

STATE OF MISSOURI  
PUBLIC SERVICE COMMISSION

HEARING  
September 2, 1999  
Jefferson City, Missouri  
Volume 7

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

BEFORE:

NANCY M. DIPPELL, Presiding,  
SENIOR REGULATORY LAW JUDGE.  
SHEILA LUMPE, Chair,  
CONNIE MURRAY,  
ROBERT G. SCHEMENAUER,  
M. DIANNE DRAINER, Vice-Chair  
COMMISSIONERS.

REPORTED BY:

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1 P R O C E E D I N G S  
2 (Written Entries of Appearance filed.)  
3 JUDGE DIPPELL: Let's go ahead and go on the  
Page 3

4 record.

5 we're ready to begin this morning with the  
6 issue of advertising, and I believe Mr. Hargraves is  
7 Laclede's first witness.

8 MS. THEROFF: Yes, your Honor.

9 JUDGE DIPPELL: Good morning. Would you  
10 please raise your right hand?

11 (Witness sworn.)

12 JUDGE DIPPELL: Thank you.

13 You may proceed.

14 RICHARD N. HARGRAVES testified as follows:

15 DIRECT EXAMINATION BY MS. THEROFF:

16 Q. Good morning, Mr. Hargraves.

17 A. Good morning.

18 Q. Would you please state your whole name for  
19 the record?

20 A. Richard N. Hargraves.

21 Q. By whom are you employed, Mr. Hargraves?

22 A. Laclede Gas Company.

23 Q. And your business address?

24 A. 720 Olive Street in St. Louis.

25 Q. What is your position with Laclede Gas

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1 Company?

2 A. I'm the director of corporate  
3 communications.

4 Q. Are you the same Richard N. Hargraves that

5 had caused to be filed direct testimony marked  
6 Exhibit 20, rebuttal testimony marked Exhibit 21, and  
7 surrebuttal testimony marked Exhibit 22 in this  
8 proceeding?

9 A. Yes.

10 Q. Do you have any corrections to this  
11 testimony?

12 A. Yes, I do.

13 Please insert the word "readily" in the  
14 following pages: On Page 2, Line 17 of my direct  
15 testimony between the words "not" and "receive"; on  
16 Page 5, Line 6 of my rebuttal testimony between the  
17 words "not" and "obtain"; on Page 1 of Schedule -- I'm  
18 sorry.

19 MR. MICHEEL: I'm sorry. Could you go back?  
20 That's too fast for me.

21 THE WITNESS: Sure. I apologize.

22 On Page 2, Line 17 on my direct between the  
23 words "not" and "receive." Okay?

24 On Page 5, Line 6 of my rebuttal between the  
25 words "not" and "obtain."

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1 Now, in Schedule 2 of that rebuttal on  
2 Page 1, the first paragraph, third line, between the  
3 words "cannot" and "receive."

4 On Page 2 of Schedule 2, Point 3, the third  
5 line from the bottom, between the words "not" and  
6 "have."

7 JUDGE DIPPELL: I'm sorry. Where was that  
8 one?

9 THE WITNESS: That's on Schedule 2 of my  
10 rebuttal, Page 2, Point 3, the third line from the  
11 bottom between the words "not" and "have." And then  
12 on -- also on Schedule 2 of the rebuttal, Page 3, the  
13 last line of the second last paragraph between the  
14 words "never" and "reach."

15 BY MS. THEROFF:

16 Q. Did you have any others?

17 A. No. That's it.

18 Q. Okay. If I were to ask you these same  
19 questions set forth in your direct, rebuttal, and  
20 surrebuttal testimony today, would your answers as  
21 corrected be the same or substantially similar?

22 A. Yes.

23 Q. And are these answers true and correct?

24 A. Yes.

25 MS. THEROFF: I offer Exhibits 20, 21, and

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1 22 into the record, and tender the witness for  
2 cross-examination.

3 JUDGE DIPPELL: Are there any objections to  
4 Exhibits 20, 21 and 22 with the corrections?

5 (No response.)

6 JUDGE DIPPELL: Then I'll receive those into  
7 the record.

8 (EXHIBIT NOS. 20, 21 AND 22 WERE RECEIVED  
9 INTO EVIDENCE.)

10 JUDGE DIPPELL: Is there cross-examination  
11 from AmerenUE?

12 MS. KNOWLES: No.

13 JUDGE DIPPELL: Public Counsel?

14 MR. MICHEEL: Yes, your Honor.

15 CROSS-EXAMINATION BY MR. MICHEEL:

16 Q. Mr. Hargraves, is the reason you made those  
17 corrections to your testimony today adding the word  
18 "readily" because there is information available to  
19 consumers with respect to natural gas from other  
20 places other than Laclede's advertisements?

21 A. Well, the reason I made the corrections is  
22 because they were wrong as -- without the corrections.  
23 I --

24 Q. And why were those statements wrong without  
25 the corrections?

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1 A. They were wrong because they were stated  
2 pretty definitively that there is no information  
3 available. There is information available. It's not  
4 as readily information available, but I think in  
5 studying it, the word "readily" is more appropriately  
6 accurate.

7 Q. For example, when a customer goes to  
8 purchase a hot water heater at, let's say, Sears and  
9 Roebuck, I know when I purchased my hot water heater,  
Page 7

10 there is a big sticker, a big yellow sticker on the  
11 outside of hot water heater indicating the energy  
12 usage, if it's an electric hot water heater or a gas  
13 hot water heater; is that correct?

14 A. That is correct.

15 Q. And do you know whether that's a requirement  
16 by law, or is that just something the hot water heater  
17 producers put on their hot water heaters?

18 A. I believe that's a legal requirement. I  
19 don't know that. I believe it is.

20 Q. Do you know if the same is true with, for  
21 example, furnaces, if there is a big yellow sticker on  
22 furnaces that indicate how much energy you would use  
23 if it's a gas furnace and how much energy you would  
24 use if it's an electric furnace?

25 A. Again, I believe that the Department of

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1 Energy does require some energy measurements on there,  
2 yes.

3 Q. So when a consumer, for example, goes out  
4 and buys a hot water heater, they inspect the hot  
5 water heater, they look at it, they see that, don't  
6 they?

7 A. If they -- that's one possible way, yes.

8 MR. MICHEEL: Okay. I'd like to get an  
9 exhibit marked, your Honor.

10 JUDGE DIPPELL: The next number is 121.



11 MR. MICHEEL: Yes. And it would be  
12 Company's response to Public Counsel Data Request  
13 1,117.

14 (EXHIBIT NO. 121 WAS MARKED FOR  
15 IDENTIFICATION.)

16 BY MR. MICHEEL:

17 Q. Mr. Hargraves, I've handed you what's been  
18 marked for purposes of identification as Exhibit 121.  
19 Have you had a chance to look at that data request,  
20 sir?

21 A. Yes, sir.

22 Q. And is that your signature at the bottom of  
23 the page, sir?

24 A. Yes, sir, it is.

25 Q. And on the second page, is that the answer

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1 that you gave to that data request?

2 A. Yes, sir.

3 MR. MICHEEL: I would move the admission of  
4 Exhibit 121, your Honor.

5 JUDGE DIPPELL: Are there any objections to  
6 Exhibit 121?

7 (No response.)

8 JUDGE DIPPELL: Then I'll receive it.

9 (EXHIBIT NO. 121 WAS RECEIVED INTO  
10 EVIDENCE.)

11 BY MR. MICHEEL:

12 Q. Mr. Hargraves, do you have a copy of your  
Page 9

13 direct testimony with you? I think it's been marked  
14 and admitted into evidence as Exhibit 20.

15 A. Yes, sir, I do.

16 Q. Could you turn for me to Page 6 of that  
17 testimony?

18 A. Okay.

19 Q. And beginning on, I believe it is, Line 10,  
20 you state, "In order for St. Louis area consumers to  
21 continue having available to them the information that  
22 they need to make informed energy choices, Laclede  
23 should be allowed to recover in rates the reasonable  
24 cost of providing this important information." Is  
25 that correct?

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1 A. Yes, sir, it is.

2 Q. And is it also correct here you're  
3 discussing advertising information that lets customers  
4 know the benefits of using natural gas vis-a-vis  
5 electricity?

6 A. I'm -- not exactly. I'm talking about our  
7 entire advertising program that discusses the -- some  
8 of it discusses the advantages of natural gas and its  
9 various issues. Some of it does compare with other  
10 forms of energy. Some is non-product advertising.

11 Q. Is it correct that in Ms. Bolin's review of  
12 your advertising that all advertisements that she's  
13 classified are safety advertisements she's allowed in

14 cost of service?

15 A. Yes, sir.

16 Q. Is it correct that all advertisements that  
17 she's determined were general she's allowed in the  
18 cost of service?

19 A. As corrected, yeah. Yes, sir.

20 Q. Okay. Let me ask you this: Do you believe  
21 that the Commission should allow an amount in rates so  
22 that Laclede Gas can compete with customers via  
23 advertising with, for example, AmerenUE?

24 A. I believe the Commission should allow in  
25 rates the costs of advertising that allows us to

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1 maintain -- to provide information to consumers that  
2 lets them make decisions, that helps us maintain our  
3 current market share, and lets us keep spreading our  
4 costs over a broad base.

5 Q. So it's your position that the Commission  
6 should allow in rates advertisements that talk about  
7 gas usage versus energy usage; is that correct?

8 A. As long as we can demonstrate a benefit,  
9 that's what the Commission's current standard is, yes.

10 Q. Well, let me understand your proposal that  
11 you've made in your direct testimony and I think  
12 further in your rebuttal testimony. Is it correct  
13 that you want the Commission to allow the Company to  
14 spend up to two-tenths of 1 percent of utility  
15 revenues on advertising; is that correct?

16       A.     In this case, up to -- I mean, what we spent  
17     is about two-tenths, yes.

18       Q.     On a going-forward basis, what are you  
19     recommending the Commission allow?

20       A.     What I'm recommending is -- and the number  
21     that I believe on a going-forward basis, would  
22     probably be more like half of 1 percent. And what I'm  
23     recommending is that that is a cap, and so the next  
24     time we come through a rate proceeding here, instead  
25     of looking at each ad and trying to analyze content

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1     and going through this -- this process that no one has  
2     ever been able to meet, instead of focusing on  
3     content, you would then focus on costs. And if our  
4     costs were on a certain level, if they either exceeded  
5     or not exceeded that cap, that would determine.

6             For example, if the cap that year happened  
7     to be a million dollars, we spent 750,000, we'd only  
8     get 750,000. If we spent a million-five, we would  
9     only get the million. I mean, there would be a cap  
10    set for future rate proceedings.

11       Q.     And under your proposal, Laclede would have  
12    complete discretion on what type of advertising it  
13    wanted to do. For example, if it wanted to do a  
14    million dollars worth of political advertising, that  
15    would be okay up to the cap; is that correct?

16       A.     No, sir, it would not. We discussed that

17 earlier. In the prehearing conference I brought that  
18 point up.

19 Laclede's proposal is specifically for  
20 above-the-line advertising costs that are not  
21 political in nature.

22 Q. Okay. So political in nature is still  
23 things that should be excluded; is that correct?

24 A. The ratepayers should not have to cover  
25 political costs. Laclede doesn't do political

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1 advertising. But should we, they would not have to  
2 cover that.

3 Q. Under that cap proposal, could Laclede spend  
4 a million dollars promoting gas usage over electric  
5 usage?

6 A. Yes.

7 Q. Would you agree with me, Mr. Hargraves, that  
8 gas and electric companies have been competing for  
9 customers in the St. Louis area for at least 50 years,  
10 residential customers for space heating, let me --

11 A. I would think that's about right, yes.

12 Q. Would you agree with me that for residential  
13 customers currently there is no gas-on-gas,  
14 natural-gas-on-natural gas competition in St. Louis?

15 A. Within Laclede's service territory, yes.

16 Q. So, in other words, you have no other  
17 competitors for natural gas within your franchise  
18 service territory; isn't that correct?

19 A. There is no other natural gas provider  
20 within Laclede's service territory. Correct.

21 Q. Okay. Have you reviewed Mr. Kind's direct  
22 testimony in this case, Mr. Hargraves?

23 A. Yes, I have.

24 Q. And would you agree with me, Mr. Hargraves,  
25 that Mr. Kind on Schedule RK-2 provides information --

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1 A. Excuse me a second while I get to  
2 Schedule RK-2.

3 Q. Let me know when you're ready.

4 A. I'm ready.

5 Q. Would you agree with me that on that  
6 schedule Mr. Kind provides information with respect to  
7 the amounts of CO2 emissions in Missouri that are a  
8 result of natural gas usage?

9 A. I guess that's one part of what he's doing,  
10 sure. I don't know that he puts it in context, but it  
11 is a chart purporting to show CO2 emissions.

12 Q. And on Page 8 of Mr. Kind's direct  
13 testimony, he indicates that natural gas is  
14 responsible for about 12.5 percent of all --

15 A. I'm sorry, sir. Where at -- what line are  
16 you on at Page 8?

17 Q. Okay. Line 7, Page 8, Mr. Kind's direct  
18 testimony.

19 A. Okay.

20 Q. why don't you read that to yourself and let  
21 me know when you're ready.

22 A. Thank you.

23 Okay.

24 Q. Is it correct, or do you disagree with that,  
25 that natural gas is responsible for about 12.5 percent

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1 of all Missouri's CO2 emissions throughout the first  
2 part of the 1990s?

3 A. I agree that that's what the testimony says.

4 Q. Do you have any reason to dispute that?

5 A. I have no reason to dispute that, no. I  
6 don't know, personally. I have no reason to dispute  
7 that.

8 Q. Do you believe that's an insignificant or a  
9 de minimus amount of CO2 emissions?

10 A. In relation to what?

11 Q. In relation to total CO2 emissions.

12 A. I would not want to classify 12 1/2 percent.  
13 I'm not sure how that relates to our advertising.

14 Q. Do you know whether or not CO2 -- it's  
15 generally accepted that CO2 is playing a role in  
16 global warming or climate change?

17 A. I'm not a climatologist. I -- I understand  
18 that it may play a role. I would also add, however,  
19 that CO2 is not one of the emissions, the pollutants  
20 that the Environmental Protection Agency regulates.  
21 And, therefore, I -- I'm not sure what this -- why

22 we're having this discussion.

23 Q. would you agree with me that CO2 is indeed a  
24 pollutant?

25 A. No, I don't think I would agree with that.

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1 Q. So it's your opinion that CO2 is not a --  
2 not a cause ever pollution?

3 A. Well, every time we breathe, CO2 comes out.  
4 I mean, I understand there is some scientific  
5 discussion about global warming and things like that,  
6 but I would not call it a pollutant. I don't believe  
7 the EPA calls it a pollutant. I'm not going to call  
8 it a pollutant.

9 Q. I want to talk to you a little bit about  
10 Schedule 2 to your rebuttal testimony, and I guess  
11 that's been marked as Exhibit 21. And I guess I'm  
12 focusing on Page 2 there of Schedule 2 where you have  
13 some calculations.

14 And one of the assumptions that you have in  
15 your calculation there is that one-half of the  
16 anticipated customer growth would choose alternative  
17 fuels without Laclede's promotional advertising; is  
18 that correct?

19 A. That's correct.

20 Q. And is it correct that the Office of the  
21 Public Counsel asked you a data request, Data  
22 Request 1122, seeking the information that supported



23 that claim; is that correct?

24 A. What number was that, sir?

25 Q. 1122.

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1 A. Yes, sir, I'm sure that was, if that's the  
2 right number.

3 Q. And is it correct you responded that, "As  
4 explained in Data Request No. 1063, the level of a  
5 potential loss of one-half of Laclede's anticipated  
6 customer growth is an assumption"; is that correct?

7 A. Yes, sir.

8 Q. And you conducted no underlying study or any  
9 empirical analysis to verify that assumption; is that  
10 correct?

11 A. That's true. We stated in Schedule 2,  
12 which -- the document you're talking about, we  
13 acknowledge that that is an assumption. We believe  
14 it's a reasonable assumption based on the mobility of  
15 our customer base. We have 20 percent of our  
16 customers, for example, that have been with us -- you  
17 know, have a billing history of less than 12 months.  
18 We have an awful lot of people making an awful lot of  
19 energy decisions.

20 we think it's only reasonable to assume that  
21 were Laclede not in the marketplace with its messages,  
22 that some of those people would make different  
23 decisions.

24 Q. But you've conducted no study, isn't that

25 correct, with respect to that assumption?

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1 A. That's true. I'm not sure how you would  
2 conduct such a study, unless you cease advertising for  
3 four or five years so that the reminder effect  
4 disappears, and then we would see what happens. We  
5 believe we know what would happen, and it's not worth  
6 that.

7 Q. And then you also answered Data Request 1123  
8 which asked, "What information Laclede relied on in  
9 the 1 percent annual loss of its current customer base  
10 if you didn't do promotional advertisement"; is that  
11 correct?

12 A. Yes, sir.

13 Q. And that -- that was also based on an  
14 assumption; is that correct?

15 A. Again, as we stated in the schedule, we're  
16 very clear that it is an assumption. And we, again,  
17 believe it is a reasonable assumption. We conduct  
18 140-- 150,000 turn-ons a year. Each of those is an  
19 opportunity for a consumer to make a heating decision.

20 we have a large -- as I said, more than  
21 20 percent of our people have a billing history of  
22 less than 12 months. There is mobility within our  
23 market, even though it is a slow-growth market. So  
24 all of these heating decisions are being made. We  
25 believe that 1 percent is not unreasonable. And I

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1 would like to also say that much has been made in  
2 various testimony about a number from a survey.

3 MR. MICHEEL: I'm going to object at this  
4 point, your Honor. This is not responsive to my  
5 question. He's just wanting to fill up the record. I  
6 didn't ask him anything about a survey or a number in  
7 a survey.

8 MS. THEROFF: I believe that he said that  
9 the assumption was we were making an assumption and  
10 part of the whole issue of why we made the assumption  
11 was for the purpose of the survey. And he's going to  
12 tell that he did a survey that helps him determine  
13 where part of this assumption came from.

14 JUDGE DIPPELL: I'm going to let the witness  
15 finish his answer, but try to keep it brief,  
16 Mr. Hargraves.

17 THE WITNESS: Well, basically, we did do a  
18 survey that asks people why they did it, why they made  
19 heating decisions. And that survey is available. I  
20 don't need to detail it right now. It's quite clear  
21 that they made it for advertising.

22 The point I was trying to make is that much  
23 has been made of one single number that has been  
24 picked out of there and focused on that only 4 percent  
25 cited off the top of their head that advertising had a

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1 role. Now, I don't agree with that interpretation.

2 But if you accept that 4 percent -- I don't,  
3 but if you do, we've only made a 1 percent assumption  
4 here, so that 4 percent is four times what I'm talking  
5 about.

6 BY MR. MICHEEL:

7 Q. Isn't it true that only four people made  
8 that assumption, not 4 percent, in that survey,  
9 Mr. Hargraves?

10 A. It's 4 percent, sir. It's four people.  
11 It's 4 percent.

12 Q. How many people were in that survey?

13 A. I believe the total was 103.

14 Q. And four is what percent of 103?

15 A. 3.9.

16 Q. Okay. Let me ask you this: You talked  
17 about the mobility of customers. Let's assume that  
18 I'm living in an apartment that has gas heat. Okay?  
19 Make that assumption.

20 A. Okay.

21 Q. And I'm going to move, and the apartment  
22 building I'm going to move into also has a gas  
23 furnace. What energy choice can I make if that's the  
24 apartment I'm going to move to?

25 A. If you've already chosen that apartment,

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1 you've made your energy choice. The choice is, which  
2 apartment?

3 Q. And is it correct, as it relates to space  
4 heating, currently, Laclede has 85 percent of the  
5 space heating market; is that correct?

6 A. That's correct.

7 Q. Is it correct also that for the new home  
8 markets out there that Laclede has -- 98 percent of  
9 the new homes being built are being put in with  
10 natural gas heat; is that correct?

11 A. That's correct.

12 Q. So is it safe to assume that when I'm buying  
13 a new home, 98 percent of those homes have natural gas  
14 in them, and I only have a 2 percent chance to find  
15 some other alternative?

16 A. No, sir, that's not correct. That's not the  
17 way it works. Ninety-eight percent of the people are  
18 choosing to have natural gas put in there. People  
19 have a choice.

20 So with new construction, you're asked what  
21 appliances you want. Ninety-eight percent of the  
22 people are choosing to have natural gas space heating  
23 and water heating put in.

24 Q. And at least for the current housing stock,  
25 85 percent of that in your service territory is

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1 natural gas; is that correct?

2 A. That's the total market share, yes.

3 MR. MICHEEL: That's all I have. Thank you  
4 very much, Mr. Hargraves.

5 JUDGE DIPPELL: Is there cross-examination  
6 from the Staff?

7 MR. WILLIAMS: Yes.

8 CROSS-EXAMINATION BY MR. WILLIAMS:

9 Q. I want to go back to your proposal of a cap  
10 on advertising.

11 Earlier, you indicated that political  
12 advertising would not be included in that?

13 A. Correct.

14 Q. What about institutional advertising? How  
15 would you treat that?

16 A. Well, I -- personally, I call it non-product  
17 advertising. I draw a huge distinction, but I know  
18 what you're talking about. I think it does much more  
19 than what you would contend it does.

20 But the thing we're talking about, yes, it  
21 would be allowed in there, as it was in the '78 case  
22 and under the old New York rule.

23 Q. Whenever you made your proposal in this  
24 case, did you make any adjustments to the advertising  
25 expenditures before you used those in calculating your

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1 rates?

2 A. I'm sorry, sir. Would you repeat that  
3 question?

4 Q. In this case, you filed for a rate increase.

5 A. Right.

6 Q. And part of that rate increase is based on  
7 advertising expenditures.

8 A. Okay.

9 Q. Did you make any adjustments to your booked  
10 advertising expenditures whenever you utilized those  
11 in determining the rates that you sought in this case?

12 A. Sir, I don't mean to be argumentative, but  
13 I -- I -- I do the advertising. I responded to  
14 questions, how much did I spend. I'm not sure about  
15 the booked adjustment. In fact, I mean, I'm not sure  
16 what you mean. Please help me here.

17 Q. Were your advertising expenses as shown on  
18 your books used without any adjustment whenever rates  
19 were determined?

20 A. Certainly below the lines ones would not be.  
21 I don't think that -- there is some discussion on age  
22 fact revenues. Otherwise, I'm sorry. I'm not sure of  
23 the answer.

24 MR. WILLIAMS: No further questions.

25 JUDGE DIPPELL: Are there questions from the

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1 Bench? Chair Lumpe?

2 QUESTIONS BY CHAIR LUMPE:

3 Q. Mr. Hargraves, under your proposal, does  
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4 this mean that the ratepayers are going to have to pay  
5 for Vern and Ernest.

6 A. That -- well, yes, ma'am, it would. And  
7 that is a way of getting the message across to them.  
8 And we monitor Ernest and Vern constantly to find out  
9 how people like them, perceive them. Do they get the  
10 messages?

11 I'm not really in the business of making  
12 them laugh. I'm in the business of giving them  
13 information. And Ernest and Vern cuts through the  
14 clutter of the messages we have on television and does  
15 get the message across.

16 But the answer to your question is yes,  
17 ma'am.

18 Q. And you have evidence that it gets the  
19 message across that this is Laclede Gas and they are  
20 not just entertained by Ernest and Vern?

21 A. There is -- there is evidence that we  
22 take -- we take surveys constantly to show that  
23 because we -- as I said before, we don't want -- it's  
24 no benefit to us or to the ratepayers just to make  
25 them laugh. What Ernest does is he gets people's

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1 attention, and it cuts through all of that clutter on  
2 TV, and people remember the message.

3 And we have research that we've taken that  
4 does show that the recall is extraordinarily high.



5 The sponsor identification with Laclede is  
6 extraordinarily high, and people get and understand  
7 the messages.

8 Q. So the survey that you allude to or that you  
9 show in here that most of the people knew Vern and  
10 Ernest, but somewhere it also shows that they knew  
11 Vern and Ernest were doing Laclede Gas?

12 A. No, your Honor, this survey does not get  
13 into that question. This survey was taken in  
14 response, frankly, to -- to a Commission directive  
15 that one way -- that not only do you have to show the  
16 promotional standards are under the current standards,  
17 you have to show that the benefit -- the value of the  
18 benefits exceed the cost of your promotional  
19 advertising. You also have to show that there is some  
20 link, some relationship that your ad's related to  
21 these benefits.

22 The survey went to people who had recently  
23 made heating decisions in three distinct situations.  
24 One was conversions, people which had been using some  
25 other form of energy and converted to gas; people who

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1 built new homes and decided to use gas; and people who  
2 decided to use gas in certain circumstances where  
3 there was intense heat pump promotion. So there were  
4 three cases.

5 This survey is not the one I'm talking about  
6 with Ernest. There is other research we do on the

7 Ernest character. I mean, we could provide that to  
8 you, if you would like.

9 Q. The survey that is provided to us, were you  
10 responsible for that survey?

11 A. I mean -- well, a professional survey  
12 research team, a national operation based in St. Louis  
13 conducted the survey, but it was -- I mean, they did  
14 it because I asked them to.

15 Q. You asked them?

16 A. Yes, ma'am.

17 Q. So it came from you to whomever you chose --

18 A. Right.

19 Q. -- to do it?

20 Your estimate of an appropriate or what is  
21 reasonable is what you said .5 percent of revenue?

22 A. One-half of 1 percent, yes, ma'am.

23 Q. Is that the same as .5?

24 A. .5 percent, yes, ma'am.

25 Q. And then as -- as revenue went up, the

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1 amount you could spend on advertising would go up  
2 also?

3 A. True. And as revenue went down, the amount  
4 we could spend would go down also.

5 Q. All right. And if we said .5 percent of  
6 revenue for AmerenUE, who would be able to spend the  
7 most on advertising?

8           A.     AmerenUE. I mean, their revenues are far in  
9     excess of ours, so I suppose they would be able to  
10    spend a lot more.

11          Q.     So you would be at a disadvantage in so-  
12    called competing with them?

13          A.     well --

14          Q.     The purpose of this is to be able to  
15    compete. You would still be at a disadvantage to  
16    compete?

17          A.     well, the purpose of this is to maintain  
18    what I've got. If I could explain, they already spend  
19    far more than I do, and this isn't going to change  
20    anything like that. But I have 85 percent of the  
21    market, the heating market. They want that market.

22                 They've said they are going to be a winter-  
23    peaking utility by 2009. To do that they've got to  
24    take market share from me. So I just want to hold  
25    onto my own primarily. Sure, I would like to grow a

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1     little bit. But, primarily, I want to hold onto what  
2     I've got and protect it. To do that I need to spend  
3     some money.

4                 I'm never going to be able to spend what  
5     they can spend. We don't have those resources. I've  
6     just got to spend mine wisely. What I'm trying to  
7     find and propose is a simple, easy way that makes  
8     some -- some sense of -- on terms of costs.

9                 So that we can focus this, what's a

10 reasonable amount of money that the ratepayers should  
11 pay as opposed to doing all of this work that we do on  
12 content where they look at scripts and they look at  
13 this and they look at that and then they try to make  
14 some decision that puts it into some category.

15 The public views advertising in a total, not  
16 in a category. The public doesn't say, well, this was  
17 a promotional ad and this was an institutional ad and  
18 this one was safety. The public views it in total,  
19 and I think that's how it should be treated on a  
20 regulatory basis.

21 So that's why I'm asking for this cap. The  
22 next time we come in, we look at dollars, not content.

23 Q. And you think if the ratepayer in the  
24 metropolitan area knew that they were paying in their  
25 rates for Ernest and Vern they would be happy?

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1 A. I think they probably already assume that.  
2 Some people are happy; some aren't. The -- the  
3 research I mentioned earlier shows that there is very  
4 little disapproval of Ernest and Vern.

5 Now, in all honesty, ma'am, it was not  
6 phrased in, well, you are paying this in rates. Now,  
7 how do you feel about it? I mean, that's --

8 Q. That's what I'm wondering. If they were to  
9 know that, then you're going to pay for it --

10 A. We do get -- people do know that. I mean,

11 we get calls to that effect occasionally.

12 Q. And you can respond now, no, you are not  
13 paying for that?

14 A. Well, actually -- well, no, we're not,  
15 because they keep disallowing any of the benefits,  
16 but --

17 Q. But you can respond to the ratepayer, then,  
18 no, you are not paying for that?

19 A. Well, they are paying for some of it.  
20 Whenever we use Ernest as a safety, you know, message,  
21 we are paying for that. When we use him as budget  
22 billing, that is in rates. So to some degree, even  
23 under the current scenario, they are -- they are  
24 paying for part of that, yes.

25 CHAIR LUMPE: Okay. Thank you, sir.

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1 JUDGE DIPPELL: Vice-chair Drainer, do you  
2 have questions?

