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June 28, 2002

Mr. Dale H. Roberts
Secretary/Chief Regulatory Law Judge
Public Service Commission
P. O. Box 360
Jefferson City, MO 65102

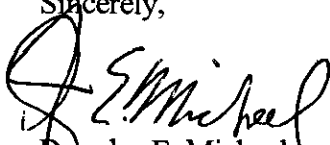
Re: **Laclede Gas Company**
Case No. GA-2002-429

Dear Mr. Roberts:

Enclosed for filing in the above-referenced case please find the original and eight copies of **Rebuttal Testimony of Russell W. Trippensee**. Please "file" stamp the extra-enclosed copy and return it to this office.

Thank you for your attention to this matter.

Sincerely,


Douglas E. Micheel
Senior Public Counsel

DEM:jb

cc: Counsel of Record

CERTIFICATE OF SERVICE

I hereby certify that the foregoing document has been either faxed, mailed, or hand-delivered to the following counsel of record on this 28th day of June 2002:

TIM SCHWARTZ
General Counsel
Missouri Public Service Commission
PO Box 360
Jefferson City MO 65102

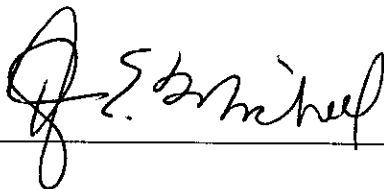
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A handwritten signature, likely "J. E. Smith", is written over a horizontal line.

Exhibit No.:
Issue(s): Accounting Authority Order-Weather
Witness/Type of Exhibit: Trippensee/Rebuttal
Sponsoring Party: Public Counsel
Case No.: GA-2002-429

REBUTTAL TESTIMONY

OF

RUSSELL W. TRIPPENSEE

Submitted on Behalf of
the Office of the Public Counsel

LACLEDE GAS COMPANY

Case No. GA-2002-429

June 27, 2002

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the matter of the Application of Laclede)
Gas Company for an accounting authority)
order authorizing the company to defer for)
future recovery consideration its just and)
reasonable costs of providing public)
utility service that would otherwise be)
unrecovered due solely to the extraordinary)
impact of record warm weather on the)
company's operations.)

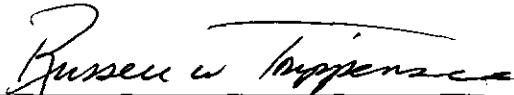
Case No. GA-2002-429

AFFIDAVIT OF RUSSELL TRIPPENSEE

STATE OF MISSOURI)
) ss
COUNTY OF COLE)


Russell Trippensee, of lawful age and being first duly sworn, deposes and states:

1. My name is Russell Trippensee. I am Chief Public Utility Accountant for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony consisting of pages 1 through 27 and schedule(s) RWT-1 through RWT-8.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

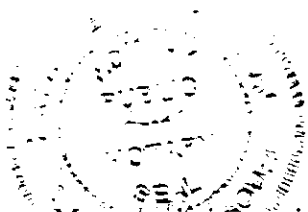


Russell Trippensee

Subscribed and sworn to me this 27th day of June 2002.



Kathleen Harrison
Notary Public



My commission expires January 31, 2006.

REBUTTAL TESTIMONY
OF
RUSSELL W. TRIPPENSEE
LACLEDE GAS COMPANY
CASE NO. GA-2002-429

1 **Q. PLEASE STATE YOUR NAME AND ADDRESS.**

2 A. Russell W. Trippensee. I reside at 1020 Satinwood Court, Jefferson City, Missouri 65109, and my
3 business address is P.O. Box 7800, Jefferson City, Missouri 65102.

4 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5 A. I am the Chief Utility Accountant for the Missouri Office of the Public Counsel (OPC or Public
6 Counsel).

7 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.**

8 A. I attended the University of Missouri at Columbia, from which I received a BSBA degree, major in
9 Accounting, in December 1977. I attended the 1981 NARUC Annual Regulatory Studies Program
10 at Michigan State University.

11 **Q. HAVE YOU PASSED THE UNIFORM CPA EXAM?**

12 A. Yes, I hold certificate number 14255 in the State of Missouri. I have not met the two-year
13 experience requirement necessary to hold a license to practice as a CPA.

14 **Q. PLEASE DESCRIBE YOUR WORK EXPERIENCE.**

15 A. From May through August, 1977, I was employed as an Accounting Intern by the Missouri Public
16 Service Commission (MPSC or Commission). In January 1978 I was employed by the MPSC as a

Public Utility Accountant I. I left the MPSC staff in June 1984 as a Public Utility Accountant III and assumed my present position.

Q. PLEASE DESCRIBE YOUR PROFESSIONAL AFFILIATIONS.

A. I served as the chairman of the Accounting and Tax Committee for the National Association of State Utility Consumer Advocates from 1990-1992 and am currently a member of the committee. I am a member of the Missouri Society of Certified Public Accountants.

Q. PLEASE DESCRIBE YOUR WORK WHILE YOU WERE EMPLOYED BY THE MPSC STAFF.

A. Under the direction of the Chief Accountant, I supervised and assisted with audits and examinations of the books and records of public utility companies operating within the State of Missouri with regard to proposed rate increases.

Q. WHAT IS THE NATURE OF YOUR CURRENT DUTIES WITH THE OFFICE OF THE PUBLIC COUNSEL?

A. I am responsible for the Accounting and Financial Analysis sections of the Office of the Public Counsel and coordinating their activities with the rest of our office and other parties in rate proceedings. I am also responsible for performing audits and examinations of public utilities and presenting the findings to the MPSC on behalf of the public of the State of Missouri.

Q. HAVE YOU PREVIOUSLY FILED TESTIMONY BEFORE THE MPSC?

A. Yes. I filed testimony in the cases listed on Schedule RWT-1 of my testimony on behalf of the Missouri Office of the Public Counsel or MPSC Staff.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. To explain why Public Counsel is opposed to the request for an Accounting Authority Order (AAO) for unrealized sales of natural gas to retail customers that Laclede Gas Company (Laclede, LGC, or Company) expected to make but **did not** make. I will address why the Commission should issue an AAO only for actual costs resulting from the expenditure of monies by a utility and not for the purpose requested by LGC. I will also discuss the nature of weather as it relates to the operations of a utility and the regulatory process. Finally I will address that this application simply constitutes a repackaging of a concept previously rejected by the Commission. Company witness Michael Spotanski's rebuttal testimony explains Laclede's perspective on the application for an AAO related to weather, which was filed on March 8, 2002.

Q. PLEASE EXPLAIN WHAT THE COMPANY IS REQUESTING.

A. LGC is requesting that this Commission approve an AAO which will allow the Company to increase its reported earnings in its current fiscal year (October 1, 2002 – September 30, 2003) by \$10,849,000 and collect this amount over the next five years from future customers by including a five year amortization of \$2,169,000 ($\$10,849,000 / 5$) in the revenue requirement in Case No. GR-2002-356 currently on file with the Commission. Specifically the Company has requested that it be provided with a guaranteed level of earnings by asking the Commission to require future ratepayers to provide the Company with revenues related to unrealized gas sales that previous customers did not consume. The requested AAO is not an attempt to recover costs associated with any expenditure of monies or other incurring of costs associated with weather, but in fact is an attempt to recover revenues that were not billed because the customer did not use any gas, thereby creating an obligation to pay the Company.

1 **Q. WHAT IS AN ACCOUNTING AUTHORITY ORDER?**

2 A. An accounting authority order is an accounting mechanism that permits deferral of costs from one
3 period to another. The items deferred are booked as an asset in the Deferred Debit section of the
4 balance sheet rather than as an expense, thus improving the financial picture of the utility in
5 question during the deferral period. During a subsequent rate case, the Commission determines
6 what portion, if any, of the deferred amounts will recovered in rates. AAOs should be used
7 sparingly because they permit ratemaking consideration of items from outside the test year.

8 **Q. HAS THE COMMISSION PROVIDED STANDARDS FOR DEFERRALS VIA AN**
9 **AAO?**

10 A. Yes. In Missouri Public Service Company, Case No. EO-91-358 and EO-91-360, the Commission
11 stated that costs that are extraordinary, unusual, unique, and non-recurring could properly qualify
12 for AAO treatment. The Commission has made the determination on whether a utility will be
13 allowed an AAO and the subsequent decision on whether to allow recovery of the AAO deferral in
14 future rates via an amortization to expense on a case by case basis.

15 **Q. WHAT IS THE PRACTICAL EFFECT OF AN AAO WITH RESPECT TO HOW A**
16 **COMPANY REPORTS ITS EARNINGS?**

17 A. Typically an AAO allows the Company to "manage" its reported earnings by ignoring costs
18 incurred in a specific period that would have an impact on earnings (always negative). These costs
19 are then included in the determination of earnings for several periods in the future and thus
20 minimize the negative impact on reported earnings in any one-year.

1 **Q. IS LACLEDE'S APPLICATION COMPLETELY DIFFERENT FROM TYPICAL**
2 **AAO REQUESTS?**

3 A. Yes. Laclede's application takes a completely different approach. Laclede is requesting that its
4 current earnings be increased (and collected from future ratepayers) by asking the Commission to
5 allow it to record revenue it did not earn by making gas sales. Laclede is asking this Commission to
6 create a regulatory asset that will inflate current earnings and require future ratepayers to fund those
7 earnings through the inclusion of an amortization in a subsequent rate case.

