

STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

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

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Volume 9
True-Up Hearing
October 7, 1999
Truman State Office Building
Jefferson City, Missouri

oOo

BEFORE:

NANCY M. DIPPELL,
Senior Regulatory Law Judge.

oOo

REPORTED BY:

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APPEARANCES:

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FOR: Office of the Public Counsel
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FOR: Staff of the Missouri Public
Service Commission.

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P R O C E E D I N G S

JUDGE DIPPELL: This is Case No. GR-99-315
in the matter of Laclede Gas Company tariff sheets to
revise natural gas rate schedules. This proceeding

5 has been convened as a true-up hearing, and I'd like
6 for the parties present to go ahead and make oral
7 entries of appearance if you would, please.

8 Could we start with the Company?

9 MR. PENDERGAST: Thank you. Michael
10 Pendergast, I'm with Ellen Theroff and Gerald McNeive,
11 appearing on behalf of Laclede Gas Company. Our
12 business address is 720 Olive Street, Missouri, 63101.

13 JUDGE DIPPELL: Staff?

14 MR. POSTON: Marc Poston appearing for the
15 Staff of the Missouri Public Service Commission,
16 P. O. Box 360, Jefferson City, Missouri, 65102.

17 JUDGE DIPPELL: And Office of Public
18 Counsel?

19 MR. MICHEEL: Douglas E. Micheel appearing
20 on behalf of the Office of Public Counsel and the
21 public, P. O. Box 780, Jefferson City, Missouri,
22 65102-7800.

23 JUDGE DIPPELL: Thank you. Are there any
24 other parties present that would like to make an entry
25 of appearance?

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1 (No response.)

2 JUDGE DIPPELL: I see none.

3 We discussed off the record that there may
4 be some clarification as to where the case stands at
5 this point.

6 Mr. Pendergast, would you like to make a
7 statement about that?

8 MR. PENDERGAST: Yes, thank you, your Honor.

9 Just to bring everything up to date for purposes of
10 the record of what the status of the case is after the
11 true-up testimony has been filed, and I think it's a
12 fair representation to echo what Staff witness Doyle
13 Gibbs said at page 5 of his true-up testimony, that
14 with the exception of revenues for customer growth,
15 i.e. the customer annualization issue and the capital
16 structure issue relating to short-term debt, the
17 Company and the Staff are in full agreement on true-up
18 and have no other outstanding issues.

19 I believe that's also true with respect to
20 the Office of Public Counsel, and maybe Mr. Micheel
21 can address that briefly as well, that we no longer
22 have an issue with them relating to computer
23 maintenance, that they are accepting the number in
24 Staff's case that we've also agreed with, and I think
25 the same thing is also true of customer locates.

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1 So as a practical matter what that means
2 is that everyone agrees that the true-up revenue
3 requirement as it stands right now is at least
4 \$5,139,000 before resolution of the remaining true-up
5 issues and the issues that were tried in the
6 evidentiary hearing.

7 I believe that's it. And as I also noted
8 before, I do have copies of those exhibits and I can
9 provide it after the proceeding if you'd like.

10 JUDGE DIPPELL: Thank you.

11 Mr. Micheel?

12 MR. MICHEEL: I would concur with that
13 representation made by Mr. Pendergast. Those are the
14 only two issues: the short-term debt issue and the
15 customer annualization. With respect to the computer
16 maintenance, we have agreed to Staff's number found in
17 Mr. Gibbs' testimony.

18 JUDGE DIPPELL: And will the Office of
19 Public Counsel be withdrawing portions of its
20 testimony for the true-up hearing?

21 MR. MICHEEL: No, your Honor. I think we
22 had discussed this earlier and we put that testimony
23 into the record, but the record would reflect that we
24 are now moving our position to the Staff position.

25 JUDGE DIPPELL: Okay.
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1 Mr. Poston, did you have anything to add?

2 MR. POSTON: Staff concurs.

3 JUDGE DIPPELL: Okay. The first item of
4 business -- first, let me state that I have not ruled
5 on the objections to Mr. Broadwater's testimony, but I
6 will do that at the end of this week and give it to
7 the Commission for Tuesday's agenda so that you will
8 have that ruling before the brief filing deadline.

9 But we do have a motion to strike portions
10 of Mr. Fallert's testimony that we need to discuss at
11 this time.

12 would Laclede like to make a response to
13 that motion?

14 MR. PENDERGAST: Yes, your Honor, I would.

15 I think it's fair to say from the motion
16 that Staff is seeking to strike both a portion of
17 Mr. Fallert's testimony as it relates to customer
18 annualization issue, as well as a portion of the
19 testimony as it relates to the capital structure
20 issue, more specifically as it relates to short-term
21 debt. And simply put, we don't believe that Staff has
22 stated a valid basis for striking either.

23 Let me address the customer annualization
24 issue first if I could.

25 As I understand it, Staff's primary argument
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1 seems to be that Mr. Fallert's testimony on this issue
2 is improper because it criticizes Staff's customer
3 annualization methodology and even suggests that Staff
4 should change that methodology.

5 According to Staff, if we had problems with
6 their methodology, we should have raised that in our
7 rebuttal testimony in this proceeding and we shouldn't
8 have agreed to the stipulation and agreement to split
9 the difference between our methodology and theirs.

10 I think if you actually read Mr. Fallert's
11 testimony, however, what you'll see is that it's not
12 proposing any change in the methodology used by Staff
13 in its direct case. No matter how flawed we may
14 believe that methodology is, Mr. Fallert has not asked
15 that that be stricken and, in fact, acknowledges in
16 his motion that we've agreed to split the difference

17 between Staff's methodology and our own methodology.

18 what Mr. Fallert is proposing be changed,
19 however, is something that we've never seen before.
20 Because Staff has never done it before, either in this
21 case or as far as we're aware of in any other case,
22 and that's relating to how Staff applies its
23 methodology for true-up purposes.

24 If you look at page 3, beginning at
25 line 14 of Mr. Fallert's testimony, it's clear that
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1 Mr. Fallert's responding to the question of how Staff
2 applied its customer annualization methodology for
3 true-up purposes. Similarly if you look at page 4,
4 beginning at line 10, it's clear that Mr. Fallert is
5 explaining why the manner in which Staff applied its
6 methodology for true-up purposes over State's
7 customers at July 31st.

8 And finally, if you go to page 5, beginning
9 at line 1, it's clear that Mr. Fallert is saying that
10 no matter what flaws there may be in Staff's
11 underlying methodology, Staff could have still
12 produced a more reasonable and more representative
13 result, a result that Mr. Fallert is recommending and
14 been true to its methodology had it simply trued up or
15 rolled forward at the end of the true-up period all of
16 the components of its methodology, including the
17 ten-year average it uses in that methodology.

18 And that's the heart of our complaint and
19 the heart of Mr. Fallert's testimony. Although Staff

20 rolled forward its true-up -- part of its true-up
21 methodology, namely by using July '99 customer
22 numbers, it arbitrarily and in our opinion
23 unilaterally decided without any advance notification
24 to the Company not to true-up to the same ending point
25 the ten-year averages. It used to factor up those
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1 customer numbers either -- well, factor them up or
2 factor them down.

3 Moreover, the fact that it was going to go
4 ahead and do this was in no way indicated to us at the
5 time that it made its true-up allowance in its direct
6 case filing. In fact, it did it in a different
7 fashion in its true-up filing for purposes of
8 estimating what it thought would be a true-up
9 allowance, I think as Ms. Westerfield acknowledges in
10 her testimony.

11 Now, when a party says it's going to true-up
12 something and then it only does it halfway, we think
13 we're entitled to point that out, particularly when
14 that type of halfway approach as Mr. Fallert explains
15 in his testimony results in nonsensical results and
16 that for obvious reasons we can understand why Staff
17 wouldn't want the results of that methodology to be
18 made clear to the Commission, but just because it
19 sheds perhaps an unfavorable light on that methodology
20 as it's been applied for true-up purposes, it doesn't
21 mean that we shouldn't be allowed to address that.

22 I'd also note that since we've never seen

23 this true-up methodology before, and as you may
24 remember, we've settled cases for the last 20 years
25 and we've never had a true-up, at least to my
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1 knowledge, in the last 5 or 6 years, we've never had
2 an opportunity to see how Staff actually goes about
3 truing-up this methodology, and to my knowledge it was
4 never discussed during negotiations in this case, how
5 it was going to true-up that methodology.

6 And under the Commission's rules, it clearly
7 states that parties shall not be precluded from having
8 a reasonable opportunity to address matters not
9 previously disclosed which arise at the hearing. I
10 think this fits squarely into that particular rule
11 provision.

12 And finally, as to Staff's claim that
13 Mr. Fallert somehow mischaracterized Staff's true-up
14 adjustments as implying the addition of 7,935
15 customers, all I can say is that to my knowledge there
16 has never been a basis for striking testimony that
17 somehow it mischaracterizes another parties' position.
18 That's what cross-examination is for.

19 If Staff believes that he's mischaracterized
20 Staff's adjustment or position, they're free to come
21 up and ask Mr. Fallert questions about that, and I'm
22 sure that Mr. Fallert is going to be made available
23 for cross-examination to answer those questions and
24 explain exactly why he believes that their results
25 suggest an annualized amount that has been put into
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1 his testimony.