3 COMMISSIONER DRAINER: Just a few. Thank  
4 you.

5 QUESTIONS BY COMMISSIONER DRAINER:

6 Q. Good morning.

7 A. Good morning.

8 Q. What are the total dollars that are being  
9 spent today on advertising?

10 A. In this case, I believe it was seven --  
11 approximately \$700,000.

12 Q. And of that \$700,000, Public Counsel and  
Page 29

13 staff are asking that over half of that be adjusted or  
14 excluded?

15 A. I believe that's the number, yes, ma'am.

16 Q. Let me ask you, how did you come up  
17 with -- you say currently .2 percent is being spent on  
18 advertising, but you would like a cap of .5. Where  
19 was -- how was that calculated?

20 A. Well, first of all, .2 is what I'm spending  
21 right now.

22 Q. Right.

23 A. So that's how that number came about.

24 Coming to the .5, I mean, clearly, that's  
25 the ultimate question. What cap should there be?

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1 First I looked at what happens in the non-regulated  
2 area, and for products that are well established in  
3 stable markets, low-growth areas --

4 Q. Like what products? What non-regulated  
5 specifically commodities did you look at?

6 A. Well, I looked at -- I found a study, ma'am,  
7 that was done by a professor at Syracuse University  
8 and published in the Harvard Business Review who  
9 studied over a thousand of these brands.

10 Q. Okay.

11 A. And his conclusion was four -- that people  
12 in those scenarios spend 4 to 8 percent.

13 Q. Okay.

14 A. So that's where I came up with that amount.

15 Now, in a not -- is that appropriate for a  
16 non-regulated utility? I think we should be lower  
17 than that. And given that I am trying to not -- to  
18 primarily maintain our market so that we can keep  
19 spreading our costs over the widest base possible, I  
20 think the half of a percent is effective.

21 The other aspect that comes into that is  
22 that the Ernest and Vern character we just discussed  
23 is extremely cost effective.

24 Q. We don't need to go there on that. I have  
25 no idea who Ernest and Vern is. And I don't -- I

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1 don't plan on spending a lot of time watching  
2 television in St. Louis to figure that out.

3 A. Okay.

4 Q. So, in general, if you were given this cap  
5 of a half of a percent, are you telling me Laclede  
6 would then be spending that?

7 A. No, ma'am. I'm telling you that -- that in  
8 this case we're talking about two-tenths of 1 percent,  
9 approximately \$700,000.

10 In the next case that we come in, I don't  
11 know what we would be spending, but it could -- you  
12 would not allow more than one-half of 1 percent of our  
13 revenues.

14 Q. All right. Then let me ask you this: Did  
15 you have any discussion -- and I guess I'm thinking of

16 things philosophically and practically. This  
17 Commission doesn't allow planning construction to just  
18 be put in to rate base. We don't just blanketly  
19 approve things that have not been reviewed to be used  
20 and useful.

21 And so to just put a cap and basically  
22 sanction that type of spending, and from going from  
23 the .2 to the .5, and we're talking over a million  
24 dollars, isn't that in some way in violation of  
25 blessing spending that we really don't know is used

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1 and useful, that we don't know is prudent?

2 A. Well, I don't believe so. What I'm saying  
3 is that we are going to be spending -- in the future  
4 when we stop using the current campaign, we're going  
5 to be spending a lot -- it's going to be a lot more  
6 expensive.

7 The current license fee will pay for one  
8 commercial in today's market on another campaign, on a  
9 more normal campaign. So if I run four or five spots,  
10 that's \$400,000. There is going to be extra spending  
11 that we're going to have --

12 Q. But by blessing a cap --

13 A. Uh-huh.

14 Q. -- then you're saying that there really  
15 would not have to be review up to that cap, that --  
16 that it would take away from having to review the ads.



17 And how -- how can we do that and still keep our  
18 responsibility and obligation to make sure that the  
19 spendings at the Company are prudent?

20 A. Well, what I'm suggesting is that the  
21 Commission as an economic regulatory body focus on the  
22 cost, and not the content of the ad, and determine  
23 that X is a reasonable amount, given the competitive  
24 situations, given that advertising is an important  
25 information vehicle, that X amount is a certain -- is

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1 an appropriate amount for the ratepayer to pay. And  
2 you would do that by basing it on revenues.

3 When we come -- you're not building it in  
4 rates. I mean, we get what we've got here. Next time  
5 we come in for a case, then we would -- that cap would  
6 be applicable, and we would either be above or below  
7 it. If we go above it, we don't get it. If we go  
8 below, we get only what we spend.

9 Q. Yeah, but you're saying I've already blessed  
10 it.

11 A. I believe you've already said that you would  
12 have -- would have said this amount is reasonable.  
13 It's the same situation that Staff recommended back in  
14 the old New York rule in '78, that we set it on a  
15 percentage of revenues.

16 Q. That was '78.

17 A. Yes, it was. It was a long time ago.

18 Q. Can you tell me any other services that are

19 currently provided by regulated utilities in Missouri  
20 that have caps already on those services?

21 A. My field is advertising. I'm not aware of  
22 anything else.

23 Q. All right. In your discussion you didn't  
24 have any type of --

25 A. No, ma'am.

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1 Q. All right. And you didn't -- and so you  
2 know of nothing else that this Commission approves of  
3 or sanctions in dollars before it is reviewed to be  
4 used, and useful and prudent?

5 A. Ma'am, I'm not aware of anything.

6 COMMISSIONER DRAINER: Okay. Thank you.

7 No other questions.

8 JUDGE DIPPELL: Commissioner Murray, do you  
9 have questions?

10 COMMISSIONER MURRAY: Yes. Thank you.

11 QUESTIONS BY COMMISSIONER MURRAY:

12 Q. Good morning.

13 A. Good morning.

14 Q. You said that you are now spending .2  
15 percent of revenue on advertising?

16 A. Right.

17 Q. What advertising categories does that  
18 include?

19 A. That included everything, ma'am. That was

20 just a total -- your Honor, that was a total dollar  
21 amount, and we divided it into revenues.

22 Q. So that includes product advertising?

23 A. Right. Oh, product --

24 Q. Well, I'm looking through your Schedule 2.

25 I was looking through the ads in there, and -- well --

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1 A. The appliance-sales-type thing?

2 Q. Yes.

3 A. Yeah, the 700,000 does. Our cap would not.  
4 we're saying that above the line costs that are not  
5 political in nature.

6 Q. But right now you're only spending .2  
7 percent on everything, including --

8 A. Right.

9 Q. -- those appliance ads and everything?

10 A. That's true, your Honor.

11 Q. So you're assuming that you're going to be  
12 spending a lot more on regulate-- on ads that would  
13 only pertain to regulated activities?

14 A. Well, that's probably true. This -- this --  
15 these dollars came about during one of the -- I  
16 believe it's the sixth warmest year in history,  
17 recorded history. I mean, we didn't spend at a level  
18 that -- that we might in a different situation. I  
19 mean, budget cuts go all across the board in those  
20 situations.

21 I believe it's fair to say that we would

22 likely spend at a higher amount of money. We have in  
23 the past.

24 Q. Do you have -- do you know what percentage  
25 of your advertising is divided into the different

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1 categories right now?

2 A. I don't off the top of my head. I can give  
3 you dollars. If we have a calculator, we could figure  
4 it out.

5 I believe out of 695.7, 30.7 is safety;  
6 161.6 was determined as general. We have a dispute on  
7 what's promotional and institutional here, an \$80,000  
8 issue, but I contend that 423.5 is promotional, that  
9 8 is institutional, and that 71.9 is below the line,  
10 and there is no political.

11 Q. Okay. On Schedule 2-13 in your direct  
12 testimony --

13 A. In my direct?

14 Q. I believe that's your direct. No. I'm  
15 sorry. That's not your testimony.

16 Do you have -- and I hate to have to try to  
17 pronounce this name, Mr. B-o-c-z-k-i-e-w-i-c-z's  
18 testimony?

19 A. Yes, ma'am, I do.

20 Q. Okay. On that Schedule 2-13 of his  
21 testimony --

22 A. Right.

23 Q. -- that ad there, how would you classify  
24 that?

25 A. I would classify it as general. That

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1 particular ad, as I noted in my -- in my surrebuttal,  
2 has been all over the place with the staff of the  
3 Public Counsel. I believe in this case they've  
4 finally concluded, both of them, that it's general.

5 COMMISSIONER MURRAY: I have no other  
6 questions. Thank you.

7 JUDGE DIPPELL: Commissioner Schemenauer, do  
8 you have questions?

9 COMMISSIONER SCHEMENAUER: Yes, your Honor.  
10 Thank you.

11 QUESTIONS BY COMMISSIONER SCHEMENAUER:

12 Q. Good morning.

13 A. Good morning.

14 Q. I just have a few.

15 The cap that you propose on advertising,  
16 there would be no limit on what you -- if the cap were  
17 awarded, what the company could spend on advertising.  
18 And tell me if these would be included for Laclede.  
19 Box seats for the Rams, to support the Rams, would  
20 that be allowed?

21 A. No, I don't believe that's included in  
22 advertising. It's not in this case.

23 Q. It's promotional, but it's not advertising?

24 A. Well, it's not under the issue that I'm

25 addressing here.

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1 Q. So you feel that things like that would not  
2 be --

3 A. That -- that -- someone else in the company  
4 deals with that issue. I don't deal with that. And  
5 I -- I certainly wouldn't apply that sort of thing to  
6 this cap to say you're automatically making a decision  
7 on that or not.

8 Q. Public safety would be?

9 A. Certainly.

10 Q. Advertising to gain a larger share of the  
11 heating market would be, I assume?

12 A. Well, we've got 85 percent of it, but,  
13 clearly, if we get that 86th percent, it would be in  
14 there, right.

15 Q. You never rest on your laurels. I  
16 understand that.

17 what about if the Legislature deregulated  
18 the retail gas market? would advertising for or  
19 against deregulation be allowed under your cap?

20 A. For or against proposals to deregulate; was  
21 that what you're asking, sir?

22 Q. Yeah, legislation being considered in the  
23 General Assembly to deregulate the retail gas market.  
24 would they, if they have this cap, be able to  
25 advertise either in favor or against the legislation?

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1       A.     My personal opinion is that would be  
2     political advertising; therefore, it would not be  
3     included.

4       Q.     That would be your personal opinion, but it  
5     may not be the Company's opinion; is that right?

6       A.     We've never discussed that matter, so, I  
7     mean, I don't know how to answer for the Company. I  
8     believe the Company would feel the same way.

9               COMMISSIONER SCHEMENAUER: That's all I  
10    have. Thank you.

11              JUDGE DIPPELL: Is there recross based on  
12    questions from the Bench from Ameren?

13              MS. KNOWLES: No.

14              JUDGE DIPPELL: Public Counsel?

15              MR. MICHEEL: Yes, I just have a few.

16    RE CROSS-EXAMINATION BY MR. MICHEEL:

17       Q.     Mr. Hargraves, Vice Chair Drainer asked you  
18    some questions with respect to advertising, and you  
19    mentioned that in the non-regulated world that Company  
20    spends 4 percent to 8 percent of their budget on  
21    advertising. Do you recall those questions?

22       A.     I do, indeed.

23       Q.     And I believe that you cited a study from  
24    the Harvard Business Review, an article by a  
25    Dr. Jones; is that correct?

□

1 A. Right.

2 Q. And do you have a copy of that article with  
3 you?

4 A. Yes, sir. If you'll give me a second.

5 Q. Sure. Let me know when you're ready, sir.

6 A. Okay. I have it.

7 Q. I guess I'm looking at Page 39 of that  
8 article.

9 A. Uh-huh.

10 Q. Is it correct that in his study, at least at  
11 Page 39, the first column there, the first full  
12 paragraph, it states, "Most of the brands covered were  
13 repeat purchase of packaged goods well-known to  
14 consumers and carrying substantial producer names like  
15 Kellogg, Unilever, and Proctor & Gamble?

16 A. It does say that.

17 Q. And so that study was based on stuff like --  
18 or "stuff" is not the right term, but I'll just use it  
19 anyway -- soaps and cereal and peanut butter and those  
20 type of products; isn't that correct?

21 A. Consumer products, yes, sir.

22 MR. MICHEEL: That's all I have. Thank you  
23 very much.

24 JUDGE DIPPELL: Is there recross based on  
25 questions from the Bench from Staff?

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1 MR. WILLIAMS: Yes, your Honor.

2 RECROSS-EXAMINATION BY MR. WILLIAMS:

3 Q. Mr. Hargraves, you testified regarding some  
4 surveys that were done with respect to the Vern and  
5 Ernest advertising?

6 A. Right.

7 Q. Has the Company performed any surveys  
8 regarding Vern and Ernest advertising since 1990?

9 A. Yes.

10 Q. When was the last time a survey was  
11 conducted?

12 A. 1997, I believe.

13 Q. You also testified about a .2 percent and a  
14 .5 percent cap based on revenues --

15 A. Right.

16 Q. -- for your advertising. Were you talking  
17 about total revenues for the Company?

18 A. It would be total revenues.

19 Q. To there wouldn't be an adjustment to those  
20 revenues for the cost of gas purchases by Laclede?

21 A. Well, I -- I'm trying to get it under the  
22 current operating system. If -- as we all understand  
23 it right now.

24 If, for example, as His Honor talked about,  
25 if we get into an unbundling situation and that

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1     depresses utility revenues, you know, I think we would  
2     have to take a look at that.

3           Q.     would there be an adjustment -- did you  
4     adjust revenue-- utility revenues as you've defined  
5     them for the cost of gas for Laclede?

6           A.     when I came up with the .2 percent, I took  
7     total utility revenues right out of our annual report,  
8     divided it by the advertising costs.

9           Q.     Do you have Mr. Boczkiewicz's direct  
10    testimony in front of you?

11          A.     I do, if you'll let me find it here a  
12    second.

13                    Okay.

14          Q.     I direct your attention to Schedule 2-15 in  
15    that.

16          A.     Uh-huh.

17          Q.     Do you have that in front of you?

18          A.     Yes.

19          Q.     Under your proposal, would advertising shown  
20    in that schedule be included within your cap?

21          A.     Yes, sir.

22                   MR. WILLIAMS: May I approach the witness?

23                   JUDGE DIPPELL: Would you like to show that  
24    to his counsel, first?

25                   MR. WILLIAMS: Sure.

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1     BY MR. WILLIAMS:

2 Q. I'm handing you Staff's Data Request No. 55.

3 A. Okay.

4 Q. What was that request for?

5 A. It says right here, "Provide a copy of all  
6 of the advertising through any media, billboard,  
7 radio, TV, print, promotional, give-aways that were  
8 sponsored by the Company during 1998. Provide the  
9 total costs associated with each ad internal and  
10 external in as much detail as possible and an  
11 allocation of the cost, provide the accounts charged  
12 with these costs, provide all cost benefit studies and  
13 all other documentation that supports these  
14 advertisements. Please quantify all revenues that are  
15 directly generated as a result of these advertising  
16 costs."

17 Q. In particular, Subpart D.

18 A. Okay.

19 Q. That's stated again?

20 A. "Provide all cost benefit studies and all  
21 other documentation that support these advertisements.  
22 Please quantify all revenues that are directly  
23 generated as a result of these advertising costs."

24 Q. Is there a reason you didn't provide -- have  
25 you looked at your response? Are you familiar with

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1 it?

2 A. I'm familiar with it.

3 Q. Is there a reason you didn't provide the  
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4 survey that was conducted in 1997 regarding the Vern  
5 and Ernest advertising in response to this request?

6 A. It wasn't a cost benefit study under the --  
7 I mean, what you're talking about. The cost benefit  
8 studies are trying to link the benefits people get  
9 with -- from our advertising with their costs. This  
10 is a totally different survey. This was something --

11 Q. What type of survey was it?

12 A. It's a survey that tests, as example -- I  
13 only brought it up in response to a question. But  
14 it's a survey that examines the effectiveness of the  
15 Ernest campaign in our view. As I said, I'm not real  
16 interested in selling humor and making people laugh.  
17 That's not my central purpose.

18 We've been using Ernest for a long time.  
19 One of these days, he's going to wear out, and I don't  
20 want to be using him past the time when he wears out.  
21 So it's those kinds of issues that are related to how  
22 people perceive Ernest. It does not at all address,  
23 did it help them make a decision in their advertising.

24 MR. WILLIAMS: No further questions.

25 JUDGE DIPPELL: Is there redirect?

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1 MS. THEROFF: Just a few.

2 REDIRECT EXAMINATION BY MS. THEROFF:

3 Q. Mr. Hargraves, isn't it true that Union  
4 Electric is not your only competition within your

5 service area?

6 MR. MICHEEL: I'm going to object to the  
7 leading nature of the questions, your Honor.

8 MS. THEROFF: I'll rephrase that.

9 BY MS. THEROFF:

10 Q. Is Union Electric the only competition you  
11 have within your service area?

12 A. No, it is not. There is --

13 Q. well --

14 A. well, for example, I'm involved with Dollar  
15 Help Program, for example, and I believe there are  
16 approximately 70 vendors who receive Dollar Help  
17 payments, and those are heating providers of various  
18 sorts, heating oil, wood, propane, you name it. So  
19 there are other -- there are a lot of people who are  
20 competitors for heating customers.

21 Q. Counsel for the Public Counsel referred you  
22 to the schedule to Mr. Kind's testimony?

23 A. Uh-huh.

24 Q. Could you turn back to that for me, please?

25 A. Okay.

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1 Q. Schedule RK-2. He asked you some questions  
2 about what it said. Could you tell me whether that  
3 schedule is at all tied to energy use like Btu output,  
4 or is it tied to any reference point? Does it simply  
5 have a --

6 A. That's what I said. I don't see the context  
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7 of this. It's -- it appears to me to count things. I  
8 don't know what context it puts it in. It's in  
9 units -- it doesn't seem to be based on any per Btu of  
10 usage or anything like that.

11 Q. Okay. Public Counsel also asked you about  
12 if he moved from one gas apartment to another gas  
13 apartment, in your experience, is that normally when  
14 people make their decisions? Or when do people have  
15 an opportunity to make heating decisions?

16 A. People have an opportunity to make a  
17 decision every time they move from one apartment to  
18 another, regardless of the heat source. They have an  
19 opportunity when they move from one home to another.  
20 When an appliance breaks down, they have an  
21 appliance -- or decision to replace it. When they  
22 build a new home, they have an opportunity to install  
23 one form or another of heating equipment. So it's at  
24 those times when there is a decision to be made that  
25 we're concerned with.

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1 Q. Is any of Laclede's advertising directed at  
2 developers or builders encouraging them to make gas  
3 available to their home purchasers, are any of those  
4 ads intended to encourage the installation?

5 A. The ads are primarily directed to the  
6 consumer. We're trying to talk about -- let the  
7 consumer know what his or her choices are.

8 Q. The question was asked from the Bench about  
9 whether ratepayers would be happy if they knew they  
10 were paying for Ernest and Vern. Do you think the  
11 ratepayers would be happy to pay for Ernest and Vern  
12 if they knew that Ernest and Vern allowed Laclede to  
13 maintain its market share and keep those costs spread  
14 over more customers?

15 A. I think spreading costs over more customers  
16 is a very important issue to them, because if we lose  
17 market share, those costs are going to be spread over  
18 few customers, and that will have an impact on each  
19 individual customer.

20 Q. In your experience, would Laclede ever run a  
21 political ad?

22 A. No.

23 Q. And would the Company consider a political  
24 ad if they were running an ad in favor or in  
25 opposition to a matter that was being considered in

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1 front of the Legislature?

2 A. I believe we would consider that a political  
3 ad, yes. That's, to me, the definition of it.

4 MS. THEROFF: Okay. Thank you.

5 JUDGE DIPPELL: Thank you, Mr. Hargraves.  
6 You may be excused.

7 THE WITNESS: Thank you.

8 (Witness excused.)

9 JUDGE DIPPELL: Before we go to the next  
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10 witness, I want to take care of a couple of  
11 housekeeping things with some of the late-filed  
12 exhibits that have been presented to me off the  
13 record.

14 The Commissioners have requested some  
15 exhibits, and those were given to me. Laclede gave me  
16 some of their exhibits, and Staff gave me some of  
17 their exhibits.

18 First, I wanted to note that Exhibit 114  
19 should be marked as Exhibit 114-HC, that being a  
20 highly confidential information.

21 And also, Mr. Williams, if you could relate,  
22 Mr. Poston gave me an exhibit prepared by  
23 Mr. Broadwater that was Exhibit 117 earlier, and it  
24 doesn't include the figures for Laclede on the exhibit  
25 itself, and Commissioner Drainer had requested that

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1 that be included. And, if possible, if you could get  
2 Staff to revise that --

3 MR. WILLIAMS: I will relay that.

4 JUDGE DIPPELL: -- today?

5 And on Laclede's Exhibit No. 113, I believe  
6 Commissioner Drainer requested the average use per  
7 customer and also the number of customers, and it  
8 doesn't include the number of customers. If Laclede  
9 could revise that exhibit as well.

10 Okay. Then I believe we're ready for Office



11 of the Public Counsel's witness, Ms. Bolin.

12 MR. MICHEEL: Your Honor, if it's all right  
13 I'd like to call Mr. Kind before Ms. Bolin, if that's  
14 okay with your Honor. I've alerted counsel.

15 JUDGE DIPPELL: No problem.

16 MR. MICHEEL: We would call Ryan Kind.

17 And, your Honor, I was just going to do  
18 Mr. Kind's direct and wait for his rebuttal testimony  
19 when he comes up in the cost of service section --

20 JUDGE DIPPELL: All right.

21 MR. MICHEEL: -- of the case, if that's all  
22 right with your Honor.

23 JUDGE DIPPELL: Mr. Kind, would you please  
24 raise your right hand?

25 (Witness sworn.)

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1 JUDGE DIPPELL: Thank you.

2 RYAN KIND testified as follows:

3 DIRECT EXAMINATION BY MR. MICHEEL:

4 Q. Mr. Kind, would you state your name and your  
5 business address and how you are employed?

6 A. My name is Ryan Kind. I'm employed as the  
7 Chief Utility Economist at the Missouri Office of the  
8 Public Counsel. Our business address is Post Office  
9 Box 7800, Jefferson City, Missouri, 65102.

10 Q. And are you the same Ryan Kind who caused to  
11 be filed your direct testimony, which has been marked  
12 for purposes of identification as Exhibit 57 in this

13 proceeding?

14 A. Yes, I am.

15 Q. Do you have any corrections you'd like to  
16 make to that testimony?

17 A. No, I do not.

18 Q. And if I asked you those questions today,  
19 would your answers be the same or substantially  
20 similar?

21 A. Yes, they would.

22 MR. MICHEEL: With that, your Honor, I would  
23 move the admission of Exhibit 57, Kind direct, and  
24 tender Mr. Kind for cross-examination.

25 JUDGE DIPPELL: Are there any objections to  
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1 Exhibit No. 57?

2 (No response.)

3 JUDGE DIPPELL: Then it will be received  
4 into evidence.

5 (EXHIBIT NO. 57 WAS RECEIVED INTO EVIDENCE.)

6 JUDGE DIPPELL: Is there cross-examination  
7 from Ameren?

8 MS. KNOWLES: Just a couple of questions.

9 CROSS-EXAMINATION BY MS. KNOWLES:

10 Q. Mr. Kind, your training is as an economist?

11 A. That's my formal academic training, that's  
12 correct.

13 Q. Okay. And has that been your work

14 experience as well, in the area of economics?

15 A. For the most part. I mean, just -- also  
16 just general policy analysis of -- of, you know,  
17 things like competitive issues in the electric and  
18 natural gas industries.

19 Q. Okay. And what experience, if any, do you  
20 have in the environmental area?

21 A. Mostly just experience as -- as I've  
22 reviewed environmental issues as part of my work in  
23 utility regulation. For instance, I have attended  
24 numerous conferences on the -- on the subject of  
25 utility regulation, and environmental issues are often

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1 a part of those conferences. I keep abreast of  
2 developments in the utility industry by reading trade  
3 journals and, of course, environmental issues are  
4 often significant issues that are written about in  
5 those trade journals.

6 Q. Okay. And your participation in those kinds  
7 of events is a part of your primary practice area in  
8 respect as an economist. Correct?

9 A. Yes, that's correct.

10 Q. And you're not specifically trained, are  
11 you, in environmental issues; is that a fair  
12 statement?

13 MR. MICHEEL: I'm going to object. That's  
14 been asked and answered. He's already said he's an  
15 economist, and he's not specifically trained, I don't

16 believe.

17 MS. KNOWLES: I don't believe he's given an  
18 answer, but if that's his answer --

19 THE WITNESS: Could you repeat the question,  
20 please?

21 BY MS. KNOWLES:

22 Q. Am I correct in assuming that you are not  
23 specifically trained in environmental matters?

24 A. Could you please elaborate on what you mean  
25 by "specifically trained"?

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1 Q. well, you don't -- you don't hold an  
2 environmental scientist degree. Correct?

3 A. Right. That's correct.

4 Q. Okay. And you've never worked for an  
5 environmental consulting firm. Correct?

6 A. That's correct.

7 Q. And you've never worked as an environmental  
8 engineer; is that correct?

9 A. That's correct.

10 Q. And it's not part of your primary job focus  
11 to follow environmental regulations. Correct?

12 A. No, I wouldn't agree with that. The  
13 environmental impacts associated with the consumption  
14 of utility products are quite significant, and so to  
15 the extent -- you know, our mission is to represent  
16 the public, and the public has -- has an interest in

17 the type of utility service that they get and the  
18 consequences of receiving various types of utility  
19 services. And one of those significant consequences  
20 is that there is a significant impact on the  
21 environment.

22 Q. Okay. And -- but I guess my question is,  
23 your framework in your involvement with environmental  
24 matters is from your primary job focus as an economist  
25 for the Office of Public Counsel. Correct?

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1 A. Right. In terms of my focus as an economist  
2 and my focus as just trying to further the mission of  
3 my office, which is to promote public interest in  
4 Commission cases.

5 MS. KNOWLES: Nothing further.

6 JUDGE DIPPELL: Is there cross-examination  
7 from Staff?

8 MR. WILLIAMS: No, your Honor.

9 JUDGE DIPPELL: Laclede?

10 MS. THEROFF: Yes.

11 CROSS-EXAMINATION BY MS. THEROFF:

12 Q. Good morning.

13 A. Good morning.

14 Q. On Page 7 of your direct testimony, Line 15,  
15 you reference the EPA National Ambient Air Quality  
16 Standards. Can you define what a National Ambient Air  
17 Quality Standard is?

18 A. It's a standard that the EPA has set for  
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19 various emissions that have an impact on the public  
20 health.

21 I'm not sure if you want a formal definition  
22 that the EPA has given to what those standards are, or  
23 in terms of a legislative directive. I wouldn't be  
24 able to provide that to you off the top of my head.

25 Q. Okay. Is CO2 a pollutant for which the EPA

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1 has promulgated a National Ambient Air Quality  
2 standard?

3 A. Not to my knowledge, no.

4 Q. On Page 8, Lines 16 to 19 of your testimony,  
5 you discuss the Company's comparisons that it uses in  
6 some of its ads being wood burning fireplaces and gas  
7 logs. Do you see?

8 A. That's correct.

9 Q. Would you agree with me that smoke which is  
10 a particulate matter is an emission from a wood  
11 burning fireplace?

12 A. Yes, I would.

13 Q. Are you aware that a National Ambient Air  
14 Quality Standard has been promulgated by the EPA for  
15 smoke which is a particulate matter which is what the  
16 standard was promulgated for?

17 A. Yes, I believe that's correct.

18 Q. Okay. Can you explain why if natural gas is  
19 so harmful to the environment, which I believe is your

20 contention in your testimony, that vehicles that burn  
21 compressed natural gas can receive low emission  
22 vehicle fleet credits?

23 A. Because those vehicles produce less  
24 emissions than standard automobiles. That's not that  
25 they produce no emissions at all, but relative to

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1 standard automobiles.

2 Q. Can you tell me what fuel we can put in an  
3 automobile currently that would emit no emissions at  
4 all?

5 A. Well, if you -- in terms of automobiles that  
6 are available to the general public, I can't tell you  
7 anything. But we're all aware, for example, that  
8 there are solar races that many of the universities  
9 participate in, and those vehicles manage to get --  
10 drive significant distances with no emissions  
11 whatsoever.

12 Q. But for vehicles that are widely available  
13 or even available, period, to the public if you want  
14 to go out and buy one, are there any fuels that you  
15 can put in your family automobile that will not emit?

16 A. Not that I'm aware of.

17 Q. Are you aware that there is a State of  
18 Missouri statute that includes specific mandates  
19 requiring some agencies with fleets to use alternative  
20 fuel vehicles, such as vehicles fueled by natural gas?

21 A. I'm not aware of the extent of the

22 requirement, but I have a general knowledge that there  
23 is such a mandate.

24 Q. Okay. And if we were to look at coal from  
25 the coal mine to the time it's burned in an electric

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1 resistance furnace as compared to natural gas from the  
2 wellhead to the burner tip, can you tell me what the  
3 relative amount of CO2 that is emitted for each of  
4 these applications for the same amount of Btus?

