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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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STATE OF MISSOURI

PUBLIC SERVICE COMMISSION  
TRANSCRIPT OF PROCEEDINGS  
On-The-Record Proceeding  
July 10, 2013  
Jefferson City, Missouri

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 ) File No. GM-2013-0254  
Sale, Transfer and Assignment )  
Of Certain Assets And )  
Liabilities From Southern )  
Union Company And, In )  
Connection Therewith, Certain )  
Other Related Transactions )

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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24                  ALSO PRESENT:

25                  Mr. Robert Kerrigan   (via telephone)

                  Mr. John Cassidy

                  Mr. Steve Rasche

                  Ms. Suzanne Sitherwood

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

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

3 JUDGE WOODRUFF: Good afternoon, everyone.

4 Welcome to our On-The-Record Proceeding concerning the  
5 Application for Merger between Southern Union Company and  
6 Laclede Group.

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

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

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

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

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

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

3 JUDGE WOODRUFF: For Southern Union Company?

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

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

17 JUDGE WOODRUFF: All right. And for Staff?

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

23 JUDGE WOODRUFF: Public Counsel?

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

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

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

6 JUDGE WOODRUFF: For IEBW Local Union No. 53?

7 (No response.)

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

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

12 MS. HALL: Sherrie Hall from Hammond and Shinners.

13 JUDGE WOODRUFF: And for Midwest Gas Users  
14 Association?

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

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

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

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

24 (No response.)

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



1 If I've missed anybody, speak up now.

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

4 JUDGE WOODRUFF: Okay. Thank you.

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

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

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

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

1 utility to operate in Missouri, that was going to be kind  
2 of difficult in the future.

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

16           It's even more gratifying to be here today and to  
17 be able to make this recommendation on a unanimous basis  
18 because of all the cooperation and hard work that the  
19 Staff of the Missouri Public Service Commission, the  
20 Office of Public Counsel, and, really, all of the parties  
21 to this case have shown. It was a long laborious process,  
22 sometimes stretching late into the evening, and it was a  
23 process that wouldn't have worked if people hadn't come to  
24 it with a very constructive attitude. And we had not only  
25 this acquisition to deal with but, as you are well aware,

1 a rate case to deal with as well, and I'm just very  
2 pleased and very gratified that we had partners that we  
3 could work with to bring this to a successful conclusion.

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

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

19 (No response.)

20 MR. PENDERGAST: I'm sure he will be. He's  
21 probably out selling gas right now. And we have Hal Moore  
22 who is in our Transportation Department today; Mike  
23 Sputanski (ph) who has been central to the integration  
24 effort, and he has led a very intensive -- I'm sure  
25 everybody in this room will vouch for that -- process to

1 make sure these two companies are integrated in the right  
2 way. We'll be more than happy to answer any questions  
3 that you may have as we go through the stipulation and  
4 agreement.

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

14 And I think that, if you look at it by any  
15 measure, this is a tremendously beneficial transaction for  
16 our customers. By approving it, you'll be enabling the  
17 State's two largest gas utilities to create for their  
18 customers the kind of long-term value and efficiencies  
19 that come from pulling resources, identifying and  
20 implementing the best practices of each company,  
21 eliminating redundancies and spreading technology  
22 platforms over fixed cost over a larger customer base.  
23 You'll be bringing to the western side of the state a  
24 company that's been in the gas distribution business in  
25 Missouri, in one form or another, for over a century and a

1 half and wants to stay in that business. More  
2 importantly, you'll be bringing a company that wants to  
3 ramp up investment in the business, especially in terms of  
4 replacing aging infrastructure just as we have accelerated  
5 our cast iron main replacement program in our own service  
6 territory over the past several years.

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

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

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

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

22           As you've probably seen from the stipulation and  
23 agreement, we have a document that is chocked full of  
24 them. Many of them are similar, if not identical, to ones  
25 that you have approved before in connection with other

1 acquisitions, so I won't go into a lot of detail on them.  
2 There's a very handy index at the beginning of that  
3 stipulation and agreement that Bob Berlin was kind enough  
4 to put together, and I think it is a very helpful guide to  
5 going through it.

