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Weather AAO

Michael R. Spotanski

Surrebuttal Testimony

Laclede Gas Company

GA-2002-429

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Service Commission

LACLEDE GAS COMPANY

SURREBUTTAL TESTIMONY

OF

MICHAEL R. SPOTANSKI

July , 2002

**SURREBUTTAL TESTIMONY OF MICHAEL R. SPOTANSKI**

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3 Q. Please state your name and business address.

4 A. My name is Michael R. Spotanski, and my business address is 720 Olive Street,  
5 St. Louis, Missouri 63101.

6 Q. Are you the same Michael R. Spotanski who previously filed direct testimony in  
7 this proceeding?

8 A. Yes, I am.

9

**Purpose of Surrebuttal Testimony**

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

11 A. The purpose of my surrebuttal testimony is to respond to the rebuttal testimony  
12 that has been submitted in this proceeding by Mark L. Oligschlaeger, James M.  
13 Russo and James A. Gray on behalf of the Commission Staff, by Russell W.  
14 Trippensee and Mark Burdette on behalf of the Office of the Public Counsel, and  
15 by John Mallinkrodt on behalf of the Missouri Industrial Energy Consumers.  
16 Specifically, I will explain why these witnesses have failed to offer anything  
17 substantive in their rebuttal testimony that would distinguish the Company's  
18 request for an accounting authority order ("AAO") in this case from other AAO  
19 requests that have been routinely granted by the Commission. In fact, far from  
20 demonstrating such differences, the witnesses for Staff and Public Counsel have  
21 invoked a series of artificial or illusory distinctions that, in reality, would hold the  
22 Company's AAO's request to an entirely new set of standards that vary  
23 dramatically from those traditionally employed by the Commission to determine

1 whether an AAO should be granted. I will also address various other issues raised  
2 in the rebuttal testimonies.

3 **Similarity to other AAOs**

4 Q. You indicated that the witnesses for Staff and Public Counsel have failed to  
5 explain in their testimony why the Company's AAO request is any different from  
6 previous AAO requests granted by the Commission. Please explain.

7 A. As Staff witness Oligschlaeger notes at page 3 of his rebuttal testimony, AAOs  
8 are granted primarily for extraordinary items. Consistent with the Commission's  
9 decision in *Missouri Public Service Company*, Case Nos. EO-91-358 and EO-91-  
10 360, and the FERC Uniform System of Accounts, these extraordinary items  
11 should generally be unusual, unique and non-recurring in nature, and should have  
12 a financial impact equal to or greater than 5% of net income. A typical example  
13 of such an item is a severe weather event such as an ice storm that downs an  
14 electric utility's power lines.

15 Q. Has the Commission recently granted AAOs for this type of weather-related  
16 event?

17 A. Yes, in the past month alone, the Commission has granted a weather-related AAO  
18 to Aquila for the costs incurred to restore service in connection with the ice storm  
19 that affected the Kansas City area this past winter. A copy of the Commission  
20 Order approving this AAO request is included as Schedule 1 to my surrebuttal  
21 testimony. Further, Kansas City Power & Light has also requested an AAO in  
22 connection with the same ice storm.

1 Q. Are the weather events and other facts and circumstances underlying the  
2 Company's AAO request in this proceeding similar to those underlying the AAO  
3 requests recently granted by the Commission for the impact of the ice storms?

4 A. Yes. They are virtually indistinguishable, as both events are extraordinary,  
5 weather-related occurrences that have significant financial impacts. In fact, the  
6 event affecting Laclede appears to have been even more damaging than the ice  
7 storm that affected Aquila's Missouri Public Service Division. Aquila's  
8 preliminary estimate of \$6 million in damages is materially less than the \$10.85  
9 million damage suffered by Laclede during the warm winter of 2001-02.

10 Q. Please explain why these two kinds of weather-related events are  
11 indistinguishable for purposes of whether they meet the standards for an AAO.

12 A. As Staff witness Oligschlaeger recognizes at page 17 of his rebuttal testimony,  
13 both events are clearly the result of a natural phenomenon, namely weather.  
14 Moreover, both are completely beyond the control of the utility. And while the  
15 occurrence of an ice storm may not be totally unexpected, it is nevertheless  
16 considered to be unusual because of its infrequency and severity, and non-  
17 recurring because of its irregularity. Accordingly, where the financial effect of  
18 the ice storm exceeds 5% of the utility's net income, an AAO is considered  
19 appropriate to defer costs for later recovery in a rate case. Similarly, while the  
20 occurrence of warmer than normal temperatures in the winter may not be totally  
21 unexpected, a weather deviation such as the kind that occurred during the winter  
22 of 2001-02 is just as unusual as the ice storm because of its infrequent occurrence  
23 (only four warmer winters have been recorded in St. Louis in the past 102 years),

1 and its severity (16% warmer than normal). Further, just like the ice storm, the  
2 irregularity of such a warm weather event makes it a non-recurring event.  
3 Accordingly, where such a weather event has a financial impact on the Company  
4 of the magnitude of the one experienced this winter (i.e. an impact equal to about  
5 25% of Laclede's pre-tax income) it must be deemed as meeting the criteria for an  
6 AAO. In short, like the AAO granted in connection with the ice storm, the AAO  
7 requested by Laclede in this case is designed to address a weather-related event  
8 that has had an extraordinary impact on the Company's finances. The only  
9 material difference is that, compared to the ice storm, the weather event covered  
10 by Laclede's AAO request was even *more* extraordinary in terms of its financial  
11 impact and the rarity of its occurrence.

12 Q. What is the basis for your statement that the weather-related event covered by the  
13 Company's AAO was even more extraordinary in terms of its financial impact  
14 and the rarity of its occurrence?

15 Q. As I have previously indicated, the total financial impact of the weather-related  
16 event covered by Laclede's AAO request is \$10.85 million. As stated above,  
17 publicly available information indicates that the financial impact of the ice storm  
18 on Aquila, was approximately \$6 million. Further, the damage caused to  
19 KCP&L's system by a severe snow storm in 1996 totaled \$6.8 million, for which  
20 an AAO was granted on January 21, 1997. As to the rarity or infrequency of the  
21 weather event addressed by Laclede's AAO, I would again point out this was the  
22 5<sup>th</sup> warmest winter on record during the last 102 years. This would indicate that  
23 such a weather event would only occur once every 20 years or so. By

1 comparison, ice or snow storms have been known to occur far more often, with  
2 the two most recent in the Kansas City area having occurred at an interval of less  
3 than 6 years.

