STATE OF MISSOURI

PUBLIC SERVICE COMMISSION

TRANSCRIPT OF PROCEEDINGS

On-The-Record Proceeding

July 10, 2013

Jefferson City, Missouri

VOLUME 1

(Starting time of proceeding: 12:03 p.m.)

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VOLUME 1

In The Matter Of The Joint Application Of Southern Union Company d/b/a Missouri Gas Energy, The Laclede Group, Inc. And Laclede Gas Company For An Order Authorizing The Sale, Transfer and Assignment Of Certain Assets And Liabilities From Southern Union Company And, In Connection Therewith, Certain Other Related Transactions)	File No. GM-2013-0254

MORRIS L. WOODRUFF, Presiding
CHIEF REGULATORY LAW JUDGE

ROBERT S. KENNEY, Chairman
TERRY M. JARRETT
STEPHEN M. STOLL
WILLIAM P. KENNEY,
Commissioners

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Mr. John Cassidy
Mr. Steve Rasche
Ms. Suzanne Sitherwood

(Starting time of proceeding: 12:03 p.m.)

P R O C E E D I N G S

JUDGE WOODRUFF: Good afternoon, everyone. Welcome to our On-The-Record Proceeding concerning the Application for Merger between Southern Union Company and Laclede Group.

And we'll kind of do this informally. We'll start by taking entries of appearance from the attorneys for the parties. I'll give the parties an opportunity to make a brief opening, if they wish, and then we'll move into questions from the Commissioners, and we have a full house here today. And we do have several people here on the telephone as well, so they can go ahead and respond when appropriate.

For starting for entries of appearance, let's begin with -- well, let's go ahead and start with Laclede Group.

MR. DARRELL: Good morning, your Honor. Good morning, Commissioners, I should say. I'm Mark Darrell appearing on behalf of Laclede Group, Inc.

JUDGE WOODRUFF: All right. Try and go down the list of people who signed the stipulation and agreement here. All right. Let's move on to Laclede Gas Company.

MR. PENDERGAST: Thank you, your Honor. Michael C. Pendergast and Rick Zucker appearing on behalf of

Laclede Gas Company. Our business address is 720 Olive Street, St. Louis, Missouri, 63101.

JUDGE WOODRUFF: For Southern Union Company?

MR. JACOBS: Good morning -- good afternoon on behalf of Todd Jacobs, Senior Director of Legal for Southern Union Company d/b/a Missouri Gas Energy of Missouri. Our business address has been listed on the forms.

I also want to address on the phone today Robert Kerrigan who is an Assistant General Counsel and Secretary-Vice President for Southern Union Company. He's been actively involved on the transaction itself, has quite a bit of knowledge about the PSA and other matters, and he's actually joining us while he's on vacation in Delaware. I believe he's on the phone here today. Thank you.

JUDGE WOODRUFF: All right. And for Staff?

MR. BERLIN: Thank you, Judge. Appearing on behalf of the Staff of the Missouri Public Service Commission is Robert S. Berlin at the Commission's business office at Post Office Box 360, Jefferson City, Missouri, 65102.

JUDGE WOODRUFF: Public Counsel?

MR. POSTON: Thank you, Judge. Mark Poston appearing on behalf of the Office of Public Counsel.

JUDGE WOODRUFF: All right. And for City of Kansas City?

MS. EMBLEY TUNER: Alicia Embley Turner with Newman, Comley, and Ruth Law Firm here in Jeff City, 601 Monroe Street, Suite 301.

JUDGE WOODRUFF: For IEBW Local Union No. 53?

(No response.)

JUDGE WOODRUFF: Michael Amash signed on behalf of -- hello? Did someone just join us by phone? I guess they left. All right.

Then, we'll move on for the other Union Local 11.

MS. HALL: Sherrie Hall from Hammond and Shinners.

JUDGE WOODRUFF: And for Midwest Gas Users Association?

MR. CONRAD: Stu Conrad, Finnegan, Conrad, and Peterson, Kansas City.

JUDGE WOODRUFF: Okay. And for the Missouri Department of Natural Resources?

MR. KNEE: On behalf of the Department of Natural Resources, Jeremy Knee. Address is P.O. Box 899, Jefferson City, Missouri, 65102.

JUDGE WOODRUFF: I think the only other party I didn't mention was KCPL and GMO. Are they here?

(No response.)

JUDGE WOODRUFF: Okay. I think that's everyone.

If I've missed anybody, speak up now.

MR. SWEARENGEN: Jim Swearengen and Paul Boudreau for the joint applicants, your Honor.

JUDGE WOODRUFF: Okay. Thank you.

All right. Well, let's go ahead and get started with opening remarks. If you want to start with joint applicants, or however you guys want to do it.

MR. PENDERGAST: Michael Pendergast. And as one of our first energies, we're going to try to do the opening statement for three of the companies. So, we're already on track.

We're here today to address parties' recommendation that the Commission approve Laclede Gas Company's acquisition of the assets and operations of Missouri Gas Energy subject to the terms and conditions set forth in the stipulation and agreement that was filed last week. This is a tremendously exciting moment, not only for my company but for me personally.

It was 20 years ago exactly yesterday that my former employer, Kansas Utility, reached an agreement with SUG to sell what would become known as MGE. And, you know, the folks at SUG are great people and they're a great company, but I wasn't terribly happy about that development because I enjoyed practicing in Missouri and I had done that for 12 years prior to that and, without a utility to operate in Missouri, that was going to be kind of difficult in the future.

So, shortly thereafter, I left, and I joined Laclede and I was able to go ahead and continue to practice for a group of people and an institution that I have great respect for. And I'm very happy to report today that the company I went to has made a similar commitment only for far greater than mine to Missouri with this proposed acquisition of Missouri Gas Energy, and it's a commitment based on the belief that this is a good place to be, it's a good place to go ahead and invest, and it's a good place to grow. And we're very very excited about the opportunity to be here today and ask for your approval to bring this great company back to Missouri as part of the Laclede family, the ownership of this great company.

It's even more gratifying to be here today and to be able to make this recommendation on a unanimous basis because of all the cooperation and hard work that the Staff of the Missouri Public Service Commission, the Office of Public Counsel, and, really, all of the parties to this case have shown. It was a long laborious process, sometimes stretching late into the evening, and it was a process that wouldn't have worked if people hadn't come to it with a very constructive attitude. And we had not only this acquisition to deal with but, as you are well aware, a rate case to deal with as well, and I'm just very pleased and very gratified that we had partners that we could work with to bring this to a successful conclusion.

I'd also like to take just a moment to introduce the folks from Laclede who are here today to help in answering any questions that you may have. We have -- and I -- if they could just -- Suzanne Sitherwood, our President and CEO; we have Steve Lindsey who is the head of our Distribution Operations, and I think all of you probably met before, as well as Suzanne. We have Mark Darrell who has already made an entry of appearance who is the General Counsel of the Laclede Group. We have Mark Waltermire who is our Executive Vice-President and CFO; and right next to him is Steve Rasche who today was named as Mark's replacement as CFO and will be filling his shoes, and filling those shoes well.

We also have, I think, Steve Matthews on the phone, although I'm not sure. Steve, are you there?

(No response.)

MR. PENDERGAST: I'm sure he will be. He's probably out selling gas right now. And we have Hal Moore who is in our Transportation Department today; Mike Sputanski (ph) who has been central to the integration effort, and he has led a very intensive -- I'm sure everybody in this room will vouch for that -- process to make sure these two companies are integrated in the right way. We'll be more than happy to answer any questions that you may have as we go through the stipulation and agreement.

In terms of the basic question of whether or not you should approve the acquisition as the parties have recommended that you do, I think it's always important to remember what legal standard guides that determines and, here in Missouri, it's a no detriment standard. And because the transaction is a no detriment standard, I've been advised on several occasions that we really don't need to talk about all the benefits associated with this transaction but, quite frankly, I just can't help myself.

And I think that, if you look at it by any measure, this is a tremendously beneficial transaction for our customers. By approving it, you'll be enabling the State's two largest gas utilities to create for their customers the kind of long-term value and efficiencies that come from pulling resources, identifying and implementing the best practices of each company, eliminating redundancies and spreading technology platforms over fixed cost over a larger customer base. You'll be bringing to the western side of the state a company that's been in the gas distribution business in Missouri, in one form or another, for over a century and a half and wants to stay in that business. More importantly, you'll be bringing a company that wants to ramp up investment in the business, especially in terms of replacing aging infrastructure just as we have accelerated our cast iron main replacement program in our own service territory over the past several years.

That's the right thing to do for public safety and for making sure we're distributing gas as efficiently and in as an environmentally sound manner as possible. In the process, it also has the added bonus of allowing us to create a significant number of new jobs, all with very modest impacts on customer rates.

