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BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

TRANSCRIPT OF PROCEEDINGS
Stipulation & Agreement Hearing
September 26, 2005
Jefferson City, Missouri
Volume 7

In the Matter of Laclede Gas)
Company's Tariff to Revise) Case No.
Natural Gas Rate Schedules) GR-2005-0284

NANCY M. DIPPELL, presiding,
Senior Regulatory Law Judge
JEFF DAVIS, Chairman,
CONNIE MURRAY,
STEVE GAW,
ROBERT M. CLAYTON, III,
LINWARD "LIN" APPLING,
Commissioners.

REPORTED BY:
Jennifer L. Leibach, RPR, CCR(T)
MIDWEST LITIGATION SERVICES

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PROCEEDINGS

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JUDGE DIPPELL: Good morning. This is Case
3 No. GR-2005-0284 in the matter of Laclede Gas Company's
4 Tariff to Revise Natural Gas Rate Schedules. My name is
5 Nancy Dippell. I'm the Regulatory Law Judge assigned to this
6 matter, and we've come here today for a hearing regarding the
7 stipulation and agreement filed by the parties, or most of
8 the parties. There has been no objection to that
9 stipulation. And we're going to begin with entries of
10 appearance. Can we begin with Staff?

11

MR. MEYER: Good morning. David Meyer, Tim
12 Schwarz, Keith Krueger, Robert Franson, Lera Shemwell and Bob
13 Berlin for the Staff of the Missouri Public Service
14 Commission. Our address is PO Box 360, Jefferson City,
15 Missouri, 65102.

16

JUDGE DIPPELL: Okay. Mr. Meyer, I see
17 Mr. Krueger in the room. The others are attorneys who have
18 entered -- I'm sorry, I see Mr. Franson in the room, too.
19 The others are -- entered their appearance on various
20 matters, but aren't actually present at this point. I just
21 want to clarify that for the record.

22

MR. MEYER: That's correct; however, some,
23 depending on necessity, may appear as we proceed.

24

JUDGE DIPPELL: Thank you. Mr. Dandino.

25

1 MR. DANDINO: Michael Dandino, Office of the
2 Public Counsel, Post Office Box 2230, Jefferson City,
3 Missouri, 65102, representing the Office of Public Counsel
4 and the public.

5 JUDGE DIPPELL: Laclede?

6 MR. ZUCKER: Thank you, your Honor. Michael
7 C. Pendergast and Rick Zucker on behalf of Laclede Gas
8 Company. Our business address is 720 Olive Street,
9 St. Louis, Missouri, 63101.

10 JUDGE DIPPELL: All right. Ms. Schroder?

11 MS. SCHRODER: Sherrie Schroder for --
12 from --

13 JUDGE DIPPELL: Could you -- is your
14 microphone on? Yeah, it's probably -- okay. Sorry.

15 MS. SCHRODER: Sherrie D. Schroder, 7730
16 Carondelet, Suite 200, St. Louis, Missouri, 63105. And Julia
17 Englehardt from the same firm has been involved in prior
18 hearings on this matter but is not present today. And we're
19 representing PACE 5-6, the Paper Allied Industrial Chemical
20 and Energy Workers.

21 JUDGE DIPPELL: Thank you.

22 MR. SCHAEFER: For the Department of Natural
23 Resources, Kurt Schaefer, and my address is PO Box 176
24 Jefferson City, Missouri, 65102.

25 JUDGE DIPPELL: And are there any other

1 parties present? I did have a phone call this morning from
2 Diana Vuylsteke for the Missouri Industrial Energy Consumers;
3 is that correct? And she said that she was running just a
4 little bit late, and asked to enter her appearance when she
5 arrives.

6 And I also have had conversations with the
7 attorney for MEG, and indicated that it was not -- there were
8 not Commission questions for MEG. I told her that if she was
9 not present, that her party, of course, would waive any
10 rights to any objections to any of the matters that went on
11 here today, but I'm not expecting counsel for MEG.

12 Okay. We premarked exhibits. We premarked
13 the stipulation of the parties as Exhibit 1, Laclede's direct
14 testimony as Exhibit 2, and the Staff's supporting affidavits
15 as Exhibit 3. Would there be any objection to Exhibit 1
16 being admitted into the record?

17 MR. DANDINO: No objection.

18 JUDGE DIPPELL: Seeing none, I will admit it.
19 Would there be any objection to Exhibit 2, Laclede's direct
20 testimony being admitted into the record?

21 MR. DANDINO: No objection, your Honor.

22 JUDGE DIPPELL: Seeing no objection, I will
23 admit Exhibit 2. Would there be any objection to Exhibit 3
24 being admitted into the record? Seeing no objection, I will
25 admit Staff affidavits as Exhibit 3.

1 We didn't talk about the order of things
2 before we got started. Would the attorneys like to make any
3 opening statements? Mr. Pendergast?

4 MR. PENDERGAST: We'd be happy to, but if the
5 Commission would rather just go directly to questions and
6 answers, that's fine, too.

7 JUDGE DIPPELL: Mr. Meyer, same?

8 MR. MEYER: I have one prepared if you'd like
9 to hear it, otherwise we can just accept questions.

10 JUDGE DIPPELL: All right. Mr. Dandino, did
11 you need to make any opening remarks?

12 MR. DANDINO: Whatever is the Commission's
13 pleasure.

14 JUDGE DIPPELL: Let me just look at the
15 Commissioners and see. Is the Commission --

16 COMMISSIONER MURRAY: If someone has a
17 prepared statement, I'd like to hear it.

18 JUDGE DIPPELL: Okay. Let's begin with
19 Mr. Meyer, then.

20 MR. MEYER: Good morning, may it please the
21 Commission. The Staff, the Public Counsel, and Laclede, as
22 well as the other parties in this case have negotiated for
23 months and have reached a settlement of the issues in this
24 case including the revenue requirement and the class cost of
25 service. The stipulation is essentially an overall

1 settlement package.

2 Staff is comfortable with recommending the
3 settlement to the Commission as a reasonable resolution of
4 the issues in this case for both the Company and consumer.
5 We're looking at a \$10.5 million increase in base rates;
6 however, 6.1 million of that are already being collected
7 through the ISRS function, so only 4.4 million is actually
8 new to consumers. The PGA is also part of this
9 settlement, will go up 4.1 million to allow the Company to
10 recover the carrying cost of gas placed in storage. That's
11 4.4 plus 4.1 from the base rate change, which is the
12 discussed figure of 8.5 million, the net increase relative to
13 today.

14 The stipulation contains several proposals
15 that will be implemented subject to the Commission's
16 Chapter 13 rulemaking, including customer deposit and cutoff
17 hour provisions that will be implemented through tariff
18 changes. The implementation of these new provisions should
19 provide some insight as the rulemaking process continues, but
20 will be adjusted to comply with the Commission's ultimate
21 decision in the rulemaking proceedings.

22 The representatives at the public hearing
23 asked whether Laclede will have incentives to purchase gas in
24 a manner to protect the customers from unnecessary cost
25 increases. The parties have agreed to revisions in the

1 Experimental Gas Supply Incentive Program that Staff
2 anticipates will encourage the Company to obtain gas at the
3 lowest feasible rates.

4 The existing plan is being modified in several
5 ways to take into account the current market reality, which
6 will encourage the Company to obtain gas at the lowest
7 possible rate because it will be able to share the savings
8 along to the consumers. The program provides for the
9 customer, and prudence reviews the Commission relies on to
10 ensure that the process is conducted in a proper manner and
11 to protect the ratepayers.

12 The parties have also agreed to implementing a
13 low income program, which entails an increase in the funds
14 available for programs and will be jointly administered by
15 community staff and agencies and the company. Staff
16 participated extensively in the negotiations leading to this
17 proposal, negotiations that went up to virtually the day the
18 stipulation and agreement was completed and filed, and
19 supports the provisions which we believe strike a reasonable
20 balance between customer responsibility and consumer
21 assistance.

22 During the public hearings, you heard some
23 discussion of automatic meter readers. Anything related to
24 that issue, quite simply, from Staff's perspective, is
25 outside the scope of this case. Rate-making is a

1 retrospective process to create prospective rates. Nothing
2 has taken place, to the best of Staff's knowledge, during the
3 test year and through the order true-up date to result in
4 decreased wage expenses, and this settlement does not
5 implement any meter reading position's elimination.

6 Such an event would be reflected in The
7 Company's next rate case, a side effect of the regulatory lag
8 phenomenon where the Company bears the expenses as well as
9 the benefits of changes in its income until the next time the
10 Commission considers all relevant factors to reset a rate.
11 Likewise, the Company's existing bonus plan was implemented
12 after the last rate case and is not reflected in the existing
13 rates, and the stipulation provides that no bonuses will be
14 paid out of rates collected under the stipulation provisions
15 setting new rates.

16 The parties would certainly be happy to
17 discuss this or any other questions you may have further with
18 you, if you wish. Staff supports the stipulations in this
19 case as a reasonable settlement for Laclede and its
20 customers. Although any rate increase will certainly be a
21 hardship on some customers, the amount of the increase has
22 been greatly minimized while allowing the Company to recover
23 its reasonable cost to provide service.

24 There are low income and efficiency programs
25 to help reduce customer's bills. The stipulation provides

1 incentives for the Company to purchase the cheapest gas. It
2 maintains the current rate structure, it does not increase
3 the residential customer charge. For all of these reasons,
4 the Staff asks that the Commission approve this settlement.
5 We have witnesses available to discuss these points with you
6 further, or answer any questions you may have. Thank you.

7 JUDGE DIPPELL: Thank you, Mr. Meyer. Are
8 there any questions specifically for Mr. Meyer at this point?
9 I don't see any. Thank you, Mr. Meyer. Mr. Pendergast, did
10 you want to make any additional remarks?

11 MR. PENDERGAST: Just a few. May it please
12 the Commission. I think Mr. Meyer did an excellent job of
13 summing up the major provisions of the stipulation agreement,
14 and I will try and not be redundant. I'd just like to make a
15 few observations.

16 Number one, I think as you recognized
17 yourself, your Honor, although the stipulation agreement was
18 not initially signed by all of the parties, it did include a
19 provision indicating that all of the parties had had an
20 opportunity to review its contents and nobody had objected to
21 it. Consistent with that representation in the stipulation
22 agreement, no one has objected to it in the seven days
23 provided under the Commission's rules for objections to
24 stipulations and agreements. And pursuant to those same
25 rules, the stipulation and agreement can, and we believe

1 should be, treated as a unanimous stipulation and agreement
2 resolving all issues in this case.

3 Laclede believes that the stipulation and
4 agreement represents a demonstrably fair and reasonable
5 resolution of the issues raised in this case, as one would
6 expect from a document that reflects the input, viewpoints,
7 and positions of such a divergent and wide range of parties.
8 As Mr. Meyer indicated, it recommends an overall increase in
9 new charges of \$8.5 million, which for the typical
10 residential customer would mean an increase in the overall
11 bill of approximately one percent, or about a dollar five per
12 month. We believe that's an extraordinarily good result for
13 our customers, and I think that's even clearer when you put
14 those numbers in perspective.

15 As the affidavits submitted by the Staff in
16 this case show, it's been nearly three years since Laclede
17 last received an overall increase in its rates that we charge
18 to cover the cost of installing, maintaining, and operating
19 the 15,000 miles of pipe that we use to deliver gas to our
20 customers. During that period of time, we've made net
21 investments of over \$90 million in our utility operations.
22 We had operating expense increases of approximately \$16
23 million.

24 Over that same period, we've also worked very
25 hard to try and hold off on seeking rate relief by reducing

1 and maintaining costs, and that's been responsible for us
2 being able to defer seeking rate relief for a year longer
3 than has been our historical practice over the last several
4 decades. And it's also, in part, responsible for what we
5 believe is a very modest increase that we were able to agree
6 to in this case.

7 And although we believe that an increase of
8 less than a nickel a day is pretty modest, we also understand
9 that there are some customers who have a difficult time
10 paying their bills regardless of what those utility charges
11 are. That's why Laclede proposed from the onset, and worked
12 hard with all the parties, and all the parties worked hard as
13 well, to develop a low income program that hopefully
14 reflected some of the lessons that we've learned from other
15 low income programs that have been approved by the Commission
16 for other utilities, to assist our most vulnerable customers
17 with help with their utility bills. And it provides that
18 assistance through a series of credits and matching
19 contributions for customers who make an effort to pay off the
20 arrearages that they owe the utility.

21 At the same time, we are equally concerned,
22 and I believe all the other parties were equally concerned,
23 that there would be benefits of this program for customers
24 who weren't eligible to participate. That's why the low
25 income program that has been proposed by the party requires

1 that customers take self-help measures in order to try and
2 conserve, if those measures are cost free, that they make
3 timely payments under the program, and that they make
4 consistent progress towards paying off their arrearage in
5 order to be eligible, and to remain eligible to participate
6 in the program.

7 By doing so, it's our hope and our expectation
8 that that will have a positive impact on the level of bad
9 debts that the Company incurs, and that other customers must
10 ultimately pay as a cost of doing business, and in fact, I
11 think it's fair to say that the settlement already reflects a
12 part of that benefit through a reduction in the level of bad
13 debts. It's been recognized in the overall settlement. So I
14 think there are benefits for everybody associated with this
15 low income program.

16 We've also -- and Laclede has agreed to
17 contribute \$1 million on an annual basis to fund that
18 program. Laclede's also agreed to contribute another
19 \$300,000 for new energy efficiency programs that will help
20 customers install high efficient energy appliances, and take
21 other measures that will help them to go ahead and conserve
22 on their bills, conserve on the cost that they have to pay
23 for utility service, particularly the costs associated with
24 the largest item on the customers' bills, and that's the cost
25 we incur in connection with paying for wholesale gas

1 supplies, which of course have increased significantly in
2 price over the past year.

3 There are also other provisions in the
4 stipulation and agreement that we believe will benefit our
5 customers. Mr. Meyer's already mentioned the changes that
6 have been made to the Gas Supply Incentive Plan. We've got a
7 new provision relating to use of credit scoring for purposes
8 of assessing deposits on customers. We still have to work
9 out the details on that. We will be doing that with the
10 Staff and Public Counsel and other interested parties, but
11 it's basically designed to ensure that we only collect
12 deposits when there's a need to collect the deposits. But
13 when there is the need, we do, so that we have some
14 protection from our other customers who do pay their bills on
15 time and in full from those who do not.

16 Another would expand the hours during which
17 the Company personnel would be available to take bill
18 payments from customers facing disconnection, so that
19 hopefully we can avoid interruptions in service. There are a
20 number of changes to the PGA. As you may know, Laclede has
21 four scheduled PGAs that it makes on a routine basis every
22 year. We have agreed to have one scheduled PGA change, and
23 then three discretionary PGA changes, and then also start the
24 tracking of underrecoveries and overrecoveries and the
25 application of carrying costs from the first dollar. That

1 makes us consistent with what has generally been approved for
2 other utilities in the state, and we were agreeable to make
3 those changes.

4 There are also other provisions in the
5 stipulation and agreement that were important to the Company.
6 One of them is the requested October 1st effective date that
7 no party has objected to. That was an important element of
8 the financial consideration underlying the stipulation and
9 agreement. Another was preservation of our weather
10 mitigation rate design, which we have indicated in our
11 testimony is important to the Company and very important for
12 purposes of removing the disincentives, that utilities
13 otherwise had to pursue the kind of energy efficiency
14 programs that I just mentioned.

15 Implementation of the Commission's
16 appreciation decision from GR-99-315, in which we have moved
17 back to the historical treatment of net salvage cost as a
18 part of depreciation, a result that should enhance the cash
19 flow through available to the Company to fund its operations,
20 as well as the inclusion of inventory costs in the PGA, a
21 place where those inventory costs used to reside and be
22 collected when LDCs, like Laclede, received primarily sales
23 service from interstate pipelines.

24 For all of these reasons, Laclede believes
25 that the settlement is a good and a fair result for both our

1 customers as well as the shareholders who make the
2 investments necessary to keep us operating. With that, we
3 look forward to answering any questions you might have, and
4 we appreciate your time and attention. Thank you.

5 JUDGE DIPPELL: Thank you, Mr. Pendergast.
6 Are there any questions for Mr. Pendergast at this time, or
7 shall I continue with opening statements?

8 COMMISSIONER MURRAY: Just one.
9 Mr. Pendergast, the revenue requirement and the stipulation
10 results in what percentage of rate increase -- total rate
11 increase to the customers?

12 MR. PENDERGAST: For the typical residential
13 customer, approximately one percent. I think if you refine
14 those numbers down a little bit, it would be just a smidgen
15 under one percent.

16 COMMISSIONER MURRAY: Thank you.

17 JUDGE DIPPELL: Are there any other questions
18 for Mr. Pendergast at this time? All right. Thank you,
19 Mr. Pendergast. Mr. Dandino? Ms. Vuylsteke, would you like
20 to give your entry of appearance? I'm sorry, I saw you come
21 in before Mr. Meyer spoke.

22 MS. VUYLSTEKE: Yes, Diana Vuylsteke for
23 Missouri Industrial Energy Consumers, from the firm of Bryan
24 Cave, 211 North Broadway, Suite 3600, St. Louis, Missouri,
25 63102.

1 JUDGE DIPPELL: Thank you.

2 MR. DANDINO: Thank you, your Honor. May it
3 please the Commission. Mr. Meyer, Mr. Pendergast has
4 certainly explained the -- and outlined this stipulation and
5 agreement, and I certainly don't have anything to add to
6 their description of it.

7 I'm just wanting to be on the record as --
8 that the Office of Public Counsel supports the stipulation
9 and agreement, and asks the Commission to approve it. We
10 support this because we do believe it is a just and
11 reasonable settlement of the rate case litigation. In
12 litigation -- in resolving litigation, you don't always get
13 everything that you want, but I think we have to come to a
14 reasonable middle ground, and we think this is certainly an
15 effort that reduces the risk of increase to the ratepayer,
16 and it has some excellent features in it that -- that
17 Mr. Pendergast and Mr. Meyer have discussed.

18 One point that I would like to point out to
19 you is that in the original proposal, Laclede wanted to
20 increase the flat rate monthly customer charge that every
21 customer gets for the residential by \$2 a month. It wanted
22 to increase the one for small business' monthly charge by
23 \$2.60 a month. Under the stipulation agreement, there will
24 be no change in that -- in those two customer charges.

25 I think that is highly important, because the

1 Office of Public Counsel has always looked at the flat rate
2 type charges as being detrimental to especially the low
3 income people who have to pay the same amount as all other
4 customers.

5 I think that I want to comment on some of the
6 public comments we heard in the public hearings. And you
7 couldn't sit through these public hearings without being
8 moved by the stories that you heard from the customers saying
9 they couldn't afford any increase, and some of the problems
10 they had, but I think that this stipulation and agreement at
11 least minimizes the increase, and also I think it provided an
12 opportunity in future cases for you to look at some of the
13 issues that they brought up in terms of the budget plan.

14 I think they had just some confusion -- or the
15 Commission may want to look at the methodology and the
16 communication involved with it, and the timing of adjustments
17 in that, and also in the estimated bills and the method.
18 That seemed to be the basis of many points of contention by
19 the -- by the citizens at the public hearings. But I think
20 in terms of -- of the overall settlement, I think it's very
21 beneficial to the consumers, and we urge you to approve it.
22 Thank you.

23 JUDGE DIPPELL: Thank you, Mr. Dandino. Are
24 there any specific questions for Mr. Dandino at this time?
25 Seeing none, thank you, Mr. Dandino.

1 MR. DANDINO: Thank you, your Honor.

2 JUDGE DIPPELL: Is there any opening remarks
3 from DNR?

4 MR. SCHAEFER: Sure. Thank you, Judge. May
5 it please the Commission. As the Commission knows, the
6 Department of Natural Resources has intervened in this case,
7 as it does in other rate cases similar to this, to ensure
8 certain conservation measures to encourage energy efficiency
9 and conservation, to hopefully encourage people to use less
10 energy and to avoid possible rate increases in the future.

11 We've been part of the negotiation in this
12 stipulation, and as you'll see at Page 12, Paragraph 14 of
13 the stipulation, the provisions that the Department is
14 interested in and has negotiated with to get into the
15 stipulation would be the low income weatherization and
16 efficiency rebate programs. And those are specified in more
17 detail in attachment 5 to the stipulation.

18 The two programs -- there's a low income
19 weatherization program, and a commitment of approximately
20 \$500,000 annually, that's really a new commitment of \$200,000
21 a year. There's already a commitment of \$300,000 a year, and
22 appliances and HVAC rebate programs with \$300,000 a year.
23 That program would encourage the use of energy star rated
24 products, which would increase efficiency and use of natural
25 gas. That's a commitment of about \$150,000 to residential,

1 \$100,000 to commercial for rebates, and another \$50,000 for
2 rental property rebates.

3 We believe these provisions, which were
4 negotiated by the parties, are a benefit to the public, and
5 we request that you approve these provisions. Generally,
6 with reference to the rest of the provisions, the Department
7 remains silent and our main concern are these provisions.

8 And I do have a witness here today. I do not
9 plan on presenting testimony, but if the Commission would
10 like to hear from the witness, we're certainly available.

11 JUDGE DIPPELL: Thank you, Mr. Schaefer. Are
12 there any particular questions for Mr. Schaefer at this time?
13 Okay. Thank you, Mr. Schaefer.

14 MR. SCHAEFER: Thank you.

15 JUDGE DIPPELL: Ms. Schroder, would you like
16 to make any opening remarks.

17 MS. SCHRODER: Certainly. May it please the
18 Commission.

19 PACE 5-6 did not sign the stipulation, but
20 they did not and do not have any objection to it. As I
21 understand it, I am here today to address some remarks that
22 were made in a couple of the public hearings that were held
23 in St. Louis by Joe Schulte, who is one of the
24 representatives for PACE 5-6, pertaining to the automated
25 meter reading process.

1 We understand that the automated meter reading
2 process is irrelevant to this case because this is
3 retroactive rate-making. Mr. Schulte understood that, but he
4 was appearing that day at the public hearings not only as a
5 representative of PACE 5-6, but also as a consumer, and I
6 believe that his statements pertaining to AMR were
7 appropriate to raise public awareness about facts that may
8 foreshadow a future tariff to decrease rates when the cost
9 savings from these automatic meter reading savings are
10 implemented. And also to address some safety concerns that
11 he has arising from the same source of changes.

12 But again, those -- those remarks have nothing
13 to do with PACE 5-6's official position concerning the
14 stipulation in this case. And we understand that the
15 automated meter reading changes just are totally irrelevant
16 to this particular rate-making. Thank you.

17 JUDGE DIPPELL: Thank you, Ms. Schroder. Are
18 there any questions for Ms. Schroder at this time? Okay.
19 Thank you, Ms. Schroder.

20 Ms. Vuylsteke, did you have any opening
21 remarks?

22 MS. VUYLSTEKE: Your Honor, we would prefer to
23 waive opening statement, if that's acceptable to the
24 Commission. We simply want to say that we support the
25 stipulation and agreement, and I would be happy to answer any

1 questions that the Commission has.

2 JUDGE DIPPELL: Thank you. Are there any
3 questions for Ms. Vuylsteke at this time?

4 All right. I believe that's everyone with
5 opening statements, so at this time, I will ask if there are
6 Commission questions about the stipulation, and which party
7 those Commissioners would like to hear from. Commissioner
8 Murray, did you have any?

9 COMMISSIONER MURRAY: I'm going to pass at the
10 moment. Thank you.

11 JUDGE DIPPELL: Okay. Commissioner Gaw?

12 COMMISSIONER GAW: I have a number of
13 questions, but I think I would prefer to say I'll pass to
14 whoever has a few, and then if you want to come back to me.

15 JUDGE DIPPELL: All right. Commissioner
16 Clayton, did you want to begin?

17 COMMISSIONER CLAYTON: Well, as much as it's
18 tempting to pass like everyone else, I'll ask a few
19 questions.

20 And I suppose just to get started, I'd like to
21 focus questions to Staff just for some preliminary
22 clarification on a number of provisions. And Judge, I don't
23 know if it's acceptable if they can just answer from their
24 desk. I may bounce around a little bit.

25 JUDGE DIPPELL: That's perfectly acceptable.

1 COMMISSIONER CLAYTON: Okay.

2 JUDGE DIPPELL: If everyone would please just
3 answer into the microphone.

4 COMMISSIONER CLAYTON: Mr. Meyer, regarding
5 the amount -- the dollar amount of the increase, there's been
6 several references to the total amount of the increase being
7 roughly \$10 million. Is that -- am I close to being correct?

8 MR. MEYER: The business rate increase is 10.5
9 million, that is correct.

10 COMMISSIONER CLAYTON: That includes \$6.1
11 million as part of an existing ISRS?

12 MR. MEYER: That's correct.

13 COMMISSIONER CLAYTON: Now, is it fair to
14 assume that the increase has, in addition, another \$4
15 million, which is a PGA adjustment?

16 MR. MEYER: That is also correct. The PGA
17 adjusts about 4.1 million.

18 COMMISSIONER CLAYTON: Now, in the assessments
19 that have been made -- or the statements that have been made
20 in the press and a local public hearing about a dollar
21 increase per month on average for a customer, is the PGA
22 adjustment included in that dollar increase?

23 MR. MEYER: Yes, it is. It's -- for a
24 residential customer, it's about a dollar.

25 COMMISSIONER CLAYTON: For a residential

1 customer. Thank you for clarifying that. But the actual
2 increase, which is part base rates and part PGA adjustment,
3 is \$14 million?

4 MR. MEYER: Are you -- I believe that's
5 correct. That's the ten plus the four.

6 COMMISSIONER CLAYTON: That's my
7 simplification of it. That's what I'm asking. And if it's
8 not --

9 JUDGE DIPPELL: Mr. Pendergast, you look like
10 you want to jump in.

11 COMMISSIONER CLAYTON: Please, go ahead. I
12 just want to -- looking at this, we've had a lot of
13 references to dollar amounts, and I want to make sure we're
14 clear on where these dollar amounts come from.

15 MR. PENDERGAST: Basically, what you have is a
16 \$10.5 million increase in base rates, of which 6.1 million is
17 already being recovered throughout ISRS charge. Then, you
18 have a removable \$4.1 million worth of costs from base rates
19 to the PGA. And what we have done in deriving the \$8.5
20 million is we have looked at the incremental increase in base
21 rates above and beyond what was already being collected
22 through the ISRS, added that to the 4.1 million that's moving
23 over to the PGA, and we have derived the 8.5 million in new
24 charges to customers that are already being collected.

25 And it's that 8.5 million that results in the

1 approximate one percent increase to the typical residential
2 customer, or approximately a dollar five a month.

3 COMMISSIONER CLAYTON: Okay. So the \$1
4 includes the PGA and the base rate increase?

5 MR. PENDERGAST: It does.

6 COMMISSIONER CLAYTON: Okay. I wanted to be
7 clear on that if we had a \$1 increase, if there would be an
8 additional increase for the PGA. Okay. Thank you for
9 clarifying that, Mr. Pendergast.

10 Regarding of ISRS, which will be reset to zero
11 under this -- and I suppose I'm going to come back to Staff
12 just as a place to start, and feel free, anyone, to jump in.
13 Regarding the ISRS that will be reset to zero, could you
14 clarify for me when the next ISRS case could be filed under
15 this agreement? Is there a moratorium or an agreement as to
16 when the next case could be filed?

17 MR. MEYER: There is no moratorium as part of
18 this agreement.

19 COMMISSIONER CLAYTON: Okay. So can you tell
20 me when the next ISRS case could be filed? There's a
21 reference to July 31st. I'm assuming there would have to be
22 an accumulation of additional investment following July 31st.
23 Mr. Pendergast, is that correct?

24 MR. PENDERGAST: That would be correct. I
25 believe it's a million dollars worth of additional revenue

1 requirement before we would be eligible to file one.