5 A. You want me to make the assumption that the  
6 electricity that was used for resistance heat was  
7 totally generated by a coal unit as opposed to a  
8 natural gas unit?

9 Q. For this question, yes. We'll start with  
10 coal, and, basically --

11 A. Well, the easy -- the easiest comparison is  
12 just to compare the emissions between natural gas and  
13 coal-generating units, and there is just a rough  
14 two-to-one ratio there that the CO2 emissions from  
15 coal are about double what they are from natural gas.

16 when you take it out further than that, you  
17 have to have knowledge of, you know, the exact amount  
18 of line losses that are involved. You have to have  
19 knowledge of the efficiency of the coal combustion  
20 unit. You have to have knowledge of the efficiency of  
21 the gas furnace that you're comparing it to.

22 If you are just looking for a



23 generalization, I would think that probably if you're  
24 comparing just a normal efficient coal-generating unit  
25 and resistant -- using resistance heat to a normal

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1 efficiency natural gas furnace it -- probably the ball  
2 park figure would be something like a -- there would  
3 be four times the amount of CO2 emissions associated  
4 with the space heating that comes from resistance heat  
5 as opposed to the natural gas heat.

6 Q. Okay.

7 A. But, you know, that's still, of course, a  
8 significant amount of emissions. Whether it's, you  
9 know, just 25 percent of the amount of emissions that  
10 you get from that type of electric heat or, you know,  
11 if it's 50 percent, 25 percent, you're still talking  
12 about a significant amount of CO2 emissions.

13 Q. Okay. Turning back to Page 7 of your  
14 testimony, Line 2, you say there that, "Most people  
15 recognize . . . " and you continue on. Could you read  
16 that sentence for me?

17 A. Yes. "Most people recognize that one of the  
18 greatest, if not the greatest, challenge to our  
19 environment today is the threat of climate change  
20 brought about by global warming."

21 Q. Okay. How do you know that most people  
22 recognize that? What did you do to determine that  
23 most people recognize that?

24 A. That's just a statement based on my general  
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25 knowledge of public opinion about the environmental  
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1 issues and that general knowledge is derived from  
2 reading the Utility Trade Press, from reading just  
3 popular news magazines like Newsweek and Time, and  
4 things like that, and also from reading customer  
5 surveys that energy utilities have taken in Missouri  
6 regarding the customer opinions about environmental  
7 issues.

8 Q. Okay. So the literature that you've read  
9 basically says that, when they were asked, most people  
10 said that they are -- one of the greatest challenges  
11 to the environmental today is global warming?

12 A. That's correct.

13 Q. Did you --

14 A. Greatest environmental challenges, yes.

15 Q. Yeah. One of the greatest challenges to our  
16 environment.

17 Okay. Did you request in this proceeding  
18 and did Laclede agree to advertise Laclede's  
19 installation financing program twice a year?

20 A. That's my understanding, that Laclede has  
21 made that agreement, yes. And I made that request  
22 because Laclede didn't seem to be taking the  
23 initiative to do that on their own over the last few  
24 years, so I thought that was something that was in the  
25 public interest, both because of affordability of

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1 utility service issues, as well as the environmental  
2 issues, but the environmental issues are really  
3 secondary to the affordability considerations for  
4 low-income customers.

5 Q. Okay. Can't we infer from your request that  
6 Laclede advertise that program twice a year that  
7 you're agreeing with us that advertising does have  
8 results or there would be no purpose of advertising  
9 that program?

10 A. Well, I'm not even sure if the -- I'm really  
11 not sure that the word "advertising" would necessarily  
12 fit. It may. But what I'm talking about is -- I'm  
13 not talking about like television advertising, radio  
14 advertising. I'm just talking about a simple message  
15 on the bill to just inform people about the  
16 availability of the program.

17 Q. What is an advertisement, in your opinion?  
18 I mean, what -- if I wrote a letter to all of our  
19 customers saying, we encourage you to use natural gas.  
20 It's a great thing, would that be an advertisement for  
21 natural gas?

22 A. Yes, it sounds like it would be.

23 Q. Okay. So if I said, I encourage you to use  
24 our installation financing because it's a great thing  
25 for you, isn't that an advertisement?

□

1       A.     It seems like it would fit, yes.

2       Q.     Okay. Last question: If it were Friday  
3     afternoon, so let's go forward to tomorrow afternoon  
4     and it's 3:00, and I told you and you knew to be true  
5     that at 5:00 this whole hearing, rate design and all,  
6     was going to be over, would you agree with me if I  
7     said that the hearing was virtually over?

8       A.     No, I don't believe I would. Nearly over in  
9     my mind, you would have to make that statement about  
10    five until five for me to think that would be an  
11    accurate statement. We just have to -- I would pretty  
12    much have to see the law judge getting, you know,  
13    ready to mouth the words that would bring this hearing  
14    to a close, and at that point, I think it would be  
15    virtually over.

16      Q.     So the only thing that is -- when we get to  
17    virtually, what you mean by "virtually" is one breath  
18    away from -- when you say "virtually" in your  
19    testimony, and say, gee, what Laclede means and what  
20    everybody knows "virtually" to be is that it's gotten  
21    one breath away from falling over dead before anything  
22    is virtually anything?

23      A.     I'm not sure about the falling-over-dead  
24    part, but I -- I quote the definition from Webster's  
25    in my testimony of their definition of virtually, and

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1 so it's really -- to me it's not an opinion. That's a  
2 good, objective source of what "virtually" means.

3 And I think, as I said, Webster's Ninth New  
4 Collegiate Dictionary defines "virtually" as "almost  
5 entirely." So it's -- I don't think it's just a  
6 definition that I came up with on my own having to do  
7 with falling over dead, or whatever that phrase was  
8 you used before.

9 Q. I'm going to stop. This is going to getting  
10 absurd. But, then, I guess, we could argue about what  
11 "almost entirely" means.

12 But I guess the point, I think, you got, so  
13 thank you, Mr. Kind.

14 THE WITNESS: Thank you.

15 JUDGE DIPPELL: There are no questions from  
16 the Bench for Mr. Kinds.

17 Is there any redirect?

18 MR. MICHEEL: Just a little bit.

19 REDIRECT EXAMINATION BY MR. MICHEEL:

20 Q. Mr. Kind, counsel for Laclede asked you  
21 about your definition of "virtually" as "almost  
22 entirely." Do you recall those questions?

23 A. Yes, I do.

24 Q. Do you have an opinion about whether or not  
25 natural gas is almost entirely -- use of natural gas,

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1 burning natural gas is almost entirely pollution-free?

2 A. Yes.

3 MS. KNOWLES: I'll object. The witness is  
4 not competent to offer that testimony. That's an  
5 expert opinion, and he has conceded that he is not an  
6 expert in environmental matters. It lacks foundation  
7 and is speculation.

8 I know he has offered that opinion, but it's  
9 purely speculative. He doesn't have the appropriate  
10 factual foundation or expertise to render that  
11 opinion.

12 MR. MICHEEL: If I may, I think he said he  
13 has read numerous trade journals, he has attended  
14 numerous conferences, and he's accumulated that  
15 knowledge. And I guess to the extent that this direct  
16 testimony is already been into evidence and been  
17 admitted into evidence, and there has been no  
18 objection at all to this testimony coming in, I think  
19 it's appropriate.

20 And he's been questioned extensively about  
21 that, about the ambient air quality and things like  
22 that. There is no motion to strike outstanding, your  
23 Honor. I think it's wholly appropriate.

24 MS. KNOWLES: It would still need to be  
25 independently competent, and it's not. Mr. Kind is an

1 economist. He's not experienced in a technical sense

2 in environmental matters. To the extent he has  
3 knowledge of environmental matters, it is from the  
4 perspective of an economist. And counsel is asking  
5 him to render a specific environmental evaluation. He  
6 is not competent to do that.

7 JUDGE DIPPELL: Okay. I'll sustain your  
8 objection.

9 Do you have any other questions,  
10 Mr. Micheel?

11 MR. MICHEEL: Nope.

12 JUDGE DIPPELL: Thank you, Mr. Kind.

13 You may step down. I believe you are slated  
14 to testify on another issue.

15 THE WITNESS: Right. Thank you.

16 MR. MICHEEL: We'd call Ms. Kimberly Bolin.

17 JUDGE DIPPELL: Please raise your right  
18 hand.

19 (Witness sworn.)

20 JUDGE DIPPELL: Thank you.

21 KIMBERLY K. BOLIN testified as follows:

22 DIRECT EXAMINATION BY MR. MICHEEL:

23 Q. Ms. Bolin, would you state your name, your  
24 business address, and how you're employed, for the  
25 record?

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□

1 A. My name is Kimberly Bolin. My address is  
2 P.O. Box 7800, Jefferson City, Missouri, 65102.

3 I'm employed with the Office of the Public  
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4 Counsel as a public utility accountant.

5 Q. And have you caused to be filed what's been  
6 marked for purposes of identification your direct  
7 testimony, Exhibit 50, in this proceeding?

8 A. Yes, I have.

9 Q. And have you also caused to be filed what's  
10 been marked for purposes of identification, your  
11 rebuttal testimony, Exhibit 51?

12 A. Yes.

13 Q. And have you also caused to be filed your  
14 surrebuttal testimony, which has been marked for  
15 purposes of identification as Exhibit 52?

16 A. Yes, I have.

17 Q. Do you have any corrections that you would  
18 like to make to any of those testimonies?

19 A. Yes, I do.

20 In my direct testimony, Page 5, Line 6, it  
21 reads currently, "Staff Data Request No. 106." I'd  
22 like it to read "Public Counsel Data Request No.  
23 1063."

24 Q. And with that correction, if I asked you all  
25 of those questions in your direct testimony, would

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1 your answers be the same or substantially similar?

2 A. Yes, they would.

3 Q. What about with respect to your rebuttal  
4 testimony?



5 A. Yes.

6 Q. And your surrebuttal testimony?

7 A. Yes.

8 MR. MICHEEL: With that, your Honor, I would  
9 offer the admission of Exhibits 50, 51 and 52, and  
10 tender Ms. Bolin for cross-examination.

11 JUDGE DIPPELL: Are there any objections  
12 to Exhibit Nos. 50, 51, and 52, with that  
13 correction?

14 (No response.)

15 JUDGE DIPPELL: Then I'll receive those into  
16 evidence.

17 (EXHIBIT NOS. 50, 51 AND 52 WERE RECEIVED  
18 INTO EVIDENCE.)

19 JUDGE DIPPELL: Is there cross-examination  
20 from AmerenUE?

21 MS. KNOWLES: No.

22 JUDGE DIPPELL: Staff?

23 MR. WILLIAMS: No, your Honor.

24 JUDGE DIPPELL: Laclede?

25 MS. THEROFF: Yes, your Honor.

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1 CROSS-EXAMINATION BY MS. THEROFF:

2 Q. Good morning.

3 A. Good morning.

4 Q. What is the current standard for recovery of  
5 promotional advertising expenses, as you understand  
6 it?

7           A.     Under the KCP&L Standard, it is if the  
8     company can prove the costs -- the costs outweigh the  
9     benefits, the promotional advertising, they -- they  
10    are allowed.

11          Q.     Okay. How did you examine Laclede's ads in  
12    this case? What process did you use?

13          A.     I asked for a data request, and I was  
14    supplied with copies of the ads, copies of the  
15    transcripts to radio and television ads, and I read  
16    through them.

17          Q.     Did your analysis factor in the audience to  
18    which the ads were directed? Did you consider that at  
19    all?

20          A.     No, they did not.

21          Q.     Okay. And just a moment ago you indicated  
22    you had transcripts. Did you review the actual radio  
23    and/or television ads, or just written --

24          A.     Just the written. That's what the Company  
25    supplied me with.

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1          Q.     Okay. Did you -- if they were available to  
2    you, would you have thought it would have been useful  
3    to actually --

4          A.     I have used actual television and radio ads  
5    in other cases, and I have reviewed them that way.

6          Q.     Okay. How did you determine in the course  
7    of your review the primary message of the ad?

8 A. Read it, and it just -- to me the primary  
9 message was very clear by reading through it. I  
10 could -- it was very clear to me. I don't know how  
11 else to explain this.

12 Q. Okay. That's fine. Just a few moments ago  
13 Mr. Hargraves was referred to an ad that, I believe,  
14 you had changed the classification on. Are you  
15 familiar --

16 A. The one I made a mistake on in my direct  
17 testimony and corrected in my rebuttal?

18 Q. Yeah. I guess, "mistake" is your word and  
19 not mine, but yeah, that's the ad. And it's the one,  
20 "Public service is our daily business." Are you  
21 familiar with the ad? Does that sound like the ad?

22 A. Yes, that is the ad I made a mistake on.

23 Q. Okay. In that ad, as we read through it,  
24 Mr. Hargraves indicated he thought it was clearly  
25 general. I think that's where you came down to in the

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1 end?

2 A. Yes, that's where -- I should have marked it  
3 that all along. It was just a pure mistake on my  
4 part.

5 Q. Okay. That's fine. Do you have that ad  
6 with you? Do you think you can pull that up?

7 A. Yes, I do. One moment.

8 Q. It is Schedule 2-13 of Mr. Boczkiewicz's  
9 testimony, if that helps you.

10 A. Okay.

11 Q. When you look at that ad, the small print  
12 below the line there, right corner, top right  
13 corner --

14 A. Uh-huh.

15 Q. -- does that at all give you any concern  
16 that that's a general ad, I mean, the content that's  
17 in that top right corner there?

18 A. The part that reads -- could you --

19 Q. "For Gas Appliance Sales."

20 A. It does give me a little bit of a concern,  
21 but the majority of this ad is general. It doesn't  
22 just give the number to where people can call to get  
23 gas appliances.

24 Q. Okay. And then the language to the left of  
25 that that says, "Smell gas? Experiencing a disruption

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1 in your gas service?" Does that --

2 A. That is safety, and that's included also  
3 along with general in my --

4 Q. But as far as when you looked for the  
5 primary message here, you read all of this and you  
6 said, well, safety. Okay. I don't need to worry  
7 about that because it's in there.

8 A. Right.

9 Q. So you kind of got the whole gist of what  
10 you were trying to get, even though they have

11 arguably -- at this point, we've already determined it  
12 has three different things in it?

13 A. Right. They also have things about the  
14 elderly and handicapped registration program, the  
15 numbers they can call during regular business hours,  
16 emergency numbers, yes.

17 Q. Okay. And if this ad didn't have the small  
18 print at all, and all it had was "At Laclede Gas,  
19 Public Service is our daily business," what would that  
20 ad be then?

21 A. That would be institutional. I believe you  
22 have one ad that is like that.

23 Q. Okay. So would you agree with me that the  
24 only thing that's not in here is political?

25 A. Correct.

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1 Q. Okay. Okay. So, basically, then, this  
2 primary message thing is really going through and  
3 trying to get the whole gist of maybe an ad that has  
4 four, in this case, different types of messages coming  
5 through it?

6 A. Yes.

7 Q. Okay. Thank you.

8 On Page 5, Lines 4 to 10 of your direct  
9 testimony -- I'll give you a chance to get there.

10 A. Okay.

11 Q. Okay. -- you state that, Laclede is  
12 entitled to recover the cost of promotional

13 advertising because -- actually it says not entitled.  
14 Let me make sure I get that "not" in there -- because  
15 it fails to provide a dollar-cost-benefit analysis.

16           Okay. In your opinion, what would be an  
17 adequate dollar-cost-benefit analysis?

18           A. One -- I've not seen one yet. This would  
19 have to be one that is based on empirical data.

20           Q. When you say "empirical data," what do you  
21 mean? Could you maybe describe to me how you would do  
22 one? If somebody said, Ms. Bolin, I want you to go do  
23 this for me so I can cover my --

24           A. I'm not sure how I would do one. This isn't  
25 our burden of proof. I haven't really given it much

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1 thought.

2           Q. Is it something you think anyone can meet?

3           A. I'm not sure. I've yet to see one.

4           Q. And -- okay.

5           A. I've done this three times.

6           Q. Okay. Well, let me ask the next question.

7 You've done it three times. Has any of your  
8 predecessors, as far as you know, ever said, that test  
9 has been met?

10           A. In our office, not that I'm aware of.

11           Q. Okay. Would such an analysis -- I know you  
12 said you hadn't really given it much thought, but I'm  
13 going to ask this question anyway.

14           would such an analysis need to link revenue  
15 received directly to the advertising dollars spent?

16       A.     Part of it. I mean, that would be part of  
17 the analysis, yes.

18       Q.     Okay. Now, does the KCP&L case say -- when  
19 it says that the benefits outweigh the cost, does it  
20 say the financial benefits? I mean, does it go on --  
21 does the Commission go on to explain, we want to  
22 see --

23       A.     No. I said that would be part of it.

24       Q.     Okay. I was just -- I'm asking, does the --  
25 when you're interpreting the KCP&L case to get to how

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1     you would determine that, I guess that's what I'm  
2 saying, is that correct? The Commission doesn't say,  
3 thou shall show that you've got a dollar of benefit?

4       A.     Let me look at that order.

5       Q.     That's fine. If it would help you, I think  
6 it's at Page 51.

7       A.     Okay.

8       Q.     If you go about two-thirds of the way down,  
9 "I believe the Commission does believe that  
10 promotional . . ." is that what you're looking for?

11       A.     It does say it must be cost-justified.

12       Q.     And then what else does it --

13       A.     The expenditure -- "The benefits from those  
14 expenditures must be demonstrated to exceed the costs  
15 of the promotional advertising itself."

16 Q. Okay. So it says "the benefits." It  
17 doesn't say the monetary benefits?

18 A. Before it says it must be cost-justified,  
19 though.

20 Q. Okay. I know we asked this specifically in  
21 a DR, but I'm just going to ask it. In round figures,  
22 how much time did you spend classifying the ads in  
23 this case?

24 A. I did not track the amount of time I spent.

25 Q. Five hours? Ten days?

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1 A. I said I did not track. I did not track the  
2 amount of time I spent on this ad classification.

3 Q. Okay. So you can't tell me if it was one  
4 day, ten days, or four weeks?

5 A. No.

6 Q. Okay. Did anyone assist you in this review  
7 and classification?

8 A. I relied on my old testimony.

9 Q. But all of the time spent was spent by you?

10 A. Correct.

11 Q. Okay. You indicated -- and I'm going to  
12 apologize because I'm not really sure which testimony  
13 it is, although I think it's going to be surrebuttal,  
14 that MGE -- you cite an MGE case for the fact that  
15 they weren't allowed any promotional ads.

16 Do you know, in that MGE case whether they



17 provided any evidence of benefits?

18 A. I am not aware that they did.

19 Q. Okay.

20 A. I don't think it states in the order.

21 Q. Okay. If we could turn to your rebuttal

22 testimony on Page 4, Lines 8 to 15 --

23 A. Yes.

24 Q. -- you gave some examples of information

25 contained in Laclede's promotional ads. And if you'll

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1 turn with me to Mr. Boczkiewicz's testimony -- it's  
2 schedule 2-37 -- I believe you classified this ad as  
3 promotional; is that correct?

4 A. Yes, I did.

5 Q. Okay. Could you look at the text that's  
6 under "Dryer" up there, the little black box, and then  
7 there is the box that says "Patio Heater." Under the  
8 one that says "Dryer," doesn't the last sentence say,  
9 "An energy-saving natural gas dryer can dry three  
10 loads for less than the cost of one dried  
11 electrically"?

12 A. That is what it says.

13 Q. Okay. So kind of hold onto that place and  
14 look back at your testimony.

15 You mentioned in there that those were the  
16 types of things that were in our promotional ads?

17 A. Yes.

18 Q. And you indicate that the things that are in  
Page 73

19 our promotional ads are really just opinion and not  
20 really providing useful information to the ratepayers  
21 or customers?

22 A. The majority of them, yes.

23 Q. Okay. Did you say "the majority"?

24 A. These -- you can -- these are opinions, in  
25 my --

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1 Q. You don't -- you think it's our opinion that  
2 you can dry three loads for less than the cost of one  
3 dried electrically? I mean, is that what you're  
4 saying? In your opinion, when you read that, you  
5 think that's our opinion as opposed to --

6 A. I don't have any data to prove that it's not  
7 an opinion.

8 Q. Okay. That's fine.

9 Patio heaters, the last sentence there, and  
10 I'm going to skip the first part about  
11 umbrella-shaped. ". . . heater warms area  
12 approximately 20 feet in diameter to a comfortable  
13 temperature in just minutes."

14 Is that your -- is that an opinion.

15 A. That would probably depend on which patio  
16 heaters. I'm sure some probably heat different  
17 lengths, so that is an opinion, I would say.

18 Q. Okay. If you say that it could do that,  
19 it's our opinion that it could do -- that it could

20 heat that?

21 A. I don't think you're specifying what brand  
22 of patio heater. I mean --

23 Q. Okay. That's fine. But you're saying those  
24 two sentences are an opinion, that you don't think  
25 those are verifiable and --

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1 A. Verifiable for certain brands in those  
2 appliances. I don't know. Generally, I would say  
3 they are opinions.

4 Q. All right. On Page 5, Lines 18 to 20 of  
5 your rebuttal that carries on to Page 6, Lines 1 and  
6 2 --

7 A. Okay.

8 Q. -- you say that, promotional advertising is  
9 not necessary for Laclede to provide safe and  
10 reasonable gas service to its customers, so Laclede  
11 should not recover the cost of promotional  
12 advertising. Is that a fair assessment of what you  
13 say there?

14 A. That's correct.

15 Q. Is whether a promotional ad is necessary for  
16 the provision of safe and reasonable gas service the  
17 standard that the Commission established for recovery  
18 of promotional advertising in rates? Is that what a  
19 utility has to show?

20 A. I think it's part of what a utility has to  
21 show for the ratepayers to pay for part of this. I

22 think they set rates -- the Commission sets rates as a  
23 whole to determine -- to determine the costs that help  
24 provide safe and adequate service.

25 Q. But is that the test that the Commission

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1 established? when you're trying to apply the  
2 Commission's test, does the Commission say that safe  
3 and reasonable --

4 A. No. They say they do not allow -- they  
5 would not allow promotional advertising unless the  
6 cost benefit analysis could be provided and approved.

7 Q. So I guess my question is, did we -- the  
8 reason that you gave for why we shouldn't get it then,  
9 how does that fit into the KCP&L?

10 A. That is one part of the reason. I also cite  
11 that it is designed to increase sales and that is a  
12 shareholder's expense that they should bear.

13 Q. You watch TV, right, like all of us do --

14 A. Yes.

15 Q. -- listen to the radio, read newspapers,  
16 magazines? Wouldn't you agree with me that all of  
17 these mediums are full of advertisements, especially  
18 magazines?

19 A. Oh, yes.

20 Q. Why do you think those advertisements are in  
21 there?

22 A. To sell products.

23 Q. Okay. So would you agree with me that, in  
24 general, that advertising works, that it must be  
25 effective or nobody would spend all of those millions?

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1 A. In general, I would agree with that.

2 Q. Okay. On Page 4, Lines 4 to 6 of your  
3 surrebuttal testimony, you say that Laclede's cost  
4 benefit analysis should be rejected because Laclede  
5 has not proved that the promotional advertising is the  
6 main information source or factor that causes  
7 customers to choose natural gas over other fuels.

8 A. It does says analysis, which you provided.

9 Q. Does the Commission's current standard for  
10 inclusion of promotional ads require a utility to  
11 prove that ads are such a main information source or  
12 factor, or does the standard say that the benefits of  
13 the expenditures have to exceed those costs?

14 A. It says the benefits must exceed the costs,  
15 but I think they also clarified it in another report  
16 saying it would be helpful if the Company would  
17 provide a survey that will eliminate all other  
18 possible factors.

19 Q. Which other -- could you cite me to --

20 A. Yes. Let me find that real quick.

21 It states in the Missouri Public Service  
22 Case No. ER-90-101 that "The company did not survey  
23 these customers to ascertain what motivated them to  
24 engage in these actions."

25                   You read on further down, it says, "Company  
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1    did not conduct a survey which would exclude all other  
2    possible -- would not exclude other possible causal  
3    factors thereby establishing a valid inference that a  
4    causal relationship existed between these two  
5    variables."

6           Q.    Okay. So if as in the Marketeam survey, if  
7    I asked a customer, what was the primary reason you  
8    bought what you bought, and they said "advertising,"  
9    which I believe four out of 103 said advertising,  
10   that's not enough to exclude -- I mean, to exclude  
11   anything else? By saying, that's why I did it, that  
12   doesn't exclude the others? That doesn't make it a  
13   primary --

14          A.    I think in the survey the company used, it  
15   says, sources, and it totals up to 140 answers, the  
16   four out of 145, so I don't think that excludes --

17          Q.    Okay. Well, since you mentioned the survey  
18   we did, do you have available to you the page that I  
19   think you've referred to as the tabular page?

20          A.    Yes.

21          Q.    Do you have that in front of you?

22          A.    Yes, I do. Thanks.

23          Q.    I see the TV and media advertising, which  
24   has the number 4, and I assume that's the four that  
25   you've cited?

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1 A. Yes, it is.

2 Q. Okay. Is brochures from the gas company  
3 advertising, in your opinion?

4 A. I don't know that any brochures were in this  
5 advertising expense. I'm not aware of any.

6 Q. Okay, but would that be advertising?

7 A. I guess it could be, yes.

8 Q. Okay. Display homes, home shows, those kind  
9 of events, is that advertising?

10 A. The Company hasn't classified them as  
11 advertising. They are not -- they are considered  
12 miscellaneous expenses.

13 Q. Okay. But I guess what I'm saying is, if  
14 you were going to say advertising, is it your  
15 opinion -- is what you're telling me is that TV media  
16 advertising is absolutely the only advertising that's  
17 on this list? Brochures from the gas company, if  
18 somebody said, that's why I bought it, that's not at  
19 all --

20 A. I don't think I'm moving to disallow any  
21 brochures from my adjustment.

22 Q. I guess what I'm trying to get at what  
23 advertising is. I mean, Mr. Kind and I had this  
24 conversation about what is advertising.

25 But I guess I'm at a loss try to figure out

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1 a causal link here. If I give someone an ad and they  
2 look at it and because of that they then go consider  
3 buying something, and then they buy it, that wasn't  
4 the only reason they bought it, but if they hadn't  
5 known about me they never would have come to see me to  
6 buy it.

7 So under your interpretation of how the  
8 standard needs to be applied, if the advertisement  
9 isn't the sole and only reason somebody bought that  
10 product, then it's not subject to recovery?

11 A. I don't think my testimony exactly says  
12 that. This says sources, and only these people have  
13 chosen -- there's been more than -- there's been 40 --  
14 close to 40 people that picked two -- at least two  
15 different items on this study.

16 Q. Uh-huh.

17 A. So I don't think that's necessarily the --

18 Q. I guess what I'm asking, though, is in your  
19 standard, though, when you apply the standard, if the  
20 ad caused somebody to go to Laclede to consider  
21 natural gas, they were going to do electricity, but  
22 then they said, well, that's a good idea. I'll go  
23 check it out. So they go; they check it out, and they  
24 hear the facts, and decide I'm going natural gas, does  
25 that advertisement sway any weight with you that that

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1 caused that person to go with natural gas?

2 A. Under your assumption, yes.

3 Q. Even that it wasn't the primary reason. The  
4 primary reason wasn't because I heard the ad. It was  
5 because I heard the ad and thought, heck, it's worth  
6 it. So I went and the salesperson swayed me.

7 A. Well, I don't know if the salesperson is  
8 exactly a --

9 Q. How can you tell? That's my question. How  
10 can you tell, I mean, that example, which one caused  
11 me to go with natural gas?

12 A. You can't, and that's part of the reason  
13 that the cost benefit study is not -- I'm not allowing  
14 the Company's cost benefit analysis.

15 Q. Okay. But what would I need to do to prove  
16 that? I mean, what would that customer need to say --

17 A. I'm not sure.

18 Q. -- in order to get -- so the standard  
19 probably just is pretty impossible to meet until you  
20 sat down and thought about it for a long time? You  
21 just haven't -- in doing three cases and the time you  
22 spent in response to our DR in which we asked you how  
23 you would do it, you're telling me you didn't think  
24 about it very long before you responded, "I don't  
25 know. That's not my job"?

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1       A.     The Company -- Laclede is the only one that  
2     has provided this analysis, and it's been the same  
3     analysis. The study has been the same study in the  
4     last case as it is now.

5       Q.     Okay. But I guess my question is, we asked  
6     a DR, how would we do it? And you're telling me you  
7     didn't think about it long enough to figure it out?  
8     It's a pretty hard question, I guess.

9       A.     Yeah. It's not my burden of proof, so I've  
10    not given it any thought, how to prove.

11    Q.     Okay. But if you're the teacher teaching  
12    the class, and I need to get past it to pass your  
13    test, and I say, gee, what's the test, as the teacher  
14    are you going to say, it's not my problem?

