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Witness:	Michael Gorman
Type of Exhibit:	Direct Testimony
Sponsoring Party:	Missouri Industrial Energy Consumers
Case No.:	GR-2010-0171
Date Testimony Prepared:	May 10, 2010

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

**In the Matter of Laclede Gas
Company's Tariff to Increase Its
Annual Revenues for Natural Gas
Service**

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Case No. GR-2010-0171

Direct Testimony and Schedules of

Michael Gorman

On behalf of

Missouri Industrial Energy Consumers

May 10, 2010


BRUBAKER & ASSOCIATES, INC.
CHESTERFIELD, MO 63017

Project 9260

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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Annual Revenues for Natural Gas
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Case No. GR-2010-0171

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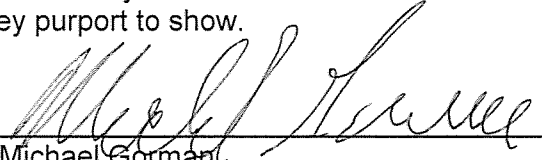
Affidavit of Michael Gorman

Michael Gorman, being first duly sworn, on his oath states:

1. My name is Michael Gorman. I am a consultant with Brubaker & Associates, Inc., having its principal place of business at 16690 Swingley Ridge Road, Suite 140, Chesterfield, Missouri 63017. We have been retained by the Missouri Industrial Energy Consumers in this proceeding on their behalf.

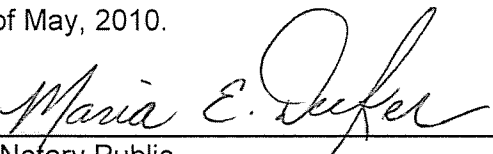
2. Attached hereto and made a part hereof for all purposes are my direct testimony and schedules which were prepared in written form for introduction into evidence in Missouri Public Service Commission Case No. GR-2010-0171.

3. I hereby swear and affirm that the testimony and schedules are true and correct and that they show the matters and things that they purport to show.

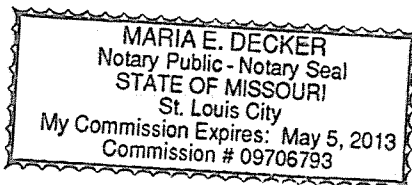


Michael Gorman

Subscribed and sworn to before me this 7th day of May, 2010.



Notary Public



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Michael Gorman

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Case No. GR-2010-0171

Direct Testimony of Michael Gorman

1 **Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A Michael Gorman. My business address is 16690 Swingley Ridge Road, Suite 140,
3 Chesterfield, MO 63017.

4 **Q WHAT IS YOUR OCCUPATION?**

5 A I am a consultant in the field of public utility regulation and a Managing Principal with
6 the firm Brubaker & Associates, Inc., energy, economic and regulatory consultants.

7 **Q PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

8 A This information is included in Appendix A to my testimony.

9 **Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

10 A This testimony is presented on behalf of the Missouri Industrial Energy Consumers
11 (MIEC). Member companies purchase substantial amounts of gas from Laclede Gas
12 Company (Laclede or Company).

**Michael Gorman
Page 1**

1 **Q WHAT IS THE SUBJECT OF YOUR TESTIMONY?**

2 A My testimony will address an overall fair rate of return, return on equity and Laclede's
3 proposed revised depreciation rates.

4 **I. SUMMARY**

5 **Q PLEASE SUMMARIZE YOUR RATE OF RETURN RECOMMENDATION.**

6 A I recommend an overall rate of return for Laclede of 6.98%. This rate of return is
7 based on my recommended return on equity for Laclede, and an appropriate capital
8 structure reflecting the capital supporting its utility rate base in this proceeding. I
9 recommend the Commission award Laclede a return on common equity of 9.5%,
10 which is the midpoint of my estimated range of 9.2% to 9.8%.

11 I demonstrate that my recommended return on equity and proposed capital
12 structure will provide Laclede with an opportunity to realize cash flow financial
13 coverages and balance sheet strength that conservatively support Laclede's current
14 bond rating. Consequently, my recommended return on equity represents fair
15 compensation for Laclede's investment risk, and it will preserve the Company's
16 financial integrity and credit standing.

17 **Q HOW DID YOU ESTIMATE LACLEDE'S CURRENT MARKET COST OF EQUITY?**

18 A I used a group of publicly traded utility companies that have investment risk similar to
19 Laclede. From this proxy group, I then performed three versions of the Discounted
20 Cash Flow (DCF) model, Risk Premium (RP) study, and Capital Asset Pricing Model
21 (CAPM) analysis.

1 **Q PLEASE DESCRIBE YOUR PROPOSED CAPITAL STRUCTURE.**

2 A I recommend an adjustment to the Company's proposed capital structure to include
3 short-term debt above construction work in progress (CWIP). Short-term debt above
4 CWIP is supporting utility operations, and assets included in Laclede's rate base.
5 Therefore, it is necessary to include this short-term debt in the capital structure and
6 properly measure the cost of capital supporting its utility rate base in this proceeding.

7 **Q WHAT IS YOUR OVERALL RATE OF RETURN RECOMMENDATION?**

8 A Based on my recommended return on equity and capital structure, and the
9 Company's estimated embedded cost of debt, I estimate Laclede's overall rate of
10 return to be 6.98% as developed on Schedule MPG-1, page 1.

11 **Q PLEASE DESCRIBE YOUR RECOMMENDATION CONCERNING LACLEDE'S**
12 **PROPOSED DEPRECIATION RATES.**

13 A I recommend Laclede's proposed adjustments to its net salvage ratios in the
14 development of depreciation rates for all the plant accounts except the general plant
15 accounts be rejected. As set forth in this testimony, the salvage costs included in
16 current depreciation rates for these accounts provide significant over-recovery of
17 actual net salvage cost and provide Laclede a contribution to the net salvage reserve
18 for future uncertain salvage cost. Laclede's proposed increase to the salvage costs
19 for these accounts is not reasonable and unnecessarily inflates its claimed revenue
20 deficiency.

1 **II. RATE OF RETURN**

2 **Q PLEASE SUMMARIZE THIS SECTION OF YOUR TESTIMONY.**

3 **A** In this section of my testimony:

- 4 1. I will review the current gas utility industry market outlook.
- 5 2. I will review the investment risk of Laclede.
- 6 3. I will propose a capital structure.
- 7 4. I will estimate a fair return on equity for Laclede.
- 8 5. I will show that my recommended rate of return will support Laclede's financial
- 9 integrity and investment grade bond rating.

10 **II.1. Gas Utility Industry Market Outlook**

11 **Q PLEASE DESCRIBE THIS SECTION OF YOUR TESTIMONY.**

12 **A** I will review the credit rating and investment return performance of the gas utility

13 industry. Based on the assessments below, I find the credit rating outlook of the

14 industry to be strong and supportive of the industry's financial integrity.

15 **Q PLEASE DESCRIBE THE GAS UTILITIES' CREDIT RATING OUTLOOK.**

16 **A** Standard & Poor's (S&P) provided an assessment of the credit rating of U.S. gas

17 utilities for 2010. S&P's commentary included the following:

18 **Industry Credit Outlook**

19 Standard & Poor's Ratings Services forecasts generally stable credit

20 quality for U.S. natural gas local distribution companies (LDC) in 2010.

21 This view incorporates our expectation of supportive regulatory

22 decisions, continued access to the capital markets, and reduced

23 natural gas price-related working capital requirements. We expect

24 customer growth, which has moderated for most natural gas LDCs, to

25 remain somewhat lower than it's been over the past few years. As a

26 result, rate case filings on a two- to four-year schedule likely will

27 continue as companies request rate increases to offset declining per-

28 customer usage, to replace aging infrastructure, and to meet rising

29 operating and labor costs. Even in jurisdictions that have granted

enhanced regulatory mechanisms, such as decoupling and line item expense trackers, we expect the higher number of rate case filings to persist.

Capital Markets Remain Open To Gas Utility Issuance

The consistency with which natural gas LDCs were able to issue debt during 2009 demonstrates their well-above-average financial flexibility.

We expect the natural gas LDCs to issue debt in 2010 to meet refinancing needs and to fund capital spending. In addition, we do not see the utility sector facing much reluctance from lenders to provide financing under revolving credit facilities despite the generally weakened financial condition of financial institutions, consolidation and failures among lenders, and reduced risk tolerance. In addition to a tightening of certain lending standards, we are also seeing a reduction in the new facilities' terms to two-three years from the five years, and significantly higher interest rates and fees.¹

Similarly, Fitch states:

Overview

The U.S. Utilities, Power, and Gas (UPG) sector 2010 outlook is framed in the context of Fitch Ratings' outlook for a slow U.S. economic recovery in 2010, with stable outlooks for most of the business segments within the UPG universe except for negative 2010 credit outlook for competitive generators and retail propane distributors.

* * *

Resilient Performance in 2009

Companies in the UPG sector weathered the recession and financial crisis of 2008–2009 with considerably less pain than sectors such as financial institutions, cyclical industrials, and retailers. The absence of significant defaults in the sector is in stark contrast to the upswing in defaults and bankruptcy filings across the rest of the U.S. economy, consistent with the defensive reputation of the sector.

In general, companies in the UPG sector entered 2009 in reasonably sound financial condition; some drew down their bank credit facilities during the banking crisis in late 2008 and repaid the loans as the bank and financial markets stabilized during 2009.²

As noted by S&P and Fitch above, the regulated gas utility industry is maintaining strong investment grade credit. A stable credit rating outlook will support

¹Standard & Poor's RatingsDirect: "Despite Slower Customer Growth, U.S. Natural Gas Local Distribution Companies Continue To Perform Well," January 12, 2010, emphasis added.

²Fitch Ratings: "U.S. Utilities, Power and Gas 2010 Outlook," December 4, 2009.

1 the utility's access to capital, and ability to finance construction programs. This in turn
2 will support the financial integrity of the utility and its ability to offer high quality,
3 reliable utility service.

4 **II.2. Laclede Investment Risk**

5 **Q PLEASE PROVIDE A BRIEF OVERVIEW OF LACLEDE AND ITS INVESTMENT**
6 **CHARACTERISTICS.**

7 **A** Laclede's current credit ratings from S&P and Moody's are "A" and "A2,"
8 respectively.³

9 S&P states the following:

10 **Rationale**

11 The rating on St. Louis, Mo.-based Laclede Gas reflects the
12 consolidated credit profile of parent The Laclede Group Inc.
13 (LG). The rating on LG reflects an excellent business risk
14 profile and intermediate financial risk profile. The ratings are
15 based on the consolidated credit profile of natural gas utility
16 subsidiary Laclede Gas Co. (A/Stable/A-1; about 65% of
17 revenues and 75% of operating income), LG's non-regulated
18 gas marketing segment (not rated), and its other non-regulated
19 business.

20 LG's excellent business risk profile reflects reasonably
21 supportive regulation by the Missouri Public Service
22 Commission (MoPSC), a stable, largely residential customer
23 base, diverse gas supply sources, significant gas storage
24 capacity, and low operating risks characterize LG and Laclede
25 Gas's excellent business profile. These strengths are
26 moderated by below-average customer growth and higher risks
27 associated with LG's unregulated activities. High leverage and
28 somewhat weak cash flow measures characterize the
29 companies' intermediate financial profile.

30 The MoPSC provides favorable cost-recovery mechanisms,
31 including recovery of capital expenditures and adjustments
32 related to weather conditions. Effective Aug. 1, 2007, the
33 MoPSC granted a \$38.6 million rate and an allowed ROE of
34 10%. The MoPSC also granted provisions which allow the
35 company to retain a portion of profits generated by off-system

³Laclede Group 10-Q, December 31, 2009 at 34.

1 sales. Continued, favorable regulatory treatment related to
2 increasing costs and infrastructure investments is critical to
3 achieve financial metrics appropriate for current ratings.⁴

4 Q WHAT DO YOU RECOMMEND THE COMMISSION TAKE FROM THIS CREDIT
5 REPORT REVIEW OF THE REGULATORY TREATMENT LACLEDE IS
6 RECEIVING?

7 A Credit analysts consider the regulatory treatment for Laclede to be constructive and
8 supportive of Laclede's "Excellent" business risk profile and stable investment grade
9 credit standing.

10 **II.3. Laclede's Proposed Capital Structure**

11 Q WHAT CAPITAL STRUCTURE IS THE COMPANY REQUESTING TO USE TO
12 DEVELOP ITS OVERALL RATE OF RETURN IN THIS PROCEEDING?

13 A Laclede's proposed capital structure is shown below in Table 1.

TABLE 1	
<u>Laclede's Proposed Capital Structure</u> (September 30, 2009)	
<u>Description</u>	<u>Weight</u>
Long-Term Debt	42.5%
Common Equity	<u>57.5%</u>
Total Capital Structure	100.0%
Source: Laclede, Cost of Capital, Schedule 3.	

⁴Standard & Poor's RatingsDirect: "Laclede Gas Co.," October 30, 2009, emphasis added.

1 **Q DO YOU BELIEVE LACLEDE'S PROPOSED CAPITAL STRUCTURE IS**
2 **REASONABLE FOR SETTING RATES IN THIS PROCEEDING?**

3 A No. The Company did not include short-term debt in the development of its capital
4 structure, and therefore, its proposed capital structure is not reasonable.

5 **Q WHY DID THE COMPANY EXCLUDE AN AMOUNT OF SHORT-TERM DEBT IN**
6 **ITS DEVELOPMENT OF ITS OVERALL RATE OF RETURN?**

7 A Laclede Gas Company witness Glenn W. Buck stated that he removed short-term
8 debt in the capital structure because the average level of CWIP, underground storage
9 inventories, propane and deferred gas cost balances exceeded the average level of
10 short-term debt outstanding during the test year. (Buck Direct at 9-10).

11 **Q DO YOU AGREE WITH MR. BUCK'S CONTENTION THAT SHORT-TERM DEBT**
12 **SHOULD NOT BE INCLUDED IN LACLEDE'S OVERALL RATE OF RETURN IN**
13 **THIS PROCEEDING?**

14 A No. I agree with Mr. Buck that the amount of short-term debt that supports its CWIP
15 should be excluded from the capital structure in this proceeding. However, gas
16 working capital components identified by Mr. Buck including underground storage
17 inventories, and deferred gas costs are long-term working capital requirements of the
18 utility, and carrying charges on these should be based on the utility's overall rate of
19 return regardless of whether or not these costs are recovered through base rates or
20 through the Purchased Gas Adjustment (PGA) mechanism.

21 Hence, the amount of short-term debt that exceeds the amount of CWIP
22 should be included in Laclede's capital structure.

Q HOW MUCH SHORT-TERM DEBT SHOULD BE INCLUDED IN THE DEVELOPMENT OF LACLEDE'S OVERALL RATE OF RETURN?

A I relied on the September 2009 Federal Energy Regulatory Commission Form 2, Supplemental 3-Q to determine the amount of short-term debt in relationship to CWIP during the 13-month period ending September 2009. This is shown on page 2 of Schedule MPG-1. As shown on this schedule, during the 13-month period ending September 30, 2009, Laclede has a short-term debt average balance of \$174.4 million. During that time period, it had CWIP balance of \$5.9 million. Hence, the difference between short-term debt and CWIP balances during this time period indicates an appropriate amount of short-term debt to include in Laclede's capital structure be \$168.5 million.

Q WHAT IS YOUR PROPOSED CAPITAL STRUCTURE?

A My capital structure and component weights are shown below in Table 2.

TABLE 2	
<u>Gorman's Proposed Capital Structure</u> (September 30, 2009)	
<u>Description</u>	<u>Percent of Total Capital</u>
Long-Term Debt	35.82%
Short-Term Debt	15.77%
Common Equity	<u>48.41%</u>
Total Capital Structure	100.00%
Source: Schedule MPG-1, page 1.	

1 **Q WILL YOUR RATE OF RETURN APPLY TO BOTH LACLEDE'S BASE RATES,**
2 **AND ITS WORKING CAPITAL COMPONENTS RECOVERED THROUGH ITS PGA**
3 **CLAUSE?**

4 **A Yes.** This rate of return reflects the capital structure mix that would support Laclede's
5 utility operations including utility plant and working capital requirements. Hence, this
6 overall rate of return should apply in the development of base rates, and the same
7 rate of return should be used for adjusting working capital and other costs that are
8 collected outside of base rates through Laclede's PGA mechanism.

9 **Q WILL YOUR PROPOSED CAPITAL STRUCTURE SUPPORT LACLEDE'S**
10 **FINANCIAL INTEGRITY AND CREDIT RATING?**

11 **A Yes.** As I will discuss later in my testimony, my proposed capital structure is
12 consistent with Laclede's current credit rating and will support its financial integrity.

13 **Q WHAT IS THE COST OF SHORT-TERM DEBT?**

14 **A Laclede's** actual short-term debt cost at September 30, 2009 was 0.24% (Laclede
15 Group 2009 Securities and Exchange Commission Form 10-K at 33). I recommend
16 Laclede be allowed to revise this short-term debt cost to its actual cost at the time of
17 the true-up in this case. For this testimony, I will use Laclede's actual short-term debt
18 cost of 0.24% as of September 30, 2009.

1 **II.4. Return on Common Equity**

2 **Q PLEASE DESCRIBE WHAT IS MEANT BY A “UTILITY’S COST OF COMMON**
3 **EQUITY.”**

4 A A utility’s cost of common equity is the return investors expect, or require, in order to
5 make an investment. Investors expect to achieve their return requirement from
6 receiving dividends and stock price appreciation.

