

Exhibit No.:

Issue:

Witness:

Type of Exhibit:

Sponsoring Party:

Case No.:

Return on Equity

Zach Wagner

Surrebuttal Testimony

Laclede Gas Company

GR-99-315

FILED

AUG ¹⁹ 1999 *nh*

Missouri Public
Service Commission

LACLEDE GAS COMPANY

GR-99-315

SURREBUTTAL TESTIMONY

OF

ZACH WAGNER

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1 **Q.** Please state your name and business address.

2 **A.** My name is Zach Wagner. My business address is Edward Jones, 12555 Manchester
3 Road, St. Louis, MO 63131.

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

5 **A.** I am Natural Gas Analyst in the Research Department at Edward Jones. In this
6 capacity I am responsible for following the activities of natural gas distributors and
7 making stock recommendations to the customers of Edward Jones.

8 **Q.** What is the purpose of your surrebuttal testimony?

9 **A.** I will comment on the issue raised in rebuttal testimony in this case regarding the
10 proper use of a market to book adjustment to the discounted cash flow model.

11 **Q.** Have you previously made comments that bear on this issue?

12 **A.** Yes. It has come to my attention that my expectations regarding returns for natural gas
13 distributors have been quoted in the context of rate cases in Missouri. I will explain
14 what my expectations mean and set the record straight in regard to the proper use of
15 these expectations in the regulatory process.

16 **Q.** Please continue.

17 **A.** I was invited to speak at the Financial Research Institute – Public Utilities Division
18 symposium held in Columbia, MO on March 26, 1999. This annual symposium is
19 sponsored by the University of Missouri and serves as a forum for presentations and
20 discussion of utility industry issues among regulators, companies, and academics.
21 During the course of my presentation, I mentioned that my expectation for gas industry

1 returns in the years ahead were in the 8% to 10% range. I was asked to repeat this
2 opinion during the question-and-answer period.

3 Q. What do you mean when you say your expectation for future returns is 8% to 10%?

4 A. This means that I expect that investors can expect to earn a total return from dividends
5 plus increases in the market value of their gas distribution company stocks in this
6 range.

7 Q. What is your experience regarding the basis for investors' return expectations?

8 A. Investors base their return expectations on the amount that they must pay for a stock in
9 the market. This is the same basis that I used in my 8% - 10% market return
10 expectation for gas distributor stocks.

11 Q. Does your 8% - 10% market return expectation support returns on equity that are
12 applied to book value?

13 A. No. Gas distribution company stocks are currently trading at market-to-book ratios
14 averaging about 180%. The reality is that in today's market, I believe it is invalid to
15 apply market expectations to book value without making an adjustment for this gap
16 between book and market value.

17 Q. Does this conclude your testimony?

18 A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Laclede Gas Company's)
Tariff to Revise Natural Gas Rate Schedules.)

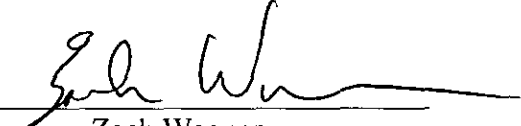
Case No. GR-99-315

AFFIDAVIT

STATE OF MISSOURI)
)
CITY OF ST. LOUIS) SS.

Zach Wagner, of lawful age, being first duly sworn, deposes and states:

1. My name is Zach Wagner. My business address is 12555 Manchester Road, St. Louis, Missouri 63131; and I am Natural Gas Analyst for Edward Jones.
2. Attached hereto and made part hereof for all purposes is my surrebuttal testimony, consisting of pages 1 to 2.
3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded and correct to the best of my knowledge and belief.


Zach Wagner

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

PATRICIA P. HICKS
Notary Public — Notary Seal
STATE OF MISSOURI
City of St. Louis
My Commission Expires: June 27, 2002

