

STATE OF MISSOURI  
PUBLIC SERVICE COMMISSION

FILED<sup>4</sup>

OCT 05 2004

Missouri Public  
Service Commission

IN THE MATTER OF LACLEDE GAS COMPANY'S TARIFF  
TO REVISE NATURAL GAS RATE SCHEDULES

Case No. GR-99-315

TELEPHONE DEPOSITION OF WILLIAM STOUT

TAKEN ON BEHALF OF THE STAFF OF MISSOURI  
PUBLIC SERVICE COMMISSION

SEPTEMBER 13, 2004

Exhibit No. 153

Case No(s) GR 99-315

Date 9-24-04 Rptr B

ORIGINAL

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1 SIGNATURE INSTRUCTIONS:

2 Presentment waived; signature requested.

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4 EXHIBIT INSTRUCTIONS:

5 None marked.

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7 I N D E X

8 Direct Examination by Mr. Schwarz 5

9 Cross Examination by Mr. Pendergast 32

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1 WILLIAM STOUT, being sworn, testified as follows:

2 DIRECT EXAMINATION BY MR. SCHWARZ:

3 Q Mr. Stout, I'm Tim Schwarz, I'm a  
4 lawyer for the Staff, I'll be asking you questions  
5 this afternoon. If you don't understand them,  
6 either the content or because of the phone  
7 connection, please let us know. If you need to  
8 take a break at any time, please let us know that  
9 as well.

10 You've had your deposition taken  
11 before?

12 A I have.

13 MR. SCHWARZ: Very well. Rosella  
14 Schad is here with me. Are Barry or Larry there  
15 with Laclede this afternoon?

16 MR. LOWERY: I've got Larry and Glen  
17 Buck with me.

18 MR. BYRNE: Tim, this is Tom Byrne  
19 from U E. Warner Baxter and Marty Lyons are here  
20 with me.

21 Q (BY MR. SCHWARZ) Mr. Stout, Tim  
22 Schwarz again. And I guess we'll use the same  
23 rules again as this morning, if anyone speaks  
24 other than myself or Mr. Stout, if you'll identify  
25 yourselves so that the reporter can get you down

1 and identified.

2 Mr. Stout, with respect to any of  
3 the plant accounts for Laclede, can you identify  
4 how much of the reserve that's been accrued for  
5 any particular account is attributable to net  
6 salvage and how much is attributable to the return  
7 of the investors' original investment?

8 A I have not conducted such an  
9 analysis.

10 Q Typically -- oh, so you haven't  
11 examined Laclede's records?

12 A I have not done an analysis of its  
13 accumulated provision of depreciation for the  
14 purposes of segregating portions of that account  
15 that relate to net salvage.

16 Q Let me ask it a different way, then.  
17 Is -- does Laclede separately record those two  
18 items? I mean, is there an identified portion of  
19 the reserve on the books of Laclede?

20 A The entries to the account to record  
21 both removal cost and salvage are identified as  
22 such.

23 Q Is it your opinion that at some --  
24 well, let me ask -- strike that.

25 The accruals that would occur under

1     what I'm going to refer to as the standard method  
2     exceed current cash expenditures for net salvage,  
3     do they not?

4             A       With respect to those accounts for  
5     which net salvage is negative, that is correct.

6             Q       And if I read your testimony  
7     correctly, it's your opinion that at some point  
8     that will reverse?

9             A       For the plant presently in service,  
10    the net salvage profits in the future will become  
11    greater than the amount of net salvage accrual  
12    related to that plant.

13            Q       And where will the cash come from to  
14    -- when that occurs? What will be the source of  
15    cash?

16            A       The company.

17            Q       As opposed to the rate payers?

18            A       I'm not sure I understand that  
19    question.

20            Q       To the extent that under the  
21    standard method the rate payers are providing cash  
22    now to cover the future expense, at the time that  
23    that expense has occurred, the cash should come  
24    from the shareholders, should it not?

25            A       I don't believe it would come from



1 the shareholders. It would come from the general  
2 funds of the company.

3 Q But -- well, assume -- I'm going to  
4 do a hypothetical. Assume for the purposes of  
5 this hypothetical that -- I'm trying to think.