8 **Q. IS THIS "MANAGEMENT OF EARNINGS" A GOAL OF OR BASED ON**
9 **GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)?**

10 A. Most definitely not. The Commission should use extreme caution when deciding whether to issue
11 AAOs and also recognize that GAAP allows the recording of an asset on the balance sheet only if
12 that asset or deferral reasonably represents the flow of future cash revenues. Commission practice
13 regarding the issuance of AAOs has been to provide no such assurance. The resulting accounting
14 entries on Laclede's financial records would be similar to the recording of a debit to for Allowance
15 for Funds Used During Construction (which increases Plant-in-Service) and the corresponding
16 credit entry increasing revenue (but not cash receipts) for the period. The cash is received in future
17 periods when the Plant-in-Service is depreciated.

18 The only practical purpose for the deferral requested by Laclede is to increase current period
19 earnings for financial reporting purposes and to obtain rate recovery (i.e. collect the cash from
20 ratepayers in subsequent periods). Absent the probability of rate recovery, GAAP does not allow a
21 deferral to be recorded for financial reporting purposes.

1 **Q. WHEN SHOULD THE COMMISSION USE ACCOUNTING AUTHORITY ORDERS?**

2 A. Public Counsel believes the Commission should recognize a need to deviate from GAAP when
3 creating regulatory assets (AAO deferrals are regulatory assets) only when it can be shown that
4 incremental costs to be deferred (which were actually incurred) were in response to events that are
5 non-recurring, not reasonably expected, and beyond the control of management. AAOs should not
6 be used to defer unrealized revenues based on an imputation of earnings that would have occurred if
7 sales of natural gas to customers had occurred in "normal" weather. "Normal" weather being
8 defined an NOAA thirty year average which was colder (more heating degree days) than the actual
9 weather experienced. Such a deferral would allow a utility to manage its earnings reported for
10 public reporting purposes and more importantly, allow a utility to effectively recover past losses (i.e.
11 earnings lower than desired) from future ratepayers.

12 **Q. WAS THE COMMISSION'S "EXTRAORDINARY AND NONRECURRING"**
13 **STANDARD AS OUTLINED IN RE: M.P.S. ENDORSED BY THE WESTERN**
14 **DISTRICT COURT OF APPEALS?**

15 A. Yes, the Western District Court of Appeals states:

16 "[An AAO deferral] . . . distorts the balancing process utilized by the
17 Commission to establish just and reasonable rates. Because rates are set to
18 recover continuing operating expenses plus a reasonable return on
19 investment, only an extraordinary event should be permitted to adjust the
20 balance . . ." State ex. rel. Missouri Office of the Public Counsel v. Public
21 Service Commission, 858 S.W. 2d 806, 810 (Mo. App. 1993).

22 The Court of Appeals also noted that the Uniform System of Accounts (USOA) defines
23 "extraordinary items" as:

[t]hose items related to the effects of events and transactions which have occurred during the current period and which are not typical or customary business activities of the company . . . Accordingly, they will be events and transactions of significant effect which would not be expected to recur frequently and which would not be considered as recurring factors on any evaluation of the ordinary operating processes of business. . . Id. at 810.

Q. PLEASE EXPLAIN WHY PUBLIC COUNSEL BELIEVES THE COMPANY HAS NOT INCURRED ANY COSTS ASSOCIATED WITH THE EFFECT OF WARM WEATHER.

A. The Company's calculation of the value of this requested deferral, \$10,849,000, is the result of multiplying estimated incremental gas volumes times tariffed rates. The calculation can be found on Schedule 1 attached to Mr. Spotanski's direct testimony. The calculation determines the alleged sales volumes not made due to weather labeled "Therm Adj." (a total of 80,115 therm sales). This level of sales is then multiplied by the "Margin Rate" which is the MPSC approved tariffed rate for all sales per customer in excess of 65 therms per billing period. (A copy of Laclede's response to OPC Data Request No. 1203 is attached as Schedule RWT-2)

The \$10,849,000 is not an expenditure of monies by LGC to provide service to customers, neither is it a cost, similar in nature to Allowance for Funds Used During Construction associated with a large construction process. It is in fact, simply lost earnings resulting from revenues being lower than expected. The amount LGC is requesting is not the incremental cost associated with an extraordinary event.

Q. THOUGHOUT MR. SPOTANSKI'S TESTIMONY HE REFERS TO COST OF SERVICE WHEN DISCUSSING THE ALMOST \$11 MILLION THE COMPANY'S

**APPLICATION ASKS THE COMMISSION TO CHARGE FUTURE RATEPAYERS.
ARE REVENUES A COMPONENT OF THE COST OF SERVICE USED IN THE
DETERMINATION OF RATES?**

A. No. The level of current revenues is only a factor in determining the percentage or amount of change from the revenues that existing rates produce. The revenue requirement formula is simply stated below;

$$\text{Revenue Requirement} = \text{Operating Expenses} + \text{Taxes} + \text{Interest Expense} + \text{Return on Equity}$$

The right side of the equation is commonly referred to as the overall cost of service. Revenues are a result of a cost of service, not a component thereof. The Company is attempting to collect the a shortfall in the actual realized return on equity after rates have already been set. This would result in retroactive recovery of unrealized revenues (also known as lower than expected earnings). The following example will provide an example of how the Return on Equity is calculated in total dollars (not as a percentage);

$$\text{Return on Equity} = \text{Revenue} - (\text{Operating Expenses} + \text{Taxes} + \text{Interest Expense})$$

This equation is the same as the revenue requirement formula used to set rates; simply restructured to solve for the Return on Equity (in dollars) realized from the actual operations of the Company.

**Q. HAS THE COMPANY IDENTIFIED ANY SPECIFIC COSTS WHICH WOULD BE
DEFERRED IF THE COMMISSION GRANTS AN AAO?**

A. No. The Company was unable to identify any specific expense or other expenditure recorded in a Commission approved Uniform System of Account (USOA) expense account. (Schedules RWT-3

1 and RWT-4 attached). Public Counsel would submit that LGC's inability to identify specific
2 accounts where these alleged "costs" currently reside on its books in conjunction with Schedule 1 to
3 Mr. Spotanski's direct testimony showing that the calculation is based on sales and tariffed rates,
4 clearly indicate that no costs exist which can be deferred by the Company.

5 **Q. DOES BASIC ACCOUNTING PROCEDURES INDICATE THAT NO COSTS EXIST**
6 **AND IN FACT THAT IT IS REVENUE THE COMPANY IS ASKING TO**
7 **RECOVER?**

8 A. Yes. Any accounting entry to Laclede's financial records requires a debit and a credit. The
9 Commission recently has used either USOA accounts 182.3, Other Regulatory Assets, or Account
10 186, Miscellaneous Deferred Debits, to record the debit side of the accounting entry necessary to
11 properly reflect an AAO. Both of these accounts are under the general category in the USOA chart
12 of accounts called Miscellaneous Deferred Debits. Therefore in order for either of these accounts to
13 be debited (i.e. a cost is deferred) another USOA account must be credited. A credit to any USOA
14 expense account would reduce the expenses in the current period thereby increasing earnings.
15 However a credit to a revenue account would increase revenues and therefore earnings. It is quite
16 apparent from Mr. Spotanski's Schedule 1 that the credit could only be to a revenue account.

17 **Q. AN AAO IS NORMALLY GRANTED FOR THE INCREMENTAL EXPENSES**
18 **ASSOCIATED WITH AN EXTRAORDINARY EVENT. IS THE COMPANY**
19 **ALLEGING THAT THE WEATHER DURING THE HEATING SEASON OF ITS**
20 **2002 FISCAL YEAR WAS EXTRAORDINARY?**

21 A. Yes.

1 **Q. DOES PUBLIC COUNSEL BELIEVE THIS PERIOD'S WEATHER REPRESENTS**
2 **AN EXTRAORDINARY CONDITION?**

3 A. No. Public Counsel believes warmer or colder than normal weather is a normal business risk that is
4 faced by any gas or electric utility. OPC witness Mark Burdette's rebuttal testimony will address
5 business risk in greater detail. Suffice it to say, the fact that Laclede has experienced what will
6 probably be the 5th warmest weather on record (during Laclede's fiscal year) does not constitute an
7 extraordinary event. Public Counsel would point out that the 2000 fiscal year experienced a warmer
8 year (3rd warmest on record) and that 2001 experienced a colder than normal fiscal year (8.14%).
9 Public Counsel would point out that the Commission (correctly I might add) did not grant an AAO
10 for either period and in fact Laclede did not request an AAO related to deficient or excess
11 incremental actual earnings for either period, respectively.

12 Attached to my testimony as Schedule RWT-5 is a partial copy of the response to OPC Data
13 Request No. 1199. A portion of the response ranks the heating degree-days by Laclede's fiscal year
14 for the last 102 years. The schedule clearly shows that weather is a variable factor in the normal
15 course of business for a gas utility.

16 **Q. WHAT DOES THE COMPANY MEAN WHEN IT USES THE TERM "DEFER"?**

17 A. When a cost that normally would be expensed and therefore reflected on the income statement in
18 the current accounting period is deferred, the expenditure is entered on the balance sheet in a special
19 section called Deferred Debits. In this case, Laclede is unable to propose the specific expense
20 account to be credited because there is no expense incurred.

21 **Q. PLEASE DEFINE AN EXPENDITURE?**

1 A. An expenditure is any outflow of money paying for a good or service. An expenditure is either
2 capitalized (recorded on the balance sheet) or it is considered an expense (recorded on the income
3 statement).

4 **Q. WHAT IS AN EXPENSE?**

5 A. Expense is the use of assets and services in the creation of revenue during a specified period.
6 Expenses are recorded on the income statement and are subtracted from revenues in order to
7 determine net income for the period.

8 **Q. PLEASE DEFINE THE TERM "COST".**

9 A. I use the term "cost" to refer to each component of the total revenue requirement of the utility. Cost
10 includes all expenses along with the earnings and interest expense associated with the rate base.
11 The total revenue requirement is also called the overall cost of service.