2 As far as the short-term debt issue is
3 concerned, I think it's a little curious that having
4 just complained erroneous in our view about the
5 Company trying to get Staff to change its methodology
6 on customer annualizations, Staff then turns around on
7 the short-term debt issue and tries to strike
8 testimony by Mr. Fallert that's simply designed to
9 show the impact of what clearly was a change in
10 methodology by Staff and how it trued-up short-term
11 debt between the time it filed its direct case with an
12 allowance for true-up and its actual true-up.

13 As Mr. Broadwater acknowledges in his own
14 true-up testimony, when Staff put together the
15 true-up allowance in its direct case, it subtracted
16 from short-term debt the proceeds of the Company's
17 \$25 million long-term debt issue, a methodology that
18 was consistent with the Company's position on this
19 issue and Staff's treatment of prior cases. This
20 actual true-up, however, Mr. Broadwater is no longer
21 subtracting the proceeds of the long-term debt from
22 his recommended short-term debt level.

23 As Mr. Fallert points out in his testimony,
24 this has two effects: No. 1, it decreases the revenue
25 requirement from what Staff had in its direct case in
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1 its true-up allowance by more than \$1.4 million;
2 No. 2, it increases the amount by which Staff's
3 capital structure exceeds the Company's rate base to
4 approximately \$42 million.

5 Indeed the number that Mr. Fallert uses to
6 illustrate the impact at page 9 comes right out of the
7 accounting schedules that Staff itself has filed in
8 this true-up proceeding, and it just seems to me to be
9 strange indeed to suggest that Mr. Fallert can't even
10 repeat numbers that are in Staff's own true-up
11 schedule accounting schedules, and then tell the
12 Commission what he thinks about it.

13 Those numbers weren't available earlier.
14 They're available now and I think he has every right
15 in the world to go ahead and tell the Commission what
16 to make of those numbers and what we make of them.

17 In fact, if Staff is correct, you're not
18 supposed to change methodologies in true-up, it should
19 have absolutely no complaint about the Company's
20 pointing out the fact and illustrating the impact of
21 what we believe the change in methodology was by Staff
22 in this case.

23 For all of those reasons, we believe that
24 Staff's motion should be denied.

25 Thank you.

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1 JUDGE DIPPELL: Mr. Poston, did you have
2 further comments?

3 MR. POSTON: Yes, just a few.
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4 What Mr. Pendergast just stated about
5 Staff's methodologies, changing and them not having
6 seen these methodologies before is incorrect.

7 Staff used the same method to update through
8 March in this case -- to update its revenues through
9 March in this case and the same method to update its
10 revenues through June in the last Laclede case.

11 And as far as the short-term debt issue, the
12 portion -- the only portion we're asking to be
13 stricken is the portion beginning on page 9, line 18
14 and -- regarding the difference between capital
15 structure and rate base. That has been argued before
16 as pointed out in our motion.

17 Thank you.

18 JUDGE DIPPELL: Mr. Micheel, did you have
19 anything to add on this matter?

20 MR. MICHEEL: No, your Honor.

21 JUDGE DIPPELL: I'm going to deny Staff's
22 motion and allow the testimony. And while I think
23 that the questions asked of the witness which in his
24 testimony are certainly proper questions, I'm not sure
25 that his answers help the Commission in determining
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1 the issue. And so I'm going to allow the testimony
2 and allow cross-examination and give that testimony
3 the weight that it deserves.

4 We didn't mark exhibits off the record. So
5 let's go ahead and do that. Let's go off the record.

6 (Off the record.)

7 (EXHIBIT NOS. 127 THROUGH 133NP AND HC WERE
8 MARKED FOR IDENTIFICATION BY THE COURT REPORTER.)

9 JUDGE DIPPELL: Is there anything further
10 before we proceed with the witnesses?

11 Then Laclede, you may call your first
12 witness.

13 MR. PENDERGAST: Thank you, your Honor.

14 At this time we would call James A. Fallert
15 to the stand.

16 JUDGE DIPPELL: Would you please raise your
17 right hand?

18 (Witness sworn/affirmed.)

19 JUDGE DIPPELL: Thank you.

20 You may proceed, Mr. Pendergast.

21 MR. PENDERGAST: Thank you.

22 JAMES A. FALLERT testified as follows:

23 DIRECT EXAMINATION BY MR. PENDERGAST:

24 Q. Mr. Fallert, would you please state your
25 name and business address for the record?
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1 A. James A. Fallert, Laclede Gas Company,
2 720 Olive Street, St. Louis, Missouri, 63101.

3 Q. And are you the same James Fallert who has
4 previously been caused to be filed in this proceeding
5 true-up testimony consisting of ten pages?

6 A. Yes, I am.

7 Q. Do you have any corrections or additions to
8 make to your true-up testimony?

9 A. Yes, I do.

10 On page 4, there is a table at the top of
11 that page. On line 3, the line labeled May, the
12 number for 1998 should read 624,131; on line 4, the
13 number for June for 1998 should read 620,913; and on
14 line 5, the number for July 1998 should read 618,829.

15 Q. So in other words, delete the first 6 on
16 those 3?

17 A. That's correct.

18 Q. Okay. With those corrections, if I were to
19 ask you the same questions today that appear in your
20 true-up testimony, would your answers be the same?

21 A. Yes.

22 Q. And are those answers true and correct to
23 the best of your knowledge and belief?

24 A. Yes.

25 MR. PENDERGAST: Thank you.
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1 At this time, your Honor, I would tender
2 Mr. Fallert for cross-examination.

3 JUDGE DIPPELL: Would you like to also offer
4 that exhibit?

5 MR. PENDERGAST: And also offer the exhibit
6 into evidence.

7 Thank you.

8 JUDGE DIPPELL: Are there any objections to
9 Exhibit 127?

10 (No response.)

11 JUDGE DIPPELL: Then I'll receive that into
12 evidence.

13 (EXHIBIT NO. 127 WAS RECEIVED INTO
14 EVIDENCE.)

15 JUDGE DIPPELL: Is there cross-examination
16 by Public Counsel?

17 MR. MICHEEL: No, your Honor.

18 JUDGE DIPPELL: Staff?

19 MR. POSTON: Yes, your Honor. Thank you.

20 CROSS-EXAMINATION BY MR. POSTON:

21 Q. Mr. Fallert, do you have a copy of your
22 testimony?

23 A. Yes, I do.

24 Q. In front of you on page 3, line 16, you
25 disagree with the customer level derived by the Staff
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1 in its true-up adjustments; is that true?

2 A. That's right.

3 Q. Didn't the Staff use the same method to
4 calculate its true-up of annualized revenues that it
5 used to calculate the revenue annualization as updated
6 through March in the original filing?

7 A. I would say yes, that the Staff used the
8 same methodology, but I don't think it was applied in
9 the correct manner.

10 Q. On line 20 of page 3, you say the Staff's
11 adjustment implies an annual increase of 7,935
12 customers. How do you arrive at this number?

13 A. Well, as it is on line 19, the adjustments
14 Staff has included would add 2,645 customers from
15 March through July. That's 4 months. Analyzing that

16 number to a 12-month period would imply an increase of
17 7,935 customers over an annual period.

18 Q. So you multiplied Staff's 2,645 customers by
19 3?

20 A. That's correct.

21 Q. Doesn't your calculation imply that the
22 increase in the customers coming on this system occurs
23 evenly throughout the year?

24 A. Yes, it does. And I think that's reasonable
25 based on my review of what our -- our experience has
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1 been as far as what we spend on new services
2 throughout the year.

3 Q. Do the customers come on a system evenly
4 throughout the year?

5 A. Relatively evenly.

6 Q. What does "relatively evenly" mean?

7 A. I will not say every month exactly the same,
8 but I don't see a pattern which would tell me that
9 there is a great deal of difference from one time of
10 the year to the next.

11 Q. But there is a difference?

12 A. Uh, they wouldn't come on exactly 1/12th
13 each month, no.

14 Q. Isn't it true that there's a fluctuation of
15 customers coming on and dropping off the system, with
16 a large amount of customers dropping off during the
17 summer months?

18 A. That's true. We have a seasonal pattern.

19 Q. Has the Company at any other time except
20 during the true-up process in this case indicated to
21 the Staff that Staff's method was flawed and should be
22 adjusted in the manner indicated in your testimony?

23 A. We settled this issue. We've had some
24 discussions about the problems with this methodology
25 in the past, but in this case we've agreed to split
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1 the difference between the two.

2 Q. Is Staff's methodology criticized anywhere
3 in Laclede's direct rebuttal or surrebuttal testimony
4 in this case?

5 A. No. Since we basically settled this issue,
6 it wasn't necessary to discuss the methodology in
7 rebuttal testimony.

8 Q. Did you have an opportunity to criticize
9 Staff's methodology of customer annualization in this
10 case?

11 A. Certainly we could have, yes.

12 Q. Did Laclede at any other time during the
13 audit or during the prehearing negotiations indicate
14 that events such as collection activity could
15 influence the results of the analysis?

