

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

FILED³

JAN 25 2002

Missouri Public
Service Commission

In the Matter of Laclede Gas Company's)
Tariff to Revise Natural Gas Rate)
Schedules.)

Case No. GR-2002-356

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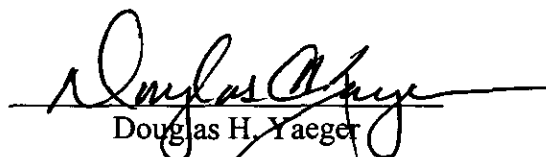
STATE OF MISSOURI)
) SS.
CITY OF ST. LOUIS)

Douglas H. Yaeger, of lawful age, being first duly sworn, deposes and states:

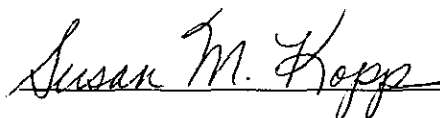
1. My name is Douglas H. Yaeger. My business address is 720 Olive Street, St. Louis, Missouri 63101; and I am Chairman, President and Chief Executive Officer of Laclede Gas Company.

2. Attached hereto and made part hereof for all purposes is my direct testimony, consisting of pages 1 to 18, inclusive.

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


Douglas H. Yaeger

Subscribed and sworn to before me this 25th day of January, 2002.



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

Exhibit No.:

Issue:

Witness:

Type of Exhibit:

Sponsoring Party:

Case No.:

Policy

Douglas H. Yaeger

Direct Testimony

Laclede Gas Company

GR-2002-356

LACLEDE GAS COMPANY

GR-2002-356

DIRECT TESTIMONY

OF

DOUGLAS H. YAEGER

DIRECT TESTIMONY OF DOUGLAS H. YAEGER

1
2
3 Q. Please state your name and business address.

4 A. My name is Douglas H. Yaeger, and my business address is 720 Olive Street, St. Louis,
5 Missouri 63101.

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

7 A. I am employed by Laclede Gas Company in the position of Chairman of the Board,
8 President and Chief Executive Officer.

9 Q. Have you prepared a schedule that describes your qualifications and experience?

10 A. Yes, Schedule 1 to my direct testimony describes my qualifications and experience in the
11 natural gas industry.

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

13 A. The purpose of my testimony in this proceeding is to explain why Laclede is seeking rate
14 relief and critical modifications to its tariffs at this time. The necessity for this filing
15 stems as much from the need to resolve several fundamental issues that are essential to
16 achieving revenue stability as it does from the need to obtain additional rate relief. Such
17 revenue stability, in the form of greater regulatory certainty that the Company will
18 actually be able to recover the costs that the Commission has deemed to be reasonable
19 and necessary, is absolutely essential to our ability to provide safe, reliable and prompt
20 service on a sustainable basis while, at the same time, remaining a competitive
21 investment option for our share- and bond-holders. Indeed, the establishment of just and
22 reasonable rates at compensatory levels, as well as the adoption of measures designed to
23 make sure that they will be translated into actual revenues, are absolutely critical to
24 ensuring -- both now and in the future -- the type and level of service that our customers

1 expect and that will ultimately attract new customers and investment to our service
2 territory and the State of Missouri. Because of shortfalls in both of these areas, however,
3 the financial resources available to the Company to support a sound utility infrastructure
4 have become precariously inadequate and we can no longer believe or pretend that such
5 is not the case. Since a general rate case is apparently the only regulatory vehicle for
6 addressing many of these issues, we are using this filing for that purpose.

7 Q. What factors have contributed to this situation?

8 A. It is a combination of things, some relating to the unique demographic circumstances
9 faced by Laclede and others relating to the cumulative impact of various regulatory
10 policies and practices. With respect to the first point, Laclede has for some time now
11 experienced extremely limited growth opportunities in its service territory, with overall
12 increases in customers averaging less than 1 percent per year. At the same time, the
13 Company's service territory has been profoundly affected by an extraordinary amount of
14 urban sprawl, as customers have moved from the inner city to the suburbs at rates that are
15 unmatched in any other major metropolitan area in the United States. This phenomena
16 has placed a unique and significant burden on the financial resources required by the
17 Company to provide natural gas service -- a burden that is not typically imposed on other
18 local distribution companies ("LDCs"). In effect, it forces the Company to incur both the
19 fixed investment costs and maintenance expense necessary to continue service to a
20 declining customer base within the inner city as well as the costs required to provide
21 service in the new areas to which many of those customers have moved. The end result is
22 a significant net increase in costs with little in the way of net customer growth to pay for
23 it. Add to this persistent cost increases in most other areas of our operations and the need

