

STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

TRANSCRIPT OF PROCEEDINGS

Hearing

January 5, 2009
Jefferson City, Missouri
Volume 2

10

11

12 In the Matter of Laclede Gas)
Company's Tariff Designed to)
13 Permit Early Implementation of) Case No. GT-2009-0026
Cold Weather Rule Provision and to)
14 Permit Laclede to Collect Bad Debt)
Through the PGA)

15

16

17

MORRIS L. WOODRUFF, Presiding,
DEPUTY CHIEF REGULATORY LAW JUDGE.
JEFF DAVIS, Chairman,
19 ROBERT M. CLAYTON III,
TERRY JARRETT,
20 KEVIN GUNN,
COMMISSIONERS.

21

22

23 REPORTED BY:

24 KELLENE K. FEDDERSEN, CSR, RPR, CCR
MIDWEST LITIGATION SERVICES

25

1 APPEARANCES:

2 MICHAEL C. PENDERGAST, Attorney at Law
3 RICK ZUCKER, Attorney at Law
4 Laclede Gas Company
5 720 Olive Street
6 St. Louis, MO 63101
7 (314)342-0532

8 FOR: Laclede Gas Company.

9 MARC D. POSTON, Senior Public Counsel
10 P.O. Box 2230
11 200 Madison Street, Suite 650
12 Jefferson City, MO 65102-2230
13 (573)751-4857

14 FOR: Office of the Public Counsel
15 and the Public.

16 KEVIN THOMPSON, General Counsel
17 LERA L. SHEMWELL, Deputy General Counsel
18 P.O. Box 360
19 200 Madison Street
20 Jefferson City, MO 65102
21 (573)751-3234

22 FOR: Staff of the Missouri Public
23 Service Commission.

24

25

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

2 JUDGE WOODRUFF: All right. Welcome to the
3 hearing in Case No. GT-2009-0026 concerning Laclede Gas
4 Company's tariff.

5 We'll begin today by taking opening
6 statements, and then we'll take a short break and mark
7 exhibits and then we'll get started with hearing
8 testimony. So for --

9 MS. SHEMWELL: Judge?

10 JUDGE WOODRUFF: Yes, Ms. Shemwell.

11 MS. SHEMWELL: I thought we might take up
12 the preliminary matter of whether the hearing will
13 continue on Tuesday or Thursday.

14 JUDGE WOODRUFF: Let's do the -- take the
15 entries first and then we'll take that up. Okay. For
16 entries, then, beginning with Laclede.

17 MR. PENDERGAST: Thank you, your Honor.
18 Michael Pendergast and Rick Zucker appearing on behalf of
19 Laclede Gas Company. Our business address is 720 Olive
20 Street, St. Louis, Missouri 63101.

21 JUDGE WOODRUFF: Thank you. And for Staff.

22 MR. THOMPSON: Kevin Thompson and Lera
23 Shemwell for the Staff of the Missouri Public Service
24 Commission, Post Office Box 360, Jefferson City, Missouri
25 65102.

1 JUDGE WOODRUFF: For Public Counsel.

2 MR. POSTON: Thank you. Marc Poston
3 appearing on behalf of the Office of the Public Counsel
4 and the public, P.O. Box 2230, Jefferson City, Missouri
5 65102.

6 JUDGE WOODRUFF: Thank you. I believe
7 that's all the parties. Then, Ms. Shemwell, you wanted to
8 bring up a preliminary matter?

9 MS. SHEM WELL: I saw, Judge, on the docket
10 sheet that we're still scheduled to have the second day of
11 the hearing if necessary this Thursday. My understanding
12 is there's a possibility that, if we need a second day, it
13 could be scheduled for tomorrow, Tuesday.

14 JUDGE WOODRUFF: I believe that is the
15 preference of all the parties, and I did discuss that with
16 the Commissioners on Thursday and no one voiced any
17 objection to doing that. I would anticipate that if we do
18 need to go a second day, we'll do it tomorrow rather than
19 Thursday.

20 MR. PENDERGAST: Just one other preliminary
21 item, your Honor. As you know, this was rescheduled from
22 an earlier date, and originally our consultant who has
23 filed testimony, Mr. Feingold, was prepared to be here
24 both days. However, if it's possible, we'd like to see if
25 we could get him up and off today, and I think given what

1 the parties very indicated to me, having Mr. Cline go
2 first, who was first in the order, would be fine, but if
3 he takes any significant period of time, if we could have
4 Mr. Feingold go next rather than Mr. Buck, that would be
5 helpful to us, and I don't think anybody has a problem
6 with that.

7 JUDGE WOODRUFF: That's certainly okay with
8 me.

9 Okay. Before we do openings, then, let's
10 go ahead and mark exhibits, beginning with Laclede.

11 MR. ZUCKER: So we have the direct
12 testimony of Michael Cline and the surrebuttal testimony
13 of Michael Cline. I guess those would be 1 and 2.

14 JUDGE WOODRUFF: Right. Direct would be 1
15 and surrebuttal would be 2.

16 (EXHIBIT NOS. 1 AND 2 WERE MARKED FOR
17 IDENTIFICATION BY THE REPORTER.)

18 MR. ZUCKER: Then next we have the direct
19 and surrebuttal testimony of Glenn W. Buck.

20 JUDGE WOODRUFF: Direct would be 3 and
21 surrebuttal would be 4.

22 (EXHIBIT NOS. 3 AND 4 WERE MARKED FOR
23 IDENTIFICATION BY THE REPORTER.)

24 MR. ZUCKER: And finally we have the
25 surrebuttal testimony of Russell A. Feingold.

1 JUDGE WOODRUFF: That would be 5.

2 (EXHIBIT NO. 5 WAS MARKED FOR
3 IDENTIFICATION BY THE REPORTER.)

4 MR. ZUCKER: That is all of our prefiled
5 testimony.

6 JUDGE WOODRUFF: Then for Staff.

7 MS. SHEMWELL: Thank you, Judge, and good
8 morning. We have Gay Fred's rebuttal testimony.

9 JUDGE WOODRUFF: That would be 6.

10 MS. SHEMWELL: Lisa Kremer's rebuttal
11 testimony.

12 JUDGE WOODRUFF: That would be 7.

13 MS. SHEMWELL: We have the rebuttal
14 testimony of Thomas A. Solt.

15 JUDGE WOODRUFF: That would be 8.

16 MS. SHEMWELL: And the rebuttal testimony
17 of David M. Sommerer.

18 JUDGE WOODRUFF: And that would be 9.

19 (EXHIBIT NOS. 6 THROUGH 9 WERE MARKED FOR
20 IDENTIFICATION BY THE REPORTER.)

21 JUDGE WOODRUFF: And for Public Counsel.

22 MR. POSTON: Thank you. We have one piece
23 of testimony. It's the rebuttal testimony of Russell W.
24 Trippensee.

25 JUDGE WOODRUFF: That would be 10.

1 (EXHIBIT NO. 10 WAS MARKED FOR
2 IDENTIFICATION BY THE REPORTER.)

3 JUDGE WOODRUFF: I believe that will be all
4 the testimony then. Let's go ahead and do our opening
5 statements, beginning with Laclede.

6 MR. PENDERGAST: Thank you, your Honor.
7 It's a pleasure to be here today. And if it please the
8 Commission, the reason we're here today is to address the
9 company's proposal to reconcile and recover through the
10 PGA/ACA mechanism the gas cost portion of its bad debt
11 writeoffs.

12 The Staff and OPC would have you believe
13 this is some monumental and ill-advised departure from
14 sound ratemaking principles. Just the opposite is true.
15 Specifically, if you want to treat this cost item in a way
16 that's consistent with the regulatory legal treatment that
17 has been afforded other costs that have similar
18 characteristics, then reconciling them through the PGA is
19 not just a permissible thing to do, it's the most
20 appropriate thing to do.

21 Why do I say that? Well, first of all, bad
22 debt writeoffs have always been recognized as a legitimate
23 cost of providing service. Like any other business that
24 provides a product or a service, utilities like Laclede
25 have always had some customers who can't or in some cases

1 just won't pay their bills. Regulatory process has
2 consistently recognized this unfortunate fact of life and
3 has customarily included an estimated allowance in base
4 rates for bad debt writeoffs.

5 So the issue here isn't whether Laclede
6 should be allowed to recover its bad debt writeoffs, but
7 instead what ratemaking approach or mechanism is best
8 suited to achieve that objective. It's more like a rate
9 design issue than it is anything else.

10 When it comes to the gas cost portion of
11 those writeoffs, the portion that is actually at issue in
12 this proceeding, we believe for a number of reasons that
13 it makes far more sense from a ratemaking and an equitable
14 point of view to reflect and reconcile those costs in the
15 PGA mechanism than it does through base rates.

16 Let me go through briefly what those
17 reasons are. First, there's absolutely no need to create
18 some new adjustment mechanism in order to process these
19 gas costs. Instead, you can simply use the same PGA/ACA
20 mechanism that Laclede has used for nearly half a century
21 now to reflect increases and decreases in gas costs, a
22 mechanism that the courts have reviewed and approved as
23 lawful and that the Commission has consistently supported.

24 And you can do that because the only
25 portion of bad debt writeoffs that we're proposing to

1 recover through that mechanism is the portion comprised of
2 gas costs. As the poster here shows, today we recover all
3 distribution costs, both paid and unpaid, through the base
4 rates and all gas costs through the PGA with one notable
5 exception, and that notable exception are the gas costs
6 that we incur to provide service to customers who
7 ultimately don't pay their bill.

8 All we're proposing to do is to correct
9 that anomaly by moving these gas costs that are unpaid
10 back where all the other gas costs reside, namely in the
11 PGA, and recover increases and decreases in those costs
12 through the same mechanism that's used to recover all
13 other gas costs.

14 Now, to persuade you that that's something
15 that perhaps you don't want to do, some of the witnesses
16 for Staff and Public Counsel have suggested that the gas
17 costs incurred to serve nonpaying customers are somehow
18 different from those costs incurred to serve paying
19 customers, but that's just not true.

20 The gas commodity, transportation and
21 storage costs we incur to provide service do not change
22 their physical composition, their financial cost or any
23 other characteristic based on whether a customer
24 downstream pays for it or doesn't pay for it. They are
25 identical in nature, and no amount of accounting or legal

1 auscultation can change that basic fact.

2 Second, implementation of the company's
3 proposal would undoubtedly result in a more accurate
4 matching of the rates charged for utility service with the
5 actual costs incurred to provide that service. Gas costs
6 account between two-thirds and three-fourths of the
7 customer's bill, and the company's proposal to reflect
8 actual changes in those costs through the PGA will notably
9 result in charging customers more accurately for what it
10 actually costs to serve them than does the guesstimate
11 approach used in a rate case.

12 In this day and age where information can
13 be tracked with a degree of precision and immediacy and
14 robustness that could only be dreamed of in the past,
15 there's really little or no justification for a ratemaking
16 approach that is virtually engineered to ensure that
17 customers will either pay more or less than it actually
18 cost to provide them with service but almost never what it
19 actually does cost them to provide service. We can do
20 better than that and we should, particularly with a cost
21 item like this.

22 Which brings me to my third point. The
23 Commission has routinely permitted other cost of service
24 items to be tracked and reconciled back to actual costs
25 because they are difficult to predict for ratemaking

1 purposes due to the fact that they're subject to volatile
2 market prices, changing governmental mandates or rules or
3 other factors that are beyond the control of the utility
4 and make those costs vary significantly over time.

5 Thus we have a PGA/ACA mechanism which
6 tracks and reconciles the very kind of gas costs at issue
7 here. I don't have to tell you how volatile or difficult
8 to predict they are. When they reached their NYMEX high
9 of around \$14.50 in July, who would have guessed that by
10 the time the winter rolled around they'd be back down to
11 \$7 or \$6. I mean, it's a huge decline, and it's hard to
12 find any other cost item that experiences those kinds of
13 changes.

14 Another example are accounting trackers
15 that the Commission has approved to track and reconcile
16 changes in pension expense, another cost that can be
17 subject to wild swings due to the impact of changing stock
18 market values, once again a reality that most of us have
19 become all too keenly aware of in the last year.

20 With regard to governmental mandates, there
21 have also been trackers or adjustment mechanisms approved
22 over the years for such things as safety-related
23 investments and environmental costs, and Laclede's witness
24 Glenn Buck will give you additional details on all those
25 ratemaking mechanisms.

1 And then we have changes in bad debt
2 expense that can be affected by all of these factors, by
3 higher gas costs, by poor economy, and by changes in
4 governmental mandates, most notably the Cold Weather Rule.

5 There are only two things that I know about
6 these factors. The first is that my company can't control
7 them, and the second is that I don't know and I don't
8 think anybody knows where those particular factors are
9 going or how they're going to go ahead and affect this
10 particular cost item over time. It's not only difficult
11 but probably impossible to estimate or predict, which is
12 why a mechanism like this is so appropriate.

13 In fact, given all of these considerations,
14 if there's one cost item that cries out and cries out
15 legitimately for this kind of tracking and reconciling
16 approach being proposed by the company in this case, it is
17 the gas cost portion of bad debt writeoffs.

18 And the historical record amply
19 demonstrates that fact. By my count, over the first eight
20 years of this decade alone, Laclede's entire bad debt
21 expense, not just the gas cost portion of that bad debt
22 expense, has been subject to some kind of tracking and
23 reconciling process to reflect the impact of these rates,
24 whether as a result of stipulations and agreements in rate
25 cases or as a result of rules that have been approved by

1 the Commission.

2 And that's, I think, exactly why a growing
3 number of regulatory commissions have seen fit to adopt
4 tracking and reconciling mechanisms similar to the one
5 proposed by the company in this case. As Laclede witness
6 Russell Feingold discusses in his testimony, nearly half
7 of the commissions in this country approved and more than
8 40 local distribution companies now operate under such
9 mechanisms to track and reconcile all or a portion of
10 their bad debt writeoffs.

11 Laclede truly believes that's the right
12 policy course for Missouri to take as well. You may agree
13 with that or you may disagree with that, but I would
14 submit to you that you should make that determination
15 solely on what you believe is the best, most appropriate
16 and most equitable policy for the utilities and consumers
17 of Missouri rather than on some of the arguments that have
18 been made to suggest that you are powerless to do anything
19 but reject the company's proposal.

20 One of those arguments has been that this
21 constitutes unlawful single-issue ratemaking because it
22 allows this cost element to be adjusted while other cost
23 elements aren't. We've addressed in detail what the MGUA
24 decision said about the lawfulness of the PGA and
25 lawfulness of collecting gas costs through an adjustment

1 mechanism like the PGA, and, quite frankly, we think that
2 fully supports what we have proposed in this case.

3 But I would suggest to you that at a
4 minimum there is no need for the Commission to engage in
5 anticipatory surrender on this issue and to go ahead and
6 conclude, based on what I think are the rather
7 insufficient arguments that have been made, that it
8 doesn't have power to do this before a court has told it
9 it doesn't have the power to do it. I firmly believe that
10 you do have the power and that you should ultimately
11 conclude that you do.

12 Nor should you conclude that because we're
13 between rate cases you're powerless to act. That's
14 another argument that's been made by the parties, but, in
15 fact, you act between rate cases all the time. We've had
16 gas supply incentive mechanisms approved and reapproved
17 and modified between rate cases. We've had hedging
18 incentive mechanisms approved and reapproved between rate
19 cases. We have gone ahead and had our PGA rate design
20 looked at. It wasn't changed, but it was looked at
21 between rate cases. We've had changes made to the Cold
22 Weather Rule, which have as significant an impact on our
23 bad debts as anything that we've proposed to do by
24 ratemaking here. And in none of those instances have I
25 ever heard anybody say that you can't look at this, you

1 can't do anything about this between rate cases or that
2 you have to go ahead and make some kind of ROE adjustment
3 if you do.

4 I think you're fully empowered to go ahead
5 and look at this issue and look at it now, and there's
6 just no basis for suggesting otherwise.

7 The same is also true with the assertion
8 that laclede won't have sufficient incentive to
9 aggressively pursue its collection activities if the gas
10 cost portion of its bad debt writeoffs are recovered
11 through the PGA. We would still be at risk for 25 to 33
12 percent of any increase or decrease in our bad debt
13 expense because, once again, we're only including the gas
14 cost portion in the PGA. We remain at risk for the margin
15 portion of that bad debt, which is where, of course, we
16 earn our return as well.

17 I could sit here, stand here all day long
18 talking about all the various incentive mechanisms that
19 you've approved that have recognized 5 percent of a cost
20 item being at risk or 10 percent or 20 percent as an
21 adequate incentive to make sure that the utility's doing a
22 good job. You're familiar with those incentive
23 mechanisms, and the same thing that makes those incentive
24 mechanisms sufficient to make sure that utilities are
25 operating is certainly sufficient to make sure that we'll

1 aggressively pursue our collection activities.

2 But another thing is, when you talk about
3 who needs the incentives, you know, the company has a
4 limited amount of control over its uncollectible expense,
5 and I would submit to you that Mr. Poston over here,
6 Ms. Shemwell and you yourselves probably have more control
7 over that than anybody else does. Unlike a business that
8 can go ahead and do service or provide service to who they
9 want to and sell products to who they want to, we operate
10 under a very significant panoply of laws and regulations.

11 When it comes to the Cold Weather Rule, if
12 a customer owes a lot of money, we can't tell that
13 customer, sorry, you've got to pay all up before we go
14 ahead and provide you service. Most of the time we have
15 to go ahead and only require the customer to pay a certain
16 portion of the amount, or sometimes we have to go ahead
17 and offer them a levelized pay plan.

18 We have to go ahead and offer customers
19 levelized pay plans during the winter, which virtually
20 guarantees that they will not be paying what's actually
21 being incurred to provide them with service during those
22 winter months when the customer gets further and further
23 behind.

24 We have to go ahead and charge customers
25 for their service not in advance like the telephone

1 companies do, but sometimes 30 to 40 to 50 days after
2 we've gone ahead and rendered the service. We can go
3 ahead and require deposits, but we have to let customers
4 pay those deposits over time. So if a customer gets on,
5 he doesn't pay his bill, there's no deposit there to go
6 ahead and collect on. And, of course, if the weather
7 happens to be 32 degrees or colder, we can't cut that
8 customer off.

9 Now, it's all well and good to say that the
10 company needs incentives in order to go ahead and reduce
11 its uncollectibles, but let's be realistic about it, let's
12 be realistic about how much control we have over that, and
13 let's maybe conclude that we need incentives to flow to
14 everybody.

15 And when Public Counsel comes in and says
16 we need to go ahead and change those Cold Weather Rules,
17 perhaps the incentive should be that instead of saying
18 I'll give you an IOU, I'll let you go ahead and maybe
19 collect this sometime in the future in a rate case, let's
20 have a transparent, straightforward ratemaking approach
21 that says for at least the out-of-pocket costs I've
22 incurred for these customers who may be running up bad
23 debts, I'm going to recover that through the PGA.

24 I'll be at risk for my margin part, but
25 let's be up front and straight and be all on the same page

1 on the cost consequences that at least 75 percent are
2 going to be reflected without the kind of arguments that
3 we've had in the Cold Weather Rule compliance costs.

4 Which brings me to another argument that's
5 been made, which is that Laclede has violated the
6 Stipulation & Agreement in its last rate case. For
7 reasons we've stated in our Brief, we don't believe that's
8 the case at all. We believe we were free to go ahead and
9 pursue this particular mechanism outside the rate case.
10 There's nothing in there that says we couldn't.

11 But I would remind you that one other thing
12 that happened in the rate case was Public Counsel agreed
13 to a particular approach at least for purposes of making a
14 revenue requirement recommendation to the Commission for
15 calculating compliance costs with the Cold Weather Rule.
16 Now, Public Counsel changed its position on that, and they
17 came before you about four or five months after the rate
18 case concluded and said, you know, we want to do it a
19 different way.

20 Now, we didn't go ahead and tell Public
21 Counsel that because they'd signed the Stipulation &
22 Agreement we'd operated under a particular approach in the
23 rate case, that you were incapable or disauthorized, if
24 you will, from doing that. This Commission bent over
25 backwards to give Public Counsel a hearing. And at

1 circuit court Public Counsel actually said your reference
2 to what they even did in the rate case was a violation of
3 the Stipulation & Agreement.

4 So on the one hand, you know, if Public
5 Counsel's free to come out and change its position and
6 pursue things diametrically opposed to what it agreed to
7 in the rate case, I certainly think we're free under that
8 same Stipulation & Agreement to pursue a mechanism that is
9 similar to what we proposed in the rate case. What's good
10 for the goose is good for the gander.

11 Finally, the concept that implementing the
12 company's proposal is just too complicated or difficult
13 should be rejected out of hand. As I indicated before,
14 nearly half of this country's regulatory jurisdictions
15 have adopted and been able to implement similar
16 mechanisms.

17 And while I don't want to end my opening
18 statement on a discordant note, I am supremely confident
19 the Staff of the Commission and the members of the Office
20 of the Public Counsel are at a minimum as capable as the
21 staffs in these other jurisdictions when it comes to
22 handling modest changes in the regulatory process like the
23 one proposed here.

24 For all of these reasons, we would
25 respectfully request that you approve our proposal. Thank

1 you very much.

2 COMMISSIONER CLAYTON: Mr. Pendergast, can
3 I just ask a couple of legal questions since you're up
4 here?

5 First of all, you stated that we have
6 examples of other mechanisms that are in place that act as
7 some level of precedent for approving this sort of
8 mechanism; is that accurate?

9 MR. PENDERGAST: Yes.

10 COMMISSIONER CLAYTON: I wanted to ask you,
11 just as a matter of law, were those mechanisms that you're
12 referring to as a result of unanimous stipulations, or did
13 the Commission approve those programs over objections of
14 parties?

15 MR. PENDERGAST: I think most of those
16 would have been approved -- certainly the pensions were by
17 unanimous agreement of the parties. I don't believe
18 anybody opposed those. The GSIP ones that I've indicated
19 that were authorized between case -- or that authorized
20 tracking -- well, the GSIP, the gas supply incentive plan,
21 there was objection to that, and the Commission approved
22 it over those objections.

23 The PGA as I understand was opposed by
24 Public Counsel. That's what led to the MGUA decision in
25 which the court upheld the lawfulness of the purchased gas

1 adjustment mechanism. So it's kind of a mixed bag,
2 Commissioner.

3 COMMISSIONER CLAYTON: Was the GSIP program
4 ever challenged?

5 MR. PENDERGAST: It was, and the Commission
6 ultimately terminated it.

7 COMMISSIONER CLAYTON: We did terminate it.
8 So there's no appellate case that approved or disproved?

9 MR. PENDERGAST: Well, actually, I think in
10 the MGUA decision there was an MGE incentive program that
11 was also under consideration. A number of arguments about
12 being retroactive ratemaking and being otherwise flawed
13 were made, and the court upheld that incentive mechanism
14 at the same time it upheld the PGA.

15 COMMISSIONER CLAYTON: Okay. The other
16 question that I had is, since this -- since this would be
17 a shift in policy of what's traditionally been done with
18 regard to these issues, is Laclede suggesting that any
19 particular standard or set of facts should be met before
20 the Commission approves such a mechanism?

21 For example, are you suggesting that bad
22 debts are so out of whack or that that part of the
23 ratemaking process is so unfair to you that a utility has
24 to meet that standard before we approve this type of
25 program, or is Laclede just saying basically, you know,

1 we're going to file our plan and you -- we ask that you
2 approve it, period?

3 MR. PENDERGAST: No. I think you obviously
4 have to have standards. I don't think you ought to go
5 ahead and just approve it because it sounds like a good
6 idea. And I think those standards are looking at how
7 you've treated other cost items, looking at the reasons
8 why you say these are particularly appropriate for
9 inclusion in base rates, we can use the normal estimating
10 process. Whereas, this is a cost that, because of the
11 various factors I've suggested, the volatility of the
12 underlying component of it, which is gas costs, the fact
13 that it varies significantly because of changes that are
14 done at the regulatory level and governmental mandates,
15 that given this history of how you've treated these
16 various costs, that this is one that falls in this
17 category or it belongs in an adjustment mechanism like the
18 PGA. Whereas, something like payroll expense would not
19 qualify for that particular kind of treatment.

20 So yeah, I think you need to be mindful of
21 it. I understand the slippery slope argument, and I think
22 that's something that you've got to go ahead and make sure
23 you have criteria to distinguish why you're doing it here
24 but not maybe doing it someplace else. I think those
25 criteria are pretty strong.

1 COMMISSIONER CLAYTON: Okay. Thank you.

2 JUDGE WOODRUFF: Commissioner Jarrett?

3 COMMISSIONER JARRETT: Good morning,
4 Mr. Pendergast.

5 MR. PENDERGAST: Good morning.

6 COMMISSIONER JARRETT: How are you this
7 morning?

8 MR. PENDERGAST: Fine, thank you.

9 COMMISSIONER JARRETT: Just a quick
10 question. You mentioned in your opening statement that
11 other jurisdictions have provided for bad debt recovery in
12 PGA-like mechanisms; is that accurate?

13 MR. PENDERGAST: It's once again been kind
14 of a mixed bag. I think some of them have done it in the
15 PGA. Some of them have done it through accounting orders.
16 Some have done the whole PGA -- or the whole bad debt
17 component. Some have just done gas costs. I think
18 Michigan does 90 percent of whatever the bad debt is.

19 But each of these jurisdictions have done
20 something to make sure that you track at least a good
21 portion if not all of these costs and reconcile them back
22 to actual costs rather than having the customers overpay
23 for them or the utility under-collect.

24 COMMISSIONER JARRETT: I guess my question
25 is, in these other jurisdictions, how many of the other

1 states gave the cost recoveries in the context of a
2 general rate case or were they in some way required to
3 file a general rate case as part of the recovery
4 mechanism?

5 MR. PENDERGAST: Our witness Mr. Feingold
6 would be in a much better position to answer that, but we
7 just happened to talk a little bit about that last night,
8 and my understanding is that a significant number of these
9 were approved outside the context of a rate case, but some
10 of them were approved inside the context of a rate case.
11 Once again, it varies.

12 COMMISSIONER JARRETT: Thank you.

13 MR. PENDERGAST: Thank you very much.

14 JUDGE WOODRUFF: Opening for Staff.

15 MR. THOMPSON: Thank you, Judge. May it
16 please the Commission?

17 An attorney's job is to persuade, and
18 Mr. Pendergast was extremely persuasive this morning, but
19 I urge you to not allow the persuasiveness of his
20 presentation to lead you down the wrong path.

21 This case presents three issues. The first
22 of all -- first one is whether this is a good idea, to
23 give different treatment to uncollectibles than has been
24 given in the past. The other two questions are legal
25 questions. Can you -- if it is a good idea, if you do

1 want to do it, can you do it outside of a rate case? Can
2 you do it in this case that we're here for today, which is
3 not a rate case? The last question is, if it is a good
4 idea and you want to do it, could you do it even in a rate
5 case? Could you do it at all? Those are the three
6 questions.

7 Staff's position is that it's pretty clear
8 you can't do it in this case. It's not a rate case. If
9 you look at Midwest Gas Users Association, the decision
10 written by now Chief Justice Stiff, in which the PGA/ACA
11 mechanism was found to be lawful, one point that's made
12 clear in that case is that the PGA clause is part of the
13 tariff that is approved in the general rate case.

14 Today Laclede urges you to make a
15 significant change to its PGA tariff outside of a rate
16 case where you will not have the opportunity to consider
17 all other factors. You're required to consider all other
18 factors. That was the point of the Utility Consumers
19 Council case. So I suggest to you that you cannot do this
20 in this case.

21 The other two questions are, should you do
22 it at all and could you do it -- if you decide it would be
23 a good thing, a good thing for Laclede and a good thing
24 for Laclede's ratepayers, then could you do it in a
25 general rate case?

1 I think the answers to those questions are
2 less clear. It is Staff's position that you should not do
3 this at all, that it is not a good idea, that it's not a
4 fair cutting of the baby for the investors and the
5 ratepayers, that it is entirely too favorable to the
6 investors. But that's the choice that you make, where
7 exactly to make that cut.

8 Can you do it -- if you decide it's a good
9 thing, can you do it in a general rate case? That has to
10 do with the nature of these costs. I think all the
11 electric companies and their consultants and many
12 regulators would agree that a fuel adjustment clause in
13 the electric industry is a good thing. It helps electric
14 companies deal with the volatility of changing fuel costs.

15 But you couldn't have a fuel adjustment
16 clause for an electric company in Missouri until the
17 Legislature changed the statute fairly recently. So it
18 didn't matter that it was a good idea, it didn't matter
19 that the costs involved were very large, and it didn't
20 matter that everybody else was doing it. You couldn't do
21 it in Missouri without statutory authorization. And I
22 suggest to you that this treatment of uncollectibles would
23 also require statutory authorization.

24 Now, we'll be filing Briefs after the case
25 is done, and you'll have an opportunity to read probably

1 overly long and tortuous explanations of why this is or is
2 not lawful, but the nature of the costs involved is the
3 key. In the Midwest Gas Users case, Chief Justice Stiff,
4 as she is now, carefully parsed the characteristics of gas
5 commodity costs and compared them to the taxes that had
6 been allowed to flow through the Hotel Continental case.

7 In Hotel Continental the Court said, well,
8 you know, the company's got no input into taxes. It's an
9 imposition, something imposed by government. They just
10 read it off a schedule and pay the amount that's demanded.
11 So why not let that change between rate cases? The
12 company can do nothing to reduce that amount. So the tax
13 adjustment clause, the TAC as they call it, in Midwest Gas
14 Users was approved.

15 So then we have Utility Consumers Council
16 where the fuel adjustment clause, the FAC, was
17 disapproved. The reason being is that fuel costs were not
18 just a bill that the company paid with no input at all
19 because the company could economize in other areas of its
20 operation, and the court said the Commission had to be
21 able to take all of those factors into account.

22 That was its duty under the statute that
23 authorizes the Commission to make rates. It has to
24 consider all those facts. Now, after consideration, the
25 Commission may come down with an answer that's favorable

1 to the company, but the point is it has to consider those
2 factors.

3 Staff suggests that these costs are more
4 like the fuel costs analyzed in Utility Consumers Council
5 than they are like the gas commodity costs in Midwest Gas
6 Users Association. So it's my view and the view of Staff
7 that a statutory change would be necessary to allow what
8 Laclede is here asking you for today.

9 Thank you very much.

10 JUDGE WOODRUFF: Opening for Public
11 Counsel.

12 MR. POSTON: Good morning. May it please
13 the Commission? My name is Marc Poston, and I'm here on
14 behalf of the Office of the Public Counsel and the
15 customers of Laclede Gas Company.

16 We concur with the Staff that Laclede's
17 proposed changes to the PGA should be rejected, foremost
18 because single-issue ratemaking is unlawful. The Missouri
19 Supreme Court firmly established that raising rates
20 without looking at all relevant factors is unlawful. Of
21 course I'm referring to the Utility Consumers Council of
22 Missouri case, and the law has not changed that 1979
23 decision. Section 393.270 still requires all relevant
24 factors to be considered when adjusting rates.

25 And there should be no question that this

1 is single-issue ratemaking. If approved, it could result
2 in an increase in rates to customers on the single issue
3 of bad debts without looking at any relevant factor, much
4 less all relevant factors.

5 One factor that is highly relevant but yet
6 not being considered here is Laclede's return on equity.
7 An additional guaranteed expense recovery will reduce
8 Laclede's risks, and in reducing the company's risks you
9 impact the determination of what a just and reasonable
10 return on equity should be. That is a very relevant
11 factor not being adjusted here.

12 If the Commission agrees with its Staff and
13 with Public Counsel that approving this proposal outside
14 of the context of a general rate case would be
15 single-issue ratemaking, then the Commission does not need
16 to even consider the more complex question of whether
17 allowing bad debts in the PGA is just and reasonable or
18 whether such -- or whether each rate adjustment related to
19 bad debts would also constitute single-issue ratemaking.
20 Those issues would become moot.

21 We also assert that Laclede's proposal
22 constitutes retroactive ratemaking because it would allow
23 Laclede to alter future rates in order to recover for past
24 losses. Laclede's proposal would specifically allow
25 Laclede to increase the PGA rate if Laclede's current

1 rates fail to cover the level of expense claimed to be in
2 current rates.

3 The Supreme Court stated that the
4 Commission may not, quote, redetermine rates already
5 established and paid without depriving the utility,
6 parentheses, or the consumer if the rates were originally
7 too low, close paren, of his property without due process,
8 close quote. Laclede, the utility, may be willing to
9 waive their due process rights on this issue, but
10 consumers are not.

11 In Laclede's recent rate case, we were
12 skeptical we would ever settle that case, but we found a
13 way through compromise, and a result of that compromise
14 was a Unanimous Stipulation & Agreement between Laclede
15 Gas Company, the Staff, the Office of the Public Counsel
16 and three other parties that are not here today. That
17 agreement gave Laclede a \$38.6 million rate increase.

18 It was stipulated and agreed that Laclede
19 would withdraw its tariff sheets, including a proposal to
20 include bad debts in the PGA, essentially the same
21 proposal before the Commission today. It was also
22 stipulated and agreed that Laclede would be allowed to
23 recover 5 million for increases in bad debts caused by the
24 Commission's emergency Cold Weather Rule.

25 We thought that was the last we would see

1 of the PGA proposal at least until the next rate case. We
2 were surprised when Laclede simply refiled the same
3 proposal outside the context of a rate case less than a
4 year later. Not only does Laclede come back with the same
5 proposal it agreed to withdraw, but it attempts to
6 extrapolate a bad debt amount that was not included in the
7 agreement and from an agreement that specifically excluded
8 without limitation any method of cost determination or
9 cost allocation.

10 The current rate setting process is not
11 broken. Until Laclede files for a general rate increase,
12 we must assume that the revenue requirement approved by
13 the Commission in the last rate case provides Laclede with
14 sufficient revenue to cover its expenses and earn an
15 opportunity for reasonable return.

16 The evidence will show that when Laclede
17 filed this case it had enjoyed an ROE of 11.68 percent for
18 the 12 months ending July 2008. The process is working.
19 The evidence will also show that Laclede's bad debts have
20 been steady since 2005. Again, the process is working.

21 I think we can all agree that -- on one
22 thing, reducing Laclede's level of bad debts is in the
23 interest of Laclede and Laclede's customers. Reducing the
24 level of bad debts should be our focus rather than a
25 proposal to force a blank check into consumers' hands.

1 We should be focused more on helping improve the
2 consumers' ability to pay for their services through
3 innovative programs. We should lower bad debts by
4 providing Laclede's management with tools and incentives
5 to continuously improve their ability to reduce bad debts.