4 Q. What do these considerations suggest to you?

5 A. They indicate that there is no meaningful basis for distinguishing the Company's  
6 AAO request in this proceeding from the AAO request recently granted by the  
7 Commission. To the contrary, it is clear that under every relevant criteria used by  
8 the Commission to grant such authorizations, the Company's AAO request  
9 presents at least as compelling a case for such treatment as the one recently  
10 approved by the Commission. In fact, given the prevailing accounting treatment  
11 that this Commission and other regulatory bodies have typically afforded to  
12 weather and its impact on utility earnings, it is difficult to conceive of any event  
13 that is more deserving of AAO treatment.

14 Q. Please explain what you mean.

15 A. The propriety of adjusting rates to correct for over and under-recoveries due to  
16 variations in weather temperatures is so widely recognized, that virtually every  
17 state regulatory body does it to one degree or another, including this Commission.  
18 For example, both this Commission, as well as the vast majority of utility  
19 commission's in other states, already permit rates to be periodically adjusted to  
20 reduce or eliminate any over or under-recovery of fixed gas costs due to  
21 abnormally warm or abnormally cold weather. Indeed, that is one of the principal  
22 functions of Laclede's existing PGA clause. In addition, a number of states have  
23 adopted weather normalization or mitigation clauses that are designed to prevent

1        *any* over or under-recovery of a utility's fixed distribution costs due to weather.  
2        All of these regulatory practices and policies indicate a wide spread acceptance of  
3        the principle that it is appropriate to correct for earnings variations due to weather,  
4        even in those circumstances where the variation is relatively small. This is  
5        undoubtedly due, in part, to the fact that unlike other items, weather is not a factor  
6        that a utility can either affect or control through its performance – a consideration  
7        that makes it particularly inappropriate to allow a utility to reap windfall profits or  
8        suffer substantial losses simply because it happens to be colder or warmer than  
9        normal. Whatever the reason, however, the regulatory rationale for addressing the  
10       earnings impact of an *extraordinary* weather event is uniquely compelling.

11    Q.    Are there any other factors that make the Company's AAO request more  
12        compelling than a typical request for such treatment?

13    A.    Yes. As I indicated in my direct testimony, unlike the items typically deferred  
14        pursuant to an AAO, there is no question regarding the propriety, reasonableness  
15        or necessity of the costs that are the subject of the Company's AAO request. To  
16        the contrary, what the Company is seeking to defer and recover with its request  
17        are costs that have already been determined to be just and reasonable and  
18        necessary to the provision of utility service and that would otherwise not be  
19        recovered due solely to the extraordinary impact of weather this winter. In other  
20        words, they are not only known and measurable, but have also been extensively  
21        audited by Staff and Public Counsel and adjudged reasonable by the Commission.

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**Artificial and Illusory Distinctions**

3 Q. Given these considerations and the similarity of the Company's AAO requests to  
4 those recently approved by the Commission, how do you reconcile Staff's and  
5 Public Counsel's opposition to the Company's request?

6 A. I cannot. As I indicated earlier, it is clear to me that both the Staff and Public  
7 Counsel are seeking to deprive the Company of its requested relief by positing  
8 artificial or illusory distinctions that, if accepted, would simply change in mid-  
9 stream the rules and criteria that have traditionally governed the granting of  
10 AAOs.

11 Q. Please provide some examples of these artificial or illusory distinctions.

12 A. Below I will address the "Costs versus Revenues" argument, the argument that  
13 warm weather is already accounted for in rates, the retroactive and single issue  
14 rate making arguments, and the mismatch argument.

15 **Costs versus Revenues Argument**

16 A. Both Staff (Oligschlaeger, page 6, line 6) and Public Counsel (Trippensee, page 7,  
17 line 17) attempt to distinguish Laclede's AAO request from other AAOs by  
18 stating that Laclede's AAO seeks to recover earnings lost due to lower revenues  
19 rather than increased expenses. They are correct that the effect of an AAO  
20 deferral and subsequent cost recovery would be to increase Laclede's net earnings  
21 over what they otherwise would have been (a result that would still leave Laclede  
22 well short of earning its authorized return). However, this earnings impact does  
23 not distinguish Laclede's AAO request from other AAOs. Whether it be for ice



1 storms, increased pension expenses, facility replacement programs, Y2K  
2 expenses, or security costs, the purpose and effect of every AAO is to remove  
3 from earnings the financial impact of an extraordinary event or mandated cost of  
4 providing utility service that would otherwise have an affect on earnings. The  
5 obvious result in each and every case is to facilitate an ultimate change in  
6 earnings above or below the level that would have otherwise been experienced.  
7 In short, it matters not whether an under-recovery of costs is attributable to an  
8 increase in expenses above the level that was reflected in rates or a decrease in  
9 revenues below the level that was reflected in rates, the impact on earnings is the  
10 same. Under such circumstances, there is no valid basis for suggesting that it is  
11 perfectly appropriate to permit a deferral and recovery of costs in the former case  
12 but somehow inappropriate in the latter case.

13 Q. Does the traditional ratemaking formula recognize that earnings are similarly  
14 affected, regardless of whether a cost recovery shortfall results from an increase  
15 in costs or a decrease in revenues?

16 A. Yes. Mr. Trippensee effectively shows this in the traditional ratemaking equation  
17 he provides on page 8, lines 7-8, as follows:

18 
$$\text{"Revenue Requirement=Operating Expenses+Taxes+Interest Expense+Return on Equity}$$

19 The right side of the equation is commonly referred to as the overall cost of  
20 service." Staff also agrees with this formula. As shown in Schedule 2 to my  
21 Surrebuttal Testimony, the same basic formula is set forth and endorsed in  
22 Schedule 32 of Staff Witness Roberta McKiddy's testimony in Laclede's pending  
23 rate case, Case No. GR-2002-356. That schedule states that "Revenue

1 Requirement = Cost of Service” which equals Prudent Operating Costs, including  
2 depreciation and taxes, plus earnings allowed on rate base. Therefore, revenue  
3 requirement = overall cost of service, which includes the earnings allowed on rate  
4 base. Both of these formulas clearly show that regardless of whether there is a  
5 downward change in revenues or a upward change in costs, both will have the  
6 same effect on earnings.

7 Q. But isn’t Staff witness Oligschlaeger correct when he states at page 16, lines 17-  
8 18, of his rebuttal testimony that no utility has “ever sought to book ‘lost’  
9 revenues”?

10 A. While I disagree with Mr. Oligschlaeger’s attempt to create an artificial  
11 distinction between cost recovery shortfalls due to changes in costs versus  
12 changes in revenues, the fact remains that he is simply incorrect. In the last  
13 several months alone, at least two gas utilities have not only sought – but have  
14 been granted permission – to book revenues “lost” as a result of the  
15 Commission’s implementation of the emergency amendments to its Cold Weather  
16 Rule. Indeed, the emergency amendment to the Cold Weather Rule itself allows  
17 the utility to defer and recover revenues that it fails to collect from customers as a  
18 result of the ability of such customers to receive service under the more lenient  
19 terms of the emergency amendment.

