

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) File No. GF-2015-0181
First Mortgage Bonds, Unsecured)
Debt And Preferred Stock, And)
To Issue Common Stock And)
Receive Capital Contributions)

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

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

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

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

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

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

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

21 JUDGE PRIDGIN: Mr. Zucker, thank you.
22 On behalf of the Staff of the Commission,
23 please.

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

1 City, Missouri 65102.

2 JUDGE PRIDGIN: Mr. Keevil, thank you.

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

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

8 JUDGE PRIDGIN: Mr. Poston, thank you.

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

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

19 JUDGE PRIDGIN: Thank you.

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

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

3 Any objections or responses?

4 MR. ZUCKER: No objections, your Honor.

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

8 Anything further before we go to opening?

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

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

16 And so I start by saying that I stand
17 before you representing a company that has been in
18 business for 158 years; that has always been prudent
19 and judicious with its financing as evidenced by its
20 A minus credit rating, which is roughly four notches
21 above investment grade; a company that has used the
22 financing authority granted by this Commission
23 conservatively over the past 15 years; a company that
24 has operated under 500 million in financing authority
25 over the past eight years without any detriment to

1 customers as acknowledged by Staff's own witness; a
2 company that has demonstrated that it can use that
3 authorized capacity to save customers tens of millions
4 of dollars in interest expense; a company that has
5 nearly doubled in size and tripled its capital
6 expenditure budget since the last financing authority
7 case in 2010; a company that is entitled to 1 billion
8 dollars in financing authority based on the
9 Commission's legal interpretation of the financing
10 statute, a legal interpretation reached unanimously by
11 then Commissioner and now Judge Clayton and
12 Commissioners Robert Kenney, Gunn, Jarrod and Davis; a
13 company that has voluntarily requested 45 percent less
14 authorized authority than it -- than it is entitled to
15 under the law, and on a proportional basis, 36 percent
16 less than the authority it was granted five years ago;
17 a company that has itself requested that the
18 Commission apply the same conditions to that authority
19 that have served to reinforce customer protections for
20 the past eight years.

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

24 We are here because the Staff does not
25 want to accept the decision on calculating financing

1 authority that this Commission issued in 2010, even
2 though Staff concedes that the authority actually
3 requested is reasonable and that there -- and that
4 there has been no detriment from the higher
5 authorities granted in the past.

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

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

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

23 So if you want to look at the screen or
24 at your paper, you'll see a -- a slide called Capital
25 Asset Financing for Utilities. And if I might go over

1 that very quickly, on the far left is where we start.
2 We purchase or construct assets using short-term debt
3 that we get from banks; using income that actually
4 belongs to the shareholders, that's their return;
5 using funds from operation, which is cash we generate
6 from operating the business; and retained earnings,
7 which is like our savings account. That's income that
8 we have not distributed to shareholders in the form of
9 dividends. So we take those monies, which is -- some
10 of which is debt, some of which is just cash and we
11 use those to build our assets.

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

22 Now, if you look at the arrow at the
23 bottom, what happens when we refinance is we pay off
24 short-term debt and we reimburse ourselves for the
25 cash that we put out. So this is cash that belonged

1 to the company, was part of the company that we
2 advanced for the purpose of building assets. And the
3 statute allows us to reimburse ourselves by
4 refinancing and getting -- getting that cash back into
5 the treasury.

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

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

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

1 utilities.

2 Now what the financing statute, Section
3 393.200.1, does is it provides a road map for the --
4 that -- that the Commission decided in 2010 to set
5 what Laclede would be legally entitled to issue for
6 long-term financing. This road map is based on three
7 simple elements: The Laclede Gas Company's projected
8 capital spend, looking forward for three years, the
9 majority of which is on safety construction. So that
10 was part one of our slide earlier.

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

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

1 to pay them off.

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

14 And in 2010, that number added up to
15 518 million. In 2015, it adds up to 1 billion. And
16 as you can see, the big difference there in those
17 three lines is the first line. And that is because
18 our capital budget going forward has roughly tripled
19 from the capital budget that we had five years ago.

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

25 And the second reason is that Laclede has

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

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

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

17 Okay. Our financing is based on the
18 statute as interpreted by the Commission. The statute
19 shows that the authority to be granted for financing
20 is the amount incurred for the allowed purposes and
21 that those amounts were reasonably required for those
22 purposes. In other words, the amount you get is the
23 amount that you invested in the allowed purposes. And
24 the allowed purposes are capital construction and
25 improvements to your plant and system. If you invest

1 in that, you are entitled to the financing authority
2 for it. So in short, authority amount equals purpose.

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

14 So in effect, the Commission found that
15 "when necessary" means that the necessary capital
16 construction was present to justify the long-term
17 financing. So if Laclede had constructed only
18 100 million dollars in capital assets, it would not be
19 allowed to issue 200 million dollars in long-term
20 financing because that amount, the 200 million, would
21 not be necessary to finance the capital assets.

22 Likewise, "reasonably required" was found
23 to also modify the purposes that justify long-term
24 financing. In other words, the Commission should find
25 that the capital spending was reasonably required for

1 the allowed purposes. For example, if Laclede spent
2 capital to build a casino, this would not justify
3 financing authority because this amount would not be
4 reasonably required to improve its plant or system.
5 However, an investment to build a regulator station
6 would be.

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

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

23 But let's get down to brass tacks. The
24 major difference between Laclede and Staff in this
25 case is that Staff thinks Laclede should be required

1 to use its cash from operations to fund new capital
2 and for no other purpose. And so Laclede would not be
3 allowed to issue long-term financing until it had --
4 until it had spent its cash from operations on capital
5 assets.

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

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

21 The fact that Laclede's only asked for
22 550 indicates that we do intend to use funds from
23 operations and we're willing to. Now, Staff basically
24 agrees with this concept; using funds from operations
25 to fund capital. So why are we here?

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

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

22 Now we come in and we're asking for
23 550 million but we're Laclede and MGE. So if you were
24 to, for illustrative purposes, split the companies by
25 60 percent Laclede and 40 percent MGE, the equivalent

1 of what Laclede is asking for compared to 2007 and
2 2010 is 330 million. In other words, we've been
3 operating under more than 500 million of authority for
4 eight years, Laclede Gas by itself, and here we come
5 in effectively asking you to cut us to 330 million.

6 Now, if you do apples to apples from what
7 the Staff has recommended, basically -- which would
8 basically be to take -- to take Staff's recommended
9 number and take 60 percent of it for Laclede Gas,
10 Staff is saying that even though Laclede has had
11 500 or 518 million for the last eight years, that
12 Laclede should only get 180 million of authority.

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

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

24 COMMISSIONER KENNEY: You just made it
25 public.

1 MR. ZUCKER: What?

2 COMMISSIONER KENNEY: You just made it
3 public.

4 MR. ZUCKER: Yeah. And so we've talked
5 about it and decided that number is kind of broad
6 number, looking at it as 300 million over three years,
7 that we think that it doesn't give anything
8 significant away.

9 COMMISSIONER KENNEY: All right. Thank
10 you.

11 MR. ZUCKER: All right. So in -- in
12 summary of this slide, if 500 million was acceptable
13 for Laclede Gas in 2007, if 518 million was acceptable
14 for Laclede Gas in 2010, how can 550 million not be
15 acceptable for Laclede Gas and MGE in 2015? And why
16 are we here?

17 COMMISSIONER RUPP: Do you mind if I just
18 jump in?

19 MR. ZUCKER: Please.

20 COMMISSIONER RUPP: So this -- this
21 barring authority, mixture between bonds and
22 everything that the -- the mixture of items that would
23 proba-- that you would authority to go and finance --

24 MR. ZUCKER: Right. Mostly it comes down
25 to debt and equity.

1 COMMISSIONER RUPP: Mostly debt and
2 equity. Okay. We're in a very low interest rate
3 environment. What was the interest rates in 2007 and
4 2010 compared to 2015?