12 **Q. IS ONE COMPONENT OF THE OVERALL COST OF SERVICE FORMULA,**
13 **PREVIOUSLY DISCUSSED, UNIQUE?**

14 A. Yes. As previously discussed, four basic components make up the overall cost of service which in
15 turn is equal to the revenue requirement. Three of the four components of the overall cost of service
16 are expenses that are recorded on the income statement of the utility. In other words, these
17 components result from or require an expenditure of monies by the utility. The fourth component,
18 return on equity, is equal to the Commission approved authorized rate of return multiplied times the
19 regulatory rate base. The component does not represent an expense (i.e. current cost) to the utility
20 or an expenditure of monies by the utility. This component is the amount of profit a utility has the

1 opportunity to earn if actual results, during the period after new tariffed rates are set, are the same as
2 those expectations used in the determination of the overall cost of service.

3 **Q. HAVE YOU REVIEWED THE NATIONAL ASSOCIATION OF REGULATORY**
4 **UTILITY COMMISSIONERS (NARUC), UNIFORM SYSTEM OF ACCOUNTS FOR**
5 **CLASS A AND B GAS UTILITIES (USOA)?**

6 A. Yes I have.

7 **Q. ARE THE DEFINITIONS YOU PREVIOUSLY PROVIDED CONSISTENT WITH**
8 **HOW THE USOA APPLIES THESE TERMS?**

9 A. Yes.

10 **Q. HAS THE COMMISSION ADOPTED THE USOA FOR USE BY MISSOURI**
11 **UTILITIES?**

12 A. Yes. The Code of State Regulations, 4 CSR 240-40.040, Uniform System of Accounts – Gas
13 Corporations sets out the authority for regulated utilities to adopt the USOA for accounting
14 purposes. I would note that 4 CSR 240-40.040 adopts the 1992 version of the USOA and not the
15 current version approved by the Federal Energy Regulatory Commission as found on the FERC web
16 site. It is my understanding that the 1992 version does not include USOA Account 182.3 which was
17 added during the mid 1990s.

18 **Q. IS THE DEFERRAL OF A EXPENSE FROM ONE ACCOUNTING PERIOD TO**
19 **ANOTHER ACCOUNTING PERIOD FOR THE DEVELOPMENT OF A REVENUE**
20 **REQUIREMENT CONSISTENT WITH TRADITIONAL RATEMAKING PRACTICES?**

1 A. No. Generally, the deferral of expenses from one accounting period to another accounting period
2 for the development of a revenue requirement violates the traditional method for setting utility rates.
3 Rates in Missouri are usually established based upon a historical test year which focuses on four
4 factors: (1) the rate of return the utility has an opportunity to earn; (2) the rate base upon which a
5 return may be earned; (3) the depreciation expense related to plant and equipment; and (4) the
6 allowable operating expenses including income and other taxes.

7 The relationship of the four factors is such that the expenses and rate base necessary to produce the
8 revenues is synchronized. For example, the level of expense (purchase of specific amounts of
9 natural gas) is developed based on the expected amount of sales of natural gas that is used in the
10 determination of revenue for the test period. Similarly, the plant-in-service necessary to deliver that
11 natural gas to customers is also based on the customers' demands for the same period. This process
12 is often referred to as the "Matching Principle".

13 Deferral of expenses from one period to another (and the amortization in subsequent periods) results
14 in costs associated with the production of revenue in one period being charged against the revenue
15 in different unrelated periods. This violates the "Matching Principle" and if unfettered would allow
16 a utility to manage its earnings in order to avoid regulatory oversight or adverse reactions from the
17 financial community. In my professional opinion, avoiding this possibility is one of the
18 fundamental purposes of Generally Accepted Accounting Principles and the USOA.

19 Q. HAS THE COMMISSION ALLOWED REGULATED UTILITIES SUCH AS
20 LACLEDE TO DEVIATE FROM TRADITIONAL RATEMAKING PRACTICES TO

**DEFER EXPENSES FROM ONE ACCOUNTING PERIOD TO ANOTHER
ACCOUNTING PERIOD VIA AN ACCOUNTING AUTHORITY ORDER?**

A. Yes. The Commission has determined that utilities, when warranted, can be allowed to defer expenses from prior accounting periods on a limited basis when events occur during a period which are extraordinary, unusual and unique, and nonrecurring.

**Q. HAS THE COMMISSION EMPHASIZED THAT AAOS SHOULD NOT ADDRESS
EXPENSES THAT ARE PART OF ORDINARY BUSINESS OPERATIONS AND
THAT OCCUR ON A REGULAR BASIS?**

A. Yes. The Commission decision in the previously discussed Report & Order for Missouri Public Service, stated the following;

The USOA recognizes that only extraordinary items should be deferred. The definition cited earlier states the intent of the USOA that net income shall reflect all items of profit and loss during the period and exceptions are only for those items which are of significant effect, **not expected to recur frequently, and which are not considered in the evaluation of ordinary business operations.**

1 MPSC 3d at 205. (emphasis added)

**Q. IS THE AAO LACLEDE IS SEEKING BASED ON INCREMENTAL COSTS
RESULTING FROM A WARMER THAN NORMAL WINTER?**

A. No. As previously discussed, the quantification of the issue is based on sales of gas that did not occur and the tariffed rates approved by this Commission. While the Company witness Spotanski goes to great length to discuss various types of non-gas costs, the unrealized revenues used to

quantify the request are not costs. Laclede has not identified any increase in costs due to a winter that experienced warmer weather than the normalized weather used in Case No. GR-2001-629.

Q. PLEASE EXPLAIN WHY COMMISSION APPROVAL OF AN AAO FOR UNREALIZED REVENUES WOULD RESULT IN RETROACTIVE RATEMAKING?

A. An AAO if approved can only be reported for financial reporting purposes if a reasonable probability exists that future rates will be adjusted to provide a cash flow sufficient to recover the amount deferred. The granting of an AAO is the first step of this two-step process necessary to allow LGC to collect these unrealized revenues (lost earnings) from future ratepayers. This process as previously discussed results in subsequent recovery of what otherwise would be lower earnings in a prior period. As stated by the Missouri Supreme Court:

[p]ast expenses are used as a basis for determining what rate is reasonable to be charged in the future in order to avoid further excess profits or future losses, but under the prospective language of the statutes, Sections 393.270(3) and 393.140(5) they cannot be used to set future rates to recover for past losses due to imperfect matching of rates with expenses.

State ex rel. Utility Consumers Council v. Public Service Commission 585 S.W.2d 41, 59 (Mo. Banc 1979) (citations omitted)

The end result of Laclede's request would be the recovery of past losses due to the revenues being lower because gas sales were lower than expected. This Commission should not grant an AAO allowing a deferral related to unrealized revenue, only to have Laclede have to write-off the regulatory created asset after a subsequent rate case because recognition of such deferral in rates would result in retroactive ratemaking.

1 Unlike other AAO events seeking treatment of extraordinary and non-recurring expenses, this AAO
2 seeks to recover unrealized revenues.

3 **Q. DO EVENTS SUCH AS UNREALIZED REVENUES RELATED TO WEATHER**
4 **HAPPEN IN A VACUUM WITH RESPECT TO OTHER POSSIBLE CHANGES IN**
5 **THE OPERATIONS OF THE UTILITY?**

6 A. No. The overall cost of service is made up of a multitude of factors. Isolating or focusing on only
7 one component, fails to look at all relevant factors in determining the overall cost of service. Other
8 factors may have changed that have a corresponding decrease or increase on the overall cost of
9 service. Unless all factors are analyzed, it is not appropriate to single out one specific event. The
10 effect of singling out a normal variation in the operation of a gas utility without consideration of all
11 relevant factors is commonly referred to as single-issue ratemaking.

12 **Q. WHAT IS THE PURPOSE OF THE NORMALIZATION PROCESS?**

13 A. A normalization process levelizes fluctuating events (such as weather) for ratemaking purposes
14 while providing the stockholder with an opportunity to earn an adequate return on that investment.
15 The normalization process anticipates that actual occurrences will be either over or under the
16 "normalized level" on which rates are set, but that over time a balancing of actual and normalized
17 levels will occur.

18 **Q. WOULD IT BE FAIR TO DESCRIBE WEATHER AS BEING EXTREMELY**
19 **VARIABLE BASED ON THE DATA YOU HAVE REVIEWED?**

1 A. Yes, most definitely. This type of variability is exactly why the Commission uses the normalization
2 process in the ratemaking process.

3 Q. WOULD YOU DESCRIBE LACLEDE'S FISCAL YEAR 2002 (INCLUDES
4 WINTER OF 2001/2002) AS A YEAR IN WHICH THE ACTUAL WEATHER
5 EXPERIENCE FAILS TO MEET THE NORMALIZED LEVEL?

6 A. Yes, I believe that would be a fair characterization. However, that fact in and of itself does not
7 mean an AAO is warranted. The normalization process anticipates overages and underages. The
8 regulatory process also provides the stockholder the opportunity, not a guarantee, to earn a rate of
9 return. That opportunity involves business risk. Absent risk, authorized returns would reflect a
10 risk-free return such as US government securities (T-bills).

11 If AAOs were warranted when actual results fail to reach normalized levels used to set tariff rates,
12 fairness would dictate that AAOs would also be warranted when actual results are above normalized
13 levels. Public Counsel would point out that this Company has not (nor has any other Missouri
14 utility) proposed a "reverse" AAO to address actual results as compared to normalized levels
15 resulting in additional earnings. The excess earnings flowing from such situations are simply
16 retained by the stockholders.