20 Q. But doesn’t the emergency amendment to the Cold Weather Rule deal with  
21 uncollectible *expense* rather than *revenue*?

22 A. This just serves to demonstrate the lack of any meaningful distinction between  
23 expenses and revenues for AAO purposes. Although it is called uncollectible

1        *expense*, since it involves the gas costs, operating and maintenance expense and  
2        return on investment associated with providing the service, it is also uncollected  
3        *revenue*. This is confirmed by USOA Account 904, which defines Uncollectible  
4        accounts as *losses* from uncollectible utility *revenues*. It is also confirmed by the  
5        excerpt from Staff's testimony on uncollectible expenses in Laclede's pending  
6        rate case, which is included in Schedule 3 to my surrebuttal testimony. As Staff  
7        indicates in its testimony, uncollectible expense is in actuality a shortfall in the  
8        revenues necessary to recover costs.

9        Q.    Are there other examples where revenues or income have been deferred pursuant  
10       to an AAO?

11      A.    Yes. There are a number of examples where AAOs have explicitly allowed or  
12       required that revenue or income items, such as the proceeds from insurance  
13       policies, be deferred for future inclusion in rates.

14      Q.    What do you conclude from the foregoing?

15      A.    Based on the foregoing, it is readily apparent to me that in determining whether  
16       an AAO should be granted no valid distinction exists, or ever has existed,  
17       between whether a cost-recovery shortfall is due to a change in costs or a change  
18       in revenues. The efforts of Staff and Public Counsel to suggest otherwise are  
19       simply unsupported by the historical record.

20      **The Already Accounted For in Rates Argument**

21      Q.    Public Counsel witnesses Trippensee and Burdette suggest that the impact of the  
22       very warm winter of 2001-2002 has already been accounted for in Laclede's rates.  
23       Specifically, Mr. Trippensee suggests this is so because such rates were based on

1 a normalized average of 30 years of weather while Mr. Burdette claims it is true  
2 because under-recoveries due to weather are a normal business risk that the  
3 Company has already been compensated for through its return on equity. (Mr.  
4 Trippensee, page 16, line 15, Mr. Burdette, page 4, line 6). Do you agree?

5 A. No. Normalizing or averaging weather for purposes of ratemaking assumes that  
6 the Company will recover its authorized revenues only if weather turns out to be  
7 normal. The normalized assumptions do not allow for the actual effect on the  
8 Company of any deviations from that normal, let alone the effects of the  
9 extraordinarily warm weather experienced this past winter. Weather averaging  
10 produces exactly that: an average. When the unusual, infrequent, non-recurring,  
11 extraordinary event happens, the utility suffers substantial harm. The regulatory  
12 remedy provided by the Commission for such an event is an AAO, which is all  
13 that Laclede has asked for. Notwithstanding claims to the contrary, the fact  
14 remains that the extraordinary impact of the weather experienced this winter was  
15 no more considered in Laclede's last rate case than any other extraordinary cost or  
16 revenue item that has previously been deferred by the Commission. Once again,  
17 rather than establish a distinction that warrants rejection of Laclede's request,  
18 Public Counsel merely seeks to change the AAO rules in midstream.

19 Q. But isn't it true that the Company has previously been compensated for the risk of  
20 under-recoveries due to weather in its rate of return?

21 A. No. Nothing could be further from the truth. Because of the way Staff, and to a  
22 lesser extent, Public Counsel have traditionally calculated the Company's return  
23 on equity, the absence of a mechanism for addressing cost recovery shortfalls due

1 to weather has actually resulted in a *lower* -- not a *higher* -- authorized return on  
2 equity for Laclede in past cases.

3 Q. How can that possibly be?

4 A. While I theoretically agree that a mechanism for addressing the cost-recovery  
5 shortfalls due to weather can lower risk, the fact remains that, in practice,  
6 Laclede's rate of return is already so low as to have factored in much less risk  
7 than Laclede actually faces. In fact, Laclede's authorized ROE is significantly  
8 below the ROE of its peer companies, some of whom already have a weather  
9 mitigation clause ("WMC") that reduces their exposure to weather. Under such  
10 circumstances, I do not see how anyone could possibly argue that Laclede's ROE  
11 has factored in the risk of an extraordinary weather event of the magnitude of the  
12 winter of 2001-2002. To the contrary, under the Staff's traditional "company-  
13 specific" approach for determining an appropriate ROE, the absence of a  
14 mechanism for addressing cost recovery shortfalls due to weather has actually  
15 resulted in a lower ROE for Laclede. This is due to the fact that in its DCF  
16 analysis, the Staff actually lowers its growth estimates, and hence its  
17 recommended ROE, for Laclede based, in part, on an historical analysis of  
18 Laclede's earnings that have been adversely affected by tens of millions of dollars  
19 in under-recoveries due to weather. In other words, under Staff's analysis, the  
20 greater the risk and the greater the actual occurrence of under-recoveries  
21 experienced by Laclede due to weather, the lower Staff's recommended ROE for  
22 Laclede has and will be. As a result, far from being compensated for weather  
23 risks in its ROE, Laclede has been affirmatively penalized for such risk and the

1 impact that it has actually had on the Company. Under such circumstances, any  
2 introduction of ROE considerations into the evaluation of whether an AAO is  
3 appropriate in this case would strongly support the granting of such relief.  
4 Indeed, from a risk/return standpoint the *granting* of the Company's requested  
5 AAO is the only action that can be reconciled with the ROE's actually  
6 recommended and granted the Company in previous cases.

