Exhibit No.:	
Issue:	Financing Authority
Witness:	Lynn D. Rawlings
Type of Exhibit:	Direct Testimony
Sponsoring Party:	Laclede Gas Company
Case No.:	GF-2015-0181
Date Testimony Prepared:	July 28, 2015

LACLEDE GAS COMPANY

GF-2015-0181

DIRECT TESTIMONY

OF

LYNN D. RAWLINGS

DIRECT TESTIMONY OF LYNN D. RAWLINGS

Q. **Please state your name and business address.**

A. My name is Lynn D. Rawlings and my business address is 700 Market Street, St. Louis, Missouri 63101.

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

A. I am employed by Laclede Gas Company ("Laclede" or "Company") in the position of Vice-President, Treasurer and Assistant Corporate Secretary.

Q. **Please describe your qualifications and work experience.**

A. I joined Laclede in February 2000 as the Assistant Treasurer. I was elected Treasurer and Assistant Corporate Secretary in June 2006. In that position, I am responsible for the treasury functions of the Company, including cash management, investments and short-term borrowing; long-term capital planning, including raising funds through long-term borrowing and equity capital; establishing and maintaining our banking relationships and lines of credit; compliance with debt covenants; communication with credit rating agencies; and credit analysis for commercial customers.

Q. **What was your work experience prior to joining Laclede?**

A. I began my career in 1974, working for the State of Missouri, as an Analyst, Bureau of Research and Statistics for the Missouri Division of Family Services in Jefferson City, Missouri. In 1976, I joined AmeriFirst Federal Savings and Loan (Miami), where I worked as a Market Research Analyst. After completing an M.B.A. degree in 1983, I assumed the position of Vice President of Corporate Treasury for Bank of America (San Francisco). While serving in that position, I was responsible for capital planning, interest rate risk management, deposit and loan pricing, mortgage securitizations, medium-term note issuance and other capital markets activity. In 1991, I joined Mercantile Bancorporation of St. Louis (now US Bank). While there I served in the position of Vice President and Assistant Treasurer, in which I had responsibility for capital planning, line bank relationship management and capital markets activity, as well as the position of Vice President, Asset/Liability Management, in which I was responsible for interest rate risk analysis and management, investment portfolio management, and mortgage portfolio management.

Q. **What is your educational background?**

A. I received a Bachelor of Arts degree, with a major in Economics, from the University of Missouri-Columbia in 1974. In 1983, I received a Master of Business Administration degree, with a concentration in Finance, from the Wharton School of the University of Pennsylvania.

Q. Have you previously filed testimony before this Commission?

A, Yes, I provided both written and oral testimony in Case No. GF-2009-0450, Laclede's previous financing case. I also filed an affidavit in this case in June 2015.

Q. Are you sponsoring the Application filed by Laclede in this case on April 15, 2015, and your affidavit from June 2015?

A. Yes.

Purpose of Testimony

Q. **What is the purpose of your direct testimony in this proceeding?**

A. The purpose of my direct testimony in this proceeding is to address the differences between Laclede and the Staff of the Missouri Public Service Commission ("Staff") over the Company's request for financing authority in this case. Specifically, I will explain why the Staff's proposal to significantly reduce the level of financing authority from what the Company is entitled to receive under Missouri law, as interpreted by this Commission just five years ago, is not in the best interests of the Company, its customers or the Commission itself.

<u>Background</u>

Q. **Laclede filed an application for the Commission to renew and extend Laclede's long-term financing authority on April 15, 2015. Can you summarize Laclede's request in the application?**

A. Laclede calculated that the statute that governs long-term financing authority, Section 393.200 of the revised Statutes of Missouri (referred to herein as the "Statute"), authorized Laclede to issue long-term financing in the sum of $1.0 billion. However, Laclede sought Commission financing authority for $550 million, just over half of what it could have sought under the Statute.

Q. **If Laclede qualified for $1.0 billion in financing authority, why did it ask only for $550 million?**

A. Laclede and Staff engaged in a long and rather contentious financing case in 2010 – a case that confirmed the methodology that should be used to determine the appropriate level of financing authority permitted under the Statute. That case required a significant amount of time and resources on the part of our Company and Staff. Therefore, as the Company has done in other proceedings, we attempted to find a balance between the Company's needs and the interests of interested parties. In March 2015, prior to filing this application, Laclede met with Staff to get Staff's input on financing parameters. Based on our effort to accommodate that input and our evaluation of what we believed was an acceptable level of financing authority, the Company reduced its request by almost half, from $1 billion to $550 million.

