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| Exhibit No: | _____ |
| Issues: | Transaction and Proposed Conditions |
| Witness: | Mark. D. Waltermire |
| Sponsoring Party: | The Laclede Group, Inc., Laclede Gas Company |
| Case No: | GM-2013-0254 |
| Date Testimony Prepared: | January 14, 2013 |

**THE LACLEDE GROUP, INC.
LACLEDE GAS COMPANY**

CASE NO. GM-2013-0254

DIRECT TESTIMONY OF

Mark D. Waltermire

Jefferson City, Missouri

January 14, 2013

DIRECT TESTIMONY OF MARK D. WALTERMIRE

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Q. Please state your name and business address.

A. My name is Mark D. Waltermire, and my business address is 720 Olive Street, St. Louis, Missouri 63101.

Q. By whom are you employed and in what capacity?

A. I am employed by The Laclede Group, Inc. (“LG”) as Executive Vice President and Chief Financial Officer. In this role, I oversee strategic planning and corporate development, information technology services, finance and accounting, supply chain functions and Laclede Energy Resources, the company's unregulated natural gas marketing subsidiary.

Q. Please describe your qualifications and work experience.

A. I was elected to my current position in May of 2012. Prior to assuming that position, I served as Senior Vice President and Chief Financial Officer for LG and its subsidiary Laclede Gas Company (“Laclede Gas”) beginning in September of 2007. In that position, I was responsible for a number of functions, including financial reporting, accounting, treasury, billing, compliance with Sarbanes-Oxley and Securities and Exchange Commission requirements, and information technology activities. Since joining Laclede Gas in 1990, I have held a number of other positions including Manager of Rate and Financial Planning, Director of Internal Audit, Assistant Vice President, Planning and Vice President, Operations and Marketing. Prior to joining Laclede, I held positions as Senior Accountant for Deloitte & Touche, Division Controller for St. Joe Minerals Corporation, and Vice President and Treasurer for Newhard, Cook & Co.,

1 Incorporated, a regional securities broker/dealer. I hold a B.S. Degree in Accounting
2 from the University of Illinois and am a Certified Public Accountant.

3 Q. What is the purpose of your direct testimony in this case?

4 A. The purpose of my direct testimony is to describe generally the subject Transaction, to
5 discuss the financial impacts of the proposed acquisition of the Missouri Gas Energy
6 (“MGE”) assets of Southern Union Company (“SUG”) and explain why those impacts
7 will not be detrimental to the public interest. I will also discuss some additional
8 conditions that we have proposed to ensure that this transaction will not be detrimental to
9 customers.

10 **The Transaction**

11 Q. Please describe, generally, the Transaction.

12 A. On December 14, 2012, SUG and Plaza Missouri Acquisition, Inc. (“Plaza”), a newly-
13 formed, wholly-owned subsidiary of LG, entered into a Purchase and Sale Agreement
14 (“PSA”), a copy of which is attached to our Joint Application in this case, whereby SUG
15 will sell, transfer and assign to Plaza and Plaza will purchase from SUG all of MGE’s
16 liabilities, assets and operating approvals including those assets utilized in the provision
17 of natural gas service in its Missouri service areas all as detailed in the PSA. Plaza was
18 created for the purpose of entering into the PSA, but Laclede Gas will be substituted in
19 lieu of Plaza under the PSA and will become the buyer under the PSA. Laclede Gas
20 plans to own and operate MGE as a division of Laclede Gas. The transaction is subject to
21 customary conditions, including, without limitation, approval of this Commission, certain
22 consideration by the Federal Communications Commission and pre-merger notifications

1 to the Department of Justice and the Federal Trade Commission in accordance with the
2 Hart-Scott-Rodino Antitrust Improvements Act of 1976.

3 Q. Are you sponsoring and attesting to the accuracy of the PSA attached to the Joint
4 Application?

5 A. Yes I am, as well as the Certificate of Good Standing evidencing Laclede Gas' standing
6 to do business in Missouri. I will also be sponsoring a certified copy of the resolution of
7 LG's Board of Directors approving the transaction and the balance sheet and income
8 statement, which will be submitted as late-filed Appendices, 5 and 6 to the Joint
9 Application.