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

23 There are also provisions aimed at ensuring that  
24 the weatherization, energy efficiency. And other programs  
25 operated by MGE are maintained until otherwise changed by

1 the Commission, provisions aimed in maintaining our  
2 transportation service terms and conditions for a set of  
3 period of time given the fact that they were recently  
4 changed, and I think transportation customers -- and Mr.  
5 Conrad can address this -- we're very interested in having  
6 those preserved at least for some period of time given  
7 those changes.

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

16 There is a treatment of transition costs in the  
17 past. The Commission has determined that transition costs  
18 -- and these are really costs to achieve the various  
19 synergies associated with the particular combination of  
20 the companies -- can be recovered if there are savings  
21 sufficient to cover them. Rather than just hold that  
22 question in advance, we decided to try and resolve it now;  
23 and for one-time transition costs, we have the opportunity  
24 to defer them -- 50 percent of them and seek an  
25 amortization in our next rate case, subject to everybody's



1 evaluation and making sure that we put everything in the  
2 right bucket and that they are prudent and reasonable. We  
3 think that, with all of these provisions, we've made a  
4 tremendous transformative transaction. Even better, we  
5 think it is unquestionably the right thing to do for our  
6 customers, our shareholders, and the State of Missouri in  
7 general.

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

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

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

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

1 information.

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

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

22 I would like to briefly highlight a few key  
23 provisions contained in the agreement. Mike Pendergast  
24 mentioned the rate case moratorium. There is a moratorium  
25 through October 1 of 2015 at which time Laclede may file a

1 rate case. If Laclede does so, Laclede will file for both  
2 its Laclede and its MGE divisions. As Mike Pendergast  
3 indicated, there are some provisions that allow Laclede to  
4 come in earlier under some extraordinary circumstances  
5 that are spelled out in the agreement.

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

15 Also, part of this agreement is that Laclede is to  
16 file no later than July 16th a stipulation and agreement  
17 resolving issues in the CAM complaint case, Case No. GC-  
18 2011-0098, and indications are that this settlement is on  
19 track to meet the July 16th filing date. There are also  
20 provisions in the agreement that address the acquisition  
21 premium paid by Laclede, and these provisions prevent  
22 Laclede from passing on any acquisition premium or  
23 transaction or transition costs to ratepayers.

24 And, finally, I would like to point out that this  
25 agreement contains rather rigorous and frequent reporting

1 provisions. These are intended to ensure the flow of  
2 critical information from Laclede to Staff and Public  
3 Counsel so that we may monitor the progress of the  
4 transition. It is our collective desire that Laclede and  
5 MGE execute a seamless transition that is transparent to  
6 ratepayers and protects ratepayers from any related  
7 disruptions.

8 To that end, I point out that this agreement  
9 requires that the Laclede Chief Executive Officer and  
10 President and other key leadership be present for two  
11 On-The-Record Presentations before the Commission. And  
12 these presentations are set for May of 2014 and December  
13 2014, and they are for the purpose of reviewing progress  
14 and discussing any problems that might arise as a result  
15 of this transaction and discussing any action plans  
16 necessary to address any potential problems.

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

23 COMMISSIONER JARRETT: Mr. Berlin, just a quick  
24 question. As you note, the stipulation and agreement does  
25 contain sensitive reporting requirements. Can you give me

1 an idea how much of that is either statutorily required or  
2 required by our rules, and then how much of that is just  
3 per agreement?

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

7 COMMISSIONER JARRETT: Okay.

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

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

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

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

25 JUDGE WOODRUFF: Anyone else? Any other party

1 wish to make an opening?

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

4 COMMISSIONER JARRETT: Sure.

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

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

24 I also want to speak on behalf of the employees of  
25 MGE who are very proud of our management team in terms of

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

10 And, finally, I just want to introduce today  
11 someone that should be known to most of all the  
12 Commissioners is Rob Hack who is the Chief Operating  
13 Officer of Missouri Gas Energy. He's been in this role  
14 since January 2006, and he's been with the company  
15 Missouri Gas Energy really since shortly after Southern  
16 Union acquired the Missouri properties in the mid to late  
17 '90s, and prior to that he has extensive experience with  
18 the Commission on which he's served as an attorney and  
19 also general counsel.

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

25 JUDGE WOODRUFF: Thank you. Any other parties

1 wish to make any opening?

2 (No response.)

