BEFORE THE PUBLIC SERVICE COMMISSION

STATE OF MISSOURI

TRANSCRIPT OF PROCEEDINGS

Evidentiary Hearing

November 18, 2015

Jefferson City, Missouri

Volume 2

In The Matter Of Laclede Gas Company's Application For Authority To Issue and Sell First Mortgage Bones, Unsecured Debt And Preferred Stock, And To Issue Common Stock And Receive Capital Contributions	)	File No. GF-2015-0181

RONALD D. PRIDGIN, Presiding
DEPUTY CHIEF REGULATORY LAW JUDGE

DANIEL Y. HALL, Chairman,
STEPHEN M. STOLL,
WILLIAM P. KENNEY,
SCOTT T. RUPP,
MAIDA COLEMAN,
COMMISSIONERS

REPORTED BY:
Tracy Taylor, CCR No. 939
TIGER COURT REPORTING, LLC

A P P E A R A N C E S

RICK ZUCKER, Attorney at Law
700 Market Street, 6th Floor
St. Louis, Missouri 63101
314.342.0533
FOR: Laclede Gas Company

MARC D. POSTON, Deputy Public Counsel
PO Box 2230
Jefferson City, Missouri 65102
573.751.5558
FOR: Office of the Public Counsel

JEFFREY A. KEEVIL, Senior Staff Counsel
200 Madison Street, Suite 800
PO Box 360
Jefferson City, Missouri 65102-0360
573.751.4140
FOR: Staff of the Missouri Public Service Commission

(Laclede Exhibits 1, 2, 3 and 4 were marked for identification.)

(Staff Exhibits 11-NP and 11-HC were marked for identification.)

JUDGE PRIDGIN: All right. Good afternoon. We are on the record. This is the evidentiary hearing in File Number GF-2015-0181 in the matter of Laclede Gas Company's verified application to re-establish and extend the financing authority previously approved by the Commission.

I am Ron Pridgin. I'm the Regulatory Law Judge assigned to preside over this hearing. It's being held on November 18th, 2015, one o'clock in the afternoon. We are in the Governor Office Building in Jefferson City, Missouri.

Could I get entries of appearance from counsel, please, beginning with Laclede Gas.

MR. ZUCKER: Rick Zucker, 700 Market Street, St. Louis, Missouri 63101. Here on behalf of Laclede Gas Company.

JUDGE PRIDGIN: Mr. Zucker, thank you.

On behalf of the Staff of the Commission, please.

MR. KEEVIL: Yes, Judge. Jeff Keevil of the Staff of the Commission, PO Box 360, Jefferson

City, Missouri 65102.

JUDGE PRIDGIN: Mr. Keevil, thank you.

On behalf of the Office of the Public Counsel, please?

MR. POSTON: Thank you. Mark Poston appearing on behalf of the Office of the Public Counsel and the public.

JUDGE PRIDGIN: Mr. Poston, thank you.

And I have received pre-marked exhibits. Nothing's been offered or admitted yet, but I've got some exhibits pre-marked. Anything from counsel before we proceed to opening statements?

MR. KEEVIL: Yes, Judge. Before we went on the record, we discussed declassifying I think it was three references in the pre-filed testimony of Mr. Murray. And I believe Laclede's agreed to that off the record. And I'm not going to give the numbers, just make page and line references there.

JUDGE PRIDGIN: Thank you.

MR. KEEVIL: I believe if you look at the Rebuttal Testimony of Mr. Murray, page 2, line 4, there's a number that was previously HC that's now being declassified. Page 23, on both line 14 and line 18, same number being declassified. And on page 25, line 20, same number being declassified.

JUDGE PRIDGIN: All right. Mr. Keevil, thank you.

Any objections or responses?

MR. ZUCKER: No objections, your Honor.

JUDGE PRIDGIN: All right. We'll show those references that were once HC will now be made public.

Anything further before we go to opening?

All right. I believe Mr. Zucker, if you're ready, sir.

MR. ZUCKER: I'm ready. Okay. May it please the Commission. I have a slide show for you to follow and I've left documents with the Judge that he should have passed out to you, which are just simply paper versions of it.

And so I start by saying that I stand before you representing a company that has been in business for 158 years; that has always been prudent and judicious with its financing as evidenced by its A minus credit rating, which is roughly four notches above investment grade; a company that has used the financing authority granted by this Commission conservatively over the past 15 years; a company that has operated under 500 million in financing authority over the past eight years without any detriment to customers as acknowledged by Staff's own witness; a company that has demonstrated that it can use that authorized capacity to save customers tens of millions of dollars in interest expense; a company that has nearly doubled in size and tripled its capital expenditure budget since the last financing authority case in 2010; a company that is entitled to 1 billion dollars in financing authority based on the Commission's legal interpretation of the financing statute, a legal interpretation reached unanimously by then Commissioner and now Judge Clayton and Commissioners Robert Kenney, Gunn, Jarrod and Davis; a company that has voluntarily requested 45 percent less authorized authority than it -- than it is entitled to under the law, and on a proportional basis, 36 percent less than the authority it was granted five years ago; a company that has itself requested that the Commission apply the same conditions to that authority that have served to reinforce customer protections for the past eight years.

In light of all these factors supporting Laclede's application, the question you are faced with today is why are we here?

We are here because the Staff does not want to accept the decision on calculating financing authority that this Commission issued in 2010, even though Staff concedes that the authority actually requested is reasonable and that there -- and that there has been no detriment from the higher authorities granted in the past.

We are also here because even though Laclede has reduced its request from 2010, the company is not inclined to completely surrender a level of financing authority that reduces costs that benefits customers and that allows us the managerial discretion to operate our business.

We are asking you to resolve the difference today by approving Laclede's request because it is lawful, it is reasonable, it provides ample regulatory protection and it can provide benefits to customers.

Okay. Let's first start with lawful. In this case, Laclede is seeking financing limits far below the lawful amount allowed by the financing statute. And I would like to start by going over the basics of capital asset financing and then show how the law applies to it.

So if you want to look at the screen or at your paper, you'll see a -- a slide called Capital Asset Financing for Utilities. And if I might go over that very quickly, on the far left is where we start. We purchase or construct assets using short-term debt that we get from banks; using income that actually belongs to the shareholders, that's their return; using funds from operation, which is cash we generate from operating the business; and retained earnings, which is like our savings account. That's income that we have not distributed to shareholders in the form of dividends. So we take those monies, which is -- some of which is debt, some of which is just cash and we use those to build our assets.

Now, in order to refinance short-term money into long-term -- long-term financing to match these long-term assets, we refinance on occasion. And what we do there in the middle box called Refinance is we convert the -- the debt to long-term debt and long-term equity through mortgage bonds and stocks. And in order to do that, we need your authorization. So that's why we're here for today, to basically get your authorization to refinance short-term money that we put into assets.

Now, if you look at the arrow at the bottom, what happens when we refinance is we pay off short-term debt and we reimburse ourselves for the cash that we put out. So this is cash that belonged to the company, was part of the company that we advanced for the purpose of building assets. And the statute allows us to reimburse ourselves by refinancing and getting -- getting that cash back into the treasury.

Okay. Then after we refinance, now we basically just have debt in a different form, a long-term form. So we need to then recover the cost of that debt so we can pay it back. And that's where you come in also in rate cases. So we come in for a rate case and we get rates that are designed to recover our costs to pay off these financings, which take many years. They're long-term assets matched by long-term financing, which includes debt and equity.

So what do we get in rates? We get depreciation expenses, which allows us to get back the -- the principal -- it's like the principal of the amount we borrowed. We get interest expense, which allows us to pay interest on the amount we borrowed. And we get a return on capital, which allows us to pay our equity investors their return.

And so -- and you see that in the bottom arrow where it indicates that we pay long-term debt and interest and we pay dividends to investors. So that's how capital asset financing works for utilities.

Now what the financing statute, Section 393.200.1, does is it provides a road map for the -- that -- that the Commission decided in 2010 to set what Laclede would be legally entitled to issue for long-term financing. This road map is based on three simple elements: The Laclede Gas Company's projected capital spend, looking forward for three years, the majority of which is on safety construction. So that was part one of our slide earlier.

The number two is prior capital spend that has not been refinanced. So we look back -- according to both the statute and the Commission's rules, we look back up to five years to see how much capital expenditures we made less what we've already financed through long-term financing. Because you can't long-term finance twice, you can only finance once. So if it's already been financed, then that is -- that is subtracted off of the amount of capital that we put in looking backwards.

And the final piece of these three elements, the looking-forward capital, the looking-backward capital and the third piece is maturing long-term debt obligations. So as -- as older bonds come due, we're allowed to refinance those to pay them off.

Now, here is a side-by-side comparison of the 2010 decision and the amounts set forth in the order that the Commission issued in 2010 against the equivalent numbers today. So as you can see there, the acquisition of property is the -- okay -- is the looking-forward number. That's the three-year look-forward number. Discharge of lawful refinancing of its obligations is the refinancing of the debt that's come due and reimbursement of monies actually expended, that's looking backwards so that we are allowed to long-term finance money that's already been spent.

And in 2010, that number added up to 518 million. In 2015, it adds up to 1 billion. And as you can see, the big difference there in those three lines is the first line. And that is because our capital budget going forward has roughly tripled from the capital budget that we had five years ago.

Now, why did that projected capital spend increase so much? There are two reasons for that. The first is that Laclede acquired MGE in 2013, which nearly doubled the size of the company. So we went from one major gas company to two major gas companies.

And the second reason is that Laclede has increased its safety program work. And that increase applies to both Laclede -- what Laclede was doing and MGE. So MGE's budget has also been increased for the safety program work. Given these two major factors, it's perfectly natural for our financing authority to increase as it did.

Now, Staff may argue that this case is distinguishable from the 2010 case. This is simply not true. The issues in the two cases are identical. And you -- as you can see up on the screen, the first issue is the amount of financing; same issue in 2010 as in 2015. And the second issue is the conditions on that financing; which again, are exactly the same.

So we came before you in 2010, you made these decisions and we're back here today with the same issues.

Okay. Our financing is based on the statute as interpreted by the Commission. The statute shows that the authority to be granted for financing is the amount incurred for the allowed purposes and that those amounts were reasonably required for those purposes. In other words, the amount you get is the amount that you invested in the allowed purposes. And the allowed purposes are capital construction and improvements to your plant and system. If you invest in that, you are entitled to the financing authority for it. So in short, authority amount equals purpose.

Now, the Commission explained this concept very well in 2010. This slide -- there's a lot of words on it, but this slide is basically from page 8 of the Commission's order. Not basically. Exactly from page 8 of the Commission's order. And as you can see, the specific terms "when necessary" and "reasonably required" were both in bold and were clearly considered and addressed by the Commission. And the bold is the Commission's bold to -- to further emphasize that they considered those very terms and what they mean.

So in effect, the Commission found that "when necessary" means that the necessary capital construction was present to justify the long-term financing. So if Laclede had constructed only 100 million dollars in capital assets, it would not be allowed to issue 200 million dollars in long-term financing because that amount, the 200 million, would not be necessary to finance the capital assets.

Likewise, "reasonably required" was found to also modify the purposes that justify long-term financing. In other words, the Commission should find that the capital spending was reasonably required for the allowed purposes. For example, if Laclede spent capital to build a casino, this would not justify financing authority because this amount would not be reasonably required to improve its plant or system. However, an investment to build a regulator station would be.

And the majority of the amounts that we show you before, the 560 million, in -- in -- in capital spending for the next three years, have been going backwards or will be spent on safety investments, the majority is.

No one has questioned any of this spending. But even if they had questioned it, Laclede's request is already 450 million dollars below the amount just identified in the application. In other words, what I showed you is a billion dollars worth of justified authority based on our capital budgets going forward and actually capital spend going backwards and a refinancing that we're doing. But instead of asking for a billion, Laclede asked for only 550 million, which is well within the lawful limits.

But let's get down to brass tacks. The major difference between Laclede and Staff in this case is that Staff thinks Laclede should be required to use its cash from operations to fund new capital and for no other purpose. And so Laclede would not be allowed to issue long-term financing until it had -- until it had spent its cash from operations on capital assets.

Laclede believes that the management of the company should have the discretion to use cash from operations as it sees fit and the discretion to use that cash and/or long-term financing to fund capital. In other words, the company should be able to use its cash to fund capital if it wants or be able to issue long-term financing if it believes that's the best way to go.

The fact that Laclede has reduced its request by 450 million dollars below the amount authorized by the statute is clear evidence that Laclede does intend to make substantial use of its funds from operations. In other words, if it was not to use its funds from operations, it would be entitled to the billion dollars in authority.

The fact that Laclede's only asked for 550 indicates that we do intend to use funds from operations and we're willing to. Now, Staff basically agrees with this concept; using funds from operations to fund capital. So why are we here?

Now, in addition to Laclede's request being lawful, it is also reasonable. Here is a chart that shows that the company has grown in the last five years, as I indicated before, but the financing request has not. If you look at this chart, you'll see that total capitalization for Laclede Gas Company has basically doubled, that the three-year projected capital expenditures have tripled from about 190 to 560. But if you look at the financing authority request, it's barely above the request from five years ago. So assets doubled, capital expenditure tripled, financing authority request, roughly the same. Why are we here?

Let's look at it a different way. Five years ago we were just the Laclede Gas Company. Well, this -- this slide actually goes back to 2007. So eight years ago we were just the Laclede Gas Company and we were granted 500 million dollars in financing authority. We came in in 2010 and had a contested case that went to hearing and we ended up being granted 518 million in authority.

Now we come in and we're asking for 550 million but we're Laclede and MGE. So if you were to, for illustrative purposes, split the companies by 60 percent Laclede and 40 percent MGE, the equivalent of what Laclede is asking for compared to 2007 and 2010 is 330 million. In other words, we've been operating under more than 500 million of authority for eight years, Laclede Gas by itself, and here we come in effectively asking you to cut us to 330 million.

Now, if you do apples to apples from what the Staff has recommended, basically -- which would basically be to take -- to take Staff's recommended number and take 60 percent of it for Laclede Gas, Staff is saying that even though Laclede has had 500 or 518 million for the last eight years, that Laclede should only get 180 million of authority.

COMMISSIONER KENNEY: Judge, your Honor, I have a question right now. All these numbers are public numbers. Staff has their number set as highly confidential. Why is that? Because it was just -- I mean 60 percent is easy to explain.

MR. ZUCKER: Yeah. Let me address that. What Staff has said is that we should -- that Laclede should receive in financing authority only the amount they've projected using for the next three years. Those projections are not public information. They haven't been disclosed to the public.

COMMISSIONER KENNEY: You just made it public.

MR. ZUCKER: What?
COMMISSIONER KENNEY: You just made it public.
MR. ZUCKER: Yeah. And so we've talked about it and decided that number is kind of broad number, looking at it as 300 million over three years, that we think that it doesn't give anything significant away.
COMMISSIONER KENNEY: All right. Thank you.
MR. ZUCKER: All right. So in -- in summary of this slide, if 500 million was acceptable for Laclede Gas in 2007, if 518 million was acceptable for Laclede Gas in 2010, how can 550 million not be acceptable for Laclede Gas and MGE in 2015? And why are we here?
COMMISSIONER RUPP: Do you mind if I just jump in?
MR. ZUCKER: Please.
COMMISSIONER RUPP: So this -- this barring authority, mixture between bonds and everything that the -- the mixture of items that would proba-- that you would authority to go and finance --
MR. ZUCKER: Right. Mostly it comes down to debt and equity.

COMMISSIONER RUPP: Mostly debt and equity. Okay. We're in a very low interest rate environment. What was the interest rates in 2007 and 2010 compared to 2015?

MR. ZUCKER: My guess is that those interest rates would be higher in 2007 and 2010. But the -- the level of interest rate isn't really taken into account here. This is just basically setting a limit. And the limit that's being set is the amount of capital that we spend.

COMMISSIONER RUPP: My thought was just in a higher interest rate environment, you're given higher authority to go borrow. And in a lower interest environment, logic would dictate you would probably want to borrow as much as you possibly -- possibly could. That was just where I was --

MR. ZUCKER: No. And I agree with that. And that's one of the reasons that we think even if you look at it from Staff's standpoint, which isn't the right way to look at it, but even if you did, you would want to build in some extra buffer in order to allow Laclede the discretion to go ahead and do more than it may have originally planned. And for that very reason, that Laclede could take advantage of a market opportunity of any kind.

COMMISSIONER RUPP: Thank you.

MR. ZUCKER: No. What you said made perfect sense.

Okay. The -- the 550 should be acceptable for Laclede plus MGE today especially since Staff has acknowledged that that amount as a percent of total capitalization is in the same range and actually slightly below prior authorizations that Mr. Murray himself, Staff's witness, thought were more reasonable.

So if you look at this slide, you'll see in 1993 -- and this is in Mr. Murray's testimony, the capitalization -- the financing amount as a percent of total capitalization was 25.82 percent; in 95, 29.3 percent; in 2000, it went up to 58.5 percent. But what we're requesting today is back down to 25.5 percent, right back in the area that Mr. Murray thought was okay in 1993 and '95. Again, why are we here?

Mr. Murray has also acknowledged that the authority Laclede has had over the past eight years has not caused any detriment to the public, even though he views it as excessive financing authority.

Okay. The next point in addition to being lawful and reasonable, there are ample regulatory protections. The statute limits the company to long-term financing for long-term assets that were reasonably required for the purposes in the statute.

If this limit came with no conditions, it would still be sufficient. In other words, if you ordered the dollar limit but didn't have any conditions on it, that would be sufficient regulation, according to the Missouri legislature. But the conditions that have been recommended by the Staff, agreed to by the company and approved by the Commission over the past several years, and which Laclede recommends continuing in this case, provide suspenders to go with the dollar limits belt.