2 COMMISSIONER CLAYTON: Okay. So it would
3 require that additional investment following July 31st in
4 that amount. Okay. Are there any agreements as to when the
5 next rate case will be filed as part of this agreement?

6 MR. MEYER: No, there are not.

7 COMMISSIONER CLAYTON: And forgive me, since
8 everybody so far has passed, I'm just kind of going through
9 my discussions and taking my time. Sorry. I had several
10 questions with regard to -- to the PGA adjustment, which is
11 listed in Paragraph 3. And I was wondering if you could
12 explain what is meant by an effort to, quote, reduce the
13 complexity of the accounting underlying Laclede's existing
14 PGA/ACA, close quote. What was changed in the PGA analysis
15 as part of this agreement?

16 MR. MEYER: I think Staff would actually
17 probably prefer to have a witness address that, if that's
18 acceptable.

19 COMMISSIONER CLAYTON: Mr. Meyer, can you give
20 me any idea what is meant in -- later on in that section --
21 regarding accounting treatment of over- or under-recoveries
22 of gas costs, including hedging costs? And if you don't
23 know, just tell me you don't know, but do you know what the
24 provisions of that language mean?

25 MR. MEYER: Again, I think we'd probably

1 rather have a witness address that.

2 COMMISSIONER CLAYTON: Okay. Well, Mr. Meyer,
3 can you give me any information on the changes for FAS 87 or
4 FAS 106?

5 MR. MEYER: Again, we'd have a witness to
6 address that.

7 COMMISSIONER CLAYTON: Well, can you tell me
8 whether the position taken in the stipulation is a position
9 of Staff, or if it's the position of Laclede, or the position
10 of Office of Public Counsel in the treatment of the pension
11 plans and the postemployment benefits?

12 MR. MEYER: I believe it is our position, but
13 again, we have an accounting witness who would be available
14 to address that.

15 COMMISSIONER CLAYTON: All I'm asking right
16 now is whose position was adopted in the stipulation. Okay.
17 Are these different witnesses or a single witness that you're
18 talking about?

19 MR. MEYER: The majority of it would be
20 Mr. Rackers.

21 COMMISSIONER CLAYTON: Okay. Paragraph No. 7
22 on depreciation, the position in the stipulation relates to a
23 recent decision by the Commission regarding the treatment of
24 net salvage and cost of removal. And I'm assuming that this
25 provision is in Laclede's favor, according to that decision,

1 correct?

2 MR. MEYER: I believe that's correct.

3 COMMISSIONER CLAYTON: Can someone tell me the
4 dollar amount value of that issue in this case?
5 Mr. Pendergast, do you know?

6 MR. PENDERGAST: Subject to check, I believe
7 it's approximately \$6 million --

8 COMMISSIONER CLAYTON: Okay.

9 MR. PENDERGAST: -- along that basis.

10 COMMISSIONER CLAYTON: Mr. Pendergast,
11 Paragraph 9 on Page 9 of the stipulation makes reference to
12 "nothing herein shall be construed as prejudicing whatever
13 rights the Company has upon conclusion of this case to pursue
14 accounting authorizations or rate adjustment mechanisms to
15 reflect increases or decreases in revenues resulting from
16 changes in customer usage levels". I was wondering if you
17 could tell me what -- what that provision relates to.

18 MR. PENDERGAST: We simply wanted to go ahead
19 and maintain whatever rights we had, to either pursue an
20 accounting authority order, if we deemed it necessary, to
21 reflect changes we might have in environmental cost or
22 usage-related reductions or increases, or to pursue
23 implementation of any mechanisms that might be approved by
24 the Commission in connection with Senate Bill 179. We
25 recognize the parties may have different views as to who may

1 pursue those and under what circumstances. We just didn't
2 want the stipulation and agreement to be deemed as precluding
3 that.

4 COMMISSIONER CLAYTON: Okay. Thank you for
5 that clarification. So Paragraph 9 could relate to an
6 accounting authority order, or it could relate to one of the
7 surcharges that were part of Senate Bill 179; is that
8 correct?

9 MR. PENDERGAST: That's correct.

10 COMMISSIONER CLAYTON: So this paragraph says,
11 the way it's read, is that nothing will prejudice what rights
12 Laclede has under the Bill?

13 MR. PENDERGAST: Whatever they are.

14 COMMISSIONER CLAYTON: So is there any
15 inclusion for any provision for any dollars -- any actual
16 dollars, with regard to surcharges, or any type of expenses
17 or costs that would be contemplated by those -- by Senate
18 Bill 179?

19 MR. PENDERGAST: Not in this case.

20 COMMISSIONER CLAYTON: Okay. Do you know when
21 the earliest that a surcharge under Senate Bill 179 could be
22 enacted or applied for? Let's just say applied for,
23 requested?

24 MR. PENDERGAST: My supposition would be that
25 until rules are actually promulgated by the Commission, that

1 it would be difficult to do that. I know that there's a
2 round table process, as you do as well, underway right now,
3 in an effort with the input of all interested parties to
4 develop potential rules. And I'm not really privy as to when
5 that rulemaking proceeding may -- may culminate in actual
6 rules. I think the expectation is sometime, perhaps, early
7 next year.

8 COMMISSIONER CLAYTON: As part of Senate Bill
9 179, how many surcharges actually related, or would be
10 applicable to a gas distribution company?

11 MR. PENDERGAST: There's really only two. One
12 is for environmental cost recovery, and the other is for
13 customer usage. And of course, those are both items that can
14 potentially go up or down.

15 COMMISSIONER CLAYTON: Okay. So potentially,
16 if Laclede were to maximize its statutory authority, there
17 could be three additional -- could be three additional
18 surcharges at some point in the future; is that correct?

19 MR. PENDERGAST: Well, for Laclede, I believe
20 it would be two; one would be the environmental, and the
21 other would be the customer usage, and --

22 COMMISSIONER CLAYTON: Well -- and then the
23 infrastructure replacement surcharge, I guess, is what I was
24 referring to.

25 MR. PENDERGAST: Yeah, if you're referring to

1 that already being in existence, then there would be the
2 possibility of three, and the customer usage being one.
3 Obviously, since we have a weather mitigation rate design,
4 would result in less of an adjustment than it might for other
5 utilities, and given our experience with environmental cost,
6 I think it would probably be fair to say that any kind of
7 adjustment, assuming there was one at some point in the
8 future, would be pretty modest in nature. I don't believe
9 that you're going to see the kind of adjustments that you
10 might see with other industries.

11 COMMISSIONER CLAYTON: Are there any
12 restrictions on the implementation of one or more of these
13 surcharges at any given time?

14 MR. PENDERGAST: Well, the statute talks about
15 there being a hearing opportunity before they are put into
16 effect. I guess people could have different views on when
17 that hearing opportunity needs to be. On the environmental,
18 there are strict limitations on how much of an increase can
19 incur on any given year.

20 On the environmental, there's also a consumer
21 safeguard, that one has to have a rate case on a periodic
22 basis in order to go ahead and continue to collect amounts
23 under the provision. And there are true-up provisions to
24 ensure that no costs are over-recovered and that they are
25 accurately reconciled. And a few other safeguards as well,

1 but I think those are the major ones.

2 COMMISSIONER CLAYTON: But there are no
3 restrictions? If each surcharge were implemented properly,
4 and the balances were adjusted, according to the statute, you
5 could have three additional surcharges implemented at once?
6 I mean, not at one time, but could be on a bill at a given
7 time?

8 MR. PENDERGAST: Well, if you're adding in the
9 ISRS --

10 COMMISSIONER CLAYTON: I am.

11 MR. PENDERGAST: -- that's already in effect,
12 that would be a possibility, and as I said, those can go
13 both -- at least the weather one can be up and down, and it's
14 possible that the environmental can as well.

15 COMMISSIONER CLAYTON: Okay. Paragraph 11,
16 regarding off-system sales capacity release, Mr. Meyer, could
17 you tell me the dollar amount of imputed revenue that
18 supposedly Laclede will be receiving? Mr. Pendergast, do you
19 have the amount of imputed revenue? Do I have it wrong?
20 Have I read this incorrectly?

21 MR. PENDERGAST: I would say that there is no
22 specific number for imputed revenue. What I can tell you,
23 Commissioner, is that parties had different recommendations,
24 I think ranging from \$3.9 million up to \$8.5 million of how
25 much off-system sales revenue should be imputed in base

1 rates. We ultimately reached an agreement based on an
2 overall dollar amount that did not try and specifically
3 segregate what the value of those off-system sales revenues
4 were.

5 I think every party probably had some figure
6 in the back of their mind when they proposed and were able to
7 reach an agreement on an overall dollar amount. But what I
8 can tell you is it's made a significant contribution to the
9 level of rate relief that has been requested in this case,
10 and I mean a positive contribution in reducing that level.
11 As I indicated before, we've made approximately \$90 million
12 worth of net investments in the last three years, had \$16
13 million worth of operating increases, and yet we are here
14 today asking for only an \$8.5 million incremental increase in
15 new charges.

16 Part of that has to do with the fact that our
17 efforts to sell gas to customers located off our system and
18 bring revenue in has enabled us to reach an agreement on an
19 overall level of revenue requirement that would seem to be
20 less than what those figures would suggest, if you didn't
21 take that into account.

22 COMMISSIONER CLAYTON: I appreciate that.
23 Moving forward, though, it seems like there's a designed
24 incentive program of some sort for off-system sales that will
25 enable Laclede to keep those revenues rather than offset

1 future rates; is that correct?

2 MR. PENDERGAST: Well, I think the fair way to
3 characterize it, and other parties can certainly jump in, is
4 that as we have done in the past, we sort of pay our license
5 fee at the office. And by imputing a level of off-system
6 sales revenue in this case -- in between cases, we are then
7 permitted to keep up to \$12 million in exchange for having
8 done that. And then if the amount goes over \$12 million that
9 we're able to go ahead and generate, at that point, we would
10 begin sharing that with our customers on a 50/50 basis. And
11 if we would accumulate \$5 million in excess amounts, those
12 amounts would -- the Staff or Public Counsel could apply to
13 have those immediately distributed to customers.

14 COMMISSIONER CLAYTON: So according to this,
15 Laclede will be able to keep the first \$12 million?

16 MR. PENDERGAST: That's correct, having
17 already recognized and taken on the risk for a significant
18 amount of those through a current reduction in rates.

19 COMMISSIONER CLAYTON: Okay. And the
20 reduction that you're referring to is something other than
21 the \$3.9 to \$8.5 million positions with regard to off-system
22 sales revenue?

23 MR. PENDERGAST: I think it's probably fair to
24 say that, and I think it's fair to say that people could go
25 ahead and, you know, make assumptions as to what that number

1 was as part of their overall settlement package, but it's not
2 spelled out.

3 COMMISSIONER CLAYTON: Is this the first
4 incentive plan of its kind in Missouri, and I'm speaking only
5 from a short history at the Commission. So do you know?

6 MR. PENDERGAST: Well, this particular kind,
7 yeah, I haven't seen this specific feature before. I mean,
8 MGE, as I recall, had one where it's included in the PGA, and
9 I believe they keep 35 percent of the off-system sales
10 revenue that they're able to generate, and it may be subject
11 to some sort of sharing grid. I don't recall at the moment.

12 Obviously, we've had ours in base rates
13 before. Before they were in base rates, they were in the
14 PGA, and they were subject to a sharing grid, so it's a
15 variation on what, you know, you've seen before, but you
16 haven't seen one exactly like this before.

17 COMMISSIONER CLAYTON: Mr. Meyer, do you
18 concur with everything that Mr. Pendergast has said so far or
19 from the position of Staff?

20 MR. MEYER: I do, and we have a Staff witness
21 available to address our particular perspective on these
22 issues, but as Mr. Pendergast said, there's no absolute
23 dollar figure imputed.

24 COMMISSIONER CLAYTON: Has the Chapter 13
25 rulemaking begun, as referenced in Paragraph 2(b), regarding

1 the use of credit scoring for the use of deposits, Mr. Meyer?

2 MR. MEYER: I believe the Commission has begun

3 that, yes.

4 COMMISSIONER CLAYTON: Where is it in the

5 process?

6 MR. MEYER: I think it's in the round table

7 process. I don't know if there's a case number assigned to

8 it yet.

9 COMMISSIONER CLAYTON: I'm going to have more

10 questions about this. I don't know who to ask, Mr. Meyer. I

11 don't know if the Commissioners have other questions of the

12 attorneys. Then I would suggest not necessarily moving

13 forward with a witness, but I'm going to have questions for

14 whoever the Staff witness is going to be to answer these

15 questions. So I'm not sure what you want to do.

16 JUDGE DIPPELL: Are there other -- going to be

17 other Commission questions for the attorneys?

18 CHAIRMAN DAVIS: Yes.

19 JUDGE DIPPELL: We'll just go ahead and move

20 on and we'll come back to the Chapter 13 questions, if that's

21 okay.

22 COMMISSIONER CLAYTON: Well, I'm going to have

23 questions regarding a lot more things, all the things that

24 Mr. Meyer couldn't -- that he couldn't -- that he putted to

25 the Staff witness. I'm going to have questions for those, so

1 that's what I'm saying. Before calling a witness, if there
2 are other questions for the attorneys here.

3 JUDGE DIPPELL: Okay. Let's see if there are
4 other questions for the attorneys, and then we'll begin
5 calling some Staff witnesses. Commissioner Appling, did you
6 have --

7 COMMISSINER APPLING: No questions.

8 JUDGE DIPPELL: Mr. Chairman, did you want to
9 ask questions now?

10 CHAIRMAN DAVIS: Yes, I've got a few. Okay.
11 Mr. Pendergast, the provisions of the stip and agreement
12 allow you to allow Laclede Gas to collect a four-month
13 deposit based on the highest monthly charge for the year; is
14 that correct?

15 MR. PENDERGAST: Actually, Chairman, what we
16 have done is we have substituted what used to be the two
17 highest monthly bills, and instead of collecting a deposit
18 equal to the two highest monthly bills, do one that's equal
19 to four average bills. Our calculations indicate that that
20 will probably result in a slightly smaller deposit than would
21 otherwise be the case.

22 And really, the only reason that we proposed
23 it, and the only reason we want to do it, is it's just easier
24 under our billing system to calculate four average months
25 rather than to try and look at the two highest months.

1 Because of the certain rebillings and things of that nature,
2 there can sometimes be problems using the two highest. It's
3 easier to use the four average.

4 CHAIRMAN DAVIS: Now, do all the other
5 counsels, particularly the OPC and Staff, do you agree with
6 that?

7 MR. DANDINO: Your Honor, if I may, since I
8 got in on this at the very last minute, Ms. Meisenheimer has
9 been involved from the very beginning. If she could respond
10 to it, I would certainly appreciate it, rather than give you
11 some incorrect information.

12 CHAIRMAN DAVIS: Does she have to be sworn?

13 JUDGE DIPPELL: I think it's best if she's
14 sworn, but she can stay where she is.

15 CHAIRMAN DAVIS: Do you want to swear her in
16 real quick?

17 (THE WITNESS WAS SWORN.)

18 JUDGE DIPPELL: Go ahead, and if you can
19 answer the Chairman's question.

20 MS. MEISENHEIMER: Yes, I wouldn't disagree
21 with that. There are a few winter months with typically a
22 very high bill, so that when you spread it out over an annual
23 basis, and then take an average of -- or take a four-month
24 average versus two-month highest, it seems reasonable to me
25 that it would be slightly lower, so I don't dispute that.

1 CHAIRMAN DAVIS: So it would be slightly
2 lower. So it wouldn't be a substantial increase, which is
3 what I was concerned about?

4 MS. MEISENHEIMER: No, I don't think it will
5 be a substantial increase. I did not crunch the numbers to
6 verify the exact dollar amount.

7 CHAIRMAN DAVIS: Okay.

8 MS. MEISENHEIMER: Based on my experience, I
9 don't think that it would -- it would result in an increase
10 to customers in terms of the amount of the deposit.

11 CHAIRMAN DAVIS: And Ms. Meisenheimer, were
12 there any discussions about the payment period for the
13 deposits? My understanding is that Laclede will only prorate
14 it over three months, and that might have been hardship for
15 some people.

16 MS. MEISENHEIMER: There was substantial
17 discussion in negotiations regarding deposits in terms of the
18 amount and the length of time. I might pass the three-month
19 issue to Mr. Pendergast.

20 CHAIRMAN DAVIS: Okay. Mr. Pendergast?

21 MR. PENDERGAST: Yes, Chairman, actually, we
22 had wanted to have greater opportunity to collect the
23 deposits up-front. Our experience has been, at least in some
24 situations, that if you don't collect the deposit in advance,
25 you never collect it, and you wind up with an uncollectible

1 expense and no deposited money to pay for it. Nonetheless,
2 we did not pursue that.

3 Other problems -- or other parties had a
4 concern about it. It is an issue that my understanding --
5 based on my understanding, will be discussed and addressed in
6 billing practice rulemaking proceedings, and we decided to
7 defer that issue until that time and make no change at this
8 time.

9 MS. MEISENHEIMER: I'm sorry, Chairman, I
10 thought you were asking about a three-month increment. Our
11 office did, in fact, oppose the concept of prepaid deposits
12 in the negotiations.

13 MR. PENDERGAST: And that's what I'm
14 suggesting. That meant opposition from parties, so we did
15 not pursue that.

16 MS. MEISENHEIMER: In terms of the length of
17 time over which deposits can be collected, I just wanted to
18 point out that this, in no way, interferes with the
19 provisions of the cold weather rule in terms of deposits, and
20 the length of time over which the Company has to give a
21 customer to make those deposit payments.

22 MR. PENDERGAST: Chairman, yeah, it's my
23 understanding. It's a good point is that under the cold
24 weather rule, and correct me if I'm wrong here, but it is
25 standard practice when you do reach a payment agreement under

1 the cold weather rule not to require the payment of a deposit
2 under those circumstances.

3 CHAIRMAN DAVIS: Okay. So from the period
4 that the cold weather rule is in effect, you can't collect
5 any of the deposit payments; is that correct?

6 MR. PENDERGAST: That's correct. And so I
7 think the system already provides some relief for those
8 customers that need it most.

9 CHAIRMAN DAVIS: At the local public hearings,
10 we heard testimony that -- from certain state legislators
11 that believed it was somehow improper to, I guess, okay. I
12 guess here's my question:

13 The ISRS charge that was being collected, that
14 is no longer being collected, is that money just going into
15 base rates so it's not being used for infrastructure or
16 anything else?

17 MR. PENDERGAST: Yes, I think it's fair to say
18 that the way it works, Chairman, is that when we first
19 calculated the ISRS charge, it's not designed to recoup the
20 entire investment. Like traditional rate-making, it allows
21 you to establish a revenue requirement that reflects the
22 depreciation associated with it. It reflects a return on
23 that particular investment, but you only get a return on and
24 a return of during the period of the ISRS charge.

25 In fact, when you come to a rate case, at that

1 point, you roll that rate base, if you will, into generates.
2 You will go ahead and continue to earn a return on it, and a
3 return of your investment over the 30 or 40 or 50 years that
4 it takes to finally get it all back. And at that point, it's
5 like any other rate base item that will go ahead and be
6 reflected in rates and recovered over time. And then any
7 additional investment that may be subject to a future charge
8 will be incremental investment that wasn't previously picked
9 up and included in rates.

10 So, I heard the concern that you did about
11 possible double-dipping. The statute is designed to preclude
12 that -- to prevent that, and I think everybody here who is
13 familiar with how the ISRS issue was handled in this case
14 would indicate that there should be no concern that that's,
15 in any way, a problem.

16 CHAIRMAN DAVIS: Does everyone else here
17 concur with that analysis? Mr. Meyer?

18 MR. MEYER: Yes, we do.

19 CHAIRMAN DAVIS: Mr. Dandino?

20 MR. DANDINO: Yes, your Honor.

21 CHAIRMAN DAVIS: Okay. Mr. Pendergast, we
22 heard a lot of testimony about meter reading, et cetera. And
23 it was pointed out at the public hearings that once the
24 technology is implemented, that it would be a substantial
25 cost savings to Laclede Gas. I just roughly estimated it at

1 \$5 million, you know, more or less. I'm assuming there would
2 be some ongoing expenses, which I couldn't guess. And that's
3 not being addressed in this case, correct?

4 MR. PENDERGAST: That's correct, your Honor.
5 And if I could briefly respond to that. I appreciate the
6 union's statement that that issue has no relevancy to this
7 particular case. At the same time, though, I want to make
8 sure that the record is straight about what the impact of our
9 automatic meter reading efforts will be. I think that as a
10 rough calculation, taking the numbers that you did would
11 provide an indication of what one side of the equation would
12 be.

13 However, as we move through the transition
14 period, towards implementing AMR fully, we will be paying for
15 each meter read that we receive. That's an offsetting cost.
16 I think it's fair to say that over the next two years, as we
17 go through this transition period, that it is likely that our
18 cost for this particular function will be slightly higher
19 than they otherwise would be, simply because we will continue
20 to go ahead and have meter readers on board for a significant
21 portion of that period of time while we are also paying to
22 have meter reads, making sure that the system is working
23 properly, that we have all the safeguards we need so that we
24 know we are getting accurate bills out.

25 Even though it will be, probably, a slight

1 increase over the next couple of years, we thought that this
2 was a significant enough advance in customer service that it
3 was worth the Company paying for that on its nickel. What I
4 will say is that over the long-term, because of the
5 arrangements, which I'm not in a position to go ahead and
6 probably disclose publicly because our provider is in a
7 competitive marketplace, that hopefully there will be
8 long-term savings. And my supposition would be that before
9 those long-term savings really begin to materialize, we'll be
10 coming back down to see the Commission again, probably with
11 another rate filing, at which they can go ahead and be
12 incorporated to the benefit of our customers.

13 CHAIRMAN DAVIS: Okay. Mr. Pendergast, what
14 would you calculate the ROE being if we approve this stip
15 agreement?

16 MR. PENDERGAST: The stipulation and agreement
17 does not set out a specific ROE. What it does is it sets out
18 an ROE and capital structure to be used for purposes of
19 future ISRS filings. I don't know that that's necessarily
20 what all of the parties would say was the ROE that was
21 underlined or specific overall dollar amounts.

22 I was satisfied that -- that given what we
23 knew, that we thought it was an ROE that was close to
24 mainstream ROE, if you will, based on what's been authorized
25 for other utilities, but that's simply, you know, our

1 perspective. And other parties may have different
2 perspectives. It was a, basically, overall dollar
3 settlement, and that is not specifically set out. I wish I
4 could be more helpful.

5 CHAIRMAN DAVIS: So I'm not going to get
6 anything out of you if I keep asking you questions,
7 Mr. Pendergast?

8 MR. PENDERGAST: Probably nothing a whole lot
9 more definitive than that, but as I said, from our
10 perspective, we thought that it was a reasonable return on
11 equity that was more in the mainstream.

12 CHAIRMAN DAVIS: So is it 10 percent or less?
13 Can you give me a ballpark?

14 MR. PENDERGAST: Well, from our perspective,
15 you know, and you can look at it a lot of different ways, but
16 we would certainly think it was in excess of 10 percent, and
17 I think it would be fair to say it didn't get to 11.

18 CHAIRMAN DAVIS: So somewhere between 10 and
19 11?

20 MR. PENDERGAST: From our perspective, yes.

21 CHAIRMAN DAVIS: I'm looking at Mr. Dandino,
22 but I'm thinking I'm probably going to have to go to Ms.
23 Meisenheimer. Is she still under oath, Judge?

24 JUDGE DIPPELL: Yes.

25 CHAIRMAN DAVIS: Ms. Meisenheimer, do you

1 concur with that analysis?

2 MS. MEISENHEIMER: We relied on the Staff's
3 accounting data and calculations. They may be able to speak
4 more to what rate of return they consider it to be.

5 CHAIRMAN DAVIS: I'm waiting for Staff to
6 speak.

7 MR. MEYER: Our analysis is set forth in
8 Attachment 6, as far as the actual numbers that we used to
9 the stipulation. Our common equity percentage was 9.43
10 percent, et cetera, et cetera. Mr. Kiebel is here to discuss
11 this analysis, if you would like. He was our designated
12 witness in this case and had prepared testimony, so ...

13 JUDGE DIPPELL: Is that in one of the
14 affidavits, Mr. Meyer?

15 MR. MEYER: Oh, I'm sorry, Attachment 6 to the
16 stipulation and agreement.

17 CHAIRMAN DAVIS: Okay. I got it right here.
18 It's the very last page, or at least in my packet. Okay.
19 All right. Thank you, Mr. Meyer. All right.
20 Mr. Pendergast, and I'm sorry for making you restate
21 yourself, you can come in and file for another ISRS anytime?

22 MR. PENDERGAST: Once we accumulate, I believe
23 it's \$1 million of revenue requirement-related investment in
24 ISRS, we would be eligible to do that, yes.

25 CHAIRMAN DAVIS: And then assuming you do that

1 and then you make an ISRS filing and that's approved, then
2 how long is the rate case triggered after that?

3 MR. PENDERGAST: It's, from what I recall, you
4 need to file one within three years.

5 CHAIRMAN DAVIS: Three years. And roughly how
6 long do you think it would take you to accumulate a million
7 dollars in ISRS expenses?

8 MR. PENDERGAST: The way it has worked in the
9 past, we've been able to accumulate that generally within
10 five or six months. And as Mr. Zucker informed me, it can
11 also depend on when you have increases in property taxes too.
12 Like the rest of our bill, taxes make up a significant
13 portion of our cost, and when they go up, it can -- it can
14 accelerate when you're eligible to make the filing.

15 MR. MEYER: At the risk of possibly
16 complicating things a little bit, I'll just note that the
17 statute governing the ISRS provisions at Section 393.101(2),
18 the ISRS dollar figure, it's -- the Commission may not
19 approve an ISRS to the extent it would produce total
20 annualized ISRS revenues below the lesser of \$1 million, or
21 1/2 of 1 percent of the gas corporation's base revenue's
22 level approved by the Commission in the gas corporation's
23 most recent general case proceeding.

24 CHAIRMAN DAVIS: Is it the lesser of those
25 two?

1 MR. MEYER: Correct.

2 CHAIRMAN DAVIS: Okay. Judge, I'm going to
3 pass at this time and defer to my colleagues.

4 JUDGE DIPPELL: All right. Commissioner
5 Murray, did you have any questions at this time?

6 COMMISSIONER MURRAY: I think I have one for
7 Ms. Vuylsteke.

8 JUDGE DIPPELL: Okay.

9 COMMISSIONER MURRAY: And I'm not sure if she
10 can answer it. You don't have a witness?

11 MS. VUYLSTEKE: I apologize, we do not.

12 JUDGE DIPPELL: Ms. Vuylsteke, can I just get
13 you to go ahead and come up to the podium? It would be
14 easier to hear you.

15 MS. VUYLSTEKE: And Commissioner, if I can't
16 answer your question, we would be happy to have our witness
17 file something later, or whatever the judge would like us to
18 do to try to answer your question.

19 JUDGE DIPPELL: Let's see what our question is
20 first.

21 MS. VUYLSTEKE: Okay.

22 COMMISSIONER MURRAY: In the tariff
23 modifications on Page 3 of the stipulation and agreement,
24 there is a provision to increase to \$2 per therm, the
25 customers for gas used during periods of interruption. And I

1 was wondering if you know what percentage of an increase that
2 is for the interruptible customers.

3 MS. VUYLSTEKE: I'm afraid that I don't, and
4 like I said, I would be happy to try to provide that later,
5 if that would be helpful, so ...

6 COMMISSIONER MURRAY: Okay. That's -- I think
7 that's all I have for you. Thank you.

8 MS. VUYLSTEKE: Thank you. Sorry.

9 JUDGE DIPPELL: Mr. Pendergast, does Laclede
10 know an answer to Commissioner Murray's question?

11 MR. PENDERGAST: I do know that in
12 recommending the increase to \$2, we are treating those
13 interruptible sales customers in the same way we treat our
14 large volume transportation customers. It was designed,
15 basically, to equalize what those late payment charges were,
16 and current charges are approximately \$1 to \$2.