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

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

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

1 COMMISSIONER RUPP: Thank you.

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

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

11 So if you look at this slide, you'll see
12 in 1993 -- and this is in Mr. Murray's testimony, the
13 capitalization -- the financing amount as a percent of
14 total capitalization was 25.82 percent; in '95,
15 29.3 percent; in 2000, it went up to 58.5 percent.
16 But what we're requesting today is back down to
17 25.5 percent, right back in the area that Mr. Murray
18 thought was okay in 1993 and '95. Again, why are we
19 here?

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

24 Okay. The next point in addition to
25 being lawful and reasonable, there are ample

1 regulatory protections. The statute limits the
2 company to long-term financing for long-term assets
3 that were reasonably required for the purposes in the
4 statute.

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

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

22 Second, Laclede cannot finance if it
23 causes the company to lose its investment grade credit
24 rating. In other words, we have to continue to be
25 judicious about how financings might affect our credit

1 rating. We think this is a powerful condition because
2 if we stay investment grade, how much trouble can we
3 be in?

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

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

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

24 The third regulatory protection is that
25 Laclede is required to maintain 35 percent equity,

1 meaning Laclede must have a 65/35 debt/equity ratio,
2 or put another way, not more than 65 percent debt in
3 its capital structure. This is a reasonable floor
4 that Laclede has agreed to, although it's likely
5 that's the investment grade credit rating requirement
6 is probably superior to this requirement because we
7 might have more trouble with our investment grade
8 credit rating if we get down to 35 percent equity.
9 Laclede tends to keep its equity around 50 percent or
10 higher.

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

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

1 65 percent, along with a threat of a prudence
2 disallowance are effective suspenders in ensuring that
3 Laclede's pants don't fall down from its financing
4 decisions. And on top of that, the 550 million dollar
5 limit on financing that covers both Laclede and MGE
6 serves as a belt for that same purpose.

7 Okay. My final point is that the
8 550 million dollar authority will be beneficial to
9 consumers. Staff seeks to squeeze Laclede to a
10 financing level that is exactly what the -- what the
11 company projects over the next three years. Are these
12 projections accurate? That is, can we rely on them?

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

24 If you only give us the authority that
25 Staff recommends, and we need more, we're going to

1 have to return here again and go through another one
2 of these contested cases and get another financing
3 authority. Not only will that result in cost and
4 delay, but you'll have to listen to another one of my
5 opening statements maybe.

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

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

18 Okay. How does it -- how could it work
19 to the customer's benefit? In -- back in September of
20 2008, Laclede had the sufficient authority to access
21 the capital markets quickly, which they did, and
22 issued debt at 6.35 percent. Weeks later, Ameren went
23 to the market and issued bonds at 9.75 percent.
24 That's a difference in a little over a month's time of
25 3.4 percent.

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

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

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

22 So Laclede respectfully asks that you
23 approve its requested authority of 550 million subject
24 to its requested conditions. Laclede's request is
25 well within the legal limits imposed by the financing

1 statute as interpreted by the Commission. Laclede's
2 request is in a reasonable amount. In fact, a
3 ridiculously reasonable amount when compared to the
4 authorizations of the last eight years. Given the
5 addition of MGE and the growth of our capital budget,
6 I would go so far as to say that Laclede has low
7 balled this request.

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

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

20 I don't know when another situation will
21 arise like the one on the slide there that did in 2008
22 where interest rates spike up a half a percent, a
23 percent or even more in a short period of time or when
24 a liquidity crisis may occur as it did in 2008. And I
25 don't know if we would be able to get an advantageous

1 rate if that happens or if we would even be able to
2 borrow if there was liquidity prices. But I do know
3 that we won't have a chance to try if we're in the
4 hearing room rather than in the market.

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

8 JUDGE PRIDGIN: Thank you. Any further
9 Bench questions?

10 CHAIRMAN HALL: Indeed.

11 JUDGE PRIDGIN: Mr. Chairman?
12 Mr. Zucker.

13 MR. ZUCKER: Thank you, Mr. Chairman.

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

18 MR. ZUCKER: Well, we are here because we
19 couldn't come to an agreement with Staff on this very
20 reasonable authorization by Laclede. And even though
21 Laclede has lowered its limit in any way you want to
22 look at it from those limits that existed for the last
23 eight years and which benefited customers and caused
24 no detriment, we felt like we have lowered it as far
25 as we were comfortable with and we refused to

1 completely surrender the financing authority that's
2 allowed us to -- to bring those benefits over the past
3 years.

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

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

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

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

1 the law.

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

6 CHAIRMAN HALL: Looking at -- at
7 393.2000.1, [sic] which you referenced repeatedly in
8 your opening, where in that section is a buffer or
9 some other term that equates to the same? Where is
10 that authorized?

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

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

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

3 MR. ZUCKER: Now it is, correct.

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

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

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

22 CHAIRMAN HALL: In your application you
23 indicated that you thought that you would -- your --
24 your -- your need was greater than it was in 2010
25 for -- for finance capacity in part because of rising

1 interest rates.

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

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

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

7 CHAIRMAN HALL: Okay.

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

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

17 MR. ZUCKER: Correct.

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

22 MR. ZUCKER: Okay. So five years ago we
23 were given 518 million in authority and as Staff has
24 pointed out, we haven't used it all. They see that as
25 a bad thing, a failure on our part. We see that as a

1 good thing, a sign that we are fiscally cautious and
2 good stewards of our money.

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

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

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

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

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

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

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

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

14 CHAIRMAN HALL: It's Staff's statement.

15 MR. ZUCKER: Okay. I'm ready.

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

24 MR. ZUCKER: And I'm going to go right
25 off the top of my head and say I don't think we have

1 any issues with them. That's been something that --
2 and -- and, you know, I give credit to Staff. They
3 come up with good conditions over the years, we've
4 agreed with them.

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

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

15 MR. ZUCKER: Thank you.

16 JUDGE PRIDGIN: Any further Bench
17 questions? Commissioner Rupp?

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

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

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

1 rating in 2007 and 2010?

2 MR. ZUCKER: I believe so. Is our credit
3 rating -- let me check with our treasurer.

4 MS. RAWLINGS: I think in 2007 it was an
5 A rather than an A minus.

6 COMMISSIONER RUPP: This is roughly,
7 right? No major changes?

8 MS. RAWLINGS: Right.

9 MR. ZUCKER: Down one notch.

10 COMMISSIONER RUPP: And you purchased MGE
11 in 2013?

12 MR. ZUCKER: Correct.

13 COMMISSIONER RUPP: How much was that?
14 What was the price?

15 MR. ZUCKER: The price was I believe
16 975 million.

17 COMMISSIONER RUPP: And how was that
18 financed?

19 MR. ZUCKER: That was financed through a
20 combination of debt and equity. But we got special
21 financing permission for that. We didn't use our --
22 the financing that we -- that we have here, which is
23 basically operational financing. That was a special
24 case because it was a merger acquisition.

25 COMMISSIONER RUPP: And in your special

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

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

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

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

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

25 MR. ZUCKER: Absolutely.

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

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

8 COMMISSIONER RUPP: Yes.

9 MR. ZUCKER: And you want the utility --

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

12 MR. ZUCKER: Industry average. Okay.

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

16 MR. ZUCKER: Okay.

17 COMMISSIONER RUPP: Thank you.

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

20 MR. ZUCKER: You're sure?

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

23 MR. ZUCKER: Thank you, your Honor.

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

1 MR. POSTON: No opening.

2 JUDGE PRIDGIN: All right. Thank you.

3 Mr. Keevil?

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

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

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

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

25 Continuing from the Commission's

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

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

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

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

20 The issue in this case is an expansion of
21 the second approach, which I just mentioned, to grant
22 financing authority beyond the amount supported by the
23 company's own plans, not Staff's projections,
24 calculations -- just Laclede's plans -- and without a
25 condition prohibiting any excess financing authority

1 from being exercised in a manner that allows the funds
2 raised from the financing from being transferred to
3 the holding company as a dividend.