16 A. Could you repeat that question?

17 Q. Did Laclede at any other time during the
18 audits or during the prehearing negotiations indicate
19 to Staff that events such as collection activity could
20 influence the results of the analysis?

21 A. I think we have indicated that. I couldn't
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22 say for sure whether we indicated it at those points
23 in time. But I know that we have had discussions
24 along those lines.

25 Q. On page 5 of your testimony on line 8
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1 through 22, when you indicate that the customer
2 numbers are inconsistent, are you referring to the
3 7,935 customers?

4 A. Well, I'm referring to the 7,935 and the
5 2,645 that were actually added between March and July.
6 I think there's a problem with both.

7 Q. Mr. Fallert, aren't there items that
8 increase the revenue requirement more than the Staff
9 originally estimated as a result of true-up?

10 A. Yes.

11 Q. On page 7 of your testimony, line 10, you
12 state that although Laclede recommends that the
13 adjustments be split evenly, you believe that Staff
14 should revise its adjustments, which would move
15 Staff's ten-year average to the ten-year period ended
16 July 31, 1999.

17 what do you mean when you say consistent
18 with the purpose of a true-up?

19 A. Well, it's a true-up and you move forward,
20 the most recent information. What I'm suggesting here
21 is that we move forward the ten-year average to the
22 most recent period as well, that that provides a much
23 more believable answer compared to what we see in our
24 actual customer growth numbers over an annual period.

25 Q. Isn't it correct that the reason a true-up
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1 is able to be conducted in a timely fashion is because
2 all of the parameters are previously agreed upon?

3 A. I don't know. I could say that all of the
4 parameters agreed upon, but I think that in most cases
5 we have agreed upon parameters here and that helps
6 move the process along certainly.

7 Q. Getting to the Company that was utilized --
8 or the methodology that was utilized by Laclede,
9 didn't Laclede calculate the customer growth by
10 subtracting the customers at January of 1998 from the
11 customers at January of 1999?

12 A. Yes.

13 Q. As the next step doesn't Laclede spread
14 those customers evenly over the test year?

15 A. That -- that rate of customer growth is
16 assumed to occur evenly over the test year.

17 Q. To calculate the amount of increase from
18 December through March, did the Company merely take
19 3/12ths of the customers and add them to the test
20 year?

21 A. Yes, that would be correct.

22 Q. And that's 3/12ths of the change between
23 January 1998 and January 1999 customers; is that
24 correct?

25 A. That's correct.
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1 Q. Was the same method used for July, 7/12, so
2 that the 12 months level of customers was at December
3 of '99?

4 A. It would be 7/12ths of the rate of change we
5 experienced from January 1998 to January 1999.

6 Q. Doesn't the Company's calculation assume
7 that additional customers added for the test year come
8 on to the system evenly during the year?

9 A. Yes. That would be an underlying
10 assumption.

11 Q. Mr. Fallert, isn't the object of this
12 annualization to determine the ongoing customer
13 levels -- just one minute, please.

14 Let me rephrase that.

15 Isn't the object of this annualization to
16 determine the ongoing customer levels for determining
17 the rates?

18 A. The objective of the annualization is to
19 determine at the point in time you're measuring, which
20 in this case is July 31, the average number of
21 customers which would appropriately be on the system
22 in the absence of seasonal effects at that point in
23 time.

24 Q. When reviewing Laclede's annualization,
25 doesn't an increase in the Laclede division for
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1 residential customers seem unusual to have gained only

2 20 customers?

3 A. No, that is pretty consistent with what
4 we've seen in our history. We tend to lose customers
5 in the City of St. Louis. We see a lot of premises
6 closing in there. People tend to move out to the
7 county, so we pick up some out in St. Louis County.
8 But we don't pick up a whole lot in St. Louis or
9 St. Louis County combined.

10 Our real growth is in St. Charles County and
11 Franklin County. And that's where we really see our
12 pick-up in customers. Laclede division, it's usually
13 a small increase or a net wash there.

14 Q. Would you accept subject to check that in
15 8 of the last 10 years that in the Laclede division,
16 the residential customers that were gained were in the
17 hundreds, between January '98 and January '99?

18 A. Hundreds of customers?

19 Q. Correct.

20 A. Subject to check, sure.

21 Q. Mr. Fallert, isn't it true that the Staff's
22 true-up allowance for the 12-month average of
23 short-term debt that was presented in his direct
24 testimony was an estimate?

25 A. Yes.

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1 MR. POSTON: No more questions.

2 JUDGE DIPPELL: Thank you.

3 I'm going to go ahead and take a 10-minute
4 break and go to see if the Commissioners would like to

5 come in now. They're in agenda. What I may do is
6 dismiss the witness for now and go ahead with the
7 other witnesses and bring them back if the
8 Commissioners would like to come in when they finish
9 their other business. So let's go ahead and go off
10 the record. Let's take about ten minutes.

11 (A RECESS WAS TAKEN.)

12 JUDGE DIPPELL: The Commissioners would like
13 to be able to question the witnesses. So what we're
14 going to do is go ahead and go through the witnesses
15 and then recall them when the Commissioners are
16 finished with agenda. So let's go ahead and do
17 redirect at this time, if there is any.

18 MR. PENDERGAST: Yes, just a couple of
19 questions, your Honor.

20 Thank you.

21 REDIRECT EXAMINATION BY MR. PENDERGAST:

22 Q. Mr. Fallert, you were asked a number of
23 questions by Mr. Poston about your opportunity to
24 rebut Staff's methodology either in rebuttal testimony
25 or before. To your knowledge have you had a previous
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1 opportunity to address or rebut how Staff applied its
2 customer annualization methodology prior to your
3 true-up testimony?

4 A. No.

5 Q. Prior to your true-up testimony, or several
6 days before that, when you had discussions with Staff,
7 were you aware of how they were going to apply their

methodology in the true-up?

A. No.

Q. And to your knowledge was the way they applied their methodology in true-up consistent with how they derived their estimate for true-up allowance purposes in the direct case?

A. No.

Q. You were also asked, I think, a question about Staff's number and whether customers tended to decline during the summer period.

would you tell me, Staff's number of adding 2,645 customers between March 31st and July 31st, 1999, did Laclede, in fact, add that number of customers between those dates?

A. The actual customer count declined by about 9,000 customers due to seasonal effects during that period.

Q. You were also asked a number of questions

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about prior increases in customers in Laclede division, and I think you said subject to check you'd accept that maybe there could have been several hundred in some of the years in the past.

How does that compare with what Staff's updated number as annualized in the method that you have would suggest for Laclede division customer increases?

A. Staff's annualized increase suggested by their true-up adjustment would be 7,606 customers.

11 Q. And in your opinion is that a substantial
12 material difference from whatever historical
13 experience Laclede has had?

14 A. Yes. That's much higher than anything we've
15 seen historically in the recent years.

16 Q. And on that same subject of customer
17 additions, do you recall whether, in fact, Laclede
18 submitted testimony in this proceeding that talked
19 about the migration of customers from St. Louis and
20 St. Louis County to outlying areas?

21 A. Yes, I believe there was some discussion of
22 that in Mr. Yaeger's direct testimony.

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

25 JUDGE DIPPELL: Thank you. Mr. Fallert, you
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1 may step down for now. We may recall you later when
2 the Commissioners are finished with agenda.

3 MR. FALLERT: Thank you.

4 JUDGE DIPPELL: Go ahead with Staff's first
5 witness.

6 MR. POSTON: Staff calls David Broadwater.

7 JUDGE DIPPELL: Would you please raise your
8 right hand, Mr. Broadwater?

9 (Witness sworn/affirmed.)

10 JUDGE DIPPELL: Thank you.

11 You may proceed, Mr. Poston.

12 MR. POSTON: Thank you.

13 DAVID BROADWATER testified as follows:

14 DIRECT EXAMINATION BY MR. POSTON:

15 Q. Please state your name.

16 A. David Broadwater.

17 Q. And where are you employed?

18 A. Missouri Public Service Commission.

19 Q. Are you the same David Broadwater who
20 prepared to be filed true-up testimony that has been
21 marked as Exhibit 128?

22 A. Yes, I am.

23 Q. Do you have any corrections to your
24 testimony?

25 A. One. On page 1 -- excuse me -- line 23 and
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1 on to 24. Excuse me. There are the 50.71 about
2 halfway across the line should read 50.70. The .31
3 should read .34, and then on line 24, the point -- the
4 35.17 should read 35.16, and then the 13.81 should
5 read 13.80. And that is it.

6 Q. If I were to ask you the same questions
7 today that appear in your testimony, would your
8 answers be the same?

9 A. Yes, they would.

10 MR. POSTON: Your Honor, I'd like to offer
11 Exhibit 128 into evidence and I tender this witness
12 for cross-examination.

13 JUDGE DIPPELL: Are there any objections to
14 Exhibit 128?

15 (No response.)

16 JUDGE DIPPELL: Then I'll receive it into

17 evidence.

18 (EXHIBIT NO. 128 WAS RECEIVED INTO
19 EVIDENCE.)

