Exhibit No.:	
Issue:	Rate Increase Allocation; Rate Design; Other Rate Adjustments
Witness:	Michael T. Cline
Type of Exhibit:	Direct Testimony
Sponsoring Party:	Laclede Gas Company
Case No.:	GR-2001-629

LACLEDE GAS COMPANY

GR-2001-629

DIRECT TESTIMONY

OF

MICHAEL T. CLINE

DIRECT TESTIMONY OF MICHAEL T. CLINE

Q. Please state your name and address?

A. My name is Michael T. Cline and my business address is 720 Olive Street, St. Louis, Missouri 63101.

Q. What is your present position?

A. I am Director of Tariff and Rate Administration at Laclede Gas Company ("Laclede" or "Company").

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

A. I was promoted to my present position in August 1999. In this position I am responsible for administration of Laclede's tariff. In addition, I perform analyses pertaining to Laclede's purchased gas costs and various federal and state regulatory matters which affect Laclede.

Q. What is your educational background?

A. I graduated from St. Louis University in May 1975, with the degree of Bachelor of Science in Business Administration, majoring in economics.

Q. Please describe your experience with Laclede.

A. I joined Laclede in June 1975 and have held various positions in the Budget, Treasury, and Financial Planning departments of the Company. In 1987 I began work in areas related to many of my duties today.

Q. Have you previously submitted testimony before regulatory bodies?

A. Yes. I have testified before this Commission, the Illinois Commerce Commission and the Federal Energy Regulatory Commission.

PURPOSE OF TESTIMONY

Q. What is the purpose of your testimony in this proceeding?

A. My testimony explains the manner in which the rate schedules filed by the Company on May 18, 2001 were revised to reflect the annual revenue increase of $ 39.8 million requested by the Company in this case. In addition, I explain the inclusion of Gas Inventory Carrying Costs in the Company's Purchased Gas Adjustment ("PGA") clause. Finally, I will discuss several other tariff changes and certain rate adjustments which should be made upon resolution of this case.

ALLOCATION OF PROPOSED RATE INCREASE

Q. Please explain how Laclede's rates were adjusted to produce the additional revenues requested by Laclede.

A. The first step in determining the new rates was to allocate the $ 39.8 million revenue increase to each individual rate schedule. This was done by multiplying the non-gas revenues in each rate schedule by a uniform percentage.

Q. What do you mean by non-gas revenues?

A. Non-gas revenues represent that portion of Laclede's revenues which recover Laclede's cost of service, other than the cost of purchased gas, and were derived by multiplying the billing determinants associated with each of the Company's rate schedules by the non-gas rates stated in Sheet Nos. 2 through 11 and Sheet No. 34 of the Company's tariff.

Q. What billing determinants did you use to allocate the proposed rate increase?

A. I used annualized determinants for the twelve months ended February 2001, consistent with the establishment of the revenue requirement in this case.

Q. How did you derive the uniform percentage increase that was applicable to the non-gas revenues of each rate schedule?

A. The percentage was derived by dividing the $ 39.8 million non-gas revenue increase requested in this proceeding by Laclede's total current normalized non-gas revenues of $ 213 million.

Q. What impact did Laclede's non-gas revenue allocation have on the total revenues produced under each rate schedule?

A. The additional revenues expressed as a percent of total normalized current revenues will vary by rate schedule as shown in Schedule No. 1. Overall, the revenues of the Company would increase by 5.0% as a result of the Company's rate filing.

Q. Why does Laclede's proposed increase, as a percent of total revenues, vary by rate schedule?

A. Since the gas cost per therm applicable to each individual rate schedule is identical within each of the major sales classifications (firm and interruptible), the variance by rate schedule is caused by differences in the amount of non-gas costs recovered by such rates. Although the non-gas rates for all customers are being increased by a uniform percentage, the percentage increase in total revenues (including gas revenues) will be relatively smaller for those sales customers who purchase gas from Laclede under rate schedules with relatively lower non-gas rates. Conversely, the percentage increase in total revenues will be relatively higher for those customers who purchase gas under rate schedules with relatively higher non-gas rates.

Q. Why is the percentage increase for the LVTSS rate schedule larger than the percentage increase under most of Laclede's other rate schedules?

A. Since LVTSS customers purchase most of their gas from third parties, LVTSS revenues exclude a significant amount of gas costs which will not be billed by Laclede. In contrast, Laclede's sales rates cover all costs, including gas costs. Thus, it is axiomatic that LVTSS revenues will increase by a larger percentage than most other rates simply because the LVTSS revenue base is much smaller due to the exclusion of most gas costs. If LVTSS customers' total costs for natural gas service (Laclede transportation service as well as the cost of gas) is used as the base from which Laclede's proposed increase is measured as is the case with the other rate schedules, the percentage for LVTSS customers would be lower and more in line with the increases for customers purchasing gas from Laclede under other rate schedules.