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

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

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

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

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

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

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

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

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

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

5 JUDGE PRIDGIN: All right. Thank you.

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

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

24 Again, I'm not going to mention those
25 numbers from that rating agency slide I showed a

1 moment ago, but you'll notice those numbers in the
2 attachment to the Commission application bear no
3 relationship whatsoever to the numbers that they had
4 in their rating agency presentation. And if you want,
5 we can --

6 COMMISSIONER RUPP: Where is that from?

7 MR. KEEVIL: This printout?

8 COMMISSIONER RUPP: Uh-huh.

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

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

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

22 COMMISSIONER RUPP: As of what date?

23 MR. KEEVIL: Well, the proforma -- the
24 actual was as of December 31st, 2014. And the
25 proforma takes the December 31st, 2014 and then as

1 that first note mentioned, gives effect to those
2 additional considerations.

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

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

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

25 Now, regarding that extra buffer issue

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

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

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

17 JUDGE PRIDGIN: Any Bench questions?
18 Mr. Chairman?

19 CHAIRMAN HALL: If Laclede were to
20 provide a list of all of its capital projects in the
21 next three years and on that -- and with an
22 anticipated expense and that total equalled
23 550 million and they indicated that they intended to
24 finance or hoped to finance all of those expenditures
25 and they told the rating agencies that, would it be

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

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

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

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

13 JUDGE PRIDGIN: Commissioner Stoll?

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

20 MR. KEEVIL: Sure.

21 COMMISSIONER STOLL: How would that work?

22 MR. KEEVIL: Yeah. And again, I would
23 encourage you to follow that up with Mr. Murray, but
24 I'll take a crack at that too. For example, if they
25 got the 550 million authority that they're requesting

1 and then they only needed to issue 300 million as
2 Staff is recommending, that would leave 250 million
3 excess -- in Staff's opinion, excess.

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

11 COMMISSIONER STOLL: Yeah.

12 MR. KEEVIL: Did you follow that?

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

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

22 The Laclede Group has debt that they're
23 now servicing that they were not previous -- did not
24 previously have to service because of the acquisition
25 of the Alabama Gas Company. So to say that because

1 they've never done it before, trust us, we'll never do
2 it in the future, I don't -- you know, maybe that's --
3 maybe you want to do that, but I'm not sure I'd
4 necessarily say that's a safe -- you know, we -- Staff
5 doesn't want to simply rely on the fact that because
6 they've never done it before, they -- they won't do it
7 now.

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

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

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

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

22 COMMISSIONER STOLL: Was that? Okay.

23 MR. KEEVIL: I said utility.

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

1 JUDGE PRIDGIN: Commissioner Stoll, thank
2 you.

3 Commissioner Rupp?

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

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

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

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

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

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

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

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

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

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

24 COMMISSIONER RUPP: And if they --

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

1 aware of there being --

2 COMMISSIONER RUPP: But if they did that,
3 wouldn't that then adversely affect their rating?

4 MR. KEEVIL: It -- yes, it would. At
5 least one would expect to, let me say it that way. I
6 can't guarantee, but I certainly would expect it to.

7 COMMISSIONER RUPP: Thank you.

8 JUDGE PRIDGIN: Thank you. Any further
9 Bench questions?

10 CHAIRMAN HALL: Yes.

11 JUDGE PRIDGIN: Mr. Chairman?

12 CHAIRMAN HALL: I'm sorry. I'm going
13 to -- I'm wondering if you think there is any legal
14 relevance to the -- to the argument raised by Laclede
15 in its -- in the opening about why -- why capacity is
16 beneficial for customers. Essentially why -- why
17 excess capacity or a buffer might be beneficial to
18 customers. Is that legally relevant?

19 MR. KEEVIL: I don't believe --

20 CHAIRMAN HALL: Is that something that we
21 should take into account in making our decision?

22 MR. KEEVIL: Legally relevant, I don't
23 believe so, Mr. Chairman. And like I said, in 2010,
24 that was one of the few things that the
25 then-Commission actually ruled against Laclede on.

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

3 CHAIRMAN HALL: Thank you.

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

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

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

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

21 JUDGE PRIDGIN: Thank you. Any further
22 Bench questions?

23 All right. Mr. Keevil, thank you.

24 MR. KEEVIL: Thanks.

25 JUDGE PRIDGIN: I believe we're ready to

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

4 (Witness sworn.)

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

8 LYNN D. RAWLINGS, testified as follows:

9 DIRECT EXAMINATION BY MR. ZUCKER:

10 Q. Good afternoon, Ms. Rawlings.

11 A. Hi.

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

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

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

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

20 Q. And are you the same Lynn Rawlings who
21 filed Direct Testimony in this case on July 28th,
22 2015?

23 A. Yes, I am.

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

1 **same today as you answered then?**

2 A. Yes. In my Direct Testimony.

3 MR. ZUCKER: And I move for admission of
4 the Direct Testimony of Lynn Rawlings into the record.
5 That's Exhibit 2.

6 JUDGE PRIDGIN: Any objections?

7 MR. KEEVIL: No.

8 JUDGE PRIDGIN: Hearing none, Exhibit 2
9 is admitted.

10 (Laclede Exhibit 2 was received into
11 evidence.)

12 MR. ZUCKER: Could I also ask at this
13 time to admit Exhibit 1, which is the application?

14 JUDGE PRIDGIN: Any objections?

15 Hearing none, Exhibit 1 is admitted.

16 (Laclede Exhibit 1 was received into
17 evidence.)

18 MR. ZUCKER: Thank you, your Honor.

19 BY MR. ZUCKER:

20 **Q. Are you the same Lynn Rawlings who filed**
21 **Surrebuttal Testimony in this case on September 18th,**
22 **2015?**

23 A. Yes, I am.

24 **Q. And if I asked you the same questions in**
25 **that testimony -- God bless you -- would your answers**

1 **be the same?**

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

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

8 JUDGE PRIDGIN: That's fine with me.

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

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

17 JUDGE PRIDGIN: You did. Thank you.

18 BY MR. ZUCKER:

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

23 A. Yes, they would.

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

1 JUDGE PRIDGIN: Any objection?
2 Hearing none, Exhibit 4 as corrected
3 today is admitted.

4 (Laclede Exhibit 4 was received into
5 evidence.)

6 MR. ZUCKER: No further questions. Thank
7 you, Ms. Rawlings.

8 JUDGE PRIDGIN: All right. Thank you.
9 Cross-examination, Mr. Poston?

10 MR. POSTON: No questions, thank you.

11 JUDGE PRIDGIN: Mr. Keevil?

12 MR. KEEVIL: Yes, Judge, just a few.

13 CROSS-EXAMINATION BY MR. KEEVIL:

14 Q. Ms. Rawlings, to begin with, who is Glenn
15 Buck?

16 A. He is a long-time Laclede Gas employee
17 who is in our Regulatory Affairs Department.

18 MR. KEEVIL: Okay. Judge, I'd like to
19 mark an exhibit, if I may.

20 JUDGE PRIDGIN: I show this as Number 12.

21 (Staff Exhibit 12 was marked for
22 identification.)