17 JUDGE DIPPELL: That's the current charge?

18 MR. PENDERGAST: Yes.

19 JUDGE DIPPELL: Do you have other questions,
20 Commissioner Murray?

21 COMMISSIONER MURRAY: I don't believe so.

22 JUDGE DIPPELL: Okay. Commissioner Gaw, did
23 you have any?

24 COMMISSIONER GAW: I do, but I'll --
25 Commissioner Clayton wants to pick back up.

1 JUDGE DIPPELL: Okay. Let's go ahead and go
2 to Staff's witnesses for Commissioner Clayton's questions.
3 And Commissioner Clayton, do you have a -- where would you
4 like to begin? The issue?

5 COMMISSIONER CLAYTON: Well, what's your plan,
6 Judge? Are we just going to do my questions, do you want to
7 swear in everybody at once? How do you want to do this?

8 JUDGE DIPPELL: I thought I'd begin with the
9 witnesses that specifically were going to answer your
10 questions, and if the other Commissioners have questions of
11 those witnesses, we can -- or I can swear them in -- all in.
12 I believe Mr. Rackers was going to be their main witness, but
13 Mr. Kiebel can answer questions about --

14 COMMISSIONER CLAYTON: How many Staff
15 witnesses are there that can answer questions throughout the
16 stipulation?

17 MR. MEYER: Unfortunately, since testimony was
18 not filed, I guess you're unaware of who was doing what. I
19 guess, regarding Chapter 13, we have Gay Fred here.
20 Regarding off-system sales and capacity release, David
21 Sommerer could be available. Regarding the PGA --

22 COMMISSIONER CLAYTON: Slow down. This is
23 getting to be a bigger list than what I anticipated. So who
24 was the first person? Gay?

25 MR. MEYER: I'm going from what I'm guessing

1 would be the shortest to the longest. Gay Fred for Chapter
2 13. David Sommerer for off-system sales and capacity
3 release. Tom Imhoff for the PGA, and Steve Rackers for
4 accounting issues.

5 COMMISSIONER CLAYTON: So we have four
6 witnesses from Staff. How many witnesses does Office of
7 Public Counsel have available today?

8 MR. MEYER: And I would clarify we have other
9 witnesses, but those appear to be the ones best suited to
10 answer your questions.

11 MR. DANDINO: Public Counsel has one witness,
12 your Honor.

13 COMMISSIONER CLAYTON: Okay.

14 MR. DANDINO: As our whole staff is here.

15 COMMISSIONER CLAYTON: And Mr. Pendergast,
16 will you continue to be the contact, or do you have
17 witnesses? I don't know if I'm going have questions for
18 Laclede.

19 MR. PENDERGAST: We have three folks here that
20 can address, I think, most, if not all, of the issues you
21 might want to ask, so...

22 COMMISSIONER CLAYTON: Where to begin. Well,
23 if I have to start somewhere, I guess I'm going to talk about
24 off-system sales, so who was that again?

25 MR. MEYER: Mr. Sommerer.

1 COMMISSIONER CLAYTON: Okay.

2 MR. MEYER: I think he was here earlier,
3 apparently he's gone upstairs. Somebody's getting him now.
4 Thank you.

5 COMMISSIONER CLAYTON: Well, then, how about
6 Mr. Rackers. He's here, I guess.

7 JUDGE DIPPELL: Mr. Rackers, if you'd like to
8 come to the witness stand.

9 (THE WITNESS WAS SWORN.)

10 COMMISSIONER CLAYTON: Okay. May it please
11 the Commission?

12 JUDGE DIPPELL: Perhaps I should ask
13 Mr. Rackers to state his name and his position at the PSC.

14 MR. RACKERS: Steven M. Rackers, and I'm with
15 the auditing staff of the Public Service Commission.

16 JUDGE DIPPELL: Thank you, Mr. Rackers.
17 Please go ahead, Commissioner.

18 QUESTIONS BY COMMISSIONER CLAYTON:

19 Q. Mr. Rackers, can you tell me which provisions
20 of the stipulation you are most knowledgeable? And just
21 speaking in general terms of the pension and postemployment
22 benefits section, you're knowledgeable about them?

23 A. Yes, I am.

24 Q. What else, depreciation?

25 A. Yes.

1 Q. What else?

2 A. Revenue requirement, gas inventories,
3 accounting authority order, off-system sales and capacity
4 release, additional billing information, and the ISRS.

5 Q. Okay. Let's start with the off-system sales
6 and capacity release issue. What was the Staff position on
7 how much revenue should be imputed to Laclede, I guess, which
8 would be a reduction in their revenue requirement?

9 A. I believe the original Staff position was
10 approximately seven million.

11 Q. Seven million dollars? And on this type of
12 issue, the higher the dollar amount, the -- theoretically,
13 the better for the ratepayer?

14 A. That's correct.

15 Q. Because you increase the amount of the
16 reduction from revenue requirement, then the less money that
17 has to be recovered from the ratepayer?

18 A. That's correct.

19 Q. Correct? So in this settlement, would you
20 explain whether there was an imputed level of revenue or not?

21 A. Yes, there was.

22 Q. There was. And what was that amount?

23 A. Well, the -- as I think the attorneys
24 explained, that amount is not specifically specified or
25 spelled out in the agreement. I can tell you from Staff's

1 point of view, we think it is a reasonable sharing of the
2 off-system sales and capacity release that the Company's able
3 to achieve.

4 Q. So it's in there, but nobody knows what it is?

5 A. It's not specified by the agreement.

6 Q. So how do you know it's in there?

7 A. Well, I know that off-system sales and
8 capacity release were used to come up with the revenue
9 requirement that Staff suggested.

10 Q. How long have you been at the Commission,
11 Mr. Rackers?

12 A. About 27 years.

13 Q. And have you been a part of an incentive
14 mechanism for an LDC that's mentioned or referenced in this
15 agreement?

16 A. Yes.

17 Q. You have worked on things like this before?

18 A. Yes.

19 Q. Okay.

20 A. Are you talking about the off-system sales
21 mechanism?

22 Q. The incentive mechanism, or the mechanism for
23 sharing revenues.

24 A. With regard to off-system sales?

25 Q. Yes.

1 A. Yes.

2 Q. And when was the last time that the Commission
3 has approved a mechanism like that?

4 A. I can't give you the case number, but I think
5 it was part of the MGE case.

6 Q. So -- and that's the most recent MGE case?

7 A. Yes.

8 Q. Okay. Is the mechanism in here anything
9 different than what Staff normally recommends? Does Staff
10 recommend a mechanism such as this?

11 A. A mechanism such as this has been part of, I
12 believe, at least the last three Laclede settlements. I
13 would tell you that being able to share in off-system sales
14 and capacity release revenue above 12 million is actually an
15 enhancement for the ratepayer over what's been approved in
16 previous Laclede cases.

17 Q. Okay. According to the settlement, though,
18 \$12 million would have to be realized in off-system sales or
19 capacity relief before the ratepayer would receive any type
20 of credit or offset?

21 A. Over and above what's been included or imputed
22 in the base revenues. In other words --

23 Q. But that amount is not identifiable, right?

24 A. It's not specifically identified.

25 Q. So how do you know when you cross that

1 threshold then? How do you know when you cross -- you're
2 saying it's \$12 million plus an unidentified amount. How do
3 you know when you pass that threshold?

4 A. I'm sorry. As soon as the Company achieves 12
5 million of off-system sales and capacity release, it begins
6 to share 50/50 with the ratepayers.

7 Q. Okay. Thank you for clearing that up. With
8 regard to gas inventory, what do you look at from your
9 perspective as a Staff witness?

10 A. We look at the -- the amount of inventories
11 that the Company has in storage, either in its owned
12 facilities or on the MRT system.

13 Q. Do you do a reliability analysis, or is it
14 purely a financial analysis for determining the revenue
15 requirement?

16 A. Mr. Sommerer would have to tell you if he does
17 a reliability analysis. As an accountant, putting together a
18 revenue requirement, it's strictly financial.

19 Q. So just financial. Okay. Okay. You said
20 that you had some accounting authority order --

21 A. Yes.

22 Q. -- part of the stipulation. Would you direct
23 me to that?

24 A. That's Paragraph 10 on Page 5 of the
25 stipulation.

1 Q. And could you just briefly describe each of
2 those terms? Specifically, the gas safety expenditures,
3 emergency cold weather rule amendment.

4 A. In the last case, the Commission granted the
5 Company an accounting authority order that allowed it to
6 accumulate costs associated with safety additions that it
7 made on its system. And those costs have been accumulating
8 since the last case, and the asset, or the accumulation, has
9 been -- the revenue requirement associated with that has been
10 included in rates in this case. And that's -- that's nothing
11 new that hasn't occurred in previous Laclede cases.

12 Q. Okay.

13 A. And then --

14 Q. What was the date of that -- was that a 2001
15 when that case was filed?

16 A. No, that was a 2002 case -- well, the case may
17 have been filed in 2001. The rates took effect in 2002, I
18 believe.

19 Q. Okay.

20 A. And then the cost of those accumulations was
21 offset by any over-recovery of dollars that were previously
22 included to cover the cost of the emergency cold weather
23 rule.

24 Q. Okay. Okay. Did you do the pension analysis,
25 the FAS 87, FAS 106?

1 A. Yes.

2 Q. Okay. The -- let me find the right paragraph,
3 just a second here. It's been some time since the
4 Commission's actually had the pension issue before us. I
5 think it's been a couple of years. What is the position
6 taken in this stipulation? Is it Staff's position, or is it
7 Laclede's position --

8 A. Well --

9 Q. -- in that stipulation?

10 A. -- this position is actually almost exactly
11 the same as provisions that have been in Laclede's rates and
12 Laclede cases for the last three rate cases, since 2001. And
13 it's a negotiated position. It -- it gives Staff what Staff
14 wants, which is it reflects actual pension costs in rates.

15 Q. So it's a cash basis rather than the accrual
16 basis -- I don't even know if that's a fair comparison, cash
17 versus accrual.

18 A. I wouldn't characterize it that way. It
19 recognizes actual cost, actual contribution to the pension
20 fund, but it also recognizes the difference between that and
21 accrual accounting, so that the Company can satisfy concerns
22 of its outside auditors.

23 Q. Are the pension expense and postemployment
24 benefit provision, are they treated identically?

25 A. Yes, they are.

1 Q. Okay. Do you agree that the net salvage issue
2 is worth roughly \$6 million that was suggested earlier? Is
3 that a fair assessment of its value and revenue requirement?
4 A. Yes, it was.
5 Q. Did you do ROE analysis for cost of equity?
6 A. No, I didn't.
7 Q. That's Mr. -- who did that?
8 A. Mr. Kiebel actually did the analysis. I mean,
9 I'm not sure what your question is. I may be able to address
10 it.
11 Q. ROE, did you do ROE, or no?
12 A. The ROE that's in this agreement is inherent,
13 I think, as the attorneys told you, in the rate increase.
14 It's a black box, you know, with regard to ROE.
15 Q. Let me ask the question again. Did you
16 prepare the Staff position for ROE in the case?
17 A. No, I did not.
18 Q. You did not. That was Mr. Kiebel?
19 A. Yes, sir.
20 COMMISSIONER CLAYTON: Okay. I don't think I
21 have any other questions for this witness. Thank you for
22 coming in.
23 JUDGE DIPPELL: Thank you. Commissioner
24 Murray, do you have questions?
25 COMMISSIONER MURRAY: Just briefly. Thank

1 you.

2 QUESTIONS BY COMMISSIONER MURRAY:

3 Q. Good morning.

4 A. Good morning.

5 Q. Do you agree that the overall percentage of

6 increase for residential customers resulting from the

7 stipulation and agreement is 1 percent or less?

8 A. Yes, I do.

9 Q. What is the overall increase for commercial

10 and industrial customers, percentage-wise, or can you --

11 A. I don't know that; Mr. Imhoff may know that.

12 Q. Okay. All right. That's all I have for you.

13 COMMISSIONER MURRAY: Thank you.

14 JUDGE DIPPELL: Thank you. Commissioner Gaw,

15 did you have questions for this witness?

16 COMMISSIONER GAW: I don't think I do, but I

17 need to go through my questions and see who knows the answers

18 to them. I'm just going to do it that way.

19 JUDGE DIPPELL: Okay. Mr. Chairman, do you

20 have any questions of this witness? You can always come back

21 to them if there turn up questions later.

22 QUESTIONS BY CHAIRMAN DAVIS:

23 Q. Have you worked on Laclede Gas rate cases in

24 the past?

25 A. Yes.

1 Q. And can you approximate the number of Laclede
2 gas rate cases you've worked on, when they were, et cetera?

3 A. Well, the most recent cases the Company's had
4 was a '99 case, a 2001 case, and a 2002 case, prior to this
5 one, and I worked on all of those.

6 Q. And how would you rate this settlement in
7 comparison to those settlements?

8 A. I believe this settlement is very reasonable,
9 relative to what the Company asked for, and also with regard
10 to the terms that it contains. And I would have to say
11 that's true of the previous increases also.

12 Q. Let me ask you this: Do you believe that if
13 the Commission were not to approve this stip and agreement,
14 that Laclede Gas could come in and make a compelling argument
15 for an even higher increase?

16 A. Well, I'm sure that they can make a compelling
17 argument. I'd like to think that Staff would have arguments
18 that would offset that.

19 Q. All right. So you think the settlement that
20 was arrived at is where this Commission ought to be?

21 A. I do.

22 CHAIRMAN DAVIS: Thank you. No further
23 questions.

24 JUDGE DIPPELL: Thank you. Commissioner
25 Applling, do you have any questions for Mr. Rackers? We may

1 be bringing him back at a later time, but ...

2 COMMISSINER APPLING: Just a follow-up

3 question.

4 QUESTIONS BY COMMISSIONER APPLING:

5 Q. You were in St. Louis at the hearings, weren't

6 you, last week?

7 A. Yes, I was.

8 Q. What do I tell all those fired-up people in

9 St. Louis that was screaming and hollering last week about

10 don't do this?

11 A. Well, I think that you should tell them that

12 this is a very fair settlement, especially in terms of the

13 fact that it only raises the customer's bill by \$1 month, and

14 I think that you should tell them that it contains provisions

15 to help low income families.

16 Q. Okay.

17 A. Both to pay their bills, try to encourage

18 reduction of their arrearages, and help with the efficiency

19 of their homes.

20 Q. Thank you, Mr. Rackers. I appreciate it.

21 JUDGE DIPPELL: Thank you. And Mr. Rackers, I

22 believe that's all the questions for you right now, but if

23 you will remain where you can be recalled, if necessary.

24 MR. RACKERS: Sure.

25 COMMISSIONER CLAYTON: I guess am I driving

1 the train here?

2 JUDGE DIPPELL: Yes, Commissioner Clayton, I'm
3 letting you drive the train.

4 COMMISSIONER CLAYTON. Well, if that's all
5 right with everyone else.

6 MS. SHEMWELL: Commissioner Clayton, Dave
7 Sommerer is here, if you have questions on off-system sales.

8 JUDGE DIPPELL: Ms. Shemwell said Mr. Sommerer
9 is here.

10 COMMISSIONER CLAYTON: Didn't we go through
11 off-system sales?

12 JUDGE DIPPELL: You asked Mr. Rackers some
13 questions about off-system sales.

14 COMMISSIONER CLAYTON: I suppose is Gay Fred
15 here?

16 MR. MEYER: She was the last time I turned
17 around and now she disappeared.

18 COMMISSIONER CLAYTON: I don't know, I think
19 all the questions I had on off-system sales were addressed.
20 I didn't have that many. It's just frustrating asking two
21 questions to four or five different people.

22 Can somebody just tell me the status of the
23 Chapter 13 rulemaking? I don't need an exact position in the
24 process, I just want to know it's referenced in the
25 settlement. Can somebody tell me about it?

1 JUDGE DIPPELL: Mr. Zucker looks like he can
2 tell you.

3 MR. ZUCKER: I'm ready to give that one a try.
4 We've had a number of round table meetings, and Ms. Fred, I
5 think recently, sent around a final draft of a proposed rule,
6 and then I think the next step would be if that -- if there
7 are no further comments to it, to go forward and actually
8 start the formal rulemaking process.

9 COMMISSIONER CLAYTON: So to the best of your
10 knowledge, the Commission has not opened a case, we haven't
11 reviewed any language at the Commission level yet?

12 MR. ZUCKER: Right, no. So far, the meetings
13 have been with Staff, the utilities, and Public Counsel.

14 COMMISSIONER CLAYTON: Is the stipulation
15 dependent upon certain actions of the Commission in the
16 rulemaking process? For example, does the -- does the
17 stipulation contemplate that we will reach a result in a
18 certain way, and will it alter the terms of the agreement?

19 MR. ZUCKER: Well, yes. The stipulation says
20 that we will try certain things on an experimental basis,
21 pending the outcome of the rulemaking. So if the rulemaking
22 treats these issues differently, then we'll make an
23 adjustment to accommodate that.

24 COMMISSIONER CLAYTON: And can you just
25 identify the particular issues that are contemplated?

1 There's the amount of the deposit, there's the credit score
2 issue. I guess that may be one in the same. Actually, the
3 amount of the deposit and the credit score is the second
4 issue. Discontinuance of service --

5 MR. ZUCKER: That's correct.

6 COMMISSIONER CLAYTON: How far -- how far
7 outside of -- well, I guess I'm not sure how to ask this
8 question. If we -- and I'm just hypothetically, so don't --
9 I mean, I'm not saying -- trying to make any commentary on
10 this, but if we were to say -- say that a credit score could
11 not be used in determining the amount of the deposit, what
12 would happen -- is there a trigger in the stipulation that
13 something else would happen that would change the terms of
14 the stipulation?

15 MR. ZUCKER: Well, currently, Laclede takes
16 deposits from all renters. What we were hoping to do through
17 this stipulation and through credit scoring is to only take
18 deposits from those customers who have a less than adequate
19 credit score. If the Commission ends up rejecting that, then
20 our rule would -- our tariff would either go with what the
21 Commission did approve, or revert back to what we had before.

22 COMMISSIONER CLAYTON: But it doesn't trigger
23 something else in the stipulation that would either change a
24 revenue requirement or change a reporting requirement or some
25 other type of consumer issue or financial issue?

1 MR. ZUCKER: No.

2 COMMISSIONER CLAYTON: Okay. And is that --

3 is your answer the same on each of the subparagraphs of

4 Paragraph 2? Because I think it lists out --

5 MR. ZUCKER: Yes, I believe the --

6 COMMISSIONER CLAYTON: That's contemplated by

7 the Chapter 13 rulemaking process?

8 MR. ZUCKER: Whatever comes out of that

9 rulemaking will only effect these particular tariff issues.

10 COMMISSIONER CLAYTON: Okay.

11 MR. DANDINO: Commissioner Clayton, Ms.

12 Meisenheimer has a comment on the status of the Chapter 13.

13 MS. MEISENHEIMER: I just -- I just would like

14 to make it clear that, primarily, it has been the industry

15 and the Staff that has worked on the draft document that's

16 circulating. Our office has substantial concerns with what

17 we see in that document, and I just wanted to clarify that

18 although it was characterized that Public Counsel has

19 participated, we've had very limited participation so far,

20 and we're not on-board with that proposal at this time.

21 COMMISSIONER CLAYTON: Well, who has been

22 participating if you all haven't? Has it simply been Staff

23 and the Company?

24 MS. MEISENHEIMER: Primarily, it has been

25 Staff and the industry.

1 COMMISSIONER CLAYTON: Okay. Has Office of
2 Public Counsel been excluded from the discussions?

3 MS. MEISENHEIMER: No, we simply have limited
4 resources. I have reviewed a draft and provided my -- my
5 boss with comments related to the draft that's been
6 circulating. And we do intend to raise concerns about
7 portions of that document.

8 COMMISSIONER CLAYTON: Okay.

9 JUDGE DIPPELL: Commissioner, did you have any
10 questions for Ms. Fred?

11 COMMISSIONER CLAYTON: Only if she has
12 anything to add to what's been said already. I mean, I'm
13 frustrated. I don't know if it's coming out. I'm a little
14 frustrated because I'm not trying to get that deep into these
15 issues. I just wanted to have a basic overview of them, and
16 I didn't know we were going to need multiple witnesses, so
17 that's why I'm -- she's going to have to be sworn now.

18 (THE WITNESS WAS SWORN.)

19 JUDGE DIPPELL: Thank you. If you could state
20 your name and just give your position with the Commission.

21 MS. FRED: My name is Gay Fred. I'm the
22 consumer services manager for the Missouri Public Service
23 Commission.

24 JUDGE DIPPELL: And then did you have an
25 answer or anything additional?

1 COMMISSIONER CLAYTON: I'll re-ask the
2 question.

3 QUESTIONS BY COMMISSIONER CLAYTON:

4 Q. Do you have anything to add with regard to the
5 Chapter 13 rulemaking provision, which is Paragraph 2 of the
6 stipulation and agreement?

7 A. Well, I can tell you that the Chapter 13
8 provisions, as they are right now, they're in draft form.
9 The industry has met as stated collectively. We've met with
10 gas, electric, and water companies. We have had Office of
11 Public Counsel involved, just recently. Again, given to
12 their limited staff ability, so we do know that they have
13 some concerns that we can -- that we hope we can continue to
14 work through this, and then present to the Commission.

15 Right now, where this -- the entire draft of
16 the Chapter 13 rewrite stands, there's an issue paper
17 developed, there's a rewrite of the entire rule that's been
18 red-line-strike-out developed. It's ready to present to the
19 Commission; however, due to your extremely busy schedules
20 lately, I have not taken the liberty to place it on for
21 discussion yet. But it is at that stage, at this point, to
22 move forward to the Commission for hopefully establishing a
23 case in order to continue to work on the draft of the rule.

24 Q. How many rules are contemplated in this
25 section? Is it just one rule?

1 A. In the section of the stipulation and
2 agreement?

3 Q. Well, the reference of Chapter 13 rulemaking,
4 and specifically Paragraph 2, has A through G provisions,
5 which I'm not sure how many of those will be involved in the
6 rulemaking, but how many rules are we talking about here?

7 A. You're talking about only one rule, that's
8 Chapter 13 that deals with service and billing practices for
9 residential customers of gas, electric, and water utilities.

10 Q. Okay. And are you telling me that there is
11 a -- a consensus or an agreement between Laclede and Staff at
12 this point?

13 A. There's consensus among all parties and Staff
14 at this point, which this proposed rule --

15 Q. And who are the other parties that have been
16 involved?

17 A. AmerenUE, KCP&L, MGE, Empire, At Most,
18 Laclede, Missouri American Water Company --

19 Q. Okay.

20 A. -- Aquila -- and Aquila.

21 Q. Okay. And --

22 A. And OPC -- we've had, like I said, limited
23 participation by OPC. We have had some conversations about
24 areas of still concern, but nothing blatantly brought out as
25 a stop process at this point in time, still, a need to

1 continue to discuss among all parties.

2 Q. Okay. When would you anticipate that the
3 notice of request for rulemaking, or whatever the process is,
4 when would you anticipate that a case would be opened for the
5 rulemaking process?

6 A. Hopefully within the next couple weeks.

7 Q. Couple weeks. Okay. Okay.

8 COMMISSIONER CLAYTON: I don't think I have
9 any other questions.

10 JUDGE DIPPELL: Ms. Fred, let me just clarify.
11 You said that there was one rule, but it's actually multiple
12 rules within a chapter?

13 MS. FRED: It's the entire Chapter 13 rules.

14 JUDGE DIPPELL: The Staff, right now, is just
15 working with the whole thing?

16 MS. FRED: The whole Chapter 13, yes, uh-huh.

17 JUDGE DIPPELL: Are there any other questions
18 for Ms. Fred while she's at the podium?

19 CHAIRMAN DAVIS: Well, while she's here.

20 QUESTIONS BY CHAIRMAN DAVIS:

21 Q. Ms. Fred, you're in charge of, I guess, the
22 consumer services here, which registers complaints, correct?

23 A. Correct.

24 Q. Could you give us a little bit about your
25 impressions of Laclede's customer service and, you know, do

1 they -- do they respond to the complaints?

2 A. As far as our complaints that we receive, they
3 are very responsive to our complaints. We have an informal
4 agreement among them and other utilities to try and respond
5 to our complaints within a timely fashion. If it's a
6 complaint dealing with disconnection or a threat of
7 disconnection of services, or they've already been
8 disconnected services, we ask that Laclede respond within a
9 business day.

10 With any other issue, billing adjustment,
11 service quality issues, anything of that nature, we ask that
12 they try and provide us some type of response within three
13 days. With -- we allow them as long as 15 days for a full --
14 what we call resolution report. Laclede has met all those
15 requirements. We have not seen them neglectful in that in
16 the last few months. They've been very responsive when we
17 bring to their attention if they are lagging behind, and get
18 right on top on catching up, and continue to respond in a
19 very timing matter.

20 For the most part, most of our complaints
21 dealing with -- that actually are Laclede complaints, deal
22 with billing issues. Either customers who can't make the
23 payments, or need arrangements made, or need an extension on
24 a deposit, and generally it's been our practice with them to
25 be very congenial in trying to work that out with the

1 consumer and with us. And we've really not had any real,
2 what I call, difficult issues to have to work around.

3 Q. Have you gotten a lot of Laclede complaints
4 about estimated billing?

5 A. Yes, we do receive several complaints
6 regarding estimated billing, primarily because the meters are
7 inside and it's the access issue of getting into that meter.
8 And that kind of cuts both ways, either the customer is not
9 willing to let Laclede in to actually do the meter reading,
10 or when they are available, it's not necessarily a convenient
11 time for Laclede to make that meter reading. So we do deal
12 with a great number of estimated billing complaints, but
13 again, as usually due to the lack of access to a meter.

14 Q. All right. Thank you.

15 CHAIRMAN DAVIS: No further questions.

16 JUDGE DIPPELL: Thank you. Commissioner
17 Murray, did you have a question for Ms. Fred?

18 COMMISSIONER MURRAY: Thank you.

19 QUESTIONS BY COMMISSIONER MURRAY:

20 Q. Ms. Fred, while you're here, I'd like to ask
21 you, the subject of the automated meter reading has come up,
22 and it came up in the local public hearings. I would like to
23 know if you think that it would be helpful if there were an
24 education process developed sometime between now and the next
25 rate case to help customers understand the efficiencies that

1 can be gained from automatic meter reading, and the safety
2 issues involved, and that kind of thing. In talking to
3 customers, do you find that customers have concerns that
4 perhaps they're not actually realistic?

5 A. I find customers who are not well educated in
6 what's involved in that automated meter reading process.
7 They're under an impression that's not necessarily there.
8 They don't realize this will eliminate the estimated bills
9 that they may receive, that this will now reflect their
10 actual usage on a more timely basis so that they are more
11 appropriately billed.

12 I think on my staff's behalf, we take every
13 opportunity to educate customers on that. We also tell them,
14 and provide conservation measures that they need to be aware
15 of, and to take into consideration not only is it just a gas
16 usage, but perhaps conservation measures, weatherization
17 issues that they need to consider as well. I think it's fair
18 to say you can never educate enough, so sure, there would
19 definitely be -- it would be a good idea, or definitely be a
20 need to try to educate consumers more on that very issue.
21 Whether it be the automated meter reading device or on
22 weatherization or conservation issues that they can control
23 themselves.

24 Q. And have you experienced customers who have,
25 perhaps purposefully, not made it convenient for the meter

1 reading to be done?

2 A. I think it's fair to say you're going to have
3 a little of both. Yes. There's customers who definitely
4 don't make it convenient to gain access into their property,
5 and maybe it's not necessarily in their control. If they're
6 renting the property, maybe the landlord controls the access
7 to the meter, but nevertheless, it is that customer's
8 responsibility to make arrangements to get access for that
9 meter reading.