7 **Q PLEASE DESCRIBE THE FRAMEWORK FOR DETERMINING A REGULATED**
8 **UTILITY’S COST OF COMMON EQUITY.**

9 A In general, determining a fair cost of common equity for a regulated utility has been
10 framed by two decisions of the U.S. Supreme Court: Bluefield Water Works &
11 Improvement Co. v. Public Serv. Commission of West Virginia, 262 U.S. 679 (1923)
12 and Federal Power Commission v. Hope Natural Gas Co., 320 U.S. 591 (1944).

13 These decisions identify the general standards to be considered in
14 establishing the cost of common equity for a public utility. Those general standards
15 provide that the authorized return should: (1) be sufficient to maintain financial
16 integrity; (2) attract capital under reasonable terms; and (3) be commensurate with
17 returns investors could earn by investing in other enterprises of comparable risk.

18 **Q PLEASE DESCRIBE THE METHODS YOU HAVE USED TO ESTIMATE THE COST**
19 **OF COMMON EQUITY FOR LACLEDE.**

20 A I have used several models based on financial theory to estimate Laclede’s cost of
21 common equity. These models are: (1) a constant growth Discounted Cash Flow
22 (DCF) model; (2) a sustainable growth DCF model; (3) a multi-stage growth DCF
23 model; (4) a Risk Premium model; and (5) a Capital Asset Pricing Model (CAPM). I

1 have applied these models to a group of publicly traded utilities that I have
2 determined reflect investment risk similar to Laclede.

3 **Q HOW DID YOU SELECT A PROXY GROUP OF UTILITIES SIMILAR IN**
4 **INVESTMENT RISK TO LACLEDE TO ESTIMATE ITS CURRENT MARKET COST**
5 **OF EQUITY?**

6 A I relied on the same proxy group used by Laclede witness Dr. Donald A. Murry to
7 estimate Laclede's return on equity.

8 **Q HOW DOES THIS PROXY GROUP'S INVESTMENT RISK COMPARE TO THE**
9 **INVESTMENT RISK OF LACLEDE?**

10 A The proxy group is shown on Schedule MPG-2. This proxy group has an average
11 senior secured credit rating from S&P of "A+," which is slightly higher, albeit
12 comparable to Laclede's senior secured credit rating from S&P of "A." The proxy
13 group's senior secured credit rating from Moody's is "A2," which is identical to
14 Laclede's senior secured credit rating from Moody's. Therefore, my proxy group has
15 comparable total investment risk to Laclede.

16 The proxy group has an average common equity ratio of 51.3% (including
17 short-term debt) from AUS and 58.7% (excluding short-term debt) from *Value Line* in
18 2009. This proxy group's common equity ratio is comparable to my proposed
19 common equity ratio for Laclede of 48.4% (including short-term debt). A comparable
20 common equity ratio demonstrates that Laclede's financial risks are comparable to
21 my proxy group.

22 I also compared Laclede's business risk to the business risk of my proxy
23 group based on S&P's ranking methodology. Laclede has a business risk profile of

“Excellent,” which is identical to the risk profile of my proxy group. S&P’s profile score methodology is discussed later in my testimony.

II.5. Discounted Cash Flow Model

Q PLEASE DESCRIBE THE DCF MODEL.

A The DCF model posits that a stock price is valued by summing the present value of expected future cash flows discounted at the investor’s required rate of return or cost of capital. This model is expressed mathematically as follows:

$$P_0 = \frac{D_1}{(1+K)^1} + \frac{D_2}{(1+K)^2} + \dots + \frac{D_\infty}{(1+K)^\infty} \text{ where} \quad (\text{Equation 1})$$

P_0 = Current stock price
 D = Dividends in periods 1 - ∞
 K = Investor’s required return

This model can be rearranged in order to estimate the discount rate or investor-required return, “K.” If it is reasonable to assume that earnings and dividends will grow at a constant rate, then Equation 1 can be rearranged as follows:

$$K = D_1/P_0 + G \quad (\text{Equation 2})$$

K = Investor’s required return
 D_1 = Dividend in first year
 P_0 = Current stock price
 G = Expected constant dividend growth rate

Equation 2 is referred to as the annual “constant growth” DCF model.

Q PLEASE DESCRIBE THE INPUTS TO YOUR CONSTANT GROWTH DCF MODEL.

A As shown under Equation 2 above, the DCF model requires a current stock price, expected dividend, and expected growth rate in dividends.

1 **Q WHAT STOCK PRICE AND DIVIDEND HAVE YOU RELIED ON IN YOUR**
2 **CONSTANT GROWTH DCF MODEL?**

3 A I relied on the average of the weekly high and low stock prices over a 13-week period
4 ended April 9, 2010. An average stock price is less susceptible to market price
5 variations than a spot price. Therefore, an average stock price is less susceptible to
6 aberrant market price movements, which may not be reflective of the stock's
7 long-term value.

8 A 13-week average stock price is still short enough to contain data that
9 reasonably reflects current market expectations, but is not so short a period as to be
10 susceptible to market price variations that may not be reflective of the security's
11 long-term value. In my judgment, a 13-week average stock price is a reasonable
12 balance between the need to reflect current market expectations and the need to
13 capture sufficient data to smooth out aberrant market movements.

14 I used the most recently paid quarterly dividend, as reported in *The Value Line*
15 *Investment Survey*. This dividend was annualized (multiplied by 4) and adjusted for
16 next year's growth to produce the D_1 factor for use in Equation 2 above.

17 **Q WHAT DIVIDEND GROWTH RATES HAVE YOU USED IN YOUR CONSTANT**
18 **GROWTH DCF MODEL?**

19 A There are several methods one can use in order to estimate the expected growth in
20 dividends. However, for purposes of determining the market-required return on
21 common equity, one must attempt to estimate investors' consensus about what the
22 dividend or earnings growth rate will be, and not what an individual investor or analyst
23 may use to form individual investment decisions.

1 Security analysts' growth estimates have been shown to be more accurate
2 predictors of future returns than growth rates derived from historical data because
3 they are more reliable estimates.⁵ Assuming the market generally makes rational
4 investment decisions, analysts' growth projections are more likely the growth
5 estimates considered by the market that influence observable stock prices than are
6 growth rates derived from only historical data.

7 For my constant growth DCF analysis, I have relied on a consensus, or mean,
8 of professional security analysts' earnings growth estimates as a proxy for the
9 investor consensus dividend growth rate expectations. I used the average of three
10 sources of analysts' growth rate estimates: Zacks, SNL Financial, and Reuters. All
11 consensus analysts' projections used were available on April 9, 2010, as reported
12 online.

13 Each consensus growth rate projection is based on a survey of security
14 analysts. The consensus estimate is a simple arithmetic average, or mean, of
15 surveyed analysts' earnings growth forecasts. A simple average of the growth
16 forecasts gives equal weight to all surveyed analysts' projections. It is problematic as
17 to whether any particular analyst's forecast is more representative of general market
18 expectations. Therefore, a simple average, or arithmetic mean, of analyst forecasts is
19 a good proxy for market consensus expectations.

20 **Q WHAT IS THE GROWTH RATE YOU USED IN YOUR CONSTANT GROWTH DCF**
21 **MODEL?**

22 **A** The growth rates I used in my DCF analysis are shown in Schedule MPG-3. The
23 average growth rate for my proxy group is 5.42%.

⁵See, e.g., David Gordon, Myron Gordon, and Lawrence Gould, "Choice Among Methods of Estimating Share Yield," *The Journal of Portfolio Management*, Spring 1989.

Q WHAT ARE THE RESULTS OF YOUR CONSTANT GROWTH DCF MODEL?

A As shown in Schedule MPG-4, the average and median group constant growth DCF return is 9.48% and 9.46%, respectively.

Q DO YOU HAVE ANY COMMENTS CONCERNING THE RESULTS OF YOUR CONSTANT GROWTH DCF ANALYSIS?

A Yes. The constant growth DCF return is based on a three- to five-year growth rate of 5.42%, which is in excess of the long-term Gross Domestic Product (GDP) growth outlook of 4.8%. This three- to five-year growth, while reasonable for the next five years, is not a reasonable estimate of long-term sustainable growth as required by the constant growth DCF model. However, the current growth rate for my proxy group has significantly declined and is approaching the sustainable growth rate. Therefore, I will consider the results of my constant growth DCF model in conjunction with the sustainable growth model and the multi-stage growth DCF model.

Q WHY DO YOU BELIEVE THE PROXY GROUP'S THREE- TO FIVE-YEAR GROWTH RATE IS IN EXCESS OF A LONG-TERM SUSTAINABLE GROWTH?

A The three- to five-year growth rate of the proxy group exceeds the growth rate of the overall U.S. economy. As developed below, the consensus of published economists projects that the U.S. GDP will grow at a rate of no more than 5.1% and 4.8% over the next 5 and 10 years, respectively. A company cannot grow, indefinitely, at a faster rate than the market in which it sells its products. The U.S. economy, or GDP, growth projection represents a ceiling, or high-end, sustainable growth rate for a utility over an indefinite period of time.

1 **Q WHY IS THE GDP GROWTH PROJECTION CONSIDERED A CEILING GROWTH**
2 **RATE FOR A UTILITY?**

3 A Utilities cannot indefinitely sustain a growth rate that exceeds the growth rate of the
4 overall economy. Utilities' earnings/dividend growth is created by increased utility
5 investment or rate base. Utility plant investment, in turn, is driven by service area
6 economic growth and demand for utility service. In other words, utilities invest in
7 plant to meet sales demand growth, and sales growth in turn is tied to economic
8 growth in their service areas. The Energy Information Administration (EIA) has
9 observed that utility sales growth is less than U.S. GDP growth, as shown in
10 Schedule MPG-5. Utility sales growth has lagged behind GDP growth. Hence,
11 nominal GDP growth is a very conservative, albeit overstated, proxy for gas utility
12 sales growth, rate base growth, and earnings growth. Therefore, GDP growth is a
13 reasonable proxy for the highest sustainable long-term growth rate of a utility.

14 **Q IS THERE RESEARCH THAT SUPPORTS YOUR POSITION THAT, OVER THE**
15 **LONG TERM, A COMPANY'S EARNINGS AND DIVIDENDS CANNOT GROW AT**
16 **A RATE GREATER THAN THE GROWTH OF THE U.S. GDP?**

17 A Yes. This concept is supported in both published analyst literature and academic
18 work. Specifically, in a textbook entitled "Fundamentals of Financial Management,"
19 published by Eugene Brigham and Joel F. Houston, the authors state as follows:

20 The constant growth model is most appropriate for mature companies
21 with a stable history of growth and stable future expectations.
22 Expected growth rates vary somewhat among companies, but
23 dividends for mature firms are often expected to grow in the future at
24 about the same rate as nominal gross domestic product (real GDP
25 plus inflation).⁶

⁶"Fundamentals of Financial Management," Eugene F. Brigham and Joel F. Houston, Eleventh Edition 2007, Thomson South-Western, a Division of Thomson Corporation at 298.

1 Also, Morningstar's *Stocks, Bonds, Bills and Inflation 2010 Yearbook*
2 *Valuation Edition* tracked dividends of the stock market in comparison to GDP growth
3 over the period 1926 through the end of 2009.⁷ Based on that study, the authors
4 found that earnings and dividends for the market have historically grown in tandem
5 with the overall economy. It is important to note that the growth of companies
6 included in the overall market will normally be higher than that of utility companies.
7 These non-utility companies achieve a higher level of growth because they retain a
8 larger percentage of their earnings and pay out a much smaller percentage of their
9 earnings as dividends. Retaining higher percentages of total earnings fuels stronger
10 growth for these non-utility companies. Since the market in general grows at the
11 overall GDP growth rate, it is very conservative to assume that utility companies
12 could achieve this same level of sustained growth without a material reduction in their
13 dividend payout ratios. As such, using the GDP as a maximum sustainable growth
14 rate is a very conservative and high-end estimate for utility companies.

15 **Q HOW DO THE PROXY GROUP'S PROJECTED ANALYST GROWTH RATES**
16 **COMPARE TO HISTORICAL ACTUAL GROWTH AND CONTEMPORARY**
17 **PROJECTED NOMINAL GDP GROWTH AND INFLATION RATES?**

18 **A** As shown in Schedule MPG-6, the historical growth of the proxy group's dividend
19 (columns 1 and 2) is lower than the historical nominal GDP growth (columns 7 and 8).
20 Over the last 5 and 10 years, my proxy group's dividend growth was approximately
21 equal to the actual inflation (columns 4 and 5) and well beneath the actual growth of
22 nominal GDP (columns 7 and 8).

⁷*Stocks, Bonds, Bills and Inflation 2010 Yearbook Valuation Edition* (Morningstar, Inc.) at 67.

1 This historical perspective confirms the robust outlook for earnings growth
2 over the next three to five years and supports my contention that current three- to
3 five-year earnings growth projections will subside to the sustainable long-term growth
4 rate level over time.

5 **II.6. Sustainable Growth DCF**

6 **Q IS THERE A WAY OF DEVELOPING A DCF ESTIMATE USING A SUSTAINABLE**
7 **LONG-TERM GROWTH RATE?**

8 **A**Yes. This can be developed using an internal growth rate or sustainable growth for
9 the companies included in the proxy group using *Value Line*'s three- to five-year
10 earnings, dividends projections and estimated earned return on equity. An internal
11 growth rate methodology estimates the sustainable growth rate based on the
12 percentage of the utility's earnings that are retained in the company and reinvested in
13 utility plant and equipment. These reinvested earnings increase the earnings base
14 and will increase the earned return on equity when those additional earnings are put
15 into service, and the company is allowed to earn its authorized return on the
16 additional investment.

17 The internal growth methodology is tied to the percentage of earnings retained
18 in the company and not paid out as dividends. The earnings retention ratio is 1 minus
19 the dividend payout ratio. As the payout ratio declines, the earnings retention ratio
20 increases. An increased earnings retention ratio will fuel stronger growth because
21 the business funds more investments with retained earnings. As shown in Schedule
22 MPG-7, *Value Line* projects the proxy group to have a declining dividend payout ratio
23 over the next three to five years. These dividend payout ratios and earnings retention
24 ratios can then be used to develop a sustainable long-term earnings retention growth

1 rate to help gauge whether analysts' current three- to five-year growth rate
2 projections can be sustained over an indefinite period of time.

3 As shown in Schedule MPG-8, page 1, the average sustainable growth rate
4 for the proxy group using this internal growth rate model is 6.04%.

5 **Q WHAT IS A CONSTANT GROWTH DCF ESTIMATE USING THIS SUSTAINABLE**
6 **LONG-TERM GROWTH RATE?**

7 A A DCF estimate based on this sustainable growth rate is developed in Schedule
8 MPG-9. As shown there, a sustainable growth DCF analysis produces a group
9 average DCF result of 10.13%, and median DCF result of 9.09%.

10 The median result in this case may be a better approximation of the central
11 tendency of this group for the sustainable growth DCF return estimate. The average
12 result is skewed upwards by South Jersey Industries, Inc. with a sustainable growth
13 rate of 11.48%, and New Jersey Resources with a sustainable growth rate of 7.83%.
14 These growth rates in turn are skewed by earned returns on equity of 14.99% and
15 11.82%, respectively. A 9.09% growth rate appears generally consistent with five of
16 the constant growth DCF return estimates in the seven-company sample.

17 The sustainable growth DCF result is based on the dividend and price data
18 used in my constant growth DCF study (using analyst growth rates) and the
19 sustainable growth rate discussed above and developed in Schedule MPG-8.

20 **II.7. Multi-Stage Growth DCF Model**

21 **Q HAVE YOU CONDUCTED ANY OTHER DCF STUDIES?**

22 A Yes. My first constant growth DCF is based on consensus analysts' growth rate
23 projections, so it is a reasonable reflection of rational investment expectations over

1 the next three to five years. The limitation on the constant growth DCF model is that
2 it cannot reflect a rational expectation that a period of high/low short-term growth can
3 be followed by a change in growth to a rate that is more reflective of long-term
4 sustainable growth. Hence, I performed a multi-stage growth DCF analysis to reflect
5 this outlook of changing growth expectations.

6 **Q PLEASE DESCRIBE YOUR MULTI-STAGE GROWTH DCF MODEL.**

7 A The multi-stage growth DCF model reflects the possibility of non-constant growth for
8 a company over time. The multi-stage growth DCF model reflects three growth
9 periods: (1) a short-term growth period, which consists of the first five years; (2) a
10 transition period, which consists of the next five years (6 through 10); and (3) a long-
11 term growth period, starting in year 11 through perpetuity.

12 For the short-term growth period, I relied on the consensus analysts' growth
13 projections described above in relationship to my constant growth DCF model. For
14 the transition period, the growth rates were reduced or increased by an equal factor,
15 which reflects the difference between the analysts' growth rates and the GDP growth
16 rate. For the long-term growth period, I assumed each company's growth would
17 converge to the maximum sustainable growth rate for a utility company as proxied by
18 the consensus analysts' projected growth for the U.S. GDP of 4.8%.

19 **Q WHAT DO YOU BELIEVE IS A REASONABLE SUSTAINABLE LONG-TERM**
20 **GROWTH RATE?**

21 A A reasonable growth rate that can be sustained in the long run should be based on
22 consensus analysts' projections. *Blue Chip Economic Indicators* publishes
23 consensus GDP growth projections twice a year. Based on its latest issue, the

1 consensus economists' published 5- to 10-year GDP growth rate outlook is 5.1% to
2 4.8%, respectively.⁸

3 Therefore, I propose to use the consensus economists' projected 10-year
4 GDP consensus growth rate of 4.8%, as published by *Blue Chip Economic Indicators*,
5 as an estimate of sustainable long-term growth. This consensus GDP growth
6 forecast represents the most likely views of market participants because it is based
7 on published economist projections.