Finally, by approving the acquisition, you will be allowing us to secure for our customers the benefit of some extraordinarily favorable financing. Due in no small part to the cooperation of your staff and to your own cooperation in issuing a prior order in this case, we've managed to use swaps to lock in interest rates for the debt that we will be using to finance this transaction, at an average cost of less than 3.5 percent. Although this very inexpensive debt is still incremental cost to us, it is an element that will help to lower the over cost of capital paid to our customers not only for a year or two, not only for a decade, but will into -- 30 years into the future.

And that's an asset that's only going to grow in value as interest rates incline, which I think most of us think they're probably likely to do, making sure that we can continue to lock that in. It's one of the main reasons why we've asked you to approve this acquisition with an effective date of July 31st, so we can go about the business of securing that debt, doing the various things we need to do in advance of our swaps expiring in early September. And those swaps have already shown their value locking in some significant gains which we will, of course, be amatorizing over that debt and passing through to our customers.

So, once again, thank you for your efforts to allow us to get that done. Those are just, I think, a couple of the more significant customers benefits that will result from approval of this acquisition. But as stout and enduring as they are, this is the Show Me State, and we perfectly understand the desire of the other parties, Staff, OPC, and this Commission to ensure that there are conditions in place that will prevent any net detriment in the future.

As you've probably seen from the stipulation and agreement, we have a document that is chocked full of them. Many of them are similar, if not identical, to ones that you have approved before in connection with other acquisitions, so I won't go into a lot of detail on them. There's a very handy index at the beginning of that stipulation and agreement that Bob Berlin was kind enough to put together, and I think it is a very helpful guide to going through it.

But, in very quick terms, those provisions make sure that Staff continuously keeps informed about our customer service performance, including how we're performing in comparison to our own pre-acquisition service matrix to make sure there's no degradation in customer service and, should there be, that they know about it sooner rather than later and we can take remedial steps to fix it if that should be necessary. And I'm confident that it won't be. Provisions aimed at ensuring that Staff's kept abreast of how the critical gas supply functions of the companies are being integrated, provisions aimed at isolating any capital cost impacts associated with the acquisition and making sure that they don't have an adverse impact on customer rates in the future, although, as I just said, I think the capital cost aspects and impaction of this acquisition are going to be another compelling beneficial to customers over time.

There are also provisions aimed at ensuring that the weatherization, energy efficiency. And other programs operated by MGE are maintained until otherwise changed by the Commission, provisions aimed in maintaining our transportation service terms and conditions for a set of period of time given the fact that they were recently changed, and I think transportation customers -- and Mr. Conrad can address this -- we're very interested in having those preserved at least for some period of time given those changes.

Other terms that are in it that may be a little less conventional, we do have a rate moratorium that runs through October 1st, 2015, with some customary outs in the event unforeseen circumstances have a significant impact on the company. We also are continuing to be free to file ISRA (ph) filings and make PGA changes, and we've already talked about what the benefits of the ESRA mechanisms and helping us to go ahead and upgrade the system.

There is a treatment of transition costs in the past. The Commission has determined that transition costs -- and these are really costs to achieve the various synergies associated with the particular combination of the companies -- can be recovered if there are savings sufficient to cover them. Rather than just hold that question in advance, we decided to try and resolve it now; and for one-time transition costs, we have the opportunity to defer them -- 50 percent of them and seek an amortization in our next rate case, subject to everybody's evaluation and making sure that we put everything in the right bucket and that they are prudent and reasonable. We think that, with all of these provisions, we've made a tremendous transformative transaction. Even better, we think it is unquestionably the right thing to do for our customers, our shareholders, and the State of Missouri in general.

We very much appreciate your time in kind of squeezing us in on what we know is a very busy day for you, and we would strongly recommend that you approve this stipulation and agreement. Thank you.

JUDGE WOODRUFF: Thank you. Staff wish to make an opening?

MR. BERLIN: Thank you, Judge. I will be brief. Mr. Pendergast covered many of the items.

May it please the Commission, that the stipulation and agreement that is now before the Commission is the end result of an extensive discovery conducted by the Staff and the parties, and this includes the exchange of information at numerous technical meetings and conferences and settlement discussions conducted by the parties over the past several months. The Staff has entered into this agreement on reliance on the information provided to the Staff and the parties by Laclede and MGE, and this agreement is predicated on the veracity of that information.

This stipulation and agreement can now, as Mr. Pendergast indicated, be treated as a unanimous stipulation and agreement between -- United Steel Workers District 11 yesterday filed a joinder in the agreement. The one non-signatory, KCPL, has indicated that it does not object to the agreement, and seven days have passed since the agreement was filed on July 2nd without any objection by any party. Therefore, by Commission rule, the Commission may treat this as a unanimous stipulation and agreement.

As a result of these proceedings, the Staff is of the belief that the terms and the provisions and conditions set forth and agreed upon in this agreement are just and reasonable and necessary for this transaction to meet the not detrimental to the public interest standard. Not detrimental to the public interest standard is a standard that the Commission is to apply in approving this transaction. This standard comes from 393.190 RSMo, and the Fee Fee Trunk Sewer v. Litz case. As the Commission can see, the agreement itself is a comprehensive document.

I would like to briefly highlight a few key provisions contained in the agreement. Mike Pendergast mentioned the rate case moratorium. There is a moratorium through October 1 of 2015 at which time Laclede may file a rate case. If Laclede does so, Laclede will file for both its Laclede and its MGE divisions. As Mike Pendergast indicated, there are some provisions that allow Laclede to come in earlier under some extraordinary circumstances that are spelled out in the agreement.

Now, MGE may file a rate case by September 18th or forgo filing until Laclede files its first case after the moratorium has passed. Now, MGE can file a rate case without this agreement as it is currently required to file a rate case under the current ISRA statute so that it may maintain its ability to collect an ISRA. And, to that end, MGE has recently filed its 60-day notice of intent to file a rate case proceeding as is required by Commission rule.

Also, part of this agreement is that Laclede is to file no later than July 16th a stipulation and agreement resolving issues in the CAM complaint case, Case No. GC-2011-0098, and indications are that this settlement is on track to meet the July 16th filing date. There are also provisions in the agreement that address the acquisition premium paid by Laclede, and these provisions prevent Laclede from passing on any acquisition premium or transaction or transition costs to ratepayers.

And, finally, I would like to point out that this agreement contains rather rigorous and frequent reporting provisions. These are intended to ensure the flow of critical information from Laclede to Staff and Public Counsel so that we may monitor the progress of the transition. It is our collective desire that Laclede and MGE execute a seamless transition that is transparent to ratepayers and protects ratepayers from any related disruptions.

To that end, I point out that this agreement requires that the Laclede Chief Executive Officer and President and other key leadership be present for two On-The-Record Presentations before the Commission. And these presentations are set for May of 2014 and December 2014, and they are for the purpose of reviewing progress and discussing any problems that might arise as a result of this transaction and discussing any action plans necessary to address any potential problems.

Now, that concludes my comments regarding the agreement at this time. Should the Commission wish to explore any areas of this agreement in detail, the Staff has available John Cassidy, Dave Sommerer, Dave Murray, Lisa Cramer, and Tom Imhoff. This concludes my opening remarks. Thank you.

COMMISSIONER JARRETT: Mr. Berlin, just a quick question. As you note, the stipulation and agreement does contain sensitive reporting requirements. Can you give me an idea how much of that is either statutorily required or required by our rules, and then how much of that is just per agreement?

MR. BERLIN: I would characterize that the majority portion of the reporting requirements are by agreement.

COMMISSIONER JARRETT: Okay.

MR. BERLIN: There certainly are reporting requirements pointed out under the Affiliate Transaction Rules, but most of it is by agreement. And those reporting requirements, as I mentioned, are intended to keep the flow of communications and information current between the Staff and the companies to monitor the progress. And, so, that's how we approached the agreement.

COMMISSIONER JARRETT: So, my question, given that -- that most of this comes from the agreement itself, do we have adequate Staff on hand to receive the information, to review it appropriately, and to take action -- any type of action that might be necessary?

MR. BERLIN: Yes, we do. Staff is prepared to do just that.

COMMISSIONER JARRETT: Okay. Thank you, Mr. Berlin.

JUDGE WOODRUFF: Anyone else? Any other party wish to make an opening?

MR. JACOBS: Todd Jacobs, Southern Union Company. Just a brief comment.

COMMISSIONER JARRETT: Sure.

MR. JACOBS: I want to also echo Mr. Pendergast's statements today with respect to the standard. I want to thank the parties, as well, about the efforts that they took to put together this document. It is a muli-layered multi-faceted document with protections for consumers in the State of Missouri, and protections on not only customer service but also with respect to the financial aspects of the transaction and the ongoing company.

We think that, as Mr. Pendergast went into some detail on, that not only meets the standard of detriment but exceeds it. On behalf of Southern Union Company, it also wants to note it's been 20 years of service to Missouri customers. We are very proud of our relationship and our opportunity to serve the customers in the State of Missouri. This really represents the exiting from the local district distribution business by the company as a whole and a focus on transportation of natural gas and other business segments, so this is a significant milestone for the company of itself.