Q. After allocating the rate increase to each rate schedule in proportion to the non-gas revenues derived from such schedule, how were the charges within each rate schedule adjusted to produce the allocated increase?

A. The Company increased its customer charges for its general service and seasonal air conditioning service rate schedules by $.50 per month. Such an increase amounts to approximately a 4% increase in the customer charge for residential customers, which charge was last increased nearly five years ago. The Company also proposes comparable percentage increases in the customer charges for its other rate schedules. The remainder of the Company's proposed rate increase is recovered through increased commodity charges which will vary by rate schedule, as well as through increases in demand or reservation charges, where applicable.

Q. How were the increases in commodity charges computed under the existing rate design?

A. For all rate schedules consisting of only a customer charge and a commodity charge, the increase in the commodity charge was derived by multiplying the existing commodity charge or charges by the ratio of the amount of remaining rate increase (total rate increase allocated to the rate schedule less the increased revenues produced from the increased customer charge) to the total existing non-gas commodity revenues for each rate schedule or group of rate schedules.

Q. Why do you refer to groups of rate schedules?

A. I grouped certain rate schedules in order to increase the commodity charge for each rate schedule within that group by the same per therm amount. This grouping is necessary to maintain the equivalence of the seasonal air conditioning rate schedule non-gas commodity charges to the summer time general service rate schedule non-gas commodity charges.

Q. How were the commodity charge increases computed in the Large Volume Service and LVTSS rate schedules, which schedules also include demand or reservation charges?

A. For each of these rate schedules, after deducting the increase in revenues attributable to the increase in the customer charge, both the commodity charge and demand or reservation charge were increased by comparable percentages.

Q. Last month the Company proposed to add a Weather Mitigation Clause ("WMC") to its tariff. How has the Company reflected the proposed WMC in this filing?

A. Sheet Nos. 2 and 3 proposed herein reflect the addition of the proposed WMC. The difference between the enclosed Sheet Nos. 2 and 3 and the comparable sheets the Company filed last month in connection with the WMC is the allocation of the rate increase proposed in this proceeding. Also, as mentioned in the testimony of Laclede witness Buck, the rate increase requested by the Company in this proceeding has been reduced to reflect the normal degree days of 4,718 set forth in the proposed WMC tariff sheets.

Q. If the Commission would approve the WMC, would it be necessary to adjust any other tariff sheets as a result of this proceeding?

A. Yes. As indicated in the Company's proposed WMC tariff filing, the specific parameters set forth in Sheet Nos. 41 and 42 of that filing would be adjusted to reflect the resolution of the weather issue in this case.

GAS INVENTORY CARRYING COSTS

Q. Please describe the ratemaking change the Company is proposing with respect to gas inventory carrying costs.

A. Gas inventory carrying costs have traditionally been recovered through the non-gas rates established in the Company's general rate case proceedings. In this proceeding, however, the Company proposes to recover such costs from its customers through the Company's PGA clause.

Q. What do you mean by gas inventory carrying costs?

A. Such costs reflect the Company's cost to finance its investment in the various types of gas inventories necessary to meet its customers' wintertime gas requirements. As set forth on Sheet No. 28-h, such inventories consist of Non-Current and Current Gas Stored Underground (Account Nos. 117 and 164) for both Company-owned storage and leased storage and L.P. Gas Stock (Account No. 154). These inventories have traditionally been included in the Company's rate base.

Q. Why is the Company proposing to use the PGA clause to recover these costs?

A. These costs are directly attributable to the Company's procurement of the natural gas and propane supplies that are already recovered through the PGA. Due to the volatility of the prices applicable to these supplies, it is unlikely that any price estimate established in a rate case would appropriately reflect the amount of Company funds required to carry these inventories. The inclusion of gas inventory carrying costs in the Company's PGA clause would ensure that the amount of such costs recovered from customers would correspond to the Company's actual investment in these inventories, no more and no less.

Q. Please explain how the PGA treatment of gas inventory carrying costs would work.

A. A Gas Inventory Carrying Cost Recovery ("GICCR") component would be added to the calculation of the Company's Current PGA based on an estimate of the carrying costs on the average gas inventory balances established in the resolution of the Company's most recent general rate case

Q. Mr. Cline, you just testified that it is unlikely that gas inventory carrying costs can be accurately projected in a general rate case. How would the Company's PGA treatment of carrying costs represent an improvement?

A. As with the recovery of the Company's purchased gas costs, the Company would initially charge its customers for the recovery of carrying costs based on a projection of such costs that would be included in the Company's Current PGA factors. Any differences between such projection and the Company's actual accrual of the recovery of carrying costs would be adjusted pursuant to the Actual Cost Adjustment accounting described in Sheet No. 28-h.