17 Q. IF FINANCIAL IMPACT IS THE ONLY CONSIDERATION, WOULD THAT
18 OPEN A FLOODGATE OF OPPORTUNITY FOR A GAS UTILITY OR OTHER
19 REGULATED UTILITIES TO MANAGE THIER EARNINGS THROUGH THE USE
20 AN AAO?

1 A. Yes. An event such as an abnormally cool summer or warm or cold winter would have a significant
2 impact on earnings for electric and water industries also. Other significant impacts could occur
3 from any event in the normal course of utility operations that had a material impact on earning.
4 Other cyclical costs that are normalized for ratemaking treatment but expensed on the utilities
5 financial records include tree-trimming expenses for electric utilities, tank painting for water
6 utilities, and over-time hours for all types of utilities. All of these events are part of the normal
7 business risks faced by a utility. The traditional regulatory process includes procedures used in
8 ratemaking proceedings, which address these variable factors. The traditional regulatory process
9 provides the utilities with an opportunity but not a guarantee to earn their authorized rate of return.

10 **Q. ARE REVENUES FOR NATURAL GAS COMPANIES RELATED TO WEATHER?**

11 A. Yes. The effect of weather is normalized in each and every revenue requirement calculation for a
12 regulated gas utility in this State.

13 **Q. IS WEATHER VARIATION AN EXTRAORDINARY OR UNUSUAL EVENT FOR A**
14 **NATURAL GAS COMPANY SUCH AS LACLEDE?**

15 A. No. There is nothing extraordinary or unusual about the fact that weather changes from year to
16 year. In fact, Laclede knew that the Commission set its rates in GR-2001-629 based upon
17 volumetric, weather sensitive factors. (see Schedule RWT-6, page 1 of 3, Laclede Gas Company's
18 Response to Public Counsel First Set of Request for Admissions, No. 1) Weather effects upon
19 Laclede's earnings are neither unanticipated nor unusual. Laclede acknowledged the weather in its
20 service territory has been extremely volatile and therefore that actual sales volumes have seldom

1 approached normal levels. (see Schedule RWT-6, page 2 of 3, Laclede Gas Company's Response to
2 Public Counsel First Set of Request for Admissions, No. 3)

3 **Q. DOES LACLEDE RECOGNIZE THAT SALES VOLUMES LOWER THAN THE**
4 **" NORMAL" LEVEL BUILT INTO A RATE CASE WOULD RESULT IN THE**
5 **UNDERRECOVERY OF NON-GAS COSTS?**

6 A. Yes. (see Schedule RWT-6, page 3 of 3, Laclede Gas Company's Response to Public Counsel First
7 Set of Request for Admissions, No. 8)

8 **Q. WOULD INCREASED REVENUES DUE TO A COLDER THAN NORMAL WINTER**
9 **INCREASE THE COST RECOVERY (AND THEREFORE EARNINGS OF**
10 **LACLEDE, ALL THINGS ELSE BEING EQUAL) AS IT RELATES TO OTHER**
11 **SPECIFIC EXPENSES?**

12 A. Yes. Based on regulatory practices, a certain level of each expense or return on equity makes up
13 each dollar of revenue. The expected revenue received is based on a normalized level of gas sales.
14 To the extent a colder winter would generate more sales and therefore more revenue, the utility
15 would achieve higher earnings than anticipated.

16 **Q. DOES LACLEDE RECOGNIZE THAT INCREASED SALES RESULT IN**
17 **INCREASED EARNINGS?**

18 A. Yes. That information has also been distributed the financial markets and investors.

19 Laclede earnings, which come primarily from the sale of natural gas for
20 heating homes and businesses in the St. Louis area are highly weather
21 sensitive.

Earnings for calendar year 2000 were \$1.84 per share compared with \$1.40 per share in calendar 1999, again primarily due to the increase usage resulting from the significantly colder weather and our 1999 rate case.

"We want our customers to know the Company's reported first-quarter earnings are the result of the weather-related increase in customer usage and not the higher wholesale prices we must pay to our suppliers."

(See Schedule RWT-7, Laclede Gas, 2001 News Release, dated 1/25/01)

Q. DOES THE EARNINGS DATA FOR FIRST QUARTER OF THE FISCAL YEAR 2001 INDICATE THAT LACLEDE EXPERIENCED SIGNIFICANTLY INCREASED EARNINGS DUE TO WEATHER?

A. Yes.

Q. HOW DID THE PERIOD, ADDRESSED IN THE JANUARY 1, 25, 2001 PRESS RELEASE, COMPARE TO HISTORIC WEATHER DATA OR NORMAL WEATHER?

A. The period in question was significantly colder than normal and colder than comparable period except one in the last 100 years.

The quarter just completed was the second coldest of any comparable quarter in the last 100 years – 28% colder than normal and 56% colder than last year, which equalled the fourth warmest quarter in the last 100 years.

(See Schedule RWT-7, Laclede Gas, 2001 News Release, dated 1/25/01)

1 **Q. DOES LACLEDE RECOGNIZE THAT COLDER THAN NORMAL WEATHER**
2 **RELATED SALES RESULT IN INCREASED EARNINGS DUE TO THE OVER-**
3 **RECOVERY OF COSTS?**

4 A. Yes. "Weather that is colder or warmer than normal causes Laclede Gas to over-recover or under-
5 recover its costs." (See Schedule RWT-8, Laclede Gas, Press Release, dated January 25 as reported
6 on Yahoo Finance web site)

7 **Q. ARE THE RATES THE COMMISSION APPROVED IN GR-2001-629**
8 **OPERATING AS THERE WERE DESIGNED TO?**

9 A. Yes. The volumetric rates that were established based on weather sensitive factors are operating
10 exactly as they were designed to operate. When winter weather is colder than normal, as it was in
11 the winter of 2000/2001, Laclede will reap the benefit of greater gas usage increasing revenues and
12 thus increased earnings as compared to a normal weather level of sales. If the winter weather is
13 milder and gas usage is thus less than projected under normalized winter sales (as was the case in
14 the winter of 2001/2002) then customers reap the benefit of lower gas bills and the Company will
15 fall short of its revenue projections and thus earnings based on a "normal" winter.

16 **Q. IF THE COMMISSION GRANTS LACLEDE'S REQUEST FOR AN AAO, WHAT**
17 **IS THE EFFECT ON RATEPAYERS AND STOCKHOLDERS?**

18 Q. Laclede's Application seeks to fundamentally alter the regulatory paradigm approved when the
19 Commission set Laclede's rates in GR-2001-629. Laclede seeks to guarantee the ability to recover
20 its cost of service even though it was well aware of the fact that the rates it agreed to, that were
21 approved by this Commission, were volumetric rates based upon weather sensitive factors.

1 Approval of an AAO to charge ratepayers for unrealized revenues would create an imbalance in the
2 regulatory process.

3 The regulatory process is designed under the assumptions that ratepayers are entitled to pay just and
4 reasonable rates for utility services and stockholders are entitled to the opportunity to earn a
5 reasonable return on their investment in the provision of utility services. The normalization process
6 as used by this Commission addresses factors, effecting utility operations that experience significant
7 variations. If components of the revenue requirement (other factors that are not subject to the
8 normalization process) change such that current rates do not ensure that either the ratepayers or
9 stockholders "entitlements" are possible, a rate change is necessary. Whether these entitlements are
10 in balance can only be determined through a determination of the overall revenue requirement
11 (a.k.a. overall cost-of-service). The effect of imbalances (to either the stockholders or the
12 ratepayers) is commonly referred to as regulatory lag.

13 **Q. PLEASE EXPLAIN THE CONCEPT OF REGULATORY LAG.**

14 A. Regulatory lag refers to the difference in timing of a decision by management or other event that
15 affects a utilities operations and resulting actual earnings and the Commission's recognition of that
16 decision or event, and its effect, if any, on the rate base/rate of return/revenue/expense relationship
17 in the determination of a company's revenue requirement. Prudent management decisions may alter
18 the rate base/rate of return/revenue/expense relationship that is the basis for the overall cost of
19 service (a.k.a., the Overall Revenue Requirement). The relationship change increases the
20 profitability of the firm in the short-run, until such time as the Commission reestablishes rates which
21 properly match the new levels of the overall cost of service components. Regulated utility

1 companies are allowed to retain costs savings, i.e., excess profits during the lag period between rate
2 cases. When faced with escalating costs that will change the rate base/rate of
3 return/revenue/expense relationship adversely with respect to profits, regulatory lag places pressure
4 on management to take actions to minimize the change in the relationship and the resulting decrease
5 in profitability. Regulatory lag, stated another way, provides management with real financial
6 incentives to operate the business in an efficient manner.

7 Other events can also effect the return/revenue/expense relationship such as customer growth,
8 customer usage patterns, inflation/deflation, technology changes, and any other influences or factors
9 effecting utility operations.

10 **Q. HAS THIS COMMISSION ADDRESSED WHETHER IT IS REASONABLE TO**
11 **PROTECT SHAREHOLDERS FROM ALL REGULATORY LAG?**

12 **A.** Yes. This Commission has held that it is not reasonable to protect shareholders from all regulatory
13 lag. In Missouri Public Service Company, Cases Nos. EO-91-358 and EO-91-360, the Commission
14 stated:

15 Lessening the effect of regulatory lag by deferring costs is beneficial to a
16 company but not particularly beneficial to ratepayers. Companies do not
17 propose to defer profits to subsequent rate cases to lessen the effects of
18 regulatory lag, but insist it is a benefit to defer costs. Regulatory lag is a
19 part of the regulatory process and can be a benefit as well as a detriment.
20 Lessening regulatory lag by deferring costs is not a reasonable goal unless
21 the costs are associated with an extraordinary event.