8 **Q WHAT STOCK PRICE, DIVIDEND AND GROWTH RATES DID YOU USE IN YOUR**
9 **MULTI-STAGE GROWTH DCF ANALYSIS?**

10 A I relied on the same 13-week stock price and the most recent quarterly dividend
11 payment discussed above. For stage one growth, I used the consensus analysts'
12 growth rate projections discussed above in my constant growth DCF model. The
13 transition period begins in year 6 and ends in year 10. For the long-term sustainable
14 growth rate starting in year 11, I used 4.8%, the consensus economists' 10-year
15 projected nominal GDP growth rate.

16 **Q WHAT ARE THE RESULTS OF YOUR MULTI-STAGE GROWTH DCF MODEL?**

17 A As shown in Schedule MPG-10, the average and median proxy group multi-stage
18 growth DCF return on equity is 8.99% and 8.90%, respectively.

19 **Q PLEASE SUMMARIZE THE RESULTS FROM YOUR DCF ANALYSES.**

20 A The results from my DCF analyses are summarized in Table 3 below:

⁸*Blue Chip Economic Indicators*, March 10, 2010 at 15.

TABLE 3	
<u>Summary of DCF Results</u>	
<u>Description</u>	<u>Proxy Group</u>
Constant Growth DCF Model (Analysts' Growth)	9.48%
Constant Growth DCF Model (Sustainable Growth)	10.13%
Multi-Stage Growth DCF Model	<u>8.99%</u>
Average DCF Return	9.53%

1 My DCF analyses produce a return on equity for Laclede of 9.53%.

2 **II.8. Risk Premium Model**

3 **Q PLEASE DESCRIBE YOUR BOND YIELD PLUS RISK PREMIUM MODEL.**

4 A This model is based on the principle that investors require a higher return to assume
5 greater risk. Common equity investments have greater risk than bonds because
6 bonds have more security of payment in bankruptcy proceedings than common equity
7 and the coupon payments on bonds represent contractual obligations. In contrast,
8 companies are not required to pay dividends on common equity, or to guarantee
9 returns on common equity investments. Therefore, common equity securities are
10 considered to be more risky than bond securities.

11 This risk premium model is based on two estimates of an equity risk premium.
12 First, I estimated the difference between the required return on utility common equity
13 investments and Treasury bonds. The difference between the required return on
14 common equity and the bond yield is the risk premium. I estimated the risk premium
15 on an annual basis for each year over the period 1986 through 2009. The common
16 equity required returns were based on regulatory commission-authorized returns for

1 gas utility companies. Authorized returns are typically based on expert witnesses'
2 estimates of the contemporary investor-required return.

3 The second equity risk premium method is based on the difference between
4 regulatory commission-authorized returns on common equity and contemporary
5 "A" rated utility bond yields. This time period was selected because over the period
6 1986 through 2009, public utility stocks have consistently traded at a premium to
7 book value. This is illustrated in Schedule MPG-11, where the market to book ratio
8 since 1986 for the gas utility industry was consistently above 1.0. Over this time
9 period, regulatory authorized returns were sufficient to support market prices that at
10 least exceeded book value. This is an indication that regulatory authorized returns on
11 common equity supported a utility's ability to issue additional common stock, without
12 diluting existing shares. It further demonstrates that utilities were able to access
13 equity markets without a detrimental impact on current shareholders.

14 Based on this analysis, as shown in Schedule MPG-12, the average indicated
15 equity risk premium over U.S. Treasury bond yields has been 5.07%. Of the 25
16 observations, 19 indicated risk premiums fall in the range of 4.15% to 5.93%. Since
17 the risk premium can vary depending upon market conditions and changing investor
18 risk perceptions, I believe using an estimated range of risk premiums provides the
19 best method to measure the current return on common equity using this
20 methodology.

21 As shown in Schedule MPG-13, the average indicated equity risk premium
22 over contemporary Moody's utility bond yields was 3.63% over the period 1986
23 through Q1 2010. The indicated equity risk premium estimates based on this
24 analysis primarily fall in the range of 3.04% to 4.41% over this time period.

1 **Q DO YOU BELIEVE THAT THIS RISK PREMIUM IS BASED ON A TIME PERIOD**
2 **THAT IS TOO LONG OR TOO SHORT TO DRAW ACCURATE RESULTS**
3 **CONCERNING CONTEMPORARY MARKET CONDITIONS?**

4 **A No.** Contemporary market conditions can change dramatically during the period that
5 rates determined in this proceeding will be in effect. Therefore, relying on a relatively
6 long period of time where stock valuations reflect premiums to book value is an
7 indication that the authorized returns on equity and the corresponding equity risk
8 premiums were supportive of investors' return expectations and provided utilities
9 access to the equity markets under reasonable terms and conditions. Further, this
10 time period is long enough to smooth abnormal market movement that might distort
11 equity risk premiums. While market conditions and risk premiums do vary over time,
12 this historical time period is a reasonable period to estimate contemporary risk
13 premiums.

14 The time period I use in this risk premium is a generally accepted period to
15 develop a risk premium study using "expectational" data. Conversely, studies have
16 recommended that use of "actual achieved return data" should be based on very long
17 historical time periods. The studies find that achieved returns over short time periods
18 may not reflect investors' expected returns due to unexpected and abnormal stock
19 price performance. However, these short-term abnormal actual returns would be
20 smoothed over time and the achieved actual returns over long time periods would
21 approximate investors' expected returns. Therefore, it is reasonable to assume that
22 averages of annual achieved returns over long time periods will generally converge
23 on the investors' expected returns.

24 My risk premium study is based on expectational data, not actual returns, and,
25 thus, need not encompass very long time periods.

1 **Q BASED ON HISTORICAL DATA, WHAT RISK PREMIUM HAVE YOU USED TO**
2 **ESTIMATE LACLEDE'S COST OF EQUITY IN THIS PROCEEDING?**

3 A The equity risk premium should reflect the relative market perception of risk in the
4 utility industry today. I have gauged investor perceptions in utility risk today in
5 Schedule MPG-14. On that exhibit, I show the yield spread between utility bonds and
6 Treasury bonds over the last 30 years. As shown in this exhibit, the 2008 utility bond
7 yield spreads over Treasury bonds for "A" rated and "Baa" rated utility bonds are
8 2.25% and 2.97%, respectively. The utility bond spreads over Treasury bonds for "A"
9 and "Baa" rated utility bonds for 2009 are 1.97% and 2.99%, respectively. These
10 utility bond yield spreads over Treasury bond yields are much higher than the 30-year
11 average spreads of 1.61% and 2.00%, respectively.

12 While the yield spreads for 2008 and 2009 reflect unusually large spreads, the
13 market has started to improve and these spreads have started to decline as shown on
14 the graphs of Schedule MPG-15, pages 2 and 3. For example, for the first quarter of
15 2010, the "A" rated utility bond yield has subsided relative to the end of 2008 and
16 2009, down to 5.83% . This utility bond yield when compared to the current Treasury
17 bond yield of 4.62% implies a yield spread of around 1.21%, which is lower than the
18 30-year average spread for "A" utility bonds of 1.61%. The same is true for the "Baa"
19 utility yields and spreads.

20 **Q HOW DID YOU ESTIMATE LACLEDE'S COST OF COMMON EQUITY WITH THIS**
21 **RISK PREMIUM MODEL?**

22 A I added a projected long-term Treasury bond yield to my estimated equity risk
23 premium over Treasury yields. The 13-week average 30-year Treasury bond yield
24 ending April 9, 2010 was 4.64% (Schedule MPG-15). *The Blue Chip Financial*

1 *Forecasts* projects the 30-year Treasury bond yield to be 5.30%, and a 10-year
2 Treasury bond yield to be 4.5%.⁹ Using the current and projected 30-year bond yield
3 of 4.64% and 5.30% and a Treasury bond risk premium of 4.15% to 5.93%, as
4 developed above, produces an estimated common equity return in the range of
5 8.79% (4.64% + 4.15%) to 11.23% (5.30% + 5.93%), with a midpoint of 10.01%.

6 I next added my equity risk premium over utility bond yields to the current
7 13-week average yield on "A" rated utility bonds (5.82%) for the period ending April 9,
8 2010 (Schedule MPG-15, page 1). Adding the current "A" bond yield of 5.82% to
9 the utility equity risk premium of 3.04% to 4.41%, produces a cost of equity in the
10 range of 8.86% to 10.23%, with a midpoint of 9.55%.

11 My risk premium analyses produce a return estimate in the range of 9.55% to
12 10.01%, with a midpoint estimate of 9.78%.

13 **II.9. Capital Asset Pricing Model (CAPM)**

14 **Q PLEASE DESCRIBE THE CAPM.**

15 A The CAPM method of analysis is based upon the theory that the market-required rate
16 of return for a security is equal to the risk-free rate, plus a risk premium associated
17 with the specific security. This relationship between risk and return can be expressed
18 mathematically as follows:

19
$$R_i = R_f + B_i \times (R_m - R_f) \text{ where:}$$

20 R_i = Required return for stock i

21 R_f = Risk-free rate

22 R_m = Expected return for the market portfolio

23 B_i = Beta - Measure of the risk for stock

⁹*Blue Chip Financial Forecasts*, April 1, 2010 at 2.

1 The stock-specific risk term in the above equation is beta. Beta represents
2 the investment risk that cannot be diversified away when the security is held in a
3 diversified portfolio. When stocks are held in a diversified portfolio, firm-specific risks
4 can be eliminated by balancing the portfolio with securities that react in the opposite
5 direction to firm-specific risk factors (e.g., business cycle, competition, product mix,
6 and production limitations).

7 The risks that cannot be eliminated when held in a diversified portfolio are
8 nondiversifiable risks. Nondiversifiable risks are related to the market in general and
9 are referred to as systematic risks. Risks that can be eliminated by diversification are
10 regarded as non-systematic risks. In a broad sense, systematic risks are market
11 risks, and non-systematic risks are business risks. The CAPM theory suggests that
12 the market will not compensate investors for assuming risks that can be diversified
13 away. Therefore, the only risk that investors will be compensated for are systematic
14 or non-diversifiable risks. The beta is a measure of the systematic or
15 non-diversifiable risks.

16 **Q PLEASE DESCRIBE THE INPUTS TO YOUR CAPM.**

17 A The CAPM requires an estimate of the market risk-free rate, the company's beta, and
18 the market risk premium.

19 **Q WHAT DID YOU USE AS AN ESTIMATE OF THE MARKET RISK-FREE RATE?**

20 A As previously noted, *Blue Chip Financial Forecasts'* projected 30-year Treasury bond
21 yield is 5.3%.¹⁰ The current 30-year bond yield is 4.61%. I used *Blue Chip Financial*
22 *Forecasts'* projected 30-year Treasury bond yield of 5.3% for my CAPM analysis.

¹⁰*Blue Chip Financial Forecasts*, April 1, 2010 at 2.

1 **Q WHY DID YOU USE LONG-TERM TREASURY BOND YIELDS AS AN ESTIMATE**
2 **OF THE RISK-FREE RATE?**

3 A Treasury securities are backed by the full faith and credit of the United States
4 government. Therefore, long-term Treasury bonds are considered to have negligible
5 credit risk. Also, long-term Treasury bonds have an investment horizon similar to that
6 of common stock. As a result, investor-anticipated long-run inflation expectations are
7 reflected in both common stock required returns and long-term bond yields.
8 Therefore, the nominal risk-free rate (or expected inflation rate and real risk-free rate)
9 included in a long-term bond yield is a reasonable estimate of the nominal risk-free
10 rate included in common stock returns.

11 Treasury bond yields, however, do include risk premiums related to
12 unanticipated future inflation and interest rates. A Treasury bond yield is not a risk-
13 free rate. Risk premiums related to unanticipated inflation and interest rates are
14 systematic or market risks. Consequently, for companies with betas less than 1.0,
15 using the Treasury bond yield as a proxy for the risk-free rate in the CAPM analysis
16 can produce an overstated estimate of the CAPM return.

17 **Q WHAT BETA DID YOU USE IN YOUR ANALYSIS?**

18 A As shown in Schedule MPG-16, the proxy group average *Value Line* beta estimate is
19 0.66.

20 **Q HOW DID YOU DERIVE YOUR MARKET RISK PREMIUM ESTIMATE?**

21 A I derived two market risk premium estimates, a forward-looking estimate and one
22 based on a long-term historical average.

1 The forward-looking estimate was derived by estimating the expected return
2 on the market (as represented by the S&P 500) and subtracting the risk-free rate from
3 this estimate. I estimated the expected return on the S&P 500 by adding an expected
4 inflation rate to the long-term historical arithmetic average real return on the market.
5 The real return on the market represents the achieved return above the rate of
6 inflation.

7 Morningstar's *Stocks, Bonds, Bills and Inflation 2010 Yearbook* publication
8 estimates the historical arithmetic average real market return over the period 1926 to
9 2009 as 8.6%. A current consensus analysts' inflation projection, as measured by the
10 Consumer Price Index, is 2.2%.¹¹ Using these estimates, the expected market return
11 is 10.99%.¹² The market premium then is the difference between the 10.99%
12 expected market return, and my 5.3% risk-free rate estimate, or 5.69%.

13 The historical estimate of the market risk premium was also estimated by
14 Morningstar in *Stocks, Bonds, Bills and Inflation 2010 Yearbook*. Over the period
15 1926 through 2009, Morningstar's study estimated that the arithmetic average of the
16 achieved total return on the S&P 500 was 11.80%, and the total return on long-term
17 Treasury bonds was 5.8%. The indicated equity risk premium is 6.00% (11.80% -
18 5.80% = 6.00%).

19 **Q HOW DOES YOUR ESTIMATED MARKET RISK PREMIUM RANGE COMPARE TO**
20 **THAT ESTIMATED BY MORNINGSTAR?**

21 **A**Morningstar estimates a forward-looking market risk premium based on actual
22 achieved data from the historical period of 1926 through year-end 2009. Using this
23 data, Morningstar estimates a market risk premium derived from the total return on

¹¹Blue Chip Financial Forecasts, April 1, 2010 at 2.

¹² $\{ [(1 + 0.086) * (1 + 0.022)] - 1 \} * 100$.

1 large company stocks (S&P 500), less the income return on Treasury bonds. The
2 total return includes capital appreciation, dividend or coupon reinvestment returns,
3 and annual yields received from coupons and/or dividend payments. The income
4 return, in contrast, only reflects the income return received from dividend payments or
5 coupon yields. Morningstar argues that the income return is the only true risk-free
6 rate associated with the Treasury bond and is the best approximation of a truly risk-
7 free rate. I disagree with this assessment from Morningstar, because it does not
8 reflect a true investment option available to the marketplace and therefore does not
9 produce a legitimate estimate of the expected premium of investing in the stock
10 market versus that of Treasury bonds. Nevertheless, I will use Morningstar's
11 conclusion to show the reasonableness of my market risk premium estimates.

12 Morningstar's analysis indicates that a market risk premium falls somewhere
13 in the range of 5.2% to 6.7%. This range is based on several methodologies. First,
14 Morningstar estimates a market risk premium of 6.7% based on the difference
15 between the total market return on common stocks (S&P 500) less the income return
16 on Treasury bond investments. Second, Morningstar found that if the New York
17 Stock Exchange (NYSE) was used as the market index rather than the S&P 500, that
18 the market risk premium would be 6.4% and not 6.7%. Third, if only the two deciles
19 of the largest companies included in the NYSE were considered, the market risk
20 premium would be 5.9%.¹³

21 Finally, Morningstar found that the 6.7% market risk premium based on the
22 S&P 500 was impacted by an abnormal expansion of price-to-earnings (P/E) ratios
23 relative to earnings and dividend growth during the period 1980 through 2001.
24 Morningstar believes this abnormal P/E expansion is not sustainable. Therefore,

¹³Morningstar observes that the S&P 500 and the NYSE Decile 1-2 are both large capitalization benchmarks. Morningstar, Inc. *Ibbotson SBI 2010 Valuation Yearbook* at 53 and 54.

Morningstar adjusted this market risk premium estimate to normalize the growth in the P/E ratio to be more in line with the growth in dividends and earnings. Based on this alternative methodology, Morningstar published a long-horizon supply-side market risk premium of 5.2%.¹⁴

Thus, based on all of Morningstar's estimates, the market risk premium falls somewhere in the range of 5.2% to 6.7%.

Q WHAT ARE THE RESULTS OF YOUR CAPM ANALYSIS?

A As shown in Schedule MPG-17, based on my low-end market risk premium of 5.2%, high-end market risk premium of 6.7%, a risk-free rate of 5.3%, and a beta of 0.66, my CAPM analysis produces a return in the range of 8.72% to 9.70%, with a midpoint of 9.21%.

II.10. Return on Equity Summary

Q BASED ON THE RESULTS OF YOUR RETURN ON COMMON EQUITY ANALYSES DESCRIBED ABOVE, WHAT RETURN ON COMMON EQUITY DO YOU RECOMMEND FOR LACLEDE?

A Based on my analyses, I estimate Laclede's current market cost of equity to be 9.5%.

TABLE 4	
<u>Return on Common Equity Summary</u>	
<u>Description</u>	<u>Results</u>
DCF	9.53%
Risk Premium	9.78%
CAPM	9.21%

¹⁴*Id.* at 66.

1 My recommended return on equity range is 9.20% to 9.80%. The midpoint of
2 this range is 9.50%. My low end is based on my CAPM return estimates and my high
3 end is based on my risk premium return estimate. The DCF return estimate is at the
4 midpoint of my estimated range.

5 **III. FINANCIAL INTEGRITY**

6 **Q WILL YOUR RECOMMENDED OVERALL RATE OF RETURN SUPPORT AN**
7 **INVESTMENT GRADE BOND RATING FOR LACLEDE?**

8 A Yes. I have reached this conclusion by comparing the key credit rating financial
9 ratios for Laclede at my proposed capital structure, and my return on equity to S&P's
10 benchmark financial ratios using S&P's new credit metric ranges.

