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 1                    STATE OF MISSOURI

 2                PUBLIC SERVICE COMMISSION

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 4               TRANSCRIPT OF PROCEEDINGS

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 6                   Evidentiary Hearing

 7                    December 12, 2017

 8                 Jefferson City, Missouri

 9                        Volume 18

10   In the Matter of Laclede Gas        )
     Company's Request to Increase Its   ) GR-2017-0215
11   Revenue for Gas Service             )

12
     In the Matter of Laclede Gas Company)
13   d/b/a Missouri Gas Energy's Request ) GR-2017-0216
     to Increase Its Revenues for Gas    )
14   Service.

15
                      NANCY DIPPELL, Presiding
16                     REGULATORY LAW JUDGE

17                    DANIEL Y. HALL, Chairman
                       WILLIAM KENNY,
18                     SCOTT RUPP,
                       STEPHEN STOLL,
19                     MAIDA J. COLEMAN,
                            COMMISSIONERS.
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22   REPORTED BY:
     Sheryl A. Pautler, MO-CCR 871, IL-CSR 084-004585
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 1        A P P E A R A N C E S

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 1   (Whereupon the hearing resumed at 8:36 a.m.)

 2   P R O C E E D I N G S

 3   JUDGE DIPPELL: We can go on the record. Good

 4   morning. It is December 12, 2017, and we are returning for

 5   a continuation of cases GR-2017-0215 and 2000-2017 -- I'm

 6   sorry -- GR-2017-0216. And my name is Nancy Dippell. And

 7   I am the law judge presiding today and every day of this

 8   hearing. And we are getting ready to begin again with gas

 9   inventory and carrying charges.

10   Are there any preliminary matters before we

11   begin? I'm not seeing any. All right then. We will begin

12   with opening statements on gas inventory and carrying

13   charges. Can we begin with the Company, Spire.

14   MR. PENDERGAST: Thank you, your Honor. And

15   good morning. The issue we're addressing this morning is

16   whether and how Laclede's storage inventory costs should be

17   recovered. For -- since 2005, those storage inventory

18   costs for Laclede have been recovered through its PGA. And

19   that was a change that was made in 2005. And it put

20   Laclede in a different place than MGE and every other gas

21   utility in the state of Missouri that has their storage

22   inventory costs recovered through base rates at their

23   overall cost of capital.

24   When we were confronted with trying to make

25   our tariffs and regulatory practices more consistent now

1   that we own MGE, we had a decision on what we should do

2   with storage inventory costs and their treatment to make

3   them consistent.

4   Now, you may have heard yesterday that there

5   was no short term debt included in MGE's last rate case

6   because it has its storage inventory costs recovered

7   through the PGA. That is not correct. MGE has always had

8   its storage inventory costs recovered through base rates.

9   And we chose to go ahead and say Laclede's should be

10   recovered through base rates as well in order to be

11   consistent.

12   Now initially, the Commission Staff thought

13   that was a fine idea. It submitted testimony saying that,

14   yes, we think that storage inventory costs belong in base

15   rates citing the fact that MGE's are in base rates and so

16   are every other utility's in base rate. So this would be

17   bringing Laclede back into kind of the main stream fold of

18   how this is treated for MGE and other utilities.

19   So we were in agreement at that time. And

20   then in surrebuttal testimony, Staff said I've got a caveat

21   to having it included in base rates. It needs to be

22   included in base rates at a short-term debt cost, citing

23   Mr. Murray and his short-term debt proposal for our capital

24   structure.

25   A couple problems with that. First of all,

1   we've gone from treating Laclede like every other utility,

2   to treating Laclede and MGE like no other utility. And now

3   we're talking about let's go ahead and put it in your base

4   rates -- in your rate base. But instead of giving you an

5   overall return on it like everybody else gets, we'll give

6   you a short-term debt cost that will be frozen for those

7   inventories.

8   Now, what does that mean? What that means is

9   because it's in base rates instead of the PGA, if there are

10   increases and interest rates that would affect carrying

11   costs, we will bear the full risk of that. If there are an

12   increase of gas prices -- which, you know, we've been at

13   relatively low levels, but who knows what the next four

14   years holds -- we'll be at full risk for that. We won't be

15   able to adjust things in order to go ahead and reflect

16   those additional costs.

17   And what do we get for undertaking these

18   risks. Well, we get a short-term frozen debt rate of about

19   1.5 percent. That's how we're being compensated for taking

20   on these risks. Essentially, we'll give you your cost and

21   you'll get nothing else. And to me, if you're going to say

22   it's in base rates, now I'm going to treat you like other

23   utilities. Ameren's not getting 1.5 percent on it,

24   Summit's not getting 1.5 percent on it. Anybody else that

25   has storage is not getting 1.5 percent for taking on these

1   risks of having their storage inventories in rates.

2   You may also hear, particularly from Public

3   Counsel, that this is a windfall to the company because

4   we're moving it out of the PGA where you have a short-term

5   rate, into base rates where you would normally have an

6   overall cost, that's some kind of windfall. Well, you

7   know, that assumes that gas prices aren't going to increase

8   ever. That assumes that interest rates aren't going to go

9   up ever.

10   And I remember in 2005 when we moved it out of

11   base rates into the PGA and reduced base rates because we

12   were moving it into the PGA, I didn't hear anybody talk

13   about a windfall for the customer. I didn't see anybody

14   express any concern for the fact that customers were having

15   to pay less because we were moving this over into the PGA.

16   Now, OPC has talked about the arguments that

17   yours truly made in support of moving it into the PGA in

18   2005. I suspect that's the start and probably the end of

19   any endorsement for my comments that we'll get in this

20   proceeding. But, you know, Public Counsel also took

21   positions in prior cases that are directly contradictory to

22   what its position is today.

23   You know, you go around long enough, say

24   enough, you know, eventually you're going to go ahead and

25   have different positions. I think the important thing is

1   looking at things today, what is the best approach to take.

2   And if we really wanted to go ahead and have Laclede be

3   consistent with what's done for every other utility in this

4   state, what we should do is we should move these storage

5   inventory costs into base rates, move it into rate base at

6   the overall cost of capital. That's what will go ahead and

7   result in fair and uniform treatment for Laclede. Thank

8   you very much.

9   JUDGE DIPPELL: Are there any questions for

10   Mr. Pendergast?

11   CHAIRMAN HALL: Sometimes you use the term "in

12   base rates," sometimes you use the term "included in rate

13   base." Is there any distinction there?

14   MR. PENDERGAST: No. Well, when I say it

15   should be included in rate base, I'm trying to distinguish

16   it from PGA treatment. But the inclusion in base rates

17   means that if you do what's been done for any other

18   utility, it gets included in rate base.

19   CHAIRMAN HALL: If you include it in rate

20   base, then there is a return on that investment?

21   MR. PENDERGAST: That is correct.

22   CHAIRMAN HALL: Whereas in the PGA, there is

23   no return on the investment.

24   MR. PENDERGAST: That is also correct.

25   CHAIRMAN HALL: So how much money are we

1   talking about?

2   MR. PENDERGAST: I think if you're looking

3   at -- I think Staff and Public Counsel have a calculation.

4   But for Laclede, it would be a revenue requirement of about

5   I think $6 million altogether, 6, $7 million.

6   CHAIRMAN HALL: What was the argument that you

7   made in 2005 that you were so persuasive in?

8   MR. PENDERGAST: Well, I was so persuasive

9   that the only one that was ever persuaded to do it was

10   Laclede Gas. But leaving that aside, what we said was

11   these are gas costs that are included in storage

12   inventories that if you include it in there, you will go

13   ahead and ultimately, if there are increases in interest

14   rates or decreases or increases in gas cost or volumes,

15   that will go ahead and be recognized.

16   And you know, the arguments on the other side

17   is that in addition to it's traditionally been treated as a

18   rate base item and you kind of freeze everything so that

19   you're applying the overall return, that's what you're

20   going to get on those inventories and you're not going to

21   be compensated for these various changes, that's been more

22   of the accepted main stream approach. And now that we're

23   trying to reconcile MGE and Laclede, we propose to go ahead

24   and return to the fold so to speak.

25   CHAIRMAN HALL: Thank you.

1   MR. PENDERGAST: You bet.

2   JUDGE DIPPELL: Thank you, Mr. Pendergast.

3   MR. PENDERGAST: Thank you.

4   JUDGE DIPPELL: Is there an opening from

5   Staff?

6   MR. KEEVIL: Very briefly, Judge. I thought

7   you were taller than that.

8   MR. PENDERGAST: You thought I was taller?

9   MR. KEEVIL: Yeah. I had to raise the mic.

10   May it please the Commission. In this case,

11   Laclede proposed recovery of its natural gas inventory

12   carrying costs by including those inventories in rate base,

13   rather than flowing the cost through the PGA mechanism.

14   Staff agreed with this proposal, so long as the

15   representative level of short-term debt -- excuse me --

16   consistent with the level of gas inventory in rate base is

17   included in the rate making capital structure.

18   Staff also recommends the same treatment for

19   propane inventories. Laclede objects to including

20   short-term debt in their capital structure. Frankly, I'm

21   not sure what their position is concerning the propane

22   inventory. That seems to have fallen by the wayside.

23   Laclede is -- as you heard from

24   Mr. Pendergast, Laclede is the only LDC in the state of

25   Missouri with the current treatment for gas inventory

1   carrying costs through the PGA. Laclede began flowing

2   these carrying costs through its PGA pursuant to a

3   stipulation which covered multiple issues entered back in

4   2005 which contained the typical stipulation language that

5   it was to have no precedential effect.

6   I mention this because the Office of Public

7   Counsel proposes that Laclede continue to flow these costs

8   through its PGA and that this treatment be expanded to MGE.

9   And in the process, has accused Staff of a radical

10   departure from longstanding policy. When, in fact, this

11   so-called policy has only been in effect since 2005

12   pursuant to the stipulation and only for Laclede.

13   Staff's position in this case would actually

14   bring Laclede in line with the treatment of gas inventory

15   carrying costs afforded all other LDCs in Missouri,

16   including MGE.

17   Now, you heard a few moments ago

18   Mr. Pendergast accuse Staff of changing its position in

19   this case. And I heard Mr. Zucker say the same thing last

20   Wednesday. I was as baffled then as I am now. Because if

21   you look at Staff's direct case -- direct file case,

22   Staff's position is and has been since the beginning of

23   this case that short-term debt needs to be included in the

24   capital structure and that the gas inventory should be

25   included in rate base. That's still today what our

1   position is.

2   What Mr. Pendergast and Mr. Zucker take

3   objection to is Staff's position that if short-term debt is

4   not included in capital structure, neither Laclede nor MGE

5   should receive rate base treatment for the natural gas or

6   the propane inventories and these costs should be continued

7   to be flowed through the PGA.

8   Now, Staff will present the testimony of

9   Mr. Dave Sommerer, manager of Staff's procurement analysis

10   unit as its witness on this issue. Mr. Sommerer has been

11   involved in numerous ACA/PGA cases for not only Laclede and

12   MGE, but all the other LDCs in Missouri for several years

13   and can explain this issue to you in detail.

14   I might also mention if you look at the list

15   of issues, there's an issue listed as line of credit fees

16   under this -- I guess I'll call that a sub issue under this

17   broader issue. And basically that -- that one's easy.

18   Because whatever you do on this rate base or PGA treatment

19   issue, determines what you should do on that one as far as

20   we're concerned. If you rate base the gas inventories,

21   then you get rid of the line of credit fees. If you keep

22   the PGA treatment for the gas inventories, then you need to

23   keep the line of credit fees. It's that simple. That

24   issue follows the decision on the primary issue.

25   So with that, I would end. And, like I said,

1   we'll be presenting the testimony of Mr. Sommerer. You're

2   free to obviously ask him whatever questions.

3   Thank you.

4   COMMISSIONER KENNY: I have one quick

5   question.

6   MR. KEEVIL: Yeah.

7   COMMISSIONER KENNY: Currently, does MGE and

8   other gas companies, except for Laclede, they have the gas

9   storage in rate base and do they use short-term debt?

10   MR. KEEVIL: Well, historically they have and

11   they --

12   COMMISSIONER KENNY: What does MGE do right

13   now?

14   MR. KEEVIL: Currently, right now, I don't

15   think they have short-term debt in their capital structure.

16   I could be wrong about that. I would encourage you to ask

17   our witness about that later.

18   COMMISSIONER KENNY: All right. Thank you.

19   JUDGE DIPPELL: Thank you, Mr. Keevil.

20   Is there an opening from Public Counsel?

21   MR. SMITH: Yes. Thank you.

22   Good morning. Ryan Smith for the Office of

23   Public Counsel. Both counsel for Staff and the company

24   spoke about consistency with other utilities. But one

25   thing to consider is the size of Laclede. And now that

1   it's Laclede and MGE, they will be the largest of the gas

2   utilities. So in some ways, they're a leader on this. And

3   consistent treatment for Laclede would be to continue to

4   include these gas inventory carrying charges, gas

5   inventories in the PGA.

6   Chairman Hall had asked a question to counsel

7   about what did Mr. Pendergast say that was so persuasive.

8   Page 15 of Mr. Hyneman's rebuttal testimony includes, I

9   guess a transcript of what Mr. Pendergast had said. In

10 short, he had argued that you'd be charging no more, no

11 less than what the costs actually are, and that carrying

12 costs were integrally related to gas costs as they're

13 already recovered through the PGA.

14   The companies, throughout their testimony,

15 talk about consistency. It's in their testimony. It's in

16 their opening. But in reality the companies are asking to

17 charge rate payors the full cost of capital on gas

18 inventories when it internally only pays 1.5 percent. That

19 is not consistency.

20   What is the cost of that inconsistency? Go to

21 slide. I'm not sure if that can be read. But I believe

22 the Commission should have a copy, a hard copy that should

23 be a little bit easier on the eyes. In short, the cost is

24 about $8 million for the inconsistency or three and a half

25 million dollars for the inconsistency. Let me be clear.

1   MGE does already have this amount in the rate base. So

2   when I say the cost for MGE is about three and a half

3   million dollars, what I mean is three and a half million

4   dollars as between OPC's proposal to include in the PGA and

5   the company's proposal to include in rate base and receive

6   a return of and on that amount. And for Laclede, as you

7   can see, it's about an $8 million ask, combined for about

8   $11 million.

9   OPC recognizes that this cost could be

10 mitigated if the Commission were to change, for example,

11 the capital structure or the rates of return for -- for

12 these companies. And the Commission could go with Staff's

13 number, OPC's number, the company's number. So what these

14 numbers represent are different runs based on if the

15 Commission were to accept different rates of return.

16   These numbers were calculated by Mr. Charles

17 Hyneman. He's a highly qualified CPA, many years of public

18 utility accounting and auditing experience. He'll be able

19 to answer questions on his calculation, the financial

20 impact to rate payors with the company's proposal. He can

21 testify about his rationale for OPC's recommendation.

22 Mr. John Reily, who I don't believe is on the issue list,

23 but did produce one page -- excuse me -- one page of

24 testimony in direct will also be offered on this topic.

25 Mr. Hyneman, however, wrote primarily on this topic, but

1   Mr. Reily will be available for cross-examination or

2   Commission questions.

3   As you can see from these calculations, the

4   company is paying about 1.5 percent for its short-item debt

5   rate. I think that's pretty universally agreed to. That

6   amount, I believe in the company's opening, said that Staff

7   had cited to Mr. Murray in terms of why they were going to

8   use short-term debt. Well, Staff had actually cited to

9   Mr. Glenn Buck's prior testimony. The company's own

10   witness has previously testified that gas inventories are

11   commonly financed with short-term debt.

12   Now, Staff and OPC have a somewhat similar

13   approach in that they think short-term debt is the right

14   rate. However, we do have a different approach in the

15   treatment. OPC believes PGA is the proper mechanism for

16   recovery, while Staff believes that a rate-base treatment

17   is more appropriate.

18   Again, this is a little hard to read, but I

19   did provide copies so hopefully it's easier on the eyes.

20   OPC's position is that if rate-base treatment is given,

21   that the Commission take Staff's approach. That a

22   short-term debt be applied and some short-term debt be

23   adjusted for the capital structure. Mr. Gorman does not

24   have short-term debt, he did not make that recommendation

25   in his capital structure because OPC's position was to run

1   these costs through the PGA.

2   Now, Staff, in its surrebuttal testimony, has

3   as its default position, that if the company's wish --

4   sorry -- if the Commission would like to give the

5   full-weighted average cost of capital to the gas

6   inventories, that it would much prefer that these amounts

7   be recovered through the PGA. That's apparent through the

8   surrebuttal testimony of Mr. Sommerer.

9   So the issue the Commission must decide is the

10   exposure here to rate payors. I think there are different

11   rationales for different proposals. And OPC did want to

12   make the Commission aware of the size of this issue. It's

13   pretty sizable. $8 million for Laclede approximately and

14   $3 million for MGE as between the two proposals.

15   Thank you.

16   JUDGE DIPPELL: Are there any questions for

17   Mr. Smith?

18   COMMISSIONER KENNY: No questions. Thank you.

19   JUDGE DIPPELL: Thank you.

20   Is there an opening by Environment Defense

21   Fund.

22   MS. KARAS: No statement, your Honor.

23   JUDGE DIPPELL: MIEC?

24   MR. MILLS: I have no opening on this issue.

25   Thank you.

1   JUDGE DIPPELL: All right. I think we are

2   ready for our first witness which -- by the company.

3   MR. ZUCKER: Laclede calls Scott Weitzel.

4   JUDGE DIPPELL: Mr. Weitzel, you were

5   previously sworn and will remain under oath during the

6   testimony.

7   THE WITNESS: All right.

8   SCOTT WEITZEL testified as follows:

9   DIRECT EXAMINATION BY MR. ZUCKER:

10   **Q.   Good morning, Mr. Weitzel.**

11   A.   Good morning.

12   **Q.   I'll give you a moment to get yourself set up.**

13   A.   We're good.

14   **Q.   As the judge pointed out, you've been**

15   **previously sworn. Your testimony has been, I guess,**

16   **pending offer into evidence. And so I think pursuant to**

17   **our procedures here, I'll just turn you over for**

18   **cross-examination, if that's all right?**

19   A.   That is all right.

20   JUDGE DIPPELL: Thank you. I am attempting to

21   get the camera to cooperate with me here. So if you'll

22   give me just one moment. There we go. Okay.

23   Is there any cross-examination by Staff.

24   MR. KEEVIL: Very briefly, Judge.

25   CROSS-EXAMINATION BY MR. KEEVIL:

1   Q.   Good morning, Mr. Weitzel.

2   A.   Good morning.

3   Q.   I heard a thing Mr. Pendergast said in his

4   opening statement that MGE does not currently have

5   short-term debt in its capital structure. Do you agree

6   with that?

7   A.   I do, to my knowledge.

8   Q.   Do you know what MGE's capital structure

9   consists of currently?

10   A.   I do not know its 2000 off the top of my head,

11   but its 2013, '14 capital structure that was settled.

12   Q.   Okay. Are you aware in the past MGE's capital

13   structure has contained short-term debt?

14   A.   I am not aware.

15   Q.   Okay. Does that -- you just don't know or --

16   A.   I don't know.

17   Q.   Okay.

18   MR. KEEVIL: I think that's all the questions

19   I have, Judge. Thanks.

20   JUDGE DIPPELL: Thank you.

21   Public Counsel?

22   MR. SMITH: Yes, Judge. Thank you.

23   CROSS-EXAMINATION BY MR. SMITH:

24   Q.   Mr. Weitzel -- am I saying that correctly?

25   A.   Yes.

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 1            Q.    Okay.   Is it your understanding that Laclede

 2   has not historically included storage inventory in rate

 3   base as gas inventories?

 4            A.    Since 2005.  But has prior to that.

 5            Q.    And since 2005, that's about 12 years,

 6   correct?

 7            A.    Correct.

 8            Q.    And have you read Mr. Hyneman's surrebuttal

 9   testimony?

10            A.    I have.

11            Q.    And did you read that quote from

12   Mr. Pendergast in the 2005 case?

13            A.    Yes, I read that.

14            Q.    And Mr. Pendergast is still representing

15   companies today, correct?

16            A.    As outside counsel.

17            Q.    However, today, the companies are seeking

18   rate-base treatment for those inventories, correct?

19            A.    That -- that is correct.

20            Q.    Isn't that inconsistent with the previous

21   treatment for those costs?

22            A.    It's -- it's a different treatment of those

23   costs.

24            Q.    Would you agree that Laclede and MGE are the

25   largest combined gas utility in the state of Missouri?
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1   A.   That's correct.

2   Q.   **Was Laclede the largest investor-owned utility**

3   **in the state of Missouri at the time it had gas inventories**

4   **in the PGA?**

5   A.   Yes.

6   Q.   **You were here previously, I assume, when I**

7   **made my opening statement?**

8   A.   Correct.

9   Q.   **Did you get a copy of those numbers?**

10   A.   I glanced at them. I did not get a copy.

11   Q.   **Could I hand you a copy?**

12   A.   Sure.

13   Q.   **Okay. And these numbers were similar to that**

14   **which was included in Mr. Hyneman's testimony; isn't that**

15   **correct?**

16   A.   Yes.

17   Q.   **They've been updated, however. Do you see**

18   **that?**

19   A.   Yes.

20   Q.   **And I believe your testimony when evaluating**

21   **those numbers, was they were not necessarily correct; is**

22   **that true?**

23   A.   In the fact that our capital structure was

24   used. But this sheet has everyone's position. So this is

25   a representation.

1   Q.   Okay. So those numbers would be correct based

2   on your review of the data, your review of the party's

3   positions, your review of the testimony?

4   A.   Without researching everything, this -- this

5   looks like a legitimate analysis.

6   MR. SMITH: Okay. I think based on that, I'd

7   like to offer this into evidence. I believe it was

8   previously marked as a demonstrative exhibit. I believe a

9   foundation has been laid to offer it into evidence at this

10   time.

11   MR. ZUCKER: Would that be with the

12   clarification that the amount shown for MGE is not an

13   incremental impact, since that's already included in MGE's

14   base rates?

15   MR. SMITH: Yeah, I believe so. This would be

16   offered for the purpose of showing the difference between

17   proposals.

18   JUDGE DIPPELL: I didn't actually give it an

19   assigned number earlier. But I can assign that

20   Exhibit 429. Would there be any objection to Exhibit 429.

21   (Whereupon Exhibit 429 was marked for

22   identification.)

23   THE WITNESS: And one -- one clarification to

24   this, this is talking about increases from gas inventory

25   from PGA to rate base. And currently, you know, if we're

1   looking at Laclede, it's got $7.8 million. But currently

2   through -- we are currently collecting millions of dollars

3   for gas inventory carrying costs. So I think a better

4   representation would be to also, you know, show currently

5   what customers -- what we're currently recovering, which is

6   approximately $4 million.

7   You know, so that -- it would be good to have

8   that representation that money is currently being

9   recovered. I think it's about $4.1 million, I think should

10   be noted on here because that makes that $7.8 million look

11   less impactful.

12   **Q.   (By Mr. Smith)   I mean this increase, however,**

13   **would pertain to this rate case specifically, correct?**

14   A.   Correct.

15   MR. SMITH: Okay. I am agreeable to the

16   caveat the company suggested. Subject to that, I would

17   offer this exhibit.

18   JUDGE DIPPELL: Would there be any objection

19   to Exhibit 429?

20   MR. KEEVIL: Judge, it's not an objection to

21   Exhibit 429. But I have a question regarding this -- I've

22   never seen a witness object to an exhibit before. So I'm

23   not entirely sure how to proceed. I don't know that I

24   completely understand the caveat, so to speak, that

25   Mr. Weitzel added to the numbers shown on the exhibit.

1   I understand that Laclede is currently

2   recovering carrying costs through its PGA mechanism. But I

3   thought the point of this exhibit was to show the --

4   because there's a -- what is it called -- short-term debt

5   rate of 1.5 there shown, I thought showing the net increase

6   in the rate of return positions. And Mr. Smith perhaps can

7   correct me if I'm wrong. I thought that was already built

8   into your exhibit.

9   MR. SMITH: Yes, I believe it is.

10   MR. KEEVIL: Okay. Could you explain that?

11   JUDGE DIPPELL: I'm going to -- I'm going to

12   allow Spire to clarify that on redirect.

13   MR. KEEVIL: Okay.

14   MR. ZUCKER: I think that's fine, your Honor.

15   MR. SMITH: Or if you prefer, we can hold on.

16   JUDGE DIPPELL: It appears that -- and don't

17   believe that Mr. Weitzel was actually objecting to the

18   exhibit. He was further testifying, perhaps without a

19   question pending. But the same, he was testifying about

20   this exhibit. And I'll let Mr. Smith also clarify that

21   further if he'd like.

22   And but seeing no actual objection to the

23   exhibit, then I'll go ahead and admit Exhibit 429.

24   (Whereupon OPC Exhibit 429 was received into

25   evidence.)

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 1              JUDGE DIPPELL:  Go ahead, Mr. Smith.

 2              MR. SMITH:  Thank you, Judge.

 3         Q.  (By Mr. Smith)  Do you dispute that Laclede

 4    through Mr. Buck has represented in prior testimony that

 5    these gas inventories are commonly financed with short-term

 6    debt?

 7         A.   I can't speak to his 30-plus years of

 8    experience in what he said in testimony.  I can speak to

 9    his comment yesterday on capital structure where at some

10    point in time, short-term debt may have been used in gas

11    inventory, but not in this case.

12         Q.   Do you disagree that gas inventories are

13    commonly financed with short-term debt?

14         A.   According to Buck's Rebuttal Schedule DWBR1,

15    it is not in our case.

16         Q.   I guess that's not my question.

17         A.   Okay.

18         Q.   Are gas inventories commonly financed with

19    short-term debt?

20         A.   Based on his schedule, no.

21         Q.   Okay.  So I guess do you have knowledge beyond

22    his schedule?

23         A.   I am not the capital structure expert.  We

24    heard many experts on that deal yesterday.

25         Q.   Okay.  Just to ask -- sorry to ask my question
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1   again. Do you have knowledge beyond his schedule on the

2   financing of gas inventories?

3   A.   I do not.

4   Q.   You don't. Okay. Can I ask what would be the

5   customer benefit of -- of this incremental difference, this

6   rate-base treatment?

7   A.   Can you repeat the question?

8   Q.   Yeah. What -- what would be the benefit to

9   customers -- what would -- based on the company's proposal,

10 how would that benefit customers?

11   A.   Storage is a long-term asset. It's a

12 reliability asset that we think is critical to our

13 long-term planning for reliability. And with that

14 long-term outlook, with it being important for reliability,

15 we think that should be financed with long-term debt.

16   Q.   I guess -- you're correct. Is that a benefit

17 to customers?

18   A.   That it's in our rate base because it's a

19 reliability long-term asset, I think it is. We're also

20 proposing to put this in at a low cost gas environment. So

21 there's benefit there. Plus, you know, we're starting to

22 bear the risk of gas costs and financing costs and, you

23 know, getting the PGA more in line with -- with Staff's

24 preference of gas costs.

25   Q.   I know you said you didn't have specific

1 knowledge beyond the schedule. But are you sure that gas

2 inventories would be a short-term asset? Are you basing

3 that off the schedule or what you are basing that off of?

4   A.   I'm basing it off -- the schedule does not

5 exclude natural gas inventories.

6   Q.   So based on that, you consider short-term gas

7 inventories as a long-term asset?

8   A.   Short term -- I don't believe I said

9 short-term debt is a long-term asset. Can you repeat the

10 question?

11   Q.   Yeah. Is it your testimony that gas

12 inventories are a long-term asset?

13   A.   They're a long-term strategic asset for our

14 rate payors.

15   Q.   Do you know how they're classified for

16 accounting purposes on the books and records?

17   A.   I am not a CPA and I don't know the accounting

18 of those assets.

19   Q.   So that -- that opinion you just gave, what's

20 the foundation for that opinion?

21   A.   That's the opinion of our company and

22 reliability for our customers.

23   Q.   Well, if you haven't -- if you don't have

24 knowledge on the accounting treatment, how do you know it's

25 the opinion of your company?

1   A.   I'm not commenting on the accounting

2   treatment. You know, unfortunately, this issue became two

3   things. It's either gas and rate base and now financing is

4   involved. That's kind of why Mr. Sommerer and I are

5   involved it this. It's evolved more to a capital structure

6   issue. I'm not an accountant and I'm not our capital

7   structure expert.

8   MR. SMITH: Okay. I don't think I have any

9   further questions.

10   Thank you.

11   JUDGE DIPPELL: Thank you. Is there any cross

12   by MIEC.

13   MR. MILLS: No questions.

14   JUDGE DIPPELL: Environmental Defense Fund?

15   MS. KARAS: No questions.

16   JUDGE DIPPELL: Are there any questions from

17   the Bench for Mr. Weitzel?

18   CHAIRMAN HALL: No questions.

19   COMMISSIONER KENNY: No questions. Thank you.

20   JUDGE DIPPELL: Is there redirect by Spire?

21   MR. ZUCKER: Yes, your Honor. Thank you.

22   REDIRECT EXAMINATION BY MR. ZUCKER:

23   **Q.   Mr. Weitzel, does Laclede and MGE currently**

24   **treat gas storage inventories differently?**

25   A.   Yes.

1   Q.   And is it -- has it been Laclede's position in

2   that case that they would like to treat issues the same

3   where feasible between the two companies?

4   A.   That is their goal.

5   Q.   And so in -- in achieving consistency -- well,

6   let me ask this: What do the rest of the gas utilities in

7   Missouri do for -- how do they treat gas storage

8   inventories?

9   A.   Based on conversation with some of our peers

10   and testimony from Staff, just about every, if not every,

11   gas utility in Missouri has storage in their rate base.

12   Q.   And assuming it's a long-term asset, as you

13   testified, would it make sense that it be financed with --

14   financed with long-term debt or equity?

15   A.   Yes.

16   Q.   Did Laclede include propane in -- in -- with

17   the rate base?

18   MR. KEEVIL: Objection. There were no

19   questions asked about propane.

20   JUDGE DIPPELL: All right.

21   MR. KEEVIL: I'll be glad to ask a question

22   about it, though, if they want to get into it.

23   MR. ZUCKER: I heard it. I know I heard

24   propane.

25   JUDGE DIPPELL: It was in opening statements,

1   I believe.

2   I'll sustain the objection.

3   Q.   (By Mr. Zucker) Okay. So do you have

4   Exhibit 429 still in front of you?

5   A.   Is this the one from Staff or OPC.

6   Q.   From OPC. Yes, sir.

7   A.   Yes.

8   Q.   Okay. And the amount of gas inventory is how

9   much on this schedule for Laclede?

10   A.   82 million.

11   Q.   And if the -- if gas inventory goes into rate

12   base and the cost of gas goes up such that the value is

13   more than the 82 million, will -- what will happen to

14   the -- to Laclede's return?

15   A.   The 82 million will be constant and Laclede

16   will absorb any changes in the gas market.

17   Q.   So if for -- do you know what price of gas the

18   82 million is based on?

19   A.   In the low $3 approximately.

20   Q.   Low $3. So if gas goes to let's say $6, do

21   you know what would happen to the return?

22   A.   It would stay constant and we'd be exposed to

23   the increase in gas price.

24   Q.   So the return would go down?

25   A.   Correct.

1   Q.   What if the cost of capital would go up,

2   would -- would there be an adjustment for Laclede's return?

3   A.   No.

4   Q.   And looking at the bottom half of that chart

5   at MGE -- well, look at the bottom line there where it says

6   total Lac and MGE increase in revenue requirement due to

7   change.

8   A.   Yes.

9   Q.   MGE already has gas storage inventory in rate

10   base, correct?

11   A.   That is correct.

12   Q.   So the numbers for MGE are not a change, are

13   they?

14   A.   No. In fact, MGE's went down a little bit

15   with the price of gas because of their -- from their

16   current rate base.

17   Q.   Okay. Okay. So once again, if the price of

18   gas goes up for Laclede, will customers be protected from a

19   change in these costs?

20   A.   Yes.

21   Q.   If the gas was in the PGA, would customers be

22   protected?

23   A.   If the carrying cost was in the PGA?

24   Q.   Yes.

25   A.   They would pay for those costs.

1   Q.   The customer would?

2   A.   Yes.

3   Q.   And gas price would change. Would the PGA

4 change?

5   A.   Correct.

6   Q.   So this kind of locks in the price of gas; is

7 that what you're saying?

8   A.   It locks in the price of a storage asset

9 requesting to be put in rate base.

10   Q.   Like a hedge?

11   A.   Sure.

12   Q.   And does the Commission encourage hedging?

13   A.   When it comes to PGA and gas costs and

14 potentially other items.

15   MR. ZUCKER: All right. Thank you,

16 Mr. Weitzel. No further questions.

17 QUESTIONS BY JUDGE DIPPELL:

18   Q.   Mr. Weitzel, let me ask you one more question

19 before you step down about Exhibit 429. I just want to be

20 clear of the -- your clarification for that exhibit was

21 that the number for LAC was not in fact total due to the

22 change because MGE already had the gas inventory?

23   A.   Correct. And in this title, it says revenue

24 requirements increase from change in gas inventory from PGA

25 to rate base. And my -- my only point was if we're

1   comparing gas inventory from PGA, the dollar amounts that

2   we're currently recovering in the PGA should probably be

3   represented on the graph as some sort of baseline or

4   acknowledgment since that's in the main title.

5   JUDGE DIPPELL: Thank you.

6   MR. SMITH: Judge, if I may, I think your

7   question was LAC. And I think MGE is the one who has it

8   currently in rate base, just to clarify that.

9   JUDGE DIPPELL: You're correct. I didn't read

10   the entire thing. It said LAC and MGE.

11   Are there any other questions based on my

12   clarification? All right. Seeing none, Mr. Weitzel, you

13   may step down.

14   THE WITNESS: Thank you.

15   JUDGE DIPPELL: And I also did not mark your

16   other slide as a demonstrative exhibit from OPC's opening.

17   So I'm going to assign that Exhibit No. 430, if you could

18   give a copy of that to the court reporter also.

19   (Whereupon OPC Exhibit 430 was marked for

20   identification.)

21   MR. SMITH: Yes.

22   JUDGE DIPPELL: I think we're ready for the

23   company's next witness.

24   MR. PENDERGAST: Your Honor, I think by

25   agreement between the parties, we're going to waive --

1   JUDGE DIPPELL: Can you talk into your

2   microphone, Mr. Pendergast.

3   MR. ZUCKER: Well, we talked this morning

4   about moving things along by waiving witnesses who didn't

5   have much testimony. And so Mr. Lobser had very little.

6   MR. KEEVIL: He needs to take the stand.

7   MR. PENDERGAST: That's fine.

8   MR. ZUCKER: That's fine. So we'll call Eric

9   Lobser.

10   JUDGE DIPPELL: As we get to witnesses that

11   you can -- that you've decided to waive cross, we'll see if

12   the Commission has any questions and then take it from

13   there.

14   Mr. Lobser, have you previously testified?

15   THE WITNESS: Yes.

16   JUDGE DIPPELL: You did the first day, didn't

17   you.

18   THE WITNESS: Yes.

19   JUDGE DIPPELL: Then you remain under oath for

20   our purposes. You may continue.

21   MR. KEEVIL: Thank you, Judge.

22   ERIC LOBSER testified as follows:

23   DIRECT EXAMINATION BY MR. ZUCKER:

24   Q.   **Mr. Lobser, you appear to have been ready to**

25   **be sworn again. As we've been doing, I'll just turn**

1   **Mr. Lobser over for cross. Thank you.**

2   JUDGE DIPPELL: Thank you.

3   Is there cross-examination then by Staff?

4   MR. KEEVIL: Unfortunately, yes, occasioned by

5   Mr. Weitzel's testimony.

6   CROSS-EXAMINATION BY MR. KEEVIL:

7   **Q.   Good morning, Mr. Lobser.**

8   A.   Good morning, Mr. Keevil.

9   **Q.   I thought I heard Mr. Weitzel earlier say this**

10   **morning that gas inventory is a long-term asset. Did you**

11   **hear him say that?**

12   A.   Yes. I think he was describing --

13   **Q.   Do you agree with that?**

14   A.   I would agree in the non-accounting sense of

15   the term, that it's a long-term asset to meet the

16   reliability needs of our customers.

17   **Q.   How long -- your gas inventory is generally**

18   **cycled in like a one-year period, is it not, at least**

19   **that's the objective?**

20   A.   No. A good deal of our inventory, especially

21   at Lang, we cycle more frequently, we draw down a little

22   bit and then reinject it so that we can maintain --

23   **Q.   Okay. So it's cycled more frequently than a**

24   **one-year period?**

25   A.   Not the full amount, no. A little bit is used

1   to meet peak demand needs. And as you use that, then the

2   pressure of the inventory comes down and deliverability

3   comes down. So when you have the opportunity, you

4   reinject. And so it tends to stay at a relatively full

5   level most of the year. But the other component of that

6   inventory is cushion gas which --

7   Q.   **Right. We're not talking about --**

8   A.   Well, that's part of the dollars we're talking

9   about --

10   Q.   **Because --**

11   JUDGE DIPPELL: One at a time, please.

12   Q.   **(By Mr. Keevil) Mr. Lobser, cushion gas is and**

13   **always has been in rate base, has it not?**

14   A.   The amount of gas that was used to --

15   Q.   **Just answer yes or no. Is cushion gas in rate**

16   **base?**

17   A.   What is your definition of cushion gas?

18   Q.   **What you just said. I mean the amount of**

19   **gas --**

20   A.   I was trying to explain what I said and you

21   interrupted me.