22 Maintaining the financial integrity of a utility is also a reasonable goal.
23 The deferral of costs to maintain current financial integrity though is of
24 questionable benefit. If a utility's financial integrity is threatened by high
25 costs so that its ability to provide service is threatened, then it should seek
26 interim rate relief. If maintaining financial integrity means sustaining a
27 specific return on equity, this is not the purpose of regulation. It is not

1 reasonable to defer costs to insulate shareholders from any risks. If costs
2 are such that a utility considers its return on equity unreasonably low, the
3 proper approach is to file a rate case so that a new revenue requirement can
4 be developed which allows the company the opportunity to earn its
5 authorized rate of return. Deferral of costs just to support the current
6 financial picture distorts the balancing process used by the Commission to
7 establish just and reasonable rates. Rates are set to recover ongoing
8 operating expenses plus a reasonable return on investment. Only when an
9 extraordinary event occurs should this balance be adjusted and costs
10 deferred for consideration in a later period (Emphasis added).

11 **Q. HAS THE COMMISSION PREVIOUSLY ADDRESSED WHETHER OR NOT**
12 **WEATHER RELATED CHANGES IN SALES SHOULD BE ADDRESSED BY**
13 **ADJUSTING FUTURE CUSTOMERS RATES?**

14 A. Yes. Laclede's application for an AAO to address the effect of weather on actual sales (and the
15 resulting revenue and earnings) as compared to the level of weather normalized sales used to
16 determine rates is the same basic concept as a Weather Normalization Clause (WNC). The only
17 difference being that the AAO application looks at only one historic period whereas a WNC does
18 not have such a restriction. The AAO application would produce the same results for the period in
19 question as a WNC such as the one requested by Missouri Gas Energy in Case No. GT-95-429.

20 **Q. DID THE COMMISSION REJECT THE WNC REQUESTED BY MISSOURI GAS**
21 **ENERGY IN CASE NO. GT-95-429?**

22 A. Yes. The Commission found that such a clause could effect the company's rate of return, result in a
23 de facto change in rates, and result in single issue ratemaking.

24 The Commission agrees with OPC and Staff that the institution of the
25 WNC tariff could affect the company's rate of return by reducing its risk.
26 If the rate of return were to change, the matching of revenues and expenses
27 approved by the Commission in the company's last rate case would be

1 abrogated and the effective rate structure changed without a
2 reconsideration of all relevant factors. In determining rates the Commission
3 is required by statute to give due regard to a "a reasonable average return
4 upon capital." §393.270.4. The Commission is of the opinion that such a
5 determination should be made in the context of a full rate proceeding and
6 that the Commission should avoid piecemeal litigation of the issues
7 affecting a utility's proper return on equity.

8 The Commission further finds that approval of the WNC tariff would result
9 in a de facto change in MGE's rates. Under the weather normalization
10 clause a customer would pay for more gas than he actually used in an
11 unusually warm month. In that month, the customer would have paid an
12 effective per unit rate for his actual usage greater than MGE's current
13 tariffed rate. In an unusually cold month the customer would pay for less
14 gas than he actually used. In that month, the customer would have paid a
15 lower per unit rate for his actual usage than MGE's current tariffed rate.

16 Missouri's Supreme Court found that the Commission is "required to
17 consider all factors relevant to the proper maximum price to be charged."
18 U.C.C.M. v. P.S.C., 56. The price fixed by the Commission in the last rate
19 case is the maximum rate a utility may charge for its services. §393-270.3.
20 The Commission finds that approval of the proposed WNC tariff would
21 result in a change, uncertain in amount, to the maximum rate approved for
22 MGE's services in its last rate case. This change would have been
23 approved without inquiry into the factors normally considered relevant to a
24 change in rates as required by §393-270.4. Therefore, the Commission
25 finds that approval of the proposed WNC tariff outside the context of a rate
26 case would result in single issue ratemaking.

27 **Q. DOES LACLEDE'S APPLICATION PROPOSE TO LOOK AT THE APPROPRIATE**
28 **COST OF EQUITY?**

29 A. No. OPC witness Burdette addresses the need to look at the reduced business risk and resulting
30 lower required cost of equity if the AAO was approved. The Commission recognized that risk
31 would be reduced if the WNC clause had been approved in Case No. GT-95-429.

32 **Q. IF THE AAO DOES NOT CHANGE CURRENT TARIFFS OR CHARGES TO**
33 **CUSTOMERS, ISN'T IT DIFFERENT THAN A WNC?**

1 A. No. The only difference is the timing of when the customers would be required to pay for gas they
2 did not use. Under an WNC the charge to customers would occur sooner than under the AAO
3 proposed by Laclede. However the basic underlying effect on the ratepayer does not change, that is
4 that the ratepayer will be required to pay for gas they did not use.

5 **Q. PLEASE SUMMARIZE PUBLIC COUNSEL'S POSITION ON LACLEDE'S**
6 **REQUEST FOR AN AAO?**

7 A. Public Counsel believes the Commission should reject Laclede's request for an AAO. Laclede is
8 seeking to defer an amount to reflect lower than expected earnings due to gas sales (and thus
9 revenues) being lower as a result of warmer than the normalized heating degree days used in a rate
10 case. Weather fluctuations are normal recurring on-going business risk that is considered when
11 rates were set and inherent in the regulatory process. Deferral of revenues (actually lower earnings
12 than Laclede wants) is wholly inconsistent with the Commission's long held AAO policy of only
13 allowing deferral of costs resulting from an event or circumstance that is extraordinary, unusual,
14 unique, and non-recurring. Laclede has not identified, neither can it identify, a specific cost that
15 increased as a result of the winter being warmer than the normalized winter weather used in the
16 regulatory process. Moreover, granting the requested AAO could result in single-issue ratemaking
17 and retroactive ratemaking.

18 Granting Laclede an AAO would be the first step in a two-step process to recover past earnings (that
19 did not occur) from future ratepayers. However, the Commission should not take the first step if it
20 is unable to take the second step. This Commission should not grant Laclede an AAO, thus creating

1 a regulatory asset, only to have Laclede write-off the asset because recovery of the historic earnings
2 not realized would result in forbidden retroactive and single-issue ratemaking.

3 An AAO providing Laclede with a guarantee level of earnings based on an adjustment to impute
4 revenues (for cash recovery from future ratepayers) associated with gas sales to prior period
5 customers (sales that did not in fact occur) would be unprecedented, bad regulatory policy, and not
6 in the public interest.

7 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

8 **A. Yes.**

Rebuttal Testimony
Russell W. Trippensee
Case No. GA-2002-429

Missouri Power & Light Company, Steam Dept., Case No. HR-82-179
Missouri Power & Light Company, Electric Dept., Case No. ER-82-180
Missouri Edison Company, Electric Dept., Case No. ER-79-120
Southwestern Bell Telephone Company, Case No. TR-79-213
Doniphan Telephone Company, Case No. TR-80-15
Empire District Electric Company, Case No. ER-83-43
Missouri Power & Light Company, Gas Dept., Case No. GR-82-181
Missouri Public Service Company, Electric Dept., Case No. ER-81-85
Missouri Water Company, Case No. WR-81-363
Osage Natural Gas Company, Case No. GR-82-127
Missouri Utilities Company, Electric Dept., Case No. ER-82-246
Missouri Utilities Company, Gas Dept., Case No. GR-82-247
Missouri Utilitites Company, Water Dept., Case No. WR-82-248
Laclede Gas Company, Case No. GR-83-233
Great River Gas Company, Case No. GR-85-136 (OPC)
Northeast Missouri Rural Telephone Company, Case No. TR-85-23 (OPC)
United Telephone Company, Case No. TR-85-179 (OPC)
Kansas City Power & Light Company, Case No. ER-85-128 (OPC)
Arkansas Power & Light Company, Case No. ER-85-265 (OPC)
KPL/Gas Service Company, GR-86-76 (OPC)
Missouri Cities Water Company, Case Nos. WR-86-111, SR-86-112 (OPC)
Union Electric Company, Case No. EC-87-115 (OPC)
Union Electric Company, Case No. GR-87-62 (OPC)
St. Joseph Light and Power Company, Case Nos. GR-88-115, HR-88-116 (OPC)
St. Louis County Water Company, Case No. WR-88-5 (OPC)
West Elm Place Corporation, Case No. SO-88-140 (OPC)
United Telephone Long Distance Company, Case No. TA-88-260 (OPC)
Southwestern Bell Telephone Company, Case No. TC-89-14, et al. (OPC)
Osage Utilities, Inc., Case No. WM-89-93 (OPC)
GTE North Incorporated, Case Nos. TR-89-182, TR-89-238, TC-90-75 (OPC)
Contel of Missouri, Inc., Case No. TR-89-196 (OPC)
The Kansas Power and Light Company, Case No. GR-90-50 (OPC)
Southwestern Bell Telephone Company, Case No. TO-89-56 (OPC)
Capital City Water Company, Case No. WR-90-118 (OPC)

