testimony. I certainly think that that comparison is difficult, if -- if not impossible, until you know the total amount of costs that they're going to have to incur during the life of the plant. So I'm not -- I'm not sure that I've answered your question directly.

I mean, accrual accounting assumes that if the cash flow and expense and revenue differences at the beginning are reversed by the end of the accrual period, and since what part of the -- of the problem that Laclede is posing to the Commission in this case is how much is the cost of removal during that -- actually going to be during that accrual period, I think it becomes very difficult to judge whether rate payers are harmed or helped unless you know how accurate the projected costs are.

COMMISSIONER DAVIS: But you don't look at projected costs when you calculate net salvage, you look at just what the actual expenses were for the preceding years.

MR. SCHWARZ: Our future is much shorter than the utilities'. Our future is basically the next rate case filing. Which is typically five years, longer for some companies, shorter for others. And -- and to the extent that the recent past is prologue to the near future, yes, Staff is comfortable with those estimates.

It's the Company that is suggesting to the Commission that you actually accrue a portion of the costs in 2050, one over the average service life times the cost in 2050 to remove plant and allocate that to the present customer.

COMMISSIONER DAVIS: Mr. Schwarz, are you concerned at all that Staff's present method for calculating depreciation could harm infrastructure investment in Missouri?

MR. SCHWARZ: I think that that is a concern the Commission needs to address, certainly Staff needs to address it. There is no suggestion of it in -- specifically with the rates involved in this case. I think that there are other mechanisms that are available to the Commission --

COMMISSIONER DAVIS: What mechanisms?

MR. SCHWARZ: Well, if you -- if you find that a company is not able to generate sufficient cash to meet its cash flow needs, I think you could simply impose a surcharge on customers and record it as a zero portion of the rate base. That is, okay, the company needs $5 million in new cash; customers, you'll each pay a proportionate amount, provide $5 million; and it will be --

COMMISSIONER DAVIS: Is that like a ISRS surcharge?

MR. SCHWARZ: No.

COMMISSIONER DAVIS: No?

MR. SCHWARZ: No. ISRS --

COMMISSIONER DAVIS: Because you've already estimated all those out for the next few years, haven't we?

MR. SCHWARZ: Not for the next few years. They can be refiled every six months. No, the ISRS is designed to reduce regulatory lag that would harm the company between rate cases for infrastructure replacements that they need to make. So it's -- it's an additional source of -- of cash.

COMMISSIONER DAVIS: I'm only going to ask one more question. So if I'm a utility operating in multiple jurisdictions, and assuming we have -- the company has the same capital structure, the same return on equity, and all things being considered, but, you know, obviously you can invest your money in one state and recoup your -- your investment in infrastructure much more quickly because of the way that state calculates depreciation in Missouri -- other than Missouri, then, you know, if you're a company, what incentive do you have to invest in further infrastructure in Missouri?

MR. SCHWARZ: Well, to the extent that they're under a legal obligation to do so. I don't know that they need a financial incentive. That is, the statutes which govern the regulatory compact say that in return for being a monopoly utility within your service territory, you will provide safe and adequate facilities and instruments and service to your customers. That's an obligation that the company has. I don't view that as a voluntary or shaded by I'm not earning enough.

If a company's not earning enough, it comes to the Commission in a general rate case and gets its rates increased and gets its return on equity increased and that's how the system works. The system does not work by a utility saying, hey, I can make more money in investing in gold bars in Kuwait than I can in Missouri so I'm not going to keep my system up anymore.

I'm sure that the -- and this Commission has a long history where safe and adequate service is concerned to order utilities to tow the line.

COMMISSIONER DAVIS: It's just that simple. Thank you.

JUDGE DIPPELL: Mr. Schwarz, one more question.

COMMISSIONER MURRAY: Thank you. Mr. Schwarz, when this case was initially heard back in '99, Mr. Adam was the depreciation witness. Isn't it correct that there was not unanimity among the Staff that his methodology being recommended was the appropriate methodology?

MR. SCHWARZ: I think Staff's position was, and I think perhaps still today, it's evolving. Yes, I think there were still considerable discussion among Staff as to how to approach the issues in light of these considerations.

COMMISSIONER MURRAY: And when you say it's still evolving, are you saying there is still disagreement amongst the Staff?

MR. SCHWARZ: I don't know that

Staff has decided at this stage that the position it filed in MGE, which I think the last rate case, but I guess we filed in Empire yesterday or something -- it's -- I don't know. I mean, you get new evidence, you get new facts.

It would be interesting to see an empirical study that actually established the accuracy of the traditional formula. No one's provided that yet. That would certainly be something that we take into account. I mean, they certainly -- I mean, no one gainsay that their trends in the calculation of this formula, but that's not the same thing as saying the formula itself accurately predicts the future.

Staff's mind is not closed, its position is not fixed. If there's a better way of doing things that somebody can present to the Staff, the Staff will consider that.

COMMISSIONER MURRAY: There is evidence in this case, would you not agree, that the standard methodology underestimates the cost of net salvage?

MR. SCHWARZ: No, ma'am, I don't agree with that.

COMMISSIONER MURRAY: You don't

agree that there is evidence in this case that states that?

MR. SCHWARZ: No, ma'am. The evidence in this case states that this formula, when applied in 1960, yielded a lower result than it did when applied in 1970. But that's not the same thing as saying that either the 1960 or the 1970 ratio accurately predicted the future net salvage. It --

COMMISSIONER MURRAY: I'll go into this with the witnesses rather than make you testify. Thank you.

JUDGE DIPPELL: Just one moment. Commissioner Appling, did you have a question?

COMMISSIONER APPLING: Yes, just one short question, Mr. Schwarz. Taking into consideration that Pete Love and Paul is no longer with us, I don't believe -- my question is, will the Staff have a witness today that can clear me up on when, where, and why we took a different direction and adopted a different structure than the one that we have been using?

MR. SCHWARZ: I think that Ms. Schad is scheduled for tomorrow. So you'll have to wait --

COMMISSIONER APPLING: Wait till tomorrow, huh? Well, I'll sleep on that. Thank you.

JUDGE DIPPELL: Okay. I have one more for you, Mr. Schwarz. You and Commissioner Davis were discussing the ISRS. Can you just clarify that acronym for the record?

MR. SCHWARZ: ISRS is -- refers to infrastructure system replacement surcharge.

JUDGE DIPPELL: Thank you. Okay. That concludes the opening statements so we're ready to move on. And following the order of witnesses that the parties proposed, we'll begin with Laclede's first witness, Mr. Cooper.

Mr. Cooper, could you please raise your right hand?

(Witness sworn.)

JUDGE DIPPELL: Go ahead when you're ready, Mr. Pendergast.

MR. PENDERGAST: Thank you, Your Honor.

BARRY C. COOPER, testified as follows:

DIRECT EXAMINATION BY MR. PENDERGAST:

Q Mr. Cooper, would you please state your name and business address for the record?

A Barry C. Cooper, 720 Olive Street, St. Louis, Missouri, 63101.

Q Are you the same Barry C. Cooper who has previously caused to be filed in this proceeding supplemental direct testimony consisting of ten pages that has been previously marked as Exhibit 134?

A I am.

Q If I were to ask you the same questions today that appear in your supplemental direct testimony, would your answers be the same?

A Yes, they would.

Q And you have -- do you have any corrections to make to your testimony?

A No, I do not.

Q And are the answers true and correct, to the best of your knowledge and belief?

A Yes, they are.

MR. PENDERGAST: With that, I would request that Exhibit 134 be received into evidence, and I would tender Mr. Cooper for cross examination.

JUDGE DIPPELL: Thank you. Are there any objections to Exhibit No. 134?

MS. O'NEILL: No, Your Honor.

JUDGE DIPPELL: Seeing no objections, I will receive that into evidence. And beginning with cross examination, with Ameren UE?

MR. LOWERY: We have no questions, Your Honor.

JUDGE DIPPELL: Office of Public Counsel?

MS. O'NEILL: Thank you.

CROSS EXAMINATION BY MS. O'NEILL:

Q Morning, Mr. Cooper.

A Good morning.

Q You became employed by Laclede Gas Company in 2002; is that correct?

A Yes, ma'am.

Q And prior to that, you were not employed by a regulated utility in the State of Missouri; is that correct?

A That's correct.

Q So that's -- 2002 was your first experience with regulated utilities in Missouri as far as being an employee, at least?

A Yes, ma'am.

Q You haven't performed any depreciation studies for Laclede Gas Company

related to 99-315, have you? This case?

A That's correct, I have not.

Q Have not conducted any depreciation studies for Laclede since you've been here?

A No formal depreciation studies, that's correct.

Q Okay. At page 4 of your testimony, you suggest that the standard depreciation method, as the Company refers to it, is used in the majority of regulatory jurisdictions, do you see that? Starting on about line 11?

A Yes, I do.

Q And then you have another sentence after that which -- which you say, the standard method reflects the collective judgment and experience of a broad array of regulatory authorities about how net salvage costs should be handled for public utilities. Do you see that?

A Yes.

Q Are you aware of how many utility regulatory commissions in the United States have considered the Missouri Staff's proposed methodology for net salvage?

A I am not. I am just aware that the majority of the states utilize the standard method.

Q So you don't know whether or not those other commissions have ever considered the proposals that are contained in Missouri Staff's proposals in this rate case, fair to say?

A That is correct.

MS. O'NEILL: No further questions.

JUDGE DIPPELL: Thank you. Is there cross examination from Staff?

MR. SCHWARZ: Yes.

CROSS EXAMINATION BY MR. SCHWARZ:

Q Good morning, sir.

A Good morning.

Q Would you agree with me that the principal sources of cash for Laclede Gas Company are shareholders, creditors, and rate payers?

A Yes, I would.

Q Would you explain to the Commission what accrual accounting is?

A I'd be happy to. Accrual accounting is basically designed to match revenues against expenses such that during the period in which we earn revenue from our customers, that the expenses that are incurred during that period are also recorded such that there is a matching.

