Exhibit No.:	
Issue:	PGA revisions to address gas cost portion of bad debt write-offs
Witness:	Michael T. Cline
Type of Exhibit:	Surrebuttal Testimony
Sponsoring Party:	Laclede Gas Company
Case No.:	GT-2009-0026
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LACLEDE GAS COMPANY

GT-2009-0026

SURREBUTTAL TESTIMONY

OF

MICHAEL T. CLINE

NOVEMBER 2008

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SURREBUTTAL 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 the same Michael T. Cline who previously filed direct testimony in this proceeding?

A. Yes.

Purpose of Testimony

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

A. The purpose of my testimony is to respond to certain rebuttal testimony filed by Staff witnesses Thomas Solt and David Sommerer and Office of the Public Counsel ("OPC") witness Russell Trippensee. Specifically, I will: 1) explain why the gas cost portion of bad debt write-offs is a direct gas cost that should be eligible for true-up through the Company's Purchased Gas Cost Adjustment ("PGA") clause; 2) address allegations related to single issue and retroactive ratemaking; 3) illustrate why the Company's proposal is necessary in light of the recent volatility and magnitude of gas costs; 4) explain why concerns regarding a precise quantification of the gas cost portion of bad debts are exaggerated; and 5) address other miscellaneous matters. Company witnesses Glenn Buck and Russell Feingold will respond to certain other rebuttal of my direct testimony.

The Gas Cost Portion of Bad Debts Is a Direct Gas Cost

Q. On page 4 of his rebuttal testimony, Mr. Solt states that "bad debt is not a gas cost". And again on page 5, Mr. Solt states that "bad debts are not direct gas costs". Do you agree?

A. Under the assumption that Mr. Solt is referring to the gas cost portion of bad debts, which is the particular cost that is being addressed in the Company's proposed tariff filing, my answer is obviously no. The gas cost portion of bad debts is, in fact, a gas cost and a direct one at that. It is hard to believe that one could rationally construe it any other way. There is no denying that bad debts, or more precisely from an accountant's perspective, the provision for bad debts, occupies a different line in the Company's income statement. However, there is also no denying that the revenues that are being written-off when a customer fails to pay a bill are predominantly gas cost related. The fact that a customer failed to pay their gas bill does not alter the gas cost origin of most of the charges that were billed to that customer.

Q. What are the various types of costs that are considered gas costs for recovery through the Company's PGA clause today?

A. These costs include the cost of the gas supply itself, the costs to reserve those supplies, the various costs incurred by the Company to provide for the transportation of those supplies from producing regions to the St. Louis area, and the cost of natural gas pipeline company storage of such gas. These costs, as well as financial hedging costs, deferred gas cost carrying costs and gas inventory carrying costs, are all indistinguishable from, and in fact are identical to, those costs which comprise the gas cost portion of bad debts, the only difference being whether a customer has paid their gas bill or not. For example, if Mr. Solt and his neighbor both purchased the same amount of gas from Laclede, the cost of gas for Laclede to serve both of these customers is identical. Yet, if Mr. Solt pays his bill but his neighbor does not, Mr. Solt somehow would have us pretend that the gas cost origin of his neighbor's bill suddenly and inexplicably disappears.

Q. Isn't your proposal analogous to what occurs today through the Actual Cost Adjustment ("ACA") portion of the Company's PGA clause?

A. Yes. The ACA recognizes that, even though customers' bills include charges to recover the cost of gas, there needs to be a true-up to ensure that in the end the Company's gas cost related revenues match its gas costs. For example, if the Company sells more or less volumes of gas than the level used to establish rates, it may over recover or under recover its fixed gas supply costs. As a result, the ACA subsequently credits or charges customers to correct that mismatch. The same type of correction is warranted for the difference between the gas charges that are left unpaid by customers when the Company writes off bad debts and the gas charges that were included in the bad debts used to establish rates in the Company's last general rate proceeding. In both of these instances there is a mismatch between what the Company paid for gas and what it collected from customers to recover those costs. In summary, it's perplexing to me how someone with any knowledge at all of the Company's cost structure and the nature and characteristics of the gas supply and transportation resources it acquires to serve its customers can somehow contend that, by customers not paying bills, the gas cost portion of the bill loses its identity as a gas cost.