7 **The Retroactive/Single Issue Ratemaking Argument**

- 8 Q. Should the Commission be concerned about whether the Company's AAO request  
9 violates the prohibition against retroactive or single-issue ratemaking, or causes a  
10 mismatch of revenues and expenses?
- 11 A. Certainly not. On page 20 of his rebuttal testimony, Staff witness Oligschlaeger  
12 argues that the Company's request for an AAO violates the prohibition against  
13 retroactive ratemaking, presumably on the grounds that it seeks to defer and  
14 recover costs that were not recovered under existing rates. This retroactive  
15 ratemaking claim is, however, nothing more than an attack on the legality of all  
16 AAOs, including those that have previously been granted by the Commission. By  
17 definition, any item deferred pursuant to an AAO is necessarily an item that is not  
18 covered by existing rates. Indeed, if the item *was* covered by existing rates, there  
19 would be no need to defer it for future recovery consideration. Thus, the  
20 Commission has previously permitted utilities to defer items ranging from the  
21 costs incurred to repair electric lines damaged by an ice or snow storms,<sup>1</sup> to the

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<sup>1</sup> See e.g. *In the matter of the Application of Kansas City Power and Light Company for an Accounting Order Regarding Accounting for Extraordinary Costs Relating to Storm Damage*, Case No. EO-97-224, Accounting Authority Order (issued January 21, 1997)

1 expenses associated with complying with Y2K, to the bad debts arising from  
2 revenues foregone as a result of implementing the Commission's Emergency Cold  
3 Weather Rule Amendments<sup>2</sup>, precisely because they were *not* covered by, or  
4 recovered under, the rates in existence at the time they were incurred. In none of  
5 these cases did the Commission conclude that it was somehow prohibited by  
6 retroactive ratemaking considerations from permitting such items to be deferred  
7 for potential recovery in the future. Nor did the Commission determine in any of  
8 these instances that such deferrals were inappropriate or unlawful, as Staff and  
9 Public Counsel would urge it to do in this case, because they might have the  
10 potential effect of permitting the utility to achieve greater earnings than it  
11 otherwise would have absent the granting of such authority. As Staff and Public  
12 Counsel well know, such potential earnings effects are an attribute of *every* AAO  
13 and it is ludicrous to suggest that such a consideration somehow bars the granting  
14 of an AAO in this case. Indeed, this consideration is at the very heart of the  
15 reasons for granting an AAO as noted by Staff witness Oligschlaeger at page 4 of  
16 his rebuttal testimony.

17 Q. What about single issue ratemaking?

18 A. On page 16 of his rebuttal testimony, Public Counsel Witness Trippensee  
19 criticizes the Company's AAO request on the grounds that it constitutes single-  
20 issue ratemaking to grant the relief requested by the Company. Again, such an  
21 argument is nothing more than an unsupported attack on the legality of all AAOs,

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<sup>2</sup>See *In the matter of the Application of UtiliCorp United Inc., d/b/a Missouri Public Service and St. Joseph Light and Power Company for an Accounting Authority Order relating to Commission Rule 4 CSR 240-13.055(13)*, Case No. GA-2002-285, Order Granting Accounting Authority (Issued January 10, 2002).

1 including those that have previously been granted by the Commission. The very  
2 nature of an AAO is that it is a single event of such an extraordinary nature that  
3 the Commission has deemed it equitable to except it from any prohibition against  
4 single-issue ratemaking. Thus, the arguments regarding retroactive and single-  
5 issue ratemaking are irrelevant, since the Commission and the Courts have  
6 already decided the issue with respect to AAOs. The only issue here is whether  
7 the event described by Laclede warrants the granting of an AAO. For the reasons  
8 stated here and in my direct testimony, I believe it does.

9 Q. And the Matching Principle?

10 A. Public Counsel witness Trippensee (page 13, line 1) argues that granting an AAO  
11 will cause a mismatch because future ratepayers will pay for an event experienced  
12 by past ratepayers. First, I do not accept that this situation causes a mismatch.  
13 Just the opposite is true, in fact, since the AAO request would result in customers  
14 paying an amount that more closely approximates the actual cost of the service  
15 they received, since it would only permit the Company to defer and recover the  
16 costs that were actually incurred to serve them. Moreover, Laclede has proposed  
17 that the deferred amount be recovered over a five year period, which is certainly  
18 not a distant recovery of these costs. Second, Public Counsel's raising the  
19 mismatch issue is simply another general attack on AAOs, because it is an  
20 inherent result of the AAO process that current costs are deferred for future  
21 recovery.

22 **Other Issues**



1 Q. Witness Trippensee (page 17, line 11) maintains that no utility has proposed a  
2 reverse AAO to defer excess earnings. Is this true?

3 A. No. As noted by Witness Oligschlaeger (page 11, line 3), Laclede has proposed a  
4 WMC to remove the impact of abnormal weather on Laclede's earnings. The  
5 WMC applies to protect both Laclede and its customers from the effects of  
6 weather. Laclede has now twice proposed a WMC. Laclede first proposed a  
7 WMC in its 2001 rate case, Case No. GR-2001-629, following the winter of 2000-  
8 2001 when cold weather resulted in higher billings from temperatures that were  
9 about 8% colder than normal. Laclede's second WMC proposal has been made in  
10 Laclede's current rate case, Case No. GR-2002-356. By filing these WMCs,  
11 Laclede is more than willing to have the accounting work in both directions,  
12 providing both customers and the Company with protection from the impact of  
13 abnormal weather conditions. In addition, both before and after the winter of  
14 2000-2001, Laclede proposed rate design solutions that were explicitly designed  
15 to lessen, if not completely eliminate, any over-recovery or under-recovery of  
16 costs due to weather. Under such circumstances, the Company is a particularly  
17 inappropriate target for these kinds of equitable claims.

18 Q. Witness Oligschlaeger, on page 10 of his rebuttal testimony, argues that Laclede  
19 should not be entitled to an AAO to defer the entire impact of weather, only the  
20 extraordinary portion. Do you agree?

21 A. Other AAOs allow for the recovery of the full amount of the extraordinary event.  
22 For example, ice storm AAOs defer the full cost of the ice storm. There is no  
23 hurdle to clear that represents a "normal" level of winter storm costs that should

1 be absorbed by the utility before recovery is allowed. In this case, Laclede should  
2 recover the full cost of the abnormal winter. However, if the Commission decides  
3 to impose a hurdle on the effect of an extraordinary weather event, the hurdle  
4 should be placed at the level where the item in question became an extraordinary  
5 event, that is, the AAO deferral should be granted for the portion of the effect that  
6 exceeds 5% of net income. This theory would exclude approximately \$2.4  
7 million from the AAO based on Laclede's pre-tax income, or about \$1.5 million  
8 on a net income basis.

9 Q. At page 8, line 5 and page 9, line 5 of his rebuttal testimony, Staff witness  
10 Oligschlaeger suggests that Laclede's AAO request should be denied because  
11 Laclede has proposed no standard for determining what constitutes extraordinary  
12 weather. Is he correct?

13 A. No. Mr. Oligschlaeger himself cites the definition for an extraordinary item,  
14 derived from the USOA Account, at page 3, lines 5-20 of his rebuttal testimony.  
15 Without repeating it verbatim, an extraordinary event is one that is unusual,  
16 infrequent and has a significant effect on the utility (more than 5% of net income).  
17 The Commission has no problem identifying other extraordinary events for AAO  
18 purposes, including extraordinary events related to weather, all without a standard  
19 that is any more specific than the guidance provided by the USOA definition of an  
20 extraordinary item. Indeed, Mr. Oligschlaeger's concerns could just as easily be  
21 directed at any other AAO request that has been granted by the Commission.  
22 When are the costs from an ice-storm, wind storm, plant outage or any other event  
23 extraordinary enough to warrant an AAO? As in this case, the answer has always

1       been relatively simple and straightforward: when it has an impact equal to at least  
2       5% of the utility's net income. The answer is no less obvious and no more  
3       complicated in this case, notwithstanding Mr. Oligschlaeger's efforts to suggest  
4       otherwise.