1 to make annual capital and safety-related expenditures of \$45 to \$50 million per year, and
2 it becomes readily apparent why the Company has had to seek rate relief on a periodic
3 basis. As I discussed in my testimony in the last case, however, a number of regulatory
4 policies and practices have operated in the past to prevent the Company from realizing
5 the financial resources required to meet its public utility obligations and provide a fair
6 return to the Company's shareholders.

7 Q. What regulatory policies and practices are you referring to?

8 A. As I indicated in my prior testimony, these include regulatory practices and policies that
9 do not fully compensate the Company for the additional costs and risks associated with
10 its undertaking of the merchant function in the wake of FERC Order 636. They also
11 include a method for establishing depreciation rates that has resulted in the Company
12 having the lowest depreciation rates of its peer utilities and, conversely, a regulatory
13 treatment of the Company's pension expenses that has resulted in Laclede having one of
14 the highest percentage of earnings generated from non-cash sources. Notably, none of
15 the non-cash source of income represented by pension expense, which has accounted for
16 up to 30% of the Company earnings in the past, provides even one dollar of funds that
17 can actually be used by Laclede to make capital investments, meet its payroll, or pay for
18 the gas used to serve the Company's customers. Such policies have also included a
19 "company-specific" approach to determining Laclede's return on equity that, according to
20 Staff's own ROE witness, generated a return recommendation in our last case that was
21 some 150 basis points below the average returns being authorized for other gas utilities
22 throughout the country. Finally, and most importantly, there is the continuing impact of

1 policies that do not adequately reflect or mitigate the impact of weather on the
2 Company's recovery of its distribution costs.

3 Q. Was any progress made in the last case in resolving these issues or at least mitigating
4 their detrimental impact on the Company?

5 A. As the result of the hard work and cooperation of all of the parties, including Staff and
6 Public Counsel, the Company was able to make some progress on several of these issues.
7 Others, however, were left completely or partially unresolved and continue to have a
8 detrimental impact on the Company. Nevertheless, because the Company delayed the
9 scheduled filing of its last rate case in response to the weather and price-related bill
10 spikes of last winter, any effort to litigate these issues in that case would have meant
11 deferring essential rate relief for a second heating season in a row. Such a result would
12 have been financially devastating to the Company. Accordingly, Laclede had little
13 choice but to negotiate the best settlement it could and leave these remaining issues to be
14 addressed further in this filing.

15 Q. Are there other factors which have affected the timing of the Company's filing?

16 A. Yes. It is important to recognize that while the Company was granted an increase of
17 approximately \$15 million in December, the vast bulk of any earnings or cost-recovery
18 enhancements associated with this increase has already been offset by other factors. As
19 the Commission knows, the Company's Gas Supply Incentive Plan was discontinued
20 effective October 1, 2001. By definition, pursuant to the Stipulation and Agreement
21 authorizing the implementation of the GSIP, any such earnings were not to be considered
22 in current or future rate case decisions. However, the fact remains that the Company has
23 experienced a significant void in its earnings stream due to the termination of the GSIP.

1 Another significant portion of the increase has also been offset by the impact of
2 abnormally warm weather, which during the last three months of 2001 alone, caused the
3 Company to under-recover its fixed distribution costs by an amount equal to nearly one-
4 third of the increase. Given these offsets, the certainty of additional cost increases in the
5 near future, and the continuing need to address the other issues I mentioned previously, it
6 was imperative that Laclede move forward with its rate filing at this time.

7 Q. What has been the cumulative effect of these factors on the Company's financial
8 situation?

9 A. They have led to a persistent and increasingly serious under-recovery by the Company of
10 its actual costs of providing service. They have also reduced substantially the cash flows
11 required by the Company to finance its public utility obligations. As I pointed out in my
12 testimony in the last case, prior to the Company's most recent fiscal year, Laclede was
13 unable to achieve its authorized rate of return in any of the prior three years, even with
14 the earnings from its GSIP taken into account. And even in the face of the record cold
15 weather experienced in November and December of 2000, the Company was still not able
16 to earn its authorized rate of return for the fiscal year ending September 30, 2001, now
17 making it four years in a row. Absent additional progress on the issues mentioned above,
18 it is difficult to see how this unsustainable trend -- a trend that is ultimately harmful to
19 our customers as well as our shareholders -- can be reversed.