22   Q.   **No. You were going off on some other tangent.**

23   **Cushion gas, as I understand it, is the amount of gas that**

24   **is not pulled out of the storage field, but is left there**

25   **for operational purposes.**

1   A.   My definition of it is there are two elements

2   of it. Portions of it used to develop the field, which is

3   part of the asset and that is in rate base. Then there's

4   also a non-current portion which can have impacts on the

5   working gas capacity of the field and so we try and avoid

6   ever going into that. So that tends to stay constant year

7   after year after year. That portion, that non-current

8   portion, I believe is part of the dollars that were shown

9   by OPC and they're part of our proposal to put into rate

10   base from the PGA.

11   **Q.   What FERC cap number are you talking about**

12   **there, sir?**

13   A.   I don't know.

14   **Q.   So going back to my original question**.

15   A.   Yes.

16   **Q.   You do not consider gas inventory to be a**

17   **short-term asset?**

18   A.   For means of meeting the reliability needs of

19   our customers, it's something that we maintain year after

20   year, like inventories in our warehouse. And we use a

21   13-month average to assess what the appropriate level is

22   for putting that into rate base as a long-term asset.

23   **Q.   I don't think you answered my question. Do**

24   **you consider it a short-term asset or a long-term asset,**

25   **gas inventory?**

1   MR. ZUCKER: I'm going to object. I think

2   he's answered the question a couple of times.

3   JUDGE DIPPELL: I don't believe he actually

4   did either. So I'm going to let him answer the question.

5   THE WITNESS: Is the question from an

6   accounting basis or is the question from a natural gas

7   distribution basis?

8   **Q. (By Mr. Keevil) Accounting.**

9   A.   On an accounting basis, it would be a

10   short-term asset, a current asset.

11   **Q.   Okay. In fact, in previous cases, Laclede**

12   **witnesses have testified to gas inventory being a**

13   **short-term asset for accounting purposes?**

14   A.   Yeah. I think that was opposed by OPC as

15   another tracker. But yes, other witnesses have proposed

16   that.

17   **Q.   And are you aware -- well, let me rephrase it.**

18   **Do you agree that in past cases, not**

19   **currently, but previously to Laclede's ownership of MGE,**

20   **that MGE had short-term debt in its regulatory rate making**

21   **capital structure?**

22   A.   I'm not aware of it. I don't doubt that it

23   could have sometime in the past. But I'm not aware of it.

24   MR. KEEVIL: Okay. May I approach, your

25   Honor?

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 1                 JUDGE DIPPELL:  Yes.

 2                 MR. KEEVIL:  I only have one copy.  This is an

 3      order from GR-2009-0355.  It's my only copy.  I apologize.

 4           Q.   (By Mr. Keevil)  Mr. Lobser, let me hand you

 5      this and see if you can confirm it is what I just

 6      represented it to be.

 7           A.   Yes, GR-2009-3055.

 8           Q.   Thank you.  And turning to Page 19 and 20 of

 9      that order, I'd like you to take a look at that and tell me

10      if under the findings of fact, conclusions of law section

11      over here.

12           A.   I found it here.

13           Q.   Yeah.  If you can determine whether MGE had

14      short-term debt in its capital structure as a result of

15      that Commission order.

16           A.   For the 2009 case?

17           Q.   Yeah.

18           A.   Okay.  I'm sorry.  They're talking about the

19      short-term debt rate.  I'm trying to pick up where there's

20      a percentage that's in capital structure.  I do see the

21      short-term rate that they note above of 5.92 percent for

22      their short-term rate and long-term rate at 6.258.  Doesn't

23      say what percentage of the capital structure in that

24      section.

25           Q.   Let's get back here.  We may have to find what
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1   the general issue was. Appears -- Page 11.

2   A.   Okay.

3   Q.   There's an issue stated there what capital

4   structure should be used for determining MGE's rate of

5   return.

6   A.   Yes.

7   Q.   Which one of the -- it's a preceding issue to

8   the decision over here on Page 17 what long --

9   A.   Yeah.

10   Q.   I'm sorry. Go ahead, Mr. Lobser. You can

11   read that. The issue on Page 17, what long-term and

12   short-term cost of debt should be used for determining

13   MGE's rate of return. Then flipping over to where you read

14   previously, it talks about the 5.92 short-term cost of

15   debt, does it not?

16   A.   Correct.

17   Q.   Would that not indicate that in that case --

18   A.   Well, if it's multiplied zero percent

19   short-term debt, then there wouldn't be a cost of capital.

20   So that's what I was trying to understand is what

21   percentage of capital structure was a short-term debt.

22   Q.   Oh, what percent. You think they would have

23   taken the time to bother to determine what the cost was if

24   there was no --

25   A.   I don't know what was in their mind.

 1   MR. KEEVIL: Judge, I'd ask that Commission

 2   just take official notice of report and order in

 3   GR-2009-0355 issued February 9, 2010 in the matter of MGE

 4   tariff filing.

 5   JUDGE DIPPELL: Would there be any objection

 6   to the Commission taking official notice of that report and

 7   order.

 8   MR. ZUCKER: No, your Honor.

 9   JUDGE DIPPELL: Okay. I will mark that --

10   let's see -- mark that as Staff Exhibit No. 271. And,

11   Mr. Keevil, if you could get copies of that made maybe by

12   the end of the day.

13   MR. KEEVIL: Sure. Thank you, Judge. No

14   problem.

15   JUDGE DIPPELL: You can give one to the court

16   reporter.

17   (Whereupon Staff Exhibit 271 was marked and

18   received into evidence.)

19   MR. KEEVIL: That's all the questions I have,

20   Judge. Thank you.

21   JUDGE DIPPELL: Okay. Thank you. Are there

22   any questions by Public Counsel.

23   MR. SMITH: No.

24   JUDGE DIPPELL: MIEC?

25   MR. MILLS: No, thank you.

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 1                    JUDGE DIPPELL:  Environmental Defense Fund?

 2                    MS. KARAS:  No questions, your Honor.

 3                    JUDGE DIPPELL:  Are there questions from the

 4       Bench for Mr. Lobser?

 5                    CHAIRMAN HALL:  Yes.

 6       QUESTIONS BY CHAIRMAN HALL:

 7            Q.    Good morning.

 8            A.    Good morning, Chairman.

 9            Q.    Would you agree that typically rate base is

10       comprised of long-term assets?

11            A.    There's elements in rate base related to

12       working capital.  Working capital is typically current or

13       short-term assets.

14            Q.    Such as?

15            A.    Prepaid other inventories that would relate to

16       like what we have in our warehouse.

17            Q.    What you have in your warehouse; what do you

18       mean?

19            A.    Well, we have parts and materials for part of

20       our distribution system and tools.

21            Q.    And those are -- those are -- you called them

22       working capital?

23            A.    Yes, working capital.

24            Q.    How do you distinguish working capital from

25       either short-term or long-term assets?
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1   A.   For accounting purposes, working capital would

2   be short-term assets.

3   **Q.   Why is that?**

4   A.   Because they could be extinguished within the

5   year.

6   **Q.   Any other examples of short-term assets that**

7   **are in rate base?**

8   A.   I believe customer deposits, that those are an

9   offset to rate base. I believe those would be considered a

10   short-term liability. And so, you know, working capital

11   tries to assess sort of overall assets and liabilities of a

12   current nature.

13   **Q.   Okay. Any other examples you can think of?**

14   A.   I'll probably remember them when I sit down.

15   But I think there are other elements to it, but I can't

16   think of them.

17   **Q.   So in other words, it's not -- from your**

18   **prospective, it's not unusual to have some short-term**

19   **assets in rate base?**

20   A.   Correct.

21   **Q.   In fact, it's customary?**

22   A.   Correct.

23   **Q.   I'm sure you understand probably far better**

24   **than me the different positions taken by Staff and OPC on**

25   **this issue?**

1   A.   I believe so.

2   Q.   **Okay. Not from a numbers prospective, but**

3   **from a policy prospective, which do you think makes more**

4   **sense?**

5   A.   These are costs that the company incurs to

6   meet the reliability needs of our customers year in and

7   year out, decade in and decade out. That, you know, we

8   bear the cost of financing those. And there's a

9   significant portion of those that we maintain year round.

10 And we use a 13-month average to adjust for the -- kind of

11 the ups and downs. And so we're not asking for recovery of

12 our peak amounts, but these are costs that we incur to meet

13 the needs of our customers.

14   And from a policy point of view, meeting the

15 needs of the customers is the benefit. The ability to do

16 so that also maintains costs at a relatively consistent

17 level, I think is also a benefit. But from the company

18 standpoint, having the opportunity to have return on its

19 costs is also in the interest of regulatory policy.

20   Q.   **Okay. Let me rephrase the question. Staff is**

21 **taking the position that these costs can be moved to rate**

22 **base but only if short-term debt is included in the capital**

23 **structure. OPC is taking the position that the storage**

24 **costs should run through the PGA. My question for you is**

25 **from a policy prospective, which makes more sense? And**

1   maybe the word policy is incorrect. Maybe what I should

2   say is from a regulatory prospective, what makes more

3   sense?

4   A.   I would -- I guess my understanding of Staff's

5   position is regardless, they believe it should be in rate

6   base from a policy prospective. And I would agree with

7   that. That would be consistent with other utilities in the

8   state. A lot of what we have proposed in this rate case is

9   aligning and making more consistent how we do business

10   between Laclede and MGE, so from a company policy

11   prospective. From a regulatory prospective, I think that's

12   the most consistent approach, is to put it into rate base.

13   I think Staff's question that came up in

14   surrebuttal, but was never discussed in direct or rebuttal

15   testimony, was whether this should only get short-term debt

16   recovery if it's part of rate base.

17   Q.   So I still haven't heard an answer. If you

18   had to choose between Staff and Public, you would take --

19   A.   I would take Staff's position that this

20   belongs in rate base.

21   Q.   Even if that required only getting short-term

22   debt carrying costs?

23   A.   I don't believe that was their position

24   initially. But if the requirement was that it only gets

25   short-term rates, then I think that would then not fairly

1   compensate the company for the costs and the risks that it

2   would -- so I wouldn't agree with the --

3   Q.   **Okay. Which one do you hate more?**

4   A.   There's so much to choose from. I think

5   they're two separate questions on the regulatory policy of

6   how we should treat gas inventory, whether it's in rate

7   base or whether it's in the PGA. Whether the

8   capitalization of the company should include short-term

9   interest, I think is a separate question. Trying to

10 combine those two and say that you can only take one policy

11 position if you take the other policy position, it would be

12 hard for me to determine which approach I dislike more.

13   CHAIRMAN HALL: I have no further questions.

14   MR. KEEVIL: Just for clarification, there

15 seems to be some disagreement between Mr. Lobser and the

16 Chairman as to what the Staff's position actually is. I

17 just wanted to confirm that the Chairman did correctly

18 understand the Staff's position, rather than Mr. Lobser

19 here.

20   Thank you.

21 QUESTIONS BY COMMISSIONER KENNY:

22   Q.   **Good morning, Mr. Lobser.**

23   A.   Good morning, Commissioner.

24   Q.   **I realize in stipulation agreements about**

25 **being give and take to decide how things are taken. But**

1   prior to 2005, how did Laclede treat their storage

2   inventory costs?

3   A.   It was in rate base.

4   Q.   It was in rate base. And what was -- was

5   there a short-term debt included?

6   A.   I don't believe so. But, you know, prior to

7   2005, we still had 170 years of history, so I can't confirm

8   all the way back. Sorry. 140 years. My apologies.

9   Q.   You're forgiven. MGE, currently their storage

10   inventory costs are in rate base?

11   A.   Correct.

12   Q.   How is the -- do they have short-term debt

13   associated with that?

14   A.   No. The 2013, I think even though it was a

15   settled case, the proposals were not to have that

16   short-term debt in our capital structure.

17   Q.   Okay. But it's a settled case. So currently

18   it's in rate base and there's no classification for

19   short-term debt?

20   A.   Correct.

21   Q.   So this would be a deviation -- if we accept

22   Staff's proposal, this would be a deviation from what MGE

23   is currently doing?

24   A.   Correct.

25   Q.   So overall -- overall, the company Spire East

1   and West would have a revenue loss? Because you'd lose

2   that -- instead of having the flow of rate base, you'd be

3   at 1.5 percent. Would that be --

4   A.   It would be a revenue reduction and costs that

5   weren't being recovered the same way they were before. So

6   yes, that's correct.

7   Q.   So from today to tomorrow, you'd suffer a

8   revenue reduction if we choose what Staff is doing?

9   A.   That's correct.

10   Q.   Overall, you're going from a PGA to a return

11 in rate base so that would offset some of that lose.

12 Because what's the percentage difference of the company's,

13 about 60 percent greater Laclede?

14   A.   Comparing them in terms of size?

15   Q.   Yeah, size.

16   A.   It's about 60/40. So I don't know if it's

17 significantly different for gas inventory, but that's a

18 decent approximation.

19   COMMISSIONER KENNY: Okay. Thank you.

20   JUDGE DIPPELL: All right. Is there any

21 further cross-examination based on questions from the Bench

22 from Staff?

23   MR. KEEVIL: Very briefly, Judge.

24 FURTHER CROSS-EXAMINATION BY MR. KEEVIL:

25   Q.   Mr. Lobser, Commissioner Kenny was just asking

1   you about the MGE treatment of these. And I believe he

2   said that if the -- I may have misunderstood his question.

3   But I believe he said if the gas inventories are included

4   in rate base, you would only recover 1.5 percent on the gas

5   inventory. That was not what you said -- okay. I

6   misunderstood apparently.

7   If the gas inventories are included in the

8   rate base --

9   A.   Okay.

10   Q.   -- you would recover on the gas inventories at

11   the overall cost of capital?

12   A.   Cost of capitol.

13   Q.   So it would be higher than 1.5?

14   A.   Yes.

15   MR. KEEVIL: Apparently I misunderstood the

16   Commissioner's question.

17   COMMISSIONER KENNY: I might have misspoke.

18   MR. KEEVIL: I just wanted to clarify that.

19   Thank you. That's all I have.

20   JUDGE DIPPELL: Public Counsel?

21   MR. SMITH: No questions. Thank you.

22   JUDGE DIPPELL: MIEC.

23   MR. MILLS: No questions.

24   JUDGE DIPPELL: Environmental Defense Fund?

25   MS. KARAS: No questions, your Honor.

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 1              JUDGE DIPPELL:  Is there redirect by Spire?

 2              MR. ZUCKER:  Yes, your Honor, just a little.

 3   REDIRECT EXAMINATION BY MR. ZUCKER:

 4         Q.    Good morning again, Mr. Lobser.

 5         A.    Good morning.

 6         Q.    Let's assume that a company or a utility did

 7   have short-term debt in their capital structure and had

 8   storage inventories in rate base.  Are those two tied

 9   together?  In other words, do you have to have one if you

10   have the other?

11         A.    I don't believe so.  Whether short-term debt

12   is in the capital structure would be based off of how it

13   finances longer term and whether it uses short-term debt to

14   finance items in the -- in the rate base.  But that

15   wouldn't necessarily have to relate to gas storage.

16         Q.    Okay.  Do you know how much short-term debt is

17   in the capital structure proposed by Staff?

18         A.    I believe it's somewhere in the 5 percent

19   range, plus or minus 1 percent.  I'm not exactly sure.

20         Q.    Does the number 283 million sound familiar to

21   you?

22         A.    Sorry.  I thought you were talking about

23   percentage.  The dollar amount, I don't recall that number

24   specifically.  But I would take your word for it.

25              MR. ZUCKER:  Permission to approach.
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1   Q.   (By Mr. Zucker)   That's Mr. David Murray's

2   schedule from his -- I believe his surrebuttal testimony.

3   A.   Okay.

4   Q.   Does that help refresh your recollection?

5   A.   It does. It does. Six and a half percent,

6     $283 million.

7   Q.   283 million. And do you know how much gas --

8   what the value of the gas inventories are today?

9   A.   I think in this rate case, the combined for

10   Laclede and MGE's, somewhere in the neighborhood of

11   180 million.

12   Q.   Hold on. We're going to refresh your

13   recollection on that one too.

14   A.   Well, Laclede's at 112. I can't recall

15   exactly where MGE is.

16   Q.   I think that's the combined amount, but.

17   A.   That's what I thought I was saying, was the

18   combined Laclede and MGE.

19   Q.   I'm going to show you these schedules from I

20   think Mr. Weitzel's testimony.

21   A.   Sorry. You're correct. The 112 -- I was

22   misremembering -- is the combined number. The 83 million

23   is Laclede and 37 is MGE.

24   Q.   So there's a lot more short-term debt in the

25   capital structure than just the gas inventories; is that

1   correct?

2   A.   Comparing the proposal from Staff to the

3   amount in inventory, yes, it's significantly more.

4   Q.   **Now, I heard when you looked at the 2010 order**

5   **that Mr. Keevil showed you, it sounded like short-term debt**

6   **was at 5.9 percent?**

7   A.   That's what I recall, yes. So it was pretty

8   close to the long-term debt rate.

9   Q.   **And in OPC's schedule, it looks like**

10   **1.5 percent is the short-term rate.**

11   A.   Yes.

12   Q.   **And so short-term rates can change**

13   **significantly, can they not?**

14   A.   Yes.

15   Q.   **And if the short-term rate, if the gas was in**

16   **the PGA at the short-term rate and the short-term rate**

17   **changed, would Laclede recover the effect of that change?**

18   A.   Yes. I believe that was why it was opposed

19   previously, is it acted as a tracker.

20   Q.   **Okay. And if the -- if the gas inventories**

21   **were in rate base and the rates changed, would Laclede**

22   **recover for those changes?**

23   A.   No. The rates would be constant until the

24   next general rate proceeding.

25   Q.   **You discussed Staff's testimony with -- with**

1   the Chairman. In Mr. Sommerer's direct, did he state that

2   gas inventories should be in rate base and there should be

3   short-term debt in the capital structure?

4   A.   He was silent on the latter, but made note

5   that every other utility in Missouri has rate -- gas

6   inventories in the rate base.

7   Q.   And do you know if other utilities in

8   Missouri, gas utilities, have short-term debt in their

9   capital structure?

10   A.   I don't believe so. But I can't be a hundred

11   percent certain on that.

12   Q.   Okay. But it was not until surrebuttal that

13   Mr. Sommerer tied the two together, short-term debt in the

14   capital structure and gas inventories in rate base; is that

15   correct?

16   A.   Correct. I think that was also the case with

17   the proposal for capital structure from Mr. Murray.

18   MR. ZUCKER: One moment, your Honor.

19   Q.   (By Mr. Zucker) One last question, and I think

20   I may be repeating something that Commissioner Kenny asked,

21   but just in case. In the 2014 MGE rate case, was -- were

22   gas storage inventories in rate base?

23   A.   Yes.

24   Q.   And was there short-term debt in the capital

25   structure?

 1   A.   No.

 2   MR. ZUCKER: That's all I have. Thank you.

 3   JUDGE DIPPELL: Thank you, Mr. Lobser, you may

 4 step down.

 5   I think we are ready for our first Staff

 6 witness, only Staff witness.

 7   MR. KEEVIL: Staff would call Mr. David

 8 Sommerer, your Honor.

 9   JUDGE DIPPELL: Mr. Sommerer, would you please

10 raise your right hand.

11   (Witness sworn.)

12   JUDGE DIPPELL: Thank you. You may proceed

13 Mr. Keevil.

14   MR. KEEVIL: Thank you.

15 DIRECT EXAMINATION BY MR. KEEVIL:

16   **Q.   Would you please state your name for the**

17 **record, sir.**

18   A.   David Sommerer, S-O-M-M-E-R-E-R.

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

20   A.   The Missouri Public Service Commission. And

21 I'm the manager of the Procurement Analysis Unit.

22   **Q.   Did you contribute to the Staff's -- both, I**

23 **should say, of the Staff's cost of service report and**

24 **Staff's class cost of service report? I believe they've**

25 **been premarked as -- what is it -- Exhibit 204, that would**

1   be the confidential cost of service report; 205, the

2   public; and 208, would be the confidential class cost of

3   service report; and 209, the public. If I'm wrong on those

4   numbers, I hope the Judge will correct me.

5   JUDGE DIPPELL: You're correct.

6   Q. (By Mr. Keevil) Thank you. Mr. Sommerer, did

7   you contribute sections to both of those reports?

8   A.   Yes.

9   Q.   Did you also cause to be prepared and filed in

10 this case rebuttal testimony which has been premarked

11 Exhibit 227 and surrebuttal testimony which has been marked

12 as Exhibit No. 259?

13   A.   Yes.

14   Q.   All right. Do you have any changes or

15 corrections to make to any of those pieces of testimony?

16   A.   I do not.

17   Q.   Are the answers contained in those pieces of

18 testimony and Staff reports true and correct to the best of

19 your information knowledge and belief?

20   A.   Yes, they are.

21   Q.   If I were to ask you the same questions today,

22 would your answers be the same?

23   A.   Yes.

24   Q.   I forget. Mr. Sommerer, do you have

25 additional issues to come later in this case?

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 1              A.    I believe this is the only issue.

 2                    MR. KEEVIL:  Okay.  With that, Judge, then I

 3    would move for the admission of Mr. Sommerer's rebuttal and

 4    surrebuttal testimony, I believe you're probably holding

 5    off on the two Staff reports until later.

 6                    JUDGE DIPPELL:  Would there be any objections

 7    to Exhibits 227 and 259?

 8                    MR. SMITH:  No objection.

 9                    JUDGE DIPPELL:  Seeing none, I will enter

10    those into the record.

11                    (Whereupon Staff Exhibits 227 and 259 were

12    received into evidence.)

13                    MR. KEEVIL:  Thank you, Judge.  With that I

14    will tender the witness to cross-examine on gas inventory

15    and carrying charges.

16                    JUDGE DIPPELL:  Mr. Keevil, I don't know if

17    you previously gave those two exhibits to the court

18    reporter.

19                    MR. KEEVIL:  I was under the impression that

20    the entire Staff batch of exhibits have been given to the

21    court reporters previously.  If that's incorrect, I will --

22    I will get her some.

23                    JUDGE DIPPELL:  I am unsure.  I will check on

24    that.

25                    All right.  Is there cross by Public Counsel.
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1   MR. SMITH: Yes. Thank you.

2 CROSS-EXAMINATION BY MR. SMITH:

3   Q.   **Good morning.**

4   A.   Good morning.

5   Q.   **You were here earlier when Mr. Weitzel was**

6 **testifying; is that correct?**

7   A.   That's correct.

8   Q.   **Do you agree with his characterization of gas**

9 **inventories as a long-term asset?**

10   A.   From an accounting standpoint, I believe gas

11 inventory, especially with regard to the subject we're

12 discussing here, is a short-term asset. It's classified

13 that way pursuant to Laclede's current tariff, I believe

14 that tariff sheet is 28H. They refer to a Count 164, which

15 is a short-term asset. And so I would believe from an

16 accounting sense, it's a short-term asset.

17   Q.   **Are natural gas inventories a hedging cost?**

18   A.   We often characterize gas inventories as a

19 physical hedge. It has that characteristic or that

20 element. I would not classify it as a financial hedge. It

21 has general facets in terms of reliability and its ability

22 to meet peak day and reduce transportation costs, but it

23 also has a hedging aspect.

24   Q.   **And does Laclede support hedging costs in its**

25 **PGA?**

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 1          A.   I believe they are specifically referenced as

 2   a recoverable subject to prudence gas cost.

 3          Q.   Through the PGA?

 4          A.   That's correct.

 5          Q.   Do you agree that back in 2005, Laclede began

 6   recovering the gas inventory carrying charges in its PGA?

 7          A.   Yes.

 8          Q.   And do you believe that customers through that

 9   mechanism are charged a short-term debt rate for those

10   inventories?

11          A.   Yes.

12          Q.   And in this case under Staff's accounting

13   schedules, do you agree that that short-term -- or I should

14   say do you agree that for Laclede, the short-term debt rate

15   would be 1.5 percent?

16          A.   I think that's approximately correct.  I don't

17   have the number in front of me, but that was my

18   recollection.

19          Q.   In 2005 when Laclede had requested to change

20   the rate-making treatment of gas inventories from rate base

21   to PGA, do you remember if Staff had supported that

22   proposal?

23          A.   I think by the time that you got to the

24   stipulation and agreement, the Staff was obviously in

25   agreement with Tariff Sheet 28 and the approach that was
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1 used for gas inventories cost recovery.

2   Q.   Let me put it a little bit differently. Was

3 there any testimony on this subject that would -- back in

4 2005, to the best of your recollection, that would have

5 opposed that proposal?

6   A.   I don't recall specifically. I remember

7 looking at some 2002 testimony where we opposed this kind

8 of treatment. It was standard for Staff to oppose PGA

9 treatment for carrying cost on gas inventory. And I would

10 say if we filed direct testimony in 2005, it's likely we

11 would have had gas inventory in rate base and not agreed

12 with PGA treatment.

13   Q.   In terms of recovery through the PGA, would

14 you agree that the critical term of art is gas cost?

15   A.   I think that certainly is one of the key

16 distinctions in receiving PGA recovery is whether or not it

17 is a gas cost.

18   Q.   In 2005, the Commission did believe that it --

19 that inventories met the definition of gas costs; is that

20 correct?

21   MR. KEEVIL: Objection. There's no evidence

22 to support that question, nothing in the record to support

23 the question that Mr. Smith is asking.

24   MR. SMITH: I think we've established he has

25 knowledge of the 2005 case. I'm asking to the best of his

1 recollection in that 2005 case, you know, whether the

2 Commission had, through its approval of the stipulation, I

3 guess agreed that inventories would be included as gas cost

4 and therefore included in the PGA to the best of his

5 recollection.

6   JUDGE DIPPELL: I'll allow him to answer.

7   A.   I don't think the Commission weighed in

8 specifically because you were dealing with stipulation and

9 agreement. So I don't think you would have seen it in the

10 Commission's order. I will say though that Sheet 28H was

11 likely attached to the stipulation and agreement or part of

12 that process. And Sheet 28H, which is still in the

13 Laclede's tariffs and it was approved by the Commission

14 back in 2005, I think considers it to be a gas cost. So

15 there it is in the sheet. It was acceptable or it was

16 deemed to be recoverable as part of the company's purchased

17 gas tariffs.

18   **Q.   (By Mr. Smith) What was your understanding of**

19 **the reasons why Laclede had wanted to change the rate**

20 **making treatment back in 2005 to run those costs through**

21 **the PGA?**

22   MR. ZUCKER: I'm going to object to that as

23 calling for speculation. He's asking what Laclede thought.

24   MR. SMITH: I guess I'm asking in his review

25 of the case and testimony and participating in that case,

1   I'm asking him to, you know, base his answer on that.

2   JUDGE DIPPELL: I'll sustain the objection.

3   If you want to ask him what Laclede's position was, I'll

4   allow that because we've been talking about each other's

5   positions, but.

6   **Q. (By Mr. Smith) What was Laclede's position on**

7   **the reasons for making the change?**

8   A.   My recollection was that Laclede proposed to

9   include gas inventory carrying costs in its PGA clause

10   because it would more closely align the actual cost that it

11   perceived it was expending, versus what it was recovering

12   for -- from rates. And they may have also argued that it

13   was closer to actual or more analogues to actual than an

14   estimate that you would have to derive as part of the

15   traditional rate-making process. So those were two of the

16   key arguments that I recall.

17   **Q.   Have you read Mr. Hyneman's rebuttal**

18   **testimony?**

19   A.   Yes.

20   **Q.   Do you have it with you?**

21   A.   Yes.

22   **Q.   Would you go to Page 15, Line 10.**

23   MR. ZUCKER: Which testimony are we in?

24   MR. SMITH: Rebuttal of Mr. Hyneman.

25   MR. ZUCKER: Thank you.

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 1                    THE WITNESS:  You're on Page 15 of his

 2   rebuttal?

 3          Q.   (By Mr. Smith)  Yes.

 4          A.   Line 10?

 5          Q.   Yes.  Ten through 31.

 6          A.   Okay.  I'm there.

 7          Q.   Okay.  Will you agree that this represents a

 8   transcript of the 2005 rate case, the presentation to the

 9   Commission related to the stipulation?  I should be more

10   specific.

11          A.   It looks like that is what Mr. Hyneman is

12   quoting.

13          Q.   Were you at that hearing?

14          A.   I don't recall if I was in the hearing room or

15   at that time we had the ability to have the remote access

16   or if I wasn't there at all.  I know I was there for parts

17   of it.

18                    MR. SMITH:  Okay.  I guess how would you

19   describe -- well, I have no further questions.  Thank you.

20                    JUDGE DIPPELL:  Thank you.  Anything from

21   MIEC?

22                    MR. MILLS:  No questions.

23                    JUDGE DIPPELL:  Environment Defense Fund?

24                    MS. KARAS:  No questions, your Honor.

25                    JUDGE DIPPELL:  Spire?
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1   CROSS-EXAMINATION BY MR. PENDERGAST:

2   **Q.   Good morning, Mr. Sommerer.**

3   A.   Good morning, Mr. Pendergast.

4   **Q.   I'd like to start with just a little walk down**

5   **memory road about sort of the episodic back and forth**

6   **between PGA and base rates that's occurred over the last 15**

7   **years. Now, just because something might be defined as a**

8   **gas cost by somebody doesn't mean it has to go in the PGA,**

9   **does it?**

10   A.   Not necessarily, no.

11   **Q.   Okay. And, you know, over the years, do you**

12 **recall all system sales that's currently in the PGA?**

13   A.   Yes.

14   **Q.   Did we used to have allowance for that in base**

15 **rates at one point, if you recall?**

16   A.   Yes.

17   **Q.   Okay. And even though today it's considered**

18 **something that should be in the PGA, that didn't stop it**

19 **from being included in base rates at one point?**

20   A.   That's correct.

21   **Q.   Okay. And do you recall whether or not there**

22 **was a limitation on how much the company could earn under**

23 **its GSIP at one point in time?**

24   A.   I think over the years the company has had

25 limitations on how much it could earn in its GSIP.

1   Q.   Okay.   And do you recall the company's

2   proposal to include the gas cost portion of the PGA or the

3   gas cost portion of its uncollectible expense in the PGA?

4   A.   Yes.

5   Q.   And the company came down and said we think

6   that's a gas cost, it ought to be in the PGA and the Staff

7   didn't agree, did it?

8   A.   That's true.

9   Q.   Do you recall whether OPC agreed with that?

10   A.   I believe they opposed it.

11   Q.   They opposed it.   And ultimately the

12   Commission decided that that's not a mechanism that we're

13   going to approve; is that correct?

14   A.   That's correct.

15   Q.   And we had the foresight to appeal it to the

16   Court of Appeals and get told that the Commission was

17   affirmed on that point?

18   A.   That's my recollection.

19   Q.   If you recall?

20   A.   That's my recollection.

21   Q.   And you also mention in your testimony

22   something about migration, gas out of storage; is that

23   correct?

24   A.   Which testimony that was?

25   Q.   I think it was in surrebuttal.   Well, it might

1   have been in your rebuttal. Let me get it. Yeah. If I

2   could refer you to Page 5 of your rebuttal testimony.

3   A.   I'm on Page 5.

4   Q.   Okay. And there, you talk about the example

5   we just went over with the gas cost portion of bad debt; is

6   that correct?

7   A.   That's correct.

8   Q.   Okay. And do you recall, did Laclede have a

9   proposal, you know, if it owns a storage field, from time

10   to time, that storage field loses some of its gas; is that

11   correct?

12   A.   Yes.

13   Q.   And that's basically called unrecoverable gas?

14   A.   Sometimes it can be recoverable, sometimes

15   it's unrecoverable. It just depends on the gas evaluation.

16   Q.   Okay. And how is that particular item handled

17   from a regulatory and accounting prospective?

18   A.   It has typically been handled if it's

19   unrecoverable, as a rate-base item, a plant type item. I

20   think it's receiving some very long amortization. That's

21   the historical treatment for most of that.

22   Q.   And by very long, do you mean like 80 or 90

23   years?

24   A.   That's my recollection, yes.

25   Q.   That's kind of a long-term, rather than a

1   **short-term proposition, isn't it?**

2   A.   I would agree with that.

3   **Q.   Okay. And Laclede had a proposal, did it not,**

4   **to come in and start adjusting for variations in that**

5   **long-term asset through the PGA; do you recall that?**

6   A.   Yes, I do.

7   **Q.   Okay. In fact, we actually included that in**

8   **our PGA because we thought it was appropriate to do so; is**

9   **that correct?**

10   A.   That is correct.

11   **Q.   And the Staff opposed that inclusion?**

12   A.   Yes, we did.

13   **Q.   And we ultimately took it out of our PGA; is**

14   **that correct?**

15   A.   Yes, you did.

16   **Q.   Okay. Thank you. Now, as far as this**

17   **short-term debt thing is concerned, do you know what**

18   **Laclede's short-term debt rate is?**

19   A.   It varies. I think the last time I looked at

20   it and the recovery rate you were receiving for gas

21   inventory carrying, which is analogues to commercial paper

22   rate, it was around a half percent, but that's a historical

23   number. My understanding it has gone up. I think

24   Mr. Murray used 1.3 percent. I understand now it's around

25   1.5 percent.

1   Q.   So that's something that can vary, you know,

2   in a relatively short period of time?

3   A.   Yes.

4   Q.   In the past -- and you've been doing this gas

5   procurement review work for quite some time, how high have

6   you seen those get in the past?

7   A.   When this process started in 2005, I think the

8   short-term rates were quite a bit higher than they are

9   currently. I recall an estimate from Mr. Cline that the

10   carrying costs were around $4 million. And that would have

11   been a much higher short-term debt rate. It could have

12   been 4 percent, 5 percent.

13   Q.   Okay. And even though it's low now or lower

14   now, that doesn't necessarily mean it'll be 1.5 percent two

15   years from now or three years from now?

16   A.   That's true.

17   Q.   Okay. And by including this in rate base to

18   the extent that it starts going back up again to higher

19   levels in the past, rate payors would not be exposed to

20   that until we had the next rate case; is that correct?

21   A.   That's correct.

22   Q.   Okay. And you heard some discussion about a

23   2009 MGE case where I think they were talking about a

24   5.9 percent short-term debt rate?

25   MR. KEEVIL: 5.92.

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 1                    MR. PENDERGAST:  Pardon.

 2                    MR. KEEVIL:  5.92.

 3          Q.  (By Mr. Smith)  5.92 to be exact?

 4          A.  Yes.

 5          Q.  And a long-term rate that was a little above

 6   six; do you recall that?

 7          A.  Yes.

 8          Q.  Okay.  Do you know whether or not in that MGE

 9   case, that 5.92 was in there because of the fact that MGE

10   had storage inventories in base rates?

11          A.  I don't know that one way or another.

12          Q.  Okay.  It might have been for that reason, it

13   might have been for some other reason; you're not sure?

14          A.  That's correct.

15          Q.  Okay.  But once again, if it was

16   representative of what their short-term debt rates were at

17   that time, that's just another illustration of how they can

18   change rather significantly over time; would you agree with

19   that?

20          A.  I would agree with that, yes.

21          Q.  Okay.  Now, in 2005 when we removed those

22   storage inventory costs from Laclede's base rates into the

23   PGA, did that have sort of a reverse impact of what moving

24   it back to the PGA -- or back to base rates has now?  Let

25   me be more specific.
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1   **Were we moving these inventories from**

2 **Laclede's base rates at an overall rate of return into the**

3 **PGA at a short-term debt rate?**

4   A.   We would have to make the assumption that

5 whatever the current rates were -- and I believe that may

6 have been from a 2002 rate case, just moving off of memory

7 now -- that there was no short-term debt embedded. But I

8 will say that inventories were in rate base prior to 2005.

9 I can say that.

10   Q.   **Okay. And I'm just saying to the extent they**

11 **were in rate base, you don't have any reason to doubt that**

12 **they were in rate base at the overall cost of capital, do**

13 **you?**

14   A.   No. I have no reason to doubt that.

15   Q.   **In pulling that out of base rates -- and I'm**

16 **just trying to compare it to what they've talked about here**

17 **as far as effects of moving it from PGA to base rates --**

18 **there would have been a lug of cost taken out of Laclede's**

19 **base rates at that time, right?**

20   A.   You would be removing inventory, and along

21 with it would go everything that goes with it.

22   Q.   **Okay. Do you recall any discussion at that**

23 **time about the impact on the company or consumers because**

24 **this lug of cost was being removed from base rates?**

25   A.   Not to my recollection.

1   Q.   Okay. But it would have had the effect of

2   decreasing whatever our base rates were at that time?

3   A.   I think it would have been a decrease.

4   Although, as you've just noted previously, short-term debt

5   rates were a lot higher than they are currently. So if

6   you're very close between long-term debt and short-term

7   debt, the difference between pulling a lug of something out

8   is not as pronounced as it is. But to the extent that

9   equity is in there and it's very likely equity is higher

10 than long-term debt or short-term debt, I would agree with

11 that.

12   Q.   So a decision was made as part of a

13 stipulation and agreement, to pull it out and just not a

14 whole lot of discussion about what it was doing to base

15 rates at that time?