15    A.     I don't think we're necessarily the teacher  
16    in this case.

17    Q.     So if we can't get past you, we've got to  
18    litigate it. So what you're saying is --

19    A.     And then the Commission can decide it.

20    Q.     In every case. If they decide to stick with  
21    this standard, then you're just going to have to say  
22    each time, no --

23    A.     Unless Company supplies me with information  
24    and proves otherwise.

25    Q.     But you don't know what that information

2 A. Not yet, no.

3 Q. Okay. How did you determine how to treat  
4 the license fee paid by Laclede for the use of Ernest  
5 and Vern?

6 A. The Company recorded one-half of a license  
7 fee in Account 930.10, which is entitled,  
8 Corporated -- "Miscellaneous General Expenses -  
9 Corporate Communications," and this description under  
10 this account was, "This account shall include costs  
11 incurred by the Corporate Communications Department in  
12 connection with institutional or good will  
13 advertising."

14 I disallowed that because Company had  
15 recorded it in that account.

16 Q. Okay. So you didn't do any independent  
17 analysis of how Ernest and Vern were used in the ads?  
18 You simply went with the accounting?

19 A. I also looked at how many ads Ernest was in.  
20 And Ernest was in, I think, around 15 ads.

21 Q. Uh-huh.

22 A. And eight of the 15 were ads I disallowed.

23 Q. So you did a double -- kind of looking at  
24 the accounting and the analysis?

25 A. Yes, yes.

1 Q. Okay. Are you aware of any instance in  
2 which you or any other member of Office of Public  
3 Counsel has categorized any Laclede ad as political?

4           A.     I have not classified any of the two -- in  
5     this case, in the previous case, and I'm not aware of  
6     anybody else.

7           MS. THEROFF:   Okay.   That's it.   Thank you.

8           JUDGE DIPPELL:   There are no questions from  
9     the Bench for Ms. Bolin.

10          And is there redirect?

11          MR. MICHEEL:   Yes, there is.

12     REDIRECT EXAMINATION BY MR. MICHEEL:

13          Q.     Ms. Bolin, you were asked a number of  
14     questions, I believe, about your Schedule KKB-8.4, the  
15     Marketeam survey.

16          A.     Yes.

17          Q.     Do you recall those questions?

18          A.     Yes, I do.

19          Q.     In your opinion, does the Marketeam survey  
20     provide a causal link between the Company's  
21     promotional advertising and the choice of natural gas?

22          A.     No, I do not believe that it provides such a  
23     link.

24          Q.     Assume for me for purposes of this question  
25     that the four people that said advertising was one of

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1     the sources that they utilized in making their natural  
2     gas determination, do you have an opinion about  
3     what -- let me ask you this:   How much did the Company  
4     spend in your adjustment on advertisements that are

5 promotional in nature? You can just give me a ball  
6 park figure.

7 A. I think it was close to 300 -- over 300,000,  
8 I think. The amount I disallowed, \$88,000, I  
9 classified as institutional, and the rest I classified  
10 as promotional.

11 Q. So the Company spent well over \$200,000 on  
12 promotional ads?

13 A. Yes.

14 Q. And the Marketeam survey indicates that  
15 spending over \$200,000 may, one source of that  
16 advertising for four people may have convinced folks  
17 to use natural gas?

18 A. That is correct.

19 Q. And do you have an opinion about whether or  
20 not that cost outweighs the overall benefit to maybe  
21 getting those four people to use natural gas?

22 A. I'm not sure that they have identified all  
23 of the costs. You can have cost of laying the pipe.  
24 I don't think that's been included in the study,  
25 laying the pipe to service the customer, and various

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1 other costs, which I don't think have been  
2 identified.

3 Q. Do you think it's a good use of money to  
4 spend, for example, over \$200,000 to get four people  
5 to use natural gas?

6 A. I wouldn't think so, no. I don't think four  
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7 people for 200,000. I think the cost would outweigh  
8 the benefit there.

9 Q. And so do you have an opinion about whether  
10 or not the cost -- that cost would meet the KCP&L  
11 standard?

12 A. It would not meet it.

13 Q. Again, on that Marketeam survey, it's  
14 correct that there were numerous sources in that  
15 survey; is that correct?

16 A. On that page, yes.

17 Q. Okay. I believe counsel for Laclede also  
18 asked you about Schedule 2-37. I guess it was  
19 attached to Mr. Boczkiewicz's direct testimony.

20 A. Yes.

21 Q. Do you recall those questions?

22 A. Yes, I do.

23 Q. Do you have an opinion about what the  
24 primary -- the primary message of that advertisement  
25 is?

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1 A. Primary is the selling of natural gas.

2 Q. And is that the standard, the primary, not  
3 the only message?

4 A. Yes. The primary message, and the only -- I  
5 mean, sales also of natural gas appliances, in  
6 general.

7 Q. You also got some questions, I believe,

8 about Schedule 2-13, also appended to  
9 Mr. Boczkiewicz's direct testimony. Do you recall  
10 those questions?

11 A. Yes, I do.

12 Q. And I believe counsel for Laclede had you  
13 read some certain small print there. Do you recall  
14 that?

15 A. Yes, I do.

16 Q. Do you have an opinion, even with that small  
17 print, what the primary message of that advertisement  
18 is?

19 A. Yes, I do. Yes. And it is a -- it is a  
20 general ad, and the message is giving out information  
21 that current Laclede customers can use.

22 Q. And so because that's the primary  
23 information is that why you allowed that under the  
24 cost of service?

25 A. Yes, it is.

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1 MR. MICHEEL: Nothing further, your Honor.

2 JUDGE DIPPELL: Thank you.

3 Ms. Bolin, you may be excused.

4 (Witness excused.)

5 JUDGE DIPPELL: Let's go ahead and take a  
6 break, 15 minutes. Come back at 25 till 11:00.

7 Off the record.

8 (A recess was taken.)

9 JUDGE DIPPELL: Let's go back on the record.

10                   We're ready for Staff Witness  
11 Mr. Boczkiewicz.  
12                   Please raise your right hand.  
13                   (Witness sworn.)  
14                   JUDGE DIPPELL: Thank you.  
15 JOHN M. BOCZKIEWICZ testified as follows:  
16 DIRECT EXAMINATION BY MR. WILLIAMS:  
17       Q.       Please state your name.  
18       A.       John M. Boczkiewicz.  
19       Q.       would you spell that, please?  
20       A.       B-o-c-z-k-i-e-w-i-c-z.  
21       Q.       who is your employer?  
22       A.       The Missouri Public Service Commission.  
23       Q.       And have you prepared prefiled direct  
24 testimony in this case?  
25       A.       Yes, I have.

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1       Q.       Has that been marked as Exhibit 87-HC and  
2 87-NP?  
3       A.       Yes.  
4       Q.       what's the difference between those two  
5 exhibits?  
6       A.       The 87-HC has a portion that's been marked  
7 highly confidential.  
8       Q.       Did you also cause to be filed prefiled  
9 surrebuttal testimony in this case?  
10       A.       Yes.



11 Q. And has that been marked as Exhibit 88 in  
12 this case?

13 A. Yes.

14 Q. And if I were to ask you each question  
15 that's set forth in each of those exhibits today,  
16 would your answers be the same as is set forth in  
17 those exhibits?

18 A. Yes, they would.

19 MR. WILLIAMS: I offer Exhibits 87-HC,  
20 87-NP, and 88 into evidence.

21 JUDGE DIPPELL: Are there any objections to  
22 Exhibits 87-NP and 87-HC and Exhibit 88?

23 (No response.)

24 JUDGE DIPPELL: Then I'll allow those in the  
25 record.

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1 (EXHIBIT NOS. 87-HC, 87-NP AND 88 WERE  
2 RECEIVED INTO EVIDENCE.)

3 MR. WILLIAMS: I'll tender the witness.

4 JUDGE DIPPELL: And, counsel, I will just  
5 state, I don't believe there was a lot of information  
6 in Mr. Boczkiewicz's testimony that was HC, but should  
7 we get into an area that a question is asked that his  
8 answer would have to be highly confidential, I'll ask  
9 you, Mr. Williams, to make sure and let me know that  
10 information. We can always go in camera.

11 MR. WILLIAMS: Sure.

12 JUDGE DIPPELL: Is there cross-examination  
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13 from Ameren?

14 MS. KNOWLES: No.

15 JUDGE DIPPELL: Public Counsel?

16 MR. MICHEEL: No.

17 JUDGE DIPPELL: Laclede?

18 MS. THEROFF: Yes.

19 CROSS-EXAMINATION BY MS. THEROFF:

20 Q. Good morning.

21 A. Good morning.

22 Q. What is the current standard that is applied  
23 by the Commission for promotional ads to be recovered?

24 A. I believe the standard that was first set  
25 forth in the KCP&L case said that the benefits of the

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1 promotional advertising should exceed the costs.

2 Q. Okay. And how did you determine what the  
3 primary message was in the multi-message ads that you  
4 reviewed?

5 A. I just examined each particular  
6 advertisement and tried to determine what that  
7 advertisement conveyed to me, if I thought it was  
8 mainly promotional, institutional, or whatever.

9 Q. Okay. Were there multiple multi-message ads  
10 that you reviewed? And how difficult was it to  
11 determine the primary message? Was there more than  
12 one message in several of the ads?

13 A. There was a couple that I can think of.

14 Q. Approximately how long did it take you to  
15 review and classify the 50 ads, or about 50 ads, that  
16 the Company submitted to you?

17 A. I didn't really keep track of the time. I  
18 think I did it in an afternoon one day.

19 Q. Okay. So somewhere between three and four  
20 hours, five hours?

21 A. Roughly. Roughly.

22 Q. Did anyone assist you in this review?

23 A. I had another staff member make an  
24 independent review of the same ads and make sure that  
25 we came up with the same answers.

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1 Q. Did you review the tapes of the radio and  
2 television ads, or just written scripts?

3 A. Just the written scripts.

4 Q. In your review did you consider the audience  
5 to whom the ads were directed in any manner?

6 A. Well, I assume the audience was the general  
7 public, who would be --

8 Q. Did that figure into your -- I'm sorry.

9 A. Go ahead.

10 Q. Did that figure into when you were  
11 determining the primary message?

12 A. Sure.

13 Q. Did you consider that?

14 A. Sure.

15 Q. So for each of the messages you assumed it  
Page 91

16 was the general public? And it's the same message  
17 that's directed in the ad printed in the newspaper as  
18 it is in the MacNeill Lehrer Hour ads? I mean, you  
19 think that's the same audience?

20 A. I didn't do any analysis. I mean, I assume  
21 the general public has access to watch the MacNeill --  
22 is it MacNeill Lehrer News Hour, I believe, as well as  
23 read the newspaper or listen to the radio, or  
24 whatever.

25 Q. In your opinion, what would constitute a

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1 sufficient cost justification for promotional ads on  
2 an ad-by-ad basis or on an ad campaign basis? what  
3 would constitute that?

4 A. I think the Company would have to show that  
5 the revenues received as a result of running those ads  
6 exceeded the cost of the ad or the ad campaign.

7 Q. So, in your opinion, when the Commission  
8 said "benefits" they mean monetary benefits?

9 A. Right.

10 Q. And would tie that to a dollar-for-dollar  
11 showing?

12 A. Correct.

13 Q. How would any company make that  
14 dollar-to-dollar showing? what, in your opinion, as  
15 the reviewer, would you have to see in order to feel  
16 like a company had done that?

17       A.     I think the survey is a good step in that  
18     direction, but they could have taken it one step  
19     further and tried to ask customers, maybe, if -- if  
20     they would have chosen gas over electric without the  
21     benefit of Laclede's advertising, or something to that  
22     effect, and then try to spread that over the  
23     population of the Company's customers.

24       Q.     Okay. So an example that Mr. Bolin and I  
25     discussed earlier, if somebody saw an ad and that

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1     triggered them to go make some more inquiries, and  
2     then they choose natural gas as a result of those  
3     inquiries, do you then say, if the person doesn't say,  
4     you know, that ad caused me to come over here and  
5     become a natural gas customer, that that ad is just  
6     thrown out, or do you think that person is going to  
7     say, yet without that ad I never would have been here?  
8     I mean, how do you see that playing out?

9             MR. WILLIAMS: I'm going to object to that  
10    as calling for speculation.

11            MS. THEROFF: I think his answer earlier  
12    said what we should do. That we should ask that  
13    question. So I'm asking him whether he thinks we're  
14    going to get an answer that's going to meet the test  
15    that he's said we got to meet when we ask the question  
16    he said we should ask.

17            JUDGE DIPPELL: I will allow the question.  
18    You may answer.

19 THE WITNESS: I would think the customer  
20 would be able to determine himself whether the  
21 advertising caused him to choose gas heat.

22 BY MS. THEROFF:

23 Q. Okay. So the advertisement is going to have  
24 to be the cause for why he bought it? He's not --

25 A. I think he could say without the

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1 advertisement that he couldn't -- he wouldn't have  
2 chosen gas heat.

3 Q. And if the customer says, if it was not for  
4 the advertisement, I wouldn't have been here, but  
5 that's not why I bought it. I bought it because this  
6 fine young salesman here convinced me it was cheaper,  
7 then that to you would be a benefit, and you should  
8 throw that into the pile of the Company as showing a  
9 benefit and let's factor that in?

10 A. If the customer said without the ad that he  
11 wouldn't have chosen gas heat, then I think that would  
12 prove to be a benefit -- dollar benefit.

13 Q. That's not what I asked though.

14 If the customer says, without the ad I  
15 wouldn't have come here, but I didn't choose it  
16 because of the ad. That ad didn't convince me to  
17 choose it. What caused me to buy it was the salesman.  
18 But I wouldn't have come here if I hadn't seen that  
19 ad. I was about to run over and sign up for my

20 electric furnace, and I thought, heck, I better go  
21 check this out. If he says that, does that get thrown  
22 into the benefit pile for whatever it's worth?

23 A. I'm just going to say I'm not sure. You  
24 would have to clarify it by asking him without the  
25 benefit of the advertisement would he have chosen the

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1 gas heat. It would take further clarification, I  
2 think.

3 Q. So I assume from the answer that you're  
4 giving me that you believe it is possible to meet the  
5 test --

6 A. Yes.

7 Q. -- as it currently stands?

8 A. Yes.

9 Q. Has any utility met the test?

10 A. No, but I'm not aware of any Company besides  
11 Laclede that has attempted to.

12 Q. Why do you think no one has tried?

13 A. I don't know. I have no idea.

14 Q. Would you be willing to agree with me that  
15 maybe they think it's not worth the effort because  
16 they've looked at how the test has been applied and  
17 it's going to take more effort to try to meet that  
18 test than it's worth since nobody has ever been able  
19 to?

20 A. No, I wouldn't say that. No.

21 Q. So companies just throw away the money and  
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22 don't try to get it because the money is just not  
23 worth it to them?

24 A. Like I say, I don't know why they haven't  
25 tried to meet the test.

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1 Q. In your experience, do companies generally  
2 not pursue recovery of expenses? Is there any other  
3 expense that you know of that no company has ever  
4 tried to recover that has -- that could be  
5 recoverable?

6 A. I can't think of any offhand.

7 Q. Okay. Do you believe that it's possible --  
8 as you're going through doing these ads, do you  
9 believe it's possible to determine what particular  
10 revenues come from a particular ad or ad campaign?

11 A. What do you mean by "what particular  
12 revenue"?

13 Q. Well, if we're trying to do a cost benefit  
14 now, do I need to show -- does the utility need to  
15 show that we got those dollars from that ad or that ad  
16 campaign in order to meet the test?

17 A. You're saying on an ad campaign versus the  
18 advertising budget as a whole?

19 Q. Well, I'm asking you. Does the test require  
20 that we show that we got that dollar from that ad in  
21 order to make the KCP&L standard established by the  
22 Commission?



23 A. I'm not sure what you mean by "that dollar."

24 Q. Okay. The -- I believe that what we've

25 discussed is that there has got to be a cost

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1 justification for an ad. Correct?

2 A. Right.

3 Q. Okay. In order to prove cost justification,

4 I've got -- what you've said, I believe, and your

5 testimony has been that I've got to show monetary

6 benefit --

7 A. Correct.

8 Q. -- from an ad?

9 A. Yes.

10 Q. Does that require me to show that I obtained

11 certain revenues from a certain ad in order to get

12 that cost benefit connection that you're looking for?

13 A. I'm not sure the Commission was clear on

14 that in their original order.

15 Q. But what's your opinion?

16 A. I would have to look.

17 Q. What's your opinion?

18 A. I would have to see what the Company's

19 proposal was and then evaluate it then.

20 Q. What's your opinion?

21 A. I don't have an opinion on that right now.

22 Q. Okay. So you're applying the standard, but

23 you don't know if I need to show that as a utility?

24 A. That circumstance hasn't come up yet, so I

25 haven't really evaluated that.

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1 Q. You say on Page 2, Lines 4 to 6 of your  
2 surrebuttal, that the Staff has consistently applied  
3 the Commission standard in every rate case and  
4 complaint since the standard was adopted in 1985.

5 A. Right.

6 Q. Do you have Mr. Hargraves' surrebuttal  
7 testimony with you?

8 A. Yes, I do.

9 Q. Could you turn to Schedules 1 and 2?

10 A. Okay.

11 Q. Schedule 1, I believe, is an ad we've  
12 discussed a couple of times this morning, and it's an  
13 ad, I believe, you classified; is that true?

14 A. Right.

15 Q. Okay. And Schedule 2 is Mr. Hargraves'  
16 depiction in a table form of how this ad has been  
17 classified over the last several cases by the Staff  
18 and the OPC.

19 Could you look at the third column over --  
20 it stays "Staff classification" -- and tell me, based  
21 on your knowledge, do you believe those to be accurate  
22 depictions of how this particular ad has been -- do  
23 you have any reason to believe those are not accurate?

24 A. I have no reason to believe they are not  
25 accurate. I haven't looked at them previously.

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1 Q. Okay. If subject to check you'll agree with  
2 me that those are correct, that that has been how the  
3 staff has classified this ad, then has this ad been  
4 consistently classified in every rate case since the  
5 standard has been applied, or been established?  
6 Excuse me.

7 A. I said the Commission standards have been  
8 applied in every rate case, meaning that we divide the  
9 ads into five different categories.

10 Q. Okay. But has this ad been consistently --  
11 has the staff always put this ad consistently in a  
12 particular classification?

13 A. Not this particular ad. I mean, we're  
14 talking about \$1,800 out of 700-some-thousand total,  
15 so --

16 Q. Okay. On this particular ad how much we've  
17 sent. But, I mean, do you judge how careful you are  
18 when you classify an ad based on how much the ad is  
19 worth? Do you apply a different standard if the ad is  
20 worth a lot more? Are you more careful?

21 A. No.

22 Q. Okay. Then that's probably not the reason  
23 it was classified that way. Right? So if an ad has  
24 this many different topics in it, is it really clear  
25 to the staff based on what you see here where to

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1 classify it?

2 A. Well, as I said, we look at the primary  
3 message of the ad, and I think that was fairly clear  
4 to me.

5 Q. Okay. But if this same ad has been run in  
6 the last -- in GR-90-120, GR-92-165, GR-94-220,  
7 GR-96-193, did not appear in '98, and it's in this  
8 case, what category other than political has this ad  
9 not been placed in, the same ad not been placed in?

10 A. Safety, it looks like.

11 Q. Okay. So of the five standards, we've hit  
12 three of them, and, actually, a couple of years we've  
13 hit all three the same year. Right?

14 A. Uh-huh.

15 Q. Okay. So based on this ad, this ad was  
16 really easily and clearly classified by you even  
17 though in the past it has not been too easy and clear  
18 to classify.

19 A. According to our standard of determining the  
20 primary message, it was easy to classify.

21 Q. If it's the same ad, has the primary message  
22 changed since '96 or '94 or '92 or '90, for that  
23 matter, or has the way the Staff has applied what a  
24 primary message means or how they have applied the  
25 standard that's easy to apply changed?

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1       A.     That's possible. I don't know why the Staff  
2     classified it like they did in those cases.

3       Q.     Do you believe that consumers make energy  
4     decisions when they build new homes and buy new  
5     appliances? Do you think they decide what they're  
6     going to heat and cool their house with?

7       A.     I'm not sure if consumers do, or if it's the  
8     builders or contractors doing it. I'm not sure how  
9     that works.

10      Q.     So if you were going to go out and buy a  
11     house, it wouldn't matter to you at all what it was  
12     heated or cooled with. If the contractor told you --  
13     he would say --

14      A.     I would choose gas heat, personally.

15      Q.     Okay. And you would make that choice. Or  
16     if the builder said, gee, I don't care what you want.  
17     I think we're doing this, would -- that wouldn't have  
18     any impact on you?

19      A.     I don't know what I would do in that  
20     situation.

21      Q.     Okay. Would you agree with me that  
22     advertising, in general, not necessarily in this  
23     setting, but in general, impacts buying decisions of  
24     consumers?

25      A.     I think for non-regulated companies, it

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1 definitely is, yeah.

2 Q. But you tell me it doesn't impact the buying  
3 decisions with regard to regulated companies at all;  
4 is that your opinion?

5 A. I'm saying I don't know.

6 Q. Okay. So you're not saying that it doesn't?

7 A. Correct.

8 Q. You're just saying you'll agree with me in  
9 general?

10 A. For non-regulated companies I think it does.

11 Q. If you could turn to Page 3, Lines 21 and  
12 22, of your surrebuttal testimony, and on to Page 4?

13 A. Okay.

14 Q. Great. You say that in light of the fact  
15 that 98 percent of the customers moving into new homes  
16 choose gas, that, obviously, competition is not nearly  
17 the issue that Laclede thinks it is. Is that --

18 A. I say it is not as much an issue for Laclede  
19 as for non-regulated companies?

20 Q. How many non-regulated companies sell  
21 natural gas to consumers in the St. Louis area? I  
22 mean, are we --

23 A. I don't know. None that I know of.

24 Q. But just based on the fact that Laclede has  
25 98 percent of the new housing market, you're willing

1 to say that, gee, competition can't be an issue with

2 UE because they are successful. Because Laclede is  
3 doing what they hope to do, there must not be a big  
4 issue there?

5 A. I just said it's not as much for Laclede as  
6 it is for non-regulated companies like Anheuser-Busch  
7 and IBM.

8 Q. Okay. But is that relevant to the issue  
9 here? Are we supposed to prove that competition is as  
10 important to us as Anheuser-Busch; therefore, we  
11 should recover our promotional advertising costs?

12 A. No. Mr. Hargraves made a comparison of  
13 Laclede to those two companies, and I was just  
14 illustrating why that wasn't a good comparison.

15 Q. Well, I guess I disagree that he made a  
16 comparison. I think he was saying if these two  
17 companies advertise, it must be because they think it  
18 works. So I think you misunderstood his testimony.

19 But that aside, put that aside for a second,  
20 do you think the standard is that we've got to prove  
21 the competition is as big an issue for us as it is for  
22 the unregulated world before we can recover our  
23 promotional advertising costs? Is that the standard?

24 A. No, that's not the standard.

25 Q. Do you know for certain sitting here that if

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1 Laclede didn't advertise that it would have 98 percent  
2 of the new housing market?

3 A. I don't know what would happen if they

4 didn't advertise. I don't know one way or the other.

5 Q. Okay. So you're just making the assumption  
6 that we have 98 percent, and it has nothing to do with  
7 the advertising, even though you have no reason --

8 A. No. I never made that assumption.

9 Q. Okay. On Page 4, Lines 9 to 11, of your  
10 surrebuttal -- okay?

11 A. Uh-huh.

12 Q. -- you say that until the Company performs a  
13 study that shows that revenues are increased from  
14 advertising, any assertion that advertisements results  
15 in a larger customer base is purely speculative.

16 A. Right.

17 Q. Okay. In your opinion, how would a company  
18 conduct such a survey? What survey do you want to see  
19 before it's not speculative?

20 A. I guess, go back to the example I gave  
21 earlier and take the Marketeam Associates survey a  
22 step farther and try to identify the revenues  
23 associated with the advertising.

24 Q. Okay. So we're back to my prior question,  
25 which I don't think we got an answer to. But you're

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1 saying we do need to identify those exact revenues  
2 with the advertising. And your answer has now said to  
3 me -- before you said you hadn't thought about it, but  
4 now you're saying, yeah, that survey is going to need



5 to show to me that you can identify the revenues that  
6 you got from that advertising?

7 A. That's what you would have to do to prove --  
8 to justify promotional advertising, yes.

9 Q. So if you're applying the test, that's what  
10 I need to prove?

11 A. Yes.

12 Q. On Page 4, Lines 7 to 9, you say that -- are  
13 you there? Sorry -- you say that Staff believes that  
14 consumers get information from many sources.

15 A. Uh-huh.

16 Q. On what evidence is this belief based?

17 A. Well, for one thing, the Marketeam  
18 Associates survey, I think, indicated that.

19 Q. Okay. And -- the one -- the same survey --

20 A. And my own personal knowledge, too, for the  
21 other thing, I guess.

22 Q. Your own personal knowledge --

23 A. Uh-huh.

24 Q. -- Of what consumers --

25 A. Yeah.

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1 Q. Okay. You mentioned contractors and  
2 builders as a source of information. Do you know  
3 where contractors and builders get their information?  
4 Have you done a study of that to find out where  
5 those --

6 A. No, I haven't.

7 Q. Okay. On Page 5, Lines 21 to 23, and  
8 Page 6, Lines 1 to 6 --

9 A. Yes.

10 Q. -- you indicated -- you list selected  
11 responses that were received in the Marketeam survey,  
12 and the question was, "What sources did you use for  
13 information that led you to choose gas heat?"

14 A. Right.

15 Q. You list certain responses. What responses  
16 did you leave out of that list? There were other  
17 responses that were given as well. Right?

18 A. Right.

19 Q. Okay. What responses did you leave off your  
20 list?

21 A. Would you like me to read them?

22 Q. (Nodded head.)

23 A. Okay.

24 Q. Please.

25 A. Okay. I left out gross years from the gas

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1 company, TV media advertising, display homes/home  
2 shows, salespersons at the gas company, business  
3 sources/furnace companies, read about it, no source  
4 specified, and no answer.

5 Q. Okay. Of the ones you just read, what  
6 percentage is assigned to each one of those, as far as  
7 the percentage of people who answered that?

8 A. It's a number of people, not percentages.

9 Q. I think there is both, but you can read  
10 whichever one.

11 A. Oh, there is. Okay. Brochure from the gas  
12 company, 3.9; TV media advertising, 3.9; display  
13 homes/home shows, 2.9; salespersons at the gas  
14 company, 1.9; business sources/furnace companies, 1.9;  
15 read about it, 1.0; no answer, 1.0.

16 Q. Okay. And would you say that brochures from  
17 the gas company are not advertisements, based on your  
18 prior answer of how many people had said advertising  
19 was their source? Is that what you mean to say?

20 A. It's not the advertising we're considering  
21 here, I don't think.

22 Q. Well, do you know? Do you know whether that  
23 person when they said "brochure" meant an ad or what  
24 you assumed was a brochure? I mean, do you know what  
25 they meant by "brochure"? Are you sure that wasn't an

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1 ad?

2 A. I mean, I don't know what the people meant  
3 by their answer, no.

4 Q. So if somebody said, "a brochure from the  
5 gas company" --

6 A. I would assume it is something they got,  
7 like, a mailer or something, that type of thing from  
8 the gas company.

9 Q. And do you know whether the gas company

10 sends out brochures that it doesn't put in its  
11 advertising budget that are aimed at promoting its  
12 services?

13 A. I don't know.

14 Q. Okay. So you don't really know if the  
15 answers, the numbers you put in your testimony are  
16 truly accurate, but you're assuming it based on what  
17 you see and what you interpret "brochures from the gas  
18 company" to mean?

19 A. Well, I assume "brochures" to be a different  
20 thing than TV media or print advertising.

21 Q. But you don't have any basis for that other  
22 than to assume that we maybe send out brochures that  
23 we don't include in our advertising budget to  
24 encourage people to buy our services?

25 A. That was an assumption.

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1 Q. Okay. If you had TV media advertising and  
2 the brochures, which I understand you disagree with me  
3 about, and home shows and displays together, what  
4 number do you come up with then?

5 A. Is that 11, I guess?

6 Q. So that would be 11 percent of the people  
7 who indicate those sources.

8 A. Eleven percent mentioned it, yeah. I mean,  
9 customers were allowed to pick more than one answer.  
10 I would like to point that out, too.

11 Q. How many of the people on the survey  
12 indicated that price was one of the causes for their  
13 decision?

14 A. Fourteen.

15 Q. Okay. And would you agree with me that  
16 advertising is often a source of pricing information  
17 on products, generally?

18 A. I think they have some kind of statement  
19 that natural gas is less than -- less costly than a  
20 heat pump, I believe.

21 Q. So you would agree with me that  
22 advertisements often have pricing information in  
23 them?

24 A. I wouldn't call it pricing information.  
25 Just kind of a general statement. It doesn't have

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1 specific pricing information, I don't think.

