

Exhibit No.:

*Issues: Gas Supply Incentive Plan,
Memberships, MRT Agency
Fees, Property Taxes, Public
Hearing Expense*

Witness: Greg R. Meyer

Sponsoring Party: MoPSC Staff

Case No.: GR-98-374

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

GREG R. MEYER

LACLEDE GAS COMPANY

CASE NO. GR-98-374

*Jefferson City, Missouri
August, 1998*

FILED

AUG 14 1998

**Missouri Public
Service Commission**

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1 numerous audits of small water and sewer companies for rate increases and
2 certification licenses.

3 Q. With reference to Case No. GR-98-374, have you made an
4 examination of the books and records of Laclede Gas Company (Laclede or
5 Company)?

6 A. Yes. I have made an examination of the books and records of the
7 Company in conjunction with other members of the Commission Staff (Staff).

8 Q. Please describe the principal areas of responsibility and purpose of
9 your testimony in this case.

10 A. My principal areas of responsibility are the adjustments relating to the
11 Staff's elimination from the cost of service of profits and gas costs for Laclede's Gas
12 Supply Incentive Plan (GSIP or Plan), the assignment of costs to the Company's
13 GSIP, disallowance of the cost of various memberships, the discontinuance of the
14 Mississippi River Transmission Corporation (MRT) agency fees, and property taxes.
15 I have also assisted Staff Accounting witnesses John M. Boczkiewicz, John P.
16 Cassidy and Mark D. Griggs, in the development of their adjustments. Finally I will
17 provide a historical summary of Laclede's rate case activity since February of 1981.

18 Specifically, I am sponsoring the following adjustments reflected in
19 Accounting Schedule 10, Adjustment To Income Statement:

<u>Description</u>	<u>Adjustments</u>
Gas Supply Incentive Plan	S-6.3, S-6.4, S-7.2
Cost Allocation to Gas Supply Incentive Plan	S-15.18

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1	Memberships Dues	S-14.5, S-15.24
2	Public Hearing Expense	S-15.30
3	MRT Agency Fee	S-15.29
4	Property Taxes	S-18.3

5 Q. What are the results of the Staff's investigation of Laclede?

6 A. The Staff's investigation of the Company indicates that at the time of
7 this direct testimony filing, the Company is overearning in the range of \$7.9 to
8 \$10.9 million annually.

9 Q. Did the Staff file a complaint against the Company jointly with the filing
10 of the Staff's direct testimony?

11 A. No. The Staff has chosen to delay the decision to file a complaint
12 against Laclede until the conclusion of the Prehearing Conference. The Staff
13 believes that this additional time will allow all the parties to this case the opportunity
14 to exchange more information and to further review the Staff's cost of service
15 results. This additional time will allow the Company to present more data to the
16 Staff and update information previously provided. However, upon the completion
17 of the Prehearing Conference, the Staff may file a complaint alleging excessive
18 earnings if the results of the Staff's audit continue to show that the Company's rates
19 should be reduced.

20 Q. What test year is used in the Staff's case?

21 A. The Staff's test year is the year ending February 28, 1998 with an
22 update period through June 30, 1998. This test year complies with the

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Commission's "Order Establishing Test Year and Setting Local Public Hearings"
dated July 23, 1998.

Q. What items has the Staff updated through June 30, 1998 ?

A. The principal items of the cost of service the Staff updated through
June 30, 1998 were plant in service, depreciation reserve, deferred tax reserve,
other rate base items, and various revenue and expense components.

Q. Is the Staff proposing a true-up for purposes of this proceeding?

A. No, the Staff is not proposing a true-up for this case. The Staff has
performed no analysis beyond the update period (June 30, 1998) for purposes of
this direct filing. The timing of the Staff's direct filing date would not allow the Staff
to audit the Company's books and records beyond the update period. The Staff will
address the Company's proposed isolated adjustments within the context of its
rebuttal testimony.