That contrasts with the cash basis of accounting, which would be similar to how we all keep our checkbook, that being that you have an opportunity to, let's say, for instance, pay a bill at the end of September versus holding it and paying it at the first of October. Those can obviously result in changing results dramatically depending on what month the expense is recorded in.

And so the accrual basis of accounting ensures that there is a consistent method applied in the application of preparing the financial statements.

Q And would you agree that at the end of the accrual period, the cash and accrual should match or balance out?

A Over a period of time?

Q Over the period of time that you're doing a particular accrual, let's narrow it a little bit.

A Not necessarily. Depends what's held back.

Q Could you explain?

A For instance, if the -- on a cash basis, if all the expenses were not paid, then the results would not, on a cash basis, would not match the results on an accrual basis.

Q **But if the accounting's being done and the bills are being paid properly, the two should eventually -- I mean, accrual recognizes differences in timing of cash flows; is that safe to say?**

A Over a period of time, if all the things were processed on the same basis, they would eventually match.

Q **Have you read Mr. Stout's testimony?**

A The majority of it, yes.

MR. SCHWARZ: May I approach the witness?

JUDGE DIPPELL: Yes.

Q **(BY MR. SCHWARZ) Do you have Mr. Stout's testimony with you?**

A I do not.

Q **I am going to show you what is Schedule 4-1 from Mr. Stout's testimony, and I would ask you to focus on the year 2019, if you would. Are you there?**

A Okay.

Q **The fifth column is headed Cumulative Estimated Net Salvage, and what, for**

the year 2019, what's the figure in that column?
A Let's just call it 50,700,000.
Q And in the last column, the Cumulative Net Salvage Accrual, what's that number?
A Let's call that 150 million.
Q So does that indicate to you that at that point in time the accruals have exceeded the estimated actual expenditures for net salvage?
A Would you repeat the question, please?
Q The accumulated net salvage accrual exceeds the cumulative estimated net salvage. That's correct, right?
A Correct.
Q And I think we're agreed it's about $99.3 million?
A That's correct.
Q Would you now shift down a line, and shift to the left one column. For the year 2020, the estimated net salvage cost is $3.9 million, and the net salvage accrual is 3.7 million. Is that correct?
A That's correct.
Q Now, if the net salvage accrual is

what's being collected in rates, and the net salvage cost is what the Company is paying out of pocket, that's the year when the accrual is first less than the expenditures; is that correct?

A That appears to be correct.

Q And that continues for the balance of the exhibit, does it not?

A Yes, it does.

Q And that continues with respect -- well, so that in the ensuing years, the Company needs to spend $99.3 million more than it's collecting. Is that correct?

A I believe that's correct.

Q So will that cash come from rate payers, shareholders, or creditors? Holding all other things equal.

A Well, those funds will -- funds will be satisfied, as they have been for the last 147 years, as general obligations of Laclede Gas Company. We -- to the extent it's -- it is three sources: one, internally generated cash; two, if we need to borrow money, we can do that through equity markets or debt markets; and I believe we've collected from the -- our customers. We're not going to go back to them for further cash flows on those matters.

Q Do you in the course of your employment have discussions with credit analysts and financial analysts?

A Certainly do on an ongoing basis.

Q To your knowledge, are financial analysts and credit analysts aware of the reversal of cash flow patterns under the standard methodology?

A I can't say that that has ever -- ever come up on a specific basis. What has come up, though, is continued concern over negative cash flows. That issue obviously is not unique to Laclede. It is something that is dealt with throughout the natural gas industry.

What is unique to Laclede, perhaps, is -- is that our negative cash flow has resulted in a double downgrade. One of the factors that resulted in a double downgrade from one of the rating agencies specifically mentioned in 2002 and the downgrade in 2003, and one of the items that was mentioned specifically was cash flow from depreciation.

And as Mr. Pendergast mentioned in his opening statement, our capital budget for the gas company is approximately $50 million a year. We receive back through depreciation approximately $22 million a year. So you can see that we're upside down on our cash flow.

Any relief there would certainly be well received. And we don't come to the Commission asking for a handout, but we come looking for what we believe is a very well placed request under the standard -- standard methodology.

JUDGE DIPPELL: Mr. Cooper, I'm going to cut you off. Apparently Mr. Schwarz is too polite. I think you've more than answered his question.

Q (BY MR. SCHWARZ) The value of this issue in this case is $2.3 million. What did Laclede -- what was the ISRS revenues that Laclede was permitted to recover in its ISRS filing, if you know?

A I believe it was approximately 3.6 million.

Q So subsequent to this $2.3 million perceived revenue shortfall, Laclede received a $3.6 million increase. Did the credit rating agencies, given this increase in cash flow, offset

or raise Laclede's credit ratings?

A No, they did not. It's -- as you may know and the Commission may know, that the -- the down -- they're quicker to downgrade than they are to increase the credit ratings.

Q So that there's no guarantee -- or -- let me strike that.

Can you tell me how much higher Laclede's credit rating would be if the Commission changes its position on Laclede's net salvage accruals?

A No, I can't, because some of the credit rating agencies don't even release their formulas. So for me to say that I can do that certainly would be speculative. What I can say is that it would improve our cash flows, which would improve our financial modeling, put us in a better light.

Q Laclede's revenues are about $700 million a year?

A That's approximately right.

Q And we're talking about 2.3 million? Correct?

A That's correct.

Q And 3.6 million didn't get your

credit ratings improved, is that -- we've established that, too, have we not?

A Yes, we have.

Q Would it be possible -- well, strike that.

The credit rating analyst folks, do they really care how the cash flow is generated?

A Your typical sources of cash flow from their perspectives that they look at are from the net income from depreciation, primarily.

Q Deferred taxes, perhaps?

A Deferred taxes would be, I would say, the third factor to a lesser extent. So that would be in the order.

Q But if the Commission were convinced that Laclede needs additional cash flow, for instance, in order to fund appropriately infrastructure improvements, the Commission could simply direct Laclede to charge on each bill 32 cents a month; and if Laclede has 7.2 million bills, that generates $2.3 million a year, and then to reflect that as a part of the capital structure at zero cost. That's a possibility, isn't it?

A That's a possibility. I would

venture to say that the rating agencies would question how long that cash flow would be available and want to know how to build that into their models, as would we.

Q Laclede has never defaulted on any of its debt, has it?

A Absolutely not.

Q And it's not in any -- there's no likelihood of it defaulting on any of its debt in the near future, is there?

A Absolutely not.

MR. SCHWARZ: I think that's all I have for Mr. Cooper.

JUDGE DIPPELL: Thank you.

BY COMMISSIONER MURRAY:

Q Good morning, Mr. Cooper. As the Chief Financial Officer, I assume you have quite a bit to do with the accounting that is done in terms of, well, for example, the treatment of the net salvage and depreciation?

A Yes, ma'am.

Q And you indicated in your testimony on page 3 at line 15 that you've never encountered a less suitable methodology for allocating the cost of a fixed asset than the one proposed by the

Staff in this proceeding. How long have you worked with accounting principles for regulated utilities?

A My experience there is limited to two years, Commissioner; however, my entire career has been spent in the finance sector. Fourteen years at -- with a national accounting firms and nine years in industry.

During that period of time I've been exposed to a number of fixed asset and depreciation related matters. So while it's not utility related, it's something that I am very familiar with and this is something that's extremely unusual from my perspective.

Q Okay. And I assume from your perspective, harmful over time for the Company; is that correct?

A Well, it is. I think on a couple of fronts. One, I believe that what it does is it -- there's a -- there's a mismatch here, that I do believe in theory that rate payers should pay for the structure of the system as they utilize it. And the methodology that Staff has -- has put in place effectively doesn't do that in my mind. What it does is requires rate payers to pay for that when the asset is retired.

In my mind, what should happen is that the cost of the asset should be spread ratably over its life. The cost of the asset should include the net cost to extract that asset. In other words, the net salvage cost of the asset. That should be -- that should be included.

From my perspective, that would also include what the future look is of that -- or estimate is of that future cost. Um, I believe that it can be accurately estimated. It is an estimate that's part of the accounting principles. There are safeguards put into place with the standard method such that it's trued up, and in particular that the rate payers don't get charged more and aren't harmed.

Q With depreciation in general, you are looking at estimates, are you not?

A Absolutely.

Q I wanted to ask you about one of the Staff witnesses showed an example in which the salvage ratio can sometimes be very large based on the first in/first out method they used.

And do you consider that a problem, and if so, is there anything that -- in the

standard method that protects against the effect of overestimating based on the first in/first out method? I don't know if I'm making that question very clear.

A No, it's a great -- I think that's a great -- that's a great question. The -- yes, there is. The standard method actually, from my perspective, does a great job of safeguarding the rate payers, and that is that there's a true-up -- true-up mechanism. With any -- with any estimate, it's highly unusual if you hit -- hit the actual number precisely.

So what it does is it ensures that the -- there's a backwards look, if you will, and that the -- and the actual results are trued up so that the rate payers are not overcharged and are not undercharged. And the -- that's the beauty, actually, the beauty of the method such that there are -- any deviation has no residual impact on our customers.

Q And -- and because you're looking at groups of assets, you have to determine some method of calculating a retirement to that account, right? And it's just an accounting methodology to use the first in/first out method,

and you're saying that any discrepancy there in terms of over accruing would be addressed in the true-up? Is that correct?

A Yes, ma'am.

Q Now, you talked about consideration of the cash flow to the Company, and are there any regulatory experts or authorities or precedents that you can cite to support that the Commission should consider the cash flow of the Company when choosing a rate making treatment such as for net salvage?

A No, I don't have a specific citing for you. How I would answer your question would be to consider the testimony that's put forth by Mr. Stout, most of which I've had a chance to review, indicating that various other jurisdictions have adopted the standard methodology.

I believe it makes -- I believe it makes a lot of sense. And understanding the Commission's charged with various responsibilities, I believe where it's an opportunity to make a prudent decision whereby it can assist the Company without harming the rate payers, obviously that makes sense.

And the Commission has a -- Commission has the final say, but I think there's -- we believe there's a good case here for -- for the standard methodology.

