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6 TRANSCRIPT OF PROCEEDINGS
7 Stipulation Hearing
8 July 12, 2007
9 Jefferson City, Missouri
Volume 8

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12 In the Matter of Laclede Gas)
Company's Tariff to Revise Gas) Case No. GR-2007-0208
13 Rate Schedules) et al.

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NANCY M. DIPPELL, Presiding,
16 SENIOR REGULATORY LAW JUDGE.

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JEFF DAVIS, Chairman,
CONNIE MURRAY,
18 STEVE GAW,
ROBERT M. CLAYTON III,
19 LINWARD "LIN" APPLING,
COMMISSIONERS.

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1 P R O C E E D I N G S

2 JUDGE DIPPELL: This is Case No.
3 GR-2007-0208, in the matter of Laclede Gas Company's
4 tariff to revise natural gas rate schedules. My name is
5 Nancy Dippell. I'm the Regulatory Law Judge assigned to
6 this case, and we've come here today on July 12th for a
7 hearing to present the Stipulation & Agreement and answer
8 questions that the Commissioners might have.

9 I'm going to begin with entries of
10 appearances, if we can start with Staff.

11 MS. SHEMWELL: Good afternoon, and thank
12 you, your Honor. Please let the record reflect the
13 appearance of Lera Shemwell representing the Staff of the
14 Missouri Public Service Commission, Post Office Box 360,
15 Jefferson City, Missouri 65102. Thank you.

16 JUDGE DIPPELL: And Office of Public
17 Counsel?

18 MR. POSTON: Thank you. Marc Poston
19 appearing on behalf of the Office of the Public Counsel
20 and the public, P.O. Box 2230, Jefferson City, Missouri
21 65102.

22 JUDGE DIPPELL: Laclede?

23 MR. PENDERGAST: Thank you, your Honor.
24 Michael C. Pendergast and Rick E. Zucker appearing on
25 behalf of Laclede Gas Company. Our business address is

1 720 Olive Street, St. Louis, Missouri 63101.

2 JUDGE DIPPELL: Missouri School Boards
3 Association?

4 MR. BROWNLEE: Richard Brownlee, law firm
5 of Hendren & Andrae, 221 Bolivar Street, Jefferson City,
6 Missouri 65101, appearing on behalf of Missouri School
7 Boards Association.

8 JUDGE DIPPELL: And the Missouri Energy
9 Group?

10 MS. LANGENECKERT: Lisa C. Langeneckert,
11 law firm of the Stolar Partnership, 911 Washington Avenue,
12 No. 700, St. Louis, Missouri 63101.

13 JUDGE DIPPELL: And the union, USW Local?
14 See no one here for them.

15 And Ms. Vuylsteke hasn't arrived yet for
16 the Missouri Industrial Energy Consumers.

17 MS. LANGENECKERT: Ms. Vuylsteke is coming.
18 There was one lane open on 50, and it was kind of a --

19 JUDGE DIPPELL: I was going to say, I
20 received a message she was running just a little bit late.

21 And is there anyone here for Department of
22 Natural Resources?

23 MR. MILLER: Yes, your Honor. Marty
24 Miller, Legal Counsel, Department of Natural Resources.
25 Our business address is 1101 Riverside here in

1 Jefferson City, 65101.

2 JUDGE DIPPELL: Thank you. There was an
3 amendment to the Stipulation & Agreement just filed.

4 MS. SHEMWELL: That's correct, your Honor.

5 JUDGE DIPPELL: And included with that was
6 the signature sheet, the amended signature sheet including
7 DNR's signature; is that correct?

8 MS. SHEMWELL: That's correct. Kara
9 Valentine signed. We had her agreement to sign on Monday,
10 and we have filed that indicating their concurrence in the
11 Unanimous Stipulation & Agreement.

12 We also filed an amendment to the first
13 page of Attachment 1 of the Stipulation & Agreement which
14 shows the overall customer impacts. The Commission should
15 have that packet in front of it. It's a recalculation of
16 the impacts on different customer classes. It includes
17 the new and existing customer charges, and it shows that
18 the current typical residential customer increase is
19 approximately \$2.45, or 2.63 percent, which includes both
20 base rates and gas costs.

21 JUDGE DIPPELL: Okay. And I did pass out
22 copies of that for each of the Commissioners. Should be
23 there in front of you.

24 MS. SHEMWELL: There were two slight tariff
25 amendments that were also filed with that. Mr. Pendergast

1 has prepared a packet for the Commission that should
2 include the stipulation and all attachments.

3 JUDGE DIPPELL: Okay, then. Let's go
4 ahead, then, and just begin with, I believe Ms. Shemwell
5 had an opening statement, and then anyone else who wants
6 to make some opening remarks after that.

7 MS. SHEMWELL: Good afternoon. May it
8 please the Commission? I'm Lera Shemwell. I represent
9 the Staff.

10 On July 9th, the parties to this case filed
11 a Stipulation & Agreement in Case No. GR-2007-0208. This
12 is a unanimous stipulation with the agreement of all of
13 the parties, Staff, Laclede, Office of the Public Counsel,
14 the Missouri Energy Group, the Missouri Industrial Energy
15 Consumers, the local union -- I believe that's 11-6 --
16 Missouri School Boards Association and the Department of
17 Natural Resources.

18 Staff believes that this is a just and
19 reasonable result that balances the interests and needs of
20 all of the parties. It is a black box settlement. Staff
21 has explained in its memo to the Commission how it reached
22 the settlement. However, some of the other parties may
23 have their own and different reasons for reaching
24 agreement.

25 As we discussed, Laclede filed a revised

1 Attachment 1 to the Stipulation & Agreement this morning
2 that describes the customer impacts with the residential
3 customer being approximately \$2.50 per month, and that
4 does include PGA base costs and gas costs.

5 Laclede filed its tariffs in this case on
6 December 13th, 2006, asking for a total increase of
7 52.9 million. Staff's direct testimony filed a case of
8 approximately 15.3 million. However, as a result of
9 meetings in this case, the settlement discussions, Staff
10 recognized certain errors in calculations, including
11 tax -- I'm sorry -- customer growth numbers and weather
12 normalization, which increased Staff's case by
13 approximately 2.45 million.

14 Additionally, Staff looked at information,
15 additional information from the company and updated its
16 numbers on the emergency cold weather rule, health and
17 medical costs for the company, home inspection fees and
18 bill redesign, among others, and that increased Staff's
19 case by about 3 million.

20 As a result of negotiations concerning
21 return on equity, bad debts, prepaid pensions and true-up
22 allowances, Staff's case was increased by approximately
23 11 million.

24 While the Stipulation & Agreement reflects
25 an increase of 38 million, that is not really what the

1 customer impact is going to be because Laclede's already
2 collecting 5.5 million in a line item charge for ISRS.
3 ISRS will be reset to zero. So that's 5.5 million that
4 Laclede's already charging customers that's included in
5 this 38.6 million.

6 In addition, Laclede will be crediting
7 12 million into the ACA. 6 million of that is a one-time
8 increase as a result of the Stipulation & Agreement in the
9 last case. It's the customers' share of off-system sales
10 and capacity release from the 2005 rate case.

11 Staff wanted to move its imputation for
12 off-system sales from rate base over to the PGA. In past
13 cases, Staff has imputed approximately 6 million of
14 off-system sales and capacity release. We feel that the
15 company will make at least \$6 million. But moving it to
16 the ACA and PGA allows that to be credited against the
17 costs to the customer.

18 All of the costs for buying gas which the
19 customers pay result in Laclede's being able to make these
20 off-system sales and capacity release. Those go through
21 the ACA. So Staff felt it was appropriate to impute the
22 revenue from that on the ACA side. In addition, that can
23 be updated every year in the PGA adjustment.

24 Staff believes that the net impact on
25 customers, therefore, in the first year will be

1 \$21.1 million, for both margin rates and the PGA rates
2 when those are taken into account. Staff believes that
3 this is in the public interest. Public Service Commission
4 law is to be broadly construed with a view to the public
5 welfare, efficient facilities and substantial justice
6 between patrons and utility companies.

7 The settlement addresses the specific
8 interests of all of the intervenors in this case, the
9 Office of the Public Counsel and the Staff. Staff
10 believes that these are just and reasonable rates because
11 it permits Laclede to provide safe and adequate service,
12 as required by 393.130, and earn a reasonable return on
13 its investment.

14 The stipulation also includes a low-income
15 customer assistance program and an energy efficiency
16 program. And I will note that attached to Staff's Memo in
17 Support is a sheet that describes all of the energy
18 efficiency programs in the state that I, at least, found
19 quite interesting. The Commission can compare and
20 contrast what's going on with conservation or energy
21 efficiency programs in Missouri.

22 I have with me today Mr. Mark
23 Oligschlaeger, Tom Imhoff, Matt Barnes, Anne Ross, Lesa
24 Jenkins and David Sommerer, who are available to answer
25 your questions on specific topics. I will be happy to try

1 to answer them if I can. Otherwise, we'll turn to staff.

2 Thank you.

3 JUDGE DIPPELL: Thank you. Mr. Pendergast,
4 did you want to make an opening?

5 MR. PENDERGAST: Thank you. If it please
6 the Commission?

7 I wanted to start by expressing my sincere
8 appreciation to all the other parties in the room today
9 for taking a constructive and cooperative approach to all
10 of the challenging and complex issues that we had to deal
11 with in this case. Challenging issues are nothing new to
12 you. You've had a good year, year and a half of having to
13 decide a lot of challenging issues that have come before
14 you.

15 I think that that litigation process served
16 the parties in this case well because we took some
17 guidance from the Commission as far as where it is on
18 various issues, and I want to go ahead and emphasize that
19 we took it from all the Commissioners, and we attempted to
20 come up with something that was not only consistent, I
21 think, with our own principles and our own interests and
22 our own objectives, but that fell within the general
23 parameters that I think the Commission has been moving
24 towards as well.

25 And in that regard, doing the hard work of

1 resolving those policy differences was not an easy task,
2 but everybody worked in good faith and worked to get to a
3 resolution that we could all find acceptable given the
4 stakeholders that we represent.

5 And I think the end result is that we've
6 come up with a series of recommendations for you that are
7 reflected in the Stipulation & Agreement that truly are
8 just and reasonable, that truly are consistent with the
9 public interest and that warrant your approval.

10 Staff did an outstanding job, I thought. I
11 didn't necessarily agree with every single word in their
12 Memorandum in Support of the Stipulation & Agreement, but
13 I thought they did an outstanding job of explaining the
14 various provisions and how they work, and I don't have a
15 great deal to go ahead and add to that. I think I will
16 just briefly run through a couple of items.

17 Ms. Shemwell has already talked about the
18 revenue requirement and how the 38.6 million in base rate
19 increase needs to be factored in, that you now will have a
20 zero ISRS, so you have to deduct the 5.5 million to
21 determine what the really net impact is on base rates.
22 And then we have the \$12 million PGA offset that will also
23 be offsetting that during the first year. And that's
24 associated, as Ms. Shemwell indicated, with moving
25 off-system sales from base rates back into the PGA where

1 once it resided a number of years ago. Given the
2 volatility of those revenues, we think that's a reasonable
3 approach to do.

4 But there's one additional thing that we
5 did in this case. Basically, the structure that the
6 parties agreed upon is similar to what you approved for
7 MGE a few months ago and had approved for them in a rate
8 case several years before that.

9 The one twist on it is that the way it
10 normally works when it's in the PGA/ACA process is that
11 you wait a full year, and then you go ahead and see what
12 kind of off-system sales you did, what kind of capacity
13 release revenues you realized, and then whatever sharing
14 percentage you have, you go ahead and split it between the
15 customer and the company, and the customers' share flows
16 through the PGA.

17 What we tried to do in this case was, in
18 addition to flowing through some credits that were
19 associated with our off-system sales over the last couple
20 of years pursuant to the Stipulation & Agreement in our
21 last rate case, we also built in a base level into the
22 PGA. Recognizing that there's going to be some level, and
23 rather than having customers wait a year to be able to
24 receive a benefit from it, we thought it was appropriate
25 to go ahead and build it in now. It will all be

1 reconciled back to what it actually is, but we thought it
2 was appropriate not to wait a year to begin to divide
3 whatever those revenues are. So that's one of the reasons
4 why we have the \$12 million offset that Ms. Shemwell
5 referenced and that's set forth in the Stipulation &
6 Agreement.