I also want to speak on behalf of the employees of MGE who are very proud of our management team in terms of putting us in the position we've been in today to have a company that we're very proud to hand over to Laclede, and also say that the employees of Missouri Gas Energy are very focused on making this the best company it can be in a combination. So, I want to assure that the best practices of both companies are used, that the employees are very much committed to making sure that that happens, and high levels of service continue. So, I want to relay that message on behalf of our employees.

And, finally, I just want to introduce today someone that should be known to most of all the Commissioners is Rob Hack who is the Chief Operating Officer of Missouri Gas Energy. He's been in this role since January 2006, and he's been with the company Missouri Gas Energy really since shortly after Southern Union acquired the Missouri properties in the mid to late '90s, and prior to that he has extensive experience with the Commission on which he's served as an attorney and also general counsel.

Rob and his management team, again, have really put the company in the position that we are in today that we're very proud to hand over what we see as a solid company and very proud companies what exciting new business combination. So, thank you.

JUDGE WOODRUFF: Thank you. Any other parties wish to make any opening?

(No response.)

JUDGE WOODRUFF: All right. Then we'll move on to questions from the Commissioners. Upon questions, if they can be answered by legal counsel, that's fine. If it is to be more technical and you want to have one of your experts speak to that, have them come on up to the witness stand and I'll swear them in and we'll take that as testimony.

Mr. Chairman.

CHAIRMAN KENNEY: Thank you. Good afternoon, everybody. Thanks for being here, and thanks for taking the time to answer our questions. I want to commend and say that I'm pleased that the parties were able to come to a virtually unanimous stipulation and agreement and commend them for the herculean efforts of getting that accomplished while also resolving a rate case as well. So, it's been a lot of hard work on a lot of different issues, so everybody's to be commended for their efforts.

I have some questions, and I'll leave it to the parties to determine who wants to answer them. Some of these are going to be about the stipulation agreement, and then I have some questions about the purchase and sale agreement itself. I don't know what's going to be HC and what's not. So, if I start talking about actual dollars and cents, is that HC that will require us to go into camera?

MR. PENDERGAST: Probably not.

CHAIRMAN KENNEY: So, the purchase price is a public number?

MR. PENDERGAST: Yes.

CHAIRMAN KENNEY: That still is the same number?

MR. PENDERGAST: Yes.

CHAIRMAN KENNEY: Okay. And that's -- net book value of the seller, is that HC?

MR. PENDERGAST: I don't believe that is.

CHAIRMAN KENNEY: All right. I'll come back to that, then, but if I do say anything that's HC, I'll trust you all to note that so we can go into camera.

I want to ask a really high level question about the purchase sale agreement and the structure of the deal itself, and this is really just for my own edification, because I want to understand why particular corporate structures were chosen and how that's even more to the benefit of ratepayers. I want to ask about the purchase sale agreement.

I understand Plasma Missouri Acquisitions, Inc., was created solely for the purposes of creating MGE?

MR. DARRELL: Chairman Kenney, that's correct.

CHAIRMAN KENNEY: And in the recital -- well, throughout the document, the buyers refer to but it's never defined, and so I looked and looked and looked and I couldn't find where buyer was actually defined. Seller's defined in the very first paragraph, and then it refers to Plasma Missouri Acquisition and Laclede Group solely, Section 13.9, but it's not defined. And if you look over in the definitions, it's not defined, and then, other definitions, it says it's to be defined in the recitals. And I look back in the recitals and I couldn't find it.

MR. DARRELL: Well, you are correct. That is how it's -- how it's stated. The buyer is Plaza Massachussetts, Inc., at least when the deal was originally signed, and then, as you may recall, there was an assignment of the right to purchase the assets of Missouri Gas Energy to Laclede Gas Company in January of this year.

CHAIRMAN KENNEY: Okay. So, where buyer is referred to throughout the documents refers to the Plasma Missouri?

MR. DARRELL: That's correct.

CHAIRMAN KENNEY: And the assignment has already been affectuated to Laclede?

MR. DARRELL: That's correct.

CHAIRMAN KENNEY: Okay. All right. So, Plaza Missouri Acquisition, as it stands, has no obligations, and all the obligations, rights, and duties that are referred to in the stipulation and everywhere else and all the other documents are Laclede's obligations, rights, and duties?

MR. DARRELL: That's correct.

CHAIRMAN KENNEY: Okay. All right. Okay. I thought maybe I just missed it, because I spent a lot of time trying to find it. All right. So, that's my question on that. Let me turn now to the stipulation and agreement.

I have some specific questions about a few things, and I want to start on page 5. Subparagraph F, offer to Laclede Gas to raise certain amount of money by end of this month. Is that something we will be authorizing if we are approving this agreement or will there be a separate transaction asking to issue a debt that we'll have to approve?

MR. PENDERGAST: Chairman, these add-ins are being authorized by part of this approval of the stipulation and agreement.

CHAIRMAN KENNEY: Can we do that without an application for the debt issuance in front of us?

MR. PENDERGAST: I think -- I have seen applications for financing authority necessary to do a transaction included in the application requesting approval of the transaction before, and I think, as long as all the elements that you would normally have in a financing transaction are included in that application, that it is permissible to do that.

CHAIRMAN KENNEY: So, then I have a similar request with respect to the following paragraph G where it's asking for finding coordinance (ph) 393.200, that the money, et cetera, et cetera. Can we make such a finding without an application having been issued and the debt actually being issued?

MR. PENDERGAST: Yeah. I think, once again, we included that language in our original application which we requested both approval of the transaction as well as the financing, and, you know, this is kind of the standard statutory language that we include with every financing application. I think it's a requisite finding that the Commission has to make, and I think it always makes it in advance of the financing actually being procured as it grants authority to move forward and actually secure that debt, or stock or whatever.

CHAIRMAN KENNEY: So, there won't be a separate financing agreement. It will be issued -- the financing agreement and the debt will be issued sometime subsequent to approving, assuming we approve the stipulation agreement?

MR. PENDERGAST: Yeah. I mean, we would request that the order -- and I think we've made it clear in kind of a prayer that we make in this stipulation and agreement -- that when an order is hopefully issued approving the transaction that it will include provisions that will tell us that we have authorization to move forward with the financing necessary to complete the transaction.

CHAIRMAN KENNEY: Okay. Let's look over on page 7, the rate moratorium language. That is a provision that I'm sure the consuming public appreciates, and it refers there, though, to a major impact of a loss of $5 million for the combined entity, right? Was there any concern about that? I mean, that's a -- I guess my question is it's a lower threshold for a large company. Is that -- is that threshold low enough that essentially renders the rate moratorium -- I don't want to say meaningless, but seems like it's easy to trigger that provision that would allow for a rate filing.

MR. PENDERGAST: Well, you know, what we kind of used as sort of divining rod on this is this is a number that would be in excess of 5 percent of the combined companies net income and, customarily, in the past granting count authorizations and that type of thing trying to determine what's extraordinary, that's kind of a rule of thumb percentage that's been used. And it also adds that not only does it have to be that amount but it has to be associated with, you know, one of these specific events that are outlined, and unless one of those specific events occur, you do not have an out.

CHAIRMAN KENNEY: So, it's each one of those specific accounts that, therefore, results in a net loss?

MR. PENDERGAST: That's -- that's correct.

CHAIRMAN KENNEY: Well, that was my question, too. I think the unusual events -- what are the unusual events?

MR. PENDERGAST: Well -- well, you know, I think you could have an unusual event. There's significant change in the environmental law that requires that you do something drastic and very expensive associated with your system, and it has a, you know, one-time impact in excess of $5 million. There is a significant impact from a change in tax laws that would have that particular impact. I think the terrorist, you know, out is pretty self-explanatory or, you know, we go through another, you know, God forbid, instance of financial market meltdown like we had in 2008 has a very significant impact on our access to capital or the cost of our capital that would go ahead and be sufficient to reach that particular dollar level.

CHAIRMAN KENNEY: So, let me be clear. The first sentence refers to benefits acceptance provided therein, et cetera, unless occurrences, significant, unusual event, and then in the second sentence it says, for purposes of this agreement, major impact is defined as a loss of 5 million of net income, and then it lists those four instances.

So, is what I'm hearing from you that significant unusual event means those four instances that are defined in the second sentence?

MR. PENDERGAST: That's certainly how I interpret it, and I believe that's how the other parties would interpret it.

CHAIRMAN KENNEY: So, it's only upon the occurrence of one of those four events nets loss of versus not significant event?

MR. PENDERGAST: Yes.

CHAIRMAN KENNEY: Those are the significant and unusual events?

MR. PENDERGAST: They are.

CHAIRMAN KENNEY: Okay. I want to flip over now to the affiliate transaction cost allegation, Section 11, Section 5. Let me back up. OPC and Staff, you're comfortable that significant and unusual event means four things?