20 JUDGE DIPPELL: Is there cross-examination
21 for Mr. Broadwater from Public Counsel?

22 MR. MICHEEL: No.

23 JUDGE DIPPELL: Laclede?

24 MR. PENDERGAST: Just a few questions, your
25 Honor.

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1 CROSS-EXAMINATION BY MR. PENDERGAST:

2 Q. Good morning, Mr. Broadwater.

3 A. Good morning.

4 Q. If I could direct your attention to page 2
5 of your true-up testimony, and beginning at line 5 you
6 discuss, I believe, the short-term debt balances which
7 appear on Schedule 3 to your testimony; is that
8 correct?

9 A. Yes.

10 Q. And beginning at line 10 you talk about what
11 you call the fluctuations in short-term debt during
12 the year and give a range of \$42,500,000 to
13 \$137,500,000; is that correct?

14 A. Yes.

15 Q. But when I look back at your Schedule 3, I
16 don't see those numbers there. Is that because the
17 numbers you've given in your testimony are based on
18 something other than the balances you have in your
19 schedule?

20 A. Let me double-check. Excuse me.
21 Excuse me. I believe that those numbers go
22 to our actual month-end balances as opposed to average
23 daily balances, what I picked up in the schedule, so,
24 yes, they are something different than what is
25 reflected in that schedule.

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1 Q. Okay. Fine. Thank you for that
2 clarification.

3 At page 3 of your true-up testimony, you
4 have a brief discussion there beginning at line 12 of
5 how you performed your true-up estimate; is that
6 correct?

7 A. Yes.

8 Q. And in performing that estimate, is it also
9 correct to state that you subtracted proceeds of
10 long-term debt issuance that Laclede had issued by
11 that time from the short-term debt level, included in
12 that estimate?

13 A. That's the -- excuse me -- that's the method
14 that we used to arrive at our number as an estimate,
15 but it wasn't our intent -- it wasn't our intent to
16 use that method when we actually came up with the, um,
17 when we were going to actually calculate the true-up
18 number. It was just a method to come up with a number
19 that we thought was reasonable with what it would be.

20 Q. Reasonably reflective of what you think the
21 short-term debt levels would be?

22 A. When we calculated them -- when we actually

23 calculated them at this time.

24 Q. Okay. And if your objective was to come
25 up with a number that you thought would be reasonably
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1 reflective of what our short-term levels of, debt
2 levels would be, why did you believe it was
3 appropriate to subtract the proceeds from the
4 long-term debt issuance from that amount?

5 A. Because we -- it was our belief at the time
6 that the 4 months that we were going to pick up were
7 going to be significantly lower than the 4 months we
8 dropped off, because we had issued this debt in equity
9 and we -- it was our thought at the time that the
10 4 months we were going to be picking up, those
11 short-term debt balances were going to be
12 significantly lower than the 4 months we were dropping
13 off, and we were trying to come up with -- we were
14 just coming up with some way to capture that.

15 Q. And you thought the way to capture that was
16 to go ahead and subtract the \$25 million in proceeds
17 from the short-term debt issuance?

18 A. I thought that would be a reasonable method
19 to approximate what the actual number was going to be,
20 yeah.

21 Q. Okay.

22 A. And, in fact, in prior cases when you have
23 made recommendations on capital structure, you have,
24 in fact, made adjustments to subtract from short-term
25 debt the proceeds from long-term debt issuances; isn't
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1 that correct?

2 A. I believe in the '96 case we made an
3 adjustment like what you're referring to.

4 Q. Okay. And can you tell me why you made that
5 adjustment and why you believe it was appropriate?

6 A. In discussions within our department at the
7 time, between myself and the manager at the time, we
8 believed that was appropriate to make that adjustment
9 then.

10 Q. And I'm asking you why you thought it was
11 appropriate at that time to make that adjustment.

12 A. I don't -- to be perfectly honest, I don't
13 recall our discussions and the exact reasons we came
14 to that conclusion. I mean, it's three years ago.

15 Q. Okay. Well, maybe this will perhaps shed
16 some light on it.

17 MR. PENDERGAST: Could I approach the
18 witness, please?

19 BY MR. PENDERGAST:

20 Q. Mr. Broadwater, could you please identify
21 what I've handed you?

22 A. It's appears to be testimony I filed in the
23 Laclede's '96 rate case.

24 Q. Okay. And that's the testimony that you
25 were referring to just a few moments ago?

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1 A. Yeah.

2 Q. And if I could direct your attention to
3 Schedule 12 in that testimony. I believe I have a
4 marker by it.

5 A. Yeah.

6 Q. And that reflects your short-term debt level
7 recommendation?

8 A. Yes. That's our -- correct.

9 Q. Okay. And that was the short-term debt
10 recommendations which did include subtracting the
11 proceeds from a \$25 million debt issuance?

12 A. Yeah. I think it was -- I mean, we
13 subtracted the full \$25 million, but the proceeds were
14 somewhat less than that, but yeah.

15 Q. Okay. And could you tell me what the
16 footnote that explains that adjustment says?

17 A. The long-term debt issuance adjustment is to
18 account for Laclede's \$25 million long-term debt
19 issuance in November 15th, 1995, to pay down
20 short-term debt.

21 Q. Okay. So would that suggest to you -- and I
22 know it's a while -- but that the reason you recognize
23 that was that the purpose of the long-term debt
24 issuance was to pay down short-term debt?

25 A. Yes.

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1 Q. Okay. And can you tell me in that case what
2 the beginning short-term debt level was for that year
3 and what it wound up being after you subtracted the

4 short-term debt?

5 MR. POSTON: Your Honor, I'm going to
6 object. This issue was heard before the Commission in
7 the evidentiary hearing in the case in chief, and it's
8 just being rehashed here what we've already heard.

9 MR. PENDERGAST: We'll, I'm trying to
10 establish whether or not this true-up estimate that
11 has been changed now by Staff was just some matter of
12 convenience, some short-cut routine, or if, in fact,
13 it represented a longstanding methodology that Staff
14 has changed.

15 And given the fact that Staff just recently
16 made a bunch of arguments about how it's improper to
17 change those methodologies when you come to a true-up,
18 I think it's a fair area of inquiry.

19 JUDGE DIPPELL: How is this inquiry related
20 again to the true-up?

21 MR. PENDERGAST: Because Staff has
22 indicated, and Mr. Broadwater has acknowledged, that
23 in its original true-up estimate, it included a
24 short-term debt level that subtracted \$25 million
25 worth of the proceeds from short-term -- or from
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1 long-term debt issuance and that in his
2 recommendations today that he's filed in this case,
3 in his true-up testimony, he has no longer done that,
4 and I'm trying to establish whether that's a change in
5 methodology.

6 MR. POSTON: Your Honor, could I respond?

7 JUDGE DIPPELL: Yes.

8 MR. POSTON: In Mr. Broadwater's true-up
9 testimony, he states that that's just a convenient
10 method to come up with an estimate.

11 MR. PENDERGAST: And that's my point, your
12 Honor. I'm trying to probe whether or not it was just
13 a convenient method or if, in fact, this was part and
14 parcel of a principled methodology that Staff used
15 that it's now purporting to change.

16 JUDGE DIPPELL: Okay. I'm going to overrule
17 the objection and allow the question, but I would
18 appreciate you getting to that point and not entering
19 a bunch of additional argument about Staff's
20 methodology on the record, because I think that we
21 have heard a lot of that.

22 MR. PENDERGAST: Thank you, your Honor.
23 I'll be very brief.

24 BY MR. PENDERGAST:

25 Q. Can you tell me, Mr. Broadwater, just what
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1 the impact was in that case, what the short-term debt
2 level was before and what it was after?

3 A. It would have been roughly -- had we not
4 made that adjustment, it would have been roughly
5 \$42 million before and it wound up being \$30 million
6 afterwards.

7 Q. Okay. Thank you.

8 If I could retrieve my testimony.

9 JUDGE DIPPELL: So the record is clear,
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10 would you tell me what case number that is?

11 MR. PENDERGAST: Yes, your Honor. That was
12 Case No. GR-96-193.

13 JUDGE DIPPELL: Thank you.

14 BY MR. PENDERGAST:

15 Q. You indicated, Mr. Broadwater, that you
16 thought Laclede's short-term debt level would go down
17 and that, therefore, it was reasonable to include a
18 subtraction of the long-term debt proceeds in your
19 true-up estimate.

20 Can you tell me what Laclede's short-term
21 debt experience actually was after the debt issuance
22 or the debt was issued, the long-term debt was issued?
23 And I'd refer you back to Schedule 3.

24 A. Well, I know the 12-month average I
25 calculated actually went up slightly after picking up
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1 the 4 months worth of data.

2 Q. And that may have been dependent upon the
3 4 months that were dropped off?

4 A. Right. The 4 months that were dropped off
5 and there were 4 months added. And the 4 months that
6 were added had the -- had the effect of increasing the
7 short-term debt amount slightly. I believe it went
8 from 79.2 to 79.4.

9 Q. Right. But for the months that it was
10 added, did short-term debt levels decline?

11 A. As compared to the months that were dropped
12 off?

13 Q. No. As compared to where it was before the
14 issuance in the short-term debt -- or the long-term
15 debt. Excuse me.

16 A. The balance is from March/April balance is
17 lower and May's balance is lower, June balance is a
18 little bit lower than that and July kicks back up.

