

**Exhibit No:**  
**Issue:** Facilities Restructuring  
**Witness:** Susan M. Kopp  
**Type of Exhibit:** Surrebuttal Testimony  
**Sponsoring Party:** Laclede Gas Company (LAC)  
Missouri Gas Energy (MGE)  
**Case Nos.:** GR-2017-0215  
GR-2017-0216  
**Date Prepared:** November 21, 2017

**LACLEDE GAS COMPANY  
MISSOURI GAS ENERGY**

**GR-2017-0215  
GR-2017-0216**

**SURREBUTTAL TESTIMONY**

**OF**

**SUSAN M. KOPP**

**NOVEMBER 2017**

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1 **SURREBUTTAL TESTIMONY OF SUSAN M. KOPP**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A. My name is Susan M. Kopp, and my business address is 700 Market St., St. Louis, Missouri, 63101.

3 **Q. ARE YOU THE SAME SUSAN M. KOPP WHO PREVIOUSLY FILED**  
4 **REBUTTAL TESTIMONY IN THIS PROCEEDING?**

5 A. Yes, I submitted rebuttal testimony on behalf of Laclede Gas Company (“LAC”) in Case  
6 No. GR-2017-0215 and Missouri Gas Energy (“MGE”) in Case No. GR-2017-0216.

7 **I. PURPOSE OF TESTIMONY**

8 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

9 A. The purpose of my surrebuttal testimony is to respond to the rebuttal testimony of OPC  
10 witness Charles R. Hyneman regarding our facilities on Forest Park Avenue and  
11 Manchester Avenue in the City of St. Louis. Specifically, I will address why the continuing  
12 efforts of OPC, and Staff, to deprive the Company of certain financial gains realized as a  
13 result of our facility restructuring is wholly inappropriate, especially in light of the  
14 exceptional results achieved by the Company in upgrading the quality and functionality of  
15 its facilities at such a favorable cost to its customers.

16 **II. OPC’s POSITION**

17 **Q. WHAT IS YOUR UNDERSTANDING OF OPC’S REBUTTAL POSITION**  
18 **REGARDING THE GAIN REALIZED BY THE COMPANY FROM THE SALE OF**  
19 **ITS FOREST PARK PROPERTY?**

20 A. Based on OPC witness Hyneman’s rebuttal testimony at pages 2-6, OPC is proposing to  
21 take most of the proceeds of the sale of the Forest Park Avenue facilities and apply them  
22 to the depreciation reserve for the new Manchester facility. If accomplished, the

1 depreciation reserve would exceed the Manchester facility asset, causing Manchester to  
2 have a negative net rate base. Alternatively, OPC would agree with Staff's position, which  
3 is to split the gain on the sale of the Forest Park facility and create a regulatory liability for  
4 the relocation proceeds to the extent they were not spent "to move from Forest Park to  
5 Manchester." (Hyneman Rebuttal, p. 6 lines 1-3)

6 **Q. PLEASE SUMMARIZE YOUR RESPONSE TO OPC WITNESS HYNEMAN'S**  
7 **REBUTTAL TESTIMONY ON THIS MATTER.**

8 A. One of the erroneous assumptions underlying the treatment proposed by Mr. Hyneman  
9 (and by Staff, to some extent) is that Manchester was a replacement for Forest Park. It was  
10 not. The sale of Forest Park and the construction of Manchester were completely separate  
11 events and were both part of a larger restructuring of facilities, as explained in my rebuttal  
12 testimony. LAC was entitled to the gain on the sale of the Forest Park facility because the  
13 proceeds were derived from a sale of land that was paid for by the Company, but never  
14 included in the rates paid by its customers. The relocation expenses were all spent on  
15 moving costs, except for \$600,000, which was applied for the customers' benefit to reduce  
16 the Company's capital expenditures on furniture and fixtures at 700 and 800 Market Street.  
17 Moreover, while the Forest Park district operations were determined to no longer be useful  
18 or necessary, if LAC had decided to rehabilitate and continue to operate those properties,  
19 those costs would have been more than the cost to build and operate the Manchester  
20 facilities – a factor that makes Mr. Hyneman's efforts to seize the gain on the Forest Park  
21 sale even more unreasonable.

