1 the last four years.

2 Q. Can't this shortfall be explained by the fact that the Company's actual O&M expenses  
3 contain expenses that are not traditionally recognized by the Commission?

4 A. No. Even if all of the expenses typically excluded by the Commission from rate  
5 consideration were eliminated, the vast bulk of this shortfall would still exist.

6 Q. Are there other ways of assessing how the financial resources available to the Company  
7 have diminished as a result of these factors?

8 A. Yes. A simple review of the Company's cash flow experience over the past ten years  
9 illustrates how precarious the situation has become over time.



10  
11 As the above graph shows, the Company has been placed in the position of borrowing  
12 more and more money over this period in order to finance its day-to-day operations. The  
13 cash shortfalls are even more glaring than the earnings shortfalls illustrated earlier

1 because an increasing portion of the Company's earnings have been provided by the non-  
2 cash effects of the depreciation and pension accounting policies that I discussed before.

3 This is about as stark and accurate an illustration as you could have of the growing  
4 disparity between what the Company needs to operate its utility business and what it is  
5 currently being provided in rates. Obviously, these trends are not sustainable.

6 Q. Aside from their detrimental impact on the Company, are there other reasons why a  
7 change in these policies is required?

8 A. The direct economic consequences that arise whenever there is material failure to provide  
9 support for critical infrastructure have been made obvious by the events that have taken  
10 place and continue to unfold in the State of California. The clear message is that  
11 economic reality can only be denied for so long. Eventually, one of two things will  
12 happen: either the prices for critical services will increase far more rapidly and far more  
13 sharply when the resource reserves built up over many years are finally exhausted or,  
14 even worse, the very availability of these critical services will be threatened. In fact, the  
15 California experience would suggest that both of these damaging consequences can occur  
16 simultaneously.

17 Q. Are there also indirect consequences associated with the failure to maintain an adequate  
18 energy infrastructure?

19 A. Yes, and they can be just as significant. The fallout from California's failure to meet its  
20 own energy needs has already had a significant effect on the growth of that state's  
21 economy, as power interruptions stop manufacturing processes, impair agricultural  
22 activity and erode the ability to provide a variety of services essential to a well-  
23 functioning economy. Moreover, the threat that such interruptions will continue to

1 persist in the future has prompted many energy-intensive businesses to look elsewhere  
2 when considering where to locate or expand their operations. In fact, it has gotten to the  
3 point where local chambers of commerce outside the State of California are actually  
4 using the relative availability of reliable energy supplies as a major marketing tool to  
5 encourage business relocations from California to their particular areas. It ultimately  
6 comes down to is a fundamental "standard of living" issue. Are we going to pursue the  
7 kind of policies, and provide the kind of financial resources, necessary to maintain the  
8 type of reliable energy infrastructure that is fundamental to our current and future  
9 standard of living or are we going to accept a degradation of that standard of living? If it  
10 is the former, and I hope it is, then there is an obvious need to do more in the future to  
11 provide the level of financial resources that is required to meet this goal. It is inevitably  
12 the case that it is much less burdensome to recognize such needs on a current basis than  
13 to put them off until later when the inevitable becomes unbearable.

14 Q. How is all of this relevant to the Commission's treatment of the Company's request for  
15 rate relief in this case?

16 A. Although neither the Company nor the Commission had any control over the nationwide  
17 factors that contributed to these developments in the energy markets, the Commission  
18 does have the authority, and the responsibility, to pursue policies that will prevent a  
19 repetition of these consequences for the last, but no less significant, segment of the  
20 energy infrastructure that is comprised of Laclede's distribution operations. At a  
21 minimum, I believe this requires that the Commission take an honest, hard look at what  
22 the overall impact its ratemaking policies have had on Laclede and the Company's ability

1 to finance its operations and adopt the various measures we have proposed to ensure the  
2 Company's future ability to provide service on a reliable basis.