10 Q. Is the Transaction separate from LG's acquisition of New England Gas Company?

11 A. Yes. The transaction is separate and distinct from another transaction, pursuant to which
12 SUG proposes to sell the assets of its New England Gas Company ("NEG") division to
13 Plaza Massachusetts Acquisition, Inc., a newly-formed, wholly owned subsidiary of LG
14 (the "NEG Transaction"). The transaction before this Commission is not subject to
15 approval by the Massachusetts Department of Public Utilities and the NEG Transaction is
16 not subject to approval by this Commission. The parties intend to use reasonable best
17 efforts to close the transactions as soon as practicable after all consents and approvals
18 have been obtained. Nevertheless, SUG and LG seek to obtain all of the necessary
19 regulatory approvals for both the transactions on or before June 30, 2013, with the
20 closing of both transactions to be completed contemporaneously as soon as possible
21 thereafter, thereby mitigating execution risk that increases with the passage of time.

1 Q. Upon completion of the transaction, will Laclede Gas continue to be a gas corporation
2 and public utility as defined in § 386.030(18) and (43), RSMo and remain subject to the
3 jurisdiction of the Commission as provided by law?

4 A. Yes.

5 Q. Please provide a summary of the other major terms of the Transaction.

6 A. Pursuant to the PSA, Plaza agreed to pay SUG \$975 million for the MGE assets. As
7 indicated above, upon closing, Laclede Gas will step into the shoes of Plaza and will
8 operate MGE. In a related transaction, SUG also proposes to sell the New England Gas
9 Company, a Massachusetts LDC with approximately 54,000 customers. The buyer for
10 that part of the transaction is Plaza Massachusetts Acquisition, Inc. The purchase price
11 for NEG is \$60 million, which includes the assumption of debt, and is subject to approval
12 of the Massachusetts Department of Public Utilities.

13 Q. How does Laclede Gas propose to pay for the purchase?

14 A. Initially, LG plans to use a combination of cash and a bridge loan arranged through Wells
15 Fargo Bank to support timely closing of the Transaction. The bridge loan is for up to
16 \$1.02 billion, and covers both the Transaction and the NEG acquisition. The loan
17 commitment is available for a period of 364 days following the execution of the PSA.

18 Q. How does LG intend to finance the Transaction on a permanent basis?

19 A. Permanent financing to replace, or avoid drawing on, the bridge loan will be acquired
20 through a combination of debt and equity. It is our intent to issue equity to the public
21 market through LG and use the proceeds to make

1 an equity investment in Laclede Gas, its wholly-owned subsidiary. Laclede Gas will
2 issue bonds or other long term debt, which will likely be secured by the post-closing
3 combined assets of MGE and Laclede Gas.

4 Q. Why did LG decide to have Laclede Gas acquire the assets of MGE?

5 A. We believe that the combination will provide cost advantages from a financing standpoint
6 because we can use the combined assets of Laclede Gas and MGE to secure financing at
7 a lower rate than would be the case if each company stood alone. It will also minimize
8 and/or avoid additional administrative costs associated with establishing and maintaining
9 MGE as a separate debt issuer in the capital markets. Additionally, combining the assets
10 of the two entities efficiently and effectively separates the regulated activities of MGE
11 from other LG non-regulated activities and subjects it to the same MPSC regulatory
12 oversight and conditions that are in place with Laclede Gas.

13 **No Public Detriment**

14 Q. Why do LG and Laclede Gas believe that MGE customers will not experience a net
15 detriment from the Transaction?

16 A. For the reasons discussed by Laclede witness Steven Lindsey, the Transaction will have
17 no detrimental impact on MGE's post acquisition operations or on the level or quality of
18 utility service currently received by MGE customers. We are also confident and willing
19 to commit that the Transaction will also have no detrimental impact on the rates charged
20 for such service since they will not change as a result of the Transaction.