6 In your -- the time comes when the  
7 accrual and cash positions reverse, and the  
8 company needs to borrow the cash to pay for the  
9 expense. Should the rate payers have to make  
10 principal and interest payments on that debt  
11 obligation?

12 A The customers pay for depreciation  
13 and return on rate base. They don't directly pay  
14 for debt service. So to the extent that amounts  
15 expended by the company are properly incorporated  
16 in either the depreciable base or the rate base,  
17 it would require an amount to be included in  
18 customer rates. Otherwise, it would not.

19 Q I don't -- I don't think that  
20 answered my question, so I'll try to pose it  
21 again. Perhaps a little differently.

22 If at the time that the cash expense  
23 exceeds the accrual, the -- there should be no  
24 further -- I mean, the customers would already  
25 have provided those funds to the utility, would

1     they not, under the standard method?

2             A       As long as the amount reflected in  
3     the depreciation accrual rate was adequate under  
4     the standard method, there would have been a  
5     provision made for that removal cost.

6             Q       And is that a yes?

7             A       It's a qualified yes.

8             Q       Okay. Okay. When you're taking an  
9     assignment to do a depreciation study for a  
10    client, do you ask the client or get input from  
11    the client as to how much cash flow they need?

12            A       No.

13            Q       Is there any consideration given in  
14    the standard method to cash flow needs of the  
15    entity?

16            A       Not within the conduct of -- the  
17    context, excuse me, of performing a depreciation  
18    study.

19            Q       With respect to the annual  
20    depreciation expense, can you determine from  
21    Laclede's books and records what amount is cost of  
22    removal and what amount is recovery of original  
23    cost?

24            A       I believe that a reasonable  
25    segregation of the depreciation expense between

1 the amount recorded for -- related to original  
2 cost and the amount related to net salvage could  
3 be made.

4 Q Okay. But my question is, can you  
5 determine from the books and records what amount  
6 is cost of removal and what amount is recovery of  
7 original cost?

8 A Not directly from the records. It  
9 would require research into the basis for the  
10 depreciation accrual rates being used and the  
11 segregation of that depreciation rate between the  
12 portion related to original cost and the portion  
13 related to net salvage.

14 Q And how would you conduct that  
15 research?

16 A Research depreciation studies  
17 conducted by the company and by the Staff and  
18 orders by the Commission.

19 Q Have you ever done a study of  
20 Laclede's depreciation history to confirm that the  
21 actual cost to remove a vintage of a particular  
22 plant account actually matches the amounts  
23 collected in rates from customers for that  
24 purpose?

25 A No, I have not. I have simply

1 observed that the amount of removal cost is  
2 increasing year after year.

3 Q Have you ever done such a study for  
4 any utility?

5 A No.

6 Q Have you ever done a study to  
7 confirm that the actual cost to remove a vintage  
8 of a particular plant account actually matches the  
9 depreciation expense charged on the books of a  
10 particular company?

11 A No, I have not conducted such  
12 studies, and I don't believe it's possible to  
13 perform such studies. There are any number of  
14 issues that are -- would complicate that,  
15 including the extent to which the company actually  
16 recovered amounts that it was allowed in prior  
17 rate proceedings, the extent to which we are able  
18 to identify removal costs as relating to  
19 particular vintages of property. Those would be  
20 the two primary difficulties.

21 Q But it's the hypothesis of the  
22 standard method, at least as applied in this case,  
23 that the cost of removal -- the net cost of  
24 removal divided by the historical cost of the  
25 plant that has been retired and removed is an

1 accurate estimator of future cost of removal?

2 A It's the contention -- it's my  
3 contention that that is the best historical  
4 indicator of future net salvage as a percent of  
5 the current plant in service.

6 Q I take it, then, that that is a  
7 denial -- and "denial" may be too strong a word  
8 and I don't necessarily want to put words in your  
9 mouth. But you're not asserting, then, that it's  
10 an accurate estimator?

11 A If I have to ask for how you define  
12 accuracy -- it's been my experience that the  
13 historical indications of net salvage as a percent  
14 of the original cost being retired indicate  
15 percentages that have been increasing with time  
16 and, therefore, such historical indications tend  
17 to understate the level of future removal costs.