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

10 Mr. Chairman.

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

20 I have some questions, and I'll leave it to the  
21 parties to determine who wants to answer them. Some of  
22 these are going to be about the stipulation agreement, and  
23 then I have some questions about the purchase and sale  
24 agreement itself. I don't know what's going to be HC and  
25 what's not. So, if I start talking about actual dollars



1 and cents, is that HC that will require us to go into  
2 camera?

3 MR. PENDERGAST: Probably not.

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

6 MR. PENDERGAST: Yes.

7 CHAIRMAN KENNEY: That still is the same number?

8 MR. PENDERGAST: Yes.

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

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

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

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

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

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

25 CHAIRMAN KENNEY: And in the recital -- well,

1 throughout the document, the buyers refer to but it's  
2 never defined, and so I looked and looked and looked and I  
3 couldn't find where buyer was actually defined. Seller's  
4 defined in the very first paragraph, and then it refers to  
5 Plasma Missouri Acquisition and Laclede Group solely,  
6 Section 13.9, but it's not defined. And if you look over  
7 in the definitions, it's not defined, and then, other  
8 definitions, it says it's to be defined in the recitals.  
9 And I look back in the recitals and I couldn't find it.

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

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

20 MR. DARRELL: That's correct.

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

23 MR. DARRELL: That's correct.

24 CHAIRMAN KENNEY: Okay. All right. So, Plaza  
25 Missouri Acquisition, as it stands, has no obligations,

1 and all the obligations, rights, and duties that are  
2 referred to in the stipulation and everywhere else and all  
3 the other documents are Laclede's obligations, rights, and  
4 duties?

5 MR. DARRELL: That's correct.

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

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

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

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

23 MR. PENDERGAST: I think -- I have seen  
24 applications for financing authority necessary to do a  
25 transaction included in the application requesting

1 approval of the transaction before, and I think, as long  
2 as all the elements that you would normally have in a  
3 financing transaction are included in that application,  
4 that it is permissible to do that.

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

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

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

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

8 CHAIRMAN KENNEY: Okay. Let's look over on page  
9 7, the rate moratorium language. That is a provision that  
10 I'm sure the consuming public appreciates, and it refers  
11 there, though, to a major impact of a loss of \$5 million  
12 for the combined entity, right? Was there any concern  
13 about that? I mean, that's a -- I guess my question is  
14 it's a lower threshold for a large company. Is that -- is  
15 that threshold low enough that essentially renders the  
16 rate moratorium -- I don't want to say meaningless, but  
17 seems like it's easy to trigger that provision that would  
18 allow for a rate filing.

19 MR. PENDERGAST: Well, you know, what we kind of  
20 used as sort of divining rod on this is this is a number  
21 that would be in excess of 5 percent of the combined  
22 companies net income and, customarily, in the past  
23 granting court authorizations and that type of thing  
24 trying to determine what's extraordinary, that's kind of a  
25 rule of thumb percentage that's been used. And it also

1 adds that not only does it have to be that amount but it  
2 has to be associated with, you know, one of these specific  
3 events that are outlined, and unless one of those specific  
4 events occur, you do not have an out.

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

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

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

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

23 CHAIRMAN KENNEY: So, let me be clear. The first  
24 sentence refers to benefits acceptance provided therein,  
25 et cetera, unless occurrences, significant, unusual event,

1 and then in the second sentence it says, for purposes of  
2 this agreement, major impact is defined as a loss of 5  
3 million of net income, and then it lists those four  
4 instances.

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

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

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

14 MR. PENDERGAST: Yes.

15 CHAIRMAN KENNEY: Those are the significant and  
16 unusual events?

17 MR. PENDERGAST: They are.

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

23 MR. POSTON: Right.

24 CHAIRMAN KENNEY: And nothing more?

25 MR. POSTON: That's correct.

1 MR. PENDERGAST: Correct.

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

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

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

21 MR. PENDERGAST: Yeah. Just echo that.

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

24 MR. PENDERGAST: It's one that we've been working  
25 on for a couple of years now, and it ought to be a really



1 good CAM, as we've spent a significant amount of time  
2 developing that. And I think the Commission's been  
3 getting status reports for a fair amount of time now  
4 talking about how the parties have been addressing these  
5 issues and discussing them, and we made a tremendous  
6 amount of progress, and I think it's fair to say that  
7 we're on track for having a stipulation and agreement  
8 filed by the date that's provided for in the stipulation  
9 and agreement and that will go ahead and have a CAM that  
10 the parties are comfortable with. It will go ahead and  
11 have standards after for conducting gas relations that the  
12 parties will be comfortable.

