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13 In the Matter of Laclede)
14 Gas Company's Request to) File No. GR-2017-0215
15 Increase its Revenue for)
16 Gas Service.)
17
18 In the Matter of Laclede)
19 Gas Company d/b/a Missouri) File No. GR-2017-0216
20 Gas Energy's Request to)
21 Increase its Revenues for)
22 Gas Service.)
23
24 NANCY DIPPELL, Presiding,
25 REGULATORY LAW JUDGE.

DANIEL Y. HALL, Chairman,
WILLIAM KENNEY,
SCOTT T. RUPP,
STEPHEN M. STOLL,
MAIDA J. COLEMAN,
COMMISSIONERS

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

2 JUDGE DIPPELL: Let's go ahead and go on the
3 record. Good morning. It is December 13, 2017. And
4 I'm Nancy Dippell, regulatory law judge, and we are
5 here to continue the rate cases of GR-2017-0215 and
6 GR-2017-0216, in the matter of Spire's request for
7 rate increases.

8 Just a few things to get started with this
9 morning. We have several witnesses who can only be
10 here today, so we are going to get those witnesses in
11 and out whatever may. And so, in that regard, I sent
12 an e-mail out yesterday to the parties. Hopefully,
13 you got that. But we are going to begin with our
14 witnesses on rate case expense and finish that up.
15 And then we are going to take the CAM issue and then
16 the PGA issue, the software issue and the pension
17 issue. And we are going to get all of Ms. Azad's,
18 Mr. Lander's, and Mr. Pitts', hopefully, although I
19 understand Mr. Pitts is available tomorrow morning as
20 well.

21 MS. SHEMWELL: That's correct.

22 JUDGE DIPPELL: And then we also have to
23 work around agenda which is noon today for the
24 Commissioners. So that is the general plan. I was
25 reminded yesterday before we left by Mr. Thompson that

1 I needed to ask about --

2 MR. THOMPSON: Trackers.

3 JUDGE DIPPELL: -- whether Staff would have
4 questions for trackers -- the trackers issues. Do you
5 know the answer to that, Mr. Thompson?

6 MR. THOMPSON: Judge, I can tell you I have
7 no questions for the trackers. That's not my issue.

8 JUDGE DIPPELL: Okay. Mr. Pendergast?

9 MR. PENDERGAST: Yes, Your Honor. We talked
10 with Staff about that last night and they indicated
11 that they were willing to waive cross on all issues
12 relating to the trackers, which is really just down to
13 whether there should be an environmental tracker or
14 not, and we still have everybody waiving cross on the
15 Kansas property tax issue.

16 JUDGE DIPPELL: Okay. And then I also told
17 Mr. Mills that I would find out from the Commissioners
18 if they had questions for Mr. Meyer about the rate
19 stabilization mechanism just -- that's for tomorrow.

20 So with that, I think we are ready then to
21 begin with -- unless there's other -- anything else
22 the parties need to bring to my attention? You
23 settled it all last night?

24 Okay. Go ahead, Mr. Zucker.

25 MR. ZUCKER: For rate case expense, we have

1 listed on our -- on the witness list Glenn Buck and
2 Eric Lobser. Glenn Buck had some extensive testimony
3 on the issue, but Eric Lobser really didn't have any
4 other than, you know, a sentence and maybe a reference
5 to Mr. Buck. And I'm wondering if the other parties
6 were okay that we just, in the interest of time, skip
7 Mr. Lobser around this and just went with Mr. Buck.

8 JUDGE DIPPELL: I think that there may be
9 some Commission questions for Mr. Lobser on this
10 issue; so we might like to see him on the witness
11 stand again anyway.

12 MR. ZUCKER: Okay. And I thank you.

13 JUDGE DIPPELL: And along that vein,
14 Mr. Thompson, you mentioned that Mr. Oligschlaeger
15 would be available, but he didn't actually have
16 testimony on this issue.

17 MR. THOMPSON: I think what I said, Judge,
18 is that Mr. Oligschlaeger compiled the Staff report --

19 JUDGE DIPPELL: Oh, okay.

20 MR. THOMPSON: -- on rate case expense. And
21 the Chairman had asked whether any other states were
22 doing that since that report was prepared. I frankly
23 do not know. Mr. Oligschlaeger might know.

24 JUDGE DIPPELL: Okay.

25 MR. THOMPSON: I don't know if he does or

1 not, but he might and he would be the one, I believe,
2 to ask. We could certainly inquire of him to see
3 whether he does know or not and provide that
4 information.

5 JUDGE DIPPELL: Okay. I will find out
6 before we get to Staff witnesses whether the Chairman
7 thinks he might have that or any other questions for
8 Mr. Oligschlaeger in addition.

9 So -- Okay. With that then, anything else
10 from the parties about today's procedure?

11 All right. Then let's go ahead and begin
12 with the Company's first witness.

13 MR. ZUCKER: The Company calls Glenn Buck.

14 JUDGE DIPPELL: Mr. Buck, you were
15 previously sworn in this proceeding and will remain
16 under oath for our purposes.

17 MR. BUCK: Yes, ma'am.

18 DIRECT EXAMINATION BY MR. ZUCKER:

19 **Q Good morning, Mr. Buck.**

20 A Good morning, Mr. Zucker.

21 **Q Do you have any changes to your rate case**
22 **expense testimony?**

23 A No. I made all my changes to my testimony
24 the first time I was up.

25 MR. ZUCKER: Okay. Thank you. I will now

1 pass the witness for cross.

2 JUDGE DIPPELL: Thank you. Is there
3 cross-examination for Mr. Buck from Staff?

4 MR. THOMPSON: No, thank you, Judge.

5 JUDGE DIPPELL: Public Counsel?

6 MS. SHEMWELL: No, thank you.

7 JUDGE DIPPELL: Is there -- do we have
8 anybody else? I'm assuming no cross for Mr. Buck from
9 Environmental Defense Counsel?

10 MS. KARAS: No cross, Your Honor.

11 JUDGE DIPPELL: Then I guess Mr. Buck is
12 ready for questions from the Bench. Are there
13 questions from the Bench for Mr. Buck? Mr. Hall?

14 CHAIRMAN HALL: Yes.

15 QUESTIONS BY CHAIRMAN HALL:

16 Q Good morning.

17 A Good morning, sir.

18 Q Do you have the surrebuttal testimony of
19 Mr. Majors accessible?

20 A Yes, I do. Hold on one moment, please.

21 Yes, sir.

22 Q Could you turn to page 6, and I want to
23 discuss the second item on that table?

24 A I'm sorry. If you'd hold on one moment,
25 please.

1 **Q Sure.**

2 A My book doesn't have all of Mr. Majors'
3 testimony in it.

4 JUDGE DIPPELL: I will just note, I meant to
5 mention this earlier, but we have some -- some
6 information designated as confidential in these
7 exhibits; so I will ask the attorneys as well the
8 witnesses to try to help police that and make sure if
9 we need to go in camera that we do.

10 MR. BUCK: Okay. Nevermind. I apologize.
11 I do have it. It was in a separate tab.

12 **Q (By Chairman Hall) I wanted to inquire about**
13 **the second item on there. Certainly that dollar**
14 **amount in and of itself cannot be considered**
15 **confidential. I'm looking to your counsel.**

16 A No, it's not.

17 MR. ZUCKER: I agree with Mr. Buck.

18 **Q (By Chairman Hall) Okay. So for bill**
19 **inserts and printing as of the time of this testimony**
20 **which was around --**

21 A It was mid-November.

22 **Q -- mid-November was \$436,000 for bill**
23 **inserts and printing. Do you agree with that number?**

24 A That sounds approximately right, yes.

25 **Q Do you know what the total amount for bill**

1 **inserts and printing?**

2 A That should have been it.

3 **Q Right.**

4 A That was actually sent out customer notices.

5 **Q Right. It says, "Bill inserts, printing, et**
6 **cetera." Do you know what "et cetera" includes?**

7 A I would assume that would probably be the
8 presort company that we use.

9 **Q Is it your understanding that -- that those**
10 **expenses were incurred as a result of the need to**
11 **provide notice to rate payers of the rate case in**
12 **certain aspects of the rate case probably including**
13 **local public hearings, etc.?**

14 A That's correct.

15 **Q And is it your understanding that -- that**
16 **providing that notice was required by commission order**
17 **and/or commission rules?**

18 A I am not an attorney, but my understanding
19 is, yes, there is a requirement to notify all
20 customers.

21 **Q So it would be your position that whereas**
22 **there was some flexibility on other aspects of rate**
23 **case expense, that aspect there was -- there -- there**
24 **was much less flexibility?**

25 A I would agree with you, yes, sir.

1 **Q** So there could be some issue about whether
2 or not you chose the most cost-effective vendors to
3 provide those services, but there could be no question
4 that -- that -- that activity itself, the bill
5 inserts, the printing, etc., was required?

6 **A** Yes. To my knowledge, nobody has questioned
7 that expense.

8 **Q** Do you know how that \$436,000 compares to
9 other rate cases or that Spire has been involved in
10 Laclede, MGE, or other utilities?

11 **A** I will say there's a little bit of a
12 challenge here just because this is my first rate case
13 that involves both Spire Missouri East and West. But
14 you're talking at this point about 1.1 million
15 customers. So 40 cents a customer, give or take,
16 sounds perfectly reasonable to me.

17 **Q** Okay. It sounds reasonable to me, too.

18 **Are you -- are you familiar with the -- and**
19 **I know you're not a lawyer, but I'm not going to ask**
20 **for your legal opinion on anything contained therein,**
21 **but are you aware of the decision issued by the**
22 **Western District in September of 2016 concerning the**
23 **KCP&L rate case which included the issue of rate case**
24 **expense shared?**

25 **A** And you're correct, I'm not a lawyer, but I

1 am familiar with the case. My understanding is
2 Western District upheld the Commission's decision,
3 which I believe recognized the ability to share
4 expenses on that case, if I recall.

5 **Q Do you know when you first became aware of**
6 **that decision?**

7 A Probably shortly after it came out, sir.

8 **Q And were you also aware of the formula that**
9 **the Commission used for rate case expense sharing?**

10 A It's --

11 **Q And, again, I don't -- I don't need you to**
12 **describe it, but were you --**

13 A Yes, I am.

14 **Q And you were aware of that pretty soon after**
15 **the decision came out?**

16 A Yes, sir.

17 **Q In your rebuttal -- in your rebuttal**
18 **testimony on page -- pages 20 to 21, you make an**
19 **argument that -- that if the Commission were to adopt**
20 **Staff's position in this case, it would disincentivize**
21 **the most cost-effective manner by which the company**
22 **would conduct a rate case. Is that -- is that**
23 **accurate?**

24 A Yes, sir.

25 **Q Could you explain that to me?**

1 A Well, for example, we had several external
2 witnesses in this case who do work that we frankly
3 don't staff in-house for. So, for example, this is
4 the first time in -- I'm dating myself. I've been
5 doing this for probably over 30 years. This is the
6 first time we've actually sponsored a class cost of
7 service study. We had no in-house expertise to do so.
8 Had we needed the in-house expertise we would have
9 hired somebody who would have been an employee
10 probably year round. We don't hire temporary
11 employees as the case may be, but we would have had
12 somebody year round, been paying year round for
13 frankly a study that we only need once every four
14 years.

15 **Q So if the Commission does ultimately adopt**
16 **Staff's position, will the Company modify how it**
17 **conducts rate cases going forward?**

18 A I think the short answer is no because I
19 think it's the right thing to do regardless of revenue
20 recovery as the case may be. It doesn't make sense
21 from my standpoint and from my company's standpoint to
22 hire somebody who frankly we only need for a short
23 period of time over a longer extended period --

24 **Q So then -- so then you're -- you're saying**
25 **that there could be a disincentive, but it's not a --**

1 not a disincentive that will have any effect going
2 forward?

3 A No, because ultimately I think our
4 responsibility to our customer is to do the right
5 thing. I think that was the right thing.

6 Q Right.

7 A I think that was the right thing.

8 Q But my point -- my question is: Is if the
9 Commission adopts Staff's position on great case
10 expense, what you're telling me now sitting here is
11 that it will not affect how you conduct -- how the
12 Company conducts rate cases going forward because
13 you're going to, quote: Do the right thing.

14 But in your written testimony, you described
15 how such a -- such a decision by the Commission could
16 provide a disincentive to conduct the most
17 cost-effective manner, and those two things seem
18 inconsistent to me.

19 A And I'm not going to try and parse words,
20 but I think the word "could" is relevant there and it
21 could. And I can't really speak to the people who
22 come after me, but certainly if the -- if a utility
23 company's facing a position where you've got a cost
24 that you cannot recover in rates because of -- of a
25 policy decision, it could, not necessarily would, but

1 could cause the utility company to alter their
2 behavior.

3 I personally wouldn't recommend it. I can't
4 sit there and commit my company towards something
5 going forward. But at this point, I've kind of been
6 involved in choosing how to prosecute a case and I
7 would not choose to do so. So I guess the short
8 answer to your question is it -- it did not cause or
9 create a disincentive in this case.

10 **Q But it could in cases going forward?**

11 A I can't commit my company, but, yes, I could
12 see how it could. Yes, sir.

13 **Q Could it also motivate your company to be**
14 **more efficient in -- in how it conducts rate cases**
15 **if -- if it's -- if the company was only going to**
16 **recover a portion of its expenses? And I could guess**
17 **the keyword then, and I'll use your word, is "could"?**

18 A It's a fair question. I guess the answer
19 is, yes, it could.

20 **Q Okay. Your counsel in the -- in the**
21 **opening -- in the mini-opening on this issue made**
22 **the -- made the argument that roughly half of the**
23 **contested issues in this case were not issues that**
24 **belonged to the Company, that they were issues that --**
25 **and I'm -- he didn't use the word "belong," but I**

1 don't remember the exact word he used, but they were
2 issues that were being pushed by other parties. Were
3 you in the hearing room when he made that statement?

4 A Yes, I was.

5 Q Do you agree with that statement?

6 A Yes, I do. And if you'd like, I'll give you
7 a few examples.

8 Q Well, I can give you a few.

9 A Okay.

10 Q Let me see if we're on the same page there.
11 For example, the CHP issue, that was -- that was an
12 issue pushed by the division of energy. And at least
13 what I could gather is that the Company was okay with
14 it, but it -- it wasn't the Company's issue.

15 A Correct.

16 Q Is that -- is that a good example of an
17 issue?

18 A Yes.

19 Q That -- that there was time spent litigating
20 and it wasn't the Company's issue?

21 A That's correct, sir.

22 Q Would another example be the red tag
23 program, the low-income affordability program, energy
24 efficiency programs, and credit card fees where all of
25 the parties or most of the parties, including Staff

1 and the Company, were on the same page and OPC was on
2 the other side?

3 A That would be correct, yes, sir.

4 Q On the other hand, though, there -- there
5 are issues like performance metrics. That was an
6 issue brought to this case pretty much solely by the
7 Company; is that correct?

8 A Also correct, sir. Yes.

9 Q And then there are issues like the Forest
10 Park property where it's hard to say that that is an
11 issue that is anything but a shareholder issue. Would
12 you agree with that? I mean, if the Company wins on
13 that issue, that gain is booked below the line and
14 that goes to shareholders and income.

15 A I'll be honest with you. I don't think we
16 were expecting that to be an issue in this case. And
17 the reason why is we have sold other properties in the
18 past and it has not come up as an issue with the
19 Staff, for example. And I think they use an
20 example -- or they use an example of holdings and said
21 they distinguished that. We thought in many ways it
22 was the same thing. But we also based on -- and I'll,
23 once again, have to defer to legal counsel on this --
24 have looked at prior Commission history on the sale of
25 property and things of that nature. In fact, even a

1 case with KCP&L.

2 Q Right. I mean, I -- but my point is, is
3 that that is an issue that the Company is litigating
4 essentially on behalf of shareholders?

5 A Oh, absolutely, but we didn't expect it to
6 be an issue.

7 Q I understand that.

8 A Yes, sir.

9 Q I understand that. Okay. And then capital
10 structure and ROE, now, those are obviously issues
11 that are litigated in almost every rate case, but if
12 you look at the positions of the parties, you've got
13 pretty much all of the parties, Staff, OPC,
14 Interveners, pretty close or with identical positions,
15 and then you've got the Company with a significantly
16 higher ROE and a significantly different capital
17 structure; isn't that true?

18 A Yeah. They got to them in different ways,
19 but, yes, the other parties have similar capital
20 structural recommendations. I would sit there and say
21 that our recommendation on capital structure was not
22 dissimilar to what we filed in the past.

23 Q I understand that. Staff originally
24 advocated for a number of disallowances on rate case
25 expense concerning the work done by Craig Dowdy, by

1 **Scott Madden, and I believe there was one or two**
2 **others; is that correct?**

3 A That's correct, sir.

4 **Q Okay. And were -- is it your understanding**
5 **that all or most of those disallowance recommendations**
6 **were withdrawn?**

7 A My understanding is Mr. Majors in his
8 surrebuttal testimony agreed that they were
9 appropriate or -- I don't want to put words into his
10 mouth -- but he would no longer sponsor disallowances.
11 With one exception, I do apologize. I believe he was
12 still suggesting that it was inappropriate to include
13 the -- the witness on cash working capital.

14 **Q Okay. Well, we'll -- So there's one.**
15 **There's one disallowance still at issue?**

16 A There is one, yes. My apologies for that.

17 **Q That's -- Would you -- would you agree that**
18 **in this case, the Company is seeking a \$27 million**
19 **increase to the revenue requirement for Laclede and a**
20 **\$35 million increase to the revenue requirement for**
21 **MGE?**

22 A Above the level that's of interest that we
23 were recovering early, that's correct.

24 **Q So is it safe to say that that is the goal**
25 **of this rate case for Spire is to accomplish that**

1 **revenue requirement increase?**

2 A I'm going to answer this with a little bit
3 of hesitancy. By its very nature, a utility company
4 cannot receive more in a rate case than what they ask
5 for. So there's always a small, I don't want to use
6 "contingency," but when you're faced with two
7 different ways of approaching an issue as far as how
8 much you would ask for, the company will probably be
9 asking for the more aggressive positions.

10 And the reason why is that if you asked for
11 \$100 million, for example, I'll throw that number out,
12 and it was based on a 9.5 percent return on equity and
13 something happens in the capital markets, either
14 Lehman collapsing or geopolitical issue with North
15 Korea and suddenly the capital market goes out and the
16 required return is now 11 percent, and you haven't
17 built some cushion into your ask, you will not -- even
18 if the Commission were to go back out and say, you
19 know what, 11 percent is the right number, but
20 unfortunately because you asked for something that was
21 based on a nine-and-a-half percent return, we really
22 can't grant that amount. That's my understanding.
23 And I think that was beared out in a KCP&L GPO case
24 several years ago.

25 So there is a little bit of cushion built

1 into what we asked for. That's probably a long answer
2 to what should be a very short question. So, yes, we
3 would look -- on its face we're asking for that
4 amount. Did we realize or expect to get that amount?
5 No, sir.

6 **Q So your goal was 27 million and 35 million**
7 **for -- for Laclede and MG, respectfully, but a more**
8 **realistic goal is somewhat below that?**

9 A That's correct. Yes, sir.

10 **Q I'm sure everyone in this room would love to**
11 **know what that more realistic goal is, but I assume**
12 **that that's -- I'm not even going to ask.**

13 A I assume that's -- I assume that's
14 privileged.

15 **Q Are you aware of what the budget -- Let me**
16 **ask it this way. Is there a budget for rate case**
17 **expense for Company?**

18 A Yes, there is.

19 **Q And what is -- what is that budget amount?**

20 A What we had in for rate case expense was a
21 little over -- I think it was between a million and a
22 million five. And I think that actually came up
23 during some of your conversations with some of the
24 witnesses; for example, Mr. Havert, Ms. Ahern (as
25 pronounced). We actually did have it, as they

1 referred to it, as a budget for their services and
2 that was usually for direct testimony, and then it
3 varied thereafter based on where the cases got
4 litigated.

5 But I think we were about a million three is
6 what we anticipated to sit there and spend between
7 Laclede and MGE on this rate case. We've gone above
8 that at this point largely because we had more issues
9 than we expected.

10 **Q So you had a budget and you've exceeded that**
11 **budget to date?**

12 A Unfortunately, yes, sir.

13 **Q So is it really a budget or is it just an**
14 **estimate?**

15 A It is an estimate.

16 **Q So is there anything that constrains the**
17 **Company's ability to expend dollars in this rate case?**

18 A Again, I was actually the one who helped put
19 that estimate together. And this, once again, is
20 dating me. Since 1978, we've been in one
21 fully-litigated case and there's -- probably in 40
22 years.

23 **Q But in this case -- in this case, there**
24 **appears to be an estimate, but no -- no ceiling on**
25 **that -- on rate case expense?**

1 A As a practical matter, I do not see a
2 ceiling. Obviously, there's going to be a ceiling,
3 but I couldn't tell you what that is.

4 **Q Who makes the decision within the Company**
5 **whether or not a particular rate case expense item is**
6 **appropriate, whether or not the Company should spend**
7 **\$400 an hour for a consultant or \$800 an hour for a**
8 **consultant or somewhere in between? Who makes that**
9 **decision?**

10 A Well, I -- frankly, for most of the
11 consultants, I sat there and put out requests for
12 proposals and brought them to my boss, Mr. Lobser.
13 And I believe he probably took it before his boss who
14 is the vice -- or senior vice president of commercial
15 operations.

16 So it wasn't -- although I probably had
17 the -- the lead recommendation, it was not necessarily
18 me who said this is the amount we will spend. And
19 when we sit there and look at engaging a firm, it's
20 not the headline number of how much the -- their lead
21 consultant gets paid, because all of these companies
22 use a whole series of analysts in the background.

23 So whereas you heard Mr. Havert say he was
24 getting paid \$350 an hour, the average cost for hours
25 or for a -- Scott Madden for rate -- or for a capital

1 structure issue is not that high. It was not \$350 an
2 hour. It was probably some blended rate in the
3 neighborhood of between 200 and 250 because they use
4 analysts for a lot of their work.

5 **Q In making your recommendations, did you ever**
6 **come across a consultant who is extremely talented,**
7 **qualified, had good results, good experience, but you**
8 **just thought, man, that's too expensive? Is that --**
9 **did that happen on this rate case once?**

10 A Actually, it did. And Missouri Gas Energy
11 utilized the consulting -- or consulting with another
12 firm and I'm not sure if -- I think it would probably
13 be poor taste on my part to say who that was.

14 But when I sat there and looked to some of
15 the firms we chose versus the firms that were used
16 previously, I found a vast difference in the cost.
17 And based on my review of the quality of what was
18 done, I thought they did very good quality work, that
19 they had done it for MGE previously. I couldn't see a
20 difference that made enough of a -- enough of a
21 difference in my mind to sit there and justify the
22 increase in cost.

23 **Q So the quality was roughly the same and you**
24 **chose the cheaper consultant?**

25 A Yes. And I don't always choose the

1 cheapest. Sometimes I choose the best consultant.
2 But, yes, cost certainly is a consideration. Yes,
3 sir.

4 **Q It sounds like cost is a consideration**
5 **when -- when you have roughly the same quality?**

6 A Yeah.

7 **Q But it might not be a consideration when you**
8 **have one that you think is significantly better?**

9 A I would choose a consultant that has a very
10 high headline number with great trepidation unless I
11 felt that I could come walking into this room and
12 explain the reason why I said I thought that was
13 appropriate.

14 CHAIRMAN HALL: I think that's all I have.
15 Thank you.

16 MR. BUCK: Thank you.

17 JUDGE DIPPELL: Thank you.

18 COMMISSIONER STOLL: No questions, Your
19 Honor.

20 JUDGE DIPPELL: Is there any further
21 cross-examination based on the questions from Chairman
22 Hall from the Staff?

23 MR. THOMPSON: Thank you, Judge.

24 EXAMINATION

25 CROSS EXAMINATION BY MR. THOMPSON:

1 Q Good morning, Mr. Buck.

2 A Good morning, Mr. Thompson.

3 Q I was -- I want to follow up on one thing
4 that you told the Chairman. You stated, I believe,
5 that the Company cannot get more in this rate case
6 than what they asked for; isn't that correct?

7 A That was my understanding, yes.

8 Q Okay. Do you agree with me that the
9 Commission's job is to set a just and reasonable rate?

10 A Yes.

11 Q So doesn't it follow that the Commission has
12 to go wherever the evidence takes it?

13 A Again, I'm -- part of my experience is going
14 off that -- that GMO case that I was speaking to where
15 actually they had asked for a certain amount between
16 Missouri Public Service and St. Joe Power and Light.
17 And this was during the period when I think they were
18 rolling out Iatan.

19 And so the company suggested we would like
20 to have a rate increase of this amount for Missouri
21 Public Service and this amount for St. Joe Power and
22 Light. As a result of the decision on how they were
23 going to allocate the Iatan plant, more of the dollars
24 were being pushed to St. Joe Power & Light than to
25 Missouri Public Service operations.

1 Well, they hit the ceiling for what St. Joe
2 Power & Light asked for and were going to go above it.
3 And the Commission, as I recall, only let them go up
4 to the level of the increase that was requested
5 originally in that case, and they did either some sort
6 of stop gap measure or some sort of deferral with a
7 carrying cost or something like that for later
8 recovery in the St. Joe territory. So that's, I
9 guess, my -- my experience, sir.

10 MR. THOMPSON: Thank you very much. No
11 further questions.

12 JUDGE DIPPELL: Is there anything further
13 from Public Counsel?

14 MS. SHEMWELL: Just very briefly. Thank
15 you.

16 CROSS-EXAMINATION BY MS. SHEMWELL:

17 **Q Good morning, Mr. Buck.**

18 A Good morning, Ms. Shemwell.

19 **Q You have said that you had an estimated**
20 **budget for this rate case expense.**

21 A That's correct.

22 **Q You had quite a few in-house employees who**
23 **did work on this case?**

24 A Yes, we did.

25 **Q Was their time, their salary and their**

1 **benefits included in your estimated budget?**

2 A Absolutely.

3 **Q And you agree that customers pay for all of**
4 **that?**

5 A Yes, ma'am.

6 MS. SHEMWELL: That's all I have. Thank
7 you.

8 JUDGE DIPPELL: Is there anything from the
9 Environmental Defense Fund?

10 MS. KARAS: No questions, Your Honor.

11 JUDGE DIPPELL: Is there redirect by Spire?

12 MR. ZUCKER: Yes, Your Honor. Thank you.

13 MS. SHEMWELL: Might I ask just one more
14 question?

15 JUDGE DIPPELL: I'm sorry. Ms. Shemwell.

16 **Q (By Ms. Shemwell) When you chose**
17 **Mr. Flaherty, what did you calculate as his hourly**
18 **expense?**

19 A Actually, with Mr. Flaherty, we didn't
20 calculate an hourly expense. We knew -- we bid that
21 job based on what we were asking him to do. So
22 whether it was Flaherty or Jonathan or anybody else,
23 it was not on a person, it was the project.

24 **Q Do you know what Mr. Flaherty's rate is?**

25 A I don't. I do know how much we budgeted for

1 the project.

2 **Q Okay. How much did you budget?**

3 A Between 225- and \$250,000.

4 **Q And was that for Mr. Flaherty particularly**
5 **or did that include others?**

6 A That included others, but also included the
7 testimony, the surrebuttal testimony, yes.

8 **Q For Flaherty?**

9 A No. Maybe I'm not -- Could you ask the
10 question again? Perhaps I'm misunderstanding.

11 **Q I'm trying to find out what your expense was**
12 **for Mr. Flaherty.**

13 A And I -- that's what I was saying. I don't
14 have it broken down by Mr. Flaherty. I have it broken
15 down for the project.

16 **Q But the total was?**

17 A Between 225- and \$250,000.

18 **Q And you overspent that?**

19 A Last time I saw a bill, we had overspent it
20 by \$6,000.

21 MS. SHEMWELL: That's all I have. Thank
22 you.

23 MR. BUCK: Thank you.

24 JUDGE DIPPELL: Sorry, Mr. Zucker. You want
25 to go ahead then?

1 MR. ZUCKER: Okay. Thank you, Your Honor.

2 REDIRECT EXAMINATION BY MR. ZUCKER:

3 Q Ms. Shemwell just asked you if you budgeted
4 in-house employees. Is that part of the rate case
5 expense that we put in this rate case to collect from
6 rate payers?

7 A No. That's part of the wage and salary
8 adjustment. It is not part of rate case expense.

9 Q On page 6 of Mr. Majors' surrebuttal
10 testimony that Chairman Hall showed you, he pointed
11 out the bill inserts and printing of \$436,000. Do you
12 recall that?

13 A I do.

14 Q Right below that is a depreciation study;
15 correct?

16 A Give me one moment to get there, please.

17 Q Okay.

18 A Yes, sir.

19 Q And that amount is 54,000?

20 A 54,114.

21 Q And is that required?

22 A My understanding of it is, yes, it would be.
23 The rules are that you have to file a depreciation
24 study once every five years or every three years if
25 you're in for a rate proceeding. Because we're in a

1 rate proceeding within or after three years since our
2 last filing, we were required to file a depreciation
3 study in this case.

4 **Q Are you sure you're not an attorney,**
5 **Mr. Buck?**

6 A I've never played one on TV.

7 **Q Okay. So there was no flexibility in**
8 **Laclede paying for that depreciation study, was there?**

9 A No, sir.

10 **Q And did that cover both Laclede and MGE?**

11 A It did.

12 **Q And was the GAN at Fleming Company someone**
13 **Laclede has used in the past?**

14 A We used them in the past. MGE did not use
15 them.

16 **Q So they were familiar with Laclede assets?**

17 A Correct.

18 **Q Mr. Majors has suggested a disallowance for**
19 **the cash working capital study performed by Mr. Lyons.**
20 **Did I get that right?**

21 A Correct.

22 **Q And in the past, who has usually performed**
23 **cash working capital study for the Company?**

24 A You're looking at him.

25 **Q Ms. Shemwell? Oh, okay. I'm sorry.**

1 A No. I'm sorry, Mr. Zucker.

2 **Q Okay. That was you then?**

3 A In the past, I've done our cash working
4 capital. I should say at MGE, they also outsource
5 their working cap -- their cash working capital. And
6 to be honest with you, Mr. Zucker, in this case, given
7 my other responsibilities, I did not have time to even
8 oversee a cash working capital study other than to sit
9 there and work with Mr. Lyons to ensure consistency.

10 **Q You discussed with Chairman Hall incentives**
11 **and disincentives on rate case expense. Do you recall**
12 **that?**

13 A Yes, sir.

14 **Q If it was the position of this Commission**
15 **that they would pay zero for outside services, would**
16 **the Company take that into effect in preparing rate**
17 **cases?**

18 A I think the answer would be, yes, we would
19 consider it. I don't necessarily agree that we would
20 not use outside services at that point because
21 frankly, again, on cash working capital or maybe on
22 class cost of service, if we're going to file a study,
23 we have no expertise on how to do so. So even with an
24 admonition to not use external services, I can't
25 imagine us having done that in-house.

1 **Q** **Would it be more likely that we would**
2 **actually have in-house people who had expertise in**
3 **those areas?**

4 **A** **That's probably where we would end up going.**
5 **Yes, sir.**

6 **Q** **And if we did that and it raised our labor**
7 **expenses, that would just be part of our cost of**
8 **service; is that correct?**

9 **A** **That's correct.**

10 **Q** **Chairman Hall asked you if -- if having a --**
11 **some incentives would cause the Company to be more**
12 **efficient in how it conducts rate cases. Do you**
13 **recall that?**

14 **A** **I do.**

15 **Q** **Do you believe the Company is efficient now**
16 **in how it conducts rate cases?**

17 **A** **Again, I'd like to think so. I think we're**
18 **pretty good stewards of our customers' money. And I**
19 **think we -- I personally spend that as if it's my own.**
20 **So I think I do keep an eye on what we're spending it**
21 **and who we're spending it with.**

22 **Q** **Okay. So on page 5 of Mr. Majors'**
23 **surrebuttal.**

24 **A** **Yes, sir.**

25 **Q** **He has a list of -- a little history going**

1 backwards, not very far back, of Laclede and MGE rate
2 case expense. Do you see that?

3 A I do.

4 Q And for Laclede, in the three rate cases
5 before this, can you quickly tell me what the combined
6 total was of spend?

7 A About \$520,000, if I did my math correctly.

8 Q Okay. Which is less than what we spent in
9 this case?

10 A Certainly. All three of those cases were
11 settled cases. In fact, I don't believe any of those
12 cases even went so far as having rebuttal or
13 surrebuttal testimony filed.

14 Q Okay. And on the MGE chart at the bottom,
15 which was the first case that MGE had under Laclede
16 ownership?

17 A Well, I think there's a typo there, but it
18 was GR2014. It shows 004. I believe it was actually
19 0007.

20 Q Okay. And was the amount spent there
21 significantly less than what had been spent in the
22 past in MGE rate cases?

23 A Yes, sir.

24 Q And did that case settle?

25 A Yes, it did.

1 **Q Do you know if the previous three MGE rate**
2 **cases settled?**

3 A I am not positive.

4 **Q Okay. You've worked at the Company since**
5 **1986, according to your testimony?**

6 A Yes, sir.

7 **Q And have you worked on rate cases since**
8 **1986?**

9 A Oddly enough, in 1986, I was working -- came
10 into the company and we were working on an informal
11 audit related to the Tax Reform Act of 1986. So, yes,
12 I have been doing it since probably the first day I
13 started.

14 **Q Okay. And so how many rate cases would you**
15 **say you've worked on?**

16 A More than I got on my fingers. It's
17 probably -- let's see, GR '90 case, '92, '94, '96, '98
18 I was not involved. I was in a general ledger
19 project. '99, 2001, 2002, 2005, 2007, 2010, 2013,
20 2014.

21 **Q Okay. So I lost count myself there, but**
22 **about a dozen?**

23 A Something like that. Yes, sir.

24 **Q Okay. And out of those dozen cases, how**
25 **many of them were settled by Laclede?**

1 A All but the 1999 case.

2 **Q Only the 1999 case was tried?**

3 A Correct.

4 **Q So if there were a dozen, you're saying 11**
5 **cases settled?**

6 A Thankfully, yes.

7 **Q And the one that was tried, how many issues**
8 **were tried then? Do you have any recollection?**

9 A I do. It was around seven. I could kind of
10 even give you what they are. The fact is, is the '99
11 case was largely driven -- the requirement to litigate
12 was largely driven around a depreciation issue related
13 to a change in how depreciation was being accounted
14 for. It had to do with the cost removal being
15 involved in the depreciation rates or being charged as
16 a cost of expense.

17 The Commission ruled against us. We
18 actually took that one to the courts and it was
19 remanded. But that was -- that was the primary reason
20 why we litigated that case. The other issues included
21 rate of return. It included cash working capital. We
22 had an issue related to whether our tariffs needed to
23 include the --

24 **Q Well, let me interrupt you just in the**
25 **interest of time. I just was looking --**

1 A It was about seven.

2 **Q About seven issues. So what you're saying**
3 **is, is that in this case where we have about 30**
4 **issues, we have four times the issues in this case**
5 **than in all the 11 other cases that you've worked on;**
6 **is that correct?**

7 A Correct.

8 **Q And can you explain that?**

9 A I -- without getting into settlement
10 discussions, we've had difficulty settling the case.
11 And in some parts it's been -- we've been able to
12 agree with one party, but other parties haven't wanted
13 to participate in the settlement. So there's been a
14 lot of back and forth or tug of war trying to get into
15 things.

16 And frankly, it's because everybody sees
17 their part of the process, and they didn't want to sit
18 there and lose out on their piece of it. It has
19 not -- in my opinion, has not been as constructive set
20 of conversation as we've had in the previous
21 settlements largely because of that dynamic.

22 **Q I think Chairman Hall pointed out that in**
23 **some cases, a number of parties agreed and maybe one**
24 **or two parties disagreed. Do you recall that?**

25 A Yeah. In fact, I think that's what I was

1 answering.

2 **Q Okay. And in that case, could there be a**
3 **non-unanimous stipulation filed?**

4 A There could be and, in fact, again, I
5 wouldn't get into settlement discussions, but
6 certainly non-unanimous stipulation and agreement
7 could be filed and has been in the past. It gets kind
8 of cumbersome in the hearing room, but it certainly is
9 something that has been done before and I think we
10 would certainly support it.

11 **Q So you're saying Laclede and MGE would have**
12 **been willing to do that?**

13 A Yes.

14 **Q Were the other parties willing to do that?**

15 A I'm not comfortable answering that question.

16 **Q Is there any way you can get comfortable?**

17 MS. SHEMWELL: I'm going to suggest that he
18 not because we're getting into settlement discussions.

19 MR. ZUCKER: We're not talking about any
20 details of any settlement. We're just talking about
21 why -- we're talking about rate case expense.

22 MS. SHEMWELL: You're talking about the
23 process of settlements, though.

24 MR. ZUCKER: Okay. You know, the only
25 reason we're talking about it here is because our rate

1 case expense is so much higher than it's been in any
2 other case we've been in, and we're litigating many
3 more issues than any other case we've been in, and I
4 want the Commission to understand why this is
5 happening.

6 MS. SHEMWELL: I still don't think a
7 discussion of settlement is appropriate.

8 JUDGE DIPPELL: I don't think that the
9 question involves confidential settlement, but if your
10 witness is uncomfortable answering it, then --

11 MR. BUCK: Could you ask the question --
12 sorry. Sorry, Judge.

13 JUDGE DIPPELL: I'll overrule the objection,
14 Ms. Shemwell.

15 MR. ZUCKER: Okay.

16 MR. BUCK: Could you ask me the question
17 again, please?

18 **Q (By Mr. Zucker) Ask it again?**

19 A Yes.

20 **Q Were the other parties willing to enter into
21 non-unanimous stipulations?**

22 A My understanding is not all parties were.

23 **Q Chairman Hall asked you about a handful of
24 specific issues in this case. Do you recall that?**

25 A Yes, sir.

1 **Q With respect to the Forest Park property,**
2 **when did that sale occur?**

3 A The spring of 2014, I believe.

4 **Q Okay. And that is inside or outside the**
5 **test year?**

6 A Outside of the test year.

7 **Q And so Laclede did not raise that issue or**
8 **bring any costs in from that issue; is that correct?**

9 A As I indicated to Chairman Hall, I did not
10 expect it to be an issue.

11 **Q Okay. And Staff reached back to make it an**
12 **issue, reached back to 2014; is that correct?**

13 A That's correct.

14 **Q Chairman Hall asked you about the capital**
15 **structure issue. Do you recall that?**

16 A Yes, I do.

17 **Q And I think you answered that Laclede's**
18 **position was not unusual; is that correct?**

19 A That's correct.

20 **Q And so Laclede used the -- the utility**
21 **capital structure?**

22 A Let me be clear. We use the utility capital
23 structural. My discussion of it not being unusual is
24 really the amount of common equity in the capital
25 structure as far as the 54 percent. It wasn't the

1 utility versus the parent or anything of that nature
2 or hypothetical or any of those. The fact is the
3 equity content of the capital structure was very
4 similar to what we had in previous cases.

5 **Q And has Laclede in previous cases had**
6 **short-term debt added to its capital structure?**

7 A Not in recent years, no, sir.

8 **Q Okay. And have -- has goodwill been pulled**
9 **out of capital structure and called entirely with**
10 **equity in the past?**

11 A No. But this is the first case that we've
12 had goodwill sitting in our books.

13 Let me correct that. There are actually --
14 theoretically there was goodwill sitting on the books
15 in the MGE rate case.

16 **Q And that one got settled?**

17 A That one got settled, yes, sir.

18 **Q Can you tell me who raised the hydrostatic**
19 **testing issue?**

20 A Office of Public Counsel.

21 **Q Can you tell me who raised the PGA/ACA**
22 **tariff provision issue?**

23 A The EDF or Environmental Defense Fund, I
24 guess is the long name for it.

25 **Q Can you tell me who raised the surveillance**

1 **issue?**

2 A Staff.

3 **Q Do you consider class cost of service a**
4 **company issue?**

5 A Generally, it has not been. It's usually
6 been something where we have usually sponsored test or
7 said that an equal percentage base was okay if that's
8 what other parties wanted.

9 **Q Okay. How about the weatherization issues?**

10 A We've had weatherization for years and
11 years. I don't think that's been an issue that would
12 be considered ours.

13 **Q Okay. And I think Chairman Hall established**
14 **that the customer program issues had mostly agreement**
15 **among the parties with one outlier; is that correct?**

16 A That's correct.

17 **Q And I think Chairman Hall identified OPC as**
18 **being on the other side of those issues?**

19 A Yes.

20 MR. ZUCKER: One moment please, Your Honor.

21 JUDGE DIPPELL: Go ahead.

22 **Q (By Mr. Zucker) Just one last question.**
23 **Once the case goes past the settlement conference and**
24 **into rebuttal, surrebuttal testimony, we start to lose**
25 **some control over our ability to control the cost.**

1 **Would you agree with that?**

2 A Absolutely.

3 MR. ZUCKER: I think that's all I have, Your
4 Honor. Thank you for your indulgence.

5 JUDGE DIPPELL: Thank you.

6 MR. BUCK: Thank you.

7 JUDGE DIPPELL: Thank you, Mr. Buck. You
8 may step down.

9 I do believe that the Commission will have
10 some questions for Mr. Lobser.

11 MR. ZUCKER: In that case, we'll call him.

12 JUDGE DIPPELL: Maybe not. Wait just one
13 moment.

14 CHAIRMAN HALL: I don't have any questions.
15 I don't know about --

16 JUDGE DIPPELL: Are there any other
17 Commission questions for Mr. Lobser?

18 COMMISSIONER STOLL: No.

19 JUDGE DIPPELL: All right. Well, he was on
20 the witness list. Would there be any questions from
21 any of the other parties then?

22 All right, then. Nevermind, Mr. Lobser. I
23 apologize.

24 So is that all of the Company witnesses then
25 on this issue?

1 MR. ZUCKER: Yes, Your Honor.

2 JUDGE DIPPELL: All right. Then we can go
3 ahead with Staffs' witness.

4 MR. THOMPSON: Staff calls Keith Majors.

5 KEITH MAJORS,

6 Having been duly sworn, testifies as follows:

7 JUDGE DIPPELL: Thank you.

8 Go ahead, Mr. Thompson.

9 MR. THOMPSON: Thank you, Judge.

10 Let me just, with respect to some questions
11 earlier, mention that Mr. Oligschlaeger is here and is
12 willing to take the stand to respond to the Chairmans'
13 question from yesterday.

14 JUDGE DIPPELL: All right. Thank you.

15 MR. THOMPSON: Thank you.

16 DIRECT EXAMINATION BY MR THOMPSON:

17 **Q Mr. Majors, would you please state your name**
18 **and spell your last name for the reporter?**

19 A Keith Majors, M-a-j-o-r-s.

20 **Q Thank you, sir. And how are you employed?**

21 A I'm a utility regulatory auditor employed by
22 the Missouri Public Service Commission.

23 **Q And, Mr. Majors, did you prepare or cause to**
24 **be prepared certain contributions to the Staff cost of**
25 **service revenue requirement report?**

1 A I did.

2 **Q And that's been marked as Exhibit 204 in its**
3 **confidential version and 205 in the redacted version.**
4 **And did you also prepare or cause to be prepared**
5 **rebuttal testimony?**

6 A I did.

7 **Q Which has been marked as Exhibit 220 in its**
8 **confidential version and 219 in the non-confidential**
9 **version. And also surrebuttal testimony?**

10 A I did.

11 **Q Again, that is 255 in its confidential**
12 **version and 254 in the non-confidential version. Do**
13 **you have any corrections to any of those testimonies?**

14 A I do have some limited corrections to my
15 surrebuttal testimony.

16 **Q Okay. Please go through those one by one,**
17 **if you would.**

18 A My surrebuttal testimony on page 5 as
19 Mr. Buck pointed out in his testimony, the -- that is
20 the correction. The correct case number on page 5 in
21 the second table should be GR-2014-00007.

22 **Q Thank you.**

23 A And also on these two tables, on the first
24 table, the last number in the first table right on
25 line 12, actuals through September, should be 747487.

1 Similarly, on line 14, it should be 648912 and -- as
2 opposed to the 597269 number. And also, this is more
3 of a -- it's just a clarification. On page 26, the
4 highly confidential section is not highly confidential
5 aside from the number on line 15.

6 **Q That's the only highly confidential matter?**

7 A Yes. That number relates to litigation
8 expenses. That information is public.

9 **Q Thank you.**

10 JUDGE DIPPELL: Sorry. Would you tell me
11 that line number again?

12 MR. MAJORS: I'm sorry. Page 26, line 15.
13 The number in the middle of that line after "Spire
14 incurred" is highly confidential. I'm sorry,
15 confidential, but the rest of that is not.