The Company's Proposal Is Not Single Issue Ratemaking

Q. How do you respond to Mr. Trippensee's allegation on page 6 of his rebuttal testimony that the Company's proposal "constitutes single issue ratemaking"?

A. Mr. Trippensee's label for the Company' proposal is a convenient and familiar crutch on which he relies to attempt to dissuade the Commission of the merits of the Company's proposal and which also appeals to a principle that has not been consistently applied over the years.

Q. Please explain.

A. First, I have been advised by legal counsel that the Company's proposal does not run afoul of any kind of single issue ratemaking prohibition, notwithstanding Mr. Trippensee claims to the contrary. Second, PGA treatment can undeniably go both ways for both the customer and Company. The Company's proposed PGA treatment of the gas cost portion of its bad debt write-offs is decidedly unlike other instances where it could be argued that addressing a single issue in between rate cases was likely to have a one-sided impact on customers. To the contrary, given the extreme volatility in natural gas prices and the recent and dramatic declines in those prices, PGA treatment of the gas cost portion of bad debts is just as likely to have a positive impact on the customer over the short-term. Third, while Mr. Trippensee may choose to ignore it, the fact remains that the Commission has routinely considered or made changes in the Company's tariffs between rate cases, some of which have been recommended by OPC itself. Among others, these have included: (1) consideration of changes to the rate design of Laclede's PGA; (2) revisions to Laclede's Gas Supply Incentive Plan; (3) changes to the Cold Weather Rule which significantly affected the Company's ability to collect past due amounts as a condition of restoring or retaining service; (4) implementation of financial hedging requirements and measures for gas supply costs, together with PGA revisions designed to address the cost of such requirements; and (5) changes to other terms and conditions of providing service to the Company's customers. Notably, some of these changes did or could have had a financial impact on Laclede equivalent to or even greater than anything that might result from the Company's proposal in this case. If parties are free to propose, and the Commission is free to adopt these kinds of changes between rate cases, I can see absolutely no practical, equitable or theoretically consistent basis for OPC's single issue ratemaking claims in this case. This is especially true in a situation such as this where there is a direct link between gas costs and the gas cost portion of bad debts and even when, unlike the other examples I cited above, the customers' rates are just as likely to be lowered as raised due to volatile natural gas prices.

The Company's Proposal Is Not Retroactive Ratemaking

Q. Do you agree with Mr. Trippensee's characterization on pp. 13-14 of his rebuttal testimony that Laclede's proposed treatment "perfectly describes retroactive ratemaking"?

A. No. Again, I have been advised by legal counsel that there is no merit to Mr. Trippensee's claim. In fact, it is apparent to me that Mr. Trippensee is simply resorting to using another regulatory taboo in his efforts to misrepresent the nature and effect of Laclede's proposal. Despite Mr. Trippensee's claims to the contrary, the Company only intends to implement its bi-directional proposal on a prospective basis. The Company does not seek to recover or return any difference, positive or negative, in the gas cost portion of past bad debt write-offs. Instead, as clearly described in the Company's proposed tariff sheets, the gas cost portion of bad debt write-offs would be used in the Company's ACA gas cost reconciliation beginning only with those write-offs that occur with the effective date of the proposed tariff sheets, not for any write-offs occurring before that time. For Mr. Trippensee to suggest otherwise is misleading.

Potential Changes in the Gas Cost Portion of Bad Debts In Today's Volatile Market Warrants a New Recovery Approach

Q. On page 10 of his rebuttal testimony Mr. Trippensee downplays the significance of changes in bad debts write-offs in recent years. Do you agree with his conclusion?

