

Exhibit No.:
Issue: PSP Tariff Issues
Witness: Michael T. Cline
Type of Exhibit: Rebuttal Testimony
Sponsoring Party: Laclede Gas Company
Case No.: GR-2001-387/GR-2000-622
Date: December 2, 2002

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LACLEDE GAS COMPANY

**Missouri Public
Service Commission**

GR-2001-387/GR-2000-622

REBUTTAL TESTIMONY

OF

MICHAEL T. CLINE

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Laclede Gas Company's)
Purchased Gas Adjustment Tariff Revisions)
to be Reviewed in Its 2000-2001 Actual) Case No. GR-2001-387
Cost Adjustment)

In the Matter of Laclede Gas Company's)
Purchased Gas Adjustment Factors to be)
Reviewed in Its 1999-2000 Actual Cost) Case No. GR-2000-622
Adjustment)

AFFIDAVIT

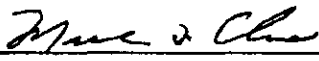
STATE OF MISSOURI)
) SS.
CITY OF ST. LOUIS)

Michael T. Cline, of lawful age, being first duly sworn, deposes and states:

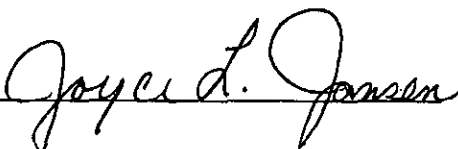
1. My name is Michael T. Cline. My business address is 720 Olive Street, St. Louis, Missouri 63101; and I am Director - Tariff and Rate Administration of Laclede Gas Company.

2. Attached hereto and made a part hereof for all purposes is my Rebuttal Testimony, consisting of pages 1 to 5, including Schedule No. 1.

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.


Michael T. Cline

Subscribed and sworn to before me this 29th day November, 2002.



JOYCE L. JANSEN
Notary Public — Notary Seal
STATE OF MISSOURI
ST. CHARLES COUNTY
My Commission Expires: July 2, 2005

REBUTTAL TESTIMONY OF MICHAEL T. CLINE

Q. Please state your name and address?

A. My name is Michael T. Cline and my business address is 720 Olive Street, St. Louis, Missouri 63101.

Q. What is your present position?

A. I am Director of Tariff and Rate Administration at Laclede Gas Company ("Laclede" or "Company").

Q. Please state how long you have held your present position, and briefly describe your responsibilities.

A. I was promoted to my present position in August 1999. In this position I am responsible for preparing, filing and administering Laclede's tariffs that are on file with the Missouri Public Service Commission (the "Commission"). In addition, I perform analyses pertaining to Laclede's purchased gas costs and various federal and state regulatory matters that affect Laclede.

Q. What is your educational background?

A. I graduated from St. Louis University in May 1975, with the degree of Bachelor of Science in Business Administration, majoring in economics.

Q. Please describe your experience with Laclede.

A. I joined Laclede in June 1975 and have held various positions in the Budget, Treasury, and Financial Planning departments of the Company. In 1987, I began work in areas related to many of my duties today.

Q. Have you previously submitted testimony before regulatory bodies?

A. Yes. I have testified numerous times before this Commission. In addition, I have testified before the Illinois Commerce Commission and the Federal Energy Regulatory Commission.

Q. What is the purpose of your testimony?

A. I will respond to the direct testimony of Staff witness David M. Sommerer. Specifically, I will explain how Mr. Sommerer's quantification of savings pursuant to the Overall Cost Reduction Incentive component of the Company's Experimental Price Stabilization Fund does not conform to the Company's tariff. I will also explain how the Company complied with the terms of its tariff to compute the amount it was entitled to retain under the Overall Cost Reduction Incentive.

Q. On page 13 of his testimony, Mr. Sommerer discusses what he believes is "an objective way of determining if Laclede should share in savings" under the Overall Cost Reduction Incentive component. Are the computations Mr. Sommerer discusses in his testimony and presents in Schedule 9 attached thereto consistent with Section G.4 of the Company's Experimental Price Stabilization Fund as set forth on Sheet No. 28-f of the Company's tariff?