10 On the flip side, I think there's customers
11 who are ready and available, and because of other
12 complications or schedulings, it's not always been met by
13 Laclede. So I think it's a little of both.

14 Q. Well, at the local public hearing, I was -- I
15 took note of the testimony of one lady who lived in an
16 apartment complex, as I understand it. And she said
17 something to the effect of, everybody's afraid to open the
18 door for the gas people, because we know everyone's having a
19 hard time. And then when they finally got in, a couple of
20 people's bills -- or a couple of people got their gas shut
21 off. So it appeared to me that there was an attempt to not
22 let the meter readers in, in order to prevent the gas company
23 from knowing who was in arrears and who wasn't. I mean, were
24 you at the local public hearing?

25 A. No, I'm sorry, I wasn't.

1 Q. Okay. Thank you. That's all I have for you.

2 A. Sure.

3 JUDGE DIPPELL: Commissioner Clayton, did you

4 have any additional questions?

5 COMMISSIONER CLAYTON: If you want to take a

6 break, that's fine.

7 JUDGE DIPPELL: Okay. Let's go ahead and take

8 about a 15 minute break, come back at 25 till by that clock

9 in the back. Let's go off the record.

10 (A BREAK WAS HELD.)

11 JUDGE DIPPELL: Okay. We can go back on the

12 record. Okay. We are back on the record after our break.

13 I'm going to begin by asking -- I have one question of

14 Laclede, and I'm going to begin with that, and then I'm going

15 to go to Commissioner Gaw has some questions. The

16 October 1st drop -- or the October 1st request for the

17 tariff, that's not a drop-dead kind of date; is that correct?

18 MR. PENDERGAST: Well, we put language in

19 there that has said, or as reasonably soon thereafter as

20 practical. But from our perspective, you know, it's a very

21 important aspect of the overall settlement. Is everything

22 off if it's not done by then? No. But we would certainly

23 appreciate any action the Commission could take to make it

24 effective by that date. It is an important element of the

25 overall package.

1 JUDGE DIPPELL: And there are some -- there
2 are some items in the agreement that depend on that
3 October 1st date; is that correct?

4 MR. PENDERGAST: Well, we certainly have a low
5 income program. It's going to be October 1st. The sooner we
6 can go ahead and get a Commission decision, the sooner we can
7 go ahead and begin to work to implement that particular
8 program, and the same thing is true with the energy
9 efficiency programs that we have. And then, of course, you
10 know, from the Company's perspective, to the extent that it's
11 put in sooner rather than later, that does have a financial
12 value to the Company that -- that as I said before, is
13 important as part of the overall settlement.

14 JUDGE DIPPELL: Mr. Meyer, does Staff agree
15 with his statements?

16 MR. MEYER: I don't believe we have anything
17 to disagree with there. I would just note from an
18 administrative perspective, I noticed that the tariff sheets,
19 I believe, got entered into the EFIS system, and I would
20 imagine, although I think you would probably know better than
21 I would, that if, for some reason, this agreement is not
22 implemented, I imagine those tariffs might still go into
23 effect on October 1st, unless the Commission affirmatively
24 suspends them, so I would just note that for your
25 information.

1 JUDGE DIPPELL: All right. I appreciate that.
2 And Mr. Dandino, Public Counsel have any positions to any of
3 those statements?
4 MR. DANDINO: No, we agree with that.
5 JUDGE DIPPELL: All right. Commissioner Gaw,
6 you had some questions.
7 COMMISSIONER GAW: Okay. Thank you, Judge.
8 JUDGE DIPPELL: If you have questions of
9 witnesses that haven't been sworn, we can call them up and
10 swear them in.
11 COMMISSIONER GAW: Only they can tell me that,
12 so with that -- that caveat, let me see if I can -- I don't
13 know if -- if counsel for -- for the union is just waiting to
14 be released or not.
15 MS. SCHRODER: Yes, I am, actually.
16 COMMISSIONER GAW: Why don't I ask a few
17 questions there, and then I'll get back to some other things.
18 JUDGE DIPPELL: Ms. Schroder, can I just get
19 you to come up to the podium so we can hear you?
20 COMMISSIONER GAW: Ms. Schroder, first of all,
21 welcome.
22 MS. SCHRODER: Thank you.
23 COMMISSIONER GAW: Let me ask you, generally,
24 what were the concerns that your client had coming into this
25 case?

1 MS. SCHRODER: Coming into the case in
2 general, or coming into the public hearings?

3 COMMISSIONER GAW: Just in general, coming
4 into the case, and in entering an appearance.

5 MS. SCHRODER: All right. And I have to
6 apologize, I was not the attorney handling this from the
7 beginning, so I may have to defer to my client at some point,
8 but my understanding is that my client's concerns were that
9 there are a number of bonuses that are paid to the top
10 management of Laclede that he didn't -- that they did not
11 believe the ratepayers should be paying for.

12 COMMISSIONER GAW: All right. Now, let me ask
13 you, in regard to that particular issue, is your client
14 satisfied in regard to whether or not, as regards this
15 stipulation, addressing that issue?

16 MS. SCHRODER: As the proceeding went on, we
17 learned that all of those bonuses -- or substantially all of
18 them -- are paid by Laclede Group as opposed to Laclede Gas
19 Company, and therefore they are not being paid directly by
20 the ratepayers. You know, are my -- are my client reps
21 personally satisfied with that response? No, because they
22 feel like, indirectly, that's still being paid by the
23 ratepayers, but they understand that that's not something
24 that can be addressed through this rate-making.

25 COMMISSIONER GAW: Okay.

1 MS. SCHRODER: There was also an issue about
2 the consumers, again, paying for top heavy management.
3 Period. There was a specific ratio of management to
4 bargaining unit employees, that I don't remember the actual
5 numbers of, and I can get that number for you, if you would
6 like, that -- that my clients were concerned about, because
7 they just felt it was extremely top heavy, and that from
8 their day-to-day experience with what actually goes on at
9 Laclede Gas Company, they felt that all of that management
10 was unnecessary.

11 We're talking about, you know, first level and
12 second level supervisors here. I don't believe that they
13 really think that was addressed through this rate-making
14 process at all, but again, it's our understanding, going
15 through this process, that that's just not a kind of factor
16 that is really allowed to be addressed through the
17 rate-making.

18 COMMISSIONER GAW: Okay. Can you explain that
19 just a little more, if you can? I understand your
20 circumstance, so ...

21 MS. SCHRODER: The -- you mean the issue about
22 the fact that there is top heavy management?

23 COMMISSIONER GAW: When you say nothing can be
24 done about it, or those are my words, not yours. Go ahead.

25 MS. SCHRODER: I understand that there are

1 sort of specific -- specific sets of factors that go into the
2 rate-making for a utility, and that this factual pattern
3 didn't fit into any of the factors that the Commission is --
4 has jurisdiction to consider. And maybe that's something
5 that needs to be changed, but I got the impression that that
6 couldn't be changed for this particular rate-making. That
7 may be something that we'll look into further.

8 COMMISSIONER GAW: Okay. What else?

9 MS. SCHRODER: There were safety concerns, and
10 the hope that any monies that were being added with this new
11 rate would be applied to addressing some of those safety
12 concerns. And some of that is related to the automated meter
13 reading issue, and I believe that Mr. Pendergast --
14 Pendergast, excuse me, addressed that to some extent today
15 with his statements.

16 He said that there is an intention for at
17 least the next two years to continue to have meter readers go
18 in and check to make sure that the automatic meter reading is
19 working correctly, and that there are not safety issues
20 relating to switching to that system. And that was a -- that
21 was a big concern of my clients.

22 COMMISSIONER GAW: Okay. Is that it,
23 basically?

24 MS. SCHRODER: Can I confer with my client for
25 just a moment?

1 COMMISSIONER GAW: Sure.

2 MS. SCHRODER: Thank you. Thank you,
3 Commissioner Gaw. My client would like for me to clarify one
4 point, which is on the safety concern. Mr. Pendergast's
5 statement only went to the next couple of years. And my
6 client's concern is that gas leaks are often caught by the
7 meter readers either at installation or with these periodic
8 checks, and that that's going to be an ongoing problem. And
9 there needs to be an ongoing promise that it's going to get
10 taken care of, that it's not going to get overlooked.

11 And that is -- that is a major concern for
12 PACE 5-6 for a number of reasons. I mean, both as consumers,
13 and protectors of other consumers, and also because it is the
14 bargaining unit employees who go in and -- and are put in
15 dangerous situations when those gas leaks turn into
16 explosions. So there are -- you know, that is a major
17 concern.

18 And I don't know whether that's something that
19 this rate-making process is really the place to -- to address
20 it, but we did think it needed to at least be raised here,
21 and it did get raised here. And I think that it will get
22 raised in the next -- by our people in the next rate-making
23 process.

24 COMMISSIONER GAW: There is a complaint case
25 that's been filed in regard to this issue in another case; is

1 that correct?

2 MS. SCHRODER: That's correct, yes, and my
3 client has -- my client is very involved in that.

4 COMMISSIONER GAW: Okay. Anything else?

5 MS. SCHRODER: No.

6 COMMISSIONER GAW: Okay. Let me -- let me ask
7 Mr. Pendergast a few questions in regard to this issue.

8 MR. PENDERGAST: Sure.

9 COMMISSIONER GAW: And you-all can stay at
10 your desk as far as I'm concerned. I'm not trying to play
11 musical chairs here. This -- Mr. Pendergast, give me a
12 little more detail about what the Company's intentions are in
13 regard to the meter readers in the next few years, and how --
14 what role they play, and how many of them will continue on
15 approximately, if you can disclose that.

16 MR. PENDERGAST: Certainly. I'll try and be
17 as helpful as I can be. First of all, I don't want to have
18 my earlier comments misconstrued as indicating that there
19 will be no changes in meter reading force for two years.
20 That certainly wasn't my intention. My intention was to say
21 that we have a two-year process for implementing AMR. As we
22 implement AMR, you know, it's not a situation where there's
23 any immediate work force reduction on day 1, or day 10, or
24 day 20. You know, it's a gradual thing, and a number of the
25 meter readers will be there for a significant period of that

1 time.

2 Even after AMR is implemented, there will be a
3 number of meter readers who will be retained to do corrosion
4 inspections. As I've indicated before, the Company has also
5 indicated that they would make positions available in other
6 parts of the Company available to meter readers who qualify,
7 so that they could transfer to those particular positions.
8 And at one point, actually offered to have that done on a
9 seniority basis, which as we indicated, or as we had a
10 discussion at the public hearing, was not accepted.

11 I don't want to go into that, but you know,
12 the Company has tried to be sensitive to -- to its workers,
13 and making provisions where it can to provide those
14 particular jobs when they are available. As you noted,
15 Commissioner, there is a complaint case. We have addressed
16 those safety concerns that have been raised by the union.
17 Quite frankly, we don't think there is a safety concern.

18 I think what they would have Laclede do is
19 something that's not being done by any other local
20 distribution company in the state. We will continue to abide
21 by all regulations that are, in fact, safety regulations,
22 including doing our corrosion inspections every three years,
23 which I believe has already accelerated over the five-year
24 requirement that you have under federal law.

25 And you know, from our perspective, it would

1 be a fairly poor safety system if you were relying on
2 somebody to walk into a house and look around every time
3 somebody went ahead and changed service from one name to
4 another. You know, what that would effectively mean is there
5 are some houses where service is never changed, you never go
6 in, and you never look. There's other houses you look seven
7 or eight times in the course of three or four years,
8 depending on how much customer turn there has been. And if
9 you are going to design a safety system, I don't think you
10 would design it that way.

11 In fact, the Commission hasn't designed it in
12 that way, and to the extent there are applicable safety
13 regulations, we will go ahead and fully comply with them. I
14 hope that's helpful.

15 COMMISSIONER GAW: So, as far as numbers are
16 concerned, you don't have a number for me?

17 MR. PENDERGAST: I think when it's all said
18 and done, I think our expectation will be between 10 and 15
19 people will be required to do the corrosion inspections. And
20 as I've indicated before, there were already 30 of the meter
21 readers out of the 90 were hired on a temporary basis with
22 the idea in mind that AMR was going to be on the horizon.
23 And we wanted to make it understood that they shouldn't view
24 that as necessarily any kind of permanent position.

25 And you know, do we have enough positions in

1 customer service and construction and SAID to accommodate
2 everyone else? We certainly have attrition there. It's a
3 question of qualification, it's a question of quite frankly
4 will some workers work records. As to whether or not a
5 position will be hired, we certainly -- we're making a
6 concerted effort to make positions available for people that
7 are qualified and would -- would prefer to do it.

8 Some would prefer to go ahead and retire, some
9 would prefer to go ahead and take the severance package that
10 has been offered, and to the extent that others want to go
11 ahead and -- and take positions that are available in the
12 company. We'll certainly work to help make that happen.

13 COMMISSIONER GAW: So, Mr. Pendergast, there's
14 about 30 meter readers you say that were hired as temporary
15 workers. I think Mr. Schulte might have suggested some of
16 those have been hired on a permanent basis already. So I
17 don't know what those numbers might actually look like, and
18 then there's an additional 60 that are impacted by this; is
19 that correct?

20 MR. PENDERGAST: That are potentially
21 impacted. I don't know if -- how many of those 60 may have
22 bid out to other jobs at this point or been placed in other
23 positions. I don't know how many of those people are
24 contemplating retiring as opposed to wanting to take another
25 position with Laclede. I don't know how many of them are

1 contemplating taking the severance package that will be
2 offered. I think it's probably a little too early to say
3 that. I mean, one of the -- well, I think I'll leave it
4 there.

5 COMMISSIONER GAW: Okay. How long -- what's
6 the time frame on the meter replacements that's contemplated
7 by the Company?

8 MR. PENDERGAST: As I understand it, it's
9 basically a two-year program.

10 COMMISSIONER GAW: And within two years, all
11 of the meters will be changed?

12 MR. PENDERGAST: That is our hope and
13 expectation.

14 COMMISSIONER GAW: And who's doing the work on
15 changing the meters?

16 MR. PENDERGAST: We have our own people who
17 are assisting with that, and also the outside vendor.

18 COMMISSIONER GAW: Okay. So some of your own
19 employees and the outside vendor. Who is the outside vendor
20 again?

21 MR. PENDERGAST: Cellnet.

22 COMMISSIONER GAW: Cellnet. Where are they
23 out of?

24 MR. PENDERGAST: Georgia.

25 COMMISSIONER GAW: Georgia. They bring their

1 own employees?

2 MR. PENDERGAST: I'm sure they do,

3 Commissioner.

4 COMMISSIONER GAW: Okay. And do they then set

5 up shop in St. Louis to actually do the meter reading after

6 they're installed? How does that work? And I don't want to

7 go too far here, I'm just wanting to understand how this

8 impacts cost.

9 MR. PENDERGAST: Sure, I believe that's

10 correct. And if you want to get into greater detail, I do

11 have somebody here that can address it in greater detail.

12 COMMISSIONER GAW: Okay. But they have

13 employees on the ground in St. Louis at some point in time?

14 MR. PENDERGAST: Yes. And in fact, I believe

15 they already provide that same sort of service for Ameren

16 Electric, and of course Missouri Gas Energy, I believe, went

17 to this kind of technology a number of years ago as well.

18 I'm not sure about KCP&L, but I'd be surprised if they don't.

19 So this is really a technological improvement that Laclede is

20 making that has a pretty established -- is a pretty

21 established practice for other large utilities in the state

22 of Missouri.

23 COMMISSIONER GAW: Who actually owns these

24 meters once they're installed?

25 MR. PENDERGAST: We will continue to go ahead

1 and own the meters. As far as the automated reading device
2 is concerned, Cellnet owns those.

3 COMMISSIONER GAW: Okay. So there's a device
4 that's placed on the existing meters?

5 MR. PENDERGAST: Yes.

6 COMMISSIONER GAW: I see. And then is that
7 read by some sort of radio signal or ...

8 MR. PENDERGAST: Yes.

9 COMMISSIONER GAW: Okay. So you have to drive
10 around and pick it up?

11 MR. PENDERGAST: I don't know that a
12 drive-around is necessary. I think it's sufficient to go
13 ahead and be picked up without that.

14 COMMISSIONER GAW: Okay. And at what point in
15 time, then, would -- so during this process of the two years,
16 we'll go from -- are there any of them installed today?

17 MR. PENDERGAST: I believe we've already begun
18 installing them, and we've tested it out as well.

19 COMMISSIONER GAW: Do you know what
20 percentage, approximately?

21 MR. PENDERGAST: About 50,000 so far.

22 COMMISSIONER GAW: 50,000 out of how many?

23 MR. PENDERGAST: 630 to 650,000.

24 COMMISSIONER GAW: Okay.

25 JUDGE DIPPELL: Commissioner, just so the

1 record is clear, there is also a pending case dealing with a
2 waiver of some of Laclede's tariff provisions regarding the
3 meter replacement.

4 COMMISSIONER GAW: Is that in addition to the
5 complaint case?

6 JUDGE DIPPELL: Yes.

7 COMMISSIONER GAW: Thank you. Okay. And
8 this -- during that time frame, then, you're contemplating
9 that the number of meter readers will be gradually brought
10 down during that two years?

11 MR. PENDERGAST: That's correct.

12 COMMISSIONER GAW: And is it that two-year
13 period that you were referring to earlier that the -- the
14 total cost that you're incurring for -- for meter reading
15 activity would actually be higher than it has been with --
16 with no Cellnet involvement?

17 MR. PENDERGAST: That's correct.

18 COMMISSIONER GAW: Okay. And then after that
19 two years, or at some point in time -- let's just use that as
20 a demarkation point. After two years, do you expect it to be
21 less than it was before Cellnet's involvement?

22 MR. PENDERGAST: We certainly have the
23 expectation that over time, given the cost structure we have,
24 that it will be less than would otherwise be the case.

25 COMMISSIONER GAW: Do you know about how much

1 less?

2 MR. PENDERGAST: What I can tell you is
3 that -- and this is based on Laclede's cost, but what we will
4 be paying for meter read is roughly equivalent for what it
5 costs us to do it in-house right now, and that that cost to
6 us will remain steady for some time. If we were to go into
7 anymore detail, out of fairness to Cellnet, I would have to
8 request that we do it in camera.

9 COMMISSIONER GAW: So you're really not
10 contemplating any savings other than what the increasing cost
11 might have been for continuing the current meter reading
12 effort?

13 MR. PENDERGAST: That, plus we're hopeful that
14 as you get away from estimated bills, that that will
15 hopefully have some cost reduction up the road, and that, you
16 know, there will be further -- there will be further reduced
17 number of instances where the need to try and get into the
18 customer's home to try and get a meter reading where you have
19 situations where the customer can't make it, and you send
20 somebody out and it turns out to be a futile exercise, we're
21 hoping that that will also provide some benefits in the
22 future as well.

23 COMMISSIONER GAW: But these -- the
24 speculation about there being significant decreases in cost
25 in regard to meter reading, you're telling me, would not be

1 accurate?

2 MR. PENDERGAST: Certainly not over the
3 short-term. Four or five, six years up the road, I think
4 this will be viewed as having produced some long-term
5 savings, and those savings, I think, will be incorporated
6 into whatever rate proceeding we may have at the time.

7 And the other point I will make, too,
8 Commissioner, over the next couple of years and beyond, you
9 know, even though there will not be any material savings
10 associated with AMR over that transition period, we will
11 continue to go ahead and have scheduled increases in our
12 labor contracts associated with all of the construction
13 people we have, all of the service people we have, as well as
14 healthcare increases and that sort of thing. If there was a
15 desire to capture what the impact of having a labor force is
16 going to be over the next couple of years, I can assure you
17 that impact is going to go ahead and be positive, and it's
18 going to be a cost that, in some way, Laclede is going to
19 have to find a way to absorb.

20 COMMISSIONER GAW: All right. I will -- I'll
21 ask more questions on this in the other cases I'm sure, but I
22 wanted to get an understanding of impact on -- on rates. Was
23 there any -- since this is a black box settlement, so any
24 contemplation of any of this change in regard to cost being
25 taken into account in this particular settlement?

1 MR. PENDERGAST: No, I believe that everybody
2 recognized that this is a future cost item, just like, you
3 know, our August 2006 labor wage increase is a future cost
4 item, and that I'm not sure that anybody thought there were
5 any cost savings to go ahead and reflect, but since it is a
6 future development like some of the other cost changes that
7 we'll have in the future, that it wasn't something that was
8 appropriate to take into consideration. I think, as
9 Mr. Rackers said, it's certainly outside the test year. In
10 any event, there would have been no savings in the
11 foreseeable future to capture.

12 COMMISSIONER GAW: When you pay Cellnet, is
13 that paid as a service? Do you pay -- what -- is that a
14 monthly charge to Laclede?

15 MR. PENDERGAST: My understanding is it's on a
16 read basis, so it's a charge per read.

17 COMMISSIONER GAW: And the installation of the
18 equipment, the cost for that, is that built into their
19 contract as a part of their --

20 MR. PENDERGAST: I believe, generally, that's
21 true, although I think we incur some of our own costs to help
22 make that happen.

23 COMMISSIONER GAW: I was going to get to that,
24 too, but as far as their portion of installing those -- those
25 devices, that ends up being part of whatever they're charging

1 you for meter reading?

2 MR. PENDERGAST: Yes.

3 COMMISSIONER GAW: Okay. And then you --

4 whatever Laclede incurs in its cost, then that would be

5 reflected in expenses that it has outgoing?

6 MR. PENDERGAST: Yes.

7 COMMISSIONER GAW: I think you said yes, and

8 I'm not positive.

9 MR. PENDERGAST: Yes, I'm sorry.

10 COMMISSIONER GAW: It is -- just a second

11 here. I have one more thing, I thought. Oh. Was there a --

12 a reason why Laclede has never contemplated just moving

13 meters outside?

14 MR. PENDERGAST: That issue has come up from

15 time to time. In certain parts of our service territory,

16 particularly in the more urban areas, there's really no place

17 to move them. You know, if you were going to move them

18 outside, you have to put them on the sidewalk or right next

19 to the street, and obviously there would be some safety

20 issues associated with that.

21 I think there's also some pressure reasons as

22 to why moving the meters outside would not work, and you

23 know, there is a significant cost associated with removing

24 those and then reinstalling them outside that would also

25 probably be prohibitive in a number of circumstances.

1 Certainly if, you know, there is a way to do it, and it's
2 cost effective to do it, we're always open to doing that, but
3 we just have some natural limitations on our ability to do
4 that.

5 COMMISSIONER GAW: And Laclede did not -- did
6 not look at the possibility of utilizing its own employees to
7 do some sort of an automated system that would also involve
8 them doing safety checks?

9 MR. PENDERGAST: You know, this was a long
10 process before we finally reached an agreement to implement
11 this. We were talking about it for a number of years. We
12 were exploring various options for a number of years. We had
13 one firm that we thought would -- would provide the best
14 product. That wasn't successful in getting that
15 accomplished, and we finally, after long negotiations,
16 reached an agreement with Cellnet.

17 I think everybody feels comfortable that we
18 explored all the options in great detail, and that we
19 probably learned from what others had done, and that this was
20 the most cost-effective practical system for our customers
21 over the long-term that we could -- we could come up with.
22 And I would also indicate that, you know, obviously any
23 impact on jobs is something that's of significance, and we're
24 sensitive to that, and I think the Company has tried to go
25 the extra mile to accommodate what's happening here.

1 I hope we don't lose sight of the fact,
2 though, that compared to most other utilities in the state,
3 probably in the state and other areas, Laclede uses more of
4 its in-house people to do various type of construction,
5 whether it's construction work, whether maintenance work,
6 than virtually any other utility than I'm aware of. And
7 that's not going to go ahead and -- at least I'm not aware of
8 any significant changes planned in that over the upcoming
9 years.

10 So while there's always -- technology brings
11 some disruptions from the standpoint of having a home-grown
12 work force, if you will, from Missouri, I think Laclede ranks
13 pretty high at the top as far as using its own employees to
14 do that kind of work.

15 COMMISSIONER GAW: I hate to see you going
16 down.

17 MR. PENDERGAST: I understand.

18 COMMISSIONER GAW: And does that mean that
19 you're -- maybe I'm confused, but does that mean that you're
20 not using any contractors from outside of the state to do any
21 of the replacements on the lines?

22 MR. PENDERGAST: We had some catch-up work to
23 do where we needed to go ahead, and I think briefly, use some
24 outside folks to -- to do a portion of our copper service
25 replacements during a specific period of time. We had some

1 airport work that involved some massive facilities that
2 needed to be done that we needed to use some outside folks to
3 do, but by and large --

4 COMMISSIONER GAW: You stopped that now?

5 MR. PENDERGAST: I believe that's, yeah, been
6 completed. I'm not sure, I can check on it for you.

7 COMMISSIONER GAW: Would you let me know
8 sometime soon?

9 MR. PENDERGAST: I will. I will. But by and
10 large, the vast majority of our work is still done by Laclede
11 employees.

12 COMMISSIONER GAW: Okay. I will pass to see
13 if anyone else has any questions on this topic, so if they
14 need to leave, they can.

15 JUDGE DIPPELL: Commissioner Clayton, did you
16 have any questions for the union?

17 COMMISSIONER CLAYTON: I'm satisfied.

18 JUDGE DIPPELL: Commissioner Appling? Since
19 the Chairman isn't available right now, I will ask you to
20 remain until he's had an opportunity to ask any questions he
21 may have.

22 MR. PENDERGAST: Your Honor, if I could be
23 permitted, just very quickly, to be responsive to a few of
24 the other issues that were raised, and I don't want to
25 belabor any of the points, but during the public hearings and

1 today, there were some comments made about the ratio of
2 management employees to union employees. And I'd just like
3 to clarify that if you actually look at what those ratios
4 are, whether they're in the construction department, the
5 meter reading department, first line supervisors, it ranges
6 from one to seven or eight, to one to thirteen.

7 If you put management in there that are
8 directly related to that, it's still one to five, one to
9 eight, and I think part of the confusion is that when you
10 look at management versus contract, everybody that is not a
11 contract employee has been put into one category, and that
12 includes secretaries, it includes information systems people,
13 it includes folks that are doing what needs to be done to run
14 any modern company. They're not just all standing there
15 supervising a few people in the field. So I just wanted to
16 go ahead and make that point clear.

17 And secondly, on the management bonuses, they
18 have been specifically excluded from rates in this case
19 pursuant to the stipulation and agreement. I do want to say
20 that from our perspective, we think the management bonus
21 process that's been developed by Laclede over the last couple
22 of years is a good thing, that it is designed to go ahead and
23 make people accountable for producing results, both for the
24 customer as well as the shareholder, and that it is a
25 worthwhile endeavor that provides benefits to everybody.

1 Nonetheless, we have agreed, for purposes of
2 this case, to go ahead and exclude that from rates. So to
3 the extent anybody has a concern about ratepayers paying for
4 them, that concern isn't applicable in this case. Thank you.

5 JUDGE DIPPELL: Ms. Schroder, did you have
6 some response that you would like to make to any of the
7 comments?

8 MS. SCHRODER: Yes. Yes, Mr. Pendergast
9 raised an issue early on, I guess, in his response to --

10 JUDGE DIPPELL: Can you just turn that
11 microphone up? There you go.

12 MS. SCHRODER: Okay. Sorry. Can you hear me
13 now?

14 JUDGE DIPPELL: You can speak up a little bit,
15 they can't hear you in the back.

16 MS. SCHRODER: Okay. Mr. Pendergast raised an
17 issue about the number of meter readers that were losing
18 their jobs due to the AMR process. I had not raised that
19 issue earlier because I understand that it does not have
20 relevance to this rate-making proceeding, but I would like
21 just a few seconds to address the issue because he did
22 address it, and I feel like I can't just leave it alone.

