

Exhibit No.:

Issue:

Witness:

Type of Exhibit:

Sponsoring Party:

Case No.:

Overview

Gerald T. McNeive, Jr.

Direct Testimony

Laclede Gas Company

GM-2001-342

FILED

APR 23 2001

LACLEDE GAS COMPANY

DIRECT TESTIMONY

OF

GERALD T. MCNEIVE, JR.

Missouri Public
Service Commission

April 23, 2001

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

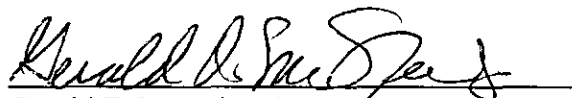
In the Matter of the Application of Laclede)
Gas Company for an Order Authorizing)
Its Plan to Restructure Itself Into a Holding) Case No. GM-2001-342
Company, Regulated Utility Company, and)
Unregulated Subsidiaries.)

AFFIDAVIT

STATE OF MISSOURI)
)
CITY OF ST. LOUIS)

Gerald T. McNeive, Jr., of lawful age, being first duly sworn, deposes and states:

1. My name is Gerald T. McNeive, Jr. My business address is 720 Olive Street, St. Louis, Missouri 63101; and I am Senior Vice President – Finance & General Counsel of Laclede Gas Company.
2. Attached hereto and made a part hereof for all purposes is my direct testimony, consisting of pages 1 to 11, inclusive.
3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct to the best of my knowledge and belief.


Gerald T. McNeive, Jr.

Subscribed and sworn to before me this 23 day of April, 2001.

PATRICIA P. HICKS
Notary Public — Notary Seal
STATE OF MISSOURI
City of St. Louis
My Commission Expires: June 27, 2002



**DIRECT TESTIMONY
OF
GERALD T. MCNEIVE, JR.**

1
2 Q. Please state your name and business address.

3 A. My name is Gerald T. McNeive, Jr. and my business address is 720 Olive Street,
4 St. Louis, Missouri, 63101.

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

6 A. I am employed by Laclede Gas Company ("Laclede" or "Company") as Senior
7 Vice President-Finance and General Counsel.

8 Q. Please describe your current duties and responsibilities.

9 A. As Senior Vice President-Finance and General Counsel, I have overall
10 management responsibility for most of the financial and legal-related functions of
11 the Company. With regard to financial matters, this includes responsibility for the
12 Company's Finance, Tax and Payroll Accounting, and Treasury Departments.
13 Among their other functions, these departments deal with developing the
14 Company's budget, acquiring and managing the financing for the Company's
15 operations, customer accounting and metering, employee payroll matters,
16 compliance with federal, state and local tax requirements, and financial matters
17 affecting the Company's rates. On the legal side, I have overall management
18 responsibility for the Company's Legal and Claims Department. These
19 Departments deal with legal matters relating to the Company's activities before
20 this Commission, transactions with third parties, compliance with various legal

1 requirements, including regulatory, environmental and investor-related
2 requirements, and claims brought against the Company by third parties.

3 Q. Please discuss your employment history prior to assuming your current position.

4 A. Prior to joining Laclede, I served as legal counsel in various utility-related
5 capacities, including that of General Counsel with The Gas Service Company of
6 Kansas City, Missouri and as an attorney with the Missouri Public Service
7 Commission. I joined Laclede's Legal Department in 1986, and served in that
8 Department as an Associate General Counsel and later as an Assistant Vice
9 President-Associate General Counsel and Vice President-Associate General
10 Counsel. In August 1994, I was elected by the Company's Board of Directors to
11 the position of Senior Vice President-Finance and Chief Financial Officer. In
12 that capacity, I had management responsibility for the same financial functions
13 that I described earlier in my testimony. I served in that position until I was
14 elected to my current position in 1998.

15 Q. What is your educational background?

16 A. I graduated from St. Louis University in 1964 with a Bachelor of Science degree
17 in Finance. I subsequently received my Juris Doctorate degree from the same
18 University in 1966.