MR. POSTON: Right.

CHAIRMAN KENNEY: And nothing more?

MR. POSTON: That's correct.

MR. PENDERGAST: Correct.

CHAIRMAN KENNEY: The CAM affiliate transaction issue in the complaint case, so there's a stipulation and agreement that we can anticipate being filed July 15th. How does -- how does this section -- what's the practical implication of the intersection of this transaction and the stipulation that is yet to be filed. I guess I'm not -- my question isn't clear. But the complaint case deals with specific documents to have been turned over, et cetera, et cetera.

What's going to be in that stipulation agreement that is impacted by or affects this paragraph? If you know yet.

MR. BERLIN: I'll answer, Mr. Chairman. That complaint case that we hope, as a result of this stipulation and agreement, will provide for a Commission -- eventually a Commission-approved CAM, a CAM with standards of conduct that are agreed upon by the Staff and Public Counsel and the company. That's what we hope to resolve from that particular settlement.

MR. PENDERGAST: Yeah. Just echo that.

CHAIRMAN KENNEY: It's a new cost allocation manual?

MR. PENDERGAST: It's one that we've been working on for a couple of years now, and it ought to be a really good CAM, as we've spent a significant amount of time developing that. And I think the Commission's been getting status reports for a fair amount of time now talking about how the parties have been addressing these issues and discussing them, and we made a tremendous amount of progress, and I think it's fair to say that we're on track for having a stipulation and agreement filed by the date that's provided for in the stipulation and agreement and that will go ahead and have a CAM that the parties are comfortable with. It will go ahead and have standards after for conducting gas relations that the parties will be comfortable.

I think we're certainly close to being there, and, really, the idea is to, as we go forward and combine our two companies, you know, having a clear set of standards that we can use to govern those particular transactions and to have them be applicable both to the Laclede Division and the MGE Division. And, once again, I have to express my appreciation to Staff and the Office of Public Counsel for working so long and so hard on trying to go ahead and get -- get this in a position where we can come to the Commission and ask for its approval. We want to have ground rules that we can rely on and that everybody's comfortable with as we move forward in the future with these companies operating together.

CHAIRMAN KENNEY: And that's all a part of the stipulation and agreement that's going to be filed in six days?

MR. PENDERGAST: Yes.

CHAIRMAN KENNEY: All right. Okay. Let's turn to page 13, the credit impacts and remedial measures, Section No. 9. I want to talk about that first paragraph, and then I have another I want to compare it to a later paragraph.

How will, one, no such a reduction or downgrades because of the business or financial risk occasioned by this transaction and transactions capped defined term in that paragraph. So, how will we know if any such reduction is caused by or occasioned by this transaction? It says it's a significant contributing factor. How will we know that? What are the standards for knowing that?

MR. PENDERGAST: Well, I think probably the best answer to that is that, if you do have a downgrade, usually a rating agency will provide some explanation --

CHAIRMAN KENNEY: Sure.

MR. PENDERGAST: -- for why that downgrade occurred. I mean, it's more of a science -- or more of an art than it is a science. So, that doesn't mean that you're going to be able to categorically tell exactly, you know, what was a significant factor or primary factor or not a factor at all, but if it's mentioned it was a factor, and it will really be up to, you know, how prominant it was mentioned at that time.

CHAIRMAN KENNEY: OPC, Staff, you guys good with it?

MR. POSTON: Yes.

CHAIRMAN KENNEY: Seems kind of a morphis. I worry when terms are vague and they lead to disputes later in interpretation. But everybody's comfortable with that interpretation?

MR. POSTON: Yeah. I see your point, it could lead to conclusion, but, hopefully, the rating agency will be clear if this were to happen.

CHAIRMAN KENNEY: Okay.

MR. PENDERGAST: One thing I would add to that just to kind of put it into perspective, too, as you go through the stipulation agreement, there are a number of provisions that address this. And the idea is to protect customers from any adverse impacts on cost of capital associated with the acquisition and the language in the stipulation and agreement talks about that being a net impact and, you know, it's possible that you might have, you know, a downgrade that could affect your short-term paper costs for a number of years.

But, you know, from our perspective, given the environment we operate in today, if that should occur, it would be a relatively modest impact and you have to go ahead and set that against that under 3.5 percent debt that is only being issued as a result of this transaction as tiered debt issuances lasting for 30 years in the future. And, that, I think if you have a reasonable analysis of what that means, I mean you're talking about millions and millions of dollars in capital costs benefits associated with that one thing. You're -- you are going to have to look at it on a net basis, not just have an impact in one particular rating agency and one particular short-term deference, but what's the impact considering all time together.

CHAIRMAN KELLEY: That's a good segueway to the following two sections, 10 and 11. I'm assuming what you just described is how -- how it's to be analyzed on a macro basis rating. So, in the 10 and 11, I presume detail on a micro basis how consumers are to be protected from those types of capital costs impacts.

Let me ask this question about Section 11, and this is really again to make sure that everybody's on the same page and so the confusion is avoided later. In 11A refers to other financial conditions. 11A refers to Laclede Gas's credit rating and/or quality declining primarily because of the acquisition, as compared to a credit decline because of the transaction as a capped term where it's a significant contributing factor.

Is there any inconsistency between what I think is essentially describing the same thing in 11A and paragraph 9, the first paragraph of Section 9? So, we refer to the acquisition and not the transaction, and we refer to a credit declining primarily because of the acquisition versus business risks introduced by the transaction that was a significant contributing factor. Any inconsistency in those terms used there? And if it's intended to mean the same thing, why not use the same language?

MR. PENDERGAST: You know, I think part of that is due to the different purposes being served. And a great deal of this stipulation -- these stipulations in '09 of talking about the remedial steps that need to be taken, and as opposed to just cost impact. And I think the idea was that we want those remedial steps to be taken, you know, under maybe a less stringent standard than what it would be for the cost impact.

CHAIRMAN KELLEY: 9 and 11 don't mean the same thing?

MR. PENDERGAST: Pardon?

CHAIRMAN KELLEY: So, 9 and 11 don't mean the same thing?

MR. PENDERGAST: I think you just look at the words primarily and significant contributing factor, one could say, you know, the one is -- it's got to be kind of a big thing but it doesn't have to be the, you know, predominant. The other would say it's got to be to predominant, so I can't sit here and tell you those two things are exactly the same because the words would not suggest that they are. But I think that, by and large, the first use is more concerned with remedial measures that need to be taken while the other is more concerned with the potential cost impacts.

And, you know, I guess the other thing I would note is that a lot of this language is similar to language that we had in a holding company stipulation back in 2001; only there, these remedial steps needed to go ahead and be taken if we went down to below investment grade, and here they have to start to be taken -- start to be taken if we go down to BBP minus, which is one notch above non-investment grade. And, you know, I think from the standpoint of providing additional assurance that, if something should happen, that needs to be addressed, that needs to be remedied, we've got the canary, you know, in the trap, if you will, dying a little bit sooner than it did before, so that we know that we need to go ahead and start addressing that problem.

I mean, from our perspective, we don't think that there's any likelihood whatsoever that we're going to get to that point.

CHAIRMAN KENNEY: Sure.

MR. PENDERGAST: Certainly not as a result of the acquisition, but I think Staff was, you know, wanting to go ahead and make sure -- and Public Counsel -- that, before we even got to non-investment grade, we had a mechanism in place to start remedying it in the unlikely event that would -- that was to occur.

CHAIRMAN KENNEY: You guys want to add anything?

(No response.)

CHAIRMAN KENNEY: All right. Let me turn to page 18 then, service quality conditions. The last paragraph -- the last sentence, rather, in the A subparagraph right before the B paragraph, the Staff and/or OPC may request additional periodic meetings with Laclede Gas requesting customer service proceedings and level of service provided, and Laclede Gas will agree to those periodic meetings.

Is that presumed in the rest of that sentence?

MR. PENDERGAST: We're always willing to talk, Chairman.

CHAIRMAN KENNEY: Okay.

MR. PENDERGAST: And the whole essence of these reporting requirements -- we understand where Staff is coming from. OPC is taking from --, taking two large companies defining operations existing deal and want to make sure they keep their eyes on what's going on. I think what's really neat on this stipulation agreement, MGE external standard band and call rates sort of thing, there is more velocity inherent in that when you look at what companies' own performance service matrix are. We have a lot of them, so do MGE, where we go ahead and, you know, try and from a managerial standpoint what we got to be doing out in the field, what we've got to be doing in the call center, what is good indicia of good customer service, and what we're going to do is make sure that Staff knows and Public Counsel knows how we're performing in comparison to those opposed to acquisition basis.

And, you know, there may be instances where we're not performing where we wanted to perform. For example, you know, we have had a successful integration now of the customer service part of our new Blue system which is going to be, I think, a great thing for customers, but as you're switching over to a new system like that, you know, people need to be trained, people need to go ahead and be familiar with the system, and so there can be a short transitional period where you're maybe not meeting all your matrix.