LACLEDE'S HISTORICAL RATE CASE ACTIVITY

Q. What is the history of Laclede's rate filings?

A. On December 15, 1995 Laclede Gas Company filed tariffs to increase
revenues by \$23,800,000. This case was docketed as Case No. GR-96-193. This
case was settled based on a Stipulation and Agreement designed to produce a
\$9,500,000 increase in revenues.

On January 14, 1994 Laclede filed tariffs to increase revenues by
\$27,100,000. This was Case No. GR-94-220 . This case was settled based on a

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1 Stipulation and Agreement designed to produce a \$12,200,000 increase in
2 revenues.

3 On January 14, 1992 Laclede filed tariffs to increase revenues by
4 \$28,860,000. This was Case No. GR-92-165. This case was settled based on a
5 Stipulation and Agreement designed to increase revenues by \$13,500,000.

6 On January 15, 1989, the Company filed tariffs to increase revenues by
7 \$26,935,000. This filing became Case No. GR-90-120. This case was settled
8 based on a Stipulation and Agreement designed to produce a \$12,000,000 increase
9 in revenues.

10 On May 11, 1987 a Stipulation and Agreement was executed by Laclede, the
11 Staff, the Office of Public Counsel (Public Counsel), Monsanto and
12 Anheuser-Busch. This Stipulation and Agreement was designed to reduce
13 revenues by \$7,000,000.

14 On February 3, 1984, the Company submitted tariffs to increase revenues
15 by \$14,200,000. This submittal became Case No. GR-84-161. This case was
16 settled based on a Stipulation and Agreement designed to produce a \$8,578,000
17 increase in revenues.

18 On January 11, 1983, Laclede filed tariffs designed to increase revenues by
19 \$24,400,000. This filing became Case No. GR-83-233. This case was settled
20 based on a Stipulation and Agreement designed to increase revenues by
21 \$17,800,000.

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1 On February 6, 1981, the Company filed tariffs designed to increase revenues
2 by \$25,500,000. This filing became Case No. GR-81-245. This case was settled
3 based on a Stipulation and Agreement designed to produce a \$19,704,527 increase
4 in revenues.

5
6 **LACLEDE GAS COMPANY'S GAS SUPPLY INCENTIVE PLAN**

7 Q. Please describe the Gas Supply Incentive Plan.

8 A. The Gas Supply Incentive Plan became effective October 1, 1996 for
9 a three-year period ending September 30, 1999 as part of a settlement reached in
10 the Company's 1996 rate case. Under the Plan, the Company and its customers
11 share in income from off-system sales and certain gains and losses, as measured
12 against benchmark prices for gas costs, related to the acquisition of the Company's
13 natural gas supply. As part of this Plan, the Company sells gas supply and pipeline
14 capacity in markets outside of its normal service territory. (Form 10-K Annual
15 Report)

16 According to the Company's response to Staff Data Request No. 233,
17 no expenses relating to the Plan are booked below-the-line.

18 Q. Please explain what is meant by the term below-the-line.

19 A. To the extent an expense or revenue is booked below-the-line, the
20 Staff generally would not include that expense or revenue in its cost of service
21 calculation. However, circumstances do occur where these expenses or revenues

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1 have been included within the Staff's cost of service calculation. Please refer to the
2 testimony of Staff witness Boczkiewicz for an example of those circumstances.

3 Q. Why should the Company book expenses below-the-line associated
4 with the GSIP?

5 A. The Staff believes that a portion of the costs attributable to executing
6 and monitoring the GSIP should be borne by the shareholders. Presently the
7 shareholder recognizes only profits from the GSIP and bears no responsibility for
8 costs. The following are examples of expenses related to the GSIP that the Staff
9 believes should be booked below-the-line in order to allocate a portion of the costs
10 of executing and monitoring the Plan to the shareholders.

11 According to the Company's response to Staff Data Request
12 No. 5004, the GSIP is intertwined with many activities of the Company's Gas Supply
13 Department. Therefore, a portion of this department's payroll and related costs
14 should be charged below-the-line.