19 **PURPOSE OF DIRECT TESTIMONY**

20 Q. What is the purpose of your direct testimony?

21 A. The purpose of my direct testimony is to provide the Commission with
22 information pertinent to Laclede's application to restructure itself into a holding
23 company, with regulated and unregulated subsidiaries. Specifically, I will

1 describe how the Company proposes to revise its corporate structure (the
2 "Proposed Restructuring") and explain the reasons why the Company is proposing
3 such a restructuring. I will also explain why the Company is confident that the
4 Proposed Restructuring will not be detrimental to Laclede's customers.

5 Q. Is the Company's application to restructure itself being addressed by any other
6 witness?

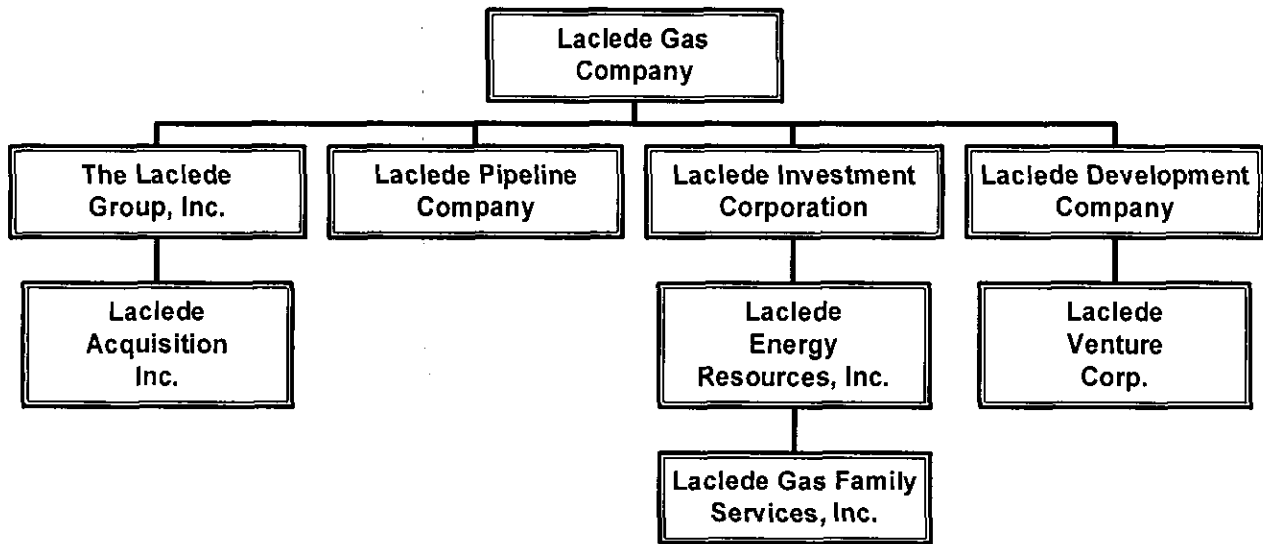
7 A. Yes. Ms. Patricia A. Krieger is also sponsoring testimony to address in greater
8 detail the transfer pricing and cost allocation procedures that the Company has
9 developed to ensure that the Company's ratepayers will not be disadvantaged by
10 any transfers of goods and services that may be made between Laclede Gas
11 Company and its affiliates following the Proposed Restructuring.