19 Q. Okay. But they're all below your
20 recommended level of short-term debt in this case;
21 isn't that correct?

22 A. Yes.

23 Q. And do you know or would Mr. Gibbs be the
24 one to ask what the revenue requirement impact is of
25 what you included in your true-up allowance for
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1 short-term debt and what it is today in your true-up
2 filing?

3 A. I know that the rate of return, overall rate
4 of return stayed almost identical -- well, my estimate
5 was -- my estimate, the rate of return was higher than
6 what actually happened.

7 Q. Okay. And do you know how much incremental
8 revenue requirement was in your true-up estimate
9 associated with your short-term debt treatment versus
10 how much is in the true-up amount that Staff is now
11 proposing?

12 A. I don't know what the dollars flow through
13 to actually be. I know what my rate of return did,
14 but that's it.

15 MR. PENDERGAST: Okay. Thank you.

16 I have no further questions.

17 JUDGE DIPPELL: Thank you.

18 Mr. Broadwater, I'm going to go ahead and
19 ask a couple of questions of you here. The testimony
20 is still rather confusing to me, and so I'm going to
21 just ask kind of what I consider to be straightforward
22 questions.

23 THE WITNESS: Okay.

24 QUESTIONS BY JUDGE DIPPELL:

25 Q. Did the Staff change its method from the
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1 direct testimony to the true-up testimony for
2 calculation of the short-term debt?

3 A. No. I calculated short-term debt in the
4 same manner. Excuse me.

5 AS I stated in my testimony, I made an
6 estimate using a different methodology, different way
7 to calculate that. But it was my belief that -- that
8 when I actually picked up the new 4 months worth of
9 data, I would be seeing numbers that were
10 significantly lower than what they really were.

11 I didn't know what they were going to be at
12 the time I made my estimate, and I thought that was a
13 reasonable way to go about reflecting that.

14 Q. Okay. Let me -- on line 19 on page 3 of
15 your testimony, you state this method in no way
16 mirrors the detailed calculations actually required to
17 be performed to determine if the Staff's trued-up
18 capital structure using the same methodology presented

19 to the Commission in the evidentiary hearing.

20 Can you just tell me why it doesn't mirror,
21 just so that I'm perfectly clear?

22 A. To have actually mirrored it, I would have
23 had to estimate what the average daily balance that
24 the Company had in short-term debt was and also
25 estimate what their construction work in progress,
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1 inventory was, and subtract construction work in
2 progress off of that average daily balance to come up
3 with a net number for each of the new 4 months, and
4 then add that to the previous 8 months to come up with
5 a balance.

6 And I didn't go and try to make all of
7 those estimates of what short-term debt was actually
8 going to be, what construction work in progress was
9 going to be to come up with that net figure for each
10 of the 4 months.

11 Q. Okay. And was this the same method that
12 Staff has used in its last several cases?

13 A. No. In the '96 case, we made the adjustment
14 that Mr. Pendergast referred to. We feared -- and to
15 my knowledge that was the only case we've ever made
16 that adjustment in. In the last case is -- we didn't
17 make an adjustment similar to that for debt issuances
18 that the Company had, and that is how we're proceeding
19 in this case, again, consistent with the last case.

20 But that is different from the '96 case,
21 which we made an adjustment and changed our

22 methodology in the last case and are consistent with
23 the last case in this case. I don't know if that
24 makes sense, but . . .

25 JUDGE DIPPELL: Okay. Thank you.
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1 Is there redirect?

2 MR. POSTON: Yes, your Honor.

3 JUDGE DIPPELL: Oh, I'm sorry. Let me go
4 ahead and ask if there is recross based on my
5 questions, and then if the Commissioners don't have
6 any additional questions, we don't have to recall
7 Mr. Broadwater.

8 MR. PENDERGAST: Just one.

9 RECROSS-EXAMINATION BY MR. PENDERGAST:

10 Q. To your knowledge, were there any debt
11 issuances in Laclede's last rate case?

12 A. I don't remember specifically, but I thought
13 we -- in the last prehearing I thought we had some
14 discussions about why we didn't subtract out a debt
15 issuance from the test year. I can look in one of my
16 schedules to see, but I don't recall right off the top
17 of my head.

18 MR. PENDERGAST: Maybe I could help the
19 witness real quickly if I could just show him his
20 testimony from GR-98-374.

21 JUDGE DIPPELL: Okay.

22 BY MR. PENDERGAST:

23 Q. Very quickly, Mr. Broadwater, could you
24 identify that document?

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1 honest.

2 MR. PENDERGAST: That's fine. I'm done.

3 JUDGE DIPPELL: Thank you.

4 Mr. Micheel, did you have any recross based
5 on questions from the Bench?

6 MR. MICHEEL: No, your Honor.

7 JUDGE DIPPELL: Is there redirect?

8 MR. POSTON: Yes, your Honor. Just a few.

9 REDIRECT EXAMINATION BY MR. POSTON:

10 Q. Mr. Broadwater, your method for true-up, the
11 method agreed to by the parties when it negotiated the
12 partial stipulation and when it agreed to true-up this
13 item?

14 A. I believe the way I calculated the true-up
15 was consistent with the way we had agreed to do it.

16 MR. PENDERGAST: And I'm going to object.
17 Any implication that Mr. Broadwater can speak for the
18 Company on that issue, well, I disagree with the
19 answer and it doesn't reflect our position. So . . .

20 JUDGE DIPPELL: I'm sorry. What is your
21 objection, Mr. Pendergast?

22 MR. PENDERGAST: Well, my objection would be
23 that he's asking him to speculate what the parties
24 agreed on, and I think in a way it's not consistent
25 with the stipulation and agreement.

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1 JUDGE DIPPELL: Okay. Do you have a

2 response, Mr. Poston?

3 MR. POSTON: Mr. Broadwater was part of
4 these negotiations and he knows what was agreed to and
5 what was not agreed to.

6 JUDGE DIPPELL: I'll allow the witness to
7 answer a question based on what Staff believes it
8 agreed to, but I won't allow him to answer on behalf
9 of the Company.

10 I believe your question was, is this what
11 the parties agreed to, so I sustain that objection.
12 If you'd like to reask the question in a different
13 manner, Mr. Poston.

14 BY MR. POSTON:

15 Q. Can I ask this: Mr. Broadwater, do you
16 believe that your method for true-up was a method
17 agreed to by the parties when it negotiated the
18 partial stipulation?

19 MR. PENDERGAST: Well, I'm still going to
20 object for the same reasons.

21 JUDGE DIPPELL: I believe that the agreement
22 will speak for itself. I don't have a problem with
23 Mr. Broadwater answering as to what he thinks the
24 Staff agreed to, but not as to what all of the parties
25 agreed to.

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1 MR. POSTON: Okay. Can I rephrase it again?

2 JUDGE DIPPELL: Yes.

3 BY MR. POSTON:

4 Q. Is your method for true-up a method that

5 Staff agreed to when negotiating the partial
6 stipulation and when it agreed to true-up this item?

7 A. Yes.

8 Q. Is it common for the actual results to be
9 different than previously estimated for true-up?

10 A. Yes. The estimate is that, an estimate.

11 Q. Is whatever effect the issuance of debt and
12 equity had on your average balance of short-term debt
13 reflected in your true-up calculations?

14 A. Yes, they are.

15 Q. So it's false to state that Staff ignored
16 these issuances of debt and equity in its
17 calculations?

18 A. That's correct. We've recognized them, the
19 issuances are in the long-term debt portion. We
20 captured the equity or the debt issuance in there.
21 And the equity dollars are in the common equity, and
22 we also have adjustments for equity issuance costs
23 that are in there. So -- and, again, on the -- for a
24 short-term debt, whatever effect those issuances had
25 on short-term debt, we picked those up as well.

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1 MR. POSTON: I have no more questions.

2 JUDGE DIPPELL: Thank you.

3 Mr. Broadwater, you may step down for now.
4 If the Commissioners have additional questions, I'll
5 recall you later.

6 THE WITNESS: Okay. Thank you.

7 JUDGE DIPPELL: Would Staff like to call its

8 next witness?

9 MR. POSTON: Thank you, your Honor. I'd
10 like to call Arlene Westerfield.

11 (Witness sworn/affirmed.)

12 ARLENE S. WESTERFIELD testified as follows:

13 DIRECT EXAMINATION BY MR. POSTON:

14 Q. Would you please state your name?

15 A. My name is Arlene S. Westerfield.

16 Q. Ms. Westerfield, where are you employed?

17 A. I'm employed by the Missouri Public Service
18 Commission as an auditor.

19 Q. Are you the same Arlene Westerfield who
20 prepared to be filed true-up testimony that has been
21 marked as Exhibit 13-- 130?

22 A. Yes, I am.

23 Q. Do you have any corrections to your
24 testimony?

25 A. No, I do not.
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1 Q. If I were to ask you the same questions
2 today that appear in your testimony, would your
3 answers be the same?

4 A. Yes, they would.

5 MR. POSTON: Your Honor, I'd like to offer
6 Exhibit 130 into evidence and I tender this witness
7 for cross-examination.

8 JUDGE DIPPELL: Are there any objections to
9 Exhibit No. 130 being admitted?

10 (No response.)

