

Exhibit No.:

*Issues: Capital Structure and
Embedded Costs*

Witness: David P. Broadwater

Sponsoring Party: MoPSC Staff

Type of Exhibit: True-Up Testimony

Case No.: GR-99-315

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

TRUE-UP TESTIMONY

OF

DAVID P. BROADWATER

LACLEDE GAS COMPANY

CASE NO. GR-99-315

*Jefferson City, Missouri
October, 1999*

FILED

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Missouri Public
Service Commission

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TRUE-UP TESTIMONY
OF
DAVID P. BROADWATER
LACLEDE GAS COMPANY
CASE NO. GR-99-315

Q. Please state your name.

A. My name is David P. Broadwater.

Q. Are you the same David P. Broadwater who filed direct, rebuttal and surrebuttal testimony in this proceeding for the Staff of the Missouri Public Service Commission (Staff)?

A. Yes.

Q. What is the purpose of this true-up testimony?

A. My testimony is presented to provide an update, as of August 1, 1999, to the Missouri Public Service Commission (Commission) of Laclede Gas Company's (Laclede) capital structure, cost of long-term debt, cost of short-term debt and cost of preferred stock. It should be noted that the Staff's rate of return analysis uses July 31, 1999 data, which is representative of the amounts for August 1, 1999.

Q. What is the capital structure you are recommending for Laclede?

A. I have employed a capital structure as of August 1, 1999 for Laclede. Schedule 1 presents Laclede's capital structure and associated capital ratios. The resulting capital structure consists of 50.71 percent common stock equity, 0.31 percent preferred stock, 35.17 percent long-term debt and 13.81 percent short-term debt.

True-Up Testimony of
David P. Broadwater, CRRA

1 The amount of long-term debt outstanding on August 1, 1999, includes current
2 maturities due within one year and was reduced by \$2,664,005 (see Schedule 2) for the
3 net balance associated with the unamortized premium or discount expense and debt
4 issuance expense (including losses on reacquired debt).

5 As of August 1, 1999, Laclede had \$56,800,000 of short-term debt outstanding.
6 However, for purposes of this analysis, the amount of short-term debt deemed appropriate
7 was \$79,429,667 (see Schedule 3). This amount reflects the average daily balance of
8 short-term debt for each of the last 12 months (\$90,516,667) reduced by the average
9 construction work in progress balance for each of the last 12 months (\$11,087,000). Due
10 to the wide fluctuations in short-term debt during the year (\$42,500,000 to \$137,500,000)
11 including an average short-term debt balance in the capital structure rather than a single
12 point in time short-term debt balance was deemed appropriate. The use of average daily
13 balances for short-term debt was agreed to by the parties and is reflected in the Partial
14 Stipulation and Agreement for this case.

15 Q. What was the embedded cost of long-term debt for Laclede on
16 August 1, 1999?

17 A. I determined the embedded cost of long-term debt on August 1, 1999, for
18 Laclede to be 7.67 percent (see Schedule 4).

19 Q. What was the embedded cost of short-term debt for Laclede on
20 August 1, 1999?

21 A. I determined the appropriate embedded cost of short-term debt to be the
22 average short-term debt interest rate paid by Laclede for the 12-month period ended
23 August 1, 1999. Based on the Company's updated response to Staff's Data Information

True-Up Testimony of
David P. Broadwater, CRRA

1 Request No. 3809, the average short-term debt rate paid by Laclede for the 12-month
2 period ended August 1, 1999, was 5.287 percent.

3 Q. What was the embedded cost of preferred stock for Laclede on
4 August 1, 1999?

5 A. I determined the embedded cost of preferred stock on August 1, 1999, for
6 Laclede to be 4.96 percent (see Schedule 4).

7 Q. How did the results of your true-up calculations compare to the initial
8 true-up estimate?

9 A. The actual true-up results produced a lower rate of return than was
10 previously estimated for the true-up.

11 Q. How was the true-up estimate calculated?

12 A. Since the Staff was aware that the Company would be issuing equity and
13 long-term debt, it included an estimate of the potential change in revenue requirement
14 associated with these events in the true-up. This estimate was calculated by increasing
15 the equity and long-term debt balances for the new issuances and reducing the average
16 short-term debt balance by the amount of the long-term debt issuance. When the Staff
17 made this calculation it did not know what the actual levels for debt and equity would be
18 in July. Therefore the Staff used this simplified convenient calculation to estimate the
19 value of the debt and equity issuances for true-up. This method in no way mirrors the
20 detailed calculations actually required to be performed to determine the Staff's true-up
21 capital structure using the same methodology presented to the Commission in the
22 evidentiary hearing. Since the treatment of the short-term debt was an issue heard by the

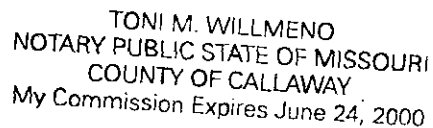
True-Up Testimony of
David P. Broadwater, CRRA

1 Commission, their decision regarding this item should determine the level of short-term
2 debt included in the capital structure as revised for true-up.