11 **Q PLEASE DESCRIBE THE MOST RECENT S&P FINANCIAL RATIO CREDIT**
12 **METRIC METHODOLOGY.**

13 A S&P publishes a matrix of financial ratios that correspond to its assessment of the
14 business risk of the utility company and related bond rating. S&P updated its credit
15 metric guidelines on November 30, 2007, and incorporated utility metric benchmarks
16 with the general corporate rating metrics. However, the effect of integrating the utility
17 metrics with that of general corporate bonds, resulted in a reduction to the
18 transparency in S&P's credit metric guideline for utilities.

19 On May 27, 2009 S&P expanded its matrix criteria and included an additional
20 business and financial risk category. Based on S&P's credit matrix, the business risk
21 profile categories are "Excellent," "Strong," "Satisfactory," "Fair," "Weak," and
22 "Vulnerable." Most gas utilities have a business risk profile of "Excellent" or "Strong."
23 The financial risk profile categories are "Minimal," "Modest," "Intermediate,"

1 “Significant,” “Aggressive,” and “Highly Leveraged.” Most of the gas utilities have a
2 financial risk profile of “Aggressive.”

3 **Q PLEASE DESCRIBE S&P’S USE OF THE FINANCIAL BENCHMARK RATIOS IN**
4 **ITS CREDIT RATING REVIEW.**

5 A S&P evaluates a utility’s credit rating based on an assessment of its financial and
6 business risks. A combination of financial and business risks equates to the overall
7 assessment of Laclede’s total credit risk exposure. S&P publishes a matrix of
8 financial ratios that defines the level of financial risk as a function of the level of
9 business risk.

10 S&P publishes ranges for three primary financial ratios that it uses as
11 guidance in its credit review for utility companies. The three primary financial ratio
12 benchmarks it relies on in its credit rating process include: (1) debt to EBITDA,
13 (2) funds from operations (FFO) to total debt, and (3) total debt to total capital.

14 **Q HOW DID YOU APPLY S&P’S FINANCIAL RATIOS TO TEST THE**
15 **REASONABLENESS OF YOUR RATE OF RETURN RECOMMENDATIONS?**

16 A I calculated each of S&P’s financial ratios based on Laclede’s cost of service for retail
17 operations. While S&P would normally look at total consolidated financial ratios in its
18 credit review process, my investigation in this proceeding is to judge the
19 reasonableness of my proposed cost of capital for rate-setting in Laclede’s utility
20 operations. Hence, I am attempting to determine whether the rate of return and cash
21 flow generation opportunity reflected in my proposed utility rates for Laclede will
22 support target investment grade bond ratings and financial integrity.

1 **Q DID YOU INCLUDE ANY OFF-BALANCE SHEET DEBT?**

2 A No. Based on the S&P report, the Company's exposure to off-balance sheet debt
3 attributed to operating leases was insignificant. Therefore, I did not include any off-
4 balance sheet debt equivalents in the calculation of the S&P historical ratios.

5 **Q PLEASE DESCRIBE THE RESULTS OF THIS CREDIT METRIC ANALYSIS FOR**
6 **LACLEDE.**

7 A The S&P financial metric calculations for Laclede are developed on Schedule
8 MPG-18.

9 As shown on Schedule MPG-18, column 1, based on an equity return of 9.5%,
10 Laclede will be provided an opportunity to produce a debt to EBITDA ratio of 3.3x.
11 This is below (stronger than) S&P's guideline range of 4.0x to 5.0x,¹⁵ for a utility with
12 a normal financial risk ranking. This ratio supports Laclede's investment grade bond
13 rating.

14 Laclede's retail operations FFO to total debt coverage at a 9.5% equity return
15 would be 20%, which is at the high end of the guideline range of 12% to 20%. The
16 FFO/total debt ratio will support Laclede's investment grade bond rating.

17 Finally, Laclede's total debt ratio to total capital is 52%. This is within S&P's
18 guideline range of 50% to 60%. This total ratio also supports Laclede's investment
19 grade bond rating.

¹⁵Standard & Poor's RatingsDirect: "Criteria Methodology: Business Risk/Financial Risk Matrix Expanded," May 27, 2009.

1 **IV. DEPRECIATION RATE ADJUSTMENT**

2 **Q PLEASE EXPLAIN THE PURPOSE OF BOOK DEPRECIATION ACCOUNTING.**

3 A Book depreciation is a recognition in a utility's income statement for the consumption
4 or use of assets used to provide utility service. Book depreciation is recorded as an
5 expense and is included in the ratemaking formula or overall utility's revenue
6 requirement.

7 Book depreciation provides for the recovery of the original cost of the utility's
8 assets that are providing service. Book depreciation expense is not intended to
9 provide for replacement of the current assets, but provides for capital recovery or
10 return of current investment.

11 In addition to capital recovery, depreciation rates also contain a provision for
12 net salvage.

13 **Q WHAT METHOD, PROCEDURE AND TECHNIQUE WAS USED TO CALCULATE**
14 **THE PROPOSED DEPRECIATION RATES FOR LACLEDE?**

15 A Laclede's proposed depreciation rates were calculated using the straight line method,
16 average life group procedure and remaining life technique. The proposed
17 depreciation rates are initially developed on an average service life basis including a
18 depreciation reserve variance adjustment. This results in Laclede recovering the
19 undepreciated value of its investment adjusted for net salvage over the remaining
20 asset service life.

1 **Q PLEASE DEFINE NET SALVAGE.**

2 A Net salvage is simply the value received from the sale or reuse of retired property
3 (salvage value), less the cost of retiring such property (cost of removal). Net salvage
4 can be either positive or negative. If the salvage value exceeds the cost of removal,
5 the net salvage ratio is positive. If the cost of removal is greater than the salvage
6 value received as a result of retirement, the resulting net salvage ratio is negative. A
7 utility will recover the net salvage over the useful life of the asset

8 **Q IS LACLEDE PROPOSING TO CHANGE ITS DEPRECIATION RATES?**

9 A Yes. Laclede is proposing to increase its book depreciation rates which in turn
10 increases its book depreciation expense. Laclede is proposing to increase its
11 depreciation rates for manufacturing gas plant, underground storage plant,
12 transmission plant and distribution plant. The proposed new rates increase Laclede's
13 depreciation expense by \$2.049 million. This amount includes the amortization of the
14 claimed depreciation reserve deficiencies/excesses and is based on September 30,
15 2009 plant balances. Schedule MPG-19 compares Laclede's present and proposed
16 depreciation rates and resulting increase to its depreciation expense.

17 The general plant accounts were not reviewed because they represent less
18 than 2 percent of the depreciable utility plant (Spanos Direct Testimony at 11). In
19 addition, Laclede witness Mr. Spanos states the investment in many of these plant
20 accounts is being amortized and not treated as other depreciable assets.

1 **Q DO YOU HAVE ANY COMMENTS REGARDING LACLEDE'S PROPOSED NEW**
2 **DEPRECIATION RATES?**

3 A Yes. Laclede's proposed net salvage ratios that are used to develop its depreciation
4 rates produce net salvage expense that significantly exceeds the level of net salvage
5 expense that Laclede actually incurs. Because the net salvage issue is primarily a
6 distribution plant account issue, I will focus on the net salvage accruals and expenses
7 for selected distribution plant accounts.

8 **Q WHAT CHANGES DO YOU RECOMMEND TO LACLEDE'S PROPOSED**
9 **DEPRECIATION RATES?**

10 A I am proposing that the Commission use the currently approved net salvage ratios to
11 develop the authorized depreciation rates in this case. This will reduce the proposed
12 depreciation expense based on plant balance at September 30, 2009 by
13 approximately \$882,000. This reduction in depreciation expense does not reflect the
14 accumulated depreciation reserve true-up amortization. This will have to be
15 recalculated since my proposed depreciation rates use the current net salvage ratios
16 not the proposed net salvage ratios. Changes to the life and net salvage depreciation
17 parameters impact the depreciation reserve excess/deficiency calculations that
18 comprise the true-up.

19 **Q WHY DO YOU TAKE EXCEPTION WITH THE AMOUNT OF NET SALVAGE THAT**
20 **LACLEDE HAS INCLUDED IN ITS PROPOSED TRANSMISSION, DISTRIBUTION**
21 **AND GENERAL (TD&G) BOOK DEPRECIATION RATES?**

22 A The requested annual net salvage component of depreciation rates will provide
23 Laclede annual net salvage expense that is significantly higher than Laclede's actual

annual net salvage expense. The amount of annual net salvage actual expense and the amount recovered at the current net salvage ratios and proposed net salvage ratios are shown below in Table 5.

TABLE 5 <u>Net Salvage Reserve Comparison</u>			
Description	10-Year Average Annual Net Salvage Expense (1)	Net Salvage Expense Proposed Depreciation Rates (2)	Net Salvage Expense Current Depreciation Rates (3)
Acct 376.1 (Mains – Steel)	\$320,571	\$751,702	\$365,113
Acct 376.2 (Mains – Cast Iron)	230,545	151,945	278,088
Acct 376.3 (Mains – Plastic & Copper)	16,271	485,617	323,745
Acct 380.1 (Services – Steel)	742,391	857,413	1,116,182
Acct 380.2 (Services – Plastic & Copper)	<u>2,447,877</u>	<u>7,531,122</u>	<u>6,989,963</u>
Account Totals	\$3,757,654	\$9,777,799	\$9,073,090
Multiple of Actual	1.0	2.6	2.4
Source: Schedule MPG-21.			

As shown in the table above, Laclede's current net salvage ratios will recover more than 2.4 times Laclede's actual annual net salvage cost. The proposed increase net salvage ratios included in the proposed new depreciation rates will increase the recovery of net salvage cost to 2.6x Laclede's actual net salvage cost.

Laclede has not supported its proposal to increase its net salvage ratios for these accounts. Since the current net salvage ratios already provide full recovery of net salvage cost and provide Laclede a significant reserve to cover future net salvage

1 costs, I recommend that the currently approved net salvage ratios continue to be
2 used to develop Laclede's depreciation rates for the accounts listed in Table 5 above.

3 This is particularly important in the current difficult economic times so as not to
4 burden Laclede's customers by an unnecessary increase in its utility rates due to an
5 unnecessary increase to Laclede's depreciation rates and expense.

6 **Q PLEASE EXPLAIN HOW YOU DETERMINED THE NET SALVAGE EXPENSE**
7 **THAT IS INCLUDED IN LACLEDE'S PROPOSED DEPRECIATION RATES.**

8 A To determine the net salvage expense that is included in Laclede's proposed
9 depreciation rates, I calculated its depreciation rates using the average service life
10 and the net salvage ratio for each plant account excluding the general plant account.
11 I then compared that to the depreciation rates that Laclede was proposing for each
12 plant account. This comparison of the depreciation rates is shown on Schedule
13 MPG-20, page 1 for all plant accounts except general plant.

14 I then performed the same calculation setting all of the net salvage ratios at
15 0%. I applied both sets of depreciation rates to the September 30, 2009 plant
16 balances. The difference represents the amount of net salvage that Laclede has
17 included in the depreciation rates.

18 As shown on Schedule MPG-20, Laclede has included approximately
19 \$9.897 million of net salvage expense in its depreciation rates excluding general
20 plant.

1 **Q PLEASE EXPLAIN HOW YOU DETERMINED THE NET SALVAGE EXPENSE**
2 **THAT WOULD BE INCLUDED IN LACLEDE'S DEPRECIATION RATES IF THE**
3 **NET SALVAGE RATIOS WERE NOT CHANGED.**

4 **A This was developed on Schedule MPG-20, page 2, in the same manner that net**
5 salvage expense was calculated at proposed depreciation rates and as described
6 above. On page 2, current net salvage ratios and Laclede's proposed lives were
7 used to estimate the annual salvage cost recovered in my proposed adjusted
8 depreciation rates.

9 **Q HOW DID YOU DEVELOP LACLEDE'S ACCOUNT NET SALVAGE COST FOR**
10 **THE ACCOUNTS IN TABLE 5 ABOVE?**

11 **A Laclede provided this information in Mr. Spanos' workpapers. The annual data is**
12 averaged over 10- and 15-year periods on Schedule MPG-21. A comparison of the
13 net salvage expense included in Laclede's proposed depreciation expense with the
14 level of net salvage expense Laclede actually incurs shows that Laclede's proposed
15 depreciation rates for selected distribution plant accounts contain a significant
16 provision for future net salvage expense. The reason I am focusing only on a few
17 distribution plant accounts for my analysis is that these plant accounts represent
18 almost all of Laclede's net salvage expense. These plant accounts are identified on
19 Schedule MPG-21.

20 As shown on Schedule MPG-21, the proposed depreciation expense for the
21 studied distribution plant accounts contain an annual net salvage component of
22 \$9.778 million. However, Laclede's average actual annual net salvage expense for
23 those same distribution plant accounts over the last 10 years is \$3.758 million and
24 over the last 15 years, the average annual net salvage expense has been

1 \$3.233 million. Therefore, the proposed depreciation rates for these selected plant
2 accounts provide for an annual net salvage expense that exceeds Laclede's actual
3 average annual net salvage expense over the last 10-year period by approximately
4 2.5 times.

5 Also, as shown on Schedule MPG-21, the four distribution plant accounts I
6 studied represent all but \$119,300 of Laclede's estimated total net salvage expense.

7 **Q HAS LACLEDE PROVIDED THE AMOUNT OF NET SALVAGE EXPENSE THAT IT**
8 **HAS ACCRUED FOR FUTURE REMOVAL OF ITS ASSETS?**

9 A Yes. In response to MIEC Data Request 1-2, Laclede provided the cost of removal
10 and gross salvage that is included in the book depreciation reserve. As of
11 December 31, 2009, Laclede has accrued \$59.6 million of net salvage expense
12 reserve for future retirements. It should be noted that these funds were not placed in
13 an account and held for future use. Laclede has used this money over time to fund
14 ongoing cash needs, such as construction.

15 **Q WHAT IS YOUR RECOMMENDATION REGARDING THE LEVEL OF NET**
16 **SALVAGE EXPENSE THAT SHOULD BE INCLUDED IN THE LACLEDE'S**
17 **DEPRECIATION EXPENSE?**

18 A I recommend that the Commission use the currently approved net salvage ratios for
19 all plant accounts except general plant, and Laclede's proposed lives, to calculate the
20 authorized depreciation expense. This expense is developed on my Schedule MPG-
21 20, column 5, line 46, using the depreciation ratios in column 4.

1 **Q WHAT IS THE IMPACT OF YOUR PROPOSED CHANGES IN LACLEDE'S TD&G**
2 **DEPRECIATION RATES?**

3 A My proposed changes in Laclede's depreciation rates reduce its depreciation
4 expense by approximately \$882,046. This is shown on Schedule MPG-22. This
5 does not include the impact on the reserve variance.

6 **Q SHOULD THE COMMISSION INCLUDE THE RESERVE VARIANCE IN THE**
7 **DEVELOPMENT OF THE DEPRECIATION RATES?**

8 A Yes. The reserve variance amortization is an adjustment to the annual depreciation
9 expense to align the actual accumulated book depreciation reserves with the
10 calculated theoretical book depreciation reserve. The theoretical reserves by plant
11 account are the reserves that would exist if the proposed depreciation lives and net
12 salvage ratios would have been in place over the entire life. Essentially, the reserve
13 variances are simply the difference between Laclede's book accumulated
14 depreciation reserves and the theoretical reserves that are calculated from the
15 proposed depreciation parameters. Recognizing over and under accruals of past
16 depreciation expense is appropriate and the Commission should reflect these
17 differences in the approved depreciation rates. This net salvage cost recovery has
18 helped to create a significant salvage reserve and recover all current net salvage
19 amounts. Hence, an increase in this net salvage annual expense is not reasonable.

20 **Q DOES YOUR ADJUSTMENT TO LACLEDE'S PROPOSED DEPRECIATION**
21 **RATES ALLOW LACLEDE TO ONLY EXPENSE NET SALVAGE EXPENSE?**

22 A Absolutely not. My adjustment reduces the annual net salvage expense by
23 approximately \$880,000 to approximately \$9 million. This will allow Laclede to accrue

1 net salvage expense that is over twice its actual current cash expense. Also, it is
2 regulatory practice to review depreciation rates at least every five years so that the
3 depreciation rates approved in this case will be reviewed long before the assets
4 under review are retired.

5 **Q DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

6 **A** Yes, it does.

Qualifications of Michael Gorman

1 **Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A Michael Gorman. My business address is 16690 Swingley Ridge Road, Suite 140,
3 Chesterfield, MO 63017.

4 **Q PLEASE STATE YOUR OCCUPATION.**

5 A I am a consultant in the field of public utility regulation and a Managing Principal with
6 Brubaker & Associates, Inc., energy, economic and regulatory consultants.

7 **Q PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND WORK
8 EXPERIENCE.**

9 A In 1983 I received a Bachelors of Science Degree in Electrical Engineering from
10 Southern Illinois University, and in 1986, I received a Masters Degree in Business
11 Administration with a concentration in Finance from the University of Illinois at
12 Springfield. I have also completed several graduate level economics courses.

13 In August of 1983, I accepted an analyst position with the Illinois Commerce
14 Commission (ICC). In this position, I performed a variety of analyses for both formal
15 and informal investigations before the ICC, including: marginal cost of energy, central
16 dispatch, avoided cost of energy, annual system production costs, and working
17 capital. In October of 1986, I was promoted to the position of Senior Analyst. In this
18 position, I assumed the additional responsibilities of technical leader on projects, and
19 my areas of responsibility were expanded to include utility financial modeling and
20 financial analyses.