Let's talk about those additional conditions. First of all, if we do long-term financing, let's say we issue 100 million dollars in bonds. That money has to be used for the exclusive benefit of Laclede Gas's regulated operations. So not only must there be capital to support the financing, but it must be utility regulatory capital.

Second, Laclede cannot finance if it causes the company to lose its investment grade credit rating. In other words, we have to continue to be judicious about how financings might affect our credit rating. We think this is a powerful condition because if we stay investment grade, how much trouble can we be in?

Now, for some reason, Staff's recommendation omitted the obligation to maintain an investment grade credit rating and I'm not sure why, but I recommend you ask Staff that. and you may not need to because I'll ask them first.

Most important -- I'm sorry. Staff conceded that if Laclede immediately used all of its financing authority, 550 million, and issued debt for that entire amount -- in other words, this is Staff's worst case scenario. You guys approve the 550 million and the next day we go out and sell 550 million dollars worth of mortgage bonds, something that we clearly would not do.

The result that Staff came to would still support an investment grade credit rating. That's how good our -- our capital structure is today. So if the Commission grants Laclede's request, even in the worst possible scenario, Laclede would still continue to meet this long-standing condition and consumer protection. So again, why are we here?

The third regulatory protection is that Laclede is required to maintain 35 percent equity, meaning Laclede must have a 65/35 debt/equity ratio, or put another way, not more than 65 percent debt in its capital structure. This is a reasonable floor that Laclede has agreed to, although it's likely that's the investment grade credit rating requirement is probably superior to this requirement because we might have more trouble with our investment grade credit rating if we get down to 35 percent equity. Laclede tends to keep its equity around 50 percent or higher.

Finally, maybe the best protection of all against the irrational borrowing that Staff fears, is the threat of not recovering our debt in rates when we come in for a rate case. In other words, you're -- when we come for a rate case and we want the -- the depreciation expense and the interest expense in rates, you're going to look at what we did in borrowing and decide whether we did something imprudent. And that by itself may be the most powerful deterrent of all.

In summary, the main conditions that Laclede use financing only for statutory allowed purposes and only for the exclusive use of its regulated operations while maintaining an investment grade credit rating and debt of not more than

65 percent, along with a threat of a prudence disallowance are effective suspenders in ensuring that Laclede's pants don't fall down from its financing decisions. And on top of that, the 550 million dollar limit on financing that covers both Laclede and MGE serves as a belt for that same purpose.

Okay. My final point is that the 550 million dollar authority will be beneficial to consumers. Staff seeks to squeeze Laclede to a financing level that is exactly what the -- what the company projects over the next three years. Are these projections accurate? That is, can we rely on them?

The nature of estimates is such that Laclede doesn't know if that's how reality will work out. And if we don't know, Staff certainly doesn't know. There are many circumstances which would cause the company to seek more in the way of financing than it originally planned such as a change in interest rates, a change in gas prices or hedging costs, a change in tax laws or a change in the amount of our capital expenditures. If any of these changes occur that require Laclede to go to the market for more than the projected amount, Laclede will have to return.

If you only give us the authority that Staff recommends, and we need more, we're going to have to return here again and go through another one of these contested cases and get another financing authority. Not only will that result in cost and delay, but you'll have to listen to another one of my opening statements maybe.

On the other hand, as I've said, allowing the 550 million dollar limit for the two companies with the stated conditions results in no more regulatory risk than the 300 million and allows the company some flexibility to react or adjust to changing circumstances.

And at the same time you would be approving an amount that is well below the lawful limit that we discussed of 1 billion dollars, but above the strict projections that Staff recommends and that provides a safe authorization -- authorization level that can work to the customer's benefit.

Okay. How does it -- how could it work to the customer's benefit? In -- back in September of 2008, Laclede had the sufficient authority to access the capital markets quickly, which they did, and issued debt at 6.35 percent. Weeks later, Ameren went to the market and issued bonds at 9.75 percent. That's a difference in a little over a month's time of 3.4 percent.

If you take that -- on that particular issuance that Laclede made was 80 million dollars. If you take that per year, it's 2.7 million a year. Now, that bond was a 30-year bond with a five-year call. And we ended up actually calling it five years later because we re-issued debt at less than 6.35 percent.

But still over that five years, had we not been able to -- to go to market quickly, we would have lost the opportunity to make 13 million dollars that gets shared with our customers. Had we kept that bond for 30 years, that amount would be 81 million dollars. And all because we would have had the flexibility and the legal authority to go ahead and issue long-term financing.

In summary, because we don't know exactly how the next three years will play out, Staff's limit could cause unnecessary regulatory inefficiencies that could operate to customers' detriment. Laclede's limit provides a buffer that virtually eliminates that risk without adding any regulatory risk on the other side.

So Laclede respectfully asks that you approve its requested authority of 550 million subject to its requested conditions. Laclede's request is well within the legal limits imposed by the financing statute as interpreted by the Commission. Laclede's request is in a reasonable amount. In fact, a ridiculously reasonable amount when compared to the authorizations of the last eight years. Given the addition of MGE and the growth of our capital budget, I would go so far as to say that Laclede has low balled this request.

Further, the dollar limit and the usual conditions, including that Laclede maintain an investment grade credit rating, provide ample regulatory protections.

Finally, if you're concerned that the amount requested is more than projected, building in a buffer allows the company to react to changed circumstances and to maybe do so in a way that saves customers millions of dollars. The Staff's position that Laclede should be granted the bare minimum and it can come back when it needs more, leads to regulatory costs, delays and possibly missed opportunities.

I don't know when another situation will arise like the one on the slide there that did in 2008 where interest rates spike up a half a percent, a percent or even more in a short period of time or when a liquidity crisis may occur as it did in 2008. And I don't know if we would be able to get an advantageous rate if that happens or if we would even be able to borrow if there was liquidity prices. But I do know that we won't have a chance to try if we're in the hearing room rather than in the market.

And if that situation arise, I don't want to stand before you again and have to ask why are we here. Thank you.

JUDGE PRIDGIN: Thank you. Any further Bench questions?

CHAIRMAN HALL: Indeed.

JUDGE PRIDGIN: Mr. Chairman? Mr. Zucker.

MR. ZUCKER: Thank you, Mr. Chairman.

CHAIRMAN HALL: You asked a number of times rhetorically I guess -- is this on? Yes. -- why are we here? Well, can you answer that rhetorical question? Why are we here?

MR. ZUCKER: Well, we are here because we couldn't come to an agreement with Staff on this very reasonable authorization by Laclede. And even though Laclede has lowered its limit in any way you want to look at it from those limits that existed for the last eight years and which benefited customers and caused no detriment, we felt like we have lowered it as far as we were comfortable with and we refused to completely surrender the financing authority that's allowed us to -- to bring those benefits over the past years.

CHAIRMAN HALL: Let me rephrase. I mean what I assumed you were implying is that there was some improper motive by Staff. That Staff was trying to micromanage the company or Staff had concerns about Laclede Group having access to this financing or something else.

Are any of those concerns as far as you -- do you think those are the concerns that motivated Staff that -- that is the reason why we're here today?

MR. ZUCKER: Yes. I think that Staff prefers to keep a tight rein on the company and not allow it the managerial discretion to -- to borrow as it sees fit within the legal limits. Staff has basically rejected the Commission's decision from five years ago.

They opposed it then. The Commission interpreted the order in a correct way -- interpreted the statute I mean in -- in a correct way, in my view. And Staff doesn't like it and they don't like where it ends up and they want to apply their own rule to it. And -- and their rule is simply not consistent with the law.

So why are we here? Because what we're asking for is -- is something so reasonable that it should have been something that got worked out and not brought before you for a decision.

CHAIRMAN HALL: Looking at -- at 393.2000.1, [sic] which you referenced repeatedly in your opening, where in that section is a buffer or some other term that equates to the same? Where is that authorized?

MR. ZUCKER: It is not in there and that's exactly my point. In fact, you bring up a good point. I shouldn't be talking about buffers because that's not what the statute is about. The only reason I'm talking about it is if you think that Staff's idea is still a good idea, even though it's completely inconsistent with the law, then you should -- our number is still reasonable because if you add a buffer to where Staff is, you can get to our number.

What the statute says is if you build it, the financing will come. In other words, if you show the Commission capital expenditures on -- that improve the plant and system, you're entitled to -- to raise long-term financing dollars to pay for that. That's all the statute really says.

CHAIRMAN HALL: And your three-year capital budget was 562; is that correct?

MR. ZUCKER: Now it is, correct.

CHAIRMAN HALL: And you're seeking 550. So you're not arguing for a buffer. You're just arguing for the ability to -- to have finance capacity to equal your three-year capital spend?

MR. ZUCKER: Well, by coincidence, that's the way it comes out. But the truth of the matter is the way that it should be -- the way that the Commission looked at it in 2010 and the way it should be looked at is we're entitled to a billion dollars based on the numbers. And what we're asking for then is a negative buffer of 450 million dollars.

And the reason is, is simply that we're willing to do what Staff likes in the first place, which is use our cash to -- to fund capital without need in the near term to issue financing, to reduce our needs in the near term to issue financing. So it's a negative buffer -- the way -- the way we look at it is it's a negative buffer of 450 million.

CHAIRMAN HALL: In your application you indicated that you thought that you would -- your -- your -- your need was greater than it was in 2010 for -- for finance capacity in part because of rising interest rates.

MR. ZUCKER: No. I'm not --

CHAIRMAN HALL: Okay. Let's look at page 2 of your application.

MR. ZUCKER: I don't have it in front of me, but I have it at my desk if --

CHAIRMAN HALL: Okay.

MR. ZUCKER: Okay. I have it, Chairman.

CHAIRMAN HALL: At the bottom of page 2 you note that Laclede has to date called on approximately 150 million of the amount authorized. However, given the fact that Laclede has nearly doubled in size and sees the potential for rising interest rates, the Company believes its long-term financing needs will be greater over the next five years.

MR. ZUCKER: Correct.

CHAIRMAN HALL: So can you explain -- explain why you believe -- what's the connection between interest rates and your -- and your finance needs?

MR. ZUCKER: Okay. So five years ago we were given 518 million in authority and as Staff has pointed out, we haven't used it all. They see that as a bad thing, a failure on our part. We see that as a good thing, a sign that we are fiscally cautious and good stewards of our money.

However, that doesn't mean that we should be punished for using less capacity over the last five years by having our current capacity unreasonably lowered. And so what we're saying is because interest rates are -- might be rising, we might be more likely than not to use more of our capacity. In other words, if you're worried that we're not -- that we're not borrowing enough, we might be -- or not -- not issuing enough long-term financing, debt and equity, we might be doing that more in the future.

CHAIRMAN HALL: And I guess I still don't understand what the connection is between increasing interest rates and the need for more -- and the need for more capacity.

MR. ZUCKER: Well, we've actually asked for less capacity, apples to apples. And the truth of the matter is, is that it shouldn't really matter. The Commission's job is to make sure that we have the -- the capital assets, the regulatory assets to back what we're asking for. And if we have those, then we are supposed to be entitled to that financing authority. And whether we use it or not is within management's discretion.

So you're right, it doesn't directly -- it -- it -- it isn't an element that needed to be proved. It was just a little extra we through in there.

CHAIRMAN HALL: Looking at Staff's position statement where they -- on Issue 2, what conditions should be the Commission place on Laclede Gas Company's financing authority --

MR. ZUCKER: Okay. I don't have it in front of me, but --

CHAIRMAN HALL: Could you -- I have some questions.

MR. ZUCKER: Sure. I know where it is.

CHAIRMAN HALL: It's Staff's statement.

MR. ZUCKER: Okay. I'm ready.

CHAIRMAN HALL: Which of these conditions does the company oppose, if any? I mean there's -- there's a great deal of overlap between the conditions that Staff seeks and the conditions that Laclede indicated that it was okay with. So I'm trying to get a sense looking one by one at Staff's condition whether or not the company has issues with any of them.

MR. ZUCKER: And I'm going to go right off the top of my head and say I don't think we have any issues with them. That's been something that -- and -- and, you know, I give credit to Staff. They come up with good conditions over the years, we've agreed with them.

And -- and, in fact, without reading them -- being able to read them that closely now, I don't know if the condition is in here that we -- that requires us to maintain a investment grade credit rating. And that condition has been -- been in our authorization orders in the past and we're willing to add that one to Staff's if it's -- if it's not in here now.

CHAIRMAN HALL: Okay. I have no further questions. Thank you.

MR. ZUCKER: Thank you.

JUDGE PRIDGIN: Any further Bench questions? Commissioner Rupp?

Mr. Zucker, I'm sorry. Commissioner Rupp has some questions.

MR. ZUCKER: Every time I try to get out, they pull me back in.

COMMISSIONER RUPP: That's exactly right. Looking at your handout and your slides, when you were -- your apples-to-apples comparison to Laclede Gas 2010 to 2015, did you have an A minus credit

rating in 2007 and 2010?
MR. ZUCKER: I believe so. Is our credit rating -- let me check with our treasurer.
MS. RAWLINGS: I think in 2007 it was an A rather than an A minus.
COMMISSIONER RUPP: This is roughly, right? No major changes?
MS. RAWLINGS: Right.
MR. ZUCKER: Down one notch.
COMMISSIONER RUPP: And you purchased MGE in 2013?
MR. ZUCKER: Correct.
COMMISSIONER RUPP: How much was that? What was the price?
MR. ZUCKER: The price was I believe 975 million.
COMMISSIONER RUPP: And how was that financed?
MR. ZUCKER: That was financed through a combination of debt and equity. But we got special financing permission for that. We didn't use our -- the financing that we -- that we have here, which is basically operational financing. That was a special case because it was a merger acquisition.
COMMISSIONER RUPP: And in your special

financing there was no additional operational borrowing of -- nothing exchanged from the time you sought to purchase the company to today as far as operational authority?

MR. ZUCKER: As far as operational authority, no. But in the MGE merger Stipulation and Agreement, there are some credit requirements in there that are kind of similar to the ones here, investment -- maintaining an investment grade credit rating and if something should happen, then we have to come to Staff and come up with a plan and that kind of stuff.

COMMISSIONER RUPP: In your special financing agreement for the purchase of MGE, was any of that special authority allocated for the -- for the increased costs you were going to incur for operations?

MR. ZUCKER: No. That was just for the purchase.

COMMISSIONER RUPP: Just strictly -- just strictly for that. Okay. Thank you. And can you have the company do -- give me some calculations so I don't have to sit here and search them on the internet?

MR. ZUCKER: Absolutely.

COMMISSIONER RUPP: I'm sure that you guys have them. Could you find for me the utility natural gas industry's industry average for the current ratio, their quick ratio and the cash ratio when it comes to liquidity?

MR. ZUCKER: Current ratio, quick ratio and cash ratio?

COMMISSIONER RUPP: Yes.

MR. ZUCKER: And you want the utility --

COMMISSIONER RUPP: I want the -- your industry average. I have yours.

MR. ZUCKER: Industry average. Okay.

COMMISSIONER RUPP: But I just -- I'm getting -- by a quick search I'm getting conflicting information on what is the actual industry average.

MR. ZUCKER: Okay.

COMMISSIONER RUPP: Thank you.

JUDGE PRIDGIN: Further Bench questions? All right. Thank you very much.

MR. ZUCKER: You're sure?

JUDGE PRIDGIN: No, I'm not, but I'm fairly certain.

MR. ZUCKER: Thank you, your Honor.

JUDGE PRIDGIN: All right. Mr. Poston, any opening?

MR. POSTON: No opening.

JUDGE PRIDGIN: All right. Thank you.

Mr. Keevil?

MR. KEEVIL: Yes, Judge. Give me just a second, if you would.

May it please the Commission. You've heard Laclede's version. Now let me tell you what the case is really about. You also heard Mr. Zucker say that Staff may claim that this case is distinguishable from the 2010 case and then he took issue with that. Actually in September of this year, the Commission in this case in a discovery order issued the following order: The issue decided by the 2010 order is distinguishable from the issue here.

In the 2010 order, the Commission found the intent of the financing authority statute is to restrict long-term financing to allowable purposes. As Staff correctly notes in its reply to Laclede's response to Staff's Motion to Compel in this case, the dispute in that earlier case was regarding allowable projects, which is different than the focus of Staff's discovery.

And I might add there, is also different than the issue in this case.

Continuing from the Commission's

September order, More importantly, Laclede's interpretation of the Commission's 2010 order would render meaningless the statute's provisions that the requested financing be necessary and reasonably required for those allowable purposes. Thus, the analysis in this case must be distinct from that on which the 2010 order rested.

And then I cite the order there. That's your order on the Motion to Compel and Protective Order issued September 29th in this docket.

So what's this case about? Well -- excuse me. I didn't do a very good job of putting that on the ELMO.

Commission financing authority has historically been exercised in two formats. One would be specific issuance financing approval, which this is not; or two, blanket authority -- so-called blanket authority for a specified period with specified conditions.

The issue in this case is an expansion of the second approach, which I just mentioned, to grant financing authority beyond the amount supported by the company's own plans, not Staff's projections, calculations -- just Laclede's plans -- and without a condition prohibiting any excess financing authority from being exercised in a manner that allows the funds raised from the financing from being transferred to the holding company as a dividend.

I would also point out at this point that Staff has not had this dispute with other Missouri utilities, only with Laclede. So why are we here? That's part of the answer right there.

Staff's position is that the Commission's so-called blanket financing authority should only be authorized in the amount which Laclede has actual plans to issue and which Laclede has indicated to the credit rating agencies will be issued. Again, these are not Staff's calculations. These are the amounts that Laclede told the credit agencies they plan to issue in the next three years.