20 Q. What kind of costs has the Company been unable to recover?

21 A. The vast majority of the costs Laclede incurs are non-discretionary expenditures that are
22 absolutely essential to providing service to our customers with the reliability they have
23 come to expect and within the safety, quality of service, billing and other service

1 requirements mandated by this Commission. We recognize that certain expenditures,
2 including some forms of advertising expense, charitable donations and other expenditures
3 that some might argue are not required to provide utility service, have been traditionally
4 disallowed by the Commission. Indeed, the Company has not even filed for recovery of
5 many of these types of costs. The magnitude of the under-recoveries experienced by the
6 Company as a result of weather and a significant deviation from the traditional
7 ratemaking process, however, far exceeds any amount that could be attributed to such
8 items. To the contrary, such under-recoveries consist primarily of costs that form the
9 backbone of our utility operations -- costs that no one has even suggested are unnecessary
10 or non-essential to the Company's fulfillment of its mandated public utility obligations.
11 These include expenditures such as the personnel, equipment and investment costs that
12 must be incurred to maintain our 15,000 miles of distribution facilities on a 24 hour basis
13 in accordance with the Commission's safety rules. They also include the expenditures
14 required to connect new businesses and homes to our distribution system and otherwise
15 construct our part of the state's economic infrastructure as well as the costs of providing
16 service to customers, including those who cannot afford to pay for it, under extremely
17 favorable terms that are virtually unheard of in any other business endeavor.

18 Q. Please explain why you believe a persistent under-recovery of these costs is harmful to
19 the Company's customers?

20 A. Ratemaking policies that, by one device or another, permit a chronic under-recovery of
21 such non-discretionary costs are simply unsustainable. No business enterprise, including
22 a regulated utility, can afford to incur costs year after year that are never paid for by the
23 customers on whose behalf they have been incurred. Nor is it in any sense fair or

1 reasonable to try and require a firm to do so. In the end, the quality and dependability of
2 a product or service that a consumer purchases must reflect what that consumer is willing
3 or, in this case, required to pay for it. For an overall increase of less than 15 cents per
4 day for the typical residential customer, this Commission can ensure that rates will be
5 adequate to pay for the quality of natural gas service that the Commission itself, through
6 its rules, regulations, orders and decisions, has determined is appropriate for the
7 Company's customers. Both fairness to the Company, as well as an enlightened regard
8 for the long-term interests of our customers in receiving reliable, high quality service
9 demands that this modest step be taken. Moreover, in light of recent events, it is more
10 important now than ever that the Commission act in an affirmative manner to address this
11 situation.

12 Q. What recent events are you referring to?

13 A. As the Commission knows, the largest energy trading company in the United States --
14 Enron -- engineered its own financial meltdown late last year. It is too early to assess the
15 full impact on the energy industry, and businesses as a whole, of what has become the
16 largest bankruptcy in U.S. history. It is already abundantly clear, however, that the Enron
17 debacle will focus heightened attention on both the level and quality of the earnings
18 achieved by energy companies, as well as the other financial parameters affecting their
19 operations. Rating agencies, investment analysts and others will increasingly scrutinize
20 and evaluate such factors with even more exacting standards than they have in the past
21 and the ability of Laclede and other energy companies to maintain their ratings will
22 become even more difficult. Under such circumstances, it is even more critical that
23 prompt and effective steps be taken in this case to improve the financial parameters

1 affecting Laclede's operations. Once again, it is decidedly not in the long or short-term
2 interests of the Company's customers to be served by a financially weakened utility that,
3 because of non-mainstream regulatory policies, finds it more and more difficult to attract
4 capital on reasonable terms and finance its operations.

5 Q. Please describe what specific actions you believe the Commission should take in this
6 case.

7 A. At the outset, I want to emphasize that the Company fully intends, as it did in the last
8 case, to work with the Staff, Public Counsel and other parties to formulate constructive
9 solutions to these and other issues that may arise. As I previously indicated, we made
10 some progress on a number of these issues in our last case. Because of that progress, as
11 well as certain external developments, I am hopeful that alternatives acceptable to
12 everyone can be reached and recommended to the Commission, particularly with respect
13 to resolving our past differences over depreciation and pension expenses. At a minimum,
14 however, I want to highlight three general areas in which I think positive Commission
15 action is absolutely critical.