16   A.   I do not recall much discussion regarding that

17 rate impact; that's correct.

18   Q.   Okay. I'd like to ask you a little bit about,

19 you know, your surrebuttal testimony. And I think it's

20 fair to say in that surrebuttal testimony, you linked for

21 the first time, at least explicitly, the notion that

22 short-term debt ought to be applied if we're going to put

23 this in rate base; is that correct?

24   A.   That's correct.

25   Q.   Okay. And I think you reference Mr. Murray;

1   is that correct?

2   MR. KEEVIL: Surrebuttal, Mike?

3   MR. PENDERGAST: Yes.

4   THE WITNESS: Do you have a page number?

5   Q. (By Mr. Pendergast) Yeah. I think it's Page

6   3. Look down at Line 16 and 19.

7   A.   Yes. You are correct. I have referenced

8   Staff Witness David Murray.

9   Q.   Okay. And there, you're just saying that you

10   wanted to clarify that Staff's position that this should be

11   moved into the base rates. And included in rate base is

12   assumed, you know, at short-term debt as proposed by David

13   Murray; is that basically it?

14   A.   That's correct.

15   Q.   Okay. And let's -- did you see this schedule

16   that OPC handed out earlier? Do you have a copy of that?

17   Yeah, if you could.

18   A.   I think I have it, both. Okay. Thank you. I

19   have it.

20   Q.   Okay. So once again -- and I appreciate that

21   Public Counsel has clarified that any revenue requirement

22   effect for MGE is not an incremental revenue requirement in

23   this case, because MGE already has the storage inventories

24   in rate base; is that correct?

25   A.   That's correct.

1   Q.   Okay. So what we're really focusing on is the

2 Laclede inventories; is that correct?

3   A.   That would be the actual change between

4 putting the inventory in rate base and having PGA

5 treatment; that's true.

6   Q.   Okay. And once again, this is represented as

7 a value for the storage inventories for Laclede of

8 $82,577,000, give or take 720?

9   A.   I believe that those are the dollars that are

10 in question. The inventories at Laclede are actually

11 greater than that. There's some non-current inventories

12 that haven't historically been run through the PGA process.

13 But you're looking at the short-term inventories that are

14 traditionally subject to the PGA treatment.

15   Q.   Right. And that long-term gas, that's

16 basically gas you've got to keep in there, you know, all

17 the time to make sure you don't jeopardize your withdrawal

18 and -- capability?

19   A.   I think for the most part, that's correct. I

20 agree with Mr. Lobser's earlier testimony that there might

21 be some element that the company might be able to withdraw

22 on a short-term basis that doesn't effect the operations.

23 But for the most part, I think you're looking at cushion

24 gas or base gas.

25   Q.   Okay. And for Laclede's storage, do you know,

1   **does the company try and keep that pretty much full at all**

2   **times?**

3   A.   I think in recent years, the last several

4   years, the company has attempted when it's taken gas out of

5   its aquafer to as soon as it can, put gas back into its

6   aquafer.

7   **Q.   Right. So it's not a situation where we take**

8   **it all at the winter season and then come springtime, we**

9   **put it back in?**

10   A.   That's correct. It's not the typical cycled,

11   depleted reservoir storage that you normally see.

12   **Q.   We want to keep as much gas in there as we can**

13   **in case we need it?**

14   A.   That's my understanding of the operation of

15   the aquafer, yes.

16   **Q.   Great. But in any event, 82,577,000. Do you**

17   **know how much short-term debt Mr. Murray is recommending be**

18   **included in Laclede's capital structure?**

19   A.   I do not have that number offhand.

20   MR. PENDERGAST: May I approach the witness?

21   JUDGE DIPPELL: Yes.

22   **Q.   (By Mr. Pendergast) Mr. Sommerer, is that a**

23   **schedule from Mr. Murray's testimony?**

24   A.   This looks to be a schedule from Mr. Murray's

25   testimony, yes.

1   Q.   And does it give a breakdown of the various

2 components of his proposed capital structure?

3   A.   Yes.

4   Q.   Okay. And does that have a dollar value for

5 the amount of short-term debt he's proposing to include?

6   A.   I see short-term debt in two different places.

7 There's one under Spire, Inc. as of September 30, 2017.

8 And there's also short-term debt shown under Spire Missouri

9 as of September 30, 2017.

10   Q.   And how much is Mr. Murray proposing to

11 include?

12   A.   Using his consolidated capital structure of

13 $4,000,370,447, the short-term debt he's at is

14 $282,949,000.

15   Q.   So would you agree with me that that's about

16 $200 million more than the value of the storage inventories

17 for Laclede?

18   A.   For Laclede alone, I would say that that

19 number on an absolute basis is approximately $200 million

20 higher than Laclede's PGA inventory, PGA treatment

21 inventory.

22   JUDGE DIPPELL: Mr. Pendergast, which schedule

23 was that.

24   MR. PENDERGAST: Yes. That was Schedule

25 DMS1-1 Page 1 of 1.

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 1              JUDGE DIPPELL:   Thank you.

 2        Q.   (By Mr. Pendergast)  Now, Mr. Sommerer, when

 3   you were saying to feel comfortable to put Laclede's

 4   storage inventories into base rates and you referenced

 5   David Murray, you weren't suggesting that to feel

 6   comfortable, put $82 million worth of inventory into base

 7   rates, you needed to include $282 million of short-term

 8   debt, were you?

 9        A.   I would have to clarify that by saying I think

10   the key, since Mr. Murray's capital that he is using is in

11   excess of $4 billion, I think the key is to look at

12   percentage of inventory to rate base versus the percentage

13   of short-term debt to the entire capital that Mr. Murray

14   used.  So I think mathematically, if you're at around 6

15   percent -- and that was a number that I think was confirmed

16   earlier today -- in other words, if inventory is 6 percent

17   of rate base and Mr. Murray has 6 percent short-term debt

18   of this $4 billion, I think in essence, that's the

19   representative level that Staff is suggesting.

20        Q.   So is it your testimony that to feel

21   comfortable in moving $82 million worth of inventory into

22   base rates, you need to have $282 million worth of

23   short-term debt in the capital structure?

24        A.   If that's what creates this approximately

25   6 percent weight of short-term debt, then I would say yes.
```

1   Q.   Okay. So you need to go ahead and ultimately

2   not just have $82 million worth of short-term debt in the

3   capital structure, you need $282 million worth of

4   short-term debt?

5   MR. KEEVIL: Objection, asked and answered.

6   JUDGE DIPPELL: I believe did you ask that,

7   Mr. Pendergast. Move on.

8   Q.   (By Mr. Pendergast) Okay. Well, leaving aside

9   Mr. Murray's schedule, if you think storage inventories

10   needed to be included in base rates and they have to be

11   included at a short-term debt cost and somebody were to ask

12   you what short-term debt amount needs to go along with that

13   $82 million, what would you say?

14   A.   I would say a representative amount of

15   short-term debt consistent with the level of inventories

16   that are being included in the rate base. And that

17   representative level, I put into the hands of Mr. Murray in

18   terms of what he believed was a fair amount of short-term

19   debt.

20   Q.   Let me ask you this: Let's assume that

21   Mr. Murray has left the decision up to you and just said,

22   Mr. Sommerer, I want you to tell me how much short-term

23   debt I need to go ahead and include solely for the issue of

24   moving gas storage inventories into rate base, what would

25   you tell him?

1   A.   My advice would be to include as much

2   short-term debt as is necessary to reflect the fact that

3   inventories are financed with short-term debt. And that

4   number appears to me, based upon the ratio of inventory to

5   rate base, to be around 6 percent.

6   Q.   **And what dollar value would that be?**

7   A.   I think, according to the math that you just

8   showed me, it's around 282 million in terms of that entire

9   $4 billion capital level.

10   Q.   **Okay. So you're fine when you reference**

11 **Mr. -- David Murray to say in order to go ahead and cover**

12 **the 82 million, we need $282 million in capital structure?**

13   MR. KEEVIL: Again, asked and answered.

14   Q.   **(By Mr. Pendergast) Do you know what the**

15 **282 million, what else it relates to, other than the**

16 **storage inventories?**

17   A.   I have not done an analysis of what Laclede

18 uses its short-term debt for specifically. I know in

19 general, it would use it for construction work in progress.

20 There could be certainly some use for short-term assets in

21 terms of funding those. And I think that inventory is also

22 supported by short-term debt. So those would be examples

23 of things that short-term debt would be used for.

24   Q.   **Okay. And this is -- this is from**

25 **Mr. Murray's consolidated capital structure; is that**

```
 1   correct?

 2         A.    That's correct.

 3         Q.    And that reflects pretty much the requirements

 4   of all of the Spire's company's, Alagasco, Energy South; is

 5   that your understanding?

 6         A.    That's my understanding.

 7         Q.    Okay.  And you said you're not sure what other

 8   elements of Laclede this short-term debt would cover.  Do

 9   you know what other elements of Alagasco's financing

10   requirements or Energy South's financing requirements his

11   short-term debt is covering?

12         A.    No.

13         Q.    Okay.  Now, you had some discussion about

14   whether storage acted as a hedge.  Do you recall that?

15         A.    Yes.

16         Q.    OPC asked you?

17         A.    Yes.

18         Q.    And financial hedges are included in the PGA,

19   are they not?

20         A.    Yes.

21         Q.    Okay.  And I think you were maybe

22   distinguishing storage from a financial hedge?