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

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

4           MR. PENDERGAST: Yes.

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

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

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

20           CHAIRMAN KENNEY: Sure.

21           MR. PENDERGAST: -- for why that downgrade  
22 occurred. I mean, it's more of a science -- or more of an  
23 art than it is a science. So, that doesn't mean that  
24 you're going to be able to categorically tell exactly, you  
25 know, what was a significant factor or primary factor or

1 not a factor at all, but if it's mentioned it was a  
2 factor, and it will really be up to, you know, how  
3 prominent it was mentioned at that time.

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

6 MR. POSTON: Yes.

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

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

14 CHAIRMAN KENNEY: Okay.

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

25 But, you know, from our perspective, given the

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

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

20 Let me ask this question about Section 11, and  
21 this is really again to make sure that everybody's on the  
22 same page and so the confusion is avoided later. In 11A  
23 refers to other financial conditions. 11A refers to  
24 Laclede Gas's credit rating and/or quality declining  
25 primarily because of the acquisition, as compared to a

1 credit decline because of the transaction as a capped term  
2 where it's a significant contributing factor.

3 Is there any inconsistency between what I think is  
4 essentially describing the same thing in 11A and paragraph  
5 9, the first paragraph of Section 9? So, we refer to the  
6 acquisition and not the transaction, and we refer to a  
7 credit declining primarily because of the acquisition  
8 versus business risks introduced by the transaction that  
9 was a significant contributing factor. Any inconsistency  
10 in those terms used there? And if it's intended to mean  
11 the same thing, why not use the same language?

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

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

22 MR. PENDERGAST: Pardon?

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

25 MR. PENDERGAST: I think you just look at the

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

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

25 I mean, from our perspective, we don't think that

1 there's any likelihood whatsoever that we're going to get  
2 to that point.

3 CHAIRMAN KENNEY: Sure.

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

10 CHAIRMAN KENNEY: You guys want to add anything?

11 (No response.)

12 CHAIRMAN KENNEY: All right. Let me turn to page  
13 18 then, service quality conditions. The last paragraph  
14 -- the last sentence, rather, in the A subparagraph right  
15 before the B paragraph, the Staff and/or OPC may request  
16 additional periodic meetings with Laclede Gas requesting  
17 customer service proceedings and level of service  
18 provided, and Laclede Gas will agree to those periodic  
19 meetings.

20 Is that presumed in the rest of that sentence?

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

23 CHAIRMAN KENNEY: Okay.

24 MR. PENDERGAST: And the whole essence of these  
25 reporting requirements -- we understand where Staff is

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

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

25           And the thing is we want to be able to be in touch



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

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

21 What intrigued me, Paragraph 9 concerns synergy  
22 studies result from 2012 from Bruisen (ph) and Company,  
23 and that apparently forms the basis of some of the ongoing  
24 reporting requirements between the company and Staff.  
25 Has that document been filed in this case and, if not, can

1 we get a copy of it? I couldn't find it and was looking  
2 for it. I didn't see it attached to anything else. Seems  
3 like that would be an interesting document to read.

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

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

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

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

17 JUDGE WOODRUFF: Is that you, Mr. Conrad?

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

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

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

24 JUDGE WOODRUFF: Thank you.

25 CHAIRMAN KENNEY: Thanks, guys.

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

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

3 (No response.)

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

6 MR. KERRIGAN: I'm still here.

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

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

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

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

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

23 JUDGE WOODRUFF: Thank you.

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

1 entity, partners entity, and then ETP Holdco is an entity.  
2 So, you have the manager transfer entities that are of  
3 60/40 owners, ETP Holdco which are then -- which is then a  
4 SUG, wholly-owned subsidiary of STP. Who is the seller,  
5 who has the benefit, and what's the buyer of having the --

