Exhibit No.:
Issue: *Cash Working Capital*
Miscellaneous Expenses
Witness: *Leslie L. Lucus*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Direct Testimony*
Case No.: *GR-2001-629*
Date Testimony Prepared: *October 11, 2001*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

LESLIE L. LUCUS

LACLEDE GAS COMPANY

CASE NO. GR-2001-629

Jefferson City, Missouri
October 2001

TABLE OF CONTENTS

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Q. Please state your name and business address.

A. Leslie L. Lucus, Missouri Public Service Commission, Governor Office Building, 200 Madison Street, Jefferson City Missouri 65101.

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 Lincoln University in May 1995 with a Bachelors degree in Accounting. In September 1997, I was employed by the Missouri Department of Social Services as an Auditor for the state Medicaid Agency's Institutional Reimbursement Unit. In July 1999, I became an associate member of The Association of Certified Fraud Examiners. I commenced employment with the Commission Staff (Staff) in August 2000.

Q. What is the nature of your duties as an employee of the Commission?

A. I am responsible for assisting 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, I previously filed testimony in Case Nos. WR-2000-844, St. Louis County Water Company, and GR-2001-292, Missouri Gas Energy.

Q. With reference to Case No. GR-2001-629, 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 is the purpose of your direct testimony?

A. The purpose of my direct testimony is to describe the rate base components and adjustments to the Company's income statement that I am sponsoring in this case.

Q. Please identify the Accounting Schedule you are sponsoring.

A. I am sponsoring the following Accounting Schedule:

Accounting Schedule – 8	Cash Working Capital

Q. Please list the adjustments you are sponsoring.

A. The adjustments I am sponsoring are listed below:

Adjustment Number	Adjustment Area
S-11.3	Facility Locates
S-12.5	Lock Box Expense
S-15.10	Injuries and Damages Expense
S-15.16	Rent Expense

FACILITY LOCATES

Q. Please discuss your adjustment relating to facility locates.

A. Adjustment S-11.3 decreases test year expense to take into account both the ongoing number of locates and an annualization of the current cost the Company incurs regarding facility locates.

Q. What are "facility locates?"

A. These costs relate to Laclede's current contract with a firm to locate underground facilities in the field prior to commercial construction activities so that these facilities are not damaged by the construction. The Staff used Laclede's actual experience with this expense since 1999 to calculate its adjustment.

LOCK BOX FEES

Q. Please explain adjustment S-12.5.

A. Adjustment S-12.5 annualizes lock box expense to reflect an increase in the contractual fee for processing customer bills. The Company is expecting additional increases after the July 31, 2001 test year update cut-off. The Staff will re-examine the Company's actual experience and consider any additional increases as part of its true-up audit.

INJURIES AND DAMAGES

Q. Please describe adjustment S-15.10.

A. Adjustment S-15.10 adjusts injuries and damages expense to reflect a five-year average of actual payment of claims. The adjustment amount is the difference between the actual average payment amount and the test year accrued provision.

Q. Why has the Staff used a five-year average of actual payments?

A. Actual payments are used because they reflect the actual experience of the Company for expenditures related to injuries and damages. Injuries and damages have fluctuated in the past few years. Therefore, the Staff believes that a five-year average will smooth out the effect of these fluctuations and is the best reflection of the ongoing level of injuries and damages expense.

RENT EXPENSE

Q. Please explain adjustment S-15.16.

A. Adjustment S-15.16 annualizes rent expense to reflect the additional cost the Company will incur associated with the contractual escalation, required by the lessor, that is contained in the Company's lease agreement for office space.

CASH WORKING CAPITAL

Q. What is Cash Working Capital (CWC)?

A. CWC is the amount of cash necessary for a utility to pay the day-to-day expenses it incurs in providing service to the ratepayer.

Q. Is the method the Staff used to calculate the CWC requirement consistent with that used in previous rate cases?

A. Yes. The use of a lead/lag study to calculate a company's CWC requirement by the Staff has been adopted by the Commission in many rate cases.

Q. How does Staff calculate cash working capital using a lead/lag study?

A. In a lead/lag study, an analysis is performed of the cash inflows and outflows related to the payments received by the Company from its customers for the provision of service and the disbursements made by the Company to vendors to provide that service. These cash flows are measured in numbers of days. A lead/lag analysis compares the number of days the company is allowed to take or actually takes to make payments after receiving service from a vendor with the number of days it takes the Company to receive payment for the service provided to customers. The lead/lag study also determines who provides CWC.

Q. What are the sources of CWC?

A. The ratepayer and the shareholder are the sources of CWC.

Q. How does the ratepayer supply CWC?

A. The ratepayer supplies CWC when payment for service is made before the Company pays for the expenses it incurred to provide that service. The ratepayer is compensated for the CWC provided through a reduction to rate base.