11 JUDGE DIPPELL: Then I'll receive it into
12 evidence.

13 (EXHIBIT NO. 130 WAS RECEIVED INTO
14 EVIDENCE.)

15 JUDGE DIPPELL: Is there cross-examination
16 for Ms. Westerfield from Public Counsel?

17 MR. MICHEEL: No, your Honor?

18 JUDGE DIPPELL: Laclede?

19 MR. PENDERGAST: Just a few questions, your
20 Honor.

21 CROSS-EXAMINATION BY MR. PENDERGAST:

22 Q. Good morning, Ms. Westerfield.

23 A. Good morning.

24 Q. Would you be the person -- I asked
25 Mr. Broadwater a couple of questions about the revenue
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1 requirement impact of how Staff treated short-term
2 debt in its true-up allowance and how it treated it in
3 its recent true-up filing. Would Mr. Gibbs be the
4 person to ask about that or would you be the person to
5 ask?

6 A. Mr. Gibbs.

7 Q. Okay. Fine.

8 You talk about, obviously, your customer
9 annualization methodology in your testimony. And
10 could you tell me with respect to how that methodology
11 is trued up in a true-up situation, has that
12 methodology been applied in other cases that you're
13 aware of?

14 A. I personally have not true-up revenues for
15 Laclede. And I'm not sure that there has been a
16 true-up audit for Laclede.

17 Q. Okay. And is this a Laclede-specific
18 methodology that Staff has come up with or is it one
19 that applies in other cases?

20 A. It's Commission practice, and I think we
21 have listed in our information about true-up, what
22 specific items we will true-up and how those items
23 will be addressed for true-up purposes. And I think
24 the reason that we try to specify is partially because
25 of the time constraints, that the true-up is taking

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1 place closer to the end of the whole hearing process
2 and because there won't be a lot of time left.

3 And I think that's basically why we try to
4 have the same methodology from whatever we've used in
5 the direct case, try to follow through with that as
6 far as the true-up is concerned. So in the case of
7 the customer annualization, the only thing we did was
8 adjust customers, add customers from March through
9 July.

10 Q. Yes. And I appreciate that response, but I
11 guess my question was, is the customer annualization
12 methodology that you've used in Laclede's case one
13 that is specific to Laclede, or is it the same
14 customer annualization methodology that you used for
15 MGE or for anybody else, if you know?

16 A. I'm not sure that it would be quite the same

17 because of all of the other components that are in it,
18 such as the weather normalization factors, the -- I
19 think that there are quite a few components to the
20 customer annualization that makes it pretty
21 complicated. So it's difficult for me to compare it
22 to another company.

23 Q. Okay. So it would be possible then that
24 this specific customer annualization methodology in
25 this case that Staff -- that Staff used may have never
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1 been trued-up before anywhere?

2 A. I really don't know the answer to that.

3 Q. Okay. Okay. Fair enough. And can you tell
4 me, did you develop the methodology?

5 A. No, I didn't.

6 Q. Okay.

7 A. This is a methodology that has been used to
8 my knowledge consistently for the last several cases.

9 Q. Okay. And do you know who did develop it?

10 A. No, I don't.

11 Q. Okay.

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

14 JUDGE DIPPELL: Thank you.

15 Ms. Westerfield, I'm going to ask you a few
16 questions here. This is some of the same questions I
17 asked Mr. Broadwater.

18 THE WITNESS: Okay.

19 QUESTIONS BY JUDGE DIPPELL:

20 Q. Basically, did the Staff change its
21 methodology for the customer annualization from the
22 direct testimony to the true-up testimony?

23 A. Absolutely not.

24 Q. Did they use the same method they used in
25 the last several cases?

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1 A. Yes, we did.

2 Q. Were there changes in method -- were there
3 changes in the method to do true-up or was it done the
4 same way as it was done in the past cases?

5 A. It was done exactly the same way.

6 JUDGE DIPPELL: Thank you.

7 Is there recross based on questions from the
8 Bench from Public Counsel?

9 MR. MICHEEL: No, your Honor.

10 JUDGE DIPPELL: Laclede?

11 MR. PENDERGAST: Just a real brief
12 clarification.

13 RECROSS-EXAMINATION BY MR. PENDERGAST:

14 Q. When you were asked by the Bench whether it
15 had been trued-up in the same way in past cases, I
16 think we just established that there hasn't been a
17 true-up in past cases for Laclede; is that correct?

18 A. Yes.

19 MR. PENDERGAST: Okay.

20 THE WITNESS: Sorry.

21 MR. PENDERGAST: That's all I have.

22 JUDGE DIPPELL: Is there redirect?

23 MR. POSTON: Yes, your Honor.

24 REDIRECT EXAMINATION BY MR. POSTON:

25 Q. Ms. Westerfield, did the Staff use the same
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1 methodology in Laclede's last rate case to update its
2 revenue annualization?

3 A. Yes.

4 Q. Is the update procedure for revenue
5 annualization the same procedure that is followed for
6 a true-up?

7 A. Yes.

8 Q. Would it be appropriate to change the
9 Staff's methodology for annualizing revenues as the
10 Company suggested for the July true-up without going
11 back and recalculating the adjustment the Staff made
12 in its filed case to update annualized revenues for
13 customers at March 1999?

14 A. No.

15 MR. PENDERGAST: I'm going to object to that
16 question on the basis it assumes facts not in
17 evidence. It assumes that the Company has asked Staff
18 to change its methodology as opposed to changing the
19 way it's applied that methodology in this case. So I
20 think it proceeds from an incorrect and faulty
21 premise.

22 JUDGE DIPPELL: Mr. Poston?

23 MR. POSTON: I can change the question. I
24 can rephrase the question.

25 JUDGE DIPPELL: All right.
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1 BY MR. POSTON:

2 Q. Ms. Westerfield, would it be appropriate to
3 change the Staff's methodology of annualizing revenues
4 for the July true-up without going back and
5 recalculating the adjustment Staff made in its filed
6 case to update annualized revenues for customers in
7 March 1999?

8 A. No.

9 Q. Do you believe that a recalculation of the
10 March 1999 adjustment would have produced a decrease
11 in revenue requirement?

12 A. I'm sorry. Repeat the question.

13 Q. Do you believe that a recalculation of the
14 March 1999 adjustments would have produced a decrease
15 in revenue requirement?

16 A. Yes.

17 Q. Does the Staff's method for analyzing
18 revenues that it employed in true-up use the ten-year
19 relationship between July customers and the average
20 customers during the prior calendar year?

21 A. Yes.

22 Q. Has this relationship been relatively
23 constant over the ten-year period?

24 A. Yes.

25 MR. POSTON: That's all of the questions I
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1 have.

2 JUDGE DIPPELL: Thank you.

3 Ms. Westerfield, you may step down. You may
4 be recalled later if the Commissioners have additional
5 questions for you.

6 THE WITNESS: Thank you.

7 JUDGE DIPPELL: Would Staff like to call its
8 next witness?

9 MR. POSTON: Thank you.

10 Staff would like to call Doyle L. Gibbs.

11 (Witness sworn/affirmed.)

12 JUDGE DIPPELL: Thank you.

13 DOYLE L. GIBBS testified as follows:

14 DIRECT EXAMINATION BY MR. POSTON:

15 Q. Please state your name.

16 A. Doyle L. Gibbs.

17 Q. And where are you employed, Mr. Gibbs?

18 A. With the Missouri Public Service Commission.

19 Q. Are you the same Doyle L. Gibbs that
20 prepared to be filed true-up testimony that has been
21 marked as Exhibit 129?

22 A. Yes, I am.

23 Q. Do you have any corrections to your
24 testimony?

25 A. Yes, I do have one. On page 4, line 4, the
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1 5th word reads "relate." A "D" should be added so
2 that it reads related. That's the only change I have.

3 Q. If I were to ask you the same questions
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4 today that appear in your testimony, would your
5 answers be the same?

6 A. Yes, they would.

7 MR. POSTON: Your Honor, I'd like to offer
8 Exhibit 129 into evidence and I tender this witness
9 for cross-examination.

10 JUDGE DIPPELL: Is there any objection to
11 Exhibit 129?

12 (No response.)

13 JUDGE DIPPELL: Then I'll receive it into
14 evidence.

15 (EXHIBIT NO. 129 WAS RECEIVED INTO
16 EVIDENCE.)

17 MR. POSTON: Your Honor, can I also offer
18 Staff's true-up accounting schedule into evidence at
19 this time? That's Exhibit 131.

20 JUDGE DIPPELL: Would there be any objection
21 to Exhibit 131?

22 (No response.)

23 JUDGE DIPPELL: Then it will also be
24 received into evidence.

25 (EXHIBIT NO. 131 WAS RECEIVED INTO
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1 EVIDENCE.)

2 JUDGE DIPPELL: Is there cross-examination
3 from Mr. Gibbs from Public Counsel?

4 MR. MICHEEL: No.

5 JUDGE DIPPELL: Laclede?

6 MR. PENDERGAST: Thank you, your Honor.

7 CROSS-EXAMINATION BY MR. PENDERGAST:

8 Q. Mr. Gibbs, I've been referred to you several
9 times to ask the question of what the revenue --
10 incremental revenue requirement was in Staff's true-up
11 allowance relating to short-term debt issuance, and
12 perhaps we can simplify things if I could direct you
13 to Mr. Fallert's testimony.