16 JUDGE DIPPELL: Okay. Thank you.

17 **Q (By Mr. Thompson) Thank you, Mr. Major.**

18 **Does that conclude your corrections?**

19 A Yes, it does.

20 **Q With those corrections in mind, if I were to**
21 **ask you the same questions today, would your answers**
22 **be the same?**

23 A They would.

24 **Q And would those answers be true and correct**
25 **to the best of your knowledge?**

1 A They would.

2 Q **They would? Okay. I will not offer the**
3 **revenue requirement report, but I will offer Exhibits**
4 **220, 219, 255 and 254.**

5 JUDGE DIPPELL: Would there be any objection
6 to Exhibits 219, 220, 255, and 254?

7 MR. ZUCKER: No, Your Honor.

8 JUDGE DIPPELL: Seeing no objections, I will
9 admit those into evidence.

10 (STAFF'S EXHIBITS 219, 220, 255 AND 254 WERE RECEIVED
11 IN EVIDENCE.)

12 MR. THOMPSON: Thank you, Judge. I will
13 tender Mr. Majors for cross-examination.

14 JUDGE DIPPELL: All right. Is there any
15 cross-examination for Mr. Majors by Public Counsel?

16 MS. SHEMWELL: Just briefly.

17 CROSS-EXAMINATION BY MS. SHEMWELL:

18 Q **Mr. Majors, we were discussing Mr. Flaherty**
19 **and on page 6, you have the listed the expense**
20 **categories; correct?**

21 A Yes.

22 Q **And it is --**

23 MR. THOMPSON: Of what?

24 MS. SHEMWELL: Surrebuttal. I'm sorry.

25 MR. THOMPSON: Thank you.

1 **Q** **(By Ms. Shemwell) Page 6 at line 8, and that**
2 **is marked as confidential?**

3 A Yes, it is.

4 **Q** **And it is confidential then except maybe the**
5 **total amount?**

6 A I think sometimes in an abundance of
7 caution, if confidential information was marked as
8 confidential in the data request response, it's listed
9 as confidential. I think in terms of the overall
10 expense, I think that's something that might be asked
11 of the Company, whether or not it truly is
12 confidential. But in an abundance of caution, yes,
13 that line is confidential.

14 **Q** **As a result of your review, did you**
15 **determine what Mr. Flaherty's annual rate is?**

16 A I had asked that question through a data
17 request response. As Mr. Buck testified, the --
18 Mr. Flaherty's initial scope of work was procured
19 through a fixed price plus expenses, and that would be
20 the total line item. And that was from a statement of
21 work contract that was executed by the company and
22 PricewaterhouseCoopers.

23 However, that is the direct filing. It does
24 not include any additional work for rebuttal and --
25 and hearings. That scope of work is covered through

1 what appears to be a separate agreement which I have
2 and that hourly rate listed in --

3 **Q Is that confidential?**

4 A The hourly rate, yes, it is confidential.

5 **Q Is that attached to your testimony?**

6 A The hourly rate is listed in my testimony.
7 The actual statement of work is not. I have it in a
8 response to a data request.

9 **Q And the actual hourly rate is stated in**
10 **your -- stated in your testimony?**

11 A Can you reference the -- I can find it for
12 you if you don't have the line. Yes, it is. It's on
13 page 8, line 16. That's the incremental hourly rate
14 for -- on a time and materials basis for any other
15 scope of work past the direct filing. And I -- I --
16 it's important to note that that's Mr. Flaherty's
17 rate. As has been stated before, there are other
18 analysts that provide assistance to Mr. Flaherty and
19 other witnesses that provide testimony in this case
20 that are at a slightly less hourly rate. I have those
21 as well. But those are also highly -- excuse me --
22 confidential.

23 CHAIRMAN HALL: Let me push the pause button
24 for a second. And I apologize for interrupting the
25 examination. Does the Company continue to believe

1 that the hourly rate for Mr. Flaherty is confidential?

2 MR. ZUCKER: I think so, Your Honor. I
3 don't know that he offers that rate to other companies
4 and I -- I have -- my guess is that he would prefer to
5 have that not disclosed. I think the total number
6 is -- the total amount of the bill is not a problem.

7 CHAIRMAN HALL: Well, I'm -- I'm not going
8 to take issue with the Company's position on that.
9 I'll just simply note, I believe that Spire rate
10 payers would be somewhat offended by the Company's
11 position that it should foot the bill for this
12 particular consultant at that hourly rate. I think
13 that would shock their collective conscious, but I'll
14 move on.

15 JUDGE DIPPELL: Ms. Shemwell, if you'd like
16 to continue.

17 MS. SHEMWELL: Thank you.

18 **Q (By Ms. Shemwell) We're discussing benefits**
19 **to customers and benefits to shareholders. And you**
20 **agree that there are benefits to shareholders for a**
21 **rate case?**

22 A Yes, there are.

23 **Q Which you identify on page 7. And you call**
24 **them shareholder focus requests; correct?**

25 A Yes.

1 **Q And I'm not going to go through each of**
2 **those. But the first one is a higher ROE?**

3 A Yes, that's correct.

4 **Q Okay. And then you have some -- have some**
5 **others?**

6 A Yes, that's correct.

7 **Q You actually disallowed some expenses.**

8 A I -- initially there were some expenses that
9 were -- I couldn't identify some. There were some --
10 I'd have to go back. I believe I was -- may have been
11 missing some invoices that were transferred to rate
12 case expense, but all the adjustments that I initially
13 sponsored in the direct cost of service report, all
14 those have gone away but one related to CW's cash
15 working capital witness.

16 **Q Mr. Majors, what did you do on the**
17 **depreciation study? Did you include the entire amount**
18 **of that in your final dollar amount recommendation in**
19 **this case?**

20 A Yes, we did. On the depreciation study, it
21 was identified separately by MGE and Laclede. And so
22 we split those dollars out. I'm sorry. I split those
23 dollars out and normalized them over five years with
24 no sharing.

25 **Q Do you know if Public Counsel did the same?**

1 A I believe so. I'm not entirely sure, but I
2 wouldn't be surprised if they did.

3 MS. SHEMWELL: Thank you, Mr. Majors.
4 That's all I have.

5 JUDGE DIPPELL: Is there anything from the
6 Environmental Defense Fund?

7 MS. KARAS: No questions, Your Honor.

8 JUDGE DIPPELL: From Spire?

9 MR. ZUCKER: Thank you, Your Honor.

10 CROSS-EXAMINATION BY MR. ZUCKER:

11 **Q Your position, Mr. Majors, is that there was**
12 **no statutory requirement for Laclede and MGE to file a**
13 **rate case because of the ISRS statute; is that**
14 **correct?**

15 A If -- no, not in that context. The -- to
16 maintain the ability to charge an ISRS charge, a rate
17 case was required to be filed.

18 **Q So had we not filed a rate case, we would be**
19 **walking away from \$49 million in a revenue requirement**
20 **or revenue; is that correct?**

21 A I'm not sure on that number, but the -- you
22 would -- there would be a period of time where you
23 would continue to collect that. I'm not entirely
24 sure. It would be past this point. I believe it's
25 four years, but I'm not entirely sure on that. And

1 then I believe there would be a reconciliation of
2 those dollars.

3 **Q All right. Why would you disallow a cash**
4 **working capital lead-lag study performed by outside**
5 **consultant?**

6 A The rationalization of that adjustment was
7 that in prior cases and, in fact, going back to the
8 1980s, the Company has done its own cash working
9 capital lead-lag study. Cash working capital lead-lag
10 studies involve a large amount of Company information,
11 a large volume of data, and a large volume of
12 analysis. And so other utilities in the state, they
13 have in the past done outside lead-lag studies. I
14 think the current practice is to do them in-house.

15 Some -- I -- your former owner of MGE didn't
16 have -- my understanding is they didn't have the
17 resources to perform an internal cash working capital
18 study and, therefore, did hire out some cash working
19 capital work. But I think the overall approach is to
20 do those studies in-house.

21 **Q Is it your position that in -- if we have**
22 **done a task in-house in the past, we're locked into**
23 **doing it for the future?**

24 A No, not necessarily. I think Mr. Buck makes
25 a good point that -- and I'll take him at his word,

1 that the Company doesn't have the internal in-house
2 personnel to do a class cost-of-service study. If
3 memory serves, that kind of work has been procured
4 outside by an outside consultant for -- with other
5 utilities.

6 So, no, I don't think you're, quote, end
7 quote, to use your words, "locked in." And I think
8 also in this case that, and in other category of
9 expenses, Laclede has in the past, as you well know,
10 used mostly in-house personnel for legal expenses
11 or -- and legal services in rate cases. And in this
12 case, there have been some outside legal expenses. So
13 none of those were disallowed but were included in the
14 sharing amount.

15 **Q Do you know how many -- you worked on MGE**
16 **rate cases in the past, have you not?**

17 A I worked on one MGE general rate case. I
18 worked on probably two, if not three, ISRS cases that
19 were filed under MGE.

20 **Q Well, are you aware as to whether in the**
21 **past MGE cases there were partial stipulations?**

22 A I would not be at all surprised if there
23 were partial stipulations and agreements in prior MGE
24 cases.

25 **Q Do you know if there were in the MGE 2004**

1 **rate case?**

2 A I just don't know.

3 **Q Or 2006?**

4 A Offhand, I -- I just don't know the answer
5 to that.

6 **Q And same answer for 2010?**

7 A I believe there was a stipulation in 2010 on
8 some issues, but it did -- there were also some
9 litigated issues in my memory, but I wasn't involved
10 in that case.

11 **Q You know, before Laclede owned MGE, do you**
12 **know how many in-house counsel they employed for**
13 **regulatory purposes?**

14 A From my knowledge, I know there was one
15 attorney that we interacted with in the '14 case, and
16 I believe he had been there at least for some time.
17 His name now escapes me.

18 **Q Are you talking about MGE or Laclede?**

19 A I'm talking about MGE. Is that what you're
20 asking, MGE?

21 **Q Well, I wasn't originally asking Laclede,**
22 **but if you want to answer MGE first, that's fine.**

23 A I'm sorry. Could you repeat the question
24 then?

25 **Q So do you know prior to Laclede owning MGE**

1 when Laclede was just what's now Spire Missouri East,
2 do you recall how many in-house counsel Laclede had
3 for regulatory purposes?

4 A Okay. I'm sorry. I believe it was yourself
5 and Mr. Pendergast.

6 Q Okay. So two?

7 A That I know of, yes.

8 Q And do you know how many in-house counsel
9 for regulatory purposes MGE had?

10 A I'm not entirely sure if he was just a
11 regulatory as you put, just for regulatory purposes,
12 but there was one MGE counsel. Again, his memory --
13 or his name I don't know. I don't remember his name.

14 Q Okay. And so that would be a total of
15 three; correct?

16 A On a combined, yes.

17 Q Okay. And so now that the two companies are
18 combined, do you know how many in-house counsel for
19 regulatory purposes the combined companies have?

20 A I -- from my knowledge, it's just you.

21 Q That's my knowledge also. Are you aware
22 that of the -- of 30 issues that were on the list I
23 guess on December 1st, a number of them have been
24 settled?

25 A You know, I've -- I haven't been in any, if

1 at all, of those negotiations. I know that there's
2 some -- there's something about the school aggregation
3 tariff that's been settled. I don't know on a number
4 basis. I -- I just don't know the amount that have
5 been.

6 **Q Prior to the issues list being filed in the**
7 **last week or two, do you know how many issues were**
8 **outstanding, you know, at the time of, let's say, a**
9 **surrebuttal testimony?**

10 A No.

11 **Q Ballpark?**

12 A If you -- I wouldn't be surprised if there
13 were 30. I think that's the number that's been out
14 there. That wouldn't surprise me.

15 **Q Would 50 or 60 surprise you?**

16 A Well, I think you have to make the
17 distinction what are the -- are there issues that are
18 differences between Staff and the Company and the
19 parties or are there issues that are actually being
20 litigated on the issues list? Those are two distinct
21 things.

22 **Q I guess what I'm trying to do is maybe**
23 **finish on a high note, that a number of issues have**
24 **been settled and that called for a great deal of**
25 **cooperation between the parties. Is that your**

1 **understanding?**

2 A On the whole, I -- I would agree with that.

3 MR. ZUCKER: No further questions.

4 JUDGE DIPPELL: Is there any -- is there any
5 questions from the Bench?

6 Chairman Hall?

7 CHAIRMAN HALL: Yeah.

8 QUESTIONS BY CHAIRMAN HALL:

9 **Q Good morning.**

10 A Good morning.

11 **Q Looking at page 6 of your surrebuttal
12 testimony.**

13 A Yes.

14 **Q I wanted to ask you about that second line
15 item for bill inserts and printing for \$36,000.
16 Because to me that looks more like the depreciation
17 study and less like the other line items on that list,
18 and I was wondering what your reaction to that might
19 be?**

20 A Well, as that issue came up, I had given it
21 some thought. If you go back to the prior MGE and
22 Laclede rate cases, those were -- had a low level -- a
23 relatively comparatively low rate case expense. I'm
24 not sure if, one, that those kind of bill inserts and
25 printing were mailed in those cases. I can't say

1 that. And I also can't say that even if they were
2 mailed and printed, printed and mailed, that they were
3 charged directly to rate case expense.

4 And going back with another utility, I'm a
5 KCP&L rate payer. I don't recall receiving -- and I
6 don't get a bill. I get it through online e-bill,
7 what have you. I don't recall receiving a separately
8 mailed and printed bill -- I'm sorry -- notice that
9 they were in for a rate case.

10 I do recall specifically in this case
11 receiving a notification that MGE, which I'm a
12 customer of, had a rate case. So I don't know if it's
13 an apples and oranges comparison, if those dollars are
14 incurred in every utility rate case; one, if they're
15 incurred, two, if they're charged in rate case
16 expense.

17 And I think there was another point that in
18 the commission rules, a bill was required. You have
19 to send your customers a bill. I'm on e-bill. I've
20 never received a physical -- well, that's not -- I've
21 received one initial MGE bill. After that, I'm on an
22 e-bill basis. And in those e-bills, I believe there's
23 some -- the customers have access to inserts and
24 things like that.

25 So it could be that other utilities choose

1 to notify their customers of -- of -- that rate case
2 is pending through electronic means if they're already
3 on a e-bill. That would make sense to me. If a
4 customer's on an e-bill, then it wouldn't make sense
5 to send them a physical notice that there's a rate
6 case pending. You would -- you would -- you would
7 either for your -- for your currently mailed bill
8 customers, you would put in an insert in which case
9 the only incremental cost is the printing of the
10 actual insert, or you would send it through online
11 means.

12 **Q Yeah. I guess for me all of those**
13 **arguments, all of those facts, issues, would go to**
14 **whether or not that amount should be disallowed as**
15 **opposed to whether or not it should be shared. The**
16 **depreciation study is -- is required by rule and**
17 **Staff's recommendation, which I believe is**
18 **appropriate, is that because it is required, it --**
19 **that cost should not be shared.**

20 **I think it's probably undisputed that notice**
21 **to customers is required. And so then the issue is**
22 **did the Company provide that notice in a prudent**
23 **manner. And I don't see any testimony or evidence**
24 **other than some speculation by yourself that perhaps**
25 **that that bill inserts and printing line item was**

1 **imprudent. Am I -- am I missing something?**

2 A Well, I didn't -- I'm not claiming that the
3 bill insert line is imprudent. I think it's a
4 difference in the way other utilities would notify
5 their customers that -- of a rate case.

6 Q **But that is something -- because for me when**
7 **you're looking at rate case expense, you've got line**
8 **items for lawyers, for consultants, and it's very**
9 **difficult, from my perspective, to understand what is**
10 **prudent and what is imprudent. And that's part of the**
11 **reason why I, in the past, have supported rate case**
12 **expense sharing.**

13 This is a different -- a different animal.
14 For bill inserts, printing, etc., it is very, I won't
15 say easy, it is possible to audit that and determine
16 whether or not that was done prudently or not. That's
17 different than the cost for attorneys and lawyers,
18 isn't it?

19 A Well, I think you -- say for another -- say
20 you had another utility that decided to use all
21 in-house counsel and they did not charge the
22 incremental postage. They didn't have an incremental
23 flier to their rate payers, then you wouldn't have any
24 incremental rate case expenses and there would be no
25 sharing of those costs.

1 I think it -- in the way that the utility
2 chooses to prosecute its rate case is the same way
3 that the utility chooses to hire an attorney or have
4 an in-house counsel or hire a consultant or have an
5 in-house consultant. It's all in the way that -- the
6 different ways that utilities choose to prosecute
7 their different rate cases.

8 You can have -- you can have -- you could
9 hypothetically have every rate case expense. You
10 could hire out all outside attorneys, all outside
11 consultants that do no in-house work and that would be
12 one facet.

13 **Q Well, I mean, we're going afield from -- I**
14 **mean, you did not identify any imprudence with the**
15 **bill inserts printing, etc.; is that correct?**

16 A That's correct.

17 **Q And you would agree that providing the**
18 **notice to customers is required by either commission**
19 **orders, rules, or both?**

20 A That is my understanding.

21 **Q Okay. To what extent were you able to audit**
22 **the amounts paid to outside counsel and consultants?**

23 A I have substantially all that information on
24 a pretty granular basis that I've compiled. I guess
25 we could start from the top.

1 Q Well --

2 A Whatever you'd --

3 Q I guess I don't -- I don't want to get
4 granular. I want to get a little more general. To
5 me, and I want to get your reaction to this, it is --
6 it is -- it's one thing to determine whether the
7 salary for a lineman is -- is prudent or not or the
8 cost to repair a pole or the costs to replace a
9 substation. That is -- that is, from an auditing
10 perspective, something relatively easy to do.

11 To me, it is more difficult to look at a
12 line item for an attorney, an outside attorney, in a
13 rate case and determine whether or not that dollar
14 amount is reasonable and prudent. Would you agree
15 with that?

16 A I -- I would completely agree with that.

17 Q Could you explain why?

18 A Well, prudence is -- it's reasonableness.
19 It's a reasonable standard. It is reasonable. And I
20 think that can vary from person to person, whoever --
21 especially when it's something very subjective like
22 this. It's a very high threshold to do, to achieve,
23 especially when there is -- you can go out and hire a
24 \$500 an hour attorney or you can go locally and hire a
25 \$200 an hour attorney. It's very difficult to -- it's

1 just a very difficult thing to do.

2 **Q Whereas -- whereas if the Company were to**
3 **hire an attorney and pay that attorney a million**
4 **dollars a year versus \$100,000 a year, that would be a**
5 **relatively easy determination as to whether or not**
6 **that is a prudent expenditure?**

7 A Yes. And I think in that respect, Staff
8 routinely reviews wage and salary surveys to get a
9 general idea of what is the market rate for an
10 attorney with five years' experience, with 10 years'
11 experience. And in your example, we do the same thing
12 with a lineman or a gas technician. And that's
13 something the Company does as well. They will go out
14 into and procure a market study and find out what
15 should we -- what's the appropriate salary wage,
16 bonus, benefits that should be paid to a given
17 individual for that position.

18 **Q So would you say that the utility holds all**
19 **the information needed to identify imprudence with**
20 **regards to those line items within a rate case**
21 **expense?**

22 A Oh, absolutely. But I think Staff
23 through -- through data requests can procure as much
24 as we can in that regard. But the Company, at the end
25 of the day, they do have the choice on who they hire

1 and what services they procure.

2 **Q And so would you also agree that if you**
3 **compare rate case expense items to most of the other**
4 **routine expenses that a utility seeks to include in**
5 **rates, that those other line items are transparent and**
6 **verifiable by the PSE?**

7 A I -- I think on -- I think they are
8 transparent, and I think rate case expense is -- is --
9 is a special -- it's a special expense compared to
10 other expenses. So it does get -- it does get more of
11 an eye. We do look at other outside service costs,
12 but it does get -- in a routine every rate case, it's
13 guaranteed that some member of Staff who's assigned to
14 the case is going to look at rate case expense.

15 And another reason being that it's one of
16 the few, if any, expenses that whatever expenses are
17 incurred past the true-up cut-off are included in
18 current rates; so it's -- I would say it's the only
19 expense that is -- that is past that date that
20 incurred and it's included in rates. So it makes
21 it -- it condones itself to a more thorough analysis.

22 **Q And would you also say that rate case**
23 **expense to some extent is shielded from effective**
24 **oversight by privilege and confidentiality?**

25 A It is. I would agree with that.

1 **Q Would you agree that one factor driving the**
2 **rate case expense in this case is the aggressive**
3 **posture taken by the Company in this case?**

4 A Well, you said "aggressive posture." I
5 don't know that it's any more or less aggressive than
6 other utilities in the -- in the state in terms of how
7 they approach a rate case.

8 **Q But how they approached this rate case.**

9 A I don't --

10 **Q So you don't know?**

11 A No, I don't know.

12 **Q Do you think that, based on your**
13 **professional experience as an auditor, that -- that**
14 **decisions by the Commission as to what expenses are**
15 **included in rates and which ones are not, that that**
16 **does incentivize -- disincentivize certain behavior by**
17 **the Company?**

18 A I think in some cases. And a good example
19 where it doesn't, the Commission has routinely denied
20 recovery, and I guess you could say allocated to
21 shareholders the expense of dues -- some dues and
22 charitable donations and that has, to my knowledge,
23 never prevented the utility from -- from doing
24 their -- you know, being a good corporate citizen and
25 providing charitable donations to charitable entities.

1 **Q** Of course, you don't know, if -- if those
2 **expenses were included in rates, if those expenditures**
3 **would increase significantly or not? You don't know?**

4 A I don't know.

5 **Q** Do you think that Staff -- if the Commission
6 **were to take Staff's position in this case that that**
7 **would incentivize the Company to be more efficient in**
8 **the prosecution of its rate cases?**

9 A I -- I think it could. To use the word you
10 used with Mr. Buck, I think it could. The potential
11 is there. But I think at the end of the day that the
12 utility is going to prosecute its rate case in the
13 matter it sees fit.

14 Since the Commission has ordered the rate
15 case expense, what I call a sharing mechanism, other
16 utilities past -- or subsequent to that order have had
17 outside counsel and outside consultants charged to
18 rate case expense. So in that regard, it hasn't
19 changed their behavior.

20 I think it's -- it's more of -- part of it
21 is incentivizing them to properly manage the rate case
22 expense, but I think on the other side, it's a proper
23 allocation of the benefits to both parties who benefit
24 from rate cases of shareholders or rate payers.

25 **Q** **Could you explain that last -- that last**

1 **concept?**

2 A Well, sure. The -- the whole point of
3 filing a rate case is that the Company believes their
4 rates are too low, that they're not just and
5 reasonable. And so there's a filing made with the
6 Commission. They incur expenses and then the
7 Commission determines that rates are just and
8 reasonable.

9 So on the one hand, shareholders are allowed
10 the opportunity to achieve a return on their
11 investment. On the other hand, rate payers are
12 provided safe and adequate service at just and
13 reasonable rates. So there is a benefit to both
14 parties for -- in the rate case process. And I think
15 that's why the Commission, and not to put words in the
16 Commissions' mouth, but I think that's, in part, why
17 the Commission decided to have this allocation -- the
18 allocation mechanism.

19 CHAIRMAN HALL: I have no further questions.
20 Thank you.

21 JUDGE DIPPELL: Thank you.

22 Mr. Stoll?

23 COMMISSIONER STOLL: No questions, Your
24 Honor.

25 COMMISSIONER KENNEY: No questions.

1 COMMISSIONER RUPP: None from me.

2 JUDGE DIPPELL: Thank you. Ms. Shemwell had
3 to step out for just one moment; so I'm going to ask
4 for other questions and we'll come back to her when
5 she can return.

6 Environmental Defense Fund, any questions?

7 MS. KARAS: No questions, Your Honor.

8 JUDGE DIPPELL: Any questions based on
9 questions from the Bench from Spire?

10 MR. ZUCKER: Yes, Your Honor. Just a few.

11 RECROSS-EXAMINATION BY MR. ZUCKER:

12 **Q Do you work on the rate case issues in other**
13 **rate cases you work on? I mean -- I'm sorry -- rate**
14 **case expense issues?**

15 A I have not in all rate cases I've been
16 involved in.

17 **Q And in general, if you look at page 5 of**
18 **your surrebuttal testimony and you see the amount of**
19 **rate case expense for Laclede in the 2007, '10, and**
20 **'13 case, how does that compare with other rate case**
21 **expenses you see?**

22 A It depends on what metric you're using. But
23 on the whole, in total, they are relatively lower than
24 other utilities I have -- I have seen.

25 **Q Relatively significantly lower?**

1 A I do actually have some information on that.
2 It -- in all -- there's certain factors that you
3 can -- metrics you can judge those by. You can judge
4 them by on a per-customer basis. You can judge them
5 by in relationship to the requested rate increase. I
6 think they are lower than other utilities in the past.

7 But I guess to answer your question, that in
8 this case, the -- the total rate case expense
9 incurred, which is about -- well, the total -- and
10 that's the -- the amount incurred just through
11 September 30th, which doesn't include any rebuttal,
12 surrebuttal, or hearings, which at 1.3 million, that
13 those expenses are going up. And I don't know that I
14 could say that they are low in relationship to other
15 utilities when taken in their total.

16 I think the Staff -- it's Staff's
17 recommendation that we would capture rate case
18 expenses about two weeks post-briefs so all those
19 invoices could be in. And at that point, whatever the
20 total is would be shared. So I think when you're
21 comparing them to other utilities, you'd have to take
22 the total amount in context, not just the one point --
23 nearly 1.4 million that's been incurred since back in
24 September.

25 **Q Would you think that the amount of time a**

1 **company goes between rate cases should be considered?**

2 A In terms of the collection of rate case
3 expense, I think I -- we have considered that. We've
4 recommended, I believe it's a four-year normalization,
5 but it -- considered how, I guess, to clarify? How
6 it -- how would that be?

7 Q **Well, if you come in for a rate case every**
8 **two years, for example, you're going to have certain**
9 **expenses. And then over a period of four years,**
10 **you'll have, let's say, twice as many, double what you**
11 **had in two years, okay? If you come in every four**
12 **years and you come in at the same amount, you would**
13 **basically have half of the company that came in every**
14 **two years?**

15 A Mathematically you would, yes.

16 Q **I didn't say that very well, but you seemed**
17 **to have gotten it anyway.**

18 A Like any other expense, depending on when
19 you incurred it, every two years, every four years,
20 whatever expense it would be, that would -- that's how
21 the math would work out.

22 Q **In your experience, would you say that it is**
23 **possible that someone who charges more dollars per**
24 **hour, let's say, Mr. A charges more dollars per hour**
25 **than Mr. B. Is it possible that through Mr. A's**

1 **experience and efficiency, he can actually get the job**
2 **done in -- at a lower amount than Mr. B?**

3 A It could be possible.

4 MR. ZUCKER: Mr. Majors, thank you for being
5 here today. Appreciate it.

6 JUDGE DIPPELL: Thank you.

7 Ms. Shemwell, did you have any questions
8 following the Commission questions?

9 MS. SHEMWELL: Thank you for taking me out
10 of order. I appreciate it.

11 RE-CROSS-EXAMINATION BY MS. SHEMWELL:

12 **Q Just one question. Do you work mostly**
13 **electric cases -- rate cases or natural gas rate**
14 **cases?**

15 A I think if you -- if you took it all in
16 total, I've worked more -- far more electric cases
17 than natural gas.

18 **Q How many natural gas cases have you done,**
19 **can you recall?**

20 A I guess to clarify, you're talking about
21 general rate cases?

22 **Q Yes.**

23 A This is the second natural -- MGE -- I'm
24 sorry. This is the second general natural gas rate
25 case I have been involved in.

1 **Q Is Todd Jacobs the name that you couldn't**
2 **remember?**

3 A Yes, that's the name.

4 MS. SHEMWELL: Thank you. That's all I
5 have.

6 JUDGE DIPPELL: Thank you. Is there any
7 redirect from Staff?

8 MR. THOMPSON: A little bit. Thank you,
9 Judge.

10 REDIRECT EXAMINATION BY MR. THOMPSON:

11 **Q You were asked why you would disallow a cost**
12 **working capital study done by outside consultants and**
13 **you explained that you were moved to do so because in**
14 **the past Laclede had done this using in-house**
15 **personnel. Remember that?**

16 A Yes.

17 **Q Would you agree with me -- Or excuse me.**
18 **Let me make this a non-leading question. Are you**
19 **familiar with a principle called the least cost**
20 **alternative?**

21 A Yes.

22 **Q Was your decision driven by consideration of**
23 **that principle?**

24 A In part it was. I think CWC studies, like I
25 said, they involve a substantial amount of

1 internally-derived information based on actual bills,
2 actual payments that are specifically sampled. And
3 that amount of data is -- would be -- and I think
4 other -- I mean, shown through evidence of other
5 utilities, it's more effective to have that as an
6 in-house activity as opposed to hiring an outside
7 consultant. Especially when in this case, I don't
8 believe there are any unique, special -- I -- there
9 are CWC issues, but there's no unique, special CWC
10 issue in this case.

11 **Q Okay. And you were also asked some**
12 **questions about the table, I guess, on page 6 of your**
13 **surrebuttal?**

14 A Yes.

15 **Q And those numbers obviously are highly**
16 **confidential -- or excuse me -- confidential?**

17 A That's my understanding, yes.

18 **Q Okay. And you were particularly asked**
19 **questions about the bill inserts and printing number.**
20 **Remember that?**

21 A Yes.

22 **Q Okay. And do you know --**

23 JUDGE DIPPELL: Mr. Thompson, let me just
24 interrupt you. We established earlier that the number
25 for that particular item is no longer confidential.

1 MR. THOMPSON: Okay. Thank you.

2 JUDGE DIPPELL: I'm sorry. Go ahead.

3 MR. THOMPSON: I missed that.

4 **Q (By Mr. Thompson) Do you know how many**
5 **notices were sent in this case?**

6 A I know it's on an invoice. I don't know
7 right now. I've looked at the invoice. It's from an
8 outfit called American Microprinting, I believe, and
9 it has it on the invoice. But sitting here right now,
10 I couldn't tell you how many were sent out.

11 **Q Could there have been more than one notice**
12 **sent to each customer?**

13 A I don't know for sure. That could be a
14 possibility. I just don't know. I know I received
15 one mailed notice. And I like I said before, I'm a
16 online bill pay customer; so I don't receive any other
17 bill throughout the year.

18 **Q Okay. Fair enough. But you did not**
19 **recommend that any of that amount be disallowed, did**
20 **you?**

21 A No. It is subject to the sharing mechanism
22 that Staff recommends.

23 **Q Okay. And then I believe you were asked**
24 **some questions about prudence.**

25 A Yes.

1 Q And I think you equated prudence with
2 **reasonableness?**

3 A Yes, I did.

4 Q But reasonableness judged on the basis of
5 **what we know now or reasonableness judged on the basis**
6 **of what was known at the time the cost was incurred?**

7 A I think prudence would be -- have to be
8 judged at the time the cost was incurred. It's not a
9 back-looking standard. And the -- none of Staff's
10 adjustments relate to whether or not those costs were
11 prudent. I think if -- if there were costs that were
12 imprudent, we would have identified those. So
13 implicit in saying that Staff didn't identify those.
14 That -- that Staff does not believe that there is a
15 prudence issue in relation to rate case expense.

16 MR. THOMPSON: Thank you very much. No
17 further questions.

18 JUDGE DIPPELL: Thank you.

19 Thank you, Mr. Majors. You may step down.

20 Mr. Chairman, did you have questions that
21 you wanted to ask Mr. Oligschlaeger or --

22 CHAIRMAN HALL: Sure.

23 JUDGE DIPPELL: All right. Then can I ask
24 Staff to put on Mr. Oligschlaeger?

25 MR. THOMPSON: Why thank you, Judge. Yes.

1 I would call Mark Oligschlaeger.

2 JUDGE DIPPELL: Thank you.

3 MARK OLIGSCHLAEGER,

4 Having duly been sworn, testified as follows:

5 JUDGE DIPPELL: Thank you.

6 You don't have to run through his testimony
7 at this point since he didn't have testimony on this
8 particular issue specifically; is that correct?

9 MR. THOMPSON: That is correct. I do have a
10 few questions I'd like to ask Mr. Oligschlaeger on
11 direct.

12 JUDGE DIPPELL: Okay. I'll let you go ahead
13 then.

14 DIRECT EXAMINATION BY MR. THOMPSON:

15 Q First of all, could you spell your last name
16 for the reporter?

17 A Sure. My name is Mark L. Oligschlaeger,
18 O-l-i-g-s-c-h-l-a-e-g-e-r.

19 Q And how are you employed?

20 A I'm employed as the manager of the auditing
21 department with the Missouri Public Service
22 Commission.

23 Q And how long have you been employed by the
24 Public Service Commission?

25 A I've been employed since September 1981.

1 **Q** **In the course of your employment, did you**
2 **prepare or cause to be prepared a Staff report**
3 **concerning the sharing of rate case expense?**

4 A Yes, I did.

5 **Q** **And were you the principal author of that**
6 **report?**

7 A Yes, I was.

8 **Q** **Do you have that report with you in front of**
9 **you today?**

10 A I do.

11 MR. THOMPSON: I have no further questions.
12 Thank you. I will tender Mr. Oligschlaeger for
13 cross-examination.

14 JUDGE DIPPELL: Thank you, Mr. Thompson.

15 I'm going to go ahead and start with
16 Commission questions and then we'll take -- unless
17 I'm -- unless somebody has a question. I'll just --
18 looking at you -- for Mr. Oligschlaeger before he
19 testifies.

20 MS. SHEMWELL: No, thank you.

21 MR. ZUCKER: I can ask him any time.

22 JUDGE DIPPELL: Okay. Well, then let's go
23 ahead with Commission questions. Chairman Hall?

24 QUESTIONS BY CHAIRMAN HALL:

25 **Q** **Good morning.**

1 A Good morning.

2 **Q So I'll start with -- with this. Do you**
3 **believe that there is something different about rate**
4 **case expense compared to other expenses incurred by a**
5 **utility that justify sharing of those expenses?**

6 A Yes, I do. I think the primary aspect of
7 this issue that might justify sharing is the fact that
8 there's kind of a dual purpose to the rate case
9 process in which obviously it's something the
10 companies have to go through to the extent they desire
11 a rate increase, and certainly sometimes those rate
12 increases are necessary and appropriate from a
13 customer perspective. But it's also an opportunity
14 for the utilities to take positions that predominantly
15 favor their shareholder interests perhaps over the
16 interest of other parties involved in the rate case
17 process.

18 **Q And what might some of those issues be?**

19 A Well, certainly, rate of return, return on
20 equity in some cases, capital structure, I think are
21 good examples of issues in which the companies have
22 typically advocated for positions, particularly on
23 ROE, that the Commission ultimately not -- did not
24 find to be reasonable in order to lower ROE level.

25 **Q So how would that compare to other types of**

1 **expenses such as salaries, substation repairs, pole**
2 **replacement, purchase of a new truck?**

3 A Well, I mean, certainly, in theory, all
4 those expenses are to the benefit of shareholders
5 because it leads to a well-run company, profitable and
6 so on. But, I mean, quite clearly the primary purpose
7 of most of those expenditures is to provide safe and
8 adequate service to customers. So there's usually no
9 question of an allocation of those costs between
10 shareholders and then customers in those instances, I
11 believe.

12 **Q Is there also a difference between rate case**
13 **expense items and the other types of expenses that a**
14 **utility routinely incurs in terms of the ability for**
15 **staff and other parties to audit them for prudence?**

16 A I would say at least in some instances,
17 there have been some problems with accessing
18 information from the utilities. Sometimes it may be
19 subject -- and properly subject to, you know,
20 confidentiality or just disclosure requirements or
21 even subject to privilege, you know, in terms of the
22 rate case strategies and so on. But nonetheless, we
23 would not necessarily -- or the Commission ultimately
24 would not be able to fully understand maybe the basis
25 and background of certain decisions made by the

1 utilities.

2 Q So that would be one reason why it's more
3 difficult to audit those expenses. Isn't another that
4 there's subjectivity involved? When it -- when it
5 comes to -- to whether a particular salary is prudent
6 or whether a price paid for a truck is prudent, there
7 is some objective criteria that Staff can use to
8 determine whether or not that's a prudent expense.
9 When it comes to a -- whether or not the Company
10 should pay \$300 an hour for a consultant or \$700 an
11 hour for a consultant, we really don't have that same
12 type of objective criteria. Is that true?

13 A I would agree certainly in the sense that
14 you can't escape the subjectivity aspect of that. A
15 company may make a decision to hire a consultant at
16 \$400 an hour when a \$300 an hour consultant was
17 available. And their thought process, the reasoning
18 and quality of the work product and so on, all of
19 those aspects to that decision may not be readily
20 apparent or even available to Staff and other parties
21 and ultimately the Commission.

22 Q Are you aware of how other states handle
23 rate case expense in terms of there -- there are some
24 out there that do employ a sharing mechanism. Is that
25 true?

1 A The last time we made an in-depth study of
2 this was in the 2011/2012 timeframe in conjunction
3 with preparing a report that Mr. Thompson discussed
4 with me. We have not made a further attempt to try to
5 update that in any -- any major degree. So my
6 knowledge of what other states do pretty much goes
7 back five or six years.

8 **Q Would it be possible to get that report in**
9 **the record in this case?**

10 JUDGE DIPPELL: I believe it would.

11 Mr. Thompson, do you happen to have copies
12 of that report?

13 MR. THOMPSON: I could get a copy. I do not
14 have a copy. Mr. Oligschlaeger has a copy.

15 MR. OLIGSCHLAEGER: Yes.

16 MR. THOMPSON: Is that it? Now I have a
17 copy.

18 JUDGE DIPPELL: You have a copy.

19 MR. THOMPSON: I have a copy.

20 JUDGE DIPPELL: Okay.

21 MR. THOMPSON: How many do you want, Judge?

22 JUDGE DIPPELL: Well, enough for the other
23 attorneys and for the Bench; so --

24 MR. THOMPSON: So that's six.

25 JUDGE DIPPELL: And one for the court

1 reporter.

2 MR. ZUCKER: Do we want to just take
3 judicial notice of it or do you actually want
4 copies --

5 MR. THOMPSON: It was received in a docket,
6 I believe.

7 MR. ZUCKER: Yeah, it's AW-2011-0330, I
8 believe.

9 MR. THOMPSON: You believe. Very good, Mr.
10 Zucker. You are, in fact, correct.

11 JUDGE DIPPELL: I'm sorry. That was 0330?

12 MR. ZUCKER: Yes, ma'am.

13 JUDGE DIPPELL: Okay. That's a good way to
14 approach it.

15 MR. THOMPSON: Staff would move that the
16 Commission take official notice of the Staff report in
17 docket AW-2011-0330.

18 JUDGE DIPPELL: And is there a specific
19 schedule number or title to that report, that specific
20 report?

21 MR. THOMPSON: I think it's simply the Staff
22 report.

23 JUDGE DIPPELL: Okay.

24 MR. ZUCKER: Your Honor, let me amend
25 something I just said because I tried to look up that

1 report on EFIS, and there's a highly confidential
2 version, back in the days when we called it HC, and it
3 would not let me get to the confidential version. So
4 I don't know if that's because it had confidential
5 information from other companies in it.

6 JUDGE DIPPELL: Mr. Thompson, is the copy
7 that you have marked "HC"?

8 MR. THOMPSON: Yes, it is.

9 JUDGE DIPPELL: Okay. I'm trying to recall
10 what that means for the purposes of other companies'
11 having access to that information.

12 MR. THOMPSON: It's accessible to every
13 party and to outside consultants who sign a
14 confidentiality agreement. That was what the prior
15 rule provided.

16 JUDGE DIPPELL: But that's parties and
17 people signing confidentiality agreements in that
18 particular case?

19 MR. THOMPSON: That is correct.

20 JUDGE DIPPELL: And this document, though,
21 was an exhibit in that case?

22 MR. THOMPSON: I don't know if it was an
23 exhibit or if it was just a free-standing filing.
24 It's been a long time. I know it was filed in that
25 docket. We can make copies available for the Bench

1 and for everybody who's here today.

2 JUDGE DIPPELL: Okay. I'm going to -- I'm
3 going to go ahead and mark that document as an
4 exhibit. I'm going to ask if counsel would have any
5 objection to the Commission taking official notice. I
6 realize that you haven't -- maybe you haven't all laid
7 eyes on it yet, but if that's your objection you can
8 say so.

9 Would there be any objection to the
10 Commission taking official notice of that?

11 MR. PENDERGAST: None here.

12 MS. SHEMWELL: No, thank you.

13 JUDGE DIPPELL: All right.

14 MS. SHEMWELL: Do you want to wait for
15 copies?

16 JUDGE DIPPELL: Well, before I actually
17 enter it into the record, I'm going to withhold that
18 until I make sure that I'm not doing anything that
19 violates the confidentiality rules in that case. But
20 we've got it teed up for it coming into the record.
21 So, Commissioner, I apologize for the long-winded way
22 of accomplishing that, but --

23 CHAIRMAN HALL: All good.

24 **Q (By Chairman Hall) Do you believe that the**
25 **rate case expense-sharing mechanism being proposed by**

1 **Staff, if that were to be employed by the -- by the**
2 **Commission, that that would incentivize more efficient**
3 **prosecution of rate cases going forward?**

4 A Yes, I do. I believe any time a company is
5 aware that any incremental dollar of rate case expense
6 it may choose to incur would at least, in part, be
7 subject to sharing. They would, I think, be more
8 aware of and want to ensure that they would get the
9 appropriate bang for the buck from that expenditure
10 compared to the alternative and once they would
11 presumptively recover the entire amount in rates.

12 CHAIRMAN HALL: I have no further questions.
13 Thank you.

14 JUDGE DIPPELL: Thank you.
15 Commissioner?

16 COMMISSIONER STOLL: I have no questions.

17 JUDGE DIPPELL: Kenney, did you have
18 questions?

19 COMMISSIONER KENNEY: I just have one.

20 QUESTIONS BY COMMISSIONER KENNEY:

21 Q **Prior to the 2014 KCP&L rate case that's**
22 **been discussed with the rate case sharing and even**
23 **prior to my tenure on the Commission, which was**
24 **January 9, 2013, did the -- this Commission have a**
25 **practice of ordering the sharing of rate case expense**

1 **between rate payers and shareholders on a consistent**
2 **basis?**

3 A They did not. That issue did come up
4 occasionally over time. I don't believe the
5 Commission ordered a specific sharing mechanism like
6 you did in the KCP&L 2014 case. I think that it was
7 the first time that was done.

8 **Q The first time that there was a sharing**
9 **mechanism or the particular way that this Commission**
10 **did it?**

11 A Again, and I think some of the details may
12 be in the rate case expenditure report. I think to
13 some degree, the Commission in the past 1985 Arkansas
14 Power and Light case, for example, they've employed
15 something similar in concept of sharing. It was not
16 the same as what was done in the 2014 KCP&L rate case
17 and what Staff has advocated since that time.

18 **Q But during your tenure here, how would**
19 **you -- how many times would you say there's been rate**
20 **case expense sharing between shareholders and rate**
21 **payers? Just a broad guess percentage-wise.**

22 A Again, prior to 2014, I'm aware of one case
23 that could probably fairly be characterized as a rate
24 case.

25 **Q And that was an Arkansas case you just**

1 mentioned?

2 A Yes.

3 COMMISSIONER KENNEY: Okay. Thank you.

4 JUDGE DIPPELL: Any other questions?

5 All right. Are there questions from Public
6 Counsel?

7 MS. SHEMWELL: No questions. Thank you.

8 JUDGE DIPPELL: Environmental Defense Fund?

9 MS. KARAS: No questions, Your Honor.

10 JUDGE DIPPELL: And Spire?

11 MR. ZUCKER: Just a few again, Your Honor.

12 CROSS-EXAMINATION BY MR. ZUCKER:

13 Q Mr. Oligschlaeger, you're aware we're doing
14 two rate cases here; right?

15 A Yes, I am.

16 Q So that would tend to drive up the total
17 cost?

18 A To some degree it could, yes.

19 Q Would you say that cost of capital is a
20 fairly large issue in cases?

21 A It typically is, yes.

22 Q Do you have any idea what the difference is
23 between Staff's midpoint of 8.932 and the Company's
24 11.993 pretax cost of capital? Do you have any idea
25 how much that's worth?

1 A I do not. I don't believe the Staff is
2 advocating -- I'll withdraw that. I don't know.

3 **Q Have you seen over the years in rate cases**
4 **the ROEs filed by Staff?**

5 A I would be generally aware of them, yes.

6 **Q Have they tended to be below the zone of**
7 **reasonableness?**

8 A I can't say that as a generality, no.

9 **Q Have they tended to be unusually low?**

10 A I don't know by what standards to call them
11 unusually low. I know the Commission has typically
12 chosen ROE positions in most cases that were somewhat
13 above what the Staff recommended.