5   Q.   What is your opinion of Staff's proposed set of new criteria for granting an AAO,  
6       as presented by Mr. Oligschlaeger at page 18, line 10 of his rebuttal testimony?

7   A.   Like its less direct efforts to change the standards for granting an AAO in this  
8       case through the use of illusory distinctions, Staff's new set of criteria is also  
9       designed to effectively eliminate AAOs by making it virtually impossible for a  
10      utility to qualify for such treatment. The witness presents four criteria. The first  
11      two criteria are similar to the current Commission standard, while the last two  
12      criteria combine to effectively eliminate AAOs.

13         The first criterion is that the triggering event for the costs in question, as  
14      well as the costs themselves, must be extraordinary. The second criteria is that  
15      the costs must be material, at least 5% of regulated Missouri net income. As  
16      stated above, these criteria are similar to the current criteria, although it is unclear  
17      why the associated cost must be both extraordinary and material. The third  
18      criteria proposed by Staff is that the utility's rates must be inadequate to cover the  
19      costs of the event, while the fourth criteria requires the utility to show why it  
20      could not file a rate case to cover the costs of the event. In effect, these last two  
21      criteria simply suggest that the only remedy available to a utility for deferring and  
22      recovering the effects associated with an extraordinary event is to file a rate case  
23      in which some could argue that rates should be established based on a normalized

1 level of costs and revenues that, of course, would exclude the extraordinary item.  
2 Under such circumstances, there would virtually never be an opportunity to  
3 recover for the effect of a significant, extraordinary, non-recurring event. By  
4 requiring a rate case to be filed, Staff's third and fourth criteria would effectively  
5 eviscerate the AAO, which is the only method by which a utility can recoup the  
6 severe financial consequences of an extraordinary event.

7 Q. Does Laclede's request nevertheless meet the criteria proposed by Staff?

8 A. Yes. While Laclede opposes the criteria for the reasons given, Laclede actually  
9 comes as close as any utility possibly could to meeting such criteria. As to the  
10 first and second criteria, the unusually warm winter was an extraordinary event  
11 that has had a major financial impact. Regarding the third criteria, it is clear that  
12 Laclede's current rates were not adequate to cover its costs and that Laclede  
13 would not earn its authorized return even if it were permitted to recover the costs  
14 associated with its AAO request. Indeed, Mr. Oligschlaeger concedes at page 19,  
15 line 11, that Staff is not alleging that Laclede is currently experiencing excess  
16 earnings. Mr. Oligschlaeger's statement is wrongly contradicted by Staff witness  
17 Russo, who incredibly makes the completely unsupported statement at page 2,  
18 line 22, that Laclede's proposed AAO would increase rates above just and  
19 reasonable levels. Finally, the Company already had a general rate case on file at  
20 the time it filed its AAO. Since the ultimate magnitude of the weather impact on  
21 Laclede for the winter of 2001-2002 was unknown at that time it filed its case in  
22 January, the Company could obviously not address those impacts at the time it  
23 filed its rate case. Nevertheless, the fact that the Company had a general rate case

1 on file and has a significant earnings deficiency apart from that related to its AAO  
2 request clearly satisfies these components of Staff's criteria.

3 Q. You previously indicated that the extraordinary weather impacts of last winter had  
4 a substantial negative impact on the Company's recovery of its costs of providing  
5 utility service. And yet Staff witness Russo suggests at page 3, line 9 of his  
6 rebuttal testimony that the extraordinary weather of 2001-2002 had no effect on  
7 Laclede's earnings because Laclede earned \$1.10 per share during its second  
8 quarter ending 3/31/02, which was the same amount earned for the quarter ended  
9 3/31/01. Do you agree?

10 A. Absolutely not. Mr. Russo has only told half of the story and the half that he tells  
11 has been told incompletely. First, he makes absolutely no mention of Laclede's  
12 first fiscal quarter ending December 2001 which covers approximately half of the  
13 winter heating season, and includes the period during which much of the  
14 extraordinary deviation from normal weather occurred. In focusing on and  
15 comparing the 2002 second fiscal quarter to the 2001 second fiscal quarter, he  
16 also fails to mention that the more recent quarter includes the Company's \$4.9  
17 million share of the nearly \$30 million in gains realized from the Company's  
18 Price Stabilization Program that was in effect the previous winter.

19 Q. What is the result when a more complete evaluation is done?

20 A. From Mr. Russo's own Schedules 2-1 and 2-2, it can be seen that Laclede earned  
21 \$1.51 per share for the 6 months ending 3/31/02, compared to \$2.08 for the same  
22 period in fiscal 2001. This is a 27% decrease in net income on weather that was  
23 26% warmer than the previous year and 17% warmer than normal. And if one

1        were to exclude the \$4.9 million in earnings retained under the PSP, the \$1.51 per  
2        share would decline by an additional 16 cents or so to \$1.35, or only one cent  
3        above the Company's dividend. And none of this takes into consideration the fact  
4        that Laclede's third and fourth quarters traditionally have negative earnings,  
5        meaning that even this substantially reduced amount of earnings per share will be  
6        reduced further. In summary, contrary to Mr. Russo's erroneous testimony, the  
7        warm winter of fiscal 2002 has cost Laclede dearly.

8        Q.    Public Counsel witness Burdette, at page 2, line 13, recommends denial of the  
9        AAO request because weather cannot be extraordinary, but is instead a normal  
10       business risk. Do you dispute this position?

11      A.    Yes. As stated earlier in this testimony, Laclede's rates are based on normalized  
12       weather, and Laclede expects to absorb a loss or enjoy a gain from normal  
13       deviations from such normalized weather under current rates. However, Laclede  
14       cannot control the weather and can no longer tolerate the overwhelming effects of  
15       a winter that is warmer than 97 of the previous 101 winters. An extraordinary  
16       event such as this past winter is not part of a normal business risk. As a regulated  
17       utility, Laclede cannot quickly react to such adverse conditions. A gas station, for  
18       example, can immediately change its prices in reaction to increased gas costs.  
19       Other businesses can reduce their costs of providing service. Laclede, however,  
20       has no regulatory or operational remedy to combat extraordinary winter weather  
21       except to apply for an AAO. That is, it can neither change its rates in a prompt  
22       manner or reduce the costs that it must incur to meet the public utility obligations  
23       that have been mandated by this Commission.