2 Q. Okay. So I guess my final question that I  
3 want to ask you is -- so it's your opinion as the  
4 member of the Staff who's applying the standard that  
5 the standard, although no one other than Laclede has  
6 tried to meet it, but the standard can be met as it's  
7 applied by the Staff. It's just that you haven't  
8 figured out exactly how it would be -- when you would  
9 be there? You would know it when you saw it, but you  
10 don't think you can describe it for us as to how we  
11 can get there. Is that a fair statement?

12 A. I think I did describe how you do it.

13 Q. well, I think when you described it for me,  
14 I asked you if the person said, yeah, if hadn't seen  
15 the ad, I probably would have just bought my electric  
16 furnace and moved on, but, gee, I saw the ad and I  
17 came --

18 A. well, I said you would have to do a further  
19 question to clarify whether the advertising caused  
20 them to change?

21 Q. Okay. I do my further question, and they  
22 say, yeah, the ad got me here, but the salesman  
23 convinced me. And did you tell me whether that got  
24 thrown into my benefit pile?

25 A. You would have to ask the person if without

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1 the benefit of the advertising whether he would have  
2 chose it.

3 Q. That's not what I asked you. I asked you,  
4 if he answered -- I know what you want to ask him, but  
5 he's answered now, and he said, if I hadn't seen the  
6 ad, I wouldn't have come here, but that ad didn't  
7 convince me. The salesman convinced me. But I  
8 wouldn't have been here without the ad. Does that get  
9 into the benefit pile in your --

10 A. well, you would have to have further  
11 clarification.

12 Q. Of what? what else does he need to say to  
13 me?

14 A. Like I said, just -- he would have to say  
15 that without the benefit of Laclede's advertising that  
16 he wouldn't have chosen natural gas.

17 Q. He's got to say that ad caused me to buy  
18 natural gas. Right?

19 A. I think so.

20 MS. THEROFF: Okay. So -- okay. That's my  
21 question.

22 I don't have any other questions. Thanks.

23 JUDGE DIPPELL: There are no questions from  
24 the Bench for Mr. Boczkiewicz.

25 Is there redirect?

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1 MR. WILLIAMS: Yes, your Honor.

2 REDIRECT EXAMINATION BY MR. WILLIAMS:

3 Q. John, I'd like to direct your attention to  
4 Schedules 1 and 2 of Mr. Hargraves' surrebuttal  
5 testimony.

6 A. Okay.

7 Q. After direct testimony was filed in this  
8 case, were there some ads that were recategorized?

9 A. There was one ad, the ad that appears on  
10 Schedule 1.

11 Q. And how is it currently categorized?

12 A. It's currently categorized as general.

13 Q. And that would then mean it had been -- or  
14 it is now -- under that current categorization, it  
15 would be consistent with how it's been treated in the

16 past cases?

17 A. Right.

18 Q. Would the \$1,875 then be included in cost of  
19 service?

20 A. Yes, it is.

21 Q. Those adjustments that are shown on  
22 Schedule 2 to the prior cases, GR-94-220 and  
23 GR-96-193, were those only partial adjustments?

24 A. It appears that way.

25 Q. Mr. Boczkiewicz, do you know of any utility

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1 who has asked the Commission to include their  
2 institutional advertising in rates?

3 A. No, I don't.

4 Q. Referring you back to the questions that  
5 were asked regarding the survey, wasn't it true that  
6 in that survey an individual could answer more than  
7 one category?

8 A. That is true.

9 Q. Would you therefore agree that the  
10 percentages are the highest that could happen?

11 A. Yeah, the percentages reflect the customer  
12 being able to choose more than one answer.

13 MR. WILLIAMS: No further questions.

14 JUDGE DIPPELL: Okay. Mr. Boczkiewicz. You  
15 may be excused.

16 (witness excused.)



17 JUDGE DIPPELL: I believe we're ready to  
18 begin the HVAC issue.

19 MR. BYRNE: Your Honor, could -- I believe  
20 there is settlement discussions going on with regard  
21 to that, and I would -- we were wanting to -- and I  
22 have talked to the other parties -- go ahead with  
23 depreciation at this time, if that would be okay with  
24 you.

25 JUDGE DIPPELL: Is there any objection to

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1 that from the other parties?

2 (No response.)

3 JUDGE DIPPELL: Okay. Then we'll begin with  
4 depreciation.

5 Let's go off the record.

6 (A recess was taken.)

7 (EXHIBIT NOS. 113 AND 117 WERE MARKED FOR  
8 IDENTIFICATION.)

9 JUDGE DIPPELL: Let's go ahead and go on the  
10 record.

11 Okay. We're ready, then, to begin with  
12 depreciation, and Laclede's first witness is  
13 Mr. Kottemann. And we originally had a pending motion  
14 to strike on part of his testimony, and I believe  
15 you've stated that that has been resolved. Is that  
16 correct?

17 MR. STUEVEN: Yes, your Honor.

18 MR. BYRNE: Yes, your Honor.

19 JUDGE DIPPELL: Is Staff then withdrawing  
20 its motion to strike?

21 MR. STUEVEN: With the substitution of those  
22 schedules, and I believe Mr. Kottemann will also make  
23 a minor correction to his testimony.

24 JUDGE DIPPELL: So with Mr. Kottemann, upon  
25 seeing that there is some corrections to be made, at

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1 that time you're willing to withdraw your objection?

2 MR. STUEVEN: Yes.

3 JUDGE DIPPELL: Okay. Let's go ahead and  
4 bring Mr. Kottemann to the stand.

5 And am I pronouncing your name correct, sir?

6 THE WITNESS: Yes.

7 JUDGE DIPPELL: Would you please raise your  
8 right hand?

9 (Witness sworn.)

10 JUDGE DIPPELL: You may go ahead and proceed  
11 then, Mr. Byrne.

12 RICHARD A. KOTTEMANN, JR. testified as follows:

13 DIRECT EXAMINATION BY MR. BYRNE:

14 Q. Would you please state your name?

15 A. Richard A. Kottemann, Jr.

16 Q. Mr. Kottemann, by whom are you employed?

17 A. Laclede Gas Company.

18 Q. And are you the same Richard A. Kottemann  
19 who caused to be filed in this proceeding direct

20 testimony which has been marked as Exhibit 23,  
21 rebuttal testimony which has been marked as Exhibit  
22 24, and surrebuttal testimony which has been marked as  
23 Exhibit 25?

24 A. Yes.

25 Q. Do you have any corrections that you would

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1 like to make to any of those testimonies?

2 A. Yes, I do.

3 On my direct testimony, Page 11, Line 7, it  
4 should read, "I am also recommending a new rate for  
5 gas holders," rather than new rates. There is only  
6 one rate on that account.

7 On my direct testimony, Page 15, Line 5, add  
8 the record "rate" after the word "depreciation" at the  
9 end of the line.

10 My surrebuttal, Page 3, Line 25, the word  
11 "net" should not appear ahead of the term "cost of  
12 removal" in the equation on that line. It should  
13 simply read --

14 JUDGE DIPPELL: I'm sorry, sir. Could I get  
15 you to repeat that one?

16 THE WITNESS: Surrebuttal, Page 3, Line 25.  
17 The word "net" should not appear ahead of the term  
18 "cost of removal." It presently says, "net cost of  
19 removal" in that equation. It should simply say "cost  
20 of removal."

21 I am submitting the revised schedules 1 and  
Page 115

22 2.

23 BY MR. BYRNE:

24 Q. And have those been marked as Exhibit 122?

25 A. Yes.

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1 Q. And are those revised schedules to be  
2 attached to your surrebuttal testimony?

3 A. That is correct.

4 JUDGE DIPPELL: Let me interrupt there just  
5 a minute, Mr. Byrne.

6 Are the revised schedules going to  
7 substitute directly for the schedules that are  
8 attached to Exhibit 23?

9 MR. BYRNE: Yes, your Honor, they are.

10 JUDGE DIPPELL: Why not instead of marking  
11 those as a separate exhibit, why don't we just  
12 substitute those and attach those as part of  
13 Exhibit 23?

14 MR. BYRNE: That would be fine.

15 THE WITNESS: Okay. And then the  
16 surrebuttal on Page 9, Line 5, change where it says  
17 "1998" to read 1996.

18 That's all I have for corrections.

19 BY MR. BYRNE:

20 Q. Okay. And with these corrections and the  
21 two substitute schedules, Schedules 1 and 2 to your  
22 surrebuttal testimony, is all of the information

23 provided in your testimony and on the attached  
24 schedules true and correct to the best of your  
25 knowledge and belief?

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1 A. Yes.

2 Q. If I was to ask you the questions contained  
3 in your direct, rebuttal and surrebuttal testimony  
4 today, when you're under oath, would your answers be  
5 the same as they were in your testimony?

6 A. Yes.

7 MR. BYRNE: Okay. With that, I would offer  
8 Exhibits 23, 24 and 25, and tender Mr. Kottemann for  
9 cross-examination.

10 And I would also ask if you would withdraw  
11 your motion, if that's acceptable to you?

12 MR. STUEVEN: Staff has no objection to the  
13 admission of the exhibits, and withdraws that portion  
14 of the motion to strike that deals with  
15 Mr. Kottemann's testimony.

16 JUDGE DIPPELL: Thank you.

17 Are there any other objections to the  
18 revised Exhibit No. 23, Exhibit No. 24, and Exhibit  
19 No. 25 with corrections?

20 MR. MICHEEL: Your Honor, are we just going  
21 to show that Exhibit 122 has been withdrawn?

22 JUDGE DIPPELL: Yeah. I will just withdraw  
23 having premarked that as Exhibit 122 earlier. If  
24 there is no objection, I want to in the end be clear

25 that it is just substituting directly those previous  
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1 schedules and will come into the record that way.

2 (No response.)

3 JUDGE DIPPELL: Okay. Seeing no objection,  
4 then, I'm going to admit the Exhibit 23, with the  
5 revised schedules, Exhibit No. 24, and Exhibit 25,  
6 with the corrections.

7 (EXHIBIT NOS. 23, 24 AND 25 WERE RECEIVED  
8 INTO EVIDENCE.)

9 JUDGE DIPPELL: Did you tender the witness,  
10 Mr. Byrne?

11 MR. BYRNE: Yes, your Honor.

12 JUDGE DIPPELL: Is there any  
13 cross-examination from AmerenUE?

14 MS. KNOWLES: No, none.

15 JUDGE DIPPELL: Public Counsel?

16 MR. MICHEEL: No, your Honor.

17 JUDGE DIPPELL: Staff?

18 MR. STUEVEN: Just a few.

19 CROSS-EXAMINATION BY MR. STUEVEN:

20 Q. Mr. Kottemann, you've testified in your  
21 surrebuttal testimony that the gas holders are still  
22 used and useful. Correct?

23 A. That is correct.

24 Q. Mr. Kottemann, do you know if they are still  
25 necessary for this system?

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□

1       A.     I know that the gas holders are a part of  
2     our operation.

3       Q.     But do you know if they are necessary for  
4     your operation?

5       A.     As far as I know, the Company has not  
6     determined with certainty that they are not needed.

7       Q.     who would make that decision? who would  
8     have the knowledge whether or not they were necessary  
9     anymore?

10      A.     The first line of that knowledge would be  
11     our system-operating personnel, the ones who manage  
12     the gas supply.

13      Q.     Has yourself or anyone at Laclede had  
14     conversations with companies that would or could  
15     remove the gas holders?

16      A.     Yes.

17      Q.     May I ask who those were?

18      A.     Creamer Environmental of Hackensack, New  
19     Jersey.

20      Q.     And when did those conversations take place?

21      A.     One moment, please.

22             April of 1998.

23      Q.     Did that company give Laclede an estimate  
24     for the removal of those -- for the removal of the gas  
25     holders?

□

1       A.     That company gave us an estimate of the cost  
2     to remediate the sludge inside of the holders.

3       Q.     Was that a firm estimate as in they would be  
4     willing to remediate the sludge in a gas holder for  
5     that amount, or was that just something -- a number  
6     that they gave you where they would come out around if  
7     they performed the work?

8       A.     Are you asking if that was a bid?

9       Q.     Yeah. Was it a bid?

10      A.     It was not a bid.

11      Q.     Okay. I think I may have already asked you  
12     this question, but it is a little bit different here:  
13     who has the decision -- who has to make the decision  
14     to finally retire the gas holders?

15      A.     I believe that final decision would be made  
16     by at least an executive vice-president, if not the  
17     president of the Company.

18      Q.     Would that also be the same person that  
19     would have to approve any contract to remove the gas  
20     holders?

21      A.     I believe a vice-president can -- an officer  
22     of the Company can execute a contract for that type of  
23     work.

24      Q.     Okay. Mr. Kottemann, has there been any  
25     decision made to retire any of the remaining gas

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1 holders?

2 A. A firm decision as in we're going to take  
3 down holder X next year?

4 Q. Or the year after or any --

5 A. Not that I am aware of.

6 MR. STUEVEN: Okay. No further questions.

7 JUDGE DIPPELL: Thank you.

8 Since we skipped ahead in our order, I'm not  
9 certain at this time if there are Commission questions  
10 for this witness, so I'm going to reserve that for  
11 later. So, Mr. Kottemann, when we're finished here,  
12 we may ask you to come back for Commission questions.

13 But for now we'll go ahead and go to  
14 redirect.

15 MR. BYRNE: Yeah. I just have one question.

16 REDIRECT EXAMINATION BY MR. BYRNE:

17 Q. Mr. Kottemann, you were asked about -- you  
18 had conversations with Creamer about you getting an  
19 estimate for remediating the sludge. Do you recall  
20 that question?

21 A. Yes.

22 Q. How did you first come in contact with  
23 Creamer Environmental?

24 A. I received a phone call from Mr. Tory Larsen  
25 at Creamer Environmental, and he told me he had been

1 given my name by Paul Adam --

2 Q. So --

3 A. -- at some sort of a conference that they  
4 had attended.

5 Q. So you did not initiate the contact with  
6 Creamer?

7 A. No, I did not.

8 MR. BYRNE: Okay. Thank you.

9 That's all I have.

10 JUDGE DIPPELL: Thank you.

11 You may step down, Mr. Kottemann. And  
12 during the -- or before the lunch break, I will find  
13 out if there are any Commission questions for you.

14 would you like to go ahead with your next  
15 witness, Mr. White?

16 MR. BYRNE: Sure.

17 JUDGE DIPPELL: Please raise your right  
18 hand, sir.

19 (Witness sworn.)

20 JUDGE DIPPELL: Thank you.

21 RONALD E. WHITE, Ph.D., testified as follows:

22 DIRECT EXAMINATION BY MR. BYRNE:

23 Q. Could you please state your name?

24 A. My name is Ronald E. White.

25 Q. And, Dr. White, what is your -- by whom are

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1 you employed?

2 A. I am a principal in the firm of Foster  
3 Associates, Incorporated.

4 Q. And have you been retained by Laclede to  
5 file testimony in this case relating to the  
6 depreciation issue?

7 A. Yes, I have.

8 Q. And have you prepared rebuttal testimony,  
9 which has been marked as Exhibit 26, and surrebuttal  
10 testimony, which has been marked as Exhibit 27 and  
11 filed in this proceeding?

12 A. Yes, I have.

13 Q. Do you have any corrections that you would  
14 like to make to that testimony?

15 A. No, I do not.

16 Q. So is the information contained in that  
17 testimony and any schedules that might be attached to  
18 it true and complete to the best of your knowledge and  
19 belief?

20 A. Yes.

21 Q. And if I was to ask you the same questions  
22 contained in that written testimony, would your  
23 answers be the same today when you're here under oath?

24 A. They would.

25 MR. BYRNE: Okay. I offer Exhibits 26 and

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1 27, and tender the witness for cross-examination.

2 JUDGE DIPPELL: Are there any objections to  
3 Exhibits 26 and 27?

4 MR. STUEVEN: No objections.

5 JUDGE DIPPELL: Then I'll receive those into  
6 evidence.

7 (EXHIBIT NOS. 26 AND 27 WERE RECEIVED INTO  
8 EVIDENCE.)

9 JUDGE DIPPELL: Is there cross-examination  
10 from AmerenUE?

11 MS. KNOWLES: No, none.

12 JUDGE DIPPELL: Public counsel?

13 MR. MICHEEL: No.

14 JUDGE DIPPELL: Staff?

15 MR. STUEVEN: Just a few.

16 CROSS-EXAMINATION BY MR. STUEVEN:

17 Q. Dr. White, on Page 5, Line 29 of your  
18 rebuttal testimony, you make the assertion that the  
19 depreciation rate sponsored by Mr. Adam are, and I  
20 quote, ". . . based solely on a desire to reduce  
21 depreciation expense in a generate proceeding." Do  
22 you see that?

23 A. Yes, I do.

24 Q. Could you please point out in Mr. Adam's  
25 testimony where he states that he is advocating a

1 position based solely on reducing depreciation  
2 expense?

3 A. well, that clearly follows from the fact  
4 that the recommendation of Mr. Adam has no foundation

5       whatsoever in theory. The only -- as I've indicated  
6       and discussed in my testimony, the only impact of his  
7       recommendation is to shift the timing of the  
8       depreciation expense.

9       Q.     So what you're saying there is that  
10      nothing -- there is nothing directly in Mr. Adam's  
11      testimony where he states that he's advocating his  
12      position based solely on reducing depreciation  
13      expenses. It's based on your interpretation of what  
14      he said?

15      A.     Oh, precisely.

16      Q.     Okay. Now, if I'm understanding your  
17      position, you are advocating that the net salvage be  
18      spread out over the whole life of the property being  
19      retired. Correct? Would that be a fair statement?

20      A.     In summary form, that is a fair statement.  
21      The removal expense should be accrued for in the  
22      depreciation rate, not some allocation of a prior  
23      realized removal expense.

24      Q.     Dr. White, would you agree with me that  
25      steel service has an average service life of 45 years?

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1       A.     Oh, I have no idea. I didn't conduct a live  
2       study in this case.

3       Q.     Could you assume for the moment that steel  
4       services have an average service life of 45 years?

5       A.     I'll accept that for discussion.

6       Q.     Okay. Hypothetically speaking.

7 A. Fine.

8 Q. I won't ask you to agree to that.

9 So if a steel service has an average service  
10 life of 45 years, steel service placed in service  
11 today would, on an average, last until 2044, 45 years,  
12 on average?

13 A. That's certainly the statistic that you put  
14 before me as an average service life. Now, for any  
15 specific service there is probabilities of retirement  
16 before age 45 and after age 45. So, clearly, we  
17 can't --

18 Q. Right.

19 A. -- state that any service necessarily has an  
20 average life of 45 years.

21 Q. Okay. But, on average, what they place in  
22 today -- service today would, on average, last 45  
23 years because the stuff on average lasts 45 years.  
24 Correct?

25 A. Yes. That's our hypothetical.

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1 Q. Dr. White, how do you determine the net  
2 salvage of plant 45 years from the point in time when  
3 it's placed in service? How do you put your  
4 retirement rates on -- or depreciation rates on  
5 service placed in -- or steel that's placed in service  
6 today? And how would you determine what the rate of  
7 cost of removal would be in 45 years?

8           A.     You could ask me the same question as to how  
9     do I estimate that the life is going to be 45 years  
10    from today.

11                But to the net salvage rate, the net salvage  
12    rate is -- the analysis to obtain an estimate of that  
13    removal expense is a two-part analysis, similar to  
14    analysis that's made in the service life study. In  
15    other words, we generally start with looking at what  
16    experience has been in the past. What is the cost per  
17    unit to install and the cost per unit to retire?

18                Now, I -- I state that in terms of cost per  
19    unit because what is important in estimating net  
20    salvage rates is to recognize that the cost of removal  
21    of plant today is generally independent of the age of  
22    the plant that's being retired from service. In other  
23    words, the service that was installed 20 years ago is  
24    probably going to cost the same to remove as the  
25    service that was installed two years ago.

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1                However, in order to accrue for that  
2    expected removal expense, the percentage rate that is  
3    required is going to be much higher associated with  
4    the older vintage because the cost per unit to install  
5    that vintage was probably less than today.

6                So the analysis for estimating that future  
7    net salvage looks not only at what has realized net  
8    salvage been in the past, but also looks at the age  
9    distribution of the plant in service and looks at it

10 forward-looking based on inflation and the shape of  
11 the survivor curve as to when that removal expense is  
12 likely to be incurred.

13           So if I know the current cost per unit to  
14 install, current cost per unit to retire, and I have  
15 some estimate of inflation; I have a projection curve,  
16 which we talked about -- that's where the average  
17 service life came from -- I can quantify with a high  
18 degree of certainty the timing of that removal expense  
19 and the magnitude of it.

20       Q.    Do you have your rebuttal testimony there?

21       A.    Yes, I do.

22       Q.    Would you turn to Page 7 of that, please?

23       A.    Yes.

24       Q.    On Lines 11 and 12 there you have a formula?

25       A.    That's correct.

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1       Q.    I have a couple of questions about that.

2       A.    Uh-huh.

3       Q.    First of all, in the numerator, there is a  
4 one.

5       A.    That is correct.

6       Q.    Okay. Where does that one come from? What  
7 does it represent?

8       A.    This formula is a percentage rate.

9       Q.    Right.

10       A.    Okay. Now, that percentage rate is going to



11 be applied to a plant investment, so if you multiplied  
12 that plant investment by the rate, which is one minus  
13 the average net salvage divided by the average service  
14 life, you can see that what is happening is we're  
15 taking the plant investment and dividing it by the  
16 average service life, subtracting from that an  
17 estimate of the average, the average net salvage rate,  
18 and allocating that over the average service life. In  
19 other words, this formula, Mr. Stueven, is for the  
20 total accrual, not just net salvage.

21 Q. Right. I understand that.

22 A. That's where the one comes from. In other  
23 words --

24 Q. but --

25 A. In other words --

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1 Q. Let me ask -- let me ask a question here.

2 A. Okay.

3 Q. Would it be fair to say that the one  
4 represents 100 percent of the original cost of plant  
5 and service for purposes of the ratio?

6 A. I think a better way to understand it is  
7 suppose the average net salvage rate was zero, in  
8 which case that numerator would simply have the number  
9 one in it. That would be divided by the average  
10 service life, so that ratio multiplied by just plant  
11 with zero average net salvage would allocate the  
12 investment over average service life.

13 Q. Bear with me for just a second.

14 A. Sure.

15 Q. I'm looking for something here.

16 I'm sorry. Mr. Kottemann had a formula in  
17 his part of his testimony I was going to ask you about  
18 that, and I can't seem to find it.

19 A. Are you referring to Mr. Kottemann's  
20 surrebuttal testimony on Page 6?

21 Q. I'll just move on.

22 Now, you're talking about the net salvage  
23 ratio. Correct?

24 A. We were discussing the net salvage rate,  
25 yes.

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1 Q. Okay. How do you calculate the net -- well,  
2 let me ask you this: When I say "net salvage ratio,"  
3 do you know what I'm talking about?

4 A. I was going to ask you, because we were  
5 talking about the rate.

6 Q. Well, in calculating depreciation --  
7 a deprecia-- okay. Well, I guess I'll ask you a  
8 couple of questions about the whole service -- whole  
9 life formula.

10 would you agree with me that there are two  
11 portions to that formula, two halves?

12 A. Well, that's one way of viewing it, yes.

13 Q. Well, it -- well, in this case, because I

14 just -- how the issues have fallen out in this case,  
15 let's look at it as two. You have the recovery of the  
16 capital cost?

17 A. We have the allocation of the capital cost,  
18 yes.

19 Q. well -- which -- to recover in practical --  
20 in application it recovers the capital cost that was  
21 expended in the purchase of the item, that you spread  
22 that over -- spread that out over the whole life.  
23 Correct?

24 A. Yes. I only make that distinction because  
25 depreciation, of course, does not ensure capital

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1 recovery. All we're doing is allocating a cost. And  
2 I certainly agree with that.

3 Q. And then the second half would be the --

4 A. Allocation.

5 Q. -- allocation of that net salvage?

6 A. Yes.

7 Q. which in current years has become a negative  
8 number which increases the total amount allocated  
9 across?

10 A. Depending upon the plant account, yes.

11 Q. But for the most part we've seen a change  
12 from that being a positive number to being a negative  
13 number. Correct?

14 A. That's being overly general. Again, it  
15 depends on the plant accounts, but, certainly, the

16 accounts we're talking about here, means and services,  
17 we've seen a substantial increase in the cost of  
18 removal.

19 Q. So if you broke out the formula into two --  
20 two segments -- or two parts, what would the first  
21 part of that formula look like?

22 A. The reciprocal of the average service life.  
23 One divided by the average service life.

24 Q. Okay. And what would the other half look  
25 like?

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1 A. The other half would -- would be the  
2 negative ratio of the average net salvage rate to the  
3 average service life.

4 Q. Okay. How do you come up with that ratio?  
5 What's the num-- what's in the numerator? Do you just  
6 have one number, or if you have one number, how do you  
7 get that one number?

8 A. Well, that was the discussion we had a  
9 little earlier: How do I estimate the net salvage  
10 rate?

11 Q. Right.

12 A. And you're correct. In the numerator is one  
13 number, which is a percentage, which is the average  
14 net salvage rate for the account.

15 Q. Okay. And that would be -- how do you  
16 calculate -- how -- I mean, I just -- I guess I'm

17 going in circles here.

18 A. Well, again, we talked about how do we  
19 estimate net salvage, and that rate is obtained by  
20 dividing either a dollar estimate of net salvage by  
21 the original vintage additions that are in the plant  
22 account or by obtaining a percentage estimate directly  
23 without going to dollars.

24 Now, I make that distinction because in, for  
25 example, life span categories where we often conduct

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1 dismantling studies, we obtain a dollar estimate of  
2 the dismantling cost. But then for the purpose of  
3 accrual rate calculation, we convert that dollar  
4 estimate to a percentage rate.

5 Q. So kind of seeing if I can restate what you  
6 just said, that would basically be -- if you're  
7 talking dollars, the net salvage, in other words, the  
8 cost of removal of -- or the salvage value minus the  
9 cost of removal divided by the retirement value -- or  
10 the original value of that property of what was  
11 retired?

12 A. Not necessarily. We're sort of confusing  
13 concepts here. That formula that is shown on Page 7  
14 that we've been talking about, you'll notice that that  
15 estimator of the salvage is average, not realized.  
16 Now, the measurement -- the estimator that you've just  
17 described to me is realized net salvage. It's looking  
18 at the actual incurred net salvage over a recent band

19 of years. Average net salvage is a combination of  
20 both realized and future.

21 Q. Dr. White, do you know if in the computation  
22 of net salvage for the accounts in this case, was the  
23 realized or average cost of removal -- which one did  
24 they use? Did they use the average cost, or did they  
25 use the realized cost?

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1 A. Actually, I discussed that in my testimony  
2 where I describe the estimator that was used by both  
3 the Company and the Staff, and that calculation was a  
4 realized net salvage rate calculation. However, when  
5 that estimator is used, the implicit assumption is  
6 that the future net salvage is equal to the realized,  
7 and, therefore, the average is equal to the future.  
8 It's a limiting case of the estimator that should be  
9 used in a whole life depreciation rate formula.

10 Q. So in this case, the formula would be the  
11 net salvage -- the realized net salvage over the --  
12 the original cost, the retirement cost?

13 A. That was the estimator of the numerator in  
14 the formula we were talking about that was used by  
15 both Company and the Staff. Staff, however, scaled  
16 that estimator down.

17 But I think it's important again,  
18 Mr. Stueven, to recognize the assumption is made when  
19 that estimator is derived from realized net salvage.

20 Implicit in that estimator is -- implicit in the  
21 formula of the calculation of that formula is future  
22 net salvage equal to realized.

23 Q. So the formula assumes that -- I guess I'm  
24 restating, but what that means is that they're  
25 assuming that the net salvage is going to be the same

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1 next year and the year after?

2 A. The assumption is that the future net  
3 salvage as a percent of plant in service today is  
4 going to be equal to the net salvage rate that has  
5 been realized on recent retirements.

6 Q. Now, when you were doing that calculation of  
7 dollars, in looking back at -- using the present case,  
8 where you're doing the net salvage over the original  
9 cost of the retired plant, basically you're dividing  
10 what would be current year after using some sort of  
11 average, relatively close in time dollars, to over --  
12 divided by dollars that are depending on the average  
13 service life of the account, could be 10, 15, 20, 45  
14 or 50 years old?

15 A. Yes, and that goes back to our discussion  
16 earlier when we were talking about how to estimate  
17 that rate. And, as I mentioned, it's a two-part  
18 process.

19 First of all, you generally look at recent  
20 experience, but then judgments have to be made as to  
21 whether or not that recent experience is indicative of

22 the net salvage removal expense that's likely to be  
23 realized in the future. So the first step is an  
24 analysis of history, and that's the step that you've  
25 just described.

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1 Q. Dr. White, you're being retained by Laclede;  
2 is that correct?

3 A. That is correct.

4 Q. I take it they're paying you for your  
5 testimony here today?

6 A. I hope so.

7 MR. STUEVEN: Okay. And while I am probably  
8 a little curious, I'm not as crass to ask, so I think  
9 that concludes my questions.