21 Q. Will there be any detrimental impact on the Commission's jurisdiction?

22 A. No. The Commission's jurisdiction over the operation of the subject assets will not be
23 reduced. Laclede Gas will adopt the rates, rules, regulations and other provisions of

1 MGE's tariffs on file with the Commission and in effect at the time of closing of the
2 transaction. All natural gas commodity, transportation and storage costs that are
3 proposed to be passed onto customers will continue to be subject to review by the
4 Commission through the purchased gas adjustment/actual cost adjustment process
5 included in tariffs and Laclede Gas will assume all of MGE's obligations under its
6 existing contracts. All non-gas costs proposed to be passed on to customers will continue
7 to be subject to review by the Commission. In short, the Commission will retain full
8 regulatory supervision of MGE's and Laclede Gas' Missouri jurisdictional operations
9 after the transaction is completed and that ability will not be diminished or adversely
10 affected by the Transaction.

11 Q. Will the Transaction impact tax revenues?

12 A. No. The sale, transfer and assignment of the assets described herein should have no
13 impact on the tax revenues of the Missouri political subdivisions in which any of the
14 structures, facilities or equipment involved are located.

15 Q. Is there an acquisition premium?

16 A. Yes. The acquisition premium to be paid by Laclede Gas is reasonable and is within a
17 range of market-based premiums that have been paid in comparable transactions. It is
18 also the result of a competitive bidding process.

19 Q. While Laclede Gas believes that it can easily meet the "no net detriment" test for
20 approving a merger for the foregoing reasons, does it also believe that the Transaction
21 will actually benefit MGE customers?

22 A. With the approval of this Transaction, MGE will be owned by a company whose core
23 business and focus is operating a local distribution company. Laclede Gas is first and

1 foremost a local distribution company, and was already a veteran operator of a gas utility
2 business in Missouri when the Commission was established 100 years ago. While MGE
3 has been well run under the ownership of SUG and Energy Transfer, both of these
4 companies are now primarily focused on their non-utility businesses. Laclede Gas
5 understands and appreciates Energy Transfer's desire to exit this segment, because in
6 making this purchase, LG is "sticking to its knitting" and leveraging its knowledge, skills
7 and competencies to own and operate other LDC's. Upon approval of the Transaction
8 and after Closing, MGE will receive corporate services from a company with LDC
9 expertise, and specifically Missouri LDC expertise.

10 Q. Are there other reasons why Laclede Gas believes that the Transaction will benefit MGE
11 customers?

12 A. Yes. The fact that Laclede Gas and LG's credit ratings are higher than those of SUG or
13 Energy Transfer, along with the increased size of the combined Laclede Gas-MGE,
14 should result in lower borrowing costs in the future for MGE customers. Furthermore,
15 jobs created or maintained from corporate support services will be located here in
16 Missouri. Even if there were no other benefits, this fact alone would make the
17 Transaction worthwhile for the customers of these utilities and the citizens of Missouri.

18 Q. Are there any further reasons why Laclede Gas believes that the Transaction will benefit
19 MGE customers?

20 A. Yes. Combining Laclede Gas and MGE operations will create additional opportunities to
21 provide customers of both utilities with more cost-effective service over the long-term. It
22 will allow us to spread the costs associated with providing shared corporate support
23 services and technology over a greater volume of business and will permit both

1 companies to benefit from an exchange of each company's best practices, leading to
2 greater efficiency for both organizations. These factors should permit us to "bend down"
3 the inclining cost curve that has, for decades, characterized the operations of each of the
4 utilities involved in this Transaction.

5 **Conditions**

6 Q. What assurances are you able to provide the Commission and interested parties that this
7 Transaction will not be detrimental to the public interest?

8 A. As Suzanne Sitherwood discussed in her testimony, and as MGE witness Rob Hack
9 describes in his testimony, Laclede Gas has proposed several conditions which provide
10 certain customer service performance measures, operating measures, structural and
11 financial assurances, and other commitments to provide additional assurances to the
12 Commission that the Transaction will have no detrimental impact on MGE's customers.
13 As Rob Hack discussed in his testimony, these conditions were drawn from a number of
14 Commission cases, including the conditions recently approved by the Commission in the
15 SUG/Energy Transfer merger case in February 2012. Those recently-approved
16 conditions served as a blueprint for the conditions proposed by Laclede Gas in this
17 transaction.

18 Q. Is Laclede Gas willing to accept and continue such conditions to the extent they would be
19 applicable to a post-acquisition MGE?

20 A. Yes. We are willing to accept such conditions as set forth in Appendix 3 to the Joint
21 Application and as attached as Schedule MDW-1 to my direct testimony.