7 A couple of other items in the
8 Stipulation & Agreement. Rate design. Obviously rate
9 design for cash utilities has been a pretty big issue here
10 in front of the Commission, and the Commission has moved
11 forward in a number of cases with a straight fixed
12 variable.

13 We firmly support the goals and objectives
14 underlying that straight fixed variable approach. I don't
15 want there to be any misunderstanding about that. We also
16 know that some Commissioners and the Office of Public
17 Counsel and the others have had concerns, most notably
18 concerns about the impact on the smaller user.

19 What we did in recognition of all of those
20 considerations was to try and refine our existing rate
21 design, which has been in effect for about four or five
22 years now. It's worked well. We really haven't had any
23 customer complaints about it. And it accomplishes some of
24 the same goals as straight fixed variable by moving more
25 costs into the first block where you expect most usage to

1 go ahead and occur, and at the same time we've always had
2 a PGA offsetting block that tends to go ahead and mitigate
3 the impact of that on the small user.

4 What we did in this case was to go ahead
5 and reduce those blocks to the amounts that are set forth
6 on Attachment 1 to provide for a little bit more surety on
7 cost recovery, but at the same time make sure we're not
8 over-recovering. We still maintain some PGA differential,
9 but we reduced it a bit. And then we had some customer
10 charge increases in the neighborhood of 3.50 for
11 residential and comparable ones for the other customer
12 classes.

13 The end result of that is that it
14 accomplishes, I think, a little more robustly the goals of
15 the straight fixed variable at least from our perspective,
16 but at the same time it does it in a different way that
17 does mitigate the impact on the low-use customer, which I
18 know was something that was particularly important to
19 Public Counsel and that I think Commissioners Gaw and
20 Clayton have referenced in some of their orders that have
21 been issued.

22 So we think it's a good way of -- a second
23 way of really coming forward and trying to accommodate a
24 variety of interests, and we would strongly recommend your
25 approval of it.

1 As far as how the rate increase was
2 allocated among the various customer classes, you can go
3 ahead and see that on Attachment 1. And what we did was
4 just set out the specific amounts that went to each
5 customer class. It's not exactly an equal percentage
6 increase. There was a little shifting that went on, but
7 very little, and for all intents and purposes, it's pretty
8 close to an equal percentage increase to all the customer
9 classes. But the dollar amounts, as I said, are reflected
10 on Attachment 1, and you can look at those for yourself.

11 Just talk a little bit about the tariff
12 modifications. We are actually reducing our service
13 initiation fee from 36 to \$25. At the same time, we are
14 applying those more broadly to more customers than we have
15 in the past regardless of whether you need to have a
16 serviceman come out or not come out, which is sometimes
17 beyond the control of the customer. Depends on whether
18 their meter's inside or outside, whether the meter has to
19 be shut off in order to initiate service. It just seemed
20 fair to go ahead and apply it to everybody, but to do so
21 at a lower rate. That's what we propose to do here.

22 We've proposed an increase in the
23 reconnection charge -- and all of this is addressed in
24 paragraph 4 -- from 54 to \$62. That doesn't exactly
25 recover the cost of disconnecting and reconnecting

1 service, but it moves towards that cost, and we think for
2 that reason it's appropriate.

3 For the first time we're looking at
4 implementing credit scoring as a means of determining,
5 only for new customers, when deposits should be required.
6 And we're doing it on an experimental basis, and I want to
7 make sure the Commission understands that. It's something
8 that we're going to go ahead and we've committed to do
9 additional evaluations of to determine what the ultimate
10 impact is.

11 The good news is that Laclede will need to
12 collect fewer deposits from new customers than it has in
13 the past. Right now we have general criteria. We collect
14 deposits from folks that move into apartments, and then we
15 collect deposits from folks that move into homes depending
16 on some very broad criteria that's in the Commission's
17 rules.

18 And this is a customer-specific kind of
19 evaluation that's done. We use a credit scoring agency
20 that's -- and score that's directly related to energy
21 costs and how customer behavior and payment behavior is
22 when it comes to energy bills.

23 And the bottom line is we'll be collecting
24 fewer deposits than we have in the past, but those
25 deposits will be better targeted at those customers that

1 create the greatest risk of not only leaving us but
2 leaving all of our customers with some additional bad
3 debts to pay. So we think that that's a positive step in
4 the right direction, but the proof will be in the pudding,
5 and we need to evaluate it and we need to study it to see
6 how well it works in the future.

7 We also have pretty much consistent
8 language dealing with pensions and OPEBs, language that
9 you have probably seen before either in a Laclede case or
10 in other cases. I've just about exhausted my knowledge of
11 that issue. This is the one that I ask my people not to
12 run by me before they send things to Staff. But if you do
13 have any questions, I've got Mr. Fallert here who knows
14 this inside and out and can certainly assist you with
15 those questions.

16 Depreciation, very simple. We had a little
17 mixup in the last case, and we had some computer
18 equipment, some of which was supposed to be depreciated at
19 ten years and some that was supposed to be depreciated at
20 five. Those kind of got switched. So we're switching
21 them back, so the one that should be depreciated over five
22 years is and the one that should be depreciated over ten
23 years is. And that's more of a fix than it is anything
24 else.

25 The accounting authorizations. Reservation

1 of right paragraphs, 14 to 16, I only have a couple things
2 to say about that. One of them is, we had filed tariffs
3 in this case that were designed to better define our
4 liability for work we do behind the customer's meter, and
5 we think it's important to do that in this litigious
6 society.

7 They always know where to find the gas
8 company, and they always think that the -- erroneously, of
9 course, that the gas company has deep pockets. And so we
10 find ourselves having suits filed against us, having to go
11 through an expensive litigation process at times where we
12 have little, if any, connection to the particular premise,
13 other than the fact we went on there at one time providing
14 some sort of work, sometimes regulated, sometimes not.

15 And the bottom line was, it raised some
16 concerns by Staff and Public Counsel. We decided to go
17 ahead and not pursue that in this case. And really the
18 only thing the parties have agreed to is that if we do
19 pursue it through a separate tariff filing at some point
20 in the future, they will not raise the argument that it
21 should have been disposed of in this case. They're free
22 to raise any other arguments they may have regarding that.
23 But it's an important issue, and we look forward to
24 discussing it again with you in the future.

25 Those paragraphs 14, I think it's 16 also

1 addresses recovery of the cold weather rule compliance
2 cost for the emergency amendment that was made. We were
3 able to reach agreement on that. An amortization of five
4 years is reflected in the rates and referenced in the
5 Stipulation & Agreement.

6 Off-system sales, capacity release
7 revenues, we've already talked about that, paragraph 17.
8 As I indicated, the basic sharing structure is similar to
9 what you approved for MGE, with the exception that our
10 baseline levels are higher than what they were in MGE
11 because we've had the opportunity to do some more sales,
12 and with the fact that we're building in a baseline up
13 front instead of waiting for a year to pass and see what
14 falls out.

15 GSIP, a couple changes have been made to
16 that, basically raising the incentive ceiling by 50 cents
17 to be a little more reflective of what current market
18 conditions are. At the same time, the cap on how much the
19 company can earn has been lowered from 5 million to
20 3 million, so our total upside opportunity under that
21 incentive mechanism is now 3 million. And we've also
22 eliminated the 1 percent that was afforded under the
23 previous tariff for any amounts made above 5 million.

24 We've also updated the indices that are
25 used in the comparative benchmark, as suggested by Staff

1 witness David Sommerer, to make those more consistent with
2 where we're purchasing our gas these days compared to
3 where we were purchasing them when the GSIP was first
4 approved.

5 You heard Ms. Shemwell talk about the
6 low-income energy assistance program, and there's a couple
7 of changes in that. I think the Staff and Public Counsel
8 worked very hard to come up with some revisions that will
9 hopefully enhance the effectiveness of the program in the
10 future. The total amount that is being spent on the
11 program has been, at least on paper, reduced somewhat, but
12 I think effectively, given what we've spent on it, it may
13 be about the same.

14 But we are going to go ahead and, instead
15 of including an amount in rates, other than the leftovers
16 from the last program that still need to be spent, we're
17 going to put that into a regulatory asset where we will go
18 ahead and as we spend money on the program be building up
19 that asset between now and the next rate case.

20 In addition, we also recognize that that
21 asset could be offset by potential savings associated with
22 the plan, and those potential savings are defined as, if
23 we do get a customer to stay on and that customer goes
24 ahead and actually pays bills during the summer, you know,
25 that's kind of like found revenue. I mean, you know,

16 Energy efficiency and conservation. When
17 we filed our case, we indicated that we thought energy
18 efficiency and conservation measures were very important.
19 It's the most effective thing that we and our customers
20 can do to respond to higher gas prices, and that's simply
21 use less of it. And we had a rather ambitious, rather
22 bold proposal in our case to effectively do what PG&E has
23 done in California and offer direct rebates to customers
24 based on how much they saved.

25 I think it's fair to say that the other

1 parties weren't quite ready to move forward to something
2 at this point, and we understand that, but they and I
3 think we, we're ready to go ahead and sit down and talk
4 earnestly about what kind of programs would be appropriate
5 in the future.

6 Therefore, we proposed a collaboration
7 process, not unlike those that you've approved for other
8 utilities, where we will work together and, if we can,
9 work with electric utilities in our service territory to
10 try and coordinate this stuff a little bit so that we can
11 come up with some things that are hopefully cost effective
12 and really work and benefit the consumer that's taking
13 advantage of them and hopefully other consumers as well.

14 So we've committed to spend \$3.5 million on
15 that over the next three years, and, you know, if there is
16 a need to go ahead and the parties agree to spend more,
17 we -- the stipulation provides we can come back and
18 unanimously request that from you. So we think that's a
19 substantial commitment, and we're looking forward to
20 sitting down with the parties and working on coming up
21 with those kind of programs.

22 The other thing I will say on energy
23 efficiency, we have agreed and there is allowance in rates
24 for an increase in the low-income weatherization program.
25 It's currently at 500,000. And the revenue requirement in

1 this case proposes to increase that to 950,000. So that
2 is something that will be ongoing. DNR is going to be
3 more involved on a going-forward basis helping to
4 administer that program. I think that's appropriate, and
5 that's what the Stipulation & Agreement provides for.

6 Fixed price option that's addressed in
7 paragraph No. 21. One of the things we had proposed when
8 we filed our case was giving customers an additional
9 choice, and that choice would be to lock in the price of
10 their gas for up to an entire year. That was something we
11 had kind of proposed as part of our overall regulatory
12 compact, not all elements, of course, which were agreed
13 upon by the parties.

14 But nonetheless, we've agreed to go ahead
15 and sit down and collaborate with the parties to see if we
16 can develop something that works for everybody. The
17 Stipulation & Agreement has some general principles about
18 the program not having a detrimental impact on other
19 customers, and it being a regulated service, and those are
20 kind of the outside parameters that we need to work in.

21 But we'll be sitting down in the near
22 future and looking at the feasibility and details of such
23 a program, and to the extent that we can reach agreement,
24 we'll be coming back to you with some tariffs that reflect
25 what we've come up with.

1 ISRS, paragraph No. 22, nothing really new
2 there. Same kind of language we had in the last rate
3 case. It continues to work well from our perspective.

4 Paragraph No. 23 talks a little bit about
5 cost allocation affiliate transactions. A number of the
6 parties, most notably the Staff, expressed an interest in
7 looking at this issue more. Public Counsel also expressed
8 an interest. And I think it relates to our cost
9 allocation manual, how well that cost allocation manual
10 complies with the affiliate transaction rules, and
11 generally transactions between Laclede and its affiliates.

12 From my perspective and I think my
13 company's perspective, I think we're all well served by
14 having very clear rules and very clear understandings
15 about how these affiliate transactions are supposed to
16 work, how things are supposed to be priced. And to the
17 extent that we can go ahead and get additional clarity
18 through this process, I think that's a good thing. So
19 we're looking forward to sitting down and working on that.