Staff's recommendation is also not limited to just one type of financing, such as debt or equity because the recommendation covers the total amount of financing, which Laclede plans to issue over the three-year period.

So on what is that last statement based? Well, let me give you a couple of examples. This is a quote from Ms. Rawlings' Direct Testimony: Currently known financing needs are less than the amount requested.

They admit it. They don't have financing -- currently known financing needs equal to their requested 550 million.

Now, this next slide or couple next slides are HC so I've got to go in-camera.

JUDGE PRIDGIN: All right. Thank you. One moment, please.

(REPORTER'S NOTE: At this time, an in-camera session was held, Volume 3, pages 49 to 51.)

JUDGE PRIDGIN: All right. We're back in public session.

MR. KEEVIL: I may have incorrectly spoken, your Honor, but I don't think so.

JUDGE PRIDGIN: All right. Thank you.

MR. KEEVIL: This next slide here is a public attachment to Laclede's application. It's part of Exhibit 2 to Laclede's application, page 2 of that. And I only put this up here to point out -- and since we've gone back in public, I won't give the numbers from the HC slides that I was referring to a moment ago, but you will see here -- maybe you won't. Let me try that way.

That note there at the very top, what this is, this is a -- like I said, a financial statement exhibit that was attached to Laclede's application. The far right column is a proforma column. You'll see the note there at the top explaining the proforma column. And I just want you to note there that the 360 million -- it says the proforma gives effect to the issuance of 360 million first mortgage bonds and 190 million of additional paid in capital.

Again, I'm not going to mention those numbers from that rating agency slide I showed a moment ago, but you'll notice those numbers in the attachment to the Commission application bear no relationship whatsoever to the numbers that they had in their rating agency presentation. And if you want, we can --

COMMISSIONER RUPP: Where is that from?

MR. KEEVIL: This printout?

COMMISSIONER RUPP: Uh-huh.

MR. KEEVIL: This is Exhibit 2 to Laclede's application. Page 2 of Exhibit 2 to Laclede's application in this case.

COMMISSIONER RUPP: And it is from their annual report? Is it --

MR. KEEVIL: No. This is just their -- I believe it's a page -- well, like I said, it's page 2 of Exhibit 2. It's their -- a page from their balance sheet, has both their actual and their proforma. And it was attached because of the Commission rules on financing applications require these things to be attached. And that -- like I say, was the balance sheet back --

COMMISSIONER RUPP: As of what date?

MR. KEEVIL: Well, the proforma -- the actual was as of December 31st, 2014. And the proforma takes the December 31st, 2014 and then as that first note mentioned, gives effect to those additional considerations.

Now this was originally HC, but it's my understanding the amount of Staff's recommendation has been declassified so this would no longer be HC then. Based on the actual -- whoa, I zoomed in. I forgot about that.

Based on Laclede's actual financing plans and its communications with credit rating agencies, Staff recommends the Commission authorize 300 million of total capital issuance through September 30th, 2018 subject to the conditions set forth in the Staff recommendation, which as Commissioner Hall has noted, are very similar to the conditions in the 2010 Commission order.

If the Commission decides to issue -- excuse me, to authorize an amount higher than the recommended amount by Staff, the Commission should place a condition -- this would be an additional condition in addition to those previously mentioned -- should place a condition on such financing authority so Laclede cannot transfer funds raised under that financing authority to the holding company in the form of dividends or otherwise.

Now, regarding that extra buffer issue

that Chairman Hall mentioned, Laclede, as you heard Mr. Zucker say repeatedly, refers to the 2010 order as the holy grail of financing authorities and claims to be following that to the letter. But that -- one thing they don't mention from that order was that order specifically found that flexibility -- it was -- what they were calling it in that case was flexibility. In this case they're calling it extra buffer.

Specifically found that flexibility was not an approved -- or an allowable purpose under the statute in the 2010 order. You know, they don't mention that now. They mention the other things from the 2010 order, but not that.

With that, I would close unless anyone has any questions.

JUDGE PRIDGIN: Any Bench questions? Mr. Chairman?

CHAIRMAN HALL: If Laclede were to provide a list of all of its capital projects in the next three years and on that -- and with an anticipated expense and that total equaled 550 million and they indicated that they intended to finance or hoped to finance all of those expenditures and they told the rating agencies that, would it be

Staff's position that -- that the Commission should authorize 550 million dollars in finance authority?

MR. KEEVIL: I honestly don't know. I'm going to have to defer that one to my witness, Mr. Chairman. The Staff recommendation in this case was originally filed before I was -- before I inherited the case so I honestly don't know the answer to that.

CHAIRMAN HALL: Okay. I'll save that question for Mr. Murray then.

And I guess I'll save the rest of my questions for him as well. Thank you.

JUDGE PRIDGIN: Commissioner Stoll?

COMMISSIONER STOLL: This may also be a question for Mr. Murray, but I think maybe the first part you could explain. When you talk about the company's ability or the fear that they might transfer funds raised to the holding company, could you talk to us a little bit about that?

MR. KEEVIL: Sure.

COMMISSIONER STOLL: How would that work?

MR. KEEVIL: Yeah. And again, I would encourage you to follow that up with Mr. Murray, but I'll take a crack at that too. For example, if they got the 550 million authority that they're requesting and then they only needed to issue 300 million as Staff is recommending, that would leave 250 million excess -- in Staff's opinion, excess.

They could then issue debt at the Laclede Gas level for the amount of 250 million and just funnel that up to Laclede Group as a dividend and leave Laclede Gas holding the bag for paying the capital and interest expense on that 250 million, which was paid to the holding company as a dividend. Does that make --

COMMISSIONER STOLL: Yeah.

MR. KEEVIL: Did you follow that?

COMMISSIONER STOLL: Yeah. They've never done this before though, have they, that we --

MR. KEEVIL: Not that I'm aware of. But keep in mind also that the Laclede that you're dealing with today is not your granddaddy's Laclede. Okay? They've, in the last several years, gotten much more aggressive in terms of acquisition. There's -- I don't want -- I want to be careful here, but I don't think this is confidential.

The Laclede Group has debt that they're now servicing that they were not previous -- did not previously have to service because of the acquisition of the Alabama Gas Company. So to say that because they've never done it before, trust us, we'll never do it in the future, I don't -- you know, maybe that's -- maybe you want to do that, but I'm not sure I'd necessarily say that's a safe -- you know, we -- Staff doesn't want to simply rely on the fact that because they've never done it before, they -- they won't do it now.

COMMISSIONER STOLL: When they came -- and that's true. When they came in for the next rate case, it seems like they would be in deep difficulties doing something like that.

MR. KEEVIL: Perhaps. But do you want to -- do you want to wait for that?

COMMISSIONER STOLL: No. I'm just -- suppose.

MR. KEEVIL: Do you want to head off the problem before it becomes a problem or do you want to try to whack them after the fact for doing something they shouldn't have? I guess it goes back to the old utility adage, it's easier to ask for forgiveness than permission.

COMMISSIONER STOLL: Was that? Okay.

MR. KEEVIL: I said utility.

COMMISSIONER STOLL: I'll save the rest for Mr. Murray. Thank you.

JUDGE PRIDGIN: Commissioner Stoll, thank you.

Commissioner Rupp?

COMMISSIONER RUPP: Walk me through your hypothetical situation with the dividend to the holding company. So we're not talking about dividend to shareholders. You're talking about what? Just --

MR. KEEVIL: Well, Laclede -- the holding company is the only shareholder. So you know, it would be -- but one thing else I would throw out here, Laclede -- in order to get money from Laclede Group, Laclede Gas does not have to issue stock. They can just get an infusion of cash. In fact, that's happened.

But what we're talking about here is going the other direction, where Laclede Gas raises money through a financing authority and then takes that money and just ships it up to the holding company. And if they have excess financing authority beyond that which they actually plan to use or need, that would be available for such -- such a purpose.

And again, I mean I can't guarantee they would do it, but I can't guarantee they wouldn't either. And so far they haven't been willing to agree -- guarantee they won't either.

COMMISSIONER RUPP: And help me -- maybe I'm oversimplifying this, but from what I took from your opening was that your case is kind of hinging on forward-looking statements given to the bond rating agencies on potential debt in the next three years.

MR. KEEVIL: Well, that's certainly a primary part of it.

COMMISSIONER RUPP: Is there any type of fiscal or monetary fine if they do not issue the amount of debt that they told the rating agencies that they will -- were most likely going to issue in that forward-looking statement?

MR. KEEVIL: Not that -- you say if they don't issue?

COMMISSIONER RUPP: Uh-huh. Or if they issue in excess of that amount.

MR. KEEVIL: Well, if they issue in excess, since we're talking about credit rating agencies, I would think that the credit rating agencies would not look favorably on being told one thing and then having the company come in and issue substantially in excess of what they had been told they were going to issue.

COMMISSIONER RUPP: And if they --

MR. KEEVIL: As far as a penalty, I'm not

aware of there being --
COMMISSIONER RUPP: But if they did that, wouldn't that then adversely affect their rating?
MR. KEEVIL: It -- yes, it would. At least one would expect to, let me say it that way. I can't guarantee, but I certainly would expect it to.
COMMISSIONER RUPP: Thank you.
JUDGE PRIDGIN: Thank you. Any further Bench questions?
CHAIRMAN HALL: Yes.
JUDGE PRIDGIN: Mr. Chairman?
CHAIRMAN HALL: I'm sorry. I'm going to -- I'm wondering if you think there is any legal relevance to the -- to the argument raised by Laclede in its -- in the opening about why -- why capacity is beneficial for customers. Essentially why -- why excess capacity or a buffer might be beneficial to customers. Is that legally relevant?
MR. KEEVIL: I don't believe --
CHAIRMAN HALL: Is that something that we should take into account in making our decision?
MR. KEEVIL: Legally relevant, I don't believe so, Mr. Chairman. And like I said, in 2010, that was one of the few things that the then-Commission actually ruled against Laclede on.

They said no, that's not part of the statute. You don't get that under -- under the statute.

CHAIRMAN HALL: Thank you.

COMMISSIONER KENNEY: One quick question. What was the amount of the authorized? 518 million?

MR. KEEVIL: In 2010, it was authorized 518. And as of when they filed this application, they still had I think 370 million unused. So they only use about 140.

COMMISSIONER KENNEY: That they could have financed and sent upstairs. Right?

MR. KEEVIL: After the acquisition, yeah. I think it was in -- I may be wrong on this, but I want to say it was around 2000. So you're looking at roughly 15 years out of their 158-year history that Mr. Zucker mentioned that they've been structured in the holding company. So it's a fairly limited period of time compared to the time that they've been around that they've actually been in the holding company structure.

JUDGE PRIDGIN: Thank you. Any further Bench questions?

All right. Mr. Keevil, thank you.

MR. KEEVIL: Thanks.

JUDGE PRIDGIN: I believe we're ready to

move on to the first witness. And Ms. Rawlings, if you'll step forward and be sworn, please. If you'll raise your right hand to be sworn, please.

(Witness sworn.)

JUDGE PRIDGIN: Thank you very much. Please have a seat. And Mr. Zucker, when you're ready.

LYNN D. RAWLINGS, testified as follows:

DIRECT EXAMINATION BY MR. ZUCKER:

Q. Good afternoon, Ms. Rawlings.

A. Hi.

Q. Can you state your name and spell it for the record.

A. My name is Lynn Rawlings, L-y-n-n R-a-w-l-i-n-g-s.

Q. And can you tell me who you're employed by and in what capacity?

A. I am employed by the Laclede Gas Company as its treasurer and assistant secretary.

Q. And are you the same Lynn Rawlings who filed Direct Testimony in this case on July 28th, 2015?

A. Yes, I am.

Q. And if I asked you the same questions that are in that testimony, would your answers be the

same today as you answered then?
A. Yes. In my Direct Testimony.
MR. ZUCKER: And I move for admission of the Direct Testimony of Lynn Rawlings into the record. That's Exhibit 2.
JUDGE PRIDGIN: Any objections?
MR. KEEVIL: No.
JUDGE PRIDGIN: Hearing none, Exhibit 2 is admitted.
(Laclede Exhibit 2 was received into evidence.)
MR. ZUCKER: Could I also ask at this time to admit Exhibit 1, which is the application?
JUDGE PRIDGIN: Any objections?
Hearing none, Exhibit 1 is admitted.
(Laclede Exhibit 1 was received into evidence.)
MR. ZUCKER: Thank you, your Honor.
BY MR. ZUCKER:
Q. Are you the same Lynn Rawlings who filed Surrebuttal Testimony in this case on September 18th, 2015?
A. Yes, I am.
Q. And if I asked you the same questions in that testimony -- God bless you -- would your answers

be the same?

A. I actually have one correction, which is on page 16, lines 1 through 4. And I have a marked copy that I can give to the court reporter to --

MR. ZUCKER: If it's okay, I could hand out copies of the -- it's easier to hand out the paper then to give all of the -- give an oral change.

JUDGE PRIDGIN: That's fine with me.

THE WITNESS: So that the revised version would read, Our estimates assume that current tax code rules will remain in effect through 2018. And should Congress, in fact, change such depreciation rules at some point, Laclede's financing needs could significantly increase.

MR. ZUCKER: I did hand out enough, your Honor?

JUDGE PRIDGIN: You did. Thank you.

BY MR. ZUCKER:

Q. Okay. With that change, Ms. Rawlings, would your answers now be the same to those -- to the questions propounded in the September 18th, 2015 Surrebuttal Testimony?

A. Yes, they would.

MR. ZUCKER: I move for admission of the Surrebuttal Testimony as amended into evidence.

JUDGE PRIDGIN: Any objection?
Hearing none, Exhibit 4 as corrected today is admitted.
(Laclede Exhibit 4 was received into evidence.)
MR. ZUCKER: No further questions. Thank you, Ms. Rawlings.
JUDGE PRIDGIN: All right. Thank you.
Cross-examination, Mr. Poston?
MR. POSTON: No questions, thank you.
JUDGE PRIDGIN: Mr. Keevil?
MR. KEEVIL: Yes, Judge, just a few.
CROSS-EXAMINATION BY MR. KEEVIL:
Q. Ms. Rawlings, to begin with, who is Glenn Buck?
A. He is a long-time Laclede Gas employee who is in our Regulatory Affairs Department.
MR. KEEVIL: Okay. Judge, I'd like to mark an exhibit, if I may.
JUDGE PRIDGIN: I show this as Number 12.
(Staff Exhibit 12 was marked for identification.)
BY MR. KEEVIL:
Q. Ms. Rawlings, I've handed you what's been marked as Exhibit 12. Do you recognize this as a Data

Request Response by Mr. Buck to a Staff Data Request?

A. Yes, I do.

MR. KEEVIL: Judge, I would offer Exhibit Number 12.

JUDGE PRIDGIN: Any objections?

Hearing none, Exhibit 12 is admitted.

(Staff Exhibit 12 was received into evidence.)

MR. KEEVIL: I'd like to mark one more, Judge. This one's HC by the way, so --

JUDGE PRIDGIN: Thank you. I'll show this -- HC and NP or just entirely HC?

MR. KEEVIL: Entirely HC.

JUDGE PRIDGIN: This is Exhibit 13-HC. Thank you.

(Staff Exhibit 13-HC was marked for identification.)

BY MR. KEEVIL:

Q. Ms. Rawlings, I've handed you what's been marked as Exhibit 13-HC. And what's your position with Laclede?

A. I'm the treasurer.

Q. Okay. Does that appear to be a -- Exhibit 13-HC, does that appear to be the rating agency presentation given by Laclede in June 2015 and

provided by Laclede pursuant to data request in this case?

A. Yes, it does.

MR. KEEVIL: Judge, I'd offer Exhibit Number 13-HC.

JUDGE PRIDGIN: Any objections?

MR. ZUCKER: No, your Honor.

JUDGE PRIDGIN: I'm sorry. Hearing none, Exhibit 13-HC is admitted.

(Staff Exhibit 13-HC was received into evidence.)

BY MR. KEEVIL:

Q. Ms. Rawlings, according to your Direct Testimony, you are sponsoring the application Laclede filed in this case; is that correct?

A. Yes.

Q. Who actually prepared that application?

A. Well, our Regulatory Department. There were several people involved and I was involved as well.

Q. Okay. Who filed the -- was there an affidavit filed with that, to your knowledge?

A. I'm trying to recall.

Q. Okay. It's okay. We can go on from that one.

A. I think Mr. Zucker absconded with my application copy.

Q. Now, on page 7 of your Direct Testimony, you state on lines 11 through 15 talking about Laclede's agreement and the Commission financing orders prohibit Laclede from using any of its long-term financing for any purpose other than its regulated operations. Is that your testimony there, ma'am?

A. Yes, it is.

Q. Okay. In Laclede's opinion -- Laclede Gas's opinion, would regulated operations include paying dividends to the Laclede Group?

A. Well, that provides a form of return to our shareholders and that's necessary in order to maintain capital.

Q. Well, could you answer yes or no, ma'am?

A. Can you repeat the question, please?

Q. Yes. In the opinion of -- well, in your opinion would paying dividends to Laclede Group be a regulated operation purpose for Laclede Gas?

A. I would say yes, in the sense that it's necessary --

Q. Okay. Well, that's an answer, ma'am. So --

MR. ZUCKER: Objection, your Honor. Let her finish her answer, please.

MR. KEEVIL: Judge, the question was a yes/no.

JUDGE PRIDGIN: Yeah. He's entitled to lead her and she said yes and he tried to cut her off, so I'll overrule.