1 Q. Staff witness Gray criticizes your methodology in deriving the financial effect  
2 from the extraordinarily warm winter. What is your opinion of his criticisms?

3 A. Mr. Gray is wrong in implying, if that is what he intended to do, that there is any  
4 material difference in the Company's calculation of the impact of weather last  
5 winter and the impact that would be derived under Staff's approach. In fact,  
6 contrary to Mr. Gray's testimony, my calculation of the weather impact on  
7 Laclede was based on what I believe to be the weather normal based on 30 years  
8 of data used by all of the parties in our last case to set rates. Since that was a  
9 lower weather normal than the one proposed by Staff, its use actually assumes  
10 that there was a smaller deviation from normal weather than use of Staff's  
11 weather normal would have and hence a smaller, not larger, quantification of the  
12 recovery shortfall being claimed by Laclede. I would also note that while Mr.  
13 Gray suggests alternative means that could have been used for calculating this  
14 amount, he offers absolutely no evidence that would quantify the results of those  
15 alternatives. In other words, he implies much but proves nothing in terms of  
16 whether there would be any material difference in the results that would be  
17 obtained under the two approaches.

18 Q. What then do you recommend the Commission do in response to Mr. Gray's  
19 concerns?

20 A. The Commission should not permit Mr. Gray's failure to provide any evidence  
21 showing the results of his alternative calculations to impede its granting of a  
22 deserved AAO. Simply put, the Company's calculation of \$10.85 million is the  
23 only quantification of the weather impact that has been offered in this proceeding,

1 and unlike Mr. Gray I am prepared to both provide and stand behind my  
2 quantification. Nevertheless, if the Commission would prefer to have Staff's  
3 approach used to calculate the impact of weather on the Company this past winter,  
4 Laclede would have no objection to the Commission directing such a result in its  
5 Order granting Laclede's request. This should completely address any of the  
6 concerns raised by Staff.

7 Q. Both Public Counsel witness Trippensee and Staff witness Oligschlaeger suggest  
8 in their rebuttal testimony, at pages 17 and 7, respectively, that granting the  
9 Company's AAO request would be to guarantee Laclede's earnings. Is this  
10 correct?

11 A. No, not at all. As I indicated in my direct testimony, Laclede's AAO only seeks  
12 to address the impact of weather on the Company's recovery of the cost levels  
13 that were approved by the Commission in its last rate case. As a consequence, the  
14 AAO would have no impact on the numerous and substantial increases in such  
15 costs that Laclede has experienced since the conclusion of the case -- increases  
16 which have already had a significant impact on earnings. Nor would the AAO  
17 eliminate the impact of other items that negatively affect the Company's earnings.  
18 In view of these considerations, there is simply no basis for suggesting approving  
19 the AAO would guarantee Laclede's earnings.

20 Q. Mr. Trippensee also suggests at page 15, line 18, of his rebuttal testimony that the  
21 Commission should not grant the Company's AAO request because it is unlikely  
22 to permit recovery of the deferred amounts, thus resulting in a potential write-off.  
23 Do you agree?



1 A. Mr. Trippensee's assertion simply assumes that the Commission would ultimately  
2 deny Laclede recovery of the amounts deferred pursuant to the AAO. I believe  
3 that such an assumption is neither valid nor preordained, however, for all of the  
4 reasons discussed throughout my direct and rebuttal testimony as to why deferral  
5 and recovery of these amounts is appropriate. Nevertheless, I do agree with Mr.  
6 Trippensee that such impacts should be avoided. I would therefore recommend  
7 that the Commission make its determination now as to the recoverability of the  
8 deferred amounts so as to avoid the concerns raised by Mr. Trippensee. Certainly,  
9 the record is more than adequate for the Commission to do so.

10 Q. Several witnesses suggest that the AAO would force the Company's customers to  
11 pay for gas that they have not used. Is this true?

12 A. No, the AAO request would do no such thing. What it would do is have  
13 customers pay for the costs that were actually incurred by the Company to serve  
14 them. In fact, it is Staff and Public Counsel who, in reality, would have  
15 customers *not* pay for gas service that they *did* use -- a result that is the direct  
16 opposite of what they are claiming in this proceeding.

17 Q. Do you have any response to the rebuttal testimony filed by Mr. Mallinckrodt on  
18 behalf of one of the large industrial customer groups?

19 A. Since Mr. Mallinckrodt's testimony simply summarizes the contentions made by  
20 Staff and Public Counsel and includes no independent analysis or argument of his  
21 own, it does not require any additional response. I would point out, however, that  
22 in the single instance where Mr. Mallinckrodt does make an independent factual  
23 statement, he makes an erroneous one. Specifically, at page 8 of his rebuttal

1 testimony, Mr. Mallinckrodt states that Laclede “does not argue that the event  
2 (warmer than normal weather) is unusual and unique.” Apparently, Mr.  
3 Mallinckrodt’s review of the other parties’ submission did not include a thorough  
4 review of either Laclede’s application or my direct testimony since we have, in  
5 fact, made this argument, and made it repeatedly.

6 Q. Does this conclude your surrebuttal testimony?

7 A. Yes, it does.

8

# **SCHEDULE 1**

**STATE OF MISSOURI  
PUBLIC SERVICE COMMISSION**

At a Session of the Public Service Commission  
held at its office in Jefferson City on  
the 27th day of June, 2002.

In the Matter of Aquila Inc.'s Application for the	)	
Issuance of an Accounting Authority Order Relating to	)	<b><u>Case No. EU-2002-1053</u></b>
Its Electrical Operations in the Aquila Networks-MPS	)	
Division as a Result of a Severe Ice Storm	)	

**ORDER GRANTING ACCOUNTING AUTHORITY ORDER**

On April 24, 2002, Aquila, Inc., filed its Application for an Accounting Authority Order respecting costs incurred due to a severe ice storm in its former Missouri Public Service area in January 2002. The application does not apply to the Aquila Networks – L&P division (formerly St. Joseph Light & Power Company). Beginning on January 30, 2002, Aquila's Missouri Public Service territory experienced the effects of an ice storm of historical proportions that resulted in almost half of the customers in Aquila's Missouri Public Service territory having their electric service interrupted due to downed power lines. In some places, ice accumulated to almost two inches in thickness on power lines and tree limbs, resulting in broken power lines, broken utility poles, and customers having electric meter sets ripped off the side of their homes. Other electric utility systems in the area were also severely affected. At the height of the disruption, approximately 40 percent of its customers in the area were without service. In addition to its own service crews, Aquila engaged the services of numerous other crews from other utilities in other states and also hired tree-trimming and removal crews from as far away as Texas. At the peak of its restoration efforts, Aquila had almost 700 people working long hours to restore service.

