MISSOURI PUBLIC SERVICE COMMISSION

STAFF EXECUTIVE SUMMARIES
DIRECT TESTIMONY

LACLEDE GAS COMPANY
CASE NO. GR-2007-0208

May 04, 2007

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EXECUTIVE SUMMARY

Mark L. Oligschlaeger
Utility Regulatory Auditor V, Auditing Department, Utility Services,
Co-Case Coordinator

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The Staff's Revenue Requirement Accounting Schedule filing shows that its recommended revenue requirement for Laclede in this proceeding ranges from approximately $12,427,000 to $18,182,000, based upon a recommended rate of return range of 7.51% to 8.04%. The Staff's midpoint revenue requirement recommendation is $15,359,000. The most significant issues between the Company and the Staff in this proceeding on the basis of their respective direct filings include the areas of return on equity, bad debts expense, the prepaid pension asset and payroll.

In this testimony, I will present the Staff's position on certain matters involving depreciation rates and the accumulated depreciation reserve in this proceeding.

I also discuss the Staff's concerns with The Laclede Group's current methods for allocating costs among Laclede Gas and the non-regulated affiliates of the Laclede Group.

Finally, I will briefly address the Company's proposal for a "Regulatory Compact" agreement to result from this case.

EXECUTIVE SUMMARY

David M. Sommerer
Utility Regulatory Manager, Procurement Analysis Department, Utility Services

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I am sponsoring the Staff's position regarding Laclede's Gas Supply Incentive Plan (GSIP), and ratemaking treatment of off-system Sales (OSS) and capacity release credits. I have primarily focused on the Company's GSIP and history of OSS and capacity release.

Below, I provide an overview of Laclede's exiting GSIP, and recommendations on any modifications to the GSIP, as well as provide the Staff's position on OSS and capacity release for this case.

The goal of an incentive plan is that the Company achieves results for customers above what the Company would achieve without an incentive. The benefits of those extraordinary results are shared between the company and the customer, with the customer receiving an overall benefit. Laclede has a history of Gas Supply Incentive Plans which, in Staff's experience, have not resulted in overall benefits to customers. It is a challenge to design a GSIP that is actually based on a level of performance that is unusual enough to warrant sharing between the Company and its customers, and is not based on luck, general market conditions, or some measure that may be inaccurate.

Staff is recommending that no GSIP be approved for the following reasons: 1) there is no reason to believe that past GSIPs have provided any substantial benefit to customers; 2) if there are limited, or no customer benefits, but Laclede receives a "reward" for meeting a benchmark, Laclede is simply profiting from the sale of natural gas instead of profiting solely from the delivery of natural gas; and 3) determining an appropriate performance measure or benchmark has proven to be difficult.

For example, the current GSIP's gas supply benchmarks are outdated, and don't provide an accurate assessment of how gas is actually sourced by Laclede. In fact, it is unclear whether the benefits of the existing GSIP exceed the costs. That is the reason Staff is recommending discontinuation of the existing GSIP. One of the main concerns here is the questionable impact that the GSIP is having on real hedge protection. One of the most difficult things to explain is the potential inconsistency that exists when customer's natural gas prices are at record highs but customers are still paying rewards to the Company. The current GSIP is designed to mitigate upward price volatility. Even with the existing GSIP feature that curtails Company rewards during high price periods, the fact that a GSIP is still in place might leave the mistaken impression that Laclede is mitigating upward volatility when, in fact, PGA price spikes are a very real possibility. These are the reasons that, if the Commission chooses to continue the existing GSIP, it should leave the existing limits in place and update the gas supply indexes.

Below I also address rate treatment of OSS and capacity release, proposing that it should be moved back into the PGA clause. Producer demand charges and fixed capacity charges are key factors in making these items possible. Those charges are recovered in the PGA, and that is where the cost reductions associated with those transactions should go. In addition, in accord with the Stipulation And Agreement in Case No. GR-2005-0284, the amounts of OSS and capacity release over the $12 million threshold should be returned to the customer in this rate case.

Affiliate transactions between Laclede Gas Company and Laclede Energy Resources, Laclede's natural gas marketing company, are relevant to this case if Laclede has the opportunity to shift revenues to LER, and should be subject to additional review..