A. Absolutely not. The tariff defines savings or cost reductions as the difference between the Maximum Recovery Amount ("MRA") and the net cost of price stabilization. There can be no confusion over what those two terms mean. The MRA is the amount the Company is authorized to spend, or \$4 million for the 2000/2001 heating season. The net cost of price stabilization is nothing more than the Company's actual cost to procure financial instruments less whatever amounts

the Company received from the sale of any such instruments prior to the last three days of NYMEX option trading, exclusive of the gains and costs covered by the Company's Price Protection Incentive component. Somehow Mr. Sommerer conjures up an additional test on Schedule 9 that is nowhere to be found in the tariff or Program Description.

Q. What is this additional test to which you refer?

A. Mr. Sommerer suggests that savings under this component must be measured by comparing the gains from premiums the Company received from selling options prior to the last three days of NYMEX option trading to the premiums the Company would have received had it sold such options within the last three days. A plain reading of both the tariff and the Program Description refer to no such test.

Q. How did you calculate the Company's share of the cost reductions achieved by the Company under the Overall Cost Reduction Incentive component of the *Experimental Price Stabilization Fund*?

A. The Company spent \$8,922,450 to purchase call options under the program for the 2000/2001 heating season. However, it also received \$33,499,000 for those options that it sold. Thus, the Company's net cost was a credit of \$24,576, 550, before deducting the savings the Company realized from the sales of options under the Price Protection Incentive component. Since the Company's Price Protection Incentive savings amounted to \$11,566,000, the Company's net cost credit for purposes of the Overall Cost Reduction Incentive component was reduced from \$24,576,550 to \$13,010,550. At this point, Section G.4.b of the

Company's tariff calls for a comparison of the positive \$4 million MRA to the negative net cost of \$13,010,550. The difference of \$17,010,550 represents the Company's savings or cost reduction under the Overall Cost Reduction Incentive component..

Q. How is the Company share of this amount then determined?

A. Section G.4.b specifies that the Company is to retain 40% of the first \$6,666,666.66 of cost reductions, or \$2,666,666.66. In addition, Section G.4.c permits the Company to retain 60% of the \$10,343,883 of cost reductions in excess of \$6,666,666.66, which amounted to an additional \$6,206,330. Thus, the total Company retention computed in accordance with Sections G.4.b and G.4.c of the Company's Experimental Price Stabilization Fund tariff entitled the Company to retain \$8,872,996.66 under the Overall Cost Reduction Incentive component. Since the Company already contributed \$4 million dollars of this amount to supplement the third year of funding for the Experimental Price Stabilization Fund, it is the remaining difference of \$4,872,997, or approximately \$4.9 million, that was retained by the Company that is at issue in this proceeding. All of the foregoing calculations are set forth in worksheet form in Schedule No. 1 attached hereto.

Q. Please summarize your testimony.

A. Mr. Sommerer's conclusion that the Company should share in no savings under the Overall Cost Reduction Incentive component is founded upon an analysis that is not described either specifically or generally in the Company's tariff or Program Description. Instead, calculation of the Company's share of cost

reductions in compliance with the tariff unquestionably resulted in the Company's entitlement to nearly \$8.9 million, before the \$4 million the Company agreed to dedicate to the purchase of additional call options for the 2001/2002 heating season. Thus, in accordance with the Company's tariff, the Company is entitled to the remaining \$4.9 million.

Q. Does this conclude your testimony?

A. Yes, it does.

LACLEDE GAS COMPANY
CASE NO. GR-2001-387
CALCULATION OF COMPANY ENTITLEMENT
UNDER EXPERIMENTAL PRICE STABILIZATION FUND
PURSUANT TO SECTION G OF PGA CLAUSE

Purchases	\$8,922,450	
Sales	<u>\$33,499,000</u>	
Net Cost	<u>-\$24,576,550</u>	
(Less): Savings realized under Price Protection	<u>-\$11,566,000</u>	
Net Cost for Overall Cost Reduction Purposes	<u>-\$13,010,550</u>	
MRA	<u>\$4,000,000</u>	
Cost Reduction	<u>-\$17,010,550</u>	
First \$6,666,666.66 of cost reductions	\$6,666,667	
Company Sharing %	40%	\$2,666,667
Cost reductions in excess of \$6,666,666.66	\$10,343,883	
Company Sharing %	60%	<u>\$6,206,330</u>
Total Company Retention		\$8,872,997
(Less): Additional funding in third year		<u>-\$4,000,000</u>
Remaining Company Entitlement		<u>\$4,872,997</u>