Exhibit No.:	
Issues:	*Revenues, Gas Costs Uncollectible Expenses, Non-utility allocations*
Witness:	*ARLENE S. WESTERFIELD*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Direct Testimony*
Case No.:	*GR-99-315*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

ARLENE S. WESTERFIELD

LACLEDE GAS COMPANY

CASE NO. GR-99-315

Jefferson City, Missouri
June, 1999

DIRECT TESTIMONY

OF

ARLENE S. WESTERFIELD

LACLEDE GAS COMPANY

CASE NO. GR-99-315

Q. Please state your name and business address.

A. Arlene S. Westerfield, 815 Charter Commons, Suite 100B, Chesterfield, MO 63017.

Q. By whom are you employed and in what capacity?

A. I am a Regulatory Auditor for the Missouri Public Service Commission (Commission).

Q. Please describe your educational and employment background.

A. I graduated from the University of Missouri at St. Louis, Missouri in 1978, from which I received a Bachelor of Science degree in Business Administration, majoring in Accounting.

Q. What has been the nature of your duties while in the employ of the Commission?

A. I have conducted and assisted in the audits and examinations of the books and records of utility companies operating within the state of Missouri.

Q. Have you previously filed testimony before this Commission?

A. Yes. Please refer to Schedule 1, which is attached to my direct testimony, for a list of cases in which I have previously filed testimony.

Q. With reference to Case No. GR-99-315, have you made an examination of the books and records of Laclede Gas Company (Laclede or Company)?

A. Yes, in conjunction with other members of the Staff.

Q. What are the results of the Staff's investigation of Laclede?

A. The Staff's investigation of the Company indicates that at the time of this direct testimony filing, the Company is over-earning in the range of $7.0 to $11.3 million annually before considering the true-up revenue requirement.

Q. Is the Staff filing a complaint against the Company jointly with the filing of the Staff's direct testimony?

A. No. The Staff has chosen to delay the decision to file a complaint against Laclede until the conclusion of the Prehearing Conference. The Staff believes that this additional time will allow all the parties to this case the opportunity to exchange additional information and further review the Staff's cost of service results. This additional time will allow the Company the opportunity to provide additional information as well as updated information to the Staff. Upon, the completion of the Prehearing Conference, the Staff may file a complaint alleging excessive earnings based on results of the Staff's audit at that time.

Q. What are your principal areas of responsibility in this case?

A. My primary areas of responsibility in this case are revenues, gas costs, uncollectibles and deregulated services. I am also sponsoring the Staff's Accounting Schedule 1, Revenue Requirement; Accounting Schedule 9, Income Statement and Accounting Schedule 10, Adjustments To Income Statement.

Q. Please discuss Accounting Schedule 1.

A. Accounting Schedule 1, Revenue Requirement, shows the calculation of the Staff's recommended revenue requirements for the Company based on the rates of return sponsored by Staff Witness David P. Broadwater of the Financial Analysis Department.

Q. Has the Staff included any revenue requirement for anticipated changes due to true-up?

A. Yes. The Staff estimates the change related to true-up to be in the range of $7.2 to $7.5 million, as indicated on line 11 of Accounting Schedule 1, Revenue Requirement. A description of true-up items and their value is attached as Schedule 2 to my direct testimony. The Staff believes these amounts will change, as the value of additional true-up items is determined.

Q. Does this schedule include all the items which will be considered in true-up?

A. No. This schedule includes the major items currently quantified. A complete list of true-up items appears on pages four and five of this testimony.

Q. Please discuss Accounting Schedule 9.

A. Accounting Schedule 9 is the Staff's Income Statement. Column B of Accounting Schedule 9 reflects the actual income statement amounts as recorded by the Company for the test year ended December 31, 1998. Column C summarizes the adjustments proposed by the Staff to reflect known and measurable events through the update period ending March 31, 1999. These adjustments are added to the test year amounts in column B to develop the "As Adjusted" income statement in column E.

Q. Please discuss Accounting Schedule 10.

A. Accounting Schedule 10, Adjustments To Income Statement, itemizes the adjustments summarized in column C on Accounting Schedule 9, the Income Statement.