Q. **Since the 2010 financing case resulted in Laclede receiving $518 million in long-term financing authority, why did the Company think that $550 million would be accommodating to Staff?**

A. Because the critical elements underlying a proper calculation of financing authority are significantly greater today than they were in 2010. For example, capital construction is a large driver of financing authority. When Laclede filed its application in 2009, its average annual capital spending was running about $56 million, it did not own MGE and it had not yet begun in earnest to ramp up its capital construction budget on safety improvements. For our current fiscal year that will end in September, Laclede's capital spend is now forecasted to be nearly $177 million, over triple the run rate of the earlier period. This can be seen in the first row of the two charts below. These rows represent the Statute's principle that Laclede may issue stocks, bonds or other long-term debt when necessary for "the acquisition of property, the construction, completion, extension or improvement of its plant or system…" Laclede's three year capital budget in 2009 was $189 million. In 2015, with the acquisition of MGE and the increased pace of safety replacements, that three year capital budget is now $562 million.

Financing Authority
Pursuant to Missouri Revised Statute Section 393.200
As Decided by the Commission
Page 18 of the June 16, 2010 Report and Order
Case No. GF-2009-0450

Purpose	Amount ($million)
The acquisition of property, the construction, completion, extension or improvement of its plant or system	189
Discharge or lawful refinancing of its obligations	50
Reimbursement of moneys actually expended for any of the aforesaid purposes	279
Allowed under Financing Authority	*518*

Financing Authority
Pursuant to Missouri Revised Statute Section 393.200
As filed by Laclede in Exhibit 3 of its April 2015 Application

Purpose	Amount ($million)
The acquisition of property, the construction, completion, extension or improvement of its plant or system	562
Improvement or maintenance of its service	0
Discharge or lawful refinancing of its obligations	100
Reimbursement of moneys actually expended for any of the aforesaid purposes	339
Allowed under Financing Authority	*1,001*

Given these circumstances, it should not be surprising that the 2015 Laclede Gas/MGE financing authority is significantly higher than the 2009-2010 Laclede Gas financing authority. To the contrary, the fact that the 2015 application sought authority that is barely higher than the actual 2010 authorization ($550 million vs. $518 million) is a sign of how conservative Laclede was in its 2015 application. At the same time, it is an unmistakable sign that we were making a serious effort to balance all known factors and Staff's concerns.

Q. **Please summarize the four lines in Exhibit 3 of the Company's application (referenced above) that more than supports the $550 million in requested financing authority.**

A. As discussed above, the first line is the capital budget for the three fiscal years ended September 30, 2018. It supports the three-year financing authority we are requesting. The second line, improvement or maintenance of service is zero, because it is included in the capital budget figured into Line 1. The third line, discharge or lawful refinancing of its obligations, is $100 million, reflecting Laclede's request for authority to refinance $100 million in debt scheduled to come due in August 2018. The fourth line, abbreviated from the Statute as "Reimbursement of monies actually expended for any of the aforesaid purposes," basically reflects the actual capital spending by the Company over the past five years net of any financings the Company has issued or redeemed. This amount comes to $339 million. To summarize, subject to the conditions imposed by the Statute and by the Commission, the Statute simply permits the Company to raise money through long-term financing (primarily stocks and bonds) in the amount necessary to finance the Company's purchase of long-term assets (i.e. capital assets).

Q. **Regarding Line 1, does the three year projection of capital expenditures by itself cover the $550 million in requested financing authority?**

A. Yes. The capital budget of $562 million by itself exceeds the $550 million request.

Q. **What if Laclede actually spends less than $562 million on capital in the next three years?**

A. If so, then depending on the other variables, we will likely not need to utilize the full financing capacity approved under the authority based on the conditions elucidated in the financing authorities we have agreed to in past cases and are willing to adhere to now. Pursuant to the standard conditions that have been recommended by Staff, agreed to by Laclede, and approved by the Commission as part of Laclede's financing authorizations, the Company's long-term debt may not exceed the lesser of the company's regulated rate base or 65% of its capitalization. In effect, this means that Laclede must have at least as much rate base as debt, and must maintain at least 35% equity in its capitalization. As a consequence, in addition to reducing its borrowing requirements, any reduction in capital spend would further limit the debt the Company could issue.

