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Burdette/Surrebuttal
Public Counsel
GR-99-315

**SURREBUTTAL TESTIMONY
OF**

MARK BURDETTE

Submitted on Behalf of
the Office of the Public Counsel

FILED

AUG 19 1999

Missouri Public
Service Commission

LACLEDE GAS COMPANY

Case No. GR-99-315

August 19, 1999

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of Laclede Gas Company's)
Tariff Sheets to Revise Natural Gas Rates) Case No. GR-99-315

AFFIDAVIT OF MARK BURDETTE

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

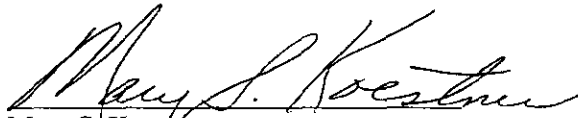
Mark Burdette, of lawful age and being first duly sworn, deposes and states:

1. My name is Mark Burdette. I am a Financial Analyst for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my surrebuttal testimony consisting of pages 1 through 3.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.



Mark Burdette

Subscribed and sworn to me this 19th day of August, 1999.



Mary S. Koestner
Notary Public

My commission expires August 20, 2001.



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1 **SURREBUTTAL TESTIMONY**

2 **OF**

3 **MARK BURDETTE**

4 **LACLEDE GAS COMPANY**

5 **CASE NO. GR-99-315**

6
7 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

8 A. Mark Burdette, P.O. Box 7800, Ste. 250, Jefferson City, Missouri 65102-7800.

9 Q. ARE YOU THE SAME MARK BURDETTE WHO FILED DIRECT AND REBUTTAL
10 TESTIMONY BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION IN THIS
11 PROCEEDING?

12 A. Yes, I am.

13 Q. WHAT IS THE PURPOSE OF THIS TESTIMONY?

14 A. I will comment on the rebuttal testimony of Laclede Gas Company witnesses Glenn W.
15 Buck and Kathleen C. McShane.

16
17 **COMMENTS ON THE DIRECT TESTIMONY OF GLENN W. BUCK**

18 Q. DOES MR. BUCK RECOMMEND INCLUDING SHORT-TERM DEBT IN THE
19 COMPANY'S RATEMAKING CAPITAL STRUCTURE?

20 A. Yes. Mr. Buck recommends including the actual level of short-term debt (average daily
21 balance) as of 31 July 1999, reduced by a total of \$50M to account for recent issuances of
22 \$25M of common equity and \$25M long-term debt (Buck-Rebuttal, page 9, lines 2-8). He
23 estimates a final level of short-term debt of approximately \$40M.

24 Q. DO YOU AGREE WITH THIS RECOMMENDATION?

25 A. No, I do not.

1 Q. WHY DO YOU DISAGREE WITH THE COMPANY'S RECOMMENDATIONS
2 REGARDING THE LEVEL OF SHORT-TERM DEBT TO INCLUDE IN THE CAPITAL
3 STRUCTURE?

4 A. The level of short-term debt recommended by the Company is too low and is not
5 representative of the Company's use of short-term debt.

6 Laclede recently issued common equity and long term debt and used both sources
7 of funds to reduce short-term debt. However, there is no reason to believe that the
8 Company's level of short-term debt will remain at this reduced level. In fact, Laclede's
9 own financial documents indicate that the level of short-term debt will increase in the
10 future.

11 The coincidental timing of this rate case and Laclede's recent equity and long-term
12 debt issuances (and the current reduced level of short-term debt) is not justification for
13 using an unrepresentative level of short-term debt in the Company's ratemaking capital
14 structure.

15 Q. WHAT IS THE MISSOURI PUBLIC SERVICE COMMISSION STAFF POSITION
16 REGARDING SHORT-TERM DEBT?

17 A. Staff witness Broadwater shares my belief that the Company's recommendation is too low
18 (Broadwater-Rebuttal, page 6, line 22 – page 7, line 8). Public Counsel and Staff propose
19 identical levels of short-term debt to be used for Laclede's ratemaking capital structure
20 (Burdette-Rebuttal, page 9, line 14; Broadwater-Rebuttal, page 7, line 6).

21
22 **COMMENTS ON THE DIRECT TESTIMONY OF KATHLEEN MCSHANE**

23 Q. MS. MCSHANE COMMENTS AT LENGTH ASSERTING THAT YOU APPLIED THE
24 DISCOUNTED CASH FLOW MODEL TO LACLEDE GAS ONLY. IS HER
25 CHARACTERIZATION OF YOUR ANALYSIS ACCURATE?

26 A. No, it is not. Although Ms. McShane repeatedly states that I applied the DCF to Laclede
27 Gas only, my analysis as presented in my direct testimony includes the application of the

1 DCF model to six other gas utilities. The results of this analysis were used to corroborate
2 and show the reasonableness of my recommendation for Laclede. Ms. McShane makes the
3 same allegations concerning Staff witness Broadwater's analysis, completely ignoring the
4 fact that Mr. Broadwater applied the DCF to seven other gas utilities.

5 Public Counsel is, quite simply, perplexed at the obvious fallacy of Ms. McShane's
6 assertions concerning the application of the DCF by both Mr. Broadwater and me.

7 Q. MS. MCSHANE SUGGESTS THAT THE MARKET PREMIUM VALUE USED IN THE
8 CAPITAL ASSET PRICING MODEL, BY BOTH YOU AND MR. BROADWATER, IS
9 TOO LOW. COULD YOU COMMENT ON HER ASSERTION?

10 A. Yes. Ms. McShane claims that the market premium I used in my analysis (from Ibbotson
11 Associates) is too low because it is calculated over too long of a historical period. She
12 recommends using a higher value calculated from very recent data (1992-1998).

13 Ms. McShane's approach (and her assertions) depends on the obviously inaccurate
14 idea that investors rely only on the most optimistic information and ignore other
15 information that would lower their return expectations. Not coincidentally, this assumption
16 about investors leads Ms. McShane to a higher recommended ROE for Laclede. I do not
17 believe that actual investors, with their own hard-earned money at risk, would blindly
18 ignore historical information that might indicate lower returns. Relying only on
19 information that paints a rosy picture of future performance produces a flawed analysis.

20 Q. DOES THIS END YOUR TESTIMONY?

21 A. Yes, it does.