BY MR. KEEVIL:

Q. So in your opinion then, Ms. Rawlings, Laclede Gas could, in fact, use financing authority granted by this Commission in order to raise funds to pay dividends to Laclede group. Correct? Yes or no?

A. Yes. In the sense --

Q. Okay. Thank you. Are -- is Laclede Gas willing to agree not to do that?

A. Well, since we've discussed --

Q. Yes or no, ma'am? Are they willing to agree to not do that?

A. If it has to be a yes or no answer, it will be no.

Q. Thank you. On pages 8 and 9 of your Direct Testimony, you refer to -- well, let me see. For example, page 9, beginning on line 2 you say, Having permitted the company to incur these kinds of long-term obligations -- and you've just gone through

a discussion of buying gas and pipeline and storage capacity and other things.

Having permitted the company to incur these kinds of long-term obligations, it does not make sense for the Commission to more strictly restrain the company's freedom to access capital markets.

Do you see that, ma'am?

A. Yes.

Q. Okay. Now, would you agree that in order to receive financing authority, the company has to come to the Commission in advance and receive Commission authority?

A. Yes. I understand that.

Q. Okay. Now, are you aware of any similar requirement for companies to come to the Commission authority prior to entering into gas supply contracts?

A. No, I am not.

Q. Okay. Or are you aware of any statute requiring company -- gas companies to come to the Commission prior to engaging in any of those kinds of long-term obligations you refer to there at the top of page 9 other than financing?

A. No, I am not.

Q. Okay. Now, if you would turn to your Surrebuttal, page 4, line 10, you say there that

Mr. Murray characterizes the percentage referred to as being reasonable.

Is that what you say?

A. Yes.

Q. Okay. Do you have a copy of Mr. Murray's testimony with you?

A. Yes, I do.

Q. Okay. would you look at page 10, line 16 of Mr. Murray's testimony?

A. Yes.

Q. In fact, what he says there is, Those requests were more reasonable in relative size, is it not, ma'am?

A. Yes.

Q. Okay. So to you that's the same thing as saying they were reasonable, period?

A. He does use the word "reasonable."

Q. But he used it with all sorts of qualifiers both before and after, did he not, ma'am?

A. Well, one qualifier; more reasonable.

Q. Well, he had, More reasonable in relative size. There's at least two.

A. And we discussed the relative size in Mr. Zucker's opening statement. Relative to the size of the company.

Q. We're talking about relative size of the financing amounts here, ma'am.

A. Yes. The -- the financing amounts relative to the size --

Q. Which are substantially less?

A. -- of the company.

Q. Well, that's not what Mr. Murray is saying though, is it? That may be what you're saying, but that's not what Mr. Murray is necessarily saying. Would you agree with that?

MR. ZUCKER: I'm sorry. Where are we?

MR. KEEVIL: Page 10, line 16.

MR. ZUCKER: Thank you.

THE WITNESS: Line 16 says, More reasonable in relative size. Laclede's original debt authority request of 100 million, et cetera.

So we are talking about debt authority. Line 16, Laclede's financing authority requests were more reasonable in relative size.

BY MR. KEEVIL:

Q. And that's not the same as him saying that they were just flat out reasonable, is it?

A. It's a matter of degree.

Q. If you could turn to page 10 of your Surrebuttal there at the bottom, the page beginning on

line 22 you say that, As Mr. Murray himself noted on pages 3 and 4 of his testimony.

I'm looking at pages 3 and 4 of Mr. Murray's testimony. Again, on line 19 he prefaces that discussion by saying, Ms. Rawlings claims that. So you didn't mention that his testimony there was premised on referring to your testimony. So do you believe those are -- he necessarily was adopting your statements as true by saying, Ms. Rawlings claims that an amount consistent with, et cetera?

A. I understand that Mr. Murray doesn't accept the Commission's interpretation from the 2010 order.

Q. Do you accept that you misquoted Mr. Murray's testimony?

MR. ZUCKER: I'm sorry. Again, where are we?

MR. KEEVIL: I'm in Jeff City.

MR. ZUCKER: You're going a little fast for me. We're in the Surrebuttal Testimony of Lynn Rawlings?

MR. KEEVIL: Yeah.

MR. ZUCKER: And what page?

MR. KEEVIL: Page 10, line 22.

MR. ZUCKER: Line what?

MR. KEEVIL: 22.

BY MR. KEEVIL:

Q. Please answer the question, Ms. Rawlings. Where does Mr. Murray on pages 3 and 4 of his testimony state what you claim he states?

A. I guess he's attributing that statement to me.

Q. All right. Thank you. Turn to page 15 of your Surrebuttal. On line 7 you refer to the amount of long-term financing estimated by Laclede. That is the estimate by Laclede in the rating agency presentation that I've referred to previously in the amount of -- total amount of 300 million dollars. Correct?

A. Yes.

Q. Okay.

MR. KEEVIL: Judge, I think that's all I have.

JUDGE PRIDGIN: All right. Thank you.

We'll go to Bench questions.

Mr. Chairman?

QUESTIONS BY CHAIRMAN HALL:

Q. Good afternoon, Ms. Rawlings.

A. Hi.

Q. My understanding of your testimony is

that the company has a 556 million dollar three-year capital expenditure plan; is that correct?

A. Yes.

Q. Staff has stated that the company has indicated that its financing needs are 300 million. And I may be mischaracterizing that. I'm not doing it intentionally. So if you can fix that characterization, I'd appreciate it.

A. That is what we projected in the rating agency study, as was commented. That is --

Q. As what? I'm sorry.

A. In the rating agency presentation, as has been commented, that is the amount that is in there. That is one --

Q. That's the amount that's in there for what?

A. For financing between now and through 2018.

Q. Okay. So what is the difference between that 300 and the 556? Actually, let me rephrase that. What's the difference between the 300 that you indicate are your financing needs and the 550 that you're seeking in capacity today?

A. The 300 is a projection. It is one point projection. When one does financial forecasting, any kind of forecasting, there's a range of probable and possible outcomes. This is the middle point of that range. There could be lots of things that change that amount. There could be inflation, there could be changes in tax laws, there could be changes in accounting rules that cause all of the operating leases to become capital leases. There could be lots of things that end up affecting that number.

Q. So you indicated a number of -- a number of variables. You didn't include in that list a -- a change in the company's position as to what -- as to capital expenditure items. You're talking specifically about inflation, interest rates, accounting rules?

A. Well, no. Certainly the amount of the capital expenditures could change as well. Again, inflation could have an impact on the cost of those capital expenditures, but we could make a management decision to expand more the safety improvements that we're doing or there could be myriad other things that would affect that amount.

Q. Okay. So that's the difference between the 300 and the 550. Let me ask you next about the difference between the 300 and the 556. So you -- you anticipate needing to spend 556 million, yet you only

believe that you will need to finance 300 million of that. Is the remaining 256 anticipated to be covered by operating?
A. By operating cash flow?
Q. Yes.
A. Yes.
Q. Okay. So in other words, you are -- you are seeking a buffer? You're --
A. Well, in -- in 2010, the Commission did reject the use of flexibility or a buffer or whatever you might call it as not an allowed purpose for financing. But at that time we had requested 600 million in authority and the Commission went through how much we should be allowed and came up to a lesser number and said you can have this lesser number, 518 million, and you don't -- it's not reasonable to give you a buffer or flexibility. That's not an allowed, an approved purpose for financing.
In this case, going through the statute to determine how much we can, under the statute, we would be able to finance comes up with the 1 billion dollar number. So we're not asking for a buffer over that 1 billion dollars. We're actually asking obviously for much less.

Q. In response to questions from Mr. Keevil, you -- you indicate -- well, let me start over.

When do you believe it would be appropriate to use proceeds from this finance capacity to pay dividends to Laclede Group and when do you believe it would be inappropriate to do so in light of the specific condition that the finance capacity needs to be only for regulated -- for the -- for the benefit of regulated operations?

A. We have discussed with Staff a number of times money is fungible. You can't really trace one dollar from one source to a specific dollar of use. That's why we have these other conditions in place, that we maintain a certain capital ratio, that we maintain a certain credit rating.

And if we were to lever up -- if we were to borrow more money and use that to pay dividends to our parent company, ultimately that's going to -- going to have a deleterious effect on our capital ratios and the other cash flow ratios and so on and we would probably end up getting a credit rating downgrade if we did that in any extreme manner.

Q. But there would be no violation of the condition that you've agreed to in the 2010 case and this case concerning using finance capacity only for

the benefit of regulated operations? It might affect your bond rating, it might affect a variety of other things, but it would not -- in your view, it would not be a violation of that condition?

A. Well, is it a regulated purpose to pay interest on our bonds that are outstanding? I think it would be because those bonds support our assets, our regulated operations. Our equity also supports our assets and our regulated operations. And our equity investors deserve a return as well.

Q. So I guess the answer to that is no?

A. The answer is -- if I -- do I think that paying a dividend could be considered a regulated purpose? I guess I think it could.

Q. And are there times that it would not?

A. I -- it would be hard to draw the line.

Q. So it's hard for you, sitting here, to come up with a scenario where paying dividends to the holding company would be a violation of that condition?

A. No. I can probably come up with an extreme scenario. But as I said, I'm not sure where one draws the line.

Q. Let me hear your extreme scenario.

A. Well, if we were to borrow the

250 million that is in excess of what we expect to have to issue for capital expenditures, and we were to dividend all of that up to the parent, that would probably be an extreme scenario.

Q. And so that would violate this -- this -- this condition. And it would violate that condition why?

A. Well, I think it would probably end up violating that condition because it would be -- well, it would be violating one of our other conditions.

Q. Right. I mean -- well, it would violate a whole host of things.

A. Yes.

Q. No question about that. But I'm trying to get a better understanding of the extent to which this condition captures the Staff's concern in this case. And -- and I'm having a hard time seeing how it does. So any additional help that you could give me to show how it does protect -- how it prevents use of this finance capacity for non-regulated entities or services or operations would be helpful to me.

A. I'm afraid I don't know what else to say on that.

Q. Okay. All right. Thank you.

CHAIRMAN HALL: I have no further

questions.

JUDGE PRIDGIN: Thank you.

Commissioner Stoll?

COMMISSIONER STOLL: No. My question was answered.

JUDGE PRIDGIN: Commissioner Kenney? Commission Rupp?

QUESTIONS BY COMMISSIONER RUPP:

Q. Do you have -- which exhibit is this? It's the --

JUDGE PRIDGIN: 12.

BY COMMISSIONER RUPP:

Q. 12. Your presentation to the -- to the bond rating companies.

JUDGE PRIDGIN: I'm sorry. That's 13-HC.

COMMISSIONER RUPP: 13-HC.

JUDGE PRIDGIN: And someone please let me know if we need to go in HC.

COMMISSIONER RUPP: I can keep them general without asking any dollar amounts.

JUDGE PRIDGIN: Counsel, will that work?

MR. ZUCKER: Sure.

BY COMMISSIONER RUPP:

Q. Looking at page 18, under the maturity of long-term debt.

A. I'm sorry. I don't think I have that exhibit here.

MR. ZUCKER: Page 18 of which exhibit?

JUDGE PRIDGIN: Exhibit 13. That's the rating -- excuse me, the rating agency presentation.

THE WITNESS: Thank you. Sorry. Which page?

BY COMMISSIONER RUPP:

Q. 18.

A. I'm starting on page 27.

Q. Yes.

A. I'm sorry. I was starting at the back.

Q. It goes back -- yes, it goes backwards.

A. Okay.

Q. So just can you, without using numbers, on the -- towards the bottom or under cash flow from financing activities, under the line maturity of long-term debt.

A. Uh-huh.

Q. Over the period of time that's printed there, explain to me that line without using any numbers.

A. Well, this page is for the Laclede Group, a consolidated Laclede Group.

Q. Okay.

A. So that includes not only Laclede Gas Company debt maturities, but Alabama Gas Company debt maturities and Laclede Group debt maturities.

MR. KEEVIL: Commissioner, if you're looking for that page I was referring to in my opening, it's page 21 of that exhibit.

COMMISSIONER RUPP: Thank you.

BY COMMISSIONER RUPP:

Q. Yes. So on page 21 --

A. Uh-huh.

Q. -- under the issuance of long-term debt towards the bottom and the maturity of long-term debt --

A. Right.

Q. -- in 2018 is there any correlation between those two numbers?

A. Yes. It's a direct correlation. We would anticipate refinancing that debt as it matures. That was part of our calculation of the needed amount or allowed amount.

Q. So the amount that Staff is talking about is -- I'm trying not to use numbers here.

COMMISSIONER KENNEY: This number has already been used, I think. The 300 --

COMMISSIONER RUPP: That's already been

in?

COMMISSIONER KENNEY: Yes.

BY COMMISSIONER RUPP:

Q. So the 300 million dollar figure that's been tossed out, that is not, you know, capital projects only? A portion of that is the refinance of existing past capital expenditures?

A. That -- that's part of what we anticipate doing.

Q. So, in essence, the anticipated capital expenditures over the next three years would be that -- that amount minus the refinance of the existing debt?

A. I'm sorry. The anticipated capital expenditures was the 562 amount that we've been discussing. But the debt issue --

MR. ZUCKER: Perhaps -- I'm sorry. Perhaps we should go in-camera. I think it would be easier for you to get to your point.

JUDGE PRIDGIN: Just a minute. We'll go in-camera, please.

(REPORTER'S NOTE: At this time, an in-camera session was held, Volume 3, pages 86 to 91.)

JUDGE PRIDGIN: We're back in public session. Commissioner Coleman, any questions?

COMMISSIONER COLEMAN: No.

JUDGE PRIDGIN: All right. Thank you. Since we've been going for a couple of hours, I normally don't like to break in the middle of a witness, but this looks to be a pretty good break time for everyone else. It's just a little bit after three o'clock. We will stand in recess -- let's make it 3:20. We'll go back on the record at 3:20. All right. Thank you. We're off the record.

(A recess was taken.)

JUDGE PRIDGIN: All right. Thank you. We are back on the record. Before we went off the record, I believe we completed Bench questions. So anything further before we go into recross based on Bench questions and redirect?

All right. Mr. Poston, any questions?

MR. POSTON: No questions.

JUDGE PRIDGIN: Thank you. Mr. Keevil?

MR. KEEVIL: Very briefly, Judge.

RECROSS-EXAMINATION BY MR. KEEVIL:

Q. Ms. Rawlings, Commissioner Rupp was asking you right before the break about your need to ask for authority every three years. And I believe

you indicated that was your understanding that you had to request authority every three years; is that --

A. No. That's not what I was trying to say. I said we were -- we try to limit it to every three years. We understand that Staff would prefer that we come more frequently.

Q. Okay. So I mean, there is no requirement -- other than the fact that Laclede asks for three-year authorization each time it comes in, there's no other requirement that you come in every three years. You could come in every time you had a financing -- needed financing or you --

A. We could. Or if we never needed financing, I guess we would never come in,although that's unrealistic.

Q. Exactly. So it's really -- the timing of these is up to the Laclede and is not being imposed on Laclede by some outside requirement?

A. No.

Q. No, you mean you agree with what I --

A. I agree.

Q. Thank you.

MR. KEEVIL: That's all I have, Judge.

JUDGE PRIDGIN: Thank you.

Redirect?

MR. ZUCKER: Thank you, your Honor.

REDIRECT EXAMINATION BY MR. ZUCKER:

Q. If you don't mind, I'll ask from my -- is this working?

A. No, it's not working.

Q. How about now? Is it working now?

JUDGE PRIDGIN: Sounds okay to me. You got a green light on, you should be good.

MR. ZUCKER: I got a green light.

JUDGE PRIDGIN: All right. Thank you.

BY MR. ZUCKER:

Q. Well, it's too bad Chairman and Commissioner Rupp haven't come back yet because I was going to help straighten out their issues, but we'll do it on the record anyway.

Ms. Rawlings, you discussed a dividend issue with Mr. Keevil and Chairman Hall. Do you recall that?

A. Yes.

Q. And have you seen this dividend issue before? Was it in Mr. Murray's Rebuttal Testimony?

A. I don't believe so.

Q. Do you know if it was one of the conditions in the Staff's statement of position?

A. It may have been a condition, yes.

Q. Okay. Let me -- can I show you the statement of position?

A. Please. I am not seeing a reference to dividends.

Q. Okay.

MR. KEEVIL: Judge, I'm going to object to this as misrepresenting my -- what I said against these -- he's referenced me. I made clear during my opening that this was a condition that would be acceptable or advisable in our opinion in the event that the Commission did not accept Staff's position.

So by pointing to our position statement and saying, Well, since it's in -- not in Staff's position statement, therefore, it's irrelevant or whatever is a complete misrepresentation of what we have said regarding this condition and I object to this line of questioning on that basis.

MR. ZUCKER: Your Honor, the -- the -- we've had pleadings and testimony in this case and so Staff has filed Rebuttal Testimony. The Staff filed a statement of position. And the purposes of these things is to inform the other side what your case is about. And this the first we've heard and this is Ms. Rawlings first that she's heard of a -- of the dividend issue.

We're glad to address it today while we're here, but, you know, the reason it may be -- we may be a little awkward on it is because we've never heard it before.

JUDGE PRIDGIN: I understand. I understand your point and I'll overrule the objection.

BY MR. ZUCKER:

Q. Okay. So Ms. Rawlings, the statement of position contains Staff's conditions?

A. Yes.

Q. And the dividend condition is not on there?

A. Correct.

Q. Okay. Let's try to clarify this issue for Chairman Hall who asked some of these questions. Do you have any pencil and paper?