23 As Mr. Pendergast pointed out, there are about
24 90 bargaining unit employees who are meter readers who will
25 be losing their jobs, eventually, over the AMR

1 implementation. Of those, the Company offered five permanent
2 jobs for those people, and then the other positions that they
3 intimated would be available for some of those 90 people were
4 positions that were not yet open, and they would just have to
5 become open through attrition or whatever, and for which most
6 or all of meter readers are not currently qualified.

7 The meter reading position is -- is at a level
8 in the bargaining unit that requires very little in the way
9 of pre-qualifications, and so any of the positions that they
10 were moving to, except, I believe, the laborer's position, is
11 going to require additional qualifications. So that was all
12 I wanted to address there. Thank you.

13 JUDGE DIPPELL: Thank you. I don't believe
14 that there are any other --oh, I'm sorry. Commissioner
15 Clayton?

16 COMMISSIONER CLAYTON: I changed my mind.
17 Just for clarification, is there another proceeding that is
18 actually taking up these, I guess, allegations or concerns,
19 Ms. Schroder?

20 MS. SCHRODER: My understanding today is that,
21 yes, there are. There are two. There's a complaint
22 proceeding that's taking up the safety allegations, and that
23 there is a proceeding, and I don't know exactly how it's
24 characterized, but it's dealing specifically with AMR, a
25 waiver.

1 JUDGE DIPPELL: Commissioner, there's a
2 proceeding where Laclede has asked for a waiver of some of
3 its tariff provisions in the replacement of the meters
4 dealing with the implementation of its AMR. Both of those
5 are currently pending.

6 COMMISSIONER CLAYTON: Ms. Schroder, are you
7 the attorney for PACE in those two matters?

8 MS. SCHRODER: Actually, Julia Englehardt is,
9 and we have intervened in the complaint process, and I
10 believe we have also -- yes, we have intervened in the -- the
11 tariff waiver process.

12 JUDGE DIPPELL: Let me just clarify that I
13 believe the complaint is actually filed by PACE.

14 MS. SCHRODER: Yes, I'm sorry.

15 JUDGE DIPPELL: And that the intervention
16 request in the waiver has not yet been ruled on.

17 MS. SCHRODER: Okay.

18 COMMISSIONER CLAYTON: Judge, I don't know if
19 you're answering these questions, I just wanted to know where
20 they were in the process. Have they just been filed or --

21 JUDGE DIPPELL: No.

22 COMMISSIONER CLAYTON: -- do you know that,
23 Ms. Schroder?

24 MS. SCHRODER: I don't know that.

25 JUDGE DIPPELL: Both of those cases are my

1 cases, Commissioner. There has been a request for
2 intervention, which is contested in the waiver case. There
3 has been a motion to dismiss, I believe, the complaint. That
4 has not -- neither of those have been ruled on.

5 COMMISSIONER CLAYTON: Okay. Those are both
6 yours?

7 JUDGE DIPPELL: Yes.

8 COMMISSIONER CLAYTON: I don't think I have
9 any other questions. Thank you, Ms. Schroder.

10 MS. SCHRODER: Thank you.

11 JUDGE DIPPELL: Commissioner Gaw?

12 COMMISSIONER GAW: I have just a couple more.
13 I will ask Staff this question. Earlier there was some
14 reference to this issue about whether or not Laclede might or
15 might not be management top heavy, and my question isn't
16 whether Staff would use it one way or the other. My question
17 is this: Whether or not it would be appropriate in a rate
18 case for there to be a -- some amount of monies paid for
19 salary, et cetera, to be disallowed because of it being
20 imprudent? And the reason for my question is to ask whether
21 or not there is a way for someone to challenge the question
22 of -- of, you know, the amount of money being expended for
23 management. Whoever wants to answer that question.

24 MR. MEYER: I believe Mr. Rackers would like
25 to address that for the analysis that Staff does in that

1 situation.

2 COMMISSIONER GAW: I don't want to spend a lot
3 of time on it.

4 JUDGE DIPPELL: And Mr. Rackers has previously
5 been sworn.

6 MR. RACKERS: I think that's certainly an
7 adjustment that could be made in a rate case, and can be
8 addressed if we found that it was imprudent to have that
9 ratio.

10 COMMISSIONER GAW: Okay.

11 MR. DANDINO: And Public Counsel would also
12 say that management salaries, as any cost of doing business,
13 is subject to objection by any party, and whether it's a
14 reasonable and prudent.

15 COMMISSIONER GAW: And I would assume that
16 from the Company's standpoint, that if some allegation like
17 that were made, not only would there be an argument that it
18 wasn't, but also that it might be something within the
19 purview of the Company to make decisions about things of that
20 sort. I'm not sure, but if you want to -- if you want to say
21 something.

22 MR. PENDERGAST: I mean, it's always difficult
23 to go ahead and say where the dividing line is. I think,
24 obviously, if the Commission went so far as to say, this is
25 the ratio of management to union employees that you should

1 have, and this is how they should interact with those
2 employees, I mean, you might, at some point, get to the line
3 where you're infringing in an inappropriate way with
4 management prerogatives.

5 On the other hand, I don't disagree with
6 either Staff or Public Counsel that if -- if the Company is
7 incurring expensive costs that it cannot justify, that that's
8 a legitimate area for review, and potential adjustment.
9 Obviously I don't believe that Laclede has -- has that
10 particular problem.

11 COMMISSIONER GAW: Okay. I understand your
12 position. And finally, on a lighter note, Mr. Pendergast, I
13 missed part of your earlier quote, and all I got was
14 something like "I don't want to belabor". Did I miss the
15 rest of it?

16 MR. PENDERGAST: No pun intended.

17 JUDGE DIPPELL: Okay. I believe that's all of
18 the Commission questions regarding -- regarding the union
19 issues, so Ms. Schroder, if you or your client need to leave,
20 you may do so without fear of penalty from the Commission.

21 MS. SCHRODER: Thank you very much.

22 JUDGE DIPPELL: Okay. We can move on, then.
23 I will say that the Commission has a special agenda planned
24 for -- beginning at noon.

25 CHAIRMAN DAVIS: Uh-huh, or roughly

1 thereabouts.

2 JUDGE DIPPELL: So we will go until noon, and
3 then we will break for a long lunch or until the Commission
4 has a chance to do its agenda. So let's go ahead and
5 continue, then, and I believe that Commissioner Clayton had
6 another question for Ms. Fred; is that correct?

7 COMMISSIONER CLAYTON: No, just don't --
8 that's okay.

9 JUDGE DIPPELL: Okay. Did you have other
10 questions for Staff that hadn't been answered, Commissioner
11 Clayton?

12 COMMISSIONER CLAYTON: Don't worry about it.
13 Thank you.

14 JUDGE DIPPELL: Commissioner Gaw, did you have
15 additional questions?

16 COMMISSIONER GAW: I do, but I will take quite
17 a bit of time to get through them, and I'd -- rather than
18 keep other people down here, if they have things, otherwise I
19 can go ahead.

20 JUDGE DIPPELL: Commissioner Appling, did you
21 have any questions?

22 COMMISSINER APPLING: No questions at this
23 time, Judge.

24 CHAIRMAN DAVIS: Questions for who?

25 JUDGE DIPPELL: For anyone. Did you have

1 questions that you needed answered? This is the --

2 CHAIRMAN DAVIS: I'm drawing a blank right

3 now, Judge. I'm sure I'll have some more later.

4 JUDGE DIPPELL: All right.

5 COMMISSIONER GAW: Do you want me to go ahead?

6 JUDGE DIPPELL: And as we get to a topic, you

7 know, at a good stopping point, we'll ask if there are other

8 Commission questions for that topic.

9 COMMISSIONER GAW: Sure, and feel free to

10 interrupt me whenever you want to. Let me ask -- I want to

11 go back to the first question Commissioner Clayton asked, I

12 think -- and that is just to make sure I'm following the

13 total amount of increase in base rates is somewhere around

14 8.5 million. Is that accurate?

15 MR. PENDERGAST: That --

16 COMMISSIONER GAW: Whoever wants to go.

17 MR. MEYER: The total amount of increase in

18 base rates is 10.5 million.

19 COMMISSIONER GAW: Okay. And so -- then there

20 is -- okay. So -- and then I'm reducing this by 6.1, the

21 ISRS?

22 MR. MEYER: Correct, because that is already

23 essentially in place.

24 COMMISSIONER GAW: Okay. And then I am

25 increasing the amount that will be considered a part of the

1 PGA by about 4.1 million.

2 MR. MEYER: Correct.

3 COMMISSIONER GAW: So the net impact on all
4 rates, including the PGA, if the PGA were to remain the same,
5 except for the 4.1 million is the 8.5.

6 MR. MEYER: Yes.

7 COMMISSIONER GAW: Is that correct?

8 MR. PENDERGAST: Yes.

9 COMMISSIONER GAW: And again, what is in that
10 4.1 million? Whoever is easiest to come up with an answer
11 the quickest.

12 MR. PENDERGAST: Those are inventory costs
13 associated with the natural gas that we have in storage,
14 basically carrying costs as well as our propane storage
15 supplies.

16 COMMISSIONER GAW: And how's that been handled
17 in the past?

18 MR. PENDERGAST: Well, it depends on how far
19 you want to go back.

20 COMMISSIONER GAW: I see.

21 MR. PENDERGAST: In the past, when we bought
22 all of our gas supplies from interstate pipelines, most, if
23 not all of it, at least the part that's associated with
24 pipeline storage, was bundled up and included in whatever the
25 sales rate was that the interstate pipeline charged the

1 utility.

2 After 636 and transportation came, those costs
3 were included for a while up until this point in base rates,
4 and what this would do is have those costs recovered as they
5 used to be, or at least a significant portion of them were,
6 through the PGA mechanism in the future. And once again, one
7 of the reasons for doing that, from our perspective, is that
8 you will go ahead and know what those costs are. You will
9 not be charging more or less than what they are, and they're
10 about as intricately related to gas costs as they're already
11 recovered through the PGA, as just about anything else could
12 be.

13 COMMISSIONER GAW: Okay. And so that 4.1
14 million in the PGA would be something that will float
15 according to whatever the costs are, correct?

16 MR. PENDERGAST: Yes.

17 COMMISSIONER GAW: If it were in the base
18 rates themselves, then that locks in from rate case to rate
19 case?

20 MR. PENDERGAST: That's correct.

21 COMMISSIONER GAW: Okay. This -- what's the
22 issue on the taxes in this category? Can somebody explain
23 that further? Let me see if I can find it. And maybe that's
24 more on Page 3. That may just be in regard to the revenue
25 requirement. Revenue amounts referenced in this paragraph

1 are exclusive of any applicable license, occupation,
2 franchise, gross receipts, taxes, or other similar tax or
3 taxes. Sorry.

4 COURT REPORTER: That's okay.

5 COMMISSIONER GAW: What's that about there?

6 MR. PENDERGAST: I think, Commissioner, that's
7 just pretty much standard language that is designed to
8 reflect the fact that those taxes are sort of add-on taxes by
9 local governmental units, or even the state, and that this
10 rate increase is not attempting to go ahead and incorporate
11 or reflect those.

12 COMMISSIONER GAW: Okay. Thank you. And then
13 let me -- I'm going to go to another topic with you now. On
14 the -- the credit scoring issue, and I'll probably talk to
15 Public Counsel about this to some degree. First of all,
16 either Staff or Public Counsel, is this credit scoring
17 currently used by other utilities in Missouri?

18 MS. MEISENHEIMER: It is used in telephones,
19 and telecommunications, it is used.

20 COMMISSIONER GAW: Any other utilities?

21 MS. MEISENHEIMER: Not to my knowledge.

22 COMMISSIONER GAW: Okay. And Public Counsel's
23 position on this issue, as a matter of policy?

24 MS. MEISENHEIMER: As a matter of policy, we
25 have some significant concerns regarding the methods used for

1 credit scoring, and in part, this settlement defers -- defers
2 that issue until the Commission has had a chance to consider
3 it in a rulemaking. There are a number of variables that
4 have to be determined and set.

5 Some are discretionary, and so I think that
6 the provisions of the stipulation allow the Staff and Public
7 Counsel to review the Company's proposal with respect to
8 credit scoring before it's implemented, and that would
9 obviously give us an opportunity to raise them before the
10 Commission if we have concerns about the -- the method or
11 whatever choice variables the Company makes in terms of
12 credit scoring.

13 COMMISSIONER GAW: Does Public Counsel think
14 it's a good idea to do this in general?

15 MS. MEISENHEIMER: We have opposed -- I worked
16 on the case in the telephone area that I'm familiar with with
17 respect to credit scoring, and we opposed that; however, in
18 considering all aspects of this case, the Commission has, in
19 the past, approved credit scoring using a nationally
20 recognized credit bureau, and credit report -- reporting
21 agency, and so there is obviously an issue of risk involved.
22 Also, to some extent, if it allows Laclede to better target
23 deposits to customers that are more of a risk, that may prove
24 the benefit to the customers who would otherwise pick up the
25 tab for uncollectible's.

1 COMMISSIONER GAW: So who -- does anything
2 happen until you bring this agreement back, or there's a
3 rulemaking that's finalized with regard to use of credit
4 reports? And whoever wants to answer that.

5 MR. PENDERGAST: I think we need to go ahead
6 and either satisfy the Staff and Public Counsel, that
7 whatever method we develop to implement credit scoring is
8 acceptable, in which case we would notify you that we have.
9 Or if we can't reach agreement, then it will come before you
10 to go ahead and be resolved.

11 And from our perspective, Commissioner, this
12 credit scoring, you know, we would really prefer not to
13 collect any more deposits than we have to, and the reason
14 that is the case is that the amount we pay on customer
15 deposits is in excess of what our short-term money costs are.
16 So in essence, it costs us money to go ahead and collect and
17 pay on a deposit compared to what our other financing sources
18 are.

19 On the other hand, you do want to collect a
20 deposit if you think that you're going to have a customer
21 that's going to leave you with a bad debt so that you, and
22 ultimately your other customers, don't have to pay for that.
23 Our analysis shows that we will probably collect fewer
24 deposits from fewer customers if we use this credit scoring
25 than if we continue to use kind of the meat cleaver

1 one-size-fits-all approach that we use today. And it will be
2 collected from those customers that impose the greatest risk.

3 At the same time, because of the way the cold
4 weather rule works and that sort of thing, there will still
5 be special consideration given to those who have a very
6 difficult time paying their current bill, let alone a
7 deposit. So we think that if we can reach agreement on it,
8 and we can satisfy Staff and Public Counsel and the
9 Commission, that it's a reasonable way to go, that it will
10 result in fewer deposits and more effective deposit
11 collections.

12 COMMISSIONER GAW: Okay. And you were
13 explaining earlier today, Mr. Pendergast, about the -- who
14 actually is going to have a credit report run on them. And
15 did you -- are we distinguishing between owners and renters?
16 Did I misunderstand that?

17 MR. PENDERGAST: Yeah. Well, right now, we
18 are entitled to collect deposits from all renters, and that
19 is something that was approved sometime back, basically on
20 the theory that that's where the majority of our bad debts
21 comes from.

22 COMMISSIONER GAW: Okay.

23 MR. PENDERGAST: Then there is other criteria
24 for people that go ahead and own a home. If we are able to
25 get credit scoring implemented, then that would be applicable

1 to both renters as well as people that own their own home,
2 and that would be the criteria that would be used for
3 purposes of determining whether a deposit is required.

4 COMMISSIONER GAW: So you might not collect
5 from renters -- from some renters that you currently collect
6 from?

7 MR. PENDERGAST: Absolutely. We're sure.

8 COMMISSIONER GAW: You might collect from some
9 homeowners that you currently do not collect from?

10 MR. PENDERGAST: That would be correct.

11 COMMISSIONER GAW: Okay. I think I'm
12 following that. Now, the -- who pays for the credit report?

13 MR. PENDERGAST: Well, assuming we get the
14 system up and running, everybody's agreeable to it, we will
15 go ahead and pay for that. And it's not -- I don't believe a
16 credit report, it's more like you get a credit score. You
17 call these folks up, and it's not even a credit score. It's
18 basically you establish some criteria beforehand, you know.
19 You've got to have a credit score of 700 or 650, or whatever
20 it is, and you either pass or fail. And you simply send an
21 inquiry in determining whether or not this particular
22 customer passes or fails, and it's based on that that you
23 make a determination as to whether a deposit would be
24 required.

25 COMMISSIONER GAW: Okay. Go ahead.

1 MS. MEISENHEIMER: And my understanding is
2 that the Company will only know whether a customer passes or
3 fails. They would not know the customer's particular score.

4 COMMISSIONER GAW: I see. But this
5 establishment of the criteria will be done by your-all's
6 discussions?

7 MS. MEISENHEIMER: Well, the Company will
8 propose something, and the Staff and Public Counsel will
9 review it.

10 COMMISSIONER GAW: I see.

11 MS. MEISENHEIMER: I also -- if you're
12 interested, I'd like to supplement what I told you regarding
13 companies that currently use credit scoring.

14 COMMISSIONER GAW: Okay.

15 MS. MEISENHEIMER: With respect to the use of
16 it in telecommunications, that was approved for a local
17 telephone company; however, it was with respect to use of
18 toll calling. At that time, that local exchange carrier
19 provided toll calling, and the program limited a customer's
20 bucket of toll minutes. It was not applied to their basic
21 local service.

22 COMMISSIONER GAW: Okay. Thank you for that.
23 So this is -- we're breaking some new ground here.

24 MS. MEISENHEIMER: It is different in that it
25 is not the most basic service offered to the customer.

1 COMMISSIONER GAW: Okay. All right. Will
2 customers be able to contest a finding?

3 MR. PENDERGAST: I think a customer's always
4 free, if we have requested a deposit and for some reason they
5 disagree, that that's an appropriate thing to bring that to
6 the consumer services department's attention, and if they
7 don't receive a satisfactory response from them and the
8 utility, to file a complaint with the Commission.

9 COMMISSIONER GAW: They will know what the
10 criteria are? That will be publicly available, I assume.

11 MR. PENDERGAST: I think we're going to try
12 and be as specific as we can be on what that criteria is.
13 You know, it's always a question of, do you want to lock into
14 a tariff based on something they can change. But
15 essentially, what we're doing is trying to go ahead and
16 sample, see what kind of credit scores have correlated with
17 nonpayment in the past, so that we have a basis for saying,
18 if you have a credit score below this level, you're more
19 likely, based on actual experience, not to go ahead and pay
20 your bill, and use that as a criteria for determining what
21 kind of credit scores are going to be.

22 COMMISSIONER GAW: And we're talking about
23 just the individual that -- that's signing up, or are we
24 talking about others in the household who have their -- have
25 credit reports run?

1 MR. PENDERGAST: Oh, I think we're talking
2 about the applicant for service.

3 COMMISSIONER GAW: Okay. Public Counsel?

4 MS. MEISENHEIMER: First of all, I firmly
5 believe that that information regarding the criteria should
6 be publicly available information.

7 COMMISSIONER GAW: Sure you would.

8 MS. MEISENHEIMER: Second of all, I would
9 certainly hope that a customer's only recourse to whether
10 they pay a deposit is not to go chasing down a credit agency
11 to figure out what -- why their credit score is what it is.
12 I hope there will be a more local opportunity for them, and
13 so in terms of appealing, perhaps, to the Company, or perhaps
14 to ultimately the Commission regarding the application of a
15 deposit.

16 And then I had a comment on the last area that
17 you asked a question about, and it's escaping me at the
18 moment.

19 COMMISSIONER GAW: It's escaping me, too. So
20 maybe you'll think of it in a minute. Let me ask -- let me
21 ask this question: The question -- the -- the four times the
22 average monthly bill change, do any of the other utilities
23 have that currently?

24 MR. MEYER: We do not believe they do.

25 COMMISSIONER GAW: Don't believe they do?

1 MR. MEYER: In other words, no.

2 COMMISSIONER GAW: Thank you. And for

3 residential ratepayers, is there -- I know this is extremely

4 difficult, but is there some way you can get me some sort of

5 an average range we'd be talking about for someone to be on a

6 deposit? What kind of money that might be? Just a general

7 range of possibility, probability? I'm sure there was an

8 average bill calculated in order to determine how much of a

9 rate increase this was going to be. Maybe that would be a

10 number that someone could work from.

11 MR. PENDERGAST: Well, if you were to assume

12 that a customer had an annual bill of \$1,200, you know,

13 depending on where gas prices are and --

14 COMMISSIONER GAW: Right.

15 MR. PENDERGAST: -- and other factors, that

16 can vary, but that would, I guess, result in a deposit of

17 \$400.

18 MS. MEISENHEIMER: Commissioner Gaw, I'm able

19 now to remember the other point.

20 COMMISSIONER GAW: Sure.

21 MS. MEISENHEIMER: With respect to you asked

22 whether the credit score would apply to only the customer or

23 to persons in the household.

24 COMMISSIONER GAW: Yes.

25 MS. MEISENHEIMER: And my understanding, as

1 customer is currently defined, it should only apply to the
2 customer that pays for service --

3 COMMISSIONER GAW: Okay.

4 MS. MEISENHEIMER: -- that the customer that
5 the service is billed to. However, in the event that the
6 Chapter 13 rules were altered to change the definition of
7 customer, then potentially, it could expand to others in the
8 household, and we would certainly have a concern about that.

9 COMMISSIONER GAW: All right. Thank you for
10 that verification. Do you have anything on the average -- do
11 you agree with Mr. Pendergast's assessment, about \$400 for if
12 you just average what everyone's residential bills are?

13 MS. MEISENHEIMER: Yeah, I -- at this moment,
14 I don't dispute that.

15 COMMISSIONER GAW: Staff?

16 MR. MEYER: Based on his assumptions, we have
17 no dispute with that.

18 COMMISSIONER GAW: So they pay -- they would
19 pay up-front -- if they were average average, they would pay
20 \$400 up-front if they had to pay a deposit?

21 MS. MEISENHEIMER: They would pay in
22 installments, and --

23 MR. PENDERGAST: Yeah, I think it's either
24 three or six, depending on what time of year it is, and these
25 four times the average, I think, are for customers that have

1 had poor pay experiences with Laclede Gas Company. I believe
2 for new customers, we're talking two times the average; is
3 that correct?

4 So -- and once again, four times the average,
5 based on our experience, is going to be a lower deposit than
6 two times the highest is under our current approach, so ...

7 COMMISSIONER GAW: Do you know what that
8 number would be if you were dealing with averages.

9 MR. PENDERGAST: For example, I think if we
10 were talking about instead of the 400, more like 430.

11 COMMISSIONER GAW: Okay.

12 MR. PENDERGAST: So it's not significantly
13 lower, but it is lower.

14 MS. MEISENHEIMER: And compared to the
15 Company's originally -- or original filing where they sought
16 prepaid deposits, they have -- they are -- in the
17 stipulation, there are not prepaid deposits.

18 COMMISSIONER GAW: All right. So the deposits
19 are paid when the bill comes due? Or is any of the deposits
20 paid up-front at the time of institution of service.

21 MR. PENDERGAST: I think one-third, and then
22 the customer has the option of paying the rest over two
23 additional installments or more, depending on whether it's a
24 winter period or not.

25 COMMISSIONER GAW: Okay. So \$133 or so if

1 they were an average average customer. Would that be about
2 right?

3 MR. PENDERGAST: It sounds about right.

4 COMMISSIONER GAW: Okay. I'll leave it up to
5 you, if you want me to break now.

6 JUDGE DIPPELL: We can either break now for
7 lunch, Commissioners --

8 CHAIRMAN DAVIS: Why don't we go ahead and
9 break, because I think the Commissioners are going to need
10 some time to get ready for the agenda?

11 MR. SCHAEFER: Judge, before we do that, I
12 just need to ask -- I don't know if the Commission's going to
13 have any questions on the low income weatherization and
14 efficiency rebate programs. If not, we would ask to be
15 excused.

16 JUDGE DIPPELL: I believe there may be some
17 questions, Mr. Schaefer.

18 CHAIRMAN DAVIS: Why don't we have them come
19 back at 1:15 and see -- and try to go to that and get him out
20 of here.

21 JUDGE DIPPELL: We'll take that up immediately
22 after.

23 MR. SCHAEFER: Thank you very much for doing
24 that.

25 JUDGE DIPPELL: I apologize. I should have

1 probably asked earlier. What we'll do, then, is we're going
2 to break for lunch until 1:15. And we can resume the
3 questioning then. Thank you. We can go off the record.

4 (A BREAK WAS HELD.)

5 JUDGE DIPPELL: Let's go ahead and get started
6 again. Okay. We'll go ahead and go back on the record.
7 Okay. We've returned from our break, and we're ready to
8 resume questions. And Commissioner Gaw, did you have some
9 questions regarding the low income energy assistance
10 weatherization, and so forth, parts of the stipulation?

11 COMMISSIONER GAW: A few.

12 JUDGE DIPPELL: Do you want to begin there?

13 COMMISSIONER GAW: Why don't we try that. If
14 somebody could, maybe counsel for DNR might be the best place
15 to go with this, just give me an understanding of how the --
16 how this energy efficiency program works and how it compares
17 to others that are currently in existence.

18 MR. SCHAEFER: Commissioner, I'm -- I'm
19 relatively new to the department. I brought Ms. Brenda
20 Wilbers with me, and I think that she can answer those
21 questions in a much more thorough way than I possibly could.

22 (THE WITNESS WAS SWORN.)

23 JUDGE DIPPELL: If you would give us your name
24 and state, you know, what your position is.

25 MS. WILBERS: My name is Brenda Wilbers, and

1 I'm the director of energy policy and analysis within the
2 Energy Center, which is in Department of Natural Resources.

3 JUDGE DIPPELL: Thank you.

4 COMMISSIONER GAW: Thank you, Judge.

5 QUESTIONS BY COMMISSIONER GAW:

6 Q. Ms. Wilbers, I think you heard my question --

7 A. Yes.

8 Q. -- or questions. Can you give me some
9 background?

10 A. Well, the low income weatherization assistance
11 program is one that is -- has been administered by the
12 Department of Natural Resources since the mid-70's. We do
13 get federal appropriations for that every year, and we work
14 with 12 to 14 local agencies throughout the state to actually
15 provide the services to low income, elderly, and disabled
16 households. So that is an ongoing program.

17 Q. Okay. So why don't you list off the
18 components of this stipulation first, just very generally,
19 that DNR contributed to.

20 A. Okay. Weatherization assistance program,
21 Laclede had, in previous rate cases, committed to \$300,000
22 per year for weatherization, and in this case, there's an
23 addition \$200,000 that's being contributed to that program,
24 so it comes to a total of \$500,000 per year.

25 Q. Okay. And how is that utilized?

1 A. That will be distributed to the six local
2 agencies that do weatherization in Laclede service territory.

3 Q. Those agencies are what kind of agencies?

4 A. Those are community action agencies.

5 Q. All right. And have they been handling funds
6 in the past?

7 A. Yes.

8 Q. All right. And the track record there has
9 been -- has been reviewed?

10 A. Yes, we continually monitor implementation.
11 We regularly assess and audit their books.

12 Q. All right. And your findings have been in
13 regard to this program?

14 A. They've been very good. In this area, in the
15 St. Louis area, the results of weatherization, there's a
16 savings to investment ratio for every dollar spent on the
17 program, \$2.50 is the average value.

18 Q. And are those figures -- what kinds of things
19 are done with the money?

20 A. Well, an energy audit is -- is the first step.
21 It's done -- well, they have to meet eligibility
22 requirements, and then --

23 Q. The eligibility requirements are generally
24 what kinds of things? Income?

25 A. Income, yes.

1 Q. Anything else? Household -- does the
2 residents have to -- I guess that's what you were getting to.
3 Your doing an energy audit is about assessing the actual
4 structure?
5 A. Yes.
6 Q. Okay. Go ahead, I interrupted you.
7 A. So they will do this energy audit, which is
8 standardized audit from the US Department of Energy, and it
9 will identify, based on inputs that are put in by the expert
10 doing the audit, it will identify cost effective measures to
11 be installed at that facility, at that home, so --
12 Q. Okay.
13 A. -- that's how the measures are chosen.
14 Q. And what -- and there's a criteria -- you have
15 to meet a certain standard before you qualify into the energy
16 audit portion of the test? You have to -- the residents, the
17 house has to have some sort of a need in regard to energy
18 improvements that could be demonstrated?
19 A. Yeah, the energy audit will identify what
20 those measures are.
21 Q. I mean, if you had a very efficient house you
22 did an energy audit on, and said there wasn't much
23 incrementally that could be done, what would be the result?
24 A. Then we would probably walk away from that
25 home, because they wouldn't need the weatherization

1 assistance.

