

<b>Exhibit No.:</b>	
<b>Issue:</b>	<b>Compliance with Stipulation and Agreement in Case No. GM-2001-342</b>
<b>Witness:</b>	<b>Michael T. Cline</b>
<b>Type of Exhibit:</b>	<b>Direct Testimony</b>
<b>Sponsoring Party:</b>	<b>Laclede Gas Company</b>
<b>Case No.:</b>	<b>GC-2011-0006</b>
<b>Date Testimony Prepared:</b>	<b>December 15, 2010</b>

**LACLEDE GAS COMPANY**

**GC-2011-0006**

**DIRECT TESTIMONY**

**OF**

**MICHAEL T. CLINE**

**DECEMBER 2010**

**DIRECT TESTIMONY OF MICHAEL T. CLINE**

1

2 Q. Please state your name and address?

3 A. My name is Michael T. Cline and my business address is 720 Olive Street, St.  
4 Louis, Missouri 63101.

5 Q. What is your present position?

6 A. I am Director of Tariff and Rate Administration at Laclede Gas Company  
7 ("Laclede" or "Company").

8 Q. Please state how long you have held your present position, and briefly describe  
9 your responsibilities.

10 A. I was promoted to my present position in August 1999. In this position I am  
11 responsible for administration of Laclede's tariff. In addition, I perform analyses  
12 pertaining to Laclede's purchased gas costs and various federal and state  
13 regulatory matters which affect Laclede.

14 Q. Please describe your work experience with Laclede prior to assuming your current  
15 position.

16 A. I joined Laclede in June 1975 and have held various positions in the Budget,  
17 Treasury, and Financial Planning departments of the Company. In 1987, I began  
18 work in areas related to many of my duties today.

19 Q. What is your educational background?

20 A. I graduated from St. Louis University in May 1975, with the degree of Bachelor  
21 of Science in Business Administration, majoring in economics.

22 Q. Have you previously submitted testimony before regulatory bodies?

1 A. Yes. I have submitted testimony in numerous proceedings before this  
2 Commission which I have identified in Schedule MTC-1 that is attached to this  
3 testimony. I have also testified before the Illinois Commerce Commission and the  
4 Federal Energy Regulatory Commission.

5 **PURPOSE OF TESTIMONY**

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

7 A. The purpose of my direct testimony is to explain what steps the Company has  
8 taken to fulfill its obligations under the 2001 Unanimous Stipulation and  
9 Agreement in Case No. GM-2001-342 ("2001 S&A") to provide certain  
10 information relating to transactions between the Company and its affiliates. As  
11 discussed below, I believe that the Company has fully complied with its  
12 obligations in this regard and that any contention to the contrary is both inaccurate  
13 and based on an approach to pricing certain affiliate transactions that is directly  
14 contrary to the pricing standards endorsed by the parties to that agreement.

15 **COMPLIANCE WITH THE 2001 S&A**

16 Q. Are you familiar with the 2001 S&A and the procedures it established for  
17 ensuring that transactions between the Company and its affiliates would be  
18 conducted in a manner that prevents inappropriate cross-subsidization between  
19 regulated and unregulated activities?

20 A. Yes. As Laclede witness Patricia Krieger states in her direct testimony, the 2001  
21 S&A endorsed the use of a Cost Allocation Manual or CAM as the mechanism for  
22 ensuring that transactions between the Company and its affiliates would be priced  
23 in a way that achieved this goal. It also obligated the Company and its affiliates

1 to provide information to the Staff and the Office of the Public Counsel (“OPC”)  
2 to the extent such information was reasonably necessary to verify compliance  
3 with the CAM.

4 Q. How does the CAM operate to prevent inappropriate cross-subsidization between  
5 the Company and its affiliates?

6 A. Consistent with the Commission’s Affiliate Transactions Rules (“Rules”), the  
7 CAM prevents such cross-subsidization by establishing specific pricing standards  
8 for purchases and sales of various kinds of goods and services between the  
9 Company and its affiliates. While the CAM’s pricing standards mirror those of  
10 the Rules, the CAM provides more definition and practical detail in certain  
11 matters, including how to determine the fair market price of gas supply purchases  
12 and sales – the area that has been the focus of the ongoing dispute between the  
13 Company and Staff.

14 Q. Is this the kind of additional detail that the Commission Staff requested and  
15 Laclede agreed to provide as part of the 2001 S&A?

