Exhibit No.:	
Issue:	Cash Working Capital, Capital Structure, Accounting Schedules, Merchant Role
Witness:	Glenn W. Buck
Type of Exhibit:	Direct Testimony
Sponsoring Party:	Laclede Gas Company
Case No.:	GR-2001-629

FILED[3]

MAY 18 2001

Missouri Public
Service Commission

LACLEDE GAS COMPANY

GR-2001-629

DIRECT TESTIMONY

OF

GLENN W. BUCK

Direct Testimony of Glenn W. Buck

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DIRECT TESTIMONY OF GLENN W. BUCK

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 the Manager, Financial Services.

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.

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 and GR-99-315.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present evidence to the Commission covering the following:

1. The Company's calculation of Cash Working Capital for inclusion in the determination of rate base;
2. Capital Structure;
3. Income Statement adjustments related to injuries and damages, and Laclede Pipeline expenses; 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:

Section A, RATE BASE, Schedule 8. This schedule supports the calculation of the Company's Cash Working Capital.

Section B, COST OF CAPITAL, Schedule 1. 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.

Section E, ADDITIONAL EVIDENCE, Schedule 1. Schedule 1 shows the rate of return and the related return on common equity at proposed rate levels based on an original cost rate base.

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 time 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. This study was done in collaboration with Company witness K. M. Beerup, Jr. 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. As I am using the word "lead" today, it 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.

"Lag", as I use the term here, 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, I refer to "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, so most often I also refer to "expense lag time."

Comparisons of our revenue lag time to the lag time for various items of expense results 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. 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. 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 February 28, 2001 was used to analyze both revenue and gas cost payment times. Payroll and related items (401(k), payroll taxes, and withholdings) were updated to reflect the projected change, as of August 1, 2001, to a bi-weekly payroll system for the Laclede division contract employees. The expense lag time used for the various other expense categories was the lag time calculated in Case No. GR-96-193.

Q. Why did Laclede use the expense lag time from the 1996 case?

A. The Company believes that, exclusive of the aforementioned changes, the expense lag times calculated in Case No. GR-96-193 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 Schedule 8 of Section A.

A. Schedule 8 shows the derivation of the overall revenue lag time, based on the actual payment history of our universe of customers. This 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, as summarized on the lower portion of Schedule 8: 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 days in each monthly billing period by cycle and deriving an average period by month. The twelve average periods during the twelve months ended February, 2001 were weighted according to actual revenues over the same months to calculate a weighted average service period, which was in turn divided by two to yield the figure shown on the schedule.

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. Receivables for the twelve months ended February, 2001 were used. Revenues and other billing items are an average of the twelve months ended January, 2001 and February, 2001. The resulting payment time is shown.

Q. Please explain your use of average billing items for the twelve months ended January, 2001 and February, 2001.

A. By averaging the twelve months ended January, 2001 with the twelve months ended February, 2001, I am giving half-weight to billings during February, 2000, full-weight to billings for March, 2000 through January, 2001, and half-weight to billings during February, 2001. 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 in that such a method often does not recognize payment of the latest billings. Such is the case here.

Q. How did you determine revenue lag time for transportation customer bills?

A. The accounts of these 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 February, 2001 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. The results shown on Schedule 8 indicate that sales customers, on average, are paying 26.89 days after the bill is mailed. Is this reasonable?

A. Yes. Although the tariffs require customers to pay their bills within 15 days (commercial and industrial customers) or 21 days (residential 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 due to Cold Weather Rule requirements mandated by this Commission. Many of these customers maintain significant outstanding balances while repaying the Company over periods as long as 12 to 24 months. Approximately 5% of our customers are on these mandated payment plans.

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 have the effect of seemingly driving up the revenue lag. Laclede has taken this impact into account, however, by including an adjustment in the study giving our ratepayers credit for the six months of advance payment they are supplying 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% of our customers who, pursuant to the special payment plans previously discussed, are paying for gas service over periods which can exceed 365 days, it is easy to understand how the average revenue lag for all sales customers would be nearly 27 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 Laclede's last rate case, GR-99-315, the Commission again confirmed the validity of this methodology. Further, 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.

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

A. This amount is shown on the bottom of Mr. Beerup's summary on Schedule 9.

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

A. Yes.

Capital Structure

Q. Please explain Schedule 1 of Section B.

A. This schedule details the elements of the Company's capital structure and calculates certain embedded costs. Page 1 of Schedule 1 shows the capital structure of the Company at February 28, 2001. The capital structure components consist of preferred stock, common equity, short-term debt, and long-term debt. Schedule 1 contains the adjusted four-component capital structure. A pro-forma level of short-term debt, reflecting 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. Schedule 2 adjusts the capital structure to remove, for ratemaking purposes, the Company's equity investments in our subsidiaries and the resulting capital structure is used in rate of return computations. Page 3 of Schedule 1 calculates the embedded cost of debt. Page 3 of Schedule 1 also shows the pro-forma level of short-term debt and the rate included on this schedule is based on the twelve month average rates at which the Company has been able to place commercial paper. Page 4 of Schedule 1 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 inventories that fluctuate substantially throughout the course of the year, such as natural gas inventories and propane; 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 inventories 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 capital structure 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, no short-term debt should be included in capital structure.

Q. Are you requesting that these capital structure components be updated through July 31, 2001?

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.