Q Okay. Is it not true that if a company's cash flow is such that it maintains a good credit rating, that that company, because of its better financial health, is also better for the rate payers and for cost to the rate payers than a company that does not have good financial health?

A That's exactly right, and that's a great question. The issue at hand is really to the extent that we do not have internally generated cash, for instance, from depreciation, and we have this negative cash flow. We have to eventually go to the market to borrow it, whether it's debt or equity.

And when looking at us versus, let's say, a non-Missouri company with the same financial parameters, but one that has better cash flow, we're going to probably have a lower rating than them. That lower rating is going to result in us having a -- in us having a cost which we are going to have to pass along to our customers. And you are absolutely correct, that flows under rates and they wind up paying for it.

Q Mr. Cooper, some of the concerns that have been raised in the standard treatment of net salvage is that some assets may never have to be retired, and some may be removed at some -- or I'm sorry, may never have to be removed and that some may even be retired at a much later date than was originally estimated.

Are there ever instances in which an asset that is in use today will never incur any costs for retirement? I guess that's a bad question. I'm realizing it's a bad question because you have to consider whether your net salvage is positive or negative.

But if you've got an asset in -- grouped within something, and you're estimating that there's going to be a negative net salvage for this grouping, does that group include some assets that may not require a cost to retire?

A It's possible, but I would say highly unlikely. And the safeguard there, Commissioner, would be subsequent depreciation studies, and the true-up mechanism would provide those and provide the adjustment and the protection for the rate payers.

Q Can you explain that true-up mechanism and make that a little bit more understandable for us Commissioners as to actually how that takes place?

A Sure, I'd be happy to. Let's take an example of -- let's take an example of an individual asset, that's probably the easiest way to do that. Let me think for just a second.

Let's take a -- let's take a service main that's, by the time we get it -- time we get it in the ground, is going to cost -- and in use, will cost $50,000. And let's say a projection on net salvage cost is going to run another $10,000. And let's say that the useful life of that asset's going to be 60 years.

So we've got $50,000 worth of cost of the main, $10,000 in salvage cost, total of $60,000 spread over 60 years. That's a thousand dollars -- a thousand dollars a year. So the normal straight line depreciation would call for $1,000 of depreciation to be recorded under the standard method, if you would, for -- for that.

Let's say that we get to -- let's say that we get to year 30, have a depreciation study done. At that point in time we've depreciated 30,000 of the original 60,000, so we have a remaining value on the books, if you will, of $30,000.

Q Excuse me, let me stop you there. Isn't the original value that goes into the rate base 50,000? You're not putting into rate base the net salvage amount, are you?

A I believe you're -- I believe you're correct. I guess that level of detail, I have to say I'm not familiar with. I'm trying to illustrate what would happen under the -- under the standard method that we would -- that we would propose.

Q And I think that's an important distinction because the fact that it doesn't go into rate base, the net salvage calculation, but it comes out of rate base over time is -- is, my understanding, is what allows the rate payers to be earning the rate of return on that net salvage amount and reducing what they would otherwise be paying on rate base by an amount that's being allowed for the cost of removal.

A Actually, that -- actually, you are correct. It does come out of -- it does come out

-- off against the rate base.

Q Which the -- so it -- so it reduces what the rate payers are paying rate of return on?

A That's my understanding.

Q Okay. Go ahead, I'm sorry to interrupt you.

A Okay.

Q At year 30, you would have depreciated 30,000 off of 50,000 then?

A Yeah. So my math is messed up now, but that's okay. All right. So we depreciated 30 off of -- 30 off of 50, so we've got 20 left. We've got 20 left on the -- 20 left on the books.

And let's say that -- let's say for simplicity's sake that the -- that the remaining life, from the depreciation study indicates that the main is not going to have the -- not going to have the original life for, let's say, the conditions that was originally anticipated, and the remaining life is going to be 20 years instead of 30 years.

So we're going to depreciate the balance over 20 instead of 30 years. So there's your true-up mechanism that's adjusted -- the estimate is adjusted at that point in time for the remaining -- remaining life of the asset.

Conversely, if the asset was going to last longer than the original estimate was, let's say 40 years instead of -- instead of the estimated 30 remaining life, you would adjust the remaining depreciation balance such that your depreciation expense, it would basically cut it in half.

Q So at year 30, you would have depreciated half of both the original cost of the asset as well as half of the estimated net salvage cost; is that right?

A Under that scenario, yes, ma'am.

Q And then at year 30, you would realize that that asset is going to last longer than we originally estimated, so you adjust the depreciation -- do you -- do you adjust the depreciation on the amount -- the cost of the asset itself as well as the accrual for the net salvage? At that time going forward?

A You would adjust the remaining useful life such that the remaining value of the asset is written off over its remaining useful life. So the -- actually, the depreciation is adjusted itself. So you -- what that does is ensures -- it ensures that you don't wind up over -- over accrued on your depreciation expense or under accrued.

Q Okay. And then I want to clarify, if -- let's just take this service main that you originally started with of a $50,000 cost and a $10,000 estimated net salvage cost with a life of 60 years. At 60 years, you would have depreciated -- or you would have -- between the depreciation of the original cost and the accrual of the net salvage, you would have come up with a total of 60,000 that would have been removed from rate base, but only 50,000 originally went into rate base. Is that right?

A Yes, ma'am.

Q You'd still be reducing rate base even beyond the reduction for the depreciation of the cost of the asset. Which would be a net benefit to -- well, I shouldn't say a net benefit, but which would be allowing the rate payers an equivalent of the rate of return on that amount of rate base.

A I believe that's correct.

Q I'm sorry, I'm not asking my -- should be asking my questions a little more clearly.

A You're asking great questions.

Q On the exhibit in Mr. Stout's supplemental direct testimony, WMS-4-1, I believe you and Mr. Schwarz were looking at that earlier, and this may be -- might be too complicated and this might not be the right exhibit to do this with, but I am trying to figure out if anybody -- and I'm not even sure you're the appropriate witness -- but if anyone can show us what different -- if you -- if you assume that the numbers we're looking at on this exhibit -- trying to think how I want to say this. Let me start again.

What I'm trying to determine is if anyone can show us on an accounting schedule what would be the result of a finding by the Commission in this proceeding that the standard methodology is the appropriate methodology, but not changing rates, just saying that -- change the accounting methodology, how that would look on an accounting document. Is that possible to show us that?

A I believe what you've -- see if I can process what -- make sure I processed what you've asked me. Would it be possible for us, or someone in the room to show you what -- if the Commission were to adopt this, not change the rates, but change -- but change the depreciation rates?

Q Well, I guess that's what I'm trying to get a real handle on. I know that it will make a difference for Laclede in the next rate case because of the way net salvage is recorded. But in that Laclede's rates are -- really have been based on the other methodology, you have had to set up a whole new accounting process in order to do that, I am assuming.

A That wasn't what the Company at that point in time -- it's reasonable to say we made some modifications to accommodate the change.

Q And there was a cumulative net salvage accrual at that point in time, as I understand it. And I think I understand correctly that the Company had to account for that separately, an accumulated net salvage accrual?

A There was a net -- there was a net accumulated salvage accrual at that point in time, that's correct.

Q And where is that account now? What is the status of that? Is it at the same level

that it was at the time the '99 decision was made?

A I don't know the detail answer to that question. I would be happy to find out and follow up with you.

Q Okay. I'm probably going about trying to get at that information all wrong, but what I'm trying to get in my understanding is how your books are going to look different if we find in this case that it is the standard methodology that should be applied, and I will stop at that. But if -- if you think of a way in which that can be shown, I'd appreciate it.

A Well, Commissioner, I can answer your question in general, and that would be to say if you were to find for the approval of the standard methodology, whenever that would be implemented, we would stop expensing the cost of -- cost of removal for salvage purposes, and would begin again the -- resume, if you will, the accrual, fixed asset section of the balance sheet for the cost of accumulating the salvage value.

Q And between the decision here and the next rate case, would you continue to expense net salvage each year, or would you -- would you stop -- would you just stop even expensing it

until the next rate case? I -- I'm sorry to be so confused by this, but it's hard to get a handle on how -- how this will work between now and the next rate case.

A Well, it would be my understanding that would depend on what the Commission's findings would be, realizing that we're between a rate case and the proceeding's somewhat atypical.

Q Obviously the -- I shouldn't say "obviously," I should ask you if this is true, that because of the decision in '99 and the different methodology that was applied and then the two subsequent rate cases in which the Company stipulated to an entire case, including continuing that treatment, that methodology, Staff methodology for net salvage, is it true that the Company has had less cash flow during those years than it would have if the Commission had applied the standard methodology in '99 and then the two subsequent rate cases had continued with that?

A Yes, absolutely. The total amount of the difference would be -- would have been approximately $7 million a year, but I think if you go back to the -- back to the '99 rate case, I think what we had asked for at that point in time was a third of that, $2.3 million. So it would have been $2.3 million annually from '99 forward.

Q And if we go back to the standard methodology, is that $2.3 million annually between '99 and the next rate case, is that just an amount that the Company has lost because of that decision? Or is that recouped somehow with the application again of the standard methodology?

A I think those funds, quite honestly, are lost. And our -- while our desire is obviously to increase our cash flow, I don't think that -- that's not what -- what we're asking for here. I think we're looking for something on a prospective basis.

COMMISSIONER MURRAY: All right. Thank you.

JUDGE DIPPELL: We're going to take this opportunity, then, to break for lunch, and we'll return with -- resume with Commissioner questions after lunch. Let's go ahead and take just slightly less than an hour lunch hour and come back at 1. Thank you. We can go off the record.

(Off the record.)

JUDGE DIPPELL: Okay, let's go ahead

and go back on the record. Mr. Cooper is still on the stand and we're going to resume with the Commissioner questions.

Commissioner Murray, was that the end of your questions?

COMMISSIONER MURRAY: It was, thank you.

JUDGE DIPPELL: All right. While we're waiting on the other Commissioners, then, I'll go ahead and ask -- I got just a couple of questions for you, Mr. Cooper.

BY JUDGE DIPPELL:

Q On page 3 of your testimony, you say many of the assets used in providing natural gas service have retirement or removal costs at the end of their useful service lives that exceed their salvage value. Can you give me some examples of those particular kinds of assets that Laclede has?