18 So I do not believe them to be  
19 accurate. I believe them to be far more accurate  
20 than the approach that the Missouri Commission  
21 Staff has taken. And to the extent that they are  
22 inaccurate, they understate the amounts that are  
23 likely to be incurred in the future.

24 Q If -- if you assume that Staff's  
25 estimation of cost of removal is for, say, two to

1 four years, do you -- do you -- would that change  
2 your view of -- strike that.

3 If you consider that what Staff is  
4 estimating is the cash cost to remove a plant that  
5 will retire in the next two to four years, would  
6 that change your -- would you have a different  
7 opinion?

8 A No. I'm not trying to estimate --

9 Q I didn't -- excuse me. I'm  
10 suggesting what Staff's trying to estimate, not  
11 what you're trying to estimate.

12 A I thought we were comparing the two.

13 Q Well, I just -- I mean, you seem to  
14 -- well, strike that.

15 A Could I continue my response,  
16 please?

17 Q No, I'll withdraw the question,  
18 because I will posit for you that Staff -- what  
19 Staff is attempting to do is to estimate the cash  
20 requirements for cost of removal for a relatively  
21 short period of time, two to three to four years.  
22 And in that -- given that as the premise, is  
23 Staff's approach in your mind still unreliable?

24 A Yes.

25 Q And why would that be?

1           A       Because it determines an amount that  
2   is a historic average and uses that historic  
3   average to, as you describe, forecast the level  
4   into the near term future. Given the increasing  
5   trend in net salvage costs, the historic average  
6   understates even the net salvage cost experience  
7   in the near term future.

8           Q       Would you agree that to  
9   appropriately charge customers with the net  
10  salvage, you must first know the total amount to  
11  be charged and the time period over which it is to  
12  be charged?

13          A       I agree that we need to estimate  
14  both the amount to be recovered and the period  
15  over which it is to be recovered. I don't believe  
16  we have to know those two parameters.

17          Q       So -- so you could -- you know, it  
18  -- one estimate's as good as another?

19          A       No, sir.

20          Q       So -- so that you do need some  
21  accuracy in the estimate in order to appropriately  
22  charge customers for such costs?

23          A       An informed judgment needs to be  
24  made using the available information at the time  
25  of the study of the period of time or the average

1 life of the property and the net cost to retire  
2 that property at the end of that life.

3 Q It's my understanding of your answer  
4 to a prior question that there is no empirical  
5 study that confirms the accuracy of the formula  
6 used to estimate net salvage in the standard  
7 method. Is that correct?

8 A No. First, the formula that's used  
9 -- and I believe you're referring to developing  
10 ratios of the net salvage to the original cost  
11 retired.

12 Q Correct.

13 A Does not make an estimate of future  
14 net salvage percents. A depreciation analyst  
15 makes those estimates. Those ratios are part of  
16 the information that the analyst would use in  
17 arriving at its informed judgment. The ratios in  
18 and of themselves do not make the estimate.

19 However, the ratio is the most  
20 appropriate historic statistic to consider because  
21 it relates the cost to retire property to the  
22 original cost of that same property. And what we  
23 are endeavoring to estimate is the cost to retire  
24 the present plant in service and express that as a  
25 percent of the present plant in service so that



1 there is an equivalence in the two ratios.

2 Q And my question was, there is no  
3 empirical study that affirms or substantiates that  
4 dividing historical -- excuse me. Dividing the  
5 cost to remove a particular property by its  
6 original cost is an accurate estimator of future  
7 net salvage. Is there such an empirical study?

8 MR. PENDERGAST: I'm going to object  
9 to the question on the grounds of vagueness. I  
10 think --

11 MR. SCHWARZ: What don't you  
12 understand, Mike?

13 MR. PENDERGAST: I think Mr. Stout's  
14 already indicated that he has gone ahead and seen  
15 in his many reviews of this data that it's  
16 actually -- net salvage percentages are actually  
17 increasing over -- over historical levels.

18 Now, I guess the question would be  
19 is that an empirical study, those repeated  
20 analyses he does? Or by "empirical study," you  
21 mean something that's all enclosed in one document  
22 done by somebody for that expressed purpose?