Q. **Are there other limiting conditions approved by the Commission?**

A. Yes. Again, at Staff's suggestion and with Laclede's agreement, the Commission's financing orders prohibit Laclede from using any of its long-term financing for any purpose other than its regulated operations, or in a manner that would prevent the Company from maintaining its investment grade credit rating.

Q. **Given these four fundamental limiting conditions, why should there be concern over a dollar limitation, whether it be $1 billion or $550 million?**

A. There should not be a concern. In my opinion, Staff's concern boils down to an interest in being involved in each and every one of Laclede's long-term financing activities and decisions. In light of these limiting conditions, and the dollar limitation, Staff's desire to be involved at that level strikes me as an inefficient and unnecessary way to regulate a business. Such involvement can also result in greater financing costs for our customers given how rapidly capital markets can change. Earlier this year, the yields on 30-year treasury securities increased by more than 40 basis points in two weeks, and historically we have seen even more dramatic swings in such costs in a short period of time. The Company's ability to respond to such rapidly changing market conditions in a way that produces the best outcome for its customers could be seriously compromised if the Company had to wait 6 to 8 weeks, or longer, to advise Staff of such changes, receive a positive recommendation and obtain Commission approval.

Q. **Is the Staff's effort to further reduce the financing discretion provided utility management under the Statute consistent with the approach by the Commission and Staff with regard to management decisions in other areas?**

A. No. Utility managers routinely make decisions that have significantly greater financial implications for customers than those relating to the issuance of debt and equity. For example, every year Laclede will enter into annual gas supply contracts that commit the Company to paying hundreds of millions of dollars to third parties to secure the supplies necessary to serve its customers. On occasion, the Company will also enter into pipeline and storage contracts that commit the Company to paying tens of millions of dollars for pipeline and storage capacity each year. Most of these commitments extend over multi-year periods. In total, the Company has publicly disclosed in its SEC filings that it has approximately $700 million in commitments relating to its gas procurement function though 2019 – an amount that significantly exceeds the total financing authority being requested in this case for roughly the same period of time. Because, as I have been advised by counsel, the law entitles Company management the discretion to operate the business, the Commission appropriately permits the Company to decide whether it will incur the financial commitments associated items such as gas commodities, pipeline and storage capacity, NYMEX instruments, operating leases, and meter reading services, subject to prudence review. Having permitted the Company to incur these kinds of long-term obligations, it does not make sense for the Commission to more strictly restrain the Company's freedom to access capital markets to finance these obligations. In fact, such an approach is directly at odds with how both the Staff and the Commission review and deal with the utility's incurrence of these underlying obligations that give rise to the need for financing.

Q. **Does the Commission Staff in charge of reviewing these very large expenditures insist that the Company obtain the Staff's consent before such commitments are made?**

A. No. It is my understanding that the Staff overseeing these areas want to be generally apprised of what utilities, like Laclede, are doing in terms of procuring these resources and hedging them against price risks, etc. By and large, however, they do not insist, as the Financial Analysis Department does, that the utility only be allowed to make such commitments if the Staff has determined the specific need for them in advance and issued a positive recommendation that management be allowed to proceed. Instead, the Staff relies on a very robust after-the-fact audit of whether the actions taken by utility management were reasonable and prudent, as well as general standards in the Commission's rules or case law that provide some guidance as to whether that criteria has or has not been met. While one can always argue that a different approach to reviewing utility procurement actions may be appropriate under certain circumstances, the approach currently employed stands in stark contrast to the approach being taken on utility financings.

Q. **Are the conditions that limit financing authority more strict compared to these other areas?**

A. Yes. These parameters on financing authority are far more detailed and prescriptive than those in other areas, such as the Commission's Price Volatility Rule, which only gives general guidance on how natural gas utilities should go about the task of managing risk associated with the gas procurement function. Given the existence of these constraints, there is no reason to reduce the amount of the Company's financing authority even further below the level prescribed by the Statute.

Q. **Does the financing authority need to expire in three years, or could the Commission set a different time period?**

A. In filing its application in this case, the Company matched the period covered by the capital budget (3 years) to the length of the financing authority (3 years). However, Laclede would not object to the Commission uncoupling amount and time. In other words, although the amount of the authority would be based on only three years' worth of capital expenditures, if Laclede can make such authority last longer than three years, the Company would not object to an order requiring it to seek authority not on a date certain, but when the Company believed additional authority was necessary or advisable.