3 Q. Please describe what specific actions you believe the Commission should take.

4 A. First, I believe the Commission should adopt the proposal that the Company has made to  
5 deal with the increasing costs and risks that have been imposed on it as a result of FERC  
6 Order 636 ("Order 636").

7 Q. Please describe the impact that Order 636 has had on the Company.

8 A. Generally speaking, prior to implementation of Order 636 in 1993, pipeline companies  
9 were responsible for acquiring the gas supplies and upstream pipeline transportation  
10 capacity, arranging for and financing storage inventories to supplement flowing supply  
11 during the winter months, and scheduling for the transportation of such supplies to the  
12 local distribution companies ("LDCs") on an as-needed basis. All of these costs,  
13 including inventory financing costs, were passed on to the LDCs under FERC tariffed  
14 rates. Such charges were not subject to review at the state level under the Filed Rate  
15 Doctrine. Subsequent to passage of Order 636, pipeline companies became "common  
16 carriers" and the responsibilities for procurement, storage and transportation were placed  
17 with the downstream LDCs.

18 Q. How has passage of Order 636 affected Laclede?

19 A. Laclede has successfully adapted to the rules promulgated under Order 636. The  
20 Company developed in-house expertise in negotiating supply and capacity contracts, and  
21 in arranging for the daily nomination and transportation of natural gas into our local  
22 market. The success of our GSIP attests to our capabilities in this area. The single  
23 biggest financial impact of Order 636 is that Laclede is now responsible for the financing

1 of significant storage inventories. Laclede purchases gas for storage in the summer  
2 months and uses it to supplement flowing gas supplies during the winter months when  
3 demand and, usually, the price is highest. The requirement to finance these inventories  
4 has exposed Laclede to the interest rate and leverage risks associated with highly volatile  
5 natural gas prices.

6 Q. How are inventory costs currently recovered in rates?

7 A. Under current ratemaking, inventory costs are recovered through base rates based on a  
8 proforma level of gas inventories, usually a 13-month average balance, at the Company's  
9 average financing rate. Because inventory levels exhibit a highly seasonal investment  
10 requirement, most companies, including Laclede, finance a portion of their inventories  
11 with short-term debt, using some variation on a "peak – average" or "peak – minimum"  
12 basis. As an illustration of the seasonality of inventories, one only has to look to the  
13 calendar year ended December. During the 12 months ended December, 2000, Laclede's  
14 natural gas inventory levels, on both the Company-owned and MRT fields, ranged from a  
15 minimum month-end investment of \$18.5 million to a high of \$119.7 million.

16 Q. What impact does this have on Laclede and its customers?

17 A. Recovery of inventory investment through base rates can result in a significant over- or  
18 under-recovery of these costs by the Company due to changes in interest rates, inventory  
19 volumes or volatile natural gas prices. If short-term interest rates increase or the price of  
20 natural gas spikes during periods of injection, the utility will absorb significantly higher  
21 financing costs than is embedded in base rates. Conversely, should interest rates decline  
22 or natural gas prices plummet, the utility will enjoy a windfall to the detriment of our  
23 customers, all based on factors generally beyond the control of the Company. On a

1 broader level, however, the approach taken by Staff and Public Counsel for dealing with  
2 these costs can seriously undermine the Company's ability to finance this investment. In  
3 effect, rising prices or rising interest rates will require that the Company expend more  
4 short-term debt to finance its inventories. This higher level of short-term debt is then  
5 recognized by Staff and Public Counsel in determining the Company's capital structure.  
6 Because short-term debt is generally less expensive than other capital, this approach, in  
7 turn, reduces the amount of revenue requirement available to the Company thereby  
8 necessitating that it take out even more short-term debt to finance its inventories in the  
9 future -- an increase that will once again be recognized by Staff and Public Counsel when  
10 the Company again seeks rate relief. Obviously, this circular, downward pressure on the  
11 Company's financing resources is not sustainable over the long-term.