23 MR. SCHWARZ: I mean an empirical  
24 study that confirms the accuracy of the formula  
25 cost of removal divided by original historical

1 cost as an accurate estimator of future net  
2 salvage.

3 MR. PENDERGAST: Okay. And that  
4 still doesn't answer my question or my --

5 MR. SCHWARZ: I'm not here to answer  
6 your questions, Mike, and if the witness has any  
7 questions about what the question entails, I'd  
8 certainly like to hear from him.

9 MR. PENDERGAST: Go ahead.

10 THE WITNESS: There are empirical  
11 studies done all the time of the -- using the  
12 standard approach relating net salvage to the  
13 original cost being retired.

14 In my experience as we have gone  
15 through time over the last 50 years, subsequent  
16 empirical studies of that -- of similar  
17 information indicate that the prior empirical  
18 studies understated the future level of the cost  
19 to retire the property.

20 Q (BY MR. SCHWARZ) You have not cited  
21 any such studies in your supplemental direct  
22 testimony in this case or your supplemental  
23 rebuttal testimony in this case, and to my  
24 recollection, you did not do so in your testimony  
25 in the EC-2000-1 case --

1 MR. PENDERGAST: I need to object to  
2 that again. I believe that he has stated in his  
3 testimony what he has stated today, that based on  
4 his analysis of numerous depreciation studies,  
5 that he has determined that from an empirical  
6 standpoint that net salvage percentages have been  
7 historically understated. So I think that is in  
8 the record and I think it is in his testimony.

9 MR. SCHWARZ: And it does not answer  
10 my question, Michael.

11 Q (BY MR. SCHWARZ) My question is,  
12 you haven't cited any such studies in your  
13 testimony in this case; is that correct?

14 A No. I've --

15 Q Would you direct me to where you  
16 have?

17 A I have referred to studies conducted  
18 by Mr. Adam that are presented in his work papers,  
19 Exhibit 124, on a number of occasions in my  
20 testimony.

21 Q And you're suggesting that Mr.  
22 Adam's studies confirm that the standard method's  
23 estimation of future net salvage is accurate?

24 A No, it represents an empirical study  
25 of net salvage as a percent of original cost

1 retired, and a review of that information  
2 indicates a general trend to more negative net  
3 salvage.

4 I've also referred to the studies  
5 that are attached that -- Mr. Codaman's [phonetic]  
6 surrebuttal testimony in this proceeding, which  
7 also demonstrate the same thing.

8 Q You're familiar with the statistical  
9 analyses of industrial property retirements,  
10 bulletin 125?

11 A I am.

12 Q And that is the source document of  
13 what's known as the Iowa curves?

14 A Yes.

15 Q And what's the function of the Iowa  
16 curves?

17 A I'm sorry, I didn't hear your  
18 question.

19 Q What's the function or purpose of  
20 the Iowa curves?

21 A The Iowa curves are a generalized  
22 system of survivor curves that graph the percent  
23 surviving of an original property group from age  
24 zero to its maximum life. Such curves are  
25 utilized in the analyses of historical retirements

1 using the retirement rate method for purposes of  
2 smoothing and extrapolating the original survivor  
3 curve developed from actual retirement data.

4 Q And it's that latter little tidbit  
5 that I'll ask you about next. The Iowa curves are  
6 -- their derivation is based on an empirical study  
7 of observations of retirement dispersions of  
8 industrial property?

9 A They are based on empirical analyses  
10 of the age at which industrial property has been  
11 retired.

12 Q And that's not the same kind of  
13 analysis that's needed to predict the cost to  
14 remove a particular vintage of, say, services at  
15 Laclede Gas Company, is it?

16 A I don't understand your question.

17 Q In -- in the analysis that underlies  
18 the estimation of average service lives, we -- and  
19 I say, "we," both the Staff and the company employ  
20 the Iowa curves in that process, do they not?

21 A Yes, they do.

22 Q And, in turn, the Iowa curves are  
23 based on a pattern of retirement that is sourced  
24 in an empirical study of industrial property; is  
25 that correct?