A I'd be happy to. Those examples would be many of the gas mains and services that we have in the ground that would have to be extracted or removed from the ground, and thus you incur a -- we incur a cost to do that.

So contrasting that with the sale of

an asset for, let's say, a company truck, which there's obviously some type of residual value for. We incur costs to remove the pipe, or the main, obviously there's some scrap value associated with the pipe, but actually the cost that we incur to remove the pipe is far in excess of what the scrap value is of -- that we receive from the sale of the pipe. So we wind up with -- in a net cost or expense position as opposed to receiving net funds from the transaction.

Q And do some of those assets that have a net salvage value, or some of those assets that it costs more to remove than it does -- than you're going to get from the salvage, are some of those actually not removed? Does Laclede remove every gas main that it retires?

A Well, to say always is a -- it is not a -- not a proper thing, but as a general rule, the answer is we remove the majority of things, or there's a good reason why we don't.

Q Okay. And would the ones that either don't get removed or perhaps get retired or don't get retired when expected, are those the kinds of things that you were discussing with Commissioner Murray about -- would be followed up

in a true-up? Would a true-up catch the ones that weren't removed as well as the ones that had a longer life than expected?

A A true-up would catch those types of assets. If for some reason we did not incur the cost of removing, those would be addressed and adjusted through that process.

Q Then on page 8, you discuss some of the mandated programs. It says a -- it says, Laclede currently incurs approximately $50 million annually in capital expenditures; a significant amount of which are for mandated programs such as our cast iron main, bare steel main, and copper service replacement programs.

Even if those programs weren't mandated, would Laclede still have replacement programs?

A We absolutely would. Obviously safety and integrity of our systems are the foremost thought of the Company, so we would have programs regardless of mandates.

JUDGE DIPPELL: Okay. That's all the questions I have for you, Mr. Cooper.

Mr. Clayton, did you have questions of Mr. Cooper?

COMMISSIONER CLAYTON: I do.

BY COMMISSIONER CLAYTON:

Q Good afternoon.

A Good afternoon.

Q You are the CFO of Laclede; is that correct?

A Yes, sir.

Q And you have duties -- I'm sure you have various duties and divisions that you oversee, including accounting and finance; is that correct?

A Yes, sir.

Q I'm just trying to get an idea of exactly where you would fit into this case. You are not necessarily the accounting witness for Laclede here today, you're more of an overall financial market witness for the Company; is that a fair statement? Or no?

A That would be a fair statement.

Q And you -- Laclede will have additional witnesses to talk about rate making treatment, and more in depth questions regarding depreciation; is that right?

A That's correct. Larry Sherwin is here to address more detail.

Q Then I want to focus just briefly on -- on cash flow, if I may, for the Company. There's been some discussion that -- that this extra amount of depreciation that is allowed would improve the cash flow position of the Company. Is that a fair statement?

A Absolutely.

Q Okay. Now, is there any tie between that increase in cash flow and expenditures for infrastructure or any other type of expenditure, or is it just increase the cash flow and is used for any purpose that the Company would need?

If it's a bad question, tell me it's a bad question, I can handle it.

A Oh, not at all, Commissioner. If I can just ask for clarification. I believe your question is, would the -- if we did receive the cash flow, would these be -- would the increased cash flows be used for increased infrastructure?

Q Well, it -- I'm confused as to -- as to the, I guess, the gist of your testimony.

A Okay.

Q The Company is always going to want to -- they're always going to want to improve their cash flow, regardless of issue, whether it's

this issue or any other issue. Correct?

A Absolutely.

Q I mean, if you can find more places to find money to pay for the business and the expenses associated with that business, you're going to do that. Is that correct? Fair statement?

A That would be a general fair statement.

Q What I'm trying to determine is whether or not there is any connection between the increases in cash flow, the amounts that are recouped more aggressively, or more in advance, whether those are tied in any way to the Company's expenditures for capital improvements or for infrastructure.

A The answer is -- the answer is yes, and I kind of outline that in my testimony on page 8. The -- starting at line 12 and kind of going through 23. But if I could paraphrase for you to move the discussion along, if I may.

In general terms, our capital budget, we lay out about $50 million in cash a year as expended for capital expenditures. Through our depreciation rates, we receive cash back in the door of approximately $22 million to support those expenditures. So that leaves us about $28 million in a shortfall position.

That's, as I mentioned earlier this morning, that's not necessarily unusual for a local distribution company, but it is something we're interested in closing the gap on and something the rating agencies are highly sensitive to.

And, um, the improvement in the recovery of the depreciation rates is something that -- that we're highly interested in, and something as we look at our recovery versus our peer -- some of our peer companies, quite honestly, we find we're below our peer companies in terms of our rate of recovery depreciation.

And we have a -- actually have some data on that that we would be pleased to share with the Commission, if you'd like.

Q I'll tell you -- I had -- I was all set to ask questions before lunch, and the mashed potatoes have completely messed me up.

I did also want to ask you, on page 5 you make reference in your item 3, the reasons for supporting the standard method of this method

of depreciation and a number of safeguards, and I was wondering if you could give me an overview of the safeguards in assuring that there is not an over or an under collection for this cost of removal. Can you discuss any of those, or shall I wait until the -- a later witness?

A No, I'd be happy to --

Q I'm on line 10 of your testimony.

A Okay. Well, actually, if you'd allow me, can I put a simplistic example on the board?

COMMISSIONER CLAYTON: I have no problem with that.

JUDGE DIPPELL: That's fine. The only problem is that that one we will have to turn on. It's an electronic board. Or we can go low tech.

THE WITNESS: We can use the flip chart, that'd be fine.

COMMISSIONER CLAYTON: Let's not say low tech, Judge. Let's just say the traditional method.

THE WITNESS: Let's deal here with net salvage costs, if you will. And let's just, for simplicity's sake, let's just say we got

$10,000 in net salvage costs on one particular asset over a period of time, and let's just say the asset has a ten year life.

So our math's going to be pretty simple here. We got $10,000 accounted for over a ten year life, so it's going to be a thousand dollars a year that we're going to build up the net salvage valve.

Safeguards are, number one, at year five, we're going to do depreciation study to see where we are on the assets. So we come along and say, okay, where are we? Well, net salvage costs, let's say, as a result of the depreciation study shows this estimate was actually perhaps a little rich. Let's say we are going to have only $8,000 worth of salvage costs to account for.

So at the end of year five, at 10,000 originally, we've accrued $5,000, so at this point in time I've got $3,000 remaining to accrue over the next five years. So for years six through ten, instead of accruing a thousand dollars a year, I'm simply going to adjust -- adjust the accrual to be $600 a year.

So at the end of year ten, my useful life estimate has been good, I've got $8,000 --

$8,000 available in the account. Rate payer has not been overcharged. Customer has not been overcharged. This has been backed out from the rate base, and the safeguard methods have worked -- have worked as they are intended under the standard method.

So simplistically, this is how those method -- how the safeguards -- an example of how the safeguard methods work.

Q (BY COMMISSIONER CLAYTON) It's my understanding that the difference in positions on -- on the dollar value of this issue is, what, $2.5 million? $2.3 million? In -- in the test year period that I guess we're talking about. Is -- is there a vast difference year by year in the difference between the actual retired plant versus -- versus these estimates?

JUDGE DIPPELL: Mr. Schwarz, you wanted to --

MR. SCHWARZ: Yes. I think that there have -- I need to clear something up. The value of the accounts in this case is $2.3 million. And I had not -- the value of the gas holders was $4.7 million, which adds to 7, and I thought that was the discrepancy.

However, there's only, I think, half a dozen or a dozen accounts at issue in this case. The value of those accounts is $2.3 million. I think that what Mr. Cooper and Mr. Pendergast have been referring to as $7 million, that would be the impact if -- if the changes were made on all of Laclede's accounts.

And I -- do you understand what I'm saying? They may have 40 accounts, only six or ten are at issue. That value is $2.3 million, that is what is at issue in this case, but there are other accounts that would cause that figure to go up if it were applied subsequently. And I just wanted to clear that up at the earliest opportunity.

COMMISSIONER CLAYTON: Thanks for clearing that up, Tim. I guess I'll try to repeat my question.

Q (BY COMMISSIONER CLAYTON) How great is the difference -- is there a way, looking at the actual cost of retirement versus the forward looking estimates, is there -- do you all have a position as to how far apart those numbers would be at any given time? Are there great fluctuations in actual retirements that would

cause a swing up or down, or is it fairly consistent? Does Laclede keep that number consistent year after year?

A Actual number of retirements year over year, if I'm understanding your question correct?

Q Yes. I think so. If you don't have the information, you can say, I don't know, and that's fine.

A Yeah, I don't have that information with me.

COMMISSIONER CLAYTON: Okay. Well, I appreciate the example.

JUDGE DIPPELL: And just to keep the record clear, I'm going to mark his exhibit also as a demonstrative, Exhibit 146, and I'll ask Laclede to make that --

MR. PENDERGAST: Can we take the sheet home with us?

JUDGE DIPPELL: You may.

COMMISSIONER CLAYTON: I suppose getting back to this idea of improving the cash flow of the Company versus tracking the number as closely as possible either with actual retirements or with a number that will accrue enough to retire a plant in the future, I'm confused as to how those two issues mesh, or to how those two claims by you in your testimony mesh. If -- I'm having difficulty phrasing the question.

Well, I'll tell you, I'm going to hold off so we can move forward. There may be a cross examination and we may come back to it, so thank you for your patience.

THE WITNESS: My pleasure.

JUDGE DIPPELL: I'm going to go ahead and move on to further cross examination. And based on the questions from the bench, I'm not sure if there are further questions from the other Commissioners so we'll just come back to that if need be.

Are there any -- is there any further cross examination from Ameren?

MR. BYRNE: No, Your Honor.

JUDGE DIPPELL: Public Counsel?

MS. O'NEILL: Thank you, Your Honor.