14 **Q To your recollection, in the last 10 years,**
15 **has the Commission ever chosen an ROE the Staff**
16 **recommended?**

17 A I believe -- and because I worked on this
18 case, I'm fairly certain that in 2008 Empire District
19 Electric Company rate case, the Commission selected a
20 value from the Staff's recommended ROE range.

21 **Q And I appreciate your efforts there in**
22 **coming up with one. Given the fact that cost of**
23 **capital is a large -- Well, let me ask you one more.**
24 **Do Staff ROEs tend to be -- have they been in the past**
25 **below OPC's ROE?**

1 A Again, I can't say that as a generality. I
2 know there have been specific instances in which that
3 was true.

4 **Q Okay. And if there are differences in ROEs
5 and that cost of capital is a large issue, would
6 resolving those or having those determined tend to
7 drive up rate case costs?**

8 A If ROE is a contested issue, typically would
9 that drive up rate case expense compared to the
10 situation in which it was not a contested issue? I
11 would agree with that.

12 **Q Have you worked on many Laclede Gas rate
13 cases?**

14 A Depends on what sense you would say worked
15 on. I was directly involved in at least one prior
16 case and had some level of involvement in others.

17 **Q Okay. And the one prior case you were
18 involved in was the 2007 Laclede rate case. Is that
19 your recollection?**

20 A Yes, it is.

21 **Q And did that case settle?**

22 A Yes.

23 **Q And what was your view of Laclede's attitude
24 in that case in terms of their -- their -- your
25 ability to work with them?**

1 A In that particular case, I found Laclede to
2 be reasonably cooperative and certainly willing to
3 enter into agreements with the Staff. I wouldn't
4 necessarily say more so than other utilities I've
5 worked with, but --

6 **Q Have you worked with Mr. Pendergast in the**
7 **past?**

8 A Yes, in several capacities.

9 **Q And what is your view of him or his**
10 **reputation in being able to reach resolutions in**
11 **cases?**

12 A At least in the 20- -- 2007 rate case we
13 were discussing earlier, I personally found
14 Mr. Pendergast to be a constructive presence on the
15 Company's side in order to reach the overall
16 resolution of the case that was accomplished.

17 **Q Okay. Thank you. What about his general**
18 **reputation as someone who is able to reach**
19 **constructive resolution?**

20 MS. SHEMWELL: Judge, I'm going to object to
21 this question. Mr. Pendergast's reputation doesn't
22 really have anything to do with Mr. Oligschlaeger's
23 testimony or any questions from the Bench.

24 MR. ZUCKER: Well, I'm allowed to ask
25 questions on cross. It's clearly a relevant question.

1 And, you know, given what, you know, transpired last
2 night, I want it to be clear that the -- who has a --
3 who should get substantial credit for the work done by
4 Laclede over many years and getting rate cases
5 resolved without litigation.

6 JUDGE DIPPELL: I'll overrule the objection
7 and allow him to answer just because this is an
8 unusual witness that we have called to the stand
9 without prior testimony.

10 MR. ZUCKER: Thank you, Your Honor.

11 MR. OLIGSCHLAEGER: I'll answer that
12 question this way. Mr. Pendergast has been involved
13 with the legal capacity for Laclede for many years and
14 for many rate cases. And in most of those cases,
15 ultimately the case was resolved through a stipulation
16 and agreement. I think it's fair to assume, in
17 general, that Mr. Pendergast played a role in those
18 results.

19 MR. ZUCKER: I think I'll take that and go.

20 JUDGE DIPPELL: Thank you.

21 MR. ZUCKER: Thank you, Mr. Oligschlaeger.

22 JUDGE DIPPELL: Is there redirect by Staff?

23 MR. THOMPSON: There is not. Thank you,
24 Judge.

25 JUDGE DIPPELL: Thank you.

1 Thank you, Mr. Oligschlaeger, for being
2 available. You may step down.

3 Let's -- Well, let's go ahead and finish up
4 this issue and then we'll take a break at that point.
5 So let's go forward with --

6 MS. SHEMWELL: Judge.

7 JUDGE DIPPELL: Yes. I'm sorry.

8 Ms. Shemwell?

9 MS. SHEMWELL: It's important for me to take
10 a break --

11 JUDGE DIPPELL: Oh, I'm sorry --

12 MS. SHEMWELL: -- at this moment.

13 JUDGE DIPPELL: -- Ms. Shemwell. All right.
14 Then let's -- I will agree to that. Let's take a
15 15-minute break and come back at five till.

16 (Whereupon, a brief break was taken.)

17 JUDGE DIPPELL: So let's go back on the
18 record.

19 Okay. We're back on the record. We had a
20 brief procedural discussion while we were off the
21 record and I'd like to recap that. So Mr. Zucker
22 tells me that hydrostatic testing has reached an
23 agreement among the parties who care about that issue.

24 MR. ZUCKER: Yes.

25 JUDGE DIPPELL: And after we finish rate

1 case expense, my hope is that we can do opening
2 statements before breaking for agenda. And then we
3 will take our lunch break and do opening statements on
4 the CAM issue. I know that that was -- well, the CAM
5 issue was scheduled. We may be taking a few issues
6 out of order today just because we have some witnesses
7 that are only available today and --

8 MR. THOMPSON: Could you give us a list of
9 what's going to be covered today?

10 JUDGE DIPPELL: Yes. As I said earlier
11 today, the list is: CAM, ACA tariff revisions,
12 software issue. And then I thought we might get into
13 pensions because Mr. Pitts I thought was only
14 available today, but as it turns out, he is available
15 in the morning. So if that issue should have to go
16 into the evening hours, we will wait and take that
17 tomorrow.

18 However, depending on what is still left, we
19 will then pick up and continue with what was actually
20 scheduled for today. So that's -- that's the plan at
21 this point, and we will take off those issues that
22 have been -- already have had settlements and so
23 forth.

24 MS. SHEMWELL: We would offer that
25 rebranding is probably an issue that could go fairly

1 quickly if it needs to go later this evening.

2 JUDGE DIPPELL: Okay. Thank you,
3 Ms. Shemwell.

4 So let's continue then and get through rate
5 case and expense and see if we have time to do opening
6 statement on CAM before we break for agenda.

7 MS. SHEMWELL: Thank you.

8 JUDGE DIPPELL: Go ahead, Ms. Shemwell.

9 MS. SHEMWELL: Well, the Counsel calls
10 Amanda Conner. Ms. Conner has already been sworn, and
11 I offer the witness for cross-examination. Thank you.

12 JUDGE DIPPELL: Thank you. Ms. Conner,
13 since you testified earlier, you've already been under
14 oath for our proceeding purposes.

15 Is there cross-examination of Ms. Conner
16 from Staff?

17 MR. THOMPSON: No, thank you, Judge.

18 JUDGE DIPPELL: From the Environmental
19 Defense Fund?

20 MS. KARAS: No questions, Your Honor.

21 JUDGE DIPPELL: From Spire?

22 MR. ZUCKER: One moment, Your Honor.

23 Your Honor, I think that I've talked enough
24 about rate case expense so I'm going to let it go.
25 Thank you, Ms. Conner.

1 JUDGE DIPPELL: Thank you, Mr. Zucker.
2 Commissioner Hall, Chairman Hall?

3 CHAIRMAN HALL: Ditto.

4 COMMISSIONER KENNEY: No questions. Thank
5 you.

6 JUDGE DIPPELL: You have all taken me by
7 surprise.

8 MS. SHEMWELL: Us too.

9 JUDGE DIPPELL: Then I guess that is all for
10 you, Ms. Conner, and you may step down.

11 Well, then that should conclude the rate
12 case expense. I'm still withholding my admittance of
13 that one exhibit, but I did mark it as 274HC just
14 to -- so we have a physical document at some point to
15 keep the record straight.

16 MR. THOMPSON: 274C, we will get you that
17 just as soon as the copying is done, Judge.

18 JUDGE DIPPELL: Thank you. So let's begin
19 then. Are the parties prepared then to begin with the
20 CAM issue?

21 I believe we are. Okay. Let's go forward
22 with opening statements on that from the Company, from
23 Spire.

24 MR. ZUCKER: I think we might need a moment,
25 Your Honor.

1 JUDGE DIPPELL: Okay.

2 MR. THOMPSON: Mr. Pendergast, I think, is
3 going to do that opening.

4 JUDGE DIPPELL: All right.

5 MR. ZUCKER: Well, I guess I could read it.

6 JUDGE DIPPELL: All right. Let's go off the
7 record while we wait for Mr. Pendergast's return.

8 (Whereupon, a brief break was taken.)

9 JUDGE DIPPELL: We can go back on the
10 record.

11 Okay. We are back on the record. You can
12 go forward, Mr. Pendergast.

13 OPENING STATEMENT BY MR. PENDERGAST

14 MR. PENDERGAST: Thank you very much and
15 good morning. This issue revolves around various
16 concerns that have been raised regarding the Company's
17 cost allocation manual that as you may recall was
18 approved by the Commission in 2013. Those concerns
19 relate to the Company's implementation to CAM and
20 whether the CAM is as well designed as it could be to
21 allocate various common corporate costs between
22 Spire's various regulated and unregulated
23 subsidiaries.

24 The Company believes its done a pretty
25 thorough and competent job of performing its corporate

1 allocations in a way that is faithful to the
2 allocation and assignment principles set forth in the
3 approved cost allocation manual. And Company
4 witnesses, Flaherty and Krick, will address what the
5 Company has done in detail in their testimony.

6 Mr. Flaherty, in particular, will talk about
7 how under the cost allocation methods used by the
8 Company, the various synergies that have been achieved
9 as a result of the Company's acquisitions over the
10 last three or four years have resulted in reduced
11 levels of shared services costs paid by Laclede Gas
12 Company and ultimately by our customers.

13 The CAM also includes standards of conduct
14 that govern the Company's gas supply and
15 transportation activities. As you may recall, the
16 Staff had raised some concerns about the documentation
17 sufficiency of certain transactions performed by the
18 Company under subparts of those standards of conduct.

19 They conducted an investigation. The
20 Company cooperated. They provided some
21 recommendations for how we might improve the process.
22 And I think the Company responded with --
23 constructively with some comments that basically
24 agreed with most of the Staff recommendations. I
25 recognize that matter hasn't been completely resolved

1 and we still perhaps have some additional discussions,
2 but I think it reflects a willingness to move forward
3 and constantly improve what's in the CAM and what's in
4 the standards of conduct.

5 Although, I think that we've done a pretty
6 darn good job of performing these cost allocations in
7 a way that's consistent with the CAM and all its
8 particulars, Ribble (as pronounced) asked people to go
9 ahead and say that there isn't room for improvement,
10 and, you know, we're a different company today.

11 Spire is certainly a different company today
12 than it was in 2013 when the CAM was first approved.
13 We obviously have a larger corporate family with our
14 acquisitions of Alagasco and Energy South. And given
15 those, we'd be the first to say that looking anew at
16 the CAM and considering updates and modernizing it to
17 reflect our current state is a worthwhile endeavor.

18 And I think Mr. Krick has indicated that
19 we're certainly willing to come forward and propose
20 what we think would be appropriate for that and
21 obviously, you know, have other parties provide their
22 input, you know. If we are going to change the CAM
23 under the Commission's rules, those changes have to be
24 approved by the Commission. So I suspect there would
25 be an opportunity for the Commission to be further

1 involved in this as well.

2 I just conclude by saying that I think we
3 had the first cost allocation manual that was approved
4 by this Commission. You know, we were kind of at the
5 forefront of having a document like that actually
6 considered by the Commission and approved. And we
7 really look forward to continuing to be involved with
8 the Commission and with Staff and the Office of Public
9 Counsel in constantly trying to evolve the CAM into a
10 better document that completely protects the rate
11 payers of Missouri and fairly and reasonably allocates
12 costs among all of Spire's affiliates. Thank you.

13 JUDGE DIPPELL: Thank you.

14 Are there any questions about this issue for
15 Mr. Pendergast?

16 CHAIRMAN HALL: No questions. Thank you.

17 JUDGE DIPPELL: Thank you.

18 COMMISSIONER KENNEY: No questions.

19 JUDGE DIPPELL: Staff?

20 OPENING STATEMENT BY MR. JOHNSON

21 MR. JOHNSON: Yes. Thank you, Judge.

22 Good morning. May it please the Commission.
23 I think Mr. Pendergast did a pretty good job
24 explaining the issues surrounding the CAM issues today
25 so I'll try to be brief. The two specific issues are

1 whether the Commission should order a working group at
2 the conclusion of this case to investigate any
3 improvements to the Company's CAM or -- or potentially
4 and order a third-party independent audit of all of
5 the Company's cost allocations and affiliate
6 transactions.

7 Staff has not taken a position on either of
8 these issues. However, I would echo Mr. Pendergast's
9 comments that updates to the CAM would be a benefit.
10 There's a lot changed to the Company since this CAM
11 was approved. It's required multiple other
12 non-Missouri utilities, too, which costs are allocated
13 to in addition to implementing a shared services
14 company.

15 And while I said Staff does not take an
16 official position on those two issues, Staff does have
17 a position in regard to making changes to the CAM in
18 this case, specifically those recommendations proposed
19 by the Environmental Defense Fund. Staff would
20 recommend that these changes not be imposed on the
21 CAM.

22 EDF is recommending the same bidding
23 requirements that are currently imposed on short-term
24 gas purchases for the Company be imposed on purchases
25 of transportation capacity. And while Staff does not

1 necessarily have an issue with the theory behind this,
2 Staff does believe that a more comprehensive
3 cost-benefit analysis of these transportation capacity
4 purchases would be more appropriate.

5 In addition, it is Staff's opinion that a
6 more collaborative process between interested parties
7 and the Company is more beneficial in making changes
8 to the CAM than simply piecemealing recommended
9 changes.

10 Now, Staff witness Anne Crowe has provided
11 testimony regarding the specific changes proposed by
12 the Environmental Defense Fund and will be made
13 available to answer any questions you may have. I'd
14 be happy to answer any questions as well.

15 JUDGE DIPPELL: Any questions?

16 COMMISSIONER KENNEY: No.

17 QUESTIONS BY CHAIRMAN HALL:

18 **Q Good morning. Is there any precedent for --**
19 **for the relief or for the position taken by EDF in**
20 **this case?**

21 A I know changes to cost allocation manuals
22 have been proposed within rate cases in the past. I
23 believe Laclede is the only gas utility in the State
24 of Missouri that has an approved CAM at the moment.
25 So the specific changes to those standards of conduct,

1 I can't point to any specific precedent.

2 Q I guess I'm speaking specifically about the
3 request for an independent third-party external
4 auditor. And I guess OPC joins in that request as
5 well?

6 A The only precedent I would point to is I
7 believe in the first Westar GPE merger case, there was
8 a stipulation filed and I believe approved by the
9 Commission in which there was language proposed -- or
10 included where a third-party audit would be utilized.
11 However, I'm unaware of any other case where the issue
12 is litigated and the Commission weighed in on it.

13 CHAIRMAN HALL: Thank you.

14 JUDGE DIPPELL: Thank you.

15 MR. JOHNSON: Thank you.

16 JUDGE DIPPELL: Thank you, Mr. Johnson.

17 Public Counsel? I'm missing counsel for
18 Public Counsel. Sorry, Mr. Williams. I didn't see
19 you back there.

20 MR. WILLIAMS: You may not have known I was
21 with Public Counsel either. I don't know.

22 OPENING STATEMENT FROM MR. WILLIAMS

23 MR. WILLIAMS: May it please the Commission.
24 I'm Nathan Williams and I'm appearing on behalf of the
25 Public Counsel -- Office of the Public Counsel and the

1 Public. And I'm going to address the shared services
2 issue as well as the CAM issue from Public Counsel's
3 perspective.

4 Because of Spire's creation of shared
5 services corporation and the accompanying rate or
6 revisions to its cost allocation processes in 2015
7 following Spire's acquisition of MGE in 2013 and
8 Alagasco in 2014, and also because Spire acquired
9 Energy South, which is Mobile Gas and Willmut Gas in
10 2016 and continues to reorganize its corporate
11 enterprise structure, public Counsel is recommending
12 that the Commission order Spire Missouri to retain an
13 auditor selected jointly by Commission, Staff, and
14 Public Counsel to assess the adequacy of Spire
15 Missouri's processes and internal controls for
16 affiliate transactions, and recommend revisions to
17 Spire Missouri's cost allocation manual and employee
18 implementation of that manual, particularly for costs
19 allocated in Missouri for recovery for Missouri
20 consumers.

21 Public Counsel is also recommending that the
22 Commission order Spire Missouri to file with the
23 Commission a new cost allocation manual that makes its
24 compliance with the Commission's affiliate
25 transactions rule, 4 CSR 240-40.015 transparent,

1 treating the operations of both LAC, which is now
2 called Spire Missouri East, and MGE, which is now
3 called Spire Missouri West, separately, and which
4 requires employees who charge costs that directly or
5 indirectly impact Spire's Missouri-regulated utility
6 operations to annually participate in cost allocations
7 training that includes discussion of the impacts of
8 improper cost allocation.

9 Public Counsel is also recommending that the
10 Commission require Spire to file annual cost
11 allocation reports that show its compliance with the
12 cost allocation manual and with the Commission's
13 affiliate transactions rule.

14 Public Counsel recommends that the
15 Commission require Spire Missouri to file with the
16 Commission its analysis of the cost impacts on Spire's
17 Missouri-regulated utility operations that it
18 anticipates it will occur due to each acquisition,
19 merger, or divestiture that Spire incurs in the future
20 for the five years following the event, and include a
21 comparison and contrast to the cost that the Missouri
22 utility operations had incurred during the past five
23 years.

24 For the CAM issues, Public Counsel's
25 witnesses are: Ara Azad, Charles Hyneman, and Geoff

1 Marke. Also, it's not listed as a specific issue in
2 the list of issues, but Public Counsel has an issue
3 with cost adjustment based on share services. And
4 based on the direct testimony of Spire Missouri
5 witness Thomas J. Flaherty, Public Counsel is
6 recommending an adjustment to shared services cost,
7 operations, and maintenance expense.

8 Spire Missouri's Witness Flaherty reported a
9 downward trend in operations in maintenance expense to
10 LAC, which is now Spire Missouri East, and MGE, which
11 is now Spire Missouri West, the 1.4 percent annually
12 in nominal dollars during the period of 2013 through
13 2016 and that their operations and maintenance expense
14 billings aggregated to 213.2 million for 2016.

15 If you multiply the 213.2 million by
16 1.4 percent, you get 2.98 million. When allocated to
17 LAC and MGE based on their relative proportion of
18 allocated shared services and direct charges in 2016,
19 69 percent and 31 percent respectively, that yields
20 adjustments in reductions in operations, maintenance
21 expense for LAC of 2.1 million and MGE of 922,000.

22 Public Counsel's witness on this adjustment
23 is Ara Azad.

24 Take any questions you may have and try to
25 answer them.

1 JUDGE DIPPELL: Mr. Chairman.

2 QUESTIONS BY CHAIRMAN HALL:

3 **Q Why do you believe that an independent**
4 **third-party external auditor is required? Is it**
5 **because you don't believe that the parties can work**
6 **together to examine these issues and resolve them?**

7 A Part of the problem is getting information
8 from Spire. Ara Azad includes in some of her
9 testimony some difficulties she had getting
10 information. Frankly, we have a data request response
11 that appears to us to be inconsistent with rebuttal
12 testimony. Expect that to come into the record later.
13 We believe the Company is going to be more forthcoming
14 with a third-party auditor.

15 **Q Any other reasons or is that the --**

16 A I think that's the primary reason.

17 **Q -- the main reason?**

18 A We're not looking for somebody that's going
19 to charge the same rates as Mr. Flaherty, though.

20 **Q Do you know what the -- what the cost for**
21 **this kind of -- for this third-party external auditor**
22 **would be to conduct this investigation?**

23 A I do not. I suggest you ask our witness on
24 the topic.

25 CHAIRMAN HALL: Okay. Thank you.

1 JUDGE DIPPELL: Thank you. Are there other
2 Commission questions for Mr. Williams?

3 I just have one question for you,
4 Mr. Williams. So you're talking about an adjustment
5 that you said was not on the issues list. Is there a
6 reason that this adjustment was not on the issues
7 list?

8 MR. WILLIAMS: It's not specifically called
9 out. It's -- actually, I don't know. I wasn't
10 involved in -- basically, I started with public
11 counsel November 1st; so I don't know why it's not
12 called out as a specific issue. It's not a large
13 adjustment.

14 MR. PENDERGAST: Your Honor, if I could
15 address that?

16 JUDGE DIPPELL: Mr. Pendergast.

17 MR. PENDERGAST: It wasn't listed on the
18 issues list. And quite frankly, I thought that issue
19 would have been resolved by the update that we did in
20 this proceeding which recognized, I think,
21 approximately -- approximately \$3 million in
22 additional allocations away from Missouri and to
23 Energy South.

24 So to the extent that these adjustments were
25 designed to go ahead and reflect what our allocations

1 should be to non-Missouri jurisdictional utilities, we
2 were sort of under the impression that by updating it,
3 reflecting that number, we had taken care of that.

4 JUDGE DIPPELL: And then you're saying,
5 Mr. Williams, that that issue is still pending?

6 MR. WILLIAMS: As far as I know.

7 JUDGE DIPPELL: All right. Thank you.

8 MR. WILLIAMS: Thank you.

9 JUDGE DIPPELL: Is there an opening
10 statement from the Environmental Defense Fund?

11 MS. KARAS: Yes, Your Honor.

12 OPENING STATEMENT FROM MS. KARAS:

13 MS. KARAS: May it please the Commission.

14 My opening remarks today begin with an
15 apology. I'm sorry I'm not a regular practitioner
16 before this tribunal and I'm not seeking to add to
17 your burden in ruling on the issues in this case. I
18 also regret that the parties weren't able to reach an
19 agreement on a common-sense mechanism to protect rate
20 payers against cost and risks associated with
21 affiliate agreements.

22 What I can add to this proceeding is some
23 broad perspective on an issue that's -- utility
24 commissions are faced with across the country. And
25 that's a new investment opportunity that gas utilities

1 have identified where they invest in new midstream
2 infrastructure and impose the cost of that
3 infrastructure on their rate payers. And FERC has
4 historically granted a 14 percent return on equity for
5 that infrastructure. And when that gas utility has
6 captive retail customers, it can pass those costs
7 along to its customers.

8 And Spire has sought to take advantage of
9 that opportunity by developing a 66-mile pipeline or
10 proposing to develop a 66 interstate -- 66-mile
11 interstate pipeline in Missouri and Illinois. And it
12 is certainly Spire's prerogative to, you know, pursue
13 new opportunities to achieve shareholder return. But
14 when those opportunities also seek to impose risk on
15 customers, the onus is on regulators to ensure that
16 there's sufficient protections in place, and that is
17 what EDF is seeking to achieve in this case.

18 I just want to speak a little bit more about
19 that transaction. So we know that Spire STL pipeline
20 was formed for the sole purpose of developing a
21 pipeline to achieve the 14 percent return on equity.
22 So that leaves Laclede Gas Company as the only party
23 to that transaction to stand up for the interests of
24 its rate payers.

25 But as we see in this proceeding, Laclede is

1 resisting any recommendations that would serve to
2 protect its customers. Laclede witness Mr. Flaherty's
3 analysis did not analyze whether this transaction
4 complies with affiliate transaction rule. Laclede has
5 stated it's not necessary for the Commission to order
6 an external audit.

7 The Company has made vague reference to a
8 future opportunity to make changes to the cost
9 allocation manual, but that opportunity had been
10 framed as a working group and would not compel the
11 Company to make any changes.

12 I think we've heard and read in the
13 testimony of OPC the challenges associated with
14 obtaining information on these issues from the
15 Company. And so for all of these reasons the
16 Commission's regulatory oversight and the public
17 interests would be enhanced by accepting OPC's
18 position that it's imperative to have an independent
19 audit of Laclede's compliance with affiliate
20 transaction rule, including whether the Laclede/Spire
21 STL pipeline transaction complies with that rule.

22 EDF's witness Greg Lander has also offered a
23 limited set of proposed suggestions and revisions to
24 the cost allocation manual, and those revisions simply
25 reflect that those standards should also apply to gas

1 transportation as they do to gas supply.

2 Thank you for your time and I'm happy to
3 answer any questions you may have.

4 JUDGE DIPPELL: Are there any questions?

5 QUESTIONS BY CHAIRMAN HALL:

6 **Q You mentioned that this is an issue facing**
7 **commissions across the country.**

8 A That's correct.

9 **Q Could you explain what is that issue again?**

10 A Sure. The issue is there's a -- a new
11 business strategy that companies have come up with
12 where they form a midstream entity, a pipeline
13 developer -- in the case here that's Spire STL
14 pipeline -- to develop new infrastructure. And the
15 way that infrastructure is approved is that pipeline
16 developer has to go to FERC. They file a certificate
17 application. And FERC relies on the agreement that
18 pipeline developer has entered into with its customers
19 to show market need for the pipeline.

20 And so when you have a pipeline developer
21 and its affiliate entering into the contract; so it's
22 essentially the same party shaking hands, that turns
23 the economic theory underpinning that policy on its
24 head. And so we can get to this later, but the
25 oversight -- FERC has generally declined to look at

1 the terms of the precedent agreement; so then the
2 obligation falls to the state regulator. And the onus
3 is on the state regulator to deal with these
4 arrangements.

5 Some states have affiliate statutes in place
6 that require companies to come in before they enter
7 into these transactions to obtain approval. Missouri
8 does not have that. And so it's a retroactive
9 backward-analysis. And the state commissions are
10 grappling now, as this model has popped up all over
11 the country, they're grappling with how to deal with
12 it.

13 **Q And has -- has EDF been involved in a number**
14 **of these cases?**

15 A We have been involved in a number of those
16 cases, yes.

17 **Q So you're aware of how other states are**
18 **handling this issue?**

19 A Yeah. Like I said, it's the -- there's been
20 a recent burst in this type of arrangement. And so,
21 you know, a lot of them we don't have litigated
22 outcomes yet. So this is really a issue of first
23 impression. We've been advocating in various forums
24 as to what we would like to see, but there's -- it's
25 really, you know, popping up now in various states.

1 **Q And what is the policy basis for why EDF has**
2 **gotten involved in these cases around the country?**

3 A And so -- so we see the pipeline network in
4 our country, a substantial portion of the pipeline
5 network being built out on the backs of rate payers.
6 And when you decide to build a pipeline, you're
7 locking in infrastructure for 40 years. And in some
8 cases that may make sense, in other cases it may not.

9 But I think we have to look at the benefits
10 and the burdens of -- of these transactions. And so
11 you're looking at who seeks to benefit. In this case,
12 the shareholders. They're getting a 14 percent return
13 on equity. And who is burdened under those
14 transactions. In this case, it's rate payers who have
15 to pay for that pipeline capacity every hour of every
16 day for the, you know, the next 20 years.

17 **Q So I understand your concern with how this**
18 **project might affect rate payers, but there's a whole**
19 **host of issues before this Commission that affect rate**
20 **payers. This is the one you've chosen to fight. I'm**
21 **trying to get a better understanding what -- why EDF**
22 **is involved in this particular issue.**

23 A Because it's -- like I said, it involves,
24 you know, questions of pipeline infrastructure. And,
25 you know, whether or not, you know, the benefits and

1 burdens under whether that infrastructure should be
2 built. It's locking in -- potentially locking in that
3 infrastructure for the next 40 years.

4 CHAIRMAN HALL: Okay. Thank you.

5 JUDGE DIPPELL: Any other questions?

6 COMMISSIONER KENNEY: No questions.

7 QUESTIONS BY COMMISSIONER RUPP:

8 **Q Can you tell me more about EDF?**

9 A Sure. We're a national environmental
10 organization. Our mission is to bring common sense
11 solutions to environmental problems, and where
12 possible, to use market-based mechanisms to address
13 environmental issues. So we have offices all over the
14 country and world, and we're seeking to bring common
15 sense solutions to the table in various forms around
16 the country.

17 **Q So I've heard the word "environmental,**
18 **environmental, environmental," but everything in your**
19 **opening argument was focused on rate payers and rate**
20 **of return. Is there an environmental component of why**
21 **EDF is choosing this issue to present?**

22 A I think the -- you know, it's, again, like I
23 said, long-term infrastructure questions. If we look
24 at the St. Louis region and the amount of pipeline
25 capacity that already exists, there's excess existing

1 capacity in the region. If we look at a gas utility
2 that can show no demonstrated new load growth, does it
3 make sense to build a 66-mile pipeline? This
4 Commission before FERCs has questioned whether that
5 pipeline is needed. And so that -- that's the
6 environmental implications of the decisions faced --
7 faced here.

8 COMMISSIONER RUPP: Thank you.

9 JUDGE DIPPELL: Thank you.

10 MS. KARAS: Thank you.

11 MR. WILLIAMS: Judge, if I might, I have
12 gotten some clarification from one of my witnesses
13 about the schedule. My understanding now is that the
14 shared services originally was listed under transition
15 costs. It wasn't called out as a specific item, but
16 it was in that bucket.

17 JUDGE DIPPELL: Okay. So --

18 MR. WILLIAMS: And Ms. Azad is only
19 available today, and we thought -- Public Counsel
20 thought it made sense to put it in with the CAM
21 matters and the Company was okay with that.

22 JUDGE DIPPELL: Okay. Thank you. Okay.

23 Well, I believe that that covers all of the
24 opening statements on the CAM issue.

25 MR. PENDERGAST: Your Honor.

1 JUDGE DIPPELL: Yes, Mr. Pendergast.

2 MR. PENDERGAST: I just want to -- thank
3 you -- note for the record that many of the comments
4 made by counsel for EDF are also involved in the PGA
5 gas supply, ACA issues that we'll be hearing after
6 this. So I was saving, you know, my response to a
7 number of the things that you said for that particular
8 issue. I just didn't want the Commission to think
9 that our failure to address them now was an indication
10 of our acquiescence in what she was saying.

11 JUDGE DIPPELL: All right. Are witnesses
12 for that issue similar to --

13 MS. KARAS: Your Honor, there is an overlap.
14 So Greg Lander has -- you know, in one of his
15 schedules to his testimony has proposed revisions to
16 the cost allocation manual, but the majority of his
17 testimony pertains to the PGA/ACA. So I don't know if
18 the Company has specific questions on his cost
19 allocation manual, but we could wait and bring him up
20 under PGA if that saves time. He's happy -- you know,
21 he's willing to go up earlier, I'm just trying to
22 streamline the process.

23 JUDGE DIPPELL: Okay. I appreciate that. I
24 was just looking to see if it would be more or less
25 confusing to try to combine those issues.

1 MR. PENDERGAST: Yeah, I believe that if we
2 were to take him during the PGA/ACA issues and ask him
3 questions on both the standards of conduct, as well as
4 the PGA changes, that makes the most sense.

5 JUDGE DIPPELL: So it makes the most sense
6 to have Mr. Lander appear only once on both issues.

7 MR. PENDERGAST: Yes.

8 JUDGE DIPPELL: Does it make sense for the
9 other witnesses on those issues?

10 MR. JOHNSON: Judge, Staff witness Anne
11 Crowe provides testimony on both of these issues. It
12 may make sense to combine her testimony as well.

13 JUDGE DIPPELL: I'm trying to get a sense,
14 should we go ahead and hear openings with regard to
15 that issue and then break and just combine those two
16 issues?

17 MS. KARAS: That would be fine with me. I'm
18 amenable to whatever's easiest for the group.

19 JUDGE DIPPELL: All right. If the
20 Commissioners are okay with that.

21 CHAIRMAN HALL: Whatever.

22 JUDGE DIPPELL: All right. Well then I'm
23 going to jump ahead then and let's also hear opening
24 statements on the PGA/ACA tariff provision issue, and
25 then we will break for agenda. And we will come back

1 and we will combine those two issues in the order of
2 witnesses. And I understand -- I don't know if that
3 means that there were multiple attorneys for different
4 witnesses or whatever, but we'll figure that out as we
5 go.

6 So does the Company have an opening
7 statement with regard to the PGA/ACA portion?

8 OPENING STATEMENT BY MR. PENDERGAST

9 MR. PENDERGAST: Thank you, Your Honor.

10 As you have probably already gotten a pretty
11 good idea, this issue concerns whether the Commission
12 should adopt also changes to the Company's PGA/ACA
13 clause language, as well as to the standards of
14 conduct that was just referenced that are a part of
15 its cost allocation manual that have been proposed by
16 the Environmental Defense Fund. The Company
17 respectfully suggests that it should not.

18 The issues raised by EDF transcend two
19 regulatory jurisdictions, namely this Commission and
20 the Federal Regulatory Commission. Because at their
21 corps, they center on Spire's St. Louis pipeline -- I
22 think counsel for EDF has made that very clear --
23 which is seeking approval to construct a new
24 interstate pipeline in the St. Louis -- to the St.
25 Louis area.

1 This Commission is also involved or at least
2 has filed, I think, a limited protest in that
3 particular proceeding relating to the pipeline. I
4 think it was basically focused on ensuring that it
5 would have its chance to do what it is statutorily
6 authorized to do and that's to evaluate the prudence
7 of that transaction. And we are absolutely fine with
8 the Commission participating in the FERC proceeding.

9 We think the Commission plays a vital role
10 in protecting Missouri consumers by participating in
11 those proceedings. And as you may recall, I think it
12 was Mogas when they obtained a judicial order saying
13 that the Commission is not authorized to participate
14 in FERC proceeding. Laclede was one of the few
15 utilities that came forward and actually testified in
16 front of the legislature that they should approve
17 legislation authorizing the Commission to participate
18 in those proceedings because we believe you do play an
19 important role in that.

20 That said, you know, there is a number of
21 rather novel issues raised by EDF's proposal that you
22 preemptively come forward and change our standards of
23 conduct, that you come forward and change how our
24 PGA/ACA clause operates in order to effectively make
25 it impossible for Laclede Gas Company to complete its

1 transaction with Spire St. Louis pipeline which we
2 think is a good transaction and will benefit Missouri
3 customers.

4 It's a little odd because you have the
5 Commission both participating in a FERC proceeding
6 while simultaneously in its role as the decision-maker
7 in a state proceeding taking steps that are, you know,
8 designed to influence what that proceeding does.

9 And I haven't worked through my own mind how
10 being a party here and a decision-maker there, how you
11 sort all that out. But it just seems to go ahead and
12 create some issues that quite frankly I don't think
13 need to be created. And that's because, you know, for
14 many decades now, the Commission has a long-standing
15 approach to handling these issues, and that
16 long-standing approach is utilities are allowed to go
17 forward, make various kinds of gas contracting and
18 purchasing decisions.

19 And then when they seek to include those
20 costs in rates, they need to come to this Commission
21 and they need to establish that it was done in a
22 reasonable and prudent way that was in the interest of
23 their customers. And Laclede Gas Company will be
24 fully prepared to come before the Commission and make
25 that showing and we understand that there will be

1 people who may take a different view and we will have
2 to support what we did.

3 But what we shouldn't do is to go ahead and
4 change the PGA/ACA at this point and change our
5 standards of conduct based on this one transaction and
6 a rather obvious attempt to stop that transaction from
7 happening. You know, that's not necessary to protect
8 Missouri consumers. We have a robust process in place
9 to protect Missouri consumers.

10 And essentially, what EDF is inviting you to
11 do is to go ahead and set all the ground rules now
12 that will influence that transaction in the future.
13 Do it before we have the information that we'll have
14 in two years. Do it before the pipeline has actually
15 been approved by FERC. And do it on a very limited
16 analysis that all centers on the assumption that we
17 will go ahead and maintain our propane facilities
18 forever and that that shouldn't be taken out of the
19 stack once we have a contract.

20 If we do operating with Spire STL pipeline,
21 and as much as we like propane and like our facility,
22 there are a number of operational reasons why we have
23 for some time contemplated ways to not inject our
24 system with propane having to do with industrial
25 applications and problems that can be caused by that.

1 And I think adopting some sort of wholesale
2 change to our PGA tariff at this point, based on the
3 assumption that asset should be in our portfolio
4 forever, would be a real mistake and there really has
5 been no evidence of a comprehensive nature to even
6 suggest whether or not it would be the right decision
7 to make.

8 So we would really suggest that you reject
9 these changes and say that we have a time and we have
10 a place for these issues to be considered, but it's
11 not now. Thank you.

12 JUDGE DIPPELL: Thank you. Questions for
13 Mr. Pendergast before you sit down Mr. Pendergast.

14 MR. PENDERGAST: Oh, excuse me.

15 CHAIRMAN HALL: Briefly.

16 QUESTIONS BY CHAIRMAN HALL:

17 **Q What is the construction status of the**
18 **pipeline?**

19 A The construction, you know, there has been a
20 lot of work done on getting rights of way, but I think
21 full-blown construction is still waiting for approval
22 of the application.

23 **Q And what is the status of the -- I guess at**
24 **FERC?**

25 A I believe that it may be another month or

1 two away from the FERC deciding one way or another.
2 But would you let me just talk to one of our people
3 that's more intimately involved in that and I want to
4 make sure I give you the right answer.

5 **Q I appreciate it.**

6 **A** Just one moment.

7 Yes, Chairman, we're anticipating probably a
8 FERC decision sometime in January.

9 CHAIRMAN HALL: Okay. Thank you.

10 JUDGE DIPPELL: All right. Thank you,
11 Mr. Pendergast.

12 MR. PENDERGAST: Thank you.

13 JUDGE DIPPELL: Is there further opening on
14 this issue from Staff?

15 OPENING STATEMENT BY MR. KEEVIL:

16 MR. KEEVIL: Excuse me. I sound like
17 Mr. Novak. Thank you, Judge.

18 May it please the Commission. In the
19 interest of time, I'm not -- I'm going to really cut
20 this short. I was originally going to read through
21 the summary of this issue provided by EDF's witness
22 since the issue is EDF's. He provides a summary on
23 page 5 of his direct testimony. And I originally
24 planned, like I said, to read through that and see if
25 you could understand it because I sure don't.

1 And that kind of leads to part of the
2 Staff's concern with this issue. This -- what has
3 been proposed by EDF we believe is -- lacks clarity as
4 to how it would be implemented if it should be, and
5 just like Mr. Pendergast was just saying, fails to
6 take into consideration the prudence reviews that the
7 ACA process in Missouri currently contain.

8 And I don't know whether you've seen many of
9 them in your time here on the Commission, but I know
10 in the past, there have been millions of dollars worth
11 of contracting prudence review cases that at least
12 were recommended by Staff. I'm not saying Staff
13 always won those adjustments, but at least they
14 were -- they have been proposed. It's not a foreign
15 issue, foreign animal.

16 Like I said, it's not clear to Staff how
17 EDF's proposal would be implemented. And that's
18 especially true in light of the time constraints
19 applicable to both this rate case and the time
20 constraints applicable to PGA tariff filings. If you
21 remember, PGA tariff -- not ACA, but PGA tariff
22 filings are effective on 10 business days' notice.
23 And I don't see how -- if you look at the proposed
24 changes to this PGA process, I don't see how that
25 could be accomplished.

1 So, you know, I don't want to get into the
2 argument about motivation or the FERC pipeline, but as
3 far as whether there exists a need for these proposals
4 or not, Staff would agree with what Mr. Pendergast
5 said. We don't believe that any need has been shown
6 currently. And due to the complexity and just simply
7 a lack of clarity of the proposal, we don't think it
8 would be a good idea at this time to make these
9 proposed changes.

10 We'll present the testimony of Ms. Anne
11 Crowe who works and has worked in the Staff's
12 procurement analysis unit for some time and she's
13 familiar with the existing PGA/ACA process for both
14 Laclede, MGE and the other Missouri LBCs. So with
15 that, I'll just end and see if there's any questions.

16 JUDGE DIPPELL: Thank you. Any questions
17 for Mr. Keevil?

18 CHAIRMAN HALL: No questions.

19 JUDGE DIPPELL: Thank you. Is there an
20 opening based on this topic from Office of Public
21 Counsel?

22 MR. SMITH: Yes, very briefly.

23 OPENING STATEMENT BY MR. SMITH

24 MR. SMITH: May it please the Commission.
25 My name is Ryan Smith. I represent OPC.

1 OPC's involvement on this issue is very limited.
2 Really the only testimony that OPC had produced on
3 this subject relates back to the subject that was
4 discussed yesterday, which is the gas inventory.

5 Obviously, since OPC is suggesting that both
6 MGE and Laclede align their positions and run those
7 costs through the PGA, OPC does have testimony on that
8 subject. But OPC does not currently have a position
9 with respect to the issues raised by EDF, and that is
10 all.

11 JUDGE DIPPELL: All right. Any questions
12 for Mr. Smith on that? Thank you.

13 Ms. Karas, did you have an additional
14 statement you'd like to make on this issue?

15 MS. KARAS: Yes, Your Honor.

16 OPENING STATEMENT BY MS. KARAS:

17 MS. KARAS: May it please the Commission.

18 So we've already talked about several of
19 these issues; so I'll streamline my comments just to
20 respond to a few things.

21 So you've heard from some of the other
22 parties why this proposal is so novel, and I suggest
23 to you that it's a novel situation. I'm not aware of
24 another instance in Missouri where a utility has
25 sought to recover the costs associated with an

1 affiliate transportation agreement. I'm not aware of
2 any other instances where Laclede has previously
3 sought to recover the cost associated with an
4 affiliate transportation agreement and its PGA.

5 The PGA was first introduced in Missouri in
6 1962 by Laclede, and there's been a lot of changes
7 since that time. Laclede is now Spire Missouri, Spire
8 STL pipeline is now part of the Spire family. So
9 this -- this new strategy, this new contracting
10 mechanism requires a new regulatory response, and EDF
11 is merely proposing its ideas and solutions set for
12 this Commission.

13 Now, we've also said, you know, we don't
14 need to address this here. We don't need -- you know,
15 let's talk about this later. I do want to just say
16 one thing on that. I think it's worth considering the
17 benefits and the burdens under the transaction.

18 So if you look at Staff witness's Crowe, her
19 surrebuttal testimony at page 5 is confidential. It
20 details the costs associated with this transaction.
21 And I encourage you when Mr. Lander takes the stand to
22 ask him the benefits that shareholders will receive
23 under this transaction. And just like the hourly rate
24 of Mr. Flaherty, I think it will shock the conscience
25 of Missouri rate payers.

1 So with that I will leave it or ask the
2 Commissioner if they have any questions.

3 JUDGE DIPPELL: Thank you. Any additional
4 questions, Mr. Chairman?

5 QUESTIONS BY CHAIRMAN HALL:

6 **Q Well, just first a comment. By my**
7 **questions, when you -- after your previous opening, I**
8 **did not intend to imply that there is anything wrong**
9 **with a national environmental organization appearing**
10 **before this Commission and raising whatever issues it**
11 **deems important.**

12 **I was just trying to understand the**
13 **connection between your environmental focus and this**
14 **particular -- this particular issue. And I think I --**
15 **I think -- I think I understand it, but do you want to**
16 **try one more time to explain that to me?**

17 **A And you're just saying the environmental**
18 **component to this again?**

19 **Sure. Well, first of all, just respond by**
20 **thanking you for your willingness to consider the**
21 **views of the national organization. We really are**
22 **just trying to bring a set of tools.**

23 **And what -- what I'm saying, EDF is unlike**
24 **other environmental organizations. We do not take a**
25 **keep-it-in-the-ground position. We think there's an**

1 important role for natural gas. We think the rules
2 need to be right when it comes to that. And part of
3 the rules include the regulatory oversight of these
4 types of transactions, the affiliate transportation
5 transactions because these decisions have economic and
6 environmental implications, and so that is our
7 interest here.

8 **Q Okay. Do you have a position on whether the**
9 **Commission's current affiliate transaction rule, if**
10 **properly enforced, would -- would alleviate your**
11 **concerns?**

12 A So that rule is -- has a recordkeeping and
13 a -- a recordkeeping component to it. And I think
14 we've heard over the course of the hearing and through
15 the testimony that OPC has presented the challenges
16 that that type of statute presents. There's an
17 inherent informational advantage to the Company. The
18 Company holds the information.

19 And there are certain reasons, of course,
20 that it would designate some of that information as
21 confidential, but it necessarily puts everyone who is
22 seeking to understand that information at a
23 disadvantage because they have to request it, they
24 have to incur the expense of challenging when -- when
25 those requests are denied.

1 And so I -- I view that rule as -- as
2 being -- as posing an advantage to the Company and a
3 disadvantage to those who are interested in their
4 fruition.

5 CHAIRMAN HALL: Okay. Thank you.

6 JUDGE DIPPELL: Any other questions for
7 Ms. Karas?

8 Thank you.

9 MS. KARAS: Thank you.

10 JUDGE DIPPELL: I appreciate you-all's
11 indulgence in combining those. I'm hoping that that
12 will speed things up. So at this time, we need to
13 break for a lunch break and to allow the Commissioners
14 to have their agenda.