1 A Yes, it is.

2 Q In estimating -- that -- that's not  
3 the problem that -- that the Staff and the company  
4 and the Commission face in estimating the future  
5 net salvage of particular vintage or entire  
6 property account, is it?

7 A I'm not sure what problem you're  
8 referring to.

9 Q Well, I guess my point is, you don't  
10 know what the cost that's to be spread over the  
11 average service life when you're talking about  
12 cost of removal, do you?

13 A Could you repeat that?

14 Q You -- you don't know the actual  
15 total cost of removal today of any particular  
16 vintage or property account for Laclede Gas  
17 Company, do you?

18 A I don't know for absolute certainty  
19 either the net salvage, nor do I know what the  
20 life of those vintages will be today.

21 Q That's true. But we don't seem to  
22 be arguing about the average service life, and  
23 it's -- it's a different statistical problem,  
24 isn't it? I mean, isn't -- well, isn't it?

25 A Not in my view. In the analysis of

1 retirements for purposes of forecasting service  
2 life, we relate the dollars that were retired to  
3 the dollars that could be retired and develop a  
4 ratio that we then again make informed judgments  
5 about as to whether or not that ratio will stay  
6 the same or increase or decrease in the future  
7 with respect to the plant that remains in service.

8           In like fashion in net salvage, we  
9 develop ratios of the net salvage cost to the cost  
10 of the property being retired and then make an  
11 informed judgment as to whether that percent will  
12 remain the same or increase or decrease in the  
13 future. So I think the approach is very similar.

14           **Q       Have you seen any Missouri**  
15 **Commission orders that show a breakdown between a**  
16 **depreciation rate component for recovery of**  
17 **original costs and cost of removal? Or net**  
18 **salvage?**

19           **A       I have not seen orders that show**  
20 **such a segregation in the order; however, I have**  
21 **seen orders where the rate shown corresponds to**  
22 **the rate proposed either by the company or Staff**  
23 **and the details of the derivation of that rate**  
24 **which would permit determination of that**  
25 **segregation that would be available.**

1 Q On page 11 of your supplemental  
2 direct, you suggest that Staff used an algebraic  
3 subterfuge. Would you explain that for me,  
4 please?

5 A I have explained it in my direct  
6 testimony beginning on page 10 in response to the  
7 question, what is your basis for saying that Mr.  
8 Adam's proposal removes net salvage from the  
9 calculation of depreciation expense. I can go  
10 through that again, if you wish.

11 Q No, I'm interested in why it's a  
12 subterfuge. Was -- was Mr. Adam anything but  
13 forthright in his discussions with you on this  
14 subject?

15 A My experience with Mr. Adam is he's  
16 always been very forthright, but I don't recall  
17 that in his direct testimony, he described the  
18 process as I did on pages 10 and 11.

19 Q Did Mr. Adam purport to use cost of  
20 removal divided by historical cost, all of that  
21 divided by average service life? Did he -- did he  
22 in any way suggest that that was what he was  
23 doing?

24 A I believe that the reader could be  
25 misled by his discussion on page 7 of the formula



1 for the depreciation rate.

2 Q Did his work papers disguise what he  
3 did?

4 A The work papers don't fully describe  
5 what he did. You have to follow the algebra to  
6 understand it.

7 Q But the algebra actually explains  
8 what he did, does it not?

9 A It does to me. I'm not sure that  
10 all reviewers of those work papers, with all due  
11 respect to them, would necessarily follow it.

12 Q But subterfuge suggests that he was  
13 trying to trick or mislead. Do you think that was  
14 his purpose?

15 A I believe that in incorporating this  
16 amount that only reflects the historical level,  
17 whether it's done -- I don't -- I don't know that  
18 it's misleading to another depreciation analyst,  
19 but I don't believe that it's fully clear to  
20 someone else.

21 Q So that it -- was it a subterfuge as  
22 to yourself?

23 A No, sir.

24 Q On that same page, beginning on line  
25 17, instead they provide only an allowance for net

1 salvage related to plant that has already been  
2 retired (and for which net salvage had already  
3 been paid for under the standard approach by past  
4 customers).

5 As I read that, it seems to me that  
6 you're suggesting that Staff is proposing some  
7 kind of retroactive recovery. Is that correct?