6 Laclede's proposal would do nothing to
7 reduce bad debt levels and can only serve to increase bad
8 debt levels by giving Laclede less of an incentive to be
9 smart and aggressive in its collection practices.

10 Not only is this proposal unlawful on a
11 variety of fronts, but it is also entirely unreasonable
12 approach to addressing Laclede's claim that it has
13 problems recovering its bad debt. On behalf of Laclede's
14 customers, we urge the Commission to reject the tariff
15 proposal. Thank you.

16 JUDGE WOODRUFF: Thank you. All right.
17 We're ready for the first witness, then, which I believe
18 would be Mr. Cline for Laclede.

19 Good morning. If you'd please raise your
20 right hand.

21 (Witness sworn.)

22 JUDGE WOODRUFF: You may be seated. You
23 may inquire.

24 MICHAEL T. CLINE testified as follows:

25 DIRECT EXAMINATION BY MR. ZUCKER:

1 Q. Good morning, Mr. Cline.

2 A. Good morning.

3 Q. Can you state and spell your full name for
4 the record.

5 A. Michael T. Cline, C-l-i-n-e.

6 Q. And who are you employed by?

7 A. Laclede Gas Company.

8 Q. And are you the same Michael T. Cline who
9 filed direct testimony in this case on September 16th,
10 2008?

11 A. Yes, I am.

12 Q. And do you have any changes to that
13 testimony?

14 A. One minor change. I overlooked one other
15 case I participated in, a Missouri Public Service
16 Commission case. It was GT-2003-0117. Should have been
17 in my list of cases that I participated in.

18 Q. And so this is Schedule MTC-1?

19 A. I believe that's correct.

20 Q. And that case number again was GT-2003 --

21 A. 0117.

22 Q. -- 0117?

23 And so you would add that case number to
24 that list on Schedule MTC-1?

25 A. That's correct.

1 Q. And do you have any other changes to your
2 direct testimony?

3 A. No, I do not.

4 Q. So other than that change, if you were
5 asked all the same questions asked in that testimony,
6 would your answers be the same?

7 A. Yes, they would be.

8 MR. ZUCKER: I move to enter the direct
9 testimony of Michael T. Cline into evidence.

10 JUDGE WOODRUFF: That would be Exhibit 1
11 has been offered. Any objections to its receipt?

12 (No response.)

13 JUDGE WOODRUFF: Hearing none, it will be
14 received.

15 (EXHIBIT NO. 1 WAS RECEIVED INTO EVIDENCE.)

16 BY MR. ZUCKER:

17 Q. Mr. Cline, did you also file surrebuttal
18 testimony in this case on November 20th, 2008?

19 A. Yes, I did.

20 Q. And do you have any changes to that
21 testimony?

22 A. I do not.

23 Q. And so if you were asked the same questions
24 contained in that testimony today, would your answers be
25 the same?

1 A. Yes.

2 MR. ZUCKER: And I move to enter the
3 surrebuttal testimony of Michael T. Cline into evidence.

4 JUDGE WOODRUFF: Exhibit No. 2 has been
5 offered. Any objections to its receipt?

6 (No response.)

7 JUDGE WOODRUFF: Hearing none, it will be
8 received.

9 (EXHIBIT NO. 2 WAS RECEIVED INTO EVIDENCE.)

10 MR. ZUCKER: Tender the witness for cross.

11 JUDGE WOODRUFF: Thank you. Cross, we
12 begin with Staff.

13 MR. THOMPSON: Thank you, Judge.

14 CROSS-EXAMINATION BY MR. THOMPSON:

15 Q. Good morning, Mr. Cline.

16 A. Good morning.

17 Q. My name is Kevin Thompson. I'm the General
18 Counsel of the Commission. I'm here for Staff today.

19 I'm looking at page 4 of your direct
20 testimony. Have you got that?

21 A. Yes, I do.

22 Q. And I'm looking at line 13.

23 A. Okay.

24 Q. Do I understand that line correctly that
25 there is, in fact, \$8.1 million built into Laclede's rates

1 already to reflect uncollectibles?

2 A. The \$8.1 million was my determination as to
3 the level of gas costs that I believe were included in the
4 base rates included in settlement of the last case.

5 Q. So that doesn't reflect uncollectibles?

6 A. The \$8.1 million is a gas cost portion of
7 the bad debts included in settlement in the last rate
8 case.

9 Q. So it is a portion of uncollectibles; is
10 that correct?

11 A. It's the gas cost portion of
12 uncollectibles.

13 Q. Okay. Thank you. Now, starting on
14 line 18, you say various factors can have an impact on the
15 level of bad debts; isn't that right?

16 A. That's correct.

17 Q. Okay. What are those factors? We're going
18 to make a list of all those factors.

19 A. The level of gas costs can have an impact
20 on bad debts. Cold Weather Rule changes can have an
21 impact on bad debts. Any other changes the Commission,
22 Staff of the Commission, Office of the Public Counsel may
23 suggest with respect to connecting or reconnecting
24 customers can have an impact on bad debts. The economy
25 can have an impact on bad debts. Those are some that come

1 to mind immediately.

2 Q. Okay. What about the aggressiveness or
3 lack thereof of Laclede's pursuit of customers who don't
4 pay?

5 A. That can have some impact on bad debts as
6 well as, if not more, some of the actions taken by -- or
7 policies recommended by the Commission and the Office of
8 Public Counsel.

9 Q. So that would be a yes, that would be
10 something that would affect it?

11 A. Certainly the company's approach to bad
12 debts or to -- to payments from customers could have an
13 impact on the level of bad debts, correct.

14 Q. Okay. Can you think of anything else that
15 might affect the level of uncollectibles?

16 A. I gave you the main -- the main factors
17 that come to my mind at this point.

18 Q. Okay. And now, are you an attorney?

19 A. No, I am not.

20 Q. Okay. And so you have no opinion as to
21 whether it would be lawful for the Commission to approve
22 the tariff that's before it today?

23 A. I have no opinion in terms of the
24 lawfulness. I'm not aware of anything that was -- that
25 would hinder the Commission making a determination from a

1 legal standpoint, but I'm here more to testify as to the
2 appropriate basis for this change in our recovery of these
3 costs.

4 MR. THOMPSON: Thank you. No further
5 questions.

6 JUDGE WOODRUFF: Cross for Public Counsel?

7 MR. POSTON: Yes. If I can inquire from
8 here?

9 JUDGE WOODRUFF: That's fine.

10 MR. POSTON: Thank you.

11 CROSS-EXAMINATION BY MR. POSTON:

12 Q. Good morning, Mr. Cline.

13 A. Good morning.

14 Q. Are you a certified public accountant?

15 A. No, I am not.

16 Q. Have you ever taken the CPA exam?

17 A. No, I have not.

18 Q. Could you please define expense for me?

19 What's your definition of an expense?

20 A. Expense is a cost of doing business, and
21 generally it's a cost as -- a cost based on accrual more
22 so than an actual payment at a point in time.

23 Q. And could you define revenue?

24 A. Revenues are the amounts accrued by
25 companies for the sale of a good or service.

1 Q. Now I'd like to briefly talk about
2 Laclede's last rate case, GR-2007-0208. You filed
3 testimony in that case, correct?

4 A. I did.

5 Q. And in your prefiled direct testimony you
6 proposed to modify the PGA to include a portion of bad
7 debts in the PGA; is that correct?

8 A. That's correct.

9 Q. And are you familiar with the Stipulation &
10 Agreement that resolved that case?

11 A. Yes, I am.

12 Q. Would you agree with me that the parties --
13 that in that stipulation the parties did not agree to a
14 specific level of bad debts?

15 A. I agree that there's no schedule,
16 accounting schedule, document that I'm aware of that
17 certainly was presented before the Commission that set out
18 in precise form the various components of the cost of
19 service that underlie the settlement of that case.

20 Q. So is that a yes, that there was no
21 specific level of bad debts included in that Stipulation &
22 Agreement?

23 A. There was no specific documented level of
24 bad debts that was presented in conjunction with the
25 settlement of the case. However, it's -- based on my

1 understanding of the discussions in the case --

2 MR. POSTON: Judge, this is a yes or no
3 question, whether this is in there or not. He's kind of
4 going into a big explanation about -- I think he's
5 expanded beyond what the question was. Is it in the
6 stipulation or not, a specific level of bad debts, dollar
7 amount, and I haven't heard a yes or no answer.

8 THE WITNESS: I think I said that there was
9 no specific level of bad debts, nor --

10 MR. POSTON: Okay.

11 JUDGE WOODRUFF: That answered his
12 question.

13 MR. POSTON: Your Honor, I move for the
14 Commission to take official notice of its Report and Order
15 in the Stipulation & Agreement from GR-2007-0208.

16 JUDGE WOODRUFF: Do you have a copy of that
17 document?

18 MR. POSTON: I do, but I think my copy's
19 marked up. Do I need one for the Commission to take
20 official notice?

21 JUDGE WOODRUFF: I don't know that we do.
22 It's easier if you had it available.

23 MS. SHEMWELL: I have a copy of the
24 Stipulation. Are you asking for official notice of the
25 Order?

1 MR. POSTON: Well, both.

2 JUDGE WOODRUFF: The Order incorporates the
3 Stipulation & Agreement. Does anyone object to taking
4 official notice of that? We can look it up later.

5 MR. ZUCKER: No, your Honor.

6 JUDGE WOODRUFF: We'll take official notice
7 of it, then.

8 MR. POSTON: And I do have a clean copy
9 here that includes the stip. Do you want to have this
10 marked?

11 JUDGE WOODRUFF: I don't think it's
12 necessary. The witness may need to refer to it or
13 something.

14 BY MR. POSTON:

15 Q. In your position, Mr. Cline, that
16 \$10.8 million represents what Laclede's current rates
17 recover for bad debts; is that correct?

18 A. My position is that that \$10.8 million,
19 because that was a number very close to if not exactly
20 recommended by the Staff of the Commission in conjunction
21 with the -- with that case, is a number that reasonably --
22 it's a reasonable estimate of the bad debts that were
23 included in settlement of that case, that's correct.

24 Q. Okay. Then does your \$10.8 million
25 estimate, as you characterized it, include the \$1 million

1 annual recovery from bad debts caused by the Emergency
2 Cold Weather Rule?

3 A. I don't believe that \$10.8 million is a
4 part of that.

5 Q. And this 10.8 million bad debt number is
6 based on data for the 12 months ending May 31st, 2006; is
7 that correct?

8 A. The \$10.8 million it's my recollection is
9 the company's actual bad debt writeoffs for the 12 months
10 ended March of 2007, which was the -- and it was a number
11 that was made available to the Staff and I assume all the
12 parties in the case.

13 And I think \$10.4 million was actually a
14 number that was recommended by the Staff witness in terms
15 of a reasonable level of bad debts from the Staff's
16 standpoint in that case. I think the number was
17 subsequently adjusted upwards with some acknowledgement by
18 the Staff the number should be \$10.8 million as opposed to
19 10.4 that was in the filed testimony.

20 Q. Could you turn to page 4 of your testimony.

21 A. Okay.

22 Q. At -- I believe on line 12 there's a
23 reference to a May 31st, 2006, and that sentence starts on
24 page 10, that the writeoffs are associated with revenues
25 from 12 months ended May 31st, 2006.

1 A. You said page 10?

2 Q. Page 4.

3 A. Page 4.

4 Q. Line 10.

5 A. Okay. Okay.

6 Q. Does that change what you just testified
7 to? You were just testifying that the writeoffs were for
8 12 months ending March 2007, but here you're saying
9 May 31st, 2006; isn't that correct?

10 A. Yes, those are two different -- those were
11 two different time periods, only because the writeoffs
12 were associated with 12 months ending March 2007.
13 However, those writeoffs are related to revenues for the
14 12 months ended May of 2006, because there is a lag
15 between the time that revenues are accrued or billed to
16 customers and when those revenues may be ultimately
17 written off.

18 Q. So then the revenues that you have looked
19 at to come up with your estimate is based on the period
20 that began over three and a half years ago and ended over
21 two and a half years ago; is that correct?

22 A. The revenues I looked at began in the
23 period of June of 2005, and for that matter included a
24 level of -- actually included a period of time during
25 which our PGA rates rose to some pretty high levels as a

1 result of the hurricanes.

2 Q. That wasn't part of my question. Thank
3 you.

4 You say on page 5 of your direct that the
5 price of natural gas is one of the most significant
6 factors that contribute to utility incurring more or less
7 bad debts than what is in existing rates; is that correct?

8 A. Where are you reading from?

9 Q. Page 5, line 7, two of the most significant
10 factors.

11 A. Correct.

12 Q. And has Laclede provided a study showing
13 the impact gas prices have on bad debt levels?

14 A. I don't believe we prepared any study that
15 shows the impact of gas costs in particular on bad debts.
16 We did show how gas costs have -- how bad debts have
17 changed over the years, and there also has to be a
18 recognition -- recognition obviously to some extent that
19 to a large extent gas costs have been responsible for some
20 of those changes.

21 Q. Has Laclede provided a study showing the
22 impact that weather has on bad debts?

23 A. I'm not aware of any study that we
24 certainly did in this case that -- that shows the
25 relationship of weather to bad debts. I know that --

1 Q. I'm just talking about this case. My
2 question is, what have you provided in this case. Have
3 you provided a study to the Commission in your testimony
4 in this case?

5 A. As far as how weather affects --

6 Q. Impact of weather on Laclede's bad debts.

7 A. If you're wanting an answer only to that
8 specific question in this specific case, the answer is I'm
9 not aware of any such study.

10 Q. And I'm talking about the evidence in this
11 case. Has Laclede provided -- or the testimony in this
12 case. Has Laclede provided a study showing the impact
13 that the Cold Weather Rule has on bad debts?

14 A. No, because I don't think a study like that
15 would be necessary based on the -- all the work that's
16 been done in the past in terms of making sure that the
17 company is compensated for any costs associated with the
18 implementation of the various amendments to the Cold
19 Weather Rule over the years. There's been plenty of work
20 that I'm aware of that's been done to quantify the impact
21 of Cold Weather Rule changes on bad debts.

22 Q. None of that is in this case; is that
23 correct? There's been no studies --

24 A. I wouldn't expect it would need to be
25 presented in this case.

1 Q. Has Laclede provided a study showing the
2 impact the economy has on bad debts?

3 A. No, it has not.

4 Q. How about the impact of energy assistance?

5 A. No. Once again, I believe the economy,
6 energy assistance, Cold Weather Rule changes, gas costs,
7 aggressive or unaggressive practices, I think it's pretty
8 clear that those -- all those factors can play a role in
9 the determination of bad debts.

10 I don't know that a study needs to be --
11 needs to be prepared to convince anyone for sure that an
12 item like gas costs, which has been extremely volatile
13 over the years and certainly more volatile in this past
14 year, has any impact on bad debts. I think it's pretty
15 clear that it does, and I -- for that reason, I don't
16 believe a study needs to be done to show that.

17 Q. So you think the Commission could just
18 assume that without any empirical data showing this?

19 A. I don't believe there -- I don't believe
20 you need to have a study to show that -- to prove to
21 someone that when gas prices rise to \$14 an MMBtu, that
22 that's likely to have an adverse effect on the company's
23 ability to recover its -- to collect its bills it renders
24 to customers. I think that's a pretty easy thing to
25 understand without a detailed study.

1 Q. Well, you showed no -- not even do you not
2 include a study, but you don't even show not even that
3 there would be an impact, you didn't even show what level
4 of impact there would be; isn't that correct?

5 The Commission can't look at your testimony
6 and determine which of the factors you've listed as
7 being -- have an impact on bad debts, the Commission can't
8 look at those and determine which is the most influential
9 factor, which is maybe less influential? There's no type
10 of study in your testimony that would help the Commission
11 determine that, what is causing bad debt issues with
12 Laclede, assuming you have some?

13 A. No, nor do I believe one would be necessary
14 for us to convince the Commission as to what's at stake
15 here, why we're here. The reason why we're here is not to
16 quantify by factor what is causing these changes in the
17 gas cost portion of our bad debts. Certainly there's many
18 influences we've talked about. One big one has to be the
19 level of gas costs, and our only point here is that there
20 need to be --

21 MR. POSTON: Judge, he's going beyond my
22 question.

23 JUDGE WOODRUFF: Ask your next question.

24 BY MR. POSTON:

25 Q. You also state that collection efforts have

1 an impact on bad debts; is that correct?

2 A. The collection efforts could, as well as --
3 as well as policies and procedures suggested by other
4 parties that we deal with, notably this Commission and
5 Office of Public Counsel.

6 Q. I'd like to talk about some of the
7 disconnection and collection changes that the Commission
8 has authorized for Laclede in the last two rate cases.
9 Are you familiar with the 2005 rate case, GR-2005-0284?

10 A. I'm familiar with that case.

11 Q. Would you agree that one change in that was
12 allowing credit scoring?

13 A. I recall credit scoring changes. I don't
14 have intimate knowledge of all that, but I do recall that
15 being a topic that was discussed at length.

16 Q. Would you say that credit scoring is a tool
17 that has assisted Laclede with managing its bad debts?

18 A. I don't believe I can speak to that.

19 Q. And why could you not speak to that?

20 A. I'm just not that close to that -- to that
21 part of the company. I don't have a good knowledge as to
22 what impact, how helpful or unhelpful that has been in
23 relation to what we had before, and especially in terms of
24 the particular credit score that I think was agreed upon
25 in the case as to what -- you know, how that has helped us

1 or hurt us in terms of our -- of our bad debts.

2 Q. Wasn't one of the points in your testimony
3 that there have been impacts on bad debts caused by things
4 like collection efforts? That is your testimony, right?

5 A. Part of my testimony is that there has
6 been -- there has been an impact on bad debts associated
7 with changes that have been proposed by the Commission,
8 Commission Staff and Office of Public Counsel over the
9 years that can impact our policies in connection with
10 reconnecting and disconnecting customers.

11 Q. Would you agree that another change from
12 the 2005 rate case was the change in the maximum deposit
13 being required from two times the highest annual bill to
14 four times the average bill?

15 A. I recall -- I recall once again that topic.
16 The specifics of it kind of escapes me at this point, but
17 I do recall there were some changes, correct.

18 Q. Would you say this change in maximum
19 deposit has assisted Laclede with managing its bad debts?

20 A. I would -- once again, I don't manage, I
21 don't have a day-to-day knowledge of our -- of our credit
22 and collection area. I would assume that certainly our
23 ability to extract a larger deposit from our customer
24 before we connect them would have a -- would have a
25 beneficial effect on our bad debts. But whether that's

1 happened, whether there's been other things that has
2 caused it to change because of other suggestions by
3 Commission or Office of Public Counsel, I don't know what
4 impacts those may have had.

5 Q. Another change in the 2005 was expansion of
6 hours that service may be disconnected. Are you aware of
7 that?

8 A. Vaguely.

9 Q. And would you say that this change to
10 disconnection hours has assisted Laclede with managing its
11 bad debts?

12 A. Once again, I don't -- I don't work in that
13 area. I don't know what -- how helpful that has been. I
14 think in order to really make a definitive -- reach a
15 definitive assessment as to how effective these various
16 changes have been over the years, you have to look at all
17 of them together and also the other -- the other things
18 that have gone on where perhaps even though we've been
19 given the ability to maybe strengthen areas that would
20 help our credit and collection, there have been as I
21 understand it things -- times when plenty of those --
22 there have been plenty of suggestions made that force us
23 to perhaps reconnect customers when that reconnection may
24 not be in our best interests.

25 Q. Another change from 2005 was increasing the

1 window that Laclede could disconnect a customers from 11
2 days, 11 business days to 30 calendar days. Are you
3 familiar with that change?

4 A. I'm not that familiar with that one at all,
5 yeah.

6 Q. If -- well, strike that.

7 Has Laclede considered any other changes to
8 its practices that it believes could help Laclede manage
9 its bad debt levels?

10 A. Once again, I'm not -- I'm not in that area
11 where I could say what ideas have been -- have been
12 considered by Laclede, what's been implemented. I don't
13 work in that area.

14 Q. Would you agree that, generally speaking,
15 if a utility improves its collection practices, that it
16 can reduce its level of bad debts?

17 A. Could you repeat that question, please?

18 Q. Would you agree that, generally speaking,
19 if a utility improves its collection practices, it can --
20 that it can reduce its level of bad debts?

21 A. What do you mean by improve its collection
22 practices?

23 Q. Make changes to its practices that allows
24 it to collect more, can that reduce the company's level of
25 bad debts?

1 A. I would -- I would suspect that if we're
2 permitted to collect more from our customers up front,
3 assuming that there's been no forces going the other way
4 that would discourage us from doing -- that would
5 discourage us from implementing those types of changes,
6 that -- that there could be -- there could be -- there
7 could be some improvement looked at -- looked at on a
8 single -- on a single -- as a single item only.

9 I'm just saying that I'm not -- you have to
10 look at whether we've been -- even though we may have been
11 nominally given tools to improve our collection and credit
12 practice, if on the other hand there have been other
13 actions taken, other suggestions made to encourage us to
14 connect customers who are poor pay customers, that could
15 have -- in the end we may end up in a worse situation.

16 Q. So you need to look at all relevant
17 factors, then?

18 A. I think you need to look at a host of
19 things. You can't look at these single changes and --
20 which by -- a single change by itself which may suggest
21 that should improve, reduce our bad debts. I believe
22 you'd have to look at all of the dynamics as to what's
23 going on in the credit and collection area to see if, in
24 fact, these various measures when implemented the way
25 we've been encouraged to implement them have resulted in

1 any net benefit to us.

2 Q. Are you aware of any changes to Laclede's
3 collection practices or other changes that Laclede has
4 implemented where the result of that change was that it
5 assisted Laclede in managing its level of bad debts?

6 A. Could you repeat that question, please?

7 Q. Are you aware of any changes to Laclede's
8 collection practices or other changes that Laclede has
9 implemented where the result of that change was that it
10 assisted Laclede in managing its level of bad debts?

11 A. I can't speak to that.

12 Q. Would you agree with me the primary purpose
13 of the current PGA adjustment -- I'm changing focus here.
14 The primary purpose of the current PGA adjustment is to
15 automatically increase or decrease rates in proportion to
16 the increases or decreases in the costs of gas charged to
17 the LDC by its wholesale supplier? That's the primary
18 purpose, right, is to allow the increases or decreases in
19 what Laclede is charged by its wholesale suppliers for
20 gas?

21 A. The purpose of this, of our filing is to --

22 Q. No. The primary purpose of the PGA
23 mechanism itself as it currently stands.

24 A. Is to?

25 Q. Primarily to allow Laclede to adjust,

1 increase or decrease, based on the cost of gas charged to
2 Laclede by Laclede's wholesale supplier?

3 A. That's correct. We want to be able to flow
4 through to our customers --

5 Q. I'm not asking what you -- I'm just asking
6 how the PGA mechanism. That's the basics of the
7 mechanism, right, to allow you to recover your wholesale
8 cost of gas?

9 A. All of our costs, the cost -- the costs --
10 the costs we then in turn bill to our customers as well as
11 the costs that -- the bills that have not been paid by our
12 customers, we want to also be able to recover the gas cost
13 portion of those as well.

14 Q. And that's not in the current PGA, is it?

15 A. That is not in the current PGA, although it
16 certainly should be in the PGA in order to allow the
17 company to have full recovery of its gas costs.

18 Q. And that's why we're here?

19 A. That's why we're here.

20 Q. And wholesale rates are federally
21 regulated, isn't that correct, wholesale gas rates?

22 A. No, they're not. I mean, pipeline -- the
23 rates we pay to natural gas pipeline transporters, those
24 rates are regulated, but the cost of gas itself is not
25 regulated.

1 Q. Well, this Commission has no control over
2 what the wholesale supplier charges Laclede for gas; is
3 that correct?

4 A. This Commission does not, and we have -- we
5 have no control over that as well.

6 Q. Would you agree that this Commission does
7 have control over what it allows Laclede to recover from
8 customers for its bad debt expense?

9 A. Certainly -- certainly we need to seek the
10 Commission's approval for rates to recover all of our
11 costs, bad debts included.

12 Q. So the Commission has control over setting
13 what you recover from customers for bad debt expense?
14 That's within this Commission's authority; is that
15 correct?

16 A. The Commission has authority to approve the
17 rates that the company requires in order for it to recover
18 its costs.

19 Q. I'm asking specifically bad debt expense.

20 A. Bad debt --

21 Q. Does this Commission have the authority to
22 approve what Laclede will recover from customers for bad
23 debt? It's a simple question.

24 A. And I -- and I agree that that applies to
25 bad debts as well as all other costs of service.

1 Q. And you'd also agree that Laclede has some
2 control over managing its level of bad debts?

3 MR. ZUCKER: Asked and answered, your
4 Honor.

5 JUDGE WOODRUFF: I think I'll have to
6 sustain that.

7 BY MR. POSTON:

8 Q. Will you agree that Laclede currently runs
9 the risk of not recovering its bad debts?

10 A. At this time, we are at risk for not
11 recovering our bad debts or over-recovering bad debts.
12 There is a chance we may over-recover bad debts or
13 under-recover bad debt expense. And certainly in today's
14 environment, given the -- given the fact that -- well, the
15 prices have --

16 Q. That's fine.

17 A. -- gas princes have sunk to the level they
18 have --

19 Q. You answered the question. Your counsel
20 can follow up if he wants.

21 Will you also agree that Laclede currently
22 runs the risk of not recovering the portion of bad debts
23 that you attribute to gas costs?

24 A. Repeat that question, please.

25 Q. Would you also agree that Laclede currently

1 runs the risk of not recovering the portion of bad debts
2 that you attribute to gas costs?

3 A. We could both under and over-recover those
4 gas -- the gas costs embedded in bad debts.

5 Q. Is that a yes, that you do run the risk --

6 A. Both ways.

7 Q. -- of not recovering?

8 A. It goes both ways.

9 Q. I'm asking one way. Do you run the risk of
10 not recovering a portion of bad debts?

11 A. The answer is yes, as long as --

12 MR. ZUCKER: Your Honor, he's already
13 answered that question.

14 MR. POSTON: Well, he hasn't answered.

15 MR. ZUCKER: He may have given Mr. Poston
16 more than he wanted, but he gave him -- he answered the
17 question on the way. So asked and answered.

18 MR. POSTON: I didn't hear the answer. It
19 would be simple to have a yes or no.

20 BY MR. POSTON:

21 Q. Do you agree that Laclede currently runs
22 the risk of not recovering a portion of bad debts that you
23 attribute to gas costs?

24 MR. ZUCKER: Same objection.

25 JUDGE WOODRUFF: I'm going to overrule the

1 objection, but I will instruct the witness, please answer
2 yes or no. This is a yes or no question. Your counsel
3 will have a chance on redirect to let you -- allow you to
4 make more explanation. We'll be out of here a lot sooner
5 if you'll just answer yes or no.

6 THE WITNESS: Yes.

7 BY MR. POSTON:

8 Q. Would you agree that if you essentially
9 guarantee that Laclede will recover the portion of bad
10 debts that Laclede attributes to gas costs, when currently
11 they don't have those insurance in rates, would you agree
12 that this, all else equal, would reduce Laclede's risk of
13 recovering that portion of bad debts?

14 A. I need you to repeat that question again,
15 please.

16 Q. Would you agree that if you essentially
17 guarantee that Laclede will recover the portion of bad
18 debts that Laclede attributes to gas costs when currently
19 they don't have those insurances in rates, they don't have
20 that guarantee in rates currently, all else being equal,
21 would you agree that this would reduce Laclede's risk of
22 recovering its portion of bad debts?

23 I mean, if it's guaranteed that Laclede is
24 going to recover this portion of bad debts, wouldn't you
25 agree that that would reduce Laclede's risk of not

1 recovering those portions?

2 A. I'm not sure I agree with the premise. I'm
3 not sure I understand why you're saying that there's -- I
4 don't agree that Laclede's guaranteed to recover its bad
5 debt expense.

6 Q. But it would be guaranteed under your
7 proposal to recover the portion of bad debts that you
8 attribute to gas costs, would it not?

9 A. If our proposal was implemented, we would
10 have a better matching of the gas cost portion of our bad
11 debts and we would be made whole for our recovery of -- of
12 all of our gas costs, both those -- the gas costs we bill
13 to customers as well as those that remain -- those bills
14 that remain -- that went unpaid.

15 Q. And doesn't that improve your risk of not
16 recovering those costs? If you're made whole, then it's
17 improving the risk that you won't recover those costs,
18 doesn't it?

19 A. There's -- we would be in a position of not
20 having -- of being assured that we would neither
21 under-recover or over-recover our costs.

22 Q. And what impact does that have on the risk
23 of you recovering or not recovering?

24 A. Certainly that makes our revenue -- our
25 revenue stream more stable, and from that standpoint I

1 assume that one would consider that to be less risky.

2 Q. Would you agree that it's the earnings that
3 are more stable and not revenue?

4 A. Our earnings would be more stable because
5 we would both no longer have the opportunity to
6 over-recover or under-recover our gas cost portion of our
7 bad debts.

8 Q. Would you agree with me that Laclede incurs
9 many expenses that are variable from year to year?

10 A. I don't think I'd agree that many of our
11 expenses are variable. I would say that for the most part
12 many of our expenses from year to year are fixed.

13 Q. Okay. Could you give me examples of
14 variable expenses?

15 A. Obviously there's degrees of variability to
16 be talking about, but for the most part the main variable
17 costs that I can think of is our cost of -- cost of
18 natural gas.

19 Q. Would you agree that payroll is an expense
20 that varies from year to year?

21 A. I would say payroll for the most part is
22 relatively -- a relatively fixed cost that certainly
23 increases due to wage rates, it can be -- or salary
24 increase. It can be reduced because of layoffs or people
25 retiring. But, you know, for the most part, that's a

1 pretty -- that's a relatively predictable cost.

2 Q. But it does vary; is that correct?

3 A. Its degree of variability is much smaller
4 than the variability of something like natural gas costs.

5 Q. And I mean varies in amount. Is that how
6 you're characterizing varies, varies in amount?

7 A. I would -- my point is that I think -- I
8 think as a whole payroll costs are relatively fixed, and
9 but for increases in wages and in perhaps employees who
10 are terminated or retired, that those costs are relatively
11 steady from year to year but for those factors I
12 mentioned, and that that variability is far less than
13 something like natural gas costs because natural gas costs
14 are --

15 Q. That's okay. Thank you. Would you agree
16 that injuries and damages is an expense that varies in
17 amount?

18 A. That I'm not -- I'm not so sure on that
19 one. I guess it has to do with how our, you know, how our
20 damages work or excess liability insurance, things like
21 that. Some of those premiums could be relatively fixed.
22 So I don't know that I agree that injuries and damages are
23 a big variable cost from year to year.

24 Q. So gas costs is the only one that you've
25 really said that you find is a true variable cost? You

1 can't think of any other cost Laclede incurs that would be
2 variable? Everything else is pretty much fixed as far as
3 you're concerned, is that what you're saying?

4 A. Well, like I said, there's degrees of
5 variability, and certainly we all understand that payroll
6 costs do change over time, and -- but those costs are --
7 the changes there are far less significant than the
8 changes in natural gas costs, and those payroll costs are
9 much more predictable than something like natural gas
10 costs. For example, we have a --

11 JUDGE WOODRUFF: There's no question
12 pending. Just wait 'til the next question, please.

13 BY MR. POSTON:

14 Q. Do you know what year Laclede purchased
15 Fidelity Gas?

16 A. I believe it was -- I think the closing
17 occurred February/March 2006, something like that.

18 Q. And do you know what impact that purchase
19 had on Laclede's level of bad debts?

20 A. I don't know that. I'd have to believe it
21 would be relatively insignificant.

22 Q. But you don't know?

23 A. I do not know.

24 Q. And I'd like -- if you could walk us
25 through just an example of your proposal real quick.

1 Under your proposed mechanism, if Laclede's annual level
2 of uncollectibles jumped to, say, 14 million for the first
3 year under the proposal, assuming all other things are
4 equal, would this result in an increase to PGA rates?

5 A. If our bad debts were as high as
6 \$14 million, I'd have to run through some numbers, but it
7 likely would amount to an increase in -- in our PGA rates
8 because the -- likely in a scenario like that where bad
9 debts were \$14 million, I assume our gas cost portion of
10 those bad debts would be something greater than the
11 \$8.1 million I believe was embedded in the rate case.
12 Therefore, we would -- my proposal would be to increase
13 our rates for that slippage between what we had built into
14 base rates and what our actual experience was because from
15 our perspective that's something we're entitled to as part
16 of the full recovery of our gas costs.

17 Q. At what level of annual uncollectibles
18 would Laclede's PGA rate begin to see an increase if all
19 else is equal? Is that anything over 10.8 in your mind?

20 A. It's anything -- it's anything where the --
21 where the gas cost portion of bad debts is anything over
22 8 -- is anything over \$8.1 million.

23 Q. So you would agree that if the Commission
24 were to approve your tariff proposal, that it could result
25 in an increase in rates to Laclede's customers?

1 A. It could result in an increased rate to our
2 customers as well as a decreased rate in today's
3 environment --

4 Q. I'm only asking about the increase.

5 A. That could result in an increase to
6 customers as long as you understand it could result in a
7 decrease to customers.

8 Q. Does your proposal look at or track changes
9 to Laclede's number of customers?

10 A. No, I do not look at the -- we did not look
11 at the number of customers. The number of customers is a
12 relatively steady amount from year to year.

13 Q. In your opinion, what would be the bad debt
14 impact if an increase in customers -- in an increase in
15 customers for Laclede, all else being equal?

16 A. The impact on bad debts and an increase in
17 customers from year to year?

18 Q. Yes.

19 A. I believe it's relatively small.

20 Q. And how would it impact it? What would be
21 that small impact? Would it increase bad debts?

22 A. I don't know. That's just -- that's -- it
23 would certainly press -- move in that direction, but I
24 have no idea -- I've got to believe it would be relatively
25 small, probably negligible impact from year to year, given

1 the customer growth we have.

2 Q. Would it increase revenues?

3 A. Well, revenues -- revenues obviously taken
4 by itself, the increase in customers would produce an
5 increase in revenues. However, revenues are also affected
6 by customer usage changes, and our experience has been
7 that even with customer growth over the years, our volumes
8 that we sell in total -- our revenues given the same level
9 of gas costs could easily be declining.

10 Q. And Laclede initially made two different
11 tariff change proposals. First was a change to the terms
12 of the Cold Weather Rule; is that correct?

13 A. As we initially proposed it when we made
14 the proposal, correct.

15 Q. And you're no longer advocating that
16 proposal; is that correct?

17 A. That's correct.

18 Q. Okay. When Laclede purchases gas from its
19 wholesale suppliers, does Laclede pay any extra to its gas
20 suppliers for bad debts?