Q. Please list the adjustments to the Income Statement you are sponsoring.

A. I am sponsoring the following Income Statement adjustments:

Revenues	S-1.1, S-1.2, S-1.3, S-1.4, S-2.1, S-2.2, S-2.3, S-2.4, S-2.5, S-3.1, S-3.2, S-3.3, S-4.1, S-4.2, S-4.3, S-6.4, S-6.5
Natural Gas Supply Expense	S-7.1, S-7.2, S-7.3
Manufactured Gas Production	S-8.2
Uncollectible Expense	S-12.2
Non-utility allocations	S-20.1

Q. What is the Staff's test year in this case?

A. The Staff's test year is the year ending December 31, 1998 with an update period through March 31, 1999.

Q. What items has the Staff updated through March 31, 1999?

A. The principal items updated by Staff were plant in service, depreciation reserve, deferred tax reserve, other rate base items, and various revenue and expense components.

Q. Is the Staff proposing a true-up for purposes of this proceeding?

A. Yes. The Staff is proposing to true-up the case through July 31, 1999. This true-up should include significant items relating to revenue, expense, capital structure and rate base occurring on or prior to this date. "Occurring" refers to the following types of situations: construction that has been closed to the plant in service account, new employees currently working for the Company, and contracted payroll increases that will take effect by or reasonably near July 31, 1999. The Staff believes that the items indicated represent a balanced package of adjustments that will prevent any improper mismatch of expenses, revenues and rate base.

Q. What items are you proposing to true up?

A. These items would include:

- revenues associated with customer additions;
- changes in rate base components and associated depreciation and property taxes;
- capital structure changes for long-term debt, short-term debt, preferred stock and common equity;
- changes in employee levels and benefits costs, including costs associated with the August 1, 1999 Laclede contract wage increase and July 15, 1999 Missouri Natural Gas Division (MoNat) Management increase;
- the effect of any change in the annual PSC assessment;
- changes in rate case expense;
- costs associated with maintenance agreements for new computer systems which are in service ;
- verifiable costs associated with the calculable increase in facility locates;

- changes in the amortization of the safety deferral associated with additional amounts deferred.

The Staff will perform it's true-up as the July data becomes available in August and September. The results of Staff's true-up will be filed with the Commission in September at which time a brief true-up hearing may be required.

LACLEDE REVENUES

Q. Please provide a general format outlining your discussion of revenues.

A. Company's test year revenues, like its expenses, must be annualized and normalized in order to develop a cost of service that is representative of the Company's operations. Generally, my discussion of revenues will be developed in five stages. First, I will discuss the general operations of the Company as they relate to the area of revenues. Second, I will describe the types of adjustments the Staff is proposing in this case. Third, I will discuss some of the specific adjustments and reference the Staff members who developed the revenue analysis and adjustments. Fourth, I will describe the approach I performed regarding the determination of customer levels for purposes of revenue annualizations. Lastly, I will describe the specific general service adjustments by district and customer class.

Q. Please describe Laclede's operations.

A. For purposes of recording revenues and levels of customers (numbers), Laclede has five districts. The five districts are:

1. Laclede
2. St. Charles
3. Midwest

4. Missouri Natural (MoNat)

5. Franklin County

Within each district, customers and revenues are divided into the customer classes of residential, commercial, and industrial. Finally, customers are further divided within customer classes based on general consumption habits.

The following classifications can be found in the residential customer class:

1. General Service
2. Heat Pump
3. Seasonal
4. Propane

Likewise, within the commercial and industrial classes, the following classifications can be found:

1. General Service
2. Large Volume
3. Basic Transportation
4. Firm Transportation
5. Interruptible
6. Propane

Q. What is the basis for pricing the revenue adjustments?

A. All revenue adjustments in the Staff's cost of service were priced on the margin (the total rate excluding gas cost) included in the Company's tariffs.

Q. Please describe and discuss the types of adjustments Staff developed to determine annualized revenues.

A. In general, the Staff's annualized revenues reflect the effects of the following conditions:

1. Normalized Weather
2. Customers switching customer classes (rate switching)
3. Customer load changes
4. Customer growth or loss

Q. Why is it appropriate to adjust revenues for normalized weather?

A. Temperature levels experienced during any twelve-month period could have a significant impact on the Company's revenues. If the overall temperature was very cold during the period, the Company's revenue would be overstated in relation to normal weather. Conversely, if the overall temperature was warm during the period, the Company's revenues would be understated in relation to normal weather. Therefore, the Staff normalized revenues for weather to eliminate the effects of above normal temperature during the test year.