23 BY MR. KEEVIL:

24 Q. Ms. Rawlings, I've handed you what's been
25 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

1 **provided by Laclede pursuant to data request in this**
2 **case?**

3 A. Yes, it does.

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

6 JUDGE PRIDGIN: Any objections?

7 MR. ZUCKER: No, your Honor.

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

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

12 BY MR. KEEVIL:

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

16 A. Yes.

17 **Q. Who actually prepared that application?**

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

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

23 A. I'm trying to recall.

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

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

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

10 A. Yes, it is.

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

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

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

18 A. Can you repeat the question, please?

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

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

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

25 So --

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

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

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

8 BY MR. KEEVIL:

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

13 A. Yes. In the sense --

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

16 A. Well, since we've discussed --

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

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

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

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

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

7 Do you see that, ma'am?

8 A. Yes.

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

13 A. Yes. I understand that.

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

17 A. No, I am not.

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

23 A. No, I am not.

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

1 **Mr. Murray characterizes the percentage referred to as**
2 **being reasonable.**

3 **Is that what you say?**

4 A. Yes.

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

7 A. Yes, I do.

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

10 A. Yes.

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

14 A. Yes.

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

17 A. He does use the word "reasonable."

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

20 A. Well, one qualifier; more reasonable.

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

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

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

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

5 **Q. Which are substantially less?**

6 A. -- of the company.

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

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

12 MR. KEEVIL: Page 10, line 16.

13 MR. ZUCKER: Thank you.

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

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

20 BY MR. KEEVIL:

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

23 A. It's a matter of degree.

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

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

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

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

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

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

18 MR. KEEVIL: I'm in Jeff City.

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

22 MR. KEEVIL: Yeah.

23 MR. ZUCKER: And what page?

24 MR. KEEVIL: Page 10, line 22.

25 MR. ZUCKER: Line what?

1 MR. KEEVIL: 22.

2 BY MR. KEEVIL:

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

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

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

15 A. Yes.

16 Q. Okay.

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

19 JUDGE PRIDGIN: All right. Thank you.

20 We'll go to Bench questions.

21 Mr. Chairman?

22 QUESTIONS BY CHAIRMAN HALL:

23 Q. Good afternoon, Ms. Rawlings.

24 A. Hi .

25 Q. My understanding of your testimony is

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

3 A. Yes.

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

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

11 Q. **As what? I'm sorry.**

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

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

17 A. For financing between now and through
18 2018.

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

24 A. The 300 is a projection. It is one point
25 projection. When one does financial forecasting, any

1 kind of forecasting, there's a range of probable and
2 possible outcomes. This is the middle point of that
3 range. There could be lots of things that change that
4 amount. There could be inflation, there could be
5 changes in tax laws, there could be changes in
6 accounting rules that cause all of the operating
7 leases to become capital leases. There could be lots
8 of things that end up affecting that number.

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

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

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

1 **believe that you will need to finance 300 million of**
2 **that. Is the remaining 256 anticipated to be covered**
3 **by operating?**

4 A. By operating cash flow?

5 Q. Yes.

6 A. Yes.

7 Q. Okay. So in other words, you are -- you
8 are seeking a buffer? You're --

9 A. Well, in -- in 2010, the Commission did
10 reject the use of flexibility or a buffer or whatever
11 you might call it as not an allowed purpose for
12 financing. But at that time we had requested
13 600 million in authority and the Commission went
14 through how much we should be allowed and came up to a
15 lesser number and said you can have this lesser
16 number, 518 million, and you don't -- it's not
17 reasonable to give you a buffer or flexibility.
18 That's not an allowed, an approved purpose for
19 financing.

20 In this case, going through the statute
21 to determine how much we can, under the statute, we
22 would be able to finance comes up with the 1 billion
23 dollar number. So we're not asking for a buffer over
24 that 1 billion dollars. We're actually asking
25 obviously for much less.

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

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

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

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

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

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

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

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

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

15 **Q. And are there times that it would not?**

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

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

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

24 **Q. Let me hear your extreme scenario.**

25 A. Well, if we were to borrow the

1 250 million that is in excess of what we expect to
2 have to issue for capital expenditures, and we were to
3 dividend all of that up to the parent, that would
4 probably be an extreme scenario.

5 **Q. And so that would violate this -- this --**
6 **this condition. And it would violate that condition**
7 **why?**

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

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

13 A. Yes.

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

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

24 **Q. Okay. All right. Thank you.**

25 CHAIRMAN HALL: I have no further

1 questions.

2 JUDGE PRIDGIN: Thank you.

3 Commissioner Stoll?

4 COMMISSIONER STOLL: No. My question was
5 answered.

6 JUDGE PRIDGIN: Commissioner Kenney?
7 Commissioner Rupp?

8 QUESTIONS BY COMMISSIONER RUPP:

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

11 JUDGE PRIDGIN: 12.

12 BY COMMISSIONER RUPP:

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

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

16 COMMISSIONER RUPP: 13-HC.

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

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

21 JUDGE PRIDGIN: Counsel, will that work?

22 MR. ZUCKER: Sure.

23 BY COMMISSIONER RUPP:

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

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

3 MR. ZUCKER: Page 18 of which exhibit?

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

6 THE WITNESS: Thank you. Sorry. Which
7 page?

8 BY COMMISSIONER RUPP:

9 Q. **18.**

10 A. I'm starting on page 27.

11 Q. **Yes.**

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

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

14 A. Okay.

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

19 A. Uh-huh.

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

23 A. Well, this page is for the Laclède Group,
24 a consolidated Laclède Group.

25 Q. **Okay.**

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

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

7 COMMISSIONER RUPP: Thank you.
8 BY COMMISSIONER RUPP:

9 **Q. Yes. So on page 21 --**

10 A. Uh-huh.

11 **Q. -- under the issuance of long-term debt**
12 **towards the bottom and the maturity of long-term**
13 **debt --**

14 A. Right.

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

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

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

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

25 COMMISSIONER RUPP: That's already been

1 in?

2 COMMISSIONER KENNEY: Yes.

3 BY COMMISSIONER RUPP:

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

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

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

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

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

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

22 (REPORTER'S NOTE: At this time, an
23 in-camera session was held, Volume 3, pages 86 to 91.)
24
25

1 JUDGE PRIDGIN: We're back in public
2 sessi on. Commi ssi oner Coleman, any questi ons?

3 COMMI SSI ONER COLEMAN: No.

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

12 (A recess was taken.)

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

18 All right. Mr. Poston, any questi ons?

19 MR. POSTON: No questi ons.

20 JUDGE PRIDGIN: Thank you. Mr. Keevil?

21 MR. KEEVIL: Very briefly, Judge.

22 RECROSS-EXAMINATION BY MR. KEEVIL:

23 **Q. Ms. Rawlings, Commi ssi oner Rupp was**
24 **asking you right before the break about your need to**
25 **ask for authority every three years. And I believe**

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

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

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

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

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

19 A. No.

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

21 A. I agree.

22 Q. Thank you.

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

24 JUDGE PRIDGIN: Thank you.

25 Redi rect?

1 MR. ZUCKER: Thank you, your Honor.

2 REDIRECT EXAMINATION BY MR. ZUCKER:

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

5 A. No, it's not working.

6 Q. How about now? Is it working now?

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

9 MR. ZUCKER: I got a green light.

10 JUDGE PRIDGIN: All right. Thank you.

11 BY MR. ZUCKER:

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

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

19 A. Yes.

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

22 A. I don't believe so.

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

25 A. It may have been a condition, yes.

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

3 A. Please. I am not seeing a reference to
4 di vi dends.

5 **Q. Okay.**

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

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

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

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

5 JUDGE PRIDGIN: I understand. I
6 understand your point and I'll overrule the objection.
7 BY MR. ZUCKER:

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

10 A. Yes.

11 **Q. And the dividend condition is not on**
12 **there?**

13 A. Correct.

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

17 A. Yes, I do.

18 **Q. Okay. Let's say that Laclede had**
19 **100 million dollars in retained earnings and Laclede**
20 **had 50 million dollars in income in a given year. And**
21 **let's say also that Laclede constructed let's say**
22 **300 million in assets and then Laclede borrowed from**
23 **the -- from the bond market 200 million dollars. Do**
24 **you follow that?**

