Exhibit No.:	
Issue:	Adjustments to Rate Base and Operating Income; Accounting Schedules Capital Structure, Rate of Return
Witness:	Glenn W. Buck
Type of Exhibit:	Direct Testimony
Sponsoring Party:	Laclede Gas Company
Case No.:	GR-2005-______
Date Testimony Prepared:	February 18, 2005

LACLEDE GAS COMPANY

GR-2005-______

DIRECT TESTIMONY

OF

GLENN W. BUCK

FEBRUARY 2005

Direct Testimony of Glenn W. Buck

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DIRECT TESTIMONY OF GLENN W. BUCK

I. General Information/Qualifications

Q. Please state your name and business address.

A. My name is Glenn W. Buck, and my business address is 720 Olive St., St. Louis, Missouri, 63101.

Q. What is your present position?

A. I am presently employed as Manager, Financial Services, for Laclede Gas Company ("Laclede" or "Company").

Q. Please state how long you have held your position and briefly describe your responsibilities.

A. I was appointed to my present position in March 1999. In this position, I am responsible for the financial aspects of rate matters generally, including financial analysis and planning. I am also responsible for the preparation of various financial forecasts and monitoring regulatory trends and developments as well as overseeing the Company's accounts payable functions.

Q. What is your educational background?

A. I graduated from the University of Missouri - Columbia, in 1984, with a Bachelor of Science degree in Business Administration.

Q. Will you briefly describe your experience with the Company prior to becoming Manager, Financial Services?

A. I joined Laclede in August 1986 as a Budget Analyst in the Budget Department. I was promoted to Senior Budget Analyst in June 1988, and transferred to the Financial Planning Department in December 1988 as an Analyst. I was promoted to Senior

Analyst in February 1990, Assistant Manager in February 1994, and Manager in January 1996 . I acted in that capacity until being appointed to my current position.

Q. Have you previously filed testimony before this Commission?

A. Yes, I have, in Case Nos. GR-94-220, GR-96-193, GR-99-315, GR-2001-629, GT-2001-329, GR-2002-356, and GO-2004-0443. Further, I provided oral testimony before the Commission regarding the Infrastructure System Replacement Surcharge rulemaking in Case No. AX-2004-0090.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to provide support for the Company's filing in the following areas:

1. The balances of Customer Financing Programs, as well as the Company's calculation of Cash Working Capital for inclusion in the determination of rate base. I am also sponsoring a rate base offset for Customer Deposits;
2. Capital Structure;
3. Income Statement adjustments related to interest on customer financing programs, interest expense on customer deposits, dental and vision expenses, MPSC assessment, rent expense, property and liability insurance premiums, injuries and damages, rate case expenses, dues, fees and other miscellaneous expenses, and Laclede Pipeline income; and
4. Rate of Return and return on equity as reflected in the proposed tariffs.

Q. Please list the schedules you are sponsoring.

A. The following schedules were prepared by me or under my supervision:

Schedule 2. This schedule supports the calculation of the Company's Cash Working Capital.

Schedule 3. This schedule provides information regarding the Company's Capital Structure and includes calculations of the embedded cost of long-term debt, short-term debt and preferred stock.

Schedule 7. This schedule shows the rate of return and the related return on common equity at proposed rate levels based on an original cost rate base.

While I am not the main sponsor for Schedules 1 and 5, I am sponsoring certain adjustments to those schedules, as discussed in this direct testimony.

II. Rate Base Adjustments

Q. What items are you sponsoring for inclusion in the Company's original cost rate base (Schedule 1)?

A. Customer Financing Programs

A. I am sponsoring an item that reflects the impact on rate base of the Insulation Financing and EnergyWise Programs. The Insulation Financing Program (IFP) is a program under which the Company grants loans to eligible residential customers for the purpose of making certain home energy conservation improvements. The EnergyWise Program is a program under which the Company makes financing available to eligible residential and commercial customers for the purchase and installation of high efficiency natural gas heating equipment, air conditioners or certain other energy-efficient appliances and related equipment. An IFP loan balance at September 30, 2004 is included in rate base. Also included in rate base is an EnergyWise loan balance at September 30, 2004. It should be noted that I have also included a related miscellaneous revenue adjustment

(Adjustment 1.1., Schedule 5) to include the offset to cost of service provided by the interest charges applied to IFP and EnergyWise loans.