3 Q. Does this conclude your true-up testimony?

4 A. Yes.

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**True-Up
Weighted Cost of Capital as of August 1, 1999
for Laclede Gas Company**

Capital Component	Capital Dollars	Percentage of Capital	Embedded Cost	Weighted Cost of Capital Using Common Equity Return of:		
				9.00%	9.50%	10.00%
Common Stock Equity	\$ 291,738,842	50.70%	---	4.56%	4.82%	5.07%
Preferred Stock	\$ 1,958,250	0.34%	4.96%	0.02%	0.02%	0.02%
Long-Term Debt	\$ 202,335,995	35.16%	7.67%	2.70%	2.70%	2.70%
Short-Term Debt	\$ 79,429,667	13.80%	5.29%	0.73%	0.73%	0.73%
Total	<u>\$ 575,462,754</u>	<u>100.00%</u>		<u>8.01%</u>	<u>8.27%</u>	<u>8.52%</u>

Laclede's Embedded Cost of Short-Term Debt is the average Short-Term Debt Interest Rate Paid for the 12 month Period Ended July 31, 1999, and was taken from the Company's Updated Response to Staff's Data Information Request No. 3803.

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**Embedded Cost of Long-Term Debt as of August 1, 1999
for Laclede Gas Company**

	(1)	(2)	(3)
Long-Term Debt	Interest Rate	Principal Amount Outstanding (3/31/99)	Annualized Cost to Company (1 * 2)
First Mortgage Bonds:			
6-1/4% Series due May 1, 2003	6.250%	\$25,000,000	\$1,562,500
8-1/2% Series due November 15, 2004	8.500%	\$25,000,000	\$2,125,000
8-5/8% Series due May 15, 2006	8.625%	\$40,000,000	\$3,450,000
7-1/2% Series due November 1, 2007	7.500%	\$40,000,000	\$3,000,000
6-1/2% Series due November 15, 2010	6.500%	\$25,000,000	\$1,625,000
6-1/2% Series due October 15, 2012	6.500%	\$25,000,000	\$1,625,000
7% Series due June 1, 2029	7.000%	\$25,000,000	\$1,750,000
Less: Unamortized Net Premium or Discount Expense and Debt Issuance Expense		(\$2,664,005)	
Add: Annual Amortization of Net Premium or Discount Expense and Debt Issuance Expense			\$390,062
Total		<u><u>\$202,335,995</u></u>	<u><u>\$15,527,562</u></u>

$$\begin{aligned}
 &\text{Embedded Cost of Long-Term Debt} = \frac{\$15,527,562}{\$202,335,995} \\
 &= 7.67\%
 \end{aligned}$$

Notes: Principal Amount Outstanding as of July 31, 1999 includes Current Maturities.

Source: Laclede Gas Company's updated response to Staff's Data Information Request Nos. 3802.

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Average Net Short-Term Debt Outstanding
for Laclede Gas Company
as of August 1, 1999

	(1)	(2)	(3)
Month	Short-Term Debt	Construction Work-In Progress	Net Short-Term Debt
August 1998	\$82,097,000	\$11,076,000	\$71,021,000
September	\$90,167,000	\$10,529,000	\$79,638,000
October	\$103,403,000	\$11,790,000	\$91,613,000
November	\$127,733,000	\$11,020,000	\$116,713,000
December	\$124,327,000	\$11,341,000	\$112,986,000
January 1999	\$136,836,000	\$12,131,000	\$124,705,000
February	\$109,554,000	\$12,601,000	\$96,953,000
March	\$91,153,000	\$11,947,000	\$79,206,000
April	\$82,173,000	\$14,211,000	\$67,962,000
May	\$56,676,000	\$14,756,000	\$41,920,000
June	\$33,858,000	\$6,548,000	\$27,310,000
July	\$48,223,000	\$5,094,000	\$43,129,000
12 Month Average	<u>\$90,516.667</u>	<u>\$11,087,000</u>	<u>\$79,429,667</u>

Notes: Column 3 = Column 1 - Column 2

Short-Term Debt balance is the average daily balance of short-term for the month

Source: Laclede Gas Company.

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**Embedded Cost of Preferred Stock as of August 1, 1999
for Laclede Gas Company**

	(1)	(2)	(3)
	Dividend Rate	Principal Amount Outstanding (2/28/98)	Annualized Cost to Company (1 * 2)
<hr/>			
Preferred Stock			
 Redeemable Preferred Stock: Stated Par Value of \$25 Per Share			
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5% Series B	5.000%	\$1,795,500	\$89,775
4.56% Series C	4.560%	\$162,750	\$7,421
Less: Net Unamortized Premium and Issuance Expense		\$0	
		<hr/>	<hr/>
Total		<u>\$1,958,250</u>	<u>\$97,196</u>

$$\begin{aligned}
 \text{Embedded Cost of Preferred Stock} &= \frac{\$97,196}{\$1,958,250} \\
 &= 4.96\%
 \end{aligned}$$

Note: The amount of Preferred Stock includes the amount redeemable within one year.

Source: Laclede Gas Company's updated response to Staff's Data Information
Request No. 3802