1 In 1987, I was promoted to Director of the Financial Analysis Department. In
2 this position, I was responsible for all financial analyses conducted by the staff.
3 Among other things, I conducted analyses and sponsored testimony before the ICC
4 on rate of return, financial integrity, financial modeling and related issues. I also
5 supervised the development of all Staff analyses and testimony on these same
6 issues. In addition, I supervised the Staff's review and recommendations to the
7 Commission concerning utility plans to issue debt and equity securities.

8 In August of 1989, I accepted a position with Merrill-Lynch as a financial
9 consultant. After receiving all required securities licenses, I worked with individual
10 investors and small businesses in evaluating and selecting investments suitable to
11 their requirements.

12 In September of 1990, I accepted a position with Drazen-Brubaker &
13 Associates, Inc. In April 1995 the firm of Brubaker & Associates, Inc. (BAI) was
14 formed. It includes most of the former DBA principals and Staff. Since 1990, I have
15 performed various analyses and sponsored testimony on cost of capital, cost/benefits
16 of utility mergers and acquisitions, utility reorganizations, level of operating expenses
17 and rate base, cost of service studies, and analyses relating industrial jobs and
18 economic development. I also participated in a study used to revise the financial
19 policy for the municipal utility in Kansas City, Kansas.

20 At BAI, I also have extensive experience working with large energy users to
21 distribute and critically evaluate responses to requests for proposals (RFPs) for
22 electric, steam, and gas energy supply from competitive energy suppliers. These
23 analyses include the evaluation of gas supply and delivery charges, cogeneration
24 and/or combined cycle unit feasibility studies, and the evaluation of third-party
25 asset/supply management agreements. I have also analyzed commodity pricing

1 indices and forward pricing methods for third party supply agreements, and have also
2 conducted regional electric market price forecasts.

3 In addition to our main office in St. Louis, the firm also has branch offices in
4 Phoenix, Arizona and Corpus Christi, Texas.

5 **Q HAVE YOU EVER TESTIFIED BEFORE A REGULATORY BODY?**

6 A Yes. I have sponsored testimony on cost of capital, revenue requirements, cost of
7 service and other issues before the Federal Energy Regulatory Commission and
8 numerous state regulatory commissions including: Arkansas, Arizona, California,
9 Colorado, Delaware, Florida, Georgia, Idaho, Illinois, Indiana, Iowa, Kansas,
10 Louisiana, Michigan, Missouri, Montana, New Jersey, New Mexico, New York, North
11 Carolina, Oklahoma, Oregon, South Carolina, Tennessee, Texas, Utah, Vermont,
12 Virginia, Washington, West Virginia, Wisconsin, Wyoming, and before the provincial
13 regulatory boards in Alberta and Nova Scotia, Canada. I have also sponsored
14 testimony before the Board of Public Utilities in Kansas City, Kansas; presented rate
15 setting position reports to the regulatory board of the municipal utility in Austin, Texas,
16 and Salt River Project, Arizona, on behalf of industrial customers; and negotiated rate
17 disputes for industrial customers of the Municipal Electric Authority of Georgia in the
18 LaGrange, Georgia district.

19 **Q PLEASE DESCRIBE ANY PROFESSIONAL REGISTRATIONS OR**
20 **ORGANIZATIONS TO WHICH YOU BELONG.**

21 A I earned the designation of Chartered Financial Analyst (CFA) from the CFA Institute.
22 The CFA charter was awarded after successfully completing three examinations
23 which covered the subject areas of financial accounting, economics, fixed income and

1 equity valuation and professional and ethical conduct. I am a member of the CFA
2 Institute's Financial Analyst Society.

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Laclede Gas Company

Rate of Return

<u>Line</u>	<u>Description</u>	<u>(\$ 000)</u> <u>Amount</u> <u>(1)</u>	<u>Weight</u> <u>(2)</u>	<u>Cost</u> <u>(3)</u>	<u>Weighted</u> <u>Cost</u> <u>(4)</u>	<u>Pre-Tax</u> <u>Weighted</u> <u>Cost</u> <u>(5)</u>
1	Long-Term Debt	\$ 382,666	35.82%	6.53%	2.34%	2.34%
2	Short-Term Debt	\$ 168,464	15.77%	0.24%	0.04%	0.04%
3	Common Equity	\$ <u>517,145</u>	<u>48.41%</u>	9.50%	<u>4.60%</u>	<u>7.49%</u>
4	Total	\$1,068,275	100.00%		6.98%	9.87%
5	Tax Conversion Factor*					1.6296

Sources:

Laclede, Cost of Capital, Schedule 3.

* Laclede, Revenue Requirement, Schedule 7.

Laclede Gas Company

Short-Term Debt Balance

<u>Line</u>	<u>Description</u>	<u>9/30/2009</u> (1)	<u>9/30/2008</u> (2)	<u>Average</u> (3)
1	Construction Work-in-Progress (\$ 000)	\$ 5,235	\$ 6,537	\$ 5,886
2	Short-Term Debt (STD)	\$ 129,800	\$ 218,900	\$ 174,350
3	STD For Capital Structure	\$ 124,565	\$ 212,363	\$ 168,464

Source:

2009 FERC Form 2, Supplemental 3-Q at 110 and 113.

Laclede Gas Company

Proxy Group

<u>Line</u>	<u>Company</u>	<u>Bond Ratings</u> ¹		<u>Common Equity Ratios</u>		<u>S&P Business Risk Score</u> ³ (5)
		<u>S&P</u> (1)	<u>Moody's</u> (2)	<u>AUS</u> ¹ (3)	<u>Value Line</u> ² (4)	
1	New Jersey Resources	N/R	Aa3	61.0%	60.2%	N/A
2	Nicor, Inc.	AA	A1	51.0%	67.6%	Excellent
3	Northwest Natural Gas Co.	AA-	A1	47.0%	52.3%	Excellent
4	Piedmont Natural Gas	A	A3	48.0%	55.9%	Excellent
5	South Jersey Industries, Inc.	A	A2	50.0%	63.5%	Excellent
6	Southwest Gas Corp.	BBB	Baa3	46.0%	46.5%	Excellent
7	WGL Holdings	AA-	A2	56.0%	65.0%	Excellent
8	Average	A+	A2	51.3%	58.7%	Excellent
9	Laclede Gas Company	A ⁴	A2 ⁴	48.4% ⁵	57.5% ⁶	Excellent

Sources:

¹ *AUS Utility Reports*, April 2010.

² *The Value Line Investment Survey*, March 12, 2010.

³ *S&P RatingsDirect*: "U.S. Natural Gas Distributors And Integrated Gas Companies, Strongest to Weakest," March 2, 2011.

⁴ Laclede Group 10-Q, December 31, 2009, at 34.

⁵ Schedule MPG-1, Page 1 of 2.

⁶ Laclede, Cost of Capital, Schedule 3, Page 1 of 2.

Laclede Gas Company

Growth Rates

<u>Line</u>	<u>Company</u>	<u>Zacks</u>		<u>SNL</u>		<u>Reuters</u>		<u>Average of Growth Rates</u>
		<u>Estimated Growth %¹</u>	<u>Number of Estimates</u>	<u>Estimated Growth %²</u>	<u>Number of Estimates</u>	<u>Estimated Growth %³</u>	<u>Number of Estimates</u>	
		(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	New Jersey Resources	7.00%	1	5.10%	1	5.05%	2	5.72%
2	Nicor, Inc.	3.67%	3	4.30%	2	2.42%	4	3.46%
3	Northwest Natural Gas Co.	5.67%	3	5.50%	2	5.50%	2	5.56%
4	Piedmont Natural Gas	6.33%	3	7.00%	2	7.00%	2	6.78%
5	South Jersey Industries, Inc.	11.60%	5	8.00%	3	13.50%	2	11.03%
6	Southwest Gas Corp.	5.50%	2	3.30%	2	5.50%	2	4.77%
7	WGL Holdings	0.60%	1	0.60%	1	0.60%	1	0.60%
8	Average	5.77%	3	4.83%	2	5.65%	2	5.42%

Sources:

¹ Zacks Elite, <http://www.zackselite.com/>, downloaded on April 9, 2010.

² SNL Interactive, <http://www.snl.com/>, downloaded on April 9, 2010.

³ Reuters, <http://www.reuters.com/>, downloaded on April 9, 2010.

Laclede Gas Company

Constant Growth DCF Model

<u>Line</u>	<u>Company</u>	<u>13-Week AVG Stock Price¹</u> (1)	<u>Analysts' Growth²</u> (2)	<u>Annualized Dividend³</u> (3)	<u>Adjusted Yield</u> (4)	<u>Constant Growth DCF</u> (5)
1	New Jersey Resources	\$36.78	5.72%	\$1.36	3.91%	9.63%
2	Nicor, Inc.	\$41.34	3.46%	\$1.86	4.65%	8.12%
3	Northwest Natural Gas Co.	\$44.86	5.56%	\$1.66	3.91%	9.46%
4	Piedmont Natural Gas	\$26.35	6.78%	\$1.08	4.38%	11.15%
5	South Jersey Industries, Inc.	\$39.93	11.03%	\$1.26	3.49%	14.53%
6	Southwest Gas Corp.	\$28.88	4.77%	\$1.00	3.63%	8.39%
7	WGL Holdings	\$33.14	0.60%	\$1.48	4.49%	5.09%
8	Average	\$35.90	5.42%	\$1.39	4.07%	9.48%
9	Median					9.46%

Sources:

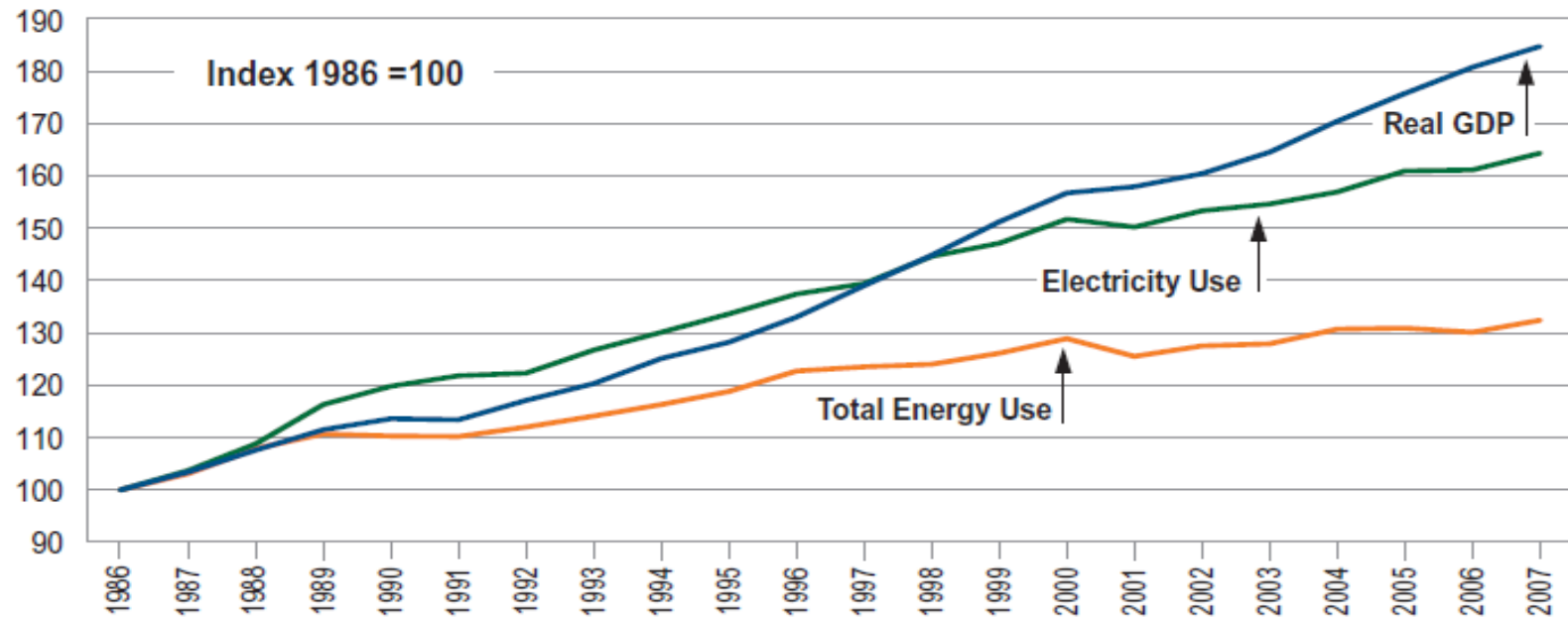
¹ <http://moneycentral.msn.com>, downloaded on April 12, 2010.

² Schedule MPG-3, Column 7.

³ *The Value Line Investment Survey*, March 12, 2010 (South Jersey Industries paid two dividends in Q4, the paid dividend was divided by two and then annualized).

Laclede Gas Company

Electricity Sales Are Linked to U.S. Economic Growth



1986 represents the base year. Graph depicts increases or decreases from the base year.

Source: U.S. Department of Energy, Energy Information Administration (EIA).

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Laclede Gas Company

Historical Growth Rates

<u>Line</u>	<u>Company</u>	<u>Dividend Growth¹</u>			<u>Inflation (CPI)</u>			<u>Nominal GDP</u>			
		<u>Historical</u>		<u>3-5 Years</u>	<u>Historical¹</u>		<u>3-5 Years</u>	<u>Historical¹</u>		<u>Projected²</u>	
		<u>10 Years</u>	<u>5 Years</u>	<u>Projection</u>	<u>10 Years</u>	<u>5 Years</u>	<u>Projection¹</u>	<u>10 Years</u>	<u>5 Years</u>	<u>5 Years</u>	<u>10 Years</u>
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1	New Jersey Resources	4.5%	6.0%	5.5%							
2	Nicor, Inc.	2.5%	N/A	N/A							
3	Northwest Natural Gas Co.	2.0%	3.0%	6.0%							
4	Piedmont Natural Gas	5.0%	4.5%	3.5%							
5	South Jersey Industries, Inc.	3.5%	6.0%	6.5%							
6	Southwest Gas Corp.	0.5%	1.0%	5.5%							
7	WGL Holdings	1.5%	2.0%	3.0%							
8	Average	2.8%	3.8%	5.0%	2.8%	3.0%	2.8%	4.3%	3.7%	5.1%	4.8%

Sources:

¹ *The Value Line Investment Survey*, March 12, 2010.

² *Blue Chip Economic Indicators*, March 10, 2010 at 15.

Laclede Gas Company

Current and Projected Payout Ratios

<u>Line</u>	<u>Company</u>	<u>Dividends Per Share</u>		<u>Earnings Per Share</u>		<u>Payout Ratio</u>	
		<u>2009</u>	<u>3-5 Years</u>	<u>2009</u>	<u>3-5 Years</u>	<u>2009</u>	<u>3-5 Years</u>
		(1)	(2)	(3)	(4)	(5)	(6)
1	New Jersey Resources	\$1.24	\$1.52	\$2.40	\$3.20	51.67%	47.50%
2	Nicor, Inc.	\$1.86	\$1.86	\$2.97	\$3.30	62.63%	56.36%
3	Northwest Natural Gas Co.	\$1.60	\$2.16	\$2.77	\$3.50	57.76%	61.71%
4	Piedmont Natural Gas	\$1.07	\$1.27	\$1.67	\$1.95	64.07%	65.13%
5	South Jersey Industries, Inc.	\$1.22	\$1.60	\$2.38	\$3.30	51.26%	48.48%
6	Southwest Gas Corp.	\$0.95	\$1.20	\$1.94	\$2.65	48.97%	45.28%
7	WGL Holdings	\$1.47	\$1.67	\$2.53	\$2.70	58.10%	61.85%
8	Average	\$1.34	\$1.61	\$2.38	\$2.94	56.35%	55.19%

Source:

The Value Line Investment Survey, March 12, 2010.

Laclede Gas Company

Sustainable Growth Rate

<u>Line</u>	<u>Company</u>	<u>3 to 5 Year Projections</u>									<u>Growth</u>
		<u>Dividends</u> <u>Per Share</u> <u>(1)</u>	<u>Earnings</u> <u>Per Share</u> <u>(2)</u>	<u>Book Value</u> <u>Per Share</u> <u>(3)</u>	<u>ROE</u> <u>(4)</u>	<u>Adjustment</u> <u>Factor</u> <u>(5)</u>	<u>Adjusted</u> <u>ROE</u> <u>(6)</u>	<u>Payout</u> <u>Ratio</u> <u>(7)</u>	<u>Retention</u> <u>Rate</u> <u>(8)</u>	<u>Internal</u> <u>Growth Rate</u> <u>(9)</u>	<u>Rate Plus</u> <u>$S * V^1$</u> <u>(10)</u>
1	New Jersey Resources	\$1.52	\$3.20	\$19.45	16.45%	1.02	16.71%	47.50%	52.50%	8.77%	7.83%
2	Nicor, Inc.	\$1.86	\$3.30	\$29.20	11.30%	1.02	11.57%	56.36%	43.64%	5.05%	5.14%
3	Northwest Natural Gas Co.	\$2.16	\$3.50	\$31.75	11.02%	1.02	11.29%	61.71%	38.29%	4.32%	5.19%
4	Piedmont Natural Gas	\$1.27	\$1.95	\$14.70	13.27%	1.01	13.46%	65.13%	34.87%	4.69%	3.41%
5	South Jersey Industries, Inc.	\$1.60	\$3.30	\$22.85	14.44%	1.02	14.77%	48.48%	51.52%	7.61%	11.48%
6	Southwest Gas Corp.	\$1.20	\$2.65	\$30.00	8.83%	1.02	9.01%	45.28%	54.72%	4.93%	5.31%
7	WGL Holdings	\$1.67	\$2.70	\$26.75	10.09%	1.02	10.30%	61.85%	38.15%	3.93%	3.90%
8	Average	\$1.61	\$2.94	\$24.96	12.20%	1.02	12.45%	55.19%	44.81%	5.62%	6.04%
9	Median										5.19%

Sources:

The Value Line Investment Survey, March 12, 2010.