25 A. Yes.

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

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

8 **Q. And would it be our position that the**
9 **80 million came out of retained earnings for dividend?**

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

12 **Q. Do dividends come from anywhere else?**

13 A. No.

14 **Q. Okay. And can you identify the -- when**
15 **you make that 80 million dollar dividend, can you**
16 **identify that cash with the 100 million dollars in**
17 **retained earnings and distinguish it from the**
18 **200 million you borrowed to support your capital**
19 **construction?**

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

1 **Q. And is that because cash is fungible?**

2 A. Yes, it is.

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

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

13 **Q. So Laclede simply cannot do that?**

14 A. Correct.

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

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

25 CHAIRMAN HALL: So there's nothing that

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

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

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

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

15 CHAIRMAN HALL: Okay.

16 BY MR. ZUCKER:

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

20 A. Yes. I think Laclede would have
21 difficulty borrowing 200 million if it had only
22 100 million in assets.

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

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

3 A. Yes.

4 **Q. -- the bonds?**

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

13 **Q. Okay. Let me ask it a different way**
14 **based on the questions from Chairman Hall. Let's say**
15 **Laclede has 100 million in retained earnings and that**
16 **100 million has been in retained earnings for three**
17 **years. And over those three years, Laclede built**
18 **500 million dollars in assets. And finally one day**
19 **Laclede issues bonds for 200 million dollars. And**
20 **then the next day Laclede issues a dividend to its --**
21 **to its parent for 50 million dollars.**

22 **Did Laclede violate anything by -- by**
23 **issuing that dividend the next day after the -- after**
24 **the borrowing?**

25 A. I don't believe so, because the amount of

1 the borrowing was more than supported by the assets
2 that were acquired. And the amount of the dividend is
3 less than the amount of retained earnings.

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

9 A. I would say so.

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

13 A. Yes.

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

16 A. Correct.

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

19 A. Yes.

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

22 JUDGE PRIDGIN: You may.

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

1 about it.

2 BY MR. ZUCKER:

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

6 A. Yes, I believe so.

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

10 A. That's correct.

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

14 A. No, we are not.

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

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

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

23 Are you there?

24 A. Yes.

25 Q. Okay. So at that point does it appear

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

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

6 **Q. Yes.**

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

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

12 A. Yes. Yes.

13 **Q. And what did the Commission say?**

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

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

22 A. No.

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

25 A. Yes.

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

4 A. Uh-huh.

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

7 A. Yes.

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

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

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

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

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

23 A. Okay.

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

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

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

11 A. Yes.

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

14 A. Twe--

15 Q. Twenty?

16 A. I think 21.

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

21 A. I'm sorry. Is there --

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

25 A. I think it totals to the 560 million that

1 we included in our application.

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

5 A. 300 million.

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

9 A. Correct.

10 Q. Okay. So if we're going to spend 560 and
11 issue long-term debt in the amount of 300, leaving
12 260, where is that 260 coming from?

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

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

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

20 Q. And we plan to?

21 A. And we plan to.

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

24 BY MR. ZUCKER:

25 Q. The projections that we provided to the

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

3 A. That's correct.

4 Q. And they could change; is that correct?

5 A. Yes. They are likely to.

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

8 A. Yes.

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

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

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

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

17 THE WITNESS: Thank you.

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

22 (Witness sworn.)

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

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

1 MR. KEEVIL: Thank you, Judge.

2 DAVID MURRAY, testified as follows:

3 DIRECT EXAMINATION BY MR. KEEVIL:

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

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

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

10 A. I have.

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

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

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

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

23 Q. Wait a second.

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

1 MR. ZUCKER: Probably, yes.

2 THE WITNESS: Okay.

3 JUDGE PRIDGIN: Do I need to go
4 in-camera? Do we need to go in in-camera?

5 MR. KEEVIL: Yeah, we do.

6 JUDGE PRIDGIN: Okay. Just a moment,
7 please.

8 (REPORTER'S NOTE: At this time, an
9 in-camera session was held, Volume 3, pages 110 to
10 111.)

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

3 BY MR. KEEVIL:

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

8 A. It would.

9 Q. And are the matters stated in Exhibit
10 11-NP and 11-HC true and correct to the best of your
11 information, knowledge and belief?

12 A. Yes.

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

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

17 MR. ZUCKER: No objections.

18 JUDGE PRIDGIN: Hearing none, Exhibit
19 11-HC and Exhibit 11-NP is admitted.

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

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

24 JUDGE PRIDGIN: Thank you.

25 Mr. Poston, any questions?

1 MR. POSTON: Just a few.

2 JUDGE PRIDGIN: Yes, sir.

3 CROSS-EXAMINATION BY MR. POSTON:

4 Q. Do you agree with Ms. Rawlings' testimony
5 from right after the break where she said Laclede can
6 request financing as frequently as it needs it?

7 A. Yes.

8 Q. There's -- so should they need more than
9 what whatever amount is approved in this case, there's
10 nothing preventing them from coming back in and
11 requesting additional authority?

12 A. Before the Commission, asking for
13 regulatory authority, that's correct.

14 Q. Right. And in regards to your
15 recommended 300 million, is there a buffer built into
16 that or has every dollar of that 300 million been
17 supported with some type of plant expenditure?

18 A. It's supported by their budget so there's
19 no buffer for -- for anything such as I guess changes
20 in -- in gas prices or what have you, which is usually
21 funded by the short-term debt markets anyway. But --
22 so no, it's just based on the identified capital
23 budget.

24 Q. So that identified budget though, is that
25 associated with known projects that equal 300 million

1 **or --**

2 A. Yes. Well, it's not equal to
3 300 million. Obviously there's many -- this is, you
4 know, I guess the crux of our disagreement. The gross
5 capital expenditures of 562 million, there's much more
6 funding available to Laclede than just long-term
7 financing. There's internal retained earnings
8 available to Laclede, there's other cash flows
9 available to Laclede.

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

16 MR. POSTON: That's all I have.

17 JUDGE PRIDGIN: Thank you.

18 Laclede?

19 MR. ZUCKER: Thank you, your Honor.

20 CROSS-EXAMINATION BY MR. ZUCKER:

21 **Q. Good afternoon, Mr. Murray.**

22 A. Good afternoon.

23 **Q. Do you have a copy of the statute**
24 **393.200.1 that we've been talking about?**

25 A. I don't know if I have that up here with

1 me, no.

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

4 A. Sure.

5 MR. POSTON: You should have said no.

6 MR. ZUCKER: I gave you a chance.

7 BY MR. ZUCKER:

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

12 A. That is correct.

13 **Q. And can you find in that statute where it**
14 **says that that's -- that is the standard for financing**
15 **authori ty?**

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

25 **Q. So was that a no in terms of whether**

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

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

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

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

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

1 **hand before it can borrow -- before it can issue**
2 **long-term debt?**

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

10 JUDGE PRIDGIN: Mr. Zucker?

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

13 JUDGE PRIDGIN: Thank you.

14 BY MR. ZUCKER:

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

17 A. I may have that. I do.

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

20 A. Yes.

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

25 Do you agree with that sentence?

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

3 **Q. Do you agree with the meaning of it?**

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

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

9 MR. KEEVIL: Of the Commission order?

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

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

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

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

23 BY MR. ZUCKER:

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

1 A. Yes.

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

5 A. Yes.

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

11 A. Yes.

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

14 A. It does not.

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

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

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

4 A. Changes the alternative, yes.

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

7 A. I think I indicated that. The
8 150 million. And so it would just --

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

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

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

15 A. No. The primary recommendation is
16 300 million and I stick with that.

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

19 A. This is page 5 of my recommendation?

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

22 A. I'm there.

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

1 **Do you see that?**

2 A. I do.

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

8 **Did I read that correctly?**

9 A. You did.

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

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

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

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

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

13 A. Obviously my recommendation is
14 300 million I think, because I guess I don't feel like
15 we've given -- been allowed much, I guess,
16 collaboration with -- with the company trying to come
17 to a reasonable estimate.