12 Q. How does Laclede propose to mitigate the impact of this issue on the Company and its  
13 customers?

14 A. As discussed in the direct testimony of Company Witness M. T. Cline, the Company is  
15 proposing that the financing costs related to natural gas and propane inventories be  
16 passed through the PGA clause, much in the way they were prior to the passage of FERC  
17 Order 636. In this manner, both the Company and its customers will be protected from  
18 paying or recovering more -- or less -- than is necessary to ensure the reliable and cost  
19 effective natural gas supplies our customers expect. While this will only address part of  
20 the problem, it is an appropriate and needed step in the right direction.

21 Q Does the Company also have a proposal for dealing with the pension plan issue that you  
22 discussed earlier?

1 A. As discussed more extensively by Company Witness J. A. Fallert, when FAS 87  
2 accounting was first adopted, the Company's approach to recognizing pension plan gains  
3 and losses tended to smooth out market gains and losses which varied from expected  
4 market returns. This approach was adopted because market returns, although variable  
5 from year to year, trend toward a median over time. In other words, higher than expected  
6 returns one year could be 'smoothed out' to offset lower than expected returns in the next  
7 year. Under this method, pension expenses and the related revenue requirement were less  
8 volatile while still reflecting actual market results over time.

9 Q. How has the regulatory treatment of pension plan expenses changed over time?

10 A. The Commission Staff has, in recent years, championed an extremely aggressive  
11 approach toward amortization of these gains and losses by removing virtually all the  
12 smoothing mechanisms previously adopted. These changes have resulted in several  
13 consequences that are detrimental to the Company and the long-term interests of its  
14 customers: 1) near-term revenue requirement has been reduced at the expense of future  
15 ratepayers as the Company's pension asset, upon which we earn a return, is now one of  
16 the largest items of rate base; 2) the cash supplied by the Company's regulated earnings  
17 has been significantly reduced, both in absolute terms and in comparison to our peers,  
18 due to the non-cash earnings related to pension credits; and 3) the Company's pension  
19 expense, as well as those of other utilities in the state, will increase dramatically from  
20 year to year, thereby exposing customers to increased volatility as rates must increase  
21 significantly to recover the increased costs. This can largely be avoided. Pension plan  
22 gains and losses, like interest rates and wholesale gas prices, are volatile items largely  
23 beyond the control of the Company or our customers. Again, it is in the best interest of

1 our customers to stabilize rates to the extent possible and to recover these costs over the  
2 longer term, better matching cost incurrence with the customers benefited. Management  
3 of these volatile returns and their potentially substantial effect on Company earnings and  
4 cash requirements needlessly detract management attention away from what we are truly  
5 here to do -- provide safe and reliable service at reasonable prices to our customers --  
6 while depriving the Company of the financial resources it requires to accomplish that  
7 goal.

8 Q. How is the Company proposing to resolve this issue?

9 A. As discussed by Mr. Fallert, Laclede is suggesting that pension expense be recovered on  
10 a more stable basis, utilizing the smoothing mechanisms that existed upon our initial  
11 adoption of FAS 87 accounting. In retrospect, this is, in the Company's opinion, the  
12 appropriate time to make such an adjustment as the markets have experienced a recent  
13 substantial downturn that, under current accounting, have resulted in an accelerated  
14 amortization of significant market losses and the corresponding revenue requirement  
15 impact.

16 Q. Turning to the subject of depreciation, how has the regulatory practice regarding the  
17 setting of depreciation rates changed over the last decade?