1 **III. FOREST PARK PROPERTY**

2 **Q. WOULD YOU PLEASE BRIEFLY SUMMARIZE THE PORTION OF YOUR**  
3 **REBUTTAL TESTIMONY PERTAINING TO THE FOREST PARK PROERTY?**

4 A. Certainly. The sale of the Forest Park facility was prompted by several factors. First, the  
5 Company decided to move the management personnel at Forest Park to 700 Market Street  
6 to facilitate the transition to a shared services model across a growing company. Second,  
7 around the same time, the Company began a reorganization of its operations that reduced  
8 its operating districts from 3 to 2 – eliminating the need to maintain the remaining field  
9 personnel at Forest Park. Third, the outdated and deteriorated (1935) Forest Park facilities  
10 had a number of serious physical and layout issues, including high maintenance and  
11 operating costs, inadequate secure parking space for our utility vehicles, interior asbestos,  
12 roofing, plumbing, electric and other issues that would have required substantial  
13 investments to remediate. Finally, the Forest Park facilities were located in the CORTEX  
14 redevelopment district and were, therefore, subject to being taken through eminent domain.

15 **Q. HOW WAS THE SALE OF THE FOREST PARK FACILITY**  
16 **CONSUMATED?**

17 A. In lieu of the delays and uncertainty that accompany condemnation proceedings, CORTEX  
18 agreed to purchase all of the company’s Forest Park Avenue property at a price favorable  
19 to LAC (\$8.3 million). The appraisal showed that the property was worth less with the  
20 buildings on it than without them. In other words, the raw land was worth more than the  
21 raw land plus the existing buildings. Therefore, the payment received by Laclede  
22 represented consideration for the value of the land alone. CORTEX agreed to tear down  
23 all of the buildings and address environmental conditions at CORTEX’s expense.

1 CORTEX also agreed to pay Laclede a significant relocation fee (\$5.7 million) to cover  
2 the cost of moving its employees to other facilities. Laclede secured the right to occupy  
3 the facility after the 2014 closing to allow Laclede time to synchronize the various planned  
4 relocations of its shared services personnel and operations. The deal was a win-win, as  
5 LAC got to exit a facility it no longer needed while being paid for the land that it had  
6 purchased nearly a century ago, while CORTEX got the property it needed to attract a  
7 prestigious tenant, IKEA, to St. Louis and the growing CORTEX redevelopment district.

8 **Q. HOW DID THE COMPANY USE THE PROCEEDS FROM THE SALE OF THE**  
9 **PROPERTY?**

10 A. Approximately \$5.1 million of the \$5.7 million in relocation proceeds received as a result  
11 of the negotiated agreement were used for moving expenses. The remaining \$600,000 was  
12 used to reduce the capital cost of furniture and fixtures at 700 Market, an investment that  
13 directly benefitted customers. The proceeds reflecting the actual gain on the land were  
14 partially used to make various civic contributions.

15 **Q. WHY WAS THE NEW SATELLITE FACILITY ON MANCHESTER**  
16 **CONSTRUCTED?**

17 A. In addition to moving management personnel from Forest Park to 700 Market, and as part  
18 of the reorganization of its operations from three regions to two, the Company redeployed  
19 a number of the Forest Park field personnel to other satellite facilities, and to regional  
20 service centers in Berkeley and Shrewsbury. After doing so, Operations reassessed its  
21 needs and determined that it should obtain a satellite facility centrally located within the  
22 City, mainly to house large vehicles and to reduce windshield time and increase customer  
23 service response time for leak repair in that area. The facility could also be a dispatching

1 location, include a conference room for meetings and have workstations for about a dozen  
2 employees. Facilities identified the Crown Food property at 5311 Manchester and worked  
3 closely with Operations to construct a model satellite facility that would serve both current  
4 and future needs of the business.

5 **Q. WHY DIDN'T THE COMPANY JUST USE THE FOREST PARK FACILITY TO**  
6 **SERVE AS THIS SATELLITE FACILITY?**

7 A. Because it would have been an extremely poor choice for such a purpose. As I previously  
8 indicated, the buildings at the Forest Park facility were not in good condition and  
9 significant costs would have been necessary to rehabilitate the buildings or to tear them  
10 down and construct new ones. Moreover, because of the redeployment of personnel  
11 associated with the Company's operational reorganization and implementation of its shared  
12 service model, these buildings were far in excess of what was needed to serve the functions  
13 of a satellite facility. The fact that the property was subject to being taken by eminent  
14 domain and therefore could not be counted on to fulfill this need in any event was another  
15 consideration, even if these other factors had not already disqualified it.

16 **Q. IS OPC QUESTIONING THE PRUDENCE OF EITHER OF THESE**  
17 **TRANSACTIONS?**

18 A. No, OPC witness Hyneman states on page 4 of his rebuttal testimony that OPC is not  
19 making a prudence recommendation on this issue.

20 **Q. IS MR. HYNEMAN CORRECT THAT THE MANCHESTER PROPERTY IS ½**  
21 **MILE AWAY FROM FOREST PARK?**

22 A. No. They are between 1 and 1½ miles apart. Forest Park is north of Highway 40/64, and  
23 Manchester is near Highway 44.