15 Oh, Mr. Johnson?

16 MR. JOHNSON: Judge, yeah, just very
17 quickly. Staff was able to get copies of the Staff
18 reports in AW-2011-0330.

19 JUDGE DIPPELL: All right.

20 MR. JOHNSON: I believe it was previously
21 marked as 274.

22 JUDGE DIPPELL: And that is marked as 274
23 confidential.

24 MR. JOHNSON: All right. Thank you, Judge.

25 JUDGE DIPPELL: Thank you. With that, we

1 can take a break. Come back at --

2 MR. KEEVIL: Judge, can we go off the record
3 for a second?

4 JUDGE DIPPELL: Do we need to do the -- do
5 we need to come back on the record?

6 MR. KEEVIL: I hope not.

7 JUDGE DIPPELL: Or take a break?

8 MR. KEEVIL: Go off.

9 JUDGE DIPPELL: Let's go off the record.

10 (Whereupon, a brief discussion off the
11 record was had.)

12 JUDGE DIPPELL: We are back on the record.
13 Just a discussion about the confidentiality of that
14 document and Mr. Johnson's going to hold that. We can
15 break until 1:30. Please come back promptly at 1:30.

16 Off the record.

17 (Whereupon, a lunch break was taken.)

18 JUDGE DIPPELL: We are back on the record
19 after our lunch break and ready to begin with Spire's
20 first witness, and he's already standing by the
21 witness stand, which I appreciate.

22 Do you want to officially call him,
23 Mr. Pendergast?

24 MR. PENDERGAST: I will. We would call to
25 the stand Mr. Thomas J. Flaherty who's 5 feet away or

1 3 feet away. Mr. Flaherty.

2 THOMAS J. FLAHERTY,

3 Having duly been sworn, testified as follows:

4 DIRECT EXAMINATION BY MR. PENDERGAST:

5 Q Yes. Mr. Flaherty, are you the same Thomas
6 J. Flaherty who has previously caused to be filed in
7 this proceeding a direct and rebuttal testimony that
8 has been marked as Laclede Exhibits 46 and 47?

9 A I am.

10 Q Do you have any corrections to make to
11 either your direct or rebuttal testimony?

12 A I have one correction in my rebuttal
13 testimony, page 42, line 2. The number 344 million
14 should be 322 million.

15 JUDGE DIPPELL: I'm sorry. If you'd tell me
16 that number again.

17 MR. FLAHERTY: So page 42, line 2, number
18 344 should be 322.

19 JUDGE DIPPELL: And was -- this was your
20 rebuttal?

21 MR. FLAHERTY: Yes, ma'am.

22 JUDGE DIPPELL: Do you have one set of
23 rebuttals? Is there more than one?

24 MR. FLAHERTY: No, it's a single set.

25 JUDGE DIPPELL: I'm sorry. There's a page

1 2?

2 MR. FLAHERTY: Forty-two.

3 JUDGE DIPPELL: Oh, 42.

4 MR. FLAHERTY: Line 2.

5 JUDGE DIPPELL: I was having trouble finding
6 it on page 2.

7 MR. FLAHERTY: That's okay.

8 JUDGE DIPPELL: My apologies.

9 MR. FLAHERTY: Okay.

10 JUDGE DIPPELL: Give me the number one more
11 time.

12 MR. FLAHERTY: 344 should be 322.

13 JUDGE DIPPELL: Thank you.

14 MR. FLAHERTY: A lot of twos.

15 JUDGE DIPPELL: A lot of twos so it's
16 obviously confusing me. Okay, Mr. Pendergast, go
17 ahead.

18 **Q (By Mr. Pendergast) And do you have any**
19 **corrections to your surrebuttal testimony?**

20 A No.

21 **Q With those corrections, if I were to ask you**
22 **the same questions today that appear in your direct**
23 **and rebuttal testimony, would your answers be the**
24 **same?**

25 A Yes, they would.

1 **Q And are those answers true and correct to**
2 **the best of your knowledge and belief?**

3 A Yes, they are.

4 MR. PENDERGAST: With that, I would submit
5 Mr. Flaherty for cross-examination and tender him or
6 ask that his direct and rebuttal testimony be admitted
7 into the record. I think this is the only issue he'll
8 be testifying on today or in this case.

9 JUDGE DIPPELL: All right. I have
10 Mr. Flaherty's direct marked as Exhibit No. 46 and
11 rebuttal marked as Exhibit No. 47. Would there be any
12 objection to either of those pieces of testimony?

13 MR. JOHNSON: No objection.

14 JUDGE DIPPELL: Then seeing none, I will
15 admit Exhibits 46 and 47.

16 (COMPANY'S EXHIBITS 46 AND 47 WERE RECEIVED IN
17 EVIDENCE.)

18 JUDGE DIPPELL: Is there cross-examination
19 by Staff?

20 MR. JOHNSON: No questions. Thank you,
21 Judge.

22 JUDGE DIPPELL: Public Counsel?

23 MR. WILLIAMS: Yes. Thank you.

24 CROSS-EXAMINATION BY MR. WILLIAMS:

25 **Q Good afternoon, Mr. Flaherty.**

1 A Good afternoon.

2 **Q My name is Nathan Williams. I'm going to be**
3 **asking you questions on behalf of the Office of Public**
4 **Counsel.**

5 A Thank you.

6 JUDGE DIPPELL: Is there anything from
7 Environmental Defense Fund? I'm sorry. I thought I
8 heard you say that was all. I'm sorry.

9 MR. WILLIAMS: I don't believe so.
10 Actually, I have quite a bit.

11 JUDGE DIPPELL: I'm sorry, Mr. Williams.
12 Apparently, I'm having trouble. Proceed,
13 Mr. Williams.

14 MR. WILLIAMS: Thank you.

15 **Q (By Mr. Williams) Mr. Flaherty, on your**
16 **rebuttal testimony on page 1, you indicate that your**
17 **employment status has changed?**

18 A Yes. At the time of my original direct
19 testimony, I was an active partner. I retired
20 effective June 30th and I'm a senior advisor to
21 Strategy& now.

22 **Q How has your role changed at Strategy& since**
23 **you've retired?**

24 A The only difference is being an active
25 versus retired partner and nothing has changed other

1 than that.

2 Q So the work you were doing you contend
3 you're done with?

4 A The work is continuing, the hours are
5 continuing and the nature of things like testimony is
6 continuing.

7 Q I'd like to direct your attention to page
8 22, line 5 of your testimony, your rebuttal.

9 A Rebuttal.

10 Q There you say your testimony should be read
11 in conjunction with that of Mr. Krick and then there's
12 a blank. Is Mr. Krick the only one whose testimony
13 should be read in conjunction with yours?

14 A Mr. Buck.

15 Q I direct your attention to page 45 of your
16 rebuttal testimony.

17 A Yes, sir, I have it.

18 Q Toward the bottom of that page at line 21,
19 you indicate that you have not -- that you've
20 attempted to -- or that you tried to obtain work
21 papers and information from Mrs. Azad?

22 A That's correct.

23 Q Did you, in fact, attempt to obtain
24 information work papers from Ms. Azad?

25 A We prepared a data request. It was

1 propounded to the company, but apparently was not
2 filed or offered to Ms. Azad.

3 **Q So if I understand what you're saying, you**
4 **did not actually succeed in asking Mrs. Azad for**
5 **information?**

6 A Well, the request was apparently not filed
7 so, no, we had no responses from any proposed
8 questions.

9 **Q Well, I just want to make sure I understand**
10 **what you're saying. You're saying you prepared some**
11 **data requests and provided them to Spire who then did**
12 **not propound them on Ms. Azad, to your knowledge?**

13 A Right. That's correct.

14 **Q So your attempt was to provide requests to**
15 **Spire to then propound?**

16 A Correct.

17 **Q And you did not get any responses to those**
18 **data requests, did you?**

19 A No, we did not.

20 **Q Were you aware there was a conference call**
21 **on October 4th where Ms. Azad made herself available?**

22 A Yes, I am.

23 **Q Did you participate in that conference call?**

24 A No. One of my staff did.

25 **Q Did you obtain any information as a result**

1 **of that conference call?**

2 A No information, just a summarization of the
3 scope of the call.

4 **Q And what was the scope of the call?**

5 A To understand the bases that Ms. Azad was
6 using to develop some of her analysis and comparisons,
7 and to help provide information to make sure we
8 understood where some of the information was coming
9 from.

10 **Q Did you provide any feedback to her -- or,**
11 **no, I shouldn't say you. Did someone at your company**
12 **provide any feedback to Ms. Azad during that**
13 **conference call?**

14 A As I recollect the way the call was
15 summarized, a dialogue was held for 15 or 20 minutes.
16 Some questions were asked and answered. That was the
17 conclusion.

18 **Q Who propounded the questions?**

19 A John Clabault, C-l-a-b-a-u-l-t.

20 **Q And Ms. Azad provided the answers?**

21 A Yes.

22 **Q So it was unidirectional in terms of**
23 **questions and answers?**

24 A Well, since I didn't participate in the
25 call, I can't say that with certainty.

1 **Q Well, did the summary indicate that Ms. Azad**
2 **asked any questions the Company provided responses to?**

3 A It was in a written summary. It was more --
4 appears what the discussion was about; so I don't
5 know. I would anticipate that there would have been a
6 dialogue as opposed to one direction of questions.

7 **Q Well, was there anything in the content that**
8 **led you to believe that Ms. Azad had propounded**
9 **questions and gotten answers from Mr. Clabault?**

10 A Well, I believe there were questions asked
11 and John was providing information about, and I think
12 he was asking questions that Mrs. Azad was providing
13 information about. So there was a dialogue, not an
14 interview.

15 **Q Do you know if any of the data requests that**
16 **you proposed to be sent to Mrs. Azad were ever sent to**
17 **her?**

18 A I'm not aware that they were.

19 **Q Would you turn to page 34 of your rebuttal**
20 **testimony?**

21 A Yes, sir, I have it.

22 **Q And there you state on line 11 that**
23 **Mrs. Azad incorrectly indicates that Laclede**
24 **Investment, LLC, did not receive -- does not receive**
25 **any allocations from Spire's shared services; is that**

1 correct?

2 A That's correct.

3 Q What's your basis for saying that?

4 A It's the review of information provided at
5 lines 13 and 14.

6 Q Are you aware of Spire's response to Public
7 Counsel's data request 1021?

8 A Not by memory or recollection, no, sir.

9 Q Have you seen and do you have a copy of
10 Mrs. Azad's surrebuttal testimony?

11 A I do.

12 Q Hopefully latest version. Would you turn to
13 the schedules?

14 A My version does not have the schedules. It
15 has the testimony.

16 MR. WILLIAMS: May I approach?

17 JUDGE DIPPELL: Yes.

18 Q (By Mr. Williams) I'm handing you what's
19 been pre-marked for identification as Exhibit No.
20 426 -- I'm sorry. I said surrebuttal. It's actually
21 rebuttal testimony of Ara Azad. And directing your
22 attention to schedule AA-SS2.

23 A Give me a moment.

24 JUDGE DIPPELL: Mr. Williams, would you
25 repeat that schedule number?

1 THE COURT REPORTER: AA-S2.

2 JUDGE DIPPELL: Thank you, court reporter.

3 Q (By Mr. Williams) I'd like to direct your
4 attention, in particular, to no. 5 on the request.

5 A Yes, sir. I think I have them.

6 Q Okay. And what does that no. 5 request?

7 A Please state each and every cost center,
8 operating company or affiliate under the Spire
9 umbrella that did not receive shared services company
10 allocations or charges in the rate case test year and
11 are not currently receiving shared service company
12 allocations or charges.

13 Q And is there a response then to no. 5 that
14 appears on the second page of that schedule?

15 A There is.

16 Q And is Laclede Investment, LLC, listed under
17 the response to 5.1?

18 A Yes, it is.

19 Q And is it also listed under the response to
20 5.2?

21 A It is.

22 Q Is that consistent with your testimony?

23 A Well, I think what you need to read here is
24 that what the response says is the original direct
25 charge expenses accumulate at the cost center level

1 and not push down to individual cost centers. Laclede
2 Investment sits above Spire marketing and items are
3 pushed down below that.

4 **Q What are you referring to whenever your --**

5 A Well, it would be figure 1 in my rebuttal
6 testimony. So there are a number of entities within
7 the Spire family, but not all of those entities is a
8 destination for charges or allocations if they're
9 sitting over operating units. The charges or
10 allocations go directly to the operating unit. A
11 holding company, if you will, simply a pass-through in
12 that regard.

13 **Q I'm trying to follow what you're saying. I**
14 **understand that Spire, Inc., is a holding company.**
15 **Are you saying Laclede Investment, LLC, is as well?**

16 A Well, if you look at the reporting
17 relationship, Spire marketing is directly underneath
18 that in figure 1 of my rebuttal. And then if you look
19 at figure 2, it also indicates in the gray shading
20 that there are charges flowing through either direct
21 charges which may stay or allocations which would flow
22 through to the operating unit. That's all I'm saying.

23 **Q And then figure 1, what is that -- you state**
24 **there that Spire, there are 19 entities and two**
25 **operating units housed within the Laclede Gas Company**

1 **entity. And figure 1 is to show that?**

2 A I think that if you read above figure 1,
3 Ms. Azad was talking about 21 total on these. Looks
4 like there are fewer total entries that were 19 plus
5 two operating units in terms of utilities.

6 **Q At what point in time is figure 1 active?**

7 A Well, when we file the rebuttal testimony.

8 **Q So on October --**

9 A Yeah.

10 **Q -- 17th, I believe it is. That would have**
11 **been the correct structure?**

12 A I'd accept that date, yes.

13 **Q And the reason I'm asking is because**
14 **Mr. Krick says a couple of these entities were**
15 **dissolved before that date.**

16 A There are some -- well, I don't know about
17 before, but there were some entities that have been
18 resolved which is below figure 2. Some are identified
19 like Family Gas Services, or Gas Family Services.

20 JUDGE DIPPELL: Mr. Flaherty, could you pull
21 the microphone down just a little bit?

22 MR. FLAHERTY: Sure.

23 JUDGE DIPPELL: Thank you.

24 MR. FLAHERTY: Sorry. Thank you.

25 So if you look under figure 2, you would see

1 some description for some of the items that Mrs. Azad
2 identified as not receiving allocations. And the
3 explanation was some, in fact, are the allocating
4 entity, some are holding companies which pass through,
5 some of which have been dissolved.

6 But I think the important point is there's a
7 distinction between what they're receiving in terms of
8 allocations per book. And what I'm doing with the
9 analysis. Because I'm looking at a time series when
10 some of these companies either did not exist or had
11 nominal expenditure.

12 **Q (By Mr. Williams) Are you familiar with**
13 **Mr. Krick's rebuttal testimony?**

14 A I've only scanned it.

15 **Q Are you aware that on page 5 at line 6 --**
16 **well, at line 5 through 8, he says Laclede Investment,**
17 **LLC, was dissolved as of September 30, 2017, and that**
18 **Laclede Gas Family Services, Inc., was dissolved**
19 **effective September 30, 2016?**

20 A Well, we were aware of family -- Gas Family
21 Services, but I was not aware of the Laclede
22 Investment. But, again, it was in 2017 versus 2016,
23 this year -- or excuse me -- 2016 year.

24 **Q So you're not disputing what Mr. Krick is**
25 **saying?**

1 A I'm not going to dispute that. I'm not
2 aware if it was dissolved in September.

3 **Q And you may have answered this already, but**
4 **are you saying that -- did you say that Laclede**
5 **Investment, LLC, does not receive any allocations from**
6 **shared services company, that that's pushed on down?**

7 A I think that there is perhaps some
8 distinction between direct charges and allocations,
9 but generally the parent companies, the holding
10 companies, you will push those down unless certain
11 costs are retained.

12 **Q Well, specifically in regard to Laclede**
13 **Investment, LLC, are those pushed down through it or**
14 **are they retained at that company level?**

15 A My understanding is that they were -- some
16 retained and some pushed down, but you'd have to ask
17 Mr. Krick that to be more specific.

18 **Q I'd like to turn your attention to your**
19 **direct testimony. I have Mr. Krick's; so bear with me**
20 **a moment.**

21 A That's okay.

22 **Q There you talk about being retained --**
23 **actually, I believe it was -- you say you were**
24 **retained, but I think you're probably talking about**
25 **your employer to provide an objective assessment of**

1 the reasonableness of Spire shared service costs
2 specifically in the context of those billed at
3 Laclede. You see on page 5?

4 A At line 10, yes, sir.

5 Q What do you mean by an objective assessment?

6 A That's professional judgment.

7 Q It's not the first time that you were
8 engaged by Laclede to provide services relating to
9 Spire shared services, is it?

10 A No, it's not.

11 Q What did you do previously?

12 A In 2015, we undertook a two-month review of
13 just the state of the allocation model framework and
14 process that existed at Laclede at that time. And
15 then in about the same time in 2016, we were retained
16 to provide recommendations on potential modifications
17 to the existing process and underlying technology.

18 Q Were those two separate engagements?

19 A Yes, they were.

20 Q And were those done on a -- how was the
21 compensation done between Strategy& and Laclede for
22 those two projects?

23 A Fixed fee plus out-of-pocket expenses.

24 Q And was -- both were done on that basis?

25 A Correct.

1 **Q** So it wasn't a cap. It was just -- it's a
2 dollar amount and just what's it's going to cost
3 regardless of how much time is spent on it?

4 A No. More accurately, when we talk about
5 fixed fees, it's this is what we think the scope of
6 work requirements will be. It is a cap, but we try to
7 give people, you know, a good estimate of what the
8 number will be. But it is a cap.

9 **Q** So were you -- was your time counted at the
10 same rate for both engagements?

11 A Any of the inputs from any of the team on an
12 hourly basis were at a standard hourly rate.

13 **Q** And what was your standard hourly rate? If
14 that's confidential, we can certainly go in camera.

15 A I don't think it's confidential, but it's
16 650.

17 **Q** That was for both engagements?

18 A For -- Well, say for 2016. I'm uncertain
19 about '15. Annually there are small billing rate
20 increases, but it would not have been above the 650.

21 **Q** I'm going to hand you what's been -- a data
22 request response from Laclede to Public Counsel's data
23 request 7099. And what is the content of that
24 response?

25 A This is the 2000- -- the initial 2015 cost

1 allocation review and it contains the understanding of
2 the scope, the approach to the analysis, and then
3 commercial arrangements.

4 **Q And on the last page of that, does that**
5 **indicate what hourly -- what hourly -- what the hourly**
6 **rates will be for those who are providing services at**
7 **Strategy, Inc.?**

8 A This indicates a higher number of 850 for a
9 senior partner.

10 **Q And that was the rate then you would have**
11 **been -- counted up?**

12 A That's a rate per hour if charged, but since
13 it was a fixed -- relatively fixed fee arrangement.

14 **Q So that's not the rate that would -- well,**
15 **you said before that there was a cap and the time was**
16 **counted against that cap at a rate of -- I believe it**
17 **was 620?**

18 A I think I indicated 650.

19 **Q Whatever it was you said before, 650.**
20 **You're saying that this would have been the rate if**
21 **you'd gone over the cap? Is that what you're saying?**
22 **Or -- I'm just trying to understand what it is --**

23 A No. We're showing what a set of potential
24 standard rates were, but the engagement itself was
25 capped at a reasonably tight range. I think one --

1 115 to 130.

2 Q So this was a proposal, not the actual
3 contract for the engagement of the services?

4 A Well, it's both, but it was not the --
5 representative of the rates that were charged.

6 Q Fair enough. Turning back to your rebuttal
7 testimony.

8 A Sure.

9 Q On page 31.

10 A I have it.

11 Q At line 12, you state services were
12 provided -- the services provided to Spire were
13 focused on an ex ante shared services design. While
14 my testimony addresses ex-posted option processes and
15 outcomes, these two focuses are uniquely different and
16 individually or together do not create any impacts on
17 objectivity.

18 Just to be clear, you said earlier that you
19 were provided services to, I think, canvas enterprise
20 structures for dealing with cost allocations. And
21 then you provided, I believe, my understanding is
22 options to Laclede for implementation of potentially
23 different structures for doing cost allocations. And
24 then in this rate case, you conducted review of cost
25 allocations for reasonableness. Are you saying that

1 the -- the services you provided in the rate case are
2 totally unaffected by what you did for the canvassing
3 and the proposed structures?

4 A Let me just clarify that. The work done
5 2015, 2016, 2015 was about assessment. 2016 was
6 identification of opportunities. The work done in
7 2017, which is the scope of what we're talking about
8 today, was another review based on how the Spire
9 allocation framework and model was being implemented
10 and how it was working and the charges flowing from
11 that in terms of a potential level of reasonableness.
12 So the two previous pieces of work were ex ante and
13 current testimony was ex-post.

14 Q Do you --

15 A So they -- but the -- sorry. The work that
16 was -- that was conducted related to the development
17 of the test mode reflected the current framework and
18 model as it existed in the spring of this year,
19 winter-spring of this year.

20 Q So you're drawing a distinction about the
21 one that Spire implemented some proposal with Strategy
22 Inc -- or & --

23 A They -- they -- I'm sorry.

24 Q -- had proposed?

25 A They implemented some of the

1 recommendations, others they did not. So, for
2 example, we had recommended creating a legal entity
3 for a service company much like a number of other old
4 registered holding companies or companies within the
5 industry had created. But a fall-back position was a
6 shared services organization with potential migration
7 toward the legal entity.

8 They created a legal entity, but in terms of
9 moving employees to the legal entity versus retaining
10 them in the operating company, they didn't take that
11 second step. So that's an example of a recommendation
12 that they did not adopt or implement.

13 There were other recommendations regarding
14 how they would think about allocation factors, try to
15 simplify whole process, some of which they have. And
16 there are recommendations around technology to
17 eliminate some of the complexity of what the company
18 had to go through to be able to assign and/or allocate
19 cost.

20 They use an extensive amount of clearing
21 accounts, for example, which we thought could be
22 shrunk and simplify the process. So some of those
23 they did implement. Some they may implement at some
24 point in time in the future and others I think they
25 implemented parts of.

1 **Q** Is what you did for purposes of the rate
2 **case review what Spire is doing currently for, I**
3 **guess, appropriateness? Is that a fair way to**
4 **characterize it?**

5 A I tend to use the word "reasonableness."
6 But thinking about it broadly, reasonableness in a
7 sense of how does this framework compare to that used
8 within the industry by other comparable companies?
9 And reasonableness in terms of the -- what's going on
10 with the level of charges, the control of costs and
11 the allocation methodologies that are adopted to
12 attribute those costs. So two levels in that,
13 framework and allocations.

14 **Q** **Turn your attention back to your direct**
15 **testimony on page 10.**

16 A Yes, sir, I have it.

17 **Q** **Line 29, starting there you say you have**
18 **been involved -- previously been involved in the**
19 **creation of or cost reviews of a number of service**
20 **companies or shared services entities.**

21 A Yes, sir.

22 **Q** **And that the approach you use for evaluation**
23 **of Spire is generally consistent with the proposed use**
24 **and evaluations of other service companies?**

25 A Yes, sir.

1 **Q** And then you list a number of companies for
2 **which you provided services?**

3 A This is a partial list, not a complete list.

4 **Q** And do you recall being asked in a data
5 **request whether you'd ever concluded that cost charged**
6 **by a service company or shared service entity were**
7 **inappropriate or unreasonable?**

8 A Yes, I do.

9 **Q** And do you recall how you responded to that
10 **request?**

11 A If you can show me the data request.

12 **Q** **Sure.**

13 MR. WILLIAMS: May I approach?

14 JUDGE DIPPELL: Yes.

15 **Q** **(By Mr. Williams) There you are, sir. Is**
16 **what I've handed you a copy of your response to that**
17 **data request?**

18 A Yes, it is.

19 **Q** And in that response, you indicate that you
20 **found some affiliate costs were not reasonable back in**
21 **the 1980s. Is that true?**

22 A That's correct.

23 **Q** **Have you since then?**

24 A There was a large gap between the '80s and
25 the '90s when we picked up this kind of work again,

1 but the 1980s particularly with AT&T. The combination
2 of Western Electric Bell Labs and their service
3 organization, there were far fewer controls placed on
4 this cost. In the '90s, particularly after a number
5 of --

6 **Q My question was whether or not you**
7 **determined that any affiliate costs were unreasonable**
8 **since you did so in the 1980s? I think that's yes or**
9 **no.**

10 A Well, then the answer is no.

11 **Q Thank you.**

12 A But the reason for that --

13 **Q I'm sure your attorney will give you an**
14 **opportunity to provide the reason.**

15 A Okay.

16 **Q I believe in your testimony, you indicated**
17 **that at one point in time you provided services to**
18 **commissions or maybe commissions' staff. Was that**
19 **true?**

20 A That's correct.

21 **Q How long ago was that?**

22 A Maybe to the mid-1980s.

23 **Q Is that also the last timeframe whenever you**
24 **provided services to anyone other than companies such**
25 **as Spire?**

1 A It probably would have been sometime after
2 that for any company that was not a public utility.

3 **Q How long after that for any company that was**
4 **not --**

5 A I think since the late 1980s.

6 **Q So not since 1990 at least?**

7 A Probably not.

8 MR. WILLIAMS: No further questions at this
9 time.

10 JUDGE DIPPELL: Thank you, Mr. Williams.

11 Are there cross-examination from
12 Environmental Defense Fund?

13 MS. KARAS: Yes, Your Honor.

14 CROSS-EXAMINATION BY MS. KARAS:

15 **Q Good afternoon, Mr. Flaherty.**

16 A Good afternoon.

17 **Q So you have previously been involved in**
18 **reviewing affiliate transactions and cost allocations**
19 **for several gas utilities; is that correct?**

20 A Gas and combination companies, both electric
21 and gas, yes.

22 **Q And of the gas utilities, how many have had**
23 **an affiliate pipeline developer as part of the**
24 **corporate group?**

25 A Perhaps two -- perhaps three.

1 **Q And could you list those?**

2 A NiSource, Nicor, and Lonestar Transmission,
3 in fact, was the development affiliate.

4 **Q And as part of your analysis in this case,**
5 **did you review any issues pertaining to affiliate**
6 **transactions or cost allocations associated with Spire**
7 **STL pipeline?**

8 A Only insofar as the nature of cost incurred
9 in support of the business as a whole, but not
10 specifically for St. Louis pipeline.

11 **Q Can you explain what you mean by the nature**
12 **of costs incurred?**

13 A Our focus was on the corporate center and
14 gas distribution shared services, activities and
15 costs. The gas distribution activity, the cost were
16 not applied to anything on the non-regulated side,
17 whereas, the corporate center cost would. We would
18 not look at any of the individual non-regulated
19 entities individually.

20 **Q So you did -- your review did not encompass**
21 **any analysis of the transaction between Laclede and**
22 **Spire STL pipeline for transportation service?**

23 A It did not explicitly. My understanding at
24 the time --

25 **Q Thank you. Thank you. And would you agree**

1 that it's the Commission's prerogative to order and
2 undertake any investigation it considers necessary
3 based on the particular facts and circumstances of the
4 case?

5 A I think within the statutory boundaries it
6 has. Commissions have great latitude. It depends on
7 what those restrictions might be. Statutorily they
8 can exercise their judgment.

9 Q And would you agree with the statement that
10 a company's cost allocation manual should be revisited
11 from time to time as the company -- company's
12 corporate structure and contracting strategies evolve?

13 A As a general statement that would be true.

14 Q Would you say there's an inherent risk of
15 self-dealing in affiliate transactions?

16 A I wouldn't say in general. That would be
17 heavily dependent on the type of transaction you're
18 talking about.

19 Q In your rebuttal at page 26, you refer to
20 order 707 issued by the Federal Energy Regulatory
21 Commission; is that correct?

22 A Yes, sir -- or, yes, ma'am. Sorry.

23 Q And you've included a reference to that
24 order here to highlight additional complimentary
25 standards that provide further perspective on the

1 **determination of affiliate charges for a gas utility;**
2 **is that right?**

3 A That's correct.

4 **Q And are you aware that FERC explicitly**
5 **declined to expand the scope of that order to include**
6 **the national gas industry at paragraph 32 of that**
7 **order?**

8 A I'm not aware of that, no.

9 MS. KARAS: Okay. Thank you. That's all
10 the questions I have.

11 JUDGE DIPPELL: Thank you, Ms. Karas.

12 Are there questions from the Bench from for
13 Mr. Flaherty?

14 CHAIRMAN HALL: No questions. Thank you.

15 COMMISSIONER STOLL: No questions. Thank
16 you.

17 JUDGE DIPPELL: Is there redirect by Spire?

18 MR. PENDERGAST: Just a little, Your Honor.

19 REDIRECT EXAMINATION BY MR. PENDERGAST:

20 **Q (By Mr. Pendergast) Mr. Flaherty, OPC**
21 **counsel instructed me to ask you a follow-up direct**
22 **question having to do with your not finding any**
23 **excessive or inappropriate allocations since I think**
24 **it was the 1990s, and you were explaining that. You**
25 **want to finish your explanation?**

1 A Sure. I was referencing to work done in the
2 1980s for the tele -- related to the
3 telecommunications industry. The difference around
4 work for the electric and gas industries was the 1935
5 Federal Power Act. It was much more stringent than
6 the '35 Communications Act relative to affiliate
7 transaction.

8 The SEC, when it had jurisdiction, was very
9 rigorous in how it administered its authority under
10 the act, and exercised, you know, a high degree of
11 control and scrutiny over affiliate transactions
12 within the electric power sector and natural gas
13 sector.

14 And because of that increased scrutiny, the
15 opportunities for, let's say, abuses which might have
16 occurred which gave rise to the 1935 Federal Power Act
17 have been greatly mitigated. So there was a
18 difference in the operating environments of the
19 telecommunications companies and industry versus that
20 of the electric power industry 10 years after that
21 timeframe.

22 **Q Thank you. You were also asked a number of**
23 **questions about the work you did. I believe it was in**
24 **2015, and I think some in 2016, relating to the cost**
25 **allocation procedures being used by the Company and**

1 **Spire. Do you recall those?**

2 A Yes, sir, I do.

3 **Q Okay. Now, is it your understanding that**
4 **the current cost allocation manual was approved by the**
5 **Commission in 2013?**

6 A It is, and it was the subject of our review
7 in 2015.

8 **Q Okay. And in 2013, that's when we**
9 **acquired -- Laclede Gas Company acquired MGE?**

10 A That's correct.

11 **Q Okay. And then do you know, did Laclede**
12 **acquire Alagasco in 2014?**

13 A Yes, it did.

14 **Q So was your assignment to come in after this**
15 **acquisition had taken place and was it your sense the**
16 **Company was interested in relooking at its allocations**
17 **to make sure they were okay?**

18 A I think the way to characterize is the
19 company knew that because of the structural changes --
20 ownership and structural changes that it had underway,
21 that it was time to revisit something in a more formal
22 basis given its organization structure and
23 compensation was going to become a little bit more
24 complicated. So it was varied interest to
25 understanding what are other companies doing, how

1 should we think about evolving our process.

2 **Q And that's where you came in?**

3 A That was part of our scope of work which is
4 to compare the processes of similar companies within
5 the industry and to identify opportunities for areas
6 that they could think about either restructuring,
7 revisiting the allocation factors, simplifying the
8 process or, in fact, update any of the regulatory
9 filings associated with cost allocation manual or a
10 CAM.

11 **Q And would it be a true statement that the**
12 **vast majority of cost allocated by Spire shared**
13 **service common cost are between regulated entities?**

14 A Yes. In fact, I think Mrs. Azad's testimony
15 indicates that 95 percent of the revenues of Spire
16 potentially come from regulated companies.

17 **Q And under those circumstances, do you have a**
18 **regulatory commission on this end of the allocation**
19 **and another regulatory commission on that end of the**
20 **allocation to kind of look and make sure that**
21 **everybody's getting their fair share?**

22 A I think regulators in general have, you
23 know, exhibited great interest in just the topic of
24 affiliate transactions and cost allocations. And
25 there's -- there were multiple entities sometimes

1 reviewing individual companies and their transactions.

2 Q Okay. And you were also asked a question or
3 two about some telephone conversations between public
4 counsels, a consultant and people that were working
5 with you. Do you recall that?

6 A Yes, sir, I do.

7 Q Okay. And do you recall in response to some
8 questions about what your analysis was based on and
9 how you did it, did your company offer to make its
10 model available?

11 A Yes, it did.

12 Q And allow Ms. Azad and her folks to use it,
13 to go ahead and look at the data and how the data was
14 done and how it filtered through the process of your
15 model?

16 A We were -- we were open to that and, you
17 know, volunteered it.

18 Q And what response did you receive?

19 A There was Mr. Clabault that actually
20 probably covered that meeting. I don't know whether
21 it was taken under advisement or just declined, but
22 there was not a subsequent request.

23 MR. PENDERGAST: Okay. Thank you very much.

24 JUDGE DIPPELL: Thank you. This is
25 Mr. Flaherty's only issue? Is that my understanding?

1 MR. PENDERGAST: Yes. I think that's
2 correct.

3 JUDGE DIPPELL: All right. Then you may
4 step down and you may be excused Mr. Flaherty. Thank
5 you.

6 Would Spire like to call its next witness?

7 THE WITNESS: I was here earlier; so --

8 JUDGE DIPPELL: Yes, you were previously
9 sworn, Mr. Krick; so you will remain under oath for
10 our purposes.

11 MR. KRICK: Okay. Thank you.

12 DIRECT EXAMINATION BY MR. ZUCKER:

13 Q Good afternoon, Mr. Krick.

14 A Good afternoon.

15 Q Do you have any changes to your testimony on
16 this issue?

17 A I do not. I'd like to clarify the Laclede
18 Investment question. For the purposes of what
19 Mr. Flaherty did, we provided some information that
20 there might have been a slight misunderstanding. And
21 if OPC wants to question me on that, I will respond.

22 MR. ZUCKER: Very good. Thank you. In that
23 case, I'll turn the witness over for
24 cross-examination.

25 JUDGE DIPPELL: Is there any

1 cross-examination from Staff?

2 MR. JOHNSON: No questions. Thank you,
3 Judge.

4 JUDGE DIPPELL: Public Counsel?

5 MR. WILLIAMS: One moment, please.
6 Just a few, Judge.

7 JUDGE DIPPELL: Go ahead.

8 MR. WILLIAMS: Just a few, Judge.

9 EXAMINATION

10 CROSS-EXAMINATION BY MR. WILLIAMS:

11 Q Good afternoon, Mr. Krick.

12 A Good afternoon.

13 Q Have you ever performed an audit of cost
14 allocation and affiliate transactions of a \$4 billion
15 company?

16 A No, not a specific audit to that scope.

17 Q Do you dispute that Staff has identified
18 several major cost allocation and affiliate
19 transaction issues with Laclede over the years?

20 A I do. I'm not aware of any specific
21 violations identified.

22 Q Are you familiar with Staff's 2016 Laclede
23 Investigation Report?

24 A No, I'm not.

25 Q In your rebuttal testimony, are you

1 **asserting that Ms. Azad is biased against Laclede?**

2 A No, I don't believe so.

3 **Q Do you know if Staff and Public Counsel are**
4 **working with other Missouri-regulated utilities to**
5 **develop or make changes or look at changes to their**
6 **cost allocation manuals?**

7 A From what I've heard in these proceedings,
8 yes, there are ongoing discussions with other
9 utilities, yes.

10 **Q A number of them, are they not?**

11 A Correct. Yeah.

12 **Q Are you familiar with the cost allocation**
13 **manual that the Commission has approved for KCP&L and**
14 **KCP&L Greater Missouri Operations Company?**

15 A No.

16 **Q Do you agree that meeting with -- Oh, well,**
17 **do you agree that discussions with stakeholders and**
18 **input from them is valuable for improving Spired's**
19 **cost allocation manual?**

20 A I believe so, but what stakeholders? Can
21 you be more specific about what stakeholders?

22 **Q Well, in particular, Public Counsel and the**
23 **Staff and the Commission.**

24 A Yeah. I believe, and it's in my -- either
25 my direct or my rebuttal where I do state that I --

1 the CAM -- and we've talked about this among several
2 witnesses that the CAM was created at a time when it
3 was Laclede and the Gas Energy Company. And companies
4 change significantly. And I do believe we should have
5 a collaborative effort between groups to modernize the
6 CAM and update it so it's more transparent and simple
7 for all of us to adhere to and it takes away some of
8 the red herrings in terms of whether we followed
9 something and not specific transactions.

10 **Q Did you consult with or seek the input of**
11 **Public Counsel or Staff whenever you decided or were**
12 **looking at retaining Strategy -- I don't know, there's**
13 **another name for doing reviews -- that it conducted?**
14 **In particular, the -- well, there were two reviews I'm**
15 **thinking of, in particular. That's the canvassing of**
16 **what other utilities were doing or other entities were**
17 **doing and then also suggested implementations for cost**
18 **allocation purposes?**

19 A I was not part of that decision, but I was
20 part of that evaluation. Part of the engagement, I
21 provided support through the engagement, but I was not
22 part of the decision to procure --

23 **Q Do you know if anybody provided input**
24 **suggesting that that might be an appropriate thing to**
25 **do?**

1 A No.

2 Q Well, I'm going to ask you the question you
3 invited me to ask which is: Can you explain why
4 Mr. Flaherty's figure is a little different than the
5 information that you provided in your testimony? He
6 clearly deferred to you as to what would be more
7 accurate; so --

8 A For the Laclede Investment question? Is
9 that --

10 Q Yes.

11 A Yeah. So we had determined to dissolve the
12 Laclede Investment entity. It's a -- we call it a
13 holding company that had de minimus operations. So
14 throughout the year what I believe occurred, where the
15 misunderstanding happened, when his team came in and
16 got information from our team for the analysis. We
17 had told them that it was being dissolved and,
18 therefore, received no allocations.

19 But going back and looking at the
20 information we provided to Mrs. Azad, there were
21 allocations throughout the year. So they ceased in
22 September because we dissolved the entity, but there
23 were some and that supported the information we gave
24 her. And please keep in mind, this is a very small
25 entity. These were very small dollars that were

1 involved.

2 MR. WILLIAMS: I think that's all my
3 questions -- I'm sorry. I believe that's all the
4 questions I have for this witness at this time.

5 JUDGE DIPPELL: Thank you. Is there
6 cross-examination by the Environmental Defense Fund?

7 MS. KARAS: Just a few questions, Your
8 Honor. Thank you.

9 CROSS-EXAMINATION BY MS. KARAS:

10 Q Good afternoon, Mr. Krick.

11 A Good afternoon.

12 Q So would you agree that the Commission last
13 approved the cost allocation manual in 2013?

14 A Yes.

15 Q And what year did Spire form Spire
16 Resources, LLC?

17 A Spire Resources? I believe in 2016, but I
18 can't be sure.

19 Q And in what year did Spire form Spire
20 Midstream, LLC?

21 A It was around the same time.

22 Q And in what year did Spire form Spire STL
23 Pipeline, LLC?

24 A It was around the same time.

25 Q And do you agree with the statement that the

1 cost allocation manual and associated -- associated
2 standards should reflect the evolution of Spire
3 itself?

4 A Once updated, yes.

5 Q Okay. Are you familiar with the
6 Commission's open docket and file number GO-2017-0223
7 pertaining to the investigation of Laclede's
8 compliance with the cost allocation manual?

9 A No, I am not.

10 Q Okay. Would a working group format compel
11 the company to make any changes to its cost allocation
12 manual?

13 A I wouldn't say it would compel us. I'd say
14 we're motivated to want to modernize the cost
15 allocation manual. And I think that the collaborative
16 group among the stakeholders would be a great way to
17 do it. I think it would help us develop a
18 relationship and find -- mutually find the best way to
19 come to a good conclusion.

20 Q And would you say there's an inherent risk
21 of self-dealing in affiliate transactions?

22 A For unscrupulous companies, yes, but not for
23 Spire.

24 Q And as part of your review or analysis in
25 this case, did you review any issues pertaining to the

1 **Laclede Spire STL Pipeline transaction?**

2 A No, not for this review.

3 MS. KARAS: Okay. Thank you. That's all
4 that I have.

5 JUDGE DIPPELL: Thank you.

6 Are there questions from the Bench for
7 Mr. Krick?

8 CHAIRMAN HALL: Just a few.

9 JUDGE DIPPELL: Mr. Chairman.

10 QUESTIONS BY CHAIRMAN HALL:

11 **Q Good afternoon.**

12 A Good afternoon.

13 **Q Page 3 of your rebuttal, just a couple of**
14 **questions.**

15 A Okay.

16 **Q Lines 1 through 3 on page 37 leads me to**
17 **believe that you did think that Ms. Azad was biased in**
18 **her analysis. So I was kind of surprised with your**
19 **answer to that question. Why -- why do you say that**
20 **her approach is focused on reviewing preconceived**
21 **issues rather than getting an understanding of the**
22 **existing process?**

23 A Well, I think that was specific to her
24 objective that she stated in her testimony that her
25 objective was to find issues, not necessarily that she

1 was biased.

2 **Q Focused on reviewing preconceived issues,**
3 **can you identify what you think those issues are or**
4 **were?**

5 A That there was -- that there are issues with
6 our cost allocation process and cost allocation
7 manual; so --

8 **Q Okay. So you can't characterize what those**
9 **issues are. You're just using that term generally,**
10 **discern to problems?**

11 A I generally -- so as you've -- as I reread
12 this, I understand that could be defined as biased,
13 yes. So correct myself there. I see how you could
14 see that.

15 **Q Okay. And then going down on that same**
16 **page, you -- you don't think that there is a need for**
17 **an entirely new CAM, but you do believe that it would**
18 **be wise to pull people together to look at ways to**
19 **improve the existing CAM; is that correct?**

20 A I do. Yes.

21 **Q Why do you believe that there is not a need**
22 **for an entirely new CAM?**

23 A Well, it's something we've been operating
24 under for several years. If there's a -- I believe
25 it's a good approach just to start with -- with what

1 we have and at least evaluate where we could improve
2 that. If there are -- with some of the proceedings
3 that have been discussed in other CAMs under
4 development, I think it'd be a good idea to look and
5 see what's been done there as well and collectively to
6 bring all those things into the analysis.

7 **Q But you don't think that the corporate**
8 **structure at Spire has gotten sufficiently more**
9 **complicated that -- that -- that there are specific**
10 **problems with the existing CAM?**

11 A The CAM is fairly generic in terms of what
12 the corporation can do, what they think is best in
13 terms of allocating costs; so it is fairly generic.
14 So I think that there -- this does present us an
15 opportunity to, I wouldn't say start from ground zero,
16 but take some of the parts that are working which may
17 be few, but at least start with those parts that are
18 working as the basis for -- for making the
19 improvements.

20 CHAIRMAN HALL: Okay. Thank you.

21 JUDGE DIPPELL: Are there any other
22 Commission questions?

23 COMMISSIONER RUPP: No questions.

24 JUDGE DIPPELL: Thank you.

25 Is there further cross-examination based on

1 Chairperson Hall's questions from the Staff?

2 MR. JOHNSON: No, thank you, Judge.

3 JUDGE DIPPELL: Public Counsel?

4 MR. WILLIAMS: Just one.

5 RECROSS-EXAMINATION BY MR. WILLIAMS:

6 **Q Just how generic is Spire's CAM or Laclede**
7 **CAM?**

8 A Well, I'd say that the majority of it is not
9 generic, but if you read the last few pages, it says
10 as the company changes and as it -- that -- that we
11 needed to make a reasonable approach to allocate cost
12 in a prudent way, a prudent and reasonable way.

13 The definition's defined throughout the
14 document, through the heart of the document are very
15 specific, but then in the latter pages of the document
16 there are some -- some generalities in terms of if
17 those concepts don't work, then the company should
18 take a different -- or can take a different approach.

19 **Q Do agree it would be better with the changes**
20 **that have occurred at Laclede since it's become Spire**
21 **and engaged in a number of acquisitions and dissolving**
22 **entities, that perhaps some of those generalities**
23 **ought to be -- become more specific?**

24 A Yeah. I believe, you know, as we've touched
25 on here that we should revisit the entire document,

1 start keeping some of the parts that do make sense,
2 not throw the entire thing away. But also compare
3 that to other work going on in the state with CAMs,
4 and collaboratively, you know, come up with a document
5 that we all feel like is fair, reasonable, and that we
6 can easily measure and comply with.

7 **Q And don't you think a third party such as**
8 **you engaged when you acquired the services of Strategy**
9 **would be appropriate?**

10 A I think a more efficient way to approach it
11 would be to have a working group of the key
12 stakeholders. Whether or not we had a third party
13 involved in assisting with that, I don't think it's
14 necessary. I think it would just add extra expense.
15 I think that we have the resources within our
16 different -- within -- within Spire, within Staff, and
17 within OPC to work together and come to a solution.