Aquila stated that its Missouri Public Service division has incurred incremental operating expenses of at least \$6,000,000 directly related to the ice storm but that final

amounts have yet to be determined. Aquila stated that the financial impact of this storm is not now, and has never been, reflected in the rates that Missouri Public Service division charges for electric service in Missouri. Aquila requested an order from the Commission authorizing it to defer and record, in the Uniform System of Accounts number 182.3 for the Missouri Public Service division, the incremental operating expenses incurred as a result of the ice storm. Aquila requested that the order authorize these deferrals to be amortized for financial reporting purposes beginning with the effective date of the Commission's order and continue over a five-year period. Aquila also requested that the accounting authority order be issued by the Commission before June 30, 2002, so that it can be contained in the financial release made for the second quarter of Aquila's 2002 fiscal year.

On June 6, 2002, the Office of the Public Counsel filed its Recommendation and Request for Hearing. Therein, Public Counsel urges the Commission to grant Aquila's application conditioned upon six conditions proposed by the Public Counsel. Those conditions are that :

1. Aquila should be authorized to defer actual incremental operation and maintenance expenses incurred as a direct result of the January 2002 Ice storm to Uniform System of Accounts Account 182.3. Such expenses shall be in accordance with Uniform System of Accounts definitions of operation and maintenance expense and shall exclude any costs of or related to expenditures relating to plant-in-service (i.e. capital costs).
2. The Commission should order that any insurance claim proceeds, if applicable, first be used to offset the amount of the incremental expenses deferred. Any insurance proceeds in excess of the actual incremental expense (to the extent any insurance proceeds exist) shall be used to offset capital additions directly resulting from the ice storm.
3. Aquila should be authorized to immediately begin ratably amortizing the amount deferred to Account 182.3 over a 60-month period upon receipt of a Missouri Public Service Commission Report and Order authorizing an accounting authority order for expenses related to the January 2002 ice storm.
4. Aquila should be required to maintain adequate records supporting the incremental expenses deferred. Such records shall include, but not be limited to, detailing of outside contractors, food and lodging costs, labor and material costs, procedures and verification for expense versus

capitalization determinations, and determination of incremental levels of such costs versus normal on-going levels of costs. Such records should be available for Public Counsel, Staff, and other intervenors to review.

5. The Commission should not make any findings or inferences as to whether the deferred expenses are reasonable, whether other factors contributed to the damage to the system and the resulting repair/replacement costs incurred, or whether Aquila would have suffered financial harm (i.e. earnings during the period were adequate to compensate Aquila for the costs incurred) absent deferral. The Commission should reserve the right to consider the ratemaking treatment of the costs deferred and any assertions by parties to a future rate case.
6. The Commission order should also recognize that the ice storm's effect on the Missouri Public Service division of Aquila and the authorization of an accounting authority order is not related to the issue of whether separate overall cost of service studies for Aquila's divisions within the state of Missouri should be maintained. The appropriate method of determining the overall cost of service will be determined in a subsequent proceeding.

On June 17, 2002, the Staff of the Commission filed a response to Public Counsel's recommendation. Staff stated that it agrees that the costs Aquila seeks to defer are similar to costs for which the Commission has generally issued accounting authority orders. Staff stated that its preliminary investigation showed that the costs resulting from the event are material to the financial condition of Aquila's Missouri Public Service division. Staff generally supported Public Counsel's recommendation that the Company be granted the requested AAO subject to the six conditions, except that Staff recommended that the five-year amortization period should begin February 1, 2002 (immediately after the two-day ice storm), rather than upon receipt of a Commission order granting the accounting authority order as Public Counsel suggested. Staff reasoned that the earlier start date for the beginning of the amortization period would avoid an unnecessary delay and ensure timely recognition of cost of the ice storm in Aquila's financial statements.

On June 18, Aquila filed a response to Public Counsel's recommendation. Aquila stated that it did not object to the conditions listed in that recommendation. At the

prehearing conference held on June 24, both Aquila and Public Counsel stated on the record that they did not object to Staff's proposed modification.

Since the parties are all in agreement that Aquila should be granted an accounting authority order, and are in agreement as to the conditions that should attach to the granting of the authority, the Commission concludes that granting it will not be detrimental to the public interest. The Commission will grant the requested accounting authority, subject to the agreed upon conditions.

**IT IS THEREFORE ORDERED:**

1. That the application for an accounting authority order filed by Aquila, Inc. on April 24, 2002, is granted, and Aquila, Inc. is authorized to defer and record, in the Uniform System of Accounts account 182.3 for the Missouri Public Service division, the incremental operating expenses incurred as a result of the ice storm, subject to the following conditions:

- A. Aquila is authorized to defer actual incremental operation and maintenance expenses incurred as a direct result of the January 2002 ice storm to Uniform System of Accounts Account 182.3. Such expenses shall be in accordance with Uniform System of Accounts definitions of operation and maintenance expense and shall exclude any costs of or related to expenditures relating to plant-in-service (i.e. capital costs)
- B. Any insurance claim proceeds, if applicable, shall first be used to offset the amount of the incremental expenses deferred. Any insurance proceeds in excess of the actual incremental expense (to the extent any insurance proceeds exist) shall be used to offset capital additions directly resulting from the ice storm.
- C. Aquila shall ratably amortize the amount deferred to Account 182.3 over a five-year period beginning February 1, 2002.
- D. Aquila shall maintain adequate records supporting the incremental expenses deferred. Such records shall include, but not be limited to, detailing of outside contractors, food and lodging costs, labor and material costs, procedures and verification for expense versus capitalization determinations, and determination of incremental levels of such costs versus normal on-going levels of costs. Such records shall be available for Public Counsel, Staff, and other intervenors to review.
- E. The Commission makes no findings or inferences as to whether the

deferred expenses are reasonable, whether other factors contributed to the damage to the system and the resulting repair/replacement costs incurred, or whether Aquila would have suffered financial harm (i.e. whether earnings during the period were adequate to compensate Aquila for the costs incurred) absent deferral. The Commission reserves the right to consider the ratemaking treatment of the costs deferred and any assertions by parties to a future rate case.

- F. That the ice storm's effect on the Missouri Public Service division of Aquila and the authorization of an accounting authority order is not related to the issue of whether separate overall cost of service studies for Aquila's divisions within the state of Missouri should be maintained. The appropriate method of determining the overall cost of service will be determined in a subsequent proceeding.
2. That this order shall become effective on July 7, 2002.
3. That this case may be closed on July 8, 2002.