Laclede Gas Company, Case No. GR-90-120 (OPC)
Southwestern Bell Telephone Company, Case No. TR-90-98 (OPC)
Empire District Electric Company, Case No. ER-90-138 (OPC)
Associated Natural Gas Company, Case No. GR-90-152 (OPC)
Southwestern Bell Telephone Company, Case No. TO-91-163
Union Electric Company, Case No. ED-91-122
Missouri Public Service, Case Nos. EO-91-358 and EO-91-360
The Kansas Power and Light Company, Case No. GR-91-291
Southwestern Bell Telephone Co., Case No. TO-91-163
Union Electric Company, EM-92-225 and EM-92-253
Southwestern Bell Telephone Company, TO-93-116
Missouri Public Service Company, ER-93-37, (January, 1993)
Southwestern Bell Telephone Company, TO-93-192, TC-93-224
Saint Louis County Water Company, WR-93-204
United Telephone Company of Missouri, TR-93-181
Raytown Water Company, WR-94-300
Empire District Electric Company, ER-94-174
Raytown Water Company, WR-94-211
Missouri Gas Energy, GR-94-343
Capital City Water Company, WR-94-297
Southwestern Bell Telephone Company, TR-94-364
Missouri Gas Energy, GR-95-33
St. Louis County Water Company, WR-95-145
Missouri Gas Energy, GO-94-318
Alltel Telephone Company of Missouri, TM-95-87
Southwestern Bell Telephone Company, TR-96-28
Steelville Telephone Exchange, Inc., TR-96-123
Union Electric Company, EM-96-149
Imperial Utilites Corporation, SC-96-247
Laclede Gas Company, GR-96-193
Missouri Gas Energy, GR-96-285
St. Louis County Water Company, WR-96-263
Village Water and Sewer Company, Inc. WM-96-454
Empire District Electric Company, ER-97-82

Rebuttal Testimony
Russell W. Trippensee
Case No. GA-2002-429

UtiliCorp d/b/a Missouri Public Service Company, GR-95-273
Associated Natural Gas, GR-97-272
Missouri Public Service, ER-97-394, ET-98-103
Missouri Gas Energy, GR-98-140
St. Louis County Water, WO-98-223
United Water Missouri, WA-98-187
Kansas City Power & Light/Western Resources, Inc. EM-97-515
St. Joseph Light & Power Company, HR-99-245
St. Joseph Light & Power Company, GR-99-246
St. Joseph Light & Power Company, ER-99-247
AmerenUE, EO-96-14, (prepared statement)
Missouri American Water Company, WR-2000-281
Missouri American Water Company, SR-2000-282
UtiliCorp United Inc./St. Joseph Light & Power Company, EM-2000-292
UtiliCorp United Inc./Empire District Electric Company, EM-2000-369
St. Joseph Light & Power Company, EO-2000-845
St. Louis County Water Company, WR-2000-844
Union Electric Company, EO-2001-245
Laclede Gas Company, GM-2001-342
Empire District Electric Company, ER-2001-299
Missouri-American Water Company, et. al., WM-2001-309
AmerenUE, EC-2002-152, GC-2002-153
UtiliCorp United Inc., ER-2001-672
Aquila, Inc., GO-2002-175
AmerenUE, ER-2002-001
Laclede Gas Company, GA-2002-429

Trippensee
Rebuttal
GA-2002-429

Public Counsel Data Request
Laclede Gas Company
Case No. GA-2002-429
AAO - Weather

1203

FILE COPY

Requested By: Russell W. Trippensee

Requested From: Mike Spotanski

Date of Request: May 16, 2002

Information Requested: Please identify and provide copies of the source of the information contained on Schedule 1 attached to Mr. Spotanski's direct testimony.

This Response Includes:

☒ Printed Materials

___ Total Pages

☒ Magnetic Media

___ Number of disks
or tapes

Please number each section of multiple pages as:

File formats for data: _____

of Total

LIST PRINTED MATERIALS AND/OR FILES INCLUDED:

Please See Attached

The information provided to the Office of the Public Counsel in response to the above information request is accurate and complete, and contains no material misrepresentations or omissions based upon present facts known to the undersigned. The undersigned agrees to immediately inform the Office of the Public Counsel if any matters are discovered which would materially affect the accuracy or completeness of the information provided in response to the above information.

DATE RECEIVED: _____

SIGNED BY: _____

Glenn Buch

TITLE _____

Schedule RWT-2
Page 1 of 5

JUN 06 2002

Response to OPC Data Request No. 1203

See response to DR 1199 for information on actual and normal degree days. For the "Margin Rate" information, please see the applicable general service tariffs (attached). For the "Therms / DD", please see attached.

Trippensee

Rebuttal

GA-2002-429 **Laclede Gas Company**

Name of Issuing Corporation or Municipality

For

Refer to Sheet No. 1

Community, Town or City

SCHEDULE OF RATES

RESIDENTIAL GENERAL SERVICE (RG)

Availability – This rate schedule is available for all gas service rendered by the Company to residential customers, including space heating service.

Rate – The monthly charge shall consist of a customer charge plus a charge for gas used as set forth below:

Customer Charge – per month	\$12.00		
		Summer - Billing Months of <u>May-October</u>	Winter – Billing Months of <u>November-April</u>
Charge for Gas Used – per therm			
For the first 65 therms used per month	14.716¢		17.590¢
For all therms used in excess of 65 therms	11.096¢		13.970¢

Minimum Monthly Charge – The Customer Charge.

Purchased Gas Adjustment – The charge for gas used as specified in this schedule shall be subject to an adjustment per therm for increases and decreases in the Company's cost of purchased gas, as set out on Sheet No. 29.

Late Payment Charge – Unless otherwise required by law or other regulation, 1.5% will be added to the outstanding balance of all bills not paid by the delinquent date stated on the bill. The late payment charge will not be applied to amounts being collected through a pre-arranged payment agreement with the Company that is kept up-to-date.

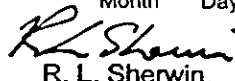
DATE OF ISSUE November 21, 2001

Month Day Year

DATE EFFECTIVE December 1, 2001

Month Day Year

ISSUED BY



R. L. Sherwin, Assistant Vice President, 720 Olive St., St. Louis, MO 63101

Name of Officer

Title

Address

Trippensee
Rebuttal
GA-2002-429

Laclede Gas Company

Name of Issuing Corporation or Municipality

For

Refer to Sheet No. 1

Community, Town or City

SCHEDULE OF RATES

RESIDENTIAL GENERAL SERVICE (RG)

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Customer Charge – per month

\$12.00

Summer -
Billing
Months of
May-October

Winter -
Billing
Months of
November-April

Charge for Gas Used – per therm

For the first 65 therms used per month

13.233¢

15.818¢

For all therms used in excess of 65 therms

9.978¢

12.562¢

Minimum Monthly Charge – The Customer Charge.

Purchased Gas Adjustment – The charge for gas used as specified in this schedule shall be subject to an adjustment per therm for increases and decreases in the Company's cost of purchased gas, as set out on Sheet No. 29.

Late Payment Charge – Unless otherwise required by law or other regulation, 1.5% will be added to the outstanding balance of all bills not paid by the delinquent date stated on the bill. The late payment charge will not be applied to amounts being collected through a pre-arranged payment agreement with the Company that is kept up-to-date.

DATE OF ISSUE

December 21, 1999

DATE EFFECTIVE

December 27, 1999

~~January 22, 2000~~

Month Day Year

Month Day Year

ISSUED BY

R.L. Sherwin,

Assistant Vice President,

720 Olive St., St. Louis, MO 63101

Name of Officer

Title

Address

CONSOLIDATED WEATHER EFFECT CALENDAR BASIS
12 MONTHS ENDED March, 2002

	Therm Adj (Colder)/Warmer			Per/DD
	Block 1	Block 2	Total	
Sep	(2,740.0)	(34.3)	(2,774.3)	106.7
Oct	(1,862.5)	(596.0)	(2,458.5)	106.9
Nov	345.7	24,078.0	24,423.7	107.6
Dec	51.9	17,779.9	17,831.8	108.7
Jan	83.7	29,302.6	29,386.3	109.7
Feb	38.6	13,498.9	13,537.5	110.1
Mar	(26.6)	(8,240.2)	(8,266.8)	110.2
Apr	9,333.7	3,160.4	12,494.1	109.6
May	4,275.0	726.1	5,001.1	108.7
Jun	(1,359.0)	(44.4)	(1,403.4)	108.0
Jul				
Aug				
	8,140.5	79,631.0	87,771.5	
	Per/Degree Day			109.0

Trippensee
Rebuttal
GA-2002-429

Public Counsel Data Request
Laclede Gas Company
Case No. GA-2002-429
AAO - Weather

1211

FILE COPY

Requested By: Russell W. Trippensee

Requested From: Mike Spotanski

Date of Request: May 16, 2002

Information Requested: Please identify each specific USOA expense account and the amount by which each account will be credited to remove the \$10,849,000 of costs from the current period's income statement. Please provide workpapers, analysis, or documentation supporting the credit to each account.

This Response Includes:

☒ Printed Materials

____ Total Pages

☒ Magnetic Media

____ Number of disks
or tapes

Please number each section of multiple pages as:

File formats for data: _____

of Total

LIST PRINTED MATERIALS AND/OR FILES INCLUDED:

See Attached

The information provided to the Office of the Public Counsel in response to the above information request is accurate and complete, and contains no material misrepresentations or omissions based upon present facts known to the undersigned. The undersigned agrees to immediately inform the Office of the Public Counsel if any matters are discovered which would materially affect the accuracy or completeness of the information provided in response to the above information.

DATE RECEIVED: _____

SIGNED BY: _____

TITLE _____

Schedule RWT-3
Page 1 of 2

JUN 06 2002

Trippensee
Rebuttal
GA-2002-429

Laclede Gas Company
GA-2002-429

Response to OPC Data Request No. 1211

Please see response to OPC Data Request No. 1212.

Trippensee
Rebuttal
GA-2002-429

Public Counsel Data Request
Laclede Gas Company
Case No. GA-2002-429
AAO - Weather

1212

FILE COPY

Requested By: Russell W. Trippensee
Requested From: Mike Spotanski
Date of Request: May 16, 2002
Information Requested: Please provide the accounting entries Laclede proposes to make to if the Commission grants its AAO request in this case.