¹ Page 2, Column 9.

Laclede Gas Company

Sustainable Growth

<u>Line</u>	<u>Company</u>	13-Week Average Stock Price ¹	2009 Book Value P/S ²	Market to Book Ratio	Common Shares Outstanding (in Millions) ²		<u>Growth</u> (6)	<u>S Factor</u> ³ (7)	<u>V Factor</u> ⁴ (8)	<u>S * V</u> (9)
		(1)	(2)	(3)	2009 (4)	3-5 Years (5)				
1	New Jersey Resources	\$36.78	\$16.59	2.22	41.59	40.00	-0.78%	-1.72%	54.90%	-0.95%
2	Nicor, Inc.	\$41.34	\$22.93	1.80	45.25	45.50	0.11%	0.20%	44.54%	0.09%
3	Northwest Natural Gas Co.	\$44.86	\$24.88	1.80	26.53	28.00	1.08%	1.96%	44.54%	0.87%
4	Piedmont Natural Gas	\$26.35	\$12.67	2.08	73.27	69.00	-1.19%	-2.48%	51.91%	-1.29%
5	South Jersey Industries, Inc.	\$39.93	\$18.27	2.19	29.80	35.00	3.27%	7.15%	54.25%	3.88%
6	Southwest Gas Corp.	\$28.88	\$24.46	1.18	45.09	50.00	2.09%	2.47%	15.30%	0.38%
7	WGL Holdings	\$33.14	\$21.89	1.51	50.14	50.00	-0.06%	-0.08%	33.95%	-0.03%
8	Average	\$35.90	\$20.24	1.83	44.52	45.36	0.65%	1.07%	42.77%	0.42%

Sources:

¹ <http://moneycentral.msn.com>, downloaded on April 12, 2010.

² *The Value Line Investment Survey*, March 12, 2010.

³ Expected Growth in the Number of Shares.

⁴ Expected Profit of Stock Investment.

Laclede Gas Company

Sustainable Constant Growth DCF Model

<u>Line</u>	<u>Company</u>	<u>13-Week AVG Stock Price¹</u> (1)	<u>Sustainable Growth²</u> (2)	<u>Annualized Dividend³</u> (3)	<u>Adjusted Yield</u> (4)	<u>Constant Growth DCF</u> (5)
1	New Jersey Resources	\$36.78	7.83%	\$1.36	3.99%	11.82%
2	Nicor, Inc.	\$41.34	5.14%	\$1.86	4.73%	9.87%
3	Northwest Natural Gas Co.	\$44.86	5.19%	\$1.66	3.89%	9.09%
4	Piedmont Natural Gas	\$26.35	3.41%	\$1.08	4.24%	7.64%
5	South Jersey Industries, Inc.	\$39.93	11.48%	\$1.26	3.51%	14.99%
6	Southwest Gas Corp.	\$28.88	5.31%	\$1.00	3.65%	8.96%
7	WGL Holdings	\$33.14	3.90%	\$1.48	4.64%	8.54%
8	Average	\$35.90	6.04%	\$1.39	4.09%	10.13%
9	Median		5.19%			9.09%

Sources:

¹ <http://moneycentral.msn.com>, downloaded on April 12, 2010.

² Schedule MPG-8, Page 1 of 2, Column 10.

³ *The Value Line Investment Survey*, March 12, 2010.

Laclede Gas Company

Multi-Stage Growth DCF Model

<u>Line</u>	<u>Company</u>	<u>13-Week AVG</u>	<u>Annualized</u>	<u>First Stage</u>	<u>Second Stage Growth</u>					<u>Third Stage</u>	<u>Multi-Stage</u>
		<u>Stock Price¹</u>	<u>Dividend²</u>	<u>Growth</u>	<u>Year 6</u>	<u>Year 7</u>	<u>Year 8</u>	<u>Year 9</u>	<u>Year 10</u>	<u>Growth³</u>	<u>Growth DCF</u>
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1	New Jersey Resources	\$36.78	\$1.36	5.72%	5.56%	5.41%	5.26%	5.11%	4.95%	4.80%	8.90%
2	Nicor, Inc.	\$41.34	\$1.86	3.46%	3.69%	3.91%	4.13%	4.35%	4.58%	4.80%	9.13%
3	Northwest Natural Gas Co.	\$44.86	\$1.66	5.56%	5.43%	5.30%	5.18%	5.05%	4.93%	4.80%	8.86%
4	Piedmont Natural Gas	\$26.35	\$1.08	6.78%	6.45%	6.12%	5.79%	5.46%	5.13%	4.80%	9.65%
5	South Jersey Industries, Inc.	\$39.93	\$1.26	11.03%	9.99%	8.96%	7.92%	6.88%	5.84%	4.80%	9.62%
6	Southwest Gas Corp.	\$28.88	\$1.00	4.77%	4.77%	4.78%	4.78%	4.79%	4.79%	4.80%	8.42%
7	WGL Holdings	\$33.14	\$1.48	0.60%	1.30%	2.00%	2.70%	3.40%	4.10%	4.80%	8.36%
8	Average	\$35.90	\$1.39	5.42%	5.31%	5.21%	5.11%	5.01%	4.90%	4.80%	8.99%
9	Median										8.90%

Sources:

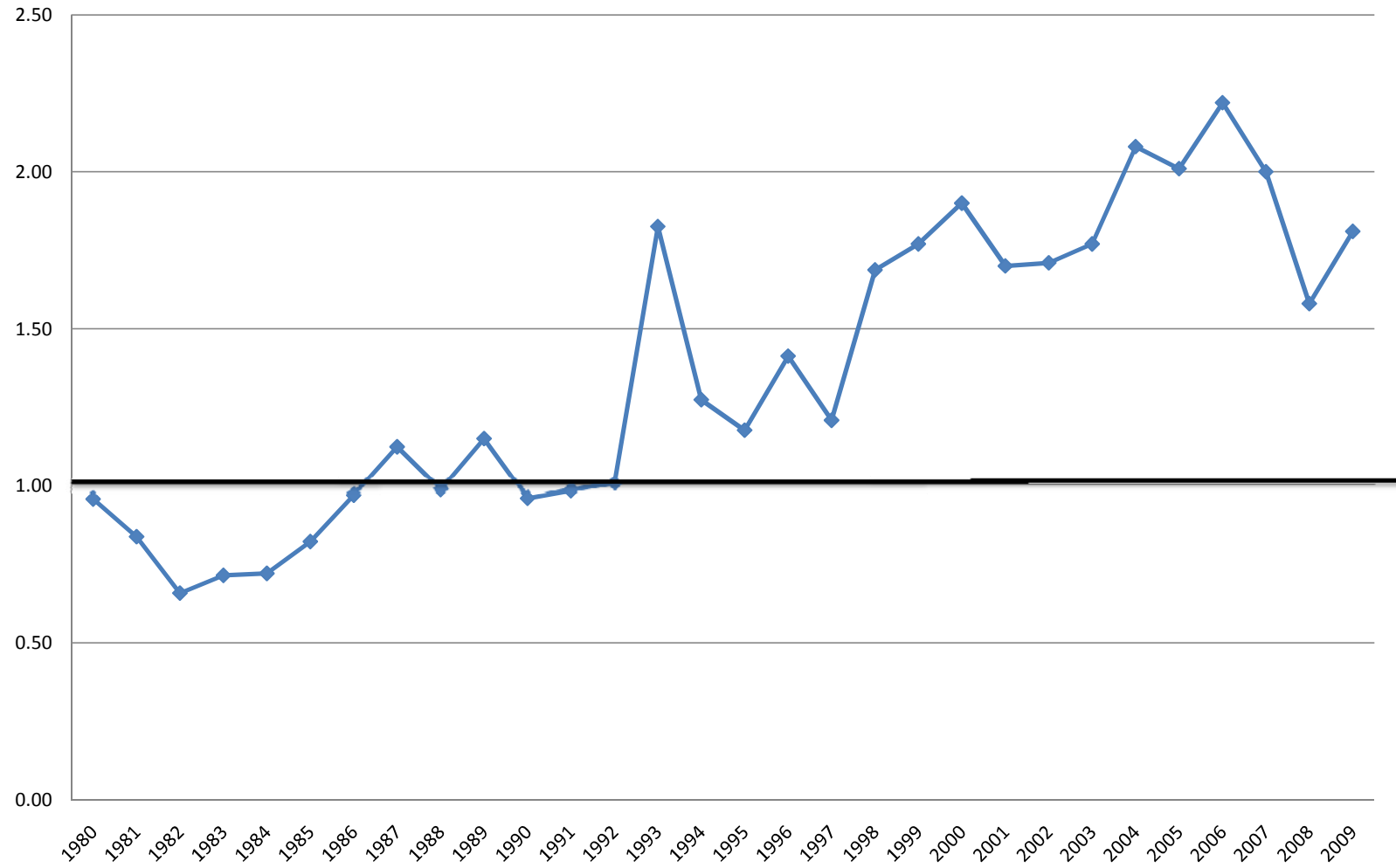
¹ <http://moneycentral.msn.com>, downloaded on April 12, 2010.

² *The Value Line Investment Survey*, March 12, 2010.

³ *Blue Chip Economic Indicators*, March 10, 2010 at 15.

Laclede Gas Company

Gas Common Stock Market/Book Ratio



Sources:

2001 - 2009: AUS Utility Reports.

1980 - 2000: Mergent Public Utility Manual, 2003.

Laclede Gas Company

Equity Risk Premium - Treasury Bond

<u>Line</u>	<u>Date</u>	Authorized Gas <u>Returns¹</u> (1)	Treasury <u>Bond Yield²</u> (2)	Indicated Risk <u>Premium</u> (3)
1	1986	13.46%	7.78%	5.68%
2	1987	12.74%	8.59%	4.15%
3	1988	12.85%	8.96%	3.89%
4	1989	12.88%	8.45%	4.43%
5	1990	12.67%	8.61%	4.06%
6	1991	12.46%	8.14%	4.32%
7	1992	12.01%	7.67%	4.34%
8	1993	11.35%	6.59%	4.76%
9	1994	11.35%	7.37%	3.98%
10	1995	11.43%	6.88%	4.55%
11	1996	11.19%	6.71%	4.48%
12	1997	11.29%	6.61%	4.68%
13	1998	11.51%	5.58%	5.93%
14	1999	10.66%	5.87%	4.79%
15	2000	11.39%	5.94%	5.45%
16	2001	10.95%	5.49%	5.46%
17	2002	11.03%	5.43%	5.60%
18	2003	10.99%	4.96%	6.03%
19	2004	10.59%	5.05%	5.54%
20	2005	10.46%	4.65%	5.81%
21	2006	10.43%	4.91%	5.52%
22	2007	10.24%	4.84%	5.40%
23	2008	10.37%	4.28%	6.09%
24	2009	10.19%	4.07%	6.12%
25	Q1 2010	10.24%	4.62%	5.62%
26	Average	11.39%	6.32%	5.07%

Sources:

¹ Regulatory Research Associates, Inc., *Regulatory Focus*, Jan. 85 - Dec. 06, January 8, 2010, and April 1, 2010.

² Economic Report of the President 2008: Table 73. The yields from 2002 to 2005 represent the 20-Year Treasury yields obtained from the Federal Reserve Bank.

Laclede Gas Company

Equity Risk Premium - Utility Bond

<u>Line</u>	<u>Date</u>	<u>Authorized Gas Returns¹</u> (1)	<u>Average "A" Rated Utility Bond Yield²</u> (2)	<u>Indicated Risk Premium</u> (3)
1	1986	13.46%	9.58%	3.88%
2	1987	12.74%	10.10%	2.64%
3	1988	12.85%	10.49%	2.36%
4	1989	12.88%	9.77%	3.11%
5	1990	12.67%	9.86%	2.81%
6	1991	12.46%	9.36%	3.10%
7	1992	12.01%	8.69%	3.32%
8	1993	11.35%	7.59%	3.76%
9	1994	11.35%	8.31%	3.04%
10	1995	11.43%	7.89%	3.54%
11	1996	11.19%	7.75%	3.44%
12	1997	11.29%	7.60%	3.69%
13	1998	11.51%	7.04%	4.47%
14	1999	10.66%	7.62%	3.04%
15	2000	11.39%	8.24%	3.15%
16	2001	10.95%	7.76%	3.19%
17	2002	11.03%	7.37%	3.66%
18	2003	10.99%	6.58%	4.41%
19	2004	10.59%	6.16%	4.43%
20	2005	10.46%	5.65%	4.81%
21	2006	10.43%	6.07%	4.36%
22	2007	10.24%	6.07%	4.17%
23	2008	10.37%	6.53%	3.84%
24	2009	10.19%	6.04%	4.15%
25	Q1 2010	10.24%	5.83%	4.41%
26	Average	11.39%	7.76%	3.63%

Sources:

¹ Regulatory Research Associates, Inc., *Regulatory Focus*, Jan. 85 - Dec. 06, January 8, 2010, and April 1, 2010.

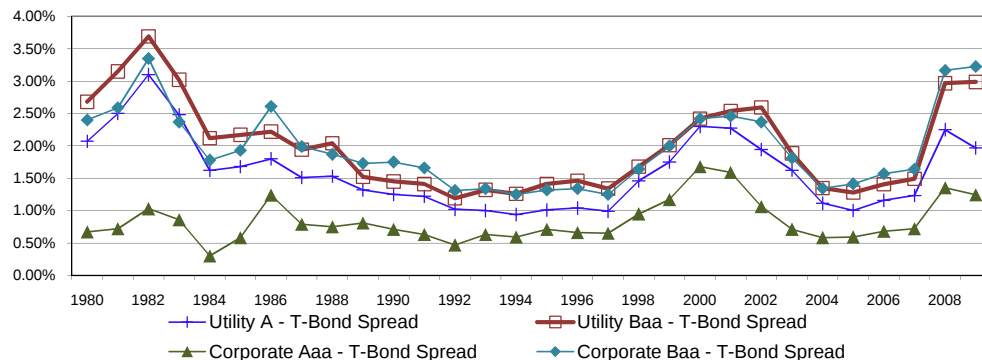
² Economic Report of the President 2008: Table 73. The yields from 2002 to 2005 represent the 20-Year Treasury yields obtained from the Federal Reserve Bank.

Laclede Gas Company

Utility Bond Yield Spreads

Line	Year	T-Bond Yield ¹ (1)	Public Utility Bond Yields				Corporate Bond Yields			
			A ² (2)	Baa ² (3)	A-T-Bond Spread (4)	Baa-T-Bond Spread (5)	Aaa ¹ (6)	Baa ¹ (7)	Aaa-T-Bond Spread (8)	Baa-T-Bond Spread (9)
1	1980	11.27%	13.34%	13.95%	2.07%	2.68%	11.94%	13.67%	0.67%	2.40%
2	1981	13.45%	15.95%	16.60%	2.50%	3.15%	14.17%	16.04%	0.72%	2.59%
3	1982	12.76%	15.86%	16.45%	3.10%	3.69%	13.79%	16.11%	1.03%	3.35%
4	1983	11.18%	13.66%	14.20%	2.48%	3.02%	12.04%	13.55%	0.86%	2.37%
5	1984	12.41%	14.03%	14.53%	1.62%	2.12%	12.71%	14.19%	0.30%	1.78%
6	1985	10.79%	12.47%	12.96%	1.68%	2.17%	11.37%	12.72%	0.58%	1.93%
7	1986	7.78%	9.58%	10.00%	1.80%	2.22%	9.02%	10.39%	1.24%	2.61%
8	1987	8.59%	10.10%	10.53%	1.51%	1.94%	9.38%	10.58%	0.79%	1.99%
9	1988	8.96%	10.49%	11.00%	1.53%	2.04%	9.71%	10.83%	0.75%	1.87%
10	1989	8.45%	9.77%	9.97%	1.32%	1.52%	9.26%	10.18%	0.81%	1.73%
11	1990	8.61%	9.86%	10.06%	1.25%	1.45%	9.32%	10.36%	0.71%	1.75%
12	1991	8.14%	9.36%	9.55%	1.22%	1.41%	8.77%	9.80%	0.63%	1.66%
13	1992	7.67%	8.69%	8.86%	1.02%	1.19%	8.14%	8.98%	0.47%	1.31%
14	1993	6.59%	7.59%	7.91%	1.00%	1.32%	7.22%	7.93%	0.63%	1.34%
15	1994	7.37%	8.31%	8.63%	0.94%	1.26%	7.96%	8.62%	0.59%	1.25%
16	1995	6.88%	7.89%	8.29%	1.01%	1.41%	7.59%	8.20%	0.71%	1.32%
17	1996	6.71%	7.75%	8.17%	1.04%	1.46%	7.37%	8.05%	0.66%	1.34%
18	1997	6.61%	7.60%	7.95%	0.99%	1.34%	7.26%	7.86%	0.65%	1.25%
19	1998	5.58%	7.04%	7.26%	1.46%	1.68%	6.53%	7.22%	0.95%	1.64%
20	1999	5.87%	7.62%	7.88%	1.75%	2.01%	7.04%	7.87%	1.17%	2.00%
21	2000	5.94%	8.24%	8.36%	2.30%	2.42%	7.62%	8.36%	1.68%	2.42%
22	2001	5.49%	7.76%	8.03%	2.27%	2.54%	7.08%	7.95%	1.59%	2.46%
23	2002	5.43%	7.37%	8.02%	1.94%	2.59%	6.49%	7.80%	1.06%	2.37%
24	2003	4.96%	6.58%	6.84%	1.62%	1.89%	5.67%	6.77%	0.71%	1.81%
25	2004	5.05%	6.16%	6.40%	1.11%	1.35%	5.63%	6.39%	0.58%	1.34%
26	2005	4.65%	5.65%	5.93%	1.00%	1.28%	5.24%	6.06%	0.59%	1.41%
27	2006	4.91%	6.07%	6.32%	1.16%	1.41%	5.59%	6.48%	0.68%	1.57%
28	2007	4.84%	6.07%	6.33%	1.23%	1.49%	5.56%	6.48%	0.72%	1.64%
29	2008	4.28%	6.53%	7.25%	2.25%	2.97%	5.63%	7.45%	1.35%	3.17%
30	2009	4.07%	6.04%	7.06%	1.97%	2.99%	5.31%	7.30%	1.24%	3.23%
31	Q1 2010	4.62%	5.83%	6.21%	1.21%	1.59%	5.29%	6.29%	0.67%	1.67%
31	Average	7.51%	9.11%	9.51%	1.61%	2.00%	8.35%	9.47%	0.84%	1.96%

Yield Spreads
Treasury Vs. Corporate & Treasury Vs. Utility



Sources:

¹ Economic Report of the President 2008: Table 73 at 316. The yields from 2002 to 2005 represent the 20-Year Treasury yields obtained from the Federal Reserve Bank.