22 Q. Will LG and Laclede Gas maintain MGE's records in accordance with those conditions?

1 A. Yes. Laclede Gas agrees to maintain all records necessary to meet requirements of the
2 Uniform System of Accounts, gas utility depreciation studies and rate case filings. Data
3 maintained and provided for gas utility depreciation studies will include cost of removal
4 and salvage associated with plant retirements. This data will be provided to the
5 Commission Staff upon request or as ordered by the Commission. Laclede Gas also
6 agrees to use current approved depreciation rates for the involved properties until the
7 same may be changed from time to time as provided by law. Laclede Gas will also
8 maintain plant by account that allows for the specific identification of the property
9 acquired from Southern Union. Laclede Gas will retain all the maintenance/operations
10 records for the facilities which are the subject of this transaction and maintain the records
11 necessary to demonstrate compliance with the specific requirements of pipeline safety
12 regulations, which records would be available to Staff or Public Counsel for inspection.

13 Q. You indicated that Laclede Gas is paying an acquisition premium for MGE. Consistent
14 with the proposed conditions, does Laclede Gas agree that it will not attempt to recover
15 that premium from Laclede Gas or MGE customers?

16 A. Yes, Laclede Gas agrees that it will not attempt to recover the acquisition premium or
17 transaction costs incurred in closing the Transaction, through any acquisition savings
18 adjustment or similar adjustment in any future general ratemaking proceeding in
19 Missouri. Laclede Gas reserves the right to seek Missouri rate recovery for transition
20 costs, and for costs reasonably incurred to obtain Missouri regulatory approval of the
21 Transaction, including internal payroll and external service costs, to the extent that
22 Laclede Gas can demonstrate that the savings achieved from the Transaction are equal to
23 or exceed such costs. In other words, we are willing to accept the exclusion of all

1 acquisition premium and transaction costs from rates based on our understanding that
2 changes in other costs and revenues between rate cases would continue to be accorded
3 traditional ratemaking treatment.

4 Q. Does Laclede Gas commit that it will address any potentially adverse impact that the
5 Transaction might have on its ability to meet MGE's capital needs?

6 A. Yes. While we do not believe that such adverse impacts would occur, Laclede Gas
7 commits that it would follow the steps outlined in the conditions should its investment
8 grade credit rating be jeopardized. Laclede further commits that the Transaction will
9 have no adverse effect on meeting MGE's capital needs, particularly for the capital needs
10 of MGE's service line and main replacement safety programs.

11 Q. Will LG and Laclede Gas commit that the amount of joint and common costs allocated to
12 MGE from Southern Union for the purposes of setting retail rates will not increase as a
13 result of the Transaction?

14 A. Yes. While such costs will necessarily increase over time as a result of inflationary
15 pressures and normal increases in salaries, wages and benefits, Laclede Gas commits that
16 there will be no increase in MGE's rates as a result of the Transaction.

17 Q. Will LG and Laclede Gas commit that MGE's overall cost of capital for the purpose of
18 setting retail rates will not increase as a result of the financing of this Transaction?

19 A. Yes. As stated above, we believe that MGE's overall cost of capital will ultimately be
20 lower over time. However, LG and Laclede Gas will commit that they will not request an
21 increase in MGE's overall cost of capital as a result of the financing for this Transaction.
22 It should be noted that LG and Laclede Gas may experience a ratings downgrade as a
23 result of the Transaction. However, both companies will still be comfortably within the

1 range of investment grade, and still above the credit ratings of MGE's current owners.
2 Further, based on current rate levels, we expect to be able to finance the acquisition at
3 debt rates below 4%, which is well below the cost of debt currently experienced by MGE.
4 This reduction in the cost of debt would not take place but for the acquisition.

5 Q. Can Laclede Gas assure the Commission that the Transaction will not have adverse
6 impact on MGE's or Laclede's rates?

7 A. As indicated above, we believe that the Transaction will permit the companies to make a
8 downward bend in their inclining cost curves. Certainly, we believe that rates will not
9 increase as a result of the Transaction. In any event, consistent with the conditions, we
10 commit that customer rates will not increase as a result of the Transaction.

11 Q. Does this conclude your direct testimony?

12 A. Yes, it does.