Q. **If the Commission had uncoupled amount and time in the previous case, would the Company have filed an application for this case in April 2015?**

A. No. At the time Laclede filed this application, it had (and still has) $370 million remaining in financing authority. The only reason Laclede filed this year is that the time of its authority ran out, not the amount.

Q. **Let's return to Exhibit 3 of the Application. You've provided an explanation for Line 1. Line 3 covers refinancings. Do Laclede and Staff differ on this point?**

A. No. According to Staff's Recommendation filed in this case on June 8, 2015, Staff noted that $100 million in bonds are coming due in August 2018, representing $100 million in refinancing authority under the Statute. Laclede agrees with Staff on this point.

Q. **Line 4 of Exhibit 3 is $339 million. You have explained that "reimbursement of monies actually expended for any of the aforesaid purposes," basically reflects the actual capital spending by the Company over the past five years net of any financings the Company has issued or redeemed." How is this amount calculated?**

A. Line 1 represents capital expenditures to be made by the Company over the next three years. Line 4, in simple terms, reflects capital expenditures already made by the Company in the past, plus the discharge of long-term obligations, minus long-term refinancings. This calculation is provided on page 1 of Exhibit 4 to the Application. It shows recent expenditures for net property additions of $379 million, plus $105 million in first mortgage bonds paid off by the company, offset by $145 million received by the Company through stock and bond issuances. This comes to net unreimbursed expenditures of $339 million.

Q. **The Statute refers to reimbursements as does Line 4 in Exhibit 3. What does the term "reimbursement" refer to?**

A. When the Company constructs capital assets to improve its plant or system, it must pay for those assets. The money to make those payments generally comes from Laclede's current income, from the retained earnings in its treasury, from short-term borrowings or from other cash. The Statute permits Laclede to issue long-term financing (either debt or equity) to effectively match it to long-term assets. The Statute permits, but does not **require** Laclede to reinvest its income, retained earnings or cash to pay for capital assets. When Laclede does ultimately issue long-term debt or equity, it effectively “reimburses” itself for the money it contributed from income, savings or short-term debt to pay for long-term assets. To the extent the Company has not yet issued long-term financings to pay for long-term assets, Laclede is “unreimbursed” for the money it advanced for capital assets.

Q. **In its Recommendation, Staff calculated authority under the Statute in the amount of $277 million, and gave its recommendation that the Commission approve $300 million in authority. Do you agree with Staff’s calculation?**

A. As discussed above, I do agree that $100 million in financing authority arises out of $100 million in bonds coming due in August 2018. I also agree with Staff’s starting point of $562 million for Laclede’s capital budget. Otherwise, I do not agree with Staff’s calculation. With respect to past expenditures, Staff ignores the Company’s capital expenditures except for $75 million that Staff credits the Company as having paid “out of income”. Staff calculates this amount by subtracting dividends paid from income earned, which is retained earnings, and assuming that Laclede contributed the remainder to capital expenditures without expectation of reimbursement.

Q. **What is inappropriate about this approach?**

A. With respect to past expenditures, the Statute clearly provides that Laclede can issue long-term financings to reimburse itself for “moneys actually expended from income, or from any other moneys in the treasury of the corporation…” In trying to give credit for income, the Staff has effectively estimated credit for retained earnings, which is undistributed income. The Staff ignored, however, other moneys that come from the treasury, including short term debt and cash. The Statute provides the Company the authority to raise funds for the reimbursement of "any other moneys in the treasury…" Because all money advanced by Laclede comes from its treasury, the calculation of authority for past capital expenditures should be calculated as set forth above; specifically, it should be: money spent on capital assets, plus money spent to retire long-term debt, less money raised by long-term financings.

Q. **What is wrong with Staff's calculation for budgeted capital expenditures?**

A. Staff inappropriately subtracts from budgeted capital $460 million in depreciation, amortization and deferred taxes. There is simply no language in the Statute that indicates that depreciation, amortization and deferred taxes should be subtracted from moneys expended on the construction or improvement of the Company's plant or system. Moreover, by subtracting these items, Staff again refuses to give the Company credit for moneys advanced by it to fund capital assets. Depreciation and Amortization are sources of cash in the treasury of the Company, the expenditure of which is eligible for reimbursement, so it would be circular to include expenditure of these reimbursable funds as reimbursement. It is also inappropriate to subtract the deferred tax liability because, even though it does add cash to the treasury, such addition is temporary as Laclede will have to pay those deferred taxes in future years.