A. No, I do not agree with Mr. Trippensee for two reasons. First, the gas cost portion of the changes he illustrates while perhaps not significant when translated into rates for an individual customer would have a meaningful impact on the Company's earnings. Secondly, the gas price volatility we have witnessed since the start of this year is cause for concern in terms of its potential impact on bad debts. Natural gas prices peaked above $14 per MMBtu on the New York Mercantile Exchange earlier this summer, yet today prices have dropped precipitously in a relatively short period of time back to levels below where they were at the start of 2008. Rather than have customers pay more for the gas cost portion of bad debts in a falling price environment or have the Company absorb unnecessary losses in a rising price environment, the Company's proposal should be adopted as a fair resolution for both sides.

The Concern That the Gas Cost Portion of Bad Debts Cannot Be Precisely Quantified Is a Red Herring

Q. On page 6 of his rebuttal testimony Mr. Solt claims that the "bad debt expenses included in a PGA/ACA mechanism are not auditable". Also, Mr. Sommerer on pages 5-6 of his rebuttal testimony makes numerous allegations about the lack of precision in the Company's proposal, leaving the Commission with the impression that such should be a major obstacle to its approval. How do you respond to these concerns?

A. These statements and accusations are nothing more than a reflection of the Staff's unwillingness to work with the Company on a more progressive and improved means for the Company to recover, and for customers to pay, costs that are far more volatile than any other costs the Company incurs. The fact remains that the gas costs which the Company incurs to serve customers who do not pay their bills are just as auditable as any other gas cost. In fact, they are currently audited in exactly the same way and nothing in the Company's proposal would change that. Indeed, all the Staff needs to do is to ensure that the Company has not recovered any more than its prudently incurred gas costs by tracking what those costs are from year to year and its mission will be complete. Given its access to all supplier invoices that should not be a problem. I am also amazed that Mr. Sommerer would raise a concern that implementation of the Company's proposal would be problematic because of the need to use estimates. In fact, implementation of the Company's proposal will do just the opposite by substituting actual gas costs as the basis for charging customers rather than someone's guesstimate of what those gas costs might be in a rate case. If the Staff is looking for more precision and less estimating in the ratemaking process then implementation of the Company's proposal is the solution, not the problem.

Q. In the event the Commission concluded that this was a valid concern, however, is there an alternative approach for addressing it?

A. I believe that the Staff would be hard-pressed to deny that gas costs comprise the majority of the Company's costs and that an attempt like the Company's to quantify such costs produces a more accurate result for both the Company and its customers. Nevertheless, if the Staff's main reluctance to embrace the Company's proposal is grounded in some perceived imprecision in attempting to estimate what everyone knows to be reality, that being that bad debt write-offs are predominantly gas cost related, there are alternative methods that could be explored. For example, gas costs and non-gas costs could be split by simply multiplying the ratio of bad debt write-offs to total revenues in each ACA year by the Company's actual gas costs and comparing the result to the level built into base rates.

Miscellaneous Matters

Q. What is the relevancy in this proceeding of Laclede Energy Resources which Mr. Sommerer mentions on pp. 6-7 of his rebuttal testimony?

A. Absolutely none.

Q. On page 7 of his rebuttal testimony Mr. Solt states that the Company is "proposing to recover 75% of any differential between the level of bad debts it is actually incurring" and the amount of gas cost embedded in base rates. Do you agree with his statement?

A. No. The Company's tariff refers to the difference between the amount of gas cost embedded in base rates and the gas cost portion of actual write-offs. The percentage of write-offs related to gas cost will fluctuate from period to period primarily depending on the magnitude of gas prices but will not necessarily be 75% as it was during the period used in the establishment of the Company's base rates.

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) Designed to Permit Early Implementation of) Cold Weather Rule Provision and to Permit) Laclede to Collect Bad Debt Through the PGA)	Case No. GT-2009-0026

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 and Rate Administration of Laclede Gas Company.

2. Attached hereto and made a part hereof for all purposes is my surrebuttal 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 20th day of November, 2008.

Karen A. Zurliene

Notary Public

My Commission expires: 2/18/12

KAREN A. ZURLIENE
Notary Public - Notary Seal
STATE OF MISSOURI
St. Louis City
My Commission Expires: Feb. 18, 2012
Commission # 08382873