16 A. Yes, as Ms. Krieger points out, the Staff specifically requested as part of the 2001  
17 S&A that the Company provide a detailed discussion in its CAM of how various  
18 components of an affiliate transaction would be valued or priced, including how  
19 the fair market price of a good or service transferred between affiliates would be  
20 determined. In compliance with Staff’s request, the CAM defines the “fair market  
21 price” of a gas supply purchase or sale as the average price of similar transactions  
22 between Laclede or other firms and non-affiliated entities entered into at similar  
23 times at similar locations and for a similar duration. The CAM goes on to state

1 that if such transactions don't exist, Laclede will then turn to industry accepted  
2 index prices published by entities such as *Gas Daily* or *Inside FERC* to determine  
3 a fair market price. The common sense goal of the Rules, as fleshed out by the  
4 CAM, is to protect ratepayers by ensuring that the pricing of affiliate transactions  
5 is similar to that of comparable non-affiliate transactions.

6 Q. Has the Company complied with its obligation under the 2001 S&A to provide  
7 whatever information is reasonably necessary to verify compliance with these  
8 pricing requirements?

9 A. Absolutely. In fact, the Company, with the cooperation of its affiliate Laclede  
10 Energy Resources, Inc. ("LER"), has more than met its obligation under the 2001  
11 S&A to provide such information. Over the past three years, Laclede has  
12 produced a host of affiliate information. For example, as part of its production for  
13 ACA cases and its Annual Cost Allocation Manual Report, Laclede has produced  
14 information regarding its transactions with LER, along with data pertaining to  
15 market pricing for those transactions. In addition, LER has voluntarily  
16 cooperated with Laclede in providing information to Staff on LER's business over  
17 and above information relevant to compliance with rules governing affiliate  
18 transactions. A summary of the information on LER that Laclede has produced to  
19 Staff is set forth below.

<u>Date</u>	<u>Information</u>
2006-2007	For the two ACA periods beginning October 1, 2004 and ending September 30, 2006, Laclede provided Staff every invoice paid by Laclede for gas supply and transportation, along with contracts, nominations and other relevant documents requested by Staff.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35  
36  
37  
38  
39  
40  
41  
42

August - September 2007	With LER’s assistance, Laclede provided a voluminous amount of LER data. On September 14, 2007, Staff reported to the Commission that it is “reviewing a large amount of information from LER provided by Laclede.”
February – April 2008	Laclede provided copies of supply contracts between Laclede and LER, and between Laclede and non-affiliated suppliers on the same pipeline.  With LER’s assistance, Laclede made available for review at Laclede’s offices in Jefferson City hundreds of pages of LER’s invoices for baseload gas that LER purchased at the location where the supply contract between LER and Laclede was based.
June 24, 2008	Laclede’s gas supply personnel hosted a live demonstration of how Laclede conducts transactions with affiliates and non-affiliates on the IntercontinentalExchange (“ICE”) Trading platform, and showed concrete examples of how past transactions with LER have been priced and the documentation relied upon to ensure compliance with the affiliate transaction rules.
September 15, 2008	With LER’s assistance, Laclede provided copies of LER supply invoices.
February 2009	Despite Staff’s refusal to meet and confer on the appropriate information for Laclede to produce so that Staff can perform its affiliate transaction audit, Laclede produced to Staff market pricing information, including transaction confirmations, ICE Sheets, and <i>Gas Daily</i> Reports for a sample month. Laclede also provided additional market information, including a contract under which LER won a bid to serve the St. Louis area school aggregation program

1 Q. Is this information sufficient to determine whether the Company's transactions  
2 with LER met the fair market price standard in the Rules and the Company's  
3 Commission's approved CAM?

4 A. Yes, it is more than sufficient.

5 Q. Why then is there still an issue between the Company and the Staff regarding the  
6 sufficiency of the information provided by the Company?

7 A. Because the Staff has completely ignored the Rules promulgated by this  
8 Commission as well as the Company's CAM in its demands for information.  
9 Contrary to what the Rules and the CAM provide, the Staff has effectively taken  
10 the position that Laclede should purchase gas supply from LER not at a fair  
11 market price, but at **LER's** cost. In other words, Staff contends that, despite the  
12 requirements of the Rules and the CAM, LER should sell gas supply to Laclede at  
13 LER's cost thereby depriving LER of any opportunity to earn a profit or be  
14 compensated for the services it provides, as is typically the case with unaffiliated  
15 marketers of natural gas. In fact, in a recent Atmos ACA case, the Staff explicitly  
16 stated in contravention to the Commission's own Rules that an LDC's affiliate  
17 should never be allowed to earn a profit on any sale made to a utility. Similarly,  
18 Staff has also effectively taken the position that Laclede should sell gas supply to  
19 LER not at the higher of fair market price or Laclede's fully distributed cost, but  
20 at that price **plus** any profit that LER may earn on its resale of the gas supply. In  
21 other words, Staff contends that, despite the requirements of the Rules and the  
22 CAM, LER should be precluded from the opportunity that unaffiliated

1 independent gas marketers have to earn profits on gas supply they acquire from  
2 Laclede for resale.