Q. **Does Laclede believe it will finance the full amount of its requested authority in the three year period covered by the application?**

A. History would indicate that the answer is probably no. Laclede has sought and received permission to extend its three-year authorities at least twice in the past 15 years. As

Laclede has projected for Staff, currently-known financing needs are less than the amount of the authority requested. But as Laclede has consistently demonstrated in the past, the Company will not use the authority just because it is available, but will use it only when and to the extent it is appropriate and prudent to do so. Moreover, it is always possible that Laclede will indeed have to exercise such authority in the event there are unexpected and dramatic changes in the capital markets, revisions in accounting rules such as those relating to operating versus capital leases, and unexpected changes in anticipated financing requirements. Laclede has shown that it can be trusted with the authority necessary to meet such challenges should they arise.

Q. **Why does Laclede use less than the full amount of its authority over its authorization period?**

A. Laclede is a good and conservative steward of its funds. While the Statute does not require Laclede to fund capital assets with its income, retained earnings, short-term debt or cash in its treasury, Laclede has done so as part of its long-standing effort to maintain a strong and attractive financial profile. The results of this conservative approach are reflected in the fact that the Company has been able to maintain an "A" credit rating for its bonds as well as relatively favorable access to the credit markets.

Q. **Has the Staff pointed to anything to suggest that the Company has not properly and prudently managed the financing flexibility it currently has under its existing authority?**

A. No.

Q. Has the Staff raised any concerns regarding Laclede's compliance with the financing safeguards that Staff proposed and the Commission approved for protecting customers in prior cases?

A. No.

Q. Given this history, do you believe Staff has provided any justification in its Recommendation for suddenly limiting the financing authority that the Company has previously been afforded in this area, as it has proposed to do in this case?

A. No.

Q. So why does Laclede need the full authority to which it is entitled?

A. It may not. That's why the Company, after discussion with Staff, was willing to cut its requested authorized amount by 45%, from $1.0 billion to $550 million. However, the amount of the authorization is not only supported by the Statute, it is also warranted by the Company's potential need to respond on a timely basis to financing requirements that cannot be forecasted at this time because the future market and other circumstances that may drive them are impossible to predict. In fact, the very nature of prudent risk management requires that provision be made for these kinds of uncertainties. This approach enhances the Company's ability to take advantage of favorable pricing opportunities that may arise in the credit markets, including the ability to determine the mix of financing alternatives that is best calibrated to benefit customers based on changing market conditions. It also allows Laclede to respond proactively to challenging credit environments, like the one that prevailed in 2007 - 2009, that have and can threaten or economically preclude its access to certain forms of credit. In addition, Laclede remains willing to abide by the same conditions ordered by the Commission in 2010.

The requested authority of $550 million should also allow Laclede to operate its business and properly fund its capital expenditures through the next three years, and maybe beyond.

Q. **Is there any additional cost if the Commission were to grant this authority, as requested by Laclede?**

A. No. In fact, this approach is a lower-cost alternative, in administrative terms, than requiring the Company to return to the Commission to request additional authorizations. It could also lead to lower overall financing costs for Laclede and its customers if the Company has greater control over the timing, amount and form of its financing, and would be supportive of Laclede's credit ratings by confirming the Company's ability to access capital markets as needs arise.

Q. **Does that conclude your testimony?**

A. Yes it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Laclede Gas Company's Verified Application to Re-Establish and Extend the Financing Authority Previously Approved by the Commission.	))))	Case No. GF-2015-0181

<u>AFFIDAVIT</u>

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

Lynn D. Rawlings, of lawful age, being first duly sworn, deposes and states:

1. My name is Lynn D. Rawlings and my business address is 700 Market, St. Louis, Missouri 63101. I am currently employed by Laclede Gas Company ("Laclede" or "Company") as Vice President, Treasurer and Assistant Corporate Secretary.

2. Attached hereto and made a part hereof for all purposes is my direct testimony, on behalf of Laclede Gas Company.

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

Lynn D Rawlings

Lynn D. Rawlings

Subscribed and sworn to before me this 28 day of July, 2015.

Marcia A. Spangler

Notary Public

MARCIA A. SPANGLER
Notary Public - Notary Seal
STATE OF MISSOURI
St. Louis County
My Commission Expires: Sept. 24, 2018
Commission # 14630361