20 And finally, Fidelity. We acquired about
21 1,300 customers, I think it was, back in February of 2006.
22 At the time we indicated that we were going to go ahead
23 and be rolling those customers in to Laclede's rate fold
24 here when we had our next rate case. This is now the next
25 rate case, and the parties have agreed to go ahead and do

1 that at the purchase price that we purchased Fidelity for,
2 minus a little depreciation.

3 A couple things I should say is that Staff
4 was concerned, and we're certainly willing to accommodate
5 that concern, that to the extent there was any positive
6 ACA balance when we do roll it in, that those would go
7 back to the good folks in Sullivan and Russellville, that
8 territory. I think that's appropriate, and we'll
9 certainly work with the Staff to go ahead and do that.

10 And should there be a prudence disallowance
11 relating to gas costs when Fidelity owned them, we don't
12 expect one, but should there be one, any impact from that
13 would also go back to the Fidelity folks.

14 The rest of the provisions of the
15 Stipulation & Agreement are pretty well standard
16 provisions and you should be familiar with them. I think
17 the only other thing I would mention is that we have
18 proposed an August 1st, 2007 effective date.

19 Obviously having the rates in early was an
20 integral part of negotiations we had with the other
21 parties, and we would certainly appreciate any assistance
22 the Commission could provide approving this in its usual
23 expeditious manner so that it might be realized.

24 Assuming that you do approve the
25 Stipulation & Agreement, which we heartily recommend that

1 you do, once again, I say I think it's a just and
2 reasonable result that truly reflects the hard work of a
3 lot of parties that came at this from different policy
4 perspectives and were able to go ahead and through that
5 hard work come up with something that I think is truly in
6 the public interest.

7 With that, I'll go sit down, and we'll be
8 happy to go ahead and answer any questions you might have.
9 Thank you. Oh, excuse me. Mr. Brownlee, I said I would
10 mention something about school aggregation. The schools
11 had intervened. We have a tariff that we provide them
12 with school aggregation service on. I think most of the
13 Commissioners are familiar with that.

14 There's been some discussion from the
15 schools about restructuring that so that we provide the
16 service in a way that's more similar to the way MGE does
17 it and AmerenUE gas does it, and we've indicated to the
18 schools that we're certainly willing to work with them on
19 that, and that we will be probably submitting a tariff
20 sometime here in the not too distant future.

21 We just didn't want it to come as a
22 surprise to anybody that, rather than resolving those
23 issues in the rate case, we resolved it outside the rate
24 case. I think that the tariff was first implemented
25 outside the context of a rate case, and the statute

1 provided for that, and I think it's an appropriate thing
2 to do in this instance, too.

3 Thank you. I really am done now.

4 JUDGE DIPPELL: Ms. Vuylsteke, did you want
5 to make an entry of appearance?

6 MS. VUYLSTEKE: Yes. I would like to enter
7 my appearance on behalf of Missouri Industrial Energy
8 Consumers. I'm with the law firm of Bryan Cave, 211 North
9 Broadway, Suite 3600, St. Louis, Missouri 63102. I'm
10 sorry for being late.

11 JUDGE DIPPELL: That's all right. Thank
12 you.

13 Office of Public Counsel, do you have any
14 opening remarks?

15 MR. POSTON: Thank you. I don't really
16 have any opening remarks on the stipulation itself.
17 Ms. Shemwell and Mr. Pendergast did a good job of covering
18 those issues.

19 We are here to answer questions.
20 Ms. Meisenheimer is here. She was involved in the rate
21 design, the low-income program, GSIP and some of the
22 tariff issues, and she can answer questions to those.
23 Otherwise, we're here for questions. Thank you.

24 JUDGE DIPPELL: Thank you. Missouri
25 Industrial Energy -- yeah, Industrial Energy Consumers?

1 MS. VUYLSTEKE: I only want to state our
2 support for the settlement. A lot of hard work went into
3 it, and we wholeheartedly support it.

4 JUDGE DIPPELL: Thank you. Now Missouri
5 Energy Group?

6 MS. LANGENECKERT: We also support the
7 settlement. We feel that it balances all the interests of
8 the parties.

9 JUDGE DIPPELL: School Boards Association?

10 MR. BROWNLEE: Mr. Pendergast stated what
11 the agreement has been, and we should expect to have a
12 tariff presented to the Commission prior to the heating
13 season, which is an important date coming up. And it will
14 bring -- the proposal and the discussions will bring the
15 Laclede tariff proposal in line with the other utilities
16 that the Commission has previously approved the tariffs.
17 It's been a huge dollar savings for the educational
18 community.

19 JUDGE DIPPELL: And Department of Natural
20 Resources?

21 MR. MILLER: We also support the agreement,
22 and are essentially here if you have any questions for us.

23 JUDGE DIPPELL: All right, then. I think,
24 then, we're ready for questions from the Commission. What
25 I will do is ask you if you have questions. If the

1 questions need to be answered by one of the non-attorneys,
2 then I'll swear them in as a witness and we'll take it
3 from there. Commissioner Murray?

4 COMMISSIONER MURRAY: I don't particularly
5 have any questions. I may develop some as I listen to
6 what some of the other Commissioners ask. But I would
7 like to say congratulations to all of you. I think it's
8 remarkable when a group of such obviously diverse
9 interests come together and arrive at a unanimous
10 Stipulation & Agreement. Congratulations.

11 JUDGE DIPPELL: Commissioner Gaw?

12 COMMISSIONER GAW: My first question has to
13 do with the reference on page 4 to the NYMEX class action
14 lawsuit, if somebody can give me a very brief update on
15 what's going on with that.

16 MS. SHEMWELL: Certainly. That's the class
17 action case that's in the Southern District of New York.
18 It has to do with price manipulation on the NYMEX. Many
19 of the companies that were sued as a result of the class
20 action have settled. We expect that money to be
21 distributed. Laclede was, in fact, the only company that
22 had traded on the NYMEX, and so is the only LDC in the
23 state that could intervene. They could intervene, and
24 they've agreed that any settlement that they receive from
25 that will be flowed back to customers through the PGA.

1 COMMISSIONER GAW: Okay. Is there a long
2 list of defendants? Are there many defendants in that
3 case?

4 MS. SHEMWELL: Yes, but it's quite similar
5 to the list of defendants in the Commission's lawsuit
6 against Aquila in its case it's got in Nevada.

7 COMMISSIONER GAW: And is NYMEX itself a
8 defendant in that case, in this case?

9 MS. SHEMWELL: I don't believe so.

10 COMMISSIONER GAW: On page 5, and this has
11 to do with the initiation fees, I need just a -- a quick
12 understanding, if you could, of the difference in what
13 goes into the initiation of services compared to
14 reconnection. What's the difference in what occurs?

15 MS. SHEMWELL: Initiation of service, of
16 course, is when a customer changes and starts new service
17 with the company. Sometimes Laclede has to go out to
18 actually turn on the gas, but sometimes they don't. It's
19 a matter of adjusting their computer equipment to billing
20 the new customer. If there was an inside meter, Laclede
21 would have to send a service representative out to the
22 site, serviceman I think as Mr. Pendergast said, and in
23 other instances not.

24 Staff looked at the overall cost of service
25 initiation for Laclede and felt that customers should not

1 be penalized because they moved into a home with an inside
2 meter. So the \$25 is representative of their costs spread
3 across every customer who initiates new service on the
4 Laclede system.

5 Reconnection charges will come after a
6 customer has been disconnected for whatever reason,
7 probably nonpayment of their bill. Staff feels that
8 \$62 is closer to Laclede's actual cost to disconnect and
9 reconnect the service. This is done either at the curb or
10 inside the customer's home. So that does involve sending
11 someone to the site.

12 COMMISSIONER GAW: So if I understand you
13 correctly, with the initiation of service, sometimes it
14 involves going to the site?

15 MS. SHEMWELL: That's correct.

16 COMMISSIONER GAW: With the reconnection,
17 it always has to have someone go out to the site?

18 MS. SHEMWELL: If they've gone out and
19 physically cut off the gas, which is what these charges
20 involve, yes.

21 COMMISSIONER GAW: Okay. So that's the
22 difference in the cost. That's all I'm asking. Let me
23 ask you in regard to this other credit scoring. First of
24 all, maybe this should go to Public Counsel, but anyone
25 who wants to tackle it. I want to know when Staff and

1 Public Counsel look at credit scoring as a means of
2 determining the amount of deposit, what protections do you
3 look for in that -- in the kind of credit scoring that is
4 done to ensure that there is not discrimination in that --
5 in the way those credit scores are done?

6 MS. SHEMWELL: Actually, Staff has been
7 concerned with discrimination, and we feel it's likely
8 that this will result in less discrimination. Credit
9 scoring completely -- is done completely outside of
10 Laclede. It's done by a credit scoring company. Laclede
11 will receive that customer's credit score.

12 In the past, Laclede has decided whether or
13 not to charge a deposit from customers based upon a
14 variety of factors, including whether or not they were
15 renting, and that -- a renter can certainly have an
16 excellent credit history, but they were charged a deposit
17 as well as customers who rent and might not have an
18 excellent credit history.

19 Laclede had four factors that they used in
20 making a determination, which did allow some judgment and
21 potential discrimination to occur. So we think that the
22 credit score will actually get away from that.

23 What that credit score should be exactly, I
24 don't think any of us know yet. This is an experimental
25 program. We don't know that number. That's why Laclede's

1 going to keep track of the number of customers. We have
2 established a number that Staff is comfortable with.
3 That's something we're going to be looking at as this
4 process continues is how many deposits they're getting,
5 what is the correct number, how many people are
6 defaulting, and make those adjustments as we go along.

7 There are many things that can go into
8 this, including the economy in St. Louis, the economy
9 overall and result in different -- customers having
10 different credit scores.

11 COMMISSIONER GAW: What I'm looking for
12 here is an understanding of the -- because I don't -- and
13 I don't know the answer to this question. What is -- is
14 there just one set of parameters that's used by all credit
15 rating agencies or credit agencies -- excuse me -- about
16 what the credit rating is of an individual so that there's
17 not any discretion there?

18 I mean, is that the case, or do different
19 agencies that rate credit of individuals have different
20 sets of questions and data and criteria to evaluate what
21 the credit status is of that individual? I don't know.

22 MS. SHEMWELL: I don't know the answer to
23 that.

24 COMMISSIONER GAW: Without knowing the
25 answer to that, then I don't know whether or not there are

1 and Public Counsel and also the Staff on where that level
2 should be set. The 723 I think it is that's in the
3 tariffs may be a little misleading because you may be
4 comparing that to what a traditional credit score is, and
5 I think those are usually 850 or 900. This is on a scale
6 of 1,000.

7 And I think Public Counsel was very
8 concerned that we didn't have a number that was going to
9 drag too many people into the net that probably shouldn't
10 be paying one, and the -- on that particular scale,
11 compared to another, a more traditional credit rating,
12 it's -- it's below 600, which is kind of a subprime
13 lending credit rating where you would go ahead and
14 typically find things like deposits being collected.

15 And we think it's a lot more -- from a
16 discrimination standpoint, you know, right now you have a
17 situation where somebody may have a terrible personal
18 history of paying bills but they happen to have a job and
19 happen to own a home and you don't go ahead and require a
20 deposit there; whereas, somebody has a great credit
21 history and maybe lives in an apartment and you do.

22 This is really trying to say, I want to
23 look at that particular customer's payment performance in
24 the past, and I want to base my criteria on that. Quite
25 frankly, from our perspective, you know, when we collect a

1 deposit, we have to pay 9 percent on it, and that's more
2 expensive than our short-term, you know, cost of money.
3 And, you know, unless we have to go ahead and collect a
4 deposit to protect ourselves and our customers from
5 eventual bad debt, you know, we'd just as soon not.

6 When I say this will require fewer deposits
7 being collected from customers than we do today, we think
8 that's a good thing for a number of reasons.