18 A. As I previously indicated, the Commission Staff has taken one of the most radical  
19 approaches to depreciation accounting in the country -- in effect, creating a new form of  
20 capital cost recovery that flies in the face of methods used by virtually every regulatory  
21 body and that contravenes the theories of virtually every depreciation authority in the  
22 country. Such methodology, again, artificially lowers current revenue requirement for  
23 current ratepayers at the expense of both the Company and future customers. The Staff



1 methodology is such an extreme departure from normal depreciation accounting practice  
2 that gas, electric and combination companies in Missouri have taken a significant step in  
3 joining together to file an Amicus Curiae Brief in St. Louis County Water's currently  
4 pending case related to this issue. When the various types of utilities in the state consider  
5 it important enough an issue to come together in opposition, there is a strong indication  
6 that the Commission should give careful consideration to the rate implications of the  
7 practice in question.

8 Q. In what way did the Staff change its methodology?

9 A. As discussed more completely in the direct testimony of Company Witness R. L.  
10 Sherwin, the Staff has taken the untenable position that net salvage of capital assets  
11 should be recovered as an item of expense, rather than the almost universally accepted  
12 method of recovering this capital cost through the depreciation accrual. The practical  
13 application of the Staff's approach is to provide recovery in rates of only the current net  
14 salvage experienced in recent years. For example, if the Company were to retire an asset  
15 having considerable net salvage cost, current customers would bear the full burden of that  
16 cost while only having consumed a portion of the economic value of the asset. Similarly,  
17 if a new class of assets was created, current customers would take no responsibility for  
18 the eventual net salvage, while enjoying the benefits of the assets being used. Not only  
19 does this create questions of intergenerational inequity, but it also seriously diminishes  
20 the financial resources available to the Company to carry out its public utility obligations  
21 today.

22 Q. Is Laclede sponsoring more traditional depreciation rates in this proceeding?

1 A. Yes. Mr. Sherwin is sponsoring depreciation rates in this proceeding based on the  
2 depreciation methodology endorsed both by this Commission in the past, as well as  
3 NARUC and virtually every other regulatory body in the country. I would strongly  
4 recommend that the Commission adopt these proposed depreciation rates.

5 Q. Are there any other matters that you believe the Commission should focus on in this  
6 case?

7 A. Yes. Over the past four or five cases, the Company and Staff have had a major dispute  
8 over the proper way to normalize weather for purposes of determining the expected  
9 revenues to be received by the Company during the period rates will be in effect. As a  
10 result of the settlement in the last case, the Company, Staff and other parties have worked  
11 with an outside expert to address this issue. Based on the results of that effort, the  
12 Company continues to believe that establishing a weather normal based on ten-years of  
13 data is not only appropriate but the only feasible alternative available. Moreover, the  
14 Company is more convinced than ever that the thirty year approach previously  
15 recommended by Staff is inappropriate, particularly in light of the rather astounding fact  
16 that the normal produced by Staff's approach would suggest that this past winter was  
17 slightly warmer than normal, notwithstanding the record cold spell experienced in  
18 November and December. As discussed by Company Witness P.A. Krieger these  
19 considerations, among others, warrant adoption of the weather methodology proposed by  
20 the Company in this case. I should add, however, that in the event the Commission  
21 adopts the Weather Mitigation Clause that has been proposed by Laclede separately from  
22 this proceeding, the need to select the exact weather normal recommended by the  
23 Company in this case becomes less compelling.

1 Q. Do you have any concerns regarding the long-standing approach that has been taken by  
2 Staff and Public Counsel in determining the return on equity that should be authorized for  
3 the Company?