21 A. I don't think we have any way of knowing
22 what our payment to our suppliers covers. Presumably if
23 those suppliers are -- the suppliers I presume are built
24 into the -- into their charges to us. The possibility
25 that there may be, you know, some default on -- with a

1 particular -- with a particular buyer, but I have no idea
2 what those -- what those -- what's behind the payments we
3 make to our suppliers.

4 Q. Does Laclede make any payments to anyone
5 for its bad debt expense?

6 A. Does Laclede make payments to any
7 particular vendor to cover that vendor's bad debt expense.

8 Q. No. To cover Laclede's bad debt expense?
9 Are you making a payment to anyone for your bad debt
10 expense?

11 A. Are we making payments to anyone to cover
12 our own bad debt expense?

13 Q. Yes.

14 A. I'm not sure I understand what the nature
15 of that kind of arrangement would be.

16 Q. So then is the answer no, that you don't
17 make any type of payment to anyone else for your bad debt
18 expense? It's just reported on your financial statement;
19 isn't that correct?

20 A. Bad debts are a -- it's an accounting entry
21 made -- and then I guess you should say -- I should back
22 up and say obviously we incur some costs, I guess, with
23 collection agencies and actually with our bad debts are an
24 attempt to recover our -- the amounts we bill to our
25 customers, but there comes a time when it's pretty clear

1 after six months after -- six months after an account goes
2 final that we can determine that it's unlikely we're going
3 to collect on that customer. Therefore, we will make an
4 accounting entry to basically write off that amount and --

5 Q. So you're not making a payment to anyone,
6 though; you're just writing off an account, an accounting
7 entry, correct?

8 A. It's not -- it's not -- it's not a payment.
9 It's an accounting entry, and --

10 Q. Isn't it true that gas costs are charged to
11 Uniform System of Account, Accounts 728 and 804 through
12 812?

13 A. You have to repeat -- those accounts --
14 those account numbers sound foreign to me. You have to
15 repeat those again, please.

16 Q. Is it true that gas costs are charged to
17 Uniform System of Accounts 728 in addition to 804 through
18 812?

19 A. Okay. The gas costs, those sound generally
20 familiar as correct.

21 Q. Isn't it also true that bad debts in the
22 gas costs portion of bad debts are generally charged to
23 Account 904 of the Uniform System of Accounts?

24 A. Sure. From a purely accounting
25 perspective, those are the accounts that those -- that

1 those bad debts get charged to, and there should be no
2 mistake that the bad debts are comprised of -- of charges
3 which include the company's cost of gas. Nearly
4 two-thirds to three-fourths of that --

5 Q. Thank you. Thank you. When an account is
6 written off, who makes that decision?

7 A. I don't know that I have the answer to that
8 question. I assume it's this -- that that's done on a
9 kind of a mass basis where after, like I said, after
10 six -- after six months, six months after the account goes
11 final, if we're unable to collect, make any collection,
12 those accounts would be written off, but who does that and
13 what individual attention is given to an account I have
14 zero familiarity with.

15 Q. Those are decisions that Laclede -- someone
16 within Laclede is making to write off the account, right?

17 A. Well, like I said, I don't know exactly who
18 at Laclede does that and/or how it's done.

19 Q. I'm not asking who. I'm just saying is
20 that a decision someone within Laclede makes, to write off
21 an account, or does it just happen somehow?

22 A. I don't know how it happens. I can tell
23 you that -- I can tell you, though, that the system is,
24 it's my understanding that accounts are written off six
25 months after they go final, how -- whether that's done on

1 the basis of a computer printout of the accounts for which
2 we've not received payment or whether someone sits down
3 and looks at them line by line, which I'd be surprised,
4 I'm just not familiar with how that's done.

5 Q. However it's done, it's done -- somehow the
6 direction of someone within Laclede, right? Laclede's
7 making these decisions some way?

8 A. It's done -- it's done under guidelines
9 certainly for us, implemented at Laclede, correct.

10 Q. And it's Laclede's guidelines? For example
11 the 126 writeoff time period, that's a Laclede decision to
12 do that?

13 A. I believe that's been our practice.

14 MR. POSTON: That's all. Thank you.

15 JUDGE WOODRUFF: Come up for questions from
16 the Bench, then. Commissioner Jarrett?

17 QUESTIONS BY COMMISSIONER JARRETT:

18 Q. Good morning, Mr. Cline.

19 A. Good morning.

20 Q. I have just a few quick questions. First
21 of all, do you know, is Laclede currently earning its
22 approved return on equity?

23 A. I don't -- I don't have that knowledge. I
24 do not know.

25 Q. Okay. Would you know if Laclede was not

1 earning its allowed return on equity, would granting your
2 request to include this bad debt expense in a PGA clause,
3 would that give Laclede a better opportunity to earn its
4 allowed return on equity?

5 A. I think our proposal would assure us that
6 we would be able to earn what we expected to earn from the
7 settlement of our last rate case and that there would be
8 no slippage as a result of the impact of gas costs on bad
9 debts, that what we thought we took away from the last
10 rate case settlement would be something we would -- in
11 terms of bad debt recovery would be something we still
12 would be able to hold onto and for purposes of -- of us
13 being able to achieve our return on equity.

14 Q. I take it from your testimony I'm assuming
15 that you are familiar with the function of a PGA clause;
16 is that correct?

17 A. That's correct.

18 Q. What I want to do is ask you a question
19 about some language in the case. For purposes of
20 convenience of respective counsels and the court reporter,
21 I'm talking about State ex rel Midwest Gas Users
22 Association versus the Public Service Commission of the
23 State of Missouri, 976 SW 2nd 470, and I'm referring to
24 page 474.

25 And the court says, while the

1 technicalities of Missouri's PGA clause have varied over
2 the years, the clause's basic function has remained the
3 same. A PGA clause allows a local distribution company to
4 automatically adjust the rates it charges its customers in
5 proportion to the change in the rate the local
6 distribution company is charged by its wholesale
7 suppliers. Do you agree with that definition?

8 A. Yes, I do.

9 Q. Tell me how Laclede's bad debt expense
10 affects the rate that Laclede is charged by its wholesale
11 suppliers of gas.

12 A. How Laclede -- could you repeat that
13 question, please?

14 Q. How does Laclede's bad debt expense affect
15 the rate that Laclede is charged for gas by its wholesale
16 suppliers?

17 A. Well, today our bad debt expense is not
18 affected by the rate that we're charged by our suppliers.
19 Our -- our bad debts are -- our bad debts are -- say it
20 like this: Our bad debts -- our bad debt expense is
21 influenced by -- is based on what we bill our customers,
22 and obviously the substantial portion of what we bill our
23 customers is -- covers the cost of gas, and to the extent
24 that the cost of gas increases or decreases, that can have
25 an effect on our bad debt expense.

1 Q. I understand that it affects your expenses.

2 A. Right.

3 Q. But that's not what I'm asking you. I'm
4 asking you, how does your bad debt expense affect the rate
5 that Laclede is charged by its wholesale supplier? For
6 example, if Laclede's bad debt is 8 million versus
7 9 million, does your wholesale supplier change the rate it
8 charges you based on changes in your bad debt expense?

9 A. No, it does not. I can't see any reason
10 why it would. I mean, I can't see -- I don't understand
11 why our -- our level of bad debts would have any effect on
12 what our supplier charges us for cost of gas.

13 COMMISSIONER JARRETT: Okay. Thank you.
14 No further questions.

15 JUDGE WOODRUFF: Commissioner Gunn?

16 COMMISSIONER GUNN: You took one of my
17 questions, Commissioner Jarrett.

18 COMMISSIONER JARRETT: I apologize.

19 COMMISSIONER GUNN: It was exactly right on
20 point. I appreciate you doing it.

21 QUESTIONS BY COMMISSIONER GUNN:

22 Q. Let me go back a little bit. When -- at
23 what point does debt become bad debt for Laclede?

24 A. At what point does a customer who doesn't
25 pay their bill become a bad debt for Laclede?

1 Q. Right. What point do you write it off? Is
2 there a time period? Is it uniform? Is it based on --
3 based on a judgment call by the company? What point does
4 a customer who's in arrears get shifted over to the column
5 that says it's uncollectible?

6 A. Once again, I don't work in that area.
7 It's my understanding it's roughly six months after we
8 have rendered a final bill to the customer.

9 Q. Okay. So -- so you guys say, you guys are
10 cut off six months after that, you know, so here's your
11 bill, here's what you owe us. Six months after that, if
12 no activity has happened, no payment plan's been worked
13 out, it shifts over into the uncollectible debt, your
14 understanding?

15 A. That's my understanding, correct.

16 Q. And then when we talk about writing that
17 debt off, what are the tax consequences for that, do you
18 know, to the company?

19 A. I don't know the particulars of any tax
20 consequences there. I assume that that bad debt --
21 provision for bad debts is an expense just like any other
22 expense and it would be -- to the extent it reduces your
23 pretax income would have -- it would lower your income
24 tax.

25 Q. Okay. Now, does -- does your tariff allow

1 you to recover -- or -- or does your tariff allow you to
2 require customers who have been -- that had bad debt, if
3 they want to reestablish service, to require them to pay
4 that debt before the service is reestablished?

5 A. Unfortunately, I'm not sure I'm the right
6 person to be answering the question. But it's my
7 understanding that probably given some of the relaxation
8 of the Cold Weather Rules, Cold Weather Rule over the
9 years, that we have -- we have taken on some customers,
10 reconnected some customers who in the past have had some
11 bad debt and they've been reconnected, even though -- even
12 though they were -- even though -- even though they may
13 have been -- they may have been on an account where that
14 account at one time was written off as a bad debt.

15 Q. But under those circumstances you're
16 allowed to require a deposit or you're allowed to require
17 a deposit to start or some payment of the owed amount
18 before you reestablish?

19 A. I don't know what those exact terms are,
20 but I don't know that -- that we -- that by reconnecting
21 that customer we fully protect ourselves from the
22 incurrence of any -- I don't know that we are in a
23 position to make -- to ensure that we're going to be able
24 to recover that what was formerly a bad debt or any new
25 debt that that customer made may cost.

1 Q. Let me give you a scenario and I'll let you
2 know where my question's going. If you have a customer
3 whose debt has been written off, that customer wants to
4 then reestablish service, they got their job back after
5 two years, three years, get their job back and they owe
6 \$1,500 and they have the ability to pay the \$1,500 and
7 they pay \$1,500 and you happily reconnect service.

8 A. Uh-huh.

9 Q. How does this mechanism take that into
10 account? How does this mechanism deal with that recovery
11 of that debt?

12 A. The bad debts -- the bad debts we're
13 talking about, in this case we're talking about what we
14 call net writeoffs, and net writeoffs are impacted by --
15 are offset by any recoveries of dollars from a -- a
16 customer who was formerly written off. So if we are --
17 down the road are able to collect some money from that
18 customer for a past bad debt, that will have the effect of
19 lowering our net bad debt writeoffs and, therefore, our --
20 the bad debts we would otherwise flow through would be --
21 would be lower.

22 Q. And today, that is traditionally taken care
23 of through your base rates?

24 A. That's correct.

25 Q. So you would have had -- you would get the

1 recovery immediately from all the other customers through
2 this -- the PGA mechanism if we were to allow it. You
3 would have the benefit of that, and then at some point
4 down the road when that -- those numbers became
5 significant enough to affect the PGA, then that's how it
6 would be recovered?

7 A. Well --

8 Q. It wouldn't happen immediately, of course?

9 A. Well, I'm not so sure. I want to make sure
10 you understand how I view this. For example, as we would
11 write off, as in January '09, when we write off amounts
12 that we are going to be unable to collect, there is a
13 gross amount that we write off for new bad debts. In
14 January '09 we also -- we also may be -- may have gotten
15 this \$1,500 payment from this customer that we wrote off
16 as a bad debt 12 months ago. That \$1,500 would be netted
17 against the bad debt writeoffs that we'd be looking at for
18 purposes of determining whether we're going to increase or
19 decrease our rates to our customer.

20 So there will be an immediate impact on
21 our -- on our accounting entry to a customer who pays us
22 today for amounts that we wrote off some time ago. That
23 will -- that will keep our adjustment, if it was -- that
24 would keep our adjustment, if it was in the upper
25 directions, from being as high as it otherwise would be

1 because we will take -- we will give immediate recognition
2 to the fact that our bad debts now are lower because that
3 customer has paid us, because we look at net writeoffs,
4 not just the new writeoffs that are occurring based on
5 your most recent bills.

6 Q. Just to clarify Commissioner Jarrett's
7 question, when you pay \$6 per MMBtu, none of that \$6 has
8 anything to do with bad debt?

9 A. None of the \$6 per MMBtu that we may pay to
10 a supplier has anything to do with our bad debts.

11 Q. Now, would you say that your -- the
12 volatility in bad debt, the economy goes down, assuming
13 your bad debt goes up, that wasn't the reason for the
14 fluctuation of the natural gas prices over the summer, was
15 it?

16 A. That's not my understanding is what caused
17 that fluctuation.

18 Q. Speculation, hedge funds --

19 A. Who knows? That's correct.

20 Q. -- petroleum prices, there is a lot of
21 other things that go into that?

22 A. That's correct. I mean, I think we saw --
23 I think most of the concern about the economy occurred
24 after this -- after this price had taken its tremendous
25 slide downwards.

1 Q. But not increased bad debt? That really
2 didn't have anything to do with it?

3 A. I'm sorry. What was your question?

4 Q. Increased bad debt across the spectrum of
5 natural gas utilities didn't cause the spike and
6 precipitous decline of natural gas prices over the last
7 six months?

8 A. The increase in bad debt?

9 Q. Right.

10 A. Cause a specific --

11 Q. Any -- any -- either increase or decrease
12 in bad debt? There's no relationship between how big bad
13 debt is for a utility and what the NYMEX price of gas is?

14 A. Certainly there is a connection between
15 what we pay for gas and what our bad debts are.

16 Q. Really? Because that's not what you said
17 to Commissioner Jarrett, and that's not what you told me
18 five minutes ago.

19 A. Then I may have misunderstood Commissioner
20 Jarrett's question. I mean, I thought Commissioner
21 Jarrett's question was --

22 Q. Let me back up. You pay -- if you pay --
23 whether you pay \$6 an MMBtu, all right, or \$14, all right,
24 that fluctuation, which happened literally over the last
25 six months, that -- that swing in gas prices had no

1 relationship to bad debt? What the wholesale price is of
2 that gas doesn't have any relationship to bad debt?

3 A. No. Then I maybe misunderstood
4 Commissioner Jarrett's question, but my point is that the
5 change in natural gas prices does have --

6 Q. That's not my question. The question is
7 whether the price for natural gas set on the open market
8 has any relationship to your bad debt or any other
9 utility's bad debt, what you paid, what you buy gas now on
10 the wholesale market?

11 A. Right.

12 Q. Right. It may affect your bad debt if the
13 price is higher?

14 A. Right.

15 Q. But the price being higher wasn't caused by
16 the bad debt?

17 A. Correct.

18 Q. The bad debt happens after the price
19 increase, not -- it doesn't cause the price increase?

20 A. I agree with that.

21 Q. Okay. All right. Do you guys collect --
22 I'm going to switch subjects here for a second. Do you do
23 collection in house or do you farm it out?

24 A. I believe it's a little bit of both.

25 Q. Okay. So -- and you believe your

1 collection practices are on par with -- with -- they're
2 industry standard?

3 A. I would have no reason to believe
4 otherwise.

5 COMMISSIONER GUNN: Of the -- I think
6 that's all I have. I just want to check. I think that's
7 all I have. Thank you for talking to me here.

8 JUDGE WOODRUFF: Thank you. Recross based
9 on questions from the Bench then, beginning with Staff?

10 MR. THOMPSON: No questions. Thank you,
11 Judge.

12 JUDGE WOODRUFF: Public Counsel?

13 MR. POSTON: Yes, thank you.

14 MR. POSTON: May I approach the witness?

15 JUDGE WOODRUFF: You may.

16 RECROSS-EXAMINATION BY MR. POSTON:

17 Q. Can you please identify what I just handed
18 you?

19 A. This appears to be Laclede Gas Company's
20 response to Public Counsel Data Request No. 24 in this
21 case.

22 Q. And would you agree that in Laclede's
23 response, that the company states that it has earned a
24 return on equity of 11.68 percent for the 12 months ending
25 July 2008?

1 A. I see a reference to 11.68 percent in
2 answer to item B. Laclede would suggest the return on
3 equity for the period in question would be 11.68 percent.

4 Q. So you would agree, then, that that's for
5 the period ending December -- or July 2008?

6 A. I did not answer -- this was not my
7 response, but it appears to be a response to the question
8 that -- where the question is, please provide Laclede's
9 calculation to derive its 12-month return on equity
10 through July 2008.

11 MR. POSTON: Thank you. That's all I have.

12 JUDGE WOODRUFF: Redirect?

13 MR. ZUCKER: Your Honor, is it possible for
14 us to have a break now before redirect?

15 JUDGE WOODRUFF: All right. We'll go ahead
16 and take a break. We'll come back at 10:35.

17 (A BREAK WAS TAKEN.)

18 JUDGE WOODRUFF: We're back from break, and
19 we're ready for redirect of Mr. Cline.

20 MR. ZUCKER: Thank you, your Honor.

21 REDIRECT EXAMINATION BY MR. ZUCKER:

22 Q. Good morning again, Mr. Cline.

23 A. Good morning.

24 Q. Do you recall discussing with Commissioner
25 Jarrett the MGUA case?

1 A. Yes, I do.

2 Q. And Commissioner Jarrett read a statement
3 to you in which he said basically the PGA clause's basic
4 function has remained the same and that is to adjust the
5 rates that a company charges its customers in proportion
6 to the change in the rate the local distribution company
7 is charged by its wholesale suppliers. Do you recall
8 that?

9 A. Yes, I do.

10 Q. And that is, in fact, the basic function of
11 the PGA, is it not?

12 A. That is correct.

13 Q. And would you say the largest change to the
14 PGA comes when the suppliers change their wholesale prices
15 of gas?

16 A. Yes, I believe that's the case.

17 Q. But is that the only time the PGA changes?

18 A. No. The PGA is affected by other costs as
19 well. I mean, there's other -- there are other costs
20 other than supply costs of -- directly from suppliers that
21 are covered by the PGA, including, for example, carrying
22 costs associated with any of our deferred gas costs, we
23 call gas inventory carrying costs. The gains or loss
24 associated with hedging is another example. There are
25 various other items that, in addition to supplier costs,

1 that are covered by the PGA clause and which are important
2 to make sure that we recover our full cost of gas.

3 Q. Okay. And so the purpose of the PGA then
4 is just to -- is to recover your cost of gas; is that
5 correct?

6 A. The cost of gas including all those other
7 areas I mentioned as well.

8 Q. And when you bill a customer and the
9 customer does not pay, have you recovered your cost of
10 gas?

11 MS. SHEMWELL: This is beyond the scope of
12 the questions asked by the Bench.

13 MR. ZUCKER: It certainly is not.

14 JUDGE WOODRUFF: I'll overrule the
15 objection. You can answer the question.

16 THE WITNESS: Can you repeat the question,
17 please?

18 BY MR. ZUCKER:

19 Q. Yes. As you said, the purpose of the PGA
20 is to recover the cost of gas. When a customer does not
21 pay their bill, the company has not recovered its cost of
22 gas; is that true?

23 A. The customer does not pay the bill, the
24 company has not recovered its cost of gas in its entirety,
25 that's correct, and the -- what we're attempting to do in

1 this case is to ensure that there is an exact matching of
2 the company's cost of gas to what customers actually pay
3 us for that gas because what's embedded in base rates is
4 not necessarily -- will not necessarily give us -- make us
5 whole for that difference between what customers are
6 billed and what they actually pay.

7 Q. Okay. Can you tell us what the PGA rate
8 was at the time the uncollectibles were set in the 2007
9 rate case?

10 A. My calculation was that PGA rate on average
11 was in excess of a dollar a therm. Whereas, today that
12 PGA rate is more in the 83 cents a therm range.

13 Q. So it's less today?

14 A. Far less.

15 Q. And everything else being equal, would that
16 result in higher uncollectibles or lower uncollectibles
17 today?

18 A. Everything else being equal, I would expect
19 it would result in lower uncollectibles.

20 Q. And if the Commission approved our tariff
21 and uncollectibles dropped, would the customers get the
22 benefit of that, would get any benefit from that?

23 A. Yes, they would.

24 Q. Are you asking to change rates today?

25 A. No, we're not asking to change rates today.

1 The adjustment we're proposing to make would be an
2 adjustment to our deferred gas costs and would be
3 considered along with all other reconciliations we make in
4 our -- in our annual PGA reconciliation so that any
5 difference, any over/under-recovery of gas costs, along
6 with any over/under-recovery associated with customers not
7 paying for gas that's been billed to them would be
8 covered -- would be now covered by this part of our PGA
9 clause, so that the impact would be -- would be down the
10 road in the form of a change in our -- in the ACA
11 component of our PGA rate.

12 MR. THOMPSON: Your Honor, I move that that
13 oration be struck as nonresponsive.

14 JUDGE WOODRUFF: I'm going to overrule the
15 objection. If counsel has an objection to testimony as
16 it's coming in, please interrupt the witness beforehand.
17 I'm not going to allow you to go back, wait for the answer
18 and then strike it.

19 MR. THOMPSON: Thank you, your Honor.

20 BY MR. ZUCKER:

21 Q. Is Laclede's intent to raise the level of
22 bad debt expense over and above what was granted in the
23 rate case?

24 A. No, it is not. Laclede's intent is to
25 provide for a better matching of actual gas costs incurred

1 to what customers pay us for cost of gas.

2 Q. Mr. Cline, Mr. Poston asked you some
3 questions about the 2005 rate case. Do you recall those?

4 A. Yes, I do.

5 Q. And he asked you whether or not the company
6 had received permission to implement credit scoring in
7 taking deposits. Do you recall that?

8 A. I do, yes.

9 Q. And you answered that it did?

10 A. Yes.

11 Q. And he also pointed out that the company
12 had changed its maximum deposit from two times the highest
13 amount to four times the average amount?

14 A. I did say that. However, the -- it's my
15 understanding that --

16 MR. POSTON: Objection. It was a yes or no
17 question. He's elaborating on something that was a yes or
18 no, is it included or not.

19 MR. ZUCKER: Okay. I'll ask you another
20 question, then.

21 BY MR. ZUCKER:

22 Q. Did the -- did that change from two times
23 the highest -- two times the highest winter bill to four
24 times the average annual bill change the -- was the intent
25 of that to change the amount of the deposit taken?

1 A. I don't believe so. It's my understanding
2 that was something that was done for the convenience of
3 the company in terms of being able to come up with a
4 better --

5 MR. THOMPSON: Objection, nonresponsive.

6 JUDGE WOODRUFF: I'll sustain that
7 objection. You've answered the question. Counsel can ask
8 another question.

9 MR. ZUCKER: Okay. I will.

10 BY MR. ZUCKER:

11 Q. Prior to the 2005 rate case, Laclede was
12 only permitted to disconnect customers up to 4 p.m. on
13 weekdays; is that true?

14 A. That sounds true, correct.

15 Q. And the -- as a result of the 2005 rate
16 case, there was an expansion of time until, I believe,
17 7 p.m.; is that your understanding?

18 A. Yes, it is.

19 Q. And also Mr. Poston pointed out that the
20 window after which -- after a disconnect notice in which
21 Laclede could disconnect was changed from 11 business days
22 to 30 calendar days. Do you recall that?

23 A. Yes, I do.

24 Q. And you agreed with Mr. Poston that that
25 was a change?

1 A. I agreed it was a change.

2 Q. And all of these changes that we've just
3 talked about from the 2005 rate case, could Laclede have
4 made those changes on their own, unilaterally, without
5 Commission approval?

6 A. No. We had to come to the Commission to
7 get permission to make those changes.

8 Q. So the Commission must bless all changes
9 that affect -- all of these changes were blessed by the
10 Commission that affect uncollectibles?

11 A. Yes.

12 Q. Mr. Poston asked you about other changes
13 that the company might make to help manage bad debt
14 levels. If the company could collect deposits during the
15 Cold Weather Rule period, would that help manage bad debt
16 levels?

17 A. I assume that it would.

18 Q. If the company could deny a customer the
19 right to go on a payment plan during the Cold Weather Rule
20 period, would that help manage or reduce bad debt levels?

21 A. I would think that it would help to reduce
22 bad debt levels, correct.

23 Q. If the company could collect 100 percent of
24 what the customer owed during the Cold Weather Rule
25 period, would that help manage or reduce bad debt levels?

1 A. I would believe it would.

2 Q. And can the company unilaterally implement
3 any of these practices?

4 A. Not that I'm aware of.

5 Q. They're all controlled by the Commission;
6 isn't that correct?

7 A. Yes, they are.

8 Q. Mr. Poston asked you some questions about
9 the effect of your tariff proposal on the company's risk.
10 If the tariff is approved and uncollectibles go up, the
11 company will not bear the risk of the increased gas cost
12 portion of those collectibles; is that correct?

13 A. That is correct.

14 Q. If uncollectibles go down, the company will
15 not keep the decrease in uncollectibles; is that correct?

16 A. The decrease associated with -- with the
17 gas cost portion of decrease, that's correct.

18 Q. Okay. Thank you. So there's a -- a lost
19 opportunity in addition to a -- a decreased risk?

20 MR. POSTON: Objection. These questions
21 are all leading.

22 JUDGE WOODRUFF: I'll have to sustain that
23 objection.

24 MR. ZUCKER: Okay. Thank you.

25 BY MR. ZUCKER:

1 Q. You were asked some questions about
2 expenses that are variable from year to year, I believe.
3 Do you recall that, Mr. Cline?

4 A. Yes, I do.

5 Q. And two of the expense items in particular
6 were payroll and injuries and damages. Do you recall
7 that?

8 A. Yes, I do.

9 Q. Are -- is a change -- does a change in gas
10 prices affect payroll or injuries and damages?

11 A. Not that I'm aware of.

12 Q. Does a change in weather affect payroll or
13 injuries and damages?

14 A. I don't believe so.

15 Q. Does a change in energy assistance affect
16 payroll or injuries and damages?

17 A. Once again, not that I'm aware of.

18 Q. And -- are uncollectible expenses affected
19 by all of those changes?

20 A. It would seem that they would be,
21 definitely.

22 Q. Is there any gas costs in payroll?

23 A. No, there is not.

24 Q. Is there any gas costs in injuries and
25 damages?

1 A. Not that I know of.

2 Q. So to the extent that the company doesn't
3 collect in rates amounts sufficient to pay their allowed
4 payroll and injuries and damages, has the company lost
5 any -- or failed to recovery any gas costs?

6 A. No.

7 Q. You were asked some questions about
8 customer growth by Mr. Poston. Do you recall those?

9 A. Yes, I do.

10 Q. If there are additional customers, is there
11 also additional cost of service?

12 A. Generally, I would expect there to be
13 additional cost of service, yes.

14 Q. Commissioner Jarrett asked you if -- if
15 you -- if the tariff that Laclede filed was approved,
16 would that give the company a better opportunity to earn
17 its ROE. Do you recall that?

18 A. Yes, I do.

19 Q. And if -- can you discuss how that
20 opportunity -- how that opportunity would be affected by
21 whether uncollectible expenses went up or down?

22 A. Repeat the question, please.

23 Q. If Laclede's tariff is approved, how will
24 its opportunity to earn its approved ROE be affected by
25 whether uncollectible expenses go up or down?

1 A. If uncollectible expenses increase, we
2 would -- the company would have the opportunity to be
3 assured that the gas cost portion of those increased bad
4 debts would not cause its earnings to decline. We'd be
5 permitted to recoup any increase in cost permitted with
6 those -- in connection with those increased bad debts.
7 Likewise, if -- if the bad debts decreased, any gas costs
8 associated with those decreased bad debts would be --
9 would be flowed back to customers.

10 MR. ZUCKER: One moment, your Honor.

11 BY MR. ZUCKER:

12 Q. Mr. Cline, I'm going to hand you the -- a
13 copy of the MGUA case, and have you read the sentence that
14 follows the sentence that Commissioner Jarrett read you.

15 MR. ZUCKER: May I approach the witness,
16 your Honor?

17 JUDGE WOODRUFF: You may.

18 BY MR. ZUCKER:

19 Q. Can you please read that into the record?

20 A. At the end of every 12-month period, the
21 local distribution company then makes an actual cost
22 adjustment, parens, ACA filing with the PSC so that the
23 PSC can determine whether the estimated amount previously
24 charged customers accurately reflects the actual cost to
25 the utility of the gas supplied.

1 Q. And so if the company fails to recover bad
2 debts, the gas cost portion of bad debts, has it covered
3 the actual cost to the utility of the gas supplied?

4 A. No, it has not.

5 Q. And if the company doesn't recover its
6 interest costs as you described before, has it failed to
7 recover the actual cost of the gas supplied?

8 A. It has not.

9 Q. If the company fails to recover its hedging
10 gains and losses, has it failed to recover the actual cost
11 to the utility of the gas supplied?

12 A. No, it has not.

13 MR. ZUCKER: Thank you, Mr. Cline. No
14 further questions.

15 JUDGE WOODRUFF: All right. Thank you.
16 Mr. Cline, you can step down.

17 Next Laclede witness, then, do you want to
18 call Mr. Buck or Mr. Feingold?

19 MR. PENDERGAST: I think prudence would
20 suggest we call Mr. Feingold.

21 JUDGE WOODRUFF: That's fine.
22 Mr. Feingold, if you'll please raise your right hand, I'll
23 swear you in.

24 (Witness sworn.)

25 JUDGE WOODRUFF: You may inquire.

1 RUSSELL A. FEINGOLD testified as follows:

2 DIRECT EXAMINATION BY MR. ZUCKER:

3 Q. Good morning, Mr. Feingold.

4 A. Good morning, Mr. Zucker.

5 Q. Can you state and spell your last name for
6 the record.

7 A. Russell A. Feingold, F-e-i-n-g-o-l-d.

8 Q. And who are you testifying on behalf of in
9 this case?

10 A. I'm testifying on behalf of Laclede Gas
11 Company.

12 Q. And who do you work for?

13 A. I'm employed by Black & Veatch Corporation.

14 Q. And are you the same Russell A. Feingold
15 who filed surrebuttal testimony in this case on
16 November 20th, 2008?

17 A. I am.

18 Q. And do you have any changes to that
19 testimony?

20 A. No, I do not.

21 Q. If I were to ask you all of the same
22 questions contained in that testimony today, would your
23 answers be the same?

24 A. They would be.

25 MR. ZUCKER: I move to enter Exhibit 5 into

1 evidence.

2 JUDGE WOODRUFF: Exhibit 5 has been
3 offered. Any objection to its receipt?

4 (No response.)

5 JUDGE WOODRUFF: Hearing none, it will be
6 received.

7 (EXHIBIT NO. 5 WAS RECEIVED INTO EVIDENCE.)

8 MR. ZUCKER: Thank you, your Honor. Pass
9 the witness.

10 JUDGE WOODRUFF: For cross-examination,
11 beginning with Staff.

12 MS. SHEMWELL: Thank you, Judge.

13 CROSS-EXAMINATION BY MS. SHEMWELL:

14 Q. Good morning, Mr. Feingold.

15 A. Good morning.

16 Q. I'm Lera Shemwell. I represent the Staff
17 in this case.

18 Mr. Feingold, how much have you been paid
19 by Laclede to appear here today?

20 A. I don't recall the exact amount. When we
21 were -- when Black & Veatch was retained by Laclede, I
22 believe we had an arrangement which indicated an hourly
23 rate for my services on a time and materials basis. I
24 would have to check my accounting records and billing
25 records to see what has been charged to date.

1 Q. What is your hourly rate?

2 A. My hourly rate is \$400 per hour.

3 Q. How many hours have you put in so far?

4 Give us your best estimate.

5 A. I would say probably anywhere from 75 to
6 100 hours at this point.

7 Q. Give us your best estimate of what the
8 total will be.

9 A. I don't believe that the total is going to
10 be much more than that, unless there are extenuating
11 circumstances associated with the case that I'm not aware
12 of at this point.

13 Q. When you say much more than that, exactly
14 what are you referring to?

15 A. The 75 to 100 hours times 400.

16 Q. Mr. Feingold, you're not an attorney?

17 A. No, I'm not.

18 Q. So you cannot give this Commission legal
19 advice as to whether or not it is lawful for the
20 Commission to grant Laclede's request?

21 A. No, I cannot.

22 MS. SHEMWELL: That's all I have. Thank
23 you, Judge.

24 JUDGE WOODRUFF: Then for Public Counsel?

25 CROSS-EXAMINATION BY MR. POSTON:

1 Q. Good morning, Mr. Feingold.

2 A. Good morning, Mr. Poston.

3 Q. Are you a certified public accountant?

4 A. No, I am not.

5 Q. I just have a few questions here. Is gas
6 cost expense a component of the overall revenue
7 requirement for determining tariff rates for gas sales to
8 retail customers in Missouri?

9 A. Based on the terms that you used, I would
10 answer it by saying that gas cost expense is not part of
11 the revenue requirement that's associated with a base rate
12 case, but it is a part of the total revenues that the
13 Commission allows the utility to recover.

14 Q. Is bad debt expense a component of the
15 overall revenue requirement for determining tariff rates
16 for gas sales to retail customers in Missouri?

17 A. It is.

18 Q. Is gross receipts tax a component of the
19 overall revenue requirement for determining tariff rates
20 for gas sales to retail customers in Missouri?

21 A. I believe it is.

22 MR. POSTON: That's all I have. Thank you.

23 JUDGE WOODRUFF: We'll come up for
24 questions from the Bench. Commissioner Clayton?

25 COMMISSIONER CLAYTON: No questions. Thank

1 you.

2 JUDGE WOODRUFF: Commissioner Jarrett?

3 QUESTIONS BY COMMISSIONER JARRETT:

4 Q. Good morning, Mr. Feingold.

5 A. Good morning, Commissioner.

6 Q. I have just a couple of questions about
7 your Schedule RAF-3. I guess that's in your surrebuttal.

8 A. I have it.

9 Q. And that's the details of approved bad debt
10 ratemaking mechanisms for gas utilities. In the third
11 column from the left entitled Ratemaking Treatment of Bad
12 Debt Writeoffs, you have various -- you've listed various
13 mechanisms for the recovery of bad debt; is that correct?

14 A. Yes.

15 Q. And some of them are labeled purchased gas
16 adjustment, but some of them are labeled other things; is
17 that correct?

18 A. That is correct.

19 Q. And if my math is correct, I count five
20 states that allow a purchased gas adjustment clause,
21 Kansas, North Carolina, South Carolina, Tennessee and
22 Texas. Would that be accurate?