A. Yes, I do.

Q. Okay. Let's say that Laclede had 100 million dollars in retained earnings and Laclede had 50 million dollars in income in a given year. And let's say also that Laclede constructed let's say 300 million in assets and then Laclede borrowed from the -- from the bond market 200 million dollars. Do you follow that?

A. Yes.

Q. Okay. And then Laclede dividended to its parent and sole shareholder, Laclede Group, 80 million dollars --

A. Well, actually given the set of facts that you've set out, if Laclede Gas has only 50 -- I mean has 100 million in retained earnings -- yes, it could dividend -- it could dividend the 80 million.

Q. And would it be our position that the 80 million came out of retained earnings for dividend?

A. That's where dividends come from is retained earnings.

Q. Do dividends come from anywhere else?

A. No.

Q. Okay. And can you identify the -- when you make that 80 million dollar dividend, can you identify that cash with the 100 million dollars in retained earnings and distinguish it from the 200 million you borrowed to support your capital construction?

A. Not really. Retained earnings and -- retained earnings isn't cash. We obviously have to have cash if we're going to pay a dividend, but whether that cash is from net income or short-term borrowing or long-term borrowing or what, it's not really possible to say.

Q. And is that because cash is fungible?

A. Yes, it is.

Q. Okay. Now let me give you another scenario. Let's say Laclede Gas has zero in retained earnings, made zero in income, constructed 100 million dollars in assets and borrowed 200 million dollars from the market in a -- by issuing a bond. And then Laclede issued a dividend to its parent in the amount of 200 million. Would that be appropriate?

A. No, it would not. Because dividends come from retained earnings and you've said there is no retained earnings in this example.

Q. So Laclede simply cannot do that?

A. Correct.

CHAIRMAN HALL: Excuse me. I got to ask a question there. Laclede cannot do that mathematically? Laclede cannot do that mechanically? Laclede can't do that for what reason?

THE WITNESS: For Laclede to -- for Laclede Gas to make a payment to transfer cash to Laclede Group, it would either have to be a loan, which is not allowed, or it would have to be a dividend. And a dividend always comes out of retained earnings. That's the accounting for it.

CHAIRMAN HALL: So there's nothing that

would allow them to transfer proceeds from -- from a bond issuance into a bank account and from that bank account as dividends to Laclede Group?

THE WITNESS: If there were sufficient retained earnings, we could pay the dividend.

CHAIRMAN HALL: So there would be -- there would be a violation of certain accounting rules if -- if Laclede were to take the proceeds from -- from -- from a debt issuance and transfer those to Laclede Group as dividends?

THE WITNESS: No. It would be a violation of accounting rules if Laclede tried to pay a dividend in excess of its retained earnings, regardless of the source of cash.

CHAIRMAN HALL: Okay.

BY MR. ZUCKER:

Q. If Laclede borrowed 200 million dollars and only had 100 million in assets, is that likely to violate the 35 percent equity rule?

A. Yes. I think Laclede would have difficulty borrowing 200 million if it had only 100 million in assets.

Q. And if Laclede borrowed 200 million and tried to -- and didn't have retained earnings and tried to dividend it, what would the -- what would the

bond holders have to say about that? In other words, would that violate debt covenants --

A. Yes.

Q. -- the bonds?

A. Yes, it would. We have debt covenants under our first mortgage that, first of all, require sufficient assets to back the loans. And secondly, also there is a dividend calculation covenant that requires a sufficient amount of net income to cover the dividend. And then there is -- I guess the other one is the property covenant, yeah. You have to have sufficient assets to back the debt.

Q. Okay. Let me ask it a different way based on the questions from Chairman Hall. Let's say Laclede has 100 million in retained earnings and that 100 million has been in retained earnings for three years. And over those three years, Laclede built 500 million dollars in assets. And finally one day Laclede issues bonds for 200 million dollars. And then the next day Laclede issues a dividend to its -- to its parent for 50 million dollars.

Did Laclede violate anything by -- by issuing that dividend the next day after the -- after the borrowing?

A. I don't believe so, because the amount of the borrowing was more than supported by the assets that were acquired. And the amount of the dividend is less than the amount of retained earnings.

Q. Okay. So could it be that the -- that the -- the 50 million that was dividended actually came out of the retained earnings bucket and not out of the amount that -- that was borrowed the day before?

A. I would say so.

Q. So once again, it's because cash is fungible. You can't -- you can't tell where it comes from?

A. Yes.

Q. But as long as you have the retained earnings, you can make the dividend?

A. Correct.

Q. You were asked some questions about flexibility. Do you recall that?

A. Yes.

MR. ZUCKER: May I have permission to approach the witness?

JUDGE PRIDGIN: You may.

MR. ZUCKER: I am going to hand the witness the Report and Order from 2010 in Case Number GF-2009-0450 and I'm going to ask her some questions about it.

BY MR. ZUCKER:

Q. Now, in Case Number GF-2009-0459 was the Commission approving for us the maximum level of -- of financing authority based on the law?

A. Yes, I believe so.

Q. And so the Commission then rejected our request for any flexibility, any money above that maximum; is that correct?

A. That's correct.

Q. And in this case, is Laclede requesting the maximum amount allowed by law for financing authority?

A. No, we are not.

Q. So the amount of flexibility that we're discussing doesn't really apply because we're not going over the maximum. Would you agree with that?

A. It's not flexibility in the way that the Commission discussed it in 2010.

Q. Okay. Thank you. Would you please turn to the bottom of page 18 of the 2010 order? And I'm sorry I don't have copies of this for everybody.

Are you there?

A. Yes.

Q. Okay. So at that point does it appear

that the Staff made the argument that Laclede might create a public detriment by diverting borrowed monies to an affiliate?

A. I'm sorry. I don't -- oh, here. Following onto page 19 then?

Q. Yes.

A. Staff suggested that Laclede might create a public detriment by diverting borrowed monies to an affiliate.

Q. And so that's the same argument that they're throwing out here; is that correct?

A. Yes. Yes.

Q. And what did the Commission say?

A. But such a transaction would violate state law and Laclede's own bylaws according to uncontroverted evidence. No evidence shows that such event has occurred, is about to occur or is any more likely to occur than any other violation.

Q. In your opinion, has Laclede done anything since 2010 to make it more likely that such a violation would occur?

A. No.

Q. Okay. Would you please look at page 20 of that order? Do you see -- are you there?

A. Yes.

Q. Do you see a reference to Staff's arguments relating to the possibility that Laclede will over-encumber its assets with debt --

A. Uh-huh.

Q. -- and use that debt to fund short-term needs?

A. Yes.

Q. What does the Commission say in response to that argument?

A. As with its diversion of proceeds scenario, Staff offered no evidence that such conduct has occurred, is imminent or is even likely.

Q. Okay. Would you please go on to read the next paragraph on -- on flexibility?

A. Staff has not shown that Laclede needs a limit other than the industry standard to avoid public detriment. Staff offers no reason to restrict Laclede's flexibility in that regard; therefore, the Commission will order a limit on long-term debt in accordance with the industry standard.

Q. Okay. Now, would you turn to page 5 of that order?

A. Okay.

Q. Can you read finding number six for me by the Commission?

A. A business's capacity to quickly exercise business judgment about issuing long-term finance instruments, quote, instruments in response to changing market conditions is called flexibility. Flexibility includes the type and timing of instruments issued. Flexibility is critical for procuring capital quickly and favorably, especially during market instability.

Q. Thank you, Ms. Rawlings. Do you still have the rating agency --

A. Yes.

Q. Okay. And can you turn to -- what page were you looking at? 18?

A. Twe--

Q. Twenty?

A. I think 21.

Q. Twenty-one. Okay. Okay. Can you tell me for the three-year period 2016, '17 and '18 what Laclede's capital expenditures are on that statement? Not --

A. I'm sorry. Is there --

Q. I'm -- no. Please continue. What capital expenditures does Laclede intend to -- or estimate that they'll make?

A. I think it totals to the 560 million that we included in our application.

Q. Okay. And going down the page to issuance of long-term debt, how much is the total there?

A. 300 million.

Q. Okay. So -- so at the very least, Laclede intends to construct 260 million in capital without long-term financing?

A. Correct.

Q. Okay. So if we're going to spend 560 and issue long-term debt in the amount of 300, leaving 260, where is that 260 coming from?

A. It would be from other cash flow from operations.

Q. And is this the kind of activity that Staff is preferring in terms of how we pay for our capital construction?

A. Staff does suggest that we should be using cash flow from operations, yes.

Q. And we plan to?

A. And we plan to.

MR. ZUCKER: Okay. One moment, please, your Honor.

BY MR. ZUCKER:

Q. The projections that we provided to the

credit rating agencies, again, those are just estimates; is that correct?

A. That's correct.

Q. And they could change; is that correct?

A. Yes. They are likely to.

Q. And I guess the credit rating agencies understand that?

A. Yes.

Q. And if they change materially, do they expect some kind of an explanation for that?

A. Yes. It would be prudent to give them an explanation for that.

MR. ZUCKER: Okay. That's all the questions I have. Thank you.

JUDGE PRIDGIN: All right. Thank you. Ms. Rawlings, thank you very much. You may step down.

THE WITNESS: Thank you.

JUDGE PRIDGIN: And next witness will be David Murray. Mr. Murray, if you'll come forward and be sworn, please. If you'll raise your right hand to be sworn.

(Witness sworn.)

JUDGE PRIDGIN: Thank you, sir. Please have a seat.

Mr. Keevil, when you're ready, sir.

MR. KEEVIL: Thank you, Judge.

DAVID MURRAY, testified as follows:

DIRECT EXAMINATION BY MR. KEEVIL:

Q. Mr. Murray, would you state your full name for the record, please.

A. Yes. David Murray, M-u-r-r-a-y.

Q. And have you caused to be prepared in this case Rebuttal Testimony, which has been marked as Exhibit 11-NP and Exhibit 11-HC?

A. I have.

Q. Do you have any changes or corrections you need to make to that testimony?

A. I do due to some of the information that was provided later on after the Motion to Compel was granted. I did receive specific information regarding --

Q. Do we need to go in-camera to -- for this?

A. It's -- it's Schedule 1. Let me ask the company. It's Schedule 1. I'll be changing the second number and last number. It won't be revealing anything specific.

Q. Wait a second.

A. Sorry. Schedule 1 attached to the -- to the Staff recommendation.

MR. ZUCKER: Probably, yes.
THE WITNESS: Okay.
JUDGE PRIDGIN: Do I need to go in-camera? Do we need to go in in-camera?
MR. KEEVIL: Yeah, we do.
JUDGE PRIDGIN: Okay. Just a moment, please.
(REPORTER'S NOTE: At this time, an in-camera session was held, Volume 3, pages 110 to 111.)

JUDGE PRIDGIN: All right. Thank you. We're back in public forum.

BY MR. KEEVIL:

Q. Mr. Murray, with that correction to your Rebuttal Testimony, if I ask you the questions contained therein, would your answers today be substantially the same as in Exhibit 11?

A. It would.

Q. And are the matters stated in Exhibit 11-NP and 11-HC true and correct to the best of your information, knowledge and belief?

A. Yes.

MR. KEEVIL: Judge, with that, I would offer Exhibit 11-NP and 11-HC.

JUDGE PRIDGIN: All right. Thank you. Any objections?

MR. ZUCKER: No objections.

JUDGE PRIDGIN: Hearing none, Exhibit 11-HC and Exhibit 11-NP is admitted.

(Staff Exhibits 11-HC and 11-NP were received into evidence.)

MR. KEEVIL: Tender the witness for cross-examination, Judge.

JUDGE PRIDGIN: Thank you.

Mr. Poston, any questions?

MR. POSTON: Just a few.
JUDGE PRIDGIN: Yes, sir.
CROSS-EXAMINATION BY MR. POSTON:
Q. Do you agree with Ms. Rawlings' testimony from right after the break where she said Laclede can request financing as frequently as it needs it?
A. Yes.
Q. There's -- so should they need more than what whatever amount is approved in this case, there's nothing preventing them from coming back in and requesting additional authority?
A. Before the Commission, asking for regulatory authority, that's correct.
Q. Right. And in regards to your recommended 300 million, is there a buffer built into that or has every dollar of that 300 million been supported with some type of plant expenditure?
A. It's supported by their budget so there's no buffer for -- for anything such as I guess changes in -- in gas prices or what have you, which is usually funded by the short-term debt markets anyway. But -- so no, it's just based on the identified capital budget.
Q. So that identified budget though, is that associated with known projects that equal 300 million

or --

A. Yes. Well, it's not equal to 300 million. Obviously there's many -- this is, you know, I guess the crux of our disagreement. The gross capital expenditures of 562 million, there's much more funding available to Laclede than just long-term financing. There's internal retained earnings available to Laclede, there's other cash flows available to Laclede.

And so the -- there's no really reason why you would expect the long-term capital raise to equal the 562 million. That's just -- this is what they have to do to manage their -- their capital structure and dividend payments to the -- to the holding company

MR. POSTON: That's all I have.

JUDGE PRIDGIN: Thank you.

Laclede?

MR. ZUCKER: Thank you, your Honor.

CROSS-EXAMINATION BY MR. ZUCKER:

Q. Good afternoon, Mr. Murray.

A. Good afternoon.

Q. Do you have a copy of the statute 393.200.1 that we've been talking about?

A. I don't know if I have that up here with me, no.

Q. All right. Would you mind if I bring you one?

A. Sure.

MR. POSTON: You should have said no.

MR. ZUCKER: I gave you a chance.

BY MR. ZUCKER:

Q. And Staff's position is that Laclede should get long-term financing authority in the amount that it projects using over the next three years. Correct?

A. That is correct.

Q. And can you find in that statute where it says that that's -- that is the standard for financing authority?

A. I believe the statute -- and I'm not a lawyer, but -- and this is a 330-word sentence, but I believe the statute discusses, you know, a laundry list of purposes that you might need to issue financing for and then whether or not those purposes are -- are reasonably required and -- and whether or not, you know, there is some necessary need to do so. That's -- you know, that's the crux of a 330-word sentence for this paragraph of the statute.

Q. So was that a no in terms of whether

there's something in the statute that says that projected usage should be the limit?

A. I -- actually I'm not even -- I'm a little confused as to whether or not the statute specifically contemplates a specific projected period as far as three years, five years, ten years. I just don't know. I don't -- it says reasonably anticipated expenditures.

So yeah, once again, I -- I -- this is a statute that is -- was gone over in the last case and the witnesses, just as the attorneys, had a hard time interpreting it. But I do recognize that there are some things that probably weren't talked about in the last case as far as should there be a limit as to the future.

And obviously there's a limit on the past. It says five years, you know, the five years capital expenditures before. But it just says reasonably anticipated. So I think some folks earlier indicated that it might be concerned that three years in the future is hard to project and so I think we have to really consider that as this is -- should we be trying to project three years down the road.

Q. Okay. So do you see anything in there that says that a company has to first use its cash on

hand before it can borrow -- before it can issue long-term debt?

MR. KEEVIL: Judge, I'm going to object to this. Mr. Murray has indicated he's not an attorney. If they're asking for a legal opinion, he said he's not an attorney so he's not qualified to give a legal opinion. And to the extent he's just asking what the statute says, the statute says what it says and we can all read it.

JUDGE PRIDGIN: Mr. Zucker?

MR. ZUCKER: Okay. That's fine. I'll move on.

JUDGE PRIDGIN: Thank you.

BY MR. ZUCKER:

Q. Do you have the -- a copy of the 2010 order?

A. I may have that. I do.

Q. Okay. Can you turn to page 19 of that order for me?

A. Yes.

Q. Okay. Toward the bottom there's a sentence that says, Indeed, the statute does not mention a debt limit at all. It allows as much debt and equity as the purposes support.

Do you agree with that sentence?

A. I agree that's what the sentence says, yes.

Q. Do you agree with the meaning of it?

MR. KEEVIL: Just -- I'm not sure I understand that que-- was that another question asking for a legal interpretation or --

MR. ZUCKER: Well, I'm asking for an English interpretation.

MR. KEEVIL: Of the Commission order?

MR. ZUCKER: Yes. We -- we read the sentence and I'm asking him if he agrees with that sentence.

MR. KEEVIL: Judge, again, I think to the extent that's asking for a legal interpretation, that's not what Mr. Murray is here to testify about. I'm going to have to object to that.

JUDGE PRIDGIN: I'll overrule. I don't think he's asking for a legal opinion at all. I think he's asking him if he agrees with what that sentence says.

THE WITNESS: Yeah, I believe the intent of the statute is to determine how much --

BY MR. ZUCKER:

Q. Well, this is a yes or no question. Do you agree with that sentence?

A. Yes.

Q. Okay. So then would you agree that Laclede should be able to have financing authority in the amount that its purposes support?

A. Yes.

Q. Would you look at page 5 of your recommendation? Let me change that. I'm sorry. Go back to that schedule that you changed, Schedule DM-R2, also known as Schedule 1 to that recommendation.

A. Yes.

Q. Does your change there change the amount that you would recommend for the -- for the company?

A. It does not.

Q. It does not. Now, if I look at your formula, in the recommendation you had three pieces. Correct?

A. Because this is as the alternative, yes, that's correct. There was -- there's -- there's -- there's multiple parts to my recommendation as far as what you anticipate needing to issue, which is the 300 million and then there's -- if the Commission feels bound by a formula, here's how Staff believes it should reconsider the methodology to calculate that amount.

Q. Okay. So does this change -- in this number if plugged into your formula change your -- the answer that you -- your formula gave?