4 A. Yes. And I believe that this is a final major issue that the Commission should give  
5 particular attention to in this case. This Commission has traditionally determined a  
6 utility's allowed return on equity based primarily on the results of Discounted Cash Flow  
7 ("DCF") analyses submitted for its consideration. As we discussed at length in our last  
8 rate case proceeding, such an approach, absent a market-to-book adjustment, seriously  
9 understates the Company's required return on equity in that it provides a return on the  
10 current market value of Laclede's stock that is only marginally above the returns earned  
11 by risk free investments. Nevertheless, while Laclede witness Kathleen McShane has  
12 calculated what return on equity would be required to recognize these market realities,  
13 the Company has based its request for rate relief in this case on the results of  
14 Ms. McShane's DCF analysis. This is consistent with the Commission's determination of  
15 this issue in the Company's last rate case. At the same time, however, it is imperative  
16 that the Commission once again reject any effort by Staff or Public Counsel to derive a  
17 return for Laclede that is based on a Company-specific analysis of Laclede rather than an  
18 analysis of the returns required for companies with comparable risks. It is my  
19 understanding that the Commission has a fundamental legal obligation to base its return  
20 for Laclede on such comparable analysis. Moreover, such an approach is absolutely  
21 essential if the circular effects of basing Laclede's return solely on how well or how  
22 poorly the Company is treated by the Commission's own regulatory policies is to be  
23 avoided. Finally, such an approach is necessary if Laclede is to receive the same kind of

1 regulatory treatment afforded to other utilities that are not subject to having their returns  
2 determined based on such a Company-specific analysis.

3 Q. Would adoption of the measures you have discussed in your testimony impose a  
4 significant financial burden on the Company's customers?

5 A. No, and certainly not in the context that the situation only worsens the longer it is not  
6 adequately addressed. In relative terms, granting the Company's entire request for rate  
7 relief would increase the overall rates to our customers by approximately 5%. To put that  
8 figure in perspective, that represents less than a fifth of the rate change amount that the  
9 Company had to make this past January to reflect changes in wholesale gas costs.  
10 Indeed, even with the full amount of rate relief requested by the Company, the amount of  
11 the customer's bill designed to compensate our shareholders for constructing and  
12 maintaining the 15,000 miles of pipe required to provide them with natural gas service  
13 will still be around 5% of the customer's bill. Moreover, I am confident that adoption of  
14 these proposals would permit the Company to break out of its pattern of revolving rate  
15 cases and allow us to bring stability to our distribution rates for a number of years to  
16 come. In contrast, the long-term risks of not doing something in this case to change  
17 direction are far higher. If the standard of reliability that Laclede's customers have come  
18 to expect and demand is to be preserved, it is absolutely essential that strong steps be  
19 taken now to provide the Company with the modest amount of rate relief that is necessary  
20 to enable it to carry out its fundamental public utility obligations.

21 Q. Does this conclude your direct testimony?

22 A. Yes, it does.

**QUALIFICATIONS AND EXPERIENCE  
OF  
DOUGLAS H. YAEGER**

**Educational Qualifications**

Mr. Yaeger received a Bachelor of Science Degree in Business Administration in 1971 from Miami University, in Oxford, Ohio. In 1976, he graduated from St. Louis University, St. Louis, Missouri, where he received a Master of Business Administration Degree. In May of 1992, he completed the Advanced Management Program in the Harvard Business School, in Boston, Massachusetts.