Adjustments to Utility Operating Income

Q. Please explain the adjustments you are sponsoring to Laclede's operating income.

A. I am sponsoring an adjustment to injuries and damages as well as an adjustment to include expenses of Laclede Pipeline Company. Further, I am sponsoring accounting adjustments to include the revenue effect of various tariff proposals discussed by Company Witnesses M.T. Cline and J. J. Kozyrski.

Injuries and Damages

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

A. Adjustment 4.n. on Schedule 2 of Section C 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.

Laclede Pipeline Company

Q. Please explain your adjustment for Laclede Pipeline Company.

A. Adjustment 6.h. on Schedule 2 of Section C includes in expense an allocation of costs for Laclede Pipeline Company ("LPC"). LPC, an unregulated subsidiary of the Company, provides transportation services for the utility's propane peak-shaving operations. This adjustment includes an amount to reflect the cost of such transportation services. It should be noted that LPC investment, in previous cases, had been recovered as an item of rate base, whereas recovery is now being sought as a cost-of-service in the income statement.

Tariff Changes

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

A. Yes. The Company currently has proposed tariffs on file with the Commission which include a Weather Mitigation Clause ("WMC"). Contemplating that the Commission will approve these proposed tariffs, adjustment 1.i. on Schedule 2 increases normalized revenues in this proceeding to reflect the higher normalized sales levels consistent with normal degree day parameters contained in the proposed WMC filing. Adjustment 6.g reflects the estimated additional revenues associated with the proposed Service Initiation tariff. The Service Initiation Fee is discussed further in the testimony of Company Witness J. J. Kozyrski. Finally, adjustment 6.i. reflects the decreased expenses required to be recovered in base rates related to the Gas Inventory Carrying Cost tariff discussed earlier in my testimony and as discussed more extensively in the testimony of Mr. Cline. Please note that all three of these tariffs have the net effect of **reducing** the revenue deficiency and the Company's request for rate relief in this proceeding.

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 1, Section E, demonstrates the calculation of Laclede's rate of return to be 10.38% at proposed rate levels based on an original cost rate base. This overall rate of return calculation is based, among other things, on an 11.5% 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 range of 12.5% - 13.0%.

Q. Why is Laclede proposing a lower return than that recommended by its expert witness?

A. Although the Company feels that Ms. McShane's recommendation objectively represents the required return, Laclede is requesting an 11.5% return on equity in this proceeding in conjunction with a number of other innovative solutions and, in part, based on the Commission's finding in our last general rate case. In GR-99-315, the Commission adopted a return that was based on a straight discounted cash flow ("DCF") calculation including an analysis of comparable companies with comparable risks. Ms. McShane's testimony in this case supports an 11.5% return on equity based solely on a DCF study. Should the Commission find, as Laclede believes, that DCF studies have a tendency to indicate inadequate returns under current market conditions, an increase in the allowed return would be warranted.

Q. On this exhibit, you have used capitalization ratios derived from Page 2 of Schedule 1 in Section B. What do these ratios represent?

A. These capitalization ratios represent the ratios found in Laclede Gas Company's capital structure at February 28, 2001.

<u>Cost of the Merchant Role</u>

Q. Do you have anything further you wish to discuss in your direct testimony?

A. Yes. Company Witness D. H. Yaeger discusses the costs and risks associated with Laclede's requirement to procure, store, and transport natural gas into the local market (the "Merchant Function"). I have been asked to quantify the costs incurred by the Company in association with the Merchant function as well as the adverse impact gas costs have had on the Company relative to recoveries embedded in the rates resulting from the Company's last general rate proceeding.

Q. What Merchant related costs are not covered as a flow-through in the PGA clause?

A. I have identified six specific areas where gas cost related expenses are not covered under our current PGA clause. They are: 1) financing costs associated with underground storage and propane inventories; 2) the Cash Working Capital effect of natural gas purchases; 3) the gas cost portion of customer deposits; 4) the carrying costs associated with deferred gas costs exclusive of the GSIP and PSP programs; 5) the gas cost related portion of payment plan arrangements mandated under the Cold Weather Rule; and, 6) the gas cost component of uncollectible accounts. Further, this calculation excludes salaries associated with the Gas Supply function.

Q. What is the magnitude of the costs associated with the Company's involement in the Merchant Function for its customers?

A. For the twelve months ended February, 2001, I have conservatively estimated that the Company has incurred approximately $12.3 million in merchant-related costs that are not currently recovered through the Company's PGA mechanism. Of this amount, only $7.5 million are presently being recovered in rates. The rest, or approximately $4.8 million, has been absorbed by the Company's shareholders. Conversely, when market conditions result in costs of providing the Merchant Function below the levels embedded in current rates, Laclede's customers are still required to pay the full amount, resulting in a windfall to the Company's shareholders.

Q. Does this complete your testimony?

A. Yes.

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MAY 1 8 2001

Missouri Public Service Commission

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-2001-629

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, Financial Services for Laclede Gas Company.

2. Attached hereto and made part hereof for all purposes is my direct testimony, consisting of pages 1 to 14, inclusive; and Section A - Schedule 8, Section B – Schedule 1, and Section E – Schedule 1.

3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded and the information contained in the attached schedules 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 16th day of May, 2001.

Susan M. Kopp

SUSAN M. KOPP
Notary Public — Notary Seal
STATE OF MISSOURI
St. Louis County
My Commission Expires: Dec. 19, 2003