And the thing is we want to be able to be in touch with Staff as we have been over the last couple of years on frequent meetings and let them know what's happening before customers start calling them so that we can discuss it. We can determine whether there are things we ought to be doing to go ahead and fix a problem if it's developing. But we shouldn't be setting things in stone. You know, these are revolving things. Customer service evolves, and the more we can go ahead and manage to those kind of systems and matrix that we all agree on, the better off we are.

CHAIRMAN KENNEY: All right. Let me look at page 19. Actually, let's jump over to 20. I'm sorry. So, I mean, one of the primary benefits of a merger is synergies and efficiencies and reduction of redundancies, and our concern, I think, is to ensure that customer service stays the same and quality of service stays the same, but ratepayers are protected from any adverse financial impacts that potentially -- or they don't pay an acquisition premium, and I think all the standard things have been covered.

What intrigued me, Paragraph 9 concerns synergy studies result from 2012 from Bruisen (ph) and Company, and that apparently forms the basis of some of the ongoing reporting requirements between the company and Staff. Has that document been filed in this case and, if not, can we get a copy of it? I couldn't find it and was looking for it. I didn't see it attached to anything else. Seems like that would be an interesting document to read.

MR. PENDERGAST: Yeah. Your Honor, it has not been filed. I think it's been provided in response to data requests that we've had from the parties, and if the Commission would like to have that filed on a Highly Confidential basis, I think that shouldn't be a problem.

CHAIRMAN KENNEY: Yeah. I'd like to read it. All right. That seems like that's a significant document on basis and things.

I have a couple other questions about the corporate structure, and this goes back to my initial question about Plaza Missouri Acquisition being created for the purposes of being --

Put that phone on mute. Your phone's not on mute.

JUDGE WOODRUFF: Is that you, Mr. Conrad?

MR. PENDERGAST: Somebody needs to put your phone on mute.

JUDGE WOODRUFF: Somebody needs to put your phnone on mute. We're getting a lot of background noise.

MR. CONRAD: Okay. I don't know if it's from us, but we'll be happy to comply.

JUDGE WOODRUFF: Thank you.

CHAIRMAN KENNEY: Thanks, guys.

MR. PENDERGAST: That's another way to do it.

JUDGE WOODRUFF: Mr. Conrad, are you still there?

(No response.)

JUDGE WOODRUFF: Now he's probably left. I hear Ms. H. Mr. Kerrigan still there?

MR. KERRIGAN: I'm still here.

JUDGE WOODRUFF: Hopefully Mr. Conrad will call us back if we need to. All right. Go ahead.

CHAIRMAN KENNEY: And this is really, again, for my own edification. The original -- there was reference in the purchase sale agreement to a series of transactions that occurred probably six months to the joint application being filed. So, the Energy Trans -- Transfer Partners and Energy Transfer Equity, LLP, that created a holdco -- ETP Holdco that owns SUG. Does that all ring a bell, referenced in the purchase sale agreement? My question is what's the benefit of structuring the deal in that regard?

MR. CONRAD: Judge Woodruff, I pushed the wrong button.

JUDGE WOODRUFF: We thought we might have lost you, but glad to have you back again.

MR. CONRAD: Okay. I'll try to stay mute.

JUDGE WOODRUFF: Thank you.

CHAIRMAN KENNEY: So, Southern Union's doing business MGE, Energy Transfer, LLP, is an energy --

entity, partners entity, and then ETP Holdco is an entity. So, you have the manager transfer entities that are of 60/40 owners, ETP Holdco which are then -- which is then a SUG, wholly-owned subsidiary of STP. Who is the seller, who has the benefit, and what's the buyer of having the --

MR. JACOBS: I can refer that to Mr. Kerrigan. I can answer from the regular standpoint of the main entity to be concerned with --

MR. KERRIGAN: I'm sorry, guys. Do you want me to answer that? Rob Kerrigan.

Mr. Chairman, Southern Union Company is actually the seller. Missouri Gas Energy is a division of Southern Union doing business in Missouri as Missouri -- under the fictitious name Missouri Gas Energy. For all purposes, Missouri Gas Energy and Southern Union -- more appropriately, Southern Union is Missouri Gas Energy, and that is why the sale of the assets of Missouri Gas Energy and Southern Union is the seller. Southern Union Company.

CHAIRMAN KENNEY: So, then, what is the purpose behind all of the other entities? I guess the reason I'm asking the question is not just, you know, for period of interest, I want to be sure Laclede is not acquiring a bunch of liabilities from a bunch of unknown companies. So, what's the purpose of ETP Holding?

MR. KERRIGAN: I think I can speak to the answer on the liabilities. They are acquiring the assets. They won't be acquiring the other liabilities of other transfer companies, but Energy Transfer is comprised of two master limited partnerships. The first is Energy Transfer Equity, LLP, which is a publicly-traded partnership and the general partner of Energy Transfers Partner which is a master of the partnership. Some of this has been cleaned up when Energy Transfer acquired Southern Union, they did it through Energy Transfer Equity, not Energy Transfer Partners, and then Energy Transfer subsequently acquired Central, Inc., Energy Transfer Partners, and at the time of that transaction the Chairman of the entity called ETP Holdco was created in which Energy Transfer Equity has 60 percent of the interest in the joint companies of Southern Union and Sinco (ph) and Energy Transfer Partners had 40 percent ownership of those companies.

Much of that had to do with the internal structures of Energy Transfer. Subsequent to those dates, we have a few questions from our unit holders, not only yours, for clarification. We have eliminated the ETC Hold Structure, and Southern Union is now 100 percent wholly-owned, Energy Transfer Partners, LP, as are Sinco assets. So, Energy Transfers Partners, LP, owns 100 percent of the equity interest in Southern Union, and Southern Union is selling the assets of the Missouri Gas Energy Division. I don't know if that helps clarify it at all.

CHAIRMAN KENNEY: It does.

MR. KERRIGAN: Let me know if it does. If it doesn't, I'm happy to keep discussing.

CHAIRMAN KENNEY: Well, I'm assuming that some of this has some type of tax benefit as well.

MR. KERRIGAN: Obviously, in the tax structure as well, as just since there are two publicly-traded partnerships, the protection of the unit holders of each partnership, so that the ownership were appropriately aggregated cost of public holders and, therefore, that each of EPE, HGP have their own boards and own public service holders. So, part of the allocation has to deal with how the assets were distributed amongst the companies, and we have done -- Energy Transfers been doing a lot of work over the last few years to simplify structure, and we have handled that mostly by proceedings flowing Energy Transfer Equity, Energy Transfer Partners taking on the hard assets.

CHAIRMAN KENNEY: That does make sense. Thank you.

MR. DARRELL: Mr. Chairman, just to clarify in terms of how Laclede views this, we are buying assets and liabilities of the business which is defined in the purchase and sale agreement as Missouri Gas Energy definition of Southern Union Company. So, that's what we are purchasing.

MR. JACOBS: These other entities, essentially, will have no affiliation with Laclede Gas once the transaction is consummated.

MR. DARRELL: That's correct

CHAIRMAN KELLEY: Net assets, adjusted net assets, somebody say that? I think I got that out of the sale agreement?

MR. DARRELL: Purchase and sale agreement, it's public.

CHAIRMAN KELLEY: Net assets of MGE 740 million, adjusted 790 million, 775 million. Is the acquisition premium dealt between the adjusted net assets and the purchase price or the net assets and the purchase price or is the acquisition premium all put together?

MR. PENDERGAST: I think now's a time to bring a finance guy in.

CHAIRMAN KELLEY: This is probably my last question then.

JUDGE WOODRUFF: We're not going in camera. I pushed the wrong button.

MR. RASCHE: Steve Rasche, R-a-s-c-h-e.

JUDGE WOODRUFF: Mr. Rasche, please raise your right hand.

(Whereupon, Steve Rasche was administered the oath by Judge Woodruff.)

JUDGE WOODRUFF: Thank you.

MR. RASCHE: Good afternoon.

CHAIRMAN KENNEY: Hello. Congratulations.

MR. RASCHE: Thank you.

CHAIRMAN KENNEY: Not for coming up here and answering my questions --

MR. RASCHE: Got it. Job performance.

The question was raised how do we calculate the premium on the transaction, and the way that would be calculated, you take all the costs associated with the deal, which would start with the 975 million that is stated in the contract, it will be reduced by certain pieces of the transaction including the proceeds that we'll receive from the sale of a gas company property, so think about it as 964 million, and other adjusted by transaction cost, that is the total price we will end up paying on the assets, on the other side assets of the business, and then it gets adjusted for whatever the current value of those assets would be at the date of closing, which we would expect to be -- and hope to be -- August 31st of this year.