16 Q. Please discuss the first area in which you believe action is required.

17 A. First and foremost, I believe it is imperative that the Commission approve our proposals
18 for mitigating the impact of weather on both the Company and its customers. As
19 described in the testimony of Laclede Witness M. T. Cline, Laclede has developed and
20 filed a weather mitigation clause in this case that will not raise base rates, per se, but,
21 rather, do nothing more and nothing less than: (a) permit the Company to recover those
22 costs, and only those costs, of providing utility service that have previously been deemed
23 reasonable, necessary and prudent by the Commission; (b) provide customers with a

1 financial break on those very occasions when their bills are likely to be highest because
2 of the impact of colder than normal weather on gas prices and usage; and (c) permit costs
3 to be recovered in an economically sound and efficient manner that truly reflects the way
4 in which such costs are being incurred. I should note that there is nothing novel or new
5 about either weather mitigation clauses or the compelling public policy justifications that
6 support their use. In fact, such clauses are being successfully used by LDCs in
7 approximately 20 jurisdictions today, including, recently, the largest LDC across the state
8 line in Kansas. Despite its widespread acceptance, however, the Company has made a
9 concerted effort in this case to develop a weather mitigation clause that is fully consistent
10 with the unique requirements of Missouri law, is simple to implement and administer,
11 and will require no additional rate changes beyond those already made under existing
12 provisions of our PGA tariff.

13 Q. Why is approval of such a mechanism so important?

14 A. Because there is simply no good policy or economic reason -- none -- for not approving
15 such a mechanism and plenty of sound policy reasons for doing so. Whether it is fair and
16 reasonable to implement such a mechanism is not even a question in my view, let alone a
17 close one. And the experience of the past two winters offers an excellent illustration of
18 this point. As the Commission knows, during November and December of 2000, we
19 experienced record cold weather. The increased usage and higher prices that normally
20 occur in connection with colder weather resulted in sharply higher bills. Because we did
21 not have a weather mitigation clause, these colder than normal temperatures caused the
22 Company to charge its customers more for its distribution costs than it was actually
23 incurring to provide service -- charges that only exacerbated the financial burden faced

1 by customers at that time. With a weather mitigation clause, we would have been in a
2 position to soften rather than heighten that financial burden. Conversely, we had an
3 extremely warm November and December in 2001. As a result, the Company under-
4 recovered its costs in these two months alone by approximately \$5 million dollars. To
5 put this in perspective, that's equivalent to the annual wages and benefits of more than 75
6 employees in our operating departments who do the construction and maintenance work
7 that we have a public service obligation to do in order to have, and maintain, a safe,
8 reliable distribution system-- an obligation we, and you at the Commission, take very
9 seriously. Because those employees are routinely employed to meet Commission-
10 mandated service and safety obligations, there is no reasonably available cost cutting
11 action that the Company could undertake to make up for this shortfall and still render the
12 level of service that it is required to provide. And a rate structure that pretends that the
13 Company could have done otherwise, or simply ignores the fact that it couldn't have, is
14 fundamentally flawed, unfair and logically bankrupt. This is particularly true given the
15 fact that such a substantial under-recovery could have been easily avoided by a weather
16 mitigation clause that, like the one proposed by the Company in this case, would have
17 done nothing more than make a modest upward adjustment in customer rates during a
18 period when customer bills were already relatively low due to the usage and price effects
19 of the abnormally warm weather.

20 Q. But don't these weather-related under and over-recoveries all equal out in the end?

21 A. That certainly hasn't been the Company's experience over the past decade. But even if it
22 was, it makes absolutely no sense to have customers in one year or one decade underpay
23 the actual cost of providing them with utility service on theory that customers in a

1 different year or a different decade will overpay for their utility service. What possible
2 public policy goal is served by those kind of random and completely accidental
3 outcomes? No organization, be it a public utility, an unregulated business, or a state
4 agency, can long provide reasonable service if their ability to fund services is subject to
5 the whim and caprice of the weather. Simply put, the case for implementation of a
6 weather mitigation clause is overwhelming and the Company's proposal in that regard
7 should accordingly be approved by the Commission.