12 **EXISTING AND PROPOSED CORPORATE STRUCTURES**
13

14 Q. Please describe Laclede's present corporate structure.
15

16 A. Under its present corporate structure, Laclede Gas Company is the parent
17 corporation of a number of small unregulated subsidiaries, including Laclede
18 Development Company, which has its own subsidiary Laclede Venture Corp.;
19 Laclede Investment Corporation, which has two subsidiaries, Laclede Energy
20 Resources, Inc. and Laclede Gas Family Services, Inc. (which is a subsidiary of
21 Laclede Energy Resources, Inc.); and Laclede Pipeline Company. Laclede has
22 also created two other subsidiaries, The Laclede Group, Inc., and its subsidiary,
23 Laclede Acquisition Inc., to facilitate the Proposed Restructuring. The
24 organizational chart presented below shows Laclede's present corporate structure:

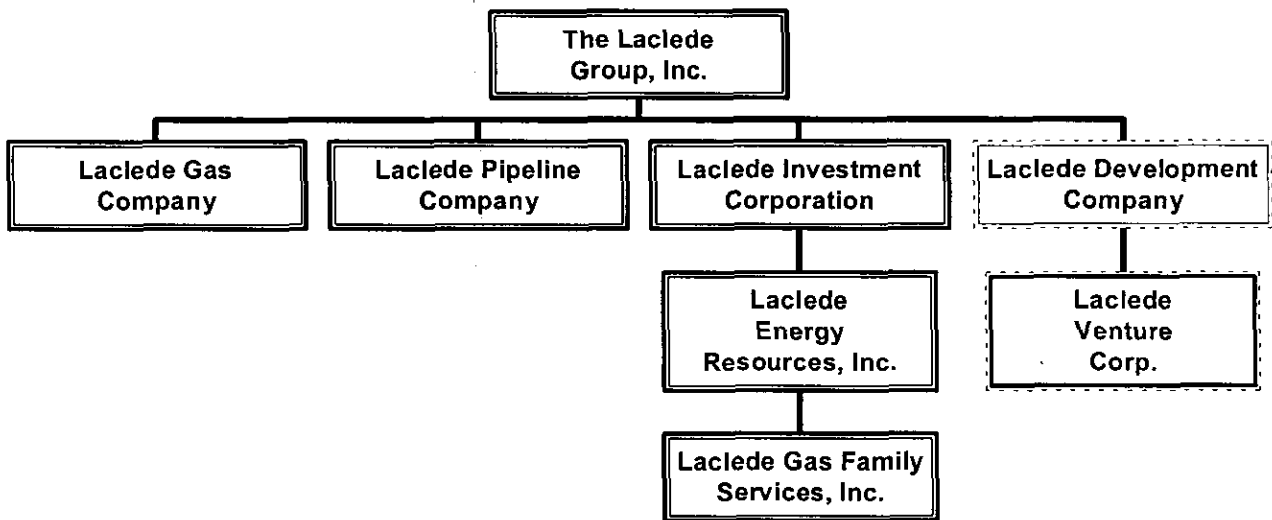
Present Corporate Structure



Q. Please describe how Laclede and its affiliated Companies would be structured following the Proposed Restructuring.

A. Upon completion of the Proposed Restructuring, The Laclede Group, Inc. would become the parent holding company. Laclede Gas Company and the remaining unregulated subsidiaries would, in turn, become separate and independent subsidiaries of The Laclede Group, Inc. This Proposed Restructuring would be accomplished pursuant to a procedure commonly known as a "Reverse Triangular Merger." Under that procedure, Laclede Acquisition Inc. would be merged into Laclede Gas Company. Upon completion of the merger, Laclede Acquisition Inc. would no longer exist. The Laclede Group, Inc. would then hold all of the common stock of Laclede Gas Company as well as the other subsidiaries. The organizational chart presented below depicts the structure that would be in place following the Proposed Restructuring:

Proposed Corporate Structure



Q. What impact will the Proposed Restructuring have on the Companies' regulated and unregulated operations?

A. Even after forming a holding company, the profile of Laclede Gas Company's regulated distribution business will remain essentially the same. It will continue to construct, operate and maintain its natural gas distribution system, enhance the efficiency of its operations, and compete against alternative forms of energy and providers. The Laclede Group, Inc.'s unregulated subsidiaries will continue to engage in unregulated business segments and, like other unregulated firms, will obtain debt and equity financing outside of the normal regulatory process. Following the Proposed Restructuring, the unregulated subsidiaries intend to engage only in businesses that are not regulated by the Commission.