23 A. I would agree with that, but I would say
24 that we have to be careful with the nomenclature here.

25 Q. Okay.

1 A. Because while the states that you indicated
2 are, in fact, states where a PGA or purchased gas
3 adjustment reflects that cost recovery, there are other
4 states that use a different acronym or a different term
5 for essentially the same concept. So, for example, in
6 Indiana they use the phrase gas cost adjustment, but in
7 essence, from a conceptual point of view, it's the same as
8 including it in the PGA.

9 Q. Okay. Point taken. Thank you. Did you
10 review -- when you were doing -- setting up this schedule,
11 did you review the various laws and statutes in each of
12 the states to determine whether Missouri's laws and
13 statutes and regulations are similar to those states that
14 allow this to be -- the bad debt to be included in a
15 PGA-type clause?

16 A. No, I didn't make that legal assessment. I
17 was looking at it more from a ratemaking policy and
18 ratemaking concept perspective.

19 COMMISSIONER JARRETT: Okay. Well, thank
20 you, Mr. Feingold. Appreciate your answers.

21 JUDGE WOODRUFF: Commissioner Gunn?
22 QUESTIONS BY COMMISSIONER GUNN:

23 Q. Just for the record, you're not the junior
24 senator from Wisconsin?

25 A. No, but I get great tables in restaurants

1 in Madison, Wisconsin until I show up.

2 Q. On page 11 of your surrebuttal, you cite a
3 survey done by City Group Research starting on line 10.

4 A. Yes, I see that.

5 Q. Do you believe that study is still valid
6 today?

7 A. I believe that the study and the issue is
8 still valid today. In fact, I would say that based on
9 what has happened over the last three years since the
10 study was done, I have seen more commissions accept
11 recovery of bad debt expense in a manner other than base
12 rate case treatment.

13 Q. Okay. But let me go back to my question.
14 Let me follow up with a question. Is there an updated
15 study or is this 2005 study the most updated study you've
16 seen regarding this?

17 A. This is the most recent study I have seen.
18 I don't know with certainty whether there's been an update
19 by this group or another group.

20 Q. And how many states is it again that have
21 used this PGA mechanism to allow recovery of bad debt?

22 A. Well, there were 24 states plus the
23 District of Columbia that have either relied upon a PGA
24 approach as the company has proposed or other
25 non-base-rate treatment of this cost.

1 Q. I'm just concerned about those states that
2 have taken the PGA approach.

3 A. Well, if we look at Schedule 3, RAF-3, if
4 we go down the list here, I can tell you that Delaware,
5 District of Columbia, Indiana, Kansas, Maine, Maryland,
6 Massachusetts, Nebraska, New Hampshire, New York, North
7 Carolina, Rhode Island, South Carolina, Tennessee, Texas,
8 Utah, Virginia and Wyoming use the PGA mechanism as a
9 means to recover this cost item.

10 Q. Do you know how many of those states have
11 the same regulatory scheme that Missouri does?

12 A. Commissioner, by regulatory scheme --

13 Q. Regulated. I mean -- never mind. I'm
14 thinking of something else.

15 So I counted 18. So 18 out of that 24 use
16 the PGA?

17 A. Correct.

18 Q. Give or take?

19 A. Yes.

20 COMMISSIONER GUNN: That's all the
21 questions I have. Thank you.

22 JUDGE WOODRUFF: All right. Recross based
23 on questions from the Bench, beginning with Staff?

24 MS. SHEMWELL: Thank you, Judge.

25 RE CROSS-EXAMINATION BY MS. SHEMWELL:

1 Q. Mr. Feingold, are you sure about Wyoming?

2 A. Yes, I am.

3 MS. SHEMWELL: If I may approach, Judge?

4 JUDGE WOODRUFF: You may.

5 BY MS. SHEMWELL:

6 Q. Mr. Feingold, I'm handing you a copy of
7 this Wyoming case before the Public Service Commission of
8 Wyoming, and indicating to you that this was printed from
9 the Wyoming website. Will you accept that?

10 A. I will.

11 MR. ZUCKER: Could other counsel see that
12 case?

13 MS. SHEMWELL: (Indicating.)

14 BY MS. SHEMWELL:

15 Q. Mr. Feingold, would you please read
16 paragraph 50 into the record, please.

17 A. A commission majority finds OCA has
18 supported its position as reflected in Ms. Parish's
19 testimony against the inclusion and recovery of bad debt
20 expense through the CBA mechanism.

21 Continue?

22 Q. Please.

23 A. And there are transcript references in
24 parenthetical.

25 OCA argues bad debt expense should be

1 considered and recovered as an operating expense within
2 the context of a general rate case supported by the
3 utility. A commission majority finds the practice of
4 including and automatically covering all or a portion of
5 bad debt through the CBA mechanism shifts more of the risk
6 of bad debt expense recovery from shareholders to
7 customers and may provide a disincentive for a utility to
8 actively enforce its bad debt collection practices. A
9 commission majority finds the examination and provision
10 for recovery of bad debt expenses more appropriately
11 addressed within the context of the general rate case
12 process as has been the historical practice.

13 Q. Thank you. Let me ask you to continue in
14 that paragraph. I'm sorry. Continue directly on.

15 A. Further, a majority of the commission
16 finds, consistent with its findings in the Wyoming Gas
17 case in Docket No. 30009-41-GP-05, that bad debt expense
18 should be categorized as a, quote, cost of doing business,
19 close quote, rather than a, quote, commodity or commodity
20 related cost, close quote, as referenced in the recently
21 revised commission rule Sections 249 and 250 which became
22 effective on January 31st, 2006, recoverable through the
23 pass on or CBA mechanisms.

24 Q. Thank you, sir.

25 Mr. Feingold, you discussed with

1 Commissioner Jarrett and indicated that you had not read
2 Missouri case law, is that correct, related to the PGA?

3 A. No, I don't think that was exactly what I
4 said. I think I indicated that my information in
5 Schedule RAF-3 was not meant to be a legal review of the
6 various statutes and laws among the states dealing with
7 the issue of PGA.

8 MS. SHEMWELL: That's all I have. Thank
9 you.

10 JUDGE WOODRUFF: For Public Counsel?

11 MR. POSTON: Thank you.

12 RECROSS-EXAMINATION BY MR. POSTON:

13 Q. All these other states that are being
14 discussed, do the commissions of those states and the
15 companies in those states, do they operate under the
16 provisions of Missouri statute 392 -- 393.270?

17 A. You're asking me if states other than
18 Missouri operate a under Missouri law?

19 Q. Yes.

20 A. I wouldn't think so.

21 Q. And so those commissions and companies
22 would not be subject to opinions of the Missouri Supreme
23 Court; isn't that true?

24 A. I'm not a lawyer, so I can't comment.

25 MR. POSTON: Thank you. That's all.

1 JUDGE WOODRUFF: Any redirect?

2 MR. ZUCKER: One moment, your Honor. Is it
3 okay if I ask from here?

4 JUDGE WOODRUFF: That's fine.

5 REDIRECT EXAMINATION BY MR. ZUCKER:

6 Q. Mr. Feingold, Ms. Shemwell asked you about
7 a Wyoming decision on gas cost portion of bad debt
8 expense. Do you recall that?

9 A. I do.

10 Q. And in that decision, it appeared that the
11 Wyoming Commission denied the company's request to
12 effectively place the gas cost portion of bad debt expense
13 in their PGA; is that correct?

14 A. I would agree with that.

15 Q. Had the Wyoming Commission made a different
16 decision before that?

17 A. Yes, they had.

18 Q. Can you discuss that?

19 A. Yes. Back in 2002, Westar Gas Company, the
20 company in question, had requested approval for moving the
21 commodity portion of its bad debt expense from the non-gas
22 costs or the base rates and place it in the commodity
23 portion of rates which effectively would move it into the
24 PGA. And the commission in this order accepted that
25 change and approved that approach.

1 I might add that Schedule RAF-3 was
2 compiled, as I indicated in my testimony, through a
3 combination of American Gas Association study and work by
4 Black & Veatch. And, in fact, in the American Gas
5 Association study on this issue, they quoted this Wyoming
6 order in 2002 indicating this approval.

7 Q. And on the 2002 order, how many
8 Commissioners are listed?

9 A. Three.

10 Q. And can you read their last names for us?

11 A. Ellen Becker, Fortney and Lee.

12 Q. Okay. And in the 2007 order that
13 Ms. Shemwell showed you, how many Commissioners are listed
14 on the signature page of the order?

15 A. Two.

16 Q. And can you read me their names?

17 MS. SHEMWELL: Object, relevance. This
18 doesn't seem to be relevant.

19 JUDGE WOODRUFF: What's the relevance?

20 MS. SHEMWELL: The order is what it is.

21 MR. ZUCKER: It is what it is. I just
22 wanted to show that these are different commissioners with
23 a different level of voting.

24 JUDGE WOODRUFF: I'll allow the question.

25 MS. SHEMWELL: The order is the order,

1 Judge.

2 JUDGE WOODRUFF: I'll overrule the

3 objection. You can answer the question.

4 THE WITNESS: Lewis and Burns.

5 BY MR. ZUCKER:

6 Q. So there's only two commissioners on that?

7 A. That is correct.

8 MR. ZUCKER: No further questions.

9 JUDGE WOODRUFF: All right. Mr. Feingold,

10 you can step down.

11 THE WITNESS: Thank you.

12 JUDGE WOODRUFF: You are excused. You can

13 go catch your plane.

14 THE WITNESS: Thank you.

15 JUDGE WOODRUFF: Call Mr. Buck, then.

16 MR. PENDERGAST: Thank you. We would call

17 Glenn Buck to the stand.

18 JUDGE WOODRUFF: Good morning, Mr. Buck.

19 Would you please raise your right hand.

20 (Witness sworn.)

21 JUDGE WOODRUFF: You may inquire.

22 MR. PENDERGAST: Thank you, your Honor.

23 GLENN W. BUCK testified as follows:

24 DIRECT EXAMINATION BY MR. PENDERGAST:

25 Q. Mr. Buck, would you please state your name

1 and business address for the record.

2 A. My name is Glenn W. Buck, B-u-c-k. My
3 business address is 720 Olive Street, St. Louis, Missouri
4 63101.

5 Q. Are you the same Glenn Buck who's
6 previously caused to be filed in this proceeding direct
7 testimony that's been premarked as Exhibit 3?

8 A. That's correct.

9 Q. And are you also the same Glenn Buck who
10 has filed surrebuttal testimony in this case that has been
11 premarked as Exhibit 4?

12 A. That's correct.

13 Q. Do you have any changes to make to your
14 direct or surrebuttal testimony?

15 A. I do not.

16 Q. If I were to ask you the same questions
17 today as appear in your direct and surrebuttal testimony,
18 would your answers be the same?

19 A. Yes, they would.

20 Q. Are those answers true and correct to the
21 best of your knowledge and belief?

22 A. Yes, sir.

23 MR. PENDERGAST: With that, I would tender
24 Mr. Buck for cross-examination and request that Exhibits 3
25 and 4 be admitted into evidence.

1 JUDGE WOODRUFF: 3 and 4 have been offered.

2 Any objection to their receipt?

3 (No response.)

4 JUDGE WOODRUFF: Hearing none, they will be
5 received.

6 (EXHIBIT NOS. 3 AND 4 WERE RECEIVED INTO
7 EVIDENCE.)

8 JUDGE WOODRUFF: And for cross-examination,
9 beginning with Staff?

10 MS. SHEMWELL: Thank, Judge.

11 CROSS-EXAMINATION BY MS. SHEMWELL:

12 Q. Good morning, Mr. Buck.

13 A. Good morning, Ms. Shemwell.

14 Q. I don't have to introduce myself then.

15 A. Known you for years.

16 Q. Mr. Buck, you are not a lawyer?

17 A. No, I am not.

18 Q. So you cannot give legal advice to the
19 Commission as to whether or not this tariff proposal is
20 lawful?

21 A. No, ma'am.

22 Q. You're not a CPA?

23 A. No, ma'am.

24 Q. How much time have you spent in the credit
25 and collections department at Laclede?

1 A. Within the department itself?

2 Q. Yes.

3 A. None.

4 Q. Are you familiar with Laclede's tariffs?

5 A. Yes, ma'am.

6 Q. Are you a certified financial analyst?

7 A. A registered analyst, no, I'm not.

8 Q. Are you a certified risk manager?

9 A. No.

10 Q. Mr. Buck, I'm going to hand you the

11 Stipulation & Agreement in the last rate case. Are you

12 familiar with the Stipulation & Agreement in the last rate

13 case?

14 A. Yes, I am.

15 Q. I do not have all of the attachments on

16 here, Mr. Buck, but I would note that the Commission has

17 already taken notice of its Order in this case, its Report

18 and Order in this case, which included and attached the

19 Unanimous Stipulation & Agreement.

20 A. Yes. There was approximately, I believe,

21 like six or seven attachments, I believe.

22 Q. I have those attachments. Would you like

23 to --

24 A. I don't need them. I think there was

25 probably about six, I believe.

1 Q. Mr. Buck, if you would turn to page 2 --

2 I'm sorry, page 3. Do you see the section entitled PGA?

3 A. Yes, I do.

4 Q. Is there any agreement in this section that
5 bad debt will be recovered through the PGA? Do any of
6 these paragraphs include any agreement that any bad debt
7 will be recovered through the PGA?

8 A. No. It appears what's covered is
9 reduction --

10 Q. That's fine. Thank you.

11 A. Okay. No, there's not.

12 Q. On page 4 of tariff modifications, at the
13 very bottom of the actual modifications, over on page 5
14 and 6, do any of -- did Laclede propose to modify its
15 tariff to include bad debt in the PGA when it filed this
16 rate case? Was that part of the original proposal?

17 A. In a fashion different than what was filed
18 in this tariff case, yes.

19 Q. In the agreements on tariff modifications,
20 is there any agreement that bad debt, that the tariffs
21 will be modified to include bad debt through the PGA?

22 A. In the PGA, no.

23 Q. On page 6 you'll see pensions and other
24 post-employment benefits. Do you see that?

25 A. Yes, ma'am.

1 Q. And in paragraph 5, specific dollar amounts
2 of allowance are included, correct, 4,821,245?

3 A. That's actually two separate amounts,
4 \$942,000 related for an ERISA minimum contribution, and
5 3.878 million for amortization of existing --

6 Q. And that totals 4,800,000?

7 A. Yeah, but there are two figures on the
8 page.

9 Q. Thank you. Mr. Buck, would you turn to
10 page 25.

11 A. The signature page?

12 Q. Yes, sir.

13 A. Yes, I'm there.

14 Q. Do you see my electronic signature there?

15 A. Yes, ma'am.

16 Q. And if I indicate to you that when I
17 entered that electronic signature on behalf of Staff, that
18 Staff did not agree to any particular amount of bad debt
19 in Laclede's case, will you accept that?

20 A. Could you repeat the question, please?

21 Q. Will you accept that when I signed this on
22 behalf of Staff, that signature did not indicate or I was
23 not indicating that Staff agreed to any specific level of
24 bad debt recovery in the rate increase?

25 MR. PENDERGAST: Your Honor, I think I'm

1 going to object. It calls for not only a legal conclusion
2 but speculation as to what Ms. Shemwell had in mind when
3 she signed that and what her intentions were. I think
4 it's inappropriate to ask this witness those questions.

5 JUDGE WOODRUFF: I'll sustain the
6 objection.

7 BY MS. SHEMWELL:

8 Q. Mr. Buck, did the parties agree to any
9 specific level of bad debt and include that in the
10 Unanimous Stipulation & Agreement?

11 A. Set out a specific number, no, ma'am.

12 Q. Mr. Buck, on page 4 of your testimony --

13 A. Direct?

14 Q. Yes.

15 A. Okay. I'm there.

16 Q. At about page 17 you indicate that --

17 A. Page 17 or line 17?

18 Q. I'm sorry. Line 17.

19 A. Thank you.

20 Q. Am I correct that you are indicating that
21 bad debt is largely beyond the control of utility
22 management?

23 A. Well, I think that's more than just natural
24 gas cost. I think it's also addressing -- the lines that
25 we discuss right afterwards --

1 Q. My question was natural gas costs. Are you
2 including those in that?

3 A. Well, that specific sentence was speaking
4 to more than just natural gas costs.

5 Q. Are you --

6 A. Natural gas costs are part of it, but it's
7 more than just that.

8 Q. Is it your testimony that natural gas costs
9 are largely beyond the control of utility management?

10 A. Along with the other costs, yes.

11 Q. Laclede has authority to do credit checks
12 before it connects customers, right, in its tariffs?

13 A. Yes.

14 Q. In its tariffs, Laclede has the authority
15 to require deposits?

16 A. Not prepaid deposits, no.

17 Q. My question was deposits.

18 A. And my answer is prepaid ones, no.

19 Q. But you do have the authority to require
20 customers to pay deposits?

21 A. Depends on the time of the year. Like, for
22 example, I don't believe --

23 Q. Let's say during the non-cold-weather-rule
24 period, then.

25 A. Okay. During the non-cold-weather-rule

1 period, we can bill customers deposit over a period up to
2 six months.

3 Q. And Laclede does that?

4 A. For customers within certain circumstances,
5 yes.

6 Q. Laclede has the ability to track customers
7 through the customer Social Security number?

8 A. We have that service, yes.

9 Q. Laclede in its last rate case, there -- you
10 heard Mr. Cline testify that there was a change to the
11 hours of collection, that it allowed Laclede an additional
12 three hours to collect bad debt. Is that your
13 recollection?

14 A. It seems to me that the hours were changed
15 from seven in the morning 'til seven in the evening, as I
16 recall.

17 MS. SHEMWELL: Judge, if I can approach?

18 JUDGE WOODRUFF: You may.

19 MS. SHEMWELL: Thank you.

20 BY MS. SHEMWELL:

21 Q. Mr. Buck, do you recognize this as a letter
22 from Mr. Neises to the Commission, his cover letter to the
23 Commission for this particular tariff filing in this case?

24 A. Frankly, I don't remember it right offhand,
25 but I have no reason to believe that's not accurate.

1 Q. Do you have a copy of that with you?

2 A. No, I do not.

3 Q. I'm going to read this sentence to you and
4 ask if I have read it correctly. Since 1962, the PGA --
5 would you agree with me he's referring to the purchased
6 gas adjustment?

7 A. Yes, I would.

8 Q. -- has been used by Laclede to pass through
9 both increases and decreases in the cost the company
10 incurs to acquire the gas supplies and transportation
11 services needed to serve its customers. Did I read that
12 correctly?

13 A. Yes, you did.

14 Q. Do you agree with that statement, Mr. Buck?

15 A. I agree that you read it correctly. Could
16 you read it to me again so I can determine if I actually
17 agree with that or not? I have no reason to believe that
18 I don't, but I --

19 Q. Are you suggesting you might not agree with
20 Mr. Neises?

21 A. No. I'm suggesting I really need to read
22 the questions or read the -- yes. That was the year I was
23 born.

24 Q. Thank you, Mr. Buck. Is the cost of
25 commodity a cost to acquire natural gas for customers?

1 A. The cost of the commodity is a gas cost.

2 It's not really a cost to acquire.

3 Q. It's not a cost to bring the natural gas to
4 the city gate, cost of the gas itself?

5 A. Okay. Maybe I misheard your question. Ask
6 it again, please?

7 MS. SHEMWELL: Could the court reporter
8 read it back?

9 THE REPORTER: "Question: Is the cost of
10 commodity a cost to acquire natural gas for customers?"

11 THE WITNESS: And I think my answer is the
12 same. It is a cost of gas. It is not -- the cost to
13 acquire to me implies the cost of paying somebody to sit
14 there and go out and procure it for you. That is how I
15 see acquire. So I guess I'm not trying to pars your
16 words, but think -- I would agree it's a gas cost, but I'm
17 sure I would not agree that it's a cost to acquire.

18 BY MS. SHEMWELL:

19 Q. You're not saying that Laclede pays a
20 producer to -- or a marketer to acquire the natural gas it
21 delivers to its customers?

22 A. I think that's a different question. I
23 would agree with that.

24 Q. Thank you. Mr. Buck, are you familiar with
25 Case No. GU-2007-0138?

1 A. Is that the Cold Weather Rule case?

2 Q. I'll read the caption to you. In the
3 matter of the application of Laclede Gas Company for an
4 Accounting Authority Order authorizing the company to
5 defer for future recovery the cost of complying with the
6 permanent amendment to the Commission's Cold Weather Rule.

7 A. Yes, I am familiar with that.

8 Q. Can you tell us how much the Commission
9 determined to be Laclede's cost of compliance with the
10 Cold Weather Rule?

11 A. Off the top of my head, I'd say it was
12 about \$2.493 million, give or take.

13 MS. SHEMWELL: If I may approach, Judge?

14 JUDGE WOODRUFF: Yes.

15 BY MS. SHEMWELL:

16 Q. I'll accept your estimate, Mr. Buck, and
17 just --

18 A. It's pretty close, right?

19 Q. -- note for the record that it is on page 6
20 of the Commission's Order, right?

21 A. And if you added all those pieces together,
22 I think it would add up to about that amount.

23 Q. Okay. Thank you.

24 A. Okay.

25 Q. Do you define unpaid arrearages as bad

1 debt?

2 A. They have not gone bad at that point
3 according to the way our writeoffs work.

4 Q. When does a debt go bad?

5 A. Okay. Generally, and I think Mike kind of
6 covered this, if we bill a customer and they don't pay us,
7 the next month they go final, quote/unquote. And during
8 that period of time, subsequent to the time they go final,
9 we go through various and sundry types of collection
10 activities. We sit there and personally contact the
11 customer. We'll sit there and use --

12 Q. I just asked when do they go bad?

13 A. I know, but I'm just saying there's various
14 stages here, because they can go bad theoretically -- we
15 don't write them off until approximately six months after
16 they've gone final. Maybe that's what your question is
17 getting to.

18 Q. It is. Thank you.

19 A. Okay. Thank you.

20 Q. May -- a bad debt that's written off can
21 come back on the customer's bill; is that right?

22 A. That would be known as a reinstatement.

23 MS. SHEMWELL: One moment, please. May I
24 just have general permission to approach the witness as
25 necessary, Judge?

1 JUDGE WOODRUFF: You can, but I will warn
2 you that they're having a hard time hearing you when
3 you're away from the microphone, so you might want to move
4 the witness' microphone in between you.

5 BY MS. SHEMWELL:

6 Q. Mr. Buck, this is Laclede's response to DR
7 27. Do you recognize this? Have you read Laclede's
8 responses to Staff DRs?

9 A. For the most part, yes, but let me review
10 if I could.

11 Q. Certainly.

12 A. Okay.

13 Q. Mr. Buck, I'm going to read you part of C,
14 if you'll follow along, and it asks, please state whether
15 the following statement is an accurate representation of
16 the company's practices with regard to collection of
17 accounts. And then it says, if not entirely accurate,
18 please provide clarifications. If and when a former
19 ratepayer with outstanding debt applies for new service or
20 is found with an active account, the LDC may have an
21 opportunity to recover the balance owed by transferring
22 the balance to the active account.

23 Do you agree that I've read that correctly?

24 A. Yes, you have.

25 Q. These balance transfers most often consist

1 of residential or small commercial written off accounts.
2 Company procedures generally dictate how balance transfers
3 are handled, but utilities have long considered the
4 process of transferring old debt to active accounts a very
5 successful and effective collection process.

6 Have I read that correctly?

7 A. Yes, you have.

8 Q. And then Laclede responds, this statement
9 is accurate as it applies to your collection methods and
10 procedures regarding the transfer of balances from
11 inactive accounts to active accounts.

12 A. That's correct.

13 Q. Thank you, sir.

14 Mr. Buck, can you indicate to me, are you
15 in a position to indicate to me which of Laclede's costs
16 have either increased or decreased in the last year?

17 A. Generally, yes.

18 Q. Has payroll increased or decreased?

19 A. I believe it's increased -- by year over
20 year, are you talking about fiscal years?

21 Q. Yes, sir.

22 A. Maybe I should clarify.

23 Q. Yes, sir.

24 A. Okay. I believe payroll has probably gone
25 up by around --

1 Q. You said probably. Please don't speculate.

2 A. If you don't want me to speculate, I don't
3 have the exact number sitting in front of me.

4 Q. What about property insurance, has it
5 increased or decreased?

6 A. It's gone down.

7 Q. Workers' compensation costs, have they
8 increased or decreased?

9 A. We're self-insured. I'm not really aware
10 of that one.

11 Q. Legal expenses, have they increased or
12 decreased?

13 A. Year over year, they've gone up.

14 Q. Have they increased in the last fiscal
15 year, I think was what we were discussing?

16 A. Yes, year over year they've gone up.

17 Q. Has the cost of natural gas to Laclede
18 increased or decreased in the past six months? Let me
19 rephrase.

20 Has the price that Laclede pays its
21 wholesale suppliers increased or decreased in the past six
22 months?

23 A. Exclusive of hedging?

24 Q. Yes.

25 A. Generally, the price has gone down.

1 Q. Has the cost of operating vehicles and
2 specifically the cost of gasoline gone up or down in the
3 past six months?

4 A. I assume you're talking at that point
5 rolling six-month periods?

6 Q. The last six months, yes.

7 A. Well, you've got to have six months as
8 compared to what, I guess. I mean, so six months prior to
9 six months ago versus the most recent six months?

10 Q. Let's say the most recent six months, that
11 will be fine.

12 A. Okay. Generally -- I'm circling back
13 because I'm trying to think whether we have any hedges in
14 place, that's all. To Laclede Gas or Laclede Group?

15 Q. Laclede Gas Company. It's a regulated
16 entity, right?

17 A. Laclede Group the costs have gone down.
18 Laclede Gas, they've probably gone down also.

19 Q. Have you yourself per-- you yourself have
20 not performed any audits of Laclede's bad debt expense?
21 Let me say in preparation -- limit the time to in
22 preparation for this case.

23 A. No. I think our internal audit staff has,
24 but not me personally.

25 MS. SHEMWELL: Thank you, sir. That's all

1 I have. Thank you.

2 JUDGE WOODRUFF: Cross for Public Counsel?

3 MR. POSTON: Yes. Thank you.

4 CROSS-EXAMINATION BY MR. POSTON:

5 Q. Good morning, Mr. Buck.

6 A. Good morning, Mr. Poston.

7 Q. Do you believe there's a linear
8 relationship between changes in revenues and the net
9 writeoffs related to the period the revenues were earned?

10 A. I believe there is a direct correlation but
11 not linear.

12 Q. As part of its budgeting process, does
13 Laclede forecast revenues?

14 A. Yes, we do.

15 Q. Does Laclede have control over state and
16 federal income tax rates?

17 A. No.

18 Q. Does Laclede have control over workers'
19 compensation insurance rates?

20 A. Again, we're self-insured, so I think that
21 question may not be appropriate for us.

22 Q. Does Laclede have control over real estate
23 and personal property tax rates?

24 A. Rates or how much we pay? There is a
25 difference, because we do have some control over the

1 amount we pay.

2 Q. The rates are established by another
3 entity?

4 A. Rates are established by statute. The
5 assessment values are not, though.

6 Q. And these things that I identified, income
7 tax, real estate tax, those are recovered in base rates;
8 is that correct?

9 A. Income taxes, real estate taxes and
10 workers' compensation, right? I just want to make sure
11 I'm covering all three.

12 Q. Right.

13 A. Yes, they're in base rates.

14 Q. Are gross receipts taxes, is that recovered
15 in base rates?

16 A. I believe they're recovered through a tax
17 rider. I'm not really sure that I'd say that's base
18 rates. For example, if you were to look at our tariff,
19 and I don't have our tariffs with me, there's actually a
20 separate clause built into each of the rate sheets that
21 says that gross receipts tax will be passed on. So if
22 that's considered base revenues or just a tariff adder I
23 guess is really a question I'm not prepared to answer.

24 MR. POSTON: I need to approach the
25 witness.

1 JUDGE WOODRUFF: Okay.

2 BY MR. POSTON:

3 Q. I just handed you a document. Would you
4 agree with me that this is a filing before the Public
5 Service Commission in Case GX-2006-0434?

6 A. That's correct.

7 Q. And that case is captioned in the matter of
8 proposed amendment to Commission Rule 4 Csr 240-13.055?

9 A. Yes. I believe this was the Cold Weather
10 Rule case. Is that correct?

11 Q. And what I've handed you, this is the
12 comments of Missouri utilities; is that correct?

13 A. That's correct.

14 Q. And the utilities that joined in these
15 comments were Laclede, Atmos Energy Corporation and
16 Missouri Gas Energy; is that correct?

17 A. That's correct.

18 Q. And the signatures on the end of -- or the
19 back of these comments, who signed for Laclede Gas
20 Company?

21 A. Mr. Pendergast there.

22 Q. And I've tabbed a page. I believe it's
23 page 9.

24 A. You've got a tab on 11.

25 Q. Okay. Let me -- there should be --

1 A. Page 9 has a star at the bottom of it.

2 Q. Right.

3 A. Is that the one I'm looking for?

4 Q. There's a paragraph that's at the bottom of
5 page 9. I would like you to read, if you could, that
6 paragraph into the record, starting at the bottom of page
7 9, ending -- I believe I've put stars on either end of
8 them, either end of the paragraph for you. If you could
9 just read that paragraph, please.

10 A. Could you give one moment to read the
11 document, please?

12 Q. Sure.

13 A. Okay.

14 Q. So you've reviewed the document. Would you
15 agree these are the comments of Laclede Gas Company and
16 Missouri Gas Energy and Atmos Energy?

17 A. I have no reason to doubt otherwise.

18 Q. Okay. If you could please read that
19 paragraph in.

20 A. Okay. The proposed amendment in the
21 present case has similar problems. The Missouri
22 utilities' present rates -- present rates are based in
23 part upon the collection policies currently found within
24 the existing Commission rules and the Missouri utilities'
25 tariffs. The proposed amendment serves to reduce those

1 revenues by requiring lesser payment of past due amounts
2 in order to reconnect or maintain utility service for
3 those customers who previously failed to follow through on
4 payment plans under existing rules. Also, by requiring
5 the reconnection or preventing the disconnection of
6 customers that would otherwise not be -- would otherwise
7 not be on the system, the proposed amendment requires the
8 Missouri utilities to incur greater bad debts than
9 otherwise would exist and thereby incur new expenses. As
10 a result, the proposed amendment creates an
11 unconstitutional taking of revenues without due process as
12 revenue reduction imposed by the Commission without
13 considering all relevant factors, unquote, as the
14 Commission has not found nor does it have any basis to
15 find that the Missouri utilities' rates are unreasonable
16 or unjust.

17 MR. POSTON: Thank you. That's all I have.

18 JUDGE WOODRUFF: All right. Questions from
19 the Bench, then. Commissioner Jarrett?

20 QUESTIONS BY COMMISSIONER JARRETT:

21 Q. Good morning, sir. How are you?

22 A. Good morning, sir.

23 Q. Still morning. Almost -- it's almost noon.

24 Just a couple of questions. Are you familiar with the way
25 the bad debt expense is accounted for on Laclede's books?

1 A. Sure. It's actually -- bad debt expenses
2 accounted for on the books are actually based on a
3 provision, which is separate from the writeoffs that we've
4 been talking about all throughout this case. Every month
5 we sit there and look at our revenues, and based on what
6 those revenues are and based on historical view of what
7 our arrearage patterns have been, what our collection
8 percentage have been, we'll sit there and do an accrual.

9 So, for example, in the month of December
10 where you normally have usually high revenues compared to
11 the rest of the year, you'll normally have a larger bad
12 debt accrual that month than you would in, for example,
13 July when revenues are a lot lower.

14 So basically what we do is we'll take our
15 revenues and multiply them times a factor, and we'll
16 provide for that on our books. And then so the offset to
17 it is you book the expense to a bad debt expense account,
18 with the offset being to a bad debt reserve account. And
19 then as those customers actually write off, the writeoffs
20 go against the bad debt reserve.

21 Q. Okay. So what you're saying is you use a
22 formula to figure out what the bad debt is rather than
23 going through each individual customer account and
24 actually finding the exact amount?

25 A. Sure. And there's -- there's review of

1 that, for example, at the end of every year. In fact,
2 actually auditors, external auditors review our estimating
3 factors and how we come up with those provisions
4 themselves. And there are parameters for based on how
5 long your average receivables are, the receivable amounts
6 are, how much you have in arrears over a period of time to
7 determine what your appropriate reserve is on your books
8 in comparison to what your expected writeoffs will be.

9 Q. Right. Are you familiar with Mr. Solt's
10 testimony in this case?

11 A. Yes, I am.

12 Q. He testifies that it would not be possible
13 for the auditors to accurately, I guess, figure out the
14 exact gas costs versus margin costs, so there would be no
15 way to accurately audit this through a PGA mechanism.
16 First of all, do you agree with that?

17 A. To the last penny, yes, I would agree with
18 that. It would be impossible to do. The fact is, is that
19 the proposal we're making right now is really probably
20 more accurate than just embedding in base rates. In this
21 case, for any change from what was set in base rates we're
22 probably going to be about 75 percent more accurate.

23 That's not going to be to the penny. I
24 think we've acknowledged that. It is going to be based on
25 an estimate. But an estimate with approximate correctness

1 is probably better than absolutely wrong.

2 COMMISSIONER JARRETT: Okay. Thank you. I
3 have no further questions. Appreciate your testimony.

4 THE WITNESS: Thank you, sir.

5 JUDGE WOODRUFF: Commissioner Gunn?

6 QUESTIONS BY COMMISSIONER GUNN:

7 Q. Thanks. I just have a couple quick
8 questions. If you could go to page 5 of your direct
9 testimony.

10 A. Yes, sir.

11 Q. You have a table there, chart of the
12 historic breakdown of your writeoffs, and I just want to
13 get a sense of how you think that logistically this would
14 work. So I'm not asking you for specifics, but looking at
15 these years, let's assume that the PGA mechanism is in
16 place as requested by Laclede Gas using -- using these
17 numbers.

18 A. Okay.

19 Q. Would you anticipate -- and again, not
20 specific. Would you anticipate that in between 2001 and
21 2002 there would be a PGA adjustment upward for the
22 ratepayer?

23 A. Well, it would depend on how much was
24 embedded in base rates. All else being equal, I would say
25 between 2001 and 2002 that the PGA rate would go up as a

1 result because you did see approximately twice the
2 writeoffs.

3 Q. So this is -- this is, I guess, logistical
4 stuff I want to try and figure out. So you would maintain
5 a portion of bad debt that you would recover through base
6 rate?