A. Changes the alternative, yes.

Q. Okay. And have you figured out a -- an amount that it changes it to?

A. I think I indicated that. The 150 million. And so it would just --

Q. I'm sorry. If you plug the 150 into your formula, what is now the outcome of that formula?

A. 325. It increases it by 50 million. I had 275 as the alternative.

Q. Okay. So would you recommend now 325 as your -- as Staff's recommended authority?

A. No. The primary recommendation is 300 million and I stick with that.

Q. Sticking to it. Okay. Now let's go to page 5.

A. This is page 5 of my recommendation?

Q. I'm sorry, page 5 of the recommendation, yes.

A. I'm there.

Q. Okay. Okay. Would you look at the -- I guess the first full paragraph that starts, Staff believes its recommended amount.

Do you see that?

A. I do.

Q. Looking down to the third line, it says, Generally, Staff does not recommend that the Commission grant utility's financing authority unreasonably in excess of what the utility reasonably anticipates that it will actually use.

Did I read that correctly?

A. You did.

Q. And so can you tell me what your guideline is for determining a reasonable excess?

A. Well, I mean this is going to require me to draw from my experience of looking at other utilities' financing applications. I mean obviously I have a disagreement with Laclede about what's reasonable.

So generally when I look at -- and the Financial Analysis Unit I believe is the correct terminology now. Financial Analysis Unit reviews other companies' financing applications. We look at -- just like they do, look at what the expected retained funds for reinvestment into the company is, what some of the funds flow from the company are and then look at what the projected capital expenditures are.

And if there's a deficiency, recognizing that there's no -- you know, that there is -- there is judgments, an estimate involved with this. If there's -- you know, if they believe it's 430 million for estimated financing for next year for their anticipated capital needs, 450 million would be reasonable in my opinion. Understanding that it's not exact because usually we can generally reconcile the anticipated uses with the anticipated capital issues -- issues by the other utility companies.

Q. Okay. So how much do you believe to be the reasonable excess in this case?

A. Obviously my recommendation is 300 million I think, because I guess I don't feel like we've given -- been allowed much, I guess, collaboration with -- with the company trying to come to a reasonable estimate.

But that being said, if -- you know, if the company -- if Laclede had indicated that there's say X amount of short-term debt outstanding on its books, which as of June 30th there might have been 130 million or what have you and that's generally -- maybe that can't be reconciled to long-term assets, then to the extent that Laclede Gas, you know, wanted some consideration to possibly reduce that at some point in the future say by -- you know, because they have 20 million that supports long-term assets, that may be a consideration. But it just wasn't discussed because Laclede is pretty adamant about this formula.

Q. Okay. So you're saying Laclede is adamant about the formula that the Commission found in the 2010 order. Is that what you're saying?

A. I believe the formula can be interpreted in many different ways.

Q. Are you --

A. And that was the first attempt of any Commission to look at the formula, and I think there were things that were not considered in that -- in that decision.

Q. Okay. But my question is, is when you say that Laclede is adamant on the formula, are you referring to that formula from the 2010 order that the -- that the Commission settled on?

A. Yes. I believe that was the interpretation. That's the formula I'm discussing.

Q. Okay. And isn't it true that Laclede has come in here and asked for a number that's 450 million dollars less than that formula?

A. Yes.

Q. And so would you like to revise your

statement that Laclede is adamant about the formula?
A. No.
Q. Okay. When you talked about short-term debt of 130 million, are you saying that you would be willing to add 130 million to your -- to your position?
A. I'm sorry. Repeat that question.
Q. You talked about short-term debt being --
A. Yes.
Q. In other words, when you look at other companies maybe or when you were to look at Laclede, you might look at the short-term debt balance and add that in. And so I'm trying to clarify whether or not what you're saying is, is that you would be willing to add in 130 million to your current recommendation?
A. Okay. If I could explain on that a little bit, Laclede I understand obviously is in a little different situation than the electric utilities. I realize you use the short-term debt markets for some bridge financing, but you also use short-term debt for a lot of your seasonal gas purchases, which can -- you know, which will be zeroed out and -- and refunded within -- within a six-month period.
Q. I don't mean to cut you off --

A. But -- but -- but --
Q. -- but I am so --
A. You asked my explanation, so --
Q. Yeah. I understand. I'm just asking do you mean to add --
A. No.
Q. -- a 130?
A. No. Because I don't think it can be linked to long-term assets. I mean Laclede hasn't provided that information to me.
Q. Okay. Do you add anything to -- for a reasonable excess for Laclede?
A. If Laclede had provided me information that showed short-term debt supported long-term assets and needed to be refinanced, I would have considered that.
Q. So you're saying that out of all the information we provided you in this case, you didn't see anything about short-term debt?
MR. KEEVIL: I'm going to object. That's not what the witness said. He talked about short-term debt supporting long-term assets.
JUDGE PRIDGIN: He can answer the question if he knows. I think he was -- he was asked if he saw anything about short-term debt.

THE WITNESS: I think as of June 30th -- you just reminded me. There is a DR response. You'll have to be patient with me here.

Okay. DR Number 10 Staff issued said, Please estimate the proportion of short-term debt outstanding as of December 31st, 2014, March of 30th, 2015 and June 30th, 2015 that supports Laclede Gas Company's long-term assets.

And then you provided a response and you provided the actual financial information. And as of June 2015, you indicated that the recovery of short-term debt rates for equip and deferred purchase gas costs, propane, gas storage underground, what have you, had about 130 million dollar balance and the short-term debt balance as of June 2015 was 135 million, which would imply a short-term debt in excess of short-term assets of about 5 million. So that may be a consideration I would look at at this point in time.

BY MR. ZUCKER:

Q. Okay. So what you're saying is the reasonable excess that you would consider would be 5 million for Laclede?

A. That's what's on your response here, yes.

Q. Okay. And so would that make your

recommendation 305?

A. I would consider that, yes.

Q. Okay. And so that recommendation then is only $20 million below the number your formula came to, the 325. Right?

A. Yes.

Q. So it's kind of like a negative excess? You've subtracted 20 million instead of actually adding 5 million? You've added 5 million to a lower number. Correct?

A. I'm just looking at the numbers that are in front of me and trying to look at what -- you know, what's been provided as evidence for -- for what your financial situation is. So there's always different ways to look at things.

Q. When Laclede and Staff agreed to a 500 million authority in the 2007 financing case, was that unreasonably in excess, in your opinion?

A. It proved to be much more than what was needed.

Q. Okay. And is that how you can tell excess, by looking backwards after -- afterward and --

A. Experience -- yes, experience helps with -- quite a bit with determining whether or not we're getting anywhere close.

Q. Why did Staff leave investment grade credit rating condition out of its statement of its position?

A. I believe -- well, that's a -- I mean I don't believe there's a utility company in Missouri that's not going to make that commitment. And -- and usually the financing decisions that the utility makes, it's -- it's going to try to balance its capital structure.

It's the business risk and a holding company risk that tend to cause a company to lose its investment grade credit rating. And I'll just take Aquila as an example. I believe they made commitments many times that they would maintain an investment grade credit rating. And it's the risk outside the utility that -- that affect the financial soundness of the utility.

They made that commitment. I don't think we filed a complaint against them. I don't know how that would have worked out with all their problems they had. So appreciate the commitment, but -- and I understand it's very important for -- especially for gas companies to maintain, you know, hopefully at least an A minus credit rating because of your need to access commercial paper. That's important for the gas companies.

But what I -- what we've experienced over time is the commitment can be made, but I think it's outside -- at least the control of the regulated subsidiary because ret-- the ratings are affected by holding company activities.

Q. And what's been your experience with Laclede Gas?

A. You've maintained a strong credit rating.

Q. And have you seen anything untoward that's happened with Laclede Gas detrimental?

A. I mean there is the goodwill purchase for Missouri -- I mean the goodwill additional value assigned to Missouri Gas Energy above and beyond its book value obviously was a concern that Staff looked at. I don't believe that Laclede Gas was downgraded as a result.

I believe the -- the current cash flows support the amount of debt that was incurred to make that acquisition, so I -- I don't have anything -- for Laclede Gas Company, the subsidiary, to indicate that Laclede Gas has -- has done anything.

Q. Okay. Would you please look at page 9 of your Rebuttal Testimony?

A. Yes. I'm there.

Q. Okay. I'm starting on line 2. You say, Certainly Laclede should have estimated at least some offsetting contribution from funds it projects to receive from its operations.

A. I might be on -- sorry. I must be on the wrong page. I apologize.

Q. Okay.

A. I'm sorry. Page 9, line 2?

Q. Page 9, line 2.

A. Yes. I see that.

Q. Okay. Where it says, Certainly Laclede should have estimated at least some offsetting contribution from funds it projects to receive from its operations.

A. Yes.

Q. And so what you're saying is there -- tell me if this is correct, that Laclede should have taken into account some of its funds from operations in reducing its financing request?

A. Yes.

Q. Okay. And how much do you think Laclede should have offset out of its funds from operations? A fourth? A half? What's your feeling on that?

A. I'll have to look at the specific numbers.

Q. In other words, what you said is, Should have estimated at least some offsetting contribution.

A. But -- I'll look at the specific numbers. I can give you a quantification.

Q. Okay.

MR. KEEVIL: Is that HC?

MR. ZUCKER: I don't think so.

THE WITNESS: No. It would be. It would be the rating agency presentation.

MR. KEEVIL: Okay.

BY MR. ZUCKER:

Q. Well, I mean are you going to -- I don't know what you're going to base this on.

A. I'm trying to think of how to characterize it without causing any problems here. My opinion is more than some. It's actually more -- it's a majority. That the funds from operations actually are pretty high and could allow Laclede to not have to issue significant financing whatsoever.

Q. So are you saying about half?

A. Over -- over half.

Q. Over half?

A. Over half.

Q. 55 percent?

A. Like I said, this is where I can give you -- tell you what. Can we look at Schedule 1? It might help.

Q. Okay. Schedule 1 has very little on it there.

A. No, I believe there was quite a bit of funds from operations that offset the cap X.

Q. Okay. We must be talking about a different Schedule 1 then. Are you talking about Schedule DM-R2 which is Schedule 1 to your recommendation?

A. 73 percent. Yes.

Q. Okay. And by 7-- how did you figure 73 percent?

A. 412 divided by 562.

Q. Okay. So my question -- what you said is Laclede should have estimated at least some offsetting contributions from the funds it projects to receive from its operations. I thought you meant by that that some of the funds from operations should be used by Laclede to fund capital, but not necessarily all.

A. Well, I think Laclede's plans are to use more than some, but yes, that was -- that was my statement in my testimony, yes.

Q. But by looking at Exhibit 1, you're saying all then. Because what you figured out there

in the less funds from operations is all of the funds from operations, I guess, other than income?

A. Other than income, yes. That allows you to pay all your income out as dividends to Laclede Group. And so the only thing remaining is keeping the capital base at par.

Q. Okay.

A. So -- so I'm not asking you to -- to keep any net income at Laclede Gas based on my methodology.

Q. Okay. So I got a little excited there when I saw at least some offsetting contributions, but you're saying you're going to offset all the funds from operations other than income?

A. Internally-generated cash for depreciation, deferred taxes, yes. It's just -- it's a significant amount of cash flow that Laclede Gas is receiving.

Q. And your position is that Laclede Gas has to use that to -- before it can get authority to borrow?

A. No.

Q. Well, you've subtracted it from Laclede's capital expenditures so I assume that's what you're saying.

A. I'm recommending authority to borrow

300 million. So I'm not say-- I'm -- I don't think that's correct that I'm saying that --

Q. Okay.

A. -- that they can't borrow.

Q. Would you please look at page 8, line 6 of your Rebuttal Testimony -- actually line 4.

A. Yes.

Q. Okay. So there you say, Staff considers the use of short-term debt capital markets to be the treasury of the corporation because this is the source of capital for initial funding of capital expenditures in excess of funds generated internally.

Did I read that correctly?

A. You did.

Q. So are you saying the money in Laclede's treasury is all money from short-term debt?

A. Yes. I don't believe Laclede Gas has -- they might have 3 million dollars of cash on hand. So the -- the -- their ability to fund capital needs as they arise is from their access to commercial paper. So yes, that's their treasury.

Q. So are you saying that Laclede's retained earnings are not in its treasury?

A. Retained earnings is not a cash balance, so no, that's not in the treasury.

Q. So treasury has to be just cash?

A. Treasury is a -- like a reserve fund for purposes of pulling money out for needs of the system and the operations. And if that money is pulled out, then -- then to the extent that the corporation still maintains these -- what I consider more of a historical type of situation, wanting to keep a treasury balance, then they would reimburse the treasury because they used it for something other than that treasury slush fund.

Q. So you're saying retained earnings are not part of the treasury?

A. That's correct, yes.

Q. Income is not part of the treasury?

A. It's not retained at the -- it's not a cash balance, so no. I mean, unless it's maintained as a cash balance, it's not -- it's not --

Q. Okay. It has to be a cash balance. In your Rebuttal Testimony, you say, Laclede started the three-year financing authorities in 2000 because of the formation of Laclede Group.

A. Can you refer me to the page and the line number so I can follow along?

Q. It's in your Rebuttal, bottom of page 9.

A. I say, Are you aware of anything that could explain --

Q. I'm sorry. I'm sorry. Bottom of page 10. No, no. Wait a minute. Okay. I'm sorry. I was right the first time. Bottom of page 9.

A. The question is, Are you aware of anything that could explain the reason Laclede changed its approach to how to file applications for financing authorities? And my answer was that at the same time Laclede Group was formed.

And so I believe that that was a time -- at that time is when Laclede Gas started to file for authorities to issue debt and equity and all securities at one time. Before that -- and this is -- actually this is before my time at the Commission, but before when Laclede Gas was a publicly-traded entity, Laclede Gas actually issued the shares to the public and -- and issued debt to the public. So they did it separately. They had separate finance cases.

Q. Okay. So if Laclede Group was formed in 2001, it could not be the reason in the -- that the change took place in 2000; is that correct?

A. I -- I don't know what -- this is the only thing I could find that was -- that would explain that. Maybe the company knows.

Q. So you were guessing there? You didn't

know that answer?

A. I don't believe anybody -- I mean it -- it was at the same time.

Q. Well, the Laclede Group was formed --

A. I wasn't guessing. There were two events that occurred right within a year of each other. And -- and Laclede Gas used to have to issue equity to the public as when the reform-- when the holding company reorganization occurred, Laclede Gas no longer needs to issue equity to the holding company.

So it -- to me, from a logical standpoint -- maybe Laclede Gas's logic is different than mine. From a logical standpoint, it would make sense to go ahead and roll it all into one because you're no longer issuing equity to the public.

Q. Okay. They occurred one year part, but the thing that you said occurred -- was the cause happened a year later and the effect happened a year earlier. That can't be how it works.

A. This is based on my knowledge of what happened at the time. If you have something else to explain it, please let me know.

Q. Okay. Please turn to page 2, lines 14 to 16 of your Rebuttal Testimony.

A. I'm there.

Q. Okay. So here you discuss your views of a financing authority should be just what Laclede projects. And in the event Laclede should need to obtain additional financing authority, then Laclede can file for additional authority when Laclede's situation supports the company's need for additional financing.

Do you see that?

A. Yes.

Q. So you're saying that given the fact that you've afforded, in your view, authority for just the estimated amount, if any more is needed, Laclede can come in for a case --

A. Yes.

Q. -- right?

And are these cases free?

A. No.

Q. So if the -- so let's say the Commission approves your recommendation and two years from now Laclede has only 100 million left in authority and wants to finance 200 million. Let's call it 150 debt and 50 equity. It would be your position that we could get the 50 equity right away --

A. If you identify --

Q. -- correct?

A. -- the sources. I mean this is the only case that's gone to hearing for finance cases. So usually we don't have this much resources go to a application or -- things are not identified so --

Q. My question is according to you, Laclede could get -- Laclede Gas could get the 50 million right away from Laclede Group by them simply contributing the capital?

A. Yes.

Q. Okay. But the 150 debt, since there was only 100 million authority left, we would have to come in for a case. True or false?

A. Or a supplement if you worked with the Staff. I mean we've supplemented applications before. I think Laclede's done that in the 1990's. If there was a reasonable identification of a need to -- that something was unexpected, came into work with the Staff --

Q. So still doesn't an application have to be prepared?

A. I don't -- I'm not sure what the procedure would be.

Q. For -- for applying for financing, authority you don't know the procedure?

A. Well, because we -- there's been multiple ways -- procedure. I think some companies that -- have come to us with an explanation as to what their scenario is. Say there's 5 million -- going to need to issue 5 million over what their authority is and we have a reasonable and rational discussion. We'll indicate, well, you can probably just go ahead and supplement the application.

So whether or not an attorney will agree with that and say that's something that -- you know, that the Commission should accept, I don't know, but we've done it in different ways depending on, you know, the logic for the situation.

Q. So in your experience with Laclede, have you ever done it that way with Laclede?

A. Laclede usually has a big enough authority where they don't come back.

Q. Well, Laclede's come back a number of times in the last 15 years.

A. Every three years, yes.

Q. And each time Laclede has had to file an application to --

A. That's been the procedure.

Q. Uh-huh. And Laclede has to file schedules along with that application to meet the minimum filing requirements?

A. Yes.

Q. And what about the 60-day contested case notice? Wouldn't Laclede have to file that?

A. I guess Laclede would.

Q. Okay. So isn't there legal, finance and administrative resources used in preparing and filing an application for Laclede?

A. For Laclede, yes.

Q. Okay. And after the case is filed, Staff will have to review it. Correct?

A. Yes.

Q. And Staff will prepare DRs, won't they?

A. Quite a few with Laclede, yes.

Q. Might you even be the person preparing those DRs?

A. I would, yes.

Q. Do you know how many DRs Staff issued in this case?

A. Upwards of 50, yes.

Q. And then Laclede has to fetch all the information requested and prepare responses to those DRs; is that correct?

A. I don't know how Laclede goes about processing its DR responses.

Q. But Laclede would have to prepare those

responses and -- and provide the information you've requested?