Q. What methodology did the Staff use to normalize for weather?

A. The methodology and weather station data used by the Staff to develop actual and normal weather is discussed in the direct testimony of Staff witnesses Dennis Patterson of the Electric Department and Dr. Steve Qi Hu, a climatological consultant appearing on behalf of the Staff. This data was used to develop weather normalized sales and usage per customer, as discussed in the direct testimony of Staff witness James A. Gray. The results of Mr. Gray's weather normalized sales volumes were provided to Mr. Henry E. Warren of the Gas Department who allocated the weather normalized sales to the rate blocks. The methodology to develop weather normalized revenues for Large

Volume, Interruptible and Transportation customers is discussed in the direct testimony of Staff witness Daniel I. Beck of the Gas Department. Based on these analyses, the Staff has adjusted revenue to reflect the normalization of weather.

Q. Please describe the Staff's adjustments relating to weather normalization.

A. Staff witness James A. Gray of the Gas Department developed the monthly weather normalized therm sales per customer for the weather sensitive customer classes during the Staff's test year. Generally, these classes consisted of the residential, commercial and small industrial heating customers. The weather normalized therm sales per customer were developed for each of the five districts, for each customer class, with the exception of Franklin Industrial.

Mr. Gray adjusted the actual monthly therm sales from the test year to reflect normalized weather. The monthly adjustments to the test year were then summed by season; Summer (May-October) and Winter (November-April). The totals by season were then priced on the margin to develop the Staff's weather normalized adjustments. (S-1.2, S-2.2, and S-4.2).

At the time of its direct testimony filing the Staff was performing additional analyses of weather data that the Staff believes will change weather normalized revenues. The Staff estimates this change to be $1.7 million of additional revenues.

Q. Why hasn't the Staff included this amount in its calculation of revenue requirement?

A. The Staff believes that the value of additional true-up items, when determined, will offset this change in weather normalized revenues. Therefore, the Staff has not reflected this estimated change in its revenue requirement.

Q. Please describe the phenomenon of customers switching customer classes (rate switching) and customer load changes.

A. Customers switching customer classes or rate switching can occur for several reasons. The nature of a customer's operations may have changed and another customer class is now more appropriate. The customer may find it to be economical to switch to another customer class. Finally, the customer may decide to procure its own gas and thus, a rate switch would be necessary.

Customers also experience load changes. The operations of the customer production facilities may have changed and thus, a change in demand for gas has occurred.

Staff witness Beck addresses these two conditions within his analysis. Mr. Beck analyzed the Company's interruptible, firm transportation, basic transportation, and large volume customers on a customer by customer basis during the Staff's test year and update period ending March 31, 1999. Adjustments S-2.3, S-2.5, S-3.1, S-3.2, S-4.1, and S-4.2 reflect the results of his analysis. Please refer to Staff witness Beck's direct testimony for a further detailed explanation of these adjustments.

Q. Why is it appropriate to adjust revenues for customer growth or loss?

A. This adjustment is appropriate in order to reflect the on-going level of revenues based on the latest customer counts through the end of the Staff's update period.

Q. Please explain your analysis related to customer growth/loss for the general service customer class.

A. The Staff analyzed customer growth for each of the five districts of the Company. The analysis was further divided into specific customer classes within those districts. The customer growth adjustments are comprised of two components. The first component relates to the pricing of the normalized therm sales per customer for the annualized level of customers. The second component annualizes the customer charge based on the annualized level of customers.