23         A.    That's correct.

24         Q.    Okay.  And would it be true that to the extent

25   we have gas in storage and to the extent that the price
```

1 **changes and interest rate changes will be absorbed by the**

2 **company between rate cases, that sort of operates like a**

3 **non-financial hedge?**

4   A.   To the extent that gas inventory is in rate

5 base, the carrying cost associated -- the carrying cost

6 associated with that rate base would not be subject to

7 change in between rate cases. So it would operate as a

8 type of hedge for gas carrying cost, not for gas cost.

9   Q.   **Right.**

10   A.   But for gas carrying cost.

11   Q.   **Right. And the Commission has a rule where it**

12 **encourages various kinds of mechanisms to mitigate upward**

13 **price volatility; is that correct?**

14   A.   That's correct.

15   Q.   **Okay. And would this be one of those kind of**

16 **mechanisms?**

17   A.   Well, I think this is a type of interest rate

18 hedging. And it does potentially, to the extent gas costs

19 go up, mitigate the carrying cost aspect. So I think you

20 could argue there's an element there that's consistent with

21 the volatility rule.

22   MR. PENDERGAST: Thank you. I have no further

23 questions.

24   JUDGE DIPPELL: Are there Commission questions

25 for Mr. Sommerer?

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 1                  CHAIRMAN HALL:  Yeah.
 2   QUESTIONS BY CHAIRMAN HALL:
 3           Q.   Good morning.
 4           A.   Good morning, Mr. Chairman.
 5           Q.   Can you explain to me the logic behind Staff's
 6   position that the storage costs should only be moved to
 7   rate base if the short-term debt is included in the capital
 8   structure?  What's the -- what's the logical basis for that
 9   position?
10           A.   It is a firm belief that gas storage
11   inventory, at least the short-term aspects of gas storage
12   inventory are financed by short-term debt.  I believe
13   that --
14           Q.   And is that disputed by anyone as far as you
15   know?
16           A.   As far as I know, I don't believe that is
17   disputed.
18           Q.   So the actual costs to the company on a
19   cash-flow basis financed by short-term debt, not how it's
20   treated for accounting purposes, but in terms of their
21   actual costs, your understanding, are financed by
22   short-term debt instruments?
23           A.   That is my understanding.
24           Q.   Okay.  I interrupted you.  Could you please
25   continue?
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1   A.   Yes. Well that's the main piece of logic

2   behind it. I would also say that just from an impact

3   standpoint, the public counsel did have it right, that this

4   issue, because of the difference between short-term debt

5   rates, which are fairly low, versus the overall cost of

6   capital, this is a tremendous impact on the Laclede side,

7   on the customers of Laclede.

8   And I think in looking at that impact, if you

9   have short-term debt consistent with inventory levels, that

10   detriment, that $7 million detriment, is mitigated greatly.

11   And so I saw not only the logic that inventories are

12   related to short-term debt, but there is a definite huge

13   impact here. And so that was another reason.

14   **Q.   So if -- if the Commission were to adopt Staff**

15   **and Public Counsel's position on this and -- excuse me --**

16   **the company's and Staff's position on this and put storage**

17   **costs in -- in rate base going forward and then the price**

18   **of gas spikes two years from now, is -- would that -- would**

19   **the carrying cost -- excuse me -- would that risk be born**

20   **by rate payors as a result of that decision by the**

21   **Commission?**

22   A.   No. If I follow your question, if you go with

23   Staff's --

24   **Q.   I'm sorry. Would that -- would that risk be**

25   **borne by the company under that scenario?**

1   A.   I believe, if I understand your question

2   correctly, that you are rate basing or putting into rate

3   base gas inventory consistent with the company's position.

4   It's Staff's position the company would be at risk in that

5   scenario.

6   **Q.   Whereas, if we were to adopt Public Counsel's**

7   **position and those costs would run through the PGA, if the**

8   **price of gas goes up significantly, the carrying costs go**

9   **up significantly and the rate payors would pay the cost,**

10   **would pay that additional cost?**

11   A.   Yes, that's correct.

12   **Q.   And is it fair to say that -- that this**

13   **decision comes before us at a time when gas prices are**

14   **fairly low?**

15   A.   From a historical standpoint, I would say $3

16   is relatively low and certainly very stable to what I've

17   seen over the decades.

18   **Q.   And fairly stable. So that means that you --**

19   **you don't see an increase coming any -- a significant**

20   **increase coming any time soon?**

21   A.   This would always depend upon the severity of

22   weather primarily in winter. And there are various

23   forecasts, but nobody past about a week can really

24   guarantee what the weather is going to be. Most of the

25   forecasting agencies like Energy Information

1   Administration, that's the EIA, forecasts that prices will

2   be around where they're at right now. So there aren't any

3   dire predictions that gas prices will spike.

4   **Q.   Now, do you have any involvement in -- in the**

5   **FAC or electric rate cases in general?**

6   A.   Almost no involvement in the FAC process.

7   **Q.   Do you know -- and if you don't, that's**

8   **fine -- but do you know for the electric utilities, how**

9   **inventory is handled, whether -- whether those carrying**

10   **costs go through the FAC or whether they're rate based?**

11   A.   That is an excellent question. And I wish you

12   knew the answer to it, but I don't.

13   **Q.   So I'm not completely sure I under -- I**

14   **understood -- well, either the questions or the answers in**

15   **the last examination with Mr. Pendergast. But I -- I think**

16   **I heard you say -- actually, the -- the exhibit that was**

17   **used for that, can I get a copy of that?**

18   MR. PENDERGAST: Sure.

19   CHAIRMAN HALL: Is it attached to

20   Mr. Murray's?

21   JUDGE DIPPELL: Yes.

22   MR. PENDERGAST: It was DMS1. I think that

23   was it.

24   JUDGE DIPPELL: DMS1-1, was that it?

25   MR. PENDERGAST: I think that was it, Page 1.

1   Q.   (By Chairman Hall) Okay. So there was a

2   discussion about the 282 million in short-term debt that

3   Staff is asserting should be part of the capital structure,

4   correct?

5   A.   That's correct.

6   Q.   And that was -- and that was compared to the

7   82 million in -- in inventory?

8   A.   Yes.

9   Q.   And I think Mr. Pendergast asked you a

10 question that was -- the same question I was going to have.

11 And I'm not sure I understood the answer. How -- what is

12 the justification for including $282 million in capital

13 structure when we're only talking about 82 million in

14 inventory costs? And I assume that the answer is just it's

15 a matter of principle. It's not a dollars things. It's a

16 matter of principle and consistency; is that correct?

17   A.   It's a matter of consistency, is how I would

18 characterize it. You need to look at the relationship

19 between inventory of around 82 million, to the Laclede rate

20 base, which I think was around 6 percent, 6 and a half

21 percent. And as long as you have approximately 6 percent

22 of the short-term debt for that $4 billion that you're

23 looking at, I think you have a representative amount of

24 short-term debt to cover the inventory that you have in

25 rate base.

1   And my understanding of it -- I don't know if

2   this will help or this will hurt. But my discussions with

3   Mr. Murray is that he's not reconciling rate base, which is

4   perhaps around $2 billion, with the entire capital of

5   Spire, Inc., which is greater than $4 billion. And because

6   of that, you really need to look at the ratio or that

7   6 percent, rather than the entire $282 million of

8   short-term debt.

9   **Q.   Do you know, are there other items in -- in**

10 **Spire's rate base that are financed by short-term debt?**

11   MR. KEEVIL: Which Spire?

12   **Q.   (By Chairman Hall) Spire, Laclede or MGE.**

13   A.   I believe that short-term debt can finance

14 cash working capital which is the lead and lag between

15 short-term liabilities and assets. There might be some

16 miscellaneous materials and supplies. It's a well

17 recognized fact that construction work in progress, which

18 has interest associated with it, can use short-term debt

19 and does use short-term debt when you're calculating the

20 interest on a plant that's not in service yet. So that's

21 another big item that short-term debt would be applicable

22 to.

23   **Q.   So then there's some precedent for financing**

24 **rate-based items with short-term debt. And if that's so,**

25 **why is there inconsistency with the company's position**

1   **here?**

2   A.   Well, I think that Staff is consistent with

3   its idea that inventory is financed by short-term debt.

4   And we have short-term debt that is representative of

5   inventory in the capital structure. So I believe the Staff

6   is consistent. We have some inconsistencies with perhaps

7   the company. They have no short-term debt in the capital

8   structure.

9   CHAIRMAN HALL: That's all I have. Thank you.

10   THE WITNESS: Thank you.

11 QUESTIONS BY COMMISSIONER KENNY:

12   Q.   **I just have one question. Were you involved**

13 **in the last MGE rate case, 2014?**

14   A.   My recollection of the case is that it was

15 settled very early on. And I don't recall filing direct

16 testimony. I'm not sure the Staff filed direct testimony

17 in that case. It appeared to be more of an ISRS only type

18 increase, whether there was a stipulation --

19   Q.   **It was a rate case, but ISRS -- it was settled**

20 **that way I believe.**

21   A.   Yes.

22   Q.   **So did Staff have a position with short-term**

23 **debt on that, do you know? I know it's a settled case,**

24 **but.**

25   A.   Yes. I would say -- and I did hear Mr. Murray

1   on this and I would not disagree with Mr. Murray. He

2   believed that there was no short-term debt in the capital

3   structure, at least Staff's position.

4   **Q.   So I know you said -- you were using the word**

5   **consistency with Chairman Hall. So -- and Staff's position**

6   **in this case is different than it was in that case,**

7   **correct, regarding the short-term debt specifically for**

8   **storage inventory?**

9   A.   Well, storage inventory, there was a

10   consistent treatment that we would have proposed rate base

11   inclusion of the inventory. But with regard to short-term

12   debt, I would agree there is some potential inconsistency

13   there because we were proposing zero and there was

14   short-term debt somewhere --

15   Q.   Right.

16   A.   -- at Southern Union or I guess at that time

17   it would be Laclede. Then you would have some

18   inconsistency between those treatments, yes.

19   **Q.   Okay. But because Spire East -- so Spire West**

20   **and Spire East, the companies wanted to get aligned with**

21   **Spire West as far as how they treat and get away from the**

22   **PGA. So in that consistency, Staff thinks we should**

23   **include short-term debt for both of them, even though we**

24   **did not use short-term debt for MGE last time?**

25   A.   That is Staff's position, is that short-term

1 debt should be included along with inventory treatment.

2 Yes, I would also agree, to my knowledge anyway, I don't

3 think short-term debt was included in MGE's capital

4 structure in the 2014 case.

5   COMMISSIONER KENNY: Thank you.

6   JUDGE DIPPELL: Thank you. Is there any

7 further cross-examination based on questions from the Bench

8 by Public Counsel?

9   MR. SMITH: Yes, very briefly.

10 FURTHER CROSS-EXAMINATION BY MR. SMITH:

11   **Q.   Chairman had asked you some questions, I**

12 **think, related to cross-examination from the company about**

13 **the amount of debt actually in the capital structure being**

14 **proposed by Mr. Murray. Do you recall that?**

15   A.   Yes.

16   **Q.   And do you know what the rate base is for**

17 **Spire Missouri approximately?**

18   A.   This is a number that I drew from the

19 accounting schedules from Staff's true-up accounting

20 schedules, total Spire Missouri rate base.

21   **Q.   And what is that number?**

22   A.   I have $2,086,825,538.

23   **Q.   And if you were -- I realize I'm asking you to**

24 **do some math on the stand, so bear with me. If you were to**

25 **apply or multiply 6 percent to that rate base number, what**

1   would that result in or 6 percent multiplied by $2 billion?

2   A.   Well, let's see. 10 percent of 2 billion

3   would be 200 million. So I think we're looking at around

4   120 million.

5   Q.   Right. And is that the approximate amount of

6   gas inventories that were discussed earlier as between the

7   two companies if you were to add them together?

8   A.   If you added both Laclede and MGE for the

9   true-up accounting schedules, I arrived at $120,185,559.

10   Q.   So those numbers are consistent?

11   A.   Yes.

12   Q.   And isn't it true Mr. Murray just applied that

13   same factor to Spire, Inc., the parent, essentially?

14   A.   I really am not familiar with that much detail

15   on how Mr. Murray arrived at his short-term debt. I know

16   generally he looked at a historical period over time and he

17   tried to find a reasonable amount of short-term debt. And

18   I can't really go much farther than that.

19   Q.   Okay. There was discussion also with the

20   chairman about who would bear the risk if this -- if the

21   Commission were to adopt rate-base treatment for -- for gas

22   inventories. Do you recall that?

23   A.   Yes.

24   Q.   And isn't it true if gas prices did spike, the

25   company could always come in for a rate case?

 1   A.   Unless there was some sort of moratorium, I

 2   think their ability to file a rate case is generally there.

 3   **Q.   To your knowledge, is there a moratorium in**

 4   **this case or in other cases?**

 5   A.   For Laclede and MGE, I don't think there's a

 6   moratorium.

 7   MR. SMITH: Okay. Thank you. No further

 8   questions.

 9   JUDGE DIPPELL: Thank you. Is there further

10   cross-examination based on Bench questions from MIEC.

11   MR. MILLS: No questions.

12   JUDGE DIPPELL: Environment Defense Fund?

13   MS. KARAS: No questions, your Honor.

14   JUDGE DIPPELL: Spire?

15   MR. PENDERGAST: I do your, Honor.

16   FURTHER CROSS-EXAMINATION BY MR. PENDERGAST:

17   **Q.   You were asked some questions by both Chairman**

18   **Hall and Commissioner Kenny about the MGE case and also**

19   **rationale for the short-term debt issue. Now, just to be**

20   **clear, do you know whether Mr. Murray has used the parent**

21   **company's capital structure or Laclede Gas Company's**

22   **capital structure?**

23   A.   My understanding in conversations with

24   Mr. Murray is he used the consolidated or parent company's

25   capital structure.

1   Q.   Okay. And could you just tell me how much

2   short-term debt is reflected in that parent company's

3   capital structure?

4   A.   And based upon the schedule that you showed

5   me, it looked to be $282 million.

6   Q. $282 million. Okay. And, you know, in terms

7   of short-term debt, the effect of Staff's proposal is if we

8   assume short-term debt is 1.5 percent, that will freeze

9   Laclede Gas Company at 1.5 percent until it has its next

10   rate case, to cover any changes in the carrying costs

11   associated with its inventories, right?

12   A.   That's correct.

13   Q.   Okay. I mean you're not proposing to adjust

14   those as costs go up and financing costs change over time

15   or the cost of gas that needs to be financed changes over

16   time, it's 1.5 percent?

17   MR. KEEVIL: Asked and answered.

18   Q.   (By Mr. Pendergast) Okay. 1.5 percent. Now,

19   that's the cost of short-term debt, just to go ahead and

20   pay that, right?

21   A.   That's correct.

22   Q.   Okay. What additional amounts will Laclede

23   get for the risk of these financing increases, the

24   financing costs associated with rising gas prices; what

25   additional amount does Laclede get for bearing that risk?

1   A.   I don't know the answer to that question.

2   Q.   **Well, I think we just established that it's**

3 **going to be frozen at 1.5 percent, right?**

4   A.   That's correct.

5   Q.   **Okay. So is there anything else built in for**

6 **risk?**

7   A.   I'm not familiar with Mr. Murray's equity

8 calculations. I'm sure the equity rate is impacted by risk

9 in some fashion. I don't know how he accounted for that

10 particular risk, whether he did account for it. I'm not

11 aware of it if he did.

12   Q.   **Okay. So maybe Mr. Murray took care of it in**

13 **some way for that risk, but you're not sure?**

14   A.   Correct.

15   Q.   **Let's look at our other LDCs. To the extent**

16 **they face comparable risk, what amount will they have**

17 **received in base rates for carrying those storage**

18 **inventories?**

19   A.   I truly don't know the amount of short-term

20 debt that was included in the various capital structures of

21 the other LDCs. Some of those were stipulated. Some of

22 the capital structures may have been stipulated, they may

23 have been litigated. So I don't know.

24   Q.   **So you don't know if there's anything in their**

25 **base rates, other than an overall cost of capital for those**

1   storage inventories?

2   A.   Well, there certainly is not a GICC mechanism

3   or a PGA treatment associated with those inventories.

4   Q.   Right. So it's included in base rates. And

5   you don't know whether it's the overall cost of capital

6   that was applied to those?

7   A.   As a typical rate-base calculation, you would

8   have the overall cost of capital applied to those

9   inventories.

10   Q.   And, you know, not to hold anybody to a

11   specific calculation, but an overall cost of capital would

12   be about what? Give me a range.

13   A.   My understanding in this case -- and I'm just

14   looking at some rate of returns here of 6.38 percent, 6.5

15   percent and 6.66 -- 6.62 percent. And that's a rate of

16   return.

17   Q.   Okay. Well, let's just go with that overall

18   rate of return. So these other utilities, assuming they

19   have an overall cost of capital are being compensated for

20   the risk of these storage inventories, it may be 6 percent

21   or 7 percent, whatever it may be, while Laclede gets

22   1.5 percent; is that correct?

23   A.   Well, I think Staff's position is Laclede

24   would be at 1.5 percent, the others being in rate base

25   would be whatever the overall cost of capital is.

1   Q.   Okay. Would you agree with me that there's a

2   big difference between the overcall cost of capital and the

3   cost of short-term debt right now?

4   A.   Yes.

5   Q.   And that may change over time; is that

6   correct?

7   A.   That's correct.

8   Q.   Okay. But our fellow utilities, as far as you

9   know, are being compensated at a much higher level than

10   what Staff is proposing to compensate us; is that correct?

11   A.   Again, since I don't know the level of

12   short-term debt, I can't say whether that's correct or

13   incorrect.

14   Q.   Okay. You just don't know?

15   A.   That's correct.

16   MR. PENDERGAST: Thank you.

17   JUDGE DIPPELL: Mr. Keevil, do you have

18   redirect?

19   MR. KEEVIL: Yes. Just a little bit.

20   JUDGE DIPPELL: Is it seriously just a little

21   bit? Looking at the clock, we've been in here two and a

22   half hours.

23   MR. KEEVIL: We can take a break. Whichever

24   way you want to go, that's fine with me.

25   JUDGE DIPPELL: How long do you think? Ten

 1   minutes?

 2   MR. KEEVIL: I was going to say 15.

 3   JUDGE DIPPELL: Okay. Let's take a break.

 4   We'll take a break until 11:15. We can go off the record.

 5   (Whereupon there was a short break.)

 6   JUDGE DIPPELL: We can go back on the record.

 7   MR. KEEVIL: That was my cue.

 8   JUDGE DIPPELL: This is your cue. You may

 9   proceed, Mr. Keevil.

10   MR. KEEVIL: Thank you, Judge.

11   REDIRECT EXAMINATION BY MR. KEEVIL:

12   **Q.   Mr. Sommerer, starting at the back and working**

13   **forward, Mr. Pendergast was asking you a litany of**

14   **questions toward the end of his questions regarding the**

15   **comparisons between 1.5 percent recovery of short-term debt**

16   **and 6 point something recovery of cost of capital by other**

17   **utilities. Do you remember that, sir?**

18   A.   Yes.

19   **Q.   Can you explain to me what the 1.5 percent**

20   **that Mr. Pendergast was referring to actually represents?**

21   A.   The 1.5 percent would be the short-term debt

22   rate for Laclede, as I understand it, at least based upon

23   the most recent calculations on what that number is. And

24   that number is applied in the PGA calculation to the extent

25   that you have inventory recovered as part of the PGA

1   clause, it is also to the extent the Commission considers

2   short-term debt part of the capital structure, it would be

3   rolled into the overall cost of capital calculation at that

4   rate.

5   **Q.   Okay. So you mentioned rolling it into the**

6   **overall cost of capital. In the event that the gas**

7   **inventories were included in rate base, would Laclede only**

8   **be earning 1.5 percent on those gas inventories or would**

9   **they be earning the overall cost of capital on those**

10   **inventories?**

11   A.   I think the way that the revenue requirement

12   runs work is you take rate base times the overall cost of

13   capital. So it's like everything else. The overall cost

14   of capital is applied to rate base.

15   **Q.   So the overall cost of capital recommendations**

16   **in this case, I believe you indicated to Mr. Pendergast are**

17   **somewhere in the 6 percent range; is that correct?**

18   A.   That's correct.

19   **Q.   So under that scenario, Laclede would be**

20   **earning 6 percent or in the 6 percent range on those gas**

21   **inventories, just like everybody else under**

22   **Mr. Pendergast's questioning would be earning under their**

23   **gas inventories, correct?**

24   A.   Yes, that's correct.

25   **Q.   Okay. Now, Chairman Hall, I believe, was**

1   asking you several questions about the comparison of the --

2   first of all, let me ask you this: I've heard different

3   numbers bandied about regarding the actual levels of gas

4   inventory. I've heard 82 and 112 and maybe something else.

5   Can you explain to me what the difference is between that

6   82 and 112?

7   A.   I think I can try. The Laclede inventory in

8   rate base as of true-up -- and that is just Laclede or

9   Spire East -- is 82,876,494, that's 82,876,494. The MGE

10   inventory in rate base is 37,309,065. If you add those two

11   numbers together, you get total Spire Missouri inventory in

12   rate base of 120,185,559. So there's the 120 million. And

13   it could be the 112 million -- and this is approximate --

14   the direct case of the inventories were just a little bit

15   lower. I have them -- this is Spire Missouri -- of a total

16   of 113,720,000.

17   Q.   All right. Thank you. Going back to the

18   Chairman's questions, I believe had to do with comparing

19   the amount of short-term debt proposed to be included in

20   the capital structure of 280 something million, comparing

21   that to the amount of gas inventory proposed to be included

22   in rate base. Now, first of all, would you say that you

23   should compare that to the 80 something or the 120

24   something to -- to begin the comparison here?

25   And I also realize there's another step to

1   **this, I believe -- correct me if I'm wrong -- where the --**

2   **you then have to make the change over from the Spire**

3   **Missouri to the Spire, Inc. And if you want to include**

4   **that in your explanation, feel free.**

5   A.   As I was looking at proposing to Mr. Murray to

6   make sure that we had enough short-term debt to represent a

7   reasonable level for gas inventory purposes, I was looking

8   at the relationship of inventories at Laclede and MGE,

9   versus their respective rate bases. And for Laclede, as of

10   true-up, that was about 6.44 percent, that ratio of

11   inventory to Laclede rate base. MGE's rate base inventory

12   to MGE's rate base, so inventory divided by MGE's rate

13   base, I had at 4.6 percent as of true-up. And if you put

14   those two together, you get 4 -- excuse me -- 5.76 percent.

15   And I believe Mr. Murray has in his

16   consolidated capital somewhere between 6 and 6 and a half

17   percent. So it was relatively close in terms of the ratio

18   of inventory to rate base and short-term debt to overall

19   capital that Mr. Murray had.

20   Q.   All right. Thank you. Also Chairman Hall

21   **asked you, I believe it may have been his very first**

22   **question, what the basis was for Staff's recommendation.**

23   **And I believe you gave two -- basically two reasons. One,**

24   **short-term debt was used to finance gas inventories. And**

25   **number two, you talked about switching from the PGA**

1   **treatment to rate-base treatment on the Laclede side would**

2   **result in a tremendous impact on customers. Do you recall**

3   **that, sir?**

4   A.   Yes.

5   **Q.   Now, regarding the tremendous impact**

6   **statement, would the impact be mitigated or is the impact**

7   **mitigated if short-term debt is included in the capital**

8   **structure?**

9   A.   Yes.

10   **Q.   Does the -- to what extent? Do you have any**

11   **idea to what extent does it mitigate the impact? If you**

12   **don't know, that's fine.**

13   A.   I can only give you general quantifications in

14   Staff's direct case where Mr. Murray was at something like,

15   I want to say, 4.8 percent of his consolidated capital with

16   short-term debt. It was not completely covering what

17   Mr. Hyneman has calculated as the total impact of the

18   issue. It may have mitigated it by, let's say, $5 million.

19   So if the impact was at around 7 million and you have some

20   mitigation at 5, I saw a $2 million increase at that point

21   at the time of direct testimony.

22   And I still went forward with it based upon

23   the belief that there was some value, some risk reduction

24   value in having the inventory in rate base. However, based

25   on true-up, the short-term debt number actually went up to

1 around 6 to 6 and a half percent. And I believe, I don't

2 have the exact numbers, but I think it's basically totally

3 mitigated based upon using that short-term debt level that

4 Mr. Murray has.

5   **Q.   Okay. Thank you. You mentioned during**

6 **questioning from Mr. Pendergast's first round of questions,**

7 **you referred to -- I believe the questions were in regard**

8 **to -- by Mr. Pendergast, was asking you about how does**

9 **Laclede cycle its gas. You referred to injections and**

10 **withdraws by Laclede from its aquafer. Now, can you**

11 **explain what you mean by the aquafer?**

12   A.   Yes. Laclede has a natural gas storage

13 aquafer in North St. Louis that it owns and it operates,

14 which is somewhat unusual in Missouri. It's the only

15 situation where a gas company is actually operating its own

16 storage field. And the way an aquafer works is the gas

17 pushes out a certain amount of entrained salt water and

18 pressure is created by that interaction between the depth

19 of the gas and the water's pressure. It's somewhat unique

20 as well. Most natural gas storage in the United States is

21 from depleted oil and gas reservoirs. But this is what

22 they call a water drive storage field.

23   **Q.   So other than the aquafer, does Laclede have**

24 **other storage that it can use?**

25   A.   The majority, the vast majority of Laclede's

1   storage is with MRT. And it is much greater in terms of

2   its overall capacity level, its maximum storage capacity.

3   And that storage is down in north Louisiana.

4   **Q.   Does Laclede cycle gas in that storage in the**

5   **same manner in which it cycles gas in its aquafer?**

6   A.   No. It's required to cycle the gas consistent

7   with MRT's FERC regulated tariffs, which, as compared to

8   some other interstate pipeline tariffs, have fairly strict

9   requirements in terms of levels that you need to cycle

10   every year.

11   **Q.   So with regard to the MRT storage, does**

12   **Laclede attempt to cycle seasons of -- seasons worth of gas**

13   **inventory in and out in the course of a year?**

14   A.   For the most part, I think it does cycle its

15   inventory. There might be some small percentage,

16   5 percent, 7 percent left at the end of the withdrawal

17   cycle. But I think they plan on withdrawing most of that

18   gas.

19   **Q.   At one point during your initial questioning**

20   **from Mr. Pendergast, and you probably don't even remember**

21   **this, you referenced a Mr. Cline. Can you just tell us who**

22   **Mr. Cline is or was?**

23   A.   He is. Mr. Cline was with the company for

24   many, many years. And he was our main regulatory contact.

25   He filed testimony as a Laclede witness over many, many

1   years, usually with regard to tariff changes or rate making

2   changes. And that would be Michael Cline.

3   MR. KEEVIL: Thank you. I hope I have enough

4   of these. Your Honor, I have handed the witness two

5   documents. And one of which, at the -- the title of the

6   document is Stipulation and Agreement. I would propose to

7   have that marked as whatever Staff's next exhibit number

8   is. 272, I guess.

9   JUDGE DIPPELL: 272.

10   MR. KEEVIL: And the other document which I've

11   handed the witness is titled an Order of Approving

12   Stipulation and Agreement and Order of Approving Tariffs.

13   And I would move to have that marked as 273.

14   JUDGE DIPPELL: Yes, that would be 273. And

15   those are in Case No. GR2005-0284 just for clarification.

16   (Whereupon Staff Exhibits 272 and 273 were

17   marked for identification.)

18   **Q.   (By Mr. Keevil) Thank you. Mr. Sommerer, you**

19   **have what has been marked as Exhibits No. 272 and 273?**

20   A.   Yes.

21   **Q.   And can you identify Exhibit 272 for me?**

22   A.   272 appears to be the stipulation and

23   agreement in Case No. GR-2005-0284, Laclede Gas Company's

24   rate case.

25   **Q.   And what about Exhibit 273?**

1   A.   273 appears to be the order approving the

2   stipulation and agreement and order approving tariffs in

3   Case No. GR-2005-0284 of the Laclede rate case.

4   **Q.   Thank you. Mr. Sommerer, is that Case No.**

5   **GR-2005-0284 the case number that everyone keeps referring**

6   **to in this case as the case which initiated the PGA**

7   **flow-through treatment of gas inventory carrying costs for**

8   **Laclede?**

9   A.   Yes.

10   MR. KEEVIL: Judge, I would offer both

11   Exhibits 272 and 273 at this time.

12   JUDGE DIPPELL: Would there be any objection

13   to Exhibits 272 and 273?

14   MR. SMITH: No objection.

15   JUDGE DIPPELL: I see no objection so I will

16   enter those into the record.

17   (Whereupon Staff Exhibits 272 and 273 were

18   received into evidence.)

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

20   have.

21   JUDGE DIPPELL: Thank you, Mr. Keevil. You

22   were true to your word.

23   MR. KEEVIL: I came pretty close to 15

24   minutes.

25   JUDGE DIPPELL: I think you were even faster.

1   Mr. Sommerer, I believe that concludes your

2   testimony and you may step down.

3   THE WITNESS: Thank you.

4   JUDGE DIPPELL: Go ahead then with OPC witness

5   when Mr. Sommerer has had a chance to gather his things.

6   MR. SMITH: Thank you. And as noted in my

7   opening, Mr. John Reily did produce a page of testimony on

8   this subject. So we think it's fair to offer him for

9   cross. So OPC would call to the stand Mr. John Reily.

10   MR. KEEVIL: Actually, Mr. Smith, I have

11   changed my mind in the interest of time from this morning.

12   I waive cross on Mr. Reily on this issue.

13   JUDGE DIPPELL: Is there any other

14   cross-examination for Mr. Reily?

15   MR. ZUCKER: No. We're willing to waive it

16   also, your Honor.

17   JUDGE DIPPELL: I don't believe the Commission

18   has any questions for Mr. Reily.

19   CHAIRMAN HALL: I have no questions.

20   JUDGE DIPPELL: All right. Your presence at

21   this time will not be necessary, Mr. Reily.

22   MR. SMITH: OPC would call Mr. Charles

23   Hyneman.

24   JUDGE DIPPELL: Mr. Hyneman, you were

25   previously sworn in this proceeding so you will remain

1   under oath.

2   THE WITNESS: Yes.

3   CHARLES HYNEMAN testifies as follows:

4   DIRECT EXAMINATION BY MR. SMITH:

5   **Q.   Mr. Hyneman will be testifying as to other**

6   **issues so we will withhold offering his testimony. At this**

7   **time OPC would tender Mr. Hyneman for cross-examination.**

8   JUDGE DIPPELL: Is there cross-examination by

9   Staff?

10   MR. KEEVIL: Just a moment if I could. Very,

11   very quickly, Judge.

12   CROSS-EXAMINATION BY MR. KEEVIL:

13   **Q.   Good morning, if it's still morning,**

14   **Mr. Hyneman.**

15   A.   It is.

16   **Q.   Now, you filed rebuttal and surrebuttal**

17   **testimony on this issue; is that correct, sir?**

18   A.   Yes, it is.

19   **Q.   And in your -- actually both sheets -- both**

20   **sheets -- both copies of the testimony, you spent several**

21   **pages criticizing, shall I say, Staff's position in the**

22   **case. Would you say that's a fair description,**

23   **Mr. Hyneman?**

24   A.   Yes. And much of that criticism was based on

25   the fact that I did not understand that Staff was tying the

1   short-term debt rate into capital structure to the

2   inventory in rate base.

3   Q.   Okay. If I could have you turn to in your

4   rebuttal testimony, Page 9, beginning on Line 14. You have

5   a sentence there that -- or -- yeah -- a sentence that

6   begins: However, in reality, Staff is merely providing for

7   the same recovery as Laclede's short-term debt financing

8   costs as Laclede is currently recovering in its PGA

9   surcharge.

10   Did I read that correctly, sir?

11   A.   You read that sentence correctly.

12   Q.   Okay. Then similarly or somewhat similarly,

13   at least, in your surrebuttal testimony, Page 22, beginning

14   on Line 15 -- are you there, sir?

15   A.   Yes.

16   Q.   Okay. You state: However, by assigning an

17   amount of short-term debt in an amount at least equal to

18   the inventory balance included in rate base, the Staff's

19   method should not result in a financial harm to rate

20   payors.

21   Do you see that, sir?

22   A.   Yes.

23   Q.   Do you still agree with both of those

24   statements that I just read?

25   A.   Let me speak to the last one first. And it

1   goes to saying if the Commission adopts the Staff's

2   recommendation and includes short-term debt, at least an

3   amount of the combined inventory balances, it won't result

4   in a financial detriment to rate payors in the revenue

5   requirement in this case.

6   Now, however, by including gas inventory in

7   rate base and other proceedings which may not be matched

8   with short-term debt, I think the rate payors are

9   susceptible to financial detriment in that respect. So in

10 this particular case, if the short-term debt matches the

11 inventory, there's no financial detriment in this case.

12 But the process is what is a potential financial detriment.

13   **Q.   In the event that in other cases short-term**

14 **debt was not recognized?**

15   A.   And gas inventory is; correct.

16   **Q.   Right.**

17   A.   Yes.

18   **Q.   All right. So taking then -- you said you**

19 **wanted to address the second statement first.**

20   A.   Yes. Let me -- I need to go back and read the

21 context of the statement in rebuttal testimony. Could you

22 refer me again to --

23   **Q.   Yes. Rebuttal testimony Page 9, Line 14**

24 **through 16.**

25   A.   Yeah. It's kind of -- it was a little bit

1   confusing to me. Some of the reasons that Staff was

2   proposing gas inventory in rate base, I think it was in the

3   direct testimony, says so Laclede can earn a return. Well,

4   they do earn a return. They've been earning a return on

5   gas inventories probably since they've had gas inventories.

6   So it didn't make sense to me. It indicated

7   that Staff was proposing that it would earn a profit on an

8   element that's being currently recovered in short-term

9   debt. So that was the confusion I had that I expressed

10 here.

11   MR. KEEVIL: Okay. That's all I have at this

12 time, Judge.

13   JUDGE DIPPELL: Thank you. Is there any

14 cross-examination by MIEC.

15   MR. MILLS: No questions.

16   JUDGE DIPPELL: Environmental Defense Fund.

17   MS. KARAS: No questions, your Honor.

18   JUDGE DIPPELL: Is there any by Spire?

19   MR. ZUCKER: Thank you, your Honor.

20 CROSS-EXAMINATION BY MR. ZUCKER:

21   **Q. Good morning, Mr. Hyneman.**

22   A. Good morning.

23   **Q. Could you please turn to Page 8 of your**

24 **rebuttal testimony.**

25   A. I'm there.

1   Q.   Line 6 -- between Line 6 and 8, you're

2 critical of the Staff for not considering the impact of

3 changing the rate making treatment on customers; is that

4 correct?

5   A.   Yes. Again, that was under the assumption --

6   Q.   Okay. Yes is good. I've got a next one for

7 you.

8   A.   Okay.

9   Q.   Page 12, you again say the same thing, that

10 Staff did not consider the financial impact on rate payors.

11 And that was based on your assumption, correct?

12   A.   Yes.

13   Q.   Okay. Do you know -- what you were

14 criticizing in rebuttal was Staff's position in direct,

15 correct?

16   A.   Correct.

17   Q.   Okay. And do you know what Staff's revenue

18 requirement was in direct?

19   A.   I don't recall.

20   Q.   Okay. If I could refresh your recollection,

21 does -- does the number 12 million for Laclede Gas sound

22 familiar?

23   A.   Is that with or without the estimate for

24 true-up? I can't remember.

25   Q.   That would be with.

1   A.   Okay. Well, then the revenue requirement

2 would have been about 8 to 9 million.

3   Q.   **Well, the true-up is -- also is part of the**

4 **revenue requirement, correct?**

5   A.   Well, but I don't think a true-up actually

6 resulted in an increase at that level for Staff. The

7 Staff's revenue requirement was what it is. They added an

8 estimate for true-up, but the revenue was what it was at

9 that time.

10   Q.   **Okay. I'll take your number. Do you remember**

11 **MGE's revenue requirement?**

12   A.   I do not.

13   Q.   **Would it refresh your recollection if I told**

14 **you that it was roughly 9 million?**

15   A.   I don't dispute that, but I don't remember

16 that.

17   Q.   **Okay. So if we add those two together, the --**

18 **assuming the 9 million is correct, add the two together for**

19 **Laclede's revenue requirement and MGE's revenue**

20 **requirement, what do you get?**

21   A.   Well, again, I wish I had some documentation

22 to look at it. Because I can't go on estimate for true-up

23 to be a part of revenue requirement. That would not be

24 right.

25   Q.   **Okay. Let's just ballpark it. I'm sorry that**

1   I don't have the document in front of me to refresh your

2   recollection. But would it be correct to say that the

3   combined revenue requirements of the two companies was

4   approximately 15 to 20 million?

5   A.   I will take that subject to check.

6   Q.   Okay. Thank you. And do you know what

7   Laclede's ISRS levels are?

8   A.   I think the combined Laclede/MGE's 40,

9   49 million, something like.

10   Q.   49 million. Well done, sir.

11   A.   I think so.

12   Q.   So if Laclede is currently charging its

13   customers the base amount, plus 49 million, and the revenue

14   requirement was, let's call it 20 million, that would be a

15   rate decrease in Staff's revenue requirement of

16   approximately 29 million for Laclede and MGE; is that

17   correct?

18   A.   When you combine the ISRS with the base rate

19   change, yes.

20   Q.   Okay. So even with moving the gas inventories

21   into rate base, Staff's proposed revenue requirement in

22   direct was negative 29 million; is that right?

23   A.   Again, I don't have those numbers in front of

24   me and I'm uncomfortable making those conclusions. But

25   subject to check, if the math is right, that's what it is.

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 1          Q.    Okay.  Thank you.  Would you look at Page 9 of

 2   your rebuttal, Line 11.

 3          A.    Okay.

 4          Q.    You say:  While Staff appears to be stating in

 5   testimony that it has a desire for Laclede to -- and you

 6   have in quotes -- earn a profit.

 7                Do you see that?

 8          A.    I do.

 9          Q.    Can you point to me where the word "profit" or

10   "earn a profit" is in Staff's direct testimony?

11          A.    Again, at the time this testimony was written,

12   my assumption was Staff was not tying the short-term debt

13   in its capital structure to it's gas inventory rate base

14   issue.  I subsequently learned that in Staff's rebuttal

15   testimony.  Now, assuming they didn't tie that, that

16   short-term debt was attributed to other things, then the

17   gas inventory being in rate base would earn a return at

18   their grossed-up return which is approximately 11 percent.

19   So there will be a profit earned on gas inventory.

20          Q.    Okay.  I guess my question is very simple.

21   Can you point to Staff's testimony on this issue in direct

22   where they used the term "profit" or "earn a profit," as

23   you have in quotes?

24          A.    I think they used the term "earn a return."

25   Not specifically profit, but that's in a sense what it was.
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1   Q.   Did they not say that the company would have

2 an opportunity to earn a return on its investments?

3   A.   Well, they currently do earn a return. So

4 that statement by itself wouldn't make any sense. If

5 they're saying they merely earn a return of short-term

6 debt, then they already earn that return. By Staff saying

7 an opportunity to earn a return by putting it in rate base,

8 then this implication is it would earn a profit.

9   Q.   Okay. But that's your words, that's not

10 Staff's words?

11   A.   Well, that's what the math turns out to. I

12 think Mr. Sommerer addressed that.

13   Q.   I'm just clarifying. You put the term a

14 "profit" in quotes, but you were not quoting Staff?

15   A.   No. The intent was not to quote Staff. It

16 was just to say the profit is the element of the equity

17 return that's included in the capital structure.

18   Q.   Okay. And same thing on Page 11 of your

19 rebuttal where you say in Point No. 1 that Staff wants to

20 provide Laclede with an opportunity to earn a profit;

21 that's your words again?

22   A.   Well, actually it's true.

23   Q.   Okay. But you're not quoting anyone on that?

24   A.   No. I'm stating a fact. I'm not quoting

25 Staff.

1   Q.   Okay. I understand. Let me ask you another

2   question. Is the gas cost portion of bad debt a gas cost?

3   A.   I didn't study that issue. I know that

4   Laclede has sought to include bad debt in the PGA under the

5   presumption it would be a gas cost. So I think Laclede

6   believes it may be. But I have made no determination on

7   that.

8   Q.   Okay. So you don't have an opinion one way or

9   the other?

10   A.   I have not studied that issue.

11   Q.   If Laclede did not buy gas, it would not be

12 billing customers for gas; is that correct?

13   A.   Yes.

14   Q.   And if it did not bill customers for gas, it

15 would not have gas cost in its bad debt for the customers

16 that didn't pay their bills; is that correct?

17   A.   Yes. They wouldn't charge the customers

18 anything; so, therefore, the customers wouldn't create bad

19 debt for the company.

20   Q.   Okay. Are you aware that Laclede believes

21 that it will cease using propane in the future or in the

22 reasonably near future?

23   A.   I had no knowledge of that.

24   Q.   Okay. Are you aware that because of that,

25 Laclede did not include propane in the rate base?

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 1          A.    I'm not aware of that and we did not take an

 2   issue on that.

 3          Q.    Okay.  So when I say what is included in the

 4   rate base, it's the natural gas and not the propane; is

 5   that your understanding?

 6          A.    We're not making a differentiation.  We're

 7   just saying the gas inventories, whether that includes just

 8   natural gas or propane, those being financed with the

 9   short-term debt need to be charged to the rate payors at

10   that rate and not earn a profit on that.

11          Q.    Okay.  Look at your surrebuttal testimony at

12   Page 22, Line 18.  The question there is:  Does Laclede and

13   MGE propose to include any short-term debt in its capital

14   structure.  Correct?

15          A.    Correct.

16          Q.    And you say no.  And basically you say that

17   would not allow Laclede to charge the higher cost of

18   capital rate, in effect, correct?

19          A.    That's not what the testimony reads.

20          Q.    Okay.  Well, would you like to read it?

21          A.    Yes.  And the question says:  Does Laclede and

22   MGE propose to include any short-term debt in its capital

23   structure.  And the answer is no.  If Laclede proposed

24   short-term debt in its capital structure, it would possibly

25   mitigate the windfall profits its shareholders will receive
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1   by charging customers a much higher carrying cost on gas

2   inventories than it actually pays to its debt holders.

3   Such an action would not be in Laclede's nature.

4   **Q.   And what do you mean by the last sentence;**

5   **such an action would not be in Laclede's nature?**

6   A.   Well, it goes back to Laclede, in my opinion,

7   does not take actions to lower its cost for its customers.

8   **Q.   Okay. Well, let me ask you something. When**

9   **Laclede did not put propane in its rate base because it**

10   **felt that it would be earning a -- a cost of capital rate**

11   **of return on -- on something that was going away, would you**

12   **say that that's in Laclede's nature?**

13   MR. KEEVIL: I'm going to object to that

14   because the witness has already said he didn't know why or

15   that Laclede didn't include propane in its rate base about

16   three questions ago.

17   JUDGE DIPPELL: Would you like to phrase that

18   as a hypothetical?

19   MR. ZUCKER: Yes. Yes, I would exactly, your

20   Honor.

21   **Q.   (By Mr. Zucker) If Laclede did not put propane**

22   **in its rate base because it felt like it did not want to**

23   **charge customers cost of capital for an item that might be**

24   **going away shortly, would you say that that is in Laclede's**

25   **nature?**

 1   A.   No.   That would be something that if Laclede

 2   did that, I would categorize that as potentially

 3   intellectually dishonest.   And I am not accusing Laclede of

 4   being dishonest.   I'm just saying their rate making

 5   proposals, especially in this case, are not designed to

 6   reduce cost to rate payors.

 7   **Q.   Okay.   My question is if they did that, would**