We would expect the premium -- if you do the math -- to be in the range of 300 to $350 million, and that has been shared in the public domain. It's a wide range, and we -- really, the reason for the range is we have to wait until we actually get the books finalized at day of closing.

CHAIRMAN KENNEY: So, when you look at the net assets of MGE and then variety of adjustments to get to the adjusted net assets, one of the adjustments -- and I can't find it now, because there's a significant distinction between the net assets figure and the adjusted net assets. Well, actually, I'll come back to my question. I think you've answered my question, essentially, the dell between purchase price and adjusted and net adjusted net assets of the company --

MR. RASCHE: Yes, sir.

CHAIRMAN KENNEY: -- is that doesn't get passed on to ratepayers.

MR. RASCHE: It does not.

CHAIRMAN KENNEY: All right. I got to find this thing. There was a chart or spreadsheet that had -- and I can't find it; I'm embarrassed I can't -- net assets, MGE, various adjustments arrived at the $590 million figure. Do you remember that document?

MR. RASCHE: No. We've supplied a number of different analyses in response to data requests. I know which one you're referring to. I'm trying --

CHAIRMAN KENNEY: I thought it was included in the purchase sale agreement, actually. Is there such a schedule in the purchase sale agreement?

MR. JACOBS: Base Statement 118?

CHAIRMAN KENNEY: Yeah. I think that's it. Is that in the purchase sale agreement?

MR. JACOBS: Yes.

MR. DARRELL: No. Why is my copy missing that?

CHAIRMAN KENNEY: It's an attach --

MR. JACOBS: One of the schedules.

MR. DARRELL: I'm looking at it now.

CHAIRMAN KENNEY: All right. I'm not. I thought I had it attached. So, rather, I'm going to defer my last question until after I get the document. I don't want to hold up my fellow Commissioners. That was actually going to be my last question with respect to the acquisition premium. But I don't have the document right in front of me, and, so, it's going to take me a second to get it here.

MR. JACOBS: I'll tell that you, if you're wondering what the adjustments between the two are, they're generally eliminating the assets that would have been established or put on the books of MGE as a result of their acquisition by Southern Union. All of those are generally eliminated in accordance with generally accepted accounting principles, and we're only buying the net hard assets, and this is the vast majority of large adjustments, plus and minus, that you would see in that adjustment column.

CHAIRMAN KENNEY: Okay. Well, okay. Do you want to wait two more seconds -- maybe I won't. All right. I had a -- this is the specific adjustment that I had -- or specific question I had, and I do have it now. The acquisition adjustment, is this HC? This says HC.

MR. JACOBS: Is this -- I'm sorry?

CHAIRMAN KENNEY: Is -- the base statement, is this HC? It's marked HC.

MR. PENDERGAST: I think it's fine. I think the schedules were originally marked as HC, but I think we're comfortable in having this discussed.

CHAIRMAN KENNEY: So, the acquisition adjustment, the 251,199,460 actual -- it's in the column for actual, and then adjusted out. What is -- why is that put in and taken out? Why is that added in and taken out?

MR. PENDERGAST: The column on the left are the actual accounts for MGE and Southern Union when they booked their original acquisition; and, ultimately, when Southern Union was acquired by ETE, there was a good bit of goodwill created in the transaction, and they chose to push down the goodwill to the MGE books. So, that

$251-and-change million you see is their goodwill. We're not buying back goodwill, so that gets eliminated in the transaction counter.

CHAIRMAN KENNEY: I see. All right.

MR. PENDERGAST: Similarly, the -- company accounts which are the monies flowing back and forth between Southern Union and MGE, which is of their own accord, would be eliminated because that's not an asset or a liability that we would purchase.

CHAIRMAN KENNEY: All right. So, the figure on the right is the -- this will be adjusted, I guess, before the deal is finally closed, but the figure on the right is the net assets of MGE?

MR. PENDERGAST: As of September 30th, yes, it would be, and it will be updated for the final closed figures as of the actual closing dates.

CHAIRMAN KENNEY: Thank you very much for your questions (sic). I don't have any other questions. Everybody, thank you for the time to patiently answer my questions.

JUDGE WOODRUFF: Mr. Jarrett.

COMMISSIONER JARRETT: Good morning, everyone -- or, afternoon, I guess. I just have just a few general questions. My first question would be to our Staff, and then also the ratepayer interests and parties here. Are all of you comfortable that the purchase price in this case reflects the true market value or the fair market value of what Laclede is purchasing? In other words, is Laclede overpaying for this acquisition?

MR. BERLIN: Commissioner Jarrett, I'll attempt to answer that question, but I might have to a rely on John Cassidy who actually looked into that as part of his audit. The short answer is yes, market price for the assets is, of course, set by the market; and, to that, I would look to John Cassidy and see if he might have anything else that he might be able to elaborate on that a little bit more.

COMMISSIONER JARRETT: Okay. Great

MR. CASSIDY: John Cassidy.

JUDGE WOODRUFF: Good afternoon, Mr. Cassidy. Raise your right hand.

(Whereupon, John Cassidy was administered the oath by Judge Woodruff.

MR. CASSIDY: Commissioner, I would say that the price they paid represents the highest price over any other bidder that was submitted. So, it's probably a good reflection of fair market price. But we have protections in place for that premium so that ratepayers will not be on the hook to pay for any of those costs in future rate cases.

COMMISSIONER JARRETT: Okay. Thank you. That's all I needed on that. And, then, I will turn that around and ask Laclede what ratepayers are paying is the --

MR. CASSIDY: The net book, that's what they'll be paying for.

MR. JACOBS: Commissioner Jarrett, Todd Jacobs with MGE Southern Union. I would also add, to get a little color to it, is that Southern Union auctioned these properties starting in the summer of '12, and it was an extremely robust and extremely competitive auction process that generated quite a bit of interest. So, we believe it was a competitive process that resulted in a normal price for the assets.

COMMISSIONER JARRETT: Any other ratepayers or interest -- consumer interests want to chime in on that?

MR. POSTON: I'd just like to say that I can't really say whether we, at this point, consider that to be a fair amount, but I don't have any reason right now to challenge it.

COMMISSIONER JARRETT: Okay. Well, given that, I'll ask Laclede, then, do you think the protections to the consumers on this will have any type of negative impact on Laclede's ability to make this merger successful?

MR. PENDERGAST: I think I'd like to answer it this way. From the very beginning of the bidding process, we kept in mind what sort of regulatory treatment we were likely to receive in Missouri. We knew what the rules in the same (sic) were -- game were. We know you don't typically get to recover your acquisition premium, and as we bid and we decided how much we could bid, we kept those, you know, ground rules firmly in mind. So, my answer to you would be yes, we think that, given the price we paid, given the ground rules we knew about, this is certainly a financially doable deal. I would simply add to that that it is based on mainstream regulatory treatment.

I think that we have struck a really good but delicate balance here between wanting to maintain customer service and having financial resources to do so, generate additional efficiencies that will rebound to the benefit to customers for decades to come, and be able to maintain a strong credit rating profile. And I think that we have terms and conditions now that allow us to do that, and I'm hopeful that there will not be something that will upset that delicate balance in the future.

But, for where we are now, I think we're good.

COMMISSIONER KENNEY: Can I follow up that question?

COMMISSIONER JARRETT: Sure.

COMMISSIONER KENNEY: Everybody agrees Laclede's not putting itself into any poor financial condition in order to serve its consumers over the next -- looking at these financial conditions out there, everybody is happy. I guess nobody said anything, so I guess everybody's happy. I mean, because it's -- you know, it's a very substantial acquisition fee, but, you know, all industries are different, and the financial climate out there, we're in a type of recovery, but I'm just -- my question, does it put the current Laclede customers at any risk?

MR. BERLIN: Commissioner Kenney, I'll take a stab at that. I believe what we have here in the document and the agreement are some rather extensive conditions and quite a few financial conditions as well to help protect against any adverse impacts as a result of the transaction. Staff's review is we have protections in the agreement that mitigate that risk. So --

COMMISSIONER KENNEY: Okay. I've read through some of those, but doesn't seem any really concrete. I know a lot of reporting situations and 30 days, 45 days, but, to me -- those are nice -- but that doesn't really -- that doesn't get to my questions. I don't think that solves a financial risk. It just gives you more reporting obstacles and maybe more opportunities to see what the problem might be.

But my question was just pretty simple. Anybody look at this as a risk to the current customer base of Laclede?

MR. BERLIN: Not -- not beyond what the protections are within the agreement.

MR. PENDERGAST: Commissioner, the only other thing I might want to elaborate on that is we tried to be very transparent and consistent about this transaction and its financial parameters and what we paid and what we're going to have to absorb and what we're not going to be able to recover from our customers and what kind of savings we expect to achieve by combining the companies.

And, very early in the process, we told the Staff and the Office of Public Counsel exactly what kind of analysis our board had gone through in determining the debt, this is something we could do. And this is something we still go ahead and maintain the creditworthiness of the company. And, believe me, we have a pretty conservative board and they were every bit as much concerned about that and making sure that whatever we did was consistent with maintaining what's been an excellent, you know, creditworthiness for many many years.