RECROSS EXAMINATION BY MS. O'NEILL:

Q Mr. Cooper, referring to your example here which is going to be marked Exhibit 146 for demonstrative purposes, can you tell me what the legal requirements in Missouri are for

how often Laclede Gas has to have a depreciation study?

A My understanding is five years.

Q Okay. And you had -- you had used a couple words in the singular, rate payer and customer. Can you tell me how many rate payers Laclede Gas has?

A Our rate payers or customers, we have approximately 630,000.

Q Okay. So if -- and are all of them, in your example, are all 630,000 your customers for the entire ten year life of this asset?

A I'm sorry, I'm not sure I understand your question.

Q Okay. Are all 630 [sic] customers you have today the same 630 customers you will have for the ten year life of this asset in your example?

A Probably not.

Q Okay. So would it be fair to say that when you talk about this being something that corrects for imbalance and holds the customers free from fear of under or over collection, that would be customers as a group, not individual customers; is that right?

A Yes. Customers as a group collectively.

Q Right. Because looks like in the first five years, customers paid more than they should have paid based on the depreciation study. Is that right?

A That would be correct. However, that was also pulled out of the rate base and they received a rate -- customers received a rate of return on that.

Q And when you referred to the customers receiving a rate of return, what you were really talking about is the fact that when the rates are set, they're set recognizing that there will be removals from rate base as opposed to an actual return that individual customers receive; is that right?

A That's correct.

Q Now, would you also agree that while you may have this much of a discrepancy with an asset with a ten year life, if you have an asset that's really long lived, 60, 70 years, the potential for the change in what the net salvage cost could be would vary more widely than it did in this example?

A It's possible, but your safeguard is your five year depreciation study and checkup.

Q Okay. Now, under the Staff's method that's proposed in this case, if the Company comes in for a rate case, for example, every three to five years, and during every rate case when all the factors are being considered, the Staff does its calculation regarding cost of removal net salvage and comes up with a figure, that also would collect over and underestimates based on the prior rate case, would it not?

A That's my understanding.

Q And do you have any idea how often in the last ten years Laclede has applied for a rate increase with this Commission?

A Several times, but specifically, I don't have that information in front of me.

Q More than twice in ten years?

A Yes.

Q And I understand that you've only been with the Company for a couple years and what happened before you got here, you may have less knowledge of.

Now, you had indicated that you'd worked in some other industries and you'd looked

at some information regarding depreciation in your prior positions as well; is that right?

A Yes, ma'am.

Q Now, can you tell me in the other industries where you worked and you addressed issues of depreciation, were those primarily competitive companies or regulated monopolies?

A Primarily competitive companies.

Q You understand that the proceeding we're here today on is a continuation of a rate case; is that right?

A Yes, ma'am.

Q And you heard some discussion earlier today -- or did you hear the discussion earlier today regarding what relief, if any, the Commission could give Laclede if it changed its ruling regarding depreciation?

A I did.

Q And would it be your -- do you believe that Laclede would ask the Commission to direct it to change the manner in which it accounts for depreciation on its books as a result of this rate case?

A At what point in time?

Q Is there a point in time that you

would recommend that that happen?

A Yes, with the next rate case.

Q And in the next rate case, the Commission will look at all relevant factors and whatever issues are in contention if it goes to hearing; is that right?

A That's my understanding.

MS. O'NEILL: No further questions.

JUDGE DIPPELL: Is there further cross examination from Staff?

MR. SCHWARZ: Just a bit, I think.

RECROSS EXAMINATION BY MR. SCHWARZ:

Q In response to a question I think from Commissioner Murray, you indicated that net salvage or costs for removal goes into the reserve; is that correct? The reserve for depreciation?

A Goes into a reserve, that's correct.

Q In the reserve, is the reserve separately stated for that portion which is attributable to net salvage or cost of removal and what portion is -- reflects the return of the Company's initial investment?

A I don't believe so.

Q Okay. Turning for a moment to your

example, if there is no rate case in that ten year period -- strike that.

If there is no rate case at the five year period to reflect this reduction in the net salvage, will customers be charged $600 a year or will they continue to be charged a thousand dollars a year?

A I'm going to defer that question to Mr. Sherwin. I don't know the detailed answer. I apologize.

MR. SCHWARZ: That's all. Thank you.

JUDGE DIPPELL: Is there redirect from Laclede?

MR. PENDERGAST: Little bit, Your Honor.

REDIRECT EXAMINATION BY MR. PENDERGAST:

Q Mr. Cooper, you were asked a number of questions about your example up here by Miss O'Neill and also Mr. Schwarz. Do you recall those?

A I do.

Q Okay. I'd like to ask you just a couple of questions to compare this with the Staff's method. Now, under your example, you

assumed that you had $10,000 worth of removal cost to recover over ten years; is that correct?

A Yes.

Q And under your example, after five years, do another study, you determine that you've overshot your estimate a little bit on your cost of removal and it's really going to be 8,000 rather than 10,000. Is that correct?

A Absolutely.

Q Okay. And then would you make an adjustment at that point to go ahead and reflect what the new estimate is so that in the end, everything comes back to zero. Is that correct?

A That's correct.

Q And to the extent that you're over accrued during this period of time, or you have a higher accrual than what you're actually expending, that works its way through the depreciation reserve which is then, in turn, an offset from rate base; is that correct?

A Absolutely.

Q So to the extent that the customer is fronting some money, that customer is going to be compensated for that at the overall rate of return of the utility; is that correct?

A That's right.

Q **Okay. Let's compare your example for the first five years and assume you did overestimate what your removal costs would be, and instead of 10,000, it's 8,000.**

As a practical matter, would that mean that during those first five years customers paid slightly more than if you'd had the estimate completely correct from the beginning what they would have paid?

A I'm sorry, I didn't understand the question.

Q **I don't blame you. Let me try again. Let's assume under your example that you determined removal costs were actually going to be 8,000 rather than 10,000. That's what you'd assume. Correct?**

A They originally were going to be 8,000 instead of 10?

Q **You originally estimated 10,000 and then you reduced that to 8,000 after your depreciation study. Right?**

A Correct.

Q **So that means that customers in year one, two, three, four, and five paid slightly more**

than you would have had them pay if you had had the 8,000 estimate from the very beginning; is that correct?

A That's correct.

Q Okay. Let's take that example. Instead of customers paying a thousand dollars a year, if you had the estimate right on the button from the very beginning, it would have been $800 a year; is that correct?

A That's correct.

Q Okay. Now, let's go with Staff's method, and under Staff's method, how much will customers pay in years one, two, three, four, and five for that $8,000?

A Zero.

Q Okay. If your target is to go ahead and come as close as you can to having customers as they consume the asset pay for its cost, is 800 of a thousand dollars a better way of realizing that goal, or is zero of a thousand dollars a better way of realizing that goal?

MR. SCHWARZ: I'm going to object at this stage. I think that suggesting that Staff's method would result in zero calls for speculation on the part of the witness. Mr. Pendergast wants to ask Staff what Staff's estimate would be, I think that would be proper.

MR. PENDERGAST: I think he had answered that under Staff's method, it would be zero.

MR. SCHWARZ: And my objection goes to further inquiry based on speculation.

MR. PENDERGAST: Well, I mean, I don't know how it can be any better established on the record that Staff does not recognize net salvage costs until after the plant is retired. And if this plant hasn't been retired yet, I don't see how there can be any question that it's zero.

MR. SCHWARZ: I don't think it's any more appropriate for Mr. Pendergast to testify as to Staff's estimate for a brand new property. To begin with, there's no stipulation that there is an account that has no other retirement history with it. There's just -- if they want to inquire what Staff's estimate is, they should inquire of Staff.

MR. PENDERGAST: I -- I -- I'll -- go ahead.

JUDGE DIPPELL: I'm going to overrule your objection because I believe that we've had a ton of testimony in the previous hearing on what Staff's theory is here. I don't believe that the witness is testifying as to specifically what Staff's estimate is, but that he is testifying as to this example, which is obviously a hypothetical. I don't have a problem with the witness comparing his understanding. It'll be worth what it's worth.

MR. PENDERGAST: Thank you, Your Honor.

Q (BY MR. PENDERGAST) Getting back to my question, if your goal is to have customers ratably pay to the full cost of an asset, and part of that cost is the 10,000 that we talked about that later turns out to be 8,000, and getting back to the customers that were there year one through five, in your opinion, do you come closer to realizing that goal with the customer paying each year $200 too much or $1,000 too little?

A Two hundred dollars too much.

Q To put it another way, would you agree with me that with the standard approach that you described, you are achieving 80 percent of your goal of matching recovery of the cost versus zero percent under the other approach?

A That would be correct.

Q And, in your view, is that a better result if you are interested in having customers pay for the cost of the facilities they use?

A Yes, it is.

Q Okay. Let's continue through your example. Let's go down to year ten, okay? And assume we're operating under a method that says at that point when that facility gets retired, the customer, whoever is there at year ten, will pay the entire $10,000, or $8,000 as it turned out to be, of removal costs.

Under what theory do you believe it's appropriate for this customer, and let's assume he's a new customer, to pick up on some questions Miss O'Neill was asking, what sense in your view does it make for that customer to pay the entire removal cost for that facility that he never used?

A It's hard to come up with a great answer to that -- that question. The cost of removal are the net salvage costs. Under that example, it doesn't match up with the revenue stream. So that customer that's being asked to foot the bill for that hasn't received the benefit of the use of that facility. And I have to say there's not a good matching under accounting principles.

Q Do you have any opinion as to whether it's more consistent with principles of general intergenerational equity and principles of the person who benefits from the cost ought to be the one that pays the cost to have a customer who is using the facility in years one through five pay $200 more than what its cost was, or to have the customer in year ten pay the entire cost of the facility that he never used?

A Well, definitely the former. We're dealing with best available estimate here and we have to keep in mind that it is a best estimate. And it's very unusual when you hit an estimate completely on the money. So there are safeguards in the standard method designed to true-up exactly for this, but definitely the first.

Q Now, let me ask you another question. It wasn't part of your example, but it goes to another component of it which was the service life. Let's assume that when you did that five year depreciation study, you also determined that the ten year service life wasn't correct. I

mean, is that a possible outcome?