8 A That is certainly the effect of the  
9 Staff approach.

10 Q But isn't it just as true that that  
11 amount would not be represented for ongoing levels  
12 in the short term?

13 A I believe I've already indicated  
14 that such amounts are less than ongoing levels and  
15 inadequate to offset them.

16 Q At the bottom of page 11 and the top  
17 of page 12, you say, further, Staff no longer  
18 endeavors to mask its proposal as being part of  
19 the depreciation accrual rate, but has proposed  
20 separate treatment of net salvage costs as an  
21 operating expense that is no longer recorded to  
22 the depreciation reserves. Are you with me?

23 A Yes.

24 Q Now, in fact, isn't that a different  
25 and separate proposal than what Staff is proposing

1 in this case?

2 A Yes. It is based on what Staff has  
3 proposed in subsequent proceedings, as indicated.

4 Q Right. But, I mean, do you really  
5 mean to say that Staff has been masking what it's  
6 been doing?

7 A No. That's what I'm saying. Staff  
8 no longer does that.

9 Q In the calculation of the standard  
10 formula that Laclede did in this case, how much  
11 plant was in service when the calculation was  
12 made? That is, the plant whose cost of removal  
13 you used in the numerator, how much of that plant  
14 was still in service?

15 A I'm sorry, Mr. Schwarz, but when you  
16 referred to the A plant in the numerator --

17 Q The -- I'll start -- strike that  
18 question and I'll try again.

19 The numerator in the standard  
20 method, as I understand it, is cost of removal.  
21 The denominator is original cost of the plant  
22 removed. Is that correct?

23 A Yes. And let's -- just to be clear,  
24 that's the formula for the ratio. It's not the  
25 formula for the calculation of the depreciation

1 rate.

2 Q Correct. But all of the plant whose  
3 net salvage or cost of removal was used in that  
4 particular application, all of that plant has  
5 already been retired at the time the calculation  
6 is made; is that not true?

7 A Yes.

8 Q In your testimony, you observed that  
9 the size of Laclede's system has doubled in the  
10 past 50 years. Does Laclede predict that its  
11 system will double in the next 50 years?

12 A I don't believe that Laclede has  
13 made such a projection.

14 Q Your expectation is that future net  
15 salvage percents between now and the next 50  
16 years, say -- well, strike that.

17 And I'm on page 22. That because  
18 the total change in price level that will occur  
19 between the placement and retirement of today's  
20 plant in service as compared to the change in  
21 price level that occurred between the placement  
22 and retirement of plant that has already been  
23 retired and is reflected in the analyses.

24 So what's the basis for that  
25 expectation?

1           A       I give an example of that on page 24  
2     of my supplemental direct testimony. The average  
3     age of steel distribution mains that were retired  
4     during the period 1972 through 1998 was 23.4  
5     years. The approved average life for this account  
6     is 83 years. The average age of the future  
7     retirements of the plant presently in service will  
8     occur at the probable life of that plant. The  
9     probable life of that plant is actually somewhat  
10    greater than its average life.

11                Thus, the average age of those  
12    future retirements will occur at an age somewhat  
13    greater than 83 years as compared to the average  
14    age of retirements from 1972 through 1998 of 23.4  
15    years.

16                The change in price level that will  
17    occur over that 83 or more year period will be  
18    substantially greater than the change in price  
19    level that occurred in the 23 years between the  
20    installation of plant and its retirement during  
21    the period 1972 through 1998.

22           Q       So you believe that the history of  
23    inflation, say, between the early '70s and today  
24    is likely to repeat itself between now and the  
25    next 30 years?

1           A       I didn't state that. Let me try to  
2 be clearer. The retirements that occurred during  
3 the period 1972 through 1998 came from plant that  
4 was installed prior to that time. On average 23  
5 years prior to that time. So it could relate to  
6 plant back into the '30s, '40s, '50s, and '60s.  
7 So I'm not just focusing on the historic rate of  
8 inflation between 1970 and today.

9                   If -- if you consider the historic  
10 rate of inflation that has occurred, for example,  
11 in the installation of steel services as shown in  
12 WMF-8 attached to my supplemental rebuttal  
13 testimony, it indicates that over the past 90  
14 years, that rate of inflation has averaged nearly  
15 5 percent.