1

2 **REASONS FOR THE PROPOSED RESTRUCTURING**

3 Q. What are the reasons underlying the Company's proposal to revise its corporate
4 structure?

5 A. The primary purpose of the Proposed Restructuring is to establish an optimal
6 corporate structure that will permit Laclede to more effectively pursue both its
7 regulated utility obligations as well as the unregulated business opportunities
8 afforded by increased competition in the energy industry and other developments.

9 Q. How will the Proposed Restructuring contribute to the Company's ability to
10 perform its regulated utility obligations?

11 A. By creating a corporate structure that more clearly provides for separation of
12 traditional utility functions from unregulated business activities on a going
13 forward basis, the Proposed Restructuring will reinforce the financial strength of
14 the regulated utility. It will do so, in part, by committing that the business risk of
15 the unregulated operations of The Laclede Group, Inc. and its subsidiaries, as
16 currently conducted and going forward in the future, will not be transferred to
17 Laclede Gas Company's utility operations. Indeed, as part of the Proposed
18 Restructuring, Laclede Gas Company will obtain additional legal protection from
19 the liabilities of the unregulated subsidiaries in that none of the unregulated
20 subsidiaries will any longer be owned directly by Laclede Gas Company. The
21 proposed structure, which provides further separation between regulated and
22 unregulated activities, will also serve to allay any concerns that the assets and
23 operations of the regulated distribution company could be used to subsidize the

1 operations of any unregulated businesses. Please see the Direct Testimony of
2 Patricia A. Krieger in this regard. At the same time, customers of the regulated
3 utility will continue to receive the same reliable, high quality service that they
4 have enjoyed in the past and to which they are entitled.

5 Q. How will the Proposed Restructuring benefit Laclede's unregulated operations?

6 A. Such separation will also provide each of the unregulated companies with
7 additional legal protection from the liabilities of the other companies. Such
8 separation will also benefit The Laclede Group, Inc.'s unregulated subsidiaries by
9 providing them with additional financial and operational flexibility to pursue
10 unregulated business opportunities, to develop new products and services and to
11 meet new competitors in emerging fields on equal regulatory terms. In particular,
12 the new structure will facilitate the use of financing techniques that are more
13 suited to the particular requirements, characteristics and risks of The Laclede
14 Group, Inc.'s unregulated businesses, separate from the creditworthiness due to
15 any reason of Laclede Gas Company.

16 **WHY THE PROPOSED RESTRUCTURING WILL NOT BE**
17 **DETRIMENTAL TO THE PUBLIC INTEREST**
18

19 Q. Please explain why the Proposed Restructuring will not be detrimental to the
20 public interest.

21 A. First, the Proposed Restructuring will have no impact on the terms and conditions
22 under which Laclede's customers receive regulated natural gas service from the
23 Company. To the contrary, after the Proposed Restructuring, Laclede Gas
24 Company will remain intact as a regulated public utility subject to oversight by
25 the Commission, just as it is today. As a result, the Commission will continue to

1 exercise its broad powers to review and approve charges paid by customers of
2 Laclede.

3 Q. But won't the Commission's jurisdiction over Laclede Gas Company be
4 diminished by virtue of the fact that Laclede will now be the subsidiary of a
5 holding company?

6 A. No. In my opinion, the fulfillment of the principal reason for the Proposed
7 Restructuring, i.e., to provide a structure for separation of non-utility operations
8 from utility operations on a going forward basis, will in no way diminish the
9 jurisdiction of the Commission. Current law already recognizes that a regulated
10 company is authorized to engage in non-utility operations so long as these are
11 "substantially kept separate" from utility operations. (Section 393.140(12)
12 RSMo. 2000). Consistent with this statutory provision, the Proposed
13 Restructuring will simply create a more clearly defined organizational separation
14 between non-utility and utility operations and thus provide more assurance that
15 the "substantially kept separate" requirements of Section 393.140 continue to be
16 satisfied. At the same time, it in no way diminishes the scope or nature of the
17 Commission's jurisdiction or authority over current or future utility matters.
18 Existing public service commission law shall continue to provide the Commission
19 with pervasive regulatory authority over Laclede Gas Company, including its
20 capital structure.