B. Cash Working Capital

Q. What is "cash working capital?"

A. Cash working capital is the average amount of capital which must be provided by investors in the Company for the payment of bills, payrolls and other items before the corresponding revenues are received from our customers. Cash working capital is included in rate base in order to provide a return allowance for this investment requirement, which is just as essential to the operation of a utility as are the more tangible physical plant components of rate base.

Q. How have you determined the amount of cash working capital for inclusion in rate base?

A. I have directed a lead-lag study of the Company's operating expenses, based largely on samples of our payments, and compared them to the actual lag in revenues based upon an accounts receivable turnover analysis covering the universe of our customer base. A proper lead-lag study is an accurate means of determining the cash working capital requirement for an individual company.

Q. Has a lead-lag study been performed previously by Laclede?

A. Yes. Laclede first used a lead-lag study in Case No. GR-78-148. Similar studies were performed in subsequent rate cases.

Q. Please define for us the terms "lead" and "lag."

A. The word "lead" refers to an advance payment for goods or services. Although advance payments are rare, they do exist for certain expense items. For example, postage must be paid to the Post Office in advance of mailing with regard to "permit" or "bulk" mailings, in addition to the more familiar postage stamp on an envelope, which is also an advance item.

The word "lag" refers to a payment made or received by Laclede after the receipt or rendering of goods or services by the Company or our vendors. Since our customers pay their gas bills after we render service, this represents a "revenue lag time" in my study. The vast majority of expense items are paid some time after the actual rendering of goods and services to Laclede. This is referred to as an "expense lag time."

Comparisons of our revenue lag times to expense lag times result in "net lead" or "net lag" times, depending on whether the expense lag (i.e., the time between when Laclede receives a good or service and pays for that good or service) is longer or shorter than the revenue lag (i.e., the time between when Laclede provides a good or service and receives payment for that good or service). For the most part, the expense lag is shorter than the revenue lag, meaning that expenses are generally paid before revenue is received, resulting in a net lag time for the Company.

Q. Would you please explain how a lead-lag study is performed?

A. As I previously suggested, the primary goal of a lead-lag study is to determine, on average, the net amount of funds required to pay the expenses incurred by the Company for the day-to-day utility operations before the related revenues are received. This is accomplished by two types of time determinations: (1) the lag time taken by the customers of the Company for the payment of revenues; and, (2) the lag time taken by the Company for the payment of expenses to outside suppliers and employees. Each of these determinations is in reference to the same starting point -- the rendering of service.

An overall revenue lag time is determined by combining data for various items of utility operating revenues. The lag time for each category of operating expenses is subtracted from this overall revenue lag time, and the resultant net lag (or net lead) time, in days, is multiplied by daily expense for the category. In the study, the twelve-month period ended September 30, 2004 was used to analyze revenue payment times and normalized expenses. The expense lag for interest charges was updated to reflect the relative mix between long-term and short-term debt included in the filing. The expense lag time used for the various other expense categories was the lag time utilized in Laclede's 2002 rate case, Case No. GR-2002-356.

Q. Please discuss Schedule 2.

A. Schedule 2 is a summary schedule showing the computation of cash working capital required for payment of operating expenses. The length of lag time supplied by the Company's vendors and employees for major expense categories are consistent with those that were utilized in GR-2002-356 with one exception, which is addressed later in my testimony. This expense lag time is subtracted from the overall revenue lag and reflected in Schedule 2. The resultant net lag time is multiplied by daily expense to derive the average cash working capital required from (or available to) the Company's investors for each category. These computations are combined to determine the cash working capital required from the Company's investors. This total, as shown at the bottom of Schedule 2, is the amount of Cash Working Capital I am sponsoring for inclusion in rate base.

Q. Why did Laclede use the expense lag time from the 2002 rate case?

A. The Company believes that, exclusive of the aforementioned change, the expense lag times utilized in Case No. GR-2002-356 are still representative of the lag time supplied by the Company's vendors and employees. There have been no significant changes in the manner in which the Company makes such payments.

Q. Please explain how the overall revenue lag time was determined.

A. The revenue lag time total reflects four distinct lag times for four classes of revenue: (1) customer bills for the distribution of natural gas to traditional sales customers; (2) transportation customer bills; (3) incidental oil sales; and, (4) late payment charges. Each respective lag time is weighted into the overall revenue lag time proportionately, based on revenues. Customer bills to sales customers is the most significant item. This total is comprised of three time periods: one-half of the average service period; the average time between meter reading and billing; and, the average time between billing and payment.

