BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Laclede Gas Company's)
Tariff to Raise Natural Gas Rates.) Case No. GR-2005-0284

STATE OF MISSOURI)
)
COUNTY OF COLE)

AFFIDAVIT

Stephen M. Rackers, of lawful age and being first duly sworn deposes and states:

My name is Stephen M. Rackers and I am employed by the Missouri Public Service Commission (Commission). I am a member of the Auditing Staff (Staff) at the Commission's St. Louis office. My business address is 1845 Borman Court, Suite 101, St. Louis, MO 63146.

I am providing this affidavit in support of the Stipulation and Agreement (Stipulation) that sets forth the terms of settlement of Laclede Gas Company's (Laclede or Company) requested increase in its permanent customer rates in Case No. GR-2005-0284, and to state the Staff's opinion that the terms of that Stipulation are just and reasonable and necessary for the provision of safe and adequate service. I will be addressing the following paragraphs in the Stipulation:

Thomas M. Imhoff of the Commission's Energy Department is also providing an affidavit in support of the Stipulation.

Case Summary

In this rate case filing, Laclede sought to increase permanent non-gas rates by approximately $39 million. The Company is currently authorized by Commission orders to collect an Infrastructure System Replacement Surcharge (ISRS) of approximately $6 million on an annual basis. When the permanent rates established as a result of this case become effective, the ISRS will be reset to zero. As a result, the net change in rates requested by Laclede is approximately $33 million.

On July 6, 2005 the Staff provided its calculation of revenue requirement to the parties to this case. The Office of Public Counsel (OPC) and the Missouri Industrial Energy Consumers (MIEC) also provided their recommendations regarding specific revenue requirement components. Attached to this affidavit is a reconciliation of the revenue requirement recommendations of the Staff, OPC, MIEC and Laclede. The Staff's calculation supported an increase in permanent rates of approximately $6 million at its high-end rate of return. On July 13, 2005, the Parties to this case exchanged their positions regarding rate design. Mr. Imhoff will be discussing the rate design portions of the Stipulation. The parties met to discuss their positions at the Settlement Conference, which began July 18, 2005. As a result of those and other discussions, the parties reached an agreement that is presented in the Stipulation.

Revenue Requirement (paragraph 1)

The parties have stipulated to an increase in non-gas customer rates of $10.5 million and an increase in PGA rates of $4.1 million. The reconciliation attached to this affidavit shows the significant disparity in the various positions of the parties regarding revenue requirement. The reconciliation lists over 30 issues totaling a difference of approximately $39 million.

Considering the significant differences and complexity of the positions at issue in this case, the Staff believes that the revenue requirement agreement represents a reasonable settlement for both the ratepayer and the Company. After the elimination of the current ISRS, the agreed-to revenue requirement represents only a 1% increase in the total rates charged to customers. However, the revenue requirement recognizes the increases in investment and expenses experienced by the Company that are required to provide safe and adequate service to ratepayers. The Company has experienced approximate increases in net utility investments of $90 million and operating expenses of $16 million since the last rate increase in 2002.

Gas Inventories (paragraph 3.c)

In prior rate cases, the carrying cost associated with gas inventories was included in the determination of non-gas rates. This was implemented by including an average balance of gas inventories stored in both Laclede-owned facilities and on the Mississippi River Transmission System in rate base. Multiplying the rate base by the rate of return applied the total cost of capital, as a carrying cost, to the gas inventories. This mechanism recovered the carrying cost of gas inventories differently than the commodity cost of the gas and also resulted in significant risk associated with a change in the cost of gas.

According to the terms of the Stipulation, the recovery of the carrying cost of gas inventories would move from non-gas rates, to the Purchase Gas Adjustment Clause (PGA)/Actual Cost Adjustment (ACA) mechanism. The carrying cost recovered through the PGA/ACA mechanism is based on the amount of gas inventories at the end of each month times the average cost of short-term debt outstanding for the consolidated Laclede Holding Group, or the prime rate minus 2%, if no short-term debt is outstanding. Moving the carrying cost of gas inventories into the PGA/ACA will provide a mechanism to track recovery and true-up to the actual cost. It will mitigate the risk associated with the volatility of the cost of natural gas and will also align the recovery of the carrying cost of gas with the recovery of the commodity cost of gas.