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

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

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

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

25 MR. KERRIGAN: I think I can speak to the answer

1 on the liabilities. They are acquiring the assets. They  
2 won't be acquiring the other liabilities of other transfer  
3 companies, but Energy Transfer is comprised of two master  
4 limited partnerships. The first is Energy Transfer  
5 Equity, LLP, which is a publicly-traded partnership and  
6 the general partner of Energy Transfers Partner which is a  
7 master of the partnership. Some of this has been cleaned  
8 up when Energy Transfer acquired Southern Union, they did  
9 it through Energy Transfer Equity, not Energy Transfer  
10 Partners, and then Energy Transfer subsequently acquired  
11 Central, Inc., Energy Transfer Partners, and at the time  
12 of that transaction the Chairman of the entity called ETP  
13 Holdco was created in which Energy Transfer Equity has 60  
14 percent of the interest in the joint companies of Southern  
15 Union and Sinco (ph) and Energy Transfer Partners had 40  
16 percent ownership of those companies.

17 Much of that had to do with the internal  
18 structures of Energy Transfer. Subsequent to those dates,  
19 we have a few questions from our unit holders, not only  
20 yours, for clarification. We have eliminated the ETC Hold  
21 Structure, and Southern Union is now 100 percent wholly-  
22 owned, Energy Transfer Partners, LP, as are Sinco assets.  
23 So, Energy Transfers Partners, LP, owns 100 percent of the  
24 equity interest in Southern Union, and Southern Union is  
25 selling the assets of the Missouri Gas Energy Division. I

1 don't know if that helps clarify it at all.

2 CHAIRMAN KENNEY: It does.

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

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

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

20 CHAIRMAN KENNEY: That does make sense. Thank  
21 you.

22 MR. DARRELL: Mr. Chairman, just to clarify in  
23 terms of how Laclede views this, we are buying assets and  
24 liabilities of the business which is defined in the  
25 purchase and sale agreement as Missouri Gas Energy

1 definition of Southern Union Company. So, that's what we  
2 are purchasing.

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

6 MR. DARRELL: That's correct

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

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

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

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

19 CHAIRMAN KELLEY: This is probably my last  
20 question then.

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

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

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

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

3 JUDGE WOODRUFF: Thank you.

4 MR. RASCHE: Good afternoon.

5 CHAIRMAN KENNEY: Hello. Congratulations.

6 MR. RASCHE: Thank you.

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

9 MR. RASCHE: Got it. Job performance.

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

24 We would expect the premium -- if you do the math  
25 -- to be in the range of 300 to \$350 million, and that has



1 been shared in the public domain. It's a wide range, and  
2 we -- really, the reason for the range is we have to wait  
3 until we actually get the books finalized at day of  
4 closing.

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

14 MR. RASCHE: Yes, sir.

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

17 MR. RASCHE: It does not.

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

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

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

4 MR. JACOBS: Base Statement 118?

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

7 MR. JACOBS: Yes.

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

9 CHAIRMAN KENNEY: It's an attach --

10 MR. JACOBS: One of the schedules.

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

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

20 MR. JACOBS: I'll tell that you, if you're  
21 wondering what the adjustments between the two are,  
22 they're generally eliminating the assets that would have  
23 been established or put on the books of MGE as a result of  
24 their acquisition by Southern Union. All of those are  
25 generally eliminated in accordance with generally accepted

1 accounting principles, and we're only buying the net hard  
2 assets, and this is the vast majority of large  
3 adjustments, plus and minus, that you would see in that  
4 adjustment column.

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

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

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

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

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

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

1 \$251-and-change million you see is their goodwill. We're  
2 not buying back goodwill, so that gets eliminated in the  
3 transaction counter.

4 CHAIRMAN KENNEY: I see. All right.

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

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

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

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

21 JUDGE WOODRUFF: Mr. Jarrett.

22 COMMISSIONER JARRETT: Good morning, everyone --  
23 or, afternoon, I guess. I just have just a few general  
24 questions. My first question would be to our Staff, and  
25 then also the ratepayer interests and parties here. Are

1 all of you comfortable that the purchase price in this  
2 case reflects the true market value or the fair market  
3 value of what Laclede is purchasing? In other words, is  
4 Laclede overpaying for this acquisition?