RATE IMPACT

Q. What impact would the general rate increase proposed by the Company in this proceeding have on the bill of a typical residential heating customer?

A. The annual gas bill of a typical residential heating customer would increase by approximately 5.6%. This translates into an average monthly increase of approximately $4.90 per month or $59 on an annual basis.

OTHER TARIFF CHANGES

Q. Please describe the remaining rate and rule changes which were proposed in Laclede's May 18, 2001 filing.

A. As explained more fully in the direct testimony of Company witness Kozyrski, Sheet Nos. 31-a and R-41 were revised to include a service initiation charge in the Company's tariff. Second, the Company has revised Sheet No. 4-a of its tariff to provide that the Company's Commercial and Industrial Seasonal Air Conditioning rate would also apply to customers who use gas for on-site power generation.

Such a revision would encourage additional throughput on Laclede's system during off-peak periods when no additional facilities would be required to serve such load. In the long run, additional throughput translates into lower rates for all customers. Third, the Company has revised Sheet No. R-11 to clarify its obligation regarding the installation of remote reading devices.

RATE ADJUSTMENTS UPON RESOLUTION OF CASE

Q. What rate adjustments should be made upon resolution of the case?

A. Two adjustments are in order. First, the Company's PGA factors should be adjusted to reflect the normalized throughput in this proceeding. Second, the Company's non-gas rates should be adjusted for any potential rate switching.

Q. Please explain the PGA adjustment.

A. Current PGA rates are based on the settlement throughput volumes determined in Case No. GR-92-165. The Company's proposed rates in the instant proceeding reflect a change in sales and transportation throughput from the 1992 case. In order to avoid the temporary over or under recovery of fixed gas costs that would result when PGA rates are applied to volumes different from those volumes used to establish PGA rates, such unit costs must change due to the change in normalized throughput.

Q. Why is such over or under recovery only temporary?

A. Absent the change in PGA rate, the over or under recovery is corrected through the Deferred Purchased Gas Costs Account provisions of the Company's PGA clause.

Q. What will happen when PGA rates are adjusted?

A. By adjusting the PGA rates whenever new normalized volumes are established in a general rate proceeding, the Company can minimize the potential over or under recovery of gas costs that would otherwise occur in the short term due to the change in the Company's throughput.

Q. Please explain the need for a rate switching adjustment.

A. Before the Company's rates in this proceeding are finally established, it is important that the effect of potential rate switching be reflected in the Company's rates.

Q. What do you mean by rate switching?

A. Some customers qualify for gas service under more than one rate schedule, most notably commercial and industrial customers who are large enough to qualify for the Company's Large Volume Service rate but who otherwise would be billed under the Commercial & Industrial General Service rate schedule. Presumably such customers choose to be billed under the rate schedule that results in the lowest cost consistent with the type of service the customer desires. However, it is possible that, after making the rate adjustments ordered or agreed to in this proceeding, some customers would receive a lower overall gas bill if they switch to a different rate schedule.

Q. Why do the Company's rates need to be adjusted to reflect rate switching?

A. To keep the Company whole, the Company's rates must be adjusted to offset the revenue anticipated to be lost from customers who switch rates as a result of this proceeding.

Q. Does this conclude your testimony?

A. Yes, it does.

LACLEDE GAS COMPANY
ALLOCATION OF PROPOSED RATE INCREASE

Rate Schedule	% Change In Total Revenues
Residential General	5.6%
Commercial and Industrial General	3.4%
Residential Seasonal Air Conditioning	5.5%
Commercial and Industrial Seasonal Service	3.3%
Large Volume	2.4%
Interruptible	2.2%
General LP	4.5%
Vehicular Fuel	1.2%
Unmetered Gas Lights	4.2%
Large Volume Sales and Transportation	9.0%
Total	5.0%

FILED[3]
MAY 18 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	)	Case No. GR-2001-629
Schedules.	)	

AFFIDAVIT

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

Michael T. Cline, of lawful age, being first duly sworn, deposes and states:

1. My name is Michael T. Cline. My business address is 720 Olive Street, St. Louis, Missouri 63101; and I am Director of Tariff and Rate Administration for Laclede Gas Company.

2. Attached hereto and made part hereof for all purposes is my direct testimony, consisting of pages 1 to 11, inclusive, and one schedule.

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 schedule are true and correct to the best of my knowledge and belief.

Michael T. Cline

Subscribed and sworn to before me this 17th day of May, 2001.

KENNETH M. BEERUP, JR.
Notary Public — Notary Seal
STATE OF MISSOURI
City of St. Louis
My Commission Expires: Dec. 19, 2003