Q. How does the shareholder supply CWC?

A. When the Company must pay for an expense incurred to provide service before the ratepayer has paid for the related usage, cash is provided by the shareholder. This cash outlay represents a portion of the shareholder's total investment in the Company. The shareholder is compensated for the CWC provided through an increase in rate base.

Q. How are the results from a lead/lag study interpreted?

A. A negative CWC requirement indicates that the ratepayer provided the working capital in the aggregate during the test year. This means that the ratepayer has provided the necessary cash, on average, before the Company must pay for expenses incurred to provide that service. A positive CWC requirement indicates, in the aggregate, that the shareholder provided the cash necessary during the year. This means that the Company must pay, on average, for the expenses incurred in providing service before cash is provided by the ratepayer.

Q. Please explain the components of the Staff's calculation of CWC, which appear on Accounting Schedule 8.

A. Column A on Accounting Schedule 8 lists the expenses that the Company pays on a day-to-day basis. Column B lists the Staff's annualized expense amounts.

Column C, Revenue Lag, denotes the amount of time, expressed in days, between the midpoint of the period during which the Company provides service and the payment for that service by the ratepayer. Column D, Expense Lag, denotes the amount of time, expressed in days, between the receipt of and payment for the goods and services (i.e., cash expenditures) used by the Company to provide service to the ratepayer. Column E, Net Lag, results from the subtraction of the Expense Lag from the Revenue Lag. Column F, Factor, expresses the Net Lag in days as a fraction of the total days in the year. This result is derived by dividing the net lags in Column E by 365 days. Finally, Column G, CWC Requirement, is the average amount of cash necessary to provide service to the ratepayer, which is calculated by multiplying the annualized test year expense amounts (Column B) by the CWC factor (Column F).

Q. What methodology did the Staff apply in determining the Company's CWC requirement?

A. The Staff's calculation of the Company's CWC requirement is based upon a lead/lag study performed by the Company in 1996 (1996 Study), using year-end December 1995 data. The lags developed by the Staff in Laclede's last rate case, No. GR-98-374, were based on the 1996 Study. As circumstances have changed, the Staff has updated various lags in this study. In its response to Staff Data Request No. 74 in Case No. GR-2001-629, the Company stated that no material changes in its cash flows, except in the area of payroll and payment of short-term debt interest, have occurred since the last case. Therefore, except as noted in my testimony, the lags used in the current case are those used by the Staff in Case No. GR-98-374.

Q. Please explain the revenue lag.

A. The revenue lag is the amount of time between the provision of service by the Company and the receipt of payment for that service from the ratepayers. The revenue lag on Accounting Schedule 8 is a composite of the revenue lags for utility sales and transportation customers, incidental oil operations and late payment charges. The utility sales and transportation revenue lag is the sum of three subcomponent lags: usage, billing and collection.

Q. Please explain the subcomponent lags for utility sales and transportation customers.

A. The usage, billing and collection lags are defined as follows:

> Usage Lag: The midpoint of the average time elapsed from the first day of a service period through the last day of that service period.
>
> Billing Lag: The period of time between the end of the last day of a service period and the day the bill is placed in the mail by the Company.
>
> Collection Lag: The period of time between the day the bill is placed in the mail by the Company and the day the Company receives payment from the ratepayer for services rendered.

Q. Please explain the Staff's analysis of the Company's revenue lag.

A. The Staff has examined the Company's calculation of the revenue lags for utility sales and transportation customers, incidental oil sales and late payment charges. For this case, the Staff has accepted the Company's usage, billing and collection lags for transportation customers and the revenue lag for incidental oil sales. However, the Staff does not agree with the Company's usage and collection lags for utility sales customers and the revenue lag for late payment charges.

Q. Why did the Staff select a collection lag of 25.4 days for the utility sales customers?

A. The 25.4 days reflects the results of a customer sample computed by the Company in Case No. GR-98-374. This sample was computed by multiplying the number of days a customer took to pay their bills by the amount billed to the customer. This product was summed for each customer in the sample and divided by the amount billed to each customer. This calculation produced the collection lag for utility sales customers.

Q. Why does the Staff believe the 25.4 days is a conservative reflection of the Company's collection lag?

A. Per Commission rule 4 CSR 240-13.020, the Company's residential customers have 21 days to make payment after the rendition of their bill, after which a late payment charge is assessed. Under this same rule, the commercial/small industrial customers have only 15 days to make payments. Therefore, the Staff believes the 25.4 day collection lag developed from the customer sample is a reasonable and conservative estimate for the population.