10 JUDGE DIPPELL: Thank you.

11 Dr. White, I'll make the same caveat I did  
12 earlier. I don't believe there are any questions from  
13 the Commission for you, but I will -- I would like to  
14 ask them at the lunch break to make sure before I do  
15 excuse you, but we can go ahead with redirect.

16 MR. BYRNE: I don't have any redirect.

17 JUDGE DIPPELL: No redirect. Okay. Then  
18 you may step down.

19 THE WITNESS: Thank you.

20 JUDGE DIPPELL: Let's go ahead, then, and  
21 take a lunch break, unless you'd rather do Staff's  
22 witness on this issue.



23 MR. BYRNE: I've got quite a bit for  
24 Mr. Adam.  
25 JUDGE DIPPELL: Okay. Let's go ahead and  
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1 take a lunch break and return at 1:15.  
2 MR. BYRNE: Okay.  
3 JUDGE DIPPELL: Off the record.  
4 (A recess was taken.)  
5 JUDGE DIPPELL: Go ahead and go on the  
6 record.  
7 There were no questions from the Bench for  
8 Mr. Kottemann or Mr. White, so those witnesses are  
9 excused.  
10 (Witnesses excused.)  
11 JUDGE DIPPELL: And Staff has already asked  
12 their witness, Mr. Adam, to come to the witness stand.  
13 So if you would please raise your right  
14 hand, sir.  
15 (Witness sworn.)  
16 PAUL W. ADAM testified as follows:  
17 DIRECT EXAMINATION BY MR. STUEVEN:  
18 Q. would you please state your name for the  
19 record?  
20 A. Paul Adam.  
21 Q. And by whom are you employed, Mr. Adam?  
22 A. The Missouri Public Service Commission  
23 Staff.  
24 Q. And what capacity are you employed?



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1 JUDGE DIPPELL: Is there cross-examination  
2 by AmerenUE?

3 MS. KNOWLES: No.

4 JUDGE DIPPELL: Public Counsel?

5 MR. MICHEEL: No, your Honor.

6 JUDGE DIPPELL: Laclede?

7 MR. BYRNE: Yes, your Honor.

8 CROSS-EXAMINATION BY MR. BYRNE:

9 Q. Good afternoon, Mr. Adam.

10 A. Good afternoon.

11 Q. I wanted to ask you a little bit about your  
12 background as it relates to depreciation. I notice --  
13 I guess I'm looking at your direct testimony on  
14 Page 1, and it says you received -- on Line 18 it says  
15 you received a Bachelor of Science degree in chemical  
16 engineering from University of Missouri, Columbia. Do  
17 you see that?

18 A. Yes.

19 Q. Did you -- in the course of your studies at  
20 Mizzou, did you study any depreciation, take any  
21 depreciation classes?

22 A. At the Columbia campus, no.

23 Q. Okay. Did you take any depreciation classes  
24 at any other campus?

25 A. I took classes at other campus that involved

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1 depreciation, yes.

2 Q. Like what kind of classes were those?

3 A. Accounting and finance.

4 Q. Okay. No class that was specifically  
5 devoted to depreciation, though, is there -- was  
6 there?

7 A. Not while I was being formally educated at  
8 the University of Missouri.

9 Q. Okay. And then after you graduated, you --  
10 I see you were in the Army for a while. When did you  
11 go in the Army?

12 A. Within six months after graduation.

13 Q. Okay. That would have been what year?  
14 1967?

15 A. At the end of 1967 I went in the Army.

16 Q. Okay. And how long were you in the Army?  
17 Until --

18 A. Two years.

19 Q. And did you do any depreciation work while  
20 you were in the Army?

21 A. None.

22 Q. Okay. And then what did you do when you got  
23 out of the Army?

24 A. Two things. I went to work for Mobil Oil  
25 Corporation, and I went back to school.

1 Q. Okay. And what did you do -- I'm sorry.  
2 what corporation did you say you worked for?

3 A. Mobil.

4 Q. Okay. And what was your job at Mobil?

5 A. Technical sales rep selling refinery  
6 byproducts.

7 Q. Okay. And did you do any depreciation work  
8 in that job?

9 A. No.

10 Q. How about -- you said you went back to  
11 school at the same time?

12 A. Correct.

13 Q. And is that when you got the Master's degree  
14 in business administration from the University of  
15 Missouri?

16 A. Correct.

17 Q. And did you study depreciation when you were  
18 getting that degree?

19 A. In some of the courses there was  
20 depreciation.

21 Q. Okay. Like what kind of courses?

22 A. Accounting and finance, perhaps some others.  
23 I don't know whether there was anything about  
24 depreciation in economics. Probably not.

25 Q. Okay. But only to the extent that classes

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1 on subjects such as accounting and finance touched on  
2 depreciation, you didn't have -- to your recollection,  
3 you didn't have any classes specifically devoted to  
4 depreciation?

5 A. There was no class that had the title  
6 "depreciation" in it.

7 Q. Okay. Okay. Then what happened? What was  
8 the next job you had after -- after, I guess, Mobil  
9 and being in school?

10 A. I built single family homes in Kansas City  
11 for a couple of years.

12 Q. Okay. And did you work for a company or  
13 just for your own self?

14 A. On my own.

15 Q. And did you do any depreciation work in that  
16 job?

17 A. Not other than the consequences of taxes.

18 Q. Okay. And then how long did you build  
19 single family homes?

20 A. About two years.

21 Q. And so what year would that take us up to?

22 A. If I had my resume I would be a little  
23 better off, but I believe we're up in the early '70s,  
24 somewhere around '72, '73.

25 Q. Okay. And then what was your next job after

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1 that?

2 A. When I left Kansas City, I went to work for  
3 Applied Automation in Bartlesville, Oklahoma.

4 Q. And what was your job with them?

5 A. It was a process of gas chromatography and  
6 process control, computer-based process control.

7 Q. Did you do any depreciation work with that  
8 company?

9 A. None.

10 Q. Okay. What was your next job after that?

11 A. I was with Scientific Software, which is a  
12 company that provides software packages to analyze oil  
13 patch logs and reservoir evaluation, economic  
14 evaluation for plant property.

15 Q. Did you do depreciation work in that job?

16 A. Not that you would -- no.

17 Q. Okay. What was your next job after that?

18 A. A company called Flying Diamond Oil  
19 Corporation.

20 Q. And did you do depreciation work for them?

21 A. No.

22 Q. What was your next job after that?

23 A. Stick with me. From Flying Diamond I  
24 believe it was Consolidated Oil and Gas.

25 Q. Did you do any depreciation work for them?

1 A. Only in that we evaluated properties. And,  
2 again, depreciation would have been considered when we  
3 were looking at the tax aspects, so I was doing --

4 that job was actually reservoir engineering.

5 Q. Okay. And how long -- what was the period  
6 of time you held that job?

7 A. Two to three years, something like that.

8 Q. In the -- what period -- generally, what  
9 period of time are we in. The '80s maybe?

10 A. Yeah, probably in the early '80s now.

11 Q. Okay. Then what was your next job?

12 A. Patrick Petroleum.

13 Q. And did you do any depreciation work for  
14 them?

15 A. None.

16 Q. And what was your next job?

17 A. Visa -- Visa Energy or Visa Exploration.

18 I'm not sure what title they used.

19 Q. Did you do any depreciation work for them?

20 A. No.

21 Q. Maybe I can shorten this. Did you do any  
22 depreciation work anywhere before you got your job at  
23 the Commission?

24 A. None other than what we've already  
25 discussed.

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1 Q. Okay. And you started at the Commission  
2 in --

3 A. Just over five years ago.

4 Q. Just over five years ago. Okay.



5           One thing I was curious about, too, is, who  
6 do you report to at the Commission?

7           A.     Now, I report to Bob Schallenberg who is the  
8 division director of the Utility Services Division.

9           Q.     Okay. And you used to report to David  
10 Birenbaum?

11          A.     Correct.

12          Q.     -- but his -- when he left the Commission,  
13 his slot wasn't filled, is that true, or the reporting  
14 relationship became directly with Mr. Schallenberg  
15 then?

16          A.     Both statements are true.

17          Q.     Okay. Mr. Adam, have you published any  
18 articles on depreciation, either on your theory of net  
19 salvage that's the subject of this case or any other  
20 aspect of depreciation?

21          A.     Well, number one, I don't consider this a  
22 theory of net salvage. But, no, I have not published  
23 any papers.

24          Q.     Okay. I'd like to talk to you briefly about  
25 the -- the difference between where the Company is on

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1 the net salvage issue and you. And I guess -- would  
2 it be fair to say that your treatment of net salvage  
3 is intended to produce a level of net salvage equal to  
4 the average net salvage realized over the past few  
5 years by the Company?

6          A.     My treatment of net salvage is to arrive at  
Page 145

7 a -- an accrual that is equivalent to or as close as  
8 possible equivalent to the gross salvage minus the  
9 cost of removal that the Company is experiencing.

10 Q. Okay.

11 A. And I think that's the same thing you asked.

12 Q. Okay. It would be is experiencing now or  
13 has experienced in the recent past?

14 A. In -- yes.

15 Q. And would it be fair to say that, on the  
16 other hand, the Company's proposal calculates net  
17 salvage that it expects to incur in the future?

18 A. The calculation as the Company has done it  
19 is simply taken a ratio of the gross salvage minus the  
20 cost of removal divided by the retired plant value.

21 Q. And -- and developed a net salvage percent  
22 from that. Right?

23 A. Right. They take that divided by the  
24 average service life, and it becomes part of the whole  
25 life formula.

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1 Q. And then do they apply the net salvage  
2 percent to the plant in service today as --

3 A. Yeah.

4 Q. -- as a proxy for --

5 A. Yeah. If you're saying, yeah, you've got a  
6 percentage or a decimal fraction and you multiply that  
7 times plant balance, if you took those percentage or

8 decimal amounts and multiplied them times the plant's  
9 balance, I believe you'll get the 23.3 million that  
10 the Company is requesting.

11 Q. And isn't it the Company's intent to -- in  
12 using that net salvage percent as applied to existing  
13 plant in service to project what the cost of removal  
14 or the net salvage may be in the future?

15 A. The Company, in meetings that I've had with  
16 the Company, has suggested that the cal-- that the  
17 accrual being larger now than what they're spending,  
18 say, for cost of removal with net out somewhere down  
19 the road. In other words, there would be a point in  
20 time when the accrual will be less than what they're  
21 spending?

22 Q. But I guess my question was, isn't the  
23 intent of the Company's formula to --

24 A. I'm not sure what the intent of the Company  
25 is.

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1 Q. Okay.

2 A. I'm trying to just relay what came out of  
3 the meetings we had.

4 Q. Sure. I understand. Well, maybe a  
5 hypothetical would help illustrate the difference.

6 Let's say you had an account where your  
7 recent experience was there was no negative net  
8 salvage value. The salvage was zero in recent  
9 experience. But you knew with certainty that there

10 would be a salvage cost at the end of the property's  
11 life.

12 Now, under -- isn't it true that under your  
13 treatment of salvage, you would calculate a zero  
14 salvage for that property?

15 A. Yes.

16 Q. And isn't it true that under the Company's  
17 treatment of salvage, they would attempt to allocate  
18 the future cost of salvage over the life of the asset?

19 A. Yes, over the average service life.

20 Q. Over the average service life. So the  
21 Company would not have a zero salvage in that example?

22 A. In that scenario.

23 Q. And you would have a zero salvage?

24 A. In that scenario.

25 Q. Okay. Well, let me ask you this: what if

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1 there is a new category of property that comes into  
2 being? For an ex-- a real life example, I think, for  
3 the Company is we have -- we recently had a new  
4 pipeline in -- Williams Pipeline that has delivery  
5 points in St. Charles County, so we had to build City  
6 Gate delivery facilities. And my understanding is --  
7 and I'm not asking you to verify any of this, but my  
8 understanding is that's a new -- a new account  
9 category that we haven't had in the past.

10 Now, under your scenario, what would you --

11 since there is no experience, would you calculate the  
12 salvage as zero for the new facilities that are being  
13 put in?

14 A. Not necessarily. You're talking about brand  
15 new plant. The analogy I can think of to that would  
16 be personal computers, which we're seeing pulled out  
17 as a separate account now that have a separate average  
18 service life, instead of being in with office  
19 furniture.

20 And it's not unusual for us to look at plant  
21 that is new and then look at what's going on in  
22 industry as far as how long they're using that plant  
23 and how much they're retiring year by year. So there  
24 is -- on a new account, there is a different technique  
25 taken. And, yes, we would try to find a source of

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1 information.

2 Q. So would you look at -- I guess you would  
3 still look at salvage amounts being experienced  
4 currently and in the recent past, but since there's  
5 no -- since Laclede itself would not have any  
6 experience, you would have to look at other companies.  
7 Is that how you would do that?

8 A. We do that.

9 MR. BYRNE: Okay. I'd like to mark an  
10 exhibit, if I could, your Honor.

11 JUDGE DIPPELL: Okay. Since I re-marked the  
12 last one, we're still at No. 122.

13 MR. BYRNE: Okay. Great.

14 (EXHIBIT NO. 122 WAS MARKED FOR  
15 IDENTIFICATION.)

16 BY MR. BYRNE:

17 Q. Mr. Adam, I've handed you what's been marked  
18 for identification purposes as Exhibit 122. Could you  
19 identify that document for me?

20 A. This is a DR that was sent to me, and then  
21 attached to it are the responses that I sent back.

22 MR. BYRNE: Okay. I'd like to offer  
23 Exhibit 122 into the record.

24 JUDGE DIPPELL: Are there any objections to  
25 Exhibit No. 122?

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1 MR. STUEVEN: I don't believe counsel has  
2 laid foundation that it's relevant.

3 MR. BYRNE: Well, your Honor, I think these  
4 are the data requests we asked him about his testimony  
5 on depreciation. I guess I could run through all of  
6 them, if you would like, to establish the relevancy.  
7 But they're directly related to this issue and  
8 directly related to his testimony.

9 MR. STUEVEN: I withdraw my objection.

10 JUDGE DIPPELL: Okay. Are there any other  
11 objections?

12 (No response. )

13 JUDGE DIPPELL: Then I'll admit Exhibit 122.

14 (EXHIBIT NO. 122 WAS RECEIVED INTO  
15 EVIDENCE.)

16 BY MR. BYRNE:

17 Q. Okay. I'd like to look at Question 1 for a  
18 minute, if I could, and Question 1 says, "With  
19 reference to testimony, Page 6, Lines 20 to 23, please  
20 provide authoritative references supporting Mr. Adam's  
21 claim that the 'retirement rate' for net salvage data  
22 is relevant to a proper calculation of the net salvage  
23 components of a depreciation rate." Do you see that  
24 question?

25 A. Yes.

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1 Q. And your answer says, at least in part,  
2 "Mr. Adam's position is consistent with texts on  
3 depreciation." Do you see that?

4 A. Yes.

5 Q. What are the names of those texts?

6 A. I believe, and -- let me look at this just a  
7 minute.

8 Q. Sure.

9 A. I believe it fits in with the quote that I  
10 gave you of Frank Wolf's in my answer from his Page  
11 112 where he says, "Salvage is sometimes viewed as  
12 though it remains constant as a property agent as  
13 opposed to the more realistic view that salvage varies  
14 with age." And so Frank Wolf and Mr. Cowles (sic)  
15 have written a textbook, and I believe that was the  
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16 justification for me saying that.

17 Q. Sure. Is it Wolf and Fitch that you're  
18 referring to?

19 A. Fitch. I'm sorry.

20 Q. So that's -- are there any others? Is that  
21 what you're talking about?

22 A. At this time that's all I can recall.

23 Q. Okay. Aside from text references, do you  
24 know of any depreciation expert that endorses your  
25 method of treating net salvage that you're proposing

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1 in this case?

2 A. How do you describe an expert?

3 Q. I guess a depreciation engineer. Do you  
4 know any other depreciation engineer that endorses  
5 your method of treating net salvage in the way you're  
6 proposing?

7 A. I believe so.

8 Q. Who is that?

9 A. I believe Mr. Gilbert does.

10 Q. Okay. Do you know any others?

11 A. I believe Ms. Schad back there does.

12 Q. Okay. Any -- other than people that work  
13 for the Staff of the Missouri Public Service  
14 Commission, can you name any others?

15 A. Well, our understanding is, when we  
16 discussed this with the Company over a year ago in the



17 '98 case, one of our accountants found that this  
18 handling of salvage had been done in Arkansas and in  
19 Pennsylvania in the past, so I don't know whether you  
20 consider them experts or not, but there are other  
21 Commissions who have apparently viewed it that way.

22 Q. Okay. Can you cite me specific decisions in  
23 Arkansas and Pennsylvania?

24 A. I didn't make the calls. Mr. Greg Meyer of  
25 the Staff made the calls.

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1 Q. Okay. So you can't tell me a citation?

2 A. No.

3 Q. All right. Okay. Okay. Similarly, in  
4 Question No. 3, you -- take a look at the question and  
5 answer for No. 3. You cite texts on depreciation.  
6 Are you also in that answer referring to the wolf and  
7 Fitch text?

8 A. I believe so. I -- you know, these were  
9 written some period of time ago.

10 Q. You can't think of any other texts right now  
11 that would be responsive to that question?

12 A. Not right now, no.

13 Q. Okay. In Question No. 5 -- can you take a  
14 look at Question No. 5. It says, "With reference to  
15 Schedule 1, please provide the formula Mr. Adam used  
16 to compute the theoretical reserve." And do you see  
17 your answer to that question?

18 A. Yes, sir.

19 Q. Does that formula calculate the theoretical  
20 reserve?

21 A. That's the whole life formula, and that's  
22 what I used. What you're suggesting is that the ratio  
23 is to be calculated the way the Company did. I didn't  
24 calculate it that way.

25 Q. Well -- let me ask you --

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□

1 A. What did I --

2 Q. Let me ask you this: What is the amount of  
3 the theoretical reserve that you're endorsing in this  
4 case? What's the dollar amount of it?

5 A. The amount of the theoretical reserve?

6 Q. Yes.

7 A. I don't recall, but I do know that I  
8 calculated an overrecovery in the theoretical reserve,  
9 in the reserve balance, greater than the theoretical.  
10 Using the higher rates that are proposed by the  
11 Company, it was approximately \$25 million  
12 overrecovery?

13 Q. But what's the total amount -- I mean, can  
14 you tell me by looking at your testimony what the  
15 total amount of the theoretical reserve in this case,  
16 not the one in the last case, the one in --

17 A. It's at 216 million.

18 Q. 216 million, and that's --

19 A. I'm sorry.

20 Q. Go ahead.

21 A. No. I'm just saying I'm sorry. I didn't  
22 read into what you were wanting there.

23 Q. So 216 million, just so I understand, that's  
24 the theoretical reserve you're sponsoring in this case  
25 as opposed to last case; is that right?

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1 A. Using the depreciation rates that I'm  
2 proposing calculates a theoretical reserve of 216.

3 Q. Okay. Now, how does -- and is that the  
4 classical method of calculating the theoretical  
5 reserve?

6 A. That was done through, again, Fleming  
7 software that we have, so I don't -- I don't know how  
8 to respond to your classical method answer -- or  
9 question.

10 Q. Okay. Well, let me -- again, maybe I just  
11 don't understand this, but how would -- how would the  
12 formula that you've set out in your answer to Question  
13 No. 5 result in an answer that's \$216 million? It  
14 looks to me like it would result in a percentage or  
15 something. If the theoretical reserve is \$216 million  
16 and we asked you for the formula used to calculate the  
17 theoretical reserve, doesn't --

18 A. This formula is the formula that's in the  
19 software. Putting -- putting in the correct  
20 depreciation rate calculates the theoretical reserve  
21 balance.

22 Q. Okay. Is this -- I think I understand.  
23 Does "DR" in this formula stand for  
24 depreciation rate?

25 A. Uh-huh.

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1 Q. So is this really the formula to calculate  
2 the depreciation rate?

3 A. Right.

4 Q. And then if you put the depreciation rate in  
5 your --

6 A. In the software.

7 Q. -- in your software, it will calculate a  
8 theoretical reserve?

9 A. Correct.

10 Q. Okay. And in this case, the software  
11 calculated the theoretical reserve of 216--  
12 approximately \$216 million?

13 A. For all accounts, yes.

14 Q. Okay. Do you know what the equation that's  
15 embedded in the software is?

16 A. Other than that -- my understanding is, is  
17 the whole life equation.

18 Q. Well, I mean, you know, this would calculate  
19 a depreciation rate, this formula that we've seen.

20 A. Well, we load -- we load all of the  
21 Company's data that's supplied to us on the account,  
22 too. It's looking at each one of these account by

23 account on the actual historical events, and saying,  
24 if I was applying the depreciation rate that you enter  
25 on that plant, what would the reserve -- what should

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1 the reserve balance be today?

2 Q. Okay. And so would it be fair to say that  
3 the depreciation rate is one of the inputs that you  
4 have to give the -- you have to give the software,  
5 along with other data from the Company, and then the  
6 software tells you what the -- what the  
7 depreciation -- the theoretical --

8 A. The theoretical reserve.

9 Q. -- reserve?

10 But if you were to have to take a paper and  
11 pencil and calculate the \$216 million number, you  
12 can't tell me exactly how that would work; is that  
13 right?

14 A. Well, I think I've told you how it works,  
15 but it would be a nightmare to try to do it because of  
16 all of the vintages of da-- vintages of plant that  
17 you'd have to calculate what the accrual should be on  
18 each vintage.

19 Q. Okay.

20 A. And then the machine -- or the computer just  
21 does it in an instant.

22 Q. Okay. I think I understand.

23 And I guess when you give that same formula  
24 in your answers to Questions 6 and 7, I guess -- well,

25 the Questions 6 and 7 ask you what formula what used  
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□

1 to calculate the classical theoretical reserve and the  
2 theoretical reserve adjusted for your treatment of the  
3 accrual rate for net salvage, and I guess it's the  
4 same answer. This is a -- this is a depreciation rate  
5 that's used as an input?

6 A. We use the whole life formula, not only for  
7 Laclede, but, essentially, for all of the companies we  
8 work with, so it's all based on that whole life  
9 formula.

10 Q. Okay. In Question 8-A, you were asked to  
11 list proceedings before the Commission in which you  
12 recommended the treatment for net salvage that you  
13 proposed in this case; is that right?

14 A. Yes.

15 Q. And you listed two cases, GR-- well,  
16 GR-98-374, and my understanding is that's Laclede's  
17 last rate case; is that correct?

18 A. That's correct.

19 Q. And then the other case you listed was  
20 GR-99-246. What case was that?

21 A. That's the St. Joseph Light & Power case  
22 that was this year.

23 Q. And you're saying that you proposed your  
24 same treatment for net salvage in that case?

25 A. Actually, St. Joseph has such bad data

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1 files, if you will allow me to use the word "bad"  
2 loosely, that the proposal was mostly the rates -- the  
3 same rates that were developed here.

4 MR. BYRNE: I'd like to mark an exhibit,  
5 your Honor, if I could.

6 JUDGE DIPPELL: No. 123.

7 (EXHIBIT NO. 123 WAS MARKED FOR  
8 IDENTIFICATION.)

9 BY MR. BYRNE:

10 Q. Mr. Adam, I've handed you what's been marked  
11 as Exhibit No. 123. Can you please identify that  
12 document?

13 A. It's my direct testimony in the St. Joseph  
14 Light & Power case.

15 Q. Okay. And I was wondering if you could show  
16 me in that testimony where you -- where you  
17 recommended the same salvage treatment as in this  
18 case?

19 A. It's -- it's in the rates. I didn't write  
20 it up specifically in the testimony that I was using  
21 the same treatment that I used on Laclede, but by  
22 using the Laclede rates for their equivalent plant, it  
23 effectively got them the same salvage treatment.

24 Q. Okay. So -- but you didn't specifically  
25 explain that in your testimony filed in that case, did

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1 you?

2 A. No.

3 Q. And my understanding is you've only filed  
4 direct testimony in that case, not rebuttal or  
5 surrebuttal; is that correct?

6 A. Correct.

7 MR. BYRNE: Okay. I'd like to offer  
8 Exhibit 123, your Honor?

9 JUDGE DIPPELL: Is there any objection to  
10 Exhibit 123?

11 (No response.)

12 JUDGE DIPPELL: Then I will receive it.

13 (EXHIBIT NO. 123 WAS RECEIVED INTO  
14 EVIDENCE.)

15 BY MR. BYRNE:

16 Q. Okay. Then I'd like to take a look at  
17 Questions 8-B and 8-C. I guess in those questions  
18 Laclede asked you to list any state or federal  
19 regulatory proceedings in which your treatment of net  
20 salvage has been proposed, and list any state or  
21 federal orders in which your treatment of net salvage  
22 has been adopted.

23 And your -- I guess your response says --  
24 well, it says, "Mr. Adam has no knowledge of specific  
25 federal or other state agencies' cases using this

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1 treatment, but any case where actual costs are equated  
2 to gross salvage less cost of removal would be  
3 examples."

4 I guess I just want to make sure, you  
5 don't -- you can't name us any state or federal  
6 proceedings?

7 A. Other than the information I mentioned  
8 earlier, that Greg Meyer had. And that's the reason I  
9 said I can't give you specifics, because I --

10 Q. Okay.

11 A. -- I didn't make those contacts.

12 Q. Okay. So you don't have any personal  
13 knowledge --

14 A. No.

15 Q. -- other than --

16 A. Non-verifiable.

17 Q. Okay. Okay. Now, take a look at --  
18 Question 8-D asks for all state or federal agency  
19 orders in which your treatment of net salvage has been  
20 denied, but it doesn't look like there is an answer to  
21 that. Is that true?

22 A. Well, I -- there probably should have also  
23 an 8-D that said the same thing, that I'm not unaware  
24 of any.

25 Q. Yeah. You can't name any where it's been

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1 denied either, I guess; is that your testimony?

2 A. I have no knowledge of that.

3 Q. Okay. Okay. Question 10 says, "Please  
4 identify the author of Mr. Adam's recommended  
5 treatment of net salvage." Do you see that?

6 A. Uh-huh.

7 Q. Can you read me your answer?

8 A. "All texts on depreciation where net salvage  
9 is equal to gross salvage minus cost of removal."

10 Q. I don't understand. You know, I don't  
11 understand your answer. Can you explain this?

12 A. Well, it's as loose as the question in that  
13 net salvage -- you're trying to suggest that the net  
14 salvage is a value that you can calculate at the time  
15 the plant is placed and you have all knowledge until  
16 the plant, excuse me, is removed from service.

17 If you look at gross salvage minus cost of  
18 removal in the near term and calculate that as net  
19 salvage, which is -- is frequently done in the state  
20 of Missouri to determine what net salvage ought to be,  
21 so -- you know, I'm not trying to -- to say that --  
22 you know, when you read a textbook, you may read it  
23 different -- what it says differently than I do. I'm  
24 not --

25 Q. Sure. Well, I was just thinking that maybe

1 a person's name would be the answer to that question.

2 A. A person's name?

3 Q. Yeah. I guess it's asking who is the author  
4 of your --

5 A. I'm sorry.

6 Q. -- recommended treatment. And maybe it's  
7 you. Are you the author of your recommended  
8 treatment?

9 A. I'll take -- I'll take blame for it, or  
10 whatever.

11 Q. Okay. It's not that you were told by  
12 someone else to do it, or it was someone else's idea  
13 to do this? It was -- it's your -- you're the one who  
14 takes credit or blame, or whatever, for the  
15 recommendation that you're proposing. Is that fair to  
16 say?

17 A. That's fair.

18 Q. Okay. On Question 11 and Question 13 and a  
19 little bit earlier in your testimony, you cited Wolf  
20 and Fitch Depreciation Systems.

21 A. Uh-huh.

22 Q. Do you consider that an authoritative text  
23 on depreciation, Mr. Adam?

24 A. I presume I would, yeah. I probably would  
25 say that Frank Wolf is a -- I guess I classify him as

1 an expert in that area.

2 Q. Okay. Okay. On Question 12, the question  
3 asks for docket numbers of proceedings in which the  
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4 Missouri Commission ruled that final salvage is  
5 unmeasurable and unknown except in specific cases. Do  
6 you see that?

7 A. Uh-huh.

8 Q. And in your response, you said, "Case  
9 No. WA-97-46."

10 A. Uh-huh.

11 Q. I was wondering -- I don't want to mark this  
12 as an exhibit, but I do have a copy of the Report and  
13 Order in that case, and I was wondering if Mr. Adam --

14 JUDGE DIPPELL: Do you want to show that to  
15 Mr. Stueven, first, please?

16 MR. BYRNE: Sorry, Mr. Stueven.

17 BY MR. BYRNE:

18 Q. And I was wondering if you could show me,  
19 Mr. Adam, where in that Order it makes that finding?

20 A. I probably couldn't find it very rapidly for  
21 you because I talked to the engineer that was on this  
22 case and he had recommended, along with the Company,  
23 to initiate recovery of the -- of the cost of the  
24 financial removal of the plant, and in the direct  
25 conversation with him, it was Mr. Woodie Smith, that

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1 the Commission had rejected that.