7 A. We're not proposing to change base rates
8 right now. What we're really trying to do -- and let's
9 use the 2001 and 2002 as an example. I think we've kind
10 of heard this \$8.1 million number floating around here for
11 the gas cost portion of bad debts, and let's assume if we
12 could -- and these are all actual writeoffs with
13 distribution and otherwise. Let's assume if we could that
14 this was all just the gas cost portion of bad debts.

15 So you would compare the \$5.3 million in
16 2001 to the \$8.1 million that we've represented being in
17 base rates. So give or take, 5.4 from 8.1, that's roughly
18 \$2.5 million. We would be decreasing our PGA rates by
19 approximately \$2.5 million based on the 2001 year. Then
20 in 2002 it's 11.3 versus 8.1. So you would increase your
21 PGA rates by about \$3.2 million in this instance.

22 Again, I'm just using these numbers as an
23 example because these do include margin costs right now.
24 So effectively what you do is you track around what that
25 base amount is and then only include the gas cost portion

1 of the variation through the PGA clause in the ACA in the
2 subsequent year. I hope that helps.

3 Q. No. I think it does. And the goal is for
4 Laclede to be able to recover significant increases above
5 what they -- they're recovering in base rates? For
6 example, if you're -- if -- because we're talking about --
7 we're not talking about doing this in the context of a
8 rate case. We're talking about doing this outside the
9 context of a rate case.

10 So the base rates that are set to recover
11 bad debt in the rate case, if the following year and you
12 don't come in for a rate case and that seems -- you don't
13 have a significant increase in your bad debt, there's no
14 need to make an adjustment to the PGA, right, or am I
15 wrong?

16 A. I -- there may be some clarification I have
17 to make for you.

18 Q. Sure.

19 A. Because the way I would do it is, first
20 off, we're not just looking for increases in bad debt.
21 We're also looking to past decreases in bad debt.

22 Q. Sure.

23 A. And one of the things we talked about was,
24 I think you heard Mr. Cline discussing that gas costs
25 embedded during the period that rates were set were about

1 a little over a dollar a therm. Now they're about 83
2 cents a therm. So in that scenario, excluding any other
3 changes relating to change in economic activity, et
4 cetera, we would be refunding monies back to customers.

5 Q. Absolutely. And I agree with your point.
6 My basic question is, from almost a year to year basis,
7 depending on where your bad debt is, customers will see
8 either an increase or a decrease --

9 A. Year over year, yes, they will.

10 Q. -- year after year on their PGA?

11 A. That's correct. But frankly, with the
12 level of gas costs that we have for customers, I'm --
13 frankly, I think this would be just a blip either way. In
14 other words, I think any change related to the bad debt
15 portion of gas costs is going to be very minimal in
16 magnitude in comparison to the change in wholesale gas
17 costs or anything of that nature.

18 Q. Well, then let's go -- let's take that
19 point. Let's assume that the base rates assume about 5.3,
20 \$5.4 million in bad debt.

21 A. Okay.

22 Q. Let's assume gas prices stay stable. What
23 would the increase from the bad debt from 2001 to 2002,
24 which is approximately a \$6 million increase, what would
25 that do to rates? What would that do to the PGA amount,

1 to be more specific?

2 A. Again, assuming that these were all gas
3 costs themselves?

4 Q. Right. I'm just trying to figure out what
5 point it becomes less than a blip and what your definition
6 of a blip is, what other people's definition of a blip is.

7 A. Sure. In that particular instance,
8 assuming that base rates included \$5.4 million, you would
9 see the PGA rates go up by give or take \$6 million or so.

10 Q. And what would that do to the average, if
11 you can answer that question?

12 A. And I hope my math's not off on this
13 because I'm going it on the back of something Mr. Poston
14 gave me.

15 Q. Back of the napkin math. We all
16 understand.

17 A. If I'm calculating this correctly, it would
18 have basically, on a \$6 million change, it would have
19 about -- and this is assuming about 985 million therms of
20 throughput. It would have about a tenth of a cent change
21 on your PGA rate.

22 Q. Okay. And then what is that on a yearly
23 bases to an average user, if you can make it simple for a
24 plain old lawyer?

25 A. Sure. Just taking a guess -- I don't want

1 to guess. Never mind.

2 Q. And this is all understood with the caveat
3 that you're doing it back of the napkin and amounts may be
4 not as accurate as we might hope.

5 A. Assuming it was a \$6 million change, and
6 assuming that the average user uses about 855 therms a
7 year, and that's actually probably a little low, the
8 margin would be about \$8.55 a year for the typical
9 customer on a \$6 million change.

10 Q. Okay. And that would proportionately, if
11 you have heavy industrial users, their charge would --

12 A. If it's on a volumetric basis, yes, sir.

13 Q. So if we take the actual writeoff numbers,
14 if a PGA had been put in place at that time, assuming the
15 \$5.4 million base rate, it's about an \$8 a year increase
16 for an average residential?

17 A. That's approximately correct, yes, sir.

18 COMMISSIONER GUNN: All right. Thank you.
19 I think that's all I have.

20 THE WITNESS: Thank you.

21 JUDGE WOODRUFF: Recross based on questions
22 from the Bench, then, beginning with Staff.

23 RE-CROSS-EXAMINATION BY MS. SHEMWELL:

24 Q. Mr. Buck, Mr. Solt is a CPA; is that right?

25 A. I'd have to go back and check, but yes, I

1 believe so.

2 Q. And you've said you're not?

3 A. I have accounting oversight, but no, I'm
4 not a CPA.

5 Q. Thank you. In this filing you're not
6 proposing any change to the \$38 million rate increase that
7 Laclede got in the last rate case, correct?

8 A. 38.6. No, we're not.

9 Q. You mentioned a \$8.1 million figure
10 floating around, but you admitted that there was no
11 agreement to the exact amount of bad debt included in the
12 last rate case? When you and I talked, you said there was
13 no agreement.

14 A. I said there was nothing in the
15 stipulation.

16 Q. Okay.

17 A. I think that's a different question, that's
18 all.

19 Q. And you indicated -- well, you're not
20 proposing to reveal any of the negotiations, are you?

21 A. No. I believe that the settlement would be
22 what would generally be referred to as a black box
23 settlement.

24 Q. Thank you. You indicate -- you used the
25 term blip in the change to the rates, but not being a

1 lawyer, you can't testify as the legality of the
2 Commission's approval of that blip in this case, can you?

3 A. No, ma'am.

4 MS. SHEMWELL: Thank you. That's all I
5 have.

6 JUDGE WOODRUFF: Recross for Public
7 Counsel?

8 MR. POSTON: Thank you.

9 RECROSS-EXAMINATION BY MR. POSTON:

10 Q. I just wanted to follow up on a question
11 Commissioner Jarrett asked you about bad debt expense and
12 how it matches with revenues. Have you read the testimony
13 of Mr. Trippensee?

14 A. Probably back in October.

15 Q. Do you have a copy of that?

16 A. Why, yes, I do.

17 Q. If you could please turn to page 10.

18 A. Yes, sir.

19 Q. Okay. And down at the bottom,
20 Mr. Trippensee defines the term cost. Do you agree with
21 his definition of cost?

22 A. In the context of how he puts it, no, I
23 would not, because -- and if I might clarify, on line 13 I
24 refer to the term cost refer to each component of the
25 total revenue requirement of a utility. So you're setting

1 rates based on a revenue requirement.

2 His next line goes on to say, costs include
3 all expenses along with earnings and interest expense
4 associated with the rate base. And that's I guess where I
5 have, I don't want to say the term issue, but there are a
6 lot of costs that are set in ratemaking that aren't based
7 on expenses per books, and uncollectibles is one of them.
8 Another one is bad debts, for example, or not bad debts
9 but injuries and damages, and they're based on looking at
10 usually a period of writeoffs or something of that nature.
11 Cost as it's referred to here actually refers to what I
12 would consider to be book expense.

13 So I guess technically, no, I can't really
14 agree with that.

15 Q. How about the definition of expense at the
16 top of page 11?

17 A. Yes, I would agree with that.

18 Q. The question I asked you about
19 Mr. Trippensee's definition of cost, do you understand
20 that he's using the term cost to refer to each component
21 in the revenue requirement?

22 A. I think that's what the first sentence does
23 say, and I would agree with that. I guess the problem is
24 he does a follow-up that seems to want to clarify cost,
25 which is to, quote/unquote, include all expenses, and

1 that's where I guess I'm -- I get a little heartburn.

2 Q. Well, if he's narrowing his definition to
3 just costs in the revenue requirement, would you then
4 agree with his definition?

5 A. Yes, I think I would.

6 MR. POSTON: Thank you. That's all I have.

7 JUDGE WOODRUFF: All right. Redirect?

8 MR. PENDERGAST: Thank you, your Honor.

9 REDIRECT EXAMINATION BY MR. PENDERGAST:

10 Q. Mr. Buck.

11 A. Good afternoon, Mr. Pendergast. We are in
12 afternoon now, by the way.

13 Q. Indeed we are. You were asked a number of
14 questions about the Stipulation & Agreement in Laclede's
15 last rate case. Do you recall that?

16 A. Yes, I do.

17 Q. And Ms. Shemwell took you, I think, through
18 a number of provisions in that Stipulation & Agreement?

19 A. Yes, sir.

20 Q. Just so the Commission has a full picture
21 of the Stipulation & Agreement, if you look through that
22 Stipulation & Agreement, and I'll be very brief, does that
23 Stipulation & Agreement reflect the number of -- also
24 reflect a number of the tracking mechanisms that have been
25 agreed upon and approved by the Commission?

1 A. Sure. It would include the pensions and
2 other post-employment benefits Ms. Shemwell was speaking
3 to. It includes costs related to FAS 106.

4 Q. Does it also reference the Cold Weather
5 Rule compliance costs?

6 A. I was getting there, sir.

7 Q. Let me ask you some questions.

8 A. Okay.

9 Q. And were those Cold Weather Rule compliance
10 costs accumulated pursuant to a tracking and reconciling
11 mechanism?

12 A. Why, yes, they were.

13 Q. Okay. Fine. And was there a tracking and
14 reconciling mechanism approved for the subsequent year for
15 Cold Weather Rule costs?

16 A. Yes, sir.

17 Q. Okay. Were those Cold Weather Rule costs
18 calculated pursuant to a method that was developed by
19 Public Counsel?

20 A. Yes, they were.

21 Q. Okay. And after the conclusion of the rate
22 case, did Public Counsel propose that a different method
23 be used to calculate those costs?

24 A. Yes, sir.

25 Q. Did anybody make the argument they were

1 bound by the rate case to only pursue and use the method
2 that they adopted in the rate case?

3 A. Not as I recall.

4 Q. Okay. Is there a tracking mechanism that's
5 also been approved for energy efficiency costs where the
6 company will incur up to \$3.5 million to track what the
7 company actually spends and then track back to actual
8 costs in the subsequent case?

9 A. It will be in rate base until recovery in a
10 subsequent case.

11 Q. Is there a tracking and reconciliation
12 mechanism approved for low income expenditures of a low
13 income program where you will track what the company
14 spends on that program for ultimate reconciliation back to
15 actual costs?

16 A. That's correct.

17 Q. Okay. So, what, five or six of them in the
18 rate case settlement alone?

19 A. I think you've also got, for example,
20 off-system sales. There's a sharing mechanism there that
21 we're actually tracking and giving money back that's going
22 through the PGA clause. Those would probably be the most
23 significant ones, yes.

24 Q. And speaking of the off-system sales
25 mechanism, are the sharing percentages that the company

1 gets to retain from its off-system sales just by way of
2 percentages consistent with what it would be able to
3 retain or would be at risk for under its gas cost bad debt
4 PGA proposal in this case?

5 MS. SHEMWELL: Judge, I'm not seeing the
6 relationship between questions that the Bench asked and
7 Mr. Pendergast is asking.

8 MR. PENDERGAST: I'm asking questions
9 primarily in response to Ms. Shemwell and her comments
10 about the Stipulation & Agreement and what it provides.

11 JUDGE WOODRUFF: This is redirect, so it's
12 not limited to questions from the Bench. You can proceed.

13 BY MR. PENDERGAST:

14 Q. Those sharing percentages, are they
15 consistent with the sharing percentage that the company
16 would actually be entitled to retain or have to absorb if
17 its proposal were approved?

18 A. I'm just trying to find the proper
19 reference. Okay. Starting on page 11 of the
20 Stipulation & Agreement it discusses the sharing mechanism
21 which has a tiered sharing approach. The first \$2 million
22 the company keeps 15 percent, I believe, of the off-system
23 sales. The next \$2 million it keeps 20 percent. The
24 third \$2 million, so up to \$6 million, that third portion
25 should be 25 percent. And then anything over \$6 million,

1 the company keeps approximately 30 percent of the amount
2 and the other 70 percent goes back to customers through
3 the PGA.

4 Q. So would it be fair to say that the
5 off-system sales mechanism is a little less robust than
6 the company's PGA bad debt proposal in terms of the
7 percentage that the company's allowed to retain?

8 A. Certainly it seems to be indicative of an
9 adequate incentive.

10 Q. And it also talks about the gas supply
11 incentive plan in the Stipulation & Agreement; is that
12 correct?

13 A. On page 12, yes, sir.

14 Q. And that has sharing percentages as well,
15 doesn't it?

16 A. Yes, it does. I think it's 10 percent, if
17 I remember correctly, up to a \$3 million cap.

18 Q. Up to a \$3 million cap, so 10 percent, and
19 that's deemed, as far as you know, a sufficient incentive
20 for the company to go out and be as efficient as possible
21 in acquiring gas supply?

22 A. It has incentive plan in the name, sir.

23 Q. Okay. You were also asked questions about
24 payroll expense. Has payroll expense ever declined by
25 50 or 60 percent in six months, to your knowledge?

1 A. No, sir.

2 Q. Has it ever increased by 50 or 60 percent
3 in six months?

4 A. No.

5 Q. Have gas costs done that or gas prices done
6 that?

7 A. The price of gas, yes, sir.

8 Q. Okay. Can you think of anything, other
9 than maybe gasoline, that we have that increases and has
10 increased by that magnitude?

11 A. Well, we only use about a million gallons
12 of gasoline a year.

13 Q. I understand.

14 A. So you're talking about if the price of
15 gasoline goes up by a dollar per gallon, you're talking
16 about a million dollar difference. With the price of
17 natural gas, a dollar difference on an MMBtu basis could
18 be, you know, tens of millions of dollars.

19 Q. Yeah. With that caveat, it being much
20 smaller than the gas costs at issue, is there any other
21 cost of service that Laclede typically incurs that has
22 that level of volatility?

23 A. No, sir.

24 Q. Okay. You were asked some questions about
25 the tax rates and gross receipts taxes. Is that something

1 that's subject to an adjustment mechanism?

2 A. Yes, it is.

3 Q. Once again, it reflects the actual cost
4 that we're charged by municipalities in connection with
5 being able to do business within those localities?

6 A. Sure. For example, I live in the city of
7 St. Charles, and St. Charles' gross receipts tax rate is
8 approximately 8 percent. In St. Louis County it's around
9 5. So depending on what municipality you're in will
10 depend on how much that rider actually collects from the
11 customer.

12 Q. Okay. You were asked some questions about
13 how bad debts are accounted for. When the company goes
14 out, acquires gas supply or transportation services that
15 are generally included in its gas costs and passed through
16 the PGA, where are those booked to? Are those booked to
17 gas accounts?

18 A. If I heard your question correctly, yes,
19 they are.

20 Q. Okay. And let's assume that they've been
21 booked to the gas accounts under the Uniform System of
22 Accounts, and let's assume that a customer ultimately
23 doesn't pay us. Do we take it out of those accounts and
24 put it someplace else?

25 A. No. The only thing I know of that comes

1 out of those accounts is company used gas which gets
2 charged to some distribution operations accounts.

3 Q. So if we look at the Uniform System of
4 Accounts and determine where things are booked, the gas
5 costs that we incur to go ahead and serve nonpaying
6 customers as well as the gas costs that we incur to go
7 ahead and serve paying customers are all accounted for
8 initially in the same FERC accounts; is that right, sir?

9 A. 804 through 812, sir.

10 Q. Great. You were asked some questions about
11 the accuracy of your particular method. If somebody is
12 interested in really having additional or greater accuracy
13 between the amounts that are actually incurred by the
14 company in connection with the gas costs associated with
15 its bad debts and the amounts it charges customers, would
16 you recommend continued use of the base rate approach or
17 would you recommend use of the approach the company's
18 proposed in this case?

19 A. Obviously I'd use the approach the
20 company's suggesting in this case. Again, if you're -- if
21 there's a big change in gas costs that cause a large
22 change in the bad debts, the method the company's
23 proposing will be approximately 75 percent more accurate
24 than having embedded it in base rates, and that's to the
25 benefit both to the company at times but also to the

1 customer.

2 Q. Okay. And just to talk about the
3 compliance costs real briefly again, I think you mentioned
4 the amount that was included in our last case, the
5 2.5 million or thereabouts that's included in the most
6 recent one. In the rate case, was that amount spread out
7 over a certain number of years, recovery of that amount?

8 A. If I remember correctly, I believe it was a
9 five-year period, sir.

10 Q. Five-year period. So bad debts that are
11 incurred with providing service in year No. 1 will
12 ultimately be collected finally from customers in year
13 No. 5 or year No. 6?

14 A. That's correct, sir.

15 Q. And I assume if we had one that went the
16 other way and reflected decreases, the decreases would be
17 reflected in year four or year five?

18 MS. SHEMWELL: Judge, these are all leading
19 questions, very leading.

20 BY MR. PENDERGAST:

21 Q. If you had a reduction and you had a
22 five-year amortization, how long would it take for
23 customers to get the benefit of that?

24 A. Five years.

25 Q. Under the company's approach where you have

1 an impact, whether it's positive or negative, on your
2 uncollectible expense, how long will it take to go ahead
3 and flow that through rates?

4 A. What we've proposed to do it with the
5 following ACA period. So assuming all the ACA dollars
6 billed are accurate over the spread from the number of
7 therms, it would be the following year.

8 Q. Okay. And in your view, does that provide
9 a more contemporaneous or less contemporaneous matching
10 between costs and when they're incurred and when they're
11 recovered?

12 A. More.

13 Q. You had some questions about the impact on
14 Laclede's customers associated with, I think it was a
15 \$6 million or thereabouts increase in the gas cost portion
16 of uncollectible expense, and I think you said it would be
17 about \$8 a year. Looking at it from the perspective of
18 the impact on Laclede Gas Company, what percentage of
19 Laclede's net earnings would that be?

20 A. Approximately 1/6 or 15 percent.

21 Q. About 15 percent. And if we were trying to
22 do a percentage impact on a customer, what's the
23 percentage impact of the \$8 on a customer's annual bill?

24 A. Assuming the average customer gets billed
25 about -- it's probably less than 1 percent.

1 Q. So 1 percent on the customer, 15 percent on
2 Laclede?

3 A. That's correct.

4 MR. PENDERGAST: I think that's all I have.
5 Thank you.

6 JUDGE WOODRUFF: All right. Then Mr. Buck,
7 you can step down.

8 THE WITNESS: Thank you.

9 JUDGE WOODRUFF: We're due for a lunch
10 break. We'll come back at 1:30 with Staff witnesses.

11 (A BREAK WAS TAKEN.)

12 JUDGE WOODRUFF: Let's go ahead and get
13 started. Staff's first witness will be Ms. Fred.

14 MS. SHEMWELL: That's right. Judge, Staff
15 calls Carol Gay Fred to the stand.

16 JUDGE WOODRUFF: If you'd please raise your
17 right hand.

18 (Witness sworn.)

19 JUDGE WOODRUFF: You may inquire.

20 CAROL GAY FRED testified as follows:

21 DIRECT EXAMINATION BY MS. SHEMWELL:

22 Q. I gave your name as Carol Gay Fred. You
23 typically go by Gay; is that right?

24 A. That's correct.

25 Q. Spell your last name.

1 A. Carol Gay Fred, F-r-e-d.

2 Q. Thank you. Where do you work?

3 A. For the Missouri Public Service Commission

4 as a Consumer Services Manager.

5 Q. How long have you done that?

6 A. For about five years now.

7 Q. Did you prepare testimony in this case,

8 rebuttal testimony?

9 A. Yes, I did.

10 Q. Do you have any changes or additions to

11 your rebuttal testimony?

12 A. Yes, I have actually three corrections I

13 need to make. First correction appears on page 4, line 2,

14 should read Case No. GC-2006-0318.

15 Q. So we're changing the two to a three?

16 A. Correct. The next change appears on

17 page 5, line 6, the last word in that sentence should be

18 which, w-h-i-c-h, not w-i-c-h. And the third change is on

19 page 6, line 8, it should read, however, according to the

20 cold weather rule, inserting "to". And that's all.

21 Q. If your answer -- if you were asked these

22 questions today, would your answers be substantially the

23 same?

24 A. Yes.

25 Q. Is your testimony true and correct to the

1 best of your knowledge and belief?

2 A. Yes, it is.

3 MS. SHEMWELL: I tender the witness for
4 cross, Judge. Thank you.

5 JUDGE WOODRUFF: Did you wish to offer 6?

6 MS. SHEMWELL: I will offer 6.

7 JUDGE WOODRUFF: 6 has been offered. Any
8 objection to its receipt?

9 (No response.)

10 JUDGE WOODRUFF: Hearing none, it will be
11 received.

12 (EXHIBIT NO. 6 WAS RECEIVED INTO EVIDENCE.)

13 JUDGE WOODRUFF: For cross-examination,
14 then, we begin with Public Counsel.

15 MR. POSTON: Thank you.

16 CROSS-EXAMINATION BY MR. POSTON:

17 Q. Good afternoon.

18 A. Good afternoon.

19 Q. You state in your testimony that Laclede
20 has not been more aggressive than any other utility in
21 pursuing collections; is that correct?

22 A. Yes.

23 Q. And does Laclede have reason to be more
24 aggressive than others?

25 A. No.

1 Q. Do you think the fact that they have many
2 inside meters, do you think that would increase the need
3 for them to be more aggressive in their collections?

4 A. I think with inside meters they need to
5 have a different method or process or procedures in trying
6 to be aggressive in their collections for those particular
7 types of customers.

8 Q. And you also discuss steps that you say
9 Laclede could take to be more aggressive, and one step is
10 to disconnect customers when they aren't making regular
11 payments; is that correct?

12 A. That's correct.

13 Q. And do you believe Laclede is not as
14 aggressive as it could be in disconnecting customers when
15 they are behind on their payments?

16 A. That's correct.

17 Q. And why do you think this would help
18 Laclede manage its bad debts?

19 A. If they could be more aggressive and
20 actually following through with threat of disconnect, once
21 they send the disconnect notice to the customer informing
22 them that if they don't make the payment of the bill, then
23 the customers would be more prone to make those payments
24 and, therefore, uncollectibles or bad debt or whatever
25 terms you want to use in that particular circumstance

1 would be eliminated because they could collect the
2 revenues that are billed.

3 Q. And what makes you come to the conclusion
4 that they are not being as aggressive with the
5 disconnections?

6 A. My experience as a customer service manager
7 and seeing a number of consumer complaints coming to my
8 department would reflect that customers oftentimes receive
9 numerous disconnect notices prior to or even if any
10 disconnection is actually made on that customer's account.

11 Q. And this is -- you're referring
12 specifically to Laclede Gas Company when you say that?

13 A. Yes.

14 Q. You also mention situations where Laclede
15 has vacant premises with meters showing usage; is that
16 correct?

17 A. Yes.

18 Q. Is this issue more prevalent with Laclede
19 than other utilities?

20 A. Other utilities have the same
21 circumstances. Again, I think with the inside meter it's
22 a little bit more prominent with Laclede because they have
23 difficulty gaining access to that meter to actually take
24 care of disconnecting it in the case of vacant waste
25 consumption where other utilities would actually go out to

1 the premise with an outside meter, turn that meter off.

2 Q. And do you think improvements in this area
3 would help them manage their bad debts?

4 A. I think any of those type of improvements
5 will help any company with any type of debt.

6 Q. Including improvements with diversions,
7 that's another item that you mentioned as being an issue;
8 is that correct?

9 A. Correct.

10 Q. So if they improved that area, you think
11 they could improve their bad debts?

12 A. Absolutely.

13 Q. And you testified that you agreed with
14 Mr. Buck's testimony that Laclede's bad debt has been
15 climbing, and you based your agreement on Cold Weather
16 Rule data only; isn't that correct?

17 A. That's correct. My experience is not as an
18 accountant. My experience is simply in my review of Cold
19 Weather Rule reports that are required by all LDCs to
20 submit on a monthly basis.

21 Q. So the data you're looking at does not
22 include customers that were not under the Cold Weather
23 Rule; is that correct?

24 A. I would have to double check that, and I
25 say that because the Cold Weather Rule report will list

1 all accounts that are non -- that have not been paid. So
2 you're asking would it be for customers who are not under
3 a Cold Weather Rule payment agreement?

4 Q. What I'm saying I guess is, the data you're
5 looking at, does that include all customers? Does it
6 include all uncollectible numbers? I mean, is it -- or is
7 it just more focused on Cold Weather Rule data?

8 A. No. I believe the way the Cold Weather
9 Rule report requires them to report all customers who have
10 been disconnected and nonpaid and the amount that's needed
11 to be collected.

12 Q. And is that only for disconnection during
13 the Cold Weather Rule period?

14 A. Yes.

15 Q. Okay.

16 A. Those are just for that one month, it's a
17 monthly report. So it's just for that particular point in
18 time.

19 Q. So if we're not within the Cold Weather
20 Rule period, do they still provide that report to you?

21 A. Yes, they do.

22 Q. If I could have you turn to the schedules
23 in your testimony, and I'm just really wanting a
24 clarification here. Are you there?

25 A. Yeah.

1 Q. Looking at Schedule 1-2?

2 A. Okay.

3 Q. It appears to suggest that in 2005 around
4 April -- I'm sorry, around May or June, Laclede had Cold
5 Weather Rule uncollectibles of 20 million, and I'm
6 trying to -- what I'm trying to figure out is, what does
7 this mean? What exactly are you saying here in this?

8 A. This is the amount of uncollectible that
9 they reported on the Cold Weather Rule report for that
10 point in time, that's where they stood.

11 Q. Okay. And so --

12 A. Which would -- I'm sorry. Go ahead.

13 Q. No. Go ahead.

14 A. No. Go ahead.

15 Q. Okay. I'm just trying to understand it.
16 So any explanation you can offer is helpful. So then when
17 it shows it looks like in December when it's back at zero,
18 what does that mean, that they no longer have any
19 uncollectibles for that --

20 A. That is reflecting that uncollectibles is
21 down considerably. I'm not sure it's really meant to be
22 at zero. It's something less than the 5 million but not
23 at zero. And I will go back to what I was going to say
24 earlier.

25 Q. Okay.

1 A. Generally speaking, after the Cold Weather
2 Rule period, which ends March 31st, April and May become
3 months that companies are actively and aggressively trying
4 to go out and disconnect customers for nonpay for the
5 services rendered during the Cold Weather Rule period. So
6 we will see, not just for Laclede Company but all LDCs, a
7 spike in their uncollectibles because at that point that
8 is the amount they're going after and they're trying to
9 collect on.

10 So there will be a spike in time where that
11 amount out there that's uncollectible they're going after.
12 Following that, of course, based on their procedures or
13 practices, they're able to collect on that, and those
14 amounts will decline because customers, they either enter
15 into a payment agreement with those customers to get those
16 payments or those customers at some point in time will try
17 to get that paid.

18 Q. When you use the term uncollectible, are
19 you -- do you mean that it's a receivable or it's an
20 amount that's been written off?

21 A. It's a receivable. It's an amount -- it's
22 a billed revenue they have not collected. I'm not getting
23 into written off periods of time and what that -- again,
24 I'm just talking about what's been billed and not
25 collected.

1 MR. POSTON: Thank you. That's all I have.

2 Thank you.

3 JUDGE WOODRUFF: For Laclede?

4 MR. ZUCKER: Thank you, your Honor.

5 CROSS-EXAMINATION BY MR. ZUCKER:

6 Q. Good afternoon, Ms. Fred.

7 A. Good afternoon.

8 Q. Let's finish with Schedule 1-2 --

9 A. Okay.

10 Q. -- since we -- well, let's start with it

11 since you finished with it with Mr. Poston. That big

12 spike on the 2005 line --

13 A. Correct.

14 Q. -- is it possible that that's an error?

15 A. It's possible.

16 Q. Because it just appears so far out of line

17 from everything else?

18 A. Uh-huh. I agree.

19 Q. Ms. Fred, you're the manager of the

20 department that receives customer complaints; is that

21 correct?

22 A. Correct.

23 Q. And I assume you receive complaints about

24 Laclede Gas Company; is that correct?

25 A. Correct.

1 Q. And are some of those complaints complaints
2 by customers that they've been improperly disconnected?

3 A. Yes.

4 Q. In fact, isn't that currently the number
5 one complaint against Laclede Gas Company?

6 A. I wouldn't -- I don't know.

7 Q. Do you ever receive complaints that Laclede
8 has improperly denied service to a customer?

9 A. Yes.

10 Q. Do you ever receive complaints that Laclede
11 has improperly assessed deposits to a customer?

12 A. Yes.

13 Q. Do you ever receive complaints from a
14 customer that Laclede wouldn't make a deal with them to
15 accept some fraction of what they owed?

16 A. Yes.

17 Q. And in all of these cases -- in all of
18 these cases, would you say that Laclede is being more
19 aggressive than suits the customer?

20 A. I can't speak for what the customer would
21 believe.

22 Q. Okay. Didn't the Staff recently take a
23 position in an MGE case that a utility shouldn't be able
24 to collect from a customer whose debt is more than five
25 years old?

1 A. Yes.

2 Q. Does Laclede have the right to require
3 prepaid security deposits?

4 A. Currently?

5 Q. Yes.

6 A. No.

7 Q. At any time of the year?

8 A. I don't believe so.

9 Q. Okay. I agree with you, for the record.
10 And so Laclede must, therefore, bill a security deposit?

11 A. Correct.

12 Q. And doesn't that kind of -- doesn't that
13 ruin the whole purpose of a security deposit to not have
14 it up front?

15 A. You're asking me personally?

16 Q. I'm asking you as a -- the manager of the
17 complaint department, as a witness in this case on behalf
18 of Staff.

19 A. Currently our rules don't allow for that.

20 Q. Okay. Then I'll ask you personally.

21 MS. SHEMWELL: I'm going to object. I
22 believe the question's been asked and answered.

23 BY MR. ZUCKER:

24 Q. Okay. Wouldn't security deposits be a lot
25 more effective if they were collected up front?

1 A. I believe the term security in conjunction
2 with deposit would imply that, yes.

3 Q. Thank you. Once we connect a customer, we
4 can then bill them the security deposit, right?

5 A. Yes.

6 Q. And if the customer's not going to pay the
7 bill, they're also not likely to pay the security deposit;
8 isn't that correct?

9 A. Most likely.

10 Q. So then Laclede doesn't have the security
11 that it would have -- it seeks?

12 A. True.

13 Q. If the Commission really wants Laclede to
14 implement robust collection efforts, why wouldn't the
15 Commission allow prepaid security deposits?

16 MS. SHEMWELL: Objection. Ms. Fred can
17 answer for Staff --

18 BY MR. ZUCKER: Okay.

19 MS. SHEMWELL: -- but not for the
20 Commission.

21 BY MR. ZUCKER:

22 Q. Okay. Answer for Staff.

23 MS. SHEMWELL: If she can.

24 THE WITNESS: I'm not sure Staff would
25 object to that idea.

1 BY MR. ZUCKER:

2 Q. If the Commission wanted to improve the
3 company's collection efforts, wouldn't approving prepaid
4 security deposits be a way to do that?

5 MS. SHEMWELL: Object. Again, Ms. Fred
6 doesn't speak for the Commission. She speaks for Staff.

7 MR. ZUCKER: I'm not asking her to speak
8 for the Commission. I'm asking her a question.

9 JUDGE WOODRUFF: I think you asked -- well,
10 the objection is correct that, of course, she doesn't
11 speak for the Commission. She can answer on behalf of the
12 Staff. I'm not sure what your question was, I guess.

13 BY MR. ZUCKER:

14 Q. What my question was, is if the Commission
15 wants to approve -- wants to improve the company's
16 collection ability, wouldn't allowing prepaid security
17 deposits be a way to do that?

18 MS. SHEMWELL: I think that requires an
19 assumption that the Commission would or would not want to
20 do that.

21 MR. ZUCKER: I can put that assumption in
22 my question.

23 JUDGE WOODRUFF: I'm going to overrule the
24 objection. You can answer that question.

25 WITNESS: Can we --

1 MS. SHEMWELL: I'm sorry. What is the
2 question?

3 JUDGE WOODRUFF: Let's have the court
4 reporter read it back.

5 THE REPORTER: "Question: What my question
6 was, is if the Commission wants to approve -- wants to
7 improve the company's collection ability, wouldn't
8 allowing prepaid security deposits be a way to do that?"

9 THE WITNESS: I think that would be one
10 method that could be utilized, yes.

11 BY MR. ZUCKER:

12 Q. Okay. So through its rules, the Commission
13 controls what Laclede can and can't do with respect to
14 connecting and disconnecting, don't they?

15 A. Correct.

16 Q. And would you agree that putting both gas
17 costs and non-gas costs -- well, putting the gas portion
18 of uncollectible costs and the non-gas portion of
19 uncollectible costs in base rates gives the company too
20 big a motivation to disconnect or collect compared to what
21 the Commission wants?

22 MS. SHEMWELL: Again, she would have to
23 assume what the Commission wants.

24 MR. ZUCKER: Compared to what the
25 Commission's rules indicate.

1 THE WITNESS: I don't believe I'm the best
2 one to answer that question.

3 MR. ZUCKER: One moment, your Honor.

4 Ms. Fred, thank you very much.

5 THE WITNESS: You're welcome.

6 JUDGE WOODRUFF: We'll come up for
7 questions from the Bench. Commissioner Gunn?

8 COMMISSIONER GUNN: I don't have any
9 questions.

10 JUDGE WOODRUFF: I do have a question, just
11 kind of a general philosophical question.

12 QUESTIONS BY JUDGE WOODRUFF:

13 Q. You've indicated that Staff would like to
14 see Laclede be more aggressive in its collection
15 activities. is there a downside to them being more
16 aggressive in their collection?

17 A. The downside is actually being able to
18 communicate and educate the customer why that need is. If
19 they can communicate to consumers, rather, why there's a
20 need for them to be as aggressive as they are in trying to
21 make those collections because it will have an overall
22 impact on all consumers, I think that would be a positive
23 move.

24 But by not doing that, if they don't do
25 that, then I think that's a downside, so then the

1 customers feel like they're getting hit with perhaps a
2 rate increase that's unwarranted. And if they understood
3 what it was for up front and were educated on it, then at
4 least they would have a better understanding of why those
5 rates or changes might be fluctuating as they are.