A. If they're cooperating, yes.

Q. And then you have to evaluate those responses. Correct?

A. To the extent I get the information, yes.

Q. And you have to perform some kind of analysis. Correct?

A. If I have the information, yes.

Q. And then Staff has to prepare a recommendation; is that right?

A. Based on the best information given, yes.

Q. And all of this would involve legal, finance and administrative work by Staff; is that accurate?

A. It would, yes.

Q. Okay. And haven't you stated that a normal time for such a recommendation is -- by Staff is 30 to 45 days?

A. When it's straightforward, it's -- it doesn't take very long, yes.

Q. Okay. And let's say everything came out okay and we'll pick the middle. So after 37 days, Staff recommended approval. Okay. Now, at this point the application goes to the Commission. Correct?

A. The recommendation goes to the Commission. I don't think the application's already been filed, but I don't know.

Q. Okay.

A. That's procedure.

Q. Fair enough. The application's been filed, the recommendation has been filed and then the Commission starts to deliberate on it. Is that your understanding of the process?

A. If the Commission has time, yes. I -- I don't know.

Q. Okay. And the Commission may discuss it at an agenda meeting?

A. I'm sure they will eventually.

Q. Okay. And a judge will have to -- a judge like Judge Pridgin will have to read all the pleadings and write an order; is that right?

A. I don't know everything Judge Pridgin does, but I'm sure he could answer what -- everything that he does. I don't know everything everybody does. I know what -- what I do.

Q. Okay. So you don't know that when -- after an application is filed and a recommendation is filed with Staff and Staff recommends approval, that the judge writes an order. You don't know that?

A. I know they write an order, but I don't know all the homework they do and what they go about doing in analyzing that.

Q. Okay. And then the Commissioners vote on that order; is that correct? Do you know -- do you know that?

A. They will vote on the order.

Q. And so at this point we've used the resources of the commissioners, a judge and again probably administrative personnel. Would you agree with that?

A. Laclede has done that, yes.

Q. And you say "Laclede has done that" because Laclede has filed the application?

A. Laclede has done that, yes. Laclede has filed application.

Q. And Laclede has had to file the application because your authorization was such that Laclede had to come back sooner than it otherwise would have had it had the approval that it sought?

A. I don't believe Laclede has had to come back sooner than what it's anticipated in any case.

Q. Well, in this example that's how we started. Well, let me ask you this: How much time would that normally take to go from the Staff

recommendation to an order?

A. I don't know.

Q. Maybe three weeks?

A. I don't know.

Q. And in your opinion from -- in a routine case, how long does it go from application to order?

A. Could be as little as a month. Could be two weeks. Depends on what the situation is.

Q. But in a routine case you've already said it takes 30 to 45 days just for the Staff recommendation before the case even goes to the Commission?

A. Well, can we use Laclede Gas as an example as far as the derivative? I believe that's --

Q. I'm just asking you in a normal case --

A. I believe that was done in a week. I mean, yeah, I'm saying special circumstances, we have moved things along very quickly and accommodated Laclede.

Q. Right. But I'm asking you in a normal case.

A. In a normal case, we don't go to hearing, we don't do all these things. In a normal case, we are able to identify exactly what the company plans to issue the financing for, the company executes on the financing within a year, it's usually very close to the amount of authority that they requested. And then, you know, the Staff issues maybe five data requests to those companies, the Staff analyzes the financials because it -- we know what the amount is going to be.

And the -- the Staff does not have to go through a lot of hypothetical speculative situations and the Staff can -- does not really even need to involve its attorney, Staff does not need to have a hearing, the Staff does not need to have the Commission hear the evidence because we usually come to a very reasonable recommendation. And the companies have -- you know, have been very straightforward with all the information they provide.

Q. Uh-huh. Because other companies will come in each time they need a financing?

A. Maybe every two years. I mean they do big financings. Ameren may do a 400 million dollar financing. KCPL may do a 350 million dollar financing.

Q. How about Laclede?

A. Laclede apparently doesn't do more than -- I don't think I've seen one bigger than 100 to 150. I think you're planning on something larger, but in -- it's going to be some time, two years down the road.

Q. But Laclede's financings will probably be larger given the fact that they're now a bigger company?

A. Should be, yes.

Q. And while a financing case is going on for Laclede because the -- the original authorization was so low, was just a projected amount and Laclede's amount ended up being -- Laclede's needs ended up being more than that and so we had to come back for a case. And while that case is going on, the market interest rates may be changing. Correct?

A. Interest rates are changing all the time, yes.

Q. So, for example, the -- on April 24th, the BAA bond weekly rate was 4.48 percent. Would you accept that --

A. I -- I haven't --

Q. -- subject to check?

A. Yeah. I don't know the specifics.

MR. KEEVIL: I'm going to object to subject to check. If there's evidence in the record of what the interest rate was on whatever date, then that's fine. But this hypothetical subject to check is objectionable. There's no support for it.

JUDGE PRIDGIN: Mr. Zucker?

MR. ZUCKER: That's fine, your Honor. I'm okay with that.

BY MR. ZUCKER:

Q. Mr. Murray, despite the time it takes to process applications for financing authority, you still believe that having Staff review plans and make recommendations before any financings are done, that's the way it should be; is that correct?

A. That's the way it -- the process is supposed to work. I think --

Q. Applications --

A. -- the law requires it, yes.

Q. Applications for each financing?

A. Oh, for each financing? It just depends on the situation. I mean I believe the -- the concept of this shelf authority may have come about back in 2004 and it was to -- to allow for some -- I guess flexibility for the purposes of anticipated needs over some period of time. If -- you know, if -- if the parties were able to agree to, you know, what was reasonable, then -- then that was allowed.

But as of right now, Amer-- Missouri American I believe does a shelf authority and we look at the capital needs and -- and have just arrived at a reasonable conclusion, in our opinion, with them within the last couple months. Ameren Missouri, they provide, you know, applications for each issuance. And we found that to be very efficient; so has KCPL.

We found it very efficient because it does not require a lot of resources because it doesn't require a lot of, I guess, concern about what it's going to be used for because we can figure it out.

Q. Okay. So you're aware that gas utilities like Laclede also make significant financial commitments each year in connection with gas supply contracts necessary to provide service to customers?

A. I believe that's done with short-term debt, but I may be wrong.

Q. But the commitment is significant for gas supply?

A. Yes.

Q. In fact, would you agree with me that it amounts to hundreds of millions of dollars per year?

A. I think you can probably cover it under your commercial paper program. I think that's the -- part of your goal of having a 400 million commercial paper program to cover that.

Q. Okay. And you're also aware that before

Laclede enters into those contracts for those significant amounts, it is not required to obtain a Staff recommendation that its purchasing plan is reasonable or appropriate; isn't that right?

A. I don't know what all the other requirements are for these other areas.

Q. So you don't know whether a utility has to come in and get permission before it enters into gas supply contracts?

A. There's prudence reviews. That's not my department. I mean that's not my unit.

Q. There's prudence reviews after the fact; isn't that correct?

A. That's what I understand.

Q. So there's no preapproval on those?

A. I -- that's my understanding.

Q. So do you believe that consistent with the way it's done for financing amounts, that the gas cost review process that -- that -- in which hundreds of millions of dollars are spent each year should be changed to require that Staff review and recommend and have the Commission approve a gas utility's purchasing plans in advance?

MR. KEEVIL: Judge, I'm going to object to this. Again, he's calling for speculation on a hypothetical. The statutory scheme is different for financing than it is for gas purchasing. This whole line of questioning is irrelevant and misrepresentative of just the way of the -- the facts in the case.

JUDGE PRIDGIN: I'll sustain.

MR. ZUCKER: Okay. Well, I was going to say, your Honor, that it's not hypothetical. It's actual. We're talking about gas supply and the --

MR. KEEVIL: Judge, did you rule on the objection?

JUDGE PRIDGIN: I did. I sustained.

BY MR. ZUCKER:

Q. Okay. It is your position, Mr. Murray, is it not, that the fact that Laclede has not used its full authority in the past is reason to reduce that authority?

A. It's reason to reassess how these amounts are estimated.

Q. Okay. So let's -- let me give you a real hypothetical then as opposed to the last one. Let's say that you had a 21-year-old son and he's in college and you entrusted him with a credit card that you're going to pay for and it has a -- let's say a $5,000 credit limit. And the rules are that he has to use

that credit card only for school-related expenses and emergencies. All right? Are you with me?

A. I am.

Q. Okay. And let's say that during the first year he's got the card he faithfully used it only for dorm meals and books and fees at college and the result was that he was only spending about $300 per month for the year and, fortunately, he did not have a medical or any other emergency. Still following me?

A. I am.

Q. So now at the end of the year you're reviewing the credit card limit and your son says, Instead of a $5,000 limit, I would like to have a $3,000 limit. In light of the way that your son handled the credit card over -- over that year, would your inclination be to approve the lower $3,000 limit or to reduce it further?

MR. KEEVIL: Objection. Again, this is irrelevant. There's been no indication that Mr. Murray's hypothetical son is a regulated utility subject to the statutory scheme to which regulated utilities are subject. This whole line of questioning, again irrelevant.

JUDGE PRIDGIN: I'll overrule. We can

all see the point he's making.

THE WITNESS: I would say obviously we were not doing very well on our budgeted estimate, but -- so I would say we need to re-look at everything -- take a look at everything that we're doing. And yes, if -- you know, if his school expenses aren't anywhere close to 5,000, I don't want that exposure with my son. I want that exposure to be what our budgeted estimates are. So yes, I would reduce it.

BY MR. ZUCKER:

Q. You would reduce it even below the 3,000 that your son had reduced it to?

A. I would reduce it based on what we project expenditures to be for the next year.

Q. Okay. And so you would reduce it to maybe 300 since that was --

A. If that's the projected expenditures next year, yes. I mean, because if something extraordinary occurred, I would say, Please come back and tell me what is happening that's so extraordinary that you need this additional funding because it's a concern. I mean, if it has nothing to do with the educational expenses I'd say, Well, I don't know that I want to extend that financing to you. If it has to do with the expenditures of the school, I'd say okay, it's reasonable.

Q. One moment, please.

Okay. So I understand your answer -- and I guess my only follow-up question would be since the purpose of that card was for emergencies and there hadn't been one and now you're squeezing the credit down to the level that's happened without emergencies, if there's an emergency, then your son is not going to be able to use the credit card but he's going to have to call you up somehow during the emergency and get you to raise the limit?

A. Sure. And I don't see that's a problem. I can do that pretty quickly.

MR. ZUCKER: Okay. I'm checking my notes here, your Honor.

That's all the questions I have, your Honor.

JUDGE PRIDGIN: Mr. Zucker, thank you.

Any Bench questions? Mr. Chairman?

CHAIRMAN HALL: Unfortunately, I have a few.

QUESTIONS BY CHAIRMAN HALL:

Q. Afternoon, Mr. Murray.

A. Good afternoon, Chairman.

Q. Let me just start with this: What does Staff believe the purpose of the statute is, 393.200?

A. The technical perspective as far as the view of the purpose of the statute is to determine what -- what are the reasonable, identifiable, reasonably required needs for issuing capital to maintain the operations, to invest in the operations, to maintain safe and reliable service, to adequately fund the system.

To the extent that there is identifiable capital needs and -- and -- and that cannot be funded by what -- depreciation is something that hasn't been talked about, but depreciation maintains the capital base. So to the extent that depreciation is in there, they receive cash flow for that. So if it's re-invested, that's capital that's staying with the company.

So there's no need to issue new capital to -- to replace a depreciation cash flow, just as there's other internal cash flows such as the bonus -- the bonus tax depreciation. There are internally-generated funds that the company is going to use to invest in its system and that is the capital that supports the system.

The thing that does not make any sense to me when it comes to -- to the statute -- and I don't believe the company ever intends to, quote/unquote, reimburse its treasury -- is -- is that once they -- as we talked about, the cash doesn't sit in a pool -- in an account. It -- once they receive the cash, they -- they reinvest it.

And there's no -- never any intent to go ahead and -- and issue capital to, say, zero out the retained earnings balance. That would be ridiculous. If I saw a company do that, I would say that -- and they propose to do that, I would say that that's imprudent. I would not understand the reason for that.

So the purpose is to ensure adequate capital for maintaining the operations.

Q. Well, I look at the statute and -- and it -- it lists a number of -- a number of uses for funds from financing, a number of acceptable uses; acquisition of property, construction, extension, improvement, et cetera, et cetera. So those are -- those are the statutorily approved uses for -- for finance capacity; is that --

A. Yes.

Q. I'm reading that --

A. It's a laundry list of issues for what they might need to use financing for.

Q. Where in there does it say -- or another way, why is it Staff's position that some portion of -- of operating expenditures must be used to fund some of those uses? Does my question make sense?

A. It makes sense. It's just -- at least from a financial perspective as far as managing the capital structure and -- and the capital balances of the company as far as --

Q. But those are different issues, aren't they? I mean, it seems to me that what the issue -- that the statute says, Company, you want -- you want -- you want to finance expenditures. Here are the things that you can finance those expenditures for. Come to the Commission and get approval for financing to cover those uses. That's the way the statute reads to me.

And it's -- and it almost seems that Staff is taking -- taking a position that there has to be -- they have to go into other buckets for those funds to some extent in some circumstances. And I'm trying to understand where that -- where that comes from.

A. I'm not saying they have to. This is just the way companies are run. They manage their internal cash flows so they don't have to access external capital markets. Usually you don't want to access external capital markets. It could be diluted to your common equity holders.

Q. I understand that. And I understand how -- how in a rate case the Commission may make some decisions as to whether or not it was prudent to do so. But in a finance case, aren't we simply charged with the responsibility to see if what they want to spend the money on fits into this statute? And if it does, don't we just total up those expenditures and say you have -- you have that authority?

A. No. Because I -- I don't believe that's taking into consideration any of the replacements, like depreciation. The whole idea of depreciation is to at least maintain the asset balance. So you're not growing into the capital balance of the company, you're maintaining the capital balance. So there -- and that gross capital expenditure amount that they gave, 562 million, there's no consideration that you would be getting, say, 100 million -- and I believe it's less than that, 100 million a year for depreciation expenses. That maintains the capital balance.

So to imply that you would need to go

ahead and issue 100 million to -- to go ahead and finance the depreciation that's reinvested in the company, that would put you in a situation where you are -- you know, you are --

Q. So in other words, you think that some portion of that 562 would simply come from rates?

A. It's coming from cash flow -- internally-generated cash flow.

Q. Do you know how much?

A. I could -- I could -- like I say, it's in their estimates.

Q. So do you -- I mean is it -- would it be Staff's position that -- that they took that into account when they told the rating agency that they only wanted to go out for 300?

A. Without a doubt, yes.

Q. So -- okay. That's -- that makes sense to me.

All right. So when -- Staff's position that we should only authorize 300, that is based upon Laclede's position with the rating agency, page 21 of that -- what exhibit is that?

JUDGE PRIDGIN: Would that be 13-HC?

BY CHAIRMAN HALL:

Q. Yeah. Which is -- is that correct,

that's --

A. Based on -- yes, I believe it's based on a representation to investors this is how they plan to capitalize the company.

Q. And that would be 100 million --

MR. KEEVIL: You may be getting HC here.

JUDGE PRIDGIN: We'll go in-camera.

(REPORTER'S NOTE: At this time, an in-camera session was held, Volume 3, pages 161 to 163.)

JUDGE PRIDGIN: All right. We're back in public forum. Thank you.

THE WITNESS: I would want to know what they were going to use those funds for. I mean without knowing what that additional 250 million is for, I believe that there is concern as to okay, you may have some -- you may have some unforeseen incident that occurs, and if that unforeseen incident occurs, it's probably not a good thing.

And so to the extent that that may affect the financial -- the financial soundness of the utility, I believe the Commission would want to review that. I mean that's my opinion. I think it's important for us to be aware of what happened outside of their base plan.

Because I mean, let me just state that if you -- the rating agency has affirmed the rating based on their current plans. If something happened that wasn't consistent with what they plan to do, then, you know, it may be something that I think could cause an increase to cost to capital if their -- if their -- if their credit rating was downgraded from A to triple B, they could be -- have difficulty with accessing commercial paper markets, which is important to gas utilities specifically. And so -- and those short-term debt costs get passed into rates.

Yes, it could be proposed to be disallowed in the rate case, but bottom line is they're having difficulty attracting the capital. And so that's -- when I look at the no detriment standard, I'm trying to determine what is -- what is a detriment? Is a detriment the difficulty to attract capital at a reasonable cost to continue to fund the operations?

I mean, yes, they might be able -- they could still raise the capital and do it at a higher capital cost, but will they have an incentive to try to reduce the amount of capital? I don't know. I mean that's something that would be an after-the-fact review.

BY CHAIRMAN HALL:

Q. So you've -- you've -- you've noted both in testimony and -- in written testimony and oral testimony today that the public has not been harmed as a result of Laclede's excessive financing capacity or authority to date?

A. Yes.

Q. And what is -- what has changed that leads you to be concerned about excessive financing going forward that might cause detriment to the

public?

A. Well, Laclede Group has -- definitely has a aggressive growth strategy. I mean they went to about a billion dollar capitalized company to a 2 billion dollar capitalized company by acquiring MGE. Then Laclede Group acquired Alagasco at a very sizable pre--

Q. But what --

A. But --

Q. -- what use of that additional financing is -- do you believe that might occur that would cause detriment to the public?