1 **Q. WOULD YOU AGREE THAT FOREST PARK WAS SOLD FOR REASONS NOT**  
2 **RELATED TO UTILITY OPERATIONS, AS MR. HYNEMAN CLAIMS ON PAGE**  
3 **4, LINES 17-18?**

4 A. I would not. LAC's sale of Forest Park was related solely to utility operations. Maybe Mr.  
5 Hyneman meant that CORTEX's purchase of Forest Park was unrelated to utility  
6 operations. We feel very fortunate that at the point in time at which we determined that  
7 the Forest Park facility no longer fit our needs, and that it was not cost-effective to  
8 redevelop the property to meet our changing needs, CORTEX stepped forward and wanted  
9 to purchase the property. Had this timing not worked out, we would have been required to  
10 maintain ownership of the Forest Park property, demolish the structures and remediate the  
11 asbestos or, in the alternative, turn off the utilities and secure the structures from weather  
12 and vandals, and wait for a suitable buyer or condemnation. The timing was very  
13 fortuitous, and we took advantage of it. While the Company benefitted from this sale, as  
14 explained below, so did our customers.

15 **Q. WOULD YOU CONSIDER THE FOREST PARK SALE AND THE**  
16 **MANCHESTER PURCHASE TO BE ONE TRANSACTION?**

17 A. No. The Forest Park facility was sold because it neither fit into the Company's plans nor  
18 served its needs. The Manchester facility was later constructed after the Company  
19 determined what its needs were. Forest Park was eliminated from the top down;  
20 Manchester was created from the bottom up. There is very limited overlap in the functions  
21 of these two facilities.

1 **Q. IF YOU WERE ASKED TO COMPARE THE COST OF STAYING AT FOREST**  
2 **PARK TO THE COST OF THE MANCHESTER FACILITY TO, WHAT WOULD**  
3 **THAT SHOW?**

4 A. We have done such a comparison. Attached hereto is Schedule SMK-S1, which shows that  
5 customers will pay about \$225,000 less per year for the Company to build and operate the  
6 Manchester Facility than it would to have fixed and operated the Forest Park Facility. If  
7 OPC considers Manchester to have replaced Forest Park, as Mr. Hyneman says on page 6  
8 of his testimony, then customers are better off with a new facility at Manchester than the  
9 old property at Forest Park. Therefore, there is no need to make an exception to what I  
10 understand to be the normal rule that utilities keep the gain on sales of assets, especially  
11 assets like land that customers have never paid for in rates. In fact, seizing such gains  
12 under these circumstances would be singularly inappropriate.

13 **Q. DOES THIS COMPLETE YOUR SURREBUTTAL TESTIMONY?**

A. Yes.

Data Item	Capital Amount	FY17	FY18	FY19	FY20	Return On %	Depr/Amort Period
Manchester Capital (Depreciation)	6,519,544	144,878.76	144,878.76	144,878.76	144,878.76		45
Return on Manchester Capital Spend (includes land)	7,394,544	812,882.22	812,882.22	812,882.22	812,882.22	10.993%	
Manchester O&M Run Rate		2,127	2,127	2,127	2,127		
Manchester Clearings Run Rate		100,800	100,800	100,800	100,800		
Manchester Property Tax		92,493	92,493	92,493	92,493		
Subtotal Manchester		1,153,181	1,153,181	1,153,181	1,153,181		
*Forest Park Capital Spend (Amortization)	3,553,012	78,955.82	78,955.82	78,955.82	78,955.82		45
Return on Forest Park Capital Improvement Spend		390,582.61	390,582.61	390,582.61	390,582.61	10.993%	
Existing Forest Park Depreciation		73,503.21	73,503.21	73,503.21	73,503.21		
Return on existing Forest Park Asset (includes land)	2,500,427	274,871.96	274,871.96	274,871.96	274,871.96	10.993%	
Forest Park O&M Run Rate		72,854	72,854	72,854	72,854		
Forest Park Clearings		301,175	301,175	301,175	301,175		
Additional Forest Park O&M requirements		65,706	65,706	65,706	65,706		
Forest Park Property Taxes		121,377	121,377	121,377	121,377		
Asbestos removal							
Subtotal Forest Park		1,379,026	1,379,026	1,379,026	1,379,026		
Manchester B/(W) than Forest Park		225,845	225,845	225,845	225,845		
Cumulative Difference B/(W) than Forest Park		225,845	451,691	677,536	903,382		

Schedule SMK-S1

\* Note: Assuming all capital spend to Forest Park was done up front instead of over time as the state of the building was in such poor condition.