A Oh, definitely.

Q And let's assume that you determined that it was actually an eight year service life at that point. Are you with me?

A Sure.

Q Would you make the same kind of adjustments there that you make over on the cost of removal side? So that everything comes back to zero in the end?

A Yeah, absolutely. I would make the adjustment so that the service life is adjusted to eight years and that the customer's not overcharged.

Q And under that example where it turns out to be an eight year service life rather than a ten year service life, does that mean that customers in year one through five were paying a little bit less than they should have been paying?

A Yes, it does.

Q Now, does the fact that customers might pay a little bit less during that year one through five suggest to you that you shouldn't even try to make estimates of service lives, but instead allow the Company just to recover the

entire cost of that facility in year one?

A No, not at all. It's just viewed as a change of estimate from an accounting perspective. It's something that's dealt with all the time.

Q So would it be your opinion that even though that uncertainty exists, it's still better to spread the cost of that asset out over ten years, even though that may turn out to be eight years or it may be twelve years, because that will, once again, better realize the goal of intergenerational equity and matching the cost causer with the cost payer?

A Absolutely.

Q Okay. You were asked some questions about, I believe by Commissioner Murray, about an example where there was a large net salvage associated with an account that was subject to FIFO. Do you recall that?

A I do.

Q And can you just say what FIFO means?

A It's first in/first out method. So basically you think about -- if you thought about an inventory stockroom, it would be the first --

first widget in would be the first widget that was installed someplace.

Q And, to your knowledge, in looking at Laclede's mass property units, does it utilize that particular accounting technique on any substantial amount of its mass property?

A Mike, it's used on an extremely insignificant basis. Most of the things are done on specific identification basis, extremely immaterial.

Q Okay. So, to your knowledge, does that example that was given by Miss Schad in her testimony have any material applicability to Laclede?

A No, it does not.

Q Just to go back to the questions you were asked about the 2.3 million and how it compared with whatever revenue we got from the ISRS, assume for me, if you will, that we're only talking 2.3 million, and that's an annual number; is that correct?

A That's correct.

Q Okay. And say that was 2.3 million five years ago in a rate case, what would that accumulate to approximately over five years?

A 16.5 million.

Q And you're talking about that only being a portion of the difference relating to the difference between the standard method and the Staff's method; is that correct?

A That's correct.

Q That total difference is approximately 7 million?

A Approximately 7 million, so it's --

Q And what is 7 million worth over a five year period?

A Approximately 35 million.

Q Okay. And was it your understanding that in cases subsequent to that first case that it was the Company's intention to ask for the complete revenue associated with the difference between those two methods?

A No, it was not. My understanding was that we would phase that in. Really, the 7 million was broken down ratably into three chunks. Thirds, if you will, 2.3, 2.3, 2.3, and that was how it was -- the design was to ask for it on that basis as opposed to one lump sum.

Q But over time, because you were adding these increments of 2.3 and 2.3, that would

have accumulated to a greater amount than just the 2.3 over that period if we had the results --

A Absolutely.

Q You were also asked a number of questions about an exhibit from Mr. Stout's testimony, do you recall that?

A I do.

Q And Mr. Schwarz wanted you to place us in that particular exhibit where the collections versus costs -- or the accruals versus costs turned around. Do you recall that?

A I do.

Q And asked about the Company's capability and sources of revenue for meeting that cost in the future?

A Yes.

Q As a general rule, do you think the Company will be in a better or worse position to meet those obligations in the future if it is -- if it has its cash flow reduced now?

A If the cash flow is reduced now, it would be in a worse position to meet those in the future.

Q And to the extent that your cash flow is reduced now, all else being equal, does

that mean that you need to seek additional sources of financing from the outside?

A It will.

Q And to the extent that you have to seek additional sources of financing from the outside, does that mean that 15 or 20 years down the road, that you'll have less financing capability than you otherwise would have if you had not had to seek that?

MR. SCHWARZ: Objection, it calls for speculation, 15 or 20 years down the road.

MR. PENDERGAST: I said all else being equal. I think it's a reasonable hypothetical.

JUDGE DIPPELL: I think I'll overrule the objection and allow it. The witness has testified as to his knowledge about financing for the Company.

THE WITNESS: All other things being equal, I believe that's correct.

Q (BY MR. PENDERGAST) Okay. And you have expressed a concern that reductions in cash flow can have an impact on rating agencies; is that correct?

A Absolutely.

Q And can result in unfavorable ratings; is that correct?

A Ratings, downgrades, that's correct.

Q And what potential impact does that have on Laclede's cost of capital?

A Well, any downgrade, of course, increases the cost of -- cost of borrowing because it puts you in a different ratings category. So there's a different increased cost -- cost on the money when you go to the market -- market to borrow. And basically you're looked at with increased -- as an increased -- with an increase of risk factor versus a company with a higher credit rating.

Q Okay. And -- and to the extent that those costs are higher in the future than they otherwise would have been because of this cash flow effect flowing through reduction and depreciation rates, will it cost the Company more, then, to obtain capital over that period of time than it otherwise would have?

A It certainly will because your interest rate will be higher -- number one, your interest rate will be higher; two, you've had to go to the external market to get the money versus internal cash flow. And external financing, of course, will have to ultimately be borne -- the cost of that will ultimately have to be borne by the rate payer.

Q So is it fair to say there's two effects going on here, that one of them is more reliance on outside financing, and reliance on outside financing is at a higher cost?

A That's correct.

Q And when it comes time -- things reverse and you're now taking in less than what you've accrued, will -- what impact will that have, those two factors, on your financing capabilities at that time?

A You're talking about Mr. Stout's example?

Q Yes. Will you be in a better position to finance those obligations at that time, or a worse position?

A Obviously a worse position.

Q You were also asked about who would provide those sources of funds, and I believe you said you would expect the Company or its shareholders would be -- or relying on outside financing sources or internal sources would be

financing those costs at that time to the extent that we were collecting less in rates than what we were incurring; is that correct?

A That's correct.

Q You also, I believe, indicated that the Company takes very seriously its obligation to render safe and adequate services; is that correct?

A Absolutely.

Q And would you see fulfilling that obligation to properly remove and isolate facilities as being part of that obligation?

A Without a doubt.

Q And did you hear earlier comments by Mr. Schwarz that addressed that question of the Company having an obligation to provide safe and adequate service?

A I did.

Q And you're aware that this Commission has supervisory authority to make sure that the Company is doing that?

A Yes, I am.

Q Okay. And do you believe that that is an adequate safeguard for rate payers, in your opinion, to ensure that to the extent there are removal costs to be paid for, they will be paid for by the Company?

A I do.

Q And is it that same Commission oversight and that same assurance of fair treatment and conformance with the law that gives you assurance that the $700 million in capital outlays in excess of what we receive from customers that the Company has fronted to provide service will be returned to it someday?

A I would agree with that.

MR. PENDERGAST: Thank you. I have no further questions.

JUDGE DIPPELL: Mr. Cooper, I have another question for you from the Chairman, and so I'll ask that and then I'll allow the parties a chance to cross examine on that.

BY JUDGE DIPPELL:

Q If the Commission were to determine that it was inappropriate as a result of this case to raise customer retail rates, would Laclede prefer that the Commission determine the case as moot, or to go ahead and reestablish Laclede depreciation rates, even though it may negatively affect the Company?

MR. PENDERGAST: Your Honor, I'm not trying to go ahead and object to the question, I would never do that, Mr. Schwarz had advised me it's not a good idea, but I will say this witness is not an attorney and he's being asked to go ahead and choose between the applicability of a legal principle and relief that's being asked.

And under those circumstances, if he's not prepared to go ahead and provide an answer on that basis, I hope that will be understood.

JUDGE DIPPELL: And would Laclede's counsel be able to provide an answer to that question?

MR. PENDERGAST: Certainly.

JUDGE DIPPELL: All right. I'll let the witness answer if he can.

THE WITNESS: I think I'll defer to Laclede's legal counsel.

JUDGE DIPPELL: Okay. Mr. Pendergast, as sort of an extension of the oral argument/opening statements we had earlier this morning, can you answer the Chairman's question?

MR. PENDERGAST: I can certainly try. And from my perspective, it doesn't have to be one or the other, that there is nothing under the mootness doctrine that says the Commission either has to go ahead and change depreciation rates immediately, or it has to change customer rates immediately, or the item is moot.

I think we've had a lot of discussion today about the Commission and the fact that it has various proceedings where it establishes principles and looks at various issues for subsequent implementation. And my view would be that that's what it can do here.

And I think another principle is that even the Courts when they apply the mootness doctrine, assuming that there is no specific relief that they can provide at a specific point in time, have always recognized an exception to that. And that is if it's an issue of great public importance, that the Court will go ahead and exercise its discretion if it believes it's appropriate to consider that issue and decide it.

And as we've said in our pleadings before, it's hard to see an issue that's come before this Commission in the last five years of greater public importance that's had more trouble getting final judicial review than this one, and that occurs more frequently.

So I think that even if one were to go ahead and consider that it's a choice between mootness and a choice between changing something immediately, even under the mootness doctrine you can go ahead and consider this issue and resolve it.

JUDGE DIPPELL: Okay, that was a very good lawyerly answer which didn't answer the question, really. I mean, I understand your position that you think it's not an either/or. I guess the Chairman is asking if it were an either/or, which would you prefer?

MR. PENDERGAST: I'm sorry, if somebody were to determine that those were the only two options?

JUDGE DIPPELL: Yes.

MR. PENDERGAST: Well, I suppose it would depend on what the timing of the decision was, when you wanted to go ahead and implement the rate change, and how closely it corresponded with our rate case. Those are unknowns that I don't have available to me right now, and so I'm afraid I can't give a more specific answer on that other than it depends.

JUDGE DIPPELL: Okay. I would expect when we wrap this all up, the Chairman may still want to discuss that with you.

MR. PENDERGAST: And I will certainly give it additional consideration. If I come up with a more accommodating answer, I will.

JUDGE DIPPELL: All right. Will there be any further -- let me ask very quickly, Commissioner Appling, did you have any questions for Mr. Cooper?