3 Q. Can either of these approaches be reconciled with either the Commission's Rules  
4 or the Company's approved CAM?

5 A. No. And I think that can be readily observed from the fact that the natural effect  
6 of Staff's proposed standard would be to prevent any transactions from taking  
7 place between Laclede and LER by making them financially worthless to the  
8 Company's affiliate. As a matter of simple logic, such a position cannot be  
9 reconciled with either the Rules or the CAM, both of which clearly permit  
10 affiliate transactions to occur so long as they are priced in accordance with those  
11 documents and which also mandate that both unaffiliated and affiliated marketers  
12 be treated in a non-discriminatory manner.

13 Q. Does Staff's position also conflict with a statement made by its own General  
14 Counsel, Kevin Thompson?

15 A. Yes. On October 1, 2009, Mr. Thompson said at an oral argument in Case Nos.  
16 GR-2006-0288 and GR-2005-0203 that:

17 "We understand, as Mr. Pendergast said, LER wouldn't sell the gas to  
18 Laclede if there wasn't some markup. I understand that. I think Staff  
19 understands that."

20 Despite this recognition, however, Staff persists in taking the position that utility  
21 affiliates should be denied any opportunity to earn the kind of compensation that  
22 other marketers routinely achieve for the services they provide.



1 Q. In your view, did the Company have any obligation under the 2001 S&A to  
2 provide the information that Staff has requested in order to pursue this  
3 unauthorized pricing standard?

4 A. No. Whether or not such information is or is not within the possession and  
5 control of the Company, I do not believe the Company had any obligation at all  
6 under the 2001 S&A to provide information that Staff has requested pursuant to a  
7 pricing standard that directly conflicts with the standard set forth in the  
8 Commission's Rules and the very mechanism that the 2001 S&A established to  
9 govern the pricing of such transactions.

10 Q. Does this conclude your direct testimony?

11 A. Yes, it does.

**MPSC CASES IN WHICH TESTIMONY WAS FILED  
BY MICHAEL T. CLINE**

GR-2010-0171- Laclede Rate Case  
GT-2009-0026- Gas cost portion of bad debts  
GR-2007-0208- Laclede Rate Case  
GR-2005-0284-Laclede Rate Case  
GT-2003-0032 - School Aggregation  
GR-2002-356 - Laclede Rate Case  
GT-2003-0117- Catch-up/Keep-up  
EC-2002-1 - UE d/b/a AmerenUE  
GR-2001-629 & GT-2001-662-Laclede Rate Case  
GR-2001-387/GR-2000-622-Laclede ACA  
GR-99-315 – Laclede Rate Case  
GT-99-303 – Laclede GSIP  
GO-98-484 – Laclede Price Stabilization  
GR-98-374 – Laclede Rate Case  
GR-96-193 – Laclede Rate Case  
GA-96-130 – MPC  
EO-96-15 – UE Class Cost Service  
GC-96-13 – Industrials v. Laclede  
GR-94-328 – Laclede PGA Rate Design  
GO-94-318 – MGE PGA issues  
GM-94-252 – MPC/UtiliCorp  
GR-94-220 – Laclede Rate Case  
GR-93-149 – Laclede’s ACA  
GR-92-165 – Laclede Rate Case  
GA-90-280 – InterCon Gas  
GA-89-126 – MPC  
GR-84-161 – Laclede Rate Case  
GR-83-233 – Laclede Rate Case  
GR-82-200 – Laclede Rate Case  
GR-81-245 – Laclede Rate Case

The Staff of the Missouri Public Service  
Commission,

v.

Respondent.

Case No. GC-2011-0006

## STATE OF MISSOURI )

SS.

CITY OF ST. LOUIS

1. My name is Michael T. Cline. My business address is 720 Olive Street, St. Louis, Missouri 63101; and I am Director-Tariff & Rate Administration of Laclede Gas Company.

2. Attached hereto and made a part hereof for all purposes is my direct testimony submitted 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 J. Chini

Michael T. Cline

Subscribed and sworn to before me this 14<sup>th</sup> day of December, 2010.

Karen A. Justine  
Notary Public