14 Do you have Mr. Fallert's testimony?

15 A. I do not have a copy of Mr. Fallert's
16 testimony.

17 Q. I'd like to --

18 MR. PENDERGAST: If I could approach the
19 witness?

20 JUDGE DIPPELL: Yes.

21 BY MR. PENDERGAST:

22 Q. And if I could refer you to page 8 of that
23 true-up testimony, line 23, and I'd like to ask you if
24 you have any reason to disagree with these numbers.
25 There starting at line 23, Mr. Fallert says that there
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1 was a 1,456,000 increase in revenue requirement
2 included in Staff's true-up allowance for changes in
3 capital structure.

4 Do you see that?

5 A. Yes, I do.

6 Q. Does that sound about right to you?

7 A. Uh, from my understanding, that is the
8 level that we anticipated as far as the revenue
9 requirement increase that was included in our original

10 true-up estimate.

11 Q. Okay. And do you know, was all or most of
12 that related to your anticipation regarding short-term
13 debt?

14 A. Uh, the number was provided to me that I put
15 in. Mr. Broadwater's, from our financial analysis
16 staff, is the one that actually calculated the levels
17 of the capital structure percentages and their
18 embedded cost to debt, those items was just input into
19 out -- what we refer to as our EMS system and this is
20 the value that it created, the 1.4 million.

21 Q. Okay.

22 A. I'm sorry. That's -- I mean, that's how
23 we would actually quantify the actual results. I
24 think -- I'm not -- was not party to the actual
25 calculation of the original estimate that was part of
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1 the true-up, only to the effect that the 1.4 million
2 was the amount that was in our true-up associated
3 with -- with that capital structure.

4 Q. Okay. So you wouldn't be able to tell me
5 how much or if all of it was related to the short-term
6 debt issue we've been discussing today?

7 A. No, I would not.

8 Q. Okay. And I take it by that, that would
9 also suggest you have no reason to doubt whatever
10 Mr. Fallert has said about it in his testimony with
11 regard to quantifications?

12 A. I have no opinion on the quantifications.

13 Q. Okay. I'd like to ask you about another
14 statement you have in your testimony.

15 First of all, in the partial stipulation and
16 agreement which some questions have been asked about
17 today, the revenue requirement at the time that was
18 entered into was approximately \$6.3 million; is that
19 correct?

20 A. That was the bottom-line result of the
21 partial stipulation and agreement based upon the --
22 the items that are listed on Attachment 1 to that --
23 in that -- to that stipulation and agreement.
24 Inherent in that is the Staff's original filing which
25 included approximately a 7.3 million estimate for
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1 true-up.

2 Q. Okay. And today Staff's run based on the
3 same 9.5 percent mid-point return on equity that Staff
4 has recommended has now gone from 6.3 to 5.1
5 approximately?

6 A. That's correct.

7 Q. And I think -- excuse me -- in your
8 testimony you indicate that -- that Staff's true-up
9 allowance is only decreased by \$500,000; is that
10 right?

11 A. Yes. That -- that 500,000 is the comparison
12 between the revenue requirement that -- ultimately the
13 change that actually occurred compared to the original
14 true-up estimate that was in our direct filing.

15 Q. Okay. So if -- if revenue requirement has

16 gone down by 1.2 million; i.e., the difference between
17 6.3 and 5.1, but the true-up allowance that was built
18 into that 6.3 has only gone down by 500,000, can you
19 tell me what the difference is, what other changes
20 have caused that?

21 A. Well, there was two -- at least -- there was
22 two items that was not a component of the original
23 true-up estimate. One -- one of the changes that was
24 made was a bad-debt gross-up factor was attached to
25 the revenue requirement, and there was a computer

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1 maintenance amount of, I think, 528,000 that was not
2 originally included in the Staff's direct-filed
3 testimony as far as the estimate of true-up, but it
4 was incorporated as a line item on schedule -- or
5 Attachment 1 to the partial stipulation and agreement.

6 Q. Okay. So it would basically be a function
7 of, in your view, items moving kind of from one pocket
8 to another?

9 A. Well, those -- those are two items that
10 wasn't accounted for. But the -- the actual results
11 of the true-up themselves, the quantification of the
12 individual items actually varied too from what was
13 originally estimated.

14 Q. Okay. And to the extent -- well, when you
15 say Staff's true-up amount only declined by 500,000,
16 you're not meaning to imply anything there about what
17 value of the short-term debt difference is, are you?

18 A. No. That was a composite overall impact

19 between what the effect of the actual true-up was
20 compared to the original true-up estimate.

21 Q. Okay. Now, do you have a copy of the
22 partial stipulation and agreement and Attachment 1
23 which I think you just referenced? If not --

24 A. I don't have the full stipulation and
25 agreement. I do have the Attachment 1 with me.
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1 Q. Okay. Well, that's what I wanted to
2 direct your attention to, so if you could look at
3 that Attachment 1, and Mr. Broadwater I believe was
4 also asked some questions about the consistency of
5 Staff's true-up position on short-term debt with the
6 partial -- first amended partial stipulation and
7 agreement.

8 Can you tell me where on Attachment 1
9 Staff's original position in its estimate on
10 short-term debt is reflected?

11 A. The very first figure on that page which is
12 1,837,000 was the Staff's filing in its direct case,
13 that included 7.3 -- roughly \$7.3 million for -- for
14 true-up. And the -- what was already stated, the
15 1.4 million that was part of that true-up is embedded
16 in that number.

17 Q. In the 1.837?

18 A. Yes.

19 Q. Okay. And there are some other items on
20 there that -- that, for example, the average daily
21 balance issue associated with short-term debt, and the

22 computer maintenance embedded that factor, that
23 suggests that the amount either remains subject to
24 reexamination during the true-up hearing or that it's
25 subject to Staff's mid-point filing and return at 9.5;
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1 is that correct?

2 A. Yes, it is.

3 Q. Okay. Is there that kind of qualifier on
4 the 1.837 million that the short-term debt, Staff
5 short-term debt allowance was included in?

6 A. Well, that qualifier is not attached to that
7 particular number. However, the capital structure
8 short-term debt component is footnoted to the extent
9 that -- well, it's not footnoted to the point that it
10 remains subject to reexamination.

11 However, these are -- these are items of
12 changes or corrections that took place to the Staff's
13 direct filing, and I think it's -- it's just
14 understood that the true-up function that is included
15 in that first number is all subject to reexamination.

16 Q. Okay. But there is nothing that addresses
17 it in this Attachment 1?

18 A. No.

19 Q. Okay.

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

22 JUDGE DIPPELL: Thank you.

23 Mr. Gibbs, I just have one very basic
24 question. I'm new to this, some of the terminology

25 and everything, so I just want to make sure I'm not
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1 assuming something incorrectly.

2 QUESTIONS BY JUDGE DIPPELL:

3 Q. On page 2 of your testimony at line 15,
4 you're describing Schedule 1 and you say reconciles at
5 the mid-point?

6 A. Yes.

7 Q. And I just want to make sure that I know
8 what's the mid-point. You're talking about the middle
9 of return on equity of 9.9?

10 A. That's correct.

11 JUDGE DIPPELL: Okay. Any recross based on
12 my question?

13 (No response.)

14 JUDGE DIPPELL: Is there redirect?

15 MR. POSTON: Yes, your Honor.

16 REDIRECT EXAMINATION BY MR. POSTON:

17 Q. Mr. Gibbs, is the reason the true-up revenue
18 requirement is different than the previous estimate
19 only related to short-term debt?

20 A. No, it's not.

21 Q. Was the actual true-up for payroll higher
22 than Staff's estimated true-up amount?

23 A. Yes, it was.

24 Q. If you added Mr. Fallert's values for
25 short-term debt and annualized revenue to the Staff's
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□

1 true-up, would the total be higher than the previous
2 total true-up estimate?

3 A. I'm sorry. Could you repeat the question?

4 Q. If you added Mr. Fallert's values for
5 short-term debt and annualized revenue to the Staff's
6 true-up, would the total be higher than the previous
7 total true-up estimate?

8 A. Yes, I believe it would.

9 MR. POSTON: I have no more questions.

10 JUDGE DIPPELL: Thank you, Mr. Gibbs. You
11 may step down.

12 THE WITNESS: Thank you.

13 JUDGE DIPPELL: I may recall you if the
14 Commissioners have additional questions.

15 I believe then we're ready for Public
16 Counsel's witness, please.

17 MR. MICHEEL: I would call Mark Burdette,
18 your Honor.

19 (Witness sworn/affirmed.)

20 MARK BURDETTE testified as follows:

21 DIRECT TESTIMONY BY MR. MICHEEL:

22 Q. Would you state your name and business
23 address for the record.

24 A. Mark Burdette, Missouri Office of the Public
25 Counsel, Post Office Box 7800, Jefferson City
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1 Missouri, 65102.

2 Q. And how are you employed?

3 A. I'm a financial analyst for Missouri Office
4 of Public Counsel.

5 Q. And have you caused to be filed what's been
6 marked for purposes of identification as Exhibit 132,
7 your true-up testimony in this matter?