15 Payroll from the Accounting Department should be charged
16 below-the-line to reflect the hours spent tracking the revenues and expenses of the
17 GSIP. The Staff believes a portion of this departments payroll and related cost
18 should be charged below-the-line.

19 After reviewing the Company's organizational chart, the Staff believes
20 many of the Company executives, including the Chairman and Chief Executive
21 Officer, President & Chief Operating Officer, Senior Vice President-Energy &
22 Administrative Services have supervisory responsibilities over the GSIP.

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1 Accordingly, the Staff feels these individuals should allocate a portion of their time
2 to the GSIP. A recommendation from the Compensation Committee in the
3 Company's Proxy Statement cited the Chairman & Chief Executive Officer's
4 leadership in obtaining the GSIP as one of the primary reasons for his sizable
5 increase in salary. Therefore, a portion of executive salaries associated with the
6 GSIP should be charged below-the-line.

7 The GSIP was discussed at every single board meeting during the test
8 year. Therefore, a portion of the directors' fees should be charged below-the-line
9 as a cost associated with the GSIP.

10 Finally, the cost associated with the GSIP should include Company
11 overhead expenses. These expenses would include among other things, data
12 processing, postage, rent, etc.

13 Q. How did the Staff determine the amount for adjustment S-15.18?

14 A. Staff adjustment S-15.18 was the Staff's estimate of the costs that
15 should be assigned to the shareholders related to the GSIP.

16 Q. Please describe adjustments S-6.3, S-6.4, and S-7.3.

17 A. Adjustment S-6.3 removes from the Staff's revenue requirement
18 calculation the shareholders' profit achieved during the test year from operating the
19 Company's Plan.

20 Q. How was the adjustment developed?

21 A. The Staff summed the profit during the test year from the four
22 activities that comprise the GSIP. The Company updated the GSIP monitoring

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1 report which is used to determine the profits that are to be distributed between the
2 ratepayers and the shareholders. The monitoring report is finalized each September
3 and is used in the Company's Actual Cost Adjustment filings in October of each
4 year.

5 Q. Please describe the four activities that comprise the GSIP.

6 A. The four components that comprise the GSIP are listed below:

- 7 1. Gas Procurement
- 8 2. Capacity Release
- 9 3. Firm Transportation Discounts
- 10 4. Off-System Sales

11 Q. Please describe adjustments S-6.4 and S-7.2.

12 A. Adjustment S-6.4 removes from Other Revenues the gas costs
13 associated with the GSIP. Adjustment S-7.2 removes from Natural Gas expense
14 the gas costs associated with GSIP. The net revenue requirement from these two
15 adjustments is zero since the Company's revenues and expenses are both reduced
16 by identical amounts.

17
18 **MEMBERSHIP DUES**

19 Q. Please describe adjustments S-14.5 and S-15.24.

20 A. Adjustments S-14.5 and S-15.24 disallows annual memberships dues
21 paid to various organizations that are included in the Company's test year
22 expenses.

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1 Q. What was the basis used by the Staff to make these adjustments?

2 A. The Staff applied judgment in determining whether the services
3 performed by the organizations to which the Company paid the membership dues,
4 provided in response to Staff Data Request No. 47, were (1) necessary for the utility
5 to provide safe and adequate service, and (2) non-duplicative of the services
6 performed by other organizations to which the Company belongs. In addition, the
7 Staff has attempted to derive the adjustment in a consistent manner with the
8 adjustment proposed in the Company's last rate case.

9
10 **PUBLIC HEARINGS**

11 Q. Please describe adjustment S-15.30.

12 A. Adjustment S-15.30 increases expense to reflect the additional card
13 stock the Company was required to purchase in order to notify customers of the
14 Commission's Public Hearings. This expense was normalized over two years
15 consistent with the Staff's treatment of rate case expense.