COMMISSIONER APPLING: I just walked in, so I'm going to --

JUDGE DIPPELL: We're about to wrap up with him, but if you'd like me to hold him for later, I can.

COMMISSIONER APPLING: That's fine.

JUDGE DIPPELL: Will there be any additional questions based on my question, or I suppose at this time any additional -- seeing how the witness didn't answer my question, I -- there shouldn't be any more questions, so I'm just going to let that go.

I think we're through with you, Mr. Cooper, and you may step down. Thank you.

THE WITNESS: Thank you.

MR. PENDERGAST: Your Honor, could I ask, do you anticipate anybody else having additional questions of Mr. Cooper? I believe he's going to stay for a while, but --

JUDGE DIPPELL: He may be excused.

MR. PENDERGAST: Thank you.

JUDGE DIPPELL: I believe we can go forward, then, with the next witness, which is a witness for Ameren UE, Mr. Baxter.

(Witness sworn.)

WARNER BAXTER, testified as follows:

DIRECT EXAMINATION BY MR. BYRNE:

Q Could you please state your name for the record?

A Warner Baxter.

Q And, Mr. Baxter, are you the same Warner Baxter who caused to be filed in this proceeding supplemental direct testimony that has been marked as Exhibit 135?

A I am.

Q And do you have any corrections that you need to make to that prefiled testimony at this time?

A I do. I have one.

Q And what is that?

A It is on page 21, line 3, I believe what you see in the middle of that line is a question mark. I wasn't uncertain there, that should have shown up as a dash.

Q Okay. Page 21, line 3, the question mark should be a dash; is that right?

A That's correct.

Q And with that correction, is the information contained in your prefiled supplemental direct testimony true and correct, to the best of your knowledge and belief?

A It is.

Q And if I was to ask you the questions contained in that prefiled testimony today when you're here under oath would your answers be the same?

A They would.

MR. BYRNE: Okay, Your Honor, I would offer Exhibit 135 into the record, and tender Mr. Baxter for cross examination.

JUDGE DIPPELL: Thank you. Are there any objections to Exhibit 135?

MS. O'NEILL: I have objections, Your Honor. First of all, as far as the entire exhibit is concerned, I would object on relevance to the entire document. Mr. Baxter provides no testimony based on any personal knowledge whatsoever regarding Laclede Gas Company or this rate case, nor does he testify that he is, in fact, an expert in depreciation. His testimony doesn't bear that out.

I have some specific additional objections regarding relevance and also hearsay. There is -- this document is rife with hearsay and I would like to point out examples.

JUDGE DIPPELL: Let's take up your objection to the whole exhibit first.

Mr. Byrne, do you have a response?

MR. BYRNE: Yes, I do, Your Honor. I guess my main response is we're an intervenor in this case. We've been actively participating, unlike the Office of Public Counsel, actively participating in this proceeding for five years, up and down through the courts.

The Administrative Procedure Act states that intervenors have a right to present relevant testimony to the tribunal, 536.070, Subsection 2, we have a right to present relevant testimony in this proceeding.

Mr. Baxter's testimony and, for that

matter, the testimony of the other witnesses we've presented here is relevant. It's true, Mr. Baxter's not a depreciation expert, but there are a lot of other issues relevant to this consideration.

He's the Chief Financial Officer of the company, and matters of cash flow and -- and all the items that Mr. Cooper talked about are relevant to this proceeding and, therefore, Mr. Baxter's position on those are relevant, too.

His testimony does not bring in Ameren specific things. We have not tried to turn this into an Ameren case. We have presented testimony in evidence that's relevant to the outcome of this particular case. On the policy that the Commission should adopt, it's completely relevant and should be admitted.

In addition, let me add a couple of other things. You know, the Commission asked that the parties submit additional record evidence in this case a long time ago. We filed this testimony on August 20th. We all agreed to a procedural schedule for all the parties to file testimony before that. We agreed to an order of the cross examination and the witnesses appearing, all of which Public Counsel agreed to.

They have not said anything, they have not raised this objection before, and now when we bring our Chief Financial Officer down to Jefferson City, our Controller down to Jefferson City, and we make arrangements for outside witnesses to fly in from other jurisdictions is not a very reasonable time to raise this objection if -- if Public Counsel has it.

MS. O'NEILL: Your Honor, if I may address those responses? While the Administrative Procedure Act allows intervenors to provide relevant testimony, my objection is this is not relevant testimony. The fact that Mr. Baxter is a high ranking official with Ameren UE has nothing to do with the Laclede Gas Company rate case.

As far as objections, you know, we did a -- there was a deposition of Mr. Baxter taken in -- on September 14th, you know, wanting to wait and see if there was any relevant information that came out from that. I didn't receive a copy of that until sometime later than that, I think maybe late Friday afternoon of this week, in preparation for this hearing. So as far as timeliness, I don't know that that's really a relevant or realistic objection.

Also, frankly, I can't object to anything until it's offered into evidence. So that's -- I don't think that that is a meritorious response to my objection.

MR. BYRNE: Your Honor, parties have frequently filed objections ahead of time before the hearing, so it's certainly possible for her to have filed an objection before the hearing, and she didn't do it.

I guess my main -- my main point is this evidence is relevant. You know, issues in this case are in general how this policy affects cash flows from Laclede and for other utilities. I think Mr. Baxter has expertise in that area and he can -- and he can shed light on that. I think it's relevant testimony and should be admitted.

MS. O'NEILL: Your Honor, the issue in this case and the only issue remand is the issue of net salvage for Laclede Gas Company in this rate case.

MR. BYRNE: So I guess Miss O'Neill would say no person from Ameren UE could ever file any evidence in this case because we don't have evidence about Laclede? That's not a reasonable position. This is relevant testimony and should be admitted.

JUDGE DIPPELL: Mr. Pendergast?

MR. PENDERGAST: Thank you. I think the Commission will benefit from more rather than less information, from having relevant information about the possible consequences of its policy determinations, not just for Laclede, but for other utilities as well.

My understanding is the Commission has routinely allowed one utility to intervene in the cases of another utility because issues are being decided and determined that somewhere down the road could have an impact on that other utility; in fact, I believe Ameren UE has been allowed to intervene in Empire's case right now.

Now, you know, that case concerns Empire's depreciation rates and Empire's net salvage. It doesn't concern Ameren UE's net salvage, but, nevertheless, the Commission has determined that it's appropriate to allow that, and I believe it's allowed it without any objection from Public Counsel or without any objection from Staff.

And I fail to go ahead and see the

difference. The only difference being that Ameren UE has, as I said, been involved in this case for five years and has pursued the appeals alongside Laclede over that five year period. And I do think that it would be inappropriate at this late stage for a party that generally hasn't participated over that period of time to try and remove a party that has.

MR. BYRNE: Your Honor, if I could just add a couple more things, too, that I've thought of. You know, the -- Ameren UE has a gas utility with mass property, too. Ameren UE has mass property in its electric distribution system that there's no distinguishing characteristics.

As Mr. Schwarz pointed out in his opening statement today, even though the Commission doesn't -- even though one Commission case is not binding precedent for future cases, these cases are touchstones for the next case. Empire comes up every time. St. Louis County Water Company comes up every time. Rate case after rate case after rate case when this issue arises.

And if that's the case, if these cases are all going to be touchstones, as they've been for years and years, we believe we have the right, as intervenor, to present relevant testimony.

JUDGE DIPPELL: Mr. Schwarz, do you have anything to add for Staff?

MR. SCHWARZ: Well, I will concur with Mr. Byrne that Ameren UE is entitled to submit relevant evidence. That, of course, begs the question of whether the evidence they are submitting is relevant. I would suggest -- I mean, I don't know, for instance, what -- excuse me. Strike that.

He appends some schedules from the late Ameren complaint case to his testimony. I'm not sure that that has relevance. I didn't object to it, but if we're talking about relevance, I don't know how it's relevant to Laclede Gas Company's gas mains.

Other than that, no, I have no particular observations. Relevance is something that, you know, does it have a tendency -- does it have a tendency to prove or establish a fact that's at issue. I mean, that's -- evidence is relevant if it has a tendency to do so.

JUDGE DIPPELL: All right. I

believe that, in general, Mr. Baxter's testimony is relevant in -- as to the general issue of how this -- how a gas company or how a utility maintains these accounts, and I believe this witness has demonstrated that he has knowledge of that.

However, there may be some specific items that Miss O'Neill is about to point out that may not be relevant in Mr. Baxter's testimony, and so I'm going to overrule your general objection, Ms. O'Neill, but I will allow you to make objections to specifics.

MS. O'NEILL: Thank you, Your Honor, for that opportunity. I think that the way I have this written out is probably page -- through the pages, starting from the front. And some of these objections are -- and probably most of them that remain are hearsay objections, although I do have a few other relevancy objections.

And if it's all right with you, Your Honor, I will just go through the order that they appear in the testimony.

Starting at page 3 of the exhibit, beginning at line 8 and concluding on page 5, line 6, I would object to the entire answer to the question, please briefly describe the supplemental direct testimony sponsored by Ameren UE in this case, as being hearsay.

It is completely a description of other witnesses' testimony, it is not based on any personal knowledge of this witness.

MR. BYRNE: Your Honor, it's a summary of -- it's a brief summary of other witnesses' testimony. This kind of testimony appears all the time in Commission cases. Rate cases, you know, where there's -- it's basically for the Commission's convenience. He's not introducing any new evidence in here, he's just summarizing the other witnesses' testimony. I -- you know, I don't think it's inappropriate.

MR. LOWERY: Your Honor, may I make one comment? All these witnesses are going to be here and subject to cross examination, and in that context I don't believe it's hearsay at all because the Public Counsel and every other party is going to have complete opportunity to cross examine each one of those witnesses about their testimony that is being very briefly summarized.

JUDGE DIPPELL: I believe that this witness is offering an out of court statement to prove the truth of the matter, or -- as Mr. Byrne has stated, he's not offering anything new. He's not even bringing anything in, he's summarizing other witnesses' testimony. So just on that basis alone, I see no reason for it to remain if --

MR. BYRNE: Well, part of it is not summarizing the other witnesses' testimony, part of it is describing what the witnesses are and what their qualifications are, and I think he's -- he knows that. He's not just -- you know, he knows that. So that's not hearsay.