 8   **that be Laclede's nature.   And you're saying?**

 9   A.   I have no conclusion that Laclede is

10   dishonest.

11   **Q.   Okay.   If Laclede was going to build -- assume**

12   **Laclede was -- and this is actually in evidence.   But**

13   **assume that Laclede was going to build a line to its**

14   **western part of its service territory in St. Peters and it**

15   **would have cost -- about a $30 million construction project**

16   **which would have gone into rate base, and Laclede instead**

17   **agreed to make a deal with MoGas where customers would save**

18   **$54 million in a pass-through -- pass-through through the**

19   **PGA in which Laclede made absolutely no money, would you**

20   **say that that action was in Laclede's nature?**

21   A.   I would say that that action would be

22   indicate -- indication of a utility who is acting

23   reasonably and prudently by lowering its cost.

24   **Q.   Okay.**

25   A.   And that is an instance where although Laclede

1   did propose rate making treatment, in fact rate-base

2   treatment of the cost it had in constructing that, I think

3   St. Peters lateral pipeline, that it was an action that if

4   it -- and I haven't studied it -- but if it did result in

5   lower cost, I would applaud Laclede for doing that.

6   **Q.   Okay. When Laclede purchased AMRs during the**

7   **true-up period which reduced revenue requirement by close**

8   **to a million dollars by saving in the expense of meter**

9   **readings, would you say that -- and that million dollars**

10   **comes right off of rates for customers, would you say that**

11   **that action was in Laclede's nature?**

12   MR. SMITH: Yeah, I'm going to object to this

13   line of questioning. It's kind of a parade of items that

14   aren't relevant to this issue.

15   JUDGE DIPPELL: I'm going to overrule the

16   objection. I believe Mr. Hyneman opened it up when he made

17   the statement "such action would not be in Laclede's

18   nature."

19   MR. ZUCKER: And if we can agree with each

20   other, it will be a short parade, your Honor.

21   MR. KEEVIL: I know Mr. Zucker's going to go

22   on here, but I just want to make it clear that the list of

23   things that Mr. Zucker is presenting is being presented

24   from Laclede's prospective. And Staff certainly may or may

25   not agree with his representation or characterization of

1   some of these issues.

2   JUDGE DIPPELL: I think the Commission is

3   fully capable of understanding the arguments of counsel

4   versus the facts.

5   MR. KEEVIL: Okay. Yes.

6   JUDGE DIPPELL: Thank you.

7   MR. ZUCKER: Thank you. Thank you, your

8   Honor.

9   **Q.   (By Mr. Zucker) What was your answer to the**

10   **question?**

11   A.   My answer, I had a brief discussion with our

12   engineering witness, Mr. John Robinette, on this. There's

13   no conclusion at all that that transaction reduces cost to

14   rate payors. I think it's changing, if I'm not incorrect,

15   from a lease, to a purchase. Now, studying that and what

16   the depreciation is on that and the return, I don't know if

17   that transaction results in any lower cost to rate payors.

18   **Q.   Okay. But if it did --**

19   A.   Hype -- I'm sorry.

20   **Q.   Hypothetically, if it did, would that be in**

21   **Laclede's nature?**

22   A.   Again, if it did and it does reduce in cost,

23   it would be an expectation on the Laclede management to do

24   that transaction. And here I'm talking about rate making

25   proposals.

1   Q.   Okay. All right. Let me go on to one more.

2   When Laclede in 2016 during the test year changed its

3   commercial paper program to join its entities together so

4   that it could borrow at lower cost and that cost savings,

5   because it was in the test year, goes straight through to

6   rate payors, would you say that's in Laclede's nature?

7   A.   I'm not aware of that incident. And that's

8   really -- management responsibility is to keep costs low.

9   My discussion here is the actions Laclede took towards OPC

10   and its earnings investigation where OPC is now proven

11   correct that Laclede was over earning. And Laclede fought

12   OPC every turn, fought hard against them for prosecuting

13   that case, both in discovery and --

14   Q.   Well, that was a complaint case from April of

15   2016 you're referring to?

16   A.   Yes. It's currently --

17   Q.   And that case was staid in October of 2016?

18   A.   That is part of this rate case.

19   Q.   Okay. So we went through the whole summer of

20   discovery and everything. And then when it came time for

21   OPC to file direct testimony, they did not do so; is that

22   correct? Yes or no?

23   A.   What I think --

24   Q.   Is that correct?

25   A.   Can you repeat the question?

1   Q.   When it came time for OPC to file direct
2 testimony, they instead asked that the case be staid?
3   A.   That was the only prudent course of action
4 available to OPC at that time.
5   MR. ZUCKER: I'm going to take that as a yes.
6 Okay. No further questions. Thank you.
7   JUDGE DIPPELL: Thank you.
8   Are there questions from the Bench for
9 Mr. Hyneman? Mr. Chairman, do you have questions.
10   CHAIRMAN HALL: Yeah.
11 QUESTIONS BY CHAIRMAN HALL:
12   Q.   Good afternoon.
13   A.   Good afternoon, sir.
14   Q.   Do you know how -- how we treat electric
15 utilities and fuel inventory? Do we treat it under the FAC
16 or do we put it in rate base, do you know?
17   A.   There is a distinction between an LDC and
18 electric utility as far as fuel. But my recollection is
19 that, for example coal inventories, were included in rate
20 base for electric utility. And that's the main fuel.
21   JUDGE DIPPELL: Mr. Hyneman, can you speak a
22 little more in the microphone.
23   THE WITNESS: I'm sorry.
24   JUDGE DIPPELL: Thank you.
25   A.   So that's my recollection, that the nuclear

1   inventory and the coal inventory in the past, that I can

2   recall, were treated as -- in rate base.

3   Q.   (By Chairman Hall) And is there a logical

4   basis for treating gas utilities differently?

5   A.   Well, when you talk about fuel for an electric

6   utility, that -- and I'm not analyzing logic, but the facts

7   are different. For example, coal is used in the production

8   of electricity; whereas, gas is just a commodity that's

9   flowed through the utility for an LDC. Is that a

10 distinction that is relevant, I don't know sitting here

11 today.

12   Q.   Okay. Do you know if short-term debt is

13 included in capital -- in the capital structure for other

14 regulated utilities in Missouri?

15   A.   I have seen short-term debt included in the

16 capital structure. And the argument is that if there's an

17 amount of short-term debt that exceeds the amount that they

18 need for construction, then that amount is appropriate to

19 include in the capital structure. I think that's a general

20 consensus, that it should be in if it's a sufficient amount

21 that exceeds the QUIB (phonetic) of the construction

22 balance.

23   Q.   Do you believe that it is ever appropriate to

24 include short-term assets financed by short-term debt in

25 rate base?

1   A.   Well, the appropriate matching would be to

2   match the short-term assets, such as materials and

3   supplies, a portion of the working capital, cash working

4   capital. The most appropriate matching would be match

5   those short-term investments with short-term debt.

6   Now, if the situation rises where for some

7   reason the company doesn't have sufficient short-term debt

8   over and above its construction, then by default, those

9   short-term assets get in rate base and they're matched up

10   with the long-term debt and equity cost.

11   So I guess my short answer is theoretically

12   they should be matched, practically they are not often done

13   that way.

14   **Q.   Would you agree that under the company's**

15   **proposal on this issue, that -- that it would bear the risk**

16   **of increasing gas prices?**

17   A.   No.

18   **Q.   Why do you say that?**

19   A.   If the company had increasing gas prices to

20   the extent that it was not earning what it considered to be

21   a reasonable return, it would be knocking on the

22   Commission's door for a rate increase that next day. So

23   the risk, it may be a short-term regulatory lag risk, but

24   it's not any significant risk at all. Zero.

25   **Q.   Well, until the next -- until rates are reset,**

1   **whenever that may be for whatever reason that might occur,**

2   **until -- between rate cases, does the utility bear the risk**

3   **of increasing gas prices under its proposal?**

4   A.   Yeah. And the day they determine, okay, the

5   gas prices --

6   **Q.   I know they have a way to fix it at some point**

7   **in time.**

8   A.   11 months.

9   **Q.   But in between rate cases, they are bearing**

10   **the risk?**

11   A.   They have some risk. They can also seek

12   extraordinary rate making treatment, which they have in the

13   past. I think the 11-month regulatory lag, yes. But is it

14   realistic? I think Mr. Sommerer said, is there anybody

15   who's predicting any significant gas increase, no, not at

16   all.

17   **Q.   I understand that.**

18   **Then lastly -- I think it's lastly. Is it --**

19   **is it your understanding that the company is -- is**

20   **financing the purchase of inventory with short-term debt?**

21   A.   Yes. And that question, actually that's the

22   dilemma for the Commission. Are they going to allow

23   Laclede to return an 11 percent return for a cost it's

24   paying 1.5 percent. That's the dilemma that I think you're

25   facing on this issue.

1   Q.   **Are you advocating for 11 percent?**

2   A.   They're proposing 11 percent.

3   Q.   **Just a little humor.**

4   A.   No, I am not.

5   Q.   **That dichotomy, the fact that they are**

6 **financing that inventory with short-term debt but**

7 **seeking -- seeking rate-base treatment, is that -- is that**

8 **the -- is that the basis for not giving them rate-base**

9 **treatment in your view?**

10   A.   In part. But I think besides that is when

11 Laclede came to you in 2005 and said -- and this is

12 Mr. Pendergast. He said, look, gas cost inventory, the

13 financing charge, that's every bit the gas cost as any gas

14 cost we had. And he was saying -- and probably for

15 regulatory lag purposes, if our short-term debt cost

16 increases, that's the only amount we'll charge customers.

17 If it decreases, they get that benefit.

18   So as far as regulatory lag through the PGA,

19 it eliminated it. And that should be, I think, the goal of

20 the utility is to eliminate regulatory lag. And they came

21 to you and said this is gas cost, should be in the PGA.

22 And this Commission has a long history of having a firm

23 definition of what goes in that PGA.

24   And you agreed, not you personally, but the

25 Commission agreed, that, yeah, that is a gas cost. And we

1   think the best rate making treatment is to flow that

2   through PGA. And Laclede has come back today and the only

3   basis saying we should change that is, well, we want to be

4   consistent with MGE. What they should be saying is, MGE

5   needs to be consistent with us and flow it through the PGA

6   where that matches it with how it incurs the cost. So I

7   think that's a long answer, but that is the substance of

8   OPC's position.

9   **Q.   Okay. My question was -- I understand your**

10 **position. But my question is, fundamentally, the problem**

11 **with the company's position from your prospective, I think,**

12 **is that they are in fact purchasing that inventory with**

13 **short-term debt?**

14   A.   They -- I think they are. I think that's been

15 established. But I think more than that, they should be.

16   **Q.   But on that basis, it should not be put into**

17 **rate base; isn't that the most significant factor?**

18   A.   It is along with the fact it's a gas cost that

19 should be in PGA. But I will agree with you, that's the

20 most significant factor.

21   **Q.   Has OPC litigated this issue in other gas**

22 **cases?**

23   A.   My history with OPC was just barely over two

24 years. And I know that during that time, no. I've been

25 advised by, I think Mr. Sommerer in his testimony, that

1 years ago, a Staff employee now who used to be with the OPC

2 took a position, I think, that gas inventories should not

3 be in the PGA. And I've read that testimony. I didn't

4 understand it. It didn't make any sense for me. So I can

5 say that, well, OPC years ago, one witness may have taken

6 that position. It was a bad position. And I will have to

7 admit that.

8   **Q. From your prospective, do you think that there**

9 **is -- that it's important for the Commission to be**

10 **consistent when -- when the same issue is presented, that**

11 **the Commission should rule consistently; is that an**

12 **important characteristic?**

13   A. Sometimes, yes. I think overall consistency

14 is a goal, but you have to look at the specifics. If you

15 look at what was the reason that gas inventory was put in

16 MGE rate base back when it was, I don't think there's any

17 substantive justification. I don't think the Commission

18 heard the rationale for that. It just got put in some

19 stipulation and got passed through.

20   I don't know of any rationale for putting gas

21 inventories in a rate base for utilities that have a PGA.

22 And I understand there are -- Laclede and MGE are big.

23 There are a lot of small gas utilities that don't come into

24 rate cases very often because their earnings are pretty

25 well -- the Commission has treatment, for example, for

1   water companies. Small companies are treated different

2   than large.

3   Now, they're not consistent in a lot of ways.

4   I think that's reasonable and prudent. That's the smart

5   way to do it. They're not the same size utilities. They

6   don't have the same expertise. They don't have the same

7   impact on rates for Missouri customers. So is that a

8   relevant issue to consider when you look at a giant

9   utility, as opposed to a small Empire Gas or Ameren Gas

10   regularity requirement? I think it is.

11   Other factors are -- and I know I had

12   conversations with Mr. Murray on this and said why did you

13   treat people in the past differently. He said, every case

14   is different. And I've looked at utilities who had 45,

15   47 percent equity ratios in their capital structure that

16   had gas inventories.

17   So when you look at the overall return, it's

18   mitigated by having a lower equity in the capital

19   structure, than a 54 percent proposed by Laclede. So there

20   are a lot of factors in. But I agree, consistency, in

21   general, is important.

22   CHAIRMAN HALL: Thank you.

23   JUDGE DIPPELL: Are there other Commission

24   questions.

25   CHAIRMAN HALL: No questions.

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 1              JUDGE DIPPELL:  Is there cross-examination
 2  based on questions by the Bench from the Staff?
 3  FURTHER CROSS-EXAMINATION BY MR. KEEVIL:
 4         Q.    Mr. Hyneman, is short-term debt outstanding
 5  the same as short-term debt capacity?
 6         A.    No.
 7         Q.    Can you explain the difference?
 8         A.    Well, usually short-term debt is borrowed
 9  under a line of credit.  They have authorization to borrow
10  X amount of funds.  Under that line of credit, they can
11  borrow a little, a lot, a medium amount.  So that's the
12  distinction.
13         Q.    And that would be the capacity -- the line of
14  credit or the amount that they can borrow would be the
15  capacity, versus the amount that they actually have
16  borrowed is the amount outstanding?
17         A.    Correct.
18              MR. KEEVIL:  Okay.  Thank you.  Nothing
19  further.
20              JUDGE DIPPELL:  Anything from MIEC.
21              MR. MILLS:  No questions.
22              JUDGE DIPPELL:  Environment Defense Fund?
23              MS. KARAS:  No questions.
24              JUDGE DIPPELL:  Spire?
25              MR. ZUCKER:  No thank you, your Honor.
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 1              JUDGE DIPPELL:  Is there redirect by OPC?

 2              MR. SMITH:  Yes, Judge.

 3    REDIRECT EXAMINATION BY MR. SMITH:

 4         Q.   Mr. Hyneman, there was a discussion with the

 5    chairman about the rationale for PGA treatment and the

 6    matching of cost.  Can you explain, you know, why that is

 7    an important feature, the matching?

 8         A.   Well, I think it goes to that matching of

 9    cost, the actual cost should be matched with the mechanisms

10    incurred.  For example, if the company is financing its

11    hedging policy and it's --

12              JUDGE DIPPELL:  Mr. Hyneman, can you just make

13    sure you talk into the microphone instead of to Mr. Smith.

14    Thank you.

15         A.   I'm sorry.

16              For example, if you took plant in service, now

17    that's an investment, a long-term asset, it's matched up

18    with long-term debt and the equity investment in that.

19         Q.   (By Mr. Smith)  So the matching is also

20    important in terms of the type of asset?

21         A.   I think it is, yes.

22         Q.   Can you explain why?

23         A.   I think in general terms -- I can use an

24    example.  For plant in service as a long-term asset has a

25    life of 20 years.  It is matched with the funding of
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1   long-term debt and equity. Those are considered the

2   long-term components of capital structure. If you take a

3   short-term asset, such as prepayment or gas inventory that

4   cycles each year, those are more appropriately funded with

5   short-term debt because of the nature of the asset.

6   **Q.   Thank you. There was a discussion with**

7   **counsel for the company about Laclede's nature. Do you**

8   **recall that?**

9   A.   Yes.

10   **Q.   Can you clarify what was meant by that?**

11   A.   Well, it simply reflects -- and I want to

12   clarify. I didn't insinuate any bad behavior or improper

13   behavior. But in my experience dealing with Laclede, they

14   don't take rate making positions that would lower cost to

15   customers. That's my opinion. And this transaction here,

16   by paying a short-term debt rate of 1.5 and charging a cost

17   of capital of 11 percent, that is consistent with my

18   experience of Laclede's rate making proposals and my

19   experience with the company during our complaint

20   proceeding.

21   **Q.   Also with counsel for the company, there was**

22   **some discussion of numbers and revenue requirement. All of**

23   **those answers that you gave were subject to check, correct?**

24   A.   That's correct.

25   **Q.   There was also discussion between you and**

1 **company counsel about your reaction to the Staff's**

2 **testimony and what the significance of that was. Do you**

3 **recall that?**

4   A.   Yeah. And I tried to clarify that. When I

5 read Staff's position, again, I was -- I didn't understand

6 that Staff was combining the short-term debt and capital

7 structure with the natural gas inventories. Because I

8 think at the time, I think as Mr. Sommerer indicated, the

9 short-term debt was below the amount. I was surprised.

10   I have tremendous respect for Mr. Sommerer and

11 the work he's done over the years. And I was surprised by

12 that treatment. And I know I didn't see anything in his

13 direct testimony to substantiate taking it out of the PGA

14 and putting it in rate base. Now, understanding Staff's

15 position now, I think his position could certainly be

16 considered reasonable if as it is now in the true-up, the

17 level of short-term debt and the capital structure very

18 closely matches the inventory in Laclede and MGE's rate

19 base.

20   So that testimony which I was concerned with

21 Staff's position, was under the wrong impression.

22   Q.   **Do you believe that testimony was inconsistent**

23 **or did it clarify their previous testimony?**

24   A.   I think -- I think I misunderstood Staff's

25 testimony. I think they were consistent from the beginning

1 because they filed a position, short-term debt in the

2 capital structure with inventory in rate base. So Staff

3 was consistent from direct testimony on. It's just my

4 understanding was not what Staff was intending.

5   MR. SMITH: Okay. Thank you. No further

6 questions.

7   JUDGE DIPPELL: Thank you. Okay. I know

8 we've only been in here an hour, but it is the lunch hour.

9 Do we -- I'm sorry. Mr. Hyneman, you can step down. The

10 next issue is surveillance. Is there going -- are we

11 planning to go forward? There's not been any settlement or

12 waiving of testimony or any of that kind of?

13   MR. ZUCKER: There has been an agreement

14 between Staff, OPC and the company on how to handle that

15 issue. But I can't speak for other parties.

16   JUDGE DIPPELL: Okay. Mr. Mills?

17   MR. MILLS: I can speak for one of the

18 parties. I have not seen the agreement, but I understand

19 the basis. MIEC is opposed to it. So we will plan to

20 briefly cross-examine the Staff witness and the company

21 witness scheduled on that witness.

22   JUDGE DIPPELL: Okay. In that case then, we

23 can go ahead and break for lunch. We will return with the

24 surveillance issue. Things are going to speed up this

25 afternoon, correct?

1   MR. ZUCKER: Yes, ma'am.

2   MR. SMITH: I hope so.

3   JUDGE DIPPELL: If they don't, we're going to

4   be here late tonight.

5   MR. KEEVIL: Look at the bright side. They

6   can't slow down.

7   JUDGE DIPPELL: Let's break for lunch. Return

8   back at 1:30, please.

9   (Whereupon there was a lunch break.)

10   JUDGE DIPPELL: We can go back on the record.

11   Back on the record. We're back from our lunch break and

12   ready to the begin with the surveillance issue. Can we

13   begin with an opening by the company. Do you have one?

14   MR. ZUCKER: Yes. Thank you, your Honor. May

15   it please the Commission. I would like to start by

16   announcing an agreement of parties, some of the parties.

17   JUDGE DIPPELL: Okay.

18   MR. ZUCKER: I think this is not a written

19   agreement, but it's, I think, an agreement in principle

20   regarding what the company will turn over to Staff and OPC

21   as surveillance documents in response to the issues in this

22   case. And we have agreed to provide surveillance in the

23   template, as in Ms. Ferguson's testimony, to split up

24   Laclede and MGE from the Laclede Gas Company, which covered

25   both of them.

1   And we also have agreed to, if they have a

2   concern when they review the surveillance documents, that

3   we'll start with them bringing it to the company, we'll try

4   to work it out with them. If we can't, we will provide

5   them secure access to our general ledger. It's a lot of

6   work to prepare the general ledger. So we were trying to

7   be judicious about it. But if they have an issue, we will

8   let them see it. And I think we'll let them see it once a

9   year, whether they want to or not.

10   I think that covers the entire agreement.

11   Staff and OPC and the company are onboard. I believe

12   Mr. Mills may not be in agreement, but I'll leave that up

13   to him.

14   JUDGE DIPPELL: All right. Thank you. With

15   that being said, is there an opening by Staff on this

16   issue?

17   MS. FORCK: Your Honor, I just wanted to echo

18   the comments from Mr. Zucker. And Staff is in agreement

19   with that. And I have no further comments on the issue.

20   JUDGE DIPPELL: Okay. Is there anything from

21   Public Counsel in addition?

22   MR. SMITH: We would agree with the comments

23   made by Mr. Zucker. This is the portent, the document, it

24   was one of the documents that led to OPC's filings of its

25   earnings complaint. So we appreciate the level of

1   transparency. You know, that they are essentially agreeing

2   to the formatting and requests that Staff have requested.

3   So that is all.

4   JUDGE DIPPELL: Is there anything from the

5   Environmental Defense Fund on this issue?

6   MR. SMITH: Nothing, your Honor. Thank you.

7   JUDGE DIPPELL: Mr. Mills, would you like to?

8   MR. MILLS: Yes, thank you. With respect to

9   the issue of surveillance, the first issue is whether or

10 not the company should provide surveillance data. And the

11 agreement apparently stipulates that they will. But the

12 other two issues that flow from that are how often, in what

13 form and to whom. And I don't believe that on at least the

14 how often and to whom portions of the agreement, I don't

15 believe that the parties who have made the agreement have

16 gone far enough.

17   The Commission's rules on fuel adjustment

18 clauses have some fairly detailed provisions in terms of

19 how surveillance data is to be provided. From my

20 prospective, there is no earthly reason for the gas

21 company -- gas companies in this case to be doing both less

22 frequent surveillance reporting and surveillance reporting

23 that is not available to parties who have intervened and

24 found to have an interest -- intervened in rate cases and,

25 therefore, found by the Commission to have an interest in

 1   the rates established by the utilities.

 2   So the two issues that I have with the

 3   agreement are that it is not -- it is not done on a

 4   quarterly basis, but rather an annual basis, which is

 5   insufficient for ongoing monitoring of a utility. And that

 6   is not available to parties like the MIEC.

 7   JUDGE DIPPELL: Okay. Mr. Chairman, do you

 8   have questions?

 9   CHAIRMAN HALL: So your concern is that it's

10   being provided annually, as opposed to quarterly and you're

11   not getting access?

12   MR. ZUCKER: Your Honor.

13   CHAIRMAN HALL: Excuse me. I was speaking.

14   But you're fine with the format?

15   MR. MILLS: I have not seen an agreement in

16   writing. My understanding is that it will be similar in

17   format to the FAC reporting. And if that is the case, then

18   I am fine with that format.

19   MR. ZUCKER: I'm sorry, Chairman Hall. I just

20   wanted to point out that with regard to the surveillance

21   documents, the financial statements, we will be providing

22   them once a quarter. When I talked about annually, I was

23   talking about the general ledger.

24   CHAIRMAN HALL: So then that means the only

25   issue is whether you get access to them?

 1   MR. MILLS: Exactly.

 2   CHAIRMAN HALL: And the company's position on

 3   that?

 4   MR. ZUCKER: This is non-public data. And we

 5   don't want to be in a position of providing it to anybody

 6   who intervenes in our cases. And we -- we are comfortable

 7   providing the documents to the parties that regulate us,

 8   the Staff and OPC. The industrials don't have the same

 9   confidentiality requirements, legal requirements. And

10   finally --

11   CHAIRMAN HALL: Well, that could be put into a

12   stipulation or order, though.

13   MR. ZUCKER: It could be. But I guess the

14   question is who would be signing it. We don't even know

15   who they are. They now have -- it used to be they had to

16   name their members. Now they have some kind of corporate

17   entity.

18   CHAIRMAN HALL: Let's take a 30 second recess.

19   JUDGE DIPPELL: Let's go off the record.

20   (Whereupon there was a short break.)

21   JUDGE DIPPELL: We can go back on the record.

22   Okay. So if those are the remaining -- or that is the

23   remaining issue, does that narrow witnesses available on

24   this issue?

25   MR. MILLS: Judge, there are only two

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 1   witnesses listed and I have questions for both of them,

 2   which is just a very few questions.

 3            JUDGE DIPPELL:  Okay.  Then let's --

 4            MR. ZUCKER:  One other point, your Honor, the

 5   issues in the issue list is should we be providing the

 6   information to the Commission.  So I guess I question

 7   whether it's an issue as to whether we should be providing

 8   it to the -- and if you look at their position statement,

 9   the industrial's, they don't even address this issue.

10            MR. MILLS:  It doesn't mean that it's not

11   still a live issue.  And the question whether it is to be

12   provided to the Commission, I don't think you can just stop

13   there.  What the Commission does with it, how it's

14   available to the other parties necessarily flow from that.

15   We don't spell out every single nuance of every single

16   issue.  Our issues list would be hundreds of pages long.

17   Those are relevant aspects of this question.

18            JUDGE DIPPELL:  Okay.  Let's go forward and

19   have Mr. Buck -- I'm assuming that's the company's witness.

20            MR. ZUCKER:  Yes.

21            JUDGE DIPPELL:  And Ms. Ferguson.

22            MR. ZUCKER:  Thank you, your Honor.

23            JUDGE DIPPELL:  Mr. Buck you've been

24   previously sworn.

25            THE WITNESS:  Correct.
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 1   JUDGE DIPPELL: So you remain under oath for

 2   these proceedings.

 3   GLENN BUCK testifies as follows:

 4   DIRECT EXAMINATION BY MR. ZUCKER:

 5   **Q.   Good afternoon Mr. Buck.**

 6   A.   Good afternoon. Could I make one

 7   clarification if I might from what I heard?

 8   **Q.   Yes.**

 9   A.   To Mr. Mills' points, we're planning on giving

10   the surveillance information to the Staff and OPC

11   quarterly. The one designation is we want to do it within

12   60 days of the end of the quarter so that our financial

13   folks can sit there and close the 10Qs, etc. I believe the

14   Staff was agreeable to that.

15   JUDGE DIPPELL: Is that part of Staff's

16   testimony?

17   MS. FERGUSON: For the 60 days?

18   JUDGE DIPPELL: Yes.

19   MS. FORCK: I don't believe it's part of the

20   testimony, but it's part of the agreement that we made with

21   the company.

22   MR. ZUCKER: In addition, I believe what the

23   industrials want is just the surveillance documents, not

24   the general ledger that we're working with Staff to provide

25   on a flash drive.

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 1                    JUDGE DIPPELL:  Mr. Zucker, will the agreement

 2   between the other parties, will that still be reduced to

 3   writing or is the Commission to order that based on the

 4   statements made?

 5                    MR. ZUCKER:  With Staff and OPC you mean, that

 6   agreement?

 7                    JUDGE DIPPELL:  Yes.

 8                    MR. ZUCKER:  Sure.  We can reduce it to

 9   writing.

10                    JUDGE DIPPELL:  Okay.  And you're tendering

11   the witness?

12                    MR. ZUCKER:  Yes.

13                    JUDGE DIPPELL:  Is there cross-examination by

14   Staff?

15                    MS. FORCK:  No, your Honor.

16                    JUDGE DIPPELL:  Public Counsel.

17                    MR. SMITH:  No questions.

18                    JUDGE DIPPELL:  MIEC?

19                    MR. MILLS:  Yes.  Thank you.

20   CROSS-EXAMINATION BY MR. MILLS:

21        Q.   Mr. Buck, are you aware of any instance in

22   which information released to parties pursuant to the

23   Commission's rules on FACs has been misused or abused?

24        A.   Not FACs.  But surveillance reports, yes.

25        Q.   When you say surveillances reports, what do
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1   **you mean by that?**

2   A.   Okay. One, I think it was completely

3   unintentional. But Staff issued an investigative report on

4   our holding company, acquisitions of Energy South and

5   Alagasco in September of 2016. In that report, the -- one

6   of the Staff witnesses, Mr. Murray, included some

7   information that related to the June 2016 surveillance

8   report that had what our rate base estimated was as of June

9   of 2016.

10   We've got quite a few investors, investor --

11 equity and debt investor groups that follow us. And the

12 next day, about three of those groups picked up what our

13 supposed rate base is. We have no troubles with

14 transparencies with our investors, but we'd like to control

15 it instead of somebody else.

16   **Q.   As a follow-up are you aware of any instance**

17 **which the MIEC has misused or abused information provided**

18 **in surveillance reports?**

19   A.   Generally I don't think you get our

20 surveillance reports.

21   **Q.   Okay. Or any company surveillance reports?**

22   A.   I don't follow other company's surveillance

23 reports.

24   **Q.   So is your answer yes or no?**

25   A.   I guess my answer would be I don't know.

1   Q.   You don't know of any instances?

2   A.   I don't know.

3   Q.   Okay. So your only issue that you can think

4   of is with the Staff, with whom you've agreed to already

5   provide this information; is that correct?

6   A.   Oh, no. I've got other issues. Specifically

7   related to that, that's correct.

8   Q.   And with respect to the content of the

9   surveillance monitoring reports, is it your understanding

10   that the content will be similar to the reports submitted

11   by the electric utilities that operate with fuel adjustment

12   clauses?

13   A.   I don't believe so. The fuel adjustment

14   clause, the one that's passed, 386266, rules passed related

15   to that that had approximately ten pages worth of

16   information that was going to be supplied as part of the

17   surveillance report, including budgets for periods of time,

18   long-rage forecasts, I think budget variance reports, etc.

19   I think specifically what the Staff and OPC

20   was looking for was the current format of the surveillance

21   report we have now, which provides a rate base, an income

22   statement, all of our capital structure and the debt cost

23   and equity cost done on a quarterly basis broken down

24   between the Missouri East and Missouri West operating

25   units.

1   And that's pretty much what they have. It's

2   not dissimilar to what we do now; in fact, we've been doing

3   before I actually started. It was actually called the

4   Shackleford report, which predates me. I don't know what

5   it was other than the fact it was someone who worked in the

6   financial department many, many years ago.

7   So all Staff is asking us to do and we have

8   agreed to do, is provide that report split between Laclede

9   and MGE.

10   **Q.   And is it your understanding that the written**

11   **agreement that the parties have made this agreement in**

12   **principle, will that written agreement reflect the**

13   **specifics of the kinds of reports that will be submitted?**

14   A.   I have received a copy of what the Staff

15   proposes to be -- the report they would like to receive.

16   And it's actually in a spreadsheet format. And they've

17   agreed to work with us so we can find a way to make it

18   fairly seamless so we can give it to them within a 60-day

19   period and provide them with information they don't have to

20   just basically retype.

21   **Q.   So based on that answer, is it correct that**

22   **the exact details of the information you provided have not**

23   **yet been agreed upon?**

24   A.   I think they are. I think it's just the

25   format that we have to finalize.

1   Q.   Okay. And finally, why will it take 60 days

2 to have this information available?

3   A.   From the end of the quarter?

4   Q.   Yes.

5   A.   Because our financial -- the accounting people

6 are the folks who are going to be putting that together

7 and, frankly, after the quarter, are emersed in creating

8 the 10Qs or the 10Ks. So 60 days, that time frame gives

9 them time to get through the K or get through the Q, to

10 make sure for that matter that all the audits are done

11 properly, that there's no outstanding accruals so that

12 we're giving good information to the parties. And then

13 within that 60 days, which is fairly close to when we have

14 to have our 10Ks done or 10Qs done, is when we'd be giving

15 the information to them.

16   Q.   And when exactly are the 10Qs done?

17   A.   For example, with the June ended quarter, they

18 were right at the end -- end of July, early August, I

19 believe. The 10K tends to trail. For example for the

20 September ended period, a 10K won't be available until

21 roughly November 25ish, in that time frame.

22   MR. MILLS: I don't have any other questions.

23   JUDGE DIPPELL: Thank you. Anything from the

24 Environment Defense Fund?

25   MS. KARAS: No questions, your Honor.

 1   JUDGE DIPPELL: Are there any questions from

 2   the Bench for Mr. Buck. Go ahead.

 3   QUESTIONS BY CHAIRMAN HALL:

 4   Q.   **Good afternoon.**

 5   A.   Good afternoon.

 6   Q.   **So there is a general agreement between Staff,**

 7   **OPC and the company as to the substance and the format of**

 8   **these surveillance reports; is that correct?**

 9   A.   That's correct.

10   Q.   **Can you tell me what differences there are**

11   **between the information that will be -- that would be**

12   **contained in those surveillance reports and the information**

13   **that's distributed to the parties in this rate case?**

14   A.   The information is the same, except for it's

15   in slightly more summarized form. So for example --

16   Q.   **More summarized in the surveillance report?**

17   A.   It's probably more summarized in the

18   surveillance report. For example --

19   Q.   **It's going to be more detail and distributed**

20   **to all the parties in the rate case, but you're opposed to**

21   **those same -- some of those same parties getting a**

22   **summarized version of it quarterly?**

23   A.   I -- I am actually opposed to it. I've got

24   several reasons why.

25   Q.   **I would like to hear them.**

1   A.   Well, I think the first one is, Spire Missouri

2   is a publicly traded company or at least we have public

3   information. The Qs that I spoke of previously, they can

4   get that information from that also. The 10Q actually has

5   the information on Spire Missouri. It's not Spire

6   consolidated. It is the individual company. If they want

7   to track our earnings or surveil our earnings, they can do

8   it through that.

9   **Q.   That would also be a reason why you shouldn't**

10 **oppose it.**

11   A.   Except for the information such as -- that is

12 a good question. And I think we probably have a

13 designation there that rate base information is not

14 publicly available. And that will be in the surveillance

15 report. And rate base information is something that

16 investor groups actually do use to sit there and try to

17 drive what their derivation of what they think the

18 company's future earning opportunities would be.

19   **Q.   But again, that's information that is**

20 **available to all the parties in this rate case and you**

21 **don't want that information available going forward to some**

22 **of those same parties. I'm still trying to figure out why.**

23   A.   You're specifically speaking to the rate-base

24 items, sir?

25   **Q.   Any -- any type -- any category of information**

1   that -- that is being -- that would be requested in the

2   surveillance report that is also at issue in a rate case or

3   available, distributed to the parties in a rate case, in

4   this rate case?

5   A.   Well, I guess it's basis level. I would sit

6   there and say that Staff and OPC are charged with auditing

7   us, the consumers aren't. They have an interest in the

8   case. And I understand that.

9   Q.   They have access to that information in this

10   case. And that's okay, I assume, from your prospective.

11   But you don't want them to have access to the exact same

12   information in the surveillance reports going forward. I'm

13   trying to understand why.

14   A.   A large portion is related to confidentiality,

15   sir.

16   Q.   But couldn't confidentiality be built into the

17   receipt of those surveillance reports, just like it's built

18   into testimony in evidence in a rate case?

19   A.   I'll have to defer to the attorneys on that.

20   But yes, it certainly could be. But at the same time, I

21   have had an example where confidential information has

22   leaked out to the public without our knowledge or ability

23   to control it. And that is a concern we have.

24   Theoretically, I guess we could have done an 8K on

25   something like that. So we could have actually created a

 1   requirement on our part because it was released.

 2   CHAIRMAN HALL: Okay. Thank you.

 3   THE WITNESS: Thank you.

 4   JUDGE DIPPELL: Any other questions from the

 5   Commissioners.

 6   CHAIRMAN HALL: No.

 7   JUDGE DIPPELL: All right. Any further

 8   cross-examination based on the Chairman's questions from

 9   Staff?

10   MS. FORCK: No, your Honor.

11   JUDGE DIPPELL: Public counsel?

12   MR. SMITH: No.

13   JUDGE DIPPELL: MIEC?

14   MR. MILLS: No.

15   JUDGE DIPPELL: Environmental Defense Fund.

16   MS. KARAS: No questions, your Honor.

17   JUDGE DIPPELL: Is there redirect by Spire.

18   MR. ZUCKER: Just a little bit.

19   REDIRECT EXAMINATION BY MR. ZUCKER:

20   **Q.   Mr. Buck, do you see there being a difference**

21   **in providing information in a rate case and providing**

22   **information during times where there isn't a rate case?**

23   A.   Absolutely. Specifically, I think during a

24   rate case, you are looking at a whole broad brush of things

25   and you do normalization adjustments and annualization

1 adjustments. So it requires a lot more data. But when

2 you're actually just surveilling, for example, if we gave a

3 report for the quarter ended December, it would give kind

4 of what our earnings are, what our rate base would be, what

5 our capital structure would be. But it wouldn't have any

6 information on whether we had a warmer than normal year or

7 colder than normal year or some unusual event that occurred

8 at that point in time.

9   So it's not the same level of detail that you

10 have. And frankly, I don't think anybody at this point in

11 time is interested in doing a quarterly rate case or a

12 quarterly rate case update. Certainly if that avenue is

13 something we want to approach, we should be able to

14 bring -- that's something where a rate shouldn't take

15 nearly as long as it does right now because everybody would

16 have all the information all the time.

17   **Q.   During a rate case, there is -- I guess a risk**

18 **to the parties that rates will increase, correct?**

19   A.   That's correct.

20   **Q.   Is that a risk during the periods outside of a**

21 **rate case?**

22   A.   No. Because the company has not filed tariffs

23 to sit there and increase the rates at that point.

24   **Q.   Do you have any idea who the parties are in**

25 **the MIEC for this case?**

1   A.   I have some idea what the MIEC is. I have

2   absolutely no idea with the Missouri Energy Consumers

3   Group. MIEC used to be an intervenor on Laclede's side

4   back -- once again, I'm kind of dating myself -- but

5   probably back three or four cases ago, they used to sit

6   there and declare who their members were. So it was

7   Anheuser-Busch, Boeing, Monsanto, Doe Run -- not Doe Run.

8   Doe run was an Ameren customer. But it's several customers

9   of that nature. With MIEC, I honestly have no idea who

10   their clients are?

11   **Q.   With MECG?**

12   A.   MECG. Sorry. My apologies.

13   MR. ZUCKER: That's all the questions I have.

14   Thank you.

15   JUDGE DIPPELL: Thank you. Mr. Buck, you may

16   step down.

17   THE WITNESS: Thank you.

18   JUDGE DIPPELL: Staff's witness?

19   MS. FORCK: Staff calls Lisa Ferguson.

20   JUDGE DIPPELL: Ms. Ferguson, you've been

21   sworn in for this proceeding. So you remain under oath for

22   our purposes.

23   THE WITNESS: Correct.

24   LISA FERGUSON testifies as follows:

25   DIRECT EXAMINATION BY MS. FORCK:

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 1          Q.    Good afternoon, Ms. Ferguson.

 2          A.    Good afternoon.

 3          Q.    Do you have any corrections to make to your

 4   testimony related to the surveillance issue in this case?

 5          A.    No corrections.

 6          Q.    Okay.  Do you have any edits?

 7          A.    If you're referring to the discussions we've

 8   had at the beginning of this, then I will say that

 9   originally, my proposal for surveillance, the template that

10   I describe in my surrebuttal, as well as general ledgers

11   and the subledgers to be provided quarterly together.

12   However, it's more to my attention through settlement

13   discussions that the company is willing to provide us with

14   the surveillance template quarterly, but the general

15   ledgers annually.  And I believe we've agreed to that.

16          I know Mr. Buck -- Staff had a meeting with

17   Mr. Buck about this surveillance template just to walk him

18   through it so he understood what we were requesting.  And

19   he had suggested about providing that information about 45

20   to 60 days after.  And in an effort to compromise, I was

21   fine with that.

22          Q.    Okay.  Thank you.  So with those comments in

23   mind, if you were to be asked the same questions contained

24   in the testimony, would your answers be the same?

25          A.    Yes.
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1   Q.   Okay. And is your testimony true and accurate

2   to the best of your knowledge and belief?

3   A.   Yes.

4   MS. FORCK: Your Honor, this is Ms. Ferguson's

5   final issue in this case. So I move to admit Exhibits 215

6   which is rebuttal testimony of Lisa Ferguson, 246 which is

7   surrebuttal testimony of Lisa Ferguson confidential and 247

8   surrebuttal testimony of Lisa Ferguson public.

9   JUDGE DIPPELL: Would there be any objection

10 to admitting Exhibits 215, 246, 247 into evidence?

11   MR. SMITH: No objection.

12   JUDGE DIPPELL: Seeing none, I will admit

13 those exhibits.

14   (Whereupon Exhibits 215, 246 and 247 were

15 received into evidence.)

16   MS. FORCK: Thank you, your Honor. And with

17 that, I tender the witness.

18   JUDGE DIPPELL: Thank you. Cross-examination

19 by Public Counsel?

20   MR. SMITH: No. Thank you, Judge.

21   JUDGE DIPPELL: MIEC?

22   MR. MILLS: Yes. Thank you. And, Judge,

23 before I begin my cross-examination, I'd like to ask that

24 the Commission take official notice of several provisions

25 of its rules. And these all have to do with the

1 surveillance reporting under the provisions of the fuel

2 adjustment clause. So the first section is Chapter 20.090

3 Paragraph 10.

4   JUDGE DIPPELL: I'm sorry. What was the

5 section?

6   MR. MILLS: CSR 240-20.090, Paragraph 10. And

7 then in Chapter 3 CSR 240-3.161, Paragraphs 6, 8, 9, 10 and

8 11. And just in brief summary, the one in Chapter 20

9 basically refers to Chapter 3 for the specific provisions.

10   And with respect to one of the objections that

11 the company has raised, and I think this came up in the

12 Chairman's questions, Paragraphs 10 and 11 of 3.161 are a

13 fairly elaborate series of protections. Because the

14 information provided pursuant to these reports is

15 confidential. So I don't think those questions are all

16 abreast addressed in these rules I think relevant to the

17 question at hand and I request that the Commission take

18 official notice to those provisions.

19   JUDGE DIPPELL: Would there be any objection

20 to the Commission taking official notice to its rules,

21 those specific rules?

22   MR. ZUCKER: I'm going to say no.

23   JUDGE DIPPELL: The Commission will take

24 official notice of its rules in Chapter 20.090 Section 10

25 and 3.161 Section 6, 8, 9, 10 and 11.

1   MR. MILLS: Thank you.

2 CROSS-EXAMINATION BY MR. MILLS:

3   Q.   **Ms. Ferguson, are you familiar with those**