**Employment Experience**

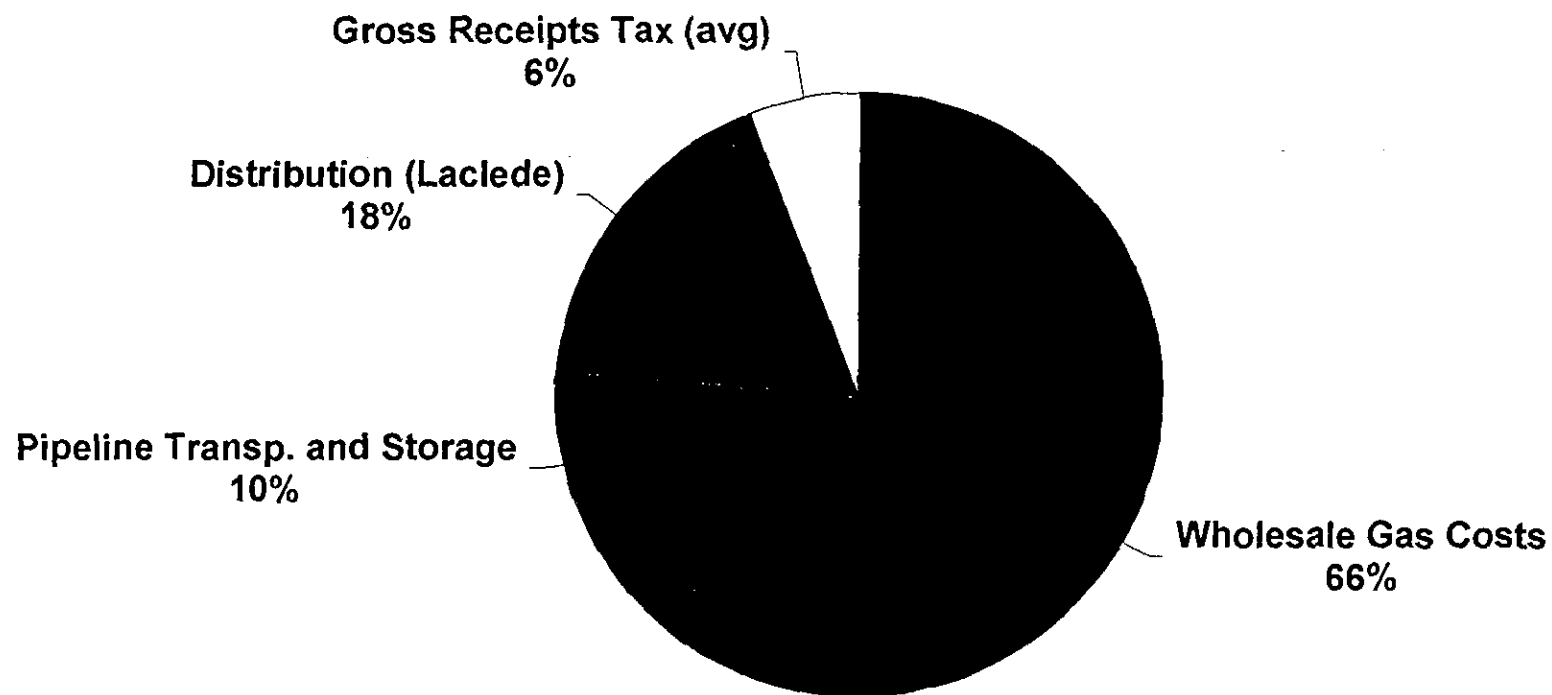
During most of the period from July 1971 through November 1990, Mr. Yaeger was employed by Mississippi River Transmission Corporation (MRT), an interstate natural gas pipeline, which primarily serves the Greater St. Louis Metropolitan Area. While employed at MRT, he held various positions in that Company's rates, regulatory affairs, gas supply, sales, marketing and accounting departments. At the time he left MRT, he held the position of Executive Vice President, with management responsibility for the areas of marketing, planning, budgets and administration, transportation and exchange and information services.

Mr. Yaeger joined Laclede as Vice President-Planning in December 1990. From September 1992 to September 1995, he served as Vice President and then Senior Vice President-Operations, Gas Supply and Technical Services. In September 1995, he was elected to the position of Executive Vice-Operations and Marketing, where he assumed management responsibility for both operations and the Company's marketing activities. With his election to the position of President and Chief Operating Officer, effective in December of 1997, Mr. Yaeger assumed overall management responsibility for all of the Company's day-to-day operations. He was elected to his current position effective January 1, 1999 and assumed the position of Chairman of the Board of Laclede on January 28, 1999.