2 Q. Okay. But you haven't even -- have you read  
3 the Report and Order in that case?

4 A. No. As I said, I took the word of

5 Mr. Smith.

6 Q. Okay. Okay. So I guess you have no  
7 personal knowledge whether it's even discussed in the  
8 Report and Order?

9 A. All I know is what Mr. Smith told me, was  
10 that their proposal to collect that money when the  
11 plant was torn down in St. Joseph where it was torn  
12 down was rejected by the Commission.

13 Q. Okay. Okay. Turning to your direct  
14 testimony, Mr. Adam -- do you have your direct  
15 testimony with you?

16 A. Yes.

17 Q. Okay. On Page 3, Line 3, it says, "The  
18 balance of my testimony will address the reasons for  
19 the changes that were made to the depreciation rates  
20 in Case No. GR-98-374."

21 A. Yes.

22 Q. Do you see that?

23 And I guess I wanted to ask you, isn't it  
24 true that that case resulted in a settlement?

25 A. It was stipulated in, yes.

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1 Q. And isn't it true that in that case,  
2 although the depreciation rates were stipulated, no  
3 one agreed to any methodology for determining them?

4 A. That was specifically requested to not be in  
5 there.

6 Q. Okay. So are you agreeing with me that  
Page 165

7 nobody agreed to any methodology for calculating  
8 depreciation?

9 A. It was not written into the stipulation.

10 Q. And wasn't it -- wasn't it even specifically  
11 written in that we specifically don't agree to any  
12 methodology?

13 A. That's right.

14 Q. And isn't it true that also there were no  
15 salvage rates set out in that -- in that stipulation,  
16 although there were depreciation rates?

17 A. Correct. I believe that's the -- your  
18 statement is true, that the salvage rates weren't  
19 separated from -- they were implied in the  
20 depreciation rates.

21 Q. Okay. Now, further down that page you talk  
22 about the depreciation -- or the theoretical reserve  
23 that you've calculated, like on Lines 12, 13, around  
24 there.

25 A. Okay.

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1 Q. And you mention as you mentioned previously  
2 today that our actual reserve is about \$26.5 million  
3 above the theoretical reserve. Do you see that?

4 A. The 26.5 comes from using higher  
5 depreciation rates, which the Company is proposing.

6 Q. But that's the depre-- that's the  
7 theoretical reserve that you filed in this case; is

8 that right?

9 A. The theoretical reserve that I filed was the  
10 amount we talked about before. What I was showing  
11 here was that if you use higher depreciation rates  
12 over the life of the plant that's there now, you will  
13 get a smaller theoretical reserve.

14 Q. Okay. Well, let me ask you this: Do you --  
15 do you believe that --

16 A. Excuse me. You get a small theoretical  
17 reserve in balance.

18 Q. Okay.

19 A. In other words, the overrecovery drops, as I  
20 recall, to 25 million from 100 million.

21 Q. Well, do you believe that the \$26.5 million  
22 overrecovery that you've calculated is a significant  
23 amount of overrecovery for a company the size of  
24 Laclede with the plant balances that Laclede has?

25 A. Probably not. It's about -- about one

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1 year's worth of accrual. And at one year's worth of  
2 accrual, I would say no.

3 Q. I mean, I guess nobody's -- nobody's actual  
4 reserve, unless it was just a tremendous stroke of  
5 luck, ever exactly equals the theoretical reserve; is  
6 that fair to say?

7 A. I would be shocked if I found that.

8 Q. Okay. Okay. But this amount is close  
9 enough to satisfy you?

10           A.     The 25 million -- I made no proposal to  
11     attack the theoretical reserve imbalance.

12           Q.     Okay. On Page 3 of your direct testimony on  
13     Line 18, starting on Line 18, you have a section  
14     called "Timing of Data," and then also on Page 5 you  
15     have a section called "Quality of Data."

16                     Are you -- I guess -- I guess, in this  
17     testimony are you complaining about the timing or the  
18     quality of the data that Laclede has provided to you?

19           A.     I -- I'd have to reread this, to be honest  
20     with you, but I don't -- I don't have any concern  
21     based on the case GO-97-79 referred to as the data  
22     case. Laclede has lived up to their requirements at  
23     this time, and I suspect they will live up to their  
24     requirements in December of '99 to provide the  
25     additional data.

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1           Q.     Okay. On Page 6 of your direct testimony,  
2     beginning at Line 20, you have a sentence that says,  
3     "Second in many accounts the net salvage data is at a  
4     retirement rate far different than the average service  
5     life computed from the historical data files." Could  
6     you explain what that sentence means?

7           A.     well, I looked at the retirement rate  
8     relative to what kind of average service life you  
9     would have to put in the formula, and I -- when I was  
10    going through all of this over a year ago, I called



11 Frank Wolf and talked to him about this, because I  
12 consider him kind of a -- as I said before, an expert.

13 And his suggestion and point was that the  
14 average service life of that plant that's being  
15 retired may be different than the average service life  
16 of the plant that's in service, and I think I didn't  
17 go into detail of what Frank and I discussed in that  
18 phone call, but that's kind of where it's coming from  
19 here. But it is kind of unclear, I would admit.

20 Q. Okay. And in the next sentence you say,  
21 "This leads to a miscalculation."

22 Is -- that wouldn't -- I don't think it's  
23 fair to characterize that as a miscalculation.

24 A. Yeah. And I thought we'd already responded  
25 to that in either a DR, or something, that my use of

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1 "miscalculation" was -- was probably not the right  
2 word to pick.

3 Q. Would maybe it be a difference in theory?  
4 would that be a better way to characterize it?

5 A. Well, just a difference in the way I look at  
6 recovery of -- of the accrual for net salvage versus  
7 the way another person might look at it.

8 Q. Okay. On Page 7 of your direct testimony,  
9 starting on Line 16, I guess you're talking about --  
10 well, given the fact that your salvage value is based  
11 on current salvage being experienced and that being  
12 experienced in the recent past, I guess one potential

13 issue with the way you've proposed to treat salvage is  
14 over time the salvage included in your depreciation  
15 rate could get out of line with the salvage actually  
16 being experienced. Is that fair to say?

17 A. It could get too high.

18 Q. And could get too low, too. Right?

19 A. Possibly.

20 Q. Okay. And your solution to that problem is  
21 that companies can file rate cases to correct any  
22 mismatch; is that correct?

23 A. It's not unusual for us to change  
24 depreciation rates during a rate case, and salvage is  
25 something that's looked at in those instances.

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1 Q. well, let me ask you this: what if the  
2 Company doesn't file a rate case, and the salvage used  
3 in your depreciation rates gets out of line with the  
4 salvage that's actually being experienced?

5 A. What -- I thought I answered that. It could  
6 be too much. It could be too little.

7 Q. But if the Company doesn't file a rate case,  
8 won't that lead to depreciation rates, at least until  
9 they do file a rate case, that aren't -- that aren't  
10 reflective of the Company's costs?

11 A. Not necessarily.

12 Q. well, why -- why not necessarily?

13 A. Because if your costs don't change, or if

14 your costs stay in step with your plant balance  
15 growth, it would -- I mean, it would still calculate  
16 out. The depreciation rate is a percentage of or a  
17 decimal fraction and it's multiplied times your plant  
18 balance to get what your accrual is.

19 Q. But under my hypothetical, the Company's  
20 costs did change. They did not stay the same. Yet  
21 the Company, for whatever reason, didn't -- didn't  
22 come in and file a rate case.

23 A. Okay.

24 Q. Okay. That's my hypothetical.

25 A. So if their costs go down, they collect too

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1 much. If their costs go up, they're not collecting as  
2 much.

3 Q. And the depreciation rates either -- would  
4 either be too high or too low; is that right?

5 A. If you're trying to hit dead-on, that's  
6 true.

7 Q. Okay. And there might be any number of  
8 reasons that the Company might not come in and file a  
9 rate case. Other factors besides depreciation affect  
10 whether a company decides to file a rate case.  
11 wouldn't you agree with that, Mr. Adam?

12 A. I presume so.

13 Q. And aren't there a lot of companies that go  
14 long periods of time without filing a rate case? I  
15 know Laclede isn't one of them, but don't some

16 companies?

17 A. Yes. The answer is yes.

18 Q. Like Southwestern Bell? When was the last  
19 time Southwestern Bell filed a rate case?

20 A. Well, you would be better to look at some of  
21 the small water companies that go nearly forever  
22 without filing a case.

23 Q. And if -- well, okay.

24 Okay. On Page 9, Line 22 -- and this is  
25 what I was talking about a little while ago -- you

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1 refer to the classical whole life depreciation rate  
2 formula. Could you tell me what the classical whole  
3 life depreciation rate formula is?

4 A. When I wrote my direct testimony, I was  
5 using the classical whole life -- I was using that  
6 group of words to describe the formula that's in the  
7 DR.

8 Q. Okay. And how is net salvage treated under  
9 the classical whole life depreciation rate formula?

10 A. What I was trying to do is set that up to  
11 describe how you calculate simply the ratio of cost of  
12 removal -- or excuse me -- gross salvage minus cost of  
13 removal divided by the value of the plant that's  
14 retired as the classical. And I was using that as a  
15 term separated from what I was doing.

16 Q. And is that the same method that the Company

17 is using to calculate depreciation rates?

18 A. That's my understanding.

19 Q. Okay. Is that the same as -- at another  
20 point in other testimony you refer to the Kottemann  
21 method. Is that -- are those the same things?

22 A. Yes. When I was criticized for using the  
23 word "classical," I tried go another route.

24 Q. Okay. But they're the same things?

25 A. Yes.

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1 Q. who criticized you for using "classical"?

2 A. I don't recall exactly right now.

3 Q. Okay. Somebody on the Staff, though?

4 A. I -- I just don't recall.

5 MR. BYRNE: Your Honor, I'd like to mark  
6 another exhibit.

7 JUDGE DIPPELL: Okay. We're at Exhibit 124.

8 (EXHIBIT NO. 124 WAS MARKED FOR  
9 IDENTIFICATION.)

10 BY MR. BYRNE:

11 Q. Mr. Adam, I've handed you what's been marked  
12 as Exhibit 124. Could you identify this document?

13 A. The attachments are my handwritten notes  
14 and -- and also I see some of the data that was  
15 submitted by Laclede in here. Mostly, it looks like  
16 it's my handwritten notes from -- as I was stepping  
17 through, account by account reviewing it.

18 Q. On the cover letter on the first sheet it  
Page 173

19 says "These are Paul Adam's workpapers in Case  
20 No. GR-98-374." Does that appear to be what theory?

21 A. I would say that's a good definition or  
22 title.

23 Q. Okay. And I -- and are these the workpapers  
24 that underlie the rates that are -- that you're  
25 proposing in this case?

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1 A. With one exception.

2 Q. And the exception being the holders; is that  
3 right?

4 A. Yes.

5 Q. But other than the holders, are these the  
6 workpapers that underlie the rates you are sponsoring  
7 in this case?

8 A. They appear to be, yes.

9 Q. Okay. Could you turn to the third sheet of  
10 paper, since they're not numbered, and toward the  
11 bottom of those handwritten notes, it says, "It is my  
12 proposal that net salvage for steel mains be set  
13 at" -- and then it -- then it has a number scratched  
14 out, and then underneath it is "<7 percent,>"  
15 7 percent in brackets. Do you see that?

16 A. Yes.

17 Q. What -- do you know what the -- what is the  
18 number that's scratched out, if you know?

19 A. It looks like 43, but I -- I can't tell you

20 for sure.

21 Q. Like 43 percent in brackets?

22 A. It looks like it.

23 Q. And I guess the brackets signify it is a  
24 negative number?

25 A. Yes.

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1 Q. Okay. And do you know how the number that  
2 you scratched out would have been calculated?

3 A. I believe it's just simply taking the gross  
4 salvage minus cost removal and dividing it by the  
5 plant that was retired for that -- for that year, or  
6 for a group of maybe five years.

7 Q. Okay. So would that have been derived using  
8 the classical method that we've talked about?

9 A. Yes.

10 Q. But then it's scratched out, and then  
11 7 percent in brackets is below it. And how would --  
12 what is -- how was that number derived?

13 A. What happened when I was working on this  
14 case was, I was doing the calculations as we just  
15 described on the major accounts, or the bigger  
16 accounts, and -- but at that time I had time to also  
17 look at some of the smaller accounts.

18 And when I got in some of the smaller  
19 accounts, I could just see as I calculated the numbers  
20 that the rate for the salvage part of the formula, if  
21 you multiplied that times plant balance, was going to

22 be significantly greater than what the current net  
23 salvage was on the sheets that are similar to the  
24 sheet that follows here. And that caused me to -- to  
25 analyze further if the big accounts had the same

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1 situation.

2 In other words, I went back to mains and  
3 services and meters and looked at those accounts to  
4 see if you simply took the ratio, whether you used a  
5 five-year average, a single year, or whatever, if you  
6 simply took that ratio and put it in for negative net  
7 salvage and then calculated what the accrual would be  
8 relative to salvage, and then compare that to what the  
9 Company was spending currently, or over the last  
10 15 years. And what I found was that there was  
11 considerable difference.

12 Q. Okay. And then is this the point -- I mean,  
13 is this the point during the course of your  
14 preparation of these workpapers that you decided to  
15 switch from the classical method to the method that  
16 you're proposing in this case? Is that the moment of  
17 change?

18 A. Yes.

19 Q. Okay. Did anyone tell you to make the  
20 change, or did you just decide on your own based on  
21 the analysis that you just talked about in your last  
22 answer?



23       A.     No one told me to make the change, but  
24 others were aware. It was discussed before this was  
25 used in my testimony.

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1       Q.     Did anyone suggest that you make the change,  
2 or did you bring it to their attention?

3       A.     I brought it up.

4       Q.     Who else did you talk to about that?

5       A.     Mr. Gilbert, for sure. I have -- I can't  
6 remember when Mr. Birenbaum had left. I discussed  
7 essentially everything with him.

8       Q.     How about Mr. Schallenberg?

9       A.     I don't recall that we discussed this with  
10 Schallenberg before the testimony was written.

11      Q.     Okay. But he became aware of it as you were  
12 writing your testimony, at least?

13      A.     Or after. The meetings that we had with the  
14 Company where we discussed the depreciation rates that  
15 relate to when Greg Meyer made the phone calls and  
16 such, at that -- in that period of time, Bob  
17 Schallenberg became aware of kind of the difference  
18 between the way we were looking at net salvage versus  
19 the Company and some other cases.

20      Q.     And he's certainly aware of it now. He's  
21 aware of the issue in this case?

22      A.     I hope so.

23      Q.     Okay. Okay. In your rebuttal testimony,  
24 Mr. Adam, on Page 1, beginning at Line 18, you say,  
Page 177

25 "The ultimate principle of depreciation is to allow  
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1 the Company to collect from their customers the amount  
2 of money needed to pay for the original cost of their  
3 plant and the cost of removal of the plant less any  
4 gross salvage." Do you see that?

5 A. Uh-huh.

6 Q. What is your source for that statement?

7 A. I guess I'll take responsibility for that.

8 Q. Okay. Well, let me ask you this: I -- you  
9 know, I'm not a depreciation expert, but I always  
10 thought the ultimate principle of depreciation was to  
11 spread the cost of an asset over the period of time  
12 that the asset is being used. Isn't that the ultimate  
13 principle of depreciation?

14 A. That's probably a -- an academic way of  
15 looking at it. Perhaps I'm looking at it a little  
16 more from the regulatory world where when we look at  
17 depreciation we realize that it's going to be used in  
18 rates, and the customers having to pay those dollars.

19 So I'm not trying to mislead anybody when I  
20 say "collection." I'm trying to look at it from a  
21 practical point of view, is that these dollars that  
22 we set up for depreciation, whether we use the  
23 23.3 million that the Company is proposing, or the  
24 20.8 million that I'm proposing, it's going to be  
25 collected from the customers.

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1       Q.     Sure. well, let me ask you this: whether  
2     you agree it's the ultimate principle or not, do you  
3     agree with the statement I made, that maybe the goal  
4     of depreciation, or a goal of depreciation, is to  
5     spread the cost of an asset over the period of time  
6     that the asset is being used?

7       A.     Not if you're talking tax depreciation, no.  
8     So it depends on what you're talking about.

9       Q.     well, let's say I'm not talking about tax  
10    depreciation. would you agree with it then?

11    A.     In the application of depreciation to  
12    recovery of -- of that plant, in looking at the whole  
13    life formula, the answer would be yes, because the  
14    whole life formula is set up to recover over the life  
15    of the plant, the used and useful life of the plant,  
16    which would be called average service life, the  
17    original investment and also those other costs which  
18    are net salvage.

19    Q.     And would you agree with me that one of the  
20    costs of a piece of plant is the cost that will be  
21    incurred to remove the plant?

22    A.     One of -- say that one more time.

23    Q.     would you agree that one of the costs of a  
24    piece of plant is the cost that will be incurred to  
25    remove that plant from service?

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1 A. Removal of the plant will be a cost, yes.

2 Q. Okay. On Page 2, Line 4 of your rebuttal,  
3 you -- you say that your method for addressing net  
4 salvage addresses the intergenerational problem. Do  
5 you see that?

6 A. Correct.

7 Q. What is the intergenerational problem that  
8 you're talking about?

9 A. I wish I hadn't said it now.

10 The intergenerational problem is usually  
11 characterized by saying that people -- if you have  
12 customers that are paying this accrual amount, that  
13 they should be paying in step with the utilization of  
14 the plant rather than saying -- well, I guess your  
15 example, that you might be directing -- headed towards  
16 is the final removal of a plant.

17 Should people pay after the plant is removed  
18 for that, or should they pay during the period of the  
19 plant's installation? The intergenerational problem  
20 or the intergeneration would say that they should pay  
21 during the life of the plant for the final removal.

22 Q. Rather than after the plant is removed from  
23 service?

24 A. Correct.

25 Q. Okay. Okay. On Page 2, further down the

1 page in Line 6, could you read the sentence that  
2 begins on Line 6?

3 A. "Mr. Kottemann's method, hereafter referred  
4 to as the 'Kottemann calculation,' (confusion was  
5 recognized with the word 'classical' to segregate one  
6 calculation method for another. This is changed  
7 here.) would" -- going back -- "would collect more  
8 millions of dollars currently than the Company spends  
9 for recovery of plant and net salvage."

10 Q. What does that sentence mean?

11 A. I think it means that the difference in the  
12 20.3 million and the 23 million -- the depreciation  
13 rates that I am proposing will allow the Company to  
14 collect, if you allow me to use that word, accrue, the  
15 amount that they're spending for net salvage, plus the  
16 recapture of the original investment divided by the  
17 average service life.

18 If you use the ratios strictly calculated by  
19 dividing the net salvage by the cost of the plant  
20 removed, you're going to get the higher number, which  
21 is the 23.3.

22 Q. Okay. Now, on the top of Page 3 of your  
23 rebuttal testimony, you say "Historically, the Company  
24 has submitted rate cases every few years."

25 You don't know whether the Company is going

1 to submit rate cases every few years in the future, do  
2 you?

3 A. No.

4 Q. Okay. I'd like to turn to your surrebuttal  
5 testimony. On Page 3 -- well, wait a second.

6 First, I'd like to look at -- I'd like you  
7 to take a look at something in Dr. White's  
8 surrebuttal, if you have that. Do you have that with  
9 you?

10 A. I believe I do.

11 Q. I'm on Page 3 of Dr. White's surrebuttal --  
12 or Page 2, I'm sorry, Line 22, and the sentence says,  
13 "The service potential of an asset is the present  
14 value of future net revenue (i.e. revenue less  
15 expenses exclusive of depreciation and other non-cash  
16 expenses) or cash inflows attributable to the use of  
17 that asset alone."

18 Do you agree with that sentence?

19 A. I'm -- I'm not -- I don't think I'm prepared  
20 to agree or disagree with it. He uses terminology  
21 that is quite academic, and we -- and I'm more of a  
22 practical application person.

23 Q. Okay. I mean --

24 A. I don't see anything wrong with it, but I'm  
25 not a qualified person. Again, if Frank Wolf were

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1 here, you could ask him. He's the kind of person that

2 would say, yes, this is good, or this is bad.

3 Q. Okay.

4 A. I'm not that person.

5 Q. Okay. I want to talk to you a little bit  
6 about holders, to switch gears here.

7 Again, you know, as I understand it, the  
8 issue here is -- your position, and correct me if I'm  
9 wrong -- is that Laclede should not be able to recover  
10 the cost of removal of the holders in its depreciation  
11 rates until it makes a verifiable commitment to remove  
12 the holders by a date certain; is that fair to say?

13 A. That's the position I'm going to support.

14 Q. Okay. And do you know how many dollars are  
15 at issue in depreciation rates related to this issue?

16 A. The rate that is ordered right now  
17 calculated against September '98 plant balance is, I  
18 believe, \$207,000.

19 Q. Okay. Do you know what the total cost to  
20 remove the holders is currently being estimated at?

21 A. The estimates that have been used and talked  
22 about are in the -- for all four holders are in the  
23 \$4 to \$4.4 million range, as I recall.

24 Q. Okay. And my understanding is once Laclede  
25 made a verifiable commitment to remove the holders,

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1 you would allow the amortization of the cost of  
2 removing those at that point; is that true?

3 A. What we've discussed in meetings that you  
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4 attended was that at the time there was a  
5 non-reversible action, that Staff would support a  
6 position of using an amortization to recover an  
7 appropriate amount of the cost of removal of the gas  
8 holders, either if you do them one at a time or all  
9 four at a time.

10 Q. Do you know what kinds of amortization  
11 period you would support for that?

12 A. It would be relatively short. It would be  
13 definitely less than ten years. It would probably be  
14 five or three.

15 Q. But, I guess, it could extend beyond, and  
16 probably would extend beyond the date after the holder  
17 was taken down? I guess it depends on when you took  
18 them down. But if we made the commitment and  
19 immediately took the holders down, there would be an  
20 amortization period after the holders were down; is  
21 that true?

22 A. I'm saying I would support that. I'm not  
23 saying the Commission would allow that to occur.

24 Q. Sure. I understand.

25 what kind of a irreversible commitment are

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1 you looking for? what would satisfy you in that  
2 regard?

3 A. I haven't -- I haven't tried to set a  
4 definite -- what do I want to say -- thing that has to



5 occur between Laclede and a company that would be  
6 bidding to take them down. I don't know exactly at  
7 this stage what I would have to see, but, you know, if  
8 there was a commitment made by the CEO of your company  
9 by signing a contract with a company to remove them, I  
10 would probably accept that.

11 Again, I want to be clear that, you know, I  
12 will support that as a Staff member, but that doesn't  
13 mean the Commission would weigh toward any action  
14 until the gas holders are actually removed.

15 Q. I guess you can never be sure if the  
16 Commission will adopt any of the things you propose?

17 A. Anything. Yes.

18 Q. Are you aware that we're estimating the  
19 remaining life of the holders to be ten years?

20 A. I know that there has been submitted a  
21 request to use remaining life for the gas holders,  
22 yes.

23 Q. And ten years --

24 A. Was the denominator in the formula.

25 Q. And are you -- assuming for a minute that we

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1 do remove the holders in ten years, are you suggesting  
2 that we could -- that there would be a way to contract  
3 ten years in advance for a contractor to remove those  
4 holders?

5 A. Say that one more time.

6 Q. Assuming the holders are to be removed in  
Page 185

7 ten years, are you saying in order to meet your  
8 irreversible commitment requirement that we should be  
9 contracting for somebody to remove them today?

10 A. No. I'm saying that -- that when you make  
11 an agreement, then we would initiate amortization.

12 Q. Okay.

13 A. I'm not proposing to start the amortization  
14 now.

15 Q. Okay. So you would say when you make an  
16 agreement, I guess close to the date you're going to  
17 take down the holders, that's when the amortization  
18 would start?

19 A. That's when I would be willing to support  
20 that position, yes.

21 Q. Are there any other examples of assets of  
22 regulated utilities in Missouri that you require such  
23 an irreversible commitment by the chief executive  
24 officer or president of the company as a condition for  
25 setting a depreciation rate at a certain level?

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1 A. For plant of the type the gas holders are,  
2 buildings and such, I am unaware of any of that plant  
3 where the final removal is considered as part of the  
4 depreciation accrual in the state of Missouri, with  
5 the exception of two major nuclear plants where it's  
6 required by federal guidelines that there be a fund  
7 set up to handle the final removal of those plants.

8 Q. That's a good answer, but it wasn't an  
9 answer to my question.

10 I was -- I was asking if there is any other  
11 utilities where you require an irreversible commitment  
12 by the president of the utility in order to set a  
13 depreciation rate for an asset?

14 A. I guess the answer is all of them.

15 Q. All of them?

16 A. Of this type of plant.

17 Q. Okay. Can you tell me some examples where  
18 the president of a utility has made such a commitment?

19 A. No. What I'm telling you is that -- that  
20 there is no final removal of any plant. The most  
21 common would be a building where there would be a  
22 charge or a cost to tear the building down or  
23 remediate the location.

24 There is -- there is nothing in our  
25 depreciation rates to cover that. We would not

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1 support putting that into depreciation rates without  
2 some kind of non-reversible action.

3 I thought I mentioned power plants as an  
4 example in either my rebuttal or my surrebuttal. We  
5 do not have in the depreciation rates an amount of  
6 dollars for the final removal of any of the major  
7 power plants in the state of Missouri.

8 Q. Well, would you agree with me that there is  
9 some differences between our gas holders and major

10 power plants?

11 A. In what way?

12 Q. Well, would you agree that major power  
13 plants are significantly more expensive to construct  
14 and tear down?

15 A. I would agree to that.

16 Q. Would you agree that the removal costs are  
17 likely to be significantly higher than -- for a power  
18 plant than for one of our gas holders?

19 A. Yes.

20 Q. Okay. On -- in your direct testimony on  
21 Page 10, Line 22 --

22 A. Direct?

23 Q. Yeah. I'm doing the holder thing --

24 A. Okay.

25 Q. -- so I have to start over.

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1 On December -- do you have that?

2 A. Uh-huh.

3 Q. The sentence says, "Company engineers stated  
4 that within ten years the four gas holders would be  
5 removed."

6 Are you aware that Laclede denies that that  
7 allegation or that statement was ever made?

8 A. Yes, I am.

9 Q. Do you have any proof in terms of documents  
10 or letters or testimony or anything that shows that

11 any Company engineers made that statement?

12 A. No. We -- we had had conversations, and we  
13 apparently misunderstood the Staff -- the Company's  
14 engineers.

15 Q. Well, is it possible that the Company  
16 engineers said that they estimated that the remaining  
17 life for the holders would be ten years? Is that  
18 possible?

19 A. Those conversations with were Mr. Birenbaum  
20 and I, and he was still here at that time. And David  
21 and I thought that we had heard that the Company would  
22 not have gas holders beyond ten years, and this was  
23 back in 1996.

24 It's -- it's all a matter of what one person  
25 heard and what another person said, and we thought we

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1 heard something, and, obviously, we didn't.

2 Q. Let me ask you this: In 1994, if you  
3 recall, what was your position on the treatment of the  
4 removal costs for the holders?

5 A. At that time, I believe Birenbaum and I were  
6 both supporting some kind of removal cost.

7 Q. To be included in the current depreciation  
8 rates?

9 A. As I recall, that was when we bumped the  
10 rates up significantly for gas holders.

11 Q. And so you were -- just so I get it clear,  
12 at that time, at least, you were supporting inclusion

13 of some level of removal costs in rates?

14 A. If you're recognizing that I've changed my  
15 mind, the answer is yes.

16 Q. And wasn't the problem in 1994 that the  
17 Company provided a calculation of the removal costs  
18 that wasn't sufficiently verifiable? Do you recall  
19 that?

20 A. Well, there -- there were questions about  
21 certain aspects of it. In particular -- or one of  
22 them that was a large dollar amount was the sludge  
23 removal, and the Company had done some work toward  
24 attempting to calculate it, but it -- it seemed as  
25 though that they might be able to do a little better

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1 job of figuring out how much sludge would be in the  
2 bottom of the holders.

3 Q. Well, isn't it true that in the 1994 rate  
4 case, we presented -- the Company presented you with a  
5 cost of removal that you rejected because it didn't --

6 A. Was that the 8.7 million? Harry Haury?

7 Q. No. This is the case before that. This is  
8 '94 where Mr. Russell, I guess, probably would have  
9 been our witness on the issue.

10 A. You were still up in 8 to 10 million range,  
11 I believe.

12 Q. Yes. I believe that's correct.

13 A. I believe -- I believe we felt that that

14 number was too high.

15 Q. Okay. So you -- did you ask the Company at  
16 that time to refine its estimate of the removal costs?  
17 Do you recall?

18 A. As I recall, we did, yes. You're going way  
19 back to about the time I started here.

20 Q. And do you know what the Company did in an  
21 attempt to refine its estimate of the removal cost to  
22 satisfy your concerns?

23 A. I don't know in total, of course, but I do  
24 recall that, I think, George told us they were going  
25 out and fix some kind of instrument that would go down

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1 the edge of the gas holders and such, so it seemed  
2 like they had done some additional measurement. I  
3 just don't recall if that's -- I'm sorry about that.