4 **rules in terms of provision of surveillance reporting by**

5 **electric utilities that operate with fuel adjustment**

6 **clauses?**

7   A.   Generally, yes.

8   Q.   **Okay. And I'll ask you that same question**

9 **that I asked Mr. Buck. Are you aware of any instances in**

10 **which the MIEC or other parties that are not Staff or**

11 **Public Counsel have abused or misused any of the**

12 **information they've gotten pursuant to those provisions?**

13   A.   No, I'm not aware of any time that's occurred.

14   Q.   **And can you -- other than specific aspects of**

15 **the rules that are the rules about the contents of the**

16 **surveillance reporting that is specific to electric**

17 **companies, rather than utility companies in general, can**

18 **you describe the differences between what is required under**

19 **those rules and what you have agreed with Laclede and MGE**

20 **to provide?**

21   A.   I believe I even say in my direct testimony

22 that what I'm intending -- or what I've asked from the

23 company is generally the same as what we've requested for

24 FAC surveillance.

25   Q.   **I understand that's what you said in your**

1   **testimony. I'm trying to understand if that's what the**

2   **company has agreed to provide.**

3   A.   That's what I understand they have agreed to

4   provide.

5   MR. MILLS: Okay. I don't believe I have any

6   other questions. Thank you.

7   JUDGE DIPPELL: Thank you. Any questions for

8   Ms. Ferguson from Spire?

9   MR. ZUCKER: No questions, your Honor.

10   JUDGE DIPPELL: Any questions from the, Bench?

11   CHAIRMAN HALL: No questions.

12   COMMISSIONER KENNY: No questions.

13   JUDGE DIPPELL: Is there any redirect by

14   Staff?

15   MS. FORCK: No thank you, your Honor.

16   JUDGE DIPPELL: All right. Then Ms. Ferguson,

17   that completes your testimony and you may step down and you

18   may be excused.

19   So is that the only witness? MIEC has no

20   witness on this issue; is that correct?

21   MR. MILLS: That's correct. It's my

22   understanding those were the only two witnesses that were

23   listed for this issue.

24   JUDGE DIPPELL: All right. We are ready to

25   move on to the Forest Park property issue, which I believe

1   is a Laclede division only issue. Is there any -- are we

2   just going forward with this one? There's been no

3   agreement as far as this one? Okay. Is there an opening

4   by Spire.

5   MR. PENDERGAST: Thank you, your Honor. This

6   issue involves whether the company should be required to

7   reflect in rate certain proceeds that it realized on the

8   sale of the Forest Park property in 2014. These proceeds

9   included a gain that the company realized on the sale that

10   was related entirely to the value of the land. The sale

11   documents and the appraisal actually said that if the

12   buildings were on it, it would go for a lower value than if

13   the buildings were taken off. In other words, the

14   buildings were a liability, not an asset. So it was

15   entirely related to the value of the land. In addition,

16   the proceeds included an allowance for relocation expenses.

17   The sale of Forest property -- Forest Park

18   property should not come as a surprise to the Commission.

19   We talked about it in some detail when we made a formal

20   presentation to the Commission in May of 2014 as a

21   follow-up to the MGE acquisition, including some discussion

22   about the fact that the property would now be used for the

23   first IKEA store in St. Louis.

24   And, you know, THE IKEA store is great and all

25   that sort of thing. But I think what the Commission needs

1   to keep in mind is this area was directly in the Cortex

2   Innovation Center in downtown St. Louis which is an

3   incredibly -- midtown St. Louis, incredibly important thing

4   to the St. Louis area. It's an effort by Washington

5   University, St. Louis University, Missouri Botanical

6   Gardens and others to really have an entrepreneurial

7   bioscience center in St. Louis and attract the best and the

8   brightest to our city, which is, you know, something that

9   any city would want to go ahead and do.

10   And having, you know, various things like an

11   IKEA store in that area was something that helps that to

12   take place. So, you know, we were happy in the end that we

13   could be part of the process that brought that asset to the

14   community. But, you know, we were going to be leaving that

15   Forest Park Center anyway. It wasn't consistent with our

16   efforts to go ahead and change our operating system or

17   operating districts from three to two in the St. Louis

18   area.

19   And really, given its delapidated condition

20   and other issues, the property and facilities were either

21   going to require a substantial amount of money to

22   rehabilitate or we were going to have to go ahead and

23   simply get out of it, which we did.

24   Now, Staff has said with respect to the gain,

25   that they view this leaving the Forest Park -- I don't

1 question the prudence of it, you know. But they say there

2 it was another facility that was built, a satellite

3 facility at Manchester, a new service center. And that new

4 service center was more expensive than the Forest Park

5 property was. And therefore, we should take a part of the

6 gain from the Forest Park property and apply it to

7 Manchester.

8   And Staff's view of that is, shall we say,

9 incomplete. What the Staff didn't take into account in

10 making that comparison was the additional capital upgrades

11 that we would have had to make to Forest Park if we had

12 gone ahead and stayed there. What they didn't take into

13 account was the substantially higher operating cost for the

14 Forest Park property comparted to the new Manchester. What

15 they didn't take into account were the higher property

16 taxes that we had to pay on the Forest Park property

17 compared to what we're paying on the Manchester property.

18   And if you take all of those into

19 consideration, actually the analysis done by our witness

20 Ms. Kopp shows that the Manchester facility is actually

21 cheaper to operate than the Forest Park facility would have

22 been all in.

23   Taking into consideration all the aspects of

24 the -- from investment to operating costs. And given that,

25 if you're going to go ahead and say we replaced one

1   facility with another and that facility happened to go

2   ahead and be less expensive to operate than another, then

3   taking a gain from that first property which was entirely

4   related to the land and under those circumstances, the

5   Commission has generally said that gain should go to the

6   shareholder. I know in other cases it said there may be

7   appropriate circumstances for sharing it with customers.

8   But given the results that were achieved here, I don't

9   think these were the kind of circumstances where sharing is

10   appropriate.

11   The second part of the issue has to do with

12   the relocation proceeds. You know, we renegotiated with

13   Cortex when we sold the property to have an allowance for

14   our moving and relocation expenses. And, you know,

15   every -- all of those relocation expenses were actually

16   spent on relocating people and facilities and equipment.

17   We provided to Staff an audit or a memorandum

18   done with our outside auditors that talked about how the

19   reserve we had established with these relocation proceeds

20   were being used. And we also provided Staff with a

21   spreadsheet of the reserve we had established with about

22   6,000 lines of debits related to various relocation

23   expenses that we hit to that reserve.

24   And in the end, you know, we're looking at

25   something that happened in 2014. And we got some proceeds

1   to use for relocation expenses and we spent them in 2014,

2   2015 and even a little bit in 2016. And a justification

3   for going back and just grabbing the relocation expenses --

4   and understand Staff has split them in some kind of way --

5   but just recognizing those and not recognizing the

6   expenses, you know, it seems to go ahead and hit the

7   trifecta.

8   It's a little bit like retroactive rate

9   making. It's a little bit like single issue rate making.

10   And quite frankly, taking a non-recurring item like this

11   and just say I'm going to go ahead and reflect it in rates

12   particularly in the absence of any deferral agreement like

13   we have with transition costs, we think is just

14   inappropriate and impermissible. So we would urge you to

15   reject Staff and OPC's suggestion on this.

16   JUDGE DIPPELL: Thank you. Were there any

17   questions by the Commission for Mr. Pendergast?

18   COMMISSIONER KENNY: Just briefly. Was the

19   5.8 million in net after sale versus book value?

20   MR. PENDERGAST: I think the Staff has

21   calculated -- if we're talking about the gain portion.

22   COMMISSIONER KENNY: Yes.

23   MR. PENDERGAST: And then on the relocation

24   expenses, I think that was 5.7 million.

25   COMMISSIONER KENNY: Just the sale portion.

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 1              MR. PENDERGAST:  Yes.

 2              COMMISSIONER KENNY:  So the rest had been

 3   depreciated, correct?

 4              MR. PENDERGAST:  Yes.  It was depreciated down

 5   to about $1.8 million.  And of course, as I said, the value

 6   of that, that was the book value.  It wasn't the market

 7   value.

 8              COMMISSIONER KENNY:  Okay.  And you keep

 9   saying it was land only that was owned by the company.

10              MR. ZUCKER:  No.  We owned the land and we

11   owned the buildings.  But once again, in part because the

12   buildings were in such terrible condition and in part

13   because they wanted to use that for the IKEA property, you

14   got no value of the sale with the buildings.

15              COMMISSIONER KENNY:  So when you sold the

16   property, the new tenant, they leveled it, you just sold it

17   as is?

18              MR. PENDERGAST:  Yes.  It was leveled and I

19   think --

20              COMMISSIONER KENNY:  You just sold it as is?

21              MR. PENDERGAST:  Yes, absolutely.

22              COMMISSIONER KENNY:  Thank you.

23              JUDGE DIPPELL:  Chairman Hall?

24              CHAIRMAN HALL:  Are you aware of this issue

25   being presented to the Commission in previous cases for
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1   something similar to this issue?

2   MR. PENDERGAST: You know, I know for example,

3   I think the Missouri cities case is one where it involved a

4   gain. And in that, Commission, I think, recognized

5   normally we book those below the line and utility retains

6   it. But the Commission also said under appropriate

7   circumstances, we could consider a different approach.

8   I remember when the KP&L properties were sold,

9   this is like 20, 25 years ago, they were actually sold for

10 below net book value. And at that point, you know, to

11 Staff's credit they recognized the net book value when it

12 came to setting rates. And the little benefit the utility

13 got by acquiring it below net book value was allowed to

14 stay with the utility.

15   And then I think there had been cases

16 involving KCPL, but my memory is a little fuzzy, where

17 there was a land involved. And I think the Commission

18 recognized there that particularly where it's just the sale

19 of land, the, you know, policy for allowing the utility to

20 go ahead and retain the gain is particularly strong.

21   One of the reasons for that is when it comes

22 to land, you do earn a return on it while it's being used

23 for service. You don't get a return of it. You know,

24 there's no depreciation because it's land. So really,

25 unlike another kind of asset, you're not getting a return

1   of and a return on it from rate payors.

2   CHAIRMAN HALL: Okay. Thank you.

3   JUDGE DIPPELL: Any other questions for

4   Mr. Pendergast before he sits down? Okay. Thank you,

5   Mr. Pendergast. Is there an opening by Staff?

6   MS. FORCK: Thank you, your Honor. May it

7   please the Commission. You're about to hear testimony

8   regarding the sale of Laclede property that was located

9   near Forest Park in St. Louis. Now, the facts in this case

10   suggest that perhaps the company should have come to the

11   Commission prior to the sale for approval. But Staff chose

12   not to pursue that issue here or in a complaint given the

13   timing that this issue came to Staff's attention.

14   Statutorily, the company is required to secure

15   Commission authorization prior to the sale of any part of

16   its system that is necessary or useful in the performance

17   of its duties to the public. At the time this issue was

18   presented to Staff, the utility structures were already

19   demolished and replaced by an IKEA retail store that was

20   already in operation. So rather than possibly pursue this

21   issue, Staff chose to address the accounting of the sale

22   proceeds in context of this rate case.

23   Staff's proposal serves to mitigate the harm

24   to rate payors of the sale and replacement of the piece of

25   property that was still necessary and used and useful for

 1   the provision of utility service.

 2   The possible need for Commission approval of

 3   the sale is not an issue before today. That said, Staff

 4   would suggest to the company that in instances where sale

 5   arguably needs Commission approval, the company should ask

 6   the Commission for a determination on the need for

 7   approval.

 8   This Forest Park property was sold to IKEA for

 9   purposes of constructing an IKEA retail store. In return,

10   Laclede received a significant profit for the sold

11   property, as well as a substantial level of proceeds to

12   cover Laclede's Forest Park related location cost. The

13   sale of the Forest Park property required Laclede to

14   purchase land and construct a partial replacement facility

15   at a nearby location on Manchester Avenue.

16   The issue before you is the appropriate rate

17   making treatment of the $5.8 million gain that resulted

18   from the sale, as well as the $5.7 million level of

19   relocation funds that Laclede received as part of this

20   transaction. Staff's position regarding the proceeds

21   follows prior Commission guidance that it indicates in

22   certain situations, the gain resulting from the sale of

23   utility property would be appropriately shared between the

24   shareholders and the rate payors base on an appropriate

25   capital structure.

1   In the report and order issued in Missouri

2   Cities Case No. WR83-14, et al., on Page 25, the Commission

3   indicated one such sharing option could be based upon

4   returning to the rate payor a percentage of the net gain

5   equal to the percentage of a company's capital structure

6   which is non-equity and allowing the company to treat below

7   the line the percentage of gain representing the percentage

8   of the company's capital structure which is equity.

9   Essentially rate payors would get the non-equity portion

10 and the shareholders would get the equity portion.

11   Accordingly, Staff proposes to establish a

12 regulatory liability for the portion of gain that is based

13 upon the debt portion of Staff's recommended capital

14 structure and to amortize its regulatory liability over

15 five years with no rate base treatment. Staff's position

16 with regard to the relocation proceeds that Laclede

17 received is that a portion of these proceeds should also be

18 treated as a regulatory liability to be amortized over five

19 years with rate-base treatment.

20   Staff's adjustments allow a proper sharing

21 between rate payors and shareholders. Taken together,

22 Staff's adjustments are intended to share the windfall of

23 proceeds equitably between rate payors and shareholders in

24 a manner that mitigates harm to rate payors resulting from

25 the higher cost replacement facility.

1   You might hear testimony from the company

2   regarding the prudency of the decision to sell Forest Park.

3   Company witness Susan Kopp will tell you about the

4   restructuring of the company, the expected customer savings

5   resulting from the restructuring, the possibility of a

6   taking through eminent domain and they may even discuss the

7   condition of the Forest Park Facility. All of these are

8   merely distractions from the real issue here.

9   Staff is not suggesting that the decision to

10 sell the Forest Park facility was in any way imprudent.

11 That is not the issue at hand. The real issue is how the

12 Commission should treat the windfall that Laclede received

13 from the sale for purposes of rate making.

14   It may be helpful to provide you with a little

15 background on events that transpired surrounding the

16 Laclede property transactions. A complete time line of

17 these events can be found in Confidential Schedule JKS1.

18   For several decades, Laclede owned and

19 operated three service centers that provided critical

20 services such as leak detection and repair, construction

21 and maintenance, service and installation, meter

22 replacement and engineering and marketing to name a few.

23 Two of these service centers continue to exist in Berkeley

24 and Shrewsbury.

25   The third service center was located near

1   Forest Park in the city of St. Louis and it was sold in May

2   of 2014. The Forest Park operations were moved to other

3   locations almost a year following the closing date of the

4   transaction. The Forest Park service center provided

5   several additional utility service functions that were not

6   provided at the Berkeley or Shrewsbury facilities,

7   including gas procurement, gas controls and diversion

8   services.

9   Is it important to note that the Forest Park

10   facility was necessary and used and useful for the

11   provision of utility service at the time that Laclede

12   closed on the sale. Laclede was still using the Forest

13   Park facility at the time of its sale. So it leased back a

14   portion of that property for nearly a year following the

15   sale. At the end of this lease period, Laclede relocated

16   several Forest Park management employees to the

17   headquarters building in downtown St. Louis. And it sent

18   other employees to the Shrewsbury and Berkeley service

19   centers.

20   Finally, approximately 100 Forest Park

21   employees responsible for construction and maintenance,

22   leak detection and repair and various other vital utility

23   functions were relocated to operate from a temporary leased

24   location until a permanent replacement facility could be

25   constructed.

1   In November 2016, Laclede placed into service

2   a new facility at 5311 Manchester to house roughly 100

3   employees and functions that were previously located at the

4   Forest Park facility. Essentially, and by the company's

5   own words, the Manchester facility was constructed as a

6   partial replacement of the Forest Park facility.

7   If Laclede did not need the Forest Park

8   facility for the provision of service, it would not have

9   leased it back after the sale and it would not have

10   replaced it with the Manchester facility. The fact that

11   the facility was still used and useful at the time of its

12   sale and the fact that the Manchester facility was a

13   partial replacement of the Forest Park facility are germane

14   to the issue at hand.

15   The company would have you believe that the

16   sale is a land only transaction. It will suggest to you

17   that because of the condition of the buildings at Forest

18   Park, they had no value or possibly even negative value

19   and, therefore, should not be considered in evaluating this

20   sale. The fact is, however, that the company was actually

21   using those buildings for the provision of utility

22   services. The buildings also had a net book value of

23   $1.8 million at the time of the sale in May 2014.

24   Importantly, this means that the buildings were capital

25   assets for which cost continue to be recovered in rates

1   today.

2   The company may try to suggest that Staff's

3   suggested treatment is inappropriate due to the fact that

4   land is owned by shareholders and not rate payors so the

5   sale of land should only benefit the owners, the

6   shareholders. Do not let the company lead you down that

7   road. The transactions to which Laclede would compare this

8   sale involve the sale of facilities that were no longer

9   used and useful. Those facilities were unnecessary and,

10   therefore, did not need to be replaced as a consequence of

11   their sale.

12   The Forest Park sale is not like those

13   situations. It was in use. And the company's decision,

14   not the rate payors' decision, was to sell the property

15   that was necessary for the provision of service.

16   Consequently, the company needed to find a replacement for

17   the sold property. The fact remains that the sale included

18   retirement and replacement of used capital assets for which

19   rate payors were still paying.

20   Staff's suggestion is consistent with the

21   Commission's findings in the Missouri Cities case

22   referenced in Jason Kunst's testimony which suggested that

23   there might be some circumstance where it is appropriate to

24   share the gain on sales between shareholders and rate

25   payors.

1   It is also consistent with the sales of

2   vehicles for example. An extremely common transaction for

3   most utilities is the sale of a vehicle where the proceeds

4   of the sale are used as salvage to offset depreciation

5   reserve. This means the proceeds of those sales benefit

6   rate payors. Similarly, Staff suggests that rate payors

7   should not be harmed as a result of this transaction when

8   the transaction itself did not benefit rate payors.

9   To be clear, Staff is not suggesting the

10   transaction was imprudent. If it were, Staff would not be

11   recommending the shareholders should keep any of the

12   proceeds from the sale. Instead, Staff suggests that

13   transaction is an appropriate situation in which the

14   windfall of proceeds resulting from the sale of utility

15   property should be shared between shareholders and rate

16   payors.

17   The partial Forest Park replacement at

18   Manchester came at a significantly higher cost. And

19   Laclede received a level of proceeds that would have more

20   than offset the capital cost of this facility. Staff's

21   proposed adjustments prevent rate payor harm, given the

22   facts and circumstances surrounding the actual events that

23   occurred.

24   Staff witness Jason Kunst can provide further

25   details regarding Staff's position. And I'm happy to try

 1   to answer any questions you may have at this time.

 2   CHAIRMAN HALL: Can you explain to me your

 3   statement that land is owned by shareholders, not rate

 4   payors?

 5   MS. FORCK: So as Mr. Pendergast mentioned,

 6   land is not a capital asset. So it may be used as part

 7   of -- as a necessary part of provision of utility service.

 8   But rate payors don't pay -- pay into that asset because

 9   it's not a capital asset. There's no depreciation that

10   occurs, that sort of thing.

11   CHAIRMAN HALL: So is it a true statement that

12   rate payors did not pay for the land at issue here?

13   MS. FORCK: For the land, no. But for the

14   facility, yes.

15   CHAIRMAN HALL: I understand that. But for

16   the land itself, they -- rate payors did not pay anything?

17   MS. FORCK: Correct.

18   CHAIRMAN HALL: And you're taking the position

19   that -- that it was not a land only transaction because

20   there was value in the buildings?

21   MS. FORCK: Yes. And it was a facility that

22   was still in use, still housed Laclede employees. The

23   facility itself needed to be replaced.

24   CHAIRMAN HALL: And you also said that rate

25   payors are still paying for that building?

 1   MS. FORCK: Yes. They're still paying

 2 depreciation because rates haven't been reset yet since the

 3 transaction.

 4   CHAIRMAN HALL: So -- so they will continue to

 5 pay for that building until new rates are set in this case?

 6   MS. FORCK: Yes.

 7   CHAIRMAN HALL: Thank you.

 8   JUDGE DIPPELL: Commissioner Kenny, do you

 9 have a question?

10   COMMISSIONER KENNY: Yes. Thank you.

11   Good afternoon.

12   MS. FORCK: Good afternoon.

13   COMMISSIONER KENNY: So Staff doesn't have any

14 problem with the fact that the company sold Forest Park?

15   MS. FORCK: No. Not inherently, no.

16   COMMISSIONER KENNY: Does Staff have a problem

17 with $14 million sales price?

18   MS. FORCK: I'm sorry. Say that again.

19   COMMISSIONER KENNY: With the $14 million

20 sales price.

21   MS. FORCK: With the price, I don't think so.

22   COMMISSIONER KENNY: Does Staff have any doubt

23 with the appraisal that's stated, the appraiser stated that

24 the property was more -- was worth less with the buildings

25 on them, than if it would have been raw ground?

1   MS. FORCK: I think Staff's position on that

2   is that the value varies depending on what the use of the

3   property will be. So that property had value as a utility

4   asset in the amount of that $1.8 million. But that the

5   value of the land for the purchaser, IKEA, they didn't need

6   that facility, rather they were going to raze --

7   COMMISSIONER KENNY: But the appraiser was

8   different than the purchaser. The appraiser in his

9   statement valued the property higher if it was level, than

10 if it had the current buildings on it, of course according

11 to testimony?

12   MS. FORCK: Yes. I believe that's -- I don't

13 think Staff has a problem with that specifically. I think

14 probably most purchasers of a utility land would not value

15 the utility assets themselves as highly as the utility

16 would.

17   COMMISSIONER KENNY: Go look up Palm Desert,

18 California, look at that. You're right. Utility ground

19 was sold for pennies on the dollar.

20   My next question is, is there a list somewhere

21 that -- I just don't know where it is. I thought I saw

22 it -- that shows all the replacement buildings and

23 replacement cost for everything.

24   MS. FORCK: That might be in Staff's --

25 attachment to Staff's testimony.

1   COMMISSIONER KENNY: I can ask your Staff

2 witness when he gets up. I'm just trying to figure it out.

3   MS. FORCK: Subject to check, I would say it

4 might be attached to Staff's testimony.

5   COMMISSIONER KENNY: Okay. Thank you.

6   JUDGE DIPPELL: Commissioner.

7   COMMISSIONER RUPP: Did the company have this

8 listed for sale or were they approached by IKEA to purchase

9 this property.

10   MS. FORCK: My understanding is they were

11 approached.

12   COMMISSIONER RUPP: Okay. So your argument is

13 that they didn't have another facility ready to go whenever

14 someone approached them to purchase it and, therefore, they

15 had value because they had to lease it back for a year

16 because they didn't have another property ready to go?

17   MS. FORCK: Well, not just that, but it wasn't

18 a facility that was going to be retired anyway. It was a

19 facility that would otherwise -- I realize that there are

20 circumstances surrounding this that you will probably hear

21 in testimony on the stand and that you probably read about.

22 But aside from that, the company needed this facility, was

23 using it. Aside from these special circumstances, would

24 have continued operating out of that facility.

25   COMMISSIONER RUPP: So if someone offers me a

1 million dollars for my house tomorrow and I don't have

2 another place to live and I maybe need to lease it back

3 from them, I should not go ahead and move forward with that

4 transaction?

5   MS. FORCK: Well, that's not Staff's position.

6 Staff is not suggesting that the company shouldn't have

7 done this.

8   COMMISSIONER RUPP: Okay. Because you spent

9 and awful lot of time explaining the fact that you're

10 unhappy with the fact that they did it. So I was confused.

11 You said it wasn't imprudent, but you spent two-thirds of

12 opening statement trashing the deal. So my question is, on

13 the Missouri Gas case, you stated that they could do this

14 in the future?

15   MS. FORCK: Yes.

16   COMMISSIONER RUPP: So was this was a case in

17 2014?

18   MS. FORCK: The Missouri Cities, is that what

19 you're referring to?

20   COMMISSIONER RUPP: Missouri's Cities, yeah.

21   MS. FORCK: No. That's an older case. That's

22 1983.

23   COMMISSIONER RUPP: So part of the crux of

24 your argument is that there was a case in 1983 that said in

25 the future, that if somebody wanted to do, they could do

1   something and that's kind of the basis for how you want us

2   to treat this?

3   MS. FORCK: I think that's a part of our

4   argument that just says that the Commission has in the past

5   acknowledged that this could be an appropriate thing. I

6   don't think that our argument hinges on that. And I think

7   that Staff probably would have taken this type of position

8   regardless of whether such a case existed.

9   COMMISSIONER RUPP: All right. Thank you.

10   JUDGE DIPPELL: Any other questions from

11 Commissioners? Seeing none, thank you.

12   MS. FORCK: Thank you.

13   JUDGE DIPPELL: Is there anything from Public

14 Counsel?

15   MR. SMITH: Yes, Judge. Thank you. Before I

16 get into my prepared remarks, a few things I would like to

17 comment on is that rate payors have paid for property taxes

18 on land, property insurance on land, return on the land.

19 It is my understanding that depreciation expense would not

20 have fallen on their shoulders. But the rate payors did

21 pay for those items. So I wanted the record to reflect

22 that.

23   As has been discussed by prior counsel,

24 Laclede had replaced its Forest Park facility with its

25 Manchester facility. And they sold this building and land

1   to IKEA. The evidence indicates that the sale to IKEA was

2   one of the reasons to sell this property. They wanted to,

3   you know, boost the prestige of St. Louis, I assume, I

4   guess if IKEA does that. And also the other purpose is --

5   is sort of something that came out of the sale which was to

6   relocate. They had to relocate.

7   OPC would agree with Staff's characterization

8   that the current building was still used and useful. That

9   testimony comes in through Mr. Hyneman's rebuttal. He

10   indicates that the building at Forest Park was still used

11   and useful. And the reasons for the sale weren't related

12   to utility operations. This sale had resulted in a gain,

13   as has been discussed. The proceeds on that gain, as

14   calculated by Staff and also agreed to by OPC, were

15   $5.8 million.

16   The second issue is the relocation cost. It's

17   my understanding a portion of relocation proceeds to

18   relocate employees to the other facility were treated as

19   contributed capital. So the overall amount of the

20   relocation proceeds were $5.7 million. But when you

21   subtract the $2 million that was used, you'll have a

22   remaining amount of three and a half million dollars in

23   relocation expense.

24   OPC goes further than Staff. OPC believes

25   instead of doing a rate sharing mechanism, the appropriate

1   treatment is actually to put this gain and the relocation

2   expenses into depreciation reserve. And now with this one

3   caveat, OPC thinks that Staff's recommendation is a

4   reasonable recommendation and a reasonable option for this

5   Commission to take.

6   Part of the rationale that OPC used, in fact,

7   came from Staff Witness Kunst. Mr. Kunst had correctly

8   pointed out that the company actually regularly receives

9   relocation costs when an entity pays the company to move

10   their mains and lines. And so what happens in that

11   situation, when mains and lines need to be relocated

12   because you have a company who is negotiating with

13   Laclede/Spire/MGE, those proceeds to relocate are put into

14   the depreciation reserves and offset the cost of the asset.

15   It's a little complicated. Hopefully I presented that

16   clearly. But if I haven't, Mr. Hyneman will be available

17   to answer questions on this subject. He's prepared.

18   And I'll leave it at that.

19   JUDGE DIPPELL: Any questions?

20   CHAIRMAN HALL: No questions.

21   JUDGE DIPPELL: Thank you.

22   Anything from Environmental Defense Fund?

23   MS. KARAS: Nothing, your Honor.

24   JUDGE DIPPELL: MIEC?

25   MR. MILLS: Judge, I'll waive opening on this

1   issue.

2   JUDGE DIPPELL: Thank you. All right. Then

3   we're ready to begin with our first witness on this.

4   MR. ZUCKER: Your Honor, we talked last week

5   about having an opportunity to rebut some opening

6   statements when there were inaccuracies in it. So this is

7   a situation in which I would like to straighten out some

8   facts that just aren't right.

9   JUDGE DIPPELL: All right. I'll give you an

10   opportunity for a rebuttal opening statement.

11   MR. ZUCKER: Thank you. May it please the

12   Commission. We had already planned to leave Forest Park at

13   the time that Cortex approached us to buy it. So this is

14   more like a situation in which you're walking away from

15   your house and someone taps you on the shoulder and hands

16   you the million dollars. So, you know, we'd like to say we

17   negotiated a good deal once we got it. But we got lucky to

18   get that deal. We were leaving anyway.

19   And part of the reason we were leaving is we

20   were reorganizing three regional centers into two. And the

21   two we were keeping was the north and the south. The

22   central one where Forest Park was was going away.

23   We had about a hundred management employees

24   there who were going to move downtown when the 700 Market

25   building was ready. And this was all part of a shared

1   service organization that we were setting up to bring all

2   the management together. The field people who were there

3   were moved either to Berkeley in the north or Shrewsbury in

4   the south and some of them started working from home. And

5   we did not have Manchester yet. We had not built it. We

6   did not -- we hadn't decided on what we needed, if

7   anything, in the central area.

8   Ultimately, we decided we needed a satellite

9   office as we had in other places. And so that's what we

10   have there. It's not a replacement of Forest Park. It's a

11   complete reorganization of the area.

12   The other point I would make is -- and

13   Mr. Pendergast may have made this point. We spent the

14   relocation costs. In some cases, we turned it into

15   capital. We bought furniture with it. And so that

16   furniture is not in our rate base because we pay it

17   ourselves. We're not asking the customers to pay for it.

18   Other costs went to relocating, to moving people.

19   One other point I would make is that when

20   we -- when the company is selling something that is still

21   necessary or useful, we come to the Commission for

22   approval. And as an example, I would site the 880 Line

23   that we were selling to the Spire STL pipeline last year.

24   We still wanted to use the 880 Line. We still considered

25   it necessary. So we came down here for permission to sell

1   it.

2   In this case, we were just reorganizing our

3   buildings, reorganizing where we worked and what size

4   offices we had. And so Forest Park had become unnecessary

5   to us and not useful. It was in delapidated condition. It

6   has asbestos issues. And really the problem we were facing

7   as we were going to walk away from Forest Park is what to

8   do with it. We would have had to figure out how to keep it

9   up and how to get rid of it. It would have just stayed --

10   it would have probably just sat there on our books if not

11   for Cortex who came. And I guess one other point is Cortex

12   has the power of eminent domain. So they could have taken

13   the property from us whether we liked it or not. It turned

14   out that we liked it.

15   CHAIRMAN HALL: What is the statutory basis

16   for why you didn't need the Commission's approval to sell

17   the property? I didn't follow.

18   MR. ZUCKER: The statutory requirement is that

19   if this is a plant that is necessary or useful to the

20   operation of utility service. And we clearly didn't

21   consider it necessary because we were leaving it. We

22   didn't want to use it. And we didn't consider it useful

23   either. It was not a property that we were staying at,

24   like with the 880 Line where we were keeping it.

25   We had decided we were done with this

1   property. It was over 80 years old. It had outlived its

2   useful life. And we were moving. Now, as it was pointed

3   out, we sell cars all the time and we're using those cars

4   up until the time we sell them. But I don't think the

5   Commission wants us to come down here every time we want to

6   sell a vehicle.

7   CHAIRMAN HALL: That would be true. Thank

8   you.

9   JUDGE DIPPELL: Any other questions for --

10   MR. ZUCKER: I'm sorry. One more point, if I

11   may. I believe Marcie said that the property had already

12   been razed at the time that Staff became aware of it. We

13   came down here -- and maybe you'll remember -- in May of

14   2014 as part of the MGE acquisition to give you a report on

15   how the integration was going. And our CEO, Suzanne

16   Sitherwood, stood here and told the Commission we had sold

17   the Forest Park property and it was being taken over by

18   IKEA, Cortex, who owned the area, turned it over to IKEA.

19   And then Chairman Kenny made a comment that he

20   appreciated -- or actually his wife appreciated the IKEA

21   coming in. So, you know, that was in an open hearing room.

22   And I'm sure Staff was here to hear that if they hadn't

23   already seen it in the paper.

24   COMMISSIONER KENNY: It was Chairman Kenny,

25   right?

1   CHAIRMAN HALL: Chairman Kenny's wife.

2   MR. ZUCKER: He was speaking for his wife. It

3 was hearsay, but he still said it.

4   JUDGE DIPPELL: Okay. Thank you, Mr. Zucker.

5   MR. SMITH: I guess OPC would dispute whether

6 there were inaccuracies supportive of a rebuttal opening.

7 I think it's best to address this with the actual

8 witnesses, rather than between the attorneys.

9   JUDGE DIPPELL: I agree. Thank you. If we

10 can proceed with the witnesses. And some of these issues

11 can be raised articulately and briefly in your briefs.

12   MR. ZUCKER: Thank you, your Honor. We call

13 Susan Kopp.

14   (Witness sworn.)

15   JUDGE DIPPELL: Thank you.

16 SUSAN KOPP testifies as follows:

17 DIRECT EXAMINATION BY MR. ZUCKER:

18   **Q.   Good afternoon, Ms. Kopp. And you have**

19 **already spelled your name for court reporter I believe; is**

20 **that correct?**

21   A.   That is correct.

22   **Q.   And who are you employed by?**

23   A.   Spire, Inc.

24   **Q.   And what is your title?**

25   A.   Director of facilities.

1   Q.   And are you the same Susan Kopp who filed

2   rebuttal testimony in this case on October 17 and filed

3   surrebuttal testimony in these cases on November 21?

4   A.   I am.

5   Q.   And do you have any changes to that testimony?

6   A.   I do.

7   Q.   Okay.   Can you tell us where?

8   A.   Sure.   On my surrebuttal testimony on Page 2,

9   Line 15, the number $600,000 should be $1,950,000.   I was

10 incorrectly only reflecting the fiscal 2016 amount.

11   JUDGE DIPPELL: Could you restate that amount

12 one more time?

13   THE WITNESS: 1,950,000.

14   JUDGE DIPPELL: Thank you.

15   Q.   (By Mr. Zucker)   Okay.   And do you have other

16 changes?

17   A.   One more on Page 4, the same issue shows up on

18 both lines 10 and 11.   On 11, that same $600,000 should be

19 changed to 1,950,000.   An on Line 10, the 5.1 million

20 should be changed to reflect 3.75 million.

21   Q.   And do you have any other changes?

22   A.   I do not.

23   Q.   Okay.   So with those changes, if I asked you

24 all the same questions that are in your testimonies today,

25 would your answers be the same?

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 1          A.    They would.

 2          Q.    And are they true and correct to your

 3   knowledge and belief?

 4          A.    They are.

 5                MR. ZUCKER:  This is Ms. Kopp's only issue so

 6   I would tender -- or I would offer her testimony into

 7   evidence.

 8                JUDGE DIPPELL:  All right and her testimony

 9   has been marked as Exhibit 42 for the rebuttal and

10   Exhibit 43 for the surrebuttal testimony.  Would there be

11   any objections to Exhibits 42 and 42?  Seeing none, then I

12   will admit that into evidence.

13                (Whereupon Spire Exhibits 42 and 43 were

14   received into evidence.)

15                MR. ZUCKER:  Thank you, Ms. Kopp.

16                Tender the witness for cross.

17                JUDGE DIPPELL:  Is there any cross-examination

18   from Staff.

19                MS. FORCK:  Briefly.

20   CROSS-EXAMINATION BY MS. FORCK:

21          Q.    Good afternoon, Ms. Kopp.

22          A.    Good afternoon.

23          Q.    Did you read Mr. Jason Kunst's testimony

24   related to the sale of the Forest Park facility?

25          A.    I did.
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1   Q.   What is your understanding of the Staff's

2   position?

3   A.   To share the $5.8 million gain over a

4   five-year period, I believe. As well as set up the

5   regulatory liability to offset the 3.5 relocation expense.

6   Q.   The 3.5?

7   A.   Million.

8   Q.   Million. Okay.

9   Did Mr. Kunst ever suggest that this sale was

10   imprudent?

11   A.   He did not.

12   MS. FORCK: Nothing further.

13   JUDGE DIPPELL: Is there anything from Public

14   Counsel?

15   MR. SMITH: Yes, Judge.

16   CROSS-EXAMINATION BY MR. SMITH:

17   Q.   Is it Ms. Kopp?

18   A.   Correct.

19   Q.   Okay. Were you in the room earlier when you

20   heard your counsel refer to, I guess, the sale of this

21   building and facility as getting a million dollars as

22   you're exiting the door, something like that?

23   A.   I did. Correct.

24   Q.   Okay. I wasn't quite prepared for that. But

25   I do want to hand you something and see if you can identify

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 1   it.

 2           A.    Yes.  It's -- appears to be the response to

 3   Staff Data Request No. 413.

 4           Q.    Okay.  And does that appear to be a true and

 5   correct copy of that document?

 6           A.    Yes.

 7           Q.    Did you help prepare that document?

 8           A.    I did.

 9           Q.    Okay.  And there's some highlighted portions

10   on that front page, correct?

11           A.    Correct.

12           Q.    And isn't it true this is referring to a

13   multi-year plan that the company would have had back

14   several years ago?

15           A.    Correct.  The 2012 plan was referenced as the

16   five-year plan, I believe.

17           Q.    You said the 2012 plan is referenced as the

18   five-year plan?

19           A.    I believe that's what I sent over in response

20   to this data request.

21           Q.    And if you would flip through the answer,

22   there's some spreadsheets there.  And there's another

23   highlighted page, I believe it's the second page.

24           A.    I don't see any highlights on the second page.

25   I see a roof replacement highlighted on the third page.
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 1   MR. ZUCKER: Mr. Smith, do you have a copy so

 2   I can follow what you're showing?

 3   MR. SMITH: I do not have an actual copy. If

 4   we want to go off the record, I have copies of that item

 5   already printed upstairs.

 6   MR. ZUCKER: Is it a certain data request?

 7   MR. SMITH: It is a Staff data request.

 8   MR. ZUCKER: Do you have a number?

 9   THE WITNESS: 413.

10   MR. SMITH: I believe it's 413.

11   MR. ZUCKER: Good ole 413.

12   JUDGE DIPPELL: And that was a response to

13   Staff's Data Request No. 413?

14   MR. SMITH: Yes.

15   MR. ZUCKER: Correct.

16   JUDGE DIPPELL: Mr. Zucker, do you have that?

17   MR. ZUCKER: I'm checking. There's a lot of

18   data requests. They may find it online there before I find

19   it here.

20   MR. SMITH: If counsel would like to examine

21   what I've handed the witness, perhaps that would be a way

22   to expedite the process, if that's agreeable.

23   MR. ZUCKER: Give me one moment, see if I can

24   find it. Okay. I better go look at it.

25   MR. SMITH: Sure.

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 1                    MR. ZUCKER:  Thank you.

 2                    JUDGE DIPPELL:  Mr. Smith, if you want to

 3    direct Mr. Zucker to the part that you're going to question

 4    the witness on.

 5                    MR. ZUCKER:  Well, I can see the highlights.

 6                    MR. SMITH:  It's only the highlights.  I'm

 7    just going to ask her to confirm that.

 8                    MR. ZUCKER:  Okay.  That's good.  Thank you.

 9                    JUDGE DIPPELL:  Thank you.

10                    MR. ZUCKER:  Someone's watching on the TV.

11                    JUDGE DIPPELL:  I believe the cavalry has

12    arrived with copies.

13                    MR. ZUCKER:  Okay.  Thank you.

14                    MR. SMITH:  Should I pass one out to everyone?

15                    JUDGE DIPPELL:  Are you going to offer it

16    eventually?

17                    MR. SMITH:  I think it's just to confirm a

18    point.  I'm not offering it.

19                    JUDGE DIPPELL:  Then you're fine.

20         Q.   (By Mr. Smith)  So have you found that portion

21    that I was referring to?

22         A.   The few highlights on the roof replacement?

23         Q.   Yes.  And what are those?

24         A.   It references one of the buildings at Forest

25    Park.  It says roof replacement, the potential year.
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1   There's no dollar amount. It says TBD. And then it says

2   general roof maintenance to maintain roof system.

3   Q.   In what year?

4   A.   2020.

5   Q.   So 2020 was it at that time, when this plan

6   was created, would it be fair to say the company was

7   projecting maintenance cost at least out until 2020?

8   A.   What it says is TBD. So it's to be

9   determined. I think everybody prepares things for facility

10 maintenance long term, that you're always looking out to

11 the future. There's no dollar amount even associated with

12 it at that point.

13   Q.   And is that for the Forest Park facility?

14   A.   It is.

15   Q.   The same Forest Park facility that's at issue

16 in this case?

17   A.   Right. I believe it's a rolling five-year

18 plan. That's always updated.

19   Q.   But in this five-year plan, there were

20 anticipated TBD, to be decided, costs for Forest Park out

21 to 2020; is that fair?

22   A.   There is a 2020 reference on this, correct.

23   Q.   Is that yes? Okay. Okay. Thank you. I

24 think I'm done with that item.

25   Let me ask you a more on-track question.

1   What's your opinion on whether gains just generally on the

2   sale -- let me rephrase that. Should gains on the sale of

3   an asset be reflected in rates generally?

4   MR. ZUCKER: I'm going to object to that as

5   calling for a legal conclusion.

6   MR. SMITH: I believe this is a position she

7   takes in her testimony, so.

8   JUDGE DIPPELL: I'm going to let her answer if

9   she knows the answer.

10   A.   What I've been told is that gains from this

11   type of sale are handled below the line.

12   Q.   (By Mr. Smith) From what you've been told or

13   based on your knowledge without divulging any