A. Laclede Group issued the debt to make the acquisition of Alagasco at the holding company level. So there is a need to service that debt. And currently Laclede Gas distributes about 85 percent of the dividends to Lacl-- Laclede Group of the entire dividends. So to the extent that they're -- they may end up paying more than their fair share to the detriment of the Laclede Gas's financial --

Q. If they pay more than their fair share, wouldn't they be in violation of that condition that Laclede has agreed to abide by?

A. I don't think that's clear. Especially after today, I don't believe that's clear at all.

Q. Do you think that there is some benefit to the company and, therefore, ratepayers to some amount of flexibility with -- with financing capacity? I mean if -- if the -- if the company needed to act quickly to take advantage of -- of the market, but couldn't do it because it didn't have the financing capacity and had to come to the Commission for an order to authorize it, it -- it wouldn't be -- I mean that's not that far-fetched of a scenario, is it?

I mean, aren't there situations where the need to come before us to get additional authority could have a direct cost to the company and, therefore, ratepayers?

A. Not -- I don't believe so. Because Ameren Missouri and Kansas City Power & Light and Missouri American, we're not indicating that they're -- they're not coming before us and indicating that they had to incur a higher rate because they issued an application because they knew they needed to issue 450 million dollars of financing at some point in the future.

And let's face it. Most companies, they issue the -- they go to the markets when they need the money. I think as we know, most folks are -- you know, aren't really the best at predicting where interest rates are going to go. But point being is, is that I think there's a difference between regulatory flexibility and financial capacity. They have a 450 million dollar credit facility, 400 million dollar commercial paper program within that credit facility. To the extent that they need to go out and -- and fund any capital deficiencies, they'll do that within their short-term debt facility.

Q. Right.

A. And that's flexibility.

Q. Exactly. Okay. So -- so Staff believes that -- that we should authorize 300. And so essentially if -- if -- if their -- if their actual capital expenditures were 562, they would need to fund 262 million of that from -- from operations. And let's say that interest rates go up, causing short-term borrowing costs to increase substantially and they wanted to go to the -- to the market with some long-term debt. They'd have to come back to us to do that?

A. They don't -- they don't plan on issuing financing for a co-- some time in the future. If you issue a fi-- authority that allows them 300 million in financing, they will have plenty of flexibility. I don't think they're going to issue more than

100 million in the next year. I think we can go -- I think we can make that assumption. So they have flexibility. Under 300 million dollar authority, they have flexibility over these next three years.

Now, if they get to 2017 and they've issued 100 million in 2016, maybe we think about bumping it up. But they have that flexibility. They have that flexibility right now. They have 370 million authority. I mean, interest rates hit extremely low levels in January 2015. I mean, bond yields were at 3.5 percent. I know there was some discussion of that. I don't know -- you could have acted then.

Q. I mean, let's cut to the chase. Isn't the concern that Laclede is going to issue more debt than it needs and send big dividends to the -- to the Laclede Group? Isn't that fundamentally what Staff's concern is?

A. There's holding company debt that was used to acquire Alagasco. What they're going to do with that, everybody acts differently when they're under stress. I don't know. I mean, I have --

Q. But for that concern, would we be here?

A. Yes. Because I believe you need to support the amount that you request. We've done it with Ameren Missouri, we've done it with KCPL, we've done it with Missouri American. This is the only company we've gone to hearing twice. It doesn't take this much resources to process finance cases that are reasonably supported.

Q. I have no further questions. Thank you.

A. Thank you.

JUDGE PRIDGIN: Thank you. Commissioner Stoll?

QUESTIONS BY COMMISSIONER STOLL:

Q. Yes. I guess my question would follow up with what the Chairman just asked in a sense. Do you don't believe there's any difference in the utilities, whether -- natural gas is no different than electric -- electricity or water and -- and their ability or need to come in and request a certain amount of indebtedness?

A. Well, no, I believe there is a difference. A natural gas utility is very heavily dependent on the short-term capital markets. That's why they -- I mean, the commercial paper market and their 450 million dollar credit facility is important. It's important for them to maintain an A minus credit rating because that gives them access to commercial paper markets.

Even during the financial crisis in 2008, the A minus credit rating allowed them access to commercial paper. That's the short-term markets and they don't have to ask for permission from the Commission to borrow these -- to borrow on the short-term.

The difference is -- is actually natural gas utility capital expenditures are fairly predictable and they're not -- they're more incremental. Electric utilities are very large. I mean, actually if I was looking at -- say KCPL -- this is before -- you know, many years and times here at the Commission.

But they had a Comprehensive Energy Plan and a large construction project. We had a five-year -- five-year expenditure plan with detailed estimates on when the construction would occur. And then with that, we had -- we tied the finance cases to it. And even within that period, they came in two -- at least two times. But they provided a detailed, you know, financial plan.

So, you know, obviously you have very significant capital expenditures on the electric side. And so yes, they are different animals and that's why I say even comparing the percentage of total capital of what the electric versus the gas, yeah, it -- a lot of times electric utilities are going to need a significant amount of capital as compared to their total capitalization.

Q. Are there -- what other natural gas companies operate in Missouri?

A. Natural -- Laclede has it all. Maybe -- there are a couple small ones. Let me just say -- they almost have it all. It's Laclede Gas and then you have Liberty Utilities Natural Gas and they do their financing at the -- I'm sorry to close my -- I'm thinking. But they're -- they do their financing at the holding company level.

And then you have Summit Natural Gas Utilities, which is Summit Natural Gas in Missouri is their subsidiary. And they just built out in the Lake of the Ozarks. And when they build out in the Lake of the Ozarks, they file the finance case and we knew exactly how much they were going to, you know, expend, which was a significant amount to build out a system.

Q. Yeah.

A. And so the financing was specifically tied to that and it was processed in a fairly quick and timely manner.

Q. Okay. One other question. So in your

opinion, is there a negative impact or are there negative impacts to Laclede customers when more financing authority is authorized than is anticipated to be used? So is there a detriment to the ratepayer? Or is it -- in the Chairman's question, does it all come down to the concern that you expressed previously about transferring money to the holding company? So if they don't use all the financing that we would authorize, is there a debt -- is there a negative impact to ratepayers?

A. If they truly just use it for the regulated utility operations and don't do, like I said, the dividend scenario that we talked about before, then I mean if -- you know, if everything goes as planned, then everything should be fine.

Q. Okay. Okay. Thank you.

A. Thank you.

JUDGE PRIDGIN: Thank you. Commissioner Rupp? Commissioner Coleman?

All right. Thank you. Any recross based on Bench questions, Mr. Poston?

MR. POSTON: No questions.

JUDGE PRIDGIN: Thank you. Mr. Zucker?

MR. ZUCKER: One moment, your Honor.

No questions.

JUDGE PRIDGIN: Thank you.
Redirect?
MR. KEEVIL: Let me try to wok backwards here, Judge.

REDIRECT EXAMINATION BY MR. KEEVIL:

Q. Mr. Murray, in response to questions from Commissioner Stoll, I believe you mentioned a 450 million dollar credit facility. Can you explain that? What is that?

A. A 450 million dollar credit facility, actually that was upsized when they acquired Missouri Gas Energy. But a credit facility is -- it's usually a -- syndicated banks. I don't know how many banks are in Laclede Gas's credit facility, but in some cases companies will directly access the credit facility.

In Laclede's case, they just use the credit facility to backstop their commercial paper program. So they actually are able to achieve even lower short-term debt costs of, you know, .25 percent or so. But basically that -- that -- like I said, that allows -- that takes care of all the gas purchases. That takes care of the -- the nuances of a gas utility versus -- versus an electric utility.

Q. And I believe you mentioned, and correct

me if I'm wrong, you're talking short-term debt in that instance?

A. Less than 12 months, yes.

Q. Okay. So that's separate and apart from what we're talking about here?

A. It is, yes.

Q. Okay. In response to a question from Chairman Hall, he had some questions about flexibility of financing authority, whether or not the ability to -- or the -- having more authority now would save them money later or something along those lines. And you talked about interest rates rising and falling and so on. Can Laclede -- in your opinion, can Laclede time the market in terms of its financings as they relate to interest?

MR. ZUCKER: I'm going to object. That calls for speculation.

MR. KEEVIL: Actually I believe there's a data response from Laclede on that very subject.

BY MR. KEEVIL:

Q. Is there not, Mr. Murray?

A. I believe there's something in testimony about how much they believe they save ratepayers by issuing in October off 2000--

MR. ZUCKER: Well, I'm -- my objection

hasn't been ruled on.

THE WITNESS: Sorry.

MR. ZUCKER: If he has a DR, I'd like to see it.

JUDGE PRIDGIN: I'll overrule. He can answer if he knows. If he doesn't know, he can say so.

THE WITNESS: In my experience, it's very difficult to time the markets. And so I think just like Ameren Missouri issued an 8.35 percent coupon debt in March of 2009, I don't think anybody's going to say that Ameren Missouri is inept in its ability to finance its operations, just like I don't know that anybody is going to say that Laclede Gas is smarter than Ameren Missouri when it issued a 6.35 percent debt in September 2008.

BY MR. KEEVIL:

Q. You were asked several questions about funds from operations and the use of funds from operations in terms of capital expenditures. Can you explain what funds from operations are?

A. Sure. The basic explanation of funds from operations is basically just net income, which is a cash flow -- it's a way to determine what cash flows the company is actually receiving. So you take net income plus depreciation and amortization, which is a non-cash expense. And these funds are available for -- for investment. And -- and -- and, you know, why won't you reinvest it? It's a -- it's a wise way to financially manage your company.

And then the other -- actually very big piece for utilities at this point in time is deferred income taxes because of the bonus depreciation. There's -- it's no secret that that is allowing a significant amount of cash to be received by the utility above and beyond what, you know, ratepayers are paying for the taxes. They're paying about 30 million less in taxes than what they're receiving from ratepayers. And so that -- that money is available for reinvestment in the system.

And so these -- these -- this is a very -- I mean, in my opinion it's a fairly common practice when it comes to equity analysts and investment analysts, credit analysts to estimate how much capital is the company going to need to issue. Because equity investors are very concerned about are you going to issue additional equity and dilute our existing -- our piece of the pie. And they don't want to see them issue additional equity.

So what they'll do is they'll look at,

okay, what kinds of funds from operations do you have, internally-generated cash? And to the extent that you have enough internally-generated cash to not only reinvest in the system, but to pay about a 75 percent dividend like Laclede does and just issue debt and still maintain the same capital structure, the investors are pretty happy because you're -- you're -- you're enhancing their shareholder value. And that's the way -- you know, in my experience, that's the way any company would be trying to financially manage their company.

Q. So did you say depreciation and deferred taxes are part of funds from operation?

A. Yes, they are.

Q. Who pays those?

A. Ratepayers. It's in rates.

Q. Okay. So then do the ratepayers pay them to the company, the company turns around and invests them somewhere else and then asks to be reimbursed for them through financing? Is that essentially what's going on here?

A. Well, because -- yes. I mean basically when you say that they don't believe that that's capital, that -- that that's cash flow that they have available to them to reinvest, you know, they don't want that considered -- they believe that they're going to have to eventually go out to the long-term capital markets and refund that. But that just doesn't make sense. I mean, it's just not the way things work.

Q. Mr. Zucker referred you to the Commission's 2010 financing case order and asked you in your opinion, based on the order, whether Laclede is entitled to financing authority in the amount that its purposes support. And I believe your answer was yes. Or did I misunderstand that?

A. Yes. I believe that was my answer, yes.

Q. Now, does your answer assume that the financing is necessary or reasonably required or is that just --

A. No.

Q. -- incons--

A. I believe you need to look at the specific purposes. I mean just because there's a laundry list of items in the statute, that doesn't mean that they should be automatically given authority for that. Do you reasonably anticipate using -- needing financing for those purposes that are -- that are listed in the statute.

Q. So you would have to -- they would have

to have some necessity for financing for those purposes before it would support a financing authority?

A. Exactly. And I think time has proven that there really is no need to reimburse the treasury. It didn't happen in 2010. I don't believe it's going to happen again.

Q. So do you believe you can just fill out a formula as Laclede proposes and come up with a lump sum financing authority?

A. No. I believe the fact that the previous authority could last for nine years shows there was a flaw.

Q. You were asked also about -- several questions about the formula. In your recommendation, which is attached to your testimony, I just want to make clear. What is your recommendation in this case based on? Is it based on that -- that formula in the recommendation or is that some -- is there any alternative?

A. That was just an alternative for -- you know, if the Commission felt like it had to follow this formula. No, my recommendation is based on Laclede's reasonably anticipated capital needs.

Q. Which is not based on the formula --

A. No. I said --

Q. -- in your recommendation?

A. -- and I think Laclede said they don't have a formula for determining their capital needs.

MR. KEEVIL: Okay. That's all I have, Judge. Thank you.

JUDGE PRIDGIN: All right. Thank you. Mr. Murray, thank you very much. You may step down. And I don't show any more witnesses on the witness list. I've been waiting until the transcripts are in to order a briefing schedule. I don't recall having a -- an order setting briefs that covered the hearing being moved back.

MR. KEEVIL: Right, Judge. Yeah, it did not.

JUDGE PRIDGIN: So I'll just wait until the transcript comes in. Is there anything else from counsel?

MR. ZUCKER: Your Honor, I would recommend that we have two rounds of briefing, initial and a reply brief.

JUDGE PRIDGIN: Okay.

MR. KEEVIL: That would not be what was originally contemplated in the original order. There was only one in the original order, I believe, Judge, and that was about four weeks after the original hearing which had no intervening major holidays at that time.

JUDGE PRIDGIN: I would prefer two briefs. That's the norm. And this hearing went longer than I anticipated, so I would appreciate an initial and reply briefs.

MR. KEEVIL: What exhibits are you showing, Judge?

JUDGE PRIDGIN: I'm showing Exhibits 1, 2, 4, 11-HC and NP, 12 and 13-HC were all admitted.

MR. ZUCKER: Okay. One question, your Honor. Three was the affidavit. Did you group that with 2?

JUDGE PRIDGIN: I just had it as 3 and not being offered.

MR. ZUCKER: Then I would like to offer it.

JUDGE PRIDGIN: Any objections?

MR. KEEVIL: Yeah, Judge. I would object to that one. Because that was related to the temporary extension request that came up during the course of this case and dealt with, like I said, the temporary issue and not permanent issue that we're here today on.

There was a corresponding Staff affidavit at the -- regarding the temporary issue. And I was not aware that there -- we were even going to offer this affidavit regarding the temporary. So I would object to it being admitted and if you do decide to admit it, I would request the opportunity to submit the corresponding Staff affidavit that was filed back in June or whenever it was that these things were filed.

JUDGE PRIDGIN: Mr. Zucker, any objection to Mr. Keevil doing that?

MR. ZUCKER: No. I'm okay with both coming in. The reason that we brought our affidavit is in because our witness, Ms. Rawlings, sponsored it in her Direct Testimony.

JUDGE PRIDGIN: All right. Thank you. What I'm going to do is overrule the objection and admit Exhibit Number 3.

(Laclede Exhibit 3 was received into evidence.)

JUDGE PRIDGIN: Mr. Keevil, that affidavit that you would like to introduce later is labeled Exhibit Number 14. And I can do it however counsel wants. I can -- I mean, if you all agree on what you're talking about and don't need to see it before it's offered and admitted, we can do it that way. Or if you want to offer it, you know, via written pleadings and then give time to respond, it's up to counsel.

MR. ZUCKER: Are we talking about Mr. Keevil's affidavit?

JUDGE PRIDGIN: Right.

MR. ZUCKER: I would like to see it, I guess, before --

JUDGE PRIDGIN: Then, Mr. Keevil, if you want to just offer it via pleadings then I'll allow Laclede the chance to --

MR. KEEVIL: Late-filed Exhibit 14?

JUDGE PRIDGIN: Correct. Correct. It will be 14. I'll show that will be late-filed.

MR. ZUCKER: And I believe Commissioner Rupp asked for some information. We would like to late file that.

JUDGE PRIDGIN: Certainly. I think that would be Exhibit Number 5. Then I'll allow time to respond. All right. Thank you. Anything further?

MR. KEEVIL: The only thing I would say, Judge, is when you do set the briefs, bear in mind that there are several major intervening holidays coming up.

JUDGE PRIDGIN: Understood.

MR. ZUCKER: And I'm fine with that too.

JUDGE PRIDGIN: I want to accommodate that, absolutely.

MR. KEEVIL: We finally agree on something, Mr. Zucker.

MR. ZUCKER: Well, we also agreed on the 100 million.

MR. KEEVIL: There you go.

MR. ZUCKER: One other thing, the motion to amend the September 29th order, you'll take that up at some point, I assume?

JUDGE PRIDGIN: Certainly. I mean, the Commission will rule on that either in agenda or in the Report and Order certainly.

All right. Anything further?

All right. Hearing nothing, we will go off the record. That concludes the hearing in GF-2015-0181. Thank you. We're off the record.

(Whereupon, the hearing was concluded at 5:24 p.m.)

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CERTIFICATE OF REPORTER

I, Tracy Thorpe Taylor, CCR No. 939, within the State of Missouri, do hereby certify that the testimony appearing in the foregoing matter was duly sworn by me; that the testimony of said witnesses was taken by me to the best of my ability and thereafter reduced to typewriting under my direction; that I am neither counsel for, related to, nor employed by any of the parties to the action in which this matter was taken, and further, that I am not a relative or employee of any attorney or counsel employed by the parties thereto, nor financially or otherwise interested in the outcome of the action.

Tracy T.T. Taylor

Tracy Thorpe Taylor, CCR

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