6 Q. Well, that would certainly be true for the
7 consumers in general, but what about the people who are
8 going to be disconnected, is that a downside also?

9 A. Yes. However, there are a number of our
10 rules that are in place to help those customers. So if
11 they are in that situation, I would hope that they would
12 rely on either contacting the company or contacting the
13 Commission to find out what other options and other
14 services or abilities they may have to circumvent that.

15 JUDGE WOODRUFF: Okay. All right. Then
16 recross based on those questions from the Bench. For
17 Public Counsel?

18 MR. POSTON: No questions.

19 JUDGE WOODRUFF: For Laclede?

20 MR. ZUCKER: No questions, your Honor.

21 JUDGE WOODRUFF: Redirect?

22 MS. SHEMWELL: Thank you, Judge.

23 REDIRECT EXAMINATION BY MS. SHEMWELL:

24 Q. Ms. Fred, where did you get the data for
25 Schedule 1-2?

1 A. Excuse me?

2 Q. Where did you get the data?

3 A. From the Cold Weather Rule reports.

4 Q. From whose Cold Weather Rule reports?

5 A. Laclede's Cold Weather Rule reports.

6 Q. So the \$20 million number you took directly
7 from one of their reports; is that your testimony?

8 A. Yes.

9 Q. Under Commission rules, Laclede is
10 permitted to assess deposits?

11 A. Correct.

12 Q. Laclede can do credit checks?

13 A. Correct.

14 Q. There was discussion about what steps
15 Laclede could do to improve its collection process. Do
16 you have any that you want to add?

17 A. One of the fallacies I've seen on Laclede
18 and their collection procedures has been once a disconnect
19 notice has gone out telling the customer they must pay by
20 a certain day, and there's not just one notice, there's
21 actually multiple notices that go out for one particular
22 period of time, and they do not carry through with the
23 disconnection of that service.

24 They are basically training a behavior to
25 that customer that, you know, we will say we're going to

1 do this, but we won't. In other words, it's a learned
2 behavior after a while. Customers then get into the habit
3 of not paying and feeling like they don't have to pay
4 because they've never carried through with the initial
5 threat. So I think that's a fallacy.

6 And I understand there's circumstances
7 sometimes beyond their control with inside meters, but I
8 also know that we have rules in place that allow the
9 company at some point in time to be able to still go out
10 and disconnect that meter at the curb or wherever in order
11 to make their point and in order to try to collect on that
12 unpaid bill.

13 So I think that's a big component of what they need to
14 look at as, you know, once they start the process, to
15 carry the process through.

16 Q. Are there days during the winter when
17 customers who aren't paying may be disconnected?

18 A. Yes, there could be days throughout the
19 winter that if they're not paying they could be
20 disconnected, and it's based on the temperature during
21 that period of time, and our rules lay that out very
22 clearly in the Cold Weather Rule on what that criteria is
23 that they could comply with.

24 Q. Would you consider billing arrearages,
25 higher arrearages a downside for customers who aren't

1 paying?

2 A. Absolutely. It makes it more and more
3 difficult for them to eventually try to catch up.

4 Q. When you were looking at this, are you
5 looking at this from its impact on all customers as well
6 as on the individual customer?

7 A. I always look at it in all customers, not
8 just a particular group or class of customers within a
9 group. I'm looking at the total customers as a whole,
10 what type of impact this is having.

11 Q. Mr. Zucker asked you a question about the
12 Commission's rules controlling what Laclede can do
13 regarding disconnections. Are you in agreement that the
14 Commission's rules completely control what Laclede can do
15 regarding customer disconnections?

16 A. No, not completely.

17 Q. What's under Laclede's control?

18 A. Laclede carrying through with the time
19 frame in which they are trying to take action against that
20 customer, them being able to actually follow through with
21 procedures and practices that are written in the rule,
22 written in their tariff and them following through with
23 that.

24 Q. We've discussed the problem with inside
25 meters. You've discussed it a couple of times. What

1 option does Laclede have when customers have inside
2 meters?

3 A. One of the options is if they cannot get
4 the customer to actually give them access, they can,
5 again, they can give notice. They can cut it at the curb
6 if they need to. They can take law enforcement out there
7 if it's an issue of the customer being there and they
8 don't want to allow them access, they can take some law
9 enforcement personnel with them to actually get access
10 into it, into that premise to take care of it.

11 The meter itself is the property of
12 Laclede. They have every right to access it. So whatever
13 means they can take legally to get to that is well within
14 their purview.

15 MS. SHEMWELL: That's all I have. Thank
16 you.

17 JUDGE WOODRUFF: All right. Thank you.
18 Ms. Fred, you can step down.

19 THE WITNESS: Thank you.

20 JUDGE WOODRUFF: Next witness would be Lisa
21 Kremer.

22 MS. SHEMWELL: Staff calls Ms. Kremer.

23 JUDGE WOODRUFF: Good afternoon. Please
24 raise your right hand.

25 (Witness sworn.)

1 JUDGE WOODRUFF: You may be seated.

2 MS. SHEMWELL: Thank you, Judge.

3 LISA KREMER testified as follows:

4 DIRECT EXAMINATION BY MS. SHEMWELL:

5 Q. Ms. Kremer, would you spell your last name
6 for court reporter, please.

7 A. Yes. K-r-e-m-e-r.

8 Q. Ms. Kremer, where do you work?

9 A. The Missouri Public Service Commission.

10 Q. What do you do at the Commission?

11 A. I'm the manager of the Engineering and
12 Management Services Department.

13 Q. Have you filed rebuttal testimony in this
14 case?

15 A. I did.

16 Q. Do you have any corrections to your
17 testimony?

18 A. No.

19 Q. If you were asked the same questions today,
20 would your answers be substantially the same?

21 A. They would.

22 Q. Is your testimony true and correct to the
23 best of your knowledge and belief?

24 A. It is.

25 MS. SHEMWELL: Judge, I tender the witness.

1 JUDGE WOODRUFF: Offer 7?

2 MS. SHEMWELL: This will be Exhibit 7, and
3 I do offer Exhibit 7.

4 JUDGE WOODRUFF: Exhibit 7's been offered.
5 Any objection to its receipt?

6 (No response.)

7 JUDGE WOODRUFF: Hearing none, it will be
8 received.

9 (EXHIBIT NO. 7 WAS RECEIVED INTO EVIDENCE.)

10 JUDGE WOODRUFF: Cross-examination then
11 begins with Public Counsel.

12 MR. POSTON: No questions.

13 JUDGE WOODRUFF: For AmerenUE?

14 MR. ZUCKER: They're not here today, but
15 for Laclede, no questions.

16 JUDGE WOODRUFF: As you probably know, I
17 spent about four weeks in the hearing room with AmerenUE.

18 MR. ZUCKER: That's over.

19 (Laughter.)

20 JUDGE WOODRUFF: Any questions from the
21 Bench?

22 COMMISSIONER GUNN: No questions.

23 JUDGE WOODRUFF: No need for recross or
24 redirect. Ms. Kremer, you can step down.

25 MS. SHEMWELL: Staff calls Tom Solt.

1 JUDGE WOODRUFF: Mr. Solt if you'd please
2 raise your right hand.

3 (Witness sworn.)

4 JUDGE WOODRUFF: You may inquire.

5 MS. SHEMWELL: Thank you, Judge.

6 TOM SOLT testified as follows:

7 DIRECT EXAMINATION BY MS. SHEMWELL:

8 Q. Mr. Solt, would you spell your last name
9 for the reporter, please.

10 A. S-o-l-t, as in tango.

11 Q. Mr. Solt, where do you work?

12 A. I work for the Missouri Public Service
13 Commission, 200 Madison, Jefferson City, Missouri 65102.

14 Q. What do you do for the Commission?

15 A. I am an auditor in the rates and tariffs
16 section of the Energy Department.

17 Q. And as we've established, you are a CPA?

18 A. I am.

19 Q. Did you prepare rebuttal testimony in this
20 case?

21 A. I did.

22 Q. That rebuttal testimony has been marked as
23 Exhibit 8. Do you have any corrections?

24 A. Yes, I do. I have two corrections. First
25 is on page 3, line 1, the word abrogate should be replaced

1 by violates. Second change is on page 8, line 17, same
2 change, abrogates replaced with violates.

3 Q. Any other changes, Mr. Solt?

4 A. No.

5 Q. Mr. Solt, if you were asked the same
6 questions today, would your answers be substantially the
7 same?

8 A. Yes, they would.

9 Q. Is your testimony true and correct to the
10 best of your knowledge and belief?

11 A. Yes, it is.

12 MS. SHEMWELL: Thank you. And I offer the
13 witness for testimony or cross-examination and Exhibit 8.

14 JUDGE WOODRUFF: Exhibit 8 has been
15 offered. Any objection to its receipt?

16 (No response.)

17 JUDGE WOODRUFF: Hearing none, it will be
18 received.

19 (EXHIBIT NO. 8 WAS RECEIVED INTO EVIDENCE.)

20 JUDGE WOODRUFF: Cross-examination
21 beginning with Public Counsel?

22 MR. POSTON: No questions.

23 JUDGE WOODRUFF: For Lacledé?

24 MR. ZUCKER: Thank you, your Honor.

25 CROSS-EXAMINATION BY MR. ZUCKER:

1 Q. Good afternoon, Mr. Solt.

2 A. Good afternoon.

3 Q. I'm Rick Zucker. I'm an attorney for
4 Laclede. You know me, right?

5 A. Yes, sir.

6 Q. You just made a -- I guess you made two
7 changes to your testimony?

8 A. Yes, I did.

9 Q. And both changes were to change the word
10 abrogates to violates?

11 A. That's correct.

12 Q. And you are not a lawyer, are you, sir?

13 A. I am not.

14 Q. And do you know rules of construction for
15 contracts? Are you trained in construing contracts under
16 the law?

17 A. I am not.

18 Q. And are you aware that the PGA has been in
19 existence in Missouri since it was approved by the
20 Commission in 1962?

21 A. Yes, I am.

22 Q. And are you aware that Missouri courts have
23 upheld the lawfulness of the PGA?

24 A. Yes, I am.

25 Q. And do you agree with the Western District

1 Court of Appeals decision upholding the PGA?

2 MS. SHEMWELL: Judge, I'm going to object.

3 He's already said he's not a lawyer, so now he's asking

4 him --

5 MR. ZUCKER: No. I'm just asking you as

6 a -- from a policy standpoint, do you agree that the PGA

7 is -- is a proper method of handling gas costs?

8 JUDGE WOODRUFF: You can answer that

9 question.

10 THE WITNESS: Yes, I do.

11 BY MR. ZUCKER:

12 Q. Mr. Solt, can you define a tracker for me?

13 A. A tracker is a method by which certain

14 costs are accumulated, and generally I believe that

15 they're looked at in a next rate case to see whether --

16 the company is either given permission to or not given

17 permission to recover those costs that have been tracked.

18 Q. Okay. And would you agree with me that the

19 PGA is a form of tracker?

20 A. I would not agree that it's a form of

21 tracker. The PGA actually -- there are differences

22 between a tracker and a PGA in that the PGA rate changes

23 throughout a given year. It's looked at, and the ACA

24 mechanism which trues that up then sets whatever was under

25 or over-collected, sets a rate to be added in to the next

1 go around, to the next year in the process. A tracker
2 doesn't work like that. It's similar but not exactly the
3 same.

4 Q. Well, trackers track costs; is that
5 correct?

6 A. Yes, they do.

7 Q. And they reconcile those costs, and later
8 on the costs are then charged?

9 A. Yes.

10 Q. Okay. And with the PGA, it also tracks
11 costs, correct?

12 A. Yes, it does.

13 Q. And reconciles costs?

14 A. Yes.

15 Q. And rates are changed in the PGA to charge
16 those costs?

17 A. That's correct.

18 Q. So the PGA is a form of a tracker? I guess
19 it's not one that's reconciled in a rate case; would that
20 be correct?

21 A. Correct.

22 Q. So -- and do you have your testimony in
23 front of you?

24 A. I do.

25 Q. Can you turn to page 8 of your testimony?

1 A. I'm there.

2 Q. Okay. On line 9 you say, no tracker of
3 which I am aware rises to the level of being a tariffed
4 item, and no tracker directly sets a single rate. So do
5 you mean no tracker except the PGA?

6 MS. SHEMWELL: Judge, he's already
7 testified he doesn't consider the PGA to be a typical
8 tracker.

9 JUDGE WOODRUFF: Well, he has said that
10 it's not a typical tracker, but he described it as a form
11 of a tracker, I believe. So I'll allow the question. The
12 objection's overruled.

13 THE WITNESS: A tracker normally does not
14 set a rate. The costs that are in -- assuming that --
15 whatever amounts were approved for the company to collect
16 goes into base rates as far as I'm aware. There's not a
17 separate rate that's set for that.

18 BY MR. ZUCKER:

19 Q. Isn't there a PGA rate that --

20 A. For the PGA. I said that's one of the ways
21 that the PGA differs from a tracker, and I said they're
22 not exactly the same thing.

23 Q. And the PGA is tariffed also, right?

24 A. The PGA is tariffed, yes.

25 Q. And the PGA tracks gas costs, correct?

1 A. It does.

2 Q. Mr. Solt, would you agree with me or with
3 the general proposition that as the cost of gas increases
4 and the PGA rate increases, customers' bills will also
5 increase?

6 A. Yes, I would.

7 Q. And would you agree as a general
8 proposition that in such cases the percentage of the
9 customer's bill that comprises gas costs will also
10 increase?

11 A. Assuming -- pardon me. Repeat the
12 question, please.

13 Q. Okay. So we've said that as the PGA goes
14 up, the bill will go up. Would you also agree that the
15 percentage of the bill that comprises gas costs will also
16 increase?

17 A. Assuming there's no change in base rates
18 through a rate case in the meantime, yes.

19 Q. And conversely would you agree that as the
20 cost of gas decreases and the PGA rate decreases,
21 customers' bills will decrease?

22 A. That would be correct.

23 Q. And the same thing, would you agree that in
24 such cases the percentage of the customer's bill that
25 comprises gas costs would also decrease?

1 A. Yes, I believe that would be true.

2 Q. And would you agree with me that subject to
3 these increases and decreases, gas costs make up roughly
4 70 percent of a customer's bill?

5 A. I would say something in that ballpark,
6 yes.

7 Q. Okay. Now, let's say I'm a gas utility and
8 you're my customer. You use gas during the winter and you
9 don't pay for it. In the spring I disconnect your service
10 and you owe me a thousand dollars. Okay. Would it be a
11 fair -- would it be fair to assume that the thousand
12 dollars that was billed to you consists roughly of \$700 in
13 gas costs and \$300 in non-gas costs?

14 A. That bill would consist of \$700 of gas
15 costs to me, your customer, yes.

16 Q. Okay. And if I'm Laclede Gas Company,
17 after you don't pay the bill and I try to collect it for
18 six months, I write it off to bad debt. Does that sound
19 correct?

20 A. Yes.

21 Q. So when I write off the thousand dollars to
22 bad debt, aren't I writing off \$700 in gas costs and \$300
23 in non-gas costs?

24 A. No. Actually what you're writing off is
25 \$700 in sales expense, specifically in bad debt expense,

1 which is a cost of doing business, a cost of sales, and
2 specifically a cost of credit sales by any company that
3 does sales on credit, which basically you do, you provide
4 product and service in advance of payment, and therefore
5 that is a cost of sales.

6 So you have \$700 in a bad debt expense,
7 which is a sales expense that you write off. It is not a
8 gas cost to Laclede. Laclede's gas costs are those costs
9 that are incurred by Laclede in order to acquire, as Mr.
10 Neises said in his cover letter on this particular tariff
11 filing, to acquire the gas to get it to the city gate so
12 that you have it available to provide to your customers.
13 In addition to those charges, there's some --

14 Q. Okay. Well, thank you. Let me -- we're
15 starting to get off track, because -- I'm getting lost at
16 least. We just agreed that of the thousand dollars you
17 didn't pay, \$700 of it was gas costs?

18 A. No.

19 Q. Isn't that correct?

20 A. No, I didn't say that it was gas costs. I
21 said \$700 were costs of bad debt to Laclede. The costs --

22 Q. Wait. One second. One second. Because I
23 want to write that down. It's a cost of bad debt. So I
24 sold you \$700 in costs of bad debt; is that what I sold
25 you?

1 A. No, you didn't sell me -- you sold me gas.
2 To me it's a gas expense. To Laclede it is not a gas
3 expense. It is not a gas cost.

4 Q. Didn't Laclede pay for that gas?

5 A. Yes, and when Laclede paid for it, it was a
6 gas cost to Laclede.

7 Q. Right. And then Laclede passed on that
8 cost to you by billing you for it?

9 A. And it became a gas cost to me, but not --
10 it is not a gas cost to Laclede. It is a cost of sales to
11 Laclede.

12 Q. It's a cost of sales. So what am I selling
13 you then?

14 A. You're selling me gas.

15 Q. But when you don't pay for it, then it
16 becomes something called cost of sales?

17 A. Yes, it does.

18 Q. And so does the gas then disappear? What
19 happens to the gas?

20 A. I think it's gone.

21 Q. So does bad -- so does this cost of sales
22 exist in a world completely separate from the bills that
23 comprised it? I mean, in what world is the cost of sales
24 in? Because I'm selling you gas. I'm not selling you
25 sales.

1 A. That is correct, but it is not your gas
2 cost. Your gas costs are basically invoiced to you from
3 suppliers, and you pay for that gas, those molecules. You
4 pay for the transportation to get it to you. Also,
5 because the Commission has allowed inclusion of it,
6 there's some other costs that are in there with that that
7 Laclede has to put out in order to acquire that gas and
8 get it to the city gate for delivery to your customers.

9 Q. Okay. Well, the reason obviously we're
10 having this discussion is because you said in a couple
11 places in your testimony that bad debt is not a gas cost.

12 A. That is correct.

13 Q. And what I'm trying to find out is, what is
14 it? Because if Laclede is selling you gas and you're not
15 paying for it, what is a gas cost then?

16 A. To whom?

17 Q. Well, it was to Laclede and to you. To
18 Laclede?

19 A. To Laclede, the gas costs again are those
20 costs that are paid by Laclede to acquire the gas. To
21 Laclede's customer, a gas cost is what they're paying
22 Laclede for or not paying Laclede for, basically the
23 product and delivery service that they're getting from
24 Laclede.

25 Q. Okay. So when I sold you a thousand

1 dollars worth of -- \$700 worth of gas costs and \$300 in
2 non-gas costs and you didn't pay me, didn't I just lose
3 \$700 in gas costs?

4 A. Not necessarily, because there's some
5 amount that -- I don't think anybody can say for sure, but
6 there's some amount of bad debt expense that is built into
7 your base rates. So if you have not reached that level of
8 bad debt, then Laclede hasn't lost any money at that time
9 with that \$700, or that thousand dollars. They haven't
10 lost it.

11 Q. So I'm good then. I sold you gas, I billed
12 you a thousand, you didn't pay it, but I'm good. Is that
13 what you're saying?

14 A. Yes.

15 Q. Okay. I want to try to clarify one other
16 thing. I don't think we did a very good job on that last
17 one. But are you aware that Laclede's proposal in this
18 case is to have the PGA account for changes only in the
19 gas cost portion of bad debt, not all of bad debt?

20 A. The customers' gas cost portion of bad
21 debt, yes, I understand that.

22 Q. Okay. And Laclede's proposal leaves
23 untouched in base rates changes to the non-gas cost
24 portion of bad debt; do you agree with that?

25 A. Yes.

1 Q. So why then, Mr. Solt, time after time in
2 your testimony do you decline to refer to the gas cost
3 portion of bad debt and instead just refer to bad debt
4 itself without distinguishing the gas cost portion from
5 the non-gas cost portions?

6 A. Well, again, bad debt is a cost of sales.
7 It's not -- it's not gas. It's not non-gas. It's a cost
8 of sales.

9 Q. The gas disappeared. We established that,
10 right?

11 A. It was certainly used, which means it's
12 gone. I assume it burns and changes chemically into other
13 compounds.

14 Q. It was used. It's gone. But when you
15 didn't pay it, it wasn't a cost of the gas?

16 A. Not to the customer, no.

17 Q. Okay. So -- can you turn to page 2 of your
18 testimony?

19 A. Uh-huh

20 Q. So on line 20, under No. 2, you say there,
21 bad debts are not gas costs, right?

22 A. That's correct.

23 MS. SHEMWELL: Judge, he's answered this
24 and answered it again that he does not believe bad debts
25 are gas costs.

1 MR. ZUCKER: I'm still -- I'm asking a
2 different question.

3 JUDGE WOODRUFF: All right. Go ahead.
4 Objection's overruled.

5 BY MR. ZUCKER:

6 Q. What you meant there was the gas cost
7 portion of bad debt are not gas costs, didn't you, because
8 that's what Laclede is asking to move to the PGA here, the
9 gas cost portion of it?

10 A. In my opinion, no portion of gas costs --
11 let me rephrase that.

12 In my opinion, no portion of bad debts is a
13 gas cost to Laclede.

14 Q. Okay. So on page 3, line 5, where you say
15 Laclede proposes to pull a single cost item out of base
16 rates and treat it differently, you mean that -- by a
17 single cost item you don't mean we're trying to pull the
18 entire bad debt line out of bad debts and put it in the
19 PGA, do you?

20 A. No. What I'm saying is, you came up with a
21 number that appears nowhere in the Stipulation &
22 Agreement.

23 Q. Uh-huh. Right. But -- well, let me ask
24 the question again.

25 You're not saying that we're proposing to

1 recover all of our bad debts in the PGA?

2 A. Your proposal is not to -- your proposal is
3 not to recover all of bad debt expense through the PGA.

4 Q. So we didn't pull out a single cost item.
5 We didn't pull out the entire cost line of bad debt, you
6 agree with that?

7 A. I would agree that you -- you -- your
8 proposal does not claim to pull out all of that particular
9 item.

10 Q. Okay. And so on page 3, line 17, the same
11 thing, where you say that Laclede wants to improperly
12 change the method for recovery of a single line item cost,
13 same point, right?

14 A. What line, please?

15 Q. Line 17. Where you refer to a single line
16 item cost, same answer, you didn't mean the entire line
17 item, you just meant a part of that line item?

18 A. That would be correct.

19 Q. On page 6, line 19, you were asked a
20 question, is the cost portion of bad debt writeoffs
21 recognized as a gas cost on Laclede's books and records?

22 MS. SHEMWELL: I'm sorry. What line,
23 please?

24 MR. ZUCKER: Line 19, page 6.

25 BY MR. ZUCKER:

1 Q. What is the cost portion of bad debt
2 writeoffs?

3 A. What Laclede is calling the gas cost
4 portions of bad debt writeoffs is that portion of a
5 customer's bill that was for the purchase from Laclede of
6 gas molecules.

7 Q. So did the question mean to ask is the gas
8 cost portion of bad debt writeoffs recognized as a gas
9 cost on Laclede's books and records? The word gas then is
10 missing?

11 A. Yes, that would be correct.

12 Q. Okay. All right. Let's --

13 A. Let me correct that. That's not correct.
14 I think it would be more correct to say is any cost
15 portion.

16 Q. Okay.

17 MS. SHEMWELL: Are you suggesting that as a
18 change to your testimony?

19 MR. ZUCKER: I'm asking questions now,
20 Lera. When I'm done, you can ask questions.

21 JUDGE WOODRUFF: Well, I do want
22 clarification from the witnesses as to what exactly he
23 is --

24 THE WITNESS: Yes, that would --

25 MR. ZUCKER: Well, I guess it's a question,

1 so it's not really his testimony. It's a question that he
2 was asked.

3 JUDGE WOODRUFF: Yes. I think it's clear
4 on the record what he did answer.

5 MS. SHEMWELL: Thank you.

6 JUDGE WOODRUFF: Go ahead.

7 BY MR. ZUCKER:

8 Q. Let's revisit our early example, if you
9 will. Remember, you were the customer, you were
10 disconnected. Let's say it's the spring of 2008, and you
11 owe a thousand dollars. Do you recall that example?

12 A. Yes, sir.

13 Q. Okay. Now, assume I can't collect the
14 money from you all summer and I write off the thousand
15 dollars in the fall. Now it's November and you decide
16 that you want gas service again. So you call me to sign
17 up under the Cold Weather Rule. Are you familiar with the
18 terms of the Cold Weather Rule?

19 A. Not in extreme detail, but generally, yes.

20 Q. Okay. All right. So now you want service
21 again, but I'm wise to you now because you left me with a
22 thousand dollars debt. So the first thing I'm going to
23 make sure to do is to get a deposit from you. Can I get
24 that deposit when you call to sign up under the Cold
25 Weather Rule?

1 A. On the spot?

2 Q. Can I either -- well, can I get it up
3 front? Can I get an up-front deposit from you?

4 A. I don't think you can get an up-front
5 deposit.

6 Q. Can I bill a deposit from you under the
7 Cold Weather Rule?

8 A. I'm not sure.

9 Q. Okay. And if I told you that the Cold
10 Weather Rule prohibits companies from assessing deposits,
11 would that refresh your memory?

12 MS. SHEMWELL: Perhaps Mr. Solt would like
13 to read the Cold Weather Rule before he answers that or
14 have a copy of it in front of him.

15 JUDGE WOODRUFF: Mr. Zucker, do you want to
16 go ahead --

17 MR. ZUCKER: No. That's all right. It
18 says what it says.

19 BY MR. ZUCKER:

20 Q. All right. Well, you'll have to -- subject
21 to check, there's no deposit. But at least I'll be able
22 to collect the thousand dollars you owe me before I turn
23 your service on again, right?

24 A. I think you can only ask for a portion of
25 that.

1 Q. Okay. So I cannot get it all?

2 A. That's correct.

3 Q. Okay. So can I collect then 80 percent or
4 \$800 from you before I turn on service again?

5 A. I'm not positive. I think it's 50 percent.

6 Q. So it's not 800, it's 500 now; is that
7 right?

8 A. Well, you're probably more familiar with
9 the rule than I am, but I know you cannot collect all of
10 it up front.

11 Q. All right. Okay. And so now you pay me
12 the 500. You still owe me 500. I turn your service on.
13 I can now at least bill you a full winter bill when you
14 use the kind of -- when you had the kind of gas usage you
15 would have in the winter?

16 A. Normally when someone comes on under the
17 Cold Weather Rule, if they don't pay the entire bill, I
18 think there's a payment arrangement that's made.

19 Q. Okay. So you go on some kind of a payment
20 plan, a budget plan?

21 A. Yes.

22 Q. And do you know if that budget plan tends
23 to cover the winter bills or not, generally?

24 A. Generally speaking, I think it's -- the
25 bills from the previous year are looked at and I think the

1 payment is supposed to cover the expected winter bill plus
2 a portion of the arrearage.

3 Q. Okay. But the budget plan itself is a
4 12-month average?

5 A. I'm not sure.

6 Q. All right. So now you've turned on, I've
7 given you -- you used service and I give you a bill in
8 let's say December and you don't pay it, and so I can
9 connect your -- disconnect your service, correct?

10 A. Under certain circumstances, yes.

11 Q. What circumstances are those?

12 A. It has to do with temperature and the
13 forecasted temperature for the next couple of days.

14 Q. So if the temperature is going to be below
15 32 degrees, can I disconnect your service?

16 A. No, you cannot.

17 Q. But you're using a lot of gas then when
18 it's cold?

19 MS. SHEMWELL: Requires an assumption on
20 the witness' part.

21 JUDGE WOODRUFF: Overruled. You can
22 answer.

23 THE WITNESS: One would expect that as it
24 gets colder, that people would use more gas if they're
25 heating with it, assuming they're heating with it.

1 BY MR. ZUCKER:

2 Q. So then, Mr. Solt, if the Commission has
3 asserted this social policy that we've just talked about
4 called the Cold Weather Rule to allow customers to
5 maintain service in the winter, why would the Commission
6 want to take the huge amount of gas costs which are
7 normally handled in the PGA anyway and load them onto
8 uncollectibles, intensifying the company's incentive to
9 both disconnect or not restore service which is precisely
10 at cross purposes to that social policy? Why would the
11 Commission want to do that?

12 MS. SHEMWELL: Object, your Honor. He
13 can't speak to what the Commission would or would not want
14 to do. He can only speculate as to --

15 MR. ZUCKER: I'm not asking him to. I'm
16 asking him --

17 MS. SHEMWELL: He can only --

18 MR. ZUCKER: Why would they?

19 JUDGE WOODRUFF: You're asking him to
20 speculate on what the Commission might want to do, so I'll
21 sustain that objection.

22 BY MR. ZUCKER:

23 Q. Let's say you were making the rules,
24 Mr. Solt. Why would you want to do that?

25 MS. SHEMWELL: I'm going to object.

1 Mr. Solt's personal opinion is not relevant here. He's
2 speaking on behalf of Staff. Also, again, for him to
3 speculate about what the Commission might or might not do.

4 MR. ZUCKER: I'm asking him to tell me what
5 he would do.

6 JUDGE WOODRUFF: I'll allow that.

7 Mr. Solt, you can answer that if you can.

8 THE WITNESS: Would you repeat the
9 question, please?

10 BY MR. ZUCKER:

11 Q. Yeah. Actually, I'll repeat a different
12 question. Do you agree with all of those -- the rules we
13 just went over in the -- that are in the Cold Weather
14 Rule, the prevention of taking a deposit, the prevention
15 of collecting the bill in full, the requirement to put in
16 a budget plan? Do you agree with those rules?

17 MS. SHEMWELL: I'm going to object. It's
18 irrelevant whether or not Mr. Solt agrees with them. The
19 rules are what they are.

20 JUDGE WOODRUFF: I'm going to have to
21 sustain that.

22 BY MR. ZUCKER:

23 Q. Well, does Staff agree with those rules?

24 MS. SHEMWELL: Again, the rule is what it
25 is. The rule exists. It says what it says.

1 MR. ZUCKER: Maybe Staff disagrees with
2 them. I'd like to know where Staff is coming from when
3 they don't -- when they're here in this hearing.

4 JUDGE WOODRUFF: I'm going to overrule that
5 objection and let -- you can answer on behalf of Staff if
6 you can.

7 THE WITNESS: I don't know that I can
8 answer for Staff on that particular question. I don't
9 know that I've ever discussed it with anyone.

10 BY MR. ZUCKER:

11 Q. All right. So why does it make sense
12 when -- if you were to make the decision and you wanted a
13 social policy that would keep customers on in the winter,
14 why would you load gas costs onto uncollectibles,
15 intensifying the company's incentive to disconnect or not
16 restore service which is precisely at odds with that
17 social policy?

18 MS. SHEMWELL: I think that's a hidden
19 question, asking what the Commission would do. The
20 Commission has established the policy what the Commission
21 would do. I think -- implicit in that question is, why
22 would the Commission want to.

23 MR. ZUCKER: You've already overruled that
24 objection, so I --

25 MS. SHEMWELL: He can't speak for the

1 Commission. You haven't overruled that.

2 JUDGE WOODRUFF: It's clear he can't speak
3 for the Commission, but that question didn't ask him to
4 speak for the Commission.

5 MS. SHEMWELL: I thought it specifically
6 did.

7 JUDGE WOODRUFF: I think it's asking a
8 hypothetical. I'll allow the question, with the
9 understanding, of course, he's not speaking for the
10 Commission.

11 MS. SHEMWELL: And that he did not
12 establish the policy. Can we stipulate to that as well?

13 MR. ZUCKER: Yes.

14 JUDGE WOODRUFF: Clearly Mr. Solt didn't
15 establish the policy.

16 MS. SHEMWELL: Exactly, because I thought
17 the question was prefaced if you established that policy.

18 JUDGE WOODRUFF: I took that more as a
19 hypothetical. You can answer the question if you remember
20 what it is.

21 THE WITNESS: I think that the policy is to
22 ensure that people have heat until it's really cold. When
23 it warms up, they can be disconnected.

24 BY MR. ZUCKER:

25 Q. Would you turn to page 7 of your testimony.

1 See line 16?

2 A. I do.

3 Q. Says Laclede has a rate design that permits
4 it to collect 100 percent of its non-gas costs. Did I
5 read that correctly?

6 A. Yes.

7 Q. But in reality, Laclede is not permitted to
8 collect all of its non-gas costs, it just has a rate set
9 to give it an opportunity to do that; isn't that correct?

10 A. To -- the opportunity to collect all of its
11 non-gas costs plus a reasonable return.

12 Q. Right. But the word opportunity should be
13 in front. It's not as if there's a guarantee of recovery
14 of non-gas costs, is there?

15 A. There is not.

16 Q. On page 4 of your testimony, on line 2, you
17 state, only the known, actual, direct and auditable gas
18 costs may be allowed to be collected through this process,
19 and by this process you're referring to the ACA process,
20 right?

21 A. That's correct.

22 Q. Where did you get those -- the words in
23 that sentence?

24 A. Those would be the costs that -- basically
25 that make up the cost that Laclede has to pay in order to

1 acquire gas, get it to the city gate, including some other
2 costs that are --

3 Q. Let me ask the question differently. Where
4 did you get that standard, known, actual, direct and
5 auditable?

6 A. I think some of it comes from the case that
7 was -- Midwest Gas Users case that was mentioned earlier.

8 Q. Can you point to where in that case those
9 words are?

10 A. Those probably are not the exact words that
11 are in there. Some of it comes from the fact that --

12 Q. So that's your version of it, is that the
13 standard? Okay?

14 A. Yes.

15 Q. Okay. Aren't all payments that we make to
16 our suppliers known?

17 A. Your suppliers for gas?

18 Q. Yes.

19 A. They should be, yes.

20 Q. Aren't they all direct?

21 A. They should be, yes.

22 Q. Aren't they all actual?

23 A. They should be, yes.

24 Q. Aren't they all auditable?

25 A. Yes.

1 Q. So if you're auditing the PGA costs, the
2 gas costs, those would all apply, right?

3 A. Yes.

4 Q. On page 11, line 21 of your testimony, you
5 say that this proposal is harmful to Laclede's customers?

6 A. Yes.

7 Q. If gas costs fall and uncollectibles also
8 fall, could -- customers could come out ahead under our
9 proposal; isn't that correct?

10 A. I would have to say no. Given this
11 process, no, I would not think that they would come out
12 ahead.

13 Q. Okay. Well, let's say we set the gas costs
14 portion of uncollectibles at 8.1 million, and when --
15 because of lower gas prices, the gas cost portion of
16 uncollectibles actually came in at 6.1 million. Under our
17 proposal, wouldn't customers get a \$2 million decrease in
18 the PGA?