18 **Q You haven't done that to this point, have**
19 **you?**

20 A No, we haven't.

21 MR. WILLIAMS: No further questions.

22 JUDGE DIPPELL: Is there anything further
23 from Environmental Defense Fund?

24 MS. KARAS: Nothing further, Your Honor.

25 JUDGE DIPPELL: Is there redirect by Spire?

1 MR. ZUCKER: Just a little, Your Honor.

2 REDIRECT EXAMINATION BY MR. ZUCKER:

3 Q Good afternoon again, Mr. Krick.

4 A Good afternoon.

5 Q You're aware of the 2013 CAM approval by
6 this Commission?

7 A Yes.

8 Q And did Spire work with Staff and OPC when
9 preparing that CAM and submitting it for approval?

10 A I assume so. That was before my employment
11 with the Company.

12 MR. ZUCKER: Okay. That's all the questions
13 I have. Thank you.

14 JUDGE DIPPELL: Thank you.

15 Thank you, Mr. Krick.

16 MR. KRICK: Thank you.

17 JUDGE DIPPELL: You may step down. I
18 believe we have another Spire witness on this.

19 MR. ZUCKER: Your Honor, sorry. I think
20 Mr. Krick is now finished for his testimony in this
21 case; so I would offer his testimony into evidence.

22 JUDGE DIPPELL: I have his direct marked as
23 Exhibit No. 20 and his rebuttal marked as Exhibit 24.
24 Would there be any objection to Exhibits 20 and 24?

25 Seeing none, then I will admit Exhibits 20

1 and 24. Oh, I'm sorry.

2 MR. ZUCKER: Let me check one second. No,
3 that's Mr. Buck is No. 20.

4 JUDGE DIPPELL: I'm sorry. His direct is
5 Exhibit 23. I apologize.

6 MR. ZUCKER: And rebuttal is 24 and
7 surrebuttal is 25. Do you have those?

8 That's right. I think we struck his
9 surrebuttal and left 25 open.

10 JUDGE DIPPELL: Okay. So let me -- let me
11 do that.

12 MR. ZUCKER: Start over?

13 JUDGE DIPPELL: A do-over. Exhibits 23,
14 which is the direct testimony of Mr. Krick and 24,
15 which is the rebuttal testimony. Is there any
16 objection to those?

17 Seeing none, I will admit Exhibits 23 and
18 24.

19 (COMPANY'S EXHIBITS 23 AND 24 WERE RECEIVED INTO
20 EVIDENCE.)

21 MR. ZUCKER: Thank you, Your Honor.

22 JUDGE DIPPELL: Thank you.

23 MR. ZUCKER: We call to the stand Glenn
24 Buck.

25 JUDGE DIPPELL: Mr. Buck, you were

1 previously sworn.

2 MR. BUCK: Yes, ma'am.

3 JUDGE DIPPELL: You remain under oath. And,
4 Mr. Buck, you tend to talk really fast and sometimes
5 kind of quiet. So if you could indulge our court
6 reporter in slowing down and speaking clearly into the
7 microphone, we'd appreciate it.

8 MR. BUCK: I'll try and slow down. Thank
9 you.

10 DIRECT EXAMINATION BY MR. ZUCKER:

11 Q Good afternoon, Mr. Buck.

12 A We could be here all afternoon, Mr. Zucker.

13 MR. ZUCKER: Okay. Mr. Buck has already
14 testified that he does not have any changes to his
15 testimony; so I'm just going to turn him over for
16 cross.

17 JUDGE DIPPELL: Appreciate that. Thank you.
18 Is there cross-examination by staff?

19 MR. JOHNSON: I have no questions. Thank
20 you.

21 JUDGE DIPPELL: Public Counsel?

22 MR. WILLIAMS: Not on this topic.

23 JUDGE DIPPELL: Environmental Defense Fund?

24 MS. KARAS: No questions, Your Honor.

25 JUDGE DIPPELL: Are there any questions for

1 Mr. Buck from the Bench? Mr. Chairman?

2 CHAIRMAN HALL: No questions. Thank you.

3 COMMISSIONER RUPP: No questions.

4 JUDGE DIPPELL: Maybe I should have asked
5 this before we brought him up.

6 MR. BUCK: I talked slowly on that one.

7 JUDGE DIPPELL: I appreciate it. Thank you,
8 Mr. Buck. You may step down.

9 MR. BUCK: Thank you.

10 JUDGE DIPPELL: Now, Spire, I believe that
11 was all of your witnesses on the CAM issue, but you do
12 have Mr. Weitzel listed on the PGA/ACA issue.

13 MR. ZUCKER: Yes, your Honor.

14 JUDGE DIPPELL: Can we just go ahead and
15 have him --

16 MR. PENDERGAST: Call Mr. Weitzel to the
17 stand.

18 JUDGE DIPPELL: Mr. Weitzel, you've also
19 previously been sworn in this proceeding so you will
20 remain under oath for our purposes.

21 MR. PENDERGAST: I will tender Mr. Weitzel
22 for cross-examination.

23 JUDGE DIPPELL: Is there any
24 cross-examination from Staff on the PGA/ACA issue?

25 MR. JOHNSON: Staff has no questions. Thank

1 you.

2 JUDGE DIPPELL: Public Counsel?

3 MR. WILLIAMS: No.

4 JUDGE DIPPELL: Environmental Defense Fund?

5 MS. KARAS: I have a few, Your Honor.

6 JUDGE DIPPELL: Thank you.

7 CROSS-EXAMINATION BY MS. KARAS:

8 Q Good afternoon, Mr. Weitzel.

9 A Good afternoon.

10 Q So the charges that Laclede and MGE paid to
11 interstate pipelines for transportation comprise a
12 significant portion of the cost recovery through PGA;
13 is that correct?

14 A That is correct.

15 Q And those charges total nearly 200 million
16 for both Laclede and MGE in the most recent ACA
17 period; is that correct?

18 A I'd say that is a rough estimate, though,
19 approximately correct.

20 Q And has Laclede conducted an analysis of how
21 much that figure would increase after it seeks to
22 recover the cost of its firm transportation agreement
23 with Spire STL?

24 A I'm sure there's scenarios that have been
25 looked at, but I'm not aware of specific portfolio

1 changes at this state of Spire STL Pipeline.

2 **Q So no cost analysis has been done?**

3 A I'm sure costs have been looked at. And I
4 actually believe Spire came down to the Commission at
5 least once and gave a presentation and showed some
6 possible scenarios of portfolio mixes that could
7 change.

8 **Q Okay. So on page 2 of your rebuttal**
9 **testimony, you state that EDS proposal will only harm**
10 **company customers over the long-term; is that right?**

11 A Yes.

12 **Q And did you conduct a qualitative analysis**
13 **of the harm that would be caused by EDF's proposal?**

14 A Qualitative?

15 **Q Qualitative.**

16 A That statement arose mostly from qualitative
17 analysis. And your guy's changes to how capacity is
18 thought of as in diversity or reliability, upstream
19 capacity would be devalued substantially. And like
20 Staff has said, it's slightly confusing, your
21 proposal, but upstream capacity is very valuable to
22 Spire.

23 Missouri unfortunately is a captive
24 interstate gas supply state. We don't have 12 FERC
25 pipelines going through the middle of our service

1 territory. So MRT is not a liquid point. Mogas which
2 connects to our system. You can't go out buy it on
3 ice. So we rely heavily on upstream capacity. And
4 this -- according to this proposal, there's -- you
5 guys devalue upstream capacity. And looking at the
6 polar vortex, our upstream capacity was utilized about
7 100 percent to supply Missourians with reliable
8 natural gas.

9 **Q Did you conduct a quantitative assessment of**
10 **how much that upstream capacity would be devalued**
11 **under our proposal?**

12 A No, because I couldn't extrapolate how clear
13 or how you guys would calculate that.

14 **Q And did you ask Mr. Lander any data requests**
15 **on his proposal?**

16 A I did not.

17 **Q And did you ask Mr. Lander to meet to**
18 **discuss this proposal?**

19 A I did not.

20 **Q And when was the PGA/ACA mechanism first**
21 **introduced to Missouri?**

22 A A while ago.

23 **Q Would you take my word it was in 1962?**

24 A That sounds about right.

25 **Q And in what year did Laclede enter into its**

1 **transportation agreement with Spire STL Pipeline?**

2 A The technicalities of the transportation
3 agreement I -- I don't -- you know, I'm not a FERC or
4 lawyer but, you know, there was an agreement reached.
5 I don't know if that constitutes a -- a firm
6 agreement.

7 **Q So I'll revise my question.**

8 A Okay.

9 **Q In what year did Laclede enter into its**
10 **precedent agreement with Spire STL Pipeline?**

11 A I believe 2016, but --

12 **Q So sometime after 1962?**

13 A Correct.

14 **Q Okay. And would you agree with the**
15 **statement that a company's tariff should be revisited**
16 **from time to time as that company's corporate**
17 **structure and contracting strategies evolve?**

18 A Corporate structure and tariffs and how
19 rules and regulations are applied to utilities,
20 probably not. Can you repeat your second part of that
21 question?

22 **Q So I'm asking whether a company should**
23 **revisit its tariff as that company's corporate**
24 **structure evolves and it's contracting strategies**
25 **evolve?**

1 A No on the corporate structure just because
2 the utility operates within the states and the rules
3 and regulations of the state.

4 **Q So you disagree with Mr. Krick who said that**
5 **it is necessary to revisit the cost allocation manual**
6 **when there's been corporate changes?**

7 A Those are on financial allocations, a parent
8 company to utility services. Tariffs in the PGA sense
9 are how a utility operates in the state and abides by
10 those rules. So there's -- there's kind of a
11 different rhyme or reason to both of those if you're
12 trying to tie them.

13 **Q And has Laclede previously sought to recover**
14 **the cost of an affiliate transportation agreement**
15 **through the PGA or ACA?**

16 A Not -- not that I'm aware of.

17 **Q Has any other utility in Missouri ever**
18 **sought to recover the cost of an affiliate**
19 **transportation agreement through the PGA or ACA?**

20 A A FERC transportation agreement?

21 **Q A FERC interstate affiliate transportation**
22 **agreement.**

23 A Yes. Missouri utilities, electric utilities
24 have FERC entities and they, to my knowledge, have
25 electricity passing through those FERC assets.

1 **Q** Okay. So setting aside electric utilities,
2 if -- I'm just talking now about gas utilities that
3 have entered into an affiliate agreement for
4 transportation on a natural gas pipeline. Are you
5 aware of any utility in Missouri who has sought to
6 recover the cost associated with those types of
7 agreements through the PGA or ACA?

8 **A** Not to my knowledge, but I haven't done
9 research on that.

10 **MS. KARAS:** Okay. Thank you very much for
11 your time.

12 **JUDGE DIPPELL:** Are there questions from the
13 Bench on this topic from Mr. Weitzel from the
14 chairman?

15 **CHAIRMAN HALL:** No questions. Thank you.

16 **COMMISSIONER RUPP:** No questions.

17 **JUDGE DIPPELL:** Looks like there are no
18 question from the Bench. Is there redirect by Spire?

19 **MR. PENDERGAST:** Just a little bit.

20 **REDIRECT EXAMINATION BY MR. PENDERGAST:**

21 **Q** You were asked whether you had performed any
22 qualitative analysis of the proposals by EDF relating
23 to changes to the PGA/ACA process and also, I guess,
24 Laclede standards of conduct. And you answered that
25 you had done a qualitative analysis; is that correct?

1 A Yes.

2 Q And let me ask you, in doing that
3 **qualitative analysis, is it your understanding that**
4 **sort of the analytical framework that EDF is proposing**
5 **assumes that Laclede's propane, current propane**
6 **facilities, will stay in its, sort of, supply**
7 **portfolio forever?**

8 A They -- they use that as a benchmark. It
9 wasn't clear if it was forever, but they assumed
10 that'd be the first thing replaced, I believe, from
11 their tariff recommendations.

12 Q Okay. And do you think that replacement of
13 **those propane facilities would be inappropriate?**

14 A It depends on what you're replacing that
15 with or your other options in the marketplace.

16 Q Right. And as we sit here today, do we know
17 **what those other options will be?**

18 A Yes.

19 Q Okay. And if we were to go ahead and do the
20 **kind of analysis that EDF has proposed from your**
21 **qualitative analysis standpoint, is that designed to**
22 **make it more difficult to have a transaction with**
23 **Spire St. Louis Pipeline?**

24 A Yes. There's specific carve-outs for
25 affiliate transactions.

1 **Q And did they propose any change to the**
2 **PGA/ACA tariffs for MGE?**

3 A Not -- I -- I did not look at the company
4 that is addressing whether there's tariff changes.

5 **Q Okay. And do you know if they have proposed**
6 **that these changes be applied to any other utility?**

7 A I believe they have not proposed that.

8 **Q Okay. Do you know if MGE had a relationship**
9 **with Panhandle Pipeline?**

10 A I do know that.

11 **Q Okay. And so that would have been some sort**
12 **of affiliated relationship?**

13 A No, it was a long-time affiliated
14 relationship.

15 **Q And do you know whether or not Laclede Gas**
16 **has, from time to time, purchased commodity from its**
17 **marketing affiliate?**

18 A It has.

19 **Q Okay. And have those been reviewed by the**
20 **Staff?**

21 A I'd say pretty thoroughly.

22 **Q And they've been reviewed for a number of**
23 **years now?**

24 A Correct.

25 **Q So from the standpoint of having experience**

1 in the gas supply area dealing with affiliated
2 transactions, that is not something that's new?

3 A No.

4 Q Okay. And in your opinion, is trying to go
5 ahead and treat transportation capacity the same as
6 commodity purchases of gas, as far as applying the
7 same kind of processes and standards, appropriate?

8 A In relation to the standards of conduct, I
9 think it's a large deviation on how utilities
10 negotiate and participate with interstate pipelines
11 and trying to procure those capacities. In the
12 standard of conduct, they reference that we go out in
13 a bidding process for capacity where the bidding
14 process currently for interstate pipelines based on
15 their contract starts six months to a year out per the
16 provisions in their interstate tariffs.

17 Q So is it your opinion that that would not be
18 a feasible alternative?

19 A It would put the supply secured in natural
20 gas for Missourians at risk for sure.

21 MR. PENDERGAST: Okay. Thank you. I have
22 no further questions.

23 JUDGE DIPPELL: Thank you.

24 Thank you, Mr. Weitzel. You may step down.
25 So I believe that is all of the Company witness on

1 those two issues. So we are ready for the Staff
2 witness?

3 MR. KEEVIL: Staff would call Ms. Anne
4 Crowe.

5 ANNE CROWE,

6 Having duly been sworn, testified as follows:

7 DIRECT EXAMINATION BY MR. KEEVIL:

8 Q Would you please state your name and spell
9 it for the record?

10 A Anne Crowe. A-n-n-e, Crowe is C-r-o-w-e.

11 Q Thank you. By whom are you employed and in
12 what capacity?

13 A I'm employed with the Public Service
14 Commission as a regulatory auditor.

15 Q All right. Did you contribute to the
16 Staff's class cost-of-service report which was filed
17 in this matter?

18 A Yes.

19 MR. KEEVIL: I believe, Judge, that has been
20 marked confidential as Exhibit 208 and Public's 209.

21 Correct me if I'm wrong, but --

22 JUDGE DIPPELL: That is correct.

23 Q (By Mr. Keevil) Now, Ms. Crowe, I don't
24 believe -- and you please correct me if I'm wrong, but
25 you did not contribute to the revenue requirement

1 **cost-of-service report?**

2 A I did not.

3 **Q Okay. Did you also cause to be prepared**
4 **rebuttal and surrebuttal testimony?**

5 A I did.

6 MR. KEEVIL: Your Honor, I believe those
7 have been marked. The rebuttal confidential version
8 is Exhibit 233. The public version is 234.
9 Surrebuttal confidential version is 241 and the public
10 version is 242.

11 JUDGE DIPPELL: Those are also the numbers
12 that I have.

13 MR. KEEVIL: Okay. Good.

14 **Q (By Mr. Keevil) Ms. Crowe, do you have any**
15 **changes, additions, corrections to any of these pieces**
16 **of testimony that I've talked about?**

17 A I do not.

18 **Q All right. Are the answers contained in**
19 **those pieces of testimony true and correct to the best**
20 **of your knowledge and belief?**

21 A They are.

22 **Q If I were to ask you the same questions**
23 **today contained therein, would your answers be the**
24 **same?**

25 A Yes.

1 Q Judge -- Is this your last time to testify,
2 Ms. Crowe?

3 A Yes.

4 MR. KEEVIL: Okay. I would move the
5 admission of Exhibits 233, 234, 241, and 242 at this
6 time.

7 JUDGE DIPPELL: Would there be any objection
8 to Exhibits 230 -- I'm sorry. 233, the rebuttal
9 testimony and confidential; and 234, the public
10 version; and 241, confidential surrebuttal; and 242,
11 the public version?

12 Seeing no objection, then I will enter those
13 into evidence.

14 (STAFF'S EXHIBITS 233, 234, 241, AND 242 WERE RECEIVED
15 IN EVIDENCE.)

16 MR. KEEVIL: Thank you, Judge. With that, I
17 would tender the witness for cross-examination.

18 JUDGE DIPPELL: Thank you. Is there
19 cross-examination for Ms. Crowe on either of these two
20 issues by Public Counsel?

21 MR. WILLIAMS: No questions.

22 JUDGE DIPPELL: By the Environmental Defense
23 Fund?

24 MS. KARAS: Just briefly, Your Honor.

25 CROSS-EXAMINATION BY MS. KARAS:

1 Q Good afternoon, Ms. Crowe.

2 A Good afternoon.

3 Q When will Staff review the prudence of
4 Laclede's decision to contract with Spire STL?

5 A It depends on when the pipeline is -- if
6 it's built and completed, when those costs are put
7 into the PGA/ACA.

8 Q So when it comes in to seek to recover the
9 costs on a future PGA/ACA proceeding?

10 A Yes.

11 Q And as part of Staff's review of that
12 decision, will Staff assess whether the Company
13 complied with the affiliate transaction rule?

14 A It may be part of it. The gas supply
15 transportation and standards of conduct are what Staff
16 would use in addition to the affiliate transaction
17 rule.

18 Q So it may -- you could, you're not sure at
19 this point --

20 A Right.

21 Q -- whether it would be?

22 Do you agree with Mr. Hyneman's surrebuttal
23 testimony on page 28 where he states during his time
24 at Staff's auditing department that Staff had
25 particular concerns with Laclede's lack of compliance

1 **with the affiliate transaction rule?**

2 A Yes.

3 **Q And could you explain what those concerns**
4 **were?**

5 A We actually filed a complaint case against
6 Laclede, and that is where we came up with a gas
7 supply transportation and standards of conduct. There
8 were concerns with their -- the documentation of the
9 gas supply procured from their marketing affiliate at
10 that time, LER.

11 **Q Okay. Thank you. And if Staff does end up**
12 **looking at whether the Company complied with the**
13 **affiliate transaction rule, do you know at what point**
14 **in time that analysis we'll be looking at? And what I**
15 **mean by that is, are you looking at the -- whether**
16 **Laclede complied with the rule at the time it entered**
17 **into the precedent agreement, at the time it took**
18 **service pursuant to the transportation agreement or at**
19 **the time it seeks to recover the costs? Do you know**
20 **what timeframe we're looking at?**

21 A Staff's review would probably look at each
22 one of those decisions at that time.

23 **Q Would look at each separate?**

24 A Right.

25 **Q Each of the three? Okay. Thank you.**

1 **And are you aware whether Laclede has**
2 **previously sought to recover the costs of an affiliate**
3 **transportation agreement through the PGA or ACA?**

4 A A natural gas pipeline?

5 **Q A natural gas transportation affiliate**
6 **agreement.**

7 A No, not a natural gas.

8 **Q And are you aware of any other utility in**
9 **Missouri that sought to recover the costs associated**
10 **with this type of affiliate agreement?**

11 A At one point, MGE had an affiliate
12 interstate pipeline, Panhandle Eastern pipeline.

13 **Q And they came into this Commission and asked**
14 **to recover the costs associated with an affiliate**
15 **agreement they had with Panhandle?**

16 A Yes. It was a little bit more complicated
17 with Panhandle because they became affiliates. MGE
18 had already had contracts with Panhandle and then they
19 became affiliates.

20 **Q So at the time they sought recovery, there**
21 **was an affiliate relationship or do you know?**

22 A Yes, there were, but -- but in the purchase
23 of the Panhandle transaction, in that merger
24 agreement, there were conditions put in that agreement
25 that cap the costs, if you will, that MGE was allowed

1 to recover.

2 **Q So there were certain rate payer protections**
3 **that were built into that transaction?**

4 A Yes.

5 MS. KARAS: Okay. Thank you. That's all I
6 have.

7 JUDGE DIPPELL: Thank you. Is there cross
8 by Spire?

9 MR. PENDERGAST: No questions, Your Honor.

10 JUDGE DIPPELL: Are there questions from the
11 Bench for Ms. Crowe?

12 CHAIRMAN HALL: Yes.

13 JUDGE DIPPELL: Mr. Chairman.

14 QUESTIONS BY CHAIRMAN HALL:

15 **Q Good afternoon.**

16 A Good afternoon.

17 **Q Did I understand you correctly that Staff**
18 **would -- would review the Laclede transportation**
19 **agreement with Spire St. Louis Pipeline in connection**
20 **with a prudency review under the PGA/ACA?**

21 A Yes.

22 **Q When there is a tariff filing under PGA, how**
23 **much time does Staff have to review it?**

24 A Approximately 12 months for the ACA for the
25 prudent part of it.

1 **Q Okay. Could you explain that to me, please?**

2 A The Company will make a PGA/ACA filing. The
3 PGA part of the filing is the Company's estimate of
4 gas costs. The ACA part of the filing is the true-up
5 for the prior year's annual gas costs, the estimate to
6 the actual. And so that is when Staff reviews the
7 company decisions, the purchasing practices, as part
8 of the ACA review.

9 **Q And you said that Staff has a 12-month time**
10 **period --**

11 A Generally.

12 **Q -- in that analysis and review and**
13 **recommendation?**

14 A Generally, yes.

15 **Q Have you yourself or anyone on Staff**
16 **reviewed the transportation agreement with Spire**
17 **St. Louis Pipeline?**

18 A I have read the precedent agreement.

19 JUDGE DIPPELL: Ms. Crowe, can I get you to
20 speak into the -- Thank you.

21 **Q (By Chairman Hall) What does that mean? I'm**
22 **sorry.**

23 A It's the agreement that Laclede has with
24 Spire saying that if the pipeline is built, then they
25 will sign a FERC transportation contract with them.

1 Q And -- But that's separate and distinct from
2 the actual transportation agreement?

3 A Yes.

4 Q Is there such an agreement in place today, a
5 transportation agreement?

6 A That's been executed? Not to my knowledge.

7 Q Okay. When would you expect one to be
8 executed? What events have to occur before such an
9 agreement could be executed?

10 A I would say after approval by FERC of the
11 pipeline.

12 Q Okay. And so that's the only thing that
13 needs to occur before you would expect there to be a
14 transportation agreement?

15 A That's what I would expect, but there may be
16 other considerations that Laclede has that I'm not
17 aware of.

18 Q When such an agreement is executed, would
19 you expect that that agreement would be available for
20 Staff's review?

21 A Yes.

22 Q But Staff would not make any type of
23 recommendation to -- to the Commission until it was
24 part and parcel of an ACA review; is that correct?

25 A I think that's correct.

1 **Q** And if Staff were to determine that there
2 was some type of violation of the affiliate
3 transaction rule between those two entities, Staff
4 could always file a complaint; is that correct?

5 A Yes.

6 **Q** Has Staff ever filed a complaint for a
7 violation of the affiliate transaction rule that
8 you're aware of?

9 A Yes.

10 **Q** Can you give me a couple of examples?

11 A The complaint case against Laclede. It was
12 a GC-2011 case that they were violating the affiliate
13 transaction rule.

14 **Q** Any other examples come to mind?

15 A No, not that I can think of.

16 **Q** My understanding is that Staff is -- is --
17 is open to participating in a working docket to revise
18 the CAM; is that correct?

19 A That's correct.

20 **Q** Do you believe that it is necessary to have
21 a third-party independent auditor involved in that?

22 A I don't think we took a position on that.

23 **Q** Well, my understanding is, is that there's
24 some concern that without that third-party independent
25 auditor, some of the -- there could be some problems

1 with accessed information, access to some of the
2 Company's information. Do you share that concern? Or
3 do you think that -- that the parties could sit down
4 without a third-party independent entity and revise
5 the CAM appropriately?

6 A We did not have a third-party participant
7 when the Commission-approved CAM was put into place.

8 Q And you think that that process functioned
9 appropriately? And so at this point, you don't
10 necessarily see a reason that we need to deviate with
11 that going forward?

12 A You know, I don't know. I know Spire has
13 changed since then. I don't know the record -- the
14 information problems that other parties have quoted.
15 I'm not aware -- I -- I'm not aware of that; so --

16 CHAIRMAN HALL: Okay. I think that's all I
17 have. Thank you.

18 MS. CROWE: Thank you.

19 JUDGE DIPPELL: Are there any other --
20 Commissioner Rupp?

21 QUESTIONS BY COMMISSIONER RUPP:

22 Q Good afternoon.

23 A Good afternoon.

24 Q With all due respect, Mr. Chairman, I'd like
25 to ask the same question you asked because I don't

1 think we got an answer. I understand it's not Staff's
2 position, but I think the question was asked, do you
3 believe that the process needs to have a third-party
4 person. And your response was you didn't use one last
5 time. So moving forward with the new corporate
6 structure and everything, do you think that a
7 third-party auditor is needed in a working group if it
8 were to be established in this issue?

9 A I don't know.

10 COMMISSIONER RUPP: Thank you.

11 MS. CROWE: Thanks.

12 JUDGE DIPPELL: All right. Is there any
13 further cross-examination based on Commission
14 questions from Public Counsel?

15 MR. WILLIAMS: Yes.

16 CROSS-EXAMINATION BY MR. WILLIAMS:

17 Q You were asked if there was a need for a
18 third-party auditor. Do you think a third-party
19 auditor would inhibit the collaborative process?

20 A I don't think it would.

21 MR. WILLIAMS: Thank you.

22 JUDGE DIPPELL: From Environmental Defense
23 Fund?

24 MS. KARAS: Nothing further, Your Honor.

25 JUDGE DIPPELL: From Spire?

1 CROSS-EXAMINATION BY MR. PENDERGAST:

2 Q Good afternoon, Ms. Crowe.

3 A Good afternoon.

4 Q Just a follow-up on the third-party review
5 or auditor question. I think you indicated that we
6 were able to come to a resolution on the 1913 --
7 1913 -- 2013 CAM and the standards of conduct without
8 the assistance of outside parties; is that correct?

9 A That's correct.

10 Q And we recently just had a Staff review of
11 the Company's compliance with those standards of
12 conduct. Do you recall that?

13 A Yes.

14 Q And that revolved around some concerns Staff
15 had about the sufficiency of documentation relating to
16 certain kinds of transactions under those standards of
17 conduct?

18 A Yes.

19 Q And the Staff asked quite a few questions,
20 and would it be fair to say the Company provided quite
21 a few answers?

22 A That would be fair.

23 Q And then the Staff made some recommendations
24 of some improvements that it thought could be made; is
25 that correct?

1 A Yes.

2 **Q And do you recall, did the Company agree to**
3 **most of the recommendations, if not all, that Staff**
4 **had made?**

5 A They agreed to some. I think there was some
6 follow-up necessary to make sure that what we think
7 has been agreed to has actually been agreed; so
8 clarification.

9 **Q I'm not suggesting it's been completely**
10 **finalized. I think something intruded in the process**
11 **called a crate (as pronounced) case. Would that be**
12 **correct?**

13 A Yes.

14 **Q But once again, the parties were able to**
15 **work together to discuss what was needed, what**
16 **enhancements could be made, and to ultimately reach**
17 **hopefully a final resolution on it?**

18 A Yes, that's fair.

19 MR. PENDERGAST: Okay. Thank you.

20 JUDGE DIPPELL: Thank you. Is there
21 redirect by Staff?

22 MR. KEEVIL: Just a little bit, Your Honor.

23 REDIRECT EXAMINATION BY MR. KEEVIL:

24 **Q Following up on this third-party auditor**
25 **thing which I intended to get into, if there were a**

1 third-party auditor, Ms. Crowe, I believe Mr. Williams
2 asked you if that would impede the process. My
3 question to you is: Do you think it would add costs
4 to the process?

5 A Yes.

6 Q And are you aware of anyone's proposal as to
7 how such costs would be recovered or if they would be
8 recovered or from whom they would be recovered in the
9 event they were incurred?

10 A I'm not aware of what proposals have gone on
11 regarding that in this case.

12 Q Okay. Thank you. Commissioner -- or excuse
13 me -- Chairman Hall, as well as Ms. Karas, asked you
14 several question about the PGA/ACA process itself.
15 Please forgive me for my coughing there. Could you --
16 first of all, are the PGA and the ACA the same?

17 A No. There's a PGA.

18 Q Right. Can you -- I believe you were doing
19 this some with Chairman Hall, but could you -- you
20 mentioned one I believe is an estimate, a
21 forward-looking estimate and the other is a true-up.
22 Can you explain a little more what about you were
23 saying there, PGA versus ACA, what does each entail?

24 A The CPGA is the Company's estimate of what
25 its gas costs are going to be. It -- they are allowed

1 to file up to four of those a year. And then the
2 ACA -- Let me backtrack a little bit. With the PGA
3 changes, those generally have an effective date of 10
4 days.

5 **Q Ten business days, I believe?**

6 A Yes. Ten business days. Sorry. And then
7 the ACA, that is filed once a year in the fall, and
8 that is the reconciliation between the estimated gas
9 costs and then what the Company actually experienced.

10 **Q Okay. And during that AC process, in**
11 **addition to comparing the costs and revenues that you**
12 **said, do you also look at additional -- when I say**
13 **"you," I mean the procurement analysis unit of**
14 **Staff -- do you look at additional things as well such**
15 **as supply reliability, prudence, hedging, various**
16 **things?**

17 A Yes.

18 **Q And what do you look at in a prudence-type**
19 **review or have you in the past -- again, when I say**
20 **"you," I mean procurement analysis unit -- done any**
21 **prudence-type reviews of natural gas supply,**
22 **transportation or supply contract?**

23 A Yes, both with the supply and the
24 transportation.

25 **Q And what do you look at in one of those**

1 **prudence reviews?**

2 A For example, with pipeline changes, we'll
3 look at the decisions that the Company made, the
4 rationale for those decisions, when those decisions
5 were made. We may ask for things like modeling other
6 system to make sure that the -- whatever the amount
7 that the Company is contracted with, that they're
8 system could actually flow that amount of gas, take
9 that amount of gas.

10 Q Okay. Do you remember a series of cases
11 back in the '90s and early 2000s involving Missouri
12 Gas Energy and a transportation contract it had with
13 what was then called Kansas Pipeline?

14 A I'm vaguely aware of those cases.

15 Q Okay. That -- I think a vague awareness
16 will be sufficient for purposes of this question. Do
17 you remember Staff proposing a series of disallowances
18 in several consecutive ACA periods based on MGE's
19 contracts -- was that transportation contracting with
20 Kansas Pipeline?

21 A Yes, they did.

22 Q And would you agree that cumulatively the
23 Staff-recommended disallowances totaled well over
24 \$30 million in those cases?

25 A I know it was a lot. I don't know if it was

1 that amount.

2 Q Okay. Now, I believe it was Ms. Karas who
3 asked if you or Staff had ever reviewed a ACA filing
4 where the utility had sought to recover the cost of an
5 affiliate transaction through their ACA filing. Do
6 you generally remember those questions?

7 A Yes.

8 Q And you said that natural -- I believe your
9 answer said something like of a natural gas contract,
10 no. And this may have been specifically in regard to
11 Laclede and their propane facilities, but do you
12 remember why you hesitated on that previous --

13 A Because of Laclede pipeline.

14 Q Okay. Could you explain what Laclede
15 pipeline is?

16 A It is Laclede's affiliate pipeline that they
17 use to transport propane into and out of their propane
18 cavern.

19 Q Now, that's separate and distinct from Spire
20 STL Pipeline; correct?

21 A Yes, it is.

22 Q Laclede pipe -- what we're now referring to
23 as Laclede Pipeline may actually have a different name
24 for all I know, but that's been in existence for
25 sometime now; correct?

1 A Correct.

2 Q Any idea how long?

3 A How long has Laclede owned it?

4 Q Yes. If you don't, that's fine.

5 A I'm not specifically sure.

6 Q Okay. But have costs for that pipeline been
7 flowed through Laclede's PGA clause on the propane
8 side?

9 A Yes, they do.

10 Q Chairman Hall asked you a question regarding
11 once Laclede -- excuse me -- Spire Missouri and Spire
12 STL Pipeline, assuming they eventually enter into a
13 transportation contract, whether that agreement would
14 be made available for Staff review and -- Do you
15 remember those questions?

16 A Yes.

17 Q And I believe your answer was you would
18 expect them to make it available to Staff, but the
19 Staff wouldn't actually make any disallowances or
20 recommendations to the Commission regarding the
21 contract until the ACA period in which those costs
22 first appeared. Was that correct?

23 A Yes.

24 Q Okay. And are you familiar with the term
25 "preapproval?"

1 A Yes.

2 **Q Okay. Okay. In a regulatory sense, I guess**
3 **I should have said previous. Can you explain to me**
4 **what is generally thought of as preapproval in the**
5 **pipeline contracting world?**

6 A That would mean that Laclede could come in,
7 present the contract to the Commission and ask for a
8 decision approving the pipeline contract.

9 **Q But does -- to your knowledge, does Missouri**
10 **law authorize these preapproval of contracts?**

11 A No, not to my knowledge.

12 **Q And have any of the other pipeline contracts**
13 **been subject to preapproval-type procedures?**

14 A No.

15 MR. KEEVIL: Okay. I think that's all I
16 have, Judge. Thanks.

17 JUDGE DIPPELL: Thank you.

18 Ms. Crowe, I believe then -- am I correct,
19 that is Ms. Crowe's last --

20 MR. KEEVIL: I think so, yes.

21 JUDGE DIPPELL: Then you may step down. You
22 may be excused.

23 MS. CROWE: Thank you.

24 MR. KEEVIL: That means go home for the
25 weekend.

1 JUDGE DIPPELL: All right. I'd like to take
2 a short break before we begin with OPC's witnesses.
3 So we have OPC's witness Azad, Hyneman, Marke, and
4 then EDF's witness Greg Lander to cover and we're
5 going to get through those this afternoon. If you all
6 know that you don't have questions for any of those
7 witnesses, if you as a group know that, if you'd let
8 me know. And then we'll see what time it is and take
9 it from there.

10 Let's go ahead and go -- well, let's come
11 back at 3:30 and let's go off the record.

12 (Whereupon, a brief break was taken.)

13 JUDGE DIPPELL: Okay. While we were off the
14 record, Mr. Pendergast, you were trying to tell me
15 about Mr. Hyneman's upcoming testimony and can you
16 explain that again?

17 MR. PENDERGAST: Yes, Your Honor.
18 Mr. Hyneman's testimony as it relates to this issue is
19 based in large part on his inclusion of the Staff's
20 investigation report MGM-2016-0342. And I believe
21 Public Counsel has asked that you take official notice
22 of that. And we are okay with that as long as we have
23 kind of a complete record. And what we would like to
24 do is also have you take notice of Spire, Inc.'s,
25 response to Staff investigation report that was filed,

1 MGM-2016-0342, just so we have a complete record of,
2 you know, what Staff said and how we responded to what
3 they said. And I do not believe that either Staff or
4 OPC objects to that.

5 JUDGE DIPPELL: And when you say on this
6 issue, do you mean the CAM issue or the PGA issue?

7 MR. PENDERGAST: The CAM issue.

8 JUDGE DIPPELL: Okay. That's what I
9 thought, but I'm getting it all confused myself. Do
10 you know what date that response was filed?

11 MR. PENDERGAST: It looks like the 6th day
12 of September.

13 JUDGE DIPPELL: Okay.

14 MR. PENDERGAST: 2016. And I have one copy
15 if you would like it.

16 JUDGE DIPPELL: Okay. So, Mr. Williams,
17 refresh my memory. Is that part -- is the original
18 report that Mr. Pendergast was referring to, was that
19 attached to Mr. Hyneman's testimony?

20 MR. WILLIAMS: Frankly, I don't know.
21 Mr. Hyneman may --

22 JUDGE DIPPELL: Is that attached to his
23 testimony?

24 MR. PENDERGAST: It is indeed.

25 MR. HYNEMAN: Yes.

1 JUDGE DIPPELL: Okay. There was so much
2 attached to Mr. Hyneman's testimony including a
3 200-page hearing transcript in which you referenced
4 two pages.

5 MR. HYNEMAN: Well -- and I think --

6 JUDGE DIPPELL: That's all right. No
7 response is needed.

8 MR. HYNEMAN: Okay.

9 JUDGE DIPPELL: I just wanted to make that
10 known.

11 MR. WILLIAMS: Judge, Mr. Pendergast is
12 correct. The Public Counsel does not object to the
13 response coming into the record.

14 JUDGE DIPPELL: Okay. I'm just trying to
15 figure out what the appropriate time is to take that
16 and -- or to offer it up for further objections.
17 Would Environmental Defense Fund, are you even aware
18 of what they're discussing?

19 MS. KARAS: We will not object, Your Honor.

20 JUDGE DIPPELL: Okay. All right. Then I
21 would like a physical copy and I would like to go
22 ahead and mark it as an exhibit.

23 MR. PENDERGAST: Certainly.

24 JUDGE DIPPELL: And I have Spire's next
25 Exhibit as 61.

1 MR. PENDERGAST: Sixty-one.

2 JUDGE DIPPELL: And that is -- it wasn't --
3 was it Spire -- is it captioned Spire, Inc.'s --

4 MR. PENDERGAST: It's Spire, Inc.'s,
5 response to Staff investigation report.

6 JUDGE DIPPELL: Okay. And that is in
7 MGM-2016-0342 submitted on September 6, 2016. Okay.
8 So I'm going to mark that as Exhibit No. 61.

9 MR. PENDERGAST: Sixty-one. Do you want the
10 copy or should I give it to the court reporter?

11 JUDGE DIPPELL: You can give it to the court
12 reporter.

13 MR. PENDERGAST: Excuse me.

14 JUDGE DIPPELL: And is there any objection
15 to Exhibit No. 61 coming into evidence?

16 MR. KEEVIL: No objection, but a question.
17 Will there be copies made available at a later time?

18 MR. PENDERGAST: We will make copies and
19 make sure parties get them.

20 JUDGE DIPPELL: Mr. Pendergast will provide
21 us with copies as soon as he's able. Then I will
22 receive that into the record, and when we get to
23 Mr. Hyneman's testimony, we will get the other part.

24 (COMPANY'S EXHIBIT 61 WAS RECEIVED IN EVIDENCE.)

25 JUDGE DIPPELL: Okay. So, Mr. Hyneman, you

1 have come to the stand as OPC's first witness on these
2 issues. And you have previously been sworn in this
3 proceeding so you remain under oath.

4 Is there anything else on direct from OPC
5 with regard to Mr. Hyneman?

6 MR. WILLIAMS: No. Just make it clear that
7 he's here both for the CAM and the PGA/ACA issues.

8 JUDGE DIPPELL: Thank you. All right. Is
9 there cross-examination by Staff?

10 CROSS-EXAMINATION BY MR. KEEVIL:

11 **Q Very briefly. Partly because what**
12 **Mr. Williams just said regarding Mr. Hyneman being**
13 **here for both the CAM and the ACA/PGA list at issue.**
14 **When I look at the list of issues that was filed in**
15 **this case under the PGA/ACA issue, the issue is stated**
16 **as should LAC have new PGA/ACA tariff provisions**
17 **pertaining to costs associated with affiliated**
18 **pipeline transportation agreements.**

19 **And, Mr. Hyneman, I was looking through your**
20 **testimony and I don't believe you addressed that**
21 **specific issue in any of your prefiled testimony. Is**
22 **that correct, sir?**

23 **A** No, my testimony on the PG is the
24 appropriateness of moving gas inventories out of the
25 PGA and the effect on the PGA. It wasn't directly

1 under that issue.

2 **Q Okay. So it's not related to this issue.**
3 **It was a different PGA issue basically?**

4 A I think it was substantially handled
5 yesterday.

6 **Q Right. Right. Okay. One other question**
7 **regarding this on the CAM issue. Regarding the --**
8 **what do they call it -- the third-party auditor issue,**
9 **how is OPC proposing that the costs or expenses of**
10 **that audit be handled?**

11 A And if I may explain. When you look at the
12 nature of the cost on this, you can put -- in this
13 type of expense you can put a budget. You can limit
14 the budget to 200,000, 250. We can agree upon a
15 budget. And the proposal -- and I can't remember the
16 exact allocation, the Company will fund a certain
17 percent and then -- I think Mr. Marke can speak on
18 this more accurately -- but the Company will fund a
19 certain dollar limit and I just can't remember the
20 specifics on that.

21 **Q I'm not trying to set you up here, believe**
22 **it or not. I'm just -- I believe you're starting to**
23 **get pretty close to some settlement discussions --**

24 A No.

25 **Q -- and I'm not -- Okay. You're not?**

1 A I'm not.

2 JUDGE DIPPELL: One at time.

3 **Q (By Mr. Keevil) I'm not asking you about**
4 **settlement discussion. I'm just wondering what**
5 **your -- OPC's proposal is on who funds what.**

6 A And I believe that was addressed by
7 Mr. Marke.

8 **Q Okay.**

9 A The specifics. I just can't recall sitting
10 here right now.

11 **Q Okay. Go ahead.**

12 A They're not related to any settlement
13 discussion.

14 **Q This is what threw me off then. You said**
15 **part of it was we can agree on the budget.**

16 A Yes.

17 **Q What are you referring to there, sir?**

18 A I think the parties -- once selected, the
19 parties will get together and select who the
20 independent auditor is. I think we can also get
21 together and agree to a budget, not to exceed budget
22 on that for that one audit.

23 And we can even work on developing the scope
24 and you'll match the scope of course with the budget.
25 So I think if there are concerns about a big cost, we

1 can address that in a not-to-exceed budget. And I can
2 guarantee you the hourly rates for any independent
3 auditor will be substantially less than what, you
4 know, Staff is recommending be flowed through the cost
5 of service for Laclede in this case. They're not
6 going to get to that level.

7 **Q Again, not to try and be argumentative, but**
8 **if the parties have been unable to come to an**
9 **agreement regarding this issue in this rate case up to**
10 **this point in time, why do you hold out hope that the**
11 **parties can get together later and develop a budget**
12 **and an agreed amount to spend on the audit, etc.,**
13 **etc.?**

14 A Well, because it's an absolute necessity for
15 one. I think it has to be done and we're hoping that
16 the Commission realizes that and orders it.

17 **Q Would the Commission order a budget?**

18 A The parties get together and develop a
19 budget and a scope, absolutely.

20 **Q So there wouldn't be a dollar amount,**
21 **though, that the Commission orders. It just would**
22 **order the parties to get together and come up with a**
23 **budget?**

24 A I think Mr. Marke gets into his testimony a
25 description of issues that can't be resolved that the

1 Commission will resolve the issues, and I think that's
2 where they should be resolved.

3 MR. KEEVIL: Okay. Nothing further, Judge.
4 Thanks.

5 JUDGE DIPPELL: Thank you.

6 Is there anything from the Environmental
7 Defensor Fund?

8 MS. KARAS: Just a few questions, Your
9 Honor.

10 CROSS-EXAMINATION BY MS. KARAS:

11 Q Good afternoon, Mr. Hyneman.

12 A Good afternoon.

13 Q Would you agree it's the Commission's
14 prerogative to order and undertake any investigation
15 it considers necessary based on its observation of the
16 facts and circumstances?

17 A Yes. And the Commission has done that in
18 the recent past.

19 Q And in your surrebuttal testimony, you state
20 that during your time at Staff's auditing department,
21 you had particular concerns with Laclede's compliance
22 with the affiliate transaction rule; is that right?

23 A Yes. I think I addressed that beginning at
24 page 28 of my surrebuttal testimony.

25 Q What do you mean when you say "particular

1 **concerns"?**

2 A Well, I think -- just to put in context, my
3 first exposure to Laclede's affiliate transaction was
4 in -- it was in a GR-2005-0203 case where Staff
5 requested an affiliate invoice and Laclede made claims
6 that it didn't have access or -- to the invoice and it
7 was a long, drawn-out case where Staff could not
8 obtain affiliate invoices for gas. I mean, it's
9 something that should be basically provided. Laclede
10 wouldn't provide it. The Commission ordered them to
11 provide it and they still wouldn't provide it.