21 Q. Does the Proposed Restructuring involve any transfer of utility assets?

22 A. No. Unlike other corporate restructuring, mergers or acquisitions that the
23 Commission may have reviewed in the past, the Proposed Restructuring does not

1 involve any transfer of utility-owned assets, nor does it involve the transfer of any
2 significant number of utility employees to the new holding company or to any
3 subsidiary or affiliate. In view of the fact that Laclede Gas Company will
4 continue to have access to all of the resources it has today, there should be no
5 concern over whether the Proposed Restructuring will hamper or otherwise
6 compromise Laclede's ability to render reliable and reasonably priced utility
7 service in the future.

8 Q. Are there other reasons why you are confident that the Proposed Restructuring
9 will not be detrimental to Laclede's customers?

10 A. Yes. It should be noted that Laclede's customers will be protected from any harm
11 associated with affiliate transactions between Laclede Gas Company and the
12 holding company or other non-utility subsidiaries. As explained in the direct
13 testimony of Company witness Krieger, Laclede has developed and will continue
14 to use accounting procedures in connection with the Proposed Restructuring that
15 will ensure a proper allocation of costs or pricing of transactions between
16 regulated and unregulated operations, as determined in conformity with all
17 applicable current or future laws or regulations. Laclede also commits that,
18 pursuant to applicable current or future laws or regulations, it will provide access
19 to the books and records of its affiliates as necessary to determine whether any
20 charges to, or payments from, Laclede Gas Company are reasonable. Finally,
21 there will be no dilution of talent or diversion of management attention from the
22 provision of regulated services. As previously noted, Laclede Gas Company will
23 remain by far the largest of the subsidiary companies and will employ or

1 otherwise engage all personnel necessary to safely and effectively provide utility
2 services. As a result, continued high quality and cost effective service to
3 regulated customers will remain the principal business of Laclede Gas Company
4 and its parent company.

5 Q. Does this mean the Company is unwilling to accept any additional conditions on
6 its Proposed Restructuring that some parties may believe are appropriate to
7 preclude detriment to the public interest.

8 A. No. Over the past several weeks, the Company has held extended discussions
9 with the parties regarding potential conditions that would further protect
10 ratepayers from any conceivable harm as a result of the Proposed Restructuring.
11 As long as such conditions are reasonable, practical and do not seek to modify the
12 existing legal boundaries between what may properly be regulated by the
13 Commission and what may not, the Company has and will continue to work hard
14 to reach an accommodation on such conditions that is acceptable to all parties.

15 **REQUEST FOR RELIEF**

16 Q. What specific authorization is the Company requesting the Commission grant it in
17 order to complete the Proposed Restructuring.

18 A. As described in our Application, the Company is requesting that the Commission
19 issue an Order granting:

- 20 a) Laclede authorization to complete the Proposed Restructuring and to form
21 a holding company as described in the Company's Application and
22 Testimony;

- 1 b) Laclede authorization to transfer the stock of Laclede Gas Company to
2 The Laclede Group, Inc. and merge these companies as more fully
3 described in the Company's Application and Testimony;
4 c) The Laclede Group, Inc. authorization to hold more than 10% of the
5 common stock of the Laclede Gas Company;
6 d) all other approvals necessary to implement the Proposed Restructuring
7 described herein; and,
8 e) such other and further relief as the Commission may deem necessary and
9 appropriate to accomplish the Proposed Restructuring.

10 Q. Does this conclude your direct testimony?

11 A. Yes.