14   attorney/client privilege, what would happen with losses on

15   the sale of the facility?

16   A.   I would presume those would be treated as

17   below the line as well.

18   Q.   Are you -- when you say below the line, can

19   you explain that?

20   A.   Not in rates.

21   Q.   Are you aware that Laclede is -- how they're

22   treating the 720 Olive leasehold with respect to rates?

23   A.   I am not.

24   Q.   Hypothetically, if the company were to be

25   including a loss in rates or seeking recovery, do you have

1   **an opinion on whether or not that would be appropriate?**

2   MR. ZUCKER: Again, I'm going to object. This

3   calls for a legal conclusion. Now we're doing

4   hypotheticals.

5   MR. SMITH: I believe Mr. Zucker directed a

6   variety of hypothetical questions to Mr. Hyneman in the

7   previous -- maybe the second to last issue.

8   JUDGE DIPPELL: They were relevant

9   hypothetical questions that Mr. Zucker was proposing.

10   Would you restate your question for me, Mr. Smith?

11   MR. SMITH: Yes. I guess I'm trying to get at

12   if there was a loss on the sale of an asset such as the one

13   in this case, would it, in this witness's opinion, be

14   appropriate to subtract that out of rates.

15   JUDGE DIPPELL: I'm going to let her go ahead

16   and answer if she knows the answer.

17   A.   I think it would be what I said before. That

18   a loss would be handled, I would think, below the line, so

19   not in rates.

20   **Q.   (By Mr. Smith) Did you read Mr. Kunst's**

21   **surrebuttal testimony?**

22   A.   I did.

23   **Q.   And did you read the portion of his testimony**

24   **relating to the relocation of certain infrastructure?**

25   A.   I believe so, yes.

1   Q.   And do you recall that testimony? Do you have

2   it in front of you?

3   A.   Yes, I do.

4   Q.   Okay. If you go to the surrebuttal, I believe

5   it's at Page 16.

6   A.   Okay. I'm there. Which line?

7   Q.   Okay. On Lines 17 through 23 generally. Does

8   that refresh --

9   MR. ZUCKER: I'm sorry. Who's surrebuttal

10   testimony are we looking at?

11   MR. SMITH: Staff witness.

12   MR. ZUCKER: Staff witness. Okay. Sorry.

13   Q.   (By Mr. Smith) Does that refresh your

14   recollection?

15   A.   Yes. I did read that before.

16   Q.   Okay. And how would you characterize what --

17   what he's attempting to explain there?

18   A.   The reimbursement of the relocation costs as

19   recorded as CIAC.

20   Q.   Okay. And that's not what the company is

21   proposing to do for the Forest Park property, correct?

22   A.   That's more a regulatory issue or an

23   accounting issue. I'm not knowledgeable to say that

24   it's -- how we're treating it or not.

25   Q.   You know, but I guess based on your testimony,

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 1    does that seem to be consistent with the treatment you're

 2    recommending?

 3            A.    I would still have to say I do not know.

 4            Q.    You don't know.  Okay.  I think in your

 5    surrebuttal testimony, I'm trying to limit this, but you --

 6    you respond to Mr. Hyneman's rebuttal testimony.  And you

 7    bring up an erroneous -- or what you believe to be an

 8    erroneous assumption.  This is still in -- I believe this

 9    is your surrebuttal testimony.

10            A.    On Page 5?

11            Q.    Hold on just a second.  Sorry.  Just a second.

12    I want to make sure I've got this right.  I can't seem to

13    find it.  Maybe I'll just generally explain.  In your

14    testimony, I understand that you believe that Mr. Hyneman

15    or that OPC has an erroneous assumption about whether the

16    Manchester location was truly a replacement; is that fair?

17            A.    Correct.  I do not agree that it's a

18    replacement.

19            Q.    Okay.  And are you familiar with OPC DR1-94 or

20    OPC DR1-95 that was referenced in Mr. Kunst's testimony?

21            A.    Was it attached as a --

22            Q.    It would be in his direct testimony.

23    Specifically, I believe it's in his schedule -- I'm trying

24    to find it.

25            A.    You said Mr. Kunst?
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 1          Q.    Yes.

 2          A.    I don't have any of those schedules up here

 3     with me.

 4          Q.    Okay.  I will provide you a copy.  I believe

 5     it's JK-S2.  And J -- I believe that will be the

 6     surrebuttal testimony.  I can hand those to you if you'd

 7     like.

 8          A.    Okay.

 9          Q.    Or do you have those?

10          A.    I do.  Surrebuttal.  I did not have anything

11     for direct, which is what I thought you were referencing.

12     Sorry.

13          Q.    Okay.  And are you familiar with these data

14     requests?

15          A.    No, I cannot say that I -- I did not help put

16     this one together.

17          Q.    Okay.  Did you consult with Mr. Buck when you

18     prepared your testimony?

19          A.    I believe he was part of the review process,

20     yes.

21          Q.    If you would look at 1-95, there's a paragraph

22     which is the last paragraph there it says:  The building is

23     being constructed as a partial replacement.

24                Do you see that?

25          A.    I do.
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1   Q.   Okay. Did -- did you -- before, you -- in

2   your testimony, you had commented there was an erroneous

3   assumption by OPC that this was a replacement or being seen

4   as a replacement. When you made that statement, did you, I

5   guess, consult internally about that answer? How did you

6   form that opinion?

7   A.   As far as I do not feel it is a replacement.

8   I believe it is an addition of satellite, similar to how we

9   have other satellites for our other two regions.

10   Q.   So it is based more on a personal feeling or?

11   A.   I guess that's my facility position.

12   Q.   Okay. You made a statement in your testimony

13   about how the proceeds on the gain were used. Can you

14   describe that to me? Or I should say, isn't it true part

15   of those proceeds were used to make various civic

16   contributions?

17   A.   They were. $1.5 million was meant for the

18   City Arch River.

19   Q.   So that amount was not used to offset the cost

20   of the new facility; isn't that correct?

21   A.   That would be correct.

22   Q.   And, you know, if Laclede or Spire wants to

23   make specific contributions, certainly they have the

24   discretion to do that; would you agree?

25   A.   I would agree.

1   Q.   Do you believe that it's -- well, I guess

2   that's a legal question. Let's see here.

3   Would you say it's the primary job of the

4   utility to provide safe and adequate service?

5   A.   I would agree.

6   Q.   And do you believe that this sale was used

7   for -- for that reason? Was that the primary reason that

8   motivated the sale on Forest Park?

9   A.   I would not say that it's the primary reason

10   for the sale of Forest Park. Ops was going through a reorg

11   and had decided we were going to two regions from the three

12   we already had. We had already decided that we were going

13   into a shared services organization and pulling them all

14   together in the building. Those were the contributions to.

15   Q.   Do you have your surrebuttal testimony in

16   front of you?

17   A.   I do.

18   Q.   Okay. Look at Page 6, on Line 4. Would you

19   read that second sentence?

20   A.   Laclede's sale of Forest Park was related

21   solely to utility operations.

22   Q.   Okay. So do you want to -- I guess does your

23   testimony today amend that -- that piece of your original

24   testimony on Page 6?

25   A.   That wasn't the question you just asked me,

1   though. You asked if that was about safe and reliable

2   service or something like that.

3   Q.   Okay. Was Laclede's sale of Forest Park

4   related solely to utility operations?

5   A.   Yes.

6   Q.   Okay. Do you have Mr. Hyneman's direct

7   testimony in front of you? I want to refer you to his

8   Schedule CRH-D -- D1.1.

9   A.   You said direct of Hyneman?

10   Q.   Yes.

11   A.   I'm not showing any schedules on my copy.

12   MR. ZUCKER: Do you have an extra copy? Thank

13   you.

14   JUDGE DIPPELL: Is this something marked?

15   MR. SMITH: No. Just so you have a copy.

16   JUDGE DIPPELL: Is this the same as the

17   exhibit?

18   Q.   (By Mr. Smith) All right. Do you have that in

19   front of you now?

20   A.   I do.

21   Q.   Okay. Would you agree that that's a press

22   release from the Laclede Group?

23   A.   It appears to be, yes.

24   Q.   Okay. And so when you had said that the sale

25   was related solely to utility operations, you'd agree that

1   this press release indicates other reasons, such as, you

2   know, bringing an IKEA to St. Louis primarily?

3   A.   Where are you referring to the Forest Park

4   sale saying that?

5   Q.   So if you --

6   A.   This is talking about our move to 700 Market,

7   I believe.

8   Q.   Yeah. If you would go to that -- not the very

9   last sentence, but before where it says about the Laclede

10   Group. Excuse me. I guess it's the sentence prior to

11   that. My apologies. Would you read that to yourself.

12   A.   Starting with "earlier this year"?

13   Q.   Starting with "this comes at the same time."

14   It's the sentence right before. And then through "to

15   earlier this year."

16   A.   Okay.

17   Q.   So wasn't it true the primary reason that the

18   Forest Park facility was sold was for this reason to sell

19   it to IKEA?

20   A.   No. I would still go back to my sold solely

21   for utility operations. We had decided that first. And

22   then it was what we just talked about earlier. Someone

23   came and wanted to give us millions of dollars to buy it,

24   so. Of course, we're going to make sure everybody's aware

25   of that as well. I would not say -- I still would say the

1 decision in the sale was solely to utility operations, my

2 original comment I made in my surrebuttal.

3   **Q.   Okay. So your opinion here selling Forest**

4 **Park to help St. Louis secure a new IKEA store is related**

5 **solely to utility operations?**

6   A.   I did not say that.

7   **Q.   Okay. I must be misunderstanding your**

8 **surrebuttal testimony.**

9   A.   I'm saying that we decided to sell Forest

10 Park. And I think that was solely related to utility

11 operations. I think we were very lucky that at the same

12 time, IKEA approached us on doing something like that. And

13 that is what the press release reflects.

14   **Q.   You think -- okay. So where in the press**

15 **release does it say you had already planned to sell?**

16   A.   Our corp. com department does these. And I

17 was not part of doing it, so.

18   **Q.   So maybe -- so it doesn't say that in the**

19 **press release then?**

20   A.   No. But I think at the top when we're talking

21 about moving to our new home at 700 Market and we talk

22 about in that second line there many factors contributed to

23 the decision, I think that's part of the whole package

24 there at the top.

25   MR. SMITH: Okay. Fair enough. No further

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 1   questions.
 2                JUDGE DIPPELL:  Anything from MIEC?
 3                MR. MILLS:  No questions.
 4                JUDGE DIPPELL:  Environmental Defense Fund.
 5                MS. KARAS:  No questions, your Honor.
 6                JUDGE DIPPELL:  Any questions from the Bench?
 7                COMMISSIONER KENNY:  Yes.
 8   QUESTIONS BY COMMISSIONER KENNY:
 9        Q.   Good morning.
10        A.   Good morning -- or afternoon.
11        Q.   Sorry.  I apologize about that.  Public
12   Counsel asked you something that I was unaware of.  What
13   was this civic contribution?
14        A.   Towards City Arch River was $1.5 million.
15        Q.   And that was -- was that from Spire?
16        A.   Correct.
17        Q.   Was that after the sale?
18        A.   I believe so, but I'd have to...
19        Q.   Was this shareholder contributions?
20        A.   It was above the line, yes.
21        Q.   That's nice to hear.  I'm glad the company
22   does that.
23                I have a couple short questions.  If you have
24   your chart on Page 8 of your testimony or Schedule SMKS1.
25   So that's just to show that -- well, first off, is the
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1   **Manchester facility the only capital -- major capital**

2   **expenditure that Spire is bringing into rates in this rate**

3   **case, the 7.7 million facility?**

4   A.   From a facility prospective or just in general

5   rate base, I do not know.

6   Q.   **Was there anything else built or in the**

7   **process to replace Forest Park other than the Manchester**

8   **building?**

9   A.   I do not feel that Manchester is a

10   replacement, but it is the only capital dollars that I'm

11   aware of that are facility related, correct.

12   Q.   **Was there any other facility, other than**

13   **existing facilities, were there any other facilities needed**

14   **to be able to operate the company as it needs to be**

15   **operated?**

16   A.   That we purchased during this time frame, I'm

17   not aware of any.

18   Q.   **Okay. Explain to me how the new facility is**

19   **going to be $225,000 a year less for rate payors than the**

20   **old facility, if Forest Park were in existence today,**

21   **versus Manchester.**

22   A.   Well, what I've laid out there is from a

23   customer prospective, the pieces that they would be paying

24   for as far as the capital investment, the depreciation.

25   And then our experience for the first year of operating

 1   that is significantly less than what it was costing us to

 2   operate Forest Park.

 3   Q.   **Because the facility was 82 years old or 83**

 4   **years old? Is that most of the reason?**

 5   A.   Most of the reason.

 6   Q.   **Larger?**

 7   A.   Property tax; you can see the difference

 8   there.

 9   Q.   **That's only 30,000, though.**

10   A.   Right. And just the improvements that we had

11   on a plan if we did -- would have stayed, improvements that

12   needed to be made.

13   Q.   **So that was if you would have stayed there,**

14   **that was your five-year plan?**

15   A.   Correct.

16   Q.   **That's a good answer for that question.**

17   **Next, are you familiar -- I know you said**

18   **you're familiar with Mr. Kunst's testimony?**

19   A.   Correct.

20   Q.   **I'm trying to figure out some of these**

21   **numbers. Specifically on Page 6.**

22   A.   Of his direct?

23   Q.   **Of his surrebuttal. I think that's all he**

24   **filed.**

25   JUDGE DIPPELL: That's correct.

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 1          A.    Page 6?

 2          Q.    (By Commissioner Kenny)   Yes.

 3          A.    Okay.

 4          Q.    Okay.  During the course of the audit on Page

 5   15, it says Staff found out, which the company said,

 6   1.9 million of the 5.7 relocation funds were used for

 7   furniture or office equipment.

 8          A.    Almost 2 million.  That's the 1.95 million.

 9          Q.    Okay.  That comes off the top of 5.7 million.

10   Now we're down to about 3.7 million or so?

11          A.    Correct.

12          Q.    So Staff says at the bottom, that there's

13   $3.5 million of relocation funds remaining, which I don't

14   know how that gels.  It seems a little low.  Then it says

15   Laclede -- No. 22, Page 6, going on, it says, Laclede was

16   unable to specify how these funds -- they spent these funds

17   in response to OPC's Data Request No. 196 saying cash is

18   fungible.

19                So can the company say how they spent three

20   and a half million dollars?

21          A.    Yes.  And I would add that there was a Staff

22   Data Request No. 388 which we responded with a detailed

23   listing of how we did spend those dollars.

24          Q.    Okay.  Is that anywhere in Staff's updated --

25   anywhere else that I know -- I'm looking at surrebuttal.
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1   On this issue, I'm looking at surrebuttal for Staff; that's

2   all I have. I'm looking at your testimony; that's all I

3   have. I don't know if Mr. Hyneman has that in his either.

4   To me, that's a big issue. If you spent it, they shouldn't

5   be asking for it.

6   A.   We did spend it and there was a data request

7   and we provided the detail.

8   Q.   Okay. Then I'll wait for a Staff witness to

9   answer that.

10   A.   Okay.

11   Q.   Because they have -- my last question,

12 Mr. Kunst said -- I'm trying to find a number. At the time

13 of the sale, do you know what the net book value of the

14 Forest Park facility was? Because Mr. Kunst on Page 3 says

15 it's 2.5 million. I heard someone say, Staff or somebody,

16 it's 1.8 million.

17   A.   2.5 million is total. The land was .7 and the

18 difference, 1.8, is the buildings.

19   Q.   1.8 currently, that's currently in rate base

20 right now?

21   A.   The way I understand it, yes.

22   Q.   So when the new 7.7 million goes into rate

23 base, if it goes into rate base, 1.8 million would come out

24 of rate base, correct?

25   A.   That's how I understand it, yes.

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 1              COMMISSIONER KENNY:  Okay.  Great.  Thank you
 2   very much.
 3              JUDGE DIPPELL:  Any other Commission
 4   questions?
 5              CHAIRMAN HALL:  Yeah.
 6              JUDGE DIPPELL:  Mr. Chairman?
 7   QUESTIONS BY CHAIRMAN HALL:
 8        Q.   So the $5.7 million in relocation costs, is it
 9   accurate that all of those costs offset expenses that
10   you -- that the company would be seeking to either put in
11   rate base or to cover as an element of expense; is that
12   true?
13        A.   Of the 5.7, right at 2 million, was actually
14   used to offset capital.  So that would have been a savings.
15        Q.   And that capital was for furniture?
16        A.   Correct.  IT equipment possibly, different
17   items.
18        Q.   So that's 2 million.  Okay.
19        A.   And the remainder was actual expense that it
20   was used for, as far as the process of the move, moving the
21   guys on the site itself when we shrunk the footprint.  We
22   did some off-site storage, some imaging, different types of
23   expenses.
24        Q.   So those are all expenses --
25              COMMISSIONER KENNY:  Is the 600,000 still left
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1   over? In your testimony on Page 4 you said there's a

2   remaining 600,000.

3   THE WITNESS: Right. That's the one I did the

4   correction for. That should have been $1,950,000. That

5   was all as an offset to fixed assets.

6   COMMISSIONER KENNY: Okay. Sorry.

7   **Q.   (By Chairman Hall) So there was 2 million in**

8   **capital expenses that the company is not trying to put into**

9   **rate base. The remaining costs for the relocation are**

10   **essentially O&M costs that the company is not seeking**

11   **reimbursement for, is that correct, or not seeking to be**

12   **covered in rates?**

13   A.   I believe that's how I would understand it,

14   yes. It's actual expense that we did incur though, but we

15   used that as the offset.

16   CHAIRMAN HALL: Thank you.

17   JUDGE DIPPELL: Is there any further

18   cross-examination based on Commissioner questions from

19   Staff?

20   MS. FORCK: No, your Honor.

21   JUDGE DIPPELL: Public counsel?

22   FURTHER CROSS-EXAMINATION BY MR. SMITH:

23   **Q.   The $3 million of relocation expense that you**

24   **had just discussed, that amount would be retained by the**

25   **company, correct?**

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 1          A.   What do you mean by retained by the company?

 2          Q.   Well, there wouldn't be an offset as to the

 3   plant account for the Manchester facility?

 4          A.   Correct.

 5          Q.   Okay.

 6               MR. SMITH:  Thank you.

 7               JUDGE DIPPELL:  Anything from MIEC?

 8               MR. MILLS:  No questions.

 9               JUDGE DIPPELL:  Environmental Defense Fund?

10               MS. KARAS:  No questions, your Honor?

11               JUDGE DIPPELL:  Redirect by Spire.

12               MR. ZUCKER:  Just a few, your Honor.

13   REDIRECT EXAMINATION BY MR. ZUCKER:

14          Q.   Mr. Smith just asked you if it would be

15   retained by the company, the $3 million O&M, which is

16   actually about 3.7 million; is that correct?

17          A.   3.75 million, yes.

18          Q.   And was that spent?

19          A.   It was.

20          Q.   So the company doesn't have that money?

21          A.   Correct.  It's been spent.

22          Q.   It received it?

23          A.   Correct.

24          Q.   And do you know if the charitable contribution

25   came from the gain of the sale of land or from the
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1 **relocation expenses?**

2   A.   I do not know for sure. I would assume it

3 came from the gain, but I do not know that for sure.

4   **Q.   Okay.**

5   JUDGE DIPPELL: I believe there's a bowling

6 tournament going on upstairs.

7   COMMISSIONER KENNY: Staff dodgeball

8 tournament.

9   MR. ZUCKER: Just one moment, your Honor. All

10 right. I think that's all I have. Thank you, Ms. Kopp.

11   JUDGE DIPPELL: Thank you. That was

12 Ms. Kopp's only issue, correct?

13   MR. ZUCKER: That was it.

14   JUDGE DIPPELL: All right. Then you may be

15 excused.

16   MR. ZUCKER: I'm sure it's probably one issue

17 too many for her.

18   JUDGE DIPPELL: Yeah. Okay. We have been

19 here another two hours. So we are going to take a very

20 short break. We are going to come back in ten minutes, at

21 25 til. And we are going to be prepared to stay late

22 tonight. We will come back, we will take short dinner

23 break in there somewhere and resume until we actually make

24 some progress today. So let's go off the record and come

25 back at 3:40.

 1   (Whereupon there was a short break.)

 2   JUDGE DIPPELL: Thank you. Mr. Pendergast is

 3 at the podium. I assume that means he has an update for

 4 me.

 5   MR. PENDERGAST: I do have an update. I think

 6 the admonition about a dinner break has allowed people to

 7 go ahead and talk a little bit more about expediting

 8 things. I think people are agreeable to just taking the

 9 trackers issue and the Kansas property tax issue and

10 submitting that on the briefs. Staff, OPC and the company

11 have an agreement in principle on the Kansas property tax

12 issue. In fact, I think it's principally just agreed with

13 what Staff had in its surrebuttal testimony. And I think

14 MIEC will want to go ahead and brief and express their

15 opinion based on the record when it comes time to brief it.

16 And of course, if the Commission would like questions from

17 any of the witnesses on it, they would be available.

18   JUDGE DIPPELL: Mr. Mills, do you agree with

19 that.

20   MR. MILLS: I do.

21   JUDGE DIPPELL: Tell me again. That was

22 Kansas property tax.

23   MR. PENDERGAST: And trackers.

24   JUDGE DIPPELL: And trackers. Okay. Thank

25 you for that update. I will poll the Commissioners later

 1 and let me know if you have any questions for those

 2 witnesses.

 3   Okay. Let's go ahead then and finish up on

 4 Forest Park.

 5   MS. FORCK: Yes, your Honor. Staff calls

 6 Staff witness Jason Kunst.

 7   JUDGE DIPPELL: Thank you. Mr. Kunst, you

 8 testified earlier, didn't you?

 9   THE WITNESS: That's correct.

10   JUDGE DIPPELL: You were previously sworn and

11 you remain under oath for these proceedings.

12 JASON KUNST testifies as follows:

13 DIRECT EXAMINATION BY MS. FORCK:

14   **Q.   Good afternoon, Mr. Kunst.**

15   A.   Good afternoon.

16   **Q.   Do you have any corrections to make to your**

17 **testimony related to the Forest Park issue in this case?**

18   A.   Yeah, a few corrections. On the Staff direct

19 cost of service report on Page 50, Line 22, that should

20 be --

21   JUDGE DIPPELL: Hold that thought just a

22 moment. Okay. Tell me the page and the line again.

23   THE WITNESS: It's Page 50, Line 22.

24   JUDGE DIPPELL: Okay. Go ahead.

25   A.   That should be 2.5 million instead of

1   2.4 million. Then on Page 52, Line 11, that should be

2   approximately 3.1 million. On Page 52, Line 7, that should

3   be 1.5 miles.

4   JUDGE DIPPELL: I'm sorry. Would you please

5   give that last one again.

6   THE WITNESS: Page 52, it should be one and a

7   half miles.

8   JUDGE DIPPELL: And the second one was on

9   page -- on Line 11 of that page; is that correct?

10   THE WITNESS: Yes.

11   JUDGE DIPPELL: All right. Go ahead.

12   A.   And then on my surrebuttal testimony on

13   Page 4, Line 6, insert the word "nearly" after the word

14   "for" at the end there.

15   JUDGE DIPPELL: I'm sorry. Which line was

16   that?

17   THE WITNESS: That was Page 4, Line 6.

18   JUDGE DIPPELL: Insert "nearly"?

19   THE WITNESS: That's correct.

20   JUDGE DIPPELL: Okay. I got it.

21   A.   Then the same thing on Page 5, Line 9, insert

22   the word "nearly" before the word "an." Then on Page 6,

23   Line 3, that should be 54.44 percent. That's the --

24   reflect the updated cap structure as a true-up. I'm sorry.

25   Staff's updated true-up cap structure. And then on Page 6,

1   Line 5, that should be 3.15 million. And the same thing on

2   Line 6, 3.15 million. And then on Line 8, the 593,000

3   should be 631,000. And then Line 21 should be 3.6 million.

4   Page 7, Line 3, that should be 3.6 million. Same thing on

5   Line 6, 3.6 million and as well as Line 14. All right.

6   Then Page 15, Line 14 should be 3.6 million and the same

7   thing on Line 18, 3.6 million.

8   **Q.   (By Ms. Forck) Thank you, Mr. Kunst. Is**

9   **that -- are those all the corrections that you have?**

10   A.   Yes, they are.

11   **Q.   With those corrections, if I were to ask you**

12   **the same questions contained in that testimony or if you**

13   **were asked to draft your portion of the report here today,**

14   **would your answers be the same?**

15   A.   They would be.

16   **Q.   And is your testimony true and accurate to the**

17   **best of your knowledge and belief?**

18   A.   It is.

19   MR. SMITH: Your Honor, Mr. Kunst has more

20   issues after this one so I'll withhold offering this at

21   this point. With that in mind, I offer the witness for

22   cross.

23   JUDGE DIPPELL: Thank you. Is there

24   cross-examination by Public Counsel?

25   MR. SMITH: Yes, very briefly.

 1   CROSS-EXAMINATION BY MR. SMITH:

 2   **Q.   To the best of your knowledge when gas**

 3   **companies receive relocation proceeds for infrastructure,**

 4   **is there typically a reduction in plant as a contribution?**

 5   A.   One example would be during an ISRS where if

 6   the Missouri Department of Transportation would come in and

 7   say we're going to widen Highway 40, we need you to move

 8   your gas line, we're going to give you money to do that.

 9   The funds they receive from MoDOT would be recorded as

10   contributions in aid of construction or CIAC. And that

11   would be zero rate base to the rate payors.

12   **Q.   In your testimony, your direct, or I guess**

13   **it's the class cost of service maybe Page 51. Would you**

14   **please open that up.**

15   A.   I'm there.

16   **Q.   And Line 1 through 19, do you agree that that**

17   **describes a process -- a FERC process for the sale of**

18   **utility assets?**

19   A.   I do.

20   **Q.   To the best of your knowledge, was that**

21   **followed by the company in this case?**

22   A.   Yes. They did book the gain in -- a 421 gain

23   on disposition to my knowledge.

24   **Q.   I think you indicated that they did place it**

25   **in that account. Was there a gain also placed in that**

1 **account to the best of your knowledge?**

2   A.   Yes, to the best of my knowledge, there was.

3   **Q.   And is that consistent with this rule?**

4   A.   I believe so.

5   MR. SMITH: I don't think -- no further

6 questions. Thank you.

7   JUDGE DIPPELL: Is there anything from MIEC?

8   MR. MILLS: Just briefly.

9 CROSS-EXAMINATION BY MR. MILLS:

10   **Q.   Good afternoon, Mr. Kunst. Were the**

11 **facilities at Forest Park fully depreciated when they were**

12 **sold?**

13   A.   No, they were not.

14   **Q.   So what happens to the undepreciated balance**

15 **on those buildings; do rate payors pay for that?**

16   A.   Yes. It would be an increase to rate base.

17 It would be under reserve when it was retired.

18   **Q.   And of course with respect to the new**

19 **facility, rate payors are paying for that as well; is that**

20 **correct?**

21   A.   That is correct. Or they will be when rates

22 go into effect in this case.

23   **Q.   Right. Thank you. And under the company's**

24 **proposal, despite the treatment of the cost of the two**

25 **buildings we just talked about, the utility is keeping all**

1   the gains associated with the sale; is that correct?

2   A.   That is correct.

3   MR. MILLS: That's all the questions I have.

4   Thank you.

5   JUDGE DIPPELL: Is there anything from

6   Environmental Defense Fund?

7   MS. KARAS: No questions.

8   JUDGE DIPPELL: Spire?

9   MR. PENDERGAST: Your Honor, Mr. Kunst, I'm

10   going to try and be brief. I think a lot of information

11   has already come out based on the Commissioner's questions.

12   So I'll try and just focus on some of the issues that maybe

13   remain unaddressed.

14   CROSS-EXAMINATION BY MR. PENDERGAST:

15   Q.   Just to put this in prospective, in addition

16   to the Forest Park sale, you know, the subsequent

17   construction of the Manchester facility, the restructuring

18   done by Laclede over the last three years or so, also

19   involved a move from 720 Olive; is that correct?

20   A.   That is correct.

21   Q.   And that was a move into the new facility down

22   at 700 Market Street and 800 Market Street?

23   A.   That would be correct.

24   Q.   And the 700 Market Street was sort of an old

25   building that was kind of an iconic piece of architecture

1   that had been abandoned for a while?

2   A.   That's fair to say.

3   Q.   Okay. Go by the -- on the way to the ballpark

4   and see vines growing up inside and that sort of thing?

5   A.   Well, I've never seen that personally, but.

6   Q.   Okay. But in any event, the company moved out

7   of the 720 Olive location ultimately. And do you know what

8   happened to that location?

9   A.   720 Olive?

10   Q.   Yes.

11   A.   I believe -- I do not know. I do not know the

12   exact details of what Hertz is doing with the building

13   after Laclede left.

14   Q.   Okay. Turning part of it into residential;

15   you haven't heard about that?

16   A.   I may have read something about that in the

17   newspaper.

18   Q.   Okay. But in any event, moved into 700 Olive

19   [sic]. That's right across from Ballpark Village?

20   A.   You mean 700 Market?

21   Q.   700 Market. Excuse me.

22   A.   Yeah.

23   Q.   And that building was rehabilitated and that's

24   now a fully functional operating office for Spire; is that

25   correct?

 1   A.   That's correct.

 2   Q.   **Okay. And some of the people from Forest Park**

 3   **also moved into 700 Market; is that correct?**

 4   A.   Yes. I believe it was the personnel who were

 5   determined to be shared services personnel, along with gas

 6   control and gas procurement moved into 700 and 800 Market.

 7   Q.   **Okay. And in moving into 700 Market and**

 8   **having some of our field people going to other service**

 9   **centers, that ultimately freed up the Forest Park facility.**

10   **And regardless of when the decision was made and that sort**

11   **of thing, the end result was we sold that and now you have**

12   **IKEA there as part of the Cortex complex; is that correct?**

13   A.   That would be correct.

14   Q.   **Okay. And I don't know if you read the press**

15   **release that was distributed where the mayor thanked the**

16   **company for making a contribution to the civic health of**

17   **St. Louis. But -- you know, because of the IKEA sale. But**

18   **Staff doesn't consider that to be a bad thing, does it?**

19   A.   Consider what to be a bad thing? Could you

20   clarify that, please?

21   Q.   **Yeah. Just because of the fact the way things**

22   **unfolded and the sale was made and IKEA was able to go**

23   **ahead and use that property, just the fact that there was a**

24   **new asset in the St. Louis community, that in itself is not**

25   **a bad thing, is it?**

1   A.   Not necessarily.

2   Q.   **Okay. And just, you know, put things in**

3   **prospective where we are right now, now we have a new**

4   **office building that is, would you agree, more conducive to**

5   **our shared service concept down next to Ballpark Village?**

6   MS. FORCK: Objection. I think Mr. Pendergast

7   needs to clarify more conducive than what.

8   Q.   **(By Mr. Pendergast) More conducive than the**

9   **30-story tower with broken elevators that was over at 720**

10   **Olive.**

11   A.   I was not over at the 720 Olive building when

12   Laclede was there. So I can't say how it would compare to

13   700 Market.

14   Q.   **Okay. So you wouldn't have a basis for**

15   **disputing anything Ms. Kopp has said about the old 720**

16   **Olive building?**

17   A.   Not about how it's conducive to an open and

18   collaborative environment.

19   Q.   **Okay. So we have that working for us now.**

20   **Then we have the Manchester facility now in addition to our**

21   **other satellite service area; is that correct?**

22   A.   That is correct.

23   Q.   **And that's a new facility; is that right?**

24   A.   That is correct. It was put into service in

25   November of 2016.

1   Q.   Okay. Have you been inside that facility and

2   looked around and compared it to what Forest Park used to

3   be like?

4   A.   I've never been to Forest Park. I did tour

5   the Manchester facility twice, as well as took tours of two

6   additional satellite centers -- sorry -- yeah -- satellite

7   centers.

8   Q.   Okay. We've got that now and Ms. Kopp has

9   done an analysis of what the ins and outs were as far as

10 the costs are concerned. But you don't really have any

11 basis for comparing it to what Forest Park used to be like?

12   A.   No.

13   Q.   Okay. Now, just, you were -- I think said in

14 your testimony that the company said something about money

15 being fungible so who knows where those relocation costs

16 went. In your own testimony -- and I'm referring to

17 Confidential Attachment 8 JKSL. If you can just see that.

18 I know it's marked confidential, but I'm going to ask you

19 some very general questions about it.

20   A.   I'm sorry. What page is that again?

21   Q.   Yeah. Confidential Schedule 8 JKSL.

22   MS. FORCK: For clarification, I think that

23 might be S1 not SL.

24   Q.   (By Mr. Pendergast) I'm sorry. S1.

25   A.   Is that the memo from Deloitte?

1   Q.   Yes. And that talks about the reserve we set

2   up and if you want to call these relocation costs; is that

3   correct?

4   A.   That would be correct.

5   Q.   Okay. It speaks for itself. We don't need to

6   go into detail on it. But in addition to that, did you

7   also see the spreadsheet that Ms. Kopp had over there

8   earlier today that had all the debits that were made to

9   that account over time?

10   A.   Is that the response to, I think, Staff Data

11   Request 388?

12   Q.   Right.

13   A.   Where we asked for the quantification of the

14   relocation proceeds?

15   Q.   Yes.

16   A.   Yes, I've reviewed that.

17   Q.   Okay. And that had hundreds of, at least,

18   entries, did it not, that showed what specific expenditures

19   were made?

20   A.   Yes. There were many, many expenditures on

21   there.

22   Q.   Okay. Okay. And did you in going back and

23   trying to, you know, take some of these relocation proceeds

24   and use them to do something today, go back and grab any of

25   those expenses we incurred and try and bring them forward

1   for recovery in this case?

2   A.   I'm sorry. Could you clarify that, please?

3   Q.   Yeah. Did you try and bring forward for

4   recovery in this case those expenditures that we made using

5   the relocation proceeds from the Forest Park sale?

6   A.   We tried -- I went back and I used them as a

7   capital offset.

8   Q.   Okay. That's -- that's the part, about

9   2 million, that we used for office furniture and that sort

10   of thing; is that what you're referring to?

11   A.   I believe maybe so.

12   Q.   Okay. But, you know, as far as the other

13   expenses that we used, the relocation proceeds to pay,

14   those were paid out of those relocation funds. So you

15   didn't bring them forward into this case and say we need to

16   allow the company to recover those, did you?

17   A.   I don't believe so.

18   Q.   Okay. Okay. So you've kind of only grabbed

19   the one part, but not the other part?

20   A.   Well, some of them were lease expenses for the

21   Weiss facility where the Manchester employees were. But

22   the Forest Park -- which is a temporary location for the

23   Forest Park employees until Manchester was ready, those

24   were removed from the cost of service calculation.

25   Q.   Okay. So those were removed and --

1   A.   That was an expired lease that expired at the

2   end of the test year.

3   **Q.   Okay. So if they were paid forward through**

4   **the relocation expense reserve, they were removed from the**

5   **cost of service?**

6   A.   No. They were removed because they were

7   expired lease at the end of the year.

8   **Q.   Okay. Fair enough. Why would you include**

9   **them if they had been expired.**

10   **So was there any deferred accounting order or**

11   **anything like that that said either the gains or the**

12   **relocation proceeds from Forest Park sale should be**

13   **deferred?**

14   A.   None that I'm aware of.

15   **Q.   Okay. And I think you've indicated that all**

16   **of the gains were kept by the company. And by that, you're**

17   **not suggesting that 1.5 million wasn't used for the Arch**

18   **City project, are you?**

19   A.   I'm sorry. Could you clarify that, please?

20   **Q.   Yeah. I think that you even recognize in your**

21   **testimony that 1.5 million of the gains from the Forest**

22   **Park facility were ultimately contributed to the Arch City**

23   **project?**

24   A.   Yes. 1.5 million of the gain was donated by

25   the Laclede fund to the Arch City River project.

1   Q.   Okay. And can you just briefly explain what

2   the Arch City project was?

3   A.   My understanding, it was to beautify the

4   downtown area between the Arch and City Garden.

5   MR. PENDERGAST: Okay. Great. You know, I

6   think that's all I've got. Thank you very much, Mr. Kunst.

7   JUDGE DIPPELL: Thank you. Are there any

8   questions from the Bench?

9   CHAIRMAN HALL: I just have one, I think.

10   COMMISSIONER KENNY: I have a couple.

11   QUESTIONS BY CHAIRMAN HALL:

12   Q.   Good afternoon.

13   A.   Good afternoon.

14   Q.   I was under the impression, and I believe this

15   impression came from discussion with your counsel, that the

16    $1.8 million book value for the -- for the Forest Park

17   facility would essentially be a stranded asset and would

18   not be charged to rate payors going forward. Is that -- is

19   my understanding incorrect there?

20   A.   Well, in isolation with this instance,

21   there's -- when the -- you know, the book value, that

22   3.3 million was taken against the reserve and it was

23   underreserved. So there's about 1.8 million that's an

24   underreserved amount that would bump up rate base. But

25   that would just be in isolation in this instance of the

1   replacement and the retirement of this facility.

2   **Q.   So going forward, will rate payor rates be**

3   **based upon both on the $7.7 million facility and 1.8 from**

4   **the old facility?**

5   A.   Yes. Because of the underreserve of the

6   Forest Park facility.

7   **Q.   If the Commission were to take the company's**

8   **position on this issue, what would Staff's position be on**

9   **the 1.8 million?**

10   A.   It would be -- I guess it would be netted with

11   any under and overreserves that the company would naturally

12   occur through mass asset accounting.

13   **Q.   So what does that mean?**

14   A.   With the mass asset, there's just so many --

15   when something's retired, there's many things that are

16   retired before they're fully depreciated which would, you

17   know, either raise or lower the reserve. It could be

18   overreserved, it could be underreserved with the mass asset

19   accounting. There's just so much in that account that it

20   was -- it's hard to keep track of the individual items in

21   there.

22   **Q.   But $1.8 million is kind of a significant item**

23   **that wouldn't be too hard to lose track -- wouldn't be too**

24   **hard to keep track of?**

25   A.   No. Especially with the facility's Account

1   375. It's not as fluid as some of the pipeline accounts.

2   **Q.   So would Staff's position change on that issue**

3   **depending upon what the Commission ultimately decides on**

4   **the -- on the new facility -- excuse me -- what the**

5   **Commission ultimately decides to do with the $5.8 million**

6   **gain?**

7   A.   I'm sorry. Which position?

8   **Q.   If the Commission were to determine that the**

9   **company's position is appropriate, that the $5.8 million**

10 **gain should be booked below the line, would Staff change**

11 **its position on what to do with the $1.8 million?**

12   A.   We don't -- we haven't taken a position on the

13 $1.8 million.

14   **Q.   I guess I'm asking you to now maybe.**

15   A.   We could maybe find an adjustment. We'd have

16 to go back and look at it more. We would think that the

17 relocation expense adjustment would partially cover that,

18 more so than the gain calculation.

19   **Q.   Let me ask a second question. I assume you**

20 **were in the hearing room for Ms. Kopp's testimony.**

21   A.   I was in for most of it.

22   **Q.   I asked her if -- if the $5.7 million in**

23 **relocation expenses, the amount that it received from**

24 **Cortex, if the expenses that totaled the 5.7 million, if**

25 **all of those expenses either offset a capital item that**

1   **would have gone into rate base or it offset an O&M**

2   **expenditure, that the company will not seek to put it in**

3   **rates. And I believe she said that that is her**

4   **understanding. Is that your understanding as well?**

5   A.   The majority of the 5.7, I believe, subject to

6   check, was spent in 2015. So it's outside of the test

7   year. So it wouldn't have an affect on rates in this case.

8   They did spend -- you know, 1.9 is capital offset for

9   furniture and fixtures at 700 and 800 Market, the 1.95 she

10   mentions.

11   **Q.   So is there a balance there?**

12   A.   No. That's a zero balance in rate base. So

13   they contribute -- it's almost like CIAC. So it's zero

14   rate base. The rate payors are not paying a return on

15   those furniture and fixtures.

16   CHAIRMAN HALL: Okay. Thank you.

17   JUDGE DIPPELL: Commissioner Kenny?

18   COMMISSIONER KENNY: Thank you. Too much

19   stuff up here.

20   QUESTIONS BY COMMISSIONER KENNY:

21   **Q.   Good afternoon.**

22   A.   Good afternoon.

23   **Q.   Just a question regarding on the existing 1.8**

24   **million rate base.**

25   A.   Uh-huh.

1   Q.   On Page 10 of your surrebuttal, Staff comes up

2   with the 5.8 million by reducing the sale proceeds of

3   8.3 million by the .7 million for that land and that

4   1.8 million for -- that's existing, right?

5   A.   That's correct.

6   Q.   So that would take care of it? I mean in

7   answer to Chairman Hall's question, I mean if that was the

8   case and we come up with the 5.3 million net proceeds,

9   essentially the rate payors would be -- would have that

10   1.8 million reduced, correct?

11   A.   No. Because it's in underreserved. Because

12   the book value was 3.3 -- I'm sorry -- yeah. The original

13   cost was 3.3 million.

14   Q.   The original cost?

15   A.   I'm sorry. The book value.

16   Q.   Current book value?

17   A.   Yeah. The book value was -- the net book

18   value was 3.3 --

19   Q.   How come I'm hearing the whole time the net

20   book value was 1.8?

21   A.   I'm sorry. I'm getting confused here. The

22   net book value of the Forest Park facility was

23   $2.5 million. The buildings there had an original cost of

24   $3.3 million. There was 1.5 million in reserve. So you

25   have 3.3 minus 1.8 and you get 1.5 in reserve.

1   Q.   So that hasn't been depreciated out?

2   A.   No. It was not fully depreciated when it was

3 retired by Laclede at the time of the sale. That's why

4 there's still a positive book value for the facilities that

5 were located at Forest Park.

6   Q.   How long of a depreciation schedule is that.

7 Didn't they own the place for 80 years?

8   A.   There was various improvements to the land and

9 buildings. They had air conditioners going, new lighting.

10 The parking garage there was 1970. It was a little --

11   Q.   Okay.

12   A.   -- more current vintage. They had various

13 vintages of buildings at Forest Park.

14   Q.   Then Staff's proposal is using Murray's 51.16

15 non-equity position and using that percentage of the 5.3 --

16 5.8 million proceeds depreciated over five years which is a

17 reduction of rate base of 600 and some odd thousand?

18   A.   No. We're not proposing rate-base treatment

19 for gain sharing allocation. As updated, its true-up --

20   Q.   Cost of service. I'm sorry.

21   A.   Yeah. 600,000 for cost of service.

22   Q.   I misspoke. Thank you.

23   Now, let's get just on relocation funds. So

24 could the company -- because it's obvious when that we're

25 speaking about relocation funds, I was a little confused

1   because I know OPC and Staff are looking just as we do when

2   we relocate pipes and equipment and underground facilities,

3   versus relocating people office furniture and equipment,

4   everything's grouped together, correct?

5   A.   That's correct.

6   Q.   Okay. And this company negotiated a contract

7   that included the sale of -- what was the sale 8. --

8   A.   It was 8.3 million.

9   Q.   8.3 million. Total sale of 13 million. It

10   was broken up, 8.3 million for the land and 5.7 million for

11   relocation expenses?

12   A.   That's correct.

13   Q.   Okay. Now, if the Commission wanted to say

14   that the company -- their shareholders should keep that

15   5.3 million, if the company would have said we're just

16   selling it for 13 million, it's all land and not worry

17   about relocation fees, they would be coming into a bigger

18   windfall, right? They'd have net of 10 million instead of

19   5.8?

20   A.   That would be correct.

21   Q.   So -- so if we treat that remaining

22   3.5 million in question as -- it would reduce the cost of

23   service the same way that the sale would under Staff's

24   plan, correct?

25   A.   Yes. If it was added -- it was treated as

1   gain and we'd -- we wouldn't treat them separately and give

2   it a rate base value for the relocation fee.

3   **Q.   Let me ask you a question. So the company**

4   **decided to break it down to cover relocation fees -- which**

5   **if they would have sold all this land, they were banking**

6   **that their shareholders would be better off. But they**

7   **chose to break it down based on, I imagine, their expenses**

8   **and what they figured it would cost to move everything.**