12 And it was a big problem between the
13 Commission and Laclede. In fact, the Commission
14 provided some very strong language in that. And that
15 was my first exposure to Laclede's attitude towards
16 affiliate transactions.

17 **Q And how many years was that -- did that**
18 **span, that disagreement or process?**

19 A Well, a long time. And I think it finally
20 was resolved in the courts. But -- And Laclede is
21 very strong against protecting the information of
22 their affiliates. And I'm not going to pass judgment
23 on them, but I'm saying that's their position. That's
24 what started it.

25 Then it transitioned into -- I think it was

1 GR-2010-0171, where the Staff made a finding that the
2 CAM for affiliate transactions for Laclede was
3 inadequate to prevent affiliate subsidies. And the
4 Staff made that finding in 2010.

5 Now, in 2011, Staff and I was part of that,
6 filed a complaint case. And I was the Staff auditor
7 assigned to review and draft an updated revised CAM.
8 And, you know, Laclede says it was on the forefront of
9 getting a Commission-approved CAM. Well, the only
10 reason is Staff filed a complaint and made it get a
11 Commission-approved CAM. And that CAM was the result
12 of a complaint case in which was a lot of give and
13 take. I'm not -- I wasn't satisfied that it was as
14 good as it could be, but it was an improvement over
15 the previous CAM.

16 **Q So that process started in 2011 with the**
17 **complaint from Staff and then ultimately culminated in**
18 **the Commission-approved CAM two years later in 2013.**
19 **Do I have that right?**

20 A Yeah -- yes. I think so. I think it was
21 2013. And then following onto that, I think the first
22 look at Laclede's affiliate transactions was by Staff
23 in the GM-2016=0342 case where Staff filed major
24 concerns about affiliate transactions. And that was
25 addressed in the report that Mr. Pendergast is

1 addressing to put in the case.

2 **Q Thank you. That's helpful. I had asked**
3 **Mr. Krick this question and I'll ask you. Are you**
4 **familiar with the Commission's open docket in**
5 **GO-2017-0223 pertaining to the information of**
6 **Laclede's compliance with its CAM?**

7 A Yes. The numbers, I think that's related to
8 Laclede's standards of conduct, their gas procurement.
9 Laclede has basically two CAMs. One related to the
10 gas procurement and one is related to all other
11 affiliate transactions, non-gas procurement.

12 **Q And did you -- do you know what the Staff**
13 **found in its report in that proceeding?**

14 A No. OPC doesn't get heavily involved in
15 that. And we -- I have a lot of respect for Mr.
16 Summer and his group for the work they do. And I had
17 a lot of confidence that they were doing a good job on
18 that; so we didn't devote any resources to that.

19 **Q Thank you. And were you here when Chairman**
20 **Hall was asking Ms. Crowe about whether it's necessary**
21 **to have an independent third-party review in this**
22 **case?**

23 A Yes.

24 **Q And what is your opinion on that issue?**

25 A Yeah. And I think there's a little

1 confusion on that. There's two separate things. One
2 is the CAM process. And I was involved in the
3 development and when I was with Staff and
4 Mr. Shallenberg (as pronounced) in developing that the
5 case appealed CAM that was eventually approved by the
6 Commission, which was case appeal on GMO. Those --
7 those made a lot of improvements on the CAM, a lot of
8 internal controls. And I think the Company was very
9 pleased with it, and Staff was very pleased with it.
10 And so that's kind of like the model CAM now for
11 Missouri.

12 So we could do that on a collaborative
13 process with Staff, OPC, and maybe other parties in
14 that. That doesn't require independent assistance.
15 What we're recommending is an audit of the affiliate
16 transactions of Spire. It's now a massive company
17 with operations all over the United States, and the
18 Staff is not capable of doing affiliate transactions.

19 I would say, well, there's one member of the
20 Staff, in my opinion, who could do it over a period of
21 eight to ten months. But that type of audit requires
22 a high level of sophistication, a lot of work, and a
23 lot of experience to be able to understand the
24 transactions, and how they relate to other utilities
25 and a lot of best practices, and that type of thing.

1 I don't think Staff could do it. I know OPC could not
2 do it. That type of audit is not possible in any
3 sense in a rate case. It has to be done outside of a
4 rate case.

5 And I think for Laclede, because of their
6 position on affiliate transactions and their massive
7 changes now, they need an independent third-party
8 audit. I think it's absolutely essential. And I
9 think it's a concern when people start talking about
10 cost when we know the hundred of thousands of dollars
11 that Laclede flows through its costs in this case and
12 outside services. We're asking for -- it's not going
13 to be major cost designed to protect customers from
14 affiliate abuse, and it's -- and people balk at that
15 and that gives me a concern.

16 MS. KARAS: Thank you for your testimony.
17 That's all I have.

18 JUDGE DIPPELL: Thank you. Is there
19 cross-examination by Spire?

20 MR. PENDERGAST: I was hoping there wouldn't
21 be, Your Honor, but I have to ask just a few
22 questions.

23 CROSS-EXAMINATION BY MR. PENDERGAST:

24 **Q You talk in your testimony and you just**
25 **talked more about the 2011 dispute regarding Laclede**

1 not providing some information relating to a
2 transaction it had with an affiliate. Do you recall
3 that discussion?

4 A I do, but I think I referred to GR-2005-0203
5 was the case.

6 Q GR what?

7 A GR-2005-0203. Are you talking about the LER
8 issue?

9 Q Yes.

10 A Yeah, that's the -- I got the transcript
11 here where the Commission expressed serious concerns
12 about Laclede.

13 Q Okay. Well, let me ask you this. Do you
14 know whether in this dispute over whether or not
15 Laclede should be required to provide this
16 information, it was taking the position that it was
17 not required to do so under its cost allocation
18 manual?

19 A A cost allocation manual is not a rule, a
20 law or anything that has any kind of authority that
21 says you're not required to do it under.

22 Q Okay. Well, let me ask you this. Do you
23 recall that at one point in time, three out of five
24 commissioners agreed with Laclede's position? Do you
25 recall that?

1 A I recall there was a disagreement among the
2 Commission.

3 **Q Do you recall that at one point in time a**
4 **circuit court judge agreed with Laclede's position?**

5 A No.

6 **Q You do not recall that?**

7 A I don't recall.

8 **Q Okay. So in reciting these events, that's a**
9 **factor that you weren't aware of?**

10 A My understanding is that it ended with the
11 Missouri Supreme Court ruling in favor of the
12 Commission, that Laclede had to provide the documents
13 to Staff. That's my understanding.

14 **Q That's right. It went back and forth in**
15 **circuit court and differences among commissioners and**
16 **ultimately it went up to the Missouri Supreme Court**
17 **and after they finally ruled on it and reached their**
18 **conclusion, we ultimately moved on and came up with**
19 **the CAM and the standards of conduct. Would that be**
20 **correct?**

21 A A CAM was eventually approved by the
22 Commission, I think, in 2013.

23 **Q With standards of conduct --**

24 A Yes. Two separate -- two separate CAMs,
25 basically.

1 **Q** Well, yeah. But the standards of conduct
2 are kind of attached to the CAM; right?

3 A Yes.

4 **Q** Okay. And once again, as we've talked,
5 Staff's investigation report, the Company made a
6 response to that and I think we've agreed that that
7 will be taken notice of; so I'm not going to discuss
8 it anymore.

9 MR. PENDERGAST: Thank you very much.

10 JUDGE DIPPELL: Promises, promises. All
11 right. Are there any questions from the Bench for
12 Mr. Hyneman?

13 CHAIRMAN HALL: Yes. I have a few.

14 JUDGE DIPPELL: Mr. Chairman.

15 QUESTIONS BY CHAIRMAN HALL:

16 **Q** Good afternoon.

17 A Good afternoon, sir.

18 **Q** I want to get a better understanding of
19 OPC's request for the third-party audit. My
20 understanding is that you are requesting that to
21 protect customers from affiliate abuse. I think I
22 quoted that correctly. Is that, in essence, your
23 position?

24 A That's for the independent audit of the
25 affiliate transactions, as well as an updated cost

1 allocation manual, yes.

2 **Q Okay. So the third party would be involved**
3 **in the preparation of the new CAM or not?**

4 A No. We're recommending --

5 **Q Okay. Put that aside then for a second.**
6 **Just concerning the compliance with the affiliate**
7 **transaction rule.**

8 A Yes.

9 **Q Would your third-party audit only look at**
10 **compliance with the rule or would it -- would it also**
11 **look at protecting customers from affiliate abuse**
12 **above and beyond anything required under the affiliate**
13 **transaction rule?**

14 A I think it would look at -- in the scope, it
15 would be agreed to scope. But I recommend it would be
16 designed to look at compliance with the affiliate
17 transaction rule and the appropriateness of cost
18 allocation at Spire. That would be the two main scope
19 components.

20 **Q So would the -- so that would include the --**
21 **the drafting of a revision to the CAM?**

22 A No. The CAM would be a completely separate
23 item. We have, and the Staff and OPC, had ongoing
24 discussions with, I think, every major utility with
25 the exception of Missouri American -- they don't have

1 affiliate rules -- on developing the CAM. In fact,
2 the Commissioner approved the case of PL CAM and then
3 I refer to that as the model CAM. It's basically
4 internal controls, policies and procedures that are
5 designed to help the utility comply with the rule.
6 And we beefed them up. We beefed up training.

7 Internal audit, we enhanced the paragraph 2
8 affiliate pricing standards designed to help the
9 Company comply with affiliate transactions. Because
10 that's the Commission rule that's been -- is so much
11 problems people -- utilities complying with that rule
12 over the years. And I've called Staff to take
13 aggressive action to get it fixed. And I really
14 applaud KCP&L and GMO for working very cooperatively
15 with Staff on that to get a CAM. That is very good
16 and approved by the Commission.

17 **Q Do you believe that there is a need for a**
18 **totally new CAM or can we use the old CAM and simply**
19 **revise it?**

20 A No. I think we get rid of the old CAM, use
21 as a basis for the new CAM, the policies and
22 procedures that have been approved by the Commission
23 for case appeal on GMO. That -- I'm sorry.

24 **Q No. No. I interrupted you.**

25 A That basis or that baseline or structure is

1 what Staff and OPC are using for Ameren UE, for Empire
2 and other utilities. I can't think of the other two
3 that's in right now for that, but that's the structure
4 that they're using is that. I mean, Ameren U has a
5 holding company; so it's going to be different than
6 KCP&L, but all the internal controls, policies and
7 procedures should be the same.

8 **Q Are the structures of the KCP&L and GMO CAM**
9 **substantially different than the Laclede CAM?**

10 A Yes.

11 **Q Is it possible to describe those differences**
12 **generally without going into a great deal of detail?**

13 A Yes. Really quickly off the top of my head.
14 There are -- one of the main things or main benefits
15 is the requirement to develop a CAM team. And that
16 would be a group of elements at the utility who has a
17 responsibility under the CAM of making sure that the
18 CAM is updated and complete, and the company is
19 complying with the affiliate rules.

20 And has such items of notification of the
21 Staff and the Commission within 24 hours of when the
22 Company makes new acquisition or sets up a separate
23 non-reg subsidiary of stuff that, you know, that goes
24 on with Laclede that we don't know about until we come
25 into a rate case and I found out about another

1 affiliate in this rate case, that if they had the CAM,
2 that Staff and OPC would be notified, I think it's
3 within 24 hours.

4 The CAM team has the overall responsibility.
5 That will go a long way to compliance with the
6 affiliate transaction rule. The other elements are
7 the enhanced descriptions of how to comply with the
8 paragraph 2 which is sometimes referred to
9 asymmetrical pricing. There's a whole section on
10 that. And that's been a major problem with the
11 utilities understanding that and complying with that.
12 There's a requirement for audits for the utility to
13 actually audit its CAMs on a periodic basis.

14 And there are many other improvements, I
15 just can't think of them right now.

16 **Q On pages 29 and 30 of your surrebuttal**
17 **testimony, you are somewhat critical of the Commission**
18 **generally and perhaps me specifically for not taking**
19 **action on the Staff's September 2016 report; is that**
20 **correct?**

21 A Not at all. There's no criticism at all.
22 That testimony merely says that I'm quoting you from
23 an agenda session that Commission takes action on
24 those reports in the next case. And I'm merely saying
25 this is the next case. We're requesting that you take

1 this action. And that would be, you know, ordering
2 the CAM update and ordering an independent audit.

3 **Q Okay. Well, I'll retract that description.**
4 **But the question is, on the bottom of page 29, do you**
5 **believe the Commission should, at a minimum, order a**
6 **cost allocation affiliate transaction audit, and you**
7 **say yes. What should we do at the maximum?**

8 A Well, there are other things you could do.
9 And I guess you could listen to my concerns and OPC
10 witness Azad's concerns about discovery issues with
11 Laclede and maybe take some actions to improve
12 Laclede's discovery with data request. I think that
13 could be looked at.

14 I think giving due consideration to the
15 adjustments proposed by OPC on the corporate
16 allocations issue would be something the Commission
17 could do to follow up on the allocations concerns of
18 the Staff expressed in its report. And the primary
19 issue is that Staff expressed concerns about the
20 Alagasco acquisition and the allocation related to
21 that.

22 We have that same issue in this case. We
23 have concerns that Laclede is not appropriately
24 allocating costs to Alagasco when it should. And
25 those are over and above I think what the Commission

1 could do to address the concerns.

2 CHAIRMAN HALL: Okay. I have no further
3 questions. Thank you.

4 JUDGE DIPPELL: Thank you. Are there any
5 further cross-examination questions based on the
6 chairman's questioning from Staff?

7 MR. JOHNSON: No questions. Thank you.

8 JUDGE DIPPELL: Environmental Defense Fund?

9 MS. KARAS: No questions, Your Honor.

10 JUDGE DIPPELL: From Spire?

11 RE-CROSS-EXAMINATION BY MR. PENDERGAST:

12 Q Yeah. I just -- Mr. Hyneman, you discussed
13 progress that has been made on the KCP&L GMO cost
14 allocation manual. Has that been filed with the
15 Commission?

16 A It's been approved by the Commission.

17 Q It's been approved by the Commission.

18 A Yeah.

19 Q Do you think it would be productive for
20 Public Counsel and the Staff and the Company to kind
21 of sit down since you're really, you know, in favor of
22 that particular CAM, and just kind of discuss it and
23 how it compares with Laclede's CAM, and whether or not
24 there are modifications that we could make to our CAM
25 in light of your experience over at KCP&L?

1 A I'm not saying that you'd throw everything
2 out of Laclede's current CAM. I think KCP&L's CAM is
3 a model. And it is a model and a very good CAM
4 because KCP&L acted cooperatively with the Staff, and
5 that's what we're calling Laclede to do, to act
6 cooperatively like KCP&L did.

7 **Q It very well may be. And what I'm asking in**
8 **a cooperative sense, Mr. Hyneman, do you think before**
9 **we get a third party involved in the process and go to**
10 **all that trouble, that maybe we ought to sit down and**
11 **you bring the KCP&L CAM over, we take a look at it.**
12 **We compare and contrast with the Laclede CAM, see if**
13 **we can go ahead and make some changes. And we may not**
14 **agree on everything in that, and then see if we can**
15 **get you as excited about our CAM as you are about**
16 **KCP&L's?**

17 A Well, yes. And I think it would clarify
18 that, we're not requesting a third party to be
19 involved in the development of new or updated Laclede
20 CAM. The third party is not recommended for that
21 process. And I think Laclede should follow the same
22 process as KCP&L did, GMO, UE, and Empire and other
23 utilities and sitting down and cooperatively
24 developing a CAM that the Commission will approve and
25 it will protect consumers.

1 Q Okay. Well, that's fine. I'm not really
2 certain how the CAM you're talking about differs from
3 the CAM I'm talking about or the GMO, KCP&L CAM, but
4 you do think it would make sense to sit down and talk
5 about that CAM?

6 A Yes.

7 MR. PENDERGAST: Okay. Thank you.

8 JUDGE DIPPELL: Is there any redirect from
9 OPC?

10 MR. WILLIAMS: No.

11 JUDGE DIPPELL: All right. Thank you,
12 Mr. Hyneman. I believe you can step down.

13 Would OPC like to go ahead and call its next
14 witness?

15 MR. WILLIAMS: Yes, Public Counsel calls
16 Ara Azad.

17 JUDGE DIPPELL: Would you please raise your
18 right hand.

19 ARA AZAD,

20 Having duly been sworn, testified as follows:

21 JUDGE DIPPELL: Thank you.

22 DIRECT EXAMINATION BY MR. WILLIAMS:

23 Q Would you please state -- would you please
24 state and spell your name.

25 A My first name is Ara, A-r-a. Last name is

1 A-z-a-d, Azad.

2 Q By whom are you employed and what capacity?

3 A AZP Consulting, LLC. I'm managing partner.

4 Q And who are you -- I guess I'll use the word
5 "representing" here today? On whose behalf are you
6 testifying?

7 A The OPC, Office of Public Counsel.

8 Q And did you prepare direct testimony that's
9 been marked for identification as Exhibit No. 400 that
10 contains confidential information and a public version
11 that's been marked as Exhibit 401 and then also
12 surrebuttal testimony that's been marked as Exhibit
13 No. 426?

14 A Yes.

15 Q And do you have any changes to any of that
16 testimony for it to be your testimony here today?

17 A I do not.

18 Q Are Exhibits 400 and 426 your testimony here
19 today then?

20 A Yes.

21 MR. WILLIAMS: With that, I'd offer Exhibits
22 400 and 401 and 426.

23 JUDGE DIPPELL: Would there be any objection
24 to Exhibits 400, which is the confidential direct
25 testimony and 401 which is the public version and 426

1 **at the transaction between Laclede and Spire STL and**
2 **whether that transaction for transportation service**
3 **complies with the affiliate transaction rule?**

4 A I did not look at that particular
5 transaction in detail. I set out to do a review
6 rather than a full scope audit in my capacity here.
7 And what I found was a number of concerns that led to
8 my analysis being not at the level of detail
9 originally anticipated based on the responses that I
10 got in discovery.

11 **Q What do you mean? Can you detail the**
12 **concerns?**

13 A Well, about more than 80 percent of the
14 request that I had sent to Spire came back over the
15 20-day timeline for responses. And to give you an
16 idea of the impact of that on my analysis, the -- with
17 direct testimony being due in early September, as of
18 late August, we were still waiting responses to DRs
19 that were in census over 50 days outstanding. And the
20 responses that we did receive, even with the delays,
21 were largely in many instances evasive or incomplete
22 in nature.

23 **Q And have you been involved in several other**
24 **audits of other companies either in the state or in**
25 **the country?**

1 A I've been involved in several other
2 proceedings.

3 **Q And how does the delay or information**
4 **challenges you've experienced here compare to those**
5 **other cases that you've been in?**

6 A I would say this is far surpassed what I've
7 observed in any other proceeding. In fact, in most
8 other jurisdictions, my experience has been that 20
9 days is a very long time for responses to begin with.
10 And so they're normally anticipated to be received in
11 a far shorter timeframe and I've never had responses
12 that have been delayed to this extent or have come
13 back the quality and level of contradiction and
14 evasiveness that I've had here.

15 **Q So is that the primary reason for your**
16 **recommendation for an independent third-party review?**

17 A That is one of the major reasons.

18 **Q And can you detail the other reasons?**

19 A Sure. Like I mentioned, I was brought on
20 here to do a review and full scope audit, would be
21 done at a very glandular level to begin with. For
22 instance, it would look at all of the charges and the
23 allocation factors and the specific calculations in a
24 level of detail that would far surpass the timeframe
25 that's even allotted for a rate case proceeding, for

1 one. I'm also recommending that in conjunction with
2 looking at the charges specifically and auditing
3 those, that the auditor also look at the compliance
4 with affiliate transactions rule section by section
5 and see how that has impacted the charges
6 specifically, as well as looking at the company's
7 compliance with its CAM that's in place. Mr. Hyneman
8 talked about updates to the CAM and having it be up to
9 date. What I would suggest is that the auditor also
10 look at the company's -- how they're actually
11 utilizing it in practice and the extent to which it's
12 reflective of their practices, in fact.

13 Other reasons I was suggesting the audit,
14 one other major reason, is that Spire has undergone
15 significant change in recent years as far as a
16 corporate structure is concerned. They have acquired
17 new utilities. They have formed new companies and
18 they've also dissolved certain entities, and I think
19 all of that leads to an increased level of complexity
20 that requires an in-depth investigation as far as the
21 impact of that on affiliate transactions and the
22 shared services costs that are being passed on to
23 Missouri rate payers.

24 And aside from that, I would also point out
25 this is something that I've observed be done in other

1 states as well and I think it could be of great value
2 here.

3 MS. KARAS: Thank you very much. That's all
4 I have.

5 MS. AZAD: Thank you.

6 JUDGE DIPPELL: Is there anything from
7 Spire?

8 CROSS-EXAMINATION BY MR. PENDERGAST:

9 Q Good afternoon, Ms. Azad. From one KU
10 graduate to another, welcome to Missouri.

11 A Thank you.

12 Q I just felt the warmth in the room go up.
13 I just -- I think we're going to cover the
14 newBlue issue separately later on; is that correct?

15 MR. WILLIAMS: Yes.

16 JUDGE DIPPELL: Yes.

17 Q (By Mr. Pendergast) So we won't get into
18 that. But I did want to go ahead and ask you a couple
19 of questions about your discovery experience with
20 Laclede and you're aware in Missouri that there are
21 mechanisms available, that if parties are unsatisfied
22 with the timeliness or quality of the responses
23 they're getting, they can certainly go to the
24 Commission and raise that issue?

25 A Yes, I'm familiar.

1 **Q** Okay. And at page 15 of your surrebuttal
2 testimony, you discuss conversations you had with John
3 Clabault of Strategy& regarding your direct testimony.
4 Do you see that?

5 A One moment, please. You said page 15 of
6 surrebuttal?

7 **Q** Yes.

8 A Yes.

9 **Q** Now Mr. Clabault, he was an assistant or
10 somebody who helped Mr. Flaherty put together his
11 analysis of cost allocations and shared service
12 results for the company in this case; is that correct?

13 A I'm not certain as to his level of
14 involvement in --

15 **Q** Okay. Well, let me ask you this. Do you
16 recall him offering to make the model available to you
17 or your people that was the foundation for all of his
18 cost allocation and shared service conclusions that
19 were in his testimony?

20 A Actually, I think this -- you brought my
21 attention to the conversation I referenced from
22 October 4th on page 15, that I think that Mr. Flaherty
23 intended to reference a separate discussion.

24 **Q** This is a different discussion?

25 A Correct. And this took place sometime in

1 July, I believe. And this is actually -- demonstrates
2 some of the issues that we had in obtaining
3 information for the analysis in this case. The call
4 came about as a result of our attempt to obtain work
5 papers from Mr. Flaherty. Now I know that he had
6 voluminous documents that were filed here in and a
7 number of which were marked as work papers. It's been
8 my experience that work papers are intended to provide
9 the underlying calculations, and the why and the how,
10 for -- for witness's analysis. And so that call came
11 about as a result of an attempt to up -- to obtain
12 what would have been work papers, which was not
13 originally provided with his testimony that was filed
14 in April.

15 So eventually after about an hour-long
16 conversation with Mr. Clabault in July, sometime late
17 in July, we did end up receiving an enhanced set of
18 work papers that had explanations on them as to where
19 some of the calculations were coming from. And so
20 that's -- I believe that's the model that you're
21 referring to was a --

22 **Q Yeah. My question to you is, did they offer**
23 **to provide you with complete access to the model so**
24 **that you could go ahead and operate it and run it like**
25 **you wanted to, look at the data that went in, look at**

1 **the data that came out, change the assumptions and**
2 **basically just do whatever you thought was helpful in**
3 **order to go ahead and delve into the basis for his**
4 **conclusions?**

5 A I would say what they provided, rather than
6 calling it a model, was the spreadsheet that
7 Mr. Clabault stated that Mr. Flaherty had based his
8 analysis on.

9 **Q And did they give you the opportunity to get**
10 **full access to that spreadsheet and data and the model**
11 **that was used to manipulate that data?**

12 A We did receive the spreadsheet in July, yes.

13 **Q And did they tell you you could have full**
14 **access to the model and do what you wanted with it so**
15 **that you could have a full understanding of the basis**
16 **for his testimony?**

17 A Well, when you have a spreadsheet, you
18 can -- you can manipulate as you can if that's what
19 you're referring to.

20 **Q Okay. So you basically said here it is, do**
21 **with it what you want, and they also ran various**
22 **scenarios for you, did they not?**

23 A I would say that they -- after we requested,
24 they provided with their exhibits where -- what --
25 most of what the -- what information was utilized

1 based on as far as how they developed the tables.

2 **Q Okay. And they provided that?**

3 A They provided some additional clarification
4 on how those were developed.

5 **Q Okay. Great. And I think at one point, you**
6 **discussed how this rate case may not provide the time**
7 **necessary to do the kind of analysis that you might**
8 **like; is that correct?**

9 A That's correct.

10 **Q Okay. And you know you've criticized the --**

11 A I'm sorry. Just to clarify. In terms of
12 the proposed audit, what would that entail.

13 **Q In terms of what you would like as a**
14 **proposed audit. And do you know how many data**
15 **requests Public Counsel asked on this particular issue**
16 **in this case?**

17 A I don't know have a total on Public
18 Counsel's entire data requested.

19 **Q Do you have any sense of how many data**
20 **requests Public Counsel asked on other issues or Staff**
21 **asked on issues or EDF asked on issues or DEE asked on**
22 **issues? I mean, I guess you don't have that sense of**
23 **what the overall environment of issues and data**
24 **requests were, do you?**

25 A I would say I was focused on the data

1 requests that I asked and any other ones that were
2 specifically responsive to my request.

3 **Q Okay. But in an environment where you have**
4 **lots of other issues and lots of other information**
5 **demands and data requests on a whole host of issues,**
6 **you know, your -- you were focused solely on what were**
7 **you going to be responsive to me; is that correct? In**
8 **the ones I asked?**

9 A Right. If you're asking me if I was
10 tracking all of the data requests in the case, I would
11 say no.

12 **Q How many of these other cases that you've**
13 **been in were a company was trying to go ahead and**
14 **process rate cases for two separate companies at the**
15 **same time?**

16 A I've been in several actually. Just, I
17 think, four just in the last two years, aside from
18 this case.

19 **Q Okay. Where there are multiple cases being**
20 **filed at the same time?**

21 A Yes.

22 **Q Okay. For the first time?**

23 A I don't believe for the first time. I don't
24 know.

25 **Q Okay.**

1 A No, not -- actually, for the first time
2 after a -- after a major acquisition, I would say. So
3 in some instances similar.

4 **Q Okay. And that would be one case?**

5 A Four separate cases.

6 **Q And they were all after a major acquisition?**

7 A Correct. They were -- they were running --
8 there was a -- both a gas and an electric utility side
9 that was involved.

10 **Q Okay. So it was an electric case and a gas**
11 **case at the same time?**

12 A Correct. For the same utility and they were
13 separate cases going on concurrently.

14 **Q And do you have any idea how many data**
15 **requests were provided in those cases?**

16 A I don't know precisely in total, but I would
17 say that I recall having -- having asked significantly
18 more than I did in this case.

19 **Q You recall what?**

20 A Having asked more than I have asked in this
21 particular case.

22 **Q Okay. But you don't remember exactly how**
23 **many you asked in this case?**

24 A I -- I do not know the exact number, no.

25 **Q Okay. You just have a sense that it was**

1 **more than the others?**

2 A Yes.

3 **Q Okay. Now, would you agree with me that the**
4 **vast majority of costs that are being allocated by**
5 **Spire are between regulated utilities?**

6 A I believe so.

7 **Q And, in fact, somewhere in the neighborhood**
8 **95 percent of all costs?**

9 A Maybe I'm not certain the exact percentage.

10 **Q But the great majority. Would you agree**
11 **with that?**

12 A I would say that may be the case. I would
13 have to check.

14 **Q Okay. And so in those kind of allocations,**
15 **it's really a case of how do I take these joint and**
16 **common costs and allocate them between regulated**
17 **utilities with a little left over maybe to go ahead**
18 **and allocate to unregulated entities; is that correct?**

19 A Not necessarily. I would say that that
20 should reasonably follow cost causation, whatever that
21 may be, rather than primarily allocating to utilities
22 and then what's left over going to non --

23 **Q Now, excuse me. That was an inartful way**
24 **for me to put it. The vast majority, though, of costs**
25 **are being allocated between regulated utilities in**

1 **different jurisdictions; is that correct?**

2 A I'm not sure I understand your question.

3 **Q Well, of all the corporate support services**
4 **and shared services, do you know what proportion of**
5 **those are allocated between Missouri in the form of**
6 **Laclede Gas and MGE, Alagasco, and the Energy South**
7 **utilities?**

8 A I think from what I remember, the total of
9 shared cost services, approximately 66 percent I think
10 were going to Laclede Gas and MGE.

11 **Q And how much were going to Alagasco and**
12 **Energy South?**

13 A I don't remember precisely off the top of my
14 head.

15 **Q Okay. But 66 percent of them just to us and**
16 **then some portion on top of that going to Energy South**
17 **and Alagasco?**

18 A Yes.

19 **Q And would you agree with me that that would**
20 **be well in excess of two-thirds of the overall costs**
21 **were going either here to Missouri utilities or to**
22 **Alabama and Mississippi for regulated utilities there?**

23 A Okay. Yes.

24 **Q Okay. Well, these allocations between**
25 **utilities in different states, that's been going on**

1 **for quite a while, hasn't it?**

2 A Are you asking specifically for the -- for
3 the utilities here at Spire?

4 **Q No. I'm just asking in general.**

5 A Generally, I'm familiar that that -- that
6 there has been a practice of shared services being
7 allocated to a variety of companies.

8 **Q There's -- there's a fair amount of**
9 **utilities that have operations in more than one state;**
10 **isn't that correct?**

11 A Yes.

12 **Q And so to handle those allocations,**
13 **commissions have had to go ahead and develop**
14 **procedures for making sure that they're being**
15 **allocated fairly to the utilities in this jurisdiction**
16 **versus the utilities in that jurisdiction; isn't that**
17 **correct?**

18 A I would say it's my understanding that
19 they've been under investigation or under
20 consideration from regulators.

21 **Q I'm just talking about utilities in general**
22 **that have operations in multiple states. Those kind**
23 **of jurisdictional allocations have been done for many,**
24 **many years, have they not?**

25 A I would say yes, perhaps.

1 **Q** Okay. So it's not something that's really
2 **new under the sun?**

3 A Correct.

4 **Q** And when it's allocated between regulated
5 **utilities, would you agree with me that there's**
6 **someone in this jurisdiction that's looking to make**
7 **sure the allocations are fair and there's somebody in**
8 **this jurisdiction making sure those allocation are**
9 **fair?**

10 A I wouldn't necessarily agree with that. I
11 would say that in any given jurisdiction, I think fair
12 may be different in what's -- say what a commission
13 decides is reasonable in Alabama versus Missouri. I
14 think -- I think the considerations here should stand
15 on their own and, in fact, it's -- it's my
16 understanding based on precedent that there's --
17 because of heightened risk that the presumption of
18 prudence is not appropriate when looking at affiliate
19 transactions because of the heightened risk associated
20 with potential self-dealing.

21 **Q** Well, let me ask you that question. Do you
22 **consider an allocation between regulated utilities of**
23 **joint and common cost to be an affiliate transaction**
24 **under the Commission's rule?**

25 A Yes.

1 Q Okay. And have you read the rule and have
2 you read what the rule's purpose is?

3 A Yes, I'm familiar with the rules.

4 Q Okay. And the does the rule purpose say
5 that it's designed to prevent subsidies from
6 unregulated -- from a regulated operation to a
7 unregulated operation?

8 A I believe that that is one of the things
9 that the rule mentions, but that it is -- it also
10 specifically states that it applies to any utility
11 dealing with any affiliates, whether they are
12 regulated or not.

13 Q Well, let me ask you this question. Are
14 there asymmetrical pricing rules in the affiliate
15 transaction --

16 A Yes.

17 Q -- rule? Okay. And under those, when
18 you're dealing with an affiliate, are you generally
19 supposed to go ahead and sell something or buy
20 something at the higher or lower of fair market price
21 or fully distributed cost?

22 A Yes.

23 Q Okay. So are you saying that you think
24 Alabama, when it provides a shared service, ought to
25 be trying to get the higher or lower of fair market

1 price or fully distributed cost from Spire and that
2 Laclede should be doing the same thing on those shared
3 services?

4 A Could you repeat the question?

5 Q Yes. Are you saying that those affiliate
6 asymmetrical pricing rules should be applied when
7 you're allocating costs between regulated utilities?

8 A Yes.

9 Q So your testimony would be that each utility
10 and each jurisdiction, when they do business with each
11 other, has to do it at the higher of a fully
12 distributed cost or fair market price or the lower
13 depending on whether it's a service that's being
14 provided or purchased?

15 A That's my understanding to ensure that it's
16 an arm's length transaction, that what's being paid or
17 received is -- is appropriate and -- and that's one of
18 the considerations in the pricing.

19 Q So it's -- it's -- you don't use a
20 three-factor allocator, you don't say I'm going to
21 allocate these costs based on revenue and employees
22 and assets. Instead you're going to go ahead and say
23 I've got to do it based on this asymmetrical pricing
24 standard?

25 A I think the -- I think proper allocations

1 also do come into place. But I think as far as
2 assessing the appropriate value, I think that it's --
3 it's necessary for the company to demonstrate how it
4 made those determinations, whether it was fair market
5 price, fully distributed costs, and lower cost of
6 market.

7 **Q So you're saying proper allocations come**
8 **into play, but those proper allocations depend on**
9 **application of the asymmetrical pricing rules?**

10 A Yes.

11 **Q I mean, if you apply those asymmetrical**
12 **pricing rules, isn't it true that nobody will ever go**
13 **ahead and do any business through a shared service**
14 **concept because everybody will always be trying to get**
15 **the higher or lower of -- of cost or market?**

16 A I think there are efficiencies to be -- to
17 be achieved by pooling the shared services. Give me a
18 moment to reflect on my -- on that answer. One
19 moment, please.

20 I think the benefit to that would be for the
21 companies to be able to demonstrate how they would be
22 able to provide those services at a lower rate than
23 what the companies might be able to get from an
24 outside party, and being able to provide that because
25 of a certain number of issues, like efficiencies of

1 scale and a familiarity with the company's needs
2 internally.

3 **Q Okay. Let me ask you this then. Would you**
4 **agree with me that your cost allocation manual is the**
5 **document that is supposed to be used to comply with**
6 **the affiliate transaction rule?**

7 A No, not in its entirety. In fact, I've
8 stated in my testimony that the CAM explicitly states
9 that it's only intended to the current CAM, explicitly
10 states that it is in place to assist the company,
11 explaining how it does or should go about complying
12 with certain parts of affiliate transactions rule.

13 **Q Okay. It is designed to comply with certain**
14 **parts of the affiliate transaction rule; is that**
15 **correct?**

16 A It's supposed to be.

17 **Q Okay. And that is something that the**
18 **affiliate transaction rule requires that a utility**
19 **have; is that correct?**

20 A Yes, that's correct.

21 **Q And it's something that it -- said it should**
22 **approved by the Commission; is that correct?**

23 A Yes.

24 **Q Okay. And are you aware of whether Laclede**
25 **had the first one approved by the Commission?**

1 A The first one as opposed to?

2 **Q The first cost allocation manual approved by**
3 **the Commission for a regulated utility.**

4 A That is what I've heard in the course of
5 this proceeding.

6 **Q Okay. And do you know how long that cost**
7 **allocation manual of some kind has been in place for**
8 **Laclede?**

9 A That particular one, I believe since 2000-
10 -- 2013.

11 **Q Okay. And do you know if one was approved**
12 **as part of the stipulation and agreement in 2001 when**
13 **Laclede became a holding company?**

14 A I'm not certain.

15 **Q Okay. So you didn't have an opportunity to**
16 **go back and research that?**

17 A I'm not sure if that -- no, I don't know
18 specifically.

19 **Q Okay. Fair enough. Would you agree with me**
20 **that for a third party like yourself to come in and**
21 **evaluate what a utility is doing to allocate costs and**
22 **the degree to which it's consistent with its CAM or**
23 **the affiliate transaction rules takes a little coming**
24 **up to speed?**

25 A Sure. Yes.

1 Q I mean, this is a semi-complicated area,
2 isn't it?

3 A Yes, I would say so.

4 Q Okay. And so you really need to come in and
5 you need to learn about the company and how it's doing
6 these things. Would that be correct?

7 A Yes.

8 Q And then you need to know about what
9 governing documents it's trying to do it consistent
10 with?

11 A Yes.

12 Q And you need to know what sort of rules or
13 statutes may, in effect, could have some bearing on
14 it?

15 A Yes.

16 Q Okay. And maybe it's helpful to have a
17 history of how it's developed over time and what
18 considerations went into that development?

19 A Yes.

20 Q Okay. And in your view, is a third party
21 going to be as familiar with those things as folks
22 that have lived with these documents and lived with
23 the process and lived with the law for years and years
24 and years?

25 A They certainly wouldn't be -- wouldn't be as

1 intimately knowledgeable about the inner workings of
2 the company; so certainly not. But they also would
3 bring a broader knowledge base than what is here. And
4 I would agree that they would then familiar --
5 familiarize themselves with the affiliate transactions
6 rule that is in place in Missouri and the CAM and
7 other relevant information, if that's what you're
8 asking.

9 **Q Okay. So, you know, kind of a trade-off**
10 **between got to come up to speed versus fresh eyes. Is**
11 **that sort of what you're saying?**

12 A Yes.

13 **Q Okay. Fair enough. Now, are you the person**
14 **to ask about what the cost of this third-party review**
15 **would be?**

16 A I would say that that -- that should be
17 considered by, I think, OPC and Staff. Based on --
18 based on proposals that would be received, that would
19 be appropriate for -- for the course of that audit.

20 **Q Okay. And is it your understanding that,**
21 **you know, if the Commission wants the company to do**
22 **more than have a working group to try and develop**
23 **these changes, that that would be something the**
24 **Commission would have to order?**

25 A You mean as far as ordering an audit?

1 Q Yes.

2 A I would think so, yes.

3 Q Okay. And is it your understanding that
4 even though it's ordered by the Commission, it
5 required that the company, at least it's being
6 proposed, would pay for it?

7 A That the company would pay for it?

8 Q Yes.

9 A I -- I think that would be something for the
10 Commission to consider to keep at the company level
11 rather than passing on to rate payers potentially.

12 Q Okay. So the Commission might consider that
13 in the context of sort of its principles on rate case
14 expense?

15 A No, I wouldn't associate that with the rate
16 case expense. I think that a third-party audit of
17 affiliate transactions and shared services cost would
18 be separate from -- from the cost of the rate case.

19 Q Okay. I see. Just as far as your financial
20 adjustments, I know we'll be talking about the newBlue
21 later on, but one of your financial recommendations is
22 to continue some sort of trend line on shared services
23 costs into the future; is that correct?

24 A Yes.

25 Q And you're recommending that an additional

1 **adjustment based on whether this trend line continues**
2 **in the future would be how much?**

3 A Approximately 2.1 million for Laclede Gas
4 and about 922,000 for MGE.

5 **Q Okay. And -- and were you aware that in its**
6 **true-up numbers, Laclede has -- or the company has**
7 **come in and said here's another almost \$3 million**
8 **worth of savings associated with the Energy South and**
9 **Alagasco acquisitions?**

10 A I'm not aware as to the company having
11 addressed this, in particular, if that's -- if you're
12 suggesting that -- that that is related to this --

13 **Q Well, have you --**

14 A -- suggesting --

15 **Q -- you read Mr. Lobser's surrebuttal**
16 **testimony?**

17 A I don't believe I'm familiar with his
18 testimony.

19 **Q Okay. So you don't know what quantification**
20 **he may have provided in that?**

21 A Correct. I'm not familiar. I've --

22 **Q Excuse me.**

23 A I'm sorry.

24 **Q Go ahead.**

25 A I have reviewed the true-up testimonies

1 generally and I've not noted any -- any true-ups made
2 for accounting for shared services cost or affiliate
3 transactions.

4 **Q Okay. But once again, you haven't read his**
5 **testimony. So you haven't looked at the wage and**
6 **salary adjustment updated on 9/30/2017?**

7 A Can you provide me a copy, please? Do you
8 have that in front of you?

9 **Q Well, you would ask for a copy, wouldn't**
10 **you? All I have are these words on a piece of paper.**
11 **So I'm just --**

12 MR. KEEVIL: I told him to sit down, Mr.
13 Pendergast, but he wouldn't listen to me.

14 **Q (By Mr. Pendergast) So I'm going to leave**
15 **that question hanging in the air for now, if that's**
16 **okay?**

17 A Okay.

18 **Q But in any event, just assuming that some**
19 **sort of additional amount has been reflected, you**
20 **wouldn't know how that relates to your particular**
21 **adjustment?**

22 A No.

23 **Q And once again, your adjustment seeks to**
24 **continue a trend of downward costs; is that correct?**

25 A Correct.

1 **Q** Okay. Yes, I've now been informed that was
2 in a work papers sent to OPC, but thank you.

3 And so regardless of how pristine the
4 allocations have been and whether or not there could
5 be improvements in it, you know, what you're remarking
6 on is there's been this downward trend in cost and you
7 just kind of want to keep the party going; right?

8 **A** I don't believe I worded it that way.

9 **Q** Not exactly, I agree.

10 **A** I noted that the trend that was identified
11 by the Company's witness on affiliate transactions,
12 that was not reflected as the ongoing trend that it
13 appeared to be demonstrated as. And so I believe it
14 was necessary then to make an adjustment to account
15 for it, for the rates that are going to be in effect.

16 **Q** Okay. Without regard to what this
17 \$3 million may mean for that whole adjustment?

18 **A** Right. I'm not familiar with the 3 million
19 that you're referencing, in particular. I do recall
20 Mr. Flaherty making a statement about a \$3 million
21 true-up, but he also followed it up in the same
22 paragraph saying that it's not -- it has a different
23 purpose and reason behind it than what I'm proposing;
24 so if it is that same number, then --

25 **Q** Is that because you're trying to go beyond

1 **September 30th and capture some cost effects beyond**
2 **that period of time?**

3 A No. It was just my understanding that he
4 was pointing out that any relevance between the two is
5 coincidental was my understanding.

6 **Q Well, are you going to try to go beyond**
7 **September 30, 2017, and capture cost effects beyond**
8 **that?**

9 A What I proposed would -- is the rate that
10 was annually observed and I think it would -- it would
11 apply to 2017 as a whole; so I would say beyond -- it
12 would be -- that would go beyond September.

13 **Q Okay. So you're trying to recognize**
14 **something beyond September 30, 2017?**

15 A Not in its entirety. It would mostly
16 account for what would -- what I think would be
17 reasonable expectation of the savings that have been
18 observed to date.

19 **Q And that --**

20 A For --

21 **Q -- interview --**

22 A -- for the periods in which the rates would
23 be in effect.

24 MR. PENDERGAST: Okay. I think that's all
25 the questions I have. Just conclude by saying Rock

1 Chalk.

2 THE WITNESS: Thank you.

3 JUDGE DIPPELL: Thank you. Are there
4 questions from the Bench for Ms. Azad?

5 QUESTIONS BY CHAIRMAN HALL:

6 Q Yes. Good afternoon. On page 23 of your
7 direct testimony, you indicate your support for a
8 focused affiliate transaction audit performed by
9 independent auditor. And that should be performed to
10 provide the Commission with a truly objective and
11 independent view of Iacleda and MGE's cost allocation
12 practices. Is that fundamentally your position in
13 this case?

14 A Yes.

15 Q The first question is, are you under the
16 impression that the current cost allocation practices
17 have harmed Missouri rate payers?

18 A I would say it's my observation that the
19 Company has not been able to demonstrate effectively
20 its compliance with affiliate transactions rule. And
21 so I would not be surprised if -- if an audit would --
22 would reveal quantitative harms to rate payers as a
23 result.

24 Q But you -- you're not aware of any specific
25 examples of where rate payers have been harmed as a

1 **result of the current cost allocation practices?**

2 A Well, I would say one of the examples that I
3 pointed out in my testimony generally and very
4 specifically in my surrebuttal is, for example, the
5 use of the Company's three-factor Massachusetts
6 formula for allocating company-wide charges. Excuse
7 me. In my direct testimony, I had a table showing the
8 percentage of allocated costs going to both Laclede
9 Gas and MGE, and about one-fourth of the costs that
10 are going to each of those companies right now are
11 based on the three-factor formula. And one of the
12 things that I pointed out is that there are a number
13 of companies currently not being charged any affiliate
14 transactions or shared services allocations at this
15 point. And one of the defenses that the Company
16 provided was that because they're using the
17 Massachusetts three-factor formula, those particular
18 companies not having assets or employees, those are
19 the reasons that they're not being charged those fees
20 or revenues.