Q. Please explain how the annualized level of customers was determined.

A. In order to determine the annualized level of customers, the Staff used two different methods. For industrial customers in the St. Charles, Midwest, MoNat, and Franklin County districts, the March 31, 1999 level of customers was used. Because many customers have shown a tendency to drop off the system in the residential, commercial, and Laclede industrial classes over the years, another method was used to determine the annualized level for these customers. The annualized level was determined by first multiplying the March 31, 1999 level of customers by the ten year average percentage of March 31 customers to the calendar year average customers. This product was then assumed to be the average annualized level of customers. However, customer levels are less in the summer months as compared to the yearly average and winter. Thus, a ten-year average percentage of summer customers to the yearly average was then applied to the average annualized level of customers to determine the summer level of customers. The cumulative or summation of the six month summer average of customers was then deducted from the cumulative average annualized level and the winter level of customers was derived. The example below will illustrate the calculation involved:

March 31, 1999 level of Customers	1,010
Percentage of March Customers to Yearly Average	99%
Average Annualized level of Customers	1,000
Percentage of Summer Customers to Yearly Average	99%
Average Summer level of Customers	990

Average Annualized level of Customers	1,000
Months in a Year	12
Cumulative Average Customers Per Year	12,000

Average Summer level of Customers	990
Multiplied by Number of Summer Months	6
Total Cumulative Average Summer Customers	5,940

Cumulative Average Customers Per Year	12,000
Less Cumulative Average Summer Customers	5,940
Total Cumulative Average Winter Customers	6,060
Divided by Number of Winter Months	6
Average Winter level of Customers	1,010

Once the annualized levels of customers were determined, the Staff then developed the annualized levels of therms for each district.

Q. How were the annualized levels of therms developed?

A. For industrial customers in the St. Charles, Midwest, MoNat and Franklin County divisions, the annualized customer levels were multiplied by the normal therm sales per customer for each district to develop annualized therm sales. This method was also used for residential, commercial and Laclede industrial for the summer months.

Because a significant difference exists in the normal therms per customer for each month in the winter, a different method was used to develop annualized therms in the winter for all residential, commercial, and Laclede Industrial customers. First, the percentage of customers for each month during the test year to the average level of test year winter customers was calculated. This percentage was then multiplied by the annualized average winter level of customers to determine the annualized customer level for each month. The annualized customers for each month was then multiplied by the test year normal therms per customer to derive annualized usage for each month. Finally, the annualized usage for each month was summed to determine the annualized usage for the winter months.

Once annualized usage was determined, test year therm sales as adjusted by the therms associated with weather were then subtracted from the annualized therm sales to derive the customer growth adjustment to therm sales. These therm sales were distributed to the appropriate blocks as supplied by Staff Witness Warren and then priced at the margin to calculate customer growth revenues.

Lastly, the annualized level of customers was multiplied by the monthly customer charge for twelve months to develop the annualized customer charge revenues. Test year customer charge revenues were subtracted from the annualized customer charge revenues to derive the customer charge adjustment. All district growth adjustments were then summed to arrive at the Staff's adjustments for customer growth (S-1.1 and S-2.1).

Q. Please describe adjustment S-1.3.

A. Adjustment S-1.3 represents an elimination of the unbilled revenue from the Staff's test year. The unbilled revenue adjustment is made by the Company to reflect revenues on a billed basis.

Q. Please explain why this adjustment is made.

A. In the Staff's test year, there exists gas sales to customers, at both the beginning and end of the test year, which either are not recognized on the bills or which relate to usage periods outside the test year. To reflect actual revenues, estimates of sales are made and booked each month between the date meters are read and the end of the month. For purposes of a rate case, unbilled revenues must be eliminated from the test year in order to reflect revenues during the test year on an as-billed basis. Staff's adjustment eliminates the effect of these accruals and places the test year on an actual bill twelve-month basis.

Q. Please discuss Adjustments S-1.4, S-2.4, S-3.3, S-4.4, and S-6.5. These adjustments remove the cost of natural gas from revenue. The total test year cost of natural gas was removed from the various revenue classes based on the total percentage of test year revenue from each class. By eliminating test year gas costs from revenue and expense, the Staff has put its direct filing on a margin basis.

LACLEDE GAS COMPANY'S GAS SUPPLY INCENTIVE PLAN

Q. Please describe the Gas Supply Incentive Plan (GSIP).

A. The Gas Supply Incentive Plan became effective October 1, 1996 for a three-year period ending September 30, 1999 as part of a settlement reached in the Company's 1996 rate case. Under the Plan, the Company and its customers share in income from off-system sales and certain gains and losses, as measured against benchmark prices for gas costs, related to the acquisition of the Company's natural gas supply. As part of this Plan, the Company sells gas supply and pipeline capacity in markets outside of its normal service territory.