Q. How are these time periods determined?

A. The average service period was computed by listing the scheduled number of days in each monthly billing period by cycle and deriving an average period by month. The twelve average periods during the twelve months ended September 2004 were weighted according to actual revenues over the same months to calculate a weighted average service period, which was, in turn, divided by two.

The average time between meter reading and billing was computed in a consistent manner, involving monthly averages weighted according to monthly revenues, based on the Customer Accounting work schedule in effect during the test period.

The average time between billing and payment was calculated using a turnover ratio analysis. The analysis involved dividing average daily billings into the average receivable balance to yield the number of days of billing included in receivables. Average receivables for the twelve months ended September 2004 were used. Revenues and other billing items are an average of the twelve months ended August 2004 and September 2004.

Q. Please explain your use of average billing items for the twelve months ended August 2004 and September 2004.

A. By averaging the twelve months ended August 2004 with the twelve months ended September 2004, I am giving half-weight to billings during August 2003, full-weight to billings for September 2003 through August 2004, and half-weight to billings during September 2004. This combination of revenues and other billing is more closely related to the receivables I am using than would be a simple twelve-month total. In order to properly determine the length of time certain items (revenue billings) remain unpaid (as receivable balances), it is, in many cases, inappropriate to divide receivables for a particular period by the billings for the same period since such a method often does not recognize payment of the latest billings. Such would be the case here absent an adjustment.

Q. How did you determine revenue lag times for transportation customer bills, oil sales and late payment charges?

A. The accounts of transportation customers were individually analyzed to derive daily receivables data. This data was combined to determine the overall lag time for the class. The lag time for incidental oil sales was computed in a similar fashion. The revenue lag time for late payment charges consists solely of the payment time derived for our customers.

Q. Is your determination of a revenue lag based on a sample of customers?

A. No. Unlike the study of expense lags, the revenue lag time is based on the actual history of customer billing and payment activity for the twelve months ended September 2004 for all of Laclede's customers. As stated earlier in my testimony, it was determined based on an analysis of actual revenue billings and our accounts receivable balances on a daily basis.

Q. What is the revenue lag for sales customers shown by your study?

A. The components are as follows: Service, 15.38 days; Mail, 2.95 days; and Payment, 32.74 days.

Q. The results of your revenue lag study indicate that sales customers, on average, are paying 32.74 days, or nearly five full weeks, after the bill is mailed. Is this reasonable?

A. Yes. Although the tariffs require customers to pay their bills within 21 days (residential customers) or 15 days (commercial and industrial customers), the results of the study are not inconsistent with expectations. Rather, they are perfectly reasonable. Obviously, some customers are paying after the required dates as witnessed by the revenues for late payment charges included in our operating revenues. Far more significant, however, is the fact that many of our customers are on special payment plans pursuant to the Commission's Cold Weather Rule. Many of these customers maintain significant outstanding balances while repaying the Company over extended periods of time. Approximately 5-7% of our customers were on these mandated payment plans at one time or another during the course of the test year.

Q. Are there any other circumstances which would lengthen the lag time beyond tariffed dates?

A. Unfortunately, and inevitably, there are some customers who never pay the amounts owed and these amounts eventually become uncollectible accounts. From the time these amounts are billed until the time they are written off, approximately 7 months later, they are included in the accounts receivable balance and, absent an adjustment, would have the effect of driving up the revenue lag. Laclede has taken this impact into account, however, by including an adjustment in the study to account for the six month period of time these accounts reside in the receivable balances prior to the date the accounts are charged off as uncollectible. This method of calculation is consistent with past treatment of uncollectible accounts for ratemaking purposes (based on net write-offs). Given this and the impact of the 5-7% of our customers who, pursuant to the special payment plans previously discussed, are paying for gas service over periods which generally cover 365 days, but can exceed that period, it is easy to understand how the average revenue lag for all sales customers would be over 32 days.

Q. Has the Commission previously reviewed the use of an accounts receivable turnover analysis as an appropriate methodology for use in a lead-lag study?

A. Yes. In Southwestern Bell Telephone Company Case No. TC-93-224, the Commission determined that a calculation of revenue lag, based on a receivable turnover analysis on all customer accounts, was more appropriate than the alternative methods submitted in that case, including methods that utilized sampling. Further, in a recent Laclede rate case, GR-99-315, the Commission again confirmed the validity of this methodology.