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

13 COMMISSIONER JARRETT: Okay. Great

14 MR. CASSIDY: John Cassidy.

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

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

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

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

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

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

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

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

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

25 MR. PENDERGAST: I think I'd like to answer it

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

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

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

23 COMMISSIONER KENNEY: Can I follow up that  
24 question?

25 COMMISSIONER JARRETT: Sure.

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

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

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



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

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

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

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

23           And, you know, today, I think Laclede has the  
24 highest rating of any major investor-owned utility in  
25 Missouri. We hope to stay that way, but we, you know,

1 certainly are well positioned to go through this. And we  
2 told the same story to the investment community, you know,  
3 exactly what we told the board, and we told the Staff, and  
4 the investment community has, I think, reacted very  
5 favorably to it as evidenced by what has happened to our  
6 stock price since we, you know, announced this. It's gone  
7 from, I think, 38, 39 currently up to 44 or 45. So, I  
8 think there's a fair amount of belief out there that this  
9 is a transaction that makes sense, that it's a transaction  
10 that's really doable.

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

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

18 MR. PENDERGAST: Well, for the financing, we will  
19 be issuing a significant amount of long-term debt, and  
20 because we received Commission authorization to do swaps,  
21 we've got that locked in, and the lock in is below 3.5  
22 percent, probably in the low 3s, and if we can complete  
23 this by September, we'll be able to lock it in at that  
24 rate. Those are in transition, some five years, some 10  
25 years, some 30 years, but compared to, you know, what debt

1 has typically been in the past, you know, it couldn't be a  
2 more ideal time to buy a house, couldn't be a more ideal  
3 time to buy a car or to buy a utility.

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

7 COMMISSIONER KENNEY: Thank you very much.

8 Thank you, Commissioner Jarrett.

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

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

21 Speak now or forever hold your peace.

22 (No response.)

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

1 Thank you.

2 JUDGE WOODRUFF: Mr. Stoll.

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

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

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

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

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

16 COMMISSIONER STOLL: The parties agree on this --

17 MR. PENDERGAST: Yes.

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

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

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

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

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

12 COMMISSIONER STOLL: I appreciate it.

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

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

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

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

7           MR. RASCHE: Uh-huh.

8           COMMISSIONER STOLL: Let's see. On page 24, and  
9 actually starting on 23, No. 14, gas supply and hedging  
10 plans. On page 24, it says that Laclede Gas shall present  
11 to Staff and OPC its gas supplying and hedging plans for  
12 its Missouri customers every fall no later than October  
13 30th. Is this something that is typically done, or kind  
14 of explain how this came about.

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

23           And, you know, in the spirit of communication and  
24 keeping Staff and OPC and everyone else in the regulatory  
25 process apprised of what's going on, that's something

1 we're certainly willing to undertake and do it maybe on a  
2 more regular basis.

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

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

13 COMMISSIONER STOLL: Okay.

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

23 And, so, what this provision does is it brings  
24 Laclede Gas itself in, and Laclede is the -- to my  
25 knowledge -- the only LLC that has not been coming in as



1 regularly, and, by that, I mean on an annual basis. They  
2 have come in before, but it hasn't been annualized. So,  
3 this requirement brings them up to speed with the other  
4 gas LLCs, and so this has been a standard practice of the  
5 Staff.

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

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

16 JUDGE WOODRUFF: Mr. Kenney?

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

25 Laclede and the MGE are going to be two divisions

1 under LG, correct?

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

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

8 MR. PENDERGAST: That's correct, Commissioner.

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

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

17 COMMISSIONER KENNEY: But anyone can challenge  
18 that?

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

1 own.

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

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

6 COMMISSIONER KENNEY: Right.

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

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

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

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

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

1 COMMISSIONER KENNEY: On the first time?

2 MR. PENDERGAST: The first time out.

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

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

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

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

23 MR. CASSIDY: Well, Commissioner, I would add to  
24 what Bob said about the allocation of common cost. You  
25 know, there's also a concern that Staff would have that

1 one division could be over earning while another one is  
2 under earning and they would selectively come in with the  
3 under earning division. So, from Staff's perspective,  
4 they want both divisions to come in at the same time in  
5 the future.

6 COMMISSIONER KENNEY: Only -- okay.

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

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

15 MR. CASSIDY: Sure.

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

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

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

1 everybody likes to challenge something.

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

5 COMMISSIONER KENNEY: Okay.

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

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

12 MR. DARRELL: (Indicating.)

13 COMMISSIONER KENNEY: Yes, sir.

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

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

25 MR. DARRELL: Correct.

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

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

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

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

1 could not create the savings if you didn't go ahead and  
2 spend.