**BY THE COMMISSION**

**Dale Hardy Roberts**  
**Secretary/Chief Regulatory Law**

**Judge**

( S E A L )

Simmons, Ch., Murray, Lumpe, Gaw and Forbis, CC., concur

Mills, Deputy Chief Regulatory Law Judge



## **SCHEDULE 2**

Direct Testimony of  
Roberta A. McKiddy

1 customer base, low market risk, competitive gas space-heating rates, diverse supply sources,  
2 and significant gas storage capacity. In addition, Laclede's largely residential customer base  
3 limits its susceptibility to economic downturns and mitigates vulnerability to threats from  
4 other energy providers." [Source: Standard and Poor's Summary of Laclede Gas Company,  
5 Ratings Direct, May 3, 2002.]

6 **RATE OF RETURN FOR LACLEDE**

7 Q. Please explain how the returns on common equity you have developed for  
8 each capital component will be used in the ratemaking approach Staff has adopted for  
9 purposes of developing the appropriate revenue requirement for Laclede's Missouri natural  
10 gas distribution operations.

11 A. Staff has adopted the cost of service ratemaking approach in this case. This  
12 approach develops the public utility's revenue requirement. The cost of service (revenue  
13 requirement) is based on the following components: prudent operation costs, rate base and a  
14 return allowed on the rate base (see Schedule 32).

15 It is my responsibility to calculate and recommend a rate of return that should be  
16 authorized on the Missouri jurisdictional natural gas distribution rate base for Laclede.  
17 Under the cost of service ratemaking approach, a weighted cost of capital in the range of  
18 7.37 percent to 7.79 percent with a midpoint of 7.58 percent was developed for Laclede's  
19 Missouri natural gas distribution operations (see Schedule 33). This rate was calculated by  
20 applying an embedded cost of preferred stock of 4.95 percent, an embedded cost of long-term  
21 debt of 7.63 percent, an embedded cost of short-term debt of 3.343 percent and a return on  
22 common equity range of 8.75 percent to 9.75 percent to a capital structure consisting of  
23 16.73 percent short-term debt, 41.43 percent long-term debt, 0.18 percent preferred stock and

LACLEDE GAS COMPANY  
CASE NO. GR-2002-356

**Public Utility Revenue Requirement**

or

**Cost of Service**

The formula for the revenue requirement of a public utility may be stated as follows :

Equation 1 : **Revenue Requirement = Cost of Service**

or

Equation 2 :  **$RR = O + (V - D)R$**

The symbols in the second equation are represented by the following factors :

<b>RR</b>	<b>= Revenue Requirement</b>
<b>O</b>	<b>= Prudent Operating Costs, Including Depreciation and Taxes</b>
<b>V</b>	<b>= Gross Valuation of the Property Serving the Public</b>
<b>D</b>	<b>= Accumulated Depreciation</b>
<b>(V - D)</b>	<b>= Rate Base (Net Valuation)</b>
<b>(V - D)R</b>	<b>= Return Amount (\$\$) or Earnings Allowed on Rate Base</b>
<b>R</b>	<b>= <math>iL + dP + kE</math> or Overall Rate of Return (%)</b>
<b>i</b>	<b>= Embedded Cost of Debt</b>
<b>L</b>	<b>= Proportion of Debt in the Capital Structure</b>
<b>d</b>	<b>= Embedded Cost of Preferred Stock</b>
<b>P</b>	<b>= Proportion of Preferred Stock in the Capital Structure</b>
<b>k</b>	<b>= Required Return on Common Equity (ROE)</b>
<b>E</b>	<b>= Proportion of Common Equity in the Capital Structure</b>

*Exhibit No.:**Issue: Cash Working Capital,  
Advertising, Rate Case  
Expense, PSC Assessment,  
Miscellaneous Expense: Rents  
and Leases, LockBox Fees,  
and Lobbying and  
Professional/Consulting  
Services**Witness: Lisa K. Hanneken**Sponsoring Party: MoPSC Staff**Type of Exhibit: Direct Testimony**Case No.: GR-2002-356**Date Testimony Prepared: June 20, 2002***MISSOURI PUBLIC SERVICE COMMISSION****UTILITY SERVICES DIVISION****DIRECT TESTIMONY****OF****LISA K. HANNEKEN****LACLEDE GAS COMPANY****CASE NO. GR-2002-356***Jefferson City, Missouri  
June 2002*

Direct Testimony of  
Lisa K. Hanneken

1           A. The lags for the two pension components, SERP and Directors Pension and  
2 Minimum ERISA Pension, are shown on Accounting Schedule 8, lines 5 and 6 respectively.  
3 The expense lag reflects the fact that contributions for each plan year, which ends September  
4 30, are normally made the following June. The lag is 275.83 days, which reflects the elapsed  
5 time between the midpoint of the plan year and the date of the contribution.

6           Q. Please explain the expense lag for other post-retirement benefits (OPEBs)  
7 shown on line 7 of Accounting Schedule 8.

8           A. The lag for OPEBs was computed using the dates and amounts provided in the  
9 Company's response to Data Request Nos. 142 and 179. Staff based its calculations on the  
10 elapsed time between the midpoint of the service year and the date the contribution is due.

11          Q. Please explain how the expense lag for group insurance on line 8 of Accounting  
12 Schedule 8 was calculated.

13          A. The lag for group insurance was computed using data provided in the  
14 Company's response to Data Request No. 123, which included actual amounts and dates paid  
15 and service periods to which the payments pertained. Calculations were based on the number  
16 of days from the invoice date (or the service period, if such information was provided on the  
17 invoice) to the date the invoice was paid.

18          Q. Please explain the expense lag for uncollectible accounts.

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

23          Q. Please explain the expense lag for rent expense.

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

In the Matter of the Application of Laclede )  
Gas Company for an Accounting Authority Order )  
Authorizing the Company to Defer for Future Recovery ) Case No. GA-2002-429  
Consideration its Just and Reasonable Costs of Providing )  
Public Utility Service that would Otherwise be Un- )  
Recovered Due Solely to the Extraordinary Impact of )  
Record Warm Weather on the Company's Operations )

**AFFIDAVIT**

STATE OF MISSOURI     )  
                                  )  
COUNTY OF COLE     )

Michael R. Spotanski, of lawful age, being first duly sworn, deposes and states:

1. My name is Michael R. Spotanski. My business address is 720 Olive Street, St. Louis, Missouri 63101; and I am Vice President-Finance of Laclede Gas Company.

2. Attached hereto and made part hereof for all purposes is my surrebuttal testimony, consisting of pages 1 to   , inclusive, and attached schedules.

3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded and the information contained in the attached schedules are true and correct to the best of my knowledge and belief.

  
Michael R. Spotanski

Subscribed and sworn to before me this 12th day of July, 2002.



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