This Response Includes:

☒ Printed Materials ____ Total Pages ☒ Magnetic Media ____ Number of disks
or tapes

Please number each section of multiple pages as: File formats for data: ____

of Total

LIST PRINTED MATERIALS AND/OR FILES INCLUDED:

The information provided to the Office of the Public Counsel in response to the above information request is accurate and complete, and contains no material misrepresentations or omissions based upon present facts known to the undersigned. The undersigned agrees to immediately inform the Office of the Public Counsel if any matters are discovered which would materially affect the accuracy or completeness of the information provided in response to the above information.

DATE RECEIVED: _____ SIGNED BY: _____

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Schedule RWT-4
Page 1 of 2

JUN 06 2002

Laclede Gas Company
GA-2002-429

Response to OPC Data Request No. 1212

Laclede has not proposed any specific entries at this time. The Company expects that the entries made will be consistent with any Commission Order in this proceeding.

NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION HEATING DEGREE DAYS

FISCAL YEAR

Trippensee
Rebuttal
GA-2002-429

	FY	FY TOTAL
1	1921	3,757
2	1932	3,894
3	2000	3,933
4	1919	3,944
5	2002	3,989
6	1995	4,005
7	1991	4,024
8	1992	4,084
9	1999	4,140
10	1954	4,172
11	1903	4,186
12	1925	4,225
13	1990	4,260
14	1922	4,261
15	1946	4,293
16	1955	4,301
17	1939	4,348
18	1914	4,353
19	1976	4,367
20	1901	4,373
21	1987	4,373
22	1950	4,390
23	1938	4,393
24	1986	4,400
25	1998	4,404
26	1972	4,422
27	1957	4,435
28	1909	4,452
29	1916	4,455
30	1981	4,457
31	1953	4,473
32	1930	4,477
33	1923	4,484
34	1908	4,528
35	1935	4,528
36	1942	4,529
37	1928	4,531
38	1913	4,540
39	1911	4,546
40	1983	4,555
41	1927	4,559
42	1985	4,584
43	1941	4,595
44	1989	4,618
45	1949	4,630
46	1988	4,639
47	1910	4,647
48	1915	4,660

NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION HEATING DEGREE DAYS
FISCAL YEAR

Trippensee
Rebuttal
GA-2002-429

	FY	FY TOTAL
49	1994	4,694
50	1929	4,701
51	1947	4,725
52	1974	4,725
53	1959	4,731
54	1967	4,737
55	1952	4,739
56	1933	4,744
57	1948	4,759
58	1931	4,772
59	1934	4,784
60	1917	4,790
61	1964	4,800
62	1924	4,803
63	1907	4,827
64	1945	4,837
65	1993	4,838
66	1966	4,845
67	1906	4,851
68	1943	4,880
69	1996	4,880
70	1905	4,891
71	1902	4,896
72	1980	4,904
73	1956	4,909
74	1973	4,913
75	1997	4,953
76	1937	4,956
77	1944	4,971
78	1971	5,000
79	1965	5,026
80	1920	5,031
81	1975	5,036
82	1968	5,062
83	1958	5,069
84	1969	5,081
85	1963	5,097
86	2001	5,102
87	1961	5,115
88	1962	5,124
89	1926	5,154
90	1951	5,161
91	1970	5,211
92	1982	5,231
93	1960	5,232
94	1984	5,324
95	1904	5,348
96	1918	5,366
97	1940	5,495

NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION HEATING DEGREE DAYS
FISCAL YEAR

Trippensee			
Rebuttal			
GA-2002-429			
	FY		FY TOTAL
	98	1977	5,504
	99	1979	5,510
	100	1936	5,592
	101	1912	5,661
	102	1978	5,877

* Actual through March 31

FILE COPY

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the matter of the Application of Laclede)
Gas Company for an accounting authority)
order authorizing the company to defer for)
future recovery consideration its just and)
reasonable costs of providing public)
utility service that would otherwise be)
unrecovered due solely to the extraordinary)
impact of record warm weather on the)
company's operations.)

Case No. GA-2002-429

**LACLEDE GAS COMPANY'S ANSWERS TO
PUBLIC COUNSEL'S FIRST SET OF REQUEST FOR ADMISSIONS**

COMES NOW Laclede Gas Company pursuant to 4 CSR 240-2.090(1) and Rule 59.01 of the Missouri Rules of Civil Procedure provide the following answers to Public Counsel's First Set of Request For Admissions.

- 1) Admit or deny that Laclede Gas Company's non-gas rates established in GR-2001-629, excluding the fixed customer charge, are volumetric rates established based upon weather sensitive factors.

Laclede admits that a portion of its rates and charges for utility service are volumetric in nature and that a portion of those volumetric rates have been calculated based on certain assumptions regarding the degree days that will be experienced in Laclede's service territory and the impact that those degree days will have on usage. Other non-gas volumetric rates charged by Laclede are collected under terms and conditions that serve to prevent any over or under recovery of its costs, regardless of weather.

- 2) Admit or deny that Laclede customers currently pay non-gas rates that are designed to recover the Company's costs based on volumes delivered to those customers under normal weather conditions.

Laclede admits that a portion of its rates and charges for utility service are volumetric in nature and that a portion of those volumetric rates are calculated based on certain assumptions regarding the degree days that will be experienced in Laclede's service territory and the impact that those degree days will have on usage. Other non-gas volumetric rates charged by Laclede are collected under

MAY 17 2002

terms and conditions that serve to prevent any over or under recovery of its costs, regardless of weather.

- 3) Admit or deny that temperatures in the Laclede Gas Company's service area have been extremely volatile, and the resulting delivered volumes of gas delivered to customers have seldom approached "normal" levels in more than a decade.

Laclede admits that temperatures in its service area have been extremely volatile. Laclede also admits that the resulting volumes of gas delivered to customers have seldom approached normal levels in more than a decade. In most cases, the weather was significantly warmer than the degree day normal, with the effect that the volumes of gas delivered to customers were also significantly less than what was assumed in setting rates. Since the degree day normal used in setting rates neither reflects nor mitigates the impact of these extreme weather effects on delivered volumes, the Company has experienced a significant under-recovery of the costs that have been determined to be just and reasonable and necessary for Laclede to fulfill its public utility obligations.

- 4) Admit or deny that Laclede Gas Company was aware when it settled its rate Case No. GR-2001-629 that the rate design allowed the Company to recover its non-gas costs based on volumes delivered to customers under normal weather conditions.

Laclede admits that it was aware that when it settled its rate case proceeding, Case No. GR-2001-629, that a portion of its non-gas cost recovery was to be recovered through volumetric rates that had been calculated based on an assumed degree day normal. The same settlement, however, also expressly provided with respect to measures aimed at mitigating the impact of weather that neither the Company nor any other party ".... shall be precluded from proposing or seeking to implement any similar or distinct mitigation mechanism in any future proceeding."

- 5) Admit or deny that Laclede Gas Company made its shareholders aware that the rates the Company agreed to in Case No. GR-2001-629 were designed to recover its non-gas costs based on volumes delivered to customers under normal weather conditions.

Laclede has insufficient information to either admit or deny what the shareholders of The Laclede Group, Inc. were specifically aware of concerning the impact of Case No. GR-2001-629. However, Laclede admits that in some of its communications to its shareholders and/or the public, The Laclede Group, Inc. has stated that Laclede's rates in general are designed to recover the Company's costs based on volumes delivered to those customers under normal weather conditions and that the Company has proposed measures designed to mitigate the impact of weather on the recovery of its costs.

- 6) Admit or deny that Laclede Gas Company made the investment community aware that the rates the Company agreed to in Case No. GR-2001-629 were designed to recover the Company's non-gas costs based on volumes delivered to customers under normal weather conditions.

Laclede has insufficient information to either admit or deny what the investment community was specifically aware of concerning the impact of Case No. GR-2001-629. However, Laclede admits that in some of its communications to its shareholders and/or the public, The Laclede Group, Inc. has stated that its rates in general are designed to recover the Company's costs based on volumes delivered to those customers under normal weather conditions and that the Company has proposed measures designed to mitigate the impact of weather on the recovery of its costs.

- 7) Admit or deny that Laclede Gas Company was aware when it settled its rate Case No. GR-2001-629 that when weather was colder than "normal" it would cause Laclede Gas Company to over-recover its non-gas costs based on how rates were designed.

Laclede denies that when it settled its rate case proceeding, Case No. GR-2001-629, that it was aware that colder than normal weather would cause the Company to over-recover its non-gas costs based on how rates were designed.

- 8) Admit or deny that Laclede Gas Company was aware when it settled its rate Case No. GR-2001-629 that when weather was warmer than "normal" it would cause Laclede Gas Company to under-recover its non-gas costs based upon how rates were designed.

Laclede admits that when it settled its rate case proceeding, Case No. GR-2001-629, that it was aware that warmer than normal weather could result in the Company under-recovering a portion of its non-gas costs based on how rates were designed and subject to the outcome of any subsequent proposals by the Company to mitigate the impact of weather.

- 9) Admit or deny that costs contained in Laclede Account number 710.20 – Operation Supervision and Engineering – Catalan are normal and typical recurring business expenses.

Laclede admits that the costs contained in the referenced account are generally normal and typical recurring business expenses, but not always.

Trippensee
Rebuttal Testimony
GA-2002-429

2001 News Releases



FOR RELEASE - 1/25/01

Contact: Richard N. Hargraves (314) 342-0652

Laclede Gas Shareholders Approve Holding Company Structure; Firm Announces First Quarter Earnings

ST. LOUIS, Mo., January 25, 2001 — Shareholders of Laclede Gas Company (NYSE:LG) today approved a proposal by the Company's Management to reorganize its corporate structure to form a holding company known as The Laclede Group, Inc.