Q. What methodology did the Staff use to calculate the usage and billing component of the utility sales revenue lag?

A. As previously stated in this direct testimony, the usage lag is the midpoint of the average time elapsed between the beginning of a service period through the last day of that service period. Therefore, based on a 365–day year and 12 service periods, the midpoint of a service period would be 15.21 days. The Staff reviewed and accepts the Company's billing lag of 2.98 days. Therefore, the Staff's utility sales revenue lag is

43.59 days (15.21 usage, 2.98 billing and 25.4 collection). The composite of the revenue lags for utility sales and transportation customers, incidental oil sales and late payment charges produces the overall revenue lag of 43.15 days.

Q. What methodology did Staff use to calculate the late payment charges component of the overall revenue lag?

A. The Staff calculated the late payment charges lag by weighting the collection lags for utility sales and transportation customers by their respective late payment charges revenue. The collection lags of 25.4 days and 18.27 days for utility sales and transportation customers, respectively, when weighted by the associated late payment charges revenues, yields a weighted lag of 24.97 days.

Q. Why is the revenue lag for sales and gross receipts taxes set at 24.97 days on Accounting Schedule 8?

A. The amounts of sales and gross receipts taxes are not known until the customer's bill is prepared. The Company acts solely as an agent of the taxing authority in collecting gross receipts tax and sales tax from the ratepayer and paying the proper institution. The Company has not provided any service to the ratepayer associated with the gross receipts and sales taxes. Since the taxes are not known until the bill is prepared, the only portion recognized in the revenue lag is the collection lag.

Q. Please explain the expense lags.

A. As previously stated, unless noted in this testimony, the expense lags used in the current case are those developed by the Staff in Case No. GR-98-374.

Q. Please explain the expense lag for uncollectible accounts.

A. Uncollectible accounts is an expense in name only. It is actually a lack of revenue collection and, therefore, does not represent a cash flow for payment of an expense. An expense lag equal to the revenue lag has been assigned to this item so that a zero CWC effect is produced.

Q. Please explain the changes made to the expense lags for Payroll and Short-Term Debt.

A. Effective August 1, 2001, the Company began making payments to some of its contract employees on a bi-weekly rather than a weekly basis. This results in a longer expense lag for contract wages.

Consistent with its recommended inclusion of short-term debt in the capital structure, the Staff reduced the overall interest expense lag to reflect the fact that short-term interest payments are made monthly.

Q. Please explain the gross receipts tax expense lag.

A. The Staff calculated the gross receipts tax expense lag by summing the days between the average bill mail date and the required payment date for each municipality. The average bill mail date was computed by calculating the midpoint of the actual beginning and ending bill mail dates for each calendar month of 1997. The lags for each municipality were weighted together based on annual tax payments to derive an overall gross receipts tax expense lag.

Q. Please explain the expense lags for the pension components.

A. The expense lag for the funded pension amount reflects the fact that contributions for each plan year, which ends September 30, are normally made the following June. Therefore, the lag is 455.5 days, which reflects the elapsed time between the midpoint of the plan year and the date of the contribution. However, the Staff has reduced its expense lag to 408.15 days so the CWC lag (revenue lag – expense lag) does not exceed negative 365 days. This reflects the fact that Staff's lead lag study measures the annual CWC requirement. Therefore, the net lag for any CWC component should not reflect a lag of more than 365 days or less than a negative 365 days.

The pension expense component lag reflects the fact that this amount is a non-cash accrual. Therefore, the expense lag has been set equal to the revenue lag, which results in a zero CWC lag, to reflect the non-cash nature of this expense item.

Q. Please explain the expense lag for other post-retirement benefits.

A. For the plan year ending September 30, 2000, the Company made over 80% of its contribution to retirement funds near the final day of the plan year. For the 2001 plan year, as of June 28, 2001, no contribution had been made. This recent history indicates that the Company is able to wait until near the end of the plan year to make contributions to the retirement fund. Therefore, the Staff used the actual amounts and contribution dates for the 2000 plan year to compute its lag for this item.

Q. Will you be conducting a true-up audit on any rate base items or expense adjustments?

A. Yes. The Staff will be examining the lock box expense in the true-up audit, due to increases that were scheduled to take effect in October 2001, and insurance. The amounts in the normalized expense column of the CWC Accounting Schedule will also be affected by the true-up audit.

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 Rates	)	Case No. GR-2001-629

AFFIDAVIT OF LESLIE L. LUCUS

STATE OF MISSOURI	)	
	)	ss.
COUNTY OF COLE	)	

Leslie L. Lucus, being 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 11 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.

Leslie L. Lucus

Leslie L. Lucus

Subscribed and sworn to before me this 10th day of October 2001.

Toni M Charlton

TONI M. CHARLTON
NOTARY PUBLIC STATE OF MISSOURI
COUNTY OF COLE
My Commission Expires December 28, 2004