19 A. Customers wouldn't have a benefit of having
20 their base rates changed for a lower risk.

21 Q. Say that again.

22 A. Customers would not have the -- they would
23 not --

24 Q. I guess my question is, would the PGA be
25 \$2 million lower, yes or no?

1 A. Yes.

2 Q. And would customers then be -- not be
3 paying that \$2 million?

4 A. They would not be paying that \$2 million.

5 Q. You attached to your testimony a report by
6 someone in New Hampshire, correct?

7 A. Yes.

8 Q. Who is that person?

9 A. This is Amanda O. Noonan, Director of
10 Consumers Affairs of the New Hampshire Public Utilities
11 Commission.

12 Q. Okay. And Ms. Noonan is pointing out that
13 KeySpan has an unusually high bad debt percentage,
14 correct?

15 A. Since they got similar treatment of bad
16 debt through their version of the PGA, yes.

17 Q. And they were comparing KeySpan to a
18 company called Northern Utilities?

19 A. Yes.

20 Q. And Northern Utilities had about half the
21 bad debt percentage as KeySpan, correct?

22 A. Yes.

23 Q. And Northern Utilities also had the same
24 rules as KeySpan in terms of gas costs, PGA usage of the
25 gas cost portions of uncollectibles, correct?

1 A. Yes.

2 Q. So it appears to be a KeySpan problem, not
3 a -- not putting the gas cost portion of bad debt in the
4 PGA problem; would you agree with that?

5 A. Well, that's not the only example I found
6 of that.

7 Q. Okay. Well, answer the question I asked
8 you then.

9 A. I don't know.

10 Q. Well, as between KeySpan and Northern, it
11 appears to be a KeySpan problem, not a problem that both
12 of them shared?

13 A. Both of them do not share that problem.

14 MR. ZUCKER: Do you think that was asked
15 and answered, Lera?

16 MS. SHEMWELL: I do.

17 MR. ZUCKER: One moment, your Honor.

18 Thank you, Mr. Solt.

19 JUDGE WOODRUFF: All right. We'll come up
20 for questions from the Bench. Commissioner Jarrett, do
21 you have any questions?

22 QUESTIONS BY COMMISSIONER JARRETT:

23 Q. Good afternoon, Mr. Solt.

24 A. Good afternoon, sir.

25 Q. Were you here before lunch when I was

1 asking some questions of Mr. Buck?

2 A. Yes, sir.

3 Q. And do you recall him testifying that the
4 formula that will be used to estimate I guess the bad debt
5 in a PGA scenario would actually be more accurate than the
6 way they estimate bad debt currently? Do you remember
7 that?

8 A. I do.

9 Q. Do you agree or disagree with his
10 assessments?

11 A. I think it depends on how you look at the
12 situation. If you look at the situation in a rate case,
13 rate case has been filed, bad debts are determined and set
14 in a rate case, I think there's no difference in accuracy
15 at that specific point in time. The way that would work
16 then going forward, if that rate was set in a rate case,
17 is that that amount is in there does not change no matter
18 what the company's bad debt expenses do going forward 'til
19 the next rate case.

20 Whereas, the formula that's been proposed
21 here would adjust those numbers going forward basically on
22 a monthly basis if I understand their proposal correctly.

23 Q. Okay. I believe you testified that -- I
24 don't know if you used the word impossible, but that it
25 would be difficult if not impossible to audit this under a

1 PGA scenario?

2 A. Yes.

3 Q. Why is that?

4 A. The company cannot separate the amount of
5 gas -- or the amount of charges that it has that go --
6 that it bills to a customer. When all the customers are
7 into an account, you know, the overdue accounts, they
8 can't determine how much of that -- let's say it's --
9 let's just say it's \$5 million. They can't say how much
10 of that \$5 million goes for non-gas costs versus how much
11 goes to -- is what they're calling gas costs that are
12 billed to the customer. So the only way to determine
13 those amounts is to estimate what the ratio is. Those
14 charges that they charge their customers change as many as
15 four times a year. Each PGA change changes those
16 charges -- changes those charges that they bill to their
17 customer for gas.

18 So as you can see, if you take -- a single
19 customer, if you looked at their bill, each bill for the
20 -- for a given year, you could certainly determine that,
21 although you couldn't determine it by their -- by
22 Laclede's bill because I think Laclede's bill still just
23 lists one charge that the customer pays, but once you
24 throw all those accounts together, then you can't
25 determine how much of what the customer was billed is

1 non-gas, and you can't tell how much was billed as gas
2 charges.

3 Q. Right. And so they do that, I mean they
4 use -- they use a formula now in -- when it's been
5 included in rate base, but does it matter then?

6 A. They don't use a formula to determine what
7 bad debts are in rate base in a rate case.

8 Q. Okay. How do they do it in a rate case?

9 A. It just -- I think it kind of depends. I
10 mean, they can use a 13-month average. There's several
11 ways that it can be done.

12 Q. Right. But it's estimated? You say 13
13 months average --

14 A. Yeah.

15 Q. -- that's kind of an estimate?

16 A. Yeah.

17 Q. So why is it different to estimate it in a
18 PGA scenario versus when it's in rate base?

19 A. Because you're trying to split it apart in
20 two different parts that are unknown.

21 Q. Right. So in a rate base scenario, it
22 doesn't matter whether you can split it out or not?

23 A. I don't think it makes any difference.
24 There are a lot of costs that are estimated in a rate case
25 that are -- that go into the ratemaking process that go

1 into setting the company's rates.

2 Q. Okay.

3 A. But they're not really audited -- for
4 instance -- again, let's say that there are \$5 million for
5 bad debt expenses currently in Laclede's rates. We don't
6 know how much is in there. I don't think anybody's going
7 to go back at this point and say, well, let's see,
8 specifically I mean, we might determine how much bad debt
9 expense they had, but we're not actually auditing the
10 estimate to see if it's correct or not.

11 Q. And PGA clause, they're only entitled to
12 gas costs, so I guess that would be the difference?

13 A. A portion of their bad debts.

14 COMMISSIONER JARRETT: Right. Okay. Thank
15 you. No further questions. Appreciate it.

16 JUDGE WOODRUFF: All right. Recross based
17 on questions from the Bench. Public Counsel?

18 RECROSS-EXAMINATION BY MR. POSTON:

19 Q. Following up on questions from Commissioner
20 Jarrett, the difference between looking at it in the rate
21 case or looking at this proposal here is that in a rate
22 case you look at all relevant factors; is that correct?

23 A. That is true.

24 Q. And in this case we're not looking at all
25 relevant factors?

1 A. No, we are not.

2 MR. POSTON: Thank you, Mr. Solt. That's
3 all.

4 JUDGE WOODRUFF: For Laclede?

5 RE-CROSS-EXAMINATION BY MR. ZUCKER:

6 Q. Hello again, Mr. Solt.

7 A. Hello.

8 Q. Commissioner Jarrett asked you what's the
9 difference between estimating the gas cost portion of bad
10 debt in base rates and estimating them in the PGA. Do you
11 recall that?

12 A. I don't recall that exact question, but
13 there is no estimate of what you're calling gas portion of
14 bad debts in a general rate case when that -- when bad
15 debts goes through the base rates.

16 Q. Well, bad debts are made up of gas costs
17 and non-gas costs, right?

18 A. They're made up of -- what the customer
19 bills for gas and non-gas costs are, yes, not Laclede's.

20 Q. When Laclede bills the customer, doesn't
21 Laclede put on the customer's bill how much of the bill is
22 gas cost?

23 A. I looked at a sample of Laclede's bill
24 online last week, and it appeared to have one figure, so I
25 mean, plus taxes and so forth, so I'm not sure.

1 Q. One figure meaning just one total bill?

2 There's not an amount on there that says what -- what --
3 how much of the bill is gas cost?

4 A. That is correct.

5 Q. Okay. So if I told you that the rule
6 requires us to put the per unit gas cost on there --

7 A. The per unit gas cost is on there.

8 Q. Right. And then the number of units is on
9 there?

10 A. Yes.

11 Q. So if you multiply the number of units
12 times the per unit charge, you would be able to figure the
13 gas cost, right?

14 A. If you can handle that.

15 Q. So what you're saying basically is it's
16 okay to estimate gas costs so long as they're not in the
17 PGA; isn't that right? That's how you're answering
18 Commissioner Jarrett's question?

19 A. No. I said nothing about gas costs. I was
20 talking about bad debts.

21 Q. Okay. So you're saying it's okay to
22 estimate bad debts so long as they're not -- none of them
23 are in the PGA?

24 A. Yeah, I think that's correct. I mean, the
25 PGA process has estimated gas costs in it, but they --

1 Q. Okay. You've answered it.

2 A. They're trued up.

3 Q. I'm moving on to the next question.

4 A. Okay.

5 Q. As soon as I figure out what it is.

6 A. Okay.

7 Q. Let's say that in -- again, this is a

8 hypothetical. Say Laclede's bad debt expense set in rates

9 is \$10 million. Okay. Following me so far?

10 A. Uh-huh.

11 Q. And let's say Laclede's actual bad debt in

12 a given year is \$8 million. All right. So with -- the

13 way that currently would work is Laclede would keep the

14 \$2 million that -- that bad debt decreased, correct?

15 MS. SHEMWELL: Judge, I'm not understanding

16 the connection to questions from the Bench in this

17 question.

18 MR. ZUCKER: This is about whether or not

19 our proposal comes out with a more accurate --

20 JUDGE WOODRUFF: I'll allow the question.

21 BY MR. ZUCKER:

22 Q. Okay. So the customer would -- in effect

23 would be charged 10 million and the cost would be

24 8 million, correct?

25 A. Yes.

1 Q. And so there would be a \$2 million
2 difference there?

3 A. Yes.

4 Q. Okay. If we were instead, under our
5 proposal, to have let's say 7.5 million in the PGA and
6 2.5 million in base rates, the result would be -- let me
7 figure out the math here. The result would be 6 million
8 to the PG -- the \$8 million uncollectibles, 6 million of
9 it would be in the PGA and 2 million of it would be in
10 rates. Does that sound correct?

11 A. No.

12 Q. In other words, there's a 20 percent
13 decrease. It went from 10 million to 8 million.

14 A. Yes. Okay. Yes. Yes.

15 Q. And so the PGA would pick up 1.5 million of
16 that, and the rates would be half a million, correct?
17 That would be a three to one ratio in a 75/25 assessment,
18 right?

19 A. I guess I don't follow what you're talking
20 about on the base rates. Base rates wouldn't change,
21 so the only difference would be in what was collected
22 through the PGA.

23 Q. Right. So the customers would end up
24 paying, I guess, 8.5 million instead of -- instead of
25 8 million, because they would get the benefit in the PGA

1 of the other 1.5; is that correct?

2 A. Yes.

3 Q. So the difference instead of being
4 2 million under the old method would be half a million?

5 A. Yes, I believe that's correct.

6 MR. ZUCKER: Okay. Thank you very much.

7 JUDGE WOODRUFF: Redirect?

8 MS. SHEMWELL: Thank you, Judge.

9 REDIRECT EXAMINATION BY MS. SHEMWELL:

10 Q. Mr. Solt, if it's not lawful, does accuracy
11 matter, the tariff proposal?

12 A. Not in my opinion it doesn't.

13 Q. Mr. Solt, do you draw a bright line between
14 Laclede's gas costs and Laclede's cost of doing business?

15 A. Absolutely.

16 Q. What is that bright line?

17 A. I see Laclede's gas costs as those costs
18 that Laclede must pay in order to acquire the gas, to
19 transport it to the city gate, and also the Commission has
20 allowed for some other costs that are related to but still
21 necessary for purchasing that gas and getting it to the
22 city gate.

23 Q. Staff doesn't agree to a specific amount
24 that Laclede has in its base rates for bad debt recovery;
25 is that correct?

1 A. Absolutely not. It was a black box
2 settlement, and that number does not appear in that
3 settlement.

4 Q. However, when Staff is looking at the
5 amount of bad debts, and I'm not going to ask any specific
6 number, but when you're in a rate case and Staff is
7 looking at the amount of bad debts, what does Staff base
8 its estimates on?

9 A. Generally speaking, it's the amount of bad
10 debts that the company has incurred in the past and then
11 uses a method to determine what would be appropriate for
12 the upcoming rate -- rate period. For instance, if -- it
13 may use a 13-month average, and then if it had been
14 increasing over the last several years, maybe, you know,
15 bump that up by --

16 Q. You're saying that's using a 13-month
17 average of the actual writeoffs?

18 A. Yes.

19 Q. So it's an actual amount that you're
20 looking at at that time?

21 A. That's my understanding, yes.

22 Q. For some period of time?

23 A. Yes.

24 Q. You discussed with Mr. Zucker about
25 changing treatment. Do you consider bad debt a single

1 issue in a rate case?

2 A. Yes, I do.

3 Q. Do you consider it one of many issues?

4 A. I do.

5 Q. Mr. Zucker went through the cold weather
6 rule with you at some length. Do you know if the Cold
7 Weather Rule allows Laclede to apply for and receive an
8 AAO for its costs related to implementation of the Cold
9 Weather Rule provisions?

10 A. I believe it does.

11 Q. Are you aware of a case that's happened
12 recently where Laclede received an AAO --

13 A. Yes, I do.

14 Q. -- for that purpose?

15 A. Yes.

16 Q. Is any of that amount included in Laclede's
17 proposal as an offset to what would go into --

18 A. No, it is not.

19 Q. If Laclede feels it does not have the
20 opportunity to earn -- or recover its costs and earn a
21 reasonable return, what option does it have?

22 A. They could come in for a rate case and ask
23 for the rates to be set based on, you know, the
24 Commission's ability to look at all factors that are
25 relevant.

1 Q. I'm sorry. I can't find the page right
2 now, but you had said that Laclede has the opportunity to
3 recover 100 percent of its bad debts in base rates because
4 of its rate design. Have I stated that correctly?

5 A. I think I said they had the opportunity to
6 recover their expenses plus a reasonable return on non-gas
7 expenses, all of their gas expenses plus a reasonable
8 return.

9 Q. Page 7, line 16, is it your testimony that
10 they have a rate design that permits it to recover
11 100 percent of its non-gas costs or just the opportunity?

12 A. The opportunity.

13 MS. SHEMWELL: Okay. That's all I have.
14 Thank you.

15 JUDGE WOODRUFF: Mr. Solt, you can step
16 down.

17 THE WITNESS: Thank you.

18 JUDGE WOODRUFF: And we're due for a break.
19 We'll take a break. Come back at 3:05.

20 (A BREAK WAS TAKEN.)

21 JUDGE WOODRUFF: I believe we're ready for
22 your next witness. Mr. Sommerer, if you'd please raise
23 your right hand.

24 (Witness sworn.)

25 JUDGE WOODRUFF: You may be seated. You

1 may inquire.

2 DAVID SOMMERER testified as follows:

3 DIRECT EXAMINATION BY MS. SHEMWELL:

4 Q. Mr. Sommerer, would you please spell your
5 last name for the court reporter.

6 A. S-o-m-m-e-r-e-r.

7 Q. Where do you work, Mr. Sommerer?

8 A. I work for the Missouri Public Service
9 Commission.

10 Q. How long have you worked for the
11 Commission?

12 A. Approximately 23 years.

13 Q. Started when you were eight. Withdrawn.

14 A. Absolutely. My mistake. I guess I wasn't
15 eight. Sorry.

16 Q. Withdrawn. What do you do at the
17 Commission?

18 A. I'm the manager of the Procurement Analysis
19 Department.

20 Q. Have you prepared testimony in this case,
21 rebuttal testimony?

22 A. Yes, I have.

23 Q. It's been marked Exhibit 9. Do you have
24 any corrections to your testimony, Mr. Sommerer?

25 A. I do not.

1 Q. If I were to ask you the same questions
2 today, would your answers be substantially the same?

3 A. Yes.

4 Q. Is your testimony true and correct to the
5 best of your knowledge and belief?

6 A. Yes, it is.

7 MS. SHEMWELL: Judge, I offer Exhibit 9 and
8 tender the witness for cross.

9 JUDGE WOODRUFF: Exhibit 9 has been
10 offered. Any objections to its receipt?

11 (No response.)

12 JUDGE WOODRUFF: Hearing none, it will be
13 received.

14 (EXHIBIT NO. 9 WAS RECEIVED INTO EVIDENCE.)

15 MS. SHEMWELL: Thank you, Judge.

16 JUDGE WOODRUFF: For cross-examination,
17 beginning with Public Counsel?

18 MR. POSTON: No questions. Thank you.

19 JUDGE WOODRUFF: For Laclede?

20 MR. PENDERGAST: Thank you, your Honor.

21 CROSS-EXAMINATION BY MR. PENDERGAST:

22 Q. Good afternoon, Mr. Sommerer.

23 A. Good afternoon, Mr. Pendergast.

24 Q. Over the years, Mr. Sommerer, you and I
25 have had an opportunity to talk about a number of

1 different company proposals as well as Staff proposals
2 that have been made respecting the PGA, including
3 incentive mechanisms and hedging mechanisms and that type
4 of thing; is that correct?

5 A. That's correct.

6 Q. Just to kind of put your testimony into
7 context, I think in your testimony it's fair to say that
8 you believe there would be a lot of mechanical problems
9 associated with implementing the company's proposal in
10 terms of complexity of estimates; is that correct?

11 A. That was one aspect of the testimony, yes.

12 Q. Okay. And just so the Commission doesn't
13 have the feeling that, you know, on all these other
14 proposals you've always come in and said that you think
15 it's very doable, would it be fair to say that with
16 respect to a lot of prior proposals the company's made
17 you've often pointed out that in your view they would be
18 complicated and difficult to implement?

19 MS. SHEMWELL: Wow. I'm going to object to
20 that as being an extremely broad question.

21 MR. PENDERGAST: I'll be happy to narrow
22 it, your Honor.

23 BY MR. PENDERGAST:

24 Q. You've filed testimony on other proposals
25 the company has made?

1 A. Yes.

2 Q. Have you on occasion raised the concern
3 that the proposals that the company has put forward would
4 be difficult to implement?

5 MS. SHEMWELL: Relevance, your Honor. I
6 just don't see any relevance in this.

7 MR. PENDERGAST: Well, the relevance is --

8 JUDGE WOODRUFF: I'll overrule the
9 objection. I see the relevance.

10 THE WITNESS: I don't recall offhand, no.

11 BY MR. PENDERGAST:

12 Q. Okay. So you can't recall any instance
13 where you said that an incentive mechanism, for example
14 that the company's proposed would be difficult to
15 implement?

16 A. Not offhand, no.

17 Q. Okay. Where it would be complicated?

18 A. I don't recall.

19 Q. Okay. So you don't recall whether you have
20 or haven't?

21 A. That's correct.

22 MS. SHEMWELL: Asked and answered.

23 MR. PENDERGAST: Okay. I'm done with that
24 line.

25 BY MR. PENDERGAST:

1 Q. At page 8, you say that gas costs are not
2 totally beyond the control of the utility; is that right?

3 A. Could you quote a line for me, please?

4 Q. Well, I believe it's at the bottom of
5 page 8 where you say, no, not entirely. Although gas
6 costs are extremely volatile, they're not effectively
7 beyond the company's control.

8 A. That's correct.

9 Q. Okay. And when you say that, you mention
10 the fact that the utility can do things like dispatching
11 and hedging and take some other measures to mitigate
12 volatile gas prices?

13 A. That's correct.

14 Q. So there's, in your view, some degree of
15 control that utilities can exercise?

16 A. Yes.

17 Q. And notwithstanding the fact that there's
18 some degree of control that utilities can exercise, the
19 mechanism that's currently used to pass through increases
20 and decreases in those gas costs has been found to be
21 lawful; is that correct?

22 A. That's my understanding.

23 Q. Okay. So, I mean, just looking at this as
24 one example, the fact that you can exercise some control
25 isn't necessarily a bar to finding that a particular

1 mechanism's lawful; is that correct?

2 MS. SHEMWELL: I'm saying that calls for a
3 legal conclusion, Judge.

4 MR. PENDERGAST: Well, he knows it's been
5 upheld as lawful, and --

6 MS. SHEMWELL: Now Mr. Pendergast is
7 testifying.

8 MR. PENDERGAST: I'm just responding to the
9 objection, your Honor.

10 JUDGE WOODRUFF: I'll overrule the
11 objection. You can answer, understanding of course that
12 you're not an attorney.

13 THE WITNESS: Based upon that, I believe
14 that's correct, yes.

15 BY MR. PENDERGAST:

16 Q. Okay. Thank you. You say also at the
17 bottom of page 8 that it's impossible to design a
18 mechanism that will keep either party whole; is that
19 right?

20 A. Yes.

21 Q. Okay. Does the existing treatment of bad
22 debts keep either party whole?

23 A. No.

24 Q. So would it be fair to say that one's
25 already been designed and it don't work in terms of

1 keeping people whole, parties whole?

2 A. I would agree that the existing mechanism
3 has the potential of not keeping parties whole.

4 Q. Okay. At page 4 of your testimony, you
5 have some discussion about net writeoffs, and you wonder
6 in that testimony about what that term means and how they
7 would be defined, is that correct, bottom of page 4?

8 A. Yes.

9 Q. Okay. Now, is it your understanding, you
10 know, let's just say for the last 20 or 30 years there's
11 been allowance in base rates that's designed to reflect
12 net writeoffs?

13 A. That's my understanding, yes.

14 Q. Okay. Are you aware over that 20, 30,
15 however many year period whether there's been some raging
16 controversy or dispute about how you define net writeoffs?

17 A. Not to my knowledge.

18 Q. Okay. And so if you define these net
19 writeoffs as used in the company's tariffs to mean the
20 same kind of net writeoffs that have been used for 20 or
21 30 years in the ratemaking process, would that resolve
22 some of your concern about what that means?

23 A. Not entirely, no.

24 Q. Partially?

25 A. Well, I think it addresses one aspect,

1 which is, if you're presuming the definition is the same
2 that has been used and has been practiced in rate cases,
3 you've at least addressed the concept of net writeoff.
4 You really haven't addressed the gas cost portion of net
5 writeoff.

6 Q. Okay. Fair enough. But if we added to our
7 tariff net writeoffs as used in the traditional ratemaking
8 process over the last 30 years, would that satisfy your
9 concern there as far as just the definition of net
10 writeoff?

11 A. I think that would improve the clarity of
12 the tariff, yes.

13 Q. Okay. Great. Now, we talked a little bit
14 earlier about some of the proposals the company's made in
15 the past and had a discussion about whether you thought
16 they were difficult to implement or too complicated, and I
17 think you responded that you didn't really recall what
18 you'd said on them, but do you recall whether or not the
19 GSIP, gas supply incentive program for Laclede was
20 reapproved outside the context of a rate case?

21 A. Are you referring to Case GT-99-303?

22 Q. By George, I think you have it.

23 A. I believe that was outside the context of a
24 rate case.

25 Q. And do you remember the price

1 stabilization, experimental price stabilization program
2 that Laclede had that had an incentive program for its
3 financial hedging?

4 A. Yes.

5 Q. Do you know if that was approved outside
6 the context of a rate case?

7 A. That's my recollection, yes.

8 Q. And Laclede's been operating under a
9 purchased gas adjustment mechanism since about 1962; is
10 that correct?

11 A. Yes.

12 Q. Do you know if that was approved outside
13 the context of a rate case?

14 A. I do not.

15 Q. Do you know if changes to Laclede's tariff
16 to recognize the impact of use of hedging instruments has
17 been approved outside the context of a rate case?

18 A. Yes.

19 Q. Okay. When you -- you make a disallowance,
20 and you proposed a few disallowances in your time relating
21 to gas costs; is that correct, Mr. Sommerer?

22 A. That's correct.

23 Q. Does that impact the company's risk at all?

24 A. Yes, I believe it would.

25 Q. Do you think that when you make that

1 proposed disallowance and you increase the company's risk,
2 that you should accompany it with a return on equity
3 adjustment upward?

4 A. I do not.

5 Q. You do not think you should?

6 A. That's correct.

7 Q. You also talked about the difficulty of
8 looking at uncollectible expense and evaluating that if it
9 was part of the PGA. Do you know who looks at
10 uncollectible expense today to determine whether the
11 company's doing an okay job and its uncollectible expenses
12 are reasonable?

13 A. I believe it can be done in the context of
14 a couple of different cases. I think that management
15 services has as part of their management audit taken a
16 look at credit and collection procedures. I also believe
17 when the expense is set that there is some review of the
18 amounts.

19 Q. Well, whoever does it today, whether they
20 do it in a rate case or part of a management audit, if you
21 were to go ahead and recover the gas cost portion of bad
22 debt expense through the PGA/ACA process, couldn't you
23 just tell that same person to keep on looking at it?

24 MS. SHEMWELL: That question assumes that
25 Mr. Sommerer agrees that there's a gas cost portion to the

1 bad debt.

2 BY MR. PENDERGAST:

3 Q. Assuming there's a gas cost portion to the
4 bad debt, could you just have the same person continue to
5 look at it?

6 MS. SHEMWELL: Is that a hypothetical then?

7 MR. PENDERGAST: It's whatever you want it
8 to be.

9 THE WITNESS: So can I answer the question?

10 MR. PENDERGAST: Yes.

11 THE WITNESS: That certainly could be a
12 possibility, yes.

13 BY MR. PENDERGAST:

14 Q. And would -- okay. Now, in talking in
15 terms of the difficulty of administering the company's
16 proposal, you've been here in the hearing room and you've
17 read the testimony of Mr. Feingold about the number of
18 jurisdictions, perhaps minus one, that utilize the PGA to
19 go ahead and reflect increases and decreases as the gas
20 cost portion of bad debt?

21 A. I've read that testimony, yes.

22 Q. Okay. And when Mr. Solt, you know he
23 called around and talked to some people about what their
24 experience has been, you recall that, some regulatory
25 staffs?

1 A. Yes.

2 Q. Okay. Did you ask him to ask these people
3 in these other 17, 18 jurisdictions that have managed to
4 go ahead and implement this how they did it?

5 MS. SHEMWELL: Judge, that seems to me a
6 question more appropriate for Mr. Solt.

7 MR. PENDERGAST: I'm asking him if he asked
8 Mr. Solt to find out because, your Honor, he says he
9 thinks there's a lot of difficulties with implementing
10 this, calling around to regulatory staffs. I just wonder
11 if they asked the question. That's all.

12 JUDGE WOODRUFF: I'll overrule the
13 objection.

14 THE WITNESS: I think the general concept
15 was discussed. I don't know if I specifically advised
16 Mr. Solt to ask those questions, but the difficulty of
17 segregating gas costs from non-gas costs with regard to
18 bad debt expense was discussed, and some of the methods
19 that the other jurisdictions struggled with were discussed
20 as well.

21 BY MR. PENDERGAST:

22 Q. Okay. So you did ask him to ask them how
23 they did it?

24 A. I would say that I didn't give him that --
25 that direction or advice. I simply would say that we

1 discussed finding out as much as we could about how the
2 other jurisdictions handled gas cost. Sometimes it was
3 difficult to find out in detail how it was handled, but we
4 discussed it generally.

5 Q. Well, if and when Mr. Solt reported back to
6 you, did he indicate in talking to these regulatory staffs
7 they had thrown up their hands and just concluded that
8 they really couldn't go ahead and segregate the gas costs
9 from non-gas costs, that they had a big problem doing
10 that?

11 A. Well, as an example, in Tennessee we talked
12 about the idea that Tennessee considered a rulemaking for
13 coming up with this procedure, and part of the protections
14 that Tennessee considered and struggled with was what if
15 the company's billing system could not segregate the gas
16 costs portion if it can be measured from the non-gas
17 portion.

18 And I think one of the protections that the
19 Tennessee Regulatory Authority pushed through in terms of
20 their proposed rulemaking was to require the companies to
21 consider all recoveries of bad debt expense as gas cost if
22 a company's billing system could not track on an
23 individual customer basis customer by customer what part
24 is gas cost and what part of bad debt expense is non-gas
25 cost.

1 Q. Okay. And did you consider that an
2 appropriate resolution of your concern?

3 A. I think it was an improvement, but I still
4 think that the process would be complex and -- and full of
5 estimate.

6 Q. How about the other 16, did you hear
7 anything back from them about their inability to deal with
8 these estimates?

9 A. I don't recall any specific discussions
10 regarding the difficulty in the estimating process, no.

11 Q. Okay. And in looking at your testimony,
12 you go ahead and provide the tariff description of how
13 Laclede's proposal would work on pages 3 and 4; is that
14 right?

15 A. That's correct.

16 Q. Okay. And on page 6, line 10, you talk
17 about the ACA process is already cumbersome?

18 A. Yes.

19 Q. And you talk about the company files no
20 testimony in support of its gas costs; is that right?

21 A. That's correct.

22 Q. That's something that, if you wanted to,
23 you could correct without regard to company's proposal in
24 this case; is that right?

25 A. It would likely require a rulemaking, but I

1 think that is correct.

2 Q. Okay. And the thing that the company is
3 under no obligation to point out major decisions that
4 impact gas costs, and that's just a general, you know,
5 kind of concern about the ACA/PGA process in general,
6 really doesn't have anything to do with the company's
7 proposal, does it?

8 A. It's a comment about the current ACA
9 process.

10 Q. And then once the ACA filing is made and
11 the cost is claimed, you've got to do -- identify the
12 decisions and whether they were unreasonable and whether
13 there were any excessive costs, once again, that's a
14 general critique or concern about the ACA process in
15 general, right?

16 A. Yes.

17 Q. And how about in a base rate case, in a
18 base rate case where you've got like, I don't know, if you
19 look at AmerenUE, 100 issues to go ahead and deal with, is
20 that necessarily a less complicated process to go ahead
21 and consider an issue like this?

22 A. Not necessarily, no.

23 Q. And in a rate case you've got a statutory
24 deadline where you have to go ahead and do your analysis
25 and review whether it's established at a reasonable level

1 of bad debt expense or tree trimming expense or payroll
2 expense, you've got to do all that within 11 months; is
3 that right?

4 A. That's correct.

5 Q. And as our most recent ACAs show, that
6 process, if you need additional time, you can take a
7 couple of years to go ahead and look at these issues,
8 can't you?

9 MS. SHEMWELL: Objection, relevance.

10 JUDGE WOODRUFF: Overruled.

11 THE WITNESS: It's my understanding there's
12 no operation of law date in the context of an ACA.

13 BY MR. PENDERGAST:

14 Q. So since there is no operation of law date,
15 you can take more time and, in fact, have taken more time
16 on particular ACA issues; is that right?

17 A. That's correct.

18 Q. At page 8, you talk about Mr. Cline's
19 statement that the company is entitled to be kept whole
20 for all gas costs it incurs and the customers be held to
21 pay only for gas costs that were actually incurred, and
22 you say he should have said prudently incurred; is that
23 right?

24 A. That's correct.

25 Q. And with that correction to his statement

1 there, do you agree with what he said?

2 A. No, I don't. I would also say that there's
3 still an issue with measuring what the so-called gas cost
4 portion of bad debt expense is.

5 Q. Yeah. Well, I was just talking about in
6 general terms, do you think that all prudently incurred
7 gas costs should be recovered?

8 A. Yes.

9 Q. Okay. And we have to put on our bills,
10 don't we, what the amount of gas cost is being billed to a
11 particular customer?

12 A. That's my understanding, yes.

13 Q. Does the Commission rule require that we do
14 that?

15 A. I'm not familiar with the rule, but it's my
16 understanding that the company records a PGA rate and the
17 volumes sold on the bill.

18 Q. So you don't know whether the Commission's
19 rules require that the purchased gas adjustment cost be
20 reflected separately on the customer's bill?

21 A. I do not.

22 Q. And does Staff generally support
23 maintaining a separation between gas costs and base rate
24 costs?

25 A. Could you repeat the question, please?

1 Q. Yeah. Does Staff generally support trying
2 to maintain some separation between purchased gas costs
3 and margin costs?

4 A. Yes.

5 Q. Okay. Is that kind of a longstanding
6 policy?

7 A. Yes.

8 Q. And over the years we've determined that
9 some costs that are included in base rates are just as
10 appropriately included in the PGA; is that correct?

11 A. Some costs that are included in base rates
12 are just as appropriately included in the PGA rate, is
13 that your question?

14 Q. Yeah.

15 A. If that question is referring to items like
16 gas inventory, carrying charges, I would say yes.

17 Q. And just so we've got a clear picture here
18 of how the process does work, as you said, in what's
19 actually charged to the customer, does that reflect --
20 under the current PGA as it operates, leaving aside the
21 company's proposal on gas costs, bad debts, does the
22 amount charged to the customer reflect only the rate
23 increases or decreases that a supplier charges the
24 company?

25 A. The amount that's charged to the customer

1 pursuant to the PGA clause as a PGA rate is designed to
2 recover the entire cost of gas.

3 Q. The entire cost of gas, and that entire
4 cost of gas, in addition to being the price or the rate
5 that the supplier charges us, also includes carrying costs
6 associated with deferring differences between actual and
7 estimated costs; is that right?

8 A. Are you speaking of carrying costs with
9 regard to the ACA under and over-recovery?

10 Q. Sure. Absolutely.

11 A. Those costs are given PGA treatment, yes.

12 Q. Okay. So there's going to be a little
13 variation right now under the existing PGA between
14 strictly the price that's charged, increases and decreases
15 in it, and what's ultimately charged to the customer?

16 A. There's always a difference between the
17 actual gas cost and what's billed to the customers --

18 Q. Okay.

19 A. -- for gas costs.

20 Q. And it also includes hedging gains and
21 losses; is that correct?

22 A. That's correct.

23 Q. Okay. And that's something we pay to
24 somebody else other than our supplier; is that right?

25 A. In essence, hedging gains and losses are

1 remitted, I believe, on a cash basis to the company's
2 broker.

3 Q. Broker. Okay. And he sends it along to
4 somebody else, right?

5 A. That's correct.

6 Q. And in talking about -- were you here when
7 we talked about that MGUA decision? Were you in the room?

8 A. Yes, I believe I was.

9 Q. And that sentence that talks in terms of
10 each year you true up the estimate so that you recover all
11 gas costs, do you recall that?

12 A. Yes.

13 Q. Is that an accurate view in your opinion of
14 what the PGA is designed to do?

15 A. Well, my recollection of the statement was
16 that the PGA is supposed to pass through in a pro rata
17 fashion up and down the company's cost of gas. That's my
18 understanding of the purpose behind the PGA clause.