9 COMMISSIONER GAW: It would make me feel
10 better if I knew that there was some oversight here that
11 was generated to ensure that there was not -- there's not
12 discrimination based upon the evaluation of the
13 individuals. And it is a little bit perhaps more of a
14 concern when it's something different than the normal
15 credit rating, but that doesn't necessarily mean it's
16 creating more of a problem. I just don't have that
17 information.

18 Public Counsel, I'll ask you-all direct.
19 Give me your -- you signed off on this, obviously, so what
20 is it -- were your concerns taken care of? Did you have
21 no concerns that this could result in discrimination
22 against individuals for inappropriate purposes?

23 MR. POSTON: I'd ask that Ms. Meisenheimer
24 be sworn.

25 (Witness sworn.)

1 JUDGE DIPPELL: Go ahead.

2 MS. MEISENHEIMER: We certainly are
3 concerned about the use of credit scoring. It's a new
4 thing. It's unchartered territory, if you will. We did
5 insist that it be treated as experimental, that the
6 company will later perform the exact type of analysis that
7 they performed and brought to us in seeking our support in
8 this case to get credit scoring.

9 Credit scoring has kind of a history. I
10 think that the current rules envision maybe some movement
11 toward credit scoring, and we thought this was -- this was
12 a way to try it out at a credit score level that we
13 ultimately were comfortable with, with Laclede in
14 particular because of Laclede's -- or Laclede's tariff is
15 different than the existing rule on collecting deposits.
16 They have greater ability to collect deposits. They can
17 collect a deposit from all renters.

18 And so in that sense, you know, I view this
19 as an improvement, and ultimately we agreed to implement
20 this and will be carefully looking at it once that review
21 is done.

22 COMMISSIONER GAW: Well, I hope that as
23 that goes along, so this moves forward, that someone
24 verifies that there's -- that this isn't creating some
25 disproportionate shift that indicates that there may be

1 discrimination as a result of utilizing this methodology.
2 And it could be that it goes the other way, but somebody
3 ought to be ensuring that that's tracked at some point so
4 that this thing can be evaluated.

5 MR. PENDERGAST: That's a good point,
6 Commissioner, and I think Public Counsel was equally
7 concerned about that, and we do have some tracking
8 obligations.

9 Also want to assure the Commission, we
10 didn't just pick this number out of the air and say, well,
11 why don't we try this first. We did a fairly detailed
12 study where we looked at various credit scores and we
13 applied them to real-life situations and customers and
14 looked at, given what the credit score was and where the
15 customer's payment history was, how good of a predictor
16 was it, whether the customer would ultimately pay his bill
17 or not pay his bill.

18 And, you know, when we settled at a
19 particular level, it was where there started to be a
20 fairly sizeable falloff in the customer paying their bill.

21 I guess the only other point I would make
22 is we did propose in this case, and we did not go ahead
23 and ultimately pursue it, to have prepaid deposits as
24 well. And, you know, even for those customers that do
25 have to pay a deposit, they still go ahead and get to pay

1 it in installments, and, you know, they're not paying a
2 bill in advance if you will. And I just kind of contrast
3 that to other industries. The telephone company, for
4 example, I think that I get billed like a month in
5 advance. And with the gas company, you know, normally you
6 get hooked up, you don't pay anything, you go 40 days or
7 50 days until after you've been billed. You have 20 days
8 on top of that, and then finally we start collecting
9 something.

10 So, you know, that basic structure is left
11 in place at least for now, and that, you know, I think
12 provides some comfort for those that are concerned about
13 what the impact will be on customers.

14 COMMISSIONER GAW: On page 10, and I think
15 Mr. Pendergast already -- has already sufficiently dealt
16 with this for my benefit, but on 15 there, there is
17 nothing in here regarding decreasing or further insulating
18 Laclede from liability, correct?

19 MS. SHEMWELL: That's correct.

20 COMMISSIONER GAW: The calculation in 16 on
21 page 10 of the amount of uncollectible expense and
22 interest costs related to the emergency cold weather rule
23 amendment, what form -- what was used to come up with that
24 calculation?

25 MS. SHEMWELL: Do you want to swear

1 Mr. Oligschlaeger?

2 JUDGE DIPPELL: Mr. Oligschlaeger, would
3 you please raise your right hand.

4 (Witness sworn.)

5 JUDGE DIPPELL: Thank you.

6 MR. OLIGSCHLAEGER: The specific number
7 that was stipulated here actually comes from the testimony
8 of OPC witness Mr. Ted Robertson. I think our number in
9 our direct testimony was slightly different, but the
10 parties determined through settlement that we could all
11 concur in Mr. Robertson's and OPC's quantification.

12 COMMISSIONER GAW: And OPC, this
13 calculation is based upon which methodology?

14 MR. POSTON: I would have to ask
15 Mr. Robertson, and I know he's in the back hiding.

16 COMMISSIONER GAW: I'm not trying to delay
17 this.

18 JUDGE DIPPELL: Mr. Robertson?

19 COMMISSIONER GAW: I just wanted the
20 answer.

21 MR. ROBERTSON: I have to apologize. I'm
22 not really dressed for this.

23 JUDGE DIPPELL: That's all right. Would
24 you raise your right hand.

25 (Witness sworn.)

1 COMMISSIONER GAW: Can you answer my
2 question?

3 MR. ROBERTSON: Yes, I can. Basically what
4 happens, the company put together an analysis based on
5 what the AAO stated. I looked at the analysis. I
6 accepted pretty much everything they did except for some
7 customers had made payments, and rather than apply them to
8 the balances that were overdue, the company hadn't done
9 that. So I adjusted their analysis to make sure those
10 payments came off the top first.

11 And then other than that, we pretty much
12 accepted everything the company did.

13 COMMISSIONER GAW: Kind of what I'm looking
14 for here, we went through this discussion.

15 MR. ROBERTSON: Excuse me one second. It
16 changed to a five-year amortization. I think they
17 originally had three-year.

18 COMMISSIONER GAW: What I'm looking for
19 here is there was discussion about whether or not any
20 benefit -- at one point in time, in discussing this cold
21 weather rule, these provisions, about whether benefits
22 would be netted in, and in regard to any costs that might
23 have occurred from amendment. You may not be familiar
24 with that. But there was -- there was disagreement among
25 the Commissioners about how that should be handled, and

1 I'm trying to understand whether or not there was an
2 assessment of any particular benefits that might have been
3 derived. The fact that you netted some payments might be
4 construed to be that. I don't know if that's the only
5 thing that you did or not.

6 MR. ROBERTSON: I'm not sure I know what
7 benefit you're talking about.

8 COMMISSIONER GAW: Well, if people were on,
9 stayed on afterwards, there were benefits from the revenue
10 stream coming in that wouldn't have occurred if they had
11 remained disconnected.

12 MR. ROBERTSON: The analysis did take care
13 of payments that were made. The company, payments that
14 were made, subtracted them off to reach a net number. So,
15 I mean, as far as payments being made to come up with a
16 final number, final net number that the company believed
17 was owed to them, yes, that did occur.

18 COMMISSIONER GAW: Do you know whether this
19 is consistent with OPC's initial position in regard to how
20 the benefits should be calculated on the cold weather
21 rule?

22 MR. ROBERTSON: Since I wasn't part of that
23 initial testimony, I'm not sure.

24 MR. POSTON: Do you mean initial position
25 in other cases?

1 COMMISSIONER GAW: On the cold weather rule
2 itself.

3 MR. POSTON: I believe we're consistent
4 with our position, but I can't point to what we've argued
5 in those instances to say whether that's for certain.

6 MR. ROBERTSON: I would add, though, as far
7 as what was in the AAO and what the Commission ordered, I
8 think we followed that.

9 COMMISSIONER GAW: Yeah. That's what
10 worries me.

11 MR. ROBERTSON: I had a Commission Order to
12 rely on. We followed it.

13 COMMISSIONER GAW: I understand. It
14 doesn't help me. It helps others. Okay. So let me --
15 I'll move on. Thanks.

16 Let's see. The off-system sales and
17 capacity release provisions, first of all, someone give me
18 a pretty quick definition of net revenues, if you would.
19 When you say net, what's it net of?

20 MR. PENDERGAST: I think that's just the
21 margin. It's the amount that you make that is in excess
22 of what your actual costs are.

23 COMMISSIONER GAW: In acquiring it to begin
24 with?

25 MR. PENDERGAST: Well, looking at the

1 revenues you get from the sale and deducting from that the
2 cost of the gas, it's the net amount that you take home.

3 COMMISSIONER GAW: Okay. And then I'm not
4 suggesting that this is anything new, but does someone
5 want to help me to understand first of all how you came up
6 with these percentages? I realize it's a settlement.
7 Secondly, why those percentages need to change as you get
8 increases instead of remaining what they are initially.
9 You don't have to defend your position, Mr. Pendergast.
10 I'm asking Staff.

11 MS. SHEMWELL: Staff looked at what the
12 Commission did in not this immediate last MGE case, but
13 the case before, where the Commission moved off-system
14 sales and capacity release into the PGA, and Staff agreed,
15 and Mr. Sommerer testified, that since that's where the
16 costs resided, then the benefits flow back to customers.
17 The sharing mechanism is a settled amount.

18 COMMISSIONER GAW: It's a sharing
19 mechanism, because I understand moving at least
20 conceptually from a principle standpoint why you want
21 there to be a matching between off-system sales and
22 purchases.

23 MS. SHEMWELL: I think that the Staff feels
24 that the first 2 million is pretty much a given, but
25 again, customers have paid for all of the costs that

1 result in the company's ability to make this. We do not
2 disagree with the company sharing in that they are making
3 these sales and it requires their time and efforts. The
4 reason that they go from 85 percent to customers to
5 70 percent for customer was a settled amount. The company
6 shares a little more the more off-system sales it makes.

7 COMMISSIONER GAW: I think I just stated
8 that in my question.

9 MS. SHEMWELL: Right.

10 COMMISSIONER GAW: Does OPC have anything
11 to add?

12 MR. POSTON: I just wanted to add that we
13 consider this an improvement over the current off-system
14 sales that I believe I know last year and perhaps the year
15 before that it ended up being where 50 percent of
16 off-system sales and capacity release went to company and
17 50 percent went to the customers.

18 Under this new proposal, the average that's
19 going to go to customers will never go below 70 percent.
20 So the company will never earn more than 30 percent of
21 off-system sales. We see this as an improvement over the
22 50 percent the customers were getting or are currently
23 getting. I'm not --

24 COMMISSIONER GAW: Is that the best you're
25 going to be able to do for me?

1 MR. POSTON: Well, maybe you can --

2 COMMISSIONER GAW: It's better than bad, so
3 it's good.

4 MR. POSTON: I'm just throwing in one of
5 the reasons why we support this. Was there a particular
6 question that I'm not answering?

7 COMMISSIONER GAW: I'm just trying to
8 understand why the increase, why does it increase from --
9 and I understand why -- why Laclede wants it to increase.
10 They may not be satisfied with the amount. I'm trying to
11 get the position from OPC and Staff about what is the --
12 what is the reason why you support the increase in the
13 percentage as you increase the amount of off-system sales
14 and capacity release. Is it just simply because it
15 settled and you agreed to that or is there some -- I'm
16 looking at the principle.

17 MR. POSTON: Well, I mean, settlement is a
18 big part of it, yes. We had -- we wanted different
19 numbers in there originally, yes.

20 MR. PENDERGAST: If I --

21 COMMISSIONER GAW: You can go ahead,
22 Mr. Pendergast. I'm not trying to cut you off. I'm
23 just --

24 MR. PENDERGAST: No. And I think the
25 theory behind it, too, is that, you know, the larger the

1 off-system sales, you know, it's always harder to get the
2 last dollar than it is the first dollar. So as you
3 generate more off-system sales, then your percentage
4 should you go ahead and go up.

5 Quite frankly, it's one of the hardest
6 issues that we had to go over. We thought the sharing
7 percentages should have been greater. In fact, we thought
8 we should have been able to use those to offset attrition
9 in the future. But those were issues that were resolved
10 and we came up with this settlement that, as I said
11 before, is very consistent with what the Commission has
12 approved for MGE just a few months ago and consistent with
13 what they approved a couple of years ago for MGE.