16                   That rate would have to be  
17 substantially reduced in order for the compounded  
18 effect over an 83 year period to be the same as  
19 the compounded effect of that historic rate over a  
20 23 year period.

21           Q       Do you expect the historical pattern  
22 of plant growth over the last 30 to 70 years to  
23 repeat itself?

24           A       I have no expectation with respect  
25 to the future growth of plant. And it does not

1 have an effect on the judgment that I've made with  
2 respect to a future net salvage as a percent of  
3 the original cost retired.

4 Q What's a generation of rate payers?

5 A I suppose one could define a  
6 generation as being a group of people that tends  
7 to turn over about every 20 or 30 years.

8 Q So that for a generation, there may  
9 be three to six or seven different rate regimes,  
10 depending on the frequency of rate cases?

11 A Seems reasonable.

12 Q Why -- why would you suggest 20  
13 years?

14 A Some people have children at a  
15 rather young age.

16 Q But that's not the demographic we're  
17 interested in, is it? Aren't we interested in the  
18 demographic of people who pay rates for the same  
19 service?

20 A Yes. The question is when --  
21 shouldn't the grandchildren of today's rate payers  
22 pay equivalent amounts for their service as did  
23 their parents and their grandparents currently.

24 Q Do you know what the Laclede's  
25 property unit is for cast iron mains?

1 A No, I do not.

2 Q Or services?

3 A I expect for service it's a service.

4 Q Okay. But you don't know?

5 A I don't know for a fact.

6 Q Okay. When Laclede is replacing a  
7 unit of main, how much of the cost of digging the  
8 hole and how much of the cost of refilling the  
9 hole is allocated to the cost of removing the old  
10 plant and how much is capitalized as part of the  
11 new plant?

12 A I don't know.

13 Q What about Ameren, the gas  
14 operations of Ameren UE?

15 A I don't know either.

16 Q What about any other LDC?

17 A I am sure I was aware of some at the  
18 time. I have conducted studies for them. I  
19 haven't studied either the gas property at Laclede  
20 or the gas property at Ameren. The portion that  
21 is allocated or assigned between installation and  
22 removal is not a necessary factor in the analysis  
23 unless there have been changes in the approach  
24 that has been used over time.

25 Q But it would be a factor in



1 comparing an overall rate of one utility to the  
2 overall rate of another utility for the same  
3 account, would it not?

4 A Yes, it would.

5 MR. SCHWARZ: Well, I -- I think  
6 that I'm done. So, Ruth, do you have anything?

7 MS. O'NEILL: I think that's it.

8 CROSS EXAMINATION BY MR. PENDERGAST:

9 Q Mr. Stout, can you hear me?

10 A I can.

11 Q You were asked a number of questions  
12 about your empirical review or any empirical  
13 studies of net salvage costs and how they  
14 correlate into what had been estimated, and I  
15 believe you responded that it had been your  
16 general experience that net salvage estimates done  
17 under the standard method had tended to understate  
18 net salvage costs. Is that correct?

19 A Yes, it is.

20 Q And that was based on your review of  
21 empirical data?

22 A That was based on my review of  
23 studies that I have conducted over the past 30  
24 years and the indications of net salvage early in  
25 that period versus what they are today.

1 Q And, once again, to be clear about  
2 it, were those empirical studies or analyses  
3 beginning on page 5 of your supplemental rebuttal  
4 testimony?

5 A Yes, I would consider that one of  
6 those empirical analyses. I'm primarily referring  
7 to how the estimates of net salvage have changed  
8 over time in studies that I've done for the same  
9 utility over the last 30 years.

10 The example on pages 5 through 7 of  
11 my supplemental rebuttal testimony certainly  
12 indicate how we can empirically analyze the data  
13 available at a point in time and reach the same  
14 conclusion.

15 Q Thank you. Given your comments and  
16 observations about net salvage percentages tending  
17 to understate the level of net salvage costs that  
18 are actually experienced, in your opinion, are you  
19 concerned that application of the standard method  
20 will result in an over recovery of net salvage  
21 costs?