Q. Please describe adjustments S-6.3.

A. Adjustments S-6.3 removes from Other Revenues the revenues associated with GSIP.

An offsetting adjustment is also made to gas costs.

GAS COSTS

Q. Please explain adjustments S-7.1, S-7.2, S-7.3 and S-8.2.

A. Adjustments S-7.1 and S-8.2 remove the test year cost of natural and manufactured gas from expense. Adjustment S-7.2 eliminates the gas expense associated with the Gas Supply Incentive Plan discussed in my earlier testimony. Adjustment S-7.3 is the offsetting adjustment relating to the gas costs associated with the unbilled revenues, as previously discussed. Unbilled gas cost is eliminated from the Company's books in order to reflect test year revenues on a billed basis.

UNCOLLECTIBLES

Q. Please explain adjustment S-12.2.

A. Adjustment S-12.2 annualizes uncollectible expense. The Staff utilized a five-year average of actual write-offs for the years ending March 31, 1995-1999. Over the last five years uncollectible expense has fluctuated from $3,774,445 to $7,650,305. The Staff's use of a five-year average, which is $5,923,900, includes a normal level of expense in the cost of service associated with this fluctuating item.

LACLEDE'S NON-UTILITY OPERATIONS

Q. Can you provide a description of Laclede's non-utility operations?

A. Yes. Laclede operations extend beyond its regulated utility operations. The following is a description of Laclede's subsidiaries:

Laclede Investment Corporation, a wholly owned subsidiary, invests in other enterprises and has made loans to several joint ventures engaged in real estate development.

Laclede Energy Resources, Inc., a wholly owned subsidiary of Laclede Investment Corporation, engages in non-utility efforts to market natural gas.

Laclede Gas Family Services, Inc., a wholly owned subsidiary of Laclede Energy Resources, Inc., is a registered insurance agency in the State of Missouri. It is currently promoting the sale of supplemental hospitalization, accident, supplemental Medicare and life insurance by Life Insurance Company of North America, Washington National Insurance Company, Fidelity Security Life Insurance Company and Union Fidelity Life Insurance Company.

Laclede Pipeline Company, a wholly owned subsidiary, owns and operates a pipeline for transporting liquid propane gas, purchased by Laclede from its suppliers, to a Company owned storage cavern. Laclede maintains an inventory of liquid propane gas at an underground storage site in St. Louis County for use during peak periods and sale to customers.

Laclede Development Company, a wholly owned subsidiary, participates in real estate development, primarily through joint ventures.

Laclede Venture Corp., a wholly owned subsidiary of Laclede Development Company, has a 28.5% interest in the LBP Partnership, a general partnership which previously engaged in research and development of light beam profiling technology. Laclede Venture Corp. also offers services for the compression of natural gas to third parties who desire to use or sell compressed natural gas for use in vehicles.

In addition, Laclede has retail sales of gas appliances (e.g., water heaters, dryers, gas grills) which are recorded on the Company's books as miscellaneous income below the line.

Q. Have you made any adjustments to account for non-utility operations?

A. Yes, I have. Adjustment S-20.1 adjusts the test period to move non-utility expense below-the-line.

Q. How was this adjustment derived?

A. For purposes of this case the Staff has accepted the Company's allocation adjustment associated with non-utility expense. This adjustment includes allocations for both subsidiary and merchandising costs. An adjustment to move merchandise salesmen's salaries and associated expenses below-the-line is discussed in the direct testimony of Staff Witness Mark D. Griggs.

Q. Does this conclude your direct testimony?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Laclede Gas Company's Tariff to Revise Natural Gas Rate Schedules.	)))	Case No. GR-99-315

AFFIDAVIT OF ARLENE S. WESTERFIELD

STATE OF MISSOURI	)	
	)	ss.
COUNTY OF COLE	)	

Arlene S. Westerfield, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Direct Testimony in question and answer form, consisting of 17 pages to be presented in the above case; that the answers in the foregoing Direct Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of her knowledge and belief.