14 Just to kind of put it in perspective, I
15 mean, ten years ago nobody was making these off-system
16 sales. Okay. You had your gas supply contracts and you
17 had your transportation. You know, you were probably
18 buying gas from a pipeline. But over the course of the
19 last, you know, ten years Laclede's worked very hard at
20 generating these kind of revenues, and the fruits of that
21 are being shared and shared in a very significant way with
22 our customers in this case.

23 That \$38.6 million we talked about is being
24 reduced by \$12 million because of the off-system sale
25 revenues that we've managed to generate in the past, and

1 hopefully the off-system sale revenues we're going to be
2 able to generate in the future. And that's a tremendous
3 savings, I think, for customers and tremendous benefit. I
4 know there are other LDCs in this country that don't do
5 nearly as much off-system sales as Laclede does, and, you
6 know, we really think it's a win/win situation for not
7 only the company, for the customer, and we all ought to be
8 able to go ahead and share the benefits from that.

9 And I think, you know, Public Counsel and
10 Staff negotiated something where the customers are going
11 to go ahead and get the lion's share of the benefit of it
12 for the foreseeable future, and as part of the overall
13 settlement we were willing to go ahead and agree to that.
14 Those benefits are very real and they will be reflected
15 immediately as a result of this settlement.

16 MS. SHEMWELL: Commissioner Gaw, Staff does
17 not feel that an LDC should actually need an incentive to
18 do the best job it can for its customers. That's what we
19 expect Laclede to do is the best job it can for its
20 customers.

21 In the past, Laclede has had GSIPs that
22 have tried to give it an incentive. We have been
23 concerned that those actually harm customers. In this
24 case, we agreed to a slight incentive in the beginning,
25 but we do feel that these dollars will actually help

1 customers. I don't think this is an area where it can be
2 manipulated.

3 Again, we expect Laclede to do the best it
4 can. We do believe that they will make off-system sales,
5 but when you get above the 6 million, that may require
6 some additional effort. But the customer will share in at
7 least 70 percent of that that goes above the 6 million.

8 COMMISSIONER GAW: Well, and I'm not -- I'm
9 not suggesting that this is going to create this dynamic,
10 but having seen the dynamic in the past with -- and I'm
11 not even going to say that I'm narrowing this down to
12 Laclede. I don't intend for it to be that. But I have
13 seen this gaming go on between this capacity release and
14 off-system sales and the purchases of gas and how things
15 are managed. I've seen consumers get burned on a number
16 of those occasions. I want to try to anticipate that to
17 the extent that it's possible, to anticipate it here.

18 MS. SHEMWELL: I would say that Staff is
19 more concerned with that over in the gas supply incentive
20 plan area.

21 COMMISSIONER GAW: Well, that's where I'm
22 headed right now, because I'm trying to see how these two
23 pieces fit together in this thing, because I've got an
24 incentive over on the purchase side, and I've got an
25 incentive on the sales side, both of which can go to the

1 company.

2 Now, what I can't quite get my arms around
3 is how those two things work together in concert and what
4 kind of an incentive that creates when they're placed
5 together, if any, to do something that's -- that I would
6 consider not in the consumers' best interests. I'm sure
7 you-all have thought through that.

8 MS. SHEMWELL: Yes.

9 COMMISSIONER GAW: So if somebody wants to
10 give me the short analysis of why that's -- this
11 particular tandem here between those two things is going
12 to avoid some of those problems we've seen in other
13 matters in the past, I would be very grateful.

14 MS. SHEMWELL: Staff supports incentive
15 plans only to the extent they cannot be manipulated and
16 actually benefit customers. The goal with an incentive
17 plan is the company actually does better -- oh, good,
18 Mr. Sommerer is here -- that the company actually did
19 better than it would have normally and the customer shares
20 in that extraordinary result.

21 What Staff does not think is that the
22 company should share anything less than an extraordinary
23 result, so that there's actually an overall benefit to
24 customers.

25 COMMISSIONER GAW: Okay. I understand what

1 you're trying to accomplish, I think,

2 MS. SHEMWELL: Since Mr. Sommerer has come
3 forward, let's swear him in.

4 COMMISSIONER GAW: If Mr. Sommerer wants to
5 help me with this, that would be good.

6 JUDGE DIPPELL: Mr. Sommerer, could you
7 raise your hand.

8 (Witness sworn.)

9 COMMISSIONER GAW: Mr. Sommerer, what I'm
10 looking for here is where the weaknesses may be here to
11 understand that you-all have tested them out, at least
12 theoretically, and found them to be strong enough.

13 MR. SOMMERER: Yes. Certainly there is a
14 concern that there could be problems between what's being
15 passed through the purchased gas adjustment clause in
16 terms of fixed costs and how Laclede is awarded for buying
17 gas. And an example of that would be buying too much
18 capacity. You pay fixed charges for capacity. That's
19 going to give you an opportunity for additional capacity
20 release. It's going to give you an opportunity for
21 additional off-system sales.

22 And the best that we could do with that was
23 to make sure that we still have the prudence authority to
24 go in and test the reserve margins and test their capacity
25 levels. To the extent there's too much there, we still

1 maintain the right to make a disallowance. So clearly
2 there's definitely a dichotomy here, and we have to be
3 watchful that there isn't gaming going on.

4 COMMISSIONER GAW: Now, my experience with
5 prudence reviews has not been very positive at this
6 Commission. So I don't have much faith in them producing
7 the necessary protections, but I'll leave it at that.

8 This question of -- that you're raising in
9 regard to the -- to certain costs that you raised in your
10 suggestions as a potential problem, can you kind of walk
11 through that with me in not too much time? I don't want
12 to take too much more time on it.

13 MR. SOMMERER: Yes. Well, one example of
14 that would be producer demand charges. Producer demand
15 charges have run about \$20 million a year at Laclede.
16 Those are passed through dollar for dollar through the
17 purchased gas adjustment clause, and they enable the
18 company to buy gas at a first of the month price. And
19 that ability is like having an option to order additional
20 gas during the month at first of the month price.
21 Certainly facilitates off-system sales.

22 If you're in a market where it's gotten
23 cold, supplies are tight in Chicago, you can draw on those
24 first of month supplies and make additional off-system
25 sales. And so that would be an example where there would

1 be an issue, and I can only say that we'll continue to
2 monitor those levels.

3 COMMISSIONER GAW: How is that an issue?
4 How does that not -- first, you're saying it's passing
5 through. So where does -- where is the disconnect between
6 where these two pieces formed together?

7 MR. SOMMERER: Certainly there could be a
8 disconnect to the extent that Laclede went out and got
9 additional contracts that cost them additional producer
10 demand charges. That would give increased off-system
11 sales opportunities. The customer would get the lion's
12 share of that, 70 percent. However, the customer pays
13 100 percent of the fixed demand charges. And so there is
14 that disconnect.

15 And frankly, it's been a concern for many
16 years, and as a Staff, we're trying to make sure that the
17 customer gets the lion's share of off-system sales.

18 COMMISSIONER GAW: Is there any way to fix
19 that part of the problem that you just described, other
20 than a prudence review?

21 MR. SOMMERER: Some attempts have been made
22 in the past to incentivize producer demand charges, but
23 frankly, our experience with the older GSIPs have not been
24 good ones. There have been additional problems over the
25 years with those. So this is a more traditional approach

1 with less problem.

2 COMMISSIONER GAW: Okay. Now, there is an
3 incentive for them to purchase gas within certain price
4 ranges; is that correct? Is that true? Am I wrong about
5 that?

6 MR. SOMMERER: I think the GSIP as it's
7 structured here, and that's another part of the
8 stipulation, gives an incentive for the company to meet a
9 benchmark.

10 COMMISSIONER GAW: Let's say that benchmark
11 has three tiers; is that correct?

12 MR. SOMMERER: Correct.

13 COMMISSIONER GAW: And if they get over \$8,
14 then what happens? Nothing, right? What happens if they
15 get over \$8?

16 MR. SOMMERER: If their actual gas costs
17 are over \$8, they get nothing, zero.

18 COMMISSIONER GAW: In other words, do they
19 bear the cost of gas over 8 bucks? What do you mean by
20 that?

21 MR. SOMMERER: No. It's still subject to
22 prudence review.

23 COMMISSIONER GAW: So they do -- customers
24 pay for the cost of gas, subject to whether or not the
25 company made a good decision to purchase it?

1 MR. SOMMERER: That's correct.

2 COMMISSIONER GAW: When it's over \$8. When
3 it's under \$8 and above 4, what happens?

4 MR. SOMMERER: When their actual costs are
5 above \$4, the benchmark also has to be above \$4, the
6 market's above \$4. Your actual costs are under \$8, and
7 they beat the benchmark or they meet the market price,
8 they have an opportunity for sharing.

9 COMMISSIONER GAW: Okay. Beat the market
10 price as set by where? What do you mean, beat the market
11 price?

12 MR. SOMMERER: The market price for this
13 GSIP is set by first of the month pricing.

14 COMMISSIONER GAW: Where?

15 MR. SOMMERER: By a basket of indices that
16 represent where Laclede buys gas from.

17 COMMISSIONER GAW: Okay. Could they meet
18 it -- and how much do they share in that -- over that four
19 buck range? How much?

20 MR. SOMMERER: 10 percent of the savings,
21 and the savings is calculated by comparing the benchmark,
22 the market price benchmark to their actual cost of gas.

23 COMMISSIONER GAW: Okay. So if they beat
24 it and they actually pay less, the customer actually is
25 paying 10 percent more than what it actually cost?

1 do they get to keep the difference?

2 MR. SOMMERER: No.

3 COMMISSIONER GAW: Whatever the price is.

4 If it's three bucks, the customer pays three bucks?

5 MR. SOMMERER: That's correct.

6 COMMISSIONER GAW: Isn't that the same as
7 it is if it gets over eight bucks?

8 MR. SOMMERER: That's also correct.

9 COMMISSIONER GAW: Okay. Now, put that
10 together with me -- for me with these incentives to sell.
11 What is it that keeps there from being an incentive to
12 buy -- to buy in the -- I guess if they buy and they can
13 beat the margin, then they can turn around and sell, they
14 get money for buying and selling both under some
15 scenarios, right?

16 In other words, they buy and they sell.
17 They get profits on both sides. If they are in between
18 four and eight bucks on the purchase side and they beat
19 the market price, and then if they turn around and do
20 capacity releases, they get additional profit margins off
21 of these incentives?

22 MR. SOMMERER: Well, I wouldn't agree with
23 that totally, I think the off-system sales opportunities
24 are supposed to be removed from the traditional native
25 load, that you took at how Laclede's buying gas for the

1 customers in St. Louis, and you have an opportunity as
2 Laclede to beat a benchmark and possibly have an incentive
3 for buying cheaper gas at the benchmark.

4 Outside of that plan, there is this idea of
5 off-system sales sharing, where Laclede goes out and has
6 additional supply and sells outside its traditional market
7 area, its service territory.

8 COMMISSIONER GAW: Well, I understand that,
9 but the problem is, and I -- the company picks and chooses
10 which is for sale, and without seeing specific scenarios
11 down about different purchases and sales, comparing what's
12 used for the consumer to what's used for the off-system
13 sales, I'm really having trouble seeing whether or not
14 that creates an opportunity for gaming, because I -- I
15 know that it seems to me like there's room there for that,
16 but I can't process it without specifics in front of me.

17 MR. SOMMERER: I would say that Laclede is
18 required to allocate the lowest cost of gas to the native
19 load. In other words, if it has --

20 COMMISSIONER GAW: Where does it say that?

21 MR. SOMMERER: Those are in Laclede's
22 tariffs.

23 COMMISSIONER GAW: Okay. Anything else on
24 that subject?

25 MR. SOMMERER: No, sir.

1 COMMISSIONER GAW: Everybody agree with
2 that?

3 MS. SHEMWELL: Attachment 3 to the
4 Stipulation & Agreement has all the parameters of the
5 low-income energy assistance program that Staff will be
6 evaluating, and OPC and all of the participants.