And, you know, today, I think Laclede has the highest rating of any major investor-owned utility in Missouri. We hope to stay that way, but we, you know, certainly are well positioned to go through this. And we told the same story to the investment community, you know, exactly what we told the board, and we told the Staff, and the investment community has, I think, reacted very favorably to it as evidenced by what has happened to our stock price since we, you know, announced this. It's gone from, I think, 38, 39 currently up to 44 or 45. So, I think there's a fair amount of belief out there that this is a transaction that makes sense, that it's a transaction that's really doable.

You know, there are challenges, no question about it, but I think that we're well positioned to go ahead and meet those challenges successfully.

COMMISSIONER KENNEY: That's great. Thank you. Did you say that your acquisition costs, you have fixed carrying costs right now? You mentioned, I think, 3.5 percent interest rate.

MR. PENDERGAST: Well, for the financing, we will be issuing a significant amount of long-term debt, and because we received Commission authorization to do swaps, we've got that locked in, and the lock in is below 3.5 percent, probably in the low 3s, and if we can complete this by September, we'll be able to lock it in at that rate. Those are in transition, some five years, some 10 years, some 30 years, but compared to, you know, what debt has typically been in the past, you know, it couldn't be a more ideal time to buy a house, couldn't be a more ideal time to buy a car or to buy a utility.

And the nice thing is we get to lock those in for a significant period of time, and it's kind of the gift that keeps on giving to our customers.

COMMISSIONER KENNEY: Thank you very much.

Thank you, Commissioner Jarrett.

COMMISSIONER JARRETT: No problem, Commissioner Kenney. And, actually, that answers some of my questions regarding the transaction. I just had one final question.

All the parties -- or some of the parties, at least -- in opening statements talked about the standard being not detrimental to the public interest. I just want to give one last chance to all of the -- all of the parties who have participated here today and ask if there are any parties who believe that this transaction is detrimental to the public interest, and that they're not -- and that the not detrimental to public interest standard has not been met in this case.

Speak now or forever hold your peace.

(No response.)

COMMISISONER JARRETT: I will take the lack of response as that the parties all agree that the standard has been met, at least in their opinion, in this case.

Thank you.

JUDGE WOODRUFF: Mr. Stoll.

COMMISSIONER STOLL: First of all, I want to thank everyone for their hard work and being able to accomplish this stipulation and agreement that is before us. And my questions are probably a little more basic about some aspects of the stipulation agreement, that could someone just basically explain the -- on page 8, No. 2, the rate base offset. How does that come about and why? What is that?

MR. PENDERGAST: The rate base offset is designed to reflect the fact that, as a result of the acquisition, there will no longer be the same level of rate base offset there would have traditionally been because of various kinds of tax effects that have to be paid off immediately. And while this is not in any way directly related to the loss of that offset, I think the approach in Missouri has been we don't want to put ratepayers in a position where, on day 1, they have a larger rate base to deal with because of the transaction.

So, we have -- as has been done in prior transactions -- agreed to, for rate making purposes, reflect an offset that will sort of, in a rough test kind of way, recapture that benefit over time so there will not be any financial detriment to customers.

COMMISSIONER STOLL: And how is that amount, a hundred twenty-five million dollars, arrived at? Is that -- what goes into determining that amount that you put in here?

MR. PENDERGAST: Well, Commissioner, it is one that is based, I think, on the parties up-to-date understanding of what kind of impacts this would have based on, you know, what the financial situation of MGE will be at closing, and what's necessary to go ahead and give some consideration for that. You know, it's kind of an adjustment where, you know, you need to be very careful that you're not doing something to run afoul of the IRS's normalization rule. So, it really is an independently-determined number that's designed to just make sure there won't be a financial detriment to customers.

COMMISSIONER STOLL: The parties agree on this --

MR. PENDERGAST: Yes.

COMMISSIONER STOLL: -- on this figure? Okay. On page 17, and 17M, could somebody just explain to me what the annual goodwill impairment analysis is? What is that?

MR. PENDERGAST: Well, my understanding is, when you have goodwill on the books and it's an item that you're not recovering in rates, you have to go ahead and on an annual basis to an analysis to make sure that your ability to carry that on your books hasn't been impaired.

I have now exhausted my entire knowledge of that, so if you want some additional, I can recall Mr. Rasche.

COMMISSIONER STOLL: This is one of those questions that -- and I feel like I'm still learning a lot -- and when I read about that and I thought, Well, I might as well ask what exactly that is. I don't know. Anybody else like to further elaborate, or is that -- you may give me an answer and I'll have no idea what you're talking about, too. That's always a possibility.

MR. RASCHE: I will attempt to translate general accepted accounting principles into English.

COMMISSIONER STOLL: I appreciate it.

MR. RASCHE: Sometimes it's difficult. Mike's actually right, and I applaud you on your accounting knowledge.

Goodwill, to the extent it sits on the balance sheet, has to be verified every year that the value -- the value of the organization supports that goodwill. And what companies are required to do is an impairment calculation, which is essentially a discounted cash flow of the business that supports that goodwill. It's a fairly complex calculation as required by GAP, and we will have to do it on an annual basis in order to get through our audited financials, and we've agreed to supply that to the Staff and to the OPC.

It, essentially, takes the discounted cash flow of this -- in this situation, the MPG business -- and make sure the value created by that business is greater than the value carried on the balance sheet.

COMMISSIONER STOLL: Okay. Makes sense. Okay. Thank you very much.

MR. RASCHE: Uh-huh.

COMMISSIONER STOLL: Let's see. On page 24, and actually starting on 23, No. 14, gas supply and hedging plans. On page 24, it says that Laclede Gas shall present to Staff and OPC its gas supplying and hedging plans for its Missouri customers every fall no later than October 30th. Is this something that is typically done, or kind of explain how this came about.

MR. PENDERGAST: My understanding is that, in the past -- not every year, but we have done this in the past -- in the fall -- I think that the routine nature of it has maybe declined a little bit along with gas prices -- but I think that Staff appreciates being advised of what's going on. I know that MGE pretty regularly comes down and gives a presentation how things are looking and what they've hedged, and so forth and so on.

And, you know, in the spirit of communication and keeping Staff and OPC and everyone else in the regulatory process apprised of what's going on, that's something we're certainly willing to undertake and do it maybe on a more regular basis.

COMMISSIONER STOLL: So, this may be kind of like Commissioner Jarrett's question, this was put in, then, more to help promote -- I shouldn't say goodwill after the last -- but to make sure that everybody's well informed about the progress of the merger?

MR. PENDERGAST: Yeah. And I would just add that I think it has an origin that's even outside of this particular acquisition proceeding, because I think companies have come to varying degrees down once a year and done that anyway.

COMMISSIONER STOLL: Okay.

MR. BERLIN: Commissioner Stoll, I would like to add to that response in that is a standard practice. It has been a standard practice, and I believe it goes back to ever since the Commission enacted its gas hedging rule. But the gas LLCs come in on an annual basis and present to the procurement and analysis staff their gas supply and hedging plans for Missouri customers so that we are kept abreast and knowledgeable of the hedges that are in place regarding, you know, future weather events and so forth.

And, so, what this provision does is it brings Laclede Gas itself in, and Laclede is the -- to my knowledge -- the only LLC that has not been coming in as regularly, and, by that, I mean on an annual basis. They have come in before, but it hasn't been annualized. So, this requirement brings them up to speed with the other gas LLCs, and so this has been a standard practice of the Staff.

COMMISSIONER STOLL: Very good. Thank you. And last -- lastly, I just wanted to say that the -- if I can find it here -- the service quality conditions that start on page 17, they sound very good. It sounds like parties are trying to do everything they can to maintain their level of service. And just was an interesting part for me to read through -- through that section

So, I have no questions, but thank you for that -- for getting that in there. And, actually, I have no other questions then.

JUDGE WOODRUFF: Mr. Kenney?

COMMISSIONER KENNEY: Thank you very much. I would like to thank Staff, OPC, and all the different business interests where you work in in completing this merger. It's good for the State, I'm sure; and if everybody's agreeable to it, I know I am, too. I have just -- probably after listening to the other Commissioners, some of their questions -- just three probably short clarifications.

Laclede and the MGE are going to be two divisions under LG, correct?

MR. DARRELL: That's correct. As two divisions of Laclede Gas Company.

COMMISSIONER KENNEY: Yeah. Okay. And, subsequent to October 1st, Laclede Gas shall include both divisions in their first rate case? Am I correct in assuming that?

MR. PENDERGAST: That's correct, Commissioner.

COMMISSIONER KENNEY: And, then, subsequent to that, they may or may not, they could be separate or together? Am I reading that right on page 8, 7 and 8 in that area?