2 Q. Okay. So is there some sort of objective way
3 to determine that, or is it a subjective thing?

4 A. It's an objective way of determining it. It's
5 a computerized audit program, and they -- they will assess
6 the home, building structure, and the appliances that are in
7 it, the heating systems, and input that into this model.

8 Q. Okay. All right. And then what occurs after
9 that?

10 A. Then measures are identified, and there is
11 a -- a maximum that can be spent on each household.

12 Q. What is that?

13 A. That is -- I think in this stipulation, it's
14 no more than \$3,000 per home. On average, that is about
15 \$2,500 that we're finding as we administer the statewide
16 program.

17 Q. Does that include the cost of the energy
18 audit?

19 A. Yes.

20 Q. What's the energy audit cost, generally?

21 A. Well, we have -- we have administrative funds
22 that we provide to these agencies for training and technical
23 assistance, and they -- their -- their experts are trained in
24 this, and they're given this national energy audit. So that
25 would be outside of the 2,500, actually.

1 Q. Okay. So that doesn't come out of the --
2 A. Yes, that's correct.
3 Q. -- 2,500. That's what I was looking for. All
4 right. So then you get into the -- the payment. Is that
5 done as a reimbursement to someone? They go ahead and make
6 the improvements, when does the check get written? After
7 the -- after the improvements are done, does it happen ahead
8 of time, how does that work?
9 A. With the federal dollars that we distribute,
10 that is done ahead of time.
11 Q. And it's written to who?
12 A. The action agency.
13 Q. Okay. And who do they write the check to? Do
14 they buy all these things, do they do the contracting, who
15 does all that?
16 A. As I understand it, they -- the action agency
17 may have its own employees who actually do the installation,
18 or they may contract with folks to actually go and do the
19 heating system upgrades, or insulation measures, or whatever.
20 Q. Okay. So they write the check to whoever did
21 the work?
22 A. Yes, yes.
23 Q. All right. And it's the same concept that you
24 have in regard to this -- this money that's being put in for
25 this purpose?

1 A. Yes, that's my understanding. Laclede would
2 pay the action agencies directly up front, and they would
3 administer, then.

4 Q. Is there some sort of a payment to the
5 community action agencies out of this money for
6 administration, or is that a different part of this?

7 A. I believe there is a provision in
8 Attachment 5.

9 COMMISSIONER GAW: If someone else knows who
10 wants to answer that.

11 MR. ZUCKER: Yeah, the answer is that
12 administrative costs are reimbursed up to \$300 per household.
13 BY COMMISSIONER GAW:

14 Q. Okay. All right. And then is there any way
15 that this -- how do you -- who identifies the houses that
16 might be potential candidates for this? Does somebody bring
17 them into the community action agency, or how does that work?

18 A. I think in this case, we usually have more
19 applicants on a waiting lists than we have funds to provide
20 the services for. And I think in this stipulation, there's a
21 provision for Laclede to confidentially identify to the
22 action agencies the highest users of energy, and they would
23 be targeted first.

24 Q. Who is -- when you're dealing with -- with
25 whom the contact is made with, who makes the contact with the

1 -- the person that would receive these services?

2 A. I believe the initial contact would be made by
3 the community action agency.

4 Q. Okay. Now, how do you deal with the
5 situations when you're -- when the person who is -- is
6 getting the service from Laclede is a renter? What happens
7 in that dynamic?

8 A. We would -- just one extra step, I believe.
9 The landlord would have to sign an agreement with the
10 community action agency that they agree to allow these
11 installations to be made in their facility.

12 Q. What's the track history on that, does anybody
13 know, with this program, when you have a landlord situation?

14 MR. PENDERGAST: I don't have that information
15 at my fingertips, Commissioner Gaw.

16 COMMISSIONER GAW: That's been a concern
17 that's been expressed in other venues, and I just wondered if
18 you-all had any specific information.

19 MR. PENDERGAST: One thing I will note is that
20 one of the programs that is new is the Landlord or Rental
21 Property Owner Efficiency Program, where we are taking our
22 energy-wise program, that basically provides favorable
23 financing for high efficiency appliances, and making that
24 available to lower income rental owners to address this very
25 kind of situation, so I think there's a recognition that that

1 has been kind of a concern. And I think it was the Staff,
2 maybe, that came up with that particular proposal in
3 conjunction with a broader one that DNR had as well. And I
4 think Public Counsel may have had a role play in it, too, but
5 anyway, it's being addressed as one of the programs that's
6 under the energy efficiency programs.

7 COMMISSIONER GAW: Anybody else want to add to
8 that?

9 MR. MEYER: Commissioner, I believe Greg Meyer
10 from Staff may be able to add to that.

11 (THE WITNESS WAS SWORN.)

12 JUDGE DIPPELL: And if you could give your
13 name and your position with the Commission.

14 MR. MEYER: It's Greg Meyer, I'm a Regular
15 Auditor V with the auditing department.

16 QUESTIONS BY COMMISSIONER GAW:

17 Q. What do you know about this, Mr. Meyer?

18 A. Mr. Jackson, out of Kansas City, had a similar
19 problem with a community action agency out of Kansas City,
20 Missouri, and experienced similar problems with the renters
21 -- or the landlords that had renters that had had
22 weatherization done. And they developed an agreement, or
23 contract, where the -- the landlord would come in and sign an
24 agreement that as a result of the weatherization, that the
25 renters would not see an increase in their rent for a

1 specified period of time so that the weatherization would be
2 provided, still, by the community action agency, but the
3 renters would be protected from rent increases due to the
4 efficiencies that were obtained in the dwellings.

5 Q. Okay. And is that part of this proposal?

6 A. I don't know that it's specifically addressed
7 in this proposal. I know that we've had discussions with
8 Jackie Hutchison in the St. Louis action agency about in
9 developing that same type of contract.

10 Q. That's in the city?

11 A. Yes.

12 Q. Have you had the same discussions with the
13 county community action agency.

14 A. Not to my knowledge, no.

15 Q. Okay. Thank you. I may have other questions
16 in a minute.

17 COMMISSIONER GAW: So \$2,500 that would go
18 in -- that could go per home, what does that do for you?
19 Would that get you a new -- could it get you a new heating
20 unit, cooling unit, or not? Probably not?

21 MS. WILBERS: I think it could; I'm not sure
22 about the cost of the units.

23 COMMISSIONER GAW: Okay. How did we get to --
24 how about that, Ms. Meisenheimer?

25 MS. MEISENHEIMER: Yes, it could.

1 COMMISSIONER GAW: Okay. And is that the
2 thought? What is this supposedly targeted toward when you're
3 looking at 2,500? I know it varies from one place to
4 another, but ...

5 MS. MEISENHEIMER: Actually, my understanding
6 is that although there may be a cap on how much can be spent
7 per household, that on average, it's probably closer to
8 something like 2,000 or 2,100 that actually gets spent. And
9 my understanding, based on discussions with DNR, is that
10 there are all sorts of measures that may be taken within a
11 household, that it's unique to the specific structure in
12 terms of what it needs, in terms of higher efficiency,
13 furnace, water heater, and things like insulation. So there
14 are -- it's -- the measures would be unique to the situation.
15 QUESTIONS TO MS. WILBERS FROM COMMISSIONER GAW:

16 Q. Okay. What else is there in this proposal in
17 regard to DNR?

18 A. There is \$150,000 that has been targeted for
19 residential heating, high efficiency gas furnaces and boilers
20 or energy star -- energy star rated or highly efficient gas
21 furnaces and boilers, so there's \$150,000 targeted for that.
22 Another \$100,000 is targeted for commercial customers for
23 high efficiency natural gas equipment, and Mr. Pendergast
24 mentioned \$50,000 that has been targeted for rental property.

25 Q. Okay. Now, have you -- what, of those

1 programs, are new to DNR? Not to Laclede, but to DNR?

2 A. We have worked with AmerenUE on administering
3 similar residential and commercial high efficiency natural
4 gas rebate programs, so we have -- we have some experience in
5 that area. And we -- we hope to take some of the -- the
6 structure from that program, and some of the lessons learned
7 there and apply them here to this program. There is a
8 collaborative group of interested parties that will determine
9 program design.

10 Q. Will that get reported back to the Commission?

11 A. The program design?

12 Q. Yeah, the collaborative group's work.

13 A. Typically, what has happened is the Company
14 will file a tariff for the program before it's administered.

15 Q. Okay.

16 A. And if -- I believe there's a provision in
17 here that if the parties can't come to an agreement, they
18 would come back to the Commission, I believe it's in
19 February.

20 Q. Okay. So is DNR satisfied, then? I know
21 you're satisfied with the stip. Are you happy with these
22 provisions or satisfied? If I were characterizing it, is
23 this thrilling to you or are you just, well, you can live
24 with it and you think it's good to have it in the stip? Use
25 your own words.

1 A. Okay. I think it's a very important part of
2 the stipulation. Of course, additional funding for the
3 efficiency programs would have greater impact, and I think
4 provide greater benefits to customers and help them manage
5 their utility bills, but we are satisfied with this
6 stipulation.

7 COMMISSIONER GAW: Anybody else on this group
8 of issues?

9 MS. MEISENHEIMER: I would just point out that
10 DNR got everything that they asked for in this stipulation.

11 COMMISSIONER GAW: This is all they asked for?

12 MS. MEISENHEIMER: They got everything that
13 they asked for.

14 COMMISSIONER GAW: You mean they could have
15 asked for more?

16 MS. MEISENHEIMER: I don't know that they
17 would have gotten more had they asked for more. You asked a
18 question about whether anything of this was new.

19 COMMISSIONER GAW: Yes.

20 MS. MEISENHEIMER: The one part that I'm
21 familiar with that I think may be new had to do with a
22 recommendation to create some supplemental money to help
23 secure energy-wise dollars to help pay for improvements, and
24 the Company can probably explain better than I can what the
25 energy-wise program does.

1 COMMISSIONER GAW: Do you want to do that,
2 Mr. Pendergast?

3 MR. PENDERGAST: Yeah, that's the one I was
4 referring to earlier where we do have an existing program
5 where we already offer loans to folks to allow them to put in
6 high efficiency, not only gas equipment, but in connection
7 with electric equipment too, if it's all done at the same
8 time. And what the stipulation does is try and expand the
9 availability of that program to lower income rental units, so
10 that they can take advantage of that and --

11 COMMISSIONER GAW: How does that work with the
12 lower income group?

13 MR. PENDERGAST: Well, it's targeted towards
14 residential. Obviously it's targeted towards owners with, I
15 think, eight units or less.

16 COMMISSIONER GAW: Okay.

17 MR. PENDERGAST: And we're not trying to go
18 after the big complexes, but I think that one of the things
19 that Jackie Hutchison has mentioned in the past is you have a
20 lot of situations where somebody has maybe a four-plex or
21 they have a duplex. They live downstairs, they have somebody
22 that lives upstairs. They would like to be able to go ahead
23 and install some energy efficient equipment, but, you know,
24 the economics are sometimes hard to -- to overcome. This
25 program would help them to go ahead and do that, and

1 hopefully not only improve the unit they may be living in,
2 but also improve the other units they own and that people are
3 living in in terms of energy consumption.

4 COMMISSIONER GAW: In this case, if it's a --
5 if it's the landlord situation, who's liable on the loan?
6 How does that work?

7 MR. PENDERGAST: My supposition is that the
8 landlord is going to be liable on the loan, not the tenant.

9 COMMISSIONER GAW: Uh-huh. And do they -- do
10 they -- do they procure the contractor to do the
11 improvements, or is that done by someone else?

12 MR. PENDERGAST: My understanding is we have a
13 list of contractors. We have contractors that are available.

14 COMMISSIONER GAW: Right.

15 MR. PENDERGAST: And so I think there's a
16 selection to go ahead and choose from. I'm not sure that we
17 try and dictate that.

18 COMMISSIONER GAW: Okay. But they would come
19 in and do the -- do the work, and then does Laclede, then,
20 through this program, pay for that work, and then is there
21 a -- some sort of note or something executed?

22 MR. PENDERGAST: We would provide financing,
23 yes, and there would be a lien associated with it.

24 COMMISSIONER GAW: Is it on the real estate?

25 MR. PENDERGAST: Yeah, it should be on the

1 real estate, yeah.

2 COMMISSIONER GAW: All right. It's something
3 that's recorded?

4 MR. PENDERGAST: It's on the furnace, my
5 understanding is.

6 COMMISSIONER GAW: The lien is on the furnace,
7 not the real estate?

8 MR. PENDERGAST: Yes, I think that's right.

9 MS. MEISENHEIMER: That supplemental money
10 was, I think, originated the idea was -- originally Staff's
11 idea, and so they may have comments on it.

12 COMMISSIONER GAW: Are they there?

13 MR. MEYER: Mr. Pendergast was fine, we don't
14 have anything to add to that.

15 COMMISSIONER GAW: Okay. How long has this
16 program been out there? I know you put the landlord piece on
17 it, but how long has it been out there? Do you know?

18 MR. PENDERGAST: At least -- at least since
19 '97, and perhaps before that.

20 COMMISSIONER GAW: Do you know how much has
21 been utilized?

22 MR. PENDERGAST: It's been utilized more in
23 the past than it has recently, and I think one of the reasons
24 for that is that with where mortgage interest rates have
25 been, and the availability of home equity loans are pretty

1 favorable conditions, it's been a little hard to offer
2 something that's even more favorable than that.

3 Of course, this part of the program is
4 designed to shave off those interest charges and shave off
5 the up-front expenditure that somebody normally has to make
6 under the program to participate, so that we will hopefully
7 encourage more people to become users of the particular
8 service.

9 COMMISSIONER GAW: Right. Is there -- is
10 there some sort of an interest rate break in the program?

11 MR. PENDERGAST: Seven and a half percent, and
12 I think it's payable over five years.

13 COMMISSIONER GAW: Okay. I don't know what
14 it's running at, to get interest on a new furnace, so I don't
15 know how that compares one way or the other.

16 MR. PENDERGAST: Yeah, I mean, a home equity
17 loan, folks can have that at five and a half percent.

18 COMMISSIONER GAW: Yeah, if you go out and use
19 the real estate itself?

20 MR. PENDERGAST: Right.

21 COMMISSIONER GAW: Yeah. Okay. I think
22 that's all I have about this line.

23 JUDGE DIPPELL: Okay. Commissioner Appling,
24 did you have any questions?

25 COMMISSINER APPLING: No.

1 JUDGE DIPPELL: All right. I'm not sure that
2 there are any other Commission questions, so I'll just tell
3 you that you are free to go and I'll risk there being other
4 Commission questions.

5 MR. SCHAEFER: Thank you. And if anything
6 does come up, we'd be more than happy to respond.

7 COMMISSIONER GAW: Thank you-all for coming
8 over.

9 JUDGE DIPPELL: Commissioner Gaw, did you have
10 questions on other topics?

11 COMMISSIONER GAW: Yes.

12 JUDGE DIPPELL: Okay.

13 QUESTIONS OF BARB MEISENHEIMER FROM COMMISSIONER GAW:

14 Q. The -- the change on disconnection to -- from
15 8:00-4:00 to 7:00-7:00, I believe, Public Counsel, what's
16 your position on that, in general?

17 A. It was not our favorite provision of the
18 settlement, but it is a part of the total settlement.

19 Q. I understand. I'm talking about just in
20 principle, what's your position on it, outside the scope of
21 the settlement?

22 A. I believe that there are other utilities in
23 the state that have something different than, like, an
24 8:00-4:00. And so this may not match up exactly in terms of
25 the hours, but it was something that -- that we felt like

1 existed, and therefore we can live with it.

2 Q. Is there a rule on this?

3 A. There -- I think there's a -- is it dawn to
4 dusk?

5 COMMISSIONER GAW: Staff?

6 MR. MEYER: I'm told there is a rule, I'm not
7 exactly sure which.

8 COMMISSIONER GAW The stipulated -- the
9 stipulated thing is contrary to the rule, isn't it?

10 MS. MEISENHEIMER: Gay Fred could probably
11 answer the questions that you have.

12 QUESTIONS OF MS. GAY FRED BY COMMISSIONER GAW:

13 Q. Would you like that one, Ms. Fred?

14 A. In Chapter 13, there is provisions for the
15 time of day for disconnection currently. There are utilities
16 who have received waivers from those who are currently
17 utilizing other times to do the same type of work.

18 Q. Okay. Are those waivers, are they 7:00-7:00
19 now?

20 A. They're dusk to dawn now.

21 Q. Dusk to dawn?

22 A. Right, or 7:00-7:00. I think it's provision
23 either way.

24 Q. Okay.

25 A. It's either/or. So this is nothing that would

1 not be consistent with other utilities --

2 Q. Okay.

3 A. -- this proposal.

4 Q. But it is inconsistent with our current rule?

5 A. It is inconsistent, correct.

6 COMMISSIONER GAW: Okay. Someone explain to

7 me the difference in the change in regard to notice to

8 disconnect. Public Counsel, is this another one of your

9 favorite provisions? You're going from 11 business days that

10 notice is good for, to 30 calendar days, if I understand it

11 correctly. If I'm wrong, don't hesitate to correct me.

12 MR. PENDERGAST: That's correct.

13 COMMISSIONER GAW: Help me understand that,

14 Public Counsel --

15 MS. MEISENHEIMER: Again --

16 COMMISSIONER GAW: -- the rationale for it.

17 MS. MEISENHEIMER: -- that was not something

18 that our office proposed.

19 COMMISSIONER GAW: You all didn't fight for

20 that one, did you? Kidding. What -- translate 20 business

21 days into calendar days for me, first. What's that?

22 MS. MEISENHEIMER: Eleven business days.

23 COMMISSIONER GAW: Is it 15 days, basically?

24 So it's doubled, in essence? We've doubled the amount of

25 time that a notice of disconnect is good for? Does that

1 sound right?

2 MR. PENDERGAST: That's about right, I think.

3 COMMISSIONER GAW: And is this something

4 that's contained in our rules currently? Ms. Fred, who's

5 nodding her head.

6 MS. FRED: Yeah, it is in our current rule.

7 COMMISSIONER GAW: You need to probably come

8 up close for the court reporter.

9 COURT REPORTER: I got it.

10 COMMISSIONER GAW: You did?

11 COURT REPORTER: Uh-huh.

12 COMMISSIONER GAW: She said she got that. It

13 is in our current rules, and what do our current rules say?

14 MS. FRED: Our current rules say that they

15 have 15 days or less.

16 COMMISSIONER GAW: Fifteen days or less.

17 Okay. So do any other utilities have notice provisions on

18 disconnect out there that are good for longer than the rule

19 currently states?

20 MS. FRED: No.

21 COMMISSIONER GAW: So this would -- this would

22 be something that would be different?

23 MS. FRED: Yes, and I might mention that this

24 also has been discussed in the rulemaking proposal for

25 Chapter 13 provisions, among all parties -- or among all

1 utilities, and this is an issue that we're looking forward to
2 proposing to the Commission in that rulemaking amendment.

3 COMMISSIONER GAW: Uh-huh. Okay. I hope -- I
4 hope not everyone is looking forward to it. Then, thank you,
5 Ms. Fred.

6 MS. FRED: You're welcome.

7 COMMISSIONER GAW: Public Counsel, do you see
8 any issues with extending the number of days that a notice of
9 disconnect is good for from your standpoint? And I know you
10 signed off on the agreement, because you found other things
11 in there that you like. But from a principle standpoint, do
12 you have an issue with this, or do you even have a position
13 today?

14 MS. MEISENHEIMER: It gives them less
15 certainty in terms of when -- when their service might be
16 disconnected. On the other hand, I don't know that it would
17 necessarily create situations where they would get a longer
18 period of time for their service was created -- or
19 disconnected. I can't say that. So I don't have a -- at
20 this time, I don't have a strong position on that.

21 COMMISSIONER GAW: Mr. Pendergast, do you want
22 to put anything into the --

23 MR. PENDERGAST: Yeah, I guess on the --

24 COMMISSIONER GAW: -- pot?

25 MR. PENDERGAST: -- Both of the issues that we

1 were talking about, taking the 30 days when we're hopeful
2 that that will provide an opportunity to have to send out
3 fewer disconnection notices ultimately. And one thing that
4 may confuse customers, at least some customers already, is
5 that you're required to send out, you know, kind of a
6 cascading number of disconnect notices, and sometimes it can
7 be a little difficult to -- to determine when I should be as
8 concerned as I ought to be about paying my bills so I don't
9 get disconnected.

10 I think it will help to maybe cut back a
11 little bit on that kind of confusion, and you know, there's
12 always the thought of, you know, how close in time to when
13 disconnection occurs do I want to go ahead and give notice,
14 counterbalanced against that I want to give people as much
15 notice as possible. And there's no, I guess, clear-cut
16 guideline as to when it's too early and when it's too late,
17 but we think that -- that having this additional time to have
18 effective will help rationalize the process a little bit,
19 hopefully to the benefit of both the customer and the
20 Company.

21 And on the disconnection and going to
22 additional time, I think one important consideration on that
23 is you have a lot of situations where people just aren't home
24 during the day, during normal business hours, and to the
25 extent that you can actually have a service person out there

1 that has the opportunity to go ahead and make actual contact
2 with the customer -- I mean, a lot of times we find that
3 customers will pay if they have that final human contact
4 before disconnection arises. And unlike some other
5 utilities, we're willing to go ahead and accept those
6 payments at the door.

7 I know some have taken a position that after a
8 certain period of time, or at all, I will not accept payments
9 out in the field. We will do that, and I think there's as
10 much likelihood that this will help void interruptions as it
11 will go ahead and result in additional service
12 disconnections.

13 COMMISSIONER GAW: Is there a minimum time
14 before disconnection can occur? If you say there's a maximum
15 time, 11 business days, or now, if this agreement is
16 approved, 30, is there a minimum time?

17 MR. PENDERGAST: Let me have Mr. Zucker answer
18 that so that you get an accurate answer.

19 MR. ZUCKER: Well, from the time you get your
20 bill by rule and tariff, you have 21 days to pay it. After
21 that, if you don't pay it and the bill becomes delinquent, we
22 send a notice of delinquency.

23 COMMISSIONER GAW: Okay.

24 MR. ZUCKER: The minimum time, by rule, is ten
25 days. So a customer has at least ten days, then, to pay the

1 bill before they go into the disconnect period.

2 COMMISSIONER GAW: Then is there another

3 notice sent that says you'll be disconnected if something

4 doesn't happen?

5 MR. ZUCKER: Right, there is another notice

6 sent that is intended to arrive -- that is intended to be

7 delivered to the customer between four and two days before

8 the -- the disconnection becomes applicable. So they get the

9 bill, they get the disconnect notice, and then they get the

10 final notice that tells them that in a few days, that the

11 disconnection date will have arrived.

12 COMMISSIONER GAW: Is there -- and there is a

13 minimum time on this notice or not? In other words, it will

14 not occur before a certain date on the notice?

15 MR. ZUCKER: Well, the first notice that --

16 COMMISSIONER GAW: Just the last notice.

17 MR. ZUCKER: The last notice can be sent,

18 let's say, four days before that disconnect date, so it

19 doesn't give extra time on top of the ten days, necessarily.

20 COMMISSIONER GAW: Oh, I see.

21 MR. ZUCKER: Unless we send it later, and then

22 it gives an extra four days.

23 COMMISSIONER GAW: I see. Is that by policy

24 or by rule?

25 MR. ZUCKER: There is a rule that requires it.

1 COMMISSIONER GAW: So it's between -- the way
2 it currently is, you'd have between four and eleven days when
3 it could be turned off. Am I following you?

4 MR. ZUCKER: No, not exactly.

5 COMMISSIONER GAW: Okay.

6 MR. ZUCKER: We send the notice of a
7 disconnection, and that gives at least ten days by rule. We
8 actually currently give 21 days, but the minimum we could
9 give is ten, okay? Four days before that ten days ends, we
10 send another notice saying, you know, it's coming up here
11 where you could be disconnected.

12 COMMISSIONER GAW: Right.

13 MR. ZUCKER: Okay. Now the date of
14 disconnection occurs.

15 COMMISSIONER GAW: Okay.

16 MR. ZUCKER: Once that date occurs, we can do
17 the disconnection anytime between then and eleven business
18 days after then.

19 COMMISSIONER GAW: Okay.

20 MR. ZUCKER: And then in those -- after those,
21 let's say, 15 days, if the customer has not paid, we no
22 longer can disconnect for the next 15 days until the next
23 month kind of rolls over.

24 COMMISSIONER GAW: Why is that?

25 MR. ZUCKER: Because the rule currently cuts

1 off the disconnection period at 11 business days.

2 COMMISSIONER GAW: Yeah, but you can't just
3 send another disconnect notice -- oh, I see, it's four plus
4 11.

5 MR. ZUCKER: Right, you have to start --
6 right, that period ended, and you would have to start over
7 again.

8 COMMISSIONER GAW: So this extends it to 30
9 days from 11?

10 MR. ZUCKER: From basically 15.

11 COMMISSIONER GAW: Okay.

12 MR. MEYER: Commissioner, for the record, I
13 don't think I've heard anybody actually cite the rule that
14 everybody's been referencing.

15 COMMISSIONER GAW: Yes.

16 MR. MEYER: It's in Chapter 13, it's 4 CSR
17 240-13.050. The provisions for the hours, the 8:00 to
18 4:00 p.m., and all that are in subsection three. The
19 provisions that Mr. Zucker was just discussing with the
20 notice to customers is subsection five.

21 COMMISSIONER GAW: Okay. Thank you.
22 Somewhere in here, just a second. Well, I wrote myself a
23 note about notice of transportation customers, and I'm not
24 seeing it here.

25 MR. ZUCKER: In the stipulation, you mean?

1 COMMISSIONER GAW: Yes, uh-huh.

2 MR. ZUCKER: In the stipulation, it's on

3 Page 5 under section 2(g).

4 COMMISSIONER GAW: Okay. Thank you. Okay.

5 Tell me what that does in tariff, then, just generally.

6 MR. ZUCKER: Okay.

7 COMMISSIONER GAW: What's it require that's

8 different?

9 MR. ZUCKER: It allows us to give different

10 types of notification to the transportation customers. We

11 can call them on the phone or e-mail them or fax them.

12 COMMISSIONER GAW: Okay. What could you do

13 under the current? How does it change under the stip from

14 when it's done -- what's done currently?

15 MR. PENDERGAST: Commissioner?

16 COMMISSIONER GAW: Yes.

17 MR. PENDERGAST: Currently, we have to try and

18 just get a hold of them by phone and just keep on trying

19 until we do. This allows us to go ahead and use fax and

20 e-mail in addition to that.

21 COMMISSIONER GAW: So are you to -- are you to

22 assume, then, under this stip, that if you e-mail, that's

23 sufficient notice?

24 MR. PENDERGAST: Yes, it would be sufficient.

25 We will still try and make phone calls, but we'll be able to

1 use that as an alternative, or an additional means of
2 providing the notice.

3 COMMISSIONER GAW: And what's this notice --
4 what's the purpose of this notice? What's the context of it?

5 MR. PENDERGAST: Commissioner, it's primarily
6 when we're in a period of limitation. In other words, there
7 is a problem with a supplier, or pipeline is saying that
8 they're putting us in limitation.

9 COMMISSIONER GAW: Okay.

10 MR. PENDERGAST: It's to notify the
11 transportation customers that take all the gas that you've
12 nominated and actually delivered to our system, but don't
13 take more, we're in a period of limitation, and you're not
14 entitled to purchase gas from us.