I also recommend that any monies that Laclede receives pursuant to claims filed in the NYMEX natural gas class action lawsuit filed in New York should be flowed back to the customer as a credit to gas costs in the ACA.

EXECUTIVE SUMMARY

Kimberly K. Bolin
Utility Regulatory Auditor IV, Auditing Department, Utility Services

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The Staff is proposing that a True-Up audit be performed in this proceeding. In my Direct testimony, I propose a list of items the Staff will reexamine in Staff's True-Up audit.

The Staff performed a normalization of revenues for customer growth/loss and adjusted miscellaneous revenues for the increase in the home gas inspection fees.

The Staff analyzed uncollectibles to determine the updated test year balance of bad debt write-offs in the amount of $10,423,508 was appropriate to use. My testimony discusses the costs and benefits associated with the installation of the automated meter reading (AMR) system by Laclede. My testimony also provides the annualization of the AMR costs in the amount of $4,691,379.

Finally, my testimony discusses why the Staff has included a negative acquisition adjustment of $2,117,160 in rate base in this case associated with Laclede's 2006 purchase of the Fidelity Natural Gas properties.

EXECUTIVE SUMMARY

Paul R. Harrison
Utility Regulatory Auditor III, Auditing Department, Utility Services

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The purpose of my testimony is to sponsor and discuss the Staff Income Statement adjustments, which appear on Accounting Schedule 10, Adjustments to Income Statement, which concern affiliated operations, injuries and damages expense, insurance, 401(k) expense, pension expense, OPEBs/FAS 106 expense, non-qualified retirement plan expense, and current and deferred income taxes.

I am also sponsoring Accounting Schedule 11, Income Tax.

EXECUTIVE SUMMARY

"Kofi" Agyenim Boateng, CPA
Utility Regulatory Auditor III, Auditing Department, Utility Services

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The purpose of this Direct testimony is to address the rate base item of customer deposits, as well as the income statement adjustments for payroll and payroll taxes, health care expenses, dues and donations, incentive compensation, miscellaneous expense, and customer deposit interest expense.

The Staff's annualized payroll for the Laclede Gas Company is the sum of the following four employees' categories of the Company: Laclede Management, Laclede Contract, Missouri Natural (MoNat) Management, and MoNat Contract. The annualized payroll in each category reflects the current level of employees and wage rates as of March 31, 2007. Additionally, for the MoNat Contract category, the Staff included the April 15, 2007, union employee wage rate increase. For normalized overtime hours, Staff used the test year overtime hours for Laclede Contract and a five-year average of overtime hours for MoNat Contract. An analysis of the operation and maintenance (O&M) expense factor produced Staff recommended O&M percentages of 70.53% and 81.79% for Laclede Payroll and MoNat Payroll, respectively.

EXECUTIVE SUMMARY

Paula Mapeka

Utility Regulatory Auditor II, Auditing Department, Utility Services

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The purpose of this Direct testimony is to address Staff's proposed treatment of various rate base items in this case, including plant in service, depreciation reserve and cash working capital.

The Staff's income statement adjustments supported within this testimony include advertising, property taxes, Missouri franchise taxes, amortization expenses, rents and leases, cost of removal, PSC assessment, rate case expenses and lockbox fees.

I am sponsoring the following accounting schedules:

Accounting Schedule	Description
Schedule 2	Rate Base
Schedule 3	Plant in Service
Schedule 4	Adjustments to Plant in Service
Schedule 5	Depreciation Reserve
Schedule 6	Adjustments to Depreciation Reserve
Schedule 7	Depreciation Expense
Schedule 8	Cash Working Capital

EXECUTIVE SUMMARY

Matthew J. Barnes
Utility Regulatory Auditor II, Financial Analysis Department, Utility Services

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Staff's recommendation is that the Commission authorize an overall rate of return (ROR) of 7.52 percent to 8.04 percent for Laclede Gas. This rate of return recommendation is based on a recommended return on common equity (ROE) of 8.20 percent to 9.20 percent applied to The Laclede Group's March 31, 2007 common equity ratio of 52.37 percent. The recommendation is driven by my comparable company analysis using the discounted cash flow (DCF) model. The DCF model is the most widely used and reliable model available to estimate the cost of common equity for a utility company.