MR. PENDERGAST: After that. And there are differences of opinion -- and I'll mention them now -- over whether or not you can file separately. We have retained the right to do that if we should so choose.

COMMISSIONER KENNEY: But anyone can challenge that?

MR. PENDERGAST: That's correct. Public Counsel retained the right to challenge that should they do that. In our, perspective in the interest of earnings, diversity, that sort of thing, we think it makes sense to have a more staggered approach, but there are viewpoints on the other side. What we know for sure is that we can file an MGE case as long as we do it September 18th on its own.

COMMISSIONER KENNEY: Which I imagine I read that as you're going to do it?

MR. PENDERGAST: Yeah. And we filed our notice for that.

COMMISSIONER KENNEY: Right.

MR. PENDERGAST: But, after that case, our commitment is that the next rate case that is filed by either division, both divisions will be filing.

COMMISSIONER KENNEY: Will they be included together or will they both -- does it mean they'll both file? They have to be included together, correct?

MR. PENDERGAST: Well, I think that detail still has to be worked out a little bit. I know they've got some experience with other utilities that have filed through different divisions before, and sometimes I think maybe they've been staggered a bit.

COMMISSIONER KENNEY: So, just for my clarification, does the company Laclede Gas prefer the option to file either together or separate? I mean prefer that option?

MR. PENDERGAST: You know, we would prefer that option, but consistent with what we've agreed to here, we're certainly agreeable to filing them both at the same time and we made a commitment to do that.

COMMISSIONER KENNEY: On the first time?

MR. PENDERGAST: The first time out.

COMMISSIONER KENNEY: Then, after that, the language, as I see it, leads -- gives whether one can challenge it or not and vice versa. What is Staff -- Staff's position on that state, on that issue?

MR. BERLIN: What Staff certainly wants Laclede Gas -- when it files upon the separation of the rate moratorium October 1, 2015, Staff wants Laclede Gas to come in and file a rate case that includes both the Laclede Gas and MGE divisions. At that time -- and that's principally for the purpose of being able to identify and isolate all of the overhead and shared services costs that might be assigned to either division.

Going forward, I believe -- and I would like to pass that off to John Cassidy -- but the Auditing Staff does prefer that Laclede Gas come in with both divisions. But we had agreed that, after the first big rate case, we would revisit that.

COMMISSIONER KENNEY: And, then, would that be something that would revisited -- okay? John, go ahead from there.

MR. CASSIDY: Well, Commissioner, I would add to what Bob said about the allocation of common cost. You know, there's also a concern that Staff would have that one division could be over earning while another one is under earning and they would selectively come in with the under earning division. So, from Staff's perspective, they want both divisions to come in at the same time in the future.

COMISSIONER KENNEY: Only -- okay.

MR. CASSIDY: But the agreement's couched to allow some latitude for parties to argue what they would prefer to do after the October --

COMMISSIONER KENNEY: That's something that was never -- I mean, it's one of those issues that may be a little bit of disagreement there, so we give latitude. Get the agreement done, and we'll work on that one. Thank you, John.

MR. CASSIDY: Sure.

COMMISSIONER KENNEY: What's OPC's position on that?

MR. POSTON: Yeah. We kind of pushed to have the ability to challenge a single division filing in the future. So, we do question the lawfulness of a single division filing. We've agreed not to challenge the MGE one for purposes of settlement.

COMMISSIONER KENNEY: But I've learned around here pretty quick, doesn't matter what which side it is, we like to challenge. If it doesn't fit what we want, everybody likes to challenge something.

MR. POSTON: I don't know if it's a matter of fitting what we want, but can be a matter of what we think the statutes will allow for.

COMMISSIONER KENNEY: Okay.

MR. POSTON: We have to study that issue should they file them separately in the future beyond the terms of the agreement, and we very well may challenge it at that point.

COMMISSIONER KENNEY: Thank you. All of that on that.

MR. DARRELL: (Indicating.)

COMMISSIONER KENNEY: Yes, sir.

MR. DARRELL: Just one point. The two companies at this point have separate cost of service, separate grades, and so forth, and that's the kind of thing that we would be looking at going forward on how that makes sense, whether it makes sense separately or together. We could, ultimately, do it one way or the other. We have not made a decision on what it is we will do.

COMMISSIONER KENNEY: I understand. Yeah. Once you get to that point, you can make an informed good corporate decision based on what's best for your consumer, what's best for the company, and you can -- yeah.

MR. DARRELL: Correct.

COMMISSIONER KENNEY: Okay. Can someone tell me on page 10 -- this is just an education for me. On the one time non-capital transition costs, it says that the signatories agree that one-half of one time non-capital transition costs occurred no later than first five years after closing as described in Attachment 1. And I don't know where I put Attachment 1. What are those non-capital -- one-time non-capital transition costs?

MR. PENDERGAST: That's what I was referring to earlier, Commissioner, and they're essentially costs to achieve the various savings that will be derived as a result of combining the two companies, and it will result in rates lower than they otherwise would have been. They can be costs --

COMMISSIONER KENNEY: I got that. They could be anything. They could be capital, they could be employee, they could be a lot of different things.

MR. PENDERGAST: Well, they have to be one time, so that they can't run forever. It can't just be a due cost. It's going to go ahead and go forth. There has to be some time limitation on it. You know, typically, costs that have been allowed in the past have been, you know, if there are various severance clauses, if there are various costs with associated applying one technology to another, one time in nature, those kinds of things, things that you could not create the savings if you didn't go ahead and spend.

And, you know, the -- going to be free to question those in the future expenditures within the parameters of what we agree on, and we have to demonstrate that the savings we achieved outweigh those one-time transition costs so we have a net benefit for the customer even if we're recovering the 50 percent.

COMMISSIONER KENNEY: Okay. That answers it. Thank you. The last question is regarding -- that's just a statement, Section 25, regarding JJs. So, that's wholly Laclede Gas customer -- Laclede Gas Division customers hold harmless?

MR. PENDERGAST: That's correct, Commissioner.

COMMISSIONER KENNEY: Can you do that if you just file one rate case --

MR. PENDERGAST: Well --

COMMISSIONER KENNEY: -- for the divisions?

MR. PENDERGAST: I think what you need to do under those circumstances is certainly have some sort of allocation, you know, of costs. You know, whether it be, you know, looking at whatever was injuries and damages or whatever would be in, you know, your insurance costs. But, you know, this happened before we acquired it, and we thought that was reasonable to protect our legacy customers of Laclede Gas.

COMMISSIONER KENNEY: Understand. All right. Thank you very much.

MR. PENDERGAST: Thank you.

JUDGE WOODRUFF: Any other questions from the Commissioners?

(No response.)

JUDGE WOODRUFF: All right then. Any final comments from the parties?

MR. PENDERGAST: Your Honor, I know that you folks have other things to do today, but I do think that Suzanne Sitherwood wanted to say a few words, if she could, of appreciation to the other parties for getting to this spot. And, so, if she could have the liberty of just making a few comments?

JUDGE WOODRUFF: Certainly. Come up to the podium. Sounds like this is a thank you rather than testimony.

MS. SITHERWOOD: I was wondering if I'd be sworn in. Thank you. Suzanne Sitherwood, S-i-t-h-e-r-w-o-o-d. Thank you very much.

I do want to thank the Commissioners very much and the parties that have been involved in this. I know this is a serious matter for the State. I've been in the gas industry for over 30 years as a gas company, and I understand your concerns about safety and reliability and customer service matters. I also understand the concerns about the capital structure financing and so forth and make sure we're protecting our consumers. I know a lot of efforts have gone into this, and it doesn't get lost -- don't lose sight of this, so I want to thank you everybody, all the parties in the room. I appreciate your support.

I also want to make a couple of comments that, you know, when I came here, I came and met with the Commissioners and I talked about, during the company, the growth of the company, and it's with great pride of mine and the management team that growing the company meant really growing the gas companies in the State of Missouri and being able to bring these two companies together, making sure that we're focused on, again, safety and reliability and the customer service aspects. And bringing these two companies together, we will be one gas company; and, again, we will do our best to uphold all the obligations that we've committed to. So, thank you very much.

JUDGE WOODRUFF AND ALL COMMISSIONERS: Thank you.

JUDGE WOODRUFF: Anything else?

(No response.)

JUDGE WOODRUFF: All right. Then, thank you all very much for coming, and we are adjourned.

(Adjournment.)

(Whereupon, the record ended at 1:42 p.m.)

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C E R T I F I C A T E

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

I, Pamela S. Gentry, Certified Court Reporter with the firm of Midwest Litigation Services, do hereby certify that I was personally present at the proceedings had in the above-entitled cause at the time and place set forth in the caption sheet thereof; that I then and there took down in Stenotype the proceedings had; and that the foregoing is a full, true and correct transcript of such Stenotype notes so made at such time and place.

Given at my office in the City of Jefferson, County of Cole, State of Missouri.

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Pamela S. Gentry, CCR #426