² Mergent Public Utility Manual 2003, Moody's Daily News Reports.

Laclede Gas Company

Utility and Treasury Bond Yields

<u>Line</u>	<u>Date</u>	<u>Treasury Bond Yield¹</u> (1)	<u>"A" Rated Utility Bond Yield²</u> (2)	<u>"Baa" Rated Utility Bond Yield²</u> (3)
1	04/09/10	4.78%	5.90%	6.26%
2	04/01/10	4.76%	5.91%	6.26%
3	03/26/10	4.68%	5.93%	6.30%
4	03/19/10	4.59%	5.77%	6.16%
5	03/12/10	4.67%	5.83%	6.21%
6	03/05/10	4.58%	5.86%	6.25%
7	02/26/10	4.62%	5.77%	6.17%
8	02/19/10	4.70%	5.95%	6.36%
9	02/12/10	4.62%	5.93%	6.30%
10	02/05/10	4.55%	5.74%	6.10%
11	01/29/10	4.55%	5.73%	6.09%
12	01/22/10	4.54%	5.68%	6.04%
13	01/15/10	4.66%	5.71%	6.09%
14	13-Wk Average	4.64%	5.82%	6.20%

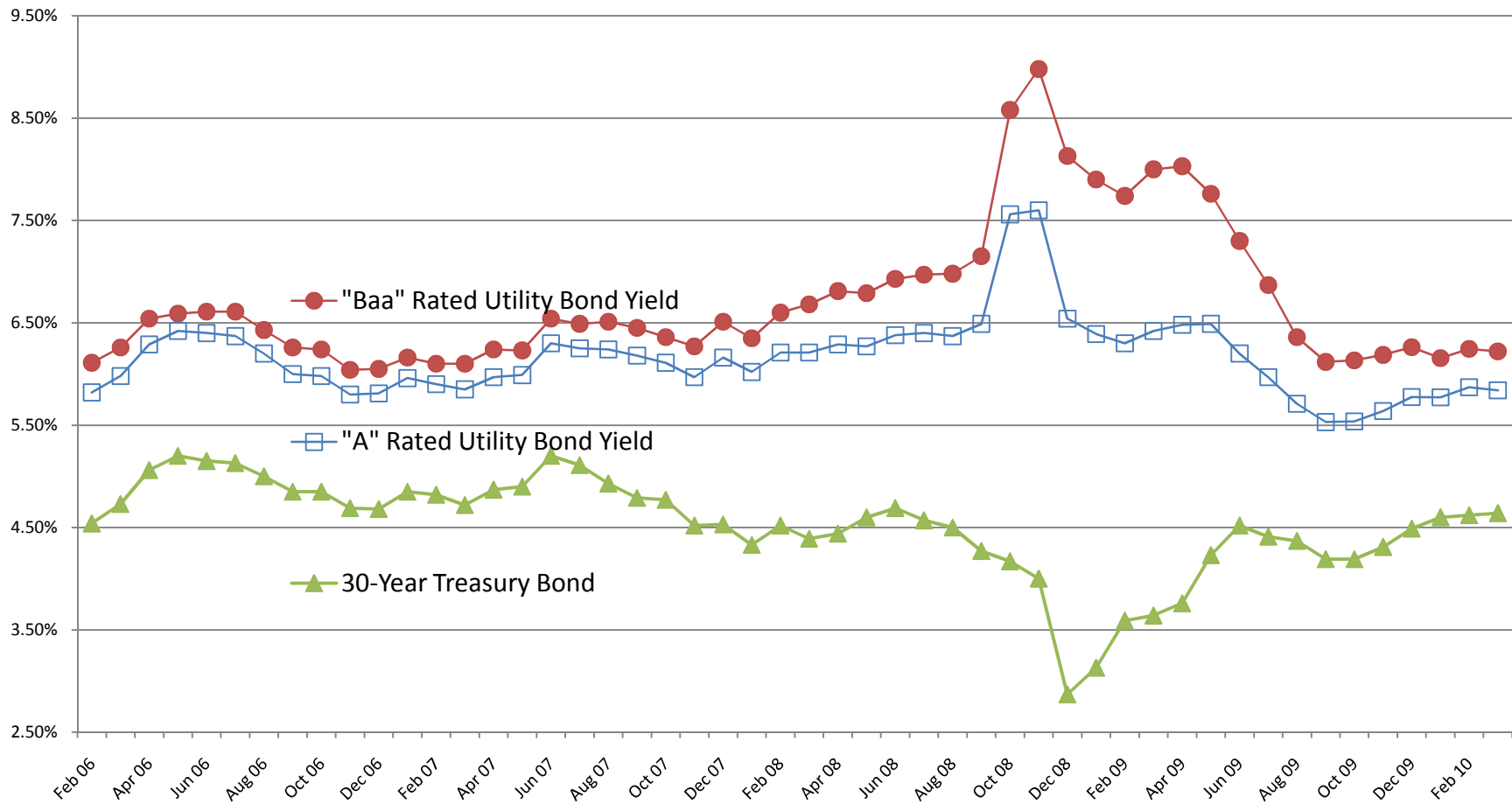
Sources:

¹ St. Louis Federal Reserve: Economic Research, <http://research.stlouisfed.org>.

² www.moodys.com, Bond Yields and Key Indicators.

Laclede Gas Company

Trends in Utility Bond Yields



Sources:

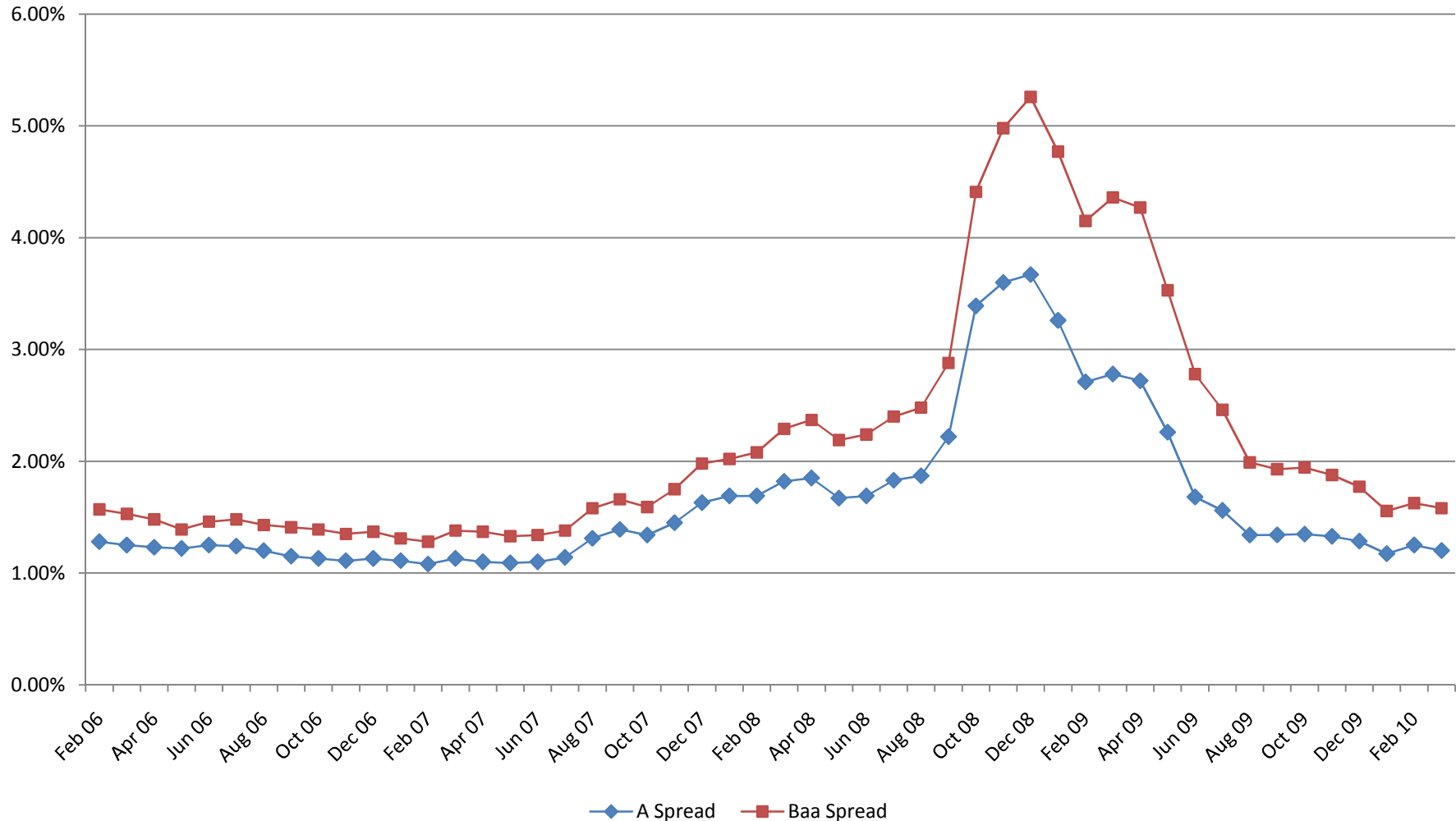
Merchant Bond Record.

www.moodys.com, Bond Yields and Key Indicators.

St. Louis Federal Reserve: Economic Research, <http://research.stlouisfed.org/>

Laclede Gas Company

Spread Between "A" or "Baa" Rated Utility Yield and 30-Year Treasury Bond



Sources:

Merchant Bond Record.

www.moodys.com, Bond Yields and Key Indicators.

St. Louis Federal Reserve: Economic Research, <http://research.stlouisfed.org/>

Laclede Gas Company

Beta

<u>Line</u>	<u>Company</u>	<u>Beta</u>
1	New Jersey Resources	0.65
2	Nicor, Inc.	0.70
3	Northwest Natural Gas Co.	0.60
4	Piedmont Natural Gas	0.65
5	South Jersey Industries, Inc.	0.60
6	Southwest Gas Corp.	0.75
7	WGL Holdings	0.65
8	Average	0.66

Source:

The Value Line Investment Survey, March 12, 2010.

Laclede Gas Company

CAPM

<u>Line</u>	<u>Description</u>	<u>CAPM Range</u>	
		<u>Low</u>	<u>High</u>
1	Risk-Free Rate ¹	5.30%	5.30%
2	Risk Premium ²	5.20%	6.70%
3	Beta ³	0.66	0.66
4	CAPM	8.72%	9.70%
5	CAPM Average	9.21%	

Sources:

¹ *Blue Chip Financial Forecasts*; April 1, 2010, at 2.

² Morningstar, Inc. *Ibbotson SBBI 2010 Valuation Yearbook*, at 54 and 66.

³ *The Value Line Investment Survey*, March 12, 2010.

Laclede Gas Company

S&P Credit Metrics

Line	Description	(\$ 000) Amount (1)	S&P Benchmark ^{1/2}			Reference (4)
			Intermediate "A" Rating (2)	Significant "A-" Rating (3)	Aggressive "BBB" Rating (3)	
1	Rate Base (Electric & Gas)	\$ 754,957				Laclede, Rate Base Schedule, Schedule 1.
2	Weighted Common Return	4.60%				Schedule MPG-1, Line 3, Col. 4.
3	Pre-Tax Rate of Return	9.87%				Schedule MPG-1, Line 4, Col. 5.
4	Income to Common	\$ 34,720				Line 1 x Line 2.
5	EBIT	\$ 74,524				Line 1 x Line 3.
6	Depreciation & Amortization	\$ 42,569				Laclede, Operating Income Statement, Schedule 4
7	Deferred Income Taxes	\$ 2,355				Laclede, Income Taxes, Schedule 6, Page 3.
8	Funds from Operations (FFO)	\$ 79,644				Sum of Lines 4, 6 and 7.
9	EBITDA	\$ 117,093				Sum of Lines 5 and 6.
10	Total Debt Ratio	52%	35% - 45%	45% - 50%	50% - 60%	Schedule MPG-1, Line 1 and Line 2, Col. 2.
11	Debt to EBITDA	3.3x	2.0x - 3.0x	3.0x - 4.0x	4.0x - 5.0x	(Line 1 x Line 10) / Line 19.
12	FFO to Total Debt	20%	30% - 45%	20% - 30%	12% - 20%	Line 8 / (Line 1 x Line 10).

Sources:

¹ Standard & Poor's: "U.S. Utilities Ratings Analysis Now Portrayed in The S&P Corporate Ratings Matrix," May 27, 2009.

² Standard & Poor's: "U.S. Integrated Electric Utility Companies, Strongest to Weakest," March 2, 2010.

Note:

Based on the new S&P metrics, Laclede has an "Excellent" business profile and an "Intermediate" financial profile.

Laclede Gas Company

Present vs. Laclede Proposed Depreciation Rates

		Original Cost at		Present		Proposed	
Line		Description	9/30/2009 ¹	Rate ²	Amount	Rate ¹	Amount
			(1)	(2)	(3)	(4)	(5)
Manufactured Gas Plant - LPG							
1	305	Structures & Improvements	\$ 1,082,676	1.67	\$ 18,081	1.92	\$ 20,787
2	307	Other Power Equipment	159,015	3.50	5,566	3.67	5,836
3	311	Liquefied Petroleum Gas					
4		LPG Equipment	\$ 4,632,069	3.71	\$ 171,850	3.48	\$ 161,196
5		LPG Storage Caverns	4,829,688	1.11	53,610	1.82	87,900
6		Total 311	\$ 9,461,757		\$ 225,459		\$ 249,096
7	Total Manufactured Gas Plant - LPG		\$ 10,703,448		\$ 249,106		\$ 275,720
Underground Storage Plant							
8	351.2	Compressor Station Structures	\$ 614,207	3.33	\$ 20,453	2.44	\$ 14,987
9	351.4	Other Structures	1,000,691	2.18	21,815	1.83	18,313
10		Total 351	\$ 1,614,898		\$ 42,268		\$ 33,299
11	352.1	Wells	\$ 6,128,278	0.00	\$ -	1.28	\$ 78,442
12	352.2	Reservoirs	245,023	0.00	-	1.11	2,720
13	352.3	Non-Recoverable Gas	6,167,263	0.00	-	1.11	68,457
14	352.4	Wells - Oil and Vent Gas	741,207	0.00	-	1.28	9,487
15		Total 352	\$ 13,281,771		\$ -		\$ 159,106
16	353	Lines	\$ 2,885,559	1.17	\$ 33,761	1.79	\$ 51,652
17	354	Compressor Station Equip.	2,411,310	1.22	29,418	2.00	48,226
18	355	Measuring & Regulating Equip.	2,013,702	1.79	36,045	2.10	42,288
19	356	Purification Equip.	233,043	2.38	5,546	2.50	5,826
20	357	Other Equipment	61,691	4.55	2,807	5.25	3,239
21	Total Underground Storage Plant		\$ 22,501,974		\$ 149,846		\$ 343,635
Transmission Plant							
22	367	Mains	\$ 2,013,842	0.00	\$ -	1.53	\$ 30,812
23	371	Other Equipment	17,180	0.00	-	2.33	400
24	Total Transmission Plant		\$ 2,031,022		\$ -		\$ 31,212
Distribution Plant							
25	375	Structures and Improvements					
26		District Measuring and Regulating	\$ 246,429	3.00	\$ 7,393	2.44	\$ 6,013
27		Service Centers	8,038,592	3.00	241,158	2.09	168,007
28		Garage	659,256	3.00	19,778	2.00	13,185
29		Other Small Structures	107,507	3.00	3,225	2.63	2,827
30		Total 375	\$ 9,051,784		\$ 271,554		\$ 190,032
31	376.1	Mains - Steel	\$ 214,772,107	1.44	\$ 3,092,718	1.53	\$ 3,286,013
32	376.2	Mains - Cast Iron	14,334,442	3.31	474,470	2.24	321,092
33	376.3	Mains - Plastic & Copper	231,246,343	1.57	3,630,568	1.64	3,792,440
34		Total 376	\$ 460,352,892		\$ 7,197,756		\$ 7,399,545
35	378	Measuring & Regulating Sta. Equip.	\$ 9,153,338	3.71	\$ 339,589	3.71	\$ 339,589
36	379	Measuring & Reg. Sta. Equip. - City Gate	2,107,931	3.71	78,204	3.94	83,052
37	380.1	Services - Steel	\$ 38,622,201	5.23	\$ 2,019,941	4.44	\$ 1,714,826
38	380.2	Services - Plastic & Copper	450,965,367	3.75	16,911,201	4.05	18,264,097
39		Total 380	\$ 489,587,568		\$ 18,931,142		\$ 19,978,923
40	381	Meters	\$ 118,155,709	2.37	\$ 2,800,290	2.94	\$ 3,473,778
41	383	House Regulators	21,532,948	2.00	430,659	2.00	430,659
42	385	Commercial & Industrial Reg. Equip.	11,353,611	3.25	368,992	2.80	317,901
43	386	Other Property on Customer Premise	22,974	7.14	1,640	4.97	1,142
44	387	Other Equipment	402,259	2.78	11,183	3.44	13,838
45	Total Distribution Plant		\$ 1,121,721,014		\$ 30,431,010		\$ 32,228,459
46	Total Depreciable Plant (Excluding General Plant)		\$ 1,156,957,458		\$ 30,829,961		\$ 32,879,026
47	Increase Depreciation Expense (Line 46, Col. 5 - Line 46, Col. 3).						\$ 2,049,065

Sources:

¹ Direct Testimony of John Spanos, Replacement Schedules, Table 1.