15 COMMISSIONER GAW: Okay. And this would have
16 been -- at least some entities with this interest, would have
17 been represented by Ms. Vuylsteke?

18 MR. PENDERGAST: Sure, absolutely. Almost all
19 of her clients are transportation customers.

20 COMMISSIONER GAW: Okay. All right. Let me
21 go on to the PGA modifications. Who at Staff has that
22 information?

23 MR. MEYER: Mr. Imhoff.

24 COMMISSIONER GAW: Okay. Is he sworn already?

25 JUDGE DIPPELL: Not yet.

1 (THE WITNESS WAS SWORN.)

2 JUDGE DIPPELL: Thank you. If you could state
3 your name and spell it for the court reporter.

4 MS. MEISENHEIMER: Okay. My name is Thomas
5 M. Imhoff, last name is spelled I-M-H-O-F-F, and I work
6 within the rates and tariffs for the -- for the energy
7 department.

8 JUDGE DIPPELL: Thank you.

9 QUESTIONS BY COMMISSIONER GAW:

10 Q. Okay. I'm going to ask just a few questions
11 here about this, Mr. Imhoff, and what -- one of the things I
12 want to know, as we go through these provisions, is whether
13 or not this is something that -- this provision is something
14 that was changed as a result of the negotiation, principally
15 because of the settlement here, or if it was done because
16 this is sort of the new -- newer policy that the Commission
17 has in regard to that factor.

18 A. Okay.

19 Q. The first thing that I have down here is the
20 limitation of the refund factor, and I want you to tell me
21 first what that is. What that means?

22 A. Okay. Basically, what that would be is
23 whenever there would be a refund that would come in, they
24 would -- you would have to wait until there -- there would be
25 an actual PGA filing before the customers could actually get

1 credit for that refund. Now, under the -- under the current
2 proposal, they would -- that would be incorporated into the
3 calculation of the current gas cost immediately starting out
4 when the -- when they would get the refund. So it will be
5 calculated to lower the gas cost whenever you are calculating
6 out the interest portion, whether it would be an over or an
7 undercollection of gas costs.

8 COMMISSIONER GAW: Mr. Pendergast, you, or
9 whoever, quick version of it.

10 MR. PENDERGAST: Yeah, I think that's
11 basically -- the only thing we would add is it just makes it
12 part of -- the ACA moves it in so it gets counted like
13 everything else, as opposed to having it be a separate
14 factor. And it's just one of those measures that's -- we've
15 taken to go ahead and try and simplify the accounting for
16 this and make it a little more consistent, too, with how
17 other utilities do it now.

18 BY COMMISSIONER GAW:

19 Q. Is this, as a result of the -- of the changes,
20 the recommendations for changes that were made by Staff in a
21 more generic study?

22 A. Yes, it is.

23 Q. All right. All right. Then let me go on,
24 then, to the sharing costs, including hedging costs. Tell me
25 what that means from how it's currently being done, first of

1 all.

2 A. Basically what that does is you can -- they
3 can incorporate all costs that would help lower the PGA
4 rather than taking what the Nimex strip itself would be.
5 Under the old PGA tariffs, they could just take the Nimex
6 strip and use that as a basis for the cost. Here, whenever
7 you -- you can incorporate the hedging fixed price contracts,
8 storage costs, everything to help lower the actual PGA rate
9 itself.

10 Q. Well, first of all, I'm assuming when you say
11 all costs, you mean all prudent costs -- prudently incurred
12 costs?

13 A. All -- all -- there's a -- all costs that --
14 that we have the time to actually review. In the context of
15 an actual PGA filing, we only have ten business days, so we
16 don't really have the ability to do a very detailed
17 assessment as to the prudence.

18 Q. Do you do it at the ACA?

19 A. Yes, we do.

20 Q. So you would eventually get around to looking
21 at the prudence of the cost?

22 A. Yes.

23 Q. All right. Now, in regard to the -- what
24 occurs with those costs now, before this agreement is done?
25 Where are those costs showing up? Are they in base rates or

1 what's going on with those costs?

2 A. They would be -- they would be calculated
3 within the PGA.

4 Q. Okay. Okay. I guess what I'm look for is,
5 what's changing here. I'm not sure I'm following you. It's
6 probably me, so ...

7 MR. PENDERGAST: If I could, I think one of
8 the major changes is, we are, once again, kind of conforming
9 how we do things, both accounting-wise and PGA-wise, with how
10 other utilities have been doing them for some time now, as a
11 result of that general process the Commission had on the PGA
12 several years ago.

13 And I think in addition to what Tom had to
14 say, the major change is that we are now measuring and
15 tracking over- and under-recoveries from dollar one.
16 Laclede, up to this point, had something called a DCCV, which
17 I'm sure nobody wants me to go ahead and get into.

18 COMMISSIONER GAW: That's okay.

19 MR. PENDERGAST: It was an accounting
20 mechanism, and there were various levels over which you did
21 recognize carrying costs, either up or down, in the
22 customers' favor or the Company's favor. And what this does
23 is say we're going to start measuring those from the word go,
24 like we do with other utilities. And whatever they are,
25 you're positive or negative. The prime line is two carrying

1 costs will be applied to it. So it's really a simplification
2 process and making sure that everything stays even, either up
3 or down, from the very beginning.

4 COMMISSIONER GAW: Public Counsel have any
5 feedback on this that's helpful to me?

6 MS. MEISENHEIMER: It was not our issue, and
7 we relied on the Staff.

8 BY COMMISSIONER GAW:

9 Q. Okay. I got it. Staff, anything else?

10 A. I might add that all other changes pertaining
11 to the PGA were tied back to the generic docket that we'd
12 worked on a couple years ago.

13 Q. Okay.

14 A. These were just some of the changes that --
15 that needed to be made to bring Laclede in compliance with
16 it -- or to where they would be equal with all the other LDCs
17 who have conformed to those changes.

18 Q. Okay. That would be true of, then, the three
19 discretionary, one mandatory filing?

20 A. Yes.

21 Q. What about reflecting increases and decreases
22 in financing costs for hedging? Is that the same thing?

23 A. Let me see here.

24 JUDGE DIPPELL: This is a good time for me to
25 remind everyone to turn off your cell phones and blackberry

1 devices, because they tend to interfere with our Internet
2 broadcast.

3 MR. PENDERGAST: My apologies.

4 MR. IMHOFF: Okay. That last change was to
5 incorporate the gas inventory costs that were not subject to
6 the generic docket.

7 BY COMMISSIONER GAW:

8 Q. I'm not sure I followed you on that,
9 Mr. Imhoff. That's something that was not in the last -- in
10 that generic docket?

11 A. That is correct.

12 Q. So there is something in here that does not
13 pertain to that?

14 A. One thing, yes. I apologize.

15 Q. Now explain that one to me. What are you
16 doing here in subsection C?

17 A. Okay. That -- that was part of that \$4.1
18 million shift from base rates over to the PGA, so -- so --
19 and which is what we-all had agreed to, pursuant to the stip,
20 but it was not in the generic docket.

21 Q. Okay. Okay. So that's part of the \$4.1
22 million issue?

23 A. Yes.

24 Q. Okay.

25 A. Oh, if you would -- the PGA generic docket

1 number was GO-2002-452, as a reference.

2 Q. Okay. Thank you.

3 COMMISSIONER GAW: Refresh my memory on -- on
4 179 in regard to this phrase "customer usage levels". Is
5 that the phrase that's used in that legislation, "customer
6 usage levels"? I'm not sure. I'm trying to recall.

7 MR. PENDERGAST: I don't have the statute in
8 front of me right now, Commissioner, but I believe it talks
9 about changes in non-gas revenues associated with increases
10 or decreases in customer usage due to weather and
11 conservation. Something along those lines.

12 COMMISSIONER GAW: Okay. So there's more to
13 it than -- in the statute, than just the phrase "customer
14 usage levels"?

15 MR. PENDERGAST: Yes.

16 COMMISSIONER GAW: There's some modifications,
17 or at least there are more words there. I'm trying not to be
18 judgmental.

19 MR. PENDERGAST: There are more words, and it
20 does reference weather and conservation in particular.

21 COMMISSIONER GAW: Okay. Okay. So there's
22 not any intent here to try to say something that -- that is
23 anything other than whatever the statute says, and at some
24 point in time interpreted to say you're not waiving your
25 rights to those things. That's the only thing we're saying

1 in this?

2 MR. PENDERGAST: That's correct.

3 COMMISSIONER GAW: Okay. And I would correct

4 that if I said we -- I mean, you.

5 MR. PENDERGAST: That would be correct also,

6 Commissioner.

7 COMMISSIONER GAW: Let's see. Okay. In

8 regard to subparagraph ten, then. Maybe it's not in ten.

9 The provision that has to do with gas safety. Is that in ten

10 or something else? I see the cold weather rule provisions

11 there. Yes, gas safety as well.

12 In that -- in that regard, help me understand

13 the -- the accounting there. Is that something that's

14 just -- is a normal way of handling those expenditures, or is

15 this something that's being handled in some different way

16 than normal?

17 MR. MEYER: I think with respect to Commission

18 precedent and policy, I think Mr. Rackers would like to

19 respond.

20 QUESTIONS BY COMMISSINER GAW:

21 Q. Mr. Rackers, go ahead?

22 A. These are costs, which through an accounting

23 authority order authorization, similar to the way it's been

24 handled in a number of previous, not only Laclede cases, but

25 other gas company rate cases. They're allowed to accumulate

1 the costs in between rate cases associated with depreciation,
2 rate of return, property taxes, all these safety additions.

3 Q. Okay.

4 A. This -- this will be replaced by the ISRS.
5 We'll no longer have to have an accounting authority order
6 for these type of additions. They'll be covered within an
7 ISRS.

8 Q. All right. So on the gas safety expenditures,
9 what time frames are we referring to there that will be
10 amortized going forward? What time frames are the actual
11 expenditures occurring in that are being referred to?

12 A. They were -- these were costs that were
13 incurred since the last rate case.

14 Q. Okay.

15 A. The AAO was authorized in the last rate case,
16 so since the last case, through I think it's -- I think it's
17 June or July of 2004.

18 Q. That's when there was an ISRS filing or an
19 ISRS award or something?

20 A. Right, that's when the first ISRS was approved
21 for Laclede.

22 Q. Okay. So that's what we're talking about in
23 regard to gas safety, is that window of time?

24 A. Correct.

25 Q. Okay. And that's being amortized out

1 according to the stip until when?

2 A. For ten years.

3 Q. Okay. All right. And was there a review done
4 on the expenses associated with the emergency cold weather
5 rule?

6 A. Yes, there were. And through -- through
7 July 31st, there was an over-collection of costs that were
8 put into rates. I'm sorry. Dollars that were put into rates
9 to cover those costs.

10 Q. Okay.

11 A. So that \$27,801 that's shown there was offset
12 against the \$859,000 of safety expenditures. And then until
13 these -- they'll continue to -- for lack of a better term --
14 over-collect, until the new rates are approved in this case.

15 Q. Okay.

16 A. So any of those over-collected dollars will be
17 offset against these safety expenditures.

18 Q. Okay. So you'll pick those up in the -- the
19 \$859,000? That's stationery, isn't it?

20 A. Yes.

21 Q. The \$27,801 will change until the entry of the
22 order in this case, assuming the entry approves the stip?

23 A. Well, the \$27,801 is pretty much stationery
24 too, but there will be additional dollars -- additional
25 amounts of offset.

1 Q. Oh, I see.

2 A. That's two thousand --

3 Q. For the two thousand --

4 A. Correct.

5 Q. Thank you for that clarification. That's why

6 I have difficulty discussing these things with accountants.

7 Anyway, it's okay. I'm -- it's a joke. Off-system sales, I

8 may have a few questions on that. Who has that again?

9 A. Me.

10 Q. Okay. That's what I thought. Okay. Explain

11 to me what are considered sales -- off-system sales. What

12 falls into that category?

13 A. I'm afraid I'm going to have to defer that to

14 Dave Sommerer. I'm just interested in, you know, the

15 accounting aspect of it.

16 Q. I understand. I understand. Is he back

17 there?

18 A. He's here.

19 Q. He was hiding behind the pole.

20 MR. SOMMERER: Yes, I was.

21 JUDGE DIPPELL: Mr. Sommerer, I'll need you to

22 come up so we can hear your response, and I don't believe

23 you've been sworn yet.

24 COMMISSIONER GAW: How did he avoid that?

25 JUDGE DIPPELL: He was out of the room.

1 (THE WITNESS WAS SWORN.)

2 JUDGE DIPPELL: If you could state and spell

3 your name for the court reporter, and give your position at

4 the Commission.

5 MR. SOMMERER: My name is David Sommerer,

6 S-O-M-M-E-R-E-R, and I'm the manager of the procurement

7 analysis department -- procurement analysis department,

8 sorry.

9 QUESTIONS BY COMMISSIONER GAW:

10 Q. Okay. What are considered off-system sales,

11 Mr. Sommerer?

12 A. Those are sales that the Company makes outside

13 their traditional service area. They are not subject to the

14 purchase gas adjustment clause as native load would be. So,

15 for example, if Laclede saw an opportunity in Chicago to sell

16 gas that they had available that wasn't going into St. Louis,

17 necessarily --

18 Q. Right.

19 A. -- they could make that sale at a profit and

20 that would create off-system sales revenue.

21 Q. Okay. Now, is this -- is this just the sale

22 of gas they physically own, or can it be the sale of some

23 sort of financial instruments that they might have that could

24 be utilized to -- to actually get them gas?

25 A. This would be the sale of gas -- physical gas

1 that they actually own.

2 Q. Okay. So -- and where is it that that's

3 stated, and what do you rely on when that question is

4 answered?

5 A. Laclede has an off-system sales tariff that

6 governs the accounting and that gives you a definition of

7 off-system sales.

8 Q. Okay.

9 A. And it lets you know how the accounting should

10 work.

11 Q. Okay. Is that a long definition?

12 A. It's probably about a sentence.

13 Q. Do you know what it -- does somebody have

14 that? Mr. Pendergast? Thank you. Go ahead, Mr. Sommerer.

15 A. This is on tariff sheet --

16 Q. Ready.

17 A. -- R-42: Off-system marketing sales

18 (OS-sales) are herein defined as any company's sale of gas,

19 or gas bundled with pipeline transportation, made to parties

20 at locations off the Company's distribution system.

21 Q. Okay. So it's on -- it's something that's off

22 their system, which means what to you?

23 A. Outside of their service territory.

24 Q. Okay. Where could the gas come from?

25 A. The gas could be located or sourced from any

1 Laclede natural gas supply contract. Laclede has supply
2 contracts that have access to various production zones,
3 mainly in Louisiana, and Texas, Oklahoma.

4 Q. Okay. All right. And so the idea here is
5 that there's -- there's going to be an assumption made of
6 some sort, which I heard earlier, there isn't anyone that
7 really has a read on what that amount is, but somebody is
8 assuming some amount of off-system sales. All the parties
9 here must be doing that, are going to be made going forward,
10 some amount.

11 A. That's correct.

12 Q. Okay. So -- and then -- and then there's this
13 agreement about up to \$12 million in off-system sales, the
14 Company that -- up to that \$12 million, correct? Am I
15 following this so far?

16 A. That's right.

17 Q. And then over the 12 million, then it's --
18 half of it goes to the Company, and half of it goes to the
19 customers?

20 A. That's correct.

21 Q. And how does it flow back to the customers?

22 A. The way the provision works is it's held in an
23 account, and to the extent that there's a greater level of
24 profit that exceeds \$12 million, it's to be considered in the
25 next rate case, that is to be returned to customers as part

1 of rates in the next rate case.

2 Q. Okay. Now, the gas that's being sold, does
3 that show up when it's purchased in the PGA?

4 A. If Laclede were to make an off-system sale, is
5 that where you're going?

6 Q. I may be going there, but I'm just trying to
7 get first things first here. I'm just trying to understand
8 when it's purchased --

9 A. Yes.

10 Q. -- does that gas show up in the PGA?

11 A. Indirectly.

12 Q. Okay.

13 A. Laclede will estimate -- Laclede's PGA rate is
14 no more --

15 Q. It's an estimate?

16 A. No more than an estimate.

17 Q. Okay.

18 A. It's its best guess on what its actual cost
19 will be.

20 Q. Okay.

21 A. As customers use natural gas, they pay a PGA
22 rate.

23 Q. Okay.

24 A. And that may or may not be representative of
25 what Laclede is actually paying. That's trued up in the

1 actual cost adjustment process.

2 Q. All right. And in the actual cost adjustment
3 process, the ACA, then if that gas is purchased but not used,
4 some of it is purchased but not used, what -- what -- how
5 does that show up in the ACA?

6 A. We would ask for information related to
7 off-system sales and ACA typically just to make sure the
8 costs are properly accounted for. So you may have an invoice
9 from a producer, and the invoice might be 90 percent directed
10 towards an on-system sale and ten percent directed towards an
11 off-system sale.

12 Q. Okay. And then what happens? What do you do
13 with that?

14 A. Okay. On-system sales are allocated to actual
15 gas costs, and they're trued up as part of that ACA process.
16 Off-system sales would be separate from that. It would be a
17 separate account, and at the time of a rate case, you would
18 analyze the level of off-system sales to try and determine a
19 reasonable number, but off-system sales cost will not effect
20 the cost of customers in the PGA.

21 Q. Okay. So if the -- if the PGA estimate had
22 indicated that there would be more gas used than what was
23 actually used and the money expended -- let me start all
24 over.

25 I'm trying to understand the -- how the

1 interplay of this portion of off-system sales as it's
2 reflected in the base rates interlocks with what's going on
3 with the PGA/ACA process. And what -- and whether or not
4 this is the best way to handle off-system sales.

5 So first of all, is this Staff's position on
6 how you should handle off-system sales? Not in regard to the
7 stip, but is it normally Staff's position that this is how to
8 handle off system sales?

9 A. Yes, it's consistent with Staff's position
10 which is an imputation of a certain level, an ongoing level
11 to be credited in the rate case or to be handled or
12 normalized in the rate case.

13 Q. Okay. And is that consistent with Staff's
14 position in regard to how off-system sales should be handled
15 in regard to off-system sales of electricity and electric
16 cases if there is -- if we are going to some sort of a -- a
17 flow through like that's contemplated by 179 on electricity?
18 Is this consistent?

19 A. When you're talking about electricity, it's a
20 little bit beyond my usual area. I know the traditionally in
21 electric cases, purchase power interchange sales have been
22 normalized and treated very similarly to the way that
23 off-system sales is handled. And that's the genesis really
24 of Staff's wanting to treat off-system sales in a consistent
25 manner with the way it's handled on the electric side.

1 Q. I'm trying to -- I understand that -- that
2 there -- that if we're not dealing with -- with fuel
3 adjustment clauses, that the desires to put it in -- in
4 the -- in the rates and base -- base rates, but I -- but
5 what's not clear to me yet is whether or not Staff takes the
6 same position in regard to electricity when you get to some
7 sort of a fuel adjustment clause mechanism.

8 And it's relevant to me here because I'm
9 trying to understand, policy-wise, whether there's a
10 consistency in the treatment of this -- of these off-system
11 sales on gas and what the Staff's position will be in regard
12 to electricity in off-system sales there.

13 A. And they're probably is a better witness who
14 is more in tune with the round table process to answer your
15 question there.

16 Q. Okay. All right. So if there are off-system
17 sales made, the concept here is that up to \$12 million will
18 be kept by the Company. Does that insinuate that Staff
19 believes that there are \$12 million in sales that are built
20 in to its assumptions and deriving what the base rates are?

21 A. No.

22 Q. Does Staff believe there is more than that or
23 less than that?

24 A. Staff believes there is less than that.

25 Q. Okay. So Staff's position here is

1 contemplating that Laclede is -- is collecting some
2 percentage of profit, if its assumptions on off-system sales
3 are correct, in that first \$12 million?

4 A. To the extent that Laclede is able to achieve
5 the \$12 million, there would certainly be some profit for
6 Laclede, yes.

7 Q. Okay. I don't know if you can tell me this
8 without it being an HC, so you just -- somebody speak up. So
9 does -- what was Staff's assumption in regard to off-system
10 sales?

11 A. As Mr. Rackers indicated, there wasn't a
12 specific number that was ever agreed to between the parties.

13 Q. Oh, I understand that. I'm just asking what
14 Staff's position was.

15 A. Staff's position?

16 Q. And if you can say that. Okay. No one's
17 saying no. Go ahead.

18 A. Staff's position in creating the original
19 Staff revenue requirement was \$7.2 million. That included
20 both off-system sales and capacity release.

21 Q. Okay. And does the Company want to say what
22 its position was?

23 MR. PENDERGAST: Our testimony, I believe,
24 recommended an imputed level of I think 3.8 or 3.9 million.

25 COMMISSIONER GAW: Okay.

1 MR. PENDERGAST: Of both off-system sales and
2 capacity release.

3 BY COMMISSIONER GAW:

4 Q. Okay. Okay. And then Mr. Sommerer, why is it
5 that -- that we should see this \$12 million as being
6 appropriate for Laclede to -- to keep if Staff's position was
7 the most that they sold off-system was 7.2 million?

8 A. The way that the Staff developed the 7.2
9 million was looking over about five to seven years worth of
10 experience. It was a number that was highly volatile and
11 varied between, let's say, \$3 million and \$11 million. So
12 the Staff took an average. That average sometimes was
13 achieved by Laclede, sometimes they made less than that,
14 sometimes they beat that average considerably. So it was a
15 difficult number to settle.

16 It was a difficult number to derive not
17 mathematically, but to establish an appropriate level,
18 because there was risk on the Company to the extent the level
19 was too high, they couldn't achieve it, they'd only achieve
20 it every year. There was risk to the customer to the extent
21 it was too low.

22 Q. Is there any incentive with this provision in
23 here for the Company to engage in off-system sales, and in
24 the process, sacrifice a better price for their own
25 consumers?

1 A. There is a reporting process that's required.
2 They generally are required by tariffs to associate the
3 highest cost of gas to the off-system sale so that the
4 captive customer, the native load, receives the lowest price.
5 There might be an incremental sale of some type where it was
6 just a special situation, but Laclede would have to justify
7 that transaction by transaction.

8 Q. Okay. So -- so you don't believe that's a
9 significant risk?

10 A. As long as it's monitored, I don't believe
11 that's a significant risk.

12 Q. Now, have you been involved in -- in these
13 incentive plans in the past, Mr. Sommerer?

14 A. Yes, I have.

15 Q. Have you ever been involved in incentive plans
16 that you looked back and wished that you'd never seen?

17 A. Yes, I have.

18 Q. And can you tell me why in this case, this
19 one, in your opinion, is one that we won't -- no one is going
20 to have that kind of reaction to when it comes back around,
21 and the others -- and that some of the others did? What's
22 different about this plan that makes it okay as compared to
23 some of the others that might not have been?

24 A. Well, I assume you're talking about the gas
25 supply incentive plan that is contained within the purchase

1 gas adjustment clause, which is different than the off-system
2 sales discussion that we just had.

3 Q. You know, I could be talking about anything,
4 so you just -- you just have at it.

5 A. Okay. All right. Well, the plan that's been
6 proposed by the parties has been in effect for almost three
7 years. It was originally proposed by the Office of Public
8 Counsel, and it was a plan that was meant to have some
9 protection for the customer. To the extent that gas costs
10 were extremely high, the Company was not allowed to
11 participate in profit sharing at that time.

12 There were other protections to the extent
13 that Laclede started making, I believe, the number is \$5
14 million that the sharing percentage would tail off. We had
15 lost some of those incentives that the Staff certainly
16 thought were perverse over the years regarding pipeline
17 discounts, and some other things that we just did not believe
18 were fair and were properly structured. And so we're
19 basically going forward with the Office of Public Counsel's
20 incentive plan. We believe that it's been a fair plan.

21 I can't say that it would have been proposed
22 by Staff in direct testimony had there been direct testimony.
23 I think the Staff would have preferred no incentive, but this
24 was really something meant to strike a reasonable compromise
25 with all the parties in this case.

1 Q. What would have been -- what would be the
2 problem, in Staff's opinion, of just having off-system sales
3 ride along into the PGA/ACA process?

4 A. The Staff has always believed that it's better
5 to have a symmetrical sharing of risk. And if you put it in
6 the rate case, the Company certainly is on the hook for that
7 level, but whatever imputed level is. Let's use a
8 hypothetical number, \$6 million. The company has imputed
9 that level into the revenue requirement. If it doesn't make
10 the level, then it is on the hook for those dollars, and that
11 really has sort of a negative reinforcement aspect to it.

12 And the positive reinforcement would be to the
13 extent they beat the number. I think the Commission approved
14 a sharing grid as part of MGE's rate case, which is the most
15 recent rate case before Laclede that we have to look at. And
16 that was a situation where there is sharing from dollar one.
17 And I think the Staff has always believed that there's some
18 level that's already there. You don't have to do much work
19 for it, certain amount of capacity release that the Company
20 makes year after year.

21 Q. Uh-huh.

22 A. And we just wonder if it's appropriate to
23 reward the Company for those levels, but I do have to say
24 that the Commission has approved a sharing grid for MGE.

25 Q. Okay. And that case, the sharing grid, the

1 off-system sales are riding along on the PGA/ACA side of the
2 fence?

3 A. That is correct.

4 COMMISSIONER GAW: Anyone else want in on this
5 discussion before I move on?

6 MS. MEISENHEIMER: Yes. There are a couple of
7 things that I guess I'd like to say. It's important to know
8 that these are two different things. The off-system sales
9 capacity release, which is in this stipulation incorporated
10 into base rates. The provision that caps the money at -- or
11 that caps to \$12 million and then shares back with customers
12 above \$12 million, I view that more as a protection that
13 would not normally be there under the traditional rate case
14 process, if you incorporated it into base rates. Say you set
15 it at \$6 million, then without this cap, the Company would
16 keep every dime. If it ended up being \$20 million, the
17 Company keep every dime. So this proposal, I guess we would
18 keep every dime. So this proposal, I guess we view, more as
19 a safeguard.

20 With respect to the GSIP, which is -- that's
21 the gas incentive -- the gas supply incentive that it is
22 correct, this is a continuation of Public Counsel's -- the
23 plan that we originally proposed in this case, in the
24 Company's direct testimony, of course, we didn't file
25 testimony under the procedural schedule, but the Company came

1 in and asked for a variety of incentive mechanisms that would
2 take us back to a place that Public Counsel didn't want to
3 be. And that was where you have a bunch of piece parts and
4 ultimately the Company could get incentive compensation
5 without actually reducing the final price of gas to
6 customers. That was our concern.

7 And so instead in the stipulation, we've
8 modified the benchmarks because the price of gas is, as we
9 all know, it's just going to be higher than it has been in
10 the past. But there are no other changes. We don't change
11 the sharing mechanism, or the period of time of sharing. The
12 company can receive. Again --

13 COMMISSIONER GAW: Thank you for that
14 clarification. I guess what have you changed -- what have
15 you changed in regard to that pricing?

16 MS. MEISENHEIMER: The low price, I'm trying
17 to remember if we went to four or four fifty. It's actually
18 in the -- four to seven fifty is now the range in which if
19 the Company beats the benchmark price of gas, they can
20 receive compensation of ten percent of the savings or the
21 reductions, up to a total of 5 million. And then beyond
22 that, their share drops to one percent of savings beyond
23 that. And that is intended to incorporate all things such as
24 the cost of hedging, okay. So in theory, the goal was that
25 it be a delivered cost of gas.

1 COMMISSIONER GAW: Is that everyone's position
2 on that subject?

3 MR. SOMMERER: I would just clarify to say the
4 delivered cost of gas to Staff would be analogous to the city
5 gate delivered price of gas, which would include
6 transportation. The Office of Public mechanism as it's been
7 operating for three years and as it will continue to operate
8 if the Commission approves this, will only apply to the gas
9 supply cost, very closely associated with the well head cost
10 of gas. The transportation cost is not part of this
11 incentive mechanism.