8 A. Yes.

9 Q. Do you have any corrections or additions
10 you'd like to make at this time?

11 A. No.

12 Q. If I asked you those questions, would your
13 answers be the same or substantially similar?

14 A. Yes.

15 MR. MICHEEL: With that, your Honor, I move
16 the admission of Exhibit 132 and tender Mr. Burdette
17 for cross-examination.

18 JUDGE DIPPELL: Are there any objections to
19 Exhibit 132?

20 (No response.)

21 JUDGE DIPPELL: Then it will be received
22 into evidence.

23 (EXHIBIT NO. 132 WAS RECEIVED INTO
24 EVIDENCE.)

25 JUDGE DIPPELL: Is there cross-examination
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□

1 Mr. Burdette by Staff?

2 MR. POSTON: Yes. Just one question.

3 CROSS-EXAMINATION BY MR. POSTON:

4 Q. Is the short-term debt method that you used

5 for your true-up testimony the same method you used
6 for your direct-filed case?

7 A. Yes.

8 MR. POSTON: That's all I have.

9 JUDGE DIPPELL: Is there cross-examination
10 by Laclede?

11 MR. PENDERGAST: I have no questions, your
12 Honor.

13 JUDGE DIPPELL: Is there redirect?

14 MR. MICHEEL: No.

15 JUDGE DIPPELL: Then, Mr. Burdette, you may
16 be excused for now. I may recall you if the
17 Commissioners have questions.

18 THE WITNESS: Okay. Thank you.

19 MR. MICHEEL: All right, Mr. Robertson.
20 Your turn.

21 (Witness sworn/affirmed.)

22 TED ROBERTSON testified as follows:

23 DIRECT EXAMINATION BY MR. MICHEEL:

24 Q. Would you state your name, business address
25 and how you're employed.

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□

1 A. Ted Robertson, Missouri Office of the Public
2 Counsel, P. O. Box 7800, Jefferson City, Missouri,
3 65102. And I'm an accountant for the office.

4 Q. Have you caused to be filed what's been
5 marked for purposes of identification as Exhibit 133NP
6 and 133HC, your true-up testimony in this proceeding?

7 A. Yes.

8 Q. Do you have any corrections or additions
9 you'd like to make at this time to that testimony?

10 A. Only to the extent that was expressed by
11 Mr. Pendergast and Mr. Micheel regarding our agreement
12 with the costs related to the computer maintenance
13 expense.

14 Q. And with that understanding, if I asked you
15 the questions contained in Exhibit 133, would your
16 answers be the same or similar?

17 A. Yes, they would.

18 MR. MICHEEL: With that, your Honor, I
19 would move the admission of Exhibit 133 and tender
20 Mr. Robertson for cross.

21 JUDGE DIPPELL: Is there any objection to
22 Exhibits 133NP and 133HC?

23 (No response.)

24 JUDGE DIPPELL: Then I'll receive those into
25 evidence.

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1 (EXHIBIT NOS. 133NP AND 133HC WERE RECEIVED
2 INTO EVIDENCE.)

3 JUDGE DIPPELL: I'm going to remind you,
4 although I don't believe we'll have to go into it, but
5 if for some reason, since there is highly confidential
6 information contained, if we get to that area, ask
7 counsel to please help avoid having this witness
8 testify or not in camera.

9 Is there cross-examination by Staff?

10 MR. POSTON: No questions, your Honor.

11 JUDGE DIPPELL: Is there cross-examination
12 by Laclede?

13 MR. PENDERGAST: Just by way of
14 clarification, your Honor.

15 CROSS-EXAMINATION BY MR. PENDERGAST:

16 Q. I appreciate your comments earlier,
17 Mr. Robertson, and your understanding is we've also
18 got an agreed-upon number for facility locates as
19 well. In fact, I think that was in your testimony; is
20 that correct?

21 A. Actually the number that is in my testimony
22 is the agreed-upon number, I believe.

23 Q. Yes, yes.

24 A. The only difference in the testimony is what
25 we had regarding the computer maintenance expense --
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1 computer maintenance expense was the only difference
2 or issue that had a difference that we're providing
3 testimony on.

4 MR. PENDERGAST: And with the prior
5 understandings that we've reached in Mr. Robertson's
6 prior representations, despite his obvious enthusiasm
7 for testifying, I have no further questions.

8 JUDGE DIPPELL: Okay. Let me just ask a
9 question so I can be sure that it's clear on the
10 record then.

11 QUESTIONS BY JUDGE DIPPELL:

12 Q. So the number with regard to the locates is
13 the same number then that Staff has represented?

14 A. For the facility locates issue?

15 Q. Yes.

16 A. The same number, that's correct.

17 JUDGE DIPPELL: Is there recross based on my
18 question?

19 (No response.)

20 JUDGE DIPPELL: Is there any redirect?

21 MR. MICHEEL: None, your Honor.

22 JUDGE DIPPELL: Mr. Robertson, you may be
23 excused for now, subject to recall if the
24 Commissioners have questions for you.

25 Is there anything further from any of the
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1 parties at this time?

2 (No response.)

3 JUDGE DIPPELL: Okay. Then what I'd like to
4 do is go ahead and take a 15-minute recess. I'll see
5 if the Commissioners are prepared to come in at this
6 time and ask their questions.

7 The Commissioners may also have questions
8 related to the partial stipulation and agreement.
9 Would there be any objection to answering questions
10 regarding that at this time?

11 MR. PENDERGAST: We certainly wouldn't have
12 any objections. I guess the only thing I would note
13 is that a number of the signatories to that, whether
14 they requested it or not, are not here today.

15 MR. MICHEEL: I wouldn't have any objection
16 with the caveat that there are certain witnesses that

17 would probably know a little bit more than I would
18 about the specifics, for example, on the rate design
19 portion. And I'm not sure about their availability at
20 this time, your Honor.

21 JUDGE DIPPELL: All right.

22 MR. MICHEEL: I just wasn't prepared for
23 that.

24 JUDGE DIPPELL: I realize that I had not
25 informed you-all ahead of time that the Commissioners
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1 might have questions. It just seemed like a good time
2 if there were questions that could be answered, to go
3 ahead and answer those now and then we wouldn't have
4 to recall people later in the process.

5 But I'll let the Commissioners know that
6 you-all may not know the answers to their questions,
7 at which time we would have to ask for those answers
8 later.

9 Okay. Let's go ahead and take a
10 15-minute -- or come back at a quarter after.

11 Thank you. Off the record.

12 (A RECESS WAS TAKEN.)

13 (EXHIBIT NOS. 110, 111 AND 112 WERE MARKED
14 FOR IDENTIFICATION.)

15 JUDGE DIPPELL: Well, I apologize for
16 keeping you here. As it turns out, the Commissioners
17 don't have any questions for the witnesses that
18 haven't already been asked and your agreements -- I
19 think the agreements that you-all reached and

announced this morning had cleared up a lot of the
Commissioner's questions.

So if there is nothing further, I'll go
ahead and adjourn the hearing.

WHEREUPON, the hearing was concluded.

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I N D E X

LACLEDE GAS COMPANY'S EVIDENCE:

JAMES A. FALLERT

Direct Examination by Mr. Pendergast	1071
Cross-Examination by Mr. Poston	1073
Redirect Examination by Mr. Pendergast	1081

STAFF'S EVIDENCE:

DAVID BROADWATER

Direct Examination by Mr. Poston	1084
Cross-Examination by Mr. Pendergast	1086
Questions by Judge Dippell	1095
Recross-Examination by Mr. Pendergast	1098
Redirect Examination by Mr. Poston	1100

ARLENE S. WESTERFIELD

Direct Examination by Mr. Poston	1103
Cross-Examination by Mr. Pendergast	1104
Questions by Judge Dippell	1107
Recross-Examination by Mr. Pendergast	1108
Redirect Examination by Mr. Poston	1108

DOYLE L. GIBBS

Direct Examination by Mr. Poston	1111
Cross-Examination by Mr. Pendergast	1112
Questions by Judge Dippell	1120
Redirect Examination by Mr. Poston	1120

OFFICE OF PUBLIC COUNSEL'S EVIDENCE:

MARK BURDETTE

Direct Examination by Mr. Micheel	1121
Cross-Examination by Mr. Poston	1123

TED ROBERTSON

Direct Examination by Mr. Poston	1123
Cross-Examination by Mr. Pendergast	1125
Questions by Judge Dippell	1126

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EXHIBITS INDEX

2

MARKED

REC'D

3

Exhibit No. 110
 Laclede Analysis

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4

5

Exhibit No. 111
 Graph

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7

Exhibit No. 112
 Graphs

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8

Exhibit No. 127
 True-up Testimony of James Fallert

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Exhibit No. 128
 True-up Testimony of David Broadwater

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Exhibit No. 129
 True-up Testimony of Doyle Gibbs

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Exhibit No. 130
 True-up Testimony of Arlene Westerfield

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Exhibit No. 131
 Staff True-up Accounting Schedules

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Exhibit No. 132
 True-up Testimony of Mark Burdette

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Exhibit No. 133NP
 True-up Testimony of Ted Robertson

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Exhibit No. 133HC
 Highly Confidential True-up
 Testimony of Ted Robertson

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