Arlene S. Westerfield

Arlene S. Westerfield

Subscribed and sworn to before me this 25th day of June 1999.

Toni M. Willmeno

Toni M. Willmeno
Notary Public, State of Missouri
County of Callaway
My Commission Expires June 24, 2000

TONI M. WILLMENO
NOTARY SEAL
NOTARY PUBLIC
STATE OF MISSOURI

RATE CASE PROCEEDINGS
ARLENE S. WESTERFIELD

Company	Case Number
Arkansas-Missouri Power Company	ER-79-48
Radio Communications Company	TR-79-86
Fidelity Telephone Company	18310
Southwestern Bell Telephone Company	TR-79-213
Southwestern Bell Telephone Company	TR-80-256
Union Electric Company	ER-80-17
Union Electric Company	ER-81-180
Union Electric Company	ER-82-52
Union Electric Company	EO-82-86
Union Electric Company	ER-83-163
Union Electric Company	ER-84-168
Union Electric Company	EO-85-17
Union Electric Company	EM-91-29
Union Electric Company - Steam	HR-80-193
Laclede Gas Company	GR-80-210
Laclede Gas Company	GR-81-245
Laclede Gas Company	GR-82-200
Laclede Gas Company	1987 Earning Investigation
Laclede Gas Company	GR-90-120
Citizens Electric Corporation	ER-81-79
O'Fallon Gas Company	GR-81-51
Capital City Water Company	WR-82-117
St. Louis County Water Company	WR-82-249
St. Louis County Water Company	WR-83-264
St. Louis County Water Company	WR-85-243
St. Louis County Water Company	WR-87-2
St. Louis County Water Company	WR-88-5
St. Louis County Water Company	WR-89-246
St. Louis County Water Company	WR-91-361
St. Louis County Water Company	WR-94-166
St. Joseph Water Company	WR-83-108
Joplin Water Works	WR-83-132
Osage Natural Gas Company	GR-85-183
Arkansas Power & Light Company	ER-85-20
Continental Telephone Company	TR-86-55
Webster County Telephone Company	TR-86-63
Missouri Cities Water Company	WR-86-111
Missouri Cities Water Company	SR-86-112

RATE CASE PROCEEDINGS
ARLENE S. WESTERFIELD

Company	Case Number
Cedar Hill Utility	Informal Rate Case - 1987
Cat Pak Waterworks	Informal Rate Case - 1988
Contel, CSM & Webster Telephone Companies	TR-89-106
Citizens Electric Corporation	Informal Examination of Legal & Consulting Expenses
Fidelity Telephone Company	1989 Earnings Investigation
Bourbeuse Telephone Company	1989 Earnings Investigation
Contel	1990 Earnings Investigation
SK&M Water Company	Informal Rate Case - 1990
Argyle Estates Water Company	Informal Rate Case - 1990
Missouri-American Water Company	WR-91-211
United Cities Gas/Great Rivers	GR-91-55
United Cities Gas/Neelyville	GR-91-53
Evergreen Lakes Water Company	Informal Rate Case - 1992
Missouri Pipeline Company	GR-92-314
Orchard Farm Telephone Company	TR-93-153
Missouri-American Water Company	WR-93-212
Fidelity Natural Gas Company	GR-93-135
Stoutland Telephone Company	TO-96-349
New London Telephone Company	TO-96-350
St. Louis County Water Company	WR-96-263
Atmos/United Cities Gas	GM-97-70
Missouri-American Water Company	WR-97-237
Lakeland Heights Water Company	Informal Rate Case - 1998
Rockport Telephone Company	TM-97-528
Union Electric Company	EO-96-14
Union Electric Company	EM-96-149

Laclede Gas Company
GR-99-315
True-up Valuation

Description		LOW	MIDPOINT	HIGH
Capital Structure	(1)	1,373	1,456	1,539
Plant Additions	(1)	2164	2246	2330
Depreciation On Plant Additions	(1)	2661	2661	2661
Wage Increases	(1)	1423	1423	1423
Customer Growth	(2)	(444)	(444)	(444)
True-up Revenue Requirement		7,176	7,341	7,509

(1) See Attached
(2) 4/12 of Staff's Adjustment