Since it is generally recognized that short-term debt initially finances construction and working capital, this change in the recovery of the carrying costs for gas inventories affects the level and cost of short-term debt included in the rate of return in this case and in subsequent ISRS filings. Since the gas inventories eliminated from rate base exceeded the level of short-term debt included in the capital structure, short-term debt was removed from the rate of return for the determination of revenue requirement in this case. The effect on future ISRS filings will be discussed later in this affidavit.

Pensions and Other Post-Employment Benefits (OPEB) (paragraphs 4, 5 and 6)

The terms of the Stipulation continue the provisions implemented as a result of the Company's last rate case. These terms specify including pension expense in rates based on Laclede's actual contributions to the pension fund and recognition of a regulatory asset or liability to account for the difference between pension expense in rates and pension expense calculated for financial reporting. The terms also allow the Company to continue to recover the prepaid pension asset that accumulated under the Staff's prior policy of recognizing pension expense according to a financial accounting method, which resulted in negative pension expense. Since funds cannot be withdrawn from the pension fund to replace the lost cash resulting from including negative pension expense in rates, the Company was allowed to accumulate and recognize a prepaid pension asset in rate base. The amortization of this prepaid pension asset maintains the elimination of this item from rate base. The Company will also be allowed to continue the accounting treatment established in the previous rate case for other post-employment benefits (OPEBs). This accounting treatment, which is similar to that for pensions, includes the actual contributions in rates and allows the Company to recognize a regulatory asset or liability to account for the difference between OPEB expense in rates and pension expense calculated for financial reporting.

These terms address the Staff's desire to determine rates based on actually incurred costs, while allowing the Company to address concerns expressed by its auditor regarding financial reporting.

Depreciation (paragraph 7)

The terms of the Stipulation specify implementation of the depreciation rates calculated by the Staff. These rates allow for the recovery of original cost of the Company's investment, based on the Staff's determination of average service lives, and include a component for the recovery of the estimated future net cost of removal and salvage associated with the retirement and removal of plant. As part of this Stipulation, these separate components will be specifically identified in the depreciation reserve. In prior rate cases, the net cost of removal and salvage was included in the cost of service as an expense, based on actually incurred costs. This change in the methodology for calculating depreciation rates reflects the recent decisions of the Commission in the Laclede Gas Company (Case No. GR-99-315) and Empire District Electric Company (Case No. ER-2004-0570) rate cases.

AAO / Emergency Cold Weather Rule (paragraph 10)

As a result of this Stipulation the Company will be allowed to recover, over a 10-year period, costs deferred since the previous general rate proceeding, Case No. GR-2002-356, associated with the Commission's mandated main and yard line replacement programs. The deferrals totaling $859,805 will be offset by any amount recovered in excess of the costs resulting from the enactment of the Emergency Cold Weather Rule Amendment (ECWR), as agreed to in Case No. GR-2001-629, through the effective date of the rates established in the current case. The cost of the ECWR was determined according to a formula agreed to in Case

No. GR-2001-629. In that case and in the following rate proceeding, Case No. GR-2002-356, amounts were included in rates to pay for the costs incurred due to the ECWR.

The terms of the Stipulation also continue the tax treatment of normalization for the timing differences related to the deferred cost recognized in this and previous rate cases. Normalization will also continue for Pensions and OPEBs. These terms provide treatment consistent with previous Commission policies and prior agreements among the parties.

Off-system Sales and Capacity Release Revenues (paragraph 11)

The terms of the Stipulation are intended to establish a fair and reasonable sharing mechanism between the ratepayer and the shareholder for the revenues from off-system sales margins and capacity release credits. Through a reduction to the cost of service for revenues from off-system sales margins and capacity release credits, the ratepayer realizes a reduction in rates. The shareholders realize any of the revenues achieved in excess of the reduction to the cost of service, up to the first $12 million of revenues attained. Any amount of revenues achieved in excess of $12 million is shared evenly by the ratepayer and shareholder.