18 But that being said, if -- you know, if
19 the company -- if Laclede had indicated that there's
20 say X amount of short-term debt outstanding on its
21 books, which as of June 30th there might have been
22 130 million or what have you and that's generally --
23 maybe that can't be reconciled to long-term assets,
24 then to the extent that Laclede Gas, you know, wanted
25 some consideration to possibly reduce that at some

1 point in the future say by -- you know, because they
2 have 20 million that supports long-term assets, that
3 may be a consideration. But it just wasn't discussed
4 because Laclede is pretty adamant about this formula.

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

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

10 **Q. Are you --**

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

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

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

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

24 A. Yes.

25 **Q. And so would you like to revise your**

1 **statement that Laclede is adamant about the formula?**

2 A. No.

3 Q. Okay. When you talked about short-term
4 debt of 130 million, are you saying that you would be
5 willing to add 130 million to your -- to your
6 position?

7 A. I'm sorry. Repeat that question.

8 Q. You talked about short-term debt being --

9 A. Yes.

10 Q. In other words, when you look at other
11 companies maybe or when you were to look at Laclede,
12 you might look at the short-term debt balance and add
13 that in. And so I'm trying to clarify whether or not
14 what you're saying is, is that you would be willing to
15 add in 130 million to your current recommendation?

16 A. Okay. If I could explain on that a
17 little bit, Laclede I understand obviously is in a
18 little different situation than the electric
19 utilities. I realize you use the short-term debt
20 markets for some bridge financing, but you also use
21 short-term debt for a lot of your seasonal gas
22 purchases, which can -- you know, which will be zeroed
23 out and -- and refunded within -- within a six-month
24 period.

25 Q. I don't mean to cut you off --

1 A. But -- but -- but --

2 Q. -- but I am so --

3 A. You asked my explanation, so --

4 Q. Yeah. I understand. I'm just asking do
5 you mean to add --

6 A. No.

7 Q. -- a 130?

8 A. No. Because I don't think it can be
9 linked to long-term assets. I mean Laclede hasn't
10 provided that information to me.

11 Q. Okay. Do you add anything to -- for a
12 reasonable excess for Laclede?

13 A. If Laclede had provided me information
14 that showed short-term debt supported long-term assets
15 and needed to be refinanced, I would have considered
16 that.

17 Q. So you're saying that out of all the
18 information we provided you in this case, you didn't
19 see anything about short-term debt?

20 MR. KEEVIL: I'm going to object. That's
21 not what the witness said. He talked about short-term
22 debt supporting long-term assets.

23 JUDGE PRIDGIN: He can answer the
24 question if he knows. I think he was -- he was asked
25 if he saw anything about short-term debt.

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

4 Okay. DR Number 10 Staff issued said,
5 Please estimate the proportion of short-term debt
6 outstanding as of December 31st, 2014, March of 30th,
7 2015 and June 30th, 2015 that supports Laclede Gas
8 Company's long-term assets.

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

20 BY MR. ZUCKER:

21 Q. Okay. So what you're saying is the
22 reasonable excess that you would consider would be
23 5 million for Laclede?

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

25 Q. Okay. And so would that make your

1 **recommendation 305?**

2 A. I would consider that, yes.

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

6 A. Yes.

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

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

16 Q. When Laclede and Staff agreed to a
17 500 million authority in the 2007 financing case, was
18 that unreasonably in excess, in your opinion?

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

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

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

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

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

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

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

1 companies.

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

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

9 A. You've maintained a strong credit rating.

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

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

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

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

25 A. Yes. I'm there.

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

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

7 **Q. Okay.**

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

9 **Q. Page 9, line 2.**

10 A. Yes. I see that.

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

15 A. Yes.

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

20 A. Yes.

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

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

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

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

5 **Q. Okay.**

6 MR. KEEVIL: Is that HC?

7 MR. ZUCKER: I don't think so.

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

10 MR. KEEVIL: Okay.

11 BY MR. ZUCKER:

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

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

20 **Q. So are you saying about half?**

21 A. Over -- over half.

22 **Q. Over half?**

23 A. Over half.

24 **Q. 55 percent?**

25 A. Like I said, this is where I can give

1 you -- tell you what. Can we look at Schedule 1? It
2 might help.

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

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

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

11 A. 73 percent. Yes.

12 Q. Okay. And by 7-- how did you figure
13 73 percent?

14 A. 412 divided by 562.

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

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

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

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

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

7 **Q. Okay.**

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

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

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

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

21 A. No.

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

25 A. I'm recommending authority to borrow

1 300 million. So I'm not say-- I'm -- I don't think
2 that's correct that I'm saying that --

3 Q. Okay.

4 A. -- that they can't borrow.

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

7 A. Yes.

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

13 Did I read that correctly?

14 A. You did.

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

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

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

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

1 **Q. So treasury has to be just cash?**

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

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

13 A. That's correct, yes.

14 **Q. Income is not part of the treasury?**

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

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

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

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

25 A. I say, Are you aware of anything that

1 could explain --

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

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

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

19 **Q. Okay. So if Laclede Group was formed in**
20 **2001, it could not be the reason in the -- that the**
21 **change took place in 2000; is that correct?**

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

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

1 **know that answer?**

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

4 **Q. Well, the Laclede Group was formed --**

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

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

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

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

23 **Q. Okay. Please turn to page 2, lines 14 to**
24 **16 of your Rebuttal Testimony.**

25 A. I'm there.

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

8 Do you see that?

9 A. Yes.

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

14 A. Yes.

15 Q. -- right?

16 And are these cases free?

17 A. No.

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

24 A. If you identify --

25 Q. -- correct?

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

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

9 A. Yes.

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

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

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

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

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

25 A. Well, because we -- there's been multiple

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

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

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

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

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

19 A. Every three years, yes.

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

22 A. That's been the procedure.

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

1 A. Yes.

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

4 A. I guess Laclede would.

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

8 A. For Laclede, yes.

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

11 A. Yes.

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

13 A. Quite a few with Laclede, yes.

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

16 A. I would, yes.

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

19 A. Upwards of 50, yes.

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

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

25 Q. But Laclede would have to prepare those

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

3 A. If they're cooperating, yes.

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

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

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

9 A. If I have the information, yes.

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

12 A. Based on the best information given, yes.

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

16 A. It would, yes.

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

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

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

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

4 **Q. Okay.**

5 A. That's procedure.

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

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

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

14 A. I'm sure they will eventually.

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

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

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

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

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

7 A. They will vote on the order.

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

12 A. Laclede has done that, yes.

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

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

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

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

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

1 **recommendation to an order?**

2 A. I don't know.

3 **Q. Maybe three weeks?**

4 A. I don't know.

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

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

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

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

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

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

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

22 A. In a normal case, we don't go to hearing,
23 we don't do all these things. In a normal case, we
24 are able to identify exactly what the company plans to
25 issue the financing for, the company executes on the

1 financing within a year, it's usually very close to
2 the amount of authority that they requested. And
3 then, you know, the Staff issues maybe five data
4 requests to those companies, the Staff analyzes the
5 financials because it -- we know what the amount is
6 going to be.