I used an embedded cost of long-term debt of 6.78 percent based on The Laclede Group's embedded cost of long-term debt provided to Staff in an e-mail dated April 24, 2007 from Company witness Glenn Buck.

I used The Laclede Group's actual consolidated capital structure, which includes all of The Laclede Group's operations, including non-regulated debt, as of March 31, 2007 as the basis for the Staff's capital structure recommendation.

I determined the Staff's recommended ROE by applying the DCF model to a comparable group of natural gas distribution companies. I then evaluated a number of factors to test the reasonableness of this recommendation. A complete and detailed explanation of the Staff's recommended ROE starts on page 11, line 5 of this testimony.

EXECUTIVE SUMMARY

Lesa A. Jenkins
Utility Regulatory Engineer II, Procurement Analysis Department, Utility Services

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My testimony provides support for changes to Laclede's energy efficiency programs, including funding for Low-Income Weatherization. Staff recommends that Laclede's funding in rates for the Low-Income Weatherization Program be increased from the current level of $500,000 per year to $991,000 per year. Staff recommends that a Collaborative evaluate options to enhance energy efficiency for residential and small commercial customers in its service area. Staff recommends that Laclede present the recommendations of the Collaborative for approval by the Commission, including revised tariff sheets detailing the specifics of each energy efficiency program, no later than six months after the issuance of the Commission Report and Order in this case. Staff recommends that program costs for energy efficiency measures, other than the recommended annual funding for Low-Income Weatherization, be placed in a regulatory asset account and amortized over a ten-year period.

EXECUTIVE SUMMARY

Michael J. Ensrud

Rate and Tariff Examiner II, Energy Department, Utility Operations

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Staff witness Michael J. Ensrud will address Laclede Gas Company's customers who switched rate classes and customers who have significantly changed their usage load. He will summarize the dollar impact of 25 customers who switched rate classes and one customer who ceased operation during the test year and update period.

EXECUTIVE SUMMARY

Curtis E. Wells
Regulatory Economist I, Energy Department, Utility Operations

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I will explain my calculations of actual and normal Heating-Degree-Day (HDD) and Water Heating-Degree-Day (WHDD) variables, which I furnished to Staff witnesses James A. Gray, and Dr. Henry E. Warren.

I will first discuss Heating-Degree-Days (HDD): Definition, Selection of Weather Station, and Weather Variables. I will then discuss Water-Heating-Degree-Days (WHDD): Definition, Source of Data, and Adjustments. Attached Schedule CW-2 provides specific calculations of HDD variables for the St. Louis-Lambert International Airport weather station. Schedule CW-3 provides corresponding WHDD values for the St Louis area. Additional detail is included in my workpapers, which will be provided to the company.

EXECUTIVE SUMMARY

Anne E. Ross
Regulatory Economist I, Energy Department, Utility Operations

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The purpose of my testimony is to describe adjustments to customer therm usage and rate revenue for Laclede Gas Company (Laclede or Company) customers in the Large Volume Transportation and Sales Service (LVTSS) and Large Volume Service (LVS) rate classes. These adjustments were made to recognize the:

a. Annualization of monthly billing demand to levels more likely to be seen on a going-forward basis; and
b. Weather Normalization of Large customer volumes.

The revenue adjustments were provided to Staff witness Kim Bolin of the Commission's Auditing Department. The volume and demand therm adjustments were also used in the calculation of normalized billing units.

In addition, I am making an adjustment of $950,000 to remove the revenues being collected for Laclede's Low-Income Energy Affordability Program from Laclede's revenue requirement and an adjustment of $200,000 to continue the Arrearage Repayment Management program payments to current participants.

EXECUTIVE SUMMARY

Henry E. Warren
Regulatory Economist II, Energy Department, Utility Operations

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My direct testimony covers the adjustment of billing units for the test year for normalized weather and meter read cycle days, the allocation of these units to revenue blocks for the test year for the general service (GS) Residential Class, Commercial and Industrial (C&I) Classes I, II, and III of the Laclede Gas Company (Laclede or Company). The test year therms, the normal therms, and computed adjustments are shown in Schedules 2.1 through 2.8, attached to my testimony.