Q. What amount of Cash Working Capital are you sponsoring for inclusion in Rate Base?

A. This amount is shown on the bottom of Schedule 2.

Q. Does this complete your testimony with respect to cash working capital?

A. Yes.

C. Customer Deposits

I am also sponsoring customer deposits as a deduction to the Company's rate base. I have included a related customer accounts expense adjustment (Adjustment 3.b. of Schedule 5) to reflect the impact of interest expense applied to customer deposits.

III. Capital Structure

Q. Please explain Schedule 3.

A. Schedule 3 details the elements of Laclede Gas' capital structure and calculates certain embedded costs. Page 1 of Schedule 3 shows the capital structure of Laclede Gas at September 30, 2004, reflecting the capital structure components consisting of preferred stock, common equity, long-term debt, and short-term debt. The short-term debt balance has been adjusted to reflect the sum of (1) the difference between the average levels of underground storage and propane inventories and their minimum balances during the year, and (2) the calculated level of Cash Working Capital, has been included in the capital structure. Page 2 of Schedule 3 calculates the embedded cost of debt. Page 2 of Schedule 3 also shows the pro-forma level of short-term debt and the rate included on this schedule is based on the most recent rates (January 2005 rates) at which the Company has been able to place commercial paper. Page 3 of Schedule 3 shows the embedded cost of preferred stock.

Q. In what ways does the Company utilize short-term debt?

A. Short-term debt has two primary purposes: (1) to finance seasonal items that fluctuate substantially throughout the course of the year, such as natural gas inventories, propane, and Cash Working Capital; and, (2) as a "bridge" to permanent financing.

Q. Is it appropriate to include short-term debt in a regulatory capital structure?

A. Only to the extent that seasonal items that are financed through short-term debt and that do not require permanent financing are included in rate base. As the Commission ruled in ER-90-101, it is inappropriate to include "bridge" financing in a regulatory capital structure while setting prospective rates, stating, "The Commission finds that it is inappropriate to include short-term debt in Company's capital structure. The Commission notes that it is the nature of short-term debt that it will soon be converted into long-term debt."

Q. Is the Company proposing an alternative to this approach in this proceeding?

A. Yes. As discussed more fully in the testimony of Company witness M. T. Cline, the Company is proposing to pass the financing costs related to gas and propane inventories through the Purchased Gas Adjustment Clause. Should the Commission grant this tariff change, only the short-term debt related to Cash Working Capital should be included in capital structure.

Q. Are you requesting that these capital structure components be updated through March 31, 2005?

A. Yes. The Company is requesting an update of all elements of the capital structure as addressed in the testimony of Company witness J. A. Fallert.

IV. Adjustments to Utility Operating Income

Q. Please explain the adjustments you are sponsoring to utility operating income.

A. I am sponsoring several adjustments to the income statement. These adjustments appear on Schedule 5 and are discussed below.

A. Customer Financing Programs

Q. Please discuss your operating expense adjustment regarding the IFP and EnergyWise Program.

A. Adjustment 1.l. increases revenues to reflect interest income from the IFP and EnergyWise Program. This adjustment is consistent with the inclusion of loan balances in rate base as I previously mentioned.

B. Customer Deposit Interest Expense

Q. Please discuss your adjustment to customer deposit expense.

A. Adjustment 3.b. increases customer accounts expense to reflect interest expense related to customer deposits. This adjustment is consistent with the inclusion of customer deposit balances in rate base as I previously mentioned.

C. Health Care Costs

Q. Are you sponsoring an adjustment for health care costs at this time?

A. No, not at this time. Due to changes in the health care plan offerings, continuing inflation in the cost of providing health care benefits, and changes resulting from the new labor contract signed with Locals 5-6 and 5-194, the health care costs during the test year are most likely unrepresentative of what such costs will be in the period rates resulting from this proceeding will be in effect. These changes all became effective beginning in August of 2004. The appropriate level of health care costs for this proceeding would most appropriately be based on costs for the 12 months ended July 2005, the requested true-up period in this case.