The shareholder action came at the Company's annual meeting, at which earnings were announced for the first quarter of the Company's fiscal year 2001 and for the twelve months ended December 31, 2000.

Under the holding company structure, Laclede Gas would become a wholly owned subsidiary of The Laclede Group, Inc., but would continue to operate as a regulated natural gas distribution utility. Existing corporate subsidiaries of Laclede Gas — Laclede Energy Resources, Inc., Laclede Venture Corp., Laclede Development Company, Laclede Investment Corporation, Laclede Gas Family Services, Inc., and Laclede Pipeline Company — would become subsidiaries of The Laclede Group, Inc., and would remain unregulated.

"By creating a corporate structure that more thoroughly separates Laclede Gas' traditional utility functions from unregulated business activities, this reorganization will allow for clearly defined utility operations that reinforce and protect the financial strength of the regulated utility," said Douglas H. Yaeger, Laclede Gas Company's Chairman, President and Chief Executive Officer. "At the same time, such separation will provide The Laclede Group's unregulated subsidiaries with additional financial and operational flexibility to pursue business opportunities that present themselves," Yaeger said.

Laclede's earnings report for the first quarter of the company's Fiscal Year 2001 and for the twelve months of calendar 2000 are below.

Laclede's earnings, which come primarily from the sale of natural gas for heating homes and businesses in the St. Louis area, are highly weather-sensitive. Temperatures in Laclede's service area during the quarter ended December 31, 2000, which is the first quarter of Laclede's Fiscal Year 2001, were in stark contrast to those of the comparable period a year ago. The quarter just completed was the second coldest of any comparable quarter in the last 100 years — 28% colder than normal and 56% colder than last year, which equalled the fourth warmest quarter in the last 100 years. As a result, Laclede's customers consumed an additional 12.9 million cubic feet of natural gas to meet their needs during the quarter over what they used in the same period last year.

The 45% increase in the amount of gas used by Laclede's customers resulted in earnings for the quarter ended December 31, 2000, of \$.98 per share, compared with \$.51 per share during the same period last year.

Earnings for calendar year 2000 were \$1.84 per share compared with \$1.40 per share in calendar 1999, again primarily due to the increased usage resulting from the significantly colder weather and our 1999 rate case.

Schedule RWT-7
Page 1 of 3

Trippensee
 Rebuttal Testimony
 GA-2002-429

About 76% of a customer's bill this winter is going directly to pay Laclede's wholesale suppliers and pipeline transportation providers, an average of about 6 percent goes to counties and municipalities that levy Gross Receipts Taxes on utility bills, and the remaining portion — which is regulated by the Missouri Public Service Commission — goes to cover the cost of operating and maintaining Laclede's 15,000 miles of distribution piping and storage system, as well as providing a return to investors.

"From the standpoint of this winter's gas bills, our customers have been hit with the double impact of near-record cold weather on top of nationwide increases in the wholesale price of natural gas purchased at the wellhead," said Yaeger. "We want our customers to know that the Company's reported first-quarter earnings are the result of the weather-related increase in customer usage and not the higher wholesale prices we must pay to our suppliers."

Note: This news release contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. The Company's future operating results may be affected by various uncertainties and risk factors, many of which are beyond the Company's control, including weather conditions, governmental and regulatory policy and action, the competitive environment and economic factors. For a more complete description of these uncertainties and risk factors, see the Company's Form 10-K for the year ended September 30, 2000, filed with the Securities and Exchange Commission.

UNAUDITED

STATEMENTS OF CONSOLIDATED INCOME

Laclede Gas Company and Subsidiary Companies

(In Thousands Except Per Share Amounts)

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2000	1999	2000	1999
Operating Revenues:				
Utility operating revenues	\$ 323,814	\$ 144,659	\$ 710,307	\$ 468,610
Non-utility operating revenues	21,211	6,695	49,492	20,585
Total operating revenues	<u>345,025</u>	<u>151,354</u>	<u>759,799</u>	<u>489,195</u>
Operating Expenses:				
Utility operating expenses				
Natural and propane gas	233,332	81,596	446,999	241,242
Other operation expenses	27,038	22,653	91,448	82,748
Maintenance	4,529	4,708	18,465	19,209
Depreciation and amortization	6,518	5,495	25,797	21,698
Taxes, other than income taxes	17,296	10,372	49,723	41,521
Total utility operating expenses	<u>288,713</u>	<u>124,824</u>	<u>632,432</u>	<u>406,418</u>
Non-utility operating expenses	20,565	6,589	48,218	20,174
Total operating expenses	<u>309,278</u>	<u>131,413</u>	<u>680,650</u>	<u>426,592</u>
Operating income	35,747	19,941	79,149	62,603
Other income and income deductions - Net	992	850	877	(1,372) *
Income Before Interest and Income Taxes	<u>36,739</u>	<u>20,791</u>	<u>80,026</u>	<u>61,231</u>
Interest Charges:				
Interest on long-term debt	4,377	3,784	15,757	14,403
Other interest charges	3,215	2,189	9,870	6,859
Total interest charges	<u>7,592</u>	<u>5,973</u>	<u>25,627</u>	<u>21,262</u>
Income Before Income Taxes	29,147	14,818	54,399	39,969
Income Taxes	10,630	5,237	19,498	14,033
Net income	<u>18,517</u>	<u>9,581</u>	<u>34,901</u>	<u>25,936</u>
Dividends on Preferred Stock	22	24	91	97
Earnings Applicable to Common Stock	<u>\$ 18,495</u>	<u>\$ 9,557</u>	<u>\$ 34,810</u>	<u>\$ 25,839</u>
Average Number of Common Shares Outstanding	18,878	18,878	18,878	18,453

Schedule RWT-7
 Page 2 of 3

Trippensee
Rebuttal Testimony
GA-2002-429

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Schedule RWT-7
Page 3 of 3



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Friday January 25, 4:49 pm Eastern Time

Press Release

SOURCE: Laclede Gas Company

Laclede Gas Seeks to Recover Distribution Costs While Mitigating Impact Of Weather on Customer Bills

ST. LOUIS, Jan. 25 /PRNewswire-FirstCall/ -- Laclede Gas Company, a subsidiary of The Laclede Group (NYSE: [LG](#) - [news](#)), today proposed a new rate structure that would increase base rates to cover the company's cost of operating and maintaining its 15,000-mile distribution and storage system, to mitigate the impact on customer bills caused by the dramatic variations in weather that continue to occur in the Company's service area, and to stabilize the Company's revenues.

Laclede Gas is Missouri's largest natural gas distribution company, serving more than 630,000 customers in St. Louis and surrounding counties in Eastern Missouri.

The proposal was filed today with the Missouri Public Service Commission, which will conduct a regulatory review process that may take as long as 11 months. Laclede's proposal only addresses so-called "non-gas" costs, which generally range from 25% to 30% of a customer's total bill. The remainder reflects costs associated with wholesale gas costs, local gross receipts taxes collected for and remitted to municipalities, and interstate pipeline and storage costs.

The proposed new rates would generate additional annual revenues of \$36.1 million, resulting in gas bills for a typical residential heating customer that would increase by an average of about \$4.40 a month. The new rates would apply throughout the Laclede Gas system, including its operating divisions known as St. Charles Gas, Midwest Missouri Gas, and Missouri Natural Gas.

Missouri law calls for rates to be established that cover the utility's cost of providing safe, reliable service to its customers while providing a reasonable rate of return to the company's investors. However, customers currently pay rates that are designed to recover the Company's costs based on volumes delivered to those customers under normal weather conditions. But temperatures in the Laclede Gas service area have been extremely volatile, and the resulting delivered volumes have seldom approached "normal" levels in more than a decade. For instance,

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Schedule RWT-8
Page 1 of 2

seldom approached "normal" levels in more than a decade. For instance, the recently completed October-December period of 2001 was the third warmest such period on record, but the same period in 2000 was the second coldest on record. Weather that is colder or warmer than normal causes Laclede Gas to over-recover or under-recover its costs. Further, wholesale gas prices on the unregulated national market generally track the weather -- rising when temperatures are cold and demand for gas heat is high, and falling when temperatures are warm and demand for gas heat is low.

Thus, the Weather Mitigation Program that is a part of Laclede's proposal would adjust customer bills to offset the impact of temperatures that are colder or warmer than normal, stabilize Laclede's utility revenues, and allow it to cover what are primarily fixed costs that do not fluctuate with the weather while still providing the Company's shareholders with a fair return on investment. Had a weather mitigation program been in effect last winter while customer bills were going up due to weather and wholesale gas prices, Laclede Gas would have issued weather-driven credits to its customers. Conversely, were such a program in effect this winter, there would be some upward adjustments, but they would be made to customer bills that are much lower because usage and wholesale prices are down.

"Weather mitigation programs are not a new concept," said Richard N. Hargraves, Laclede's Director of Corporate Communications. "They are in place in about 20 states and two Canadian provinces. In some cases, these weather programs have been operating for more than 20 years."

On December 1, 2001, Laclede implemented new rate schedules designed to increase annual utility base rates by about \$15 million annually -- assuming normal weather. However, the weather has been so warm that, during the first three months of this heating season, deliveries of natural gas to Laclede customers were nearly 14 billion cubic feet less than the same period last year, Hargraves said. In addition, several significant issues -- including the weather program -- were left unresolved in the expedited settlement that allowed the new rates to go into effect for this heating season.

SOURCE: Laclede Gas Company

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Schedule RWT-8
Page 2 of 2