7 COMMISSIONER GAW: The third-party
8 evaluator provision, is that group also that entity?

9 MS. SHEMWELL: The third-party evaluator
10 will be independent.

11 COMMISSIONER GAW: Who picks them out?

12 MS. SHEMWELL: The collaborative will pick
13 them.

14 COMMISSIONER GAW: That's what I was
15 asking. P-R-E-T?

16 MS. SHEMWELL: I like PERT better, but
17 PRET.

18 COMMISSIONER GAW: Is that how you
19 pronounce it?

20 MS. SHEMWELL: PRET.

21 COMMISSIONER GAW: What's anticipated on
22 how much that's going to cost for that third-party
23 evaluator? Is that -- was there some parameter set on
24 that? I was just asking what the parameters of the cost
25 were on the third-party evaluator.

1 JUDGE DIPPELL: Ms. Ross, if you'd come
2 forward and I'll swear you in.

3 COMMISSIONER GAW: Somebody can just point
4 it to me.

5 (Witness sworn.)

6 MS. ROSS: I'm not sure that's in here.

7 COMMISSIONER GAW: Okay. Well, I wasn't
8 sure either. I wondered if there was some sort of
9 percentage. Will that come to the Commission?

10 MS. ROSS: The choice of the third-party
11 evaluator?

12 COMMISSIONER GAW: Well, I'm really asking
13 about whether the cost will. How much of the money for
14 this program gets eaten up by the evaluator is my
15 question. I thought there might have been some ceiling of
16 some sort in there.

17 MS. ROSS: We put a cap on the
18 administrative costs for the program.

19 COMMISSIONER GAW: Does that include this?

20 MS. ROSS: No, I don't believe it does.

21 COMMISSIONER GAW: I mean the evaluator.
22 Or does it?

23 MR. PENDERGAST: I don't know that that
24 specifically covers it, but I think everybody will share
25 the interest of trying to go ahead and keep that cost as

1 reasonable as possible. I know that, for example, Roger
2 Colton has performed some of these evaluations for Public
3 Counsel and provided them in past cases, and we -- I don't
4 think anybody has an interest in seeing a material amount
5 of the program funding eaten up by somebody who's going to
6 evaluate it. And we'll be sensitive to that, and
7 certainly I don't have any problem advising the Commission
8 of what we've got in mind before we go ahead and do it.

9 COMMISSIONER GAW: I don't know if anyone
10 has an interest like that, but I would think it would be a
11 good thing to do, at least to keep the Commission up to
12 date and make sure that there's not something getting far
13 afield there.

14 MS. ROSS: There will be annual reports
15 filed with the Commission.

16 COMMISSIONER GAW: I know, but a lot
17 happens in a year, Ms. Ross, sometimes.

18 In regard to the EEC members, there's some
19 reference in here that others might be able to get
20 involved in that. Is this the EEC or the MRET? I can't
21 remember.

22 MR. PENDERGAST: Your Honor, I think we're
23 going to basically allow anybody that wants to get
24 involved in either of these to get involved in them. From
25 the standpoint of participating, we do have some

1 distinction made between either charter members or people
2 that can make recommendations to the Commission and people
3 that can simply sit in when we have meetings to tell us
4 what their particular views are.

5 COMMISSIONER GAW: I have two questions
6 here, one -- in subparts to that. One, are the meetings
7 public?

8 MR. PENDERGAST: I think that's our
9 expectation, sure.

10 COMMISSIONER GAW: We've had issues with
11 that in some other collaboratives before.

12 MR. PENDERGAST: I understand.

13 COMMISSIONER GAW: My personal preference
14 is that they be public. I just say that.

15 MR. PENDERGAST: And Staff was concerned
16 about that, too.

17 COMMISSIONER GAW: If I can remember my
18 second subpart. I think it had to do with this question
19 of -- I guess it shows up here that if there's not a
20 consensus of the charter members about -- well, that's
21 about the program. What I'm looking for is if somebody
22 wants in, is there some way if the charter members don't
23 let them in the Commission can intervene or they can ask
24 the Commission to ask to have them join in if they feel
25 it's appropriate? Was that addressed?

1 MS. SHEMWELL: These would be public
2 meetings with 24-hour notice. I suppose if someone feels
3 that they should be permitted in, they can certainly come
4 to the Commission. The intent is to take input but not
5 actually have them be voting members because, frankly, we
6 don't know who that may be. If they're not satisfied with
7 that, I don't see any reason they couldn't come to the
8 Commission.

9 COMMISSIONER GAW: Anybody else want in on
10 that?

11 MS. SHEMWELL: I will note that we're
12 pleased that Social Services will be working with us as
13 well. We think that that's an important part and that
14 they will have valuable input into the process.

15 CHAIRMAN DAVIS: Commissioner Gaw, can I
16 interrupt just for a second? Will you get some input from
17 community action agencies as well?

18 MS. SHEMWELL: Absolutely. They've always
19 been involved. They will continue to be involved, and we
20 expect that they will do a lot of the administration of
21 the program.

22 CHAIRMAN DAVIS: Just will you be cognizant
23 that when you communicate with Social Services, you're
24 not -- that information doesn't always filter through to
25 the community action agencies like sometimes we would want

1 it to?

2 MS. SHEMWELL: We understand your concern,
3 and I believe that Gay Fred is well aware of that and is
4 certainly taking steps in this instance to try to resolve
5 some of those issues.

6 CHAIRMAN DAVIS: Thank you. Sorry,
7 Commissioner Gaw.

8 COMMISSIONER GAW: No problem. The
9 other -- another question I have is related to Fidelity,
10 and that has to do with this question of the reflection in
11 rate base of the purchase price and then invites the
12 question of whether or not the purchase price was at or
13 below or above book. And I couldn't tell from this, and I
14 assume that there's a reason why I can't tell, but I don't
15 know if my assumption is correct.

16 MR. OLIGSCHLAEGER: Commissioner --

17 COMMISSIONER GAW: Whenever he starts out
18 with that, I know I'm --

19 MR. OLIGSCHLAEGER: The net book cost on
20 Fidelity's records of these assets at the time of purchase
21 I think was approximately 4.1 million. The purchase
22 price, I believe, was somewhere in the neighborhood of
23 1.9 million. So it was purchased at an approximate
24 50 percent discount.

25 COMMISSIONER GAW: So it was a bargain,

1 depending upon your point of view.

2 MR. OLIGSCHLAEGER: Yes.

3 MS. SHEMWELL: Yes.

4 COMMISSIONER GAW: All right. The pricing
5 to Fidelity customers, if this goes through, how does it
6 impact their rates since they're going to be merged in on
7 the Laclede pricing?

8 MR. OLIGSCHLAEGER: The adjustments we've
9 included in our run for that changeover -- let me get the
10 more or less exact number. That would lead to a reduction
11 of approximately 146,000 in annual revenues. In other
12 words, Fidelity customers as a whole will be paying
13 slightly less.

14 COMMISSIONER GAW: And that's with the
15 revenue increase they're paying less?

16 MR. OLIGSCHLAEGER: No. That's not
17 counting the revenue increase.

18 COMMISSIONER GAW: With it, do they get an
19 increase, stay about the same, do you know?

20 MR. OLIGSCHLAEGER: I'm not sure we've
21 looked at that. We can get an answer to that if you like.

22 COMMISSIONER GAW: Well, I just thought if
23 you knew, I'd be curious, because it might be more
24 interesting if you lived in Fidelity territory to know
25 that number as opposed to what the increase is for --

1 MS. SHEMWELL: Commissioner, Tom Solt's
2 indicating that he has those numbers. Perhaps he can be
3 sworn.

4 (Witness sworn.)

5 MR. SOLT: I did take a look at those
6 numbers on a category by category basis. Residential and
7 commercial would pay less under the new higher rates
8 than -- and I'm talking about Fidelity customers, former
9 Fidelity customers. With the larger classes of customer,
10 it depends on -- Fidelity currently -- the tariffs that
11 are currently in effect have flex rates for commodity
12 charge. They range from about 32 cents down to about
13 10 cents. It would depend on where they are in the -- in
14 that flex.

15 However, in every case they would be less
16 than the top of that flex rate. They would be paying less
17 under the new rates than they are currently at the top, at
18 the 32 cent level. The only category that would be paying
19 more would be transportation, and there are no
20 transportation customers on Fidelity's system currently.

21 COMMISSIONER GAW: Okay. Thank you. The
22 other thing, the other question I think I was going to ask
23 has to do with the changes in the blocks, and if --
24 Mr. Pendergast, you might be able to answer this quicker.
25 You're moving more of the fixed costs into the first block

1 for -- is that for everyone or is that just for
2 residential? I don't remember what you told me.

3 MR. PENDERGAST: That's for everyone.

4 Well, when I say everyone, that's for our residential,
5 commercial, C1, C2, C3 and we are reducing the cost.
6 We're not really moving more costs into it, but we're
7 recovering those costs over a lower block term than we
8 did before.

9 COMMISSIONER GAW: What does that mean, a
10 lower block?

11 MR. PENDERGAST: Well, instead of it being
12 65 blocks in which we put all the costs, we're putting it
13 in the first 30 therms. And because those blocks are
14 lower, you have greater surety that you'll actually be
15 recovering those costs because you have more customers
16 that are going to go ahead and have usage falling within
17 that block than maybe you will at 40 or 50 or 60. So it
18 tends to go ahead and help to ensure that we recover those
19 costs but don't over-recover them.

20 By the same spoken, we had the PGA offset
21 that was designed to go ahead and basically offset the
22 impact on customers by moving the costs from the first
23 block of PGA into the second block of the PGA. We still
24 maintain a blocking structure there. It's not quite as
25 big a differential between the first block and second

1 block as it used to be. We're reducing that. I think
2 Staff thought it was important to go ahead and move in
3 that direction.

4 But nevertheless, because we maintain it
5 because some of this is still collected on usage rather
6 than simply through the customer charge, it does go ahead
7 and mitigate the impact of moving to this rate design on
8 low use customers.

9 COMMISSIONER GAW: So there's a -- in that,
10 if I'm a residential customer, ignoring the gas cost
11 itself, I pay what under this rate design?

12 MR. PENDERGAST: Right. You will go ahead
13 and pay a customer charge.

14 COMMISSIONER GAW: Which will be about
15 what?

16 MR. PENDERGAST: 15.50 for a residential
17 customer.

18 COMMISSIONER GAW: And what was it?

19 MR. PENDERGAST: It was 12.

20 COMMISSIONER GAW: And then what happens to
21 it?

22 MR. PENDERGAST: And then for all my usage,
23 I will go ahead and up to 30 therms, I will go ahead and
24 pay the usage-based charge for that, and at the same time
25 I will pay a PGA.

1 COMMISSIONER GAW: Yeah. Stop for a
2 minute. What was the -- what was the rate and what will
3 it be, ignoring the PGA? I can look, I suppose.

4 MR. PENDERGAST: It's here on the tariffs.
5 Attachment 1.

6 COMMISSIONER GAW: Is it this --

7 MR. PENDERGAST: That gives the therms. It
8 doesn't give the rates.

9 COMMISSIONER GAW: Sheet 18A.

10 MR. PENDERGAST: 18A is I think the PGA
11 rate. About 89 cents a therm on page 2. That's up to
12 30 therms.

13 COMMISSIONER GAW: 89 cents. What was it
14 before?

15 MR. PENDERGAST: It was 41 cents before.

16 COMMISSIONER GAW: Okay. So it's doubling?

17 MR. PENDERGAST: Yes, but they will not pay
18 anything after 30 therms, whereas they were paying that
19 41 cents for their entire 65 therms.

20 COMMISSIONER GAW: Okay. And Public
21 Counsel, explain to me why that's okay for lower use
22 customers. What is the counterbalance to that?

23 MR. POSTON: Well, that it still is tying
24 the margin rate to usage, so that's something that we
25 tried to make sure stayed in there instead of moving

1 everything towards more or less a straight fixed variable
2 rate design.

3 COMMISSIONER GAW: What's an average
4 residential customer's usage? I know that varies through
5 the year obviously. What are we looking at in, say,
6 summer and then a peak winter?