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

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

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

22 **Q. How about Laclede?**

23 A. Laclede apparently doesn't do more
24 than -- I don't think I've seen one bigger than 100 to
25 150. I think you're planning on something larger, but

1 in -- it's going to be some time, two years down the
2 road.

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

6 A. Should be, yes.

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

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

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

19 A. I -- I haven't --

20 Q. -- subject to check?

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

22 MR. KEEVIL: I'm going to object to
23 subject to check. If there's evidence in the record
24 of what the interest rate was on whatever date, then
25 that's fine. But this hypothetical subject to check

1 is objectionable. There's no support for it.

2 JUDGE PRIDGIN: Mr. Zucker?

3 MR. ZUCKER: That's fine, your Honor.

4 I'm okay with that.

5 BY MR. ZUCKER:

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

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

13 Q. Applications --

14 A. -- the law requires it, yes.

15 Q. Applications for each financing?

16 A. Oh, for each financing? It just depends
17 on the situation. I mean I believe the -- the concept
18 of this shelf authority may have come about back in
19 2004 and it was to -- to allow for some -- I guess
20 flexibility for the purposes of anticipated needs over
21 some period of time. If -- you know, if -- if the
22 parties were able to agree to, you know, what was
23 reasonable, then -- then that was allowed.

24 But as of right now, Amer-- Missouri
25 American I believe does a shelf authority and we look

1 at the capital needs and -- and have just arrived at a
2 reasonable conclusion, in our opinion, with them
3 within the last couple months. Ameren Missouri, they
4 provide, you know, applications for each issuance.
5 And we found that to be very efficient; so has KCPL.

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

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

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

16 **Q. But the commitment is significant for gas**
17 **supply?**

18 A. Yes.

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

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

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

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

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

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

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

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

14 A. That's what I understand.

15 Q. **So there's no preapproval on those?**

16 A. I -- that's my understanding.

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

24 MR. KEEVIL: Judge, I'm going to object
25 to this. Again, he's calling for speculation on a

1 hypothetical. The statutory scheme is different for
2 financing than it is for gas purchasing. This whole
3 line of questioning is irrelevant and
4 misrepresentative of just the way of the -- the facts
5 in the case.

6 JUDGE PRIDGIN: I'll sustain.

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

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

12 JUDGE PRIDGIN: I did. I sustained.

13 BY MR. ZUCKER:

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

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

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

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

3 A. I am.

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

11 A. I am.

12 Q. So now at the end of the year you're
13 **reviewing the credit card limit and your son says,**
14 **Instead of a \$5,000 limit, I would like to have a**
15 **\$3,000 limit. In light of the way that your son**
16 **handled the credit card over -- over that year, would**
17 **your inclination be to approve the lower \$3,000 limit**
18 **or to reduce it further?**

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

25 JUDGE PRIDGIN: I'll overrule. We can

1 all I see the point he's making.

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

11 BY MR. ZUCKER:

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

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

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

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

1 the expenditures of the school, I'd say okay, it's
2 reasonable.

3 Q. One moment, please.

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

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

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

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

19 JUDGE PRIDGIN: Mr. Zucker, thank you.
20 Any Bench questions? Mr. Chairman?

21 CHAIRMAN HALL: Unfortunately, I have a
22 few.

23 QUESTIONS BY CHAIRMAN HALL:

24 Q. Afternoon, Mr. Murray.

25 A. Good afternoon, Chairman.

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

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

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

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

25 The thing that does not make any sense to

1 me when it comes to -- to the statute -- and I don't
2 believe the company ever intends to, quote/unquote,
3 reimburse its treasury -- is -- is that once they --
4 as we talked about, the cash doesn't sit in a pool --
5 in an account. It -- once they receive the cash,
6 they -- they reinvest it.

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

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

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

23 A. Yes.

24 **Q. I'm reading that --**

25 A. It's a laundry list of issues for what

1 they might need to use financing for.

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

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

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

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

24 A. I'm not saying they have to. This is
25 just the way companies are run. They manage their

1 internal cash flows so they don't have to access
2 external capital markets. Usually you don't want to
3 access external capital markets. It could be diluted
4 to your common equity holders.

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

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

25 So to imply that you would need to go

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

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

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

9 **Q. Do you know how much?**

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

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

16 **A.** Without a doubt, yes.

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

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

23 JUDGE PRIDGIN: Would that be 13-HC?

24 BY CHAIRMAN HALL:

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

1 **that's --**

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

5 **Q. And that would be 100 million --**

6 MR. KEEVIL: You may be getting HC here.

7 JUDGE PRIDGIN: We'll go in-camera.

8 (REPORTER'S NOTE: At this time, an
9 in-camera session was held, Volume 3, pages 161 to
10 163.)

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

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

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

16 Because I mean, let me just state that if
17 you -- the rating agency has affirmed the rating based
18 on their current plans. If something happened that
19 wasn't consistent with what they plan to do, then, you
20 know, it may be something that I think could cause an
21 increase to cost to capital if their -- if their -- if
22 their credit rating was downgraded from A to triple B,
23 they could be -- have difficulty with accessing
24 commercial paper markets, which is important to gas
25 utilities specifically. And so -- and those

1 short-term debt costs get passed into rates.

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

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

16 BY CHAIRMAN HALL:

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

22 A. Yes.

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

1 **public?**

2 A. Well, Laclede Group has -- definitely has
3 a aggressive growth strategy. I mean they went to
4 about a billion dollar capitalized company to a
5 2 billion dollar capitalized company by acquiring MGE.
6 Then Laclede Group acquired Alagasco at a very sizable e
7 pre--

8 **Q. But what --**

9 A. But --

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

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

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

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

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

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

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

22 And let's face it. Most companies, they
23 issue the -- they go to the markets when they need the
24 money. I think as we know, most folks are -- you
25 know, aren't really the best at predicting where

1 interest rates are going to go. But point being is,
2 is that I think there's a difference between
3 regulatory flexibility and financial capacity. They
4 have a 450 million dollar credit facility, 400 million
5 dollar commercial paper program within that credit
6 facility. To the extent that they need to go out
7 and -- and fund any capital deficiencies, they'll do
8 that within their short-term debt facility.

9 Q. Right.

10 A. And that's flexibility.

11 Q. Exactly. Okay. So -- so Staff believes
12 that -- that we should authorize 300. And so
13 essentially if -- if -- if their -- if their actual
14 capital expenditures were 562, they would need to fund
15 262 million of that from -- from operations. And
16 let's say that interest rates go up, causing
17 short-term borrowing costs to increase substantially
18 and they wanted to go to the -- to the market with
19 some long-term debt. They'd have to come back to us
20 to do that?

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

1 100 million in the next year. I think we can go -- I
2 think we can make that assumption. So they have
3 flexibility. Under 300 million dollar authority, they
4 have flexibility over these next three years.

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

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

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

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

24 A. Yes. Because I believe you need to
25 support the amount that you request. We've done it

1 with Ameren Missouri, we've done it with KCPL, we've
2 done it with Missouri American. This is the only
3 company we've gone to hearing twice. It doesn't take
4 this much resources to process finance cases that are
5 reasonably supported.

6 **Q. I have no further questions. Thank you.**

7 A. Thank you.

8 JUDGE PRIDGIN: Thank you. Commissioner
9 Stoll?

10 QUESTIONS BY COMMISSIONER STOLL:

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

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

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

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

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

22 So, you know, obviously you have very
23 significant capital expenditures on the electric side.
24 And so yes, they are different animals and that's why
25 I say even comparing the percentage of total capital

1 of what the electric versus the gas, yeah, it -- a lot
2 of times electric utilities are going to need a
3 significant amount of capital as compared to their
4 total capitalization.