**Previous Testimony**

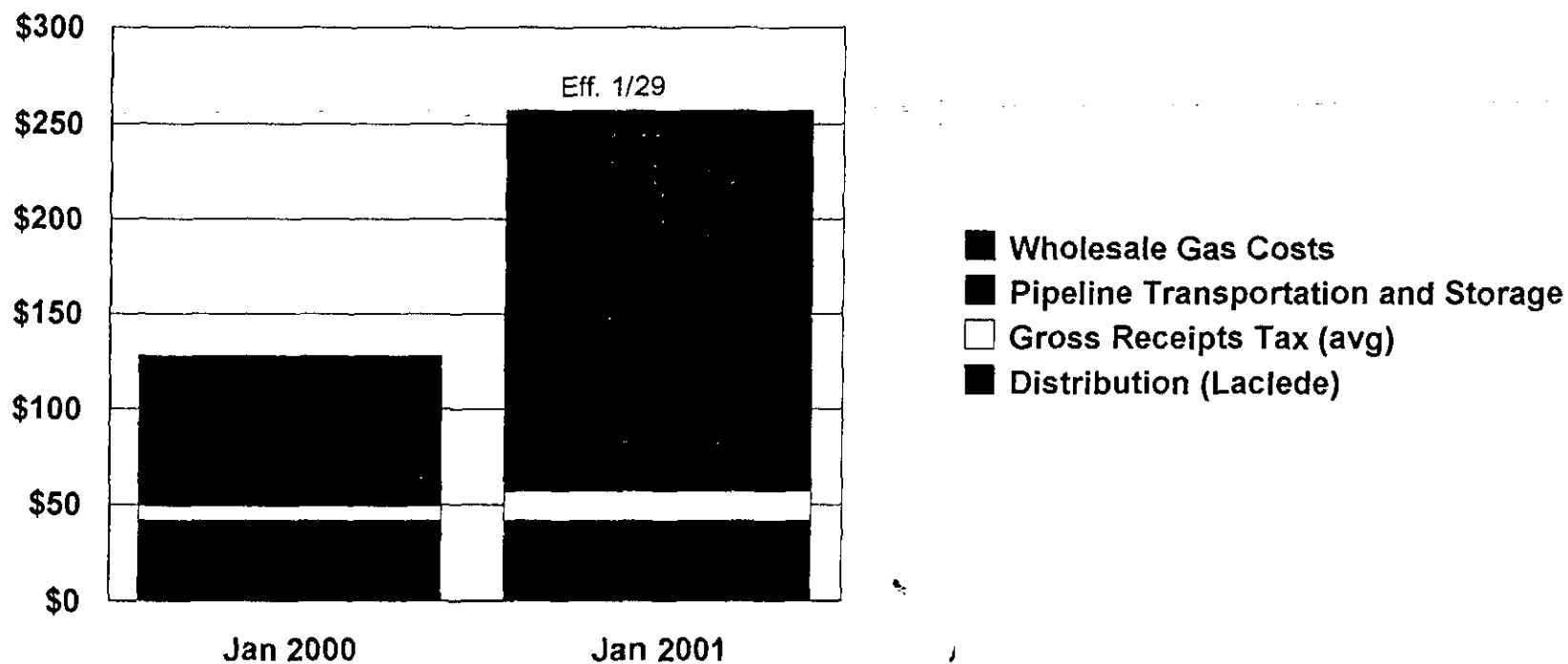
Mr. Yaeger has submitted pre-filed testimony and participated in the proceedings in Case No. GA-98-126 regarding the initial application of Missouri Pipeline Company for certificate authority to transport natural gas in the State of Missouri. He also submitted testimony in Laclede's four most recent general rate case proceedings, Case Nos. GR-94-220, GR-96-193, GR-98-374 and GR-99-315.

**LACLEDE GAS COMPANY  
TYPICAL RESIDENTIAL WINTER 2000-2001 GAS BILL  
WHERE EACH DOLLAR GOES**



\* Gross receipts taxes vary by municipality

# **LACLEDE GAS COMPANY TYPICAL RESIDENTIAL GAS BILL\* JAN 2000 VS JAN 2001**



\* Based on normal weather