21 So in those instances, those demonstrate
22 examples where they charges that are going to Laclede
23 Gas and MGE are overstated and the other affiliates,
24 in many instances unregulated affiliates, are being
25 undercharged for those types of say corporate

1 governance charges or general overhead. Things like
2 preparing the financial statements for the company.
3 That should reasonably be allocated to all of the
4 companies, but there are several companies that are
5 not getting those right now and I would identify that
6 as an example detriment to Missouri rate payers.

7 **Q Did you quantify that detriment?**

8 A I did not quantify that detriment. I
9 believe that based on the level of information that I
10 had received, it was not sufficient for me to put that
11 into a specific number at this point.

12 **Q But your view -- your view is that that's**
13 **one example of where rate payers in Missouri may have**
14 **been harmed by Spire's cost allocation practices, but**
15 **you believe that a full audit by an independent**
16 **auditor would probably uncover more examples?**

17 A I think that's possible, yes.

18 **Q Is it probable?**

19 A I would say it's probable, yes, given --

20 **Q Okay. I don't want to put words in your**
21 **mouth. I want to just understand what your position**
22 **is.**

23 A Yes. I think I -- based on the Company's
24 inability to show the requisite information that would
25 be necessary to verify its compliance with its stated

1 pricing practices, I think it's likely that an audit
2 would uncover -- uncover more.

3 **Q Okay. Now, you don't believe that there was**
4 **any self-dealing or inappropriate activity by Spire in**
5 **connection with its cost allocation practices, do you?**
6 **You're not -- you're not expressing that view; right?**

7 A I would express that I would not opine on
8 that based on the information that was and was not
9 made available.

10 **Q So you don't have any information that leads**
11 **you to believe that there was any self-dealing or any**
12 **inappropriate activity by Spire in connection with its**
13 **cost allocation practices?**

14 A I would say I don't have enough information
15 to conclude one way or another.

16 **Q Was that -- was that outside the scope of**
17 **your inquiry?**

18 A I believe it's more so a result of the lack
19 and the level of detail that I received in the
20 responses from the Company.

21 **Q Now, I believe you said that you've done**
22 **this type of analysis in a number of other states; is**
23 **that correct?**

24 A I've been generally involved and served as
25 an expert consultant in a number of rate case or

1 merger proceedings in regulated utility proceedings.

2 **Q How many -- how many proceedings have you**
3 **been involved in?**

4 A Probably six or seven.

5 **Q And in -- and who were your clients in those**
6 **six or seven?**

7 A In the -- I've worked with Public Service
8 Commissions of the technical staff at -- in Delaware,
9 in Maryland, in New York. And on a -- on a management
10 operational audit in Virginia, on a -- on evaluation.
11 In both Maryland and Delaware in merger cases and also
12 subsequent to those in Delaware and four subsequent
13 rate cases.

14 **Q So those were working on behalf of the**
15 **Staff?**

16 A Yes.

17 **Q So is this the first time you've done this**
18 **analysis on behalf of Public Counsel?**

19 A I'm glad you asked. I left off Public
20 Counsel. I did work with the OPC in the Empire merger
21 case.

22 **Q Okay. And in any of those cases, did -- did**
23 **you conclude that the cost allocation practices were**
24 **completely appropriate or in each of those did you**
25 **find problems and flaws?**

1 A In those cases in particular, I was -- I
2 identified some potential detriments, for example, in
3 the Empire case, that could result from the merger.
4 In the other instances, there were some major
5 differences in that the -- the previous -- the impact
6 of some prior acquisitions, I was also involved in,
7 and there were stipulations and very specific
8 guidelines in place as far as the compliance for the
9 company. And so I reviewed the impact of mergers
10 after those cases. But I don't recall specific
11 instances as far as dollar amounts that I identified
12 for affiliate transactions in those cases.

13 **Q Well, were you -- were you looking at -- at**
14 **cost allocation practices in each of those cases?**

15 A Not directly necessarily in each of those,
16 no.

17 **Q In the cases where you were looking directly**
18 **at cost allocation practices, in how many cases would**
19 **that be?**

20 A I would say as a component of my review, I
21 would say three or four. And I did leave off another
22 one. I did work with the Public Service Commission
23 Staff of Utah on an affiliate transactions. It was a
24 focus -- focus review of affiliates. And I recall,
25 for instance, one of the issues that came of that was

1 an identification of -- of costs being particularly
2 high, I believe, for executive compensation, if I
3 recall correctly, relative to other companies that was
4 identified through the course of that investigation.

5 **Q Okay. So you've -- in this case, you've**
6 **identified what you believe are some significant**
7 **problems with the current cost allocation practices?**
8 **And what I'm trying to understand is, is that pretty**
9 **much what you conclude in each case, that you -- that**
10 **you have where you look at cost allocation practices?**
11 **Or are there some where you've gone in and said**
12 **that's -- that's essentially okay, that -- that --**
13 **that is appropriate?**

14 **A** I would say it varies. And on the whole,
15 it's more likely to identify several instances that do
16 appear appropriate and possibly some that warrant
17 further investigation or may be questionable.

18 **Q So is it safe to say that whenever you go**
19 **into a state and do an analysis of cost allocation**
20 **practices, you find some -- some problems? You**
21 **identify some problems in each instance?**

22 **A** I think that would be reasonable to say. I
23 have not done one identical to what I'm -- what I've
24 reviewed and performed here.

25 **Q Okay. So then if you compare the states or**

1 the -- the utilities where you have done this -- this
2 analysis, I believe you said that this one is one of
3 the most problematic that you've looked at. Is
4 that -- did I understand that correctly?

5 A I think that one of the statements I made
6 was that they were the most -- I had the most concerns
7 with regards to obtaining information.

8 Q Putting that issue aside, because, I mean,
9 at least for me we have discovery practices in place
10 that allow for -- for -- if there are problems in the
11 discovery process, the parties have an avenue to
12 address those concerns. So putting that aside, how
13 would you compare the cost allocation practices for
14 this utility compared to the other ones you've looked
15 at?

16 A I would say it's been -- it's been a much
17 more challenging process here to -- to be able to
18 corroborate the Company's position, that they have
19 been in compliance with the rules that are in place.
20 And I hope that answers your question.

21 Q Well, I mean, they -- they have certain
22 practices, you have some criticisms of those
23 practices. It's not just whether or not they're
24 complying with them, but the actual practices in
25 place, you have some criticism of them; correct?

1 A Yes. For instance, one of the points that I
2 just brought up with --

3 **Q Right. And so then if -- putting aside**
4 **access to information, putting aside compliance**
5 **with -- with the practices that they're supposed to be**
6 **following, how would you compare the cost allocation**
7 **practices that Spire employs compared to those other**
8 **states where you have done this analysis? Or is it**
9 **just apples and oranges and we should move on?**

10 A I would say, in part, the latter. And I
11 think that that's -- that's part of the reason why I
12 think it's -- it's important to have the in-depth
13 investigation.

14 **Q Okay. Well, so then this -- this**
15 **independent investigation that you're advocating that**
16 **the Commission order, have you ever performed such an**
17 **audit or been involved in such an audit?**

18 A I have not personally performed the audit.
19 I'm familiar with instances where it has been
20 performed.

21 **Q And your -- has AZP Consulting ever or is**
22 **that essentially you?**

23 A That's myself and my partner.

24 **Q Okay.**

25 A I would say in our capacities as the public

1 utility regulatory consultants, in the past, we have
2 taken part in audits and my partner has performed the
3 audit prior to us forming AZP as well.

4 **Q And you have not done -- you have not done**
5 **any analysis of the Spire St. Louis pipeline agreement**
6 **with Laclede, have you?**

7 A I have not.

8 CHAIRMAN HALL: Okay. Thank you. I have no
9 further questions.

10 MS. AZAD: Thank you.

11 JUDGE DIPPELL: Thank you. Commissioner
12 Rupp?

13 QUESTIONS BY COMMISSIONER RUPP:

14 **Q Good afternoon.**

15 A Good afternoon.

16 **Q If you had gotten all your data requests**
17 **returned on a timely manner with the information that**
18 **you requested, would you still be requesting this**
19 **audit?**

20 A That is a difficult hypothetical for me to
21 answer. I would say in -- in large part due to the
22 fact that I'm not certain what all would have been
23 uncovered that hasn't been able to get addressed as a
24 result of those challenges. I also do see a
25 significant benefit, aside from the challenges that I

1 did mention with the quality and timing of the
2 discovery; so I think accepting that as a
3 hypothetical, I would probably lean on the side of,
4 yes, I would still see benefit to it, in part due to
5 the very significant changes that the company has
6 undergone recently, due to the fact that its CAM
7 currently is not reflective of those corporate
8 changes. It's -- And also in part due to the fact
9 that in the analysis information that I was able to
10 obtain and analyze, I noticed a very high level of
11 variability in the test year that the company has
12 selected. For instance, I have some tables where I
13 looked at the allocation factors that were used
14 throughout 2016 and noted that there were, I think, 25
15 or so that were used for Laclede Gas and MGE, and
16 seven of them were used what seemed to be sporadically
17 or for parts of the year. And for some of those,
18 there's a reasonable expectation -- reasonable -- I
19 think there could be a reasonable explanation as to
20 why because certain companies came in for a particular
21 part of the year. But for others, even the Company's
22 own witness, Mr. Flaherty, admitted where it appeared
23 sporadic. So I think with concerns like that, I do
24 think that it would be helpful to have -- to have a
25 more in-depth investigation, even if I had received

1 that information. Now, the scope of it I think may
2 be -- I may have proposed a more scaled down version
3 based on how cooperative the company would have been
4 in the course of this proceeding.

5 COMMISSIONER RUPP: Thank you.

6 JUDGE DIPPELL: Thank you. Is there any
7 further cross-examination based on the Commissioners'
8 questions from Staff?

9 MR. JOHNSON: Very briefly.

10 CROSS-EXAMINATION BY MR. JOHNSON:

11 **Q Good evening, Ms. Azad. Chairman Hall was**
12 **asking about your involvement in other states**
13 **regarding cost allocations. Have you ever proposed**
14 **this type of third-party audit in another state?**

15 A I have not.

16 **Q And Commissioner Rupp was asking you about**
17 **whether or not you had proposed the third party had**
18 **you received all the information you requested. And**
19 **when answering this question, you were referring to**
20 **other benefits you see coming out of this. Would one**
21 **of those benefits be suggestions as to how to**
22 **implement a new CAM or improving the current CAM?**

23 A I think one of the things that I did suggest
24 the auditors look at is the Company's level of
25 implementation and how their -- the consistency of the

1 practices with the CAM that is currently in place. I
2 think as Mr. Hyneman pointed out, I think that is
3 something that can be improved upon with
4 considerations from OPC and Staff and the Company
5 based on what would be appropriate to enhance the
6 current CAM. But I think the benefit of the audit
7 could be to investigate the -- how well that's
8 implemented.

9 And I would also add to that. There are
10 some other benefits that I had pointed out as well
11 that I didn't mention earlier. And one of which is
12 the fact that it's my understanding that when the
13 mergers took place with Alagasco and Energy South,
14 that the company had not sought the Commission's
15 approval for those. And so there are also ongoing
16 issues from those that I think would be important for
17 an outside auditor to consider as far as the impact of
18 those companies.

19 Also largely because the Company
20 admittedly -- the shared services company currently
21 has not reached full maturity. So it is -- it's still
22 undergoing some changes; so even if I had the
23 responses, there would still be some things that even
24 Spire hasn't worked through yet because of that recent
25 change in the company that I think would be helpful

1 for an outside investigator to look at in greater
2 detail.

3 MR. JOHNSON: Thank you, Ms. Azad. No
4 further questions.

5 JUDGE DIPPELL: Anything from the
6 Environmental Defense Fund?

7 MS. KARAS: No questions, Your Honor.

8 JUDGE DIPPELL: Anything else based on
9 Commission questions from Spire?

10 MR. ZUCKER: Just a few, Your Honor, if I
11 may?

12 RE-CROSS EXAMINATION BY MR. ZUCKER:

13 Q Good evening, Ms. Azad.

14 A Good evening.

15 Q Did I hear you say just a few minutes ago in
16 response to Chairman Hall that you yourself don't
17 perform the audits?

18 A I have not been involved in a -- in this
19 particular kind of affiliate transactions audit. I've
20 performed a formal financial statement auditor and
21 I've also done operational and management audits.
22 I've been involved in those in the public utility
23 industry.

24 Q Okay. And so the audit was performed by, in
25 Spire's case, by whom?

1 A I'm sorry?

2 Q Who performed the review in Spire's case?

3 A In this particular case?

4 Q Yes.

5 A I performed the review for the affiliate
6 transactions that -- I'm sorry. I don't think I
7 understood your question.

8 Q Well --

9 A Would you repeat that?

10 Q -- I guess I asked, did you perform the
11 review in this case?

12 A Did I perform the analysis underlining my
13 testimony? Yes.

14 Q Okay. Okay. I'm just going to ask you
15 about one chain of events because I was involved in it
16 and I want the Commission to get a good feel for how
17 Laclede provided the information in this case.

18 So you are -- you represent OPC; correct?

19 A Yes.

20 Q And we filed this case on April 11th. Is
21 that your understanding?

22 A Yes.

23 Q And on April 13th, two days later, we,
24 through Strategy&, provided the parties and provided
25 OPC a 50 megabyte model of the cost allocation. Were

1 **you aware of that?**

2 A I believe, if my memory serves right, I
3 think -- I think I know what you're referencing. It
4 was -- yes, I recall having received a -- the
5 particular Excel spreadsheet that I -- that I
6 referenced earlier. And -- and the call that I also
7 referenced that we had with Strategy& following that
8 was to address concerns about how -- how that was
9 intended to serve as the underlying support for
10 Mr. Flaherty's testimony.

11 **Q And when did you start -- when were you --**
12 **when did you start work for OPC in this case?**

13 A Should know this. I don't recall the exact
14 date right now. Sometime I think between -- between
15 April and June. I'll have to check.

16 **Q Okay. I understand. Okay. So the cost**
17 **allocation model that was provided on April 13th was**
18 **a -- included a pivot table, did it not?**

19 A I don't recall.

20 **Q And can you describe what a pivot table is?**

21 A Yes. A pivot table is a tool that's used in
22 an Excel document to -- to capture, summarize, and
23 categorize information.

24 **Q Okay. And so this particular pivot table**
25 **had, you know, boxes that you could check for**

1 **different years, different departments within the**
2 **company and different -- different affiliates,**
3 **different utilities. Is that your recollection?**

4 A I don't recall exactly. I know that it had
5 a number of -- a number of fields and information that
6 was contained in that particular document. I also
7 recall that there was no information provided to
8 demonstrate how that -- the information that was there
9 tied to the testimony and underlying tables. So it's
10 what we would generally refer to as a -- as a data
11 dump, something that contains a lot of information but
12 doesn't necessarily show how that's related to the set
13 of information that that's intended to support.

14 Q **Okay. So as I recall, you wanted to be able**
15 **to replicate the figures in Mr. Flaherty's testimony.**
16 **Does that sound right?**

17 A Yes. We wanted to be able to see how they
18 tied to the information that was relied upon.

19 Q **The figure that the -- the documents --**
20 **figure 9 comes to mind. Does that sound familiar?**

21 A Yes.

22 Q **Okay. And so you contacted us or someone**
23 **through OPC contacted us and said that you didn't have**
24 **the information to reconcile to those -- to that**
25 **figure. Do you recall that?**

1 A Correct. Yes.

2 **Q And then we contacted you back and said you**
3 **can just use the pivot table and just check the boxes**
4 **that you need to check and recreate the figures you**
5 **want to recreate. Does that sound familiar?**

6 A It sounds familiar. And what I recall is
7 that the information that was provided in the pivot
8 table was not sufficient. There were thousands and
9 thousands of rows and columns in that particular file.
10 So in order to be able to -- to recreate or even to
11 understand how a particular table that has -- that
12 identifies say four or five categories of costs ties
13 into how it was produced based on a spreadsheet that
14 contains thousands of rows and columns, it's necessary
15 to -- to identify what the -- what the specifics were
16 that were -- what particular data points were selected
17 for. And so without knowing that, one can't just
18 replicate that information or verify it.

19 **Q Okay. So it had thousands of rows and**
20 **columns of data; correct?**

21 A Yes.

22 **Q But if you went to the pivot table and you**
23 **just checked the boxes, that data would be calculated**
24 **and would spit out the answer you were looking for.**
25 **For example, let's say you wanted to see what the**

1 costs were for corporate communications for Laclede
2 and Alagasco, if you checked the box corporate
3 communications and you checked the box Laclede and
4 Alagasco, the -- the table, the model would spit out
5 the answer for how much was being charged to -- in
6 those departments; is that correct?

7 A Well, that was my hope, but in practice that
8 didn't turn out to be the case. Once we went into
9 the -- tried to produce those pivot tables, it turned
10 out to not tie to the tables as easily as you're -- as
11 you're stating. So there were things that were
12 selected for excluded that were -- that had to be
13 specifically -- that someone would have to know, that
14 for some reason or another certain things were
15 selected, and it's not as straightforward a process as
16 you're describing. And that was the first thing that
17 I did try. That was prior to contacting the Company
18 and having that call to clarify why that was the case.

19 Q Okay. So when we had the first call, I
20 recollect after the call had said check the boxes,
21 then we sent you a list of what boxes to check to get
22 each figure. Do you recall that?

23 A I recall after that call, the -- the work
24 papers then after the call being labeled with what
25 sets of data they -- they had utilized and produced

1 the tables.

2 **Q And as I then recall, that was not what you**
3 **were looking for. What you were looking for was a**
4 **reproduction of the actual figure. Is that -- do you**
5 **recall that?**

6 A Actually, I believe what we were provided
7 with -- with the -- with identification of what --
8 what data points were used. That was primarily what
9 we were asking for; so that the results that were in
10 Mr. Flaherty's testimony could be replicated based on
11 that information.

12 **Q But didn't we, in response to your request,**
13 **then go back and replicate each of the figures**
14 **ourselves and capture the screens and send you the**
15 **actual captured screen. Isn't that what you asked**
16 **for?**

17 A I believe after we identified that -- that
18 what the Company had identified as the data points
19 were not leading to the pivot tables that would
20 produce those numbers, I think we did request some
21 additional -- that the Company provide us those
22 specific pivot tables so that we could see what wasn't
23 being included and excluded in those particular
24 instances.

25 MR. ZUCKER: Okay. Thank you. That's all I

1 have.

2 MS. AZAD: Thank you.

3 JUDGE DIPPELL: Thank you. Is there
4 redirect by OPC?

5 MR. WILLIAMS: Yes. Thank you.

6 JUDGE DIPPELL: Is there significant
7 redirect by OPC?

8 MR. WILLIAMS: You want to take a break?

9 JUDGE DIPPELL: I'm definitely thinking
10 about it.

11 MR. WILLIAMS: Go ahead.

12 JUDGE DIPPELL: Okay. Let's take a break
13 and come back at 25 after. Let's go off the record.

14 (Whereupon, a brief break was taken.)

15 JUDGE DIPPELL: All right. We are back on
16 the record and we are ready for redirect by OPC.

17 MR. WILLIAMS: Thank you.

18 REDIRECT BY MR. WILLIAMS:

19 **Q Ms. Azad, I have just a few questions for**
20 **you. With regard to the cost allocation of the Spire**
21 **shared services, did you rely on any -- anything other**
22 **than historical data for that adjustment?**

23 A No.

24 **Q And what historical data did you rely upon?**

25 A I replied upon the cost services analysis

1 that were identified by the Company in the test year
2 in 2016 and the trend that they had observed through
3 the test year and projected that based on those
4 calculations.

5 Q And do you recall when Mr. Pendergast was
6 asking you about asymmetrical -- asymmetrical
7 costing -- well, affiliate transaction if you had two
8 utilities in two different states that had two
9 different regulatory bodies, both of whom were
10 applying this affiliate transaction rule similar to
11 the Commission, which requires the fully distributed
12 cost or the lower or fully distributed cost or market?

13 A Yes.

14 Q Do you recall those questions? If that
15 circumstance were to come about where some utility is
16 using two utilities in two different states,
17 jurisdictions are using the same affiliate to provide
18 services, and you agree that potentially the regulated
19 utilities could not get as much benefit for share --
20 or for customers as they might if they were able to
21 use those shared services?

22 A Correct. Yes. As I mentioned, there might
23 be instances where they would have efficiencies in
24 place by doing that.

25 Q And they wouldn't be able to -- wouldn't be

1 enticed to realize those if they're not going to be
2 able to recover their costs; right?

3 A Right.

4 Q If the Commission can grant relief from the
5 affiliate transaction rule, would that not -- so that
6 the utilities are able to capture those benefits for
7 the customers, would that not be an avenue that you
8 would agree would be appropriate?

9 A It would, yes. And it's my understanding
10 based on affiliate transactions rule that a utility
11 can request variations or variances from the affiliate
12 transactions rule in certain instances. And so that
13 would be an appropriate avenue that they could
14 potentially -- potentially utilize in that case.

15 Q And is there anything by statute or rule
16 that requires a utility to engage in transactions with
17 affiliates?

18 A Not to my knowledge. It's the choice of the
19 affiliate to do that over -- as opposed to utilizing
20 outside parties.

21 Q Are you aware of any discovery issues that
22 you saw with getting information from Spire that you
23 didn't realize were issues until it was too late to
24 seek any kind of relief from the Commission?

25 A Yes. I would say there were definitely

1 instances of that. I mentioned earlier on in the
2 course of questioning that I -- that there were
3 instances where the Company's responses were still
4 outstanding just days before testimony was due. They
5 were over 50 days in some cases outstanding. And
6 aside from that, there was some back and forth because
7 there was correspondence between the OPC and the
8 Company in which I was involved where it was
9 communicated to the Company that we had certain
10 concerns. For example, on cases where they had in
11 their responses referenced their discovery responses
12 which then referenced other discovery responses, which
13 in some instances were voluminous, and after review,
14 it was revealed that the information that was being
15 sought in the first place was not provided somewhere
16 within those and I have that actually as one of the
17 attachments of correspondence that brought that to the
18 Company's attention, that those were some of the
19 concerns that we had. And so things like that where
20 some of the issues where we brought them up and then
21 we had some hope that the company would provide
22 information in response to that communication. And
23 after the fact, once we received it and reviewed it,
24 saw that the supplemental responses or the additional
25 clarification did not actually address the original

1 questions. Does that answer your question?

2 **Q Was there an instance where you thought you**
3 **got a complete answer and then later, based on Company**
4 **testimony, it appeared you may not have?**

5 A Yes --

6 JUDGE DIPPELL: I think the witness just
7 stated that, Mr. Williams, that exact thing in her
8 example.

9 A And if I may add, I recall a specific
10 response, in particular, where I had asked for -- for
11 the balances for all of the Company's information
12 management systems, all the companies and affiliates
13 at Spire, that one in particular comes to mind. I
14 believe it was -- I think maybe 7132. And the Company
15 had responded with spreadsheets that showed the cost
16 for information management system, all of which was
17 housed on the books of Laclede Gas and MGE. And then
18 later the Company's responses in rebuttal contradicted
19 that by saying that the -- there are companies that
20 actually have information management systems that
21 weren't provided within that response, which would
22 lead one to believe at the time that that was all of
23 the information responsive to the particular
24 discovery.

25 MR. WILLIAMS: Thank you, Ms. Azad.

1 JUDGE DIPPELL: Is that all, Mr. Williams?

2 MR. WILLIAMS: At this point.

3 JUDGE DIPPELL: Thank you. Thank you, Ms.
4 Azad. You may step down for now. We will, before we
5 finish here this evening, bring you back up for the
6 other issue since you are not available after today.

7 MS. AZAD: Thank you.

8 JUDGE DIPPELL: Appreciate it. And in
9 response to Mr. Pendergast, let me just say MIZ.

10 MR. WILLIAMS: ZOU.

11 JUDGE DIPPELL: Okay. We are ready for
12 OPC's next witness. Mr. Marke, you have also
13 previously testified; so --

14 MR. MARKE: I have.

15 JUDGE DIPPELL: -- you remain sworn in for
16 our purposes. Mr. Williams.

17 MR. WILLIAMS: I have no questions for him.
18 Just offer him for examination.

19 JUDGE DIPPELL: Appreciate that. Is there
20 cross-examination from Staff?

21 MR. JOHNSON: Very briefly.

22 CROSS-EXAMINATION BY MR. JOHNSON:

23 **Q Dr. Marke, were you in the room when**
24 **Mr. Hyneman provided his testimony?**

25 **A** I was.

1 Q And I believe my co-counsel, Mr. Keevil,
2 inquired about how OPC would propose to fund a
3 third-party audit or determine who would ultimately
4 pay for it. And I believe he directed me -- or
5 Mr. Keevil to you for an explanation. Could you
6 please provide an explanation?

7 A I'm glad you asked. My surrebuttal
8 testimony speaks about the importance of an audit and
9 it's really predicated on the Staff report that was
10 conducted in this last summer; right? So the Staff
11 report concluded that their -- that rate payers might
12 have been exposed to some detrimental harm out of a
13 result of these acquisitions.

14 Now, I acknowledge that Spire filed
15 comments, too, and, you know, they're -- they're -- I
16 think they're being admitted to the record. We looked
17 at the case and said, you know, what's a reasonable
18 way forward; right? You know, Staff had invested a
19 lot of time, a lot of energy into doing their report
20 clearly. The Company thinks a certain way. You know,
21 from our perspective, a reasonable path forward was to
22 bring in a third party, fresh set of eyes to go ahead
23 and actually look at the acquisitions that took place.
24 And we really -- we wanted to mirror it off of
25 precedent setting, and for that case it was KCP&L, the

1 KCP&L Westar case and, you know, now that transaction
2 was never actually, you know, approved because of
3 Kansas, but in that situation OPC entered into
4 stipulation and agreement with a company. And since
5 then, you know, Kansas City Power & Light has come
6 back. They've decided to go ahead and merge now with
7 Westar. And in direct testimony of Darren Hives (as
8 pronounced), he actually includes the exact same
9 language essentially that OPC would like to see in
10 this case, which is almost to a T, why a third party
11 would be appropriate, the funding mechanism to -- to
12 Mr. Johnson's question, which is essentially, in the
13 KCP&L case, we proposed that the company shareholders
14 absorb up to a half-million dollars and that any
15 dollar after that would be shared equally between rate
16 payers and shareholders. And in that case, GPE, the
17 holding company, you know, felt like that was an
18 appropriate ask. And, again, since, they have
19 followed up with that same sort of request in the most
20 recent case.

21 MR. JOHNSON: Thank you, Dr. Marke. No
22 further questions.

23 JUDGE DIPPELL: Is there anything from the
24 Environmental Defense Fund?

25 MS. KARAS: Just a few questions, Your

1 Honor.

2 CROSS-EXAMINATION BY MS. KARAS:

3 Q Good evening, Mr. Marke.

4 A Good evening.

5 Q I'm going to come up here so I can see you.

6 A Sure.

7 Q So were you in the room when Mr. Pendergast
8 was asking Ms. Azad questions?

9 A I was.

10 Q And do you recall when he said -- and I'm
11 summarizing here -- but, in essence, he said that cost
12 allocations between regulated utilities is less of a
13 concern when you have utility A regulated by state A
14 and utility B regulated by state B?

15 A Yes.

16 Q And do you agree with that statement?

17 A I'm going to ask you to repeat that again.

18 Q So I'm summarizing here, but basically the
19 concept is when you're talking about cost allocations
20 and that, you know, concerns with that, those concerns
21 are diminished or reduced when utility A is regulated
22 by state A and utility B is regulated by state B. And
23 I'm just wondering if you agree with that general
24 proposition?

25 A I would not agree with that. There's a

1 variety of different regulatory hurdles, I guess, in
2 any given state; right? You know, some have a
3 stronger threshold; right? And those are reflected in
4 credit metrics than others; so it's -- it is clearly
5 not an equal path across all states.

6 **Q So that consideration or -- it does not**
7 **eliminate the need, in your opinion, for a third-party**
8 **review?**

9 A I would -- I -- I believe a third-party
10 review is a very reasonable transparent path forward
11 for all parties involved.

12 **Q And is it OPC's position that the review**
13 **would not only encompass cost allocations, but also**
14 **whether affiliate transactions entered into by the**
15 **Company comply with the affiliate transactions rules?**

16 A To me, that's the key. And at the end of
17 the day, we're in -- everybody I think involved here
18 is sort of mixing terms; right? There's the cost
19 allocation manual, which is something Mr. Hyneman
20 spoke to and I've been involved with out on the KCP&L
21 side. We can work together. It's a very long,
22 audacious process. You take -- you know, and KCP&L
23 took a couple years. But we felt like we came to a
24 very strong, at the end of the day, a mutually
25 beneficial cost allocation manual.

1 And then there's the audit, which is
2 separate and aside. And the audit was really a result
3 of actions that are above and beyond, I guess, just
4 ordinary course of duty, providing safe and regulated
5 service.

6 **Q Well, you've just answered my next two**
7 **questions; so thank you. I just wanted to get**
8 **clarification on the collaborative effort to revise**
9 **the CAM versus the independent audit. And just so**
10 **we're clear, that's two different pieces in your mind?**

11 A They are two separate issues, but I think
12 they're complimentary to each other. Clearly anything
13 that would come out of the audit might help inform,
14 you know, future CAM-related activities.

15 MS. KARAS: Okay. Thank you for your time.

16 JUDGE DIPPELL: Is there anything from
17 Spire?

18 MR. ZUCKER: Yes, Mr. Pendergast will ask
19 some questions.

20 CROSS EXAMINATION BY MR. PENDERGAST:

21 **Q Good evening, Mr. Marke.**

22 A Good evening.

23 **Q Dr. Marke. I apologize. Just real quickly.**
24 **You mentioned the amount of 500,000 and I think we had**
25 **some discussion on the rate case expense issue the**

1 other day, that Laclede was up to 1.3 or 1.4, million
2 which included, I don't know, a number of hundreds of
3 thousands for the customer notices and that type of
4 thing. And that's for two utilities and that's to
5 have all of our -- you know, whatever outside people
6 we use to address the issues that we thought were
7 needed help addressing. And you're suggesting that
8 for this one issue of how to allocate corporate costs,
9 that you would spend up to 100 -- or half of the
10 entire amount that we use for all other issues in this
11 case?

12 A I'm sorry. The question?

13 Q The question is, if we spent, you know,
14 north of a million for all the outside people we had
15 for these two cases, for all the issues we had --

16 A Right.

17 Q -- you're proposing to spend about half of
18 that in outside costs just to address this one issue
19 of cost allocation and affiliate transactions; is that
20 correct? At 500,000?

21 A So I would catch that answer two parts.
22 One, it's a cap; right? You don't necessarily need to
23 spend \$500,000. I think reasonable minds can come to
24 a competitive bidding process that produces the best
25 outcome for everybody.

1 Second of all, everything that's involved
2 with that audit and that proposed CAM through my
3 vantage point is really separate and aside for why
4 this rate case came to fruition; right? So I don't
5 look at those two sets of costs as mutually exclusive.
6 I -- I would argue, and based off of my expert opinion
7 and experience working with other merger acquisitions
8 and -- that that's a reasonable cap to place on
9 things. You're really just considering the size and
10 the scope of any sort of audit that would take place
11 over -- over an affiliate transaction over multiple
12 states, over, you know, a prolonged period of time
13 would probably require a larger cap.

14 **Q Okay. And once again, you've pointed to**
15 **KCP&L. The first agreement that included provisions**
16 **like this never came to fruition because that**
17 **transaction got turned down in Kansas and so**
18 **everything was sort of negated by that; right?**

19 A That's true.

20 **Q And now they've come back and they have**
21 **agreed to do that in seeking approval for this next**
22 **transaction; is that correct?**

23 A For the second time, yes, they've agreed to
24 that.

25 MR. PENDERGAST: Okay. Thank you.

1 JUDGE DIPPELL: Are there questions from the
2 Bench for Dr. Marke?

3 CHAIRMAN HALL: No questions. Thank you.

4 JUDGE DIPPELL: All right. Is there
5 redirect by Office of Public Counsel?

6 MR. WILLIAMS: No.

7 JUDGE DIPPELL: All right, then. You may
8 step down.

9 MR. MARKE: Thank you.

10 JUDGE DIPPELL: That brings us then to the
11 Environmental Defense Fund witness. And before we get
12 to him, I did want to state on the record that
13 Mr. Mills had asked me if the Commission had any
14 questions for Mr. Meyer on the rate stabilization
15 mechanism because the parties had informed me that no
16 one had questions for him and the Commissioners also
17 do not have questions for him; so I have said that he
18 may be excused from coming to testify. Does anyone
19 know anything any different than that?

20 All right. I'm seeing none. I just wanted
21 to say that out loud.

22 Mr. Lander, I'll let your attorney actually
23 call you to the stand.

24 MS. KARAS: Environmental Defense Fund calls
25 Mr. Gregory Lander to the stand.

1 JUDGE DIPPELL: Thank you.

2 GREGORY LANDER,

3 Having duly been sworn, testified as follows:

4 JUDGE DIPPELL: Thank you.

5 DIRECT EXAMINATION BY MS. KARAS:

6 Q Good evening, Mr. Lander.

7 A Good evening.

8 Q Would you please state your name and spell
9 it for the court reporter?

10 A Gregory, G-r-e-g-o-r-y, Lander, L-a-n-d-e-r.

11 Q Mr. Lander, what is your title and where do
12 you work?

13 A I'm president, SkippingStone, LLC. It's --
14 my offices are located just north of Boston in
15 Peabody, Mass.

16 Q Did you file direct and surrebuttal
17 testimony in this case?

18 A I did.

19 Q I have your direct testimony premarked as
20 Exhibit 650 and your surrebuttal testimony listed as
21 Exhibit 651.

22 MS. KARAS: Is this consistent with your
23 understanding, Judge?

24 JUDGE DIPPELL: Yes, those are the numbers I
25 have as well.

1 MS. KARAS: Okay. Thank you.

2 Q (By Ms. Karas) And, Mr. Lander, do you have
3 any corrections to your direct testimony?

4 A Yeah, some minor ones. Page 13 of direct
5 testimony, line 24, the question, strike each of the
6 above cases, insert case one. Leave the question
7 mark.

8 Q And any other corrections?

9 A Yes. It's in Exhibit EDF 3.

10 Q That's EDF schedule 3?

11 A Schedule 3. Thank you. Page 2. It's an
12 unnumbered -- unnumbered -- unlined numbered, but it's
13 the third paragraph. This is the third paragraph of
14 B, calculation of commodity-related charges. In the
15 penultimate line beginning up to the amount in, as you
16 go across, of the then effective rate, strike then
17 effective. And then after the word "day," at the end
18 of that sentence, before the period, insert at the
19 time the supply reliability capacity replaced the MRT
20 capacity.

21 Q And do you have any corrections to your
22 surrebuttal testimony?

23 A None.

24 Q And if I were to ask you the same questions
25 today, would your answers be substantially the same?

1 A Yes.

2 Q **And is your testimony true and correct to**
3 **the best of your knowledge and belief?**

4 A Yes.

5 MS. KARAS: So with that, I would offer
6 Exhibits 650 and 651 into the record.

7 JUDGE DIPPELL: Would there be any objection
8 to Exhibit 650 and 651? Seeing none, then I will
9 admit those into the record.

10 (EDF EXHIBITS 650 AND 651 WERE RECEIVED INTO
11 EVIDENCE.)

12 MS. KARAS: Thank you. And with that, EDF
13 tenders Mr. Lander for cross-examination.

14 JUDGE DIPPELL: Thank you. Is there
15 cross-examination by Staff?

16 MR. JOHNSON: No questions, Judge.

17 JUDGE DIPPELL: Public counsel?

18 MR. WILLIAMS: No questions.

19 JUDGE DIPPELL: Spire?

20 MR. PENDERGAST: Thank you, Your Honor.

21 CROSS-EXAMINATION BY MR. PENDERGAST:

22 Q **Good evening, Mr. Lander.**

23 A Good evening.

24 Q **I'd just like to ask you a little bit about**
25 **your involvement in this proceeding and how it**

1 **originated. Is it your understanding that your**
2 **client, EDF, is involved in the FERC proceeding**
3 **considering the Spire St. Louis pipeline -- STL**
4 **pipeline?**

5 A That's my understanding.

6 **Q Okay. And what's your understanding of**
7 **their position in that proceeding?**

8 A I don't know. I haven't participated with
9 them in the filing of that. I haven't recently
10 reviewed the filing. But generally speaking, my work
11 with them has involved the utilization of existing
12 capacity to the maximum extent possible before
13 undertaking possible duplicative or redundant
14 facility -- facility modifications or expansions.

15 **Q Okay. So you don't know that -- whether or**
16 **not they're opposing Spire STL pipeline getting its**
17 **application approved FERC?**

18 A I believe they protested the application.
19 They have questions that the FERC should investigate
20 the underlying need for the capacity. But I don't
21 believe they've made any statement that the pipeline
22 itself should not be constructed, but they've asked
23 for there to be -- as I understand it, I haven't read
24 it in a long time, an evidentiary hearing to establish
25 need.

1 **Q** Okay. And now you're here in front of the
2 **Missouri Public Service Commission with testimony**
3 **suggesting revisions to both Laclede Gas Company's**
4 **standards of conduct under the affiliate transaction**
5 **rule, as well as its PGA/ACA provisions; is that**
6 **correct?**

7 A That is correct.

8 **Q** Okay. And I think if you look at your
9 **testimony beginning on page 5, you provide a summary**
10 **of how that would work?**

11 A Let me get the right -- there it is. I just
12 had it. There it is. Page 5?

13 **Q** **Yes.**

14 A Very good.

15 **Q** Okay. And if we just look at steps 1
16 **through 5. That's kind of a thumbnail sketch of how**
17 **the process would work for evaluating gas-supplying**
18 **decisions involving transportation; is that correct?**

19 A It groups the kinds of capacity that
20 Laclede/Spire -- I'm going to use the word "Laclede"
21 because it's the one I'm familiar with here at this
22 time -- the buckets into which the capacity they
23 acquire would fit. That is supplied reliability
24 capacity, supplied diversity capacity, whether it be
25 pipeline, storage, propane, whatever.

1 Q Yeah. Let's put them into different kind of
2 buckets based on what you think is supply related and
3 diversity related. And then you go through a process
4 about if we introduce a new contract, then you need to
5 go ahead and evaluate -- evaluate it in a particular
6 way; is that correct?

7 A That is correct.

8 Q And you're suggesting kind of a formula for
9 looking at existing assets that may go away; is that
10 correct?

11 A That's for whether or not the -- I think,
12 fundamentally, the introduction of the new capacity,
13 you'd first look at whether it meets existing or for
14 projected demand, whether it's directly connected to
15 your system, which implies supply reliability
16 capacity, or it feeds capacity that's directly
17 connected to your system, which implies it's supply
18 diversity capacity. It doesn't determine that it's
19 supply diversity, but it implies.

20 Q Okay. Fair enough. And then, ultimately,
21 you go through an analytical process where you compare
22 resources and do various things to determine what the
23 all-in cost is of the new resource that you're adding,
24 and then the Commission, based on that formula, that
25 evaluation you proposed, says what is permitted for

1 **recovery and what isn't; is that correct?**

2 A The -- this -- this PGA/ACA comes into
3 effect if there hasn't been a prior finding that the
4 standards of conduct governing the affiliated
5 transaction have not been satisfied. So what you have
6 today is a situation where you have retroactive review
7 under the ACA/PGA that was discussed earlier. PGA is
8 first. ACA comes in a year later. So you could have
9 a situation where costs have been incurred or accrued
10 for a year, and then you have a backward looking,
11 whether it's prudent or not. But somebody's out maybe
12 as much as \$30 million, whether it's \$30 million in
13 play.

14 Well, what this is seeking to do is say, if
15 prior to the contract -- because you don't have
16 pre-approval here -- but the Commission could say to
17 the Company, "Here's the ground rules. Before you put
18 \$200 million in the ground, here's the ground rules at
19 which we're going to evaluate this. Either you've
20 gone through a standards of conduct process where
21 you've had a bid, you've done, you know, a
22 pre-approval -- not pre-approval -- you've done --
23 you've asked for RFPs, you've identified the project."
24 It's an front-up project, at least the Commission
25 knows about.

1 But if you haven't gone through that, which
2 is the standards of conduct, the CAM recommendations
3 we've made, then this is the standard we, the
4 Commission, want you, Company, to know you could be
5 subject to. So that to the extent you've decided not
6 to go through a standards of conduct process with an
7 independent look at how you've acquired this new
8 capacity, identifying the need and what need is going
9 to be met, how that need will be met, if you haven't
10 done that, then you know you're potentially at risk
11 because we want to keep rate payers harmless.

12 And the way we keep rate payers harmless; so
13 I'm telling you, Company, now so that you know, we
14 know, everyone knows the rules. If you decide to go
15 ahead with it, that's fine to the extent you use this
16 capacity, and its supply reliability capacity and it
17 replaces other supply reliability capacity to the
18 extent you haven't spent more all-in on this new
19 capacity, you've obviously made a good decision. To
20 the extent you have spent more, you're at risk for the
21 amount that you spent above existing supply
22 reliability capacity.

23 In the case of the propane, it was said
24 earlier by counsel that I suggested --

25 MR. LANDER: Natalie, could you bring me my

1 water?

2 MS. KARAS: Absolutely.

3 A That I suggested that the propane would be a
4 permit. And that's actually, I think, a
5 misunderstanding or a mischaracterization of my
6 testimony. What I meant to say there was --

7 MR. PENDERGAST: Your -- Your Honor, at some
8 point, could Mr. Lander get back to answering my
9 question?

10 JUDGE DIPPELL: Would you like to repeat
11 your question?

12 MR. PENDERGAST: Yeah. Well, let me phrase
13 it in a different way.

14 Q (By Mr. Pendergast) You said in your answer
15 just now that "I know you don't have pre-approval
16 here." And my question was sort of to get at the fact
17 that if a utility makes a contracting decision and
18 introduces a resource, what you have said in your
19 testimony, if you use my formula, if you use my
20 construct for what I am saying is beneficial to
21 customers, then that's subject to recovery, and if you
22 don't, it's not.

23 And I guess my question is, as a practical
24 matter, how is that not establishing very specific
25 criteria that says, "It'll be approved if you do this,

1 **and it won't be approved if you do that," how is that**
2 **not pre-approval?**

3 A If you could point to where in my testimony
4 I said what you just said, I'd be appreciative of
5 that.

6 Q **No. I'm asking you because I believe on**
7 **page 5 of your testimony, you say, "Here's the formula**
8 **you should use. Here's how you take your resources**
9 **and divide them up into buckets. And then if you have**
10 **something new that comes in, here's the comparative**
11 **cost analysis you will do." And I think in**
12 **paragraph 5 of your summary, you say, "Those that meet**
13 **this criteria would be eligible for recovery, and**
14 **those that don't, won't." And I'm just asking you how**
15 **is that not -- not the Commission establishing**
16 **standards in advance that says, "This is what we're**
17 **going to approve and this is what we're not"?**

18 A The Company faces a situation where, should
19 it go forward with this pipeline, it'll spend \$200
20 million putting pipe in the ground. Then this
21 Commission has a prudency process, \$200 million
22 prudency process. A prudency process follows
23 potentially \$200 million. What I'm proposing here is
24 that with these sets of rules, the Company's fully --
25 fully free to go ahead and spend the \$200 million, but

1 it may be at risk for recovery. So rather than you
2 say the rules have changed after the fact, the
3 Commission here can say, here is the rules. Here's a
4 way for you, Company, to think about this as you
5 proceed because you may not be able to recover and you
6 should know what the rules are before you put steel in
7 the ground, before you come in seeking a \$30 million a
8 year recovery, or thereabouts, from rate payers.
9 Because what we're saying to you is, if rate payers
10 are not, at least, indifferent or held harmless, you,
11 Company, could be at risk.

12 **Q And, once again, I'm just going to get back**
13 **to my question. What you're saying is if you comply**
14 **with my analytical framework for evaluating when you**
15 **should and should not do these things, if you have**
16 **complied with that analytical framework, it's going to**
17 **be recovered in the PGA, and if you don't comply with**
18 **it, it won't, or you'll be at risk?**

19 A You'll be at risk. That's correct.

20 **Q Okay. So, in essence, you're asking the**
21 **Commission to endorse a particular approach for**
22 **determining when gas supply contracting decisions will**
23 **be approved and when they won't. Is that a fair**
24 **statement?**

25 A What we're trying to identify for the

1 Commission is that there are different mechanisms to
2 understand and identify the regulatory gap. The
3 Commission has the authority under the PGA
4 proceedings, under the CAM, under the standards of
5 conduct, to make exceptions, waivers, and take
6 situations that they see as they see them and make
7 determinations.