MR. PENDERGAST: Your Honor, if I could just briefly address it. This appears to me to be pretty typical road map testimony that policy witnesses and overview witnesses give all the time. Simply to go ahead and in one concise place let the Commission know what the case is about, who the witnesses are, and what they're testifying to.

As Mr. Byrne said, it's done primarily as a matter of convenience for the Commission, and it's done all the time. And if we're going to start striking that testimony, I'm afraid it's going to have a counterproductive impact on providing the Commission with a little more guidance as to what's going on in a case.

JUDGE DIPPELL: Mr. Byrne, are these witnesses' qualifications in their testimony?

MR. BYRNE: Some of them are. For example -- I don't know if they're described exactly the same way. Mr. Stout is a more humble person than perhaps he should be about his qualifications. This might add more truthful qualifications to his list.

JUDGE DIPPELL: Okay. You have substantial objections, Ms. O'Neill, to the testimony?

MS. O'NEILL: Your Honor, I have several other objections to the testimony. I could summarize what those objections are, if you would like me to later provide you a list in writing of specific areas of objections, by saying that many of these objections are based on hearsay, some of them are based on more specific objections regarding relevance related to, and some have some combination thereof, especially items such as Appendix A where the source of that is unclear. But I could file that in writing.

JUDGE DIPPELL: I think that's going to -- in the interest of moving this along and not spending all day deciding these objections, I think what we will do is allow Ms. O'Neill to submit her objections specifically in writing, and give Mr. Byrne an opportunity to respond to those at that time.

And so what we'll do is we'll go ahead and -- we won't admit this into evidence at this time, but we'll treat it similar to an offer of proof. Go ahead and allow the questioning of the witness as if it had been admitted.

MS. O'NEILL: Thank you, Your Honor.

MR. BYRNE: And then if you ultimately rule to admit it, it will be admitted?

JUDGE DIPPELL: Exactly.

MR. BYRNE: Okay. Thank you, Your Honor.

JUDGE DIPPELL: Okay. So we're ready, then, for cross examination. Is there any by Laclede?

MR. PENDERGAST: In the interest of moving the proceeding along, we are not going to be engaging in friendly cross, and we hope other parties are as accommodating.

JUDGE DIPPELL: Public Counsel?

MS. O'NEILL: No questions. No

questions, Your Honor.

JUDGE DIPPELL: Staff?

MR. SCHWARZ: Yes, ma'am.

CROSS EXAMINATION BY MR. SCHWARZ:

Q Afternoon, sir.

A Afternoon, Mr. Schwarz.

Q Would you agree that the three principal sources of cash available to Laclede would be shareholders, creditors, and rate payers?

A Well, the -- yes. That would be correct.

Q There are other things like interest on customer deposits, but those aren't particularly significant, are they?

A That's correct.

Q On January 31 of 2003, did Standard & Poor's lower its credit ratings on Ameren Corporation?

A I believe that's correct.

Q And did this rating reduction also apply to Ameren UE or Union Electric Company?

A It did.

Q And why did this downgrading occur?

A I don't recall the specific opinion, but it included factors associated with the overall company profile, it includes factors associated with debt outstanding, and included factors associated with the cash flows from the company.

Q Did the CILCORP acquisition have anything to do with it?

A It did in part, yes.

Q Okay. Has Union Electric Company's S&P credit rating changed since January of 2003?

A I don't believe so.

Q Is Union Electric Company now under a negative outlook due to the pending Illinois Power acquisition?

A With Standard & Poor's?

Q Yes.

A It is in part, but I wouldn't say it's just because of the Illinois Power acquisition. I think there are other factors that companies -- rating agencies like Standard & Poor's would look at. They clearly would look at cash flows, and I would say during the time period when they lowered the credit ratings of January of 2003, there's no question that they looked at our internally generated cash flows.

And certainly at that time and over

the last couple of years, it has been clear that our capital expenditures at Ameren UE and other of our subsidiaries have been in excess of things like our depreciation. So those were factors -- a factor based upon my discussions with the rating agencies.

MR. SCHWARZ: May I approach the witness?

JUDGE DIPPELL: Yes.

Q (BY MR. SCHWARZ) Ask you if you recognize that?

A Yes. This is the Standard & Poor's report on Union Electric Company.

Q Would you turn to page 3 of that, please, and read into the record what's provided by Standard & Poor's under outlook?

A It says, the negative outlook on Union Electric mirrors that of parent Ameren and reflects the impact that Illinois --

The negative outlook on Union Electric mirrors that of parent Ameren and reflects the impact that Illinois Power's considerably weaker financial profile will have on Ameren's consolidated post acquisition financial condition. The outlook further incorporates the outcome of several regulatory issues after the end of the rate freeze at year end 2006 in Illinois.

Q Thank you, sir. Now, I will hand you the infamous Stout Exhibit 4-1. Do you have a copy of Mr. Stout's testimony?

A I think I might, but I can use this, if you don't mind.

Q I don't mind. I think we established with Mr. Cooper earlier today that beginning in the year 2020, that the estimated net salvage costs will exceed the net salvage accrual in each year. Do you remember that from being in the room this morning?

A I do recall that.

Q I will ask you the same question, then, that I asked him. When those cash flows reverse, when the expense is greater than the accrual that's reflected in rates, where will that cash come from?

A Then the cash will come from several sources. One certainly can be from the company's internally generated funds. Clearly the company could have funds on hand to provide for those retirements in the future based upon the moneys that it has collected in the past from customers.

That certainly can be the case.

Secondly, those funds could come from the capital markets. We will have the ability to access the capital markets for either the issuance of new equity or potentially for borrowing purposes, and in particular for borrowing purposes, given the fact that we had collected some of these moneys in advance of the time that we actually had these expenditures.

That means that some of the borrowing that we would have had to do for some of our other infrastructure investments would be minimized because we'd be able to use externally generated funds. So as a result, we haven't encumbered those assets with borrowings, and so we will have even greater access to the capital markets at that time to take care of those needs.

Q When you use the term, "we," who do you mean?

A Ameren. Ameren UE.

Q My question goes to Laclede. Where will Laclede get funds?

A I would suggest that -- excuse me, I thought you were asking me in terms of an Ameren witness. I would suggest that those same types of opportunities would be available to Laclede.

Q Are you aware if Laclede is, in fact, accumulating cash to meet such obligations?

A What do you mean by "accumulating"?

Q Are they accumulating cash on hand to meet future cash needs?

A Well, my sense is that Laclede could be doing something similar to what other financial managers might be doing. In their case is that they would have cash on hand, internal funds. Whether they are accumulating that in a separate account, if that's what your question is, I'm not aware of that.

Q If I were to suggest to you that in the first 20 years of that reversal, that the -- according to Mr. Stout's exhibit, that some $42 million would be required, would that -- that seems like a sizeable pool of cash. Would -- would that be something that would be noted somewhere?

I mean, would that cause attention or draw attention to itself in financial reports issued to the -- to the shareholders and creditors?

A Mr. Schwarz, you're asking me in

terms of Laclede or are you asking me in terms of Ameren UE?

Q Laclede.

A I think that question would be ultimately better served to ask Mr. Cooper or another representative of Laclede.

Q Have you talked with credit analysts or financial analysts about the impact on ratings of significant reversals in the accruals and cash positions?

A I have spoken to credit rating analysts about regulatory framework, which would include how depreciation, net salvage is covered by utilities in Missouri. I have.

Q And have you -- have you talked about the reversal of the situation when the -- I mean, the credit analysts, if I understand your testimony, Mr. Fetter's testimony, is that credit analysts are insistent that companies accrue for net salvage because that will right now make the -- provide free cash flow to the company. Have they addressed what happens when -- when the situation's reversed?

A Well, credit analysts would look at that -- the fact that you are receiving cash flows for net salvage in accordance with a -- the standard method as a very positive thing. And my sense is that rating or credit analysis could indeed understand it at some point in time. Certainly this testimony is available to the public record as well. At some point in time they could see that ultimately reverse.

They would also understand that having cash flows from the standard method would improve, number one, utilities' credit ratings; two, give them greater access to the capital markets.

And so, therefore, having both of those things in place, they would have less concern because they know at the end of the day, if utilities would have to borrow moneys for significant retirement costs, at the end they could access the capital markets because their borrowings historically have been lower as a result of that and, therefore, they would have less assets which would have been encumbered by debt and so, therefore, they probably would not have any significant fear of that.

Q So is it your suggestion with that answer that, unencumbered, that the ratings

agencies have moved or are moving to a analytic position where they are more dependent on net assets of the company than the company's cash flows?

A No. No. My suggestion is that -- is that they would realize we would have access to the capital markets to take care of our obligations in the future so they would continue to focus on cash flows. And they understand how people access the marketplace and they understand when you go to have borrowings that you need to have assets backing them up.

Similarly, the Staff recognizes the same thing when we come and ask for borrowing here. They have restrictions of how much we can borrow as a utility, and they obviously look to rate base as a main factor there.

So they understand that. I don't want to pretend they're looking at net assets, they're clearly looking at cash flows.

Q If they're looking at cash flows, would not $12 million negative cash flow between the year 2020 and the year 2029 cause them some concern?

A Not if they believe that the utility

would have the financial wherewithal to either use some moneys that they have collected in the past to take care of those obligations in the future, or would have the solid credit ratings and financial stability to access the capital markets to either issue new equity, which obviously having a much stronger financial profile gives you greater access to the equity markets, or certainly gives you the ability to borrow moneys for those needs.

Q Okay. Can you please tell the Commission all the instances you know where a business or industry located somewhere other than Missouri, because Missouri utilities could not provide adequate service?

A I'm not aware of any business not locating to the State of Missouri because they have a specific concern about utilities being able to provide reliable service.

I would suggest due in large part to the fact that they would look at the overall financial stability of utilities which would be based largely in part on the constructive regulatory framework which has been in place, and that would include the utilization of the standard