8 Q. Please discuss the second major issue that you believe needs to be addressed in this
9 proceeding.

10 A. The second major issue that I believe requires special attention in this case relates to the
11 approach taken by Staff and Public Counsel in determining the return on equity that
12 should be authorized for the Company.

13 Q. Please explain what you mean.

14 A. This Commission has traditionally determined a utility's allowed return on equity based
15 primarily on the results of Discounted Cash Flow ("DCF") analyses submitted for its
16 consideration. As we discussed at length in our last two rate case proceedings, such an
17 approach, absent a market-to-book adjustment, seriously understates the Company's
18 required return on equity in that it provides a return on the current market value of
19 Laclede's stock that is only marginally above the returns earned by risk free investments.
20 Nevertheless, while Laclede Witness Kathleen McShane has calculated what return on
21 equity would be required to recognize these market realities, the Company has based its
22 request for rate relief in this case on the results of Ms. McShane's DCF analysis of

1 comparable companies. This is consistent with the Commission's determination of this
2 issue in the Company's last litigated rate case.

3 Q. Is this the method that has also been used by Staff and Public Counsel to derive their
4 recommended returns on equity in recent proceedings?

5 A. No. Both Staff and Public Counsel have typically derived their return recommendations
6 for Laclede based principally on a company-specific analysis of Laclede's expected
7 returns rather than an analysis of the returns required for companies with comparable
8 risks.

9 Q. Why does the Company object to this method?

10 A. First, it is my understanding that the Commission has a fundamental legal obligation to
11 base its return for Laclede on a comparable company analysis. It's my opinion that a
12 Laclede specific analysis does not meet that standard. Second, such an approach is an
13 inherently flawed, circular exercise that bases Laclede's authorized return on the financial
14 effects flowing from how well or how poorly the Company is treated by the
15 Commission's own regulatory policies. As a consequence, it imputes a lower required
16 return to Laclede simply because the Staff and Public Counsel have recommended, and
17 the Commission has adopted, ratemaking policies that have resulted in both lower
18 historical and lower expected returns. The lower return adopted as the result of such
19 analysis then feeds into the establishment of an even lower return the next time. Third,
20 such an approach is necessary if Laclede is to receive the same kind of regulatory
21 treatment afforded to other Missouri utilities that, for structural or other reasons, are not
22 subject to having their returns determined based on such a company-specific analysis.
23 Not surprisingly, when such considerations dictate the kind of comparable company

1 analysis mandated by law, they generally result in a higher return than the circular,
2 company-specific analysis utilized by Staff and Public Counsel. Finally, the company-
3 specific approach is flawed because it produces patently unreasonable results as
4 evidenced by Staff's own testimony in our last case which candidly conceded that it had
5 generated a return recommendation that was some 150 basis points below the average
6 return being authorized for other LDCs in other jurisdictions. It is inappropriate and
7 unreasonable to penalize Laclede, or any other utility for that matter, simply because they
8 do business and make investments in Missouri. At a minimum, the Commission should
9 accordingly do what it did in Laclede's last litigated case and base its authorized return on
10 the comparable company analysis performed by Ms. McShane.

11 Q. What is the third major area that you believe the Commission should focus on in this
12 proceeding?

13 A. In addition to adopting the Company's proposed weather mitigation clause, there are a
14 number of other measures that the Commission can and should take to reduce rate
15 volatility in future cases and ensure that costs are being recovered in the amounts by
16 which they are actually being incurred. The first relates to our proposal to reflect and
17 recover the inventory costs that have been incurred by Laclede in the wake of FERC
18 Order 636 while the other addresses our proposal for smoothing out the volatility in
19 pension expense.