19 Q. Okay. And then the reconciliation, annual
20 reconciliation is designed to do what?

21 A. The annual reconciliation compares the
22 billed cost of gas to the actual cost of gas.

23 Q. And do you agree that the purpose should be
24 to recover all of your actual gas costs?

25 A. Yes.

1 MR. PENDERGAST: Okay. Thank you. I don't
2 have any further questions.

3 JUDGE WOODRUFF: All right. Come up from
4 the Bench. Commissioner Jarrett?

5 COMMISSIONER JARRETT: I have no questions.
6 Thank you, Mr. Sommerer.

7 JUDGE WOODRUFF: Chairman Davis?

8 CHAIRMAN DAVIS: Mr. Sommerer, it's always
9 a pleasure to see you. Have a happy new year.

10 THE WITNESS: Thank you.

11 JUDGE WOODRUFF: No need for recross. Any
12 redirect?

13 MS. SHEMWELL: Thank you, Judge.

14 REDIRECT EXAMINATION BY MS. SHEMWELL:

15 Q. Mr. Sommerer, if this proposal is unlawful,
16 does its difficulty of implementation matter?

17 A. No.

18 Q. Mr. Sommerer, Mr. Pendergast referred to
19 the company's actual cost of gas. Would you explain to me
20 what you consider to be included in the company's actual
21 cost of gas?

22 A. I believe the actual cost of gas includes
23 costs paid to gas suppliers, the cost of acquiring the
24 supply to the company's city gate, which is in essence the
25 interconnection between the interstate pipeline and the

1 company's distribution system. It includes FERC regulated
2 pipeline transportation costs, FERC regulated storage
3 costs and carrying costs that is closely associated with
4 those activities.

5 Q. Do you agree with Mr. Neises' statement
6 that I read earlier in his cover letter that the company
7 has passed through its costs of acquiring gas through the
8 PGA/ACA process?

9 A. Yes.

10 Q. Do you include bad debt as a cost to
11 acquire gas for customers?

12 A. No.

13 Q. There was some discussion about whether or
14 not the PGA is designed to keep Laclede whole. Do you
15 recall that?

16 A. Yes.

17 Q. But the PGA is designed for Laclede to
18 recover only prudently incurred costs, do you agree with
19 that?

20 A. Yes.

21 Q. So if costs are not prudently incurred, is
22 it designed to keep Laclede whole?

23 A. With that clarification, I would say no.

24 Q. You talked about other states and what
25 they're doing. Do you know the statutes or the common law

1 under which other states operate?

2 A. No.

3 Q. Do you know whether or not these states
4 have a PGA mechanism, let me say that is similar to
5 Missouri's?

6 A. In a very general fashion, I would say I'm
7 familiar with some states' ability to pass through gas
8 costs through a PGA, but not in great detail.

9 Q. Mr. Pendergast asked you about the GSIP,
10 the gas supply incentive plan. Was that plan originally
11 established in the context of a rate case?

12 A. My recollection is yes, it was, I believe
13 it was a company rate case. I don't recall the specific
14 docket number, but I believe it dealt with around the 1996
15 era.

16 Q. You've talked about some of your concerns
17 with the ACA process. Is receiving adequate information
18 to support the current ACA filings one of your concerns?

19 A. Yes.

20 Q. With Laclede specifically?

21 A. Yes.

22 MS. SHEMWELL: That's all I have. Thank
23 you, Judge.

24 JUDGE WOODRUFF: Mr. Sommerer, you can step
25 down.

1 We're ready for Mr. Trippensee. If you'd
2 please raise your right hand.

3 (Witness sworn.)

4 JUDGE WOODRUFF: You may inquire.

5 MR. POSTON: Thank you.

6 RUSSELL TRIPPENSEE testified as follows:

7 DIRECT EXAMINATION BY MR. POSTON:

8 Q. Please state your name.

9 A. Russell Trippensee.

10 Q. And by whom are you employed and in what
11 capacity?

12 A. I'm the chief utility accountant for the
13 Missouri Office of Public Counsel.

14 Q. Are you the same Russell Trippensee that
15 caused to be prepared and filed testimony, rebuttal
16 testimony that's been marked as Exhibit No. 10?

17 A. Yes, I am.

18 Q. And do you have any corrections or changes
19 to your testimony?

20 A. Yes, I do. Two minor corrections. The
21 first correction is on page 5, line 16. Toward the end of
22 that line it reads to collect it revenue. The "it" needs
23 to be taken out. So it reads, the incentive it maintains
24 to collect revenue. The other correction is on line 15,
25 line 8, the last word in that line is block, and it should

1 be box, b-o-x.

2 Q. Okay. With these changes, is this
3 testimony true and accurate to the best of your knowledge?

4 A. Yes, it is.

5 MR. POSTON: Your Honor, I offer Exhibit 10
6 into the record and tender Mr. Trippensee for
7 cross-examination.

8 JUDGE WOODRUFF: No. 10 has been offered.
9 Any objection to its receipt?

10 (No response.)

11 JUDGE WOODRUFF: Hearing none, it will be
12 received.

13 (EXHIBIT NO. 10 WAS RECEIVED INTO
14 EVIDENCE.)

15 JUDGE WOODRUFF: For cross-examination,
16 beginning with Staff?

17 MS. SHEMWELL: Thank you, Judge. No
18 questions.

19 JUDGE WOODRUFF: For Laclede?

20 MR. PENDERGAST: Thank you, your Honor.

21 CROSS-EXAMINATION BY MR. PENDERGAST:

22 Q. Good afternoon, Mr. Trippensee.

23 A. Good afternoon, Mr. Pendergast.

24 Q. Just a couple of preliminary questions.

25 You're an accountant by background?

1 A. Education, accounting and finance.

2 Q. Accounting and finance. No law?

3 A. Just the law required to receive an

4 accounting degree, which I believe was 9 or 12 hours, and

5 also pass one part of the CPA exam when I took it was a

6 law section, so four hours of testing on law.

7 Q. Fair enough. Would you consider yourself

8 to be a legal expert?

9 A. Expert?

10 Q. Yes.

11 A. Maybe within the office, but probably not

12 outside.

13 Q. Okay. And you're not an attorney?

14 A. No, I'm not.

15 Q. Okay. When you express opinions about

16 whether some action Laclede took violated or abrogated the

17 Stipulation & Agreement in the rate case, are you familiar

18 with how agreements are generally construed and what the

19 various construction requirements and practices are under

20 the law?

21 A. From what perspective?

22 Q. For how you construe contracts and

23 agreements?

24 A. I'm not sure I fully understand your

25 question.

1 Q. Well, you have purported to go ahead and
2 say in your testimony, express an opinion, a conclusion on
3 whether Laclede violated a legal agreement, a Stipulation
4 & Agreement. What I'm asking you is, did you have by
5 virtue of your background any training in construing
6 contracts and determining their legal significance?

7 A. I have 20 -- over 30 years experience
8 construing the portion of the stipulation that says you do
9 not discuss settlement agreements or reveal -- or purport
10 that there are cost of service components that are not
11 specifically addressed in that document.

12 Q. So you would say that you are a legal
13 expert for purposes of construing Stipulations &
14 Agreements?

15 A. The portion of the document that I referred
16 to I have had extensive experience with, and that is my
17 opinion as a regulatory policy person in this field.

18 Q. Well, how about the other portions of the
19 Stipulation & Agreement? That was about a 20-page
20 document, wasn't it?

21 A. I referenced the portion referring to cost
22 of service items.

23 Q. Okay. So you think you're an expert on
24 that particular provision, but you're not saying you're
25 necessarily an expert on the other provisions of that

1 Stipulation & Agreement?

2 A. I'm not an expert on all provisions of the
3 Stipulation & Agreement.

4 Q. Okay. Fair enough. On page 4 of your
5 rebuttal testimony, you discuss the Uniform System of
6 Accounts and how FERC says you should book uncollectible
7 expense. Do you see that?

8 A. Yes, I do.

9 Q. Okay. Now, when Laclede goes out and first
10 pays a supplier for the commodity that it purchases or it
11 pays an interstate pipeline for the transportation to take
12 that commodity from the field, say, to Laclede's city
13 gate, do you know where it books that cost?

14 A. When it first contracts to do that?

15 Q. Well, when it first, you know, like, sends
16 a payment out by wire transfer to pay for the invoice?

17 A. Outside of any intermediate accounting with
18 regard to payables and the like accounts, it would flow
19 through to an account in probably the 800 series.

20 Q. And the 800 would be that series that you
21 say in your testimony addresses gas costs; is that
22 correct?

23 A. That is correct.

24 Q. Okay. And when Laclede books that cost to
25 that gas cost account, if a customer ultimately doesn't

1 pay Laclede a portion of the bill, does Laclede remove
2 that from the gas cost account?

3 A. Whether a customer pays the bill or not has
4 no impact on it, on the expense side of Laclede in the 800
5 series.

6 Q. Okay. So that gas cost stays right there
7 in the USOA gas cost account regardless of whether the
8 customer pays for it or not; is that right?

9 A. That is correct.

10 Q. Okay. And your testimony isn't because
11 FERC has a Uniform System of Accounts that says here's
12 where you book uncollectible expense, that it's FERC
13 that's supposed to go ahead and determine the issue that's
14 before the Commission here today?

15 A. Not only does FERC not show that, Generally
16 Accepted Accounting Principles would not provide to
17 transfer that expense.

18 Q. Okay. So it's, what, the FASB board that
19 should be determining the issue here today and FERC
20 together?

21 A. All of the authoritative sources recognize
22 the difference between expense to Laclede for gas purposes
23 and revenues billed to customers in the subsequent
24 inability to collect a portion of those revenues, as
25 Mr. Solt testified earlier today. Only Laclede is

1 asserting that for some -- without any authoritative
2 source, that the failure to collect is something other
3 than a cost of sales.

4 Q. Let me ask you again, Mr. Trippensee, is
5 your testimony today that the Federal Energy Regulatory
6 Commission and whoever writes, you know, Generally
7 Accepted Accounting Principles have already decided this
8 issue and that this Commission is powerless in the face of
9 what they've already decided because when things book and
10 how they account for things to make a policy
11 determination?

12 A. I do not believe you will find in my
13 testimony saying the Commission is powerless. What I
14 am -- put in my testimony is that there is no
15 authoritative source that supports the position of the
16 company that somehow this is magically transferred into a
17 gas cost. The ability to track dollars is not something
18 that is in any financial literature.

19 Q. Okay. So just to clarify, would it be fair
20 to say then that you do think the Commission has the power
21 to do this, albeit against your recommendation of what you
22 think are authorities on various matters?

23 A. Within the legal parameters of the state of
24 Missouri, which outside of the rate case I believe our
25 Brief will cover the ability to do something outside of a

1 rate case, to adjust rates.

2 Q. With that caveat and within those legal
3 parameters, you're not suggesting with your testimony that
4 the Commission cannot make that policy determination
5 because of something FERC has done with its accounts or
6 because of something that is in Generally Accepted
7 Accounting Principles?

8 A. If the Commission chooses to ignore all
9 authoritative resources and accept Laclede's position, I
10 would imagine this Commission has the ability to do that
11 at their level in the Report and Order.

12 Q. Now, Mr. Trippensee, have you made an
13 effort to get on the phone to the staffs in these 17 other
14 jurisdictions and talk to them about how they're violating
15 accounting principles and the FERC Uniform System of
16 Accounts?

17 A. No, sir, I have not. I did not have time
18 to do that nor, quite frankly, do I feel that -- let me
19 rephrase that.

20 The Commission -- this state, the FERC, the
21 Generally Accepted Accounting Principles, how other states
22 treat their utilities is their business. I'm making a
23 professional recommendation to this Commission.

24 Q. Well, the FERC Uniform System of Accounts
25 is pretty much in effect throughout the country, isn't it?

1 A. If adopted by those state commissions, yes.

2 Q. And Generally Accepted Accounting
3 Principles is something that's pretty much observed
4 throughout the country?

5 A. Yes.

6 Q. So your view would be at least for the 17
7 state commissions, they're kind of out there like
8 violating the heck out of these things and approving these
9 things without taking these factors into consideration?

10 A. Well, I do not know whether they took that
11 factor into consideration or not.

12 Q. Okay. Now, at lines 10 and 11 of your
13 rebuttal testimony, you state that uncollectible
14 expense --

15 A. Lines 10 and 11. Can I have a page,
16 please?

17 Q. I'll find it. If you find it first, let me
18 know.

19 A. Maybe you could try page 5. It has
20 uncollectible expense on line 10.

21 Q. Yeah. That's it. Thank you.

22 A. You're always welcome.

23 Q. Now, there you say, uncollectible expense
24 has not required Laclede to pay a third party to provide
25 goods or services, whereas Laclede does pay third parties

1 for its gas cost; is that correct?

2 A. That is a correct reading of that sentence,
3 yes.

4 Q. Okay. To your knowledge, has Laclede paid
5 suppliers for the gas costs it has used to serve all of
6 its customers regardless of whether they pay for it or
7 don't?

8 A. I think I understood your question. I
9 think the answer is yes, I would assume you've paid them.
10 I haven't seen any --

11 Q. You have no reason to believe we haven't?

12 A. No.

13 Q. And at the bottom of page 5 and the top of
14 page 6, you discuss the value of incentives as recognized
15 by the Commission in some Orders from 2004 and 2006; is
16 that correct?

17 A. 2004 and 2007, but yes.

18 Q. And that involved Missouri Gas Energy and
19 their request to establish some sort of environmental
20 fund?

21 A. I'd have to go back and check on the
22 specific type of funds.

23 Q. Okay. I mean, do you know what the
24 circumstances were of -- and the terms and conditions
25 under which they were seeking approval of that fund?

1 A. I would have to go back and check the
2 specific circumstances.

3 Q. Okay.

4 A. It's been about three months since we filed
5 this.

6 Q. That's fine. I mean, what you know about
7 this is pretty much in your testimony right here?

8 A. Those were the relevant comments out of
9 those orders that were germane to this policy discussion.

10 Q. So if I were to go ahead and ask you to
11 compare MGE's proposal regarding this environmental fund
12 to the company's proposal and how they were alike and how
13 they were different, you wouldn't be prepared to do that
14 right now?

15 A. Not at this time, no.

16 Q. Okay.

17 A. If you wish to seek a postponement, I'd be
18 happy to do that.

19 Q. That's quite all right. Thanks for the
20 suggestion.

21 Now, you also talk about regulatory lag and
22 the benefit of regulatory lag as far as providing
23 incentive to be efficient; is that correct?

24 A. Yes.

25 Q. Okay. And that particular incentive is

1 between rate cases, you know, costs go up, you absorb
2 100 percent, if the costs go down, you get the benefit of
3 100 percent; is that right?

4 A. It provides a real-time incentive for the
5 company to maintain its efficiency, just like what happens
6 in the real competitive market, has been testified to by
7 Southwestern Bell witnesses, by studies, by a gentleman
8 named Mr. Meyers, and I think recently I was reading
9 Dr. Morin, fundamentals, discussed the benefits of it.

10 Q. Sure, but you -- you wouldn't take the
11 position that the only good incentive is 100 percent
12 incentive, would you?

13 A. The only good incentive is 100 percent
14 incentive?

15 Q. Right.

16 A. I think we have experimented with different
17 incentive programs in this state that I've discussed
18 before this Commission.

19 Q. Yeah. Like --

20 A. Which is a different regulatory format than
21 traditional regulation.

22 Q. Okay. That's fine. But in those different
23 approaches, they have approved incentives that are
24 something less than 100 percent; is that right?

25 A. I believe so.

1 Q. I mean, some have been like a fuel
2 adjustment clause, like a 5 percent incentive. Does that
3 sound familiar?

4 A. A 5 percent incentive on a fuel adjustment
5 clause?

6 Q. Right.

7 A. Which is significantly different order of
8 magnitude than 25 percent incentive on uncollectible
9 expense.

10 Q. Okay. But, you know, we've also approved
11 like, 10 percent incentives for the first 2 million, say,
12 on off-system sales and another, like, 5 percent for the
13 next 2 million. Are you familiar with that?

14 A. No, I'm not. Can I comment on that? I was
15 not involved in that.

16 Q. Okay. And on the gas supply incentive
17 program, is it a 10 percent incentive?

18 A. I was not involved with that either.

19 Q. So you're unaware of that particular
20 incentive. How many -- well, how many incentive features
21 are you aware of?

22 A. Dealt with the regulatory plans for
23 Southwestern Bell, for AmerenUE. Let's see.

24 Q. Were those 100 percent incentives?

25 A. Those were scaled incentives after -- based

1 on the overall rate of return, which is also a significant
2 difference, after -- around a boundary around a specified
3 rate of return, and earnings above -- or earnings above a
4 certain threshold limits were then provided to, I believe,
5 refund to customers at certain levels.

6 Q. But certainly, I mean, you know, when all
7 is said and done, there have been a large number of
8 incentive programs that have been approved by the
9 Commission based on the theory that something short of a
10 100 percent absorption or retention provides a sufficient
11 enough incentive, would that be a generally true
12 statement?

13 A. The ones I'm familiar with dealt with total
14 rate of return in general, not specific items such as the
15 GSIP and the other one you referenced

16 Q. Okay. So you're just not familiar with the
17 other ones, so would that be one of the reasons maybe you
18 didn't take those other ones into consideration in
19 discussing regulatory lag here?

20 A. I did not take those into consideration in
21 discussing regulatory lag because what we're looking at
22 here is looking at the overall rate of return of Laclede
23 Gas and the proposal to take a specific cost of service
24 component and try and adjust rates in between rate cases
25 without considering all relevant factors, which is the

1 basic underlying principle of rate of return regulation.
2 Cost -- Missouri is not a cost recovery state. To my
3 knowledge and practice, it is based on the overall rate of
4 return.

5 Q. So would the answer to my question be that
6 you did not take those other incentive mechanisms into
7 consideration?

8 A. I believe I just answered your question,
9 Mr. Pendergast.

10 Q. And the answer was no?

11 A. The answer was that I looked at the
12 regulatory policy utilized to regulate the rates for
13 Laclede and addressing single issue cost of service
14 components that dealt with revenue collection, bad debt
15 expense.

16 Q. Okay. So if there was an incentive
17 mechanism that dealt with the single issue off-system
18 sales, you didn't look at that one, right?

19 A. Off-system sales is associated with gas
20 or --

21 CHAIRMAN DAVIS: Judge, can I interrupt
22 here? Mr. Pendergast, if you want to ask this Commission
23 for leave to ask this witness leading questions that can
24 be answered with yes, no, maybe, I don't know, I'm fine
25 with that. Now, he may not be, and they may want to out

1 vote me on that, but certainly if you want to ask him to
2 respond to your questions, I want you to know that you
3 have a right to do that.

4 MR. PENDERGAST: Thank you, Mr. Chairman.

5 BY MR. PENDERGAST:

6 Q. So when I asked the question about
7 off-system sales and you didn't look at that particular
8 cost item that addresses just off-system sales, that would
9 be true, yes or no?

10 A. No, I did not look at the impact of that on
11 uncollectibles.

12 Q. Okay. And the same thing would be true of
13 whatever individual cost elements are addressed by the
14 company's GSIP; is that correct?

15 A. I was aware of the GSIP. It was a cost of
16 gas. I considered it to that extent.

17 Q. Okay. So you looked at it to that extent,
18 but no more?

19 A. That is correct.

20 Q. Okay. And you're aware of trackers that
21 track, say, costs for things like pension and OPEBs
22 between rate cases?

23 A. They track the book level of expense with
24 regard to those items.

25 Q. Okay. And they reconcile those back to

1 actual cost; is that correct?

2 A. With regard strictly to the expense
3 recorded, yes.

4 Q. And can you tell me why it is an expense
5 item like that, like pensions that are treated differently
6 than say payroll?

7 A. I believe the discussion with regard to
8 pensions is that they are controlled by the Financial
9 Accounting Standard Board's pronouncement on what has to
10 be recorded on the company's books for financial reporting
11 purposes and is effectively beyond the control of the
12 company, except to the extent of determining what pensions
13 or benefits are available to their employees and/or
14 retirees.

15 Q. Okay. So from your perspective, it's
16 partially due at least to the fact that this is mandated
17 by some outside factor?

18 A. Change in accounting rules that address
19 this in the mid to late '90s that would have resulted in a
20 significant and very material impact on the earnings of
21 the several industries bottom line within one year,
22 because I think if I remember right it required immediate
23 recognition, which would have had significant impact on
24 your reported financial earnings.

25 Q. And to your knowledge, is it also due to

1 the fact that pension expense is affected by changes in
2 the market value of plant assets which go up with the
3 stock market and go down with the stock market and is
4 therefore rather volatile in nature?

5 A. That is proved to be one of the -- when
6 initially those rules were put into place, that was not a
7 concern. That has proven to be a major concern and a
8 major headache for all parties involved in the process.

9 Q. So because of that consideration, as well
10 as the mandated nature of it, we have a mechanism that
11 tracks this over time and reconciles it back to actual
12 costs so the utility doesn't over-recover it and customers
13 don't overpay for it; would that be a generally correct
14 statement?

15 A. The one concern I would have, yes, with the
16 qualification that you use the term actual costs. Those
17 are related to market valuations, which do not involve any
18 actual cash outlay. They're simply book recorded entries.

19 Q. Okay. Well, with the actual valuation
20 then, with the actual valuation?

21 A. With the valuation at the time the
22 calculation is made. The next day that valuation is
23 changed.

24 Q. Okay. Now, just real quickly, you make
25 some comments about payroll expense and how that compares

1 to bad debt expense on pages, I think, 10 and -- let's
2 see, 10 of your testimony, and also I believe you had a
3 table --

4 A. Also on page 10.

5 Q. Yeah. And you're just talking about how
6 increases and decreases in bad debt expense compares to
7 increases in payroll cost; is that right?

8 A. Yes, I did.

9 Q. And payroll costs are basically made up of
10 wages and salaries and benefits; is that correct?

11 A. I believe the number I provided there was
12 just strictly wages. I don't believe it included employee
13 benefits.

14 Q. Looking at wages, I mean, are you aware of
15 whether wages typically will increase or decrease by
16 50 percent or more in a given six-month period?

17 A. In a given six-month period?

18 Q. Yeah. Ever seen that happen?

19 A. I have not seen that happen.

20 Q. Okay. So from the standpoint that gas
21 costs do do that, they would be different than payroll
22 costs; is that right?

23 A. Gas costs would be different than payroll
24 costs, just as they're different than uncollectible
25 expense.

1 Q. That's what the Commission's here to
2 determine.

3 A. Well, the percentage change are different.

4 Q. Sure. But the volatility in gas costs
5 wouldn't you say is generally significantly greater than
6 the volatility in payroll costs?

7 A. In gas costs, yes.

8 Q. And is there anything in payroll costs that
9 you can think of that tends to go ahead and affect the
10 level of those costs that would be comparable, say, to
11 changes in the Cold Weather Rule?

12 A. Could you repeat that? I'm sorry.

13 Q. Yeah. Is there any external factor
14 applicable to wages that can go ahead and change what you
15 have to pay employees that is comparable to a change in
16 say a regulatory requirement related to providing service
17 during a Cold Weather Rule period and its potential impact
18 on uncollectible expense?

19 A. We just had a change in the minimum wage.
20 I don't know how that flows through to Laclede's
21 employees.

22 Q. Okay.

23 A. But other items, I would have to think
24 about that.

25 Q. Okay. Well, in any event, I just wanted to

1 ask you, you've got the actual writeoff numbers here.
2 These are actual writeoffs on Laclede's books; is that
3 correct?

4 A. That was the source of them, yes.

5 Q. Okay. Fine. And these do not reflect, to
6 your knowledge, the impact of the Cold Weather Rule
7 compliance costs in either 2006 or 2007, do they?

8 A. It's my understanding these are the actual
9 booked net writeoffs which would have -- is on a customer
10 specific basis.

11 Q. Okay. But Laclede is going -- authorized
12 to recover about four and a half million dollars
13 associated with the Cold Weather Rule changes that were
14 made in 2006; is that your understanding?

15 A. They are authorized to recover revenues.
16 This is the expense and the provision, the reserve side.

17 Q. That's fine.

18 A. Those are totally separate.

19 Q. And when customers took advantage of those
20 rule provisions and they became a cost under the Cold
21 Weather Rule, do you know if that had any impact on the
22 uncollectible expense?

23 A. This is not expense, Mr. Pendergast. This
24 is the --

25 Q. The --

1 A. This is the analysis of the provision which
2 those customers would flow through regardless of Cold
3 Weather Rules.

4 Q. Do you know if that had any impact on this
5 provision, on this particular item?

6 A. To my knowledge, it had no impact on it.

7 Q. Okay. Have you done an analysis to
8 determine that?

9 A. That was the question -- the question posed
10 to the company was to provide the actual total writeoffs
11 and any net collections as it hits the provision.

12 Q. I know. And I understand that. And what
13 I'm asking you is, do you know whether or not those
14 numbers would have been different if we hadn't had a Cold
15 Weather Rule where we put customers back on, we reinstated
16 them? The reinstatements do have an impact on this
17 number, do they not?

18 A. Reinstatement would have an impact.

19 Q. Okay. And do you know whether or not that
20 particular impact would have artificially lowered these
21 numbers in 2006 and 2007?

22 A. I haven't done any analysis on that.

23 Q. So you just don't know?

24 A. I don't.

25 Q. Okay.

1 A. I said that I -- yes.

2 Q. That's fine. Thank you.

3 MR. PENDERGAST: Thank you, Mr. Trippensee.

4 Thank you.

5 JUDGE WOODRUFF: Come up to questions from

6 the Bench then. Commissioner Jarrett?

7 COMMISSIONER JARRETT: No questions. Thank

8 you, Mr. Trippensee.

9 COMMISSIONER GUNN: I don't have any

10 questions.

11 JUDGE WOODRUFF: Chairman Davis?

12 CHAIRMAN DAVIS: No questions.

13 JUDGE WOODRUFF: No need for recross. Any

14 redirect?

15 MR. POSTON: Yes, thank you. Just a few.

16 REDIRECT EXAMINATION BY MR. POSTON:

17 Q. There were a few questions posed to you.

18 One was about ability to track dollars, and I think the

19 other was about regulatory lag, and you referenced

20 authoritative resources. I think at one point you

21 mentioned that a Dr. Morin, I think it was?

22 A. Yes.

23 Q. Is this the resource that you -- you're

24 referring to? What is the resource you're referring to?

25 A. Dr. Roger Morin has several books out

1 there, but the one we -- I often have looked at is
2 Regulatory Finance, Utilities' Cost of Capital. It's
3 cited by virtually -- most -- well, cited by most rate of
4 return analysts in testimony on the various methods of
5 determining rate of return addressing risk.

6 Q. And so in what sense did you rely on this
7 resource in your testimony?

8 A. Well, I've read it before, several times,
9 in total once, and several times parts. It's just -- it
10 provides a discussion of the theoretical background for
11 rate of return regulation, the risk inherent in that -- in
12 regulation, the risk of the variability of earnings,
13 which, if implemented, Laclede's proposal would eliminate
14 or reduce the variability of their earnings, which in turn
15 would reduce their risk. That's one of the concerns that
16 is not taken into consideration in their proposal is that
17 risk reduction.

18 Q. And also -- and when you're also answering
19 a question of Mr. Pendergast, you made a distinction
20 between revenue and expenses responding to his question
21 about, I think it was about your writeoff table that you
22 included in your testimony, and is that an important
23 distinction?

24 A. Yes, it's a major distinction. I think as
25 Mr. Solt so well described earlier, what is an expense to

1 Laclede, they are -- is the expense to Laclede, such as
2 gas cost, what they -- the cost of acquiring gas.

3 The cost to the customer, the expense to
4 the customer is the entire product, which is however
5 Laclede utilizes their assets and services to provide this
6 product. Laclede records those as expenses. Generally
7 Accepted Accounting Principles requires that Laclede
8 record the revenue when they sell that product, the
9 resulting product to the customer.

10 Conversely the customer, if it's a
11 business, records that as their cost that they pay Laclede
12 as an expense. They don't differentiate between -- go
13 back down and trace these dollars back to Laclede's books
14 and records. That's what -- revenue and expense are two
15 separate things under all -- under accounting, under
16 Generally Accepted Accounting Principles, under the
17 Uniform System of Accounts.

18 The inability to collect revenue is simply
19 that. It's a cost of sales, as Mr. Solt indicated,
20 correctly indicated, and it is recorded as such in the
21 USOA and Generally Accepted Accounting Principles. Cash
22 collection doesn't impact financial statements.

23 Q. So how does what they're proposing to do
24 tie in to what you're saying is the Generally Accepted
25 Accounting Principle and USOA the way they, I guess

1 dictate that this should be done? How is what Laclede's
2 doing different?

3 A. What Laclede is doing is they are taking
4 their cash collection process procedures and attempting to
5 then come back and say we either collect it or didn't
6 collect monies, and then changing their rate through the
7 PGA, which is a, at least in my viewpoint, a component of
8 the total cost of service, total cost being all costs
9 incurred to supply gas to the customer.

10 And the fact that the Commission chooses to
11 charge the customer under two different rates, a PGA rate
12 and a base rate, and then actually for that matter a
13 customer charge rate also, that's a rate design question,
14 how you get your revenues.

15 But the bottom line is, Laclede's expenses
16 are recorded and segregated from how they bill their
17 revenues, and so trying to -- trying to take a cash
18 collection and then influence those rates in my nonlegal
19 opinion is looking at one factor without looking at all
20 relevant factors.

21 And, of course, the ultimate factors, at
22 least in my 30 years' experience, is the rate of return.
23 And if I've reduced my risk of my earnings variability,
24 I've reduced my cost of equity, therefore. If that's not
25 considered in this change that Laclede has proposed, then

1 I don't see how you could be looking at all relevant
2 factors.

3 MR. POSTON: Thank you. That's all I have.

4 JUDGE WOODRUFF: All right.

5 Mr. Trippensee, you can step down.

6 THE WITNESS: Thank you.

7 JUDGE WOODRUFF: And that's the last
8 witness. I believe the one remaining question is the
9 briefing schedule. I was looking at February 13th for
10 Initial Briefs, the 27th of February for Reply Briefs.
11 Does that strike everyone as okay?

12 MR. POSTON: What was the second date?

13 JUDGE WOODRUFF: The 22nd. Those are both
14 Fridays. Okay. I'll issue an Order setting out that
15 briefing schedule.

16 All right. With that, then, we are
17 adjourned.

18 WHEREUPON, the hearing of this case was
19 concluded.

20

21

22

23

24

25

1	I N D E X	
2	Opening Statement by Mr. Pendergast	12
	Opening Statement by Mr. Thompson	29
3	Opening Statement by Mr. Poston	33
4	LACLEDE'S EVIDENCE:	
5	MICHAEL T. CLINE	
	Direct Examination by Mr. Zucker	37
6	Cross-Examination by Mr. Thompson	40
	Cross-Examination by Mr. Poston	43
7	Questions by Commissioner Jarrett	74
	Questions by Commissioner Gunn	77
8	Recross-Examination by Mr. Poston	85
	Redirect Examination by Mr. Zucker	86
9	RUSSELL A. FEINGOLD	
10	Direct Examination by Mr. Zucker	99
	Cross-Examination by Ms. Shemwell	100
11	Cross-Examination by Mr. Poston	101
	Questions by Commissioner Jarrett	103
12	Questions by Commissioner Gunn	104
	Recross-Examination by Ms. Shemwell	106
13	Recross-Examination by Mr. Poston	109
	Redirect Examination by Mr. Zucker	110
14	GLENN BUCK	
15	Direct Examination by Mr. Pendergast	112
	Cross-Examination by Ms. Shemwell	114
16	Cross-Examination by Mr. Poston	129
	Questions by Commissioner Jarrett	133
17	Questions by Commissioner Gunn	136
	Recross-Examination by Ms. Shemwell	141
18	Recross-Examination by Mr. Poston	143
	Redirect Examination by Mr. Pendergast	145
19	STAFF'S EVIDENCE:	
20	CAROL GAY FRED	
21	Direct Examination by Ms. Shemwell	155
	Cross-Examination by Mr. Poston	157
22	Cross-Examination by Mr. Zucker	164
	Questions by Judge Woodruff	170
23	Redirect Examination by Ms. Shemwell	171
24	LISA KREMER	
	Direct Examination by Ms. Shemwell	176
25		

1	TOM SOLT	
	Direct Examination by Ms. Shemwell	178
2	Cross-Examination by Mr. Zucker	179
	Questions by Commissioner Jarrett	206
3	Recross-Examination by Mr. Poston	210
	Recross-Examination by Mr. Zucker	211
4	Redirect Examination by Ms. Shemwell	215
5	DAVID SOMMERER	
	Direct Examination by Ms. Shemwell	219
6	Cross-Examination by Mr. Pendergast	220
	Redirect Examination by Ms. Shemwell	239
7		
	OPC'S EVIDENCE:	
8		
	RUSSELL TRIPPENSEE	
9	Direct Examination by Mr. Poston	242
	Cross-Examination by Mr. Pendergast	243
10	Redirect Examination by Mr. Poston	264
11		
12		
13		
14		
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		
25		

1	EXHIBITS INDEX		
2		MARKED	RECEIVED
3	EXHIBIT NO. 1		
4	Direct Testimony of Michael T. Cline	10	39
5	EXHIBIT NO. 2		
6	Surrebuttal Testimony of Michael T. Cline	10	40
7	EXHIBIT NO. 3		
8	Direct Testimony of Glenn W. Buck	10	114
9	EXHIBIT NO. 4		
10	Surrebuttal Testimony of Glenn W. Buck	10	114
11	EXHIBIT NO. 5		
12	Surrebuttal Testimony of Russell A. Feingold	11	100
13	EXHIBIT NO. 6		
14	Rebuttal Testimony of Carol Gay Fred	11	157
15	EXHIBIT NO. 7		
16	Rebuttal Testimony of Lisa A. Kremer	11	177
17	EXHIBIT NO. 8		
18	Rebuttal Testimony of Thomas A. Solt	11	179
19	EXHIBIT NO. 9		
20	Rebuttal Testimony of David M. Sommerer	11	220
21	EXHIBIT NO. 10		
22	Rebuttal Testimony of Russell W. Trippensee	12	243
23			
24			
25			

1 C E R T I F I C A T E

2 STATE OF MISSOURI)
3) ss.
4 COUNTY OF COLE)

5 I, Kellene K. Feddersen, Certified
6 Shorthand Reporter with the firm of Midwest Litigation
7 Services, and Notary Public within and for the State of
8 Missouri, do hereby certify that I was personally present
9 at the proceedings had in the above-entitled cause at the
10 time and place set forth in the caption sheet thereof;
11 that I then and there took down in Stenotype the
12 proceedings had; and that the foregoing is a full, true
13 and correct transcript of such Stenotype notes so made at
14 such time and place.

15 Given at my office in the City of
16 Jefferson, County of Cole, State of Missouri.

17 _____
18 Kellene K. Feddersen, RPR, CSR, CCR
19 Notary Public (County of Cole)
20 My commission expires March 28, 2009.
21
22
23
24
25