12 COMMISSIONER GAW: And I heard someone say
13 something about cost of hedging. How does that factor into
14 this?

15 MR. SOMMERER: Yes. The theory behind that is
16 hedging is also an actual gas cost. And the Public Counsel's
17 original plan, and there's no difference with this proposed
18 plan, it's the same treatment, is to look at hedging just as
19 a gas supply cost. So that if you went to a producer and you
20 fixed the cost of gas at \$7, a fixed price, doesn't move,
21 that could be seen as hedging. Those dollars would flow
22 through just as an index price would flow through, a market
23 base price would flow through.

24 COMMISSIONER GAW: Okay. I understand what
25 you're saying, except that I'm not sure what -- if everyone

1 is on the same page on that.

2 MS. MEISENHEIMER: We are aware of this -- the
3 issue with the transportation cost. I probably used bad
4 terminology because I don't work with this on a day-to-day
5 basis as Mr. Sommerer does, but it is true that we're on the
6 same page in terms of the -- that we agree what elements it
7 includes, and what it doesn't.

8 COMMISSIONER GAW: Okay. And you said the --
9 the price moved from -- the range is now \$4 to \$7.50?

10 MS. MEISENHEIMER: Yes.

11 COMMISSIONER GAW: What was it.

12 MS. MEISENHEIMER: Three to five.

13 COMMISSIONER GAW: Three to five. And if they
14 procured gas outside of the upper range, what happens?

15 MS. MEISENHEIMER: Well, the concept is that
16 there's a price of gas which is -- which is low enough to
17 where there's no real benefit to consumers if the Company
18 secures an even lower price of gas. And that's what the \$3
19 used to represent, the \$4 now represents.

20 We -- and theoretically now, we are used to a
21 little bit higher price of gas than we were in the past. So
22 we don't think it's appropriate to compensate the Company
23 when the price of gas is so low that customers aren't getting
24 a real meaningful benefit from those activities.

25 On the other hand, there's a price above which

1 it is so painful to consumers to have to bear that price of
2 gas that the Company should forego any compensation
3 associated with the gas incentive. And that's what the --
4 the upper limit represents.

5 COMMISSIONER GAW: And if I'm within the
6 range, how do I measure my savings.

7 MS. MEISENHEIMER: Within the range, that's
8 just the band in which you could receive compensation.

9 COMMISSIONER GAW: Yes.

10 MS. MEISENHEIMER: In addition, you have to be
11 the -- the market price.

12 COMMISSIONER GAW: The market price, which
13 is -- that's why I'm trying follow what you said earlier.
14 The market price at what place?

15 MS. MEISENHEIMER: And Mr. Sommerer is more
16 familiar with it. It's a weighted -- it's weighted based on
17 the delivery points of Laclede.

18 MR. SOMMERER: That's correct. Those are set
19 out in tariffs.

20 COMMISSIONER GAW: Okay. And those price
21 include or exclude the cost of -- of the -- well, let's
22 strike that.

23 What is included in that price that's being
24 measured?

25 MR. SOMMERER: The benchmark is made up of

1 physical gas receipt points that Laclede has traditionally
2 accessed. These would include points that start in
3 Louisiana, south Texas, the mid-continent area, so you get a
4 certain percentage of gas supply that's assumed to flow from
5 those -- those points. That develops your -- your benchmark.

6 You'll compare your actual supply cost to that
7 as adjusted for any hedging gains or losses that you may
8 have. So you're really comparing yourself to a first of the
9 month index as your target, and then if you have hedging
10 gains, that helps you get below your target. If you have
11 hedging losses, it brings you above that first of the month
12 target.

13 COMMISSIONER GAW: Okay. And none of this
14 agreement has any bearing on the Commission's ability to
15 examine whether or not appropriate prudent measures were
16 taken in regard to purchasing and acquiring gas and hedging
17 appropriately?

18 MR. SOMMERER: We believe that prudence
19 reviews are applicable in all circumstances --

20 COMMISSIONER GAW: All right.

21 MR. SOMMERER: -- consistent with the last
22 Commission Order.

23 COMMISSIONER GAW: Okay.

24 MS. MEISENHEIMER: And we would agree.

25 COMMISSIONER GAW: Is that -- there's not any

1 dispute that have from Laclede, either, is there?

2 MR. PENDERGAST: No, your Honor.

3 COMMISSIONER GAW: Okay. All right. Let me
4 move onto another topic.

5 JUDGE DIPPELL: Commissioner, before you do
6 that, can we take a little break?

7 COMMISSIONER GAW: Sure.

8 JUDGE DIPPELL: Let's take a little break
9 until 3:05. Go off-the-record.

10 (A BREAK WAS HELD.)

11 JUDGE DIPPELL: Let's go back on the record.
12 Okay. Before we resume, I just want to put something in the
13 heads of the parties for you to be thinking about. And when
14 we finish with questioning, I'll come back to it, and that is
15 the tariff issue, I wasn't aware before that we basically
16 have two tariffs now in this case.

17 One that has been suspended until January
18 19th, and then when the stipulation was filed, that was filed
19 as a new set of revised tariffs with an October 1st effective
20 date. I'm not sure that that's the way we used to handle
21 these things, but right now that's the way it is in EFIS, so
22 I will ask you-all to consider whether you think that
23 tariff -- if the Commission, and I'm assuming that the
24 Commission will not get an order either rejecting or
25 approving the tariff out this week, given that as it stands

1 right now, Thursday's agenda has been cancelled.

2 So I will ask you your thoughts on whether you
3 think that should be suspended or whether you think it should
4 be withdrawn, or whether you think that it was a filing error
5 and should just be corrected. But I will ask you-all to
6 consider that. Mr. Pendergast.

7 MR. PENDERGAST: Sure, I'd be happy to respond
8 to that now, if it is appropriate. First of all, I think in
9 our last two cases, we had filed tariffs the same time that
10 we filed the stipulation and agreement, primarily as a matter
11 of convenience. Otherwise, you're talking about waiting for
12 a Commission Order, and then you're talking about filing
13 complaints, tariffs, which are identical to what you've
14 already gone ahead and filed and asking for --

15 JUDGE DIPPELL: Okay.

16 MR. PENDERGAST: -- a suspension.

17 JUDGE DIPPELL: So you think this is the way
18 it's been done in the past?

19 MR. PENDERGAST: It was consistent with what
20 we've been done in the past. We just never run into the
21 situation where there was -- in the past, where there was an
22 inability to get it done by what the requested effective date
23 was, so that is kind of a new wrinkle, and you know, we can
24 certainly file something to voluntarily extend those tariffs.
25 I know that that's been done before.

1 JUDGE DIPPELL: That's an option I hadn't
2 considered. That might --

3 MR. PENDERGAST: And just request that they be
4 effective -- if it's not possible to do it this week, do you
5 know when it might be possible or when it --

6 JUDGE DIPPELL: I would assume that an Order
7 will be -- before the Commission the following Tuesday, if
8 there's not one on this Thursday.

9 MR. PENDERGAST: Okay. Well, we're certainly
10 available to communicate on that, and do what needs to be
11 done to make sure it works for everybody.

12 JUDGE DIPPELL: Okay. Thank you.
13 Commissioner Gaw, did you have additional questions?

14 COMMISSIONER GAW: Just a few. Hopefully just
15 a few. I think you-all have already been through the
16 redesign. That's something that you're working on, right?
17 The objective is to make the bill something that's easier for
18 the customer to understand and translate into something
19 meaningful for them? Is that one of the objectives anyway?

20 MR. PENDERGAST: Absolutely, Commissioner, and
21 as part of the process, we're looking at going to envelope
22 billing, where we would accomplish a number of things. First
23 of all, if you go to envelope billing, right now we do
24 postcard billing because of the postcard, there are inherent
25 limitations on how much information you can put on it.

1 Obviously, those limitations aren't nearly as significant if
2 you go to envelope billing.

3 We'll also be in a position, although I think
4 we make them available now, to provide a return envelope for
5 customers, which I think a lot of customers view as a
6 convenience. And yeah, one of the things we're trying to do
7 is make the bill more meaningful to our customers. And along
8 those lines, we've actually done some work, I think, or will
9 be doing some work surveying customers to see what they want
10 to know rather than just trying to guess what they want to
11 know.

12 COMMISSIONER GAW: Okay. Let me -- what's the
13 time frame on that, by the way? Was there something
14 contemplated?

15 MR. PENDERGAST: Yeah, I think we were going
16 to try and finish that process by April, 2006.

17 COMMISSIONER GAW: Okay.

18 MR. PENDERGAST: And implement it by
19 January 1st, 2007.

20 COMMISSIONER GAW: All right. So it will
21 still be another year and two or three months before it would
22 actually be in effect?

23 MR. PENDERGAST: That's certainly in the
24 outside. I think if we get it done sooner, we'd do it
25 sooner.

1 COMMISSIONER GAW: Okay. Different question.
2 This is just for purposes of explanation for my benefit. On
3 first revised sheet 12, R12A, can you explain D and E to me,
4 how that -- what that's referring to and what -- when you
5 have time to turn to it? D says something about the failure
6 to pay the bill of another customer, unless the customer
7 whose service is sought to be discontinued receives
8 substantial benefit and use of the service.

9 MR. PENDERGAST: Yeah, Commissioner, that's a
10 provision, I think, that's been in our tariff and also been
11 in the Commission's rules for a significant period of time,
12 and it should be distinguished, I think, from perhaps other
13 provisions you've seen where it seeks to hold somebody -- or
14 accountable for a bill, even though they didn't benefit from
15 the service at the time. And I don't believe that there's
16 any change in that provision from the last case, or from the
17 Commission's rules.

18 COMMISSIONER GAW: Okay. But this has --
19 what's the scenario here that's contemplated in D?

20 MR. PENDERGAST: I think the concept is
21 contemplated there is where you have two people who have
22 received service, both of them have gone ahead and received a
23 benefit from the service. Another person -- let's say they
24 just switch, say, okay, I was the customer the last year, now
25 you're going to be the customer this year. You can't hold me

1 responsible for the bills over the last year, because we got
2 a new customer now, even though both of us lived in the same
3 place at the same time. The thought would be you can't avoid
4 being responsible for the charges that were assessed at that
5 particular residence simply by switching from one person to
6 another.

7 COMMISSIONER GAW: Am I -- is it true that
8 these -- these provisions listed on 14(b) through (f) are
9 exceptions to a reason for discontinuance? Since I don't
10 have the earlier page --

11 MR. PENDERGAST: Yes.

12 COMMISSIONER GAW: So in other words, you
13 can't -- you can't disconnect --

14 MR. PENDERGAST: For these reasons.

15 COMMISSIONER GAW: -- for failure to pay the
16 bill of another customer, unless the service is sought to be
17 discontinued -- the customer whose service is sought to be
18 discontinued receives substantial benefit and use of the
19 service.

20 MR. PENDERGAST: Exactly, yeah, these are
21 reasons why you can't, with exceptions to those reasons why
22 you can't.

23 COMMISSIONER GAW: It was not totally clear to
24 me how these fit together. Okay. And then (e) is the
25 failure of a previous owner or occupant of the premises to

1 pay unpaid, except for the previous occupant remains an
2 occupant or user. Okay. All right. I understand that
3 better now.

4 And then I want to go back to the ROE
5 question, and I want to know from Staff, using Staff's
6 capital structure and the revenues that are generated here,
7 what is this -- what is the approximate ROE that would be
8 generated, or that would be needed to generate this revenue?

9 MR. MEYER: I'll defer that. I believe
10 Mr. Kiebel would like to testify on that topic. I think he
11 was expecting a question along that line.

12 (THE WITNESS WAS SWORN.)

13 QUESTIONS BY COMMISSIONER GAW:

14 Q. State your name and your position.

15 A. My name is John Kiebel, K-I-E-B-E-L, I'm
16 Management Analyst III with the Public Service Commission
17 Staff.

18 Q. All right. Thank you. Now, Mr. Kiebel, if
19 you assume Staff's capital structure and the revenues that
20 are generated here in this settlement, can you give me some
21 sort of an idea of what the ROE would be?

22 A. No, I can't. I'm not familiar with the input
23 of what was used in the -- what was the -- they call the MS
24 run. I'm not familiar with what was used as far as any type
25 of a mid-point or an assumed ROE within the purposes of the

1 settlement.

2 Q. You can't make a calculation? Is there
3 someone that can make some sort of a calculation or
4 general -- any general idea about what that return on equity
5 might be?

6 A. As far as who ran the run, I don't really like
7 how that sounded, but the MS run, I don't know who -- I think
8 Doyle Gibbs was involved in the input of the run, but I don't
9 know, maybe Steve Rackers can speak to that as far as what
10 was put in. I don't know what was used as any type of an
11 assumption for either -- I could tell what you my low end and
12 high end was.

13 Q. Well, go ahead and tell me that. I think
14 that's in the document somewhere. I think that was pointed
15 out earlier. Go ahead.

16 A. 8.93 was my low end, and my high end was 9.93.

17 Q. Okay. I won't go into right now the rationale
18 right now on how you arrived there. But somebody from
19 Staff -- from Staff -- did someone make some sort of an
20 analysis or could they make some sort of an analysis for me
21 in regard to what -- assuming the capital structure that
22 Staff had proposed here and revenue stream generated by this
23 settlement, about what kind of an ROE, and I'll let you
24 assume that the debt cost was the same as what had been
25 proposed by Staff. Who can --

1 MR. RACKERS: Commissioner, I think to be able
2 to do that, you'd have to make some determination or you'd
3 have to start from somewhere as to what the disposition is or
4 was of the other items that were in dispute in the case, so I
5 mean, there's -- I mean, I think as we've tried to
6 characterize it before, the settlement amount is somewhat of
7 a black box. So you know, it would be maybe Staff's
8 interpretation, or maybe my personal interpretation, of how
9 we settled some issues in the case, and you could get an
10 entirely different answer if the Company wanted to divulge
11 how it put the issues of the numbers together to get its --
12 to get to ten and a half.

13 COMMISSIONER GAW: Well, what does Staff think
14 that they're settling for on its -- that they're assumption
15 on what approximate range of an ROE is in this settlement?
16 Company said what they thought.

17 MR. RACKERS: I guess I don't recall the
18 Company saying what they thought, but.

19 COMMISSIONER GAW: Well, I think they gave a
20 range.

21 MR. RACKERS: And I'm comfortable with the
22 range the Company said. I think they said something like ten
23 and a half to -- I mean, we started at Staff's high of 9.93,
24 some kind of a range in there.

25 MR. KIEBEL: I think Mr. Pendergast earlier

1 said something between 10 and 11, but I don't know if the
2 court reporter can --

3 COMMISSIONER GAW: I think that's in the
4 transcript. I'm just trying to gauge -- so you're telling me
5 that it's not possible for you to -- for us to back out an
6 ROE based on the revenues that's contemplated out of rates
7 here, and a capital structure that would -- that I'm giving
8 you that would be the same as what Staff proposed and cost of
9 debt being what Staff proposed, that you couldn't calculate
10 an ROE?

11 MR. RACKERS: Well, I think you'd have to --
12 it would depend on if I assume that all the expense
13 adjustments I made in the case, that we start with Staff's
14 rate base, that it came up with that had exchanged with the
15 parties, and Staff's income statement and make no changes to
16 that at all, even though there are 30-some-odd issues in
17 dispute.

18 COMMISSIONER GAW: Okay.

19 MR. RACKERS: You know, if I have a starting
20 place, that all the parties agreed on, which I don't, and
21 which certainly isn't envisioned by the stipulation, then
22 yes, I could.

23 COMMISSIONER GAW: Okay. Because I'm giving
24 you -- right now, you've got two unknowns, and I'm leaning
25 on that, right?

1 MR. RACKERS: Correct.

2 COMMISSIONER GAW: The ROE and the rate base
3 amount.

4 MR. RACKERS: Well, and the expenses and
5 revenues.

6 COMMISSIONER GAW: And expenses and revenues,
7 okay. And the items in all three of those that were in
8 dispute.

9 MR. RACKERS: Yes, sir.

10 COMMISSIONER GAW: Okay. Did you resolve some
11 of the expenses and income issues by specifically in the
12 settlement?

13 MR. RACKERS: No.

14 COMMISSIONER GAW: None of them?

15 MR. RACKERS: Well, it -- it wasn't necessary
16 to specifically identify a resolution of any particular
17 interest.

18 COMMISSIONER GAW: Right.

19 MR. RACKERS: I mean issue, in order to get to
20 the resolution of the case.

21 COMMISSIONER GAW: Okay. What was Staff's
22 position in regard to -- to its starting -- when they were
23 dealing with its position that would have been presented in
24 testimony on -- on those -- on those three unknowns?

25 MR. RACKERS: Staff's revenue requirement

1 recommendation that it exchanged with the parties at the high
2 end was 5.7 million.

3 COMMISSIONER GAW: 5.7 million.

4 MR. RACKERS: And the rate of return that was
5 at the high end of equity was 9.93.

6 COMMISSIONER GAW: Nine point -- what was the
7 rest of it?

8 MR. RACKERS: Nine three.

9 COMMISSIONER GAW: Okay. And what were the
10 other two factors that produced those -- that result? I know
11 what your cost of debt was, I know what that is. What about
12 your rate base?

13 MR. RACKERS: I think I have it here.

14 COMMISSIONER GAW: Your income and expense, if
15 you have those figures.

16 MR. RACKERS: Commissioner, I'm sorry, I don't
17 have that here with me, but I can certainly supply that to
18 you.

19 COMMISSIONER GAW: Okay. Would you do that?

20 MR. RACKERS: Yes.

21 COMMISSIONER GAW: Okay. That would be
22 helpful.

23 MR. RACKERS: Are you interested in Staff's
24 run, or that we exchanged, or you just want the rate base
25 item and the net income?

1 COMMISSIONER GAW: And you say you have --
2 that would produce your high end?
3 MR. RACKERS: Yes.
4 COMMISSIONER GAW: What was your low end?
5 MR. RACKERS: Mr. Kiebel will have to help me
6 out on this.
7 MR. KIEBEL: My low end was 8.93, and that I
8 think generated something of a 527,000 positive or something
9 like that.
10 COMMISSIONER GAW: 527?
11 MR. KIEBEL: That's working off of
12 recollection.
13 COMMISSIONER GAW: And was that as a result of
14 a change in the ROE only?
15 MR. KIEBEL: As far as I know, yes.
16 COMMISSIONER GAW: Okay. So that would be the
17 only factor that would move. Okay. That's helpful to me.
18 So you can give me the other -- the other figures, then I can
19 see what I can do with the math.
20 MR. RACKERS: Sure.
21 JUDGE DIPPELL: Commissioner, let me just
22 clarify to make sure --
23 COMMISSIONER GAW: Yes.
24 JUDGE DIPPELL: -- and I will --
25 COMMISSIONER GAW: Maybe he can do that while

1 I'm asking another question or something. I don't know how
2 available those figures are.

3 JUDGE DIPPELL: I don't know. Are those
4 figures that you can get yet today, Mr. Rackers?

5 MR. RACKERS: I can get it today.

6 JUDGE DIPPELL: Okay. Then if you're
7 confident you know what the Commissioner's asking for, I'll
8 let it go.

9 COMMISSIONER GAW: I think I'm looking for
10 rate base.

11 MR. RACKERS: Correct.

12 COMMISSIONER GAW: And then whatever the
13 income expense.

14 MR. RACKERS: Yes.

15 JUDGE DIPPELL: Okay.

16 COMMISSIONER GAW: And I think that's all I
17 need.

18 MR. RACKERS: Yes.

19 COMMISSIONER GAW: All right. And then Public
20 Counsel, did you have any -- what was your low and high end?

21 MS. MEISENHEIMER: I didn't work on that
22 myself. I think we were on ROE, we were around ten.

23 COMMISSIONER GAW: Okay. Yeah, that's in
24 here, I think. The other issue, were you very far afield on
25 the other two issues on -- on expense and income and rate

1 base?

2 MS. MEISENHEIMER: I'm sorry, that's not an
3 area that I generally work on.

4 COMMISSIONER GAW: That's okay. Do you want
5 to -- do you want to throw any additional numbers out to me,
6 Mr. Pendergast?

7 MR. PENDERGAST: I think I'll just stand by
8 what I said earlier.

9 COMMISSIONER GAW: All right. That's fine.

10 MR. RACKERS: Commissioner, I just want to add
11 one thing, as I think about this. If I give you Staff's
12 original rate base and it's income, and then you want to move
13 from our 5.7 million to what was stipulated to, and the only
14 change you're going to make is return on equity, you're going
15 to get a significant movement from that 9.93.

16 COMMISSIONER GAW: I will?

17 MR. RACKERS: Yes, you will.

18 COMMISSIONER GAW: Okay.

19 MR. RACKERS: And that -- that doesn't
20 contemplate what other changes Staff may have made to its run
21 in terms of the expenses, revenues, rate base, any of the
22 other items that go into calculating revenue requirement. If
23 you're only going to change return on equity, the number
24 you'll come up with is going to imply a rather large -- well,
25 depends on whose point of view, but a rather large movement

1 in return on equity. So I just want to warn you of that.

2 COMMISSIONER GAW: That's why I was inviting
3 Mr. Pendergast to give me some different figures for those
4 other categories, if he wanted to.

5 MR. PENDERGAST: Yeah, I just agree with
6 Mr. Rackers. You know, I don't think you can -- you can
7 attribute all the movement in Staff's case to what we
8 ultimately agreed upon, nor all the movement in our case from
9 what we originally filed to return on equity that, you know,
10 it's made up of resolutions of a variety of different issues.

11 And once again, I think from our perspective,
12 the way we looked at it, and you can look at it a hundred
13 different ways, depending on how you put things together, we
14 think it was a return that was within a range of certainly
15 north of ten, and I think it would be fair to say that it was
16 somewhat south of 11. And it probably wouldn't be a
17 misadventure to say it was probably somewhere in the middle,
18 which I think if you -- if we had some discussion about NRRI
19 and where you had authorized returns for gas utilities in the
20 last quarter, I don't think you would find it being very far
21 off of what was being done as reported by that particular
22 group for other gas utilities.

23 COMMISSIONER GAW: Well, do what you can to
24 get that to me. I understand the caveats. I think that's
25 all I have. Thank you, Judge.

1 JUDGE DIPPELL: Commissioner Appling, did you
2 have any questions?

3 COMMISSINER APPLING: I'm good to go. These
4 guys look like they're worn down.

5 JUDGE DIPPELL: Okay. Well, seeing no more
6 Commission questions, I will instead ask, since Mr. Rackers
7 hasn't had a chance to get those numbers, that Staff just
8 file that as a post-hearing exhibit, which I'll mark No. 4,
9 and ask for responses from the parties within the next day or
10 two, or certainly before Thursday's agenda, if there is -- if
11 one were to get rescheduled, so that we can -- the Commission
12 could have everything before them. Mr. Pendergast?

13 MR. PENDERGAST: Your Honor, I just want to
14 make one clarification. Commissioner Murray had asked a
15 question about the increase in the charge for interruptible
16 customers, and I had indicated the charge now is a little
17 north of a dollar, that included both the \$.37 charge plus
18 the PGA, and that it would go to \$2. What I should have said
19 is that it would go to \$2 plus the PGA on that, which is
20 \$.67. I just wanted to make sure that was clarified for the
21 record.

22 JUDGE DIPPELL: Okay. I will make sure that
23 she's aware of that clarification.

24 MR. PENDERGAST: Thank you.

25 JUDGE DIPPELL: Would any of the parties like

1 to make additional comments or clarifications? Mr. Meyer,
2 I'll just start with you.

3 MR. MEYER: I have nothing to add, thank you.

4 JUDGE DIPPELL: All right. Mr. Pendergast,
5 did you have any further?

6 MR. PENDERGAST: I would like to thank you,
7 the Commission, for the opportunity to come and explain the
8 settlement today, and I want to offer our willingness to
9 cooperate in doing whatever it takes to finalize the process
10 here. If, as we discussed earlier, it's necessary to do
11 something about extending the time, we'll certainly cooperate
12 with that.

13 I would just reemphasize that on that
14 October 1st date was an important consideration to the
15 Company, and that, you know, from a financial standpoint, we
16 think it's a very modest increase, and one of the reasons we
17 were able to agree to a modest increase is the fact that it
18 was going to be hopefully implemented early, as soon as the
19 Commission approves it. So I'll say no more on that. But
20 we'll certainly cooperate in doing whatever we need to do.

21 JUDGE DIPPELL: All right. Anything further
22 from Office of Public Counsel?

23 MR. DANDINO: Ms. Meisenheimer had one more
24 quick clarification.

25 JUDGE DIPPELL: Okay.

1 MS. MEISENHEIMER: An issue that we weren't
2 questioned over, but something that was important to our
3 office in terms of the benefit to customers. The customer
4 charge for residential and small business is not increasing,
5 and I think Mr. Dandino point that had out in his opening
6 statement. However, a related issue is the ISRS.

7 Since the ISRS is tied to the relative
8 customer charges, and after looking at the numbers that, you
9 know, we discussed in conferences, it appeared that the ISRS
10 was disproportionally collecting from residential customers
11 and small business. So one of the benefits of the issue of
12 the customer charge not increasing from our perspective is
13 that it does not do any worse in terms of future ISRS
14 charges.

15 JUDGE DIPPELL: Did you have a follow-up,
16 Commissioner?

17 COMMISSIONER GAW: Yeah, sorry. Just so I'm
18 trying to understand, Ms. Meisenheimer. Are you saying that
19 you have made some -- any kind of correction in new ISRS
20 filings that -- that on a going-forward basis would not have
21 the same in the view of Public Counsel disproportionally
22 impact on residential and small business customers?

23 MS. MEISENHEIMER: To the extent that in
24 this -- in this stipulation, there are provisions for some of
25 the larger customers to get increases to their customer

1 charges, that lessens the effect of ISRS charges being
2 disproportionally collected from customers, from residential
3 and small -- small business.

4 COMMISSIONER GAW: So you didn't impact the
5 ISRS mechanism itself, but the customer charge, the monthly
6 charge went up on others besides residential and small
7 businesses. That's what you're saying?

8 MS. MEISENHEIMER: That's my understanding,
9 yes, or that --

10 MR. PENDERGAST: Yeah, if I could just to add
11 to what Ms. Meisenheimer is saying, the rate design
12 contemplated by the ISRS mechanism allows you to collect
13 those ISRS charges, either based on the customer charges on a
14 flat customer charge basis, every customer no matter how big
15 or small gets the same, or in proportion to how one group
16 customer charge compares to another group.

17 And I think what we're saying here is that
18 because the customer charge residential and the small
19 commercial remain the same while the customer charges for
20 some of the larger folks went up, in the future, they will
21 bear a bit more of that ISRS charge from a rate design
22 perspective than they did in the past. Right now, for
23 example, the largest pay about a hundred times more of the
24 ISRS charge because their customer charge is a hundred times
25 bigger. That proportion will go ahead and increase a little

1 bit more, so they will bear a little bit more in the future.

2 COMMISSIONER GAW: I'm sorry, I didn't put
3 that together. The ISRS charge is based upon that customer
4 charge --

5 MR. PENDERGAST: Yes.

6 COMMISSIONER GAW: -- that's what you're
7 saying? I'm following you better now.

8 MS. MEISENHEIMER: So the fact that the
9 residential and the small business customer charges are not
10 increasing is, in our view --

11 COMMISSIONER GAW: Is significant in regard to
12 the ISRS?

13 MS. MEISENHEIMER: Right, not with respect to
14 the customer charge, but it has its impact also on the ISRS.

15 COMMISSIONER GAW: Now I'm following you.
16 Thank you for that explanation.

17 JUDGE DIPPELL: Okay. Is there anything
18 further? Seeing nothing further, then, we will conclude the
19 hearing. Thank you. We're off-the-record.

20 WHEREUPON, the recorded portion of the hearing
21 was concluded.

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