20 Q. Please describe the impact that FERC Order 636 has had on the Company.

21 A. Generally speaking, prior to implementation of Order 636 in 1993, pipeline companies
22 were responsible for acquiring the gas supplies and upstream pipeline transportation
23 capacity, arranging for and financing storage inventories to supplement flowing supply

1 during the winter months, and scheduling for the transportation of such supplies to the
2 local distribution companies ("LDCs") on an as-needed basis. All of these costs,
3 including inventory financing costs, were passed on to the LDCs under FERC tariffed
4 rates. Such charges were not subject to review at the state level under the Filed Rate
5 Doctrine. Subsequent to passage of Order 636, pipeline companies became "common
6 carriers" and the responsibilities for procurement, storage and transportation were placed
7 with the downstream LDCs. I should note in passing that despite this significant shift in
8 risk from the pipelines to LDCs, and the implementation of rate designs at the pipeline
9 level which permit recovery of their fixed costs without regard to the effects of weather
10 on the usage of their systems, such pipelines are typically and routinely authorized far
11 higher returns than Laclede. Still another important financial impact of Order 636 is that
12 Laclede is now responsible for the financing of significant storage inventories. Laclede
13 purchases gas for storage in the summer months and uses it to supplement flowing gas
14 supplies during the winter months when demand and, usually, the price is highest. The
15 requirement to finance these inventories has exposed Laclede to the interest rate and
16 leverage risks associated with highly volatile natural gas prices.

17 Q. How are inventory costs currently recovered in rates?

18 A. Under current ratemaking for Laclede, inventory costs are recovered through base rates
19 based on a proforma level of gas inventories, usually a 13-month average balance, at the
20 Company's average financing rate. Because inventory levels exhibit a highly seasonal
21 investment requirement, most companies, including Laclede, finance a portion of their
22 inventories with short-term debt, using some variation on a "peak – average" or "peak –
23 minimum" basis. As an illustration of the seasonality of inventories, one only has to look

1 to the calendar year ended December, 2000. During the 12 months ended December,
2 2000, Laclede's natural gas inventory levels, on both the Company-owned and MRT
3 fields, ranged from a minimum month-end investment of \$18.5 million to a high of
4 \$119.7 million.

5 Q. What impact does this have on Laclede and its customers?

6 A. Recovery of inventory investment through base rates can result in a significant over- or
7 under-recovery of these costs by the Company due to changes in interest rates, inventory
8 volumes or volatile natural gas prices. If short-term interest rates increase or the price of
9 natural gas spikes during periods of injection, the utility will absorb significantly higher
10 financing costs than are embedded in base rates. Conversely, should interest rates decline
11 or natural gas prices plummet, the utility will enjoy a windfall to the detriment of our
12 customers, all based on factors generally beyond the control of the Company.

13 Q. How does Laclede propose to mitigate the impact of this issue on the Company and its
14 customers?

15 A. As discussed in the direct testimony of Company Witness M. T. Cline, the Company is
16 again proposing that the financing costs related to natural gas and propane inventories be
17 passed through the PGA clause, much in the way they were prior to the passage of FERC
18 Order 636. In this manner, both the Company and its customers will be protected from
19 paying or recovering more -- or less -- than is necessary to ensure the reliable and cost
20 effective natural gas supplies our customers expect. While this will only address part of
21 the problem, it is an appropriate and needed step in the right direction.

22 Q. Does the Company also have a proposal for dealing with the pension plan issue that you
23 discussed earlier?

1 A. As I indicated earlier, progress was made on this issue in our last case and we intend to
2 work with both Staff and Public Counsel in this proceeding to hopefully reach a final
3 solution that smoothes out once and for all the volatility produced by the current
4 treatment of pension expenses.

5 Q. How did this volatility arise?

6 A. As discussed more extensively by Company Witness J. A. Fallert, when FAS 87
7 accounting was first adopted, the Company's approach to recognizing pension plan gains
8 and losses tended to smooth out volatile market gains and losses which varied from
9 expected market returns. This approach was adopted because market returns, although
10 variable from year to year, trend toward a median over time. In other words, higher than
11 expected returns one year could be smoothed out to offset lower than expected returns in
12 the next year. Under this method, pension expenses and the related revenue requirement
13 were less volatile while still reflecting actual market results over time, much in line with
14 the inherent long-term horizon of pension plans and the service lives of the employees
15 they benefit. In recent years, however, the treatment advocated by the Staff and approved
16 by the Commission has had the effect of removing virtually all the smoothing
17 mechanisms previously adopted. As a result of these changes, near-term revenue
18 requirement has been reduced at the expense of future ratepayers. At the same time, the
19 Company's prepaid pension asset, upon which we do and must earn a return, is now one
20 of the largest items of rate base. In addition, such treatment has significantly reduced the
21 cash supplied by the Company's regulated earnings, both in absolute terms and in
22 comparison to our peers, due to the non-cash earnings related to pension credits. It also
23 has created conditions under which the Company's pension expense can increase