16
17 **MRT AGENCY FEES**

18 Q. Please describe adjustment S-15.29.

19 A. Adjustment S-15.29 reduces expense in the test year to reflect the
20 discontinuance of the MRT Agency Fee. Previously, the Company contracted with
21 MRT, as its agent, to administer various gas supply functions. However, the
22 Company is currently performing these functions itself.

1 **PROPERTY TAXES**

2 Q. Please describe adjustment S-18.3.

3 A. Adjustment S-18.3 annualizes property tax expense. As of the filing
4 date in this case all of the actual 1998 assessed values were not available. Thus
5 the Staff used the actual 1998 assessed values that were available and the 1997
6 assessed values for those districts that were not. The actual assessed values were
7 provided to the Staff from the Company's response to Data Request No. 237. The
8 Staff's adjustment is based on the actual 1998 and 1997 assessed values and the
9 1997 effective tax rates. The Staff will update the adjustment as more 1998 actual
10 assessed values and/or effective tax rates become available.

11 Q. Does this conclude your testimony?

12 A. Yes, it does.

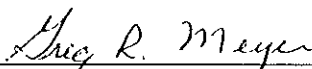
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Laclede Gas Company's)	
Tariff Sheets Designed to Increase)	Case No. GR-98-374
Rates for Gas Service Provided to)	
Customers in the Missouri Service Area)	
of the Company.)	

AFFIDAVIT OF GREG R. MEYER

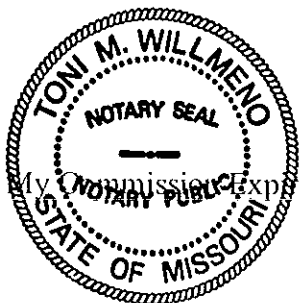
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

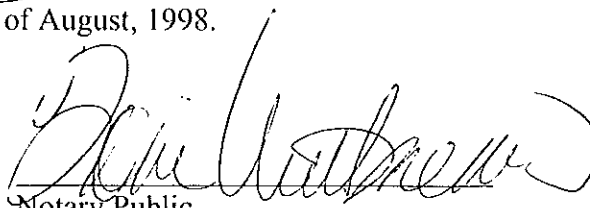
Greg R. Meyer, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Direct Testimony in question and answer form, consisting of 11 pages to be presented in the above case; that the answers in the foregoing Direct Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.



GREG R. MEYER

Subscribed and sworn to before me this 13th day of August, 1998.





Notary Public
TONI WILLMENO
NOTARY PUBLIC STATE OF MISSOURI
COUNTY OF CALLAWAY
MY COMMISSION EXPIRES JUNE 24 2000

SUMMARY OF RATE CASE INVOLVEMENT

Greg R. Meyer

<u>COMPANY</u>	<u>CASE NO.</u>
Missouri Utilities Company	GR-79-270
Missouri Public Service Company	GR-80-117
Missouri Public Service Company	ER-80-118
Missouri Utilities Company	ER-80-215
General Telephone Company of the Midwest	TR-81-47
Capital City Water Company	WR-81-193
Missouri Utilities Company	GR-81-244
Missouri Utilities Company	WR-81-248
Missouri Utilities Company	ER-81-346
Associated Natural Gas Company	GR-82-108
Southwestern Bell Telephone Company	TR-82-199
Kansas City Power and Light Company	ER-83-49
Southwestern Bell Telephone Company	TR-83-253
Kansas City Power and Light Company	ER-85-128/ EO-85-185
Arkansas Power and Light Company	ER-85-265
Southwestern Bell Telephone Company	TR-86-84
General Telephone Company of the Midwest	TC-87-57
Union Electric Company	EC-87-114
Southwestern Bell Telephone Company	TC-89-14
GTE North Incorporated	TR-89-182
Arkansas Power and Light Company	EM-90-12
Southwestern Bell Telephone Company	TC-93-224
Laclede Gas Company	GR-94-220
Laclede Gas Company	GR-96-193
Imperial Utility Corporation	SC-96-427
Union Electric Company	GR-97-393