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

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

14 MR. PENDERGAST: That's correct, Commissioner.

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

17 MR. PENDERGAST: Well --

18 COMMISSIONER KENNEY: -- for the divisions?

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



1 customers of Laclede Gas.

2 COMMISSIONER KENNEY: Understand. All right.

3 Thank you very much.

4 MR. PENDERGAST: Thank you.

5 JUDGE WOODRUFF: Any other questions from the  
6 Commissioners?

7 (No response.)

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

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

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

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

22 I do want to thank the Commissioners very much and  
23 the parties that have been involved in this. I know this  
24 is a serious matter for the State. I've been in the gas  
25 industry for over 30 years as a gas company, and I

1 understand your concerns about safety and reliability and  
2 customer service matters. I also understand the concerns  
3 about the capital structure financing and so forth and  
4 make sure we're protecting our consumers. I know a lot of  
5 efforts have gone into this, and it doesn't get lost --  
6 don't lose sight of this, so I want to thank you  
7 everybody, all the parties in the room. I appreciate your  
8 support.

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

22 JUDGE WOODRUFF AND ALL COMMISSIONERS: Thank you.

23 JUDGE WOODRUFF: Anything else?

24 (No response.)

25 JUDGE WOODRUFF: All right. Then, thank you all

1 very much for coming, and we are adjourned.

2 (Adjournment.)