4 Q. Well, isn't it true that we provided an  
5 improved estimate in the 1996 case that had -- that  
6 did exactly what you said. We invasively tested the  
7 sludge around the edge of the holder? Do you recall  
8 that?

9 A. I recall that there was more work done, yes.

10 Q. Do you recall that we had a big binder full  
11 of cost estimate workpapers?

12 A. Yes. As a matter of fact, I think I still  
13 have that.

14 Q. And do you recall that we hired Black &  
15 Vietch to review that in that case? Do you recall

16 that?

17 A. I recall Black & Vietch's name.

18 Q. But in the 1996 case, do you recall that you  
19 still weren't satisfied with the cost estimate?

20 A. Correct. I mean, we still -- I guess that's  
21 where the 8.7 comes in, and we still thought that was  
22 high.

23 Q. Do you recall what you thought was wrong  
24 with our cost estimate in the 1996 case?

25 A. I guess simply that it seemed like the

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1 numbers were higher than they ought to be.

2 Q. Do you recall expressing concern about how  
3 we measured the sludge, that the sludge was only  
4 measured at the edge of the holder, and that --

5 A. That I do recall.

6 Q. And that you couldn't necessarily  
7 extrapolate the depth of the sludge in the middle of  
8 the holder? Do you recall that debate from the 1996  
9 case?

10 A. I remember us talking about whether the  
11 sludge was level, or bla-bla-bla.

12 Q. And do you recall what you suggested we  
13 should do to address your continuing concerns over the  
14 cost estimate for removal of the holder?

15 A. I -- I believe there was some discussions,  
16 but it seems like running some kind of instrument



17 inside the holder was one thing that was discussed.

18 Q. Well, do you recall discussing with the  
19 Company getting Creamer or -- well, I guess, yes,  
20 getting Creamer & Associates to provide an estimate of  
21 the cost of removal of the holders?

22 A. No.

23 Q. Do you recall suggesting, even if not --  
24 even if you don't recall Creamer, do you recall  
25 suggesting that we get an estimate from an outside

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1 contractor who had experience in demolishing and  
2 remediating holders?

3 A. I don't recall that. I may have done it.

4 Q. Okay. And then in this case we've presented  
5 additional cost of removal information including an  
6 estimate from Creamer & Associates who is an expert in  
7 demolishing and remediating holders; is that right?

8 A. In 99-315?

9 Q. Yes.

10 A. Yes, there is additional information  
11 presented that fits with what we had found  
12 independently to be the ball park cost of removing gas  
13 holders of this type.

14 Q. And now, after five years of refining and  
15 improving our estimate, you've decided that in any  
16 event we can't recover the removal costs as part of  
17 our depreciation rates?

18 A. No, I didn't say that.

19 Q. At this time?

20 A. Well, at this time, yes, because what I've  
21 found in the meantime is that the Commission has --  
22 has characteristically and quite recently not allowed  
23 final removal costs.

24 Q. And in what case are you talking about?

25 A. Well, the most recent one was the water case

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1 that we discussed earlier.

2 Q. Okay. The case where you -- well, that you  
3 had not read the Report and Order from; is that right?

4 A. No. Woodie Smith was on that case, and he  
5 told me that the Commission disallowed the final  
6 removal costs that they -- that even the Staff in that  
7 case was supporting.

8 Q. Do you have any reason to believe that the  
9 estimate that Creamer has provided us for the removal  
10 and demolition of the holders is inaccurate?

11 A. I have no reason to think that it's  
12 inaccurate.

13 Q. Are you familiar with Creamer?

14 A. Not really. I've talked to one person there  
15 on the phone one time. I also got a package of  
16 literature from them.

17 Q. Okay. On Page 12 of your direct testimony,  
18 at the top of the page, Lines 1 through 4, you say  
19 that Laclede has accrued a balance of approximately

20 \$2 million for final retirement. Do you see that?

21 A. Yes.

22 Q. And I guess -- well, my understanding is  
23 that number -- the accrual amount is really \$1.9  
24 million. Do you know if that's true?

25 I guess what I'm getting to is, I think

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1 there is a mistake in these numbers. It's probably  
2 not the \$2 million number, but do you have any way to  
3 see where those numbers are and what they should be?

4 A. Well, I don't recall what I was referring to  
5 here exactly at that time, but the account now has  
6 accrued as much as the original cost plus about  
7 ninety -- excuse me -- \$65,000 above the original  
8 cost. Okay? I believe this is an incorrect statement  
9 to say that it's got \$2 million for final.

10 Q. Okay. Well, could you correct that little  
11 paragraph, however you need to?

12 A. Well, right now there wouldn't be -- with  
13 the current accrual balance there would be zero  
14 balance -- well, excuse me. I guess there would be  
15 \$65,000 towards final retirement or any interim  
16 activity that might occur between now and when the  
17 plant is finally retired.

18 Q. And so isn't it true, then, in the -- so  
19 we've recovered the whole original cost and maybe a  
20 little bit towards final retirement; is that correct?

21 A. Yes.

22 Q. And then in the next sentence you say, the  
23 Company wants to collect another \$2,800,000 to have a  
24 total final retirement accrual balance of 4.8 million.  
25 We have -- as you've corrected your testimony, we have

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1 to collect --  
2 A. The 4.8.  
3 Q. -- the 4.8 or 4.75 --  
4 A. Whatever.  
5 Q. -- to --  
6 A. Yeah.  
7 Q. Okay. So that \$2,800,000 number on Line 3  
8 should something on the order of 4,800,000?  
9 A. Right.  
10 Q. Is that correct?  
11 A. Right.  
12 Q. Okay. On Page 11, Lines 15 to 16, let's  
13 see, you're talking about the final retirements being  
14 unmeasurable and unpredictable. Would you agree that  
15 Creamer has measured an estimate of the cost of  
16 removal of the holders?  
17 A. For the time at which they did it.  
18 Q. Okay. And would you agree that even absent  
19 an irreversible commitment from the Company, the time  
20 for retirement of those holders is fairly predictable?  
21 A. I guess I can't answer that. I don't -- I  
22 don't know. I don't know what the Company's plans

23 are.

24 Q. Well, let me ask you this: Even under the  
25 Company's proposal, wouldn't the Company stop

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1 depreciating the holders when its full accrual was --  
2 or full amount was accrued?

3 A. I would hope they wouldn't do that unless  
4 they had an order.

5 Q. Okay. On Page 12 of your direct testimony,  
6 Lines 17 and 18, you say it is your belief that the  
7 removal of the costs -- the removal costs of the four  
8 holders will continue to grow.

9 what's the basis for that statement?

10 A. Probably two things would be the basis. One  
11 would be inflation, and the other is my concern that  
12 environmentally there will be more environmental  
13 requirements placed upon the company as time goes by  
14 when they go to remove the gas holders.

15 Q. Well, isn't it possible that environmental  
16 costs -- well, can't environmental costs go either up  
17 or down as time goes by?

18 A. Just like your cost removal that we  
19 discussed earlier, yes.

20 Q. Okay. On Page 13, Line 8 -- again, this is  
21 in connection to the environmental costs -- you're  
22 talking about air monitoring costs. What's your basis  
23 for saying that air monitoring is required when the  
24 holders are removed?

25           A.     Well, I believe that CIPSCO had some gas  
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1     holders removed over in Illinois, and the result was  
2     that there were some youngsters that in a near area  
3     contracted a cancer, an unusual cancer, and there  
4     ended up a lawsuit. And the result now is that air  
5     monitoring is essentially a necessity to prove your  
6     liability situation if you remove gas holders.

7           Q.     Is that the Taylorville, Illinois situation?

8           A.     I believe so. I at this moment don't recall  
9     the name.

10          Q.     Wasn't that a manufactured gas plant that  
11     was being remediated as opposed to a gas holder?

12          A.     My understanding, it was gas holders, but  
13     you're allowed to correct me if I'm wrong. I mean, I  
14     was told it was gas holders.

15          Q.     Okay. But you don't -- again, you don't  
16     have any personal knowledge of the case? You haven't  
17     read the case or anything?

18          A.     I've only read articles about it.

19          Q.     And you thought from those articles that it  
20     was a gas holder?

21          A.     I thought they referred to gas holders, yes.  
22     They're manufactured gas plants at your locations  
23     where your gas holders are, too, so . . .

24          Q.     On Page 13, Line 20, you say  
25     ". . . management is apparently delaying the removal

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1 of the four gas holders." What's your basis for that  
2 statement?

3 A. Well, again, this was my direct testimony  
4 where we thought that there was a ten-year period  
5 within which that ten-year period all four gas holders  
6 would be gone, and it appeared that for some reason  
7 they were -- were not moving to remove them, so -- I  
8 mean, we have not heard anything in the last three  
9 years about actions taken to move -- remove even one  
10 of the four holders.

11 Q. Okay. Let me ask you on -- in your rebuttal  
12 testimony, on Page 3, you have a sentence that says,  
13 "Now the Company is suggesting that all four gas  
14 holders will be removed by 2009 . . ." Is it your  
15 impression that the Company is making a firm  
16 commitment to remove the gas holders by 2009 in this  
17 case?

18 A. No. 2009 comes from the -- just implied  
19 from the formula that Rick submitted from this last  
20 group of data.

21 Q. Are you aware that in -- as part of the  
22 depreciation information that it's required to file,  
23 the Company has estimated a service life of ten years  
24 for the holders?

25 A. Say that again.

□

1 Q. I'm sorry. Are you aware that as part of  
2 its 1998 depreciation study, which was filed in Case  
3 No. GR-98-374, the Company listed the estimated year  
4 of retirement for the holders at 2010?

5 A. I don't recall that offhand.

6 Q. In your rebuttal testimony on Page 4, near  
7 the -- I guess on Line 2 you say, "There is no interim  
8 salvage in this account . . ."

9 Do you have Mr. Kottemann's surrebuttal  
10 testimony up there with you?

11 A. I'll concede that there has been some over  
12 the 30 years that he presents.

13 Q. Okay. So --

14 A. I believe it's -- without even accounting  
15 for the gross salvage, I believe it's something like  
16 \$59,000 over 30 years.

17 Q. Okay. So your statement that there is no  
18 interim net salvage is -- there is some; is that  
19 right?

20 A. There is some. I don't think there has been  
21 any for about ten years. But if we look at his data,  
22 I believe you'll see that the only -- in the past  
23 15 years I believe there was one year that had maybe a  
24 \$1,500, \$2,000 or something. It's been negligible in  
25 the last 15 years.

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1           Q.     Let me ask you this: Do you believe,  
2     Mr. Adam, that your treatment of the depreciation  
3     issue and the removal costs related to the holders is  
4     consistent with your theory of net salvage for the  
5     other accounts? In other words -- and I guess the  
6     reason I draw that analogy is because, you know, my  
7     understanding is that what you look at with regard to  
8     the net salvage for the other accounts is the actual  
9     experience that the Company currently has and has  
10    experienced in the recent past.

11               And, similarly, with regard to the holders,  
12    you're -- your expectation that the Company actually  
13    have a firm commitment to retire the holders, and I  
14    assume a verifiable estimate of the cost, isn't that  
15    the same theory?

16           A.     It's close. We have here at the PSC as the  
17    staff looked at interim retirements and final  
18    retirements. We don't totally look at them  
19    mechanically. But the -- what we consider the final  
20    retirement of the gas holders will probably not be  
21    allowed by the Commission until action is actually  
22    initiated to retire the -- or to remove the holders.

23           Q.     I think I'm almost done, if I can just have  
24    a second.

25               Mr. Adam, you mentioned that you had some

1 discussions with Frank Wolf, and I believe he told you  
2 that the average service life of plant retired may not  
3 be at the same time rate as future retirements. Do  
4 you remember saying that?

5 A. No. What I -- what I said was -- when I  
6 talked to Frank and we were talking about the part of  
7 the formula that addresses net salvage, if you divide  
8 that by the average service life of the plant in  
9 service, what Frank indicated to me was that that  
10 average service life may not be the average service  
11 life of the plant that is in that retirement.

12 Q. Okay. Let me ask you this: Did Mr. Wolf  
13 endorse the adjustment that you are proposing?

14 A. Oh, no. I never said that.

15 Q. He did not endorse it?

16 A. No. We -- we just discussed that the --  
17 using the calculation as it is, if you just take the  
18 gross salvage minus the cost of removal divided by the  
19 plant that's retired, it does not yield a number  
20 necessarily even close to the amount that's being  
21 spent for negative net salvage, and, I don't know,  
22 trying to discuss what might cause that to occur. And  
23 Frank's suggestion or idea on the conversation was  
24 that there may be different average service lives.

25 Q. So you did not discuss your proposed

1 treatment of net salvage in this case with Mr. Wolf?

2 A. That I -- I honestly don't recall whether I  
3 told him what I was planning to do or not.

4 Q. But, in any event, he did not endorse your  
5 treatment of net salvage in this case? The only  
6 reason I asked again is because I think you  
7 interrupted my question. For the record --

8 A. Go ahead.

9 Q. For the record, is it true that he did not  
10 endorse the method --

11 A. He did not give me an endorsement of using  
12 it. I'm sorry.

13 Q. I've got to finish the question.

14 A. Okay.

15 Q. He did not -- Mr. Wolf did not endorse the  
16 treatment of net salvage that you are proposing in  
17 this case; is that true?

18 A. Yes.

19 Q. Okay. And is -- is your adjustment to net  
20 salvage that you're proposing in this case addressed  
21 anywhere in the Wolf/Fitch text that you've  
22 referenced?

23 A. No, not that I'm aware of.

24 MR. BYRNE: Okay. I'm done, your Honor.

25 Thank you very much.

1 JUDGE DIPPELL: Thank you.

2 There are no questions from the Bench.

3 Are you going to have several questions on  
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4 redirect, Mr. Stueven?

5 MR. STUEVEN: Yes, I'm going to have several  
6 questions.

7 JUDGE DIPPELL: Let's go ahead and take a  
8 break and come back at ten after three.

9 Go off the record.

10 (A recess was taken.)

11 JUDGE DIPPELL: Let's go back on the record.  
12 We are ready to proceed, then, with  
13 redirect.

14 MR. STUEVEN: Thank you.

15 REDIRECT EXAMINATION BY MR. STUEVEN:

16 Q. Mr. Adam, on cross-examination, there was  
17 some talk about GR-99-246, the St. Joe case. Do you  
18 remember that?

19 A. Right.

20 Q. In that case you filed -- you just filed  
21 direct testimony. You didn't file rebuttal or  
22 surrebuttal. Correct?

23 A. Yes.

24 Q. Okay. Did St. Joe offer any testimony in  
25 rebuttal or surrebuttal that disagreed with the

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1 depreciation rates you proposed in that case?

2 A. They did not.

3 Q. Mr. Adam, in response to a question about  
4 your workpapers and a number on that page, you talked

5 about looking at various accounts and coming up with a  
6 problem. Can you give an example of that?

7 A. Yes, I could, if you let me use my examples.

8 Q. Well, Mr. Adam, before you get into this,  
9 the information that you have on the board, where did  
10 you obtain that information?

11 A. It's Company information. You've got some  
12 handouts there that show it. It's the salvage  
13 information on the other equipment account.

14 MR. BYRNE: Your Honor, I'm going to object.  
15 It seems to me like he's about to supplement the  
16 record here with additional testimony, and I don't  
17 think it's proper.

18 MR. STUEVEN: He asked him a question on his  
19 workpapers. I'm just going into some detail on how he  
20 developed the answers that he gave.

21 MR. BYRNE: I asked him about one question  
22 on a number on his workpaper.

23 JUDGE DIPPELL: Explain to me, again,  
24 Mr. Stueven, exactly what the question was.

25 MR. STUEVEN: Okay. On cross-examination

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1 the Company offered into evidence Mr. Adam's  
2 workpapers as Exhibit 124. The questions delved into  
3 the change in the percentage value at the bottom of --  
4 I believe it's Page 3. And what I'm going into is a  
5 further explanation of why that change was made, a  
6 more detailed explanation.

7           MR. BYRNE: Your Honor, I don't mind if he  
8 explains why the change was made. I do have a problem  
9 with putting a -- I guess he's going to put a chart  
10 full of information into the record. That doesn't  
11 seem like it's --

12           MR. STUEVEN: Using it as demonstrative  
13 evidence at hearing. There's a lot of numbers  
14 involved. It might be easier to follow it this way.

15           MR. BYRNE: In addition, your Honor, we  
16 don't have any opportunity to cross-examine him on any  
17 of those numbers. We've never seen it before.

18           MR. STUEVEN: I believe the witness has  
19 testified that it's Company info that was obtained  
20 from the Company.

21           MR. MICHEEL: Your Honor, if I may, it's  
22 much like the Exhibit 119 which I think you let in.

23           MR. BYRNE: No, your Honor. Exhibit 119 was  
24 not let in, as a matter of fact. It is a lot like  
25 that.

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1           MR. MICHEEL: Well, it was withdrawn by the  
2 Company.

3           JUDGE DIPPELL: I realize that it is a lot  
4 like the exhibit which was originally offered and then  
5 withdrawn by the Company, which at that time I ruled  
6 that I would let it in and that I would let the other  
7 side cross-examine on that. However, it did not end

8 up coming in. And, in fact, Exhibit No. 124 has not  
9 been offered, but --

10 MR. STUEVEN: I can do this without the  
11 exhibit. I just thought it would be easier for the  
12 Commission's understanding.

13 JUDGE DIPPELL: Why don't you try it without  
14 the exhibit, and -- I -- just because I ruled that the  
15 previous exhibit could come in, as you could tell from  
16 my ruling at the time and my decision to allow  
17 cross-examination on that, that I felt that that was  
18 sort of on the edge, as it was.

19 So if you can get the witness to explain it  
20 without using the chart, let's try that first. If it  
21 becomes unclear -- otherwise, I'm afraid that it's  
22 going to go beyond the scope of the cross on that  
23 particular issue.

24 BY MR. STUEVEN:

25 Q. Okay. Mr. Adam, when you -- in response to

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1 the Company's questioning, you mentioned that you had  
2 looked at some smaller accounts and noticed some  
3 irregularities. Can you give an example of one of  
4 those accounts?

5 A. Yes. It would be the other equipment  
6 account, 387, as an example of the time of account  
7 that I was looking at when I realized that simply  
8 calculating the total net salvage divided by the  
9 retirement value and using that in the formula would

10 recover -- or would cause the accrual to be much  
11 greater than the net salvage being spent in the  
12 calendar years as we were currently seeing.

13 Q. Did you calculate various -- did you  
14 calculate five-year averages for the net salvage?

15 A. Yes, I did. I had a 15-year span of data  
16 that had been submitted and I calculated five-year  
17 averages for the 15 years. Looking at the furthest  
18 out 15 years, I calculated a percentage of minus  
19 132 percent; the middle five years, I calculated a  
20 minus 402, and the most current five years was a minus  
21 255, which showed that there was quite a bit of  
22 volatility, depending on which time period you might  
23 be looking at as far as calculating the salvage  
24 percentage.

25 what was also interesting is in this data

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1 set there was a year fairly current when there was  
2 absolutely no retirements booked, and when you  
3 consider that versus the shorter time frame of three  
4 years, you find that the calculated percentage is  
5 exactly the same, which would show that you would --  
6 you would use that percentage to calculate the salvage  
7 that was needed, the negative salvage that was needed  
8 by the company. Yet, one of those years there was --  
9 there was no retirements.

10 Q. Were there any other irregularities that you



11 noticed in looking at the data?

12 A. well, probably one that would -- if you  
13 wanted to go to the absolute extreme was 1988  
14 calculated over 2,000 percent negative. And you can  
15 look at that and say, well, if that was in your last  
16 five years, and if all of the other years were zero,  
17 no retirements, because you're working with a ratio in  
18 calculating that percentage, you would still come up  
19 with 2,226 percent as the number you would put in the  
20 formula. And it was because of those types of things  
21 that I -- I said I need to look further at this.

22 Q. Now, did you calculate what the net salvage  
23 would be using the Company's rates -- or the Company's  
24 proposed rates in this case?

25 A. In this case, using the 256 percent, which

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1 was the most recent five-year average, and dividing by  
2 28, which is average service life which essentially  
3 there is no dispute on average service life on any of  
4 the accounts I'm aware of, it calculated .091, which  
5 multiplied times the plant balance, would have had an  
6 accrual of \$23,990. That was much greater than the  
7 most recent five years which averaged no more than  
8 1,000, and it was also much greater than the average  
9 for the 15 years, which only averaged about \$11,000  
10 per year.

11 Q. Now, after looking at this other equipment  
12 account, you went back and looked at the -- let's

13 see -- what was it -- account -- let's see. You  
14 looked back at --

15 A. Services.

16 Q. Services?

17 A. Yes.

18 Q. Is that it? And what did you find in that  
19 account?

20 A. Well, it was interesting to find out that  
21 because there is so much activity in that account, you  
22 don't see the volatility in services when you sit down  
23 and calculate the negative percentages, so when you  
24 look at the furthest out five years, you calculate  
25 91.58 percent, the middle five years of the 15-year

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1 group is 105 percent, and the most recent was 117, not  
2 a lot of volatility there, maybe a slight trend toward  
3 a higher percent salvage from 15 years ago to today.

4 But then as you look at more current data  
5 and you look at a four-year period averaged, a  
6 three-year period averaged, and such, you see that the  
7 calculation on a percentage basis is slightly  
8 decreasing.

9 To move on from that, again, and to use the  
10 five-year average, again, in the formula, divide by  
11 this -- in this case average service life of 45, you  
12 get .026. And if you multiply that .026 times the  
13 plant balance on September the 30th of '98, you arrive

14 at a value of nine-hundred-- or an amount of \$986,000.

15 And when you look back at the total salvage  
16 column, you see that there was never a year that even  
17 came close to approaching \$986,000. As a matter of  
18 fact, there was only one year when they spent over  
19 \$500,000, so it -- it indicated to me there that just  
20 using the five-year average on the percentage was  
21 going to result in an accrual that was \$500,000 more  
22 annually than was being spent for total net salvage.

23 MR. BYRNE: Your Honor, I'm going to object.  
24 I renew my objection and, I guess, ask that that whole  
25 answer be stricken from the record. You know, I don't

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1 think it's proper that he can on redirect read a whole  
2 string of numbers into the record, supplement his  
3 testimony in this -- in this substantial way, when  
4 I've got no opportunity to cross-examine him. I don't  
5 think that's fair, and I just don't think that should  
6 be allowed.

7 And for that matter, I think it's -- even  
8 though I did ask him about one number in his  
9 workpapers, I don't think a long recitation of all of  
10 the things that are included in his workpapers is  
11 justified by that.

12 So I would object and ask that the answer  
13 that he just gave be stricken.

14 MR. STUEVEN: Counsel asked about a key  
15 number in the calculation of depreciation rates in

16 Mr. Adam's workpapers without giving him an  
17 opportunity to explain how he got to that number. I'm  
18 just giving him an opportunity to explain how those  
19 numbers are developed.

20 MR. BYRNE: He's not talking about the  
21 number I was asking about. He's talking about whole  
22 other accounts in his workpapers.

23 MR. STUEVEN: The methodology is the same.

24 MR. BYRNE: But he's not talking about the  
25 number I was asking him about. He's supplementing the

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1 record with all of the other things that he might want  
2 to, and I don't have a chance to cross-examine him on  
3 it.

4 MR. STUEVEN: I would respond, he inquired  
5 into the workpapers and to how a number was developed.  
6 I'm giving the methodology on how that was developed,  
7 or Mr. Adam is giving the methodology as to how that  
8 was developed.

9 MR. BYRNE: I didn't object for a while,  
10 but --

11 JUDGE DIPPELL: I'm going to overrule your  
12 objection and allow the answer to stand. I think that  
13 you did bring in the workpapers.

14 Again, I might state, the workpapers have  
15 not been offered at this point.

16 MR. BYRNE: All right. Fine. I offer the

17 workpapers. I would like to offer Exhibits 123 and  
18 124.

19 JUDGE DIPPELL: I think 123 was offered and  
20 admitted.

21 MR. BYRNE: Okay. Then 124.

22 JUDGE DIPPELL: Are there any objections to  
23 Exhibit No. 124.

24 MR. STUEVEN: No objection.

25 MR. BYRNE: There better not be.

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1 JUDGE DIPPELL: Then it's admitted.

2 (EXHIBIT NO. 124 WAS RECEIVED INTO  
3 EVIDENCE.)

4 JUDGE DIPPELL: Now that we have that  
5 cleared up --

6 THE WITNESS: Shall I finish?

7 JUDGE DIPPELL: I'm going to allow him to  
8 answer. The objection is overruled.

9 BY MR. STUEVEN:

10 Q. Mr. Adam, I don't want to put words in your  
11 mouth, but I think you were at the end of your answer  
12 at that point.

13 A. I have a graphical representation.

14 Q. It's not necessary.

15 A. It's not necessary?

16 Q. It's not necessary.

17 I believe on cross-examination there were  
18 some questions regarding, with using your depreciation

19 rates, if a company chose not to come back in what  
20 would happen if circumstances changed and the rates  
21 really did need to be adjusted.

22 what would happen if a company chose not to  
23 come in to make a rate case and the depreciation rates  
24 were not recovering an adequate amount?

25 A. If the depreciation rates were not

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1 recovering as much as they were spending, their  
2 accrual balance would start atrophying.

3 Q. What effect would this have on the company?

4 A. It would -- it would show up in their profit  
5 line because they would have expenses that exceed a  
6 revenue that was already at a set level.

7 Q. It would reduce their profit?

8 A. Uh-huh.

9 Q. And what if the depreciation rates were  
10 recovering too much? What would happen?

11 A. If they were recovering too much, then the  
12 accrual balance would grow annually by amount which  
13 would be the difference between the accrual -- annual  
14 accrual and the actual amount spent, so you would be  
15 adding dollars to your accrual balance above and  
16 beyond what might be necessary.

17 Q. And what effect would that have?

18 A. Profit-wise, it wouldn't have any because  
19 the depreciation expense would be greater on the books

20 and would still show the same profit line.

21 Q. Would it -- the next time the Company came  
22 in for a rate case, would that -- would you notice  
23 that in your examination of the Company's records?

24 A. If you did a theoretical reserve  
25 calculation, you should notice it.

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1 MR. STUEVEN: No further questions.

2 JUDGE DIPPELL: Thank you.

3 Mr. Adam, you may be excused.

4 (Witness excused. )

5 JUDGE DIPPELL: Okay. That completes our  
6 depreciation. The next issue was office system sales  
7 and capacity release revenues, and I believe I told  
8 office of Public Counsel that it was okay that their  
9 witness wasn't available until Friday; is that  
10 correct?

11 MR. MICHEEL: Yes, your Honor.

12 JUDGE DIPPELL: Let's go off the record just  
13 a minute.

14 (A recess was taken.)

15 JUDGE DIPPELL: I think we're ready, then --  
16 because of the settlement negotiations, we're going to  
17 finish today, and we'll return tomorrow at 8:30.  
18 Thank you.

19 We can go off the record.

20 WHEREUPON, the hearing of this case was  
21 continued to 8:30 a.m., Friday, September 3, 1999.

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1	E X H I B I T S I N D E X	
2		
3		Marked Received
4	Exhibit No. 20	714
5	Direct Testimony of	
6	Richard N. Hargraves	
7	Exhibit No. 21	714
8	Rebuttal Testimony of	
9	Richard N. Hargraves	
10	Exhibit No. 22	714
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16	Exhibit No. 24	831
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18	Richard A. Kottemann, Jr.	
19	Exhibit No. 25	831
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21	Richard A. Kottemann, Jr.	
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24	Dr. Donald E. White	
25	Exhibit No. 27	837
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	Dr. Donald E. White	
	Exhibit No. 50	775
	Direct Testimony of	
	Kimberly K. Bolin	
	Exhibit No. 51	775
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	Kimberly K. Bolin	
	Exhibit No. 52	775
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	Kimberly K. Bolin	

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1	E X H I B I T S I N D E X		
2	(Continued)		
3		Marked	Received
4	Exhibit No. 57		760
5	Direct Testimony of Ryan Kind		
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23	Paul W. Adam		
24	Exhibit No. 113	826	
25	Schedule showing average use per		
26	customer - therms and average		
27	annual use per customer - therms		
28	Exhibit No. 117	826	
29	Revisions to additional exhibit		
30	submitted into the record on		
31	September 1, 1999		
32	Exhibit No. 121	716	717
33	Company's response to Public Counsel		
34	Data Request 1,117		
35			
36			

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1	E X H I B I T S I N D E X		
2	(Continued)		
3		Marked	Received
4	Exhibit No. 122	864	865
5	Data Information Request No. 116		
6	from Laclede Gas Company, dated		
7	July 12, 1999, and responses		
8	Exhibit No. 123	874	875
9	Direct Testimony of Paul w. Adam,		
10	Case No. GR-99-246		
11	Exhibit No. 124	889	931
12	Paul Adam's workpapers in Case		
13	No. GR-98-374		
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