1 dramatically from year to year, thereby exposing customers to increased volatility as rates
2 must increase significantly to recover the increased costs. This can largely be avoided
3 through the use of standard accounting mechanisms commonly used to account for
4 pension expense and specifically designed to eliminate the volatility inherent in such
5 expenses. Market-driven pension plan gains and losses, like interest rates, wholesale gas
6 prices and weather, are volatile items largely beyond the control of the Company or our
7 customers. Again, it is in the best interest of our customers to stabilize rates to the extent
8 possible and to recover these costs over the longer term, better matching cost incurrence
9 with the customers benefited. Similar to the financial impact of weather, management of
10 these volatile returns and their potentially substantial effect on Company earnings and
11 cash requirements needlessly detract management attention away from what we are truly
12 here to do -- provide safe and reliable service at reasonable prices to our customers --
13 while depriving the Company of the financial resources it requires to accomplish that
14 goal.

15 Q. How is the Company proposing to resolve this issue?

16 A. As discussed by Mr. Fallert, Laclede is suggesting that pension expense be recovered on
17 a more stable basis, utilizing the smoothing mechanisms that existed upon our initial
18 adoption of FAS 87 accounting. In retrospect, this is, in the Company's opinion, the
19 appropriate time to make such an adjustment as the markets have experienced a recent
20 substantial downturn that, under current accounting, have resulted in an accelerated
21 amortization of significant market losses and the corresponding revenue requirement
22 impact.

1 Q. Would adoption of the measures you have discussed in your testimony impose a
2 significant financial burden on the Company's customers?

3 A. No. In relative terms, granting the Company's entire request for rate relief would
4 increase the bill of a typical residential customer by \$4.40 per month, or less than 15
5 cents a day. Moreover, I am confident that adoption of these proposals would permit the
6 Company to break out of its pattern of revolving rate cases and allow us to bring stability
7 to our distribution rates for a number of years to come. In contrast, the long-term risks of
8 not doing something in this case to change direction are far higher. If the standard of
9 reliability and quality of service that Laclede's customers have come to expect and
10 demand is to be preserved, it is absolutely essential that strong steps be taken now to
11 provide the Company with the modest amount of rate relief that is necessary to enable it
12 to carry out its fundamental public utility obligations.

13 Q. Does this conclude your direct testimony?

14 A. Yes, it does.

QUALIFICATIONS AND EXPERIENCE OF DOUGLAS H. YAEGER

Educational Qualifications

Mr. Yaeger received a Bachelor of Science Degree in Business Administration in 1971 from Miami University, in Oxford, Ohio. In 1976, he graduated from St. Louis University, St. Louis, Missouri, where he received a Master of Business Administration Degree. In May of 1992, he completed the Advanced Management Program in the Harvard Business School, in Boston, Massachusetts.

Employment Experience

During most of the period from July 1971 through November 1990, Mr. Yaeger was employed by Mississippi River Transmission Corporation (MRT), an interstate natural gas pipeline, which primarily serves the Greater St. Louis Metropolitan Area. While employed at MRT, he held various positions in that Company's rates, regulatory affairs, gas supply, sales, marketing and accounting departments. At the time he left MRT, he held the position of Executive Vice President, with management responsibility for the areas of marketing, planning, budgets and administration, transportation and exchange and information services.

Mr. Yaeger joined Laclede as Vice President-Planning in December 1990. From September 1992 to September 1995, he served as Vice President and then Senior Vice President-Operations, Gas Supply and Technical Services. In September 1995, he was elected to the position of Executive Vice President-Operations and Marketing, where he assumed management responsibility for both operations and the Company's marketing activities. With his election to the position of President and Chief Operating Officer, effective in December of 1997, Mr. Yaeger assumed overall management responsibility for all of the Company's day-to-day operations. He was elected to his current position effective January 1, 1999 and assumed the position of Chairman of the Board of Laclede on January 28, 1999.

Previous Testimony

Mr. Yaeger has submitted pre-filed testimony and participated in the proceedings in Case No. GA-98-126 regarding the initial application of Missouri Pipeline Company for certificate authority to transport natural gas in the State of Missouri. He also submitted testimony in Laclede's five most recent general rate case proceedings, Case Nos. GR-94-220, GR-96-193, GR-98-374, GR-99-315 and GR-2001-629.