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

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<p><b>A</b></p> <p><b>ability</b> 19:11 54:23 61:25 69:19</p> <p><b>able</b> 10:4,17 24:14 34:24 40:25 53:11 55:17 57:11 58:23 60:4 68:12 74:15</p> <p><b>above-entitled</b> 76:10</p> <p><b>abreast</b> 15:15 64:21</p> <p><b>absorb</b> 57:10</p> <p><b>accelerated</b> 13:4</p> <p><b>acceptance</b> 30:24</p> <p><b>accepted</b> 50:25 62:11</p> <p><b>access</b> 30:20</p> <p><b>accomplish</b> 60:4</p> <p><b>accomplished</b> 24:17</p> <p><b>accord</b> 52:8</p> <p><b>accounting</b> 51:1 62:11,14</p> <p><b>accounts</b> 30:6 51:21 52:6</p> <p><b>achieve</b> 16:18 57:12 71:11</p> <p><b>achieved</b> 72:6</p> <p><b>acquired</b> 23:16 45:8,10 51:23 72:24</p> <p><b>acquiring</b> 44:22 45:1,2</p> <p><b>acquisition</b> 9:14 10:9,25 12:6 13:13 14:5,16 15:18,21 19:20 19:22 26:5,25 35:20 36:25 37:6,7 39:5 40:14 41:19 42:14 47:13,16 50:16,24 51:9 51:16,22 53:4</p>	<p>55:5 56:7 58:15 60:12 64:10</p> <p><b>acquisitions</b> 15:1 25:22</p> <p><b>action</b> 20:15 21:19,20</p> <p><b>actively</b> 7:12</p> <p><b>actual</b> 24:25 51:17,17,21 52:16</p> <p><b>add</b> 35:15 39:10 54:7 55:10 64:8 64:15 68:23</p> <p><b>added</b> 13:10 51:19</p> <p><b>additional</b> 38:19 39:16 55:16 62:2</p> <p><b>address</b> 7:1,7,9 8:20 9:12 16:5 19:20 20:16 35:18</p> <p><b>addressed</b> 38:20</p> <p><b>addressing</b> 33:4 38:24</p> <p><b>adds</b> 30:1</p> <p><b>add-ins</b> 27:18</p> <p><b>adequate</b> 21:18</p> <p><b>adjourned</b> 75:1</p> <p><b>Adjournment</b> 75:2</p> <p><b>adjusted</b> 47:7,13 47:14 48:17,20 49:7,9,12,13 51:18 52:11</p> <p><b>adjustment</b> 51:4 51:7,9,16 61:11</p> <p><b>adjustments</b> 49:6 49:7,21 50:21 51:3</p> <p><b>administered</b> 48:1 53:17</p> <p><b>advance</b> 14:8 16:22 28:18</p> <p><b>adverse</b> 15:19 35:19 41:17 56:15</p>	<p><b>advised</b> 12:11 63:19</p> <p><b>affect</b> 35:23</p> <p><b>affected</b> 26:22</p> <p><b>affiliate</b> 21:9 31:19 32:2</p> <p><b>affiliation</b> 47:4</p> <p><b>AFL-CIO</b> 4:12</p> <p><b>afoul</b> 61:12</p> <p><b>afternoon</b> 6:3 7:4 24:11 48:4 52:23 53:15</p> <p><b>agency</b> 34:19 35:12 36:11</p> <p><b>aggregated</b> 46:11</p> <p><b>aging</b> 13:4</p> <p><b>ago</b> 9:19</p> <p><b>agree</b> 39:18 41:9 59:24 61:16 71:4 72:5</p> <p><b>agreeable</b> 65:21 67:24</p> <p><b>agreed</b> 18:14 32:18 60:22 62:24 67:23 68:18 69:21</p> <p><b>agreement</b> 6:22 9:16,20 12:4 14:23 15:3 17:11,17,23,25 18:2,4,5,7,8,11 18:14,21,23 19:5,9,15,16,20 19:25 20:8,18 20:19,24 21:3,6 21:10,15,17 24:15,22,24 25:16,21 27:10 27:15,20 28:22 28:23,25 29:3 31:2 32:4,11,16 33:7,9 34:2 35:17,21 40:4 43:11,16 46:25 47:9,10 50:2,3 50:6 56:13,17</p>	<p>57:5 60:5,7 69:13 70:8</p> <p><b>agreement's</b> 69:7</p> <p><b>agrees</b> 56:1</p> <p><b>ahead</b> 6:13,16 9:5 10:4,11 16:15 30:21 33:9,10,21 36:3 38:14,23 39:6 40:8,21 41:5,8 43:8 57:17 58:12 61:9,23 68:21 71:20 72:1</p> <p><b>aimed</b> 15:14,17 15:23 16:1</p> <p><b>Alicia</b> 4:8 8:3</p> <p><b>allegation</b> 31:19</p> <p><b>allocation</b> 32:22 46:13 68:24 72:21</p> <p><b>allow</b> 14:14 19:3 29:18 55:19 69:7 70:4</p> <p><b>allowed</b> 71:22</p> <p><b>allowing</b> 13:10 13:14</p> <p><b>Amash</b> 8:8</p> <p><b>amatorizing</b> 14:11</p> <p><b>amortization</b> 16:25</p> <p><b>amount</b> 27:13 30:1 33:1,3,6 54:18 58:8,19 61:1,3</p> <p><b>analyses</b> 49:24</p> <p><b>analysis</b> 36:7 57:15 61:20,24 64:19</p> <p><b>analyzed</b> 36:16</p> <p><b>and/or</b> 36:24 39:15</p> <p><b>announced</b> 58:6</p> <p><b>annual</b> 61:20,24 62:23 64:18 65:1</p>	<p><b>annualized</b> 65:2</p> <p><b>answer</b> 12:2 24:13,21 32:14 34:18 44:7,10 44:25 52:19 53:6,8 54:25 55:8 62:8</p> <p><b>answered</b> 24:5 49:11</p> <p><b>answering</b> 11:6 48:8</p> <p><b>answers</b> 59:10 72:9</p> <p><b>anticipate</b> 32:4</p> <p><b>anybody</b> 9:1 57:1 62:6</p> <p><b>anyway</b> 64:12</p> <p><b>apparently</b> 41:23</p> <p><b>appearance</b> 6:8 6:15 11:11</p> <p><b>appearing</b> 6:20 6:25 7:18,25</p> <p><b>applaud</b> 62:14</p> <p><b>applicable</b> 33:17</p> <p><b>applicants</b> 9:3,7</p> <p><b>application</b> 2:9 6:5 27:22,25 28:3,9,12,16 43:12</p> <p><b>applications</b> 27:24</p> <p><b>apply</b> 18:18</p> <p><b>applying</b> 71:24</p> <p><b>appreciate</b> 17:8 62:12 74:7</p> <p><b>appreciates</b> 29:10 63:19</p> <p><b>appreciation</b> 33:19 73:13</p> <p><b>apprised</b> 63:25</p> <p><b>approach</b> 60:17 66:23</p> <p><b>approached</b> 21:14</p> <p><b>appropriate</b> 6:14</p> <p><b>appropriately</b> 21:19 44:16</p>
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