8 But right now, they're in a situation where
9 they don't have statutory authority to require
10 pre-approval. You haven't come to them for
11 pre-approval. The Commission in Washington may or may
12 not hold an evidentiary hearing to decide if there's
13 need. And we could be in a situation two years from
14 now that could be avoided because the Company -- if
15 the Company wants to make the bet that this is a good
16 decision for rate payers, that's it's going to get
17 access to cheaper gas, it's going to be the greatest
18 thing since sliced bread -- which could happen, but
19 that's a bet that you should be making knowing the
20 risks that, if it isn't the case, it wasn't such a
21 good bet maybe, and you're not putting the Commission
22 in the position where they have to endorse your bet
23 after the fact or possibly cause financial harm to the
24 company that made the bet.

25 Q No, what you're saying is I want the

1 Commission to endorse the standard that will be used
2 to determine whether it was a good bet or a bet that
3 justifies inclusion, and I want to do it now, not
4 after the fact, not based on the information that's
5 provided when costs actually are recovered through the
6 PGA, but I want the Commission to set those standards
7 up now?

8 A So let me --

9 Q Is that true or not?

10 A Based on my experience for 30 years in this
11 business -- actually 34 years now -- I've understood
12 and found that market rules known in advance of market
13 activities lead to better outcomes than changes in
14 market rules after the fact.

15 And so a situation here where the Company
16 identi -- sees and the Commission sees there's a
17 market rule that could come into effect and hit them.
18 They could be faced with this type of review, this
19 type of metric, that understanding that before capital
20 is deployed is a lot better than finding out about it
21 after capital is deployed.

22 Q Okay. And is it your testimony that, based
23 on your 24 pages of direct testimony and your couple
24 of pages of surrebuttal testimony, that this
25 Commission should feel comfortable setting up those

1 **standards that will govern these decisions in the**
2 **future?**

3 A This Commission makes decisions in rate
4 cases. It made a decision in 2001 to have one sort of
5 CAM. 2011 things got a little messy. 2013 they have
6 another one. It's adapting constantly to changing
7 circumstances.

8 Whether this becomes something that lives
9 for two years or five years or 20 years, time will
10 tell. But what we're saying is you, the Company, or
11 your client, should know the risks of making a
12 \$200 million bet, and the Commission here is putting
13 you on notice that you didn't come to us, you didn't
14 ask us, you've added more than 30 percent of capacity
15 to the system.

16 We don't know what you're up to necessarily.
17 You haven't asked us in advance. You haven't
18 explained to us what all the costs incurrence will be
19 and why it's a good idea or not a good idea. Because
20 there are existing facilities that are providing these
21 needs as we go through here. And so that way, you'll
22 have a situation where, at least for the next couple
23 of years, the risks will be known by everybody for the
24 capital that's deployed.

25 **Q Once again, what I'm asking you is, based on**

1 what you've submitted in this case, your view is the
2 Commission should feel comfortable making these
3 decisions about what standards will be used to
4 evaluate, what you have called correctly, are
5 multi-million-dollar investment decisions; so that
6 when the time comes to include or not include, it will
7 be the decisions that were made by the Commission as
8 to what standards are going to be used to evaluate
9 these that will control that decision? And -- and you
10 think the Commission should feel comfortable putting
11 itself in that position based on what you have
12 presented in this testimony?

13 A Like Mr. Weitzel said, he mentioned -- I've
14 got it here with the response to EDF 12, I believe.
15 Let me find it. Yes, here it is. So EDF propounded a
16 data request to the company called EDF 12 and it was
17 referred to Thomas Flaherty's testimony which
18 describes the strategic planning to include
19 non-utility growth.

20 Part B: "Please explain" -- this is our
21 question -- "Please explain how the Company ensures
22 that rate payer interests are protected as the Company
23 explores non-utility growth."

24 Company answer: "The Company ensures that
25 rate payer interests are protected by continuing its

1 historic and demonstratively successful practice of
2 being physically and operationally prudent in how and
3 when it pursues non-utility growth and by complying
4 with those regulatory requirements and conditions that
5 have been adopted to ensure that non-utility growth or
6 other unregulated activities do not have a detrimental
7 impact on utility customers."

8 Our comment on that is, "Knowing in advance
9 those regulatory requirements and conditions is what
10 we're trying to accomplish here."

11 So you know in advance what those regulatory
12 requirements and conditions are. So it isn't a
13 situation where after the fact, you're told what the
14 regulatory requirements and conditions are; you know
15 in advance because that's the objective -- this is
16 signed by Glenn Buck -- that's the objective your
17 Company has.

18 So we see this as part of a process of
19 making sure you're not in a situation where you're
20 defending a decision you made two years from now, and
21 you're potentially out more than \$30 million in a
22 prudency proceeding.

23 **Q Well, we appreciate your concern, but once**
24 **again, my question is, aren't you basically saying,**
25 **Commission, let's not have management make this**

1 decision and you review it after the fact? You
2 endorse the particular formula, the particular
3 analytical framework by which these will be deemed
4 acceptable. And then as long as the utility goes out
5 and does what the Commission has said is the way you
6 ought to analyze these things, it's -- could be
7 recovered, and if it doesn't do what the Commission
8 decided was the right approach, it can't do it?

9 A So what you're missing here that -- and I'm
10 going to try and go back and fill in the gap of what
11 you're missing. This is a CAM and PGA question
12 session. The CAM portion of our suggestions are that
13 you have a process before you enter into an affiliate
14 agreement, that you have an open RFP process that is
15 clear and has a record of what was happening. It
16 identifies, just like in the gas supply, what is the
17 requirements that the bidders are supposed to do, what
18 market is to be met, what needs are to be met over
19 what period of time.

20 Absent that -- because as in our discussions
21 we had the other day, about a month ago, talking about
22 our questions to you and your questions to us, you
23 said, "Well, we've already signed the precedent
24 agreement; so your CAM proposals won't take effect.
25 They'll be after -- they won't have retroactive

1 effect."

2 We knew that when we filed this. That's why
3 the PGA/ACA changes are covering the gap that the --
4 had the affiliate transaction concerning
5 transportation capacity existed or been in effect
6 before you signed the precedent agreement, that would
7 have governed. But the fact you signed it and went
8 ahead, now we can only deal with the next agreement
9 you sign. The PGA/ACA is putting you on notice of
10 what you might face from a risk perspective.

11 **Q Okay. Well, let me just ask it this way,**
12 **and I don't want to keep on going on and on. But**
13 **let's say that we make a decision, the Commission has**
14 **adopted it, and we come in two or three years from now**
15 **to include costs in the PGA for this transaction and**
16 **that's what we give the Commission right there is our**
17 **justification. You know, no demand analysis, no**
18 **analysis of -- of, you know, our specific**
19 **requirements, the cost; just say it's -- it's in**
20 **accordance with this document right here, it's all you**
21 **need, please put it in the PGA. Do you think it would**
22 **be acceptable for the Commission to say, "I'm going to**
23 **allow you to recover it based on this"?**

24 **A** Well, the -- what you haven't articulated is
25 that the provisions that we've talked about have a

1 hold harmless provision, that the cost of adding this
2 capacity would have incurred no greater cost for rate
3 payers than had nothing changed. And so here they've
4 made a decision. They've deployed capital. There's
5 no worse -- it's no worse off than the rate payers
6 would have been in -- no -- the rate payers are in the
7 same position had nothing happened. They're no worse
8 off. Why wouldn't it happen? That way you, as a
9 company, have the freedom to make investment decisions
10 between your regulated and your utility and your
11 non-utility operations provided they don't leave rate
12 payers worse off.

13 **Q Sure. "Worse off" as defined and determined**
14 **by your 24 pages worth of what you believe is the**
15 **right equation for making that determination; correct?**

16 A We're dealing with a situation as existed
17 here today, that's correct.

18 **Q Okay. And is this, "Let's establish**
19 **standards, and if the utility complies with it, its**
20 **costs can be recovered," are you suggesting this for**
21 **all LDCs, gas utilities in Missouri?**

22 A If they have affiliated pipeline companies,
23 yes.

24 **Q Okay. So you would suggest that the**
25 **Commission approve this for any regulated utility that**

1 **may have, or could have, an affiliated pipeline in the**
2 **future?**

3 A I think it applies to Laclede. Certainly
4 Laclede or Spire East. The Commission would determine
5 whether or not -- just like there's different CAMs in
6 different utilities today and different CAMs between
7 different electric utilities and gas utilities, they
8 could decide what aspects, if any, of this were to
9 apply to others.

10 **Q Okay.**

11 A That'd be the Commission's decision, not
12 ours.

13 **Q But given your general philosophy of**
14 **mitigating risk and that sort of thing, would there**
15 **also be a reason to apply it to electric utilities as**
16 **they acquire additional resources to serve their**
17 **customers?**

18 A Well, electric utilities is a far different
19 and far more comprehensive regulatory structure with
20 respect to assets and wholesale and retail, if you
21 will, within state regulation than natural gas has.
22 So I don't believe I'm making no statements about --
23 on the electric side. The -- it's a much more
24 comprehensive regime on the electric side than it is
25 on the gas side. So I'm talking here only about the

1 gas side.

2 **Q So, in your view, it may be a little too**
3 **complicated on the electric side to have a --**

4 A No, I'm saying the electric side --

5 **Q -- simple formula that --**

6 A No, I'm saying the electric side already has
7 a very comprehensive means of allocating costs between
8 wholesale and retail between RTOs and assets that are
9 operated by RTOs versus assets that are owned and
10 operated below different voltage level within the
11 state's electric utility. If it's building wholesale
12 that has an RTO Q and RTO Y and RTO revenue stream,
13 not a local utility revenue stream or local utility.
14 When I say "local," I mean state-regulated retail
15 level. So there's no regulatory gap on the electric
16 side, but there is on the gas side.

17 **Q Okay. So you talked about protecting**
18 **customers, but you've recognized there's an ACA**
19 **prudence review process in Missouri; is that correct?**

20 A That is correct.

21 **Q And if the Staff or OPC or anybody else that**
22 **wants to join in believes that ultimately what we did**
23 **was imprudent, then they have the right to come and**
24 **recommend to the Commission that costs not be**
25 **recognized in the PGA; is that correct?**

1 A That is correct.

2 **Q Okay. And so what you're really trying to**
3 **do is mitigate the Company's risk that that might**
4 **happen; is that correct?**

5 A I'm trying to mitigate both the Company's
6 risk and the rate payer's risk, because this is such a
7 big decision. It has a \$30 million annual
8 implication -- \$30 million's annual is implicated by
9 this decision. It's not \$30 million over a five-year
10 period or a ten-year period or other period and -- and
11 one time and can be stopped. It's 30 million per year
12 for 20 years.

13 **Q And did you hear --**

14 A So that's a \$600 million decision.

15 **Q Did you hear Mr. Keevil's about the Kansas**
16 **Pipeline series of disallowances from 15, 20 years ago**
17 **that accumulated a \$30 million?**

18 A That's right, and then it stopped. But here
19 you have a situation where it could go on for 20 years
20 at \$30 million per year.

21 **Q So rather than --**

22 A It's real money.

23 **Q Rather than let the Company make that**
24 **decision and undertake that particular risk and come**
25 **to the Commission, you want to go ahead and have the**

1 **Commission make that decision in advance, take it out**
2 **of the hands of management, and basically say, "If you**
3 **don't do it my way, you're not going to go ahead and**
4 **get costs recovered." Isn't that true?**

5 A No, that is not true.

6 **Q Okay.**

7 A What we're saying is -- and -- and maybe
8 it's the interaction between market rules and
9 discretion. Under the market rules that we're
10 proposing, go ahead and do what you want to do, but
11 recognize that if rate payers aren't indifferent or
12 held harmless, you could be at risk for recovery.

13 You could always come in and argue there was
14 extenuating circumstances, there was exigent
15 circumstances. But this is -- this tells you what
16 risks you could incur. And then it also says to the
17 Commission, "If you decided to go ahead, knowing this
18 was the case, we're not taking money out of your
19 pocket; we're just not adding money to your pocket."

20 **Q Well, I guess that's why some utilities**
21 **every now and then want the Commission to approve --**
22 **pre-approve things, and perhaps that's why the**
23 **Commission's not inclined to do so.**

24 A Well, the Commission, I believe, doesn't
25 have the regulatory obligation -- excuse me -- the

1 statutory obligation. The utility doesn't have the
2 statutory obligation. There are states that do have
3 that. It works pretty well. There are other states
4 that don't have that. They have other processes that
5 they've --

6 **Q Right.**

7 A -- they've followed.

8 But what we're trying to do here is make it
9 clear that everyone knows what the ground rules are,
10 what could happen, and what could protect rate payers,
11 if necessary. What the Company could assert is okay,
12 if necessary, but rather than changing the rules after
13 the fact, what the Company is saying, "Well, you knew
14 what we were doing. Here's the bill. We can't afford
15 to lose \$30 million a year so you better pay us."

16 MR. PENDERGAST: Well, as I said in an
17 exchange with another witness, I have a sneaking
18 suspicion we're not going to come to a meeting of the
19 minds on this. So I think I'm done with my questions.

20 Thank you.

21 JUDGE DIPPELL: Thank you.

22 Chairman Hall, do you have questions for
23 Mr. Lander?

24 QUESTIONS BY CHAIRMAN HALL:

25 **Q Good evening.**

1 A Good evening.

2 **Q Your counsel said during her opening that**
3 **this particular situation is playing out in many**
4 **states across the country; is that correct?**

5 A That is correct, yes.

6 **Q How many states are you involved in**
7 **concerning a situation where LGC is contracting with**
8 **an affiliated entity for transportation services?**

9 MR. LANDER: I'm involved in two. I'm aware
10 of many others. The two are Virginia and North
11 Carolina. The -- I've been aware of and involved in,
12 but not for the point of testimony, in New York. I've
13 been involved actually in testimony in Maine.
14 Testimony in Massachusetts. And aware of the
15 economics under pending agreements and situations in
16 New Jersey, New York, I think, and Connecticut.

17 **Q And is EDF suggesting tariff changes in**
18 **those proceedings similar to the ones they're**
19 **suggesting here?**

20 A This is the only proceeding where I'm -- EDF
21 is my client.

22 **Q Okay. Are there other parties in those**
23 **other cases suggesting tariff changes similar to the**
24 **tariff changes being suggested here by you?**

25 A The -- the -- in the case of Virginia, the

1 tariff change was very similar to the FOM, first of
2 month, being the -- being the presumed recovery level.
3 But instead of first of month, it was -- it was called
4 a Zone 5 Transco. Because the company had -- has
5 essentially has -- it's an electric company -- and all
6 of its gas supplies today coming to it and priced, if
7 you will, at the Zone 5 Transco price, was looking to
8 build a new pipeline to bring in gas that you could
9 get from Transco. The pipeline would deliver all the
10 gas to Transco, then deliver it to them.

11 Then what we basically proposed there was,
12 go ahead and spend the money, if you think that's a
13 good idea, but recover based upon the Zone 5 Transco
14 price, which is the same price you could get
15 otherwise. So if you think it's a good idea to build
16 the pipeline because you can get access to cheaper
17 gas, great, but don't charge rate payers more than the
18 Zone 5 Transco price that you -- as your alternative.

19 **Q Are you involved in the -- in the FERC**
20 **proceeding on the -- on the Spire St. Louis?**

21 A No. No, I'm not.

22 **Q You're not. Do you know whether or not in**
23 **rendering a decision, FERC will look at the impact**
24 **on -- on rate payers?**

25 A That's an open question. The reason it's an

1 open question is because for the last 20-something
2 years, since the pipeline's restructured from merchant
3 to transportation-only lines, one of the very early
4 questions that the Commission had was, "How do we
5 justify -- on what basis do we justify a pipeline
6 expansion?" Because when the pipeline was a merchant,
7 they said, "Okay, do you have the supply. Do you have
8 the market need? Then we'll justify you expanding."
9 And also at that time, they put risk on the pipeline
10 by putting part of the return recovery the pipeline
11 would get into the commodity rate, into the usage
12 rate.

13 When they transferred pipelines from
14 merchants to transportation-only lines, they went to
15 fixed variable. And then they also said, "How do we
16 justify an expansion?" They said, "Well, we'll rely
17 on contracts," because if two willing buyers,
18 arms-length buyers, you know, seller of the pipeline,
19 a buyer, the shipper, are willing to enter into the
20 contract, that's evidence of market need. Well, for
21 the last -- the next --

22 **Q Would that be the case even if they're**
23 **affiliated entities?**

24 A Well, for the next 17 or 18 years, you
25 didn't have a situation like you're having today where

1 actually LDCs are forming interstate pipelines. In
2 other words, there was -- there was Columbia, which is
3 NiSource, and Columbia distribution companies, they
4 were -- they were affiliated since the '40s, you know,
5 the '50s. And there was, you know, the deal with
6 Cities Service and Southern Star Central that were,
7 you know, built together and they were affiliates.

8 But up until about three years ago, you
9 didn't have a situation where LDCs formed interstate
10 pipelines and then bought from themselves. You had --
11 you know, the Columbia affiliates buying from
12 themselves, which is the one I'm most familiar with.
13 That's the NiSource. Well, actually, they sold the
14 pipeline now to TransCanada. There was a period of
15 time that they were -- they were affiliates. But you
16 haven't until recently seen LDCs forming interstates.

17 In effect, you know, this deal, if it was
18 necessary, could have been done under Hinshaw.
19 Hinshaw is where a pipeline is built by an LDC. It
20 crosses the state line, but all the gas comes to them,
21 like Washington Gas is a Hinshaw. Fredricksburg Gas
22 is a Hinshaw. Southern California Gas is a Hinshaw
23 where they build their line out to the state line and
24 pull the gas into them. That could have been done
25 here, but instead it was set up -- and then it will be

1 state-regulated. Hinshaw would be state-regulated and
2 it would be an exempt from federal regulation because
3 they decided to do it here in the state. And then it
4 would come under your regulation, and you decide
5 whether that -- that expansion of the asset was
6 allowed into rate base or prudent. But instead,
7 they -- they went with the interstate pipeline.

8 Now you have federal regulation. It's only
9 looking at a contract. You don't have a pre-approval
10 process. They don't have a market-need review.
11 "They" being the FERC. And so here you have a
12 situation where you have a potential regulatory gap
13 that -- not just Laclede, but a lot of LDCs across the
14 country are, you know, taking and running for
15 daylight.

16 **Q What do you believe is the most significant**
17 **tariff change that you're proposing?**

18 A That the recovery be limited to the FOM,
19 first of month. That if they get gas a lot cheaper --
20 in other words, if the first-of-month benchmark
21 with -- excluding the gas coming through Spire -- says
22 this is my alternative, and you let them get all the
23 gas cost, and anything above gas cost that comes in at
24 or under the FOM, let them keep it because then rate
25 payers are indifferent.

1 And when they say in the rebuttal testimony
2 that if those are the rules, that makes it impossible
3 for us to take service to the pipeline, then they're
4 actually saying to us and you, "This isn't going to be
5 benefit to rate payers. We're not going to make the
6 bet that rate payers will be better off because we
7 wouldn't take service to the pipeline if those were
8 the rules." Well, if that's the case, why is this
9 happening?

10 CHAIRMAN HALL: Thank you.

11 JUDGE DIPPELL: Any other commissioner
12 questions? Is there any further cross-examination
13 based on the Chairman's questions from Staff?

14 MR. JOHNSON: No questions.

15 JUDGE DIPPELL: Public Counsel?

16 MR. WILLIAMS: No.

17 JUDGE DIPPELL: Spire?

18 MR. PENDERGAST: No questions, Your Honor.

19 JUDGE DIPPELL: Is there redirect from
20 Environmental Defense Fund?

21 MS. KARAS: Just briefly.

22 REDIRECT EXAMINATION BY MS. KARAS:

23 **Q So, Greg, before we wear out our welcome at**
24 **this Commission, let's be brief together.**

25 A Okay.

1 **Q Do you have any other clients besides EDF**
2 **who are pipeline clients?**

3 A Yes. I have pipeline clients both that have
4 assets in the Gulf Coast, Oklahoma, Texas, all the way
5 up to Ohio. I have a former relationship with the
6 private equity firm that bought Southern Star
7 Pipeline. I recommended they buy it. I worked with
8 them for the next five or six years in strategic
9 planning.

10 I also have electric generator developer
11 clients who want to know where to locate power plants
12 and where's there capacity on the lines, what kind of
13 firm transportation they should have or not, could
14 they get away without it.

15 And I have producer clients who look to buy
16 transportation, to get out of areas where the gas is
17 being produced, and get to the liquid market area.

18 But basically clients -- and I have -- and I
19 have end-user clients. Well, that's kind of like a
20 power plant, but they're a mine, and they have firm
21 transportation as well.

22 I have clients of all types. And basically
23 I provide the same advice to all of them, which is,
24 you know, what are the market rules you're dealing
25 with? What are the fundamentals? Is there demand?

1 Is there a market for your gas at the end of this line
2 or the end of that line? Is there supply for your
3 market if you're a power plant on this line or that
4 line?

5 And for my pipeline clients, I often give
6 them advice that the fundamentals support building
7 align -- because you spend a lot of time doing a lot
8 of work before you go to open season because you --

9 **Q Greg -- Greg, I think you've given the**
10 **flavor.**

11 A Okay.

12 **Q Thank you. Yeah.**

13 A Sorry.

14 **Q I just want to be respectful given the late**
15 **hour.**

16 A Yeah. Yeah. Yeah. Yeah. Right.

17 **Q And do you recall when the Chairman was**
18 **noting the -- this trend of affiliate transportation**
19 **agreements across the country? Do you remember that**
20 **exchange?**

21 A Yes.

22 **Q And would you say that the overarching goal**
23 **of your testimony is just to present the Commission**
24 **with a set of tools to consider in addressing this new**
25 **trend?**

1 A Yes.

2 **Q And do you recall when Chairman Hall was**
3 **asking you about the status of the FERC proceeding,**
4 **the Spire STL FERC proceeding? And are there any key**
5 **facts that distinguish that proceeding from -- from**
6 **other certificate applications that you're aware of?**

7 A It's the only proceeding that I'm aware of
8 where a competing pipeline has opposed -- one
9 pipeline's opposed another pipeline's building. I
10 mean, I've never -- I've never come across that
11 before. It's also a situation where I've seen a
12 protest by this Commission because it wants to retain
13 its jurisdiction. I'm certainly -- certainly -- I'm
14 there, you know, and trying to offer other tools that
15 give you the opportunity to not be boxed.

16 And so that's -- in essence, this is very
17 different than a lot of them, and we're recognizing
18 that difference, and we're going to get ahead of a
19 trend or in the middle of a trend and looking to try
20 and provide tools to deal with it.

21 MS. KARAS: Thank you. That's all I have.

22 JUDGE DIPPELL: Thank you very much. And
23 thank you both for your patience in getting to this
24 issue.

25 Mr. Lander, safe travels back.

1 MR. LANDER: Thank you.

2 JUDGE DIPPELL: You may be excused.

3 Okay. It is 6:30 and we have been here a
4 little over an hour. And out of consideration for the
5 court reporter, who's been here all day, we're going
6 to take a short break only -- well, we'll take a break
7 until 6:40, just long enough for everybody to stretch.
8 And when we come back, we're going to hear Ms. Azad on
9 the software issue.

10 So let's go off the record.

11 (Whereupon, a brief break was taken.)

12 JUDGE DIPPELL: We're back on the record
13 after a short break, and Ms. Payne has joined us and
14 wanted to do something on the record here.

15 MS. PAYNE: Yes. Thank you, Judge. I want
16 to go ahead and offer Staff's Exhibit, and I believe
17 we are at 275.

18 JUDGE DIPPELL: That is correct.

19 MS. PAYNE: If I can mark this. This
20 reflects the low income program funding of each of the
21 Missouri utilities broken down by what is shareholder
22 funded and what is rate payer funded for each, and
23 this is in reference to the Chairman's questions when
24 we discussed the low income programs last week.

25 JUDGE DIPPELL: And you provided copies of

1 this to the other parties?

2 MS. PAYNE: And to the court reporter, yes.

3 JUDGE DIPPELL: And of parties present,
4 would anybody have any objection?

5 Then I will go ahead and admit Exhibit 257,
6 which is the low income program funding, and that's of
7 the other companies here in the state.

8 (STAFF'S EXHIBIT 275 WAS RECEIVED IN EVIDENCE.)

9 MS. PAYNE: Thank you.

10 JUDGE DIPPELL: Okay. So Ms. Azad is only
11 available today, we are going to skip over opening
12 statements and so forth and go straight to her on the
13 issue of the software.

14 Mr. Williams, do you have anything by way of
15 direct?

16 MR. WILLIAMS: No, not at this point. I
17 mean, her exhibits have already -- her testimony has
18 already been admitted into the record; so I'll just
19 tender for examination on the software.

20 JUDGE DIPPELL: Okay. Thank you.

21 And, Ms. Azad, you were sworn earlier; so
22 you remain under oath for our procedure.

23 Is there any cross-examination by Staff?

24 MS. PAYNE: No questions. Thank you.

25 JUDGE DIPPELL: Anything from Spire?

1 MR. PENDERGAST: Thank you, Your Honor.
2 I'll try and be quick.

3 CROSS-EXAMINATION BY MR. PENDERGAST:

4 Q Good evening, Ms. Azad.

5 A Good evening.

6 Q This issue involves the 32 million plus
7 dollars -- excuse me -- that were spent by Spire to
8 extend its newBlue information management system to
9 MGE; is that correct?

10 A Generally, yes, as far as the figure is
11 concerned. I would -- I would qualify that by stating
12 how much specifically that I could talk about the rate
13 impact of the adjustment versus the amount that's on
14 the books.

15 Q Okay. But you don't dispute that the
16 company spent around \$32 million to upgrade MGE and
17 integrate it into Laclede newBlue system?

18 A I would -- the total cost on the books is
19 around 116,000, and I believe the Company stated it
20 cost Laclede approximately \$80 million.

21 Q Well, did it cost Laclede approximately
22 \$80 million when it installed the newBlue system on
23 Laclede's, you know, operating unit platform?

24 A I believe that's what the Company's
25 testimony is.

1 Q Okay. And then once it acquired MGE, it was
2 able to bring that same system to MGE for
3 approximately \$32 million; isn't that correct?

4 A I haven't performed an analysis on the cost
5 for the Company specifically. What -- but I do see
6 that the difference between the two is, approximately
7 30 million.

8 Q Okay. Well, Mr. Hyneman addresses that in
9 some detail.

10 Now, the Staff has recognized that this
11 Spire platform newBlue system is planned to try and be
12 extended to utilities outside Missouri in 2020, 2021;
13 is that correct?

14 A Yes, that's my understanding.

15 Q Okay. And because they're not using it now,
16 you know, hoping we can get them to use it later, the
17 Staff did not allocate costs of the system to Alagasco
18 or Energy South, did it?

19 A I'm not -- I'm not aware of Staff's proposal
20 on the issue.

21 Q Okay. What systems do they use down at
22 Alagasco and Energy South to do their customer care,
23 their supply chain, their accounting? Do you know if
24 they use a different system or not?

25 A I know that, at least in part, they rely on

1 this system because the -- somebody stated that they
2 do have a -- they do have access to the GL system
3 within the system. Aside from that, when I asked for
4 the details as to what the -- what the information
5 management systems in all of the company were, the
6 Company did not provide that information.

7 **Q Well, let me -- let me provide you with some**
8 **data request response if I could.**

9 **Okay. Is what I handed you the Company's**
10 **response to OPC data request 8552?**

11 A Yes.

12 **Q Okay. And does that say -- or tell us what**
13 **the question asks.**

14 A The question is, "Based on the Company's
15 decision to convert MGE to the newBlue platform, when
16 will the Company convert its other regulated utilities
17 to this platform? Please provide the target date, or
18 dates. If no conversion is planned, please explain
19 the Company's rationale for not converting the other
20 regulated entities."

21 **Q Okay. And what's the response to that?**

22 A "All Alabama systems will be converted to
23 the re-engineered Missouri system by Q4 of fiscal year
24 2021."

25 **Q Okay. And does the data request response**

1 also provide a timeline that shows when this
2 integration to Alabama and/or non-Missouri utilities
3 will happen?

4 A Yes.

5 Q Okay. And in the fourth quarter of 2021,
6 it's three or four years from now?

7 A Yes.

8 Q Okay. So just help me understand. The
9 Staff has accepted the proposition that Alagasco,
10 Energy South utilities have their own systems. It
11 hasn't been converted yet to Spires Missouri mainframe
12 system, and so they haven't allocated costs to it.

13 We provided you with a data request that
14 says it's not going to happen until the fourth quarter
15 of 2021. Mr. Hyneman submitted testimony in which he
16 explained in some detail both the upgrade of the MGE
17 system and the fact that they still had different
18 systems down at Alagasco and Energy South and they
19 wouldn't be converting them until 2021. And yet you
20 still, in your surrebuttal testimony, said, "I'm going
21 to allocate over \$30 million to Alagasco"; is that
22 correct?

23 A My adjustment was based on what would be --
24 what I believe would be the prudent use of an
25 information management system. So I think if we were

1 comparing this to what a company in the competitive
2 market would be doing, I think the prudent thing to do
3 is to eliminate all duplications. And based on the
4 Company's testimony, it's my understanding that the
5 information management system that's housed in its
6 entirety on the books of MGE and Laclede right now is
7 a comprehensive information management system. And so
8 I think what would be prudent is the consideration of
9 not only to what extent has the Company opted to
10 integrate the other -- the other entities to this
11 point, but what would be a reasonable expectation.

12 **Q Well, as we just discussed, the Company**
13 **spent \$32.5 million to extend its system to MGE. It**
14 **is considering extending the system to Alagasco and**
15 **Energy South. Is it your feeling that that will be**
16 **done for nothing?**

17 A I have not opined on the amount of what the
18 integration would cost.

19 **Q Okay. But your allocation of those**
20 **utilities is based on the theory or the assumption**
21 **that the Company can, you know, just wave a magic wand**
22 **and suddenly those systems are available for use down**
23 **there?**

24 A It's -- it's my understanding that those
25 companies have been under the Spire, or what was

1 Laclede umbrella, for -- for -- for some time,
2 particularly at least Alagasco has been. And I think
3 in taking into account the impact of acquiring and
4 implementing the cost associated with an -- with an
5 enterprise-wide information management system, I think
6 it's something that should be considered by the
7 Company in advance. And when asked by the Company
8 what it based its assessment of how much -- or what
9 the costs would be allocated to MGE, the Company just
10 said that it was based on the software.

11 And so I think that one of the issues that
12 the Company could have provided to provide comfort is
13 the requisite report, or the analysis that's required
14 by the CAM, to make that information available in
15 advance in terms of its considerations for those
16 costs.

17 **Q And do you know how old the systems are that**
18 **are used by Alagasco and Energy South compared to how**
19 **old the system was that was used by MGE?**

20 A I'm not aware of the specific age of the
21 Alagasco system at this point.

22 **Q Okay. So you don't know how that would**
23 **factor into the pace at which it gets replaced or gets**
24 **integrated with Laclede's system?**

25 A I would say that my -- my recommendation is

1 based on what would be reasonable for Missouri rate
2 payers. And I would suggest that I don't believe that
3 it's prudent for the rate payers in Missouri to be --
4 to be responsible for the entirety of the costs of
5 what an information management system would be for an
6 entire enterprise.

7 In fact, in reviewing what MGE's prior costs
8 were before the merger, before the acquisition, had an
9 average of about a \$5.5 million network value of an
10 enterprise management system that was in place at the
11 time on its books. And that has increased now tenfold
12 going to 2016, and I think it's -- I think a prudent
13 expectation would be that a significant increase in
14 those costs would also not be in place while there
15 being duplicate -- duplications in place.

16 **Q You know, I saw your little analysis there**
17 **about it was, you know, 5 million and then it's now up**
18 **to 32 million. Can you tell me, on average, when a**
19 **utility comes in and it replaces an old depreciated**
20 **piece of equipment, whether it be a pipe or a computer**
21 **or anything else, and then you compare it to the net**
22 **cost of a new piece of equipment, what's the usual**
23 **variation between the depreciated original cost and**
24 **the new cost of that asset or facility, do you know?**

25 A I think that what you are -- what you're

1 suggesting is, as far as a pipe is concerned, is
2 apples and oranges to what we're looking at here in
3 terms of a particular pipe is not intended to serve an
4 entire enterprise, and I think that that's --

5 **Q I'm just asking you a simple question. When**
6 **you go ahead and have a new asset that you have**
7 **purchased and that you're installing and you compare**
8 **it to the net depreciated book value of the old asset,**
9 **isn't there usually going to be a pretty significant**
10 **difference between the two?**

11 A I believe what you're referring to is that
12 in the earlier years, the cost that are capitalized
13 have not yet been fully depreciated, and so I would
14 say that that would be an accurate statement.

15 **Q I'm -- I'm just saying you presented in your**
16 **testimony, this "Look at the depreciated original cost**
17 **and look at the new cost, and isn't this one**
18 **significantly higher?" And I'm just asking you isn't**
19 **that true in almost every instance where you've**
20 **replaced an old, almost fully depreciated asset with a**
21 **new one? I mean, there's nothing unusual about that,**
22 **is there?**

23 A Well, the point that I'm bringing up there
24 is that it's my understanding that MGE, prior to the
25 merger, did not have any plans to implement a new

1 system. And so I think that puts into perspective the
2 impact on the rate payers of MGE, given that a very
3 substantial amount of cost has now entered into rate
4 base.

5 **Q Okay. And there was a very substantial**
6 **amount of cost entered into rate base when Laclede put**
7 **its newBlue system in effect. It wasn't --**

8 A Pardon? I'm sorry. Could you repeat the
9 question?

10 **Q A significant new cost was put into rate**
11 **base when Laclede implemented its system?**

12 Well, nevermind. I'm -- I'm not going to
13 ask any question other than this one. Is this
14 allocation of \$30 million to utilities outside
15 Missouri, even though they're not benefiting from that
16 allocation, the kind of help that you think we need by
17 having an outside expert look at our cost allocations?

18 A I think that it would be prudent. I did
19 suggest that an outside expert also look at the impact
20 of the new system and the extent to which other
21 companies are, and the extent to which other companies
22 should be benefiting from it.

23 MR. PENDERGAST: Okay. Thank you very much.

24 MS. AZAD: Thank you.

25 JUDGE DIPPELL: Any questions from the

1 Bench?

2 CHAIRMAN HALL: Yeah, I have hopefully just
3 a few.

4 QUESTIONS BY CHAIRMAN HALL:

5 Q Good evening again.

6 A Good evening.

7 Q You do believe that it would cost some
8 amount of money to incorporate Alagasco and Energy
9 South into this newBlue system; correct?

10 A Yes.

11 Q Some additional amount. You don't know how
12 much, but it would be -- there'd be some cost?

13 A Yes.

14 Q But you -- and you agree that the system is
15 not -- has not currently been incorporated into --
16 into those two subsidiaries; is that correct?

17 A Correct. Well, I'm sorry, I'm going to
18 qualify that answer. Partially. Because I think it's
19 in Mr. Hyneman's testimony that they actually do have
20 a connection to do newBlue.

21 Q But they're not using it?

22 A Well, it's actually unclear. It looks like
23 they are actually using the general ledger
24 capabilities of the -- of the system.

25 Q Okay. Well, that will be a line of inquiry

1 with -- with the Company witnesses on that -- on that
2 issue.

3 So your -- your position here on this issue
4 is really not based upon on a -- on a cost allocation
5 analysis. It's really based on a prudency analysis;
6 correct?

7 A Yes, I would say that's a fair
8 characterization.

9 Q Okay. Do you believe that there would have
10 been some type of reduction in the price to
11 incorporate MGE had Spire, while it was incorporating
12 MGE, had they also incorporated the two other
13 subsidiaries at the same time? Would that have
14 reduced the price for -- for MGE rate payers?

15 What I'm wondering is if there's some kind
16 of an economy of scale, that if they incorporated all
17 at once, would it have been cheaper for every --
18 for -- cheaper overall, and cheaper in particular for
19 MGE rate payers?

20 A Yes. Yes.

21 Q Have you quantified that in any way?
22 Because that would be, to me, a more telling -- or not
23 more telling -- but a -- a more challenging issue than
24 the one presented here.

25 A My -- my quantification of that was through

1 the adjustment that I proposed. Well, while I think I
2 recognize what you're suggesting in terms of that not
3 taking into account potential additional costs to
4 integrate the other companies, however, I think in
5 terms if -- had they all been incorporated together, I
6 think given the best information available at this
7 time, I think that three-factor formula that I used to
8 reallocate those costs rather than having them solely
9 allocated to MGE and Laclede is -- is my
10 quantification of that.

11 **Q But it didn't take into account the**
12 **additional cost to incorporate those two other**
13 **subsidiaries. So it's -- so your -- you essentially**
14 **assumed that that incorporation could have occurred at**
15 **no additional cost, which is, by your own testimony,**
16 **an unrealistic assumption?**

17 A Or simultaneous with MGE, in which case
18 the -- the cost to implement may have been
19 significantly reduced if not combined or maintained at
20 the level that -- that it took for MGE to be
21 integrated. Because there's not -- I don't believe
22 that there's a study that's been done or provided to
23 show how, if at all, that would have been different.

24 **Q Well, let me ask this. Switching topics**
25 **just for a second. You didn't look at whether or not**

1 MGE rate payers will enjoy any type of additional
2 value in -- in approved customer service as a result
3 of this -- of this new system, did you?

4 A No, I have not.

5 Q Okay.

6 A And it's my understanding I haven't seen
7 anything from the Company as to anything quantified in
8 that regard.

9 Q Did you -- did you ask the Company for that
10 information?

11 A I haven't specifically asked that question.

12 CHAIRMAN HALL: I have no further questions.

13 Thank you.

14 MS. AZAD: Thank you.

15 JUDGE DIPPELL: Thank you. All right.

16 Is there any further cross-examination based
17 on the Chairman's questions from Staff?

18 MS. PAYNE: No, thank you.

19 JUDGE DIPPELL: From Spire?

20 CROSS-EXAMINATION BY MR. PENDERGAST:

21 Q Yeah, just real quickly.

22 Chairman Hall asked you a number of
23 questions about whether your allocation was based on
24 some kind of prudence consideration. Was it in your
25 testimony? Did you mention prudence in your

1 **testimony?**

2 A I specifically indicated in my testimony
3 that it would be reasonable for an enterprise
4 management system to benefit an entire enterprise.

5 **Q Okay.**

6 A So that is how I --

7 **Q Okay. Well, let me ask you this. When it**
8 **comes to prudence, Mr. Hyneman has testified that a**
9 **system that costs \$80 million for Laclede was able to**
10 **be provided to MGE which had a system about as old as**
11 **Laclede's old system was for \$32 million. Would you**
12 **agree with me that \$32 million is a lot less than**
13 **\$80 million?**

14 A I would agree with you that \$30 million is
15 less than \$80 million.

16 **Q And is it also true that because it was made**
17 **available to MGE, that a portion of the cost that was**
18 **being borne by Laclede Gas customers has now also been**
19 **allocated to MGE?**

20 A Yes.

21 **Q Okay. And even with that allocation, the**
22 **cost to MGE customers is still a lot less than if they**
23 **had done their own system like Laclede did?**

24 A I don't see how it would be reasonable for
25 MGE to have done that independently, how it would make

1 sense to have in place a comprehensive enterprise
2 management system in place at any individual company
3 independently.

4 **Q Okay. You can't understand how MGE would**
5 **have done exactly what Laclede did a few years before?**

6 **Well, let me -- let me ask you this final**
7 **question. And because those costs -- a portion of the**
8 **costs of the existing system has been allocated from**
9 **Laclede to MGE because now they're using the whole**
10 **thing, are Laclede Gas customers, Spire East customers**
11 **now paying less for that system than they did before?**

12 **A I believe so, yes.**

13 **MR. PENDERGAST: Okay. So that's about all**
14 **I have on prudence. Thank you.**

15 **MS. AZAD: Thank you.**

16 **JUDGE DIPPELL: Thank you.**

17 **Is there any redirect?**

18 **MR. WILLIAMS: Yes. Thank you.**

19 **REDIRECT EXAMINATION BY MR. WILLIAMS:**

20 **Q Ms. Azad, when did you learn of the fact**
21 **that Alagasco and Willmut and Mobile Gas were not**
22 **using the newBlue system other than at the higher**
23 **level of the general ledger level?**

24 **A In the Company's rebuttal testimony.**

25 **Q And you proposed an adjustment before**

1 **rebuttal, did you not?**

2 A Yes.

3 **Q And what was that adjustment based on for**
4 **newBlue?**

5 A The adjustment was based on what the amount
6 of the cost would be allocated to MGE and Laclede
7 using the Company's most recent company-wide
8 three-factor formula as opposed to housing it solely
9 on the books of MGE and Laclede.

10 **Q And why were you making that -- proposing**
11 **that adjustment?**

12 A Because in a -- the reasonable -- I think a
13 company that has an incentive and -- and implements
14 incentives to reduce costs to a reasonable amount
15 would put in place an enterprise-wide management --
16 information management system in such a manner as to
17 reasonably benefit the entire enterprise essentially.

18 **Q Had you inquired of Spire as to what**
19 **information systems were being used by the Spire**
20 **entities?**

21 A I -- I did. I actually asked specifically
22 about the account that accounts for newBlue and any
23 other software or enterprise system accounts in place
24 at the Company for MGE and Laclede and any other
25 affiliates.

1 **Q And -- and what did Spire indicate in its**
2 **response?**

3 A It provided only the amounts associated with
4 newBlue on the books of Laclede and MGE, Laclede Gas
5 and MGE.

6 **Q So there are really two bases for your**
7 **adjustment. One, if, in fact, the Mississippi and**
8 **Alabama operations are using newBlue, and another one**
9 **if they are not but should be?**

10 A Yes. I would say that's accurate.

11 **Q Now, there was some questions about how**
12 **costs would be allocated. The newBlue -- newBlue cost**
13 **would be allocated to all of the entities that are or**
14 **should be using it according to your view; correct?**

15 A Yes.

16 **Q Who would incur the cost to integrate into**
17 **the newBlue system? For example, when MGE integrated,**
18 **who bore those costs?**

19 A MGE rate payers.

20 **Q So if Alagasco is integrated into the**
21 **newBlue system, who will bear those costs?**

22 A Alagasco.

23 MR. PENDERGAST: I think that's all the
24 questions I have for you at this time. Thank you.

25 MR. WILLIAMS: May Ms. Azad be excused?

1 JUDGE DIPPELL: She may.

2 Thank you, Ms. Azad. Thank you for your
3 patience.

4 MS. AZAD: Thank you.

5 JUDGE DIPPELL: All right. That is all that
6 I had intended to cover this evening, as it's getting
7 late. I'm going to give you a quick choice, of those
8 of you here, about in the morning if you would like to
9 continue this issue or go back and start another one?

10 No preference?

11 MR. ZUCKER: Well, we -- we have a -- well,
12 almost all of our witnesses are from out of town. But
13 we have a consultant witness in pensions; so --

14 JUDGE DIPPELL: I'm sorry. A consultant
15 witness what?

16 MR. ZUCKER: In the pension area. So I
17 think it would be helpful to --

18 JUDGE DIPPELL: So you would like to get
19 pensions on as early as possible?

20 MR. ZUCKER: I think that's what I'm saying.

21 JUDGE DIPPELL: Okay. I understand.

22 And, Mr. Williams, do you have any idea, was
23 Mr. Pitts -- he was pensions also. So he -- did he
24 need to go in the morning?

25 MR. WILLIAMS: I believe so, yes.

1 JUDGE DIPPELL: Okay. Well, that will work
2 out best then. So perhaps we should begin with
3 pensions and take it from there. What we will do,
4 then, is pensions -- perhaps then we will go ahead and
5 finish up this -- this issue and then backtrack and
6 get as many of the still pending issues as we can,
7 staying as late as we need to tomorrow, in hopes that
8 we will still finish at a decent hour on Friday.

9 So unless there's anything else, we can come
10 back tomorrow morning at 8:30.

11 Go off the record.

12 (Whereupon, the hearing was recessed at 7:15
13 p.m.)

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REPORTER CERTIFICATE

I, REBECCA L. TUGGLE, a Registered Professional Reporter, Certified Court Reporter, and Certified Shorthand Reporter within and for the State of Missouri, do hereby certify that the PSC hearing held on December 13, 2017, commenced at the Missouri Public Service Commission, 200 Madison Street, Jefferson City, MO 65101; that said hearing was reported by myself, translated and proofread using computer-aided transcription; and the above transcript of proceedings is a true and accurate transcript of my notes as taken at the time the proceedings were had.

I further certify that I am neither attorney nor counsel for nor related nor employed by any of the parties to the action in which this hearing was taken; further, that I am not a relative or employee of any attorney or counsel employed by the parties hereto or financially interested in this action.

Becca Tuggle

Rebecca L. Tuggle, RPR, CCR, CSR

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