² Laclede Gas Company, Case No. GR-2005-0284, Final Order Attachment 3.

Laclede Gas Company

Net Salvage In Proposed Depreciation Rates

Line	Description	Life (1)	Original Cost at 9/30/2009 (2)	Proposed Net Salvage		Rate (4)	Amount (5)	Proposed Rates Without Net Salvage		Proposed Net Salvage Expense (9) = (8) - (5)
				Net Salvage (3)	Total Expense			Net Salvage (6)	Total Expense	
Manufactured Gas Plant - LPG										
1	305 Structures & Improvements	60	\$ 1,082,676	(15)	1.92%	\$ 20,787	0	1.67%	\$ 18,081	\$ (2,707)
2	307 Other Power Equipment	30	159,015	(10)	3.67%	5,836	0	3.33%	5,295	(541)
3	311 Liquefied Petroleum Gas									
4	LPG Equipment	33	\$ 4,632,069	(15)	3.48%	\$ 161,196	0	3.03%	\$ 140,352	\$ (20,844)
5	LPG Storage Caverns	55	4,829,688	0	1.82%	87,900	0	1.82%	87,900	-
6	Total 311		\$ 9,461,757			\$ 249,096			\$ 228,252	\$ (20,844)
7	Total Manufactured Gas Plant - LPG		\$ 10,703,448			\$ 275,720			\$ 251,628	\$ (24,092)
Underground Storage Plant										
8	351.2 Compressor Station Structures	45	\$ 614,207	(10)	2.44%	\$ 14,987	0	2.22%	\$ 13,635	\$ (1,351)
9	351.4 Other Structures	60	1,000,691	(10)	1.83%	18,313	0	1.67%	16,712	(1,601)
10	Total 351		\$ 1,614,898			\$ 33,299			\$ 30,347	\$ (2,952)
11	352.1 Wells	90	\$ 6,128,278	(15)	1.28%	\$ 78,442	0	1.11%	\$ 68,024	\$ (10,418)
12	352.2 Reservoirs	90	245,023	0	1.11%	2,720	0	1.11%	2,720	-
13	352.3 Non-Recoverable Gas	90	6,167,263	0	1.11%	68,457	0	1.11%	68,457	-
14	352.4 Wells - Oil and Vent Gas	90	741,207	(15)	1.28%	9,487	0	1.11%	8,227	(1,260)
15	Total 352		\$ 13,281,771			\$ 159,106			\$ 147,428	\$ (11,678)
16	353 Lines	70	\$ 2,885,559	(25)	1.79%	\$ 51,652	0	1.43%	\$ 41,263	\$ (10,388)
17	354 Compressor Station Equip.	55	2,411,310	(10)	2.00%	48,226	0	1.82%	43,886	(4,340)
18	355 Measuring & Regulating Equip.	50	2,013,702	(5)	2.10%	42,288	0	2.00%	40,274	(2,014)
19	356 Purification Equip.	42	233,043	(5)	2.50%	5,826	0	2.38%	5,546	(280)
20	357 Other Equipment	20	61,691	(5)	5.25%	3,239	0	5.00%	3,085	(154)
21	Total Underground Storage Plant		\$ 22,501,974			\$ 343,635			\$ 311,829	\$ (31,806)
Transmission Plant										
22	367 Mains	85	\$ 2,013,842	(30)	1.53%	\$ 30,812	0	1.18%	\$ 23,763	\$ (7,048)
23	371 Other Equipment	45	17,180	(5)	2.33%	400	0	2.22%	381	(19)
24	Total Transmission Plant		\$ 2,031,022			\$ 31,212			\$ 24,145	\$ (7,067)
Distribution Plant										
25	375 Structures and Improvements									
26	District Measuring and Regulating	45	\$ 246,429	(10)	2.44%	\$ 6,013	0	2.22%	\$ 5,471	\$ (542)
27	Service Centers	55	8,038,592	(15)	2.09%	168,007	0	1.82%	146,302	(21,704)
28	Garage	55	659,256	(10)	2.00%	13,185	0	1.82%	11,998	(1,187)
29	Other Small Structures	40	107,507	(5)	2.63%	2,827	0	2.50%	2,688	(140)
30	Total 375		\$ 9,051,784			\$ 190,032			\$ 166,459	\$ (23,573)
31	376.1 Mains - Steel	85	\$ 214,772,107	(30)	1.53%	\$ 3,286,013	0	1.18%	\$ 2,534,311	\$ (751,702)
32	376.2 Mains - Cast Iron	85	14,334,442	(90)	2.24%	321,092	0	1.18%	169,146	(151,945)
33	376.3 Mains - Plastic & Copper	70	231,246,343	(15)	1.64%	3,792,440	0	1.43%	3,306,823	(485,617)
34	Total 376		\$ 460,352,892			\$ 7,399,545			\$ 6,010,280	\$ (1,389,265)
35	378 Measuring & Regulating Sta. Equip.	35	\$ 9,153,338	(30)	3.71%	\$ 339,589	0	2.86%	\$ 261,785	\$ (77,803)
36	379 Measuring & Reg. Sta. Equip. - City Gate	33	2,107,931	(30)	3.94%	83,052	0	3.03%	63,870	(19,182)
37	380.1 Services - Steel	45	\$ 38,622,201	(100)	4.44%	\$ 1,714,826	0	2.22%	\$ 857,413	\$ (857,413)
38	380.2 Services - Plastic & Copper	42	450,965,367	(70)	4.05%	18,264,097	0	2.38%	10,732,976	(7,531,122)
39	Total 380		\$ 489,587,568			\$ 19,978,923			\$ 11,590,389	\$ (8,388,534)
40	381 Meters	33	\$ 118,155,709	3	2.94%	\$ 3,473,778	0	3.03%	\$ 3,580,118	\$ 106,340
41	383 House Regulators	50	21,532,948	0	2.00%	430,659	0	2.00%	430,659	-
42	385 Commercial & Industrial Reg. Equip.	41	11,353,611	(15)	2.80%	317,901	0	2.44%	277,028	(40,873)
43	386 Other Property on Customer Premise	14	22,974	0	4.97%	1,142	0	4.97%	1,142	-
44	387 Other Equipment	32	402,259	(10)	3.44%	13,838	0	3.13%	12,591	(1,247)
45	Total Distribution Plant		\$ 1,121,721,014			\$ 32,228,459			\$ 22,394,321	\$ (9,834,137)
46	Total Depreciable Plant (Excluding General Plant)		\$ 1,156,957,458			\$ 32,879,026			\$ 22,981,923	\$ (9,897,103)

Source: Direct Testimony of John Spanos, Replacement Schedules, Table 1.

Laclede Gas Company

Net Salvage In Current Depreciation Rates With Proposed Life

			Current Net Salvage				Current Rates Without Net Salvage			Current	
Line	Description		Life (1)	Original Cost at 9/30/2009 (2)	Net	Total Expense		Net	Total Expense		Net Salvage
					Salvage ¹ (3)	Rate (4)	Amount (5)	Salvage (6)	Rate (7)	Amount (8)	Expense (9) = (8) - (5)
Manufactured Gas Plant - LPG											
1	305	Structures & Improvements	60	\$ 1,082,676	0	1.67%	\$ 18,081	0	1.67%	\$ 18,081	\$ -
2	307	Other Power Equipment	30	159,015	(5)	3.50%	5,566	0	3.33%	5,295	(270)
3	311	Liquefied Petroleum Gas									
4		LPG Equipment	33	\$ 4,632,069	(30)	3.94%	\$ 182,504	0	3.03%	\$ 140,352	\$ (42,152)
5		LPG Storage Caverns	55	4,829,688	0	1.82%	87,900	0	1.82%	87,900	-
6		Total 311		\$ 9,461,757			\$ 270,404			\$ 228,252	\$ (42,152)
7	Total Manufactured Gas Plant - LPG			\$ 10,703,448			\$ 294,050			\$ 251,628	\$ (42,422)
Underground Storage Plant											
8	351.2	Compressor Station Structures	45	\$ 614,207	(50)	3.33%	\$ 20,453	0	2.22%	\$ 13,635	\$ (6,818)
9	351.4	Other Structures	60	1,000,691	(20)	2.00%	20,014	0	1.67%	16,712	(3,302)
10		Total 351		\$ 1,614,898			\$ 40,467			\$ 30,347	\$ (10,120)
11	352.1	Wells	90	\$ 6,128,278	0	1.11%	\$ 68,024	0	1.11%	\$ 68,024	\$ -
12	352.2	Reservoirs	90	245,023	0	1.11%	2,720	0	1.11%	2,720	-
13	352.3	Non-Recoverable Gas	90	6,167,263	0	1.11%	68,457	0	1.11%	68,457	-
14	352.4	Wells - Oil and Vent Gas	90	741,207	0	1.11%	8,227	0	1.11%	8,227	-
15		Total 352		\$ 13,281,771			\$ 147,428			\$ 147,428	\$ -
16	353	Lines	70	\$ 2,885,559	(5)	1.50%	\$ 43,283	0	1.43%	\$ 41,263	\$ (2,020)
17	354	Compressor Station Equip.	55	2,411,310	(10)	2.00%	48,226	0	1.82%	43,886	(4,340)
18	355	Measuring & Regulating Equip.	50	2,013,702	0	2.00%	40,274	0	2.00%	40,274	-
19	356	Purification Equip.	42	233,043	0	2.38%	5,546	0	2.38%	5,546	-
20	357	Other Equipment	20	61,691	0	5.00%	3,085	0	5.00%	3,085	-
21	Total Underground Storage Plant			\$ 22,501,974			\$ 328,309			\$ 311,829	\$ (16,480)
Transmission Plant											
22	367	Mains	85	\$ 2,013,842	0	1.18%	\$ 23,763	0	1.18%	\$ 23,763	\$ -
23	371	Other Equipment	45	17,180	0	2.22%	381	0	2.22%	381	-
24	Total Transmission Plant			\$ 2,031,022			\$ 24,145			\$ 24,145	\$ -
Distribution Plant											
25	375	Structures and Improvements									
26		District Measuring and Regulating	45	\$ 246,429	(35)	3.00%	\$ 7,393	0	2.22%	\$ 5,471	\$ (1,922)
27		Service Centers	55	8,038,592	(35)	2.45%	196,946	0	1.82%	146,302	(50,643)
28		Garage	55	659,256	(35)	2.45%	16,152	0	1.82%	11,998	(4,153)
29		Other Small Structures	40	107,507	(35)	3.38%	3,634	0	2.50%	2,688	(946)
30		Total 375		\$ 9,051,784			\$ 224,124			\$ 166,459	\$ (57,665)
31	376.1	Mains - Steel	85	\$ 214,772,107	(15)	1.35%	\$ 2,899,423	0	1.18%	\$ 2,534,311	\$ (365,113)
32	376.2	Mains - Cast Iron	85	14,334,442	(165)	3.12%	447,235	0	1.18%	169,146	(278,088)
33	376.3	Mains - Plastic & Copper	70	231,246,343	(10)	1.57%	3,630,568	0	1.43%	3,306,823	(323,745)
34		Total 376		\$ 460,352,892			\$ 6,977,226			\$ 6,010,280	\$ (966,946)
35	378	Measuring & Regulating Sta. Equip.	35	\$ 9,153,338	(30)	3.71%	\$ 339,589	0	2.86%	\$ 261,785	\$ (77,803)
36	379	Measuring & Reg. Sta. Equip. - City Gate	33	2,107,931	(30)	3.94%	83,052	0	3.03%	63,870	(19,182)
37	380.1	Services - Steel	45	\$ 38,622,201	(130)	5.11%	\$ 1,973,594	0	2.22%	\$ 857,413	\$ (1,116,182)
38	380.2	Services - Plastic & Copper	42	450,965,367	(65)	3.93%	17,722,939	0	2.38%	10,732,976	(6,989,963)
39		Total 380		\$ 489,587,568			\$ 19,696,533			\$ 11,590,389	\$ (8,106,145)
40	381	Meters	33	\$ 118,155,709	10	2.73%	\$ 3,225,651	0	3.03%	\$ 3,580,118	\$ 354,467
41	383	House Regulators	50	21,532,948	0	2.00%	430,659	0	2.00%	430,659	-
42	385	Commercial & Industrial Reg. Equip.	41	11,353,611	(30)	3.17%	359,909	0	2.44%	277,028	(82,881)
43	386	Other Property on Customer Premise	14	22,974	0	4.97%	1,142	0	4.97%	1,142	-
44	387	Other Equipment	32	402,259	0	3.13%	12,591	0	3.13%	12,591	-
45	Total Distribution Plant			\$ 1,121,721,014			\$ 31,350,476			\$ 22,394,321	\$ (8,956,155)
46	Total Depreciable Plant (Excluding General Plant)			\$ 1,156,957,458			\$ 31,996,980			\$ 22,981,923	\$ (9,015,057)

Sources:

Direct Testimony of John Spanos, Replacement Schedules, Table 1.

¹ Laclede Gas Company, Case No. GR-2005-0284, Final Order Attachment 3.

Laclede Gas Company

Historic Net Salvage For Selected Accounts

<u>Line</u>	<u>Year</u>	<u>Account 376.1</u> <u>Mains - Steel</u> <u>(1)</u>	<u>Account 376.2</u> <u>Mains - Cast Iron</u> <u>(2)</u>	<u>Account 376.3</u> <u>Mains - Plastic</u> <u>And Copper</u> <u>(3)</u>	<u>Account 380.1</u> <u>Services - Steel</u> <u>(4)</u>	<u>Account 380.2</u> <u>Services - Plastic</u> <u>And Copper</u> <u>(5)</u>	<u>Total</u> <u>(6)</u>
1	1995	\$ 124,150	\$ (214,881)	\$ (11,013)	\$ (501,079)	\$ (834,227)	\$ (1,437,050)
2	1996	(92,245)	(262,687)	(9,001)	(583,353)	(1,020,865)	(1,968,151)
3	1997	36,992	(296,743)	(11,497)	(617,144)	(1,153,761)	(2,042,153)
4	1998	(54,408)	(157,926)	(15,548)	(581,911)	(1,667,287)	(2,477,080)
5	1999	102,838	(162,723)	(4,008)	(662,020)	(2,270,682)	(2,996,595)
6	2000	(153,599)	(150,677)	(7,116)	(665,041)	(3,005,223)	(3,981,656)
7	2001	16,903	(302,046)	4,059	(481,107)	(3,643,630)	(4,405,821)
8	2002	(202,683)	(115,554)	(52,917)	(593,727)	(4,246,956)	(5,211,837)
9	2003	(347,209)	(241,979)	(28,995)	(677,239)	(1,735,528)	(3,030,950)
10	2004	(404,359)	(232,394)	(12,197)	(760,309)	(1,509,858)	(2,919,117)
11	2005	(223,668)	(165,459)	(58,664)	(859,598)	(1,863,628)	(3,171,017)
12	2006	(297,641)	(112,497)	39,211	(888,777)	(1,863,492)	(3,123,196)
13	2007	(290,271)	(354,115)	(21,314)	(825,040)	(2,250,937)	(3,741,677)
14	2008	(737,785)	(365,936)	9,645	(923,894)	(2,305,663)	(4,323,633)
15	2009	(565,397)	(264,789)	(34,418)	(749,175)	(2,053,854)	(3,667,633)
16	10-Year Average	\$ (320,571)	\$ (230,545)	\$ (16,271)	\$ (742,391)	\$ (2,447,877)	\$ (3,757,654)
17	15-Year Average	\$ (205,892)	\$ (226,694)	\$ (14,252)	\$ (691,294)	\$ (2,095,039)	\$ (3,233,171)
Net Salvage Amount							
18	In Proposed Rates ¹	\$ (751,702)	\$ (151,945)	\$ (485,617)	\$ (857,413)	\$ (7,531,122)	\$ (9,777,799)
Net Salvage Amount							
19	In Current Rates ¹	\$ (365,113)	\$ (278,088)	\$ (323,745)	\$ (1,116,182)	\$ (6,989,963)	\$ (9,073,090)

Sources:

Replacement Schedules to Direct Testimony of John J. Spanos, Depreciation Study, pages III-166 to III-178.

¹ Schedule MPG-20.

Laclede Gas Company

Depreciation Expense Adjustment

<u>Line</u>	<u>Description</u>	<u>Depreciation Expense (1)</u>	<u>Source (2)</u>
1	Proposed Depreciation Expense	\$ 32,879,026	Schedule MPG-20, Page 1 of 2.
2	Depreciation Expense (Adjusted Salvage)	\$ 31,996,980	Schedule MPG-20, Page 2 of 2.
3	Depreciation Expense Adjustment	\$ (882,046)	Line 2 - Line 1.