9   **And under Data Request 388, they produced some documents**

10   **for you. Was that before your testimony on 11/21?**

11   A.   Yeah, I believe we received that before our

12   direct testimony.

13   **Q.   Okay. So if the Commission orders that**

14   **relocation -- those relocation fees to -- agrees with**

15   **Staff, there should be a reduction of -- be a reduction,**

16   **what -- how do we all treat all the expenses that Spire's**

17   **endured in moving everybody and all those expenses; how do**

18   **we treat that?**

19   A.   Well, Staff tried to -- the reason we asked

20   the DR, we wanted -- our adjustment, we attempted to take

21   the relocation funds minus the cost they used to actually

22   move Forest Park employees and equipment and anything from

23   Forest Park to, you know, either to Manchester or the other

24   satellites or to Olive. That's what we wanted a

25   quantification of, what was in that cost. And the response

1   was they didn't track the cost so --

2   Q.   **That was response to OPC.**

3   A.   That was the response to Staff as well.

4   Q.   **You got the same response?**

5   A.   Yes. They didn't track those costs. So we

6   don't know if those costs --

7   Q.   **What did they give you in Data 388? I don't**

8   **understand.**

9   A.   They gave us a list of costs, but they weren't

10 able to tell us if it was used to move Forest Park people

11 or if it was used to move 720 Olive people to Market. We

12 believe that -- we wanted to give them --

13   Q.   **So you gave them no benefit of the doubt?**

14   A.   We removed some of it, about $200,000 for the

15 lease of the one facility.

16   Q.   **So they had to have a lot more expenses than**

17 **that. So Staff's opinion is you didn't break it down well**

18 **enough for us, so we're not going to give you anything?**

19   A.   Well, in a meeting with Ellen Theroff, their

20 VP, she told us basically nothing from Forest Park was

21 taken with them. And I've been to the Manchester facility

22 and I've been to 700 Market. All the furniture, computers,

23 all of that is brand new. So it doesn't look like they

24 took very much with them from Forest Park.

25   There may have been some costs. But without

1   us knowing what was what, it's hard to tell, you know, how

2   much was for Forest park and how much was for Olive. They

3   were obviously going to have a lot more stuff at Olive with

4   more records management that they needed to --

5   Q.   **That to me seems like it was an important**

6   **decision by Spire then to even ask for any relocation, that**

7   **they should have just taken it all as capital and then**

8   **taken their chances with the Commission?**

9   A.   I can't speak to their -- their management

10   decision on that.

11   COMMISSIONER KENNY: All right. Thank you.

12   JUDGE DIPPELL: Is there any further

13   cross-examination based on Commission questions from Public

14   Counsel?

15   MR. SMITH: No. Thank you, Judge.

16   JUDGE DIPPELL: MIEC?

17   MR. MILLS: No questions.

18   JUDGE DIPPELL: Environmental Defense.

19   MS. KARAS: No questions, your Honor.

20   JUDGE DIPPELL: Spire?

21   MR. PENDERGAST: Just a few questions.

22   FURTHER CROSS-EXAMINATION BY MR. PENDERGAST:

23   Q.   **So you're not contesting that they were used**

24   **for relocation or moving costs, just whether they were**

25   **relocation or moving costs associated with Forest Park?**

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 1          A.    Yes.   Staff believes that the 5.7 million
 2   relocation was to move employees from Forest Park, not to
 3   move employees from 720 Olive.
 4          Q.    Okay.  So from your standpoint, if we use them
 5   to offset other expenses associated from moving from 720
 6   Olive to 700 Market, those don't count?
 7          A.    Not for the purposes of replacing Forest Park
 8   with the Manchester facility.
 9          Q.    Would those expenses have been -- would they
10   have shown up somewhere else in cost of service?
11          A.    They would have been incurred in whatever
12   expense account they occurred.  But most of them occurred
13   outside the test year in this case.
14          Q.    Once again, we didn't have any deferral order
15   with the Commission to move those into this particular case
16   and recover them, did we?
17          A.    Not that I'm aware of.
18          Q.    Just like the Staff didn't have any deferral
19   order to go ahead and move the relocation proceeds from the
20   Forest Park sale to this case; is that correct?
21          A.    Not that I'm aware of.
22          Q.    Okay.  And there was some talk about the
23   1.8 -- I'm the last guy that understands depreciation
24   accounting.  But is this kind of a mass property sort of
25   thing?
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 1          A.    Yes.  It would be a mass asset thing.  But in
 2   isolation in this -- in isolation of the Forest Park sale
 3   and the Manchester construction, you know, rate payors
 4   would be paying for that isolation.
 5          Q.    And are there anything -- other facilities in
 6   that mass property that would be overreserved and would
 7   tend to reduce rate base once it's reconciled?
 8          A.    Possibly.
 9          Q.    Okay.  And you don't know whether there's an
10   offset on the other side or not, do you?
11          A.    I don't know.
12          Q.    Okay.  And to the extent that you do have this
13   1.8 million that's flowing through the depreciation process
14   and it's not offset by ones that went the other way, I
15   think as you said in your testimony, the company took
16   1.950 million of those relocation proceeds and used them to
17   buy office furniture and other items that would otherwise
18   be reflected rate base; is that correct?
19          A.    That's correct.
20          Q.    And that's just a little bit more that was
21   ever -- that was still left for Forest Park?
22          A.    That would be correct.
23          Q.    And the Manchester facility has been
24   operational for well over a year now, hasn't it?
25          A.    Yeah.  Just over a year.
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1   Q.   Okay.   And have we received any depreciation

2   expense for that yet?

3   A.   No.   However, the Forest Park facility is

4   still depreciating in rates.

5   Q.   I understand that's still depreciating in

6   rates, whether it's offset by other things that we

7   underrecovered from in rates, we don't know.   But my

8   question is, that is not something that has been recovered

9   by the company yet and will not be until rates are

10   established in this proceeding; is that correct?

11   A.   I would say given that Staff is currently

12   recommending a rate decrease, the company has recovered

13   those costs.

14   Q.   Well, you know, we can argue about how valid

15   that particular increase or decrease is.   Do you know if

16   there's a cost of service that reflects that that has gone

17   into rates?

18   A.   I do not.

19   Q.   Well, has the cost of service recommended by

20   Staff gone into rates yet?

21   A.   No, it has not.

22   Q.   Okay.   I'm just going to ask this and, you

23   know, please don't take it the wrong way.   But was the

24   adjustments that had been made with respect to Forest Park,

25   in any sense meant by Staff to claw back any transition

1   **costs we're getting?**

2   A.   No, they were not. They are in isolation of

3   that.

4   MR. PENDERGAST: Okay. Thank you.

5   JUDGE DIPPELL: Thank you. Mr. Kunst, I

6   believe you may step down.

7   MR. SMITH: Your Honor.

8   JUDGE DIPPELL: I'm sorry. Redirect. I just

9   seem to be wanting to get Staff witnesses off that stand as

10   quick as I can. So Staff redirect.

11   MS. FORCK: I do have a few, your Honor.

12   Thank you.

13   REDIRECT EXAMINATION BY MS. FORCK:

14   **Q.   Mr. Kunst, you recall questions about how the**

15   **company spent their relocation proceeds?**

16   A.   I do.

17   **Q.   You addressed this a little bit I think in**

18   **response to Commissioner Kenny. But could you just maybe**

19   **clarify your understanding of how the company spent the**

20   **relocation proceeds that they were given?**

21   A.   They used some of them -- there were various

22   costs on the DR response they gave us. Some of them for

23   records information management, some IT costs, obviously

24   the 1.5 million they use as a capital offset, there were

25   labor costs in there, travel, various expenses in there.

1   When we asked, we asked in responses can you quantify where

2   these were spent, Mr. Buck's response to that DR was in a

3   meeting, that they didn't track the costs that way and they

4   were unable to provide them in that way for us.

5   **Q.   Okay. And you in your adjustment, you did**

6   **give the company the benefit of those capital purchases you**

7   **mentioned; is that correct?**

8   A.   Yes. We removed those from the relocation

9   adjustment.

10   **Q.   Okay. And so can you just briefly explain**

11   **what you propose to do with the remaining relocation**

12   **proceeds?**

13   A.   The relocation proceeds, minus expenses we

14   could tie to Forest Park and the relocation expenses which

15   I corrected to be 3.6, million, we're recommending that

16   would be a regulatory liability with rate-base treatment,

17   so amortized over five years. It would approximately be

18   about 336,000 impact to cost to service.

19   **Q.   Okay. Can you explain what the company did**

20   **with the -- with the funds they received for the gain on**

21   **that sale?**

22   A.   Could you clarify that, please?

23   **Q.   Let me think of how to phrase this. So the**

24   **gain that you calculated, total gain on the sale of the**

25   **property, was $5.8 million, correct?**

1   A.   Yeah.   That's Staff's calculation of the gain.

2   **Q.   And do you know what the company -- how the**

3   **company has handled that -- those funds?**

4   A.   They reported it below the line. And for tax

5   purposes, they claimed 1033 which is a like-kind exchange.

6   So they paid no tax on those gains as well. Which I'm not

7   an expert on the company's tax position, though. So I

8   don't know how much impact it truly had on their taxes.

9   **Q.   What was that, 1033?**

10   A.   Yeah.   It's IRS Section 1033. It's a

11   like-kind exchange. It's an involuntary conversion. In

12   this instance, the company has claimed under the threat of

13   eminent domain that they were going to lose the property so

14   they in turn sold it before IKEA or Cortex could condemn

15   them. And thus, allow the company to defer the gain on the

16   sale of the transaction by reducing the tax basis of the

17   replacement property.

18   **Q.   Okay. Thank you. And what do you do -- what**

19   **do you propose to do with that $5.8 million?**

20   A.   Staff proposes to take the $5.8 million and

21   use it as a regulatory asset -- sorry -- regulatory

22   liability with no rate-base treatment that would be

23   amortized over five years starting with the data rates in

24   this case. It would be approximately $631,000 over

25   those -- I'm sorry -- a year.

1   Q.   Okay. Do you recall questions from the

2   chairman about the reserve and underreserve; do you recall

3   those -- that line of questioning?

4   A.   I do.

5   Q.   Can you explain how reserve works, maybe to

6   get a little bit more understanding of what happens to it,

7   over or underreserve?

8   A.   When you -- you have your rate based and then

9   it is depreciated over time and that goes into the reserve.

10   And that is an offset to the rate base. So if you had a

11   million dollar property and had $500,000 of reserve, the

12   rate base would be 500,000. However, if it was, you know,

13   sold and you had a replacement property for 2 million and

14   you had fully depreciated the first property and it was --

15   so you had that 500,000 there, you would have a negative

16   reserve. So the new property would have a rate base of

17   2.5 million.

18   Q.   Okay. So the chairman asked you if -- if the

19   Commission took the company's position with respect to this

20   sale, whether you had a position on that $1.8 million that

21   was remaining. Would one option be to have the Commission

22   require Laclede to make an adjustment that would eliminate

23   the 1.8 million from that -- that underreserve amount that

24   would essentially get rid of any rate-making impact?

25   A.   I think that would be a fair adjustment for

1   the Commission to consider.

2   MR. SMITH: Okay. I don't think I have

3   anything further.

4   JUDGE DIPPELL: Thank you.

5   QUESTIONS BY JUDGE DIPPELL:

6   **Q.   Mr. Kunst, I did just have one last**

7   **clarification. You mentioned the terms "below the line"**

8   **also. Can you tell us just what that means in your --**

9   A.   That means it's not included -- it's one of

10   the accounts that are not included in the rate making

11   calculation.

12   JUDGE DIPPELL: Okay. Thank you. Is there

13   anything further based on my question?

14   MS. FORCK: No, your Honor.

15   JUDGE DIPPELL: All right. Thank you.

16   Mr. Kunst, now you may step down.

17   I believe we are ready then for OPC's witness

18   on this topic?

19   MR. SMITH: Yes. Thank you. OPC calls

20   Mr. Charles Hyneman to the stand.

21   JUDGE DIPPELL: Mr. Hyneman, you were

22   previously sworn and you remain under oath for this

23   proceeding.

24   Do you tender the witness or do you have

25   something?

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 1            MR. SMITH:  Yes.  Before I tender the witness.
 2   DIRECT EXAMINATION BY MR. SMITH:
 3            Q.   Mr. Hyneman, I understand you have one
 4   correction to make to your testimony?
 5            A.   Yes.  On Page 2 to my rebuttal testimony, Line
 6   22, talking about the distance I think between Manchester
 7   and Forest Park, I had it as approximately one half mile.
 8   And I since discovered it's 1.5 miles.  So if you add a one
 9   before that half, that would fix that.
10            Q.   And is that all the changes to your testimony?
11            A.   Yes.
12            MR. SMITH:  Okay.  I believe Mr. Hyneman is
13   scheduled to appear in other issues so I'll continue to
14   withhold the offering of his testimony.  And I offer him --
15   or excuse me -- I tender him for cross-examination.
16            JUDGE DIPPELL:  Is there cross-examination
17   from Staff?
18            MS. FORCK:  No thank you, your Honor.
19            JUDGE DIPPELL:  MIEC?
20            MR. MILLS:  Just a couple.
21   CROSS-EXAMINATION BY MR. MILLS:
22            Q.   Mr. Hyneman, is it possible that the gains
23   from a sale of property by a utility could impact the
24   earnings of the company?
25            A.   Yes.  Gains from the sale that are recorded
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1   below the line flow directly to net income. For example,

2   the gain that Laclede recorded on this transaction

3   increased that net income in that year they recognized it.

4   **Q.   And that could also impact the stock price?**

5   A.   It should. Increase in net income will

6   normally be reflected in the stock price.

7   MR. MILLS: That's all I have. Thank you.

8   JUDGE DIPPELL: Is there anything from

9   Environmental Defense Fund?

10   MS. KARAS: No questions, your Honor.

11   JUDGE DIPPELL: Anything from Spire?

12   MR. ZUCKER: No questions from Spire.

13   JUDGE DIPPELL: Questions from Bench for

14   Mr. Hyneman.

15   QUESTIONS BY CHAIRMAN HALL:

16   **Q.   So if the Commission were to take the**

17   **company's position on this issue and allow it to book a**

18   **$5.8 million gain below the line, what would your position**

19   **be on how we should treat the $1.8 million stranded asset?**

20   A.   I didn't really study the 1.8 million dollar

21   stranded asset. But to the extent that that exists, then I

22   think at a minimum, the Commission should require that to

23   be reflected as a reduction in rate base. And then reflect

24   the transaction that Laclede proposes. That would

25   eliminate any harm from the transaction, excluding the

1   non-reflection of the gain.

2   CHAIRMAN HALL: Okay. That's all I have.

3   Thank you.

4   JUDGE DIPPELL: All right. Is there any

5   further cross-examination based on the Chairman's questions

6   from Staff?

7   MS. FORCK: No.

8   JUDGE DIPPELL: MIEC?

9   MR. MILLS: No thanks.

10   JUDGE DIPPELL: Environment defense?

11   MS. KARAS: No. Thank you, your Honor.

12   JUDGE DIPPELL: Spire?

13   MR. ZUCKER: No, thank you.

14   JUDGE DIPPELL: Is there redirect by OPC?

15   MR. SMITH: There is not.

16   JUDGE DIPPELL: Thank you, Mr. Hyneman, you

17   may step down.

18   Okay. If my schedule is correct then this

19   completes the Forest Park issue. And we will be ready to

20   begin with rate case expense. Are there any preliminary

21   matters before we launch into that issue?

22   MR. SMITH: I guess one. There will be a

23   substitution of counsel on OPC's part of rate case expense.

24   If I could have just a minute.

25   JUDGE DIPPELL: Is Ms. Shemwell --

 1   MR. SMITH: I do not see her in the room. If

 2   I could run up there and grab her.

 3   JUDGE DIPPELL: Okay. Then we will take a

 4   very short break. Be back at 4:45 and we will begin with

 5   opening statements on rate case expense.

 6   MR. SMITH: Thank you, Judge.

 7   JUDGE DIPPELL: Go off the record.

 8   (Whereupon there was a short break.)

 9   JUDGE DIPPELL: Okay. During the break I

10   discussed schedule with the Commissioners. And what we're

11   going to do is we're going to do the mini openings for rate

12   case expense and then we're going to call it a night.

13   MS. KARAS: Your Honor, can I just raise one

14   procedural issue?

15   JUDGE DIPPELL: Yes.

16   MS. KARAS: I've made this request before but

17   given that we're a little behind, I just wanted to

18   reiterate my request and the other parties' agreement that

19   Greg Lander can take the stand tomorrow on cost allocation

20   and PGA issues.

21   JUDGE DIPPELL: Yes. He was available in the

22   morning, right?

23   MS. KARAS: He's available at any time, just

24   tomorrow. I just wanted to reiterate that we can fit him

25   in.

1   JUDGE DIPPELL: Okay. And we also have OPC's

2   witness for tomorrow.

3   MS. SHEMWELL: That's correct.

4   JUDGE DIPPELL: My proposal is that we finish

5   up rate case expense first. And then we move those

6   witnesses who are only available tomorrow up to -- move

7   their issues up to the next, unless I hear some reason not

8   to do that. And then we'll be certain to have gotten those

9   witnesses taken care of as soon as we can.

10   MS. SHEMWELL: I think transition cost and

11   rebranding are the only ones left for today that would need

12   to be moved. So it will give us an opportunity for further

13   discussion among the parties for those issues as well.

14   JUDGE DIPPELL: I appreciate that.

15   MS. KARAS: Thanks for the accommodation, your

16   Honor.

17   JUDGE DIPPELL: No problem. All right. So

18   with that in mind, let's get going with opening statements

19   for rate case expense. The company?

20   MR. ZUCKER: May it please the Commission.

21   Rate case expense is an expense like any other expense the

22   company has that should be included in its rates. However,

23   I am aware that over the past few years, the Commission has

24   begun a process of having rate case expense shared between

25   the customers and the company. And I know was done in a

1   KCP&L case and there was several reasons given in that case

2   that I don't think applied here in our case.

3   For Laclede and MGE, first of all, I think as

4   our chief operating officer Mr. Lindsey testified now back

5   a week ago or back last Wednesday, we were not planning to

6   file a rate case on April 11, but for the -- so we would

7   not have filed, I'm sure, but for the ISRS statute that

8   required us to file a rate case in order to continue to

9   charge the ISRS for the large amount of safety work that we

10   have done.

11   The -- our time to file expired on April 12 of

12   2017. So I think it was not a coincidence that we filed on

13   April 11. We also at one time got legislation passed

14   allowing us an option to not file for five years with an

15   ISRS which would have aligned us better with the other

16   states in the union. We're tied for last in terms of the

17   shortest amount of time to have to come back which is three

18   years. So we had actually gotten a legislation passed, but

19   the governor vetoed it. So that led to the April 11

20   filing.

21   In addition, we also had a complaint filed by

22   the Office of Public Counsel last year which forced us into

23   a case. And I would say that it's not appropriate to have

24   to assume rate case expenses in a case where you've been

25   brought in to have your rates lowered.

 1   Historically Laclede has very cheap rate case

 2   expenses. And I think a study was done maybe in Case No.

 3   AW-2011-0330. I don't have the number exactly in front of

 4   me. But Laclede has -- has had very low rate case

 5   expenses, mostly because Laclede has managed to resolve

 6   issues in their rate cases before going through the entire

 7   process and having a hearing like we are here in the last

 8   week or two.

 9   So this is my -- I think I may have even said

10   this last week in opening. This is my sixth rate case with

11   Laclede and the first time that I've actually come to a

12   hearing. So here we are now not just at a hearing, but

13   with 30 issues. The common party here, Laclede, is not the

14   one that's been coming to the Commission to have a big

15   hearing like this.

16   One of the other points made in the I think

17   the prior Commission cases is that -- that the company

18   controls the issues. And I can understand that being the

19   case in a lot of instances. But again, it's not the case

20   here. If I look down the list of 30 issues, I would say

21   the company has controlled not more than half of them. The

22   other -- other issues have been raised by other parties or

23   they're just sort of joint issues. And, you know, there

24   are other reasons that this case has gone on this long.

25   And this is certainly the most expensive case Laclede and

1   MGE -- well, at least Laclede has had in the 15 years I've

2   been here.

3   Now, as for MGE, I know they did come to the

4   Commission a few times. But after we purchased them in

5   2013, we had a rate case in 2013/'14, it concluded in 2014.

6   And as set forth in the surrebuttal testimony of Staff

7   witness Keith Majors, our rate case expense there was about

8    $168,000, which I think most rate case expenses are in the

9   million to million and a half range.

10   Another reason given for why the company

11   should assume some of the cost of rate case expense is that

12   the company has -- if the rate case expense is paid for for

13   the company, then it has nothing to lose by running up the

14   costs and continuing to -- to litigate. And meanwhile, the

15   other parties have -- have limited expenses. I would say

16   that in our case, it's the company that had limited

17   expenses.

18   We are, as Mr. Lindsey testified, not staffed

19   year round to do rate cases like this. So the people who

20   are doing jobs like Susan Kopp who was here earlier, they

21   have jobs to do and then they are co-opted into doing rate

22   cases. Staff has a group and this is what they do,

23   regulatory cases.

24   OPC in this case, I know that OPC has often

25   said that they have very limited funding. And I think that

1   was probably true in the past. Their budget has increased

2   60 percent over the last three years. And in fact in this

3   case, they have three outside consultants, one for

4   pensions, one for cost allocations and one for cost of

5   capital. So there's a lot of costs being driven by other

6   parties to this case. And probably more than are driven by

7   Laclede.

8   The -- the formula that the company recovers

9   the percentage of what it gets, versus what it asks for, I

10   think is -- I guess I understand where we're going. We're

11   trying to create incentives to be efficient. And I -- I

12   think the company favors that.

13   COMMISSIONER KENNY: Excuse me. Favors what?

14   MR. ZUCKER: Favors having incentives to be

15   efficient.

16   COMMISSIONER KENNY: You're not favoring

17   having to pay a percentage based on what you get, versus

18   what you ask for?

19   MR. ZUCKER: What I was about to say is I

20   think there are probably better ways to do it. Because

21   that incentive falls entirely on the company and not on any

22   of the other parties. So, you know, Staff, for example,

23   has nothing to gain or lose from this. They can take a

24   case to hearing or settle at their -- at their discretion.

25   The old limiter on rate case expense was

1   prudency. So after -- at the end of the case, you'd look

2   at expenses and if there were some imprudent costs or cost

3   overruns, you might have disallowances there. Now, that

4   works in other areas of -- of regulation such as the

5   PGA/ACA process. And I would think that that would be a

6   good enough incentive in this case.

7   However, I know the Commission has said that

8   they don't think that it's too hard to figure out where the

9   line -- the prudence line is in rate cases because you have

10   consultants, you have attorneys. It's hard to tell whether

11   you've spent too much on them whether you've needed them or

12   not. So I understand that determining prudence cannot

13   always be a science, there's some art to it. I guess I

14   still think it's better than the percentage of recovery.

15   But I would close with this, in the docket the

16   Commission opened to study this, that AW docket that I

17   talked about, the Staff came up with several alternatives.

18   And I thought that there was some worthy alternatives to

19   consider there. I just think we can do better than the

20   percentage issue or the percentage formula. And I think

21   that we ought to take another look at the options that

22   Staff came up with and see if we can find something that's

23   better than -- than the usual prudent standard.

24   That's all I have.

25   JUDGE DIPPELL: Thank you. Questions for

1   Mr. Zucker?

2   CHAIRMAN HALL: Just a couple.

3   What is the company's position on whether we

4   should amortize or normalize rate case expense?

5   MR. ZUCKER: Amortizing, meaning take actual

6   expense and divide it up by a number of years, like three

7   years versus normalized, just take an averaged expense

8   amount.

9   CHAIRMAN HALL: Well, my understanding is --

10   is Staff is proposing that we -- that we normalize it, that

11   we figure out the amount to include in rates over a certain

12   number of years and we put that in rates and we don't track

13   it. My understanding of amortizing is that it's a certain

14   amount of money that you would get over a certain number of

15   years. And if you over recovered or under recovered, that

16   that would be reflected in the next rate case. Someone

17   could correct me on that if I'm wrong.

18   MR. ZUCKER: Okay. I understand. That's

19   actually an issue in the case that we have settled --

20   CHAIRMAN HALL: Yes.

21   MR. ZUCKER: -- I think on MGE's service line

22   replacement program.

23   CHAIRMAN HALL: Okay.

24   MR. ZUCKER: My feeling about that is the

25   company has no particular need to over recover its rate

1   case expenses. In our view, we should recover our prudent

2   expenses and recover them over time.

3   CHAIRMAN HALL: Okay. And second question is,

4   you've indicated some openness to some of the alternative

5   rate case sharing proposals. Which -- which ones?

6   MR. ZUCKER: That's a good question. I think

7   there was one that set some kind of a dollar limit, an

8   upper dollar limit. I -- I don't know that that's the best

9   one. But there are other ones in which you look at, you

10   know, averages for -- for the industry. And you kind of

11   determine where you stand with the average. In other

12   words, you're allowed to recover up to a certain limit; and

13   above that, then you would have to share.

14   CHAIRMAN HALL: What about doing what -- one

15   of the proposals in the Staff report and the way they do it

16   in some states, is they just say 50/50. What are your

17   thoughts on that.

18   MR. ZUCKER: I don't think I can state them in

19   public. But yeah, 50/50, I don't think is fair. I

20   understand that the -- there's the -- the idea is that the

21   shareholder benefits from a rate case and the customer

22   benefits from a rate case. But certainly that can be said

23   about any expense and revenue item.

24   In this case, again, we did not file on a

25   voluntary basis. We filed as a matter of practical

1   necessity in order to continue to recover the $49 million

2   that we have expended in -- on the safety and relocation

3   projects.

4   CHAIRMAN HALL: I have no further questions.

5   Thank you.

6   JUDGE DIPPELL: Thank you. Commissioner

7   Kenny, do you have questions?

8   COMMISSIONER KENNY: Just on that basis.

9   Since you have -- you had to file on a statutory basis

10 versus a voluntary basis, do you think we could have

11 different rate designs or rate case expense sharing designs

12 based on that?

13   MR. ZUCKER: Yes. I think that would be an

14 exception. In the KCP&L case, the Commission kind of

15 reeled off the number of years which years KCP&L had come

16 in, you know, every two years that kind of thing. And the

17 thought being, well, if it doesn't cost them anything, they

18 can just keep coming in. In this case, not only did we not

19 come in until the last possible minute, we tried to stretch

20 out the last possible minute for two more years.

21   COMMISSIONER KENNY: And the other side might

22 say that's because the current situation is pretty good for

23 you.

24   MR. ZUCKER: Yeah, we have -- as we've talked

25 about, we have gone to a lot of trouble to make these

1   acquisitions to spread costs. I've watched personally

2   people work very hard. And the result is that we have bent

3   down the historical and climbing cost curve. We were -- in

4   the 12 rate cases that Laclede had before the MGE purchase,

5   we were 11, 0 and 1. And 1 being we left without an

6   increase or decrease. Otherwise, they were all increases.

7   Costs were going up. There's not a lot of

8   customer growth. There's conservation. And so the fact

9   that we were not only able to stay out for these four years

10   and not have a raise above ISRS for seven years, in my

11   view, is very impressive. It's a complete change from

12   where we were before.

13   COMMISSIONER KENNY: You mentioned OPC. How

14   is Office of Public Counsel funded?

15   MR. ZUCKER: They're funding is actually on

16   the Commissions funding.

17   COMMISSIONER KENNY: What is Spire's thoughts

18   of that? Do they think -- because I know I've discussed --

19   I've heard discussion. What is Spire's thoughts -- it has

20   not been challenged on the legality of that.

21   MR. ZUCKER: Yeah, I think the answer is that

22   it is not authorized. And when we make our Commission

23   assessment payment, we reserve rights in that area. But no

24   one, including us, has gone to the trouble of challenging

25   it.

 1   COMMISSIONER KENNY: And when did that

 2   legislative action take effect?

 3   MR. ZUCKER: When did OPC start being

 4   challenged?

 5   COMMISSIONER KENNY: The legislature changed

 6   that. Didn't they change the funding mechanism?

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

 8   CHAIRMAN HALL: Through the budget process.

 9   COMMISSIONER KENNY: Through the budget

10   process. So it was a legislative process.

11   MR. ZUCKER: Right.

12   COMMISSIONER KENNY: Thank you.

13   JUDGE DIPPELL: Anything else? Thank you,

14   Mr. Zucker.

15   An opening from Staff?

16   MR. THOMPSON: Thank you, judge? May it

17   please the Commission. As Staff's witness pointed out in

18   the Staff cost of service report, the company's rate case

19   expenses are only one category of the rate case expense

20   that this case is going to generate. There's also, of

21   course, rate case expense for OPC and for the Commission

22   itself and for the Commission Staff and for each of the

23   interveners.

24   And as a matter of equity then, since the

25   customers of Laclede are paying the Commission's rate case

1   expense and the Commission's Staff's rate case expense and

2   the OPC's rate case expense through the assessment that is

3   collected from Laclede, it seems fair that Laclede's

4   shareholders should pay some part of the rate case expense

5   that the company incurs, particularly since the company

6   certainly controls some issues.

7   Now, I heard Mr. Zucker eloquently talk about

8   how they've been dragged in here kicking and screaming and

9   weeping and that they never ever, ever, ever would have

10   filed a rate case if, gosh, they just didn't have to. I'm

11   always nervous when a large utility doesn't want to come in

12   for rates regularly. Why is that? Are they making too

13   much money? Could that possibly be it? I don't know.

14   Think about the cost of capital issue that we

15   spent all day yesterday listening to. Okay? Where we

16   noticed that the company's cost of capital, ROE number, was

17   amazingly much higher than those suggested by Staff and by

18   OPC/MIEC. So certainly it was the company pushing for a

19   different result with respect to that particular factor,

20   where the company's cost of capital arguably includes good

21   will that it's prohibited from asking for a return of or on

22   because of the stipulation that allowed it to purchase MGE.

23   So the company controls certainly quite a few

24   issues. And it's unusual. It's unusual for a major rate

25   case to include as many litigated issues as this case does.

1   That suggests the parties have been unable to settle.

2   Well, why is that? Why can't the parties settle? Because

3   somebody's saying no. Somebody is saying no we're not

4   going to give up on that. We're not going to budge on

5   that. And I suggest to you that the company is saying that

6   at least half the time.

7   So it's fair that the company's rate case

8   expense should be shared between its customers and its

9   owners. And as well, it plays the important role of

10   putting some kind of a break on the amount of money that's

11   spent on the case.

12   There was time spent yesterday trying to

13   figure out how much money was going to be spent for Scott

14   Madden in the cost of capital area. Of course when you ask

15   expert witnesses what it costs for them to be here, they

16   never really know. They may know what their hourly rate

17   is, but they never know how many hours there have been and

18   they never know what their company has billed. It's

19   usually a waste of time.

20   But we know from Staff's position statement,

21   that it says right here, total rate case expense incurred

22   so far, $498,000. $498,000. That's a lot of money. So

23   somebody is counting those beans, even if Ms. Ahern doesn't

24   know what the amount is. But there was talk about is there

25   a ceiling, is there a budget. None of them knew if there

1 was a budget, none of them could tell you what the ceiling

2 was. If there is no budget and there is no ceiling, whose

3 fault is that? That's the company.

4   The company spent a lot of money to have

5 Mr. Hebber here, to have Pauline Ahern here and to have its

6 other consultants here that its using in this case. Those

7 people are quite expensive. They're worth at least $350 an

8 hour, they said so themselves.

9   So staff is very much in favor of, number one,

10 picking over the amount of rate case expense and adjusting

11 out those amounts that are imprudently occurred --

12 incurred. Excuse me. And them normalizing what's left

13 over four years. We're asking for a different treatment of

14 the cost of the depreciation study. Because the

15 Commission's rule requires a depreciation study every five

16 years. So that should be normalized over five years.

17   And normalization means you put in one-fourth

18 of the allowed amount into rates and whether they come back

19 in two years or eight years, that's how much they're going

20 to get every year. They may over recover. They may under

21 recover. But an allowance is made for it on an ongoing

22 basis. And we believe that amount should be based on the

23 ratio of what they achieved, to what they ask for.

24   We think that's fair and we think that will

25 distribute that burden equitably. Thank you.

1   JUDGE DIPPELL: Questions for Mr. Thompson?

2   CHAIRMAN HALL: So would you characterize the

3 company's litigation posture in this case as extremely

4 aggressive?

5   MR. THOMPSON: That's my impression. I have

6 not been running this case. I'm not the lead attorney and

7 I'm only doing three issues. But what I have seen is a lot

8 of settlement meetings and not much coming out of them. So

9 somebody is saying no. And I've got to think it's the

10 company at least half the time.

11   MR. PENDERGAST: You know, your Honor. I'm

12 going to kind of object to Mr. Thompson's characterization.

13 First of all, these are privileged settlement discussions

14 and I don't appreciate him who is saying no and who isn't

15 saying no.

16   JUDGE DIPPELL: Mr. Pendergast --

17   CHAIRMAN HALL: That was a really aggressive

18 response to that statement, Counsel.

19   JUDGE DIPPELL: Mr. Pendergast, we'll take

20 that up in briefs as well.

21   CHAIRMAN HALL: In the report that Staff

22 issued, after the working docket on rate case expense four

23 years ago or so.

24   MR. THOMPSON: Yes, sir. I remember it.

25   CHAIRMAN HALL: There was a listing of a few

1   states that did employ rate case sharing practices. Since

2   that report has been issued, have additional states adopted

3   that practice?

4   MR. THOMPSON: I absolutely do not know.

5   Mr. Oligschlaeger compiled that report and perhaps he

6   knows, but I do not.

7   CHAIRMAN HALL: All right. I have no further

8   questions. Thank you.

9   COMMISSIONER KENNY: No questions.

10   COMMISSIONER COLEMAN: No questions.

11   JUDGE DIPPELL: Thank you, Mr. Thompson.

12   Public Counsel?

13   MS. SHEMWELL: Thank you. May it please the

14   Commission. Good afternoon. Good evening, whatever. In

15   this case for rate case expense, Public Counsel is not

16   proposing a disallowance. Public Counsel is proposing an

17   allocation of the cost between those who benefit. And that

18   is the customers and the shareholders. And we are

19   proposing the allocation process used by the Commission in

20   ER-2014-0370.

21   The company said it was forced in by ISRS.

22   And there is nothing in the ISRS statute that says the

23   company has to come in. What it does say is that the

24   Commission cannot approve a rate case unless the company

25   comes in. The company could forego the surcharge and

1   they're still going to recover their infrastructure in

2   rates with a return of and on when it goes into rate base

3   in a rate case or they could come in later. They didn't

4   have to come in right now.

5   I would suggest that failed legislation is not

6   really relevant here. The Commission has disallowed rate

7   case expense also in an MGE rate case, the case in which

8   MGE hired a New York attorney, the Commission allowed a

9   number of those expenses.

10   Specific to this rate case, I would like to

11 say that customers also pay for the salaries and benefits

12 of every company, employee, witness who has come in to

13 testify before the Commission. So customers are already

14 paying, for example, the salary and benefits of

15 Mr. Lindsey, Mike Noack, Glenn Buck, Kari Feldman, Lew

16 Keathley, Tim Krick, Chuck Kuper, Scott Weitzel and Rick

17 Zucker. That is above and apart from the rate case

18 expense.

19   We agree with Staff's position on

20 depreciation, that it be normalized in rates. Thank you.

21   JUDGE DIPPELL: Questions for Ms. Shemwell?

22   CHAIRMAN HALL: No.

23   JUDGE DIPPELL: Thank you.

24   Anything from the Environmental Defense Fund

25 on this issue?

1   MS. KARAS: No statement, your Honor.

2   JUDGE DIPPELL: MIEC.

3   MR. MILLS: I don't have a statement, your

4   Honor. I want to briefly note that MIEC supports the idea

5   of allocating the costs of rate case expense between

6   customers and shareholders on the basis of the -- how

7   successful the company is on prosecuting its various

8   issues. So the ratio of revenue requested to revenue

9   allowed by the Commission should be the same ratio for rate

10 case expense.

11   With respect to the question of whether or not

12 the ISRS statute requires the filing of a rate case, I

13 agree with both the Staff and Public Counsel that it does

14 not require that. It's only a condition to continue

15 collecting ISRS. But there are huge benefits to the

16 company from the ISRS statute that they take advantage of.

17 And this is simply sort of a check and balance on that

18 process.

19   So for the company to claim that that is some

20 sort of a penalty, I don't think is appropriate. It is

21 simply a feature of a very, very beneficial exception to

22 traditional rate-making practice.

23   So I agree with the Staff and Public Counsel

24 that the company was not forced to file by that statute.

25 Thank you.

 1   JUDGE DIPPELL: Any questions for Mr. Mills?

 2   All right. Thank you.

 3   MR. PENDERGAST: Your Honor, I wanted to

 4 apologize for interrupting. It's after 5:00. It's been a

 5 long five, six days. And to the extent that I offended

 6 anybody by interrupting, my sincere apologies.

 7   JUDGE DIPPELL: Thank you, Mr. Pendergast.

 8 Apology accepted.

 9   MR. PENDERGAST: Thank you.

10   JUDGE DIPPELL: Okay. I believe that

11 concludes the mini opening statements for rate case

12 expense. So let me just run through real quick a few

13 housekeeping matters for in the morning. We will begin at

14 8:30. We will go ahead with the rate case expense

15 witnesses and then we will take up the software and the CAM

16 issues. I don't have a preference as to the order of those

17 two, but we will take those up as soon as we finish with

18 rate case expense so that we can make sure we get the

19 witnesses who are only available tomorrow in.

20   And then we will continue. We will go back

21 and pick up the transition costs and the corporate identity

22 rebranding costs that we didn't get to today. You're

23 welcome to settle those if you'd like. And then we'll

24 begin on the actual issues that are scheduled for tomorrow.

25   MS. KARAS: Your Honor, I want to clarify a

1   question. You had mentioned the CAM issues and the

2   software. Greg Lander will be testifying on PGA/ACA

3   issues. Can we --

4   JUDGE DIPPELL: I'm sorry. For some reason, I

5   thought he was on CAM issues.

6   MS. KARAS: So he's listed on bio CAM, PGA and

7   ACA. So I would just ask that those two issues are the

8   ones brought up to the front.

9   JUDGE DIPPELL: Yes. We will add that to the

10 mix. I apologize.

11   MS. KARAS: Thank you.

12   JUDGE DIPPELL: Thank you for bringing that to

13 my attention. I stand corrected and we will take up those

14 so Mr. Lander can get here and get out.

15   Any other procedural issues? We also have an

16 agenda tomorrow at noon that we have to work around -- that

17 we have to let the Commissioners work around and

18 consideration for them on that. So any other procedural

19 issue this evening?

20   MR. PENDERGAST: Yes, just real quickly. I

21 think earlier I talked about how we would be able to do

22 property taxes, Kansas property taxes, just brief them and

23 not have to litigate it in front of the Commission unless

24 the Commission had a question. And also said that parties

25 were willing to go ahead and brief the trackers. That's

1   true except for the environmental issue. And Staff may

2   have some questions on that one.

3   JUDGE DIPPELL: So we will add that one back

4   into the mix perhaps, see how that goes. If you would --

5   if Staff would remind me of that tomorrow. Also if Staff

6   has -- ends up having questions on that issue,

7   Mr. Thompson.

8   MR. THOMPSON: What was that issue, judge?

9   JUDGE DIPPELL: Trackers.

10   MR. THOMPSON: Gotcha.

11   JUDGE DIPPELL: In case the person in charge

12   of that one is not --

13   MR. THOMPSON: The first word you'll hear out

14   of me tomorrow, Judge, is going to be trackers.

15   JUDGE DIPPELL: Thank you. I did also receive

16   copies of Exhibit 271 from Mr. Keevil that he had promised

17   me earlier. I wanted to make note of that.

18   Ms. Shemwell has something else.

19   MS. SHEMWELL: We have another witness from

20   out of town that is scheduled to go on Wednesday,

21   Mr. Pitts, on pensions and OPEBs. Anything thoughts about?

22   JUDGE DIPPELL: Is Mr. Pitts available all day

23   and after 5:00?

24   MS. SHEMWELL: I will check and get back to

25   you.

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 1                    JUDGE DIPPELL:  Okay.  OPEBs.

 2                    MS. SHEMWELL:  And pensions.

 3                    MR. MILLS:  One final note on the question of

 4    trackers, the parties and I believe the Bench have already

 5    agreed that if there are questions for Mr. Meyer on

 6    trackers, he will take those when he's here Thursday.

 7                    JUDGE DIPPELL:  Yes.  We did agree to that.

 8    And you informed me earlier that there may not be a need

 9    for Mr. Meyer to testify on rate stabilization mechanism;

10    is that correct?

11                    MR. MILLS:  That's correct.  The company has

12    waived cross on that issue.  Staff has waived cross on that

13    issue.  The only other party that may be interested in

14    crossing on that would be Public Counsel and questions from

15    Bench.  He'll be here for that as well.  In the event

16    there's not, and I don't know what's going on with

17    trackers, but if that goes away, then there will be no need

18    for him to come down here at all.

19                    JUDGE DIPPELL:  Okay.  Well, hopefully we'll

20    know before the day is ended tomorrow for Mr. Meyer.

21                    Any other issues, questions?  All right.  Then

22    8:30 in the morning.  We are adjourned.

23                    (The proceedings were adjourned at 5:22 p.m.

24    on December 12, 2017.)

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1   CERTIFICATE OF REPORTER

2

3   I, Sheryl A. Pautler, Certified Court Reporter

4   (MO), Certified Shorthand Reporter (IL), do hereby certify

5   that the witnesses whose testimony appears in the foregoing

6   proceeding were duly sworn; the testimony of said witnesses

7   were taken by me to the best of my ability and thereafter

8   reduced to typewriting under my direction; that I am

9   neither counsel for, related to, nor employed by any of the

10   parties to the action in which this proceeding was taken,

11   and further that I am not a relative or employee of any

12   attorney or counsel employed by the parties thereto, nor

13   financially or otherwise interested in the outcome of the

14   action.

15

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18   _____

19   Certified Court Reporter (MO)

20   Certified Shorthand Reporter (IL)

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22

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