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

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

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

21 **Q. Yeah.**

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

25 **Q. Okay. One other question. So in your**

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

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

16 Q. Okay. Okay. Thank you.

17 A. Thank you.

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

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

22 MR. POSTON: No questions.

23 JUDGE PRIDGIN: Thank you. Mr. Zucker?

24 MR. ZUCKER: One moment, your Honor.

25 No questions.

1 JUDGE PRIDGIN: Thank you.

2 Redirect?

3 MR. KEEVIL: Let me try to work backwards
4 here, Judge.

5 REDIRECT EXAMINATION BY MR. KEEVIL:

6 Q. Mr. Murray, in response to questions from
7 Commissioner Stoll, I believe you mentioned a
8 450 million dollar credit facility. Can you explain
9 that? What is that?

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

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

25 Q. And I believe you mentioned, and correct

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

3 A. Less than 12 months, yes.

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

6 A. It is, yes.

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

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

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

20 BY MR. KEEVIL:

21 Q. Is there not, Mr. Murray?

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

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

1 hasn't been ruled on.

2 THE WITNESS: Sorry.

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

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

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

17 BY MR. KEEVIL:

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

22 A. Sure. The basic explanation of funds
23 from operations is basically just net income, which is
24 a cash flow -- it's a way to determine what cash flows
25 the company is actually receiving. So you take net

1 income plus depreciation and amortization, which is a
2 non-cash expense. And these funds are available
3 for -- for investment. And -- and -- and, you know,
4 why won't you reinvest it? It's a -- it's a wise way
5 to financially manage your company.

6 And then the other -- actually very big
7 piece for utilities at this point in time is deferred
8 income taxes because of the bonus depreciation.

9 There's -- it's no secret that that is allowing a
10 significant amount of cash to be received by the
11 utility above and beyond what, you know, ratepayers
12 are paying for the taxes. They're paying about
13 30 million less in taxes than what they're receiving
14 from ratepayers. And so that -- that money is
15 available for reinvestment in the system.

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

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

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

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

14 A. Yes, they are.

15 **Q. Who pays those?**

16 A. Ratepayers. It's in rates.

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

22 A. Well, because -- yes. I mean basically
23 when you say that they don't believe that that's
24 capital, that -- that that's cash flow that they have
25 available to them to reinvest, you know, they don't

1 want that considered -- they believe that they're
2 going to have to eventually go out to the long-term
3 capital markets and refund that. But that just
4 doesn't make sense. I mean, it's just not the way
5 things work.

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

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

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

16 A. No.

17 **Q. -- incons--**

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

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

1 **to have some necessity for financing for those**
2 **purposes before it would support a financing**
3 **authori ty?**

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

8 Q. **So do you believe you can just fill out a**
9 **formula as Laclede proposes and come up with a lump**
10 **sum financing authori ty?**

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

14 Q. **You were asked also about -- several**
15 **questions about the formula. In your recommendation,**
16 **which is attached to your testimony, I just want to**
17 **make clear. What is your recommendation in this case**
18 **based on? Is it based on that -- that formula in the**
19 **recommendation or is that some -- is there any**
20 **al ternative?**

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

25 Q. **Which is not based on the formula --**

1 A. No. I said --

2 **Q. -- in your recommendation?**

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

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

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

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

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

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

22 JUDGE PRIDGIN: Okay.

23 MR. KEEVIL: That would not be what was
24 originally contemplated in the original order. There
25 was only one in the original order, I believe, Judge,

1 and that was about four weeks after the original
2 hearing which had no intervening major holidays at
3 that time.

4 JUDGE PRIDGIN: I would prefer two
5 briefs. That's the norm. And this hearing went
6 longer than I anticipated, so I would appreciate an
7 initial and reply briefs.

8 MR. KEEVIL: What exhibits are you
9 showing, Judge?

10 JUDGE PRIDGIN: I'm showing Exhibits 1,
11 2, 4, 11-HC and NP, 12 and 13-HC were all admitted.

12 MR. ZUCKER: Okay. One question, your
13 Honor. Three was the affidavit. Did you group that
14 with 2?

15 JUDGE PRIDGIN: I just had it as 3 and
16 not being offered.

17 MR. ZUCKER: Then I would like to offer
18 it.

19 JUDGE PRIDGIN: Any objections?

20 MR. KEEVIL: Yeah, Judge. I would object
21 to that one. Because that was related to the
22 temporary extension request that came up during the
23 course of this case and dealt with, like I said, the
24 temporary issue and not permanent issue that we're
25 here today on.

1 There was a corresponding Staff affidavit
2 at the -- regarding the temporary issue. And I was
3 not aware that there -- we were even going to offer
4 this affidavit regarding the temporary. So I would
5 object to it being admitted and if you do decide to
6 admit it, I would request the opportunity to submit
7 the corresponding Staff affidavit that was filed back
8 in June or whenever it was that these things were
9 filed.

10 JUDGE PRIDGIN: Mr. Zucker, any objection
11 to Mr. Keevil doing that?

12 MR. ZUCKER: No. I'm okay with both
13 coming in. The reason that we brought our affidavit
14 is in because our witness, Ms. Rawlings, sponsored it
15 in her Direct Testimony.

16 JUDGE PRIDGIN: All right. Thank you.
17 What I'm going to do is overrule the objection and
18 admit Exhibit Number 3.

19 (LaCledé Exhibit 3 was received into
20 evidence.)

21 JUDGE PRIDGIN: Mr. Keevil, that
22 affidavit that you would like to introduce later is
23 labeled Exhibit Number 14. And I can do it however
24 counsel wants. I can -- I mean, if you all agree on
25 what you're talking about and don't need to see it

1 before it's offered and admitted, we can do it that
2 way. Or if you want to offer it, you know, via
3 written pleadings and then give time to respond, it's
4 up to counsel.

5 MR. ZUCKER: Are we talking about
6 Mr. Keevil's affidavit?

7 JUDGE PRIDGIN: Right.

8 MR. ZUCKER: I would like to see it, I
9 guess, before --

10 JUDGE PRIDGIN: Then, Mr. Keevil, if you
11 want to just offer it via pleadings then I'll allow
12 Laclède the chance to --

13 MR. KEEVIL: Late-filed Exhibit 14?

14 JUDGE PRIDGIN: Correct. Correct. It
15 will be 14. I'll show that will be late-filed.

16 MR. ZUCKER: And I believe Commissioner
17 Rupp asked for some information. We would like to
18 late file that.

19 JUDGE PRIDGIN: Certainly. I think that
20 would be Exhibit Number 5. Then I'll allow time to
21 respond. All right. Thank you. Anything further?

22 MR. KEEVIL: The only thing I would say,
23 Judge, is when you do set the briefs, bear in mind
24 that there are several major intervening holidays
25 coming up.

1 JUDGE PRIDGIN: Understood.

2 MR. ZUCKER: And I'm fine with that too.

3 JUDGE PRIDGIN: I want to accommodate
4 that, absolutely.

5 MR. KEEVIL: We finally agree on
6 something, Mr. Zucker.

7 MR. ZUCKER: Well, we also agreed on the
8 100 million.

9 MR. KEEVIL: There you go.

10 MR. ZUCKER: One other thing, the motion
11 to amend the September 29th order, you'll take that up
12 at some point, I assume?

13 JUDGE PRIDGIN: Certainly. I mean, the
14 Commission will rule on that either in agenda or in
15 the Report and Order certainly.

16 All right. Anything further?

17 All right. Hearing nothing, we will go
18 off the record. That concludes the hearing in
19 GF-2015-0181. Thank you. We're off the record.

20 (Whereupon, the hearing was concluded at
21 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. Taylor

Tracy Thorpe Taylor, CCR



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