7 MR. POSTON: I do not know that number.

8 MR. PENDERGAST: The one we used for
9 illustrative purposes on our customer impact number was
10 right around 900, I think it was really 890, which was
11 based on sort of a test year, weather normalized, and
12 that's what produces the approximately two and a half
13 percent, \$2.50 increase. Now, that's a typical customer.
14 Not each customer will be lower than that.

15 COMMISSIONER GAW: Yeah.

16 MR. PENDERGAST: Maybe 600, 300 even
17 possibly.

18 COMMISSIONER GAW: Lower use customers,
19 will they receive a larger increase?

20 MR. PENDERGAST: Sure. Sure. Lower use
21 customers will receive a larger increase, but not as large
22 of an increase as they would have through a straight fixed
23 variable. It's not only because some of it's being
24 recovered on usage with just a customer charge being
25 applied, but at the same time we still have a PGA offset.

1 So we have a 30 block in the PGA, too, and that PGA rate
2 is lower in that block. So if you look at the blocking
3 that goes on there, I think it's what, 23 cents lower than
4 the second block, 24 cents lower.

5 So what you're really doing is you're
6 taking that 89 cent -- is it 89 cents? Yeah, about 89
7 cents, but you're offsetting it by the lower block PGA,
8 which is that single PGA. You'd be paying the same PGA
9 rate by 20 cents, 24 cents, which for the low use customer
10 you're reducing that usage impact on him.

11 So, you know, the bottom line is that it
12 tends to go ahead and mitigate impact that you would have
13 if you just had a standard customer charge throughout the
14 year.

15 COMMISSIONER APPLING: Steve, can I jump in
16 here?

17 COMMISSIONER GAW: Yes, please.

18 COMMISSIONER APPLING: Michael, what
19 advantage is there to Laclede versus the customer? The
20 next question I have on that same issue, do you have any
21 numbers of how many of your residential customers that has
22 a bill that's less than \$100 per month? Because it seemed
23 to me that lowering this from 64, 65 down to 30 would all
24 depend on me how many people are standing in that shade.

25 MR. PENDERGAST: Sure. The benefits, I

1 think, to Laclede are. First of all, this is a mechanism
2 that seems to have worked well for us for about four or
3 five years. I know that we're changing the blocking a bit
4 and the customer charge is going up a bit, but we've had
5 relatively few customer complaints about the rate design.
6 So people get comfortable with something, and you want to
7 go ahead and preserve it if it gets the job done.

8 And what lowering the block does is help
9 ensure that we're going to recover but not over-recover
10 our costs because the more usage takes place in that 30
11 therms than it does in 65 therms.

12 I guess the other impact was we did have a
13 bit of a concern from the standpoint that we do have a
14 fairly significant number of customers that have
15 relatively low usage and somewhere in the neighborhood of
16 maybe 50,000, and this kind of rate design sort of softens
17 the impact of the straight fixed variable would have on
18 them.

19 We don't have to have the customer faced
20 with, well, if I've got to go ahead and pay this much just
21 to go ahead and keep a heater and dryer and maybe a stove
22 going, or just keeping a water heater going, you know,
23 this tends to go ahead and not make a customer make that
24 choice by softening the impact.

25 And we thought, you know, for our

1 particular characteristics that that was an important
2 consideration.

3 COMMISSIONER APPLING: Thank you, Steve.

4 COMMISSIONER GAW: I think I'm done, too.
5 Thank you all.

6 JUDGE DIPPELL: Thank you. Commissioner
7 Clayton, did you have some questions?

8 COMMISSIONER CLAYTON: Do you-all want to
9 go next?

10 COMMISSIONER APPLING: That was my only
11 question. I was concerned about the low income, so I have
12 no other questions.

13 JUDGE DIPPELL: Mr. Chairman, did you want
14 to ask questions now?

15 CHAIRMAN DAVIS: No. I think most of my
16 questions have already been answered.

17 COMMISSIONER CLAYTON: Thank you, Judge.
18 Mr. Pendergast, what was the -- the original request was
19 \$52.9 million in increase in revenues; is that correct?

20 MR. PENDERGAST: That sounds correct, yes.

21 COMMISSIONER CLAYTON: Did that
22 52.9 million include the amount in ISRS, the roughly
23 \$5 million in ISRS that's being rolled in, or is this
24 52.9 plus the infrastructure investment that was being
25 made at the time?

1 MR. PENDERGAST: I think it excluded it,
2 but -- excuse me. I think it excluded. Let me just
3 verify that real quickly.

4 It was net of about 1.8 million in ISRS at
5 the time.

6 COMMISSIONER CLAYTON: So if we look at the
7 totality of Laclede's request, it would be roughly another
8 3 and a half million, \$4 million added to the 52.9. Would
9 have been about a \$55 million increase request in total
10 from base rates?

11 MR. PENDERGAST: Yeah. I'd have to think
12 about that a little bit. The only reason I say that is
13 because when we filed our case, we filed some pro forma
14 stuff that just kind of projects out rate base and that
15 sort of thing, and some of that would have gone ahead and
16 instead of being in the pro forma rate base, would have
17 been picked up by the ISRS. So it may not be a dollar for
18 dollar offset.

19 COMMISSIONER CLAYTON: I'm looking for
20 estimates, just an idea of whether -- since we're moving a
21 surcharge into base rates, I just wanted to be clear on
22 the comparison.

23 MR. PENDERGAST: Sure.

24 COMMISSIONER CLAYTON: Ms. Shemwell, can
25 you point -- give me an idea of where the major

1 differences were between Staff and Laclede prior to the
2 settlement? First of all, can you tell me what Staff's
3 recommendation was for an increase if we were to have
4 adopted Staff's position?

5 MS. SHEMWELL: Initially with its direct
6 filing it was 15 million. We got updated information from
7 the company, new payroll information, health care costs
8 and things like that, and that led us to increase our --

9 COMMISSIONER CLAYTON: And what was your
10 updated figure? What was Staff's updated position?

11 MS. SHEMWELL: 27.1.

12 COMMISSIONER CLAYTON: Okay. And what is
13 the total amount of increase in this is 30 --

14 MS. SHEMWELL: 8.6.

15 COMMISSIONER CLAYTON: 38.6. Can you
16 identify for me some of the big ticket items where Staff
17 and Laclede disagreed that would -- that would help
18 illustrate the difference in positions between the
19 52.9 and the 27.1?

20 MS. SHEMWELL: ROE, bad debt, prepaid
21 pension asset amortization, and then Staff --

22 COMMISSIONER CLAYTON: Hang on. Slow down.
23 You said ROE. You said bad debts. Okay. Go ahead.

24 MS. SHEMWELL: Prepaid pension asset
25 amortization. I can barely say that, so someone else will

1 have to explain that if you have questions. And then
2 true-up added about two and a half million to Staff's.

3 COMMISSIONER CLAYTON: Were there any
4 differences on depreciation?

5 MS. SHEMWELL: No.

6 COMMISSIONER CLAYTON: Okay. Can you give
7 me an idea, considering Laclede's last rate case
8 concluded, what, about a year and a half ago, what is the
9 major driver for the increase since it wasn't that long
10 ago? We don't have fuel costs like we would see in an
11 electric case. Can you give me a general idea of the big
12 ticket items?

13 MS. SHEMWELL: I believe that was a 2005
14 case was their last rate case. Laclede does have increase
15 in costs in terms of payroll expenses, health care costs.
16 They are continuing to put pipe into the ground all of the
17 time.

18 COMMISSIONER CLAYTON: But there was only
19 5 million in infrastructure, correct, I mean, of
20 investment that was put into rate base?

21 MS. SHEMWELL: Of ISRS qualifying. Not
22 everything they do qualifies for ISRS. That has to be new
23 and they have repairs and that sort of thing. Taxes,
24 gasoline, you know, the cost of vehicles, all of those
25 things increase. We're looking at about a 3 percent

1 increase, which is probably in the range of what
2 inflation's been in the last 18 months.

3 COMMISSIONER CLAYTON: Mr. Pendergast, do
4 you want to elaborate on that at all? You probably know
5 the case better than anyone. Are there any other big
6 ticket items that led to this?

7 MR. PENDERGAST: Yeah. I think, first of
8 all, I'm not sure that we thought maybe perhaps in the
9 last case we had fully come up to where we needed to be as
10 far as cost recovery was concerned, but it was pretty high
11 cost environment at the time. And I thought that reaching
12 a settlement under those circumstances was appropriate.

13 The \$6 million right off the bat, the base
14 rate increase, the offset that we talked about, is
15 associated with moving off-system sales out of base rates,
16 and there's a 6 million imputation there, and moving it
17 over to the PGA. Now, we tried to capture some of that
18 back with the PGA offset that we have. If you're just
19 looking at base rates and wondering what happened there,
20 that's a factor.

21 COMMISSIONER CLAYTON: Can you give me an
22 idea of beyond the ISRS amount of 5 and a half million,
23 5.5 million was already in ISRS accumulated since the last
24 case?

25 MR. PENDERGAST: Right.

1 COMMISSIONER CLAYTON: How much additional
2 infrastructure investment, capital investment has Laclede
3 made since the last case?

4 MR. PENDERGAST: Yeah. And my sense is
5 that ISRS maybe accounts for about 40 percent of our
6 capital budget, the rest going to, you know, new
7 construction, new development and non-ISRS related
8 maintenance things. So you might have -- if you turn it
9 into the same kind of number, you know, looking at the
10 revenue requirement associated with it, that might be
11 7 or 8 million right there.

12 COMMISSIONER CLAYTON: In revenue
13 requirement?

14 MR. PENDERGAST: Yes.

15 COMMISSIONER CLAYTON: So we can have
16 confidence -- and I want any party to disagree with this.
17 We can have confidence that we're looking at a 12 or
18 \$13 million revenue requirement associated with just
19 capital expenditures, 5 and a half plus another 7?

20 MR. PENDERGAST: That sounds back of the
21 envelope like that would be about right.

22 COMMISSIONER CLAYTON: Does anyone disagree
23 with that?

24 MS. SHEMWELL: No, Commissioner.

25 COMMISSIONER CLAYTON: Many of the

1 questions that I had have already been answered, so if
2 you-all will bear with me just for a second.

3 I did have a question on paragraph 17. I'm
4 going to ask Mr. Pendergast this. In the off-system sales
5 capacity release revenues that will flow through the PGA,
6 there is a reference -- there is a reference to firm sales
7 and firm transportation customers, and I kind of got a
8 little confused in reading that. Are the different
9 customer classes treated any differently with regard to
10 the off-system sales and capacity release issue?

11 MR. PENDERGAST: Yeah, they are, and
12 basically the main difference is that there's some
13 recognition that our ability to make off-system sales is
14 somewhat -- is supported by the fact we have pipeline
15 capacity, by the fact we have demand charges that we pay
16 on our gas supply, and some customers pay a greater
17 proportion of those.

18 If I'm a firm transportation customer, I
19 may -- in fact, I do go ahead and pay for some pipeline
20 capacity. They pay 80 percent of that for the right to go
21 ahead and have backup service. And so they go ahead and
22 get a portion of the capacity release revenues in
23 accordance with how much --

24 COMMISSIONER CLAYTON: Is it proportional,
25 is it directly proportional to the different class cost of

1 service?

2 MR. PENDERGAST: Yeah, I think it's fair to
3 say that it is proportional. The only thing I would say
4 is that our firm transportation customers as a result of
5 something reached agreement on years ago I think pay
6 80 percent of the proportional amount. So it would be
7 ratcheted down to reflect that.

8 And then on the off-system sales, it's a
9 combination of -- when you say how much of the off-system
10 sales do you get for firm transportation customers, it's a
11 factor that's based on what they pay in gas supply demand
12 charges, which is basically nothing. So they don't get a
13 portion related to that, but they still get a portion
14 related to the pipeline capacity.

15 Basic transportation customers, on the
16 other hand, since they don't pay us for capacity that's
17 included in our PGA and they don't pay us for gas supply
18 demand charges, would not be entitled to get a share of
19 that revenue.