Provision of Additional Information / Bill Redesign (paragraph 15)

As a result of this Stipulation Laclede has agreed to provide data, on a quarterly basis, which will allow the Staff and OPC to monitor certain aspects of the quality of service being received by customers. The Stipulation also requires the Company to observe specific time periods regarding its response to the Commission's Customer Service Department in order to better address inquiries and complaints from customers. This section of the Stipulation also establishes a process that allows the Staff and OPC to provide input to the Company regarding an entirely new bill design. The Staff is seeking to provide ratepayers with a more detailed breakdown of the cost of gas and the Company believes envelope billing will provide more meaningful information to its customers.

Infrastructure System Replacement Surcharge (paragraph 16)

Laclede's Infrastructure System Replacement Surcharge (ISRS) was first implemented on June 10, 2004, and was increased January 20, 2005, and again on July 1, 2005. As required by statute and Commission rules, the ISRS, currently totaling $6,126,000, will be reset to zero on the effective date of the new rates from this case.

The terms of this Stipulation establish the parameters for the capital structure and the cost of capital that will be used in future ISRS filings. These parameters resulted from averaging the positions of the parties to this case and from an agreement to impute the level and cost of short-term debt. As previous discussed in the gas inventories section of this affidavit, short-term debt was eliminated from the rate of return for the determination of revenue requirement in this case. As part of the gas inventories agreement, there will be an imputation of short-term debt for the determination of the rate of return to be used in subsequent ISRS filings. This agreement requires that $25,000,000 of short-term debt will be imputed to the capital structure determined by averaging the positions of the parties in this case. The rate assigned to this debt will be the prime interest rate at the date of the ISRS filing minus 2.5%.

Parameters have also been established for the calculation of the ISRS revenue requirement associated with income taxes. The parties have agreed to include half of the Staff's tax adjustment and pursue expedited implementation of rates. Establishment of these parameters resolves a disagreement among the parties that has existed in prior ISRS cases.

The terms of the Stipulation also identify July 31, 2005, as the cut-off date for plant recognized in rates for this case. Only plant additions subsequent to July 31, 2005, will be eligible for inclusion in a future ISRS filing.

FURTHER, Affiant says not.

Stephen M. Rackers

Subscribed and sworn to before me, the undersigned notary public this 8th day of September, 2005.

TONI M. CHARLTON
NOTARY SEAL
NOTARY PUBLIC
STATE OF MISSOURI

Notary Public

My Commission Expires: ____________________

TONI M. CHARLTON
Notary Public - State of Missouri
My Commission Expires December 28, 2008
Cole County
Commission #04474301

Laclede Gas Company
GR-2005-0284

Revenue Requirement Reconciliation Based On High End of Range on Return On Equity

MIEC Revenue Requirement Position		(251)
MIEC Proposed 4% Pre-Tax Return On Prepaid Pension Asset	5,264	
Capacity Release and Off-System Sales	1,114	
Office of Public Councel Position		6,127
MIEC and OPC Proposed 10% Return On Equity	(350)	
Missouri PublicService Commission Staff Position		5,777
<u>Rate Base</u>		
Net Plant Difference	(1,808)	
Prepaid Pension Asset	1,844	
Gas Inventories	(255)	
Gas Safety Deferrals	316	
Miscellaneous Items	65	
Deferred Tax Balance	258	
<u>Net Income</u>		
Revenue - Weather and Load Changes	49	
Revenue - Growth	1,871	
Revenue - Off-System Sales and Capacity Release	3,486	
Gas Cost - Laclede Pipeline	837	
Payroll - O&M Percent	2,632	
Payroll - Employee Levels	2,328	
Payroll - Overtime	1,242	
Payroll - Bonus & Incentive	920	
Payroll - Benefits & Taxes	896	
AAO Amortization	133	
Cost of Removal in Expense	216	
Uncollectibles/Bill Credits	2,329	
Winterization Funding	(200)	
Billing Format Change	(379)	
Advertising	415	
Dues and Miscellaneous	488	
Pension - Payments/ERISA	283	
Pension - Incentive Comp	528	
OPEB's - Trust Interest	150	
Injuries & Damages	505	
PSC Assessment	313	
Property Insurance	483	
Appliance Repair	818	
Property Tax	1,161	
Cash Working Capital	1,116	
Depreciation Rates	935	
Miscellaneous Items	37	
Tax Deduction - Transfer of Service	160	
<u>Rate of Return</u>		
Capital Structure & Embedded Cost	(793)	
Laclede 11.75 Return On Equity	9,832	
Laclede Gas Company Position		38,988