D. Dental and Vision Insurance Costs

Q. Please discuss the adjustment made to dental and vision insurance costs.

A. Adjustment 4.d. reflects an increase in the cost of dental insurance to reflect current cost levels. Adjustment 4.e. also reflects an increase in the cost of vision insurance to reflect current cost levels. These adjustments should be updated for the actual employee levels at July 31, 2005 and new rates and plan participation as of August 1, 2005.

E. MPSC Assessment

Q. Please discuss your adjustment to Regulatory Commission Expense.

A. Adjustment 4.f. increases Regulatory Commission expense to the annual level of assessment as of July 1, 2004. The 2005 assessment will be known in late June and should be used in the final determination of rates.

F. Rent Expense

Q. Please discuss your adjustment to rent expense.

A. Adjustment 4.g. adjusts rent expense to the annualized January 2005 level based on the Company's lease agreement for its main office.

G. Property and Liability Insurance Premiums

Q. Please explain the adjustment to property and liability insurance.

A. Adjustment 4.h. annualizes property and liability insurance premiums at current levels. Many of the Company's policies expired on September 30, 2004 and were replaced with new policies.

H. Injuries and Damages

Q. Please describe your adjustment to injuries and damages expense.

A. Adjustment 4.i. adjusts injuries and damages expense to a three-year average of actual cash payments. Actual payments tend to fluctuate from year to year so it is appropriate to adjust to a multi-year period. Injuries and damages were further adjusted to reflect the pro-forma impact of the increase in Laclede's self-insured retention.

I. Rate Case Expense

Q. Please explain your next adjustment relating to rate case expense.

A. Adjustment 4.j. adjusts test year expense to reflect anticipated levels of out-of-pocket costs to be incurred by the Company in connection with this proceeding, amortized over three years.

J. Dues, Fees and Miscellaneous Expenses

Q. Please discuss your adjustment relating to club memberships and miscellaneous expenses.

A. Adjustment 4.k. transfers to "below-the-line" dues and fees related to certain organizational memberships, including fees related to Laclede's participation in the Missouri Energy Development Association, as well as other miscellaneous expenses.

K. Laclede Pipeline Company

Q. Please explain your adjustment for Laclede Pipeline Company.

A. Adjustment 6.c. includes the pre-tax income of Laclede Pipeline in operating income for purposes of setting rates in this proceeding.

V. Tariff Changes

Q. Are you sponsoring any other adjustments to the Income Statement?

A. No. However, it is important to note that Company witness M. T. Cline has filed specimen tariffs related to a Gas Inventory Carrying Cost proposal as well as a tariff change related to shifting the collection of uncollectible gas costs into the Purchased Gas Adjustment Clause. Such tariff changes, if approved, would have the net effect of reducing the base revenue deficiency and the Company's request for rate relief in this proceeding by approximately $5.7 million and $7 million, respectively.

VI. Rate of Return

Q. Have you prepared an exhibit showing the calculation of the rate of return the Company is seeking on its original cost rate base?

A. Yes. Schedule 7 demonstrates the calculation of Laclede's rate of return to be 8.55% at proposed rate levels based on an original cost rate base. This overall rate of return calculation is based on, among other things, a 11.75% return on common equity.

Q. What is the cost of common equity recommended by Company witness K. C. McShane?

A. Ms. McShane is recommending a return on equity of 11.75%.

Q. On this exhibit, you have used capitalization ratios derived from Page 1 of Schedule 3. What do these ratios represent?

A. These capitalization ratios represent the ratios found in Laclede Gas Company's capital structure at September 30, 2004, as adjusted for short-term debt treatment.

Q. Does this complete your direct testimony?

A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Laclede Gas Company's Tariff to Revise Natural Gas Rate Schedules.	)))	Case No. GR-2005-

AFFIDAVIT

STATE OF MISSOURI)
) SS.
CITY OF ST. LOUIS)

Glenn W. Buck, of lawful age, being first duly sworn, deposes and states:

1. My name is Glenn W. Buck. My business address is 720 Olive Street, St. Louis, Missouri 63101; and I am Manager of Financial Services of Laclede Gas Company.

2. Attached hereto and made a part hereof for all purposes is my direct testimony, on behalf of Laclede Gas Company.

3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct to the best of my knowledge and belief.

Glenn W Buck
Glenn W. Buck

Subscribed and sworn to before me this 18th day of February, 2005.

Joan T. Roeper

JOAN T. ROEPER
Notary Public -- Notary Seal
STATE OF MISSOURI
St. Louis County
My Commission Expires: June 9, 2007