20 COMMISSIONER CLAYTON: Thank you.

21 Mr. Poston?

22 MR. POSTON: Yes, sir.

23 COMMISSIONER CLAYTON: Are you awake over
24 there?

25 MR. POSTON: Yes.

1 COMMISSIONER CLAYTON: Did or does Public
2 Counsel have any concerns with regard to treatment of
3 residential customers on the PGA flow-throughs on
4 off-system sales and capacity release?

5 MR. POSTON: What do you mean by treatment
6 of residential customers?

7 COMMISSIONER CLAYTON: Well, just what
8 Mr. Pendergast says, the proportional allocation of the
9 mechanism relating to capacity charges and firm
10 transportation charges. Did you hear his answer?

11 MR. POSTON: Yes. Yes. No. I mean, I
12 agree with what he said. We don't have any additional
13 concerns that I can raise right now.

14 COMMISSIONER CLAYTON: Okay. What is
15 the -- what is Laclede's total revenue requirement,
16 excluding PGA, just the distribution costs?

17 MR. PENDERGAST: Total 38.6, and that's --
18 I'm sorry. 38.6 million, but that's with 5.5 million in
19 ISRS already.

20 COMMISSIONER CLAYTON: No, no. The total
21 revenue requirement. That's the increase.

22 MR. PENDERGAST: Oh, total cost of service?

23 COMMISSIONER CLAYTON: Yes.

24 MR. PENDERGAST: Excellent question. Let
25 me see if I can find out. With this increase, it's

1 280 million.

2 COMMISSIONER CLAYTON: That does not
3 include PGA, correct?

4 MR. PENDERGAST: Correct.

5 COMMISSIONER CLAYTON: Paragraph 20, sub B,
6 there's a reference to the HVAC rebate program. What is
7 the balance in that program right now?

8 MR. PENDERGAST: All told, I think we had a
9 couple hundred thousand left in that, Commissioner, and
10 the residential has really been pretty much fully
11 subscribed. The commercial and one of the programs we
12 have for low-income renters that own multiple units has
13 not used very much of the money, just haven't been able to
14 get --

15 COMMISSIONER CLAYTON: So the 200,000 is in
16 commercial, on the commercial side?

17 MR. PENDERGAST: Yeah. And what we've
18 agreed to do here as part of this stipulation is we're
19 going to have the collaborative process. We'll sit down,
20 we'll see what we can come up with on an overall basis.
21 But in the meantime, the parties have agreed that to the
22 extent those funds are available, they can be used for
23 either the residential, the commercial or any of the other
24 programs, so we don't have to start telling the
25 residential folks that we're out of money.

1 COMMISSIONER CLAYTON: DNR? DNR's here.
2 You-all awake back there? Way back. Can you tell me how
3 far off from your starting position in this case the
4 energy efficiency conservation program part of the
5 settlement is? Is this what you-all requested or is it
6 less than that? How does it compare?

7 MR. MILLER: Your Honor, I'd like to --
8 it's less. If you have specific questions about that, I'd
9 ask to have Brenda Wilbers sworn in, please.

10 JUDGE DIPPELL: Ms. Wilbers, would you come
11 forward.

12 COMMISSIONER CLAYTON: Boy, the lawyers are
13 earning their money today. Swear in my fact witness.

14 (Witness sworn.)

15 MS. WILBERS: This is less then we had
16 originally requested. We had originally requested a range
17 of a half a percent to 1.5 percent of total annual
18 revenues, and that would have been -- with their 2005
19 earnings, would have been 4 million at a half a percent,
20 up to 8 million.

21 COMMISSIONER CLAYTON: That's not the
22 revenue requirement. That's a percentage of what?

23 MS. WILBERS: Percentage of total operating
24 revenues, which does include the commodity cost of gas.

25 COMMISSIONER CLAYTON: Okay. Go ahead.

1 MS. WILBERS: We think, though, that the
2 process that was agreed to here that will bring in a
3 consultant, that will identify a broad range of energy
4 efficiency programs, that this will provide the foundation
5 for developing and increasing that investment in
6 efficiency programs.

7 So this 3 and a half million over this
8 three year-period is a start. We fully expect and hope
9 that those funds will increase.

10 COMMISSIONER CLAYTON: Do you anticipate
11 that the working group will be able to track not just the
12 expenditure of the funds, but also track potential or lack
13 of potential benefits? For example, do you have a
14 mechanism that's set up to determine whether the
15 expenditure meets its goals, that the benefits from the
16 expenditure are worth it?

17 MS. WILBERS: We do have requirements in
18 here for pre-implementation screening and then post-
19 implementation evaluation. So we will go back and
20 evaluate if the savings are actually there from the
21 program. So yeah, we hope to do all that.

22 COMMISSIONER CLAYTON: Is this the largest
23 amount of money being spent by a utility, by a gas utility
24 in Missouri on energy efficiency conservation programs?

25 MS. WILBERS: Staff may want to answer

1 that. I think they did an analysis.

2 COMMISSIONER CLAYTON: We'll have to swear
3 someone else in.

4 MS. WILBERS: I'm sorry. On a per customer
5 basis, I would have to look.

6 COMMISSIONER CLAYTON: Look at total
7 dollars. You've got 3 and a half, \$4 million here.

8 MR. PENDERGAST: Your Honor, Commissioner,
9 if you look at Attachment 1, I think, of the Staff's
10 memorandum, they've done a very nice job of summing up
11 what's been spent, I think, by the various utilities, and
12 by that light, we're at the top.

13 COMMISSIONER CLAYTON: So Laclede
14 certainly's spending the most?

15 MR. PENDERGAST: Yes.

16 COMMISSIONER CLAYTON: How does that
17 compare -- let's see. Number of customers.

18 Mr. Pendergast is quick to highlight what's going on.

19 MR. PENDERGAST: On a per customer basis, I
20 think we may still be on top. I mean, MGE's got about
21 500,000. We have 630. And so I -- if I did the math, I'd
22 probably show that it's reasonably equivalent.

23 COMMISSIONER CLAYTON: Do you know about
24 this attachment? Where was this attachment?

25 MS. SHEMWELL: Staff's memo in support.

1 COMMISSIONER CLAYTON: Memo in support. I
2 just got that not too long ago. You do have that?

3 MS. WILBERS: I got it, yeah, this morning.

4 COMMISSIONER CLAYTON: You buy this? You
5 agree with this?

6 MS. SHEMWELL: Yes, I do.

7 COMMISSIONER CLAYTON: Looking at this
8 chart, which is very helpful. Who prepared this?

9 MS. SHEMWELL: Lesa Jenkins prepared it.

10 COMMISSIONER CLAYTON: Oh, Lesa. Where is
11 Lesa? There she is. Do you want to be sworn in? Be the
12 last one in the room. Where do we need to be as a state
13 in terms of energy efficiency conservation? Are we on the
14 right track here? Are we still short?

15 MS. WILBERS: I think we're still short. I
16 think if we are going to have an impact and communicate
17 back to the suppliers and wholesalers and try to impact
18 the cost of natural gas, we need to be making more
19 significant commitment.

20 COMMISSIONER CLAYTON: It would be helpful
21 for DNR -- we've had this conversation before outside of
22 this case, I know with DNR staff. I mean, I think it
23 would be very helpful to have, you know, education be made
24 available for not just Staff but Commissioners as well on
25 what DNR -- what the energy division thinks is the most

1 appropriate way we ought to go. So outside of this case,
2 I think we need to continue working on this and hear what
3 you have to say. I'd ask that you-all come back to us
4 after this case and so we can talk about it.

5 MS. WILBERS: Okay.

6 COMMISSIONER CLAYTON: Thank you.

7 MR. PENDERGAST: Commissioner, I'd just
8 also point, as Mr. Oligschlaeger did to me just a moment
9 ago, I don't need to do the math. They also have the per
10 customer numbers on this.

11 COMMISSIONER CLAYTON: Yes. I saw that.
12 Very handy attachment. I don't think I have any other
13 questions. Thank you.

14 JUDGE DIPPELL: Thank you. Mr. Chairman,
15 did you have anything further?

16 CHAIRMAN DAVIS: I think all my questions
17 have been answered.

18 JUDGE DIPPELL: All right, then. Were
19 there -- did any of the parties have any closing remarks
20 or any clarifications or anything they needed to make?

21 MR. PENDERGAST: Your Honor, once again, I
22 just want to thank the Commission for their time and
23 attention to this matter, and once again, the other
24 parties for all the efforts they've made in reaching this
25 resolution. Just remind the Commission once again that

1 the August 1st effective date was certainly an important
2 part of the settlement.

3 And also, to facilitate that, in the past
4 we have gone ahead and, you know, assuming it does get
5 approved by the Commission, that to facilitate having
6 tariffs go into effect by the August 1st date, whether we
7 should go ahead and separately file those with a 30 day
8 effective date on it so that the parties have already
9 agreed to them, there aren't any snafus about whether they
10 conform with what's in the Stipulation & Agreement, and
11 that way, should you approve the Stipulation & Agreement,
12 they're there and ready to go. Would that be helpful?

13 JUDGE DIPPELL: I'm going to -- I think
14 that what we can do is what was anticipated in
15 Ms. Shemwell's memorandum and see what happens with the
16 stipulation. As a part of that order, if they should be
17 approved, then Laclede could be prepared to file tariffs
18 and the Commission could make a finding of good cause to
19 have them effective earlier.

20 MR. PENDERGAST: Well, we'll certainly
21 submit them to the parties in advance so that hopefully
22 when we do file them we can have the parties indicate at
23 the same time that they've reviewed them and they're okay
24 with them.

25 JUDGE DIPPELL: I'm assuming the tariffs

1 that -- the sample tariffs that you had attached to the
2 Stipulation & Agreement, there's not too many changes
3 still to be made.

4 MR. PENDERGAST: I'm hopeful that there
5 won't be any more changes. We'll remove a few red lines
6 that were in the latest batch that we filed today. Other
7 than that, they I'm hopeful will be identical.

8 JUDGE DIPPELL: Okay. Were there any other
9 questions or clarifications? I just wanted to state that
10 I did have an e-mail yesterday, the day before from one of
11 the attorneys for the union, and they had indicated their
12 desire to participate by telephone, but I never got a
13 telephone number. We may have miscommunicated there.
14 They indicated they hadn't been hat involved, and if their
15 presence wasn't necessary, they probably wouldn't be here.

16 And then at the local public hearings,
17 there were a few customer complaints where either
18 Commissioners or myself asked Staff to report back about
19 that particular customer, and I just wanted to make sure
20 that Staff was still going to give some sort of report on
21 those particular customers to the Commission. I don't
22 suppose it's technically necessary that it go in this case
23 file, if Staff wants to just report directly to the
24 Commissioners. If it's easier to keep track of, it could
25 be filed in this, but I want to make sure if there's

1 specific customer information or something it can be filed
2 as highly confidential.

3 MS. SHEMWELL: Yes, Judge. Thank you.

4 JUDGE DIPPELL: And I think I had asked the
5 transcripts be prepared by July 18th so that the
6 Commission could take this up at their next agenda or the
7 following agenda if they preferred and still have that
8 August 1st effective date in mind.

9 I think that's everything, then. I
10 appreciate your time and attendance, and we can adjourn
11 the hearing. Thank you.

12 WHEREUPON, the hearing of this case was
13 concluded.

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1 C E R T I F I C A T E

2 STATE OF MISSOURI)
3) ss.
4 COUNTY OF COLE)

5 I, Kellene K. Feddersen, Certified
6 Shorthand Reporter with the firm of Midwest Litigation
7 Services, and Notary Public within and for the State of
8 Missouri, do hereby certify that I was personally present
9 at the proceedings had in the above-entitled cause at the
10 time and place set forth in the caption sheet thereof;
11 that I then and there took down in Stenotype the
12 proceedings had; and that the foregoing is a full, true
13 and correct transcript of such Stenotype notes so made at
14 such time and place.

15 Given at my office in the City of
16 Jefferson, County of Cole, State of Missouri.

17 Kellene K. Feddersen, RPR, CSR, CCR
18 Notary Public (County of Cole)
19 My commission expires March 28, 2009.
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