22 A No, I am not.

23 Q And if it should, notwithstanding  
24 your lack of concern, result in over recovery of  
25 net salvage costs, are there safeguards, in your

1 view, that are sufficient to protect rate payers  
2 in that eventuality?

3 A Yes, there are. The amounts that  
4 would be recorded as depreciation accruals towards  
5 those future net salvage costs would be entered  
6 into the accumulated depreciation account and,  
7 therefore, we would avoid any potential issue of  
8 recovering such amounts twice.

9 Also as regular studies of net  
10 salvage percents are performed, if changes are  
11 observed, corrections can be made and any prior  
12 over recoveries return soon after they've taken  
13 place.

14 Q Let me ask you the same question  
15 from the other side. Are you concerned that  
16 application of Staff's method, whether or not it  
17 will result in -- do you have any concerns about  
18 whether it will result in any under recovery of  
19 net salvage cost?

20 A Very much so. I know it will result  
21 in a very substantial under recovery of future net  
22 salvage costs.

23 Q And are there safeguards in place,  
24 to your knowledge, to address that under recovery,  
25 should it occur, as you believe it will?

1           A       None that I'm aware of that Staff  
2       has proposed.

3           Q       You were asked a number of questions  
4       about whether -- or where the cash will come from  
5       to pay for net salvage costs at the time that  
6       they're incurred. Based on your experience  
7       looking at the depreciation related issues over  
8       your professional career, have you experienced any  
9       problems with the money being there to pay for  
10      those net salvage costs when they're actually  
11      incurred?

12          A       No.

13          Q       In your view, therefore, is it  
14      necessary to have a separate funding, or a  
15      separate funding mechanism where money received  
16      for paying net salvage costs would need to be  
17      segregated and made available for the future?

18          A       No, I don't believe that would be  
19      appropriate.

20                   MR. PENDERGAST: Okay. Thank you.  
21      That's all I have.

22                   MR. SCHWARZ: Tom or Jim?

23                   MR. LOWERY: Nothing from Ameren.

24                   MR. SCHWARZ: Well, are we then -- I  
25      think we're done here.

1 (Wherein, the taking of the instant  
2 deposition ceased.)

3 (Deposition to be read and signed by  
4 the witness.)

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## 1 CERTIFICATE OF REPORTER

2  
3 I, TARA SCHWAKE, a Registered  
4 Professional Reporter and Notary Public within and  
5 for the State of Illinois, do hereby certify that  
6 the witness whose testimony appears in the  
7 foregoing deposition was duly sworn by me; that  
8 the testimony of said witness was taken by me to  
9 the best of my ability and thereafter reduced to  
10 typewriting under my direction; that I am neither  
11 counsel for, related to, nor employed by any of  
12 the parties to the action in which this deposition  
13 was taken, and further that I am not a relative or  
14 employee of any attorney or counsel employed by  
15 the parties thereto, nor financially or otherwise  
16 interested in the outcome of the action.

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*Tara Schwake*

Notary Public in and for  
The State of Illinois

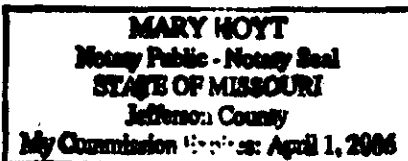
My commission expires August 14, 2005

Sincerely,

Tara Schwake, CRR, RPR, CSR  
Enclosures  
cc: Thomas R. Schwarz, Jr.  
Rick Zucker

STATE OF Missouri  
COUNTY OF Cole  
I, WILLIAM STOUT, do hereby certify:  
That I have read the foregoing deposition;  
That I have made such changes in form  
and/or substance to the within deposition as might  
be necessary to render the same true and correct;  
That having made such changes thereon, I  
hereby subscribe my name to the deposition.  
I declare under penalty of perjury that the  
foregoing is true and correct.  
Executed this 21<sup>st</sup> day of September,  
2004, at Jefferson City, Missouri.

Mary Hoyt  
Notary Public  
My commission expires: 4-1-2006



William M. Stout  
WILLIAM STOUT

TRS/WILLIAM STOUT, 09/13/04  
RE: Laclede Gas Company/GR-99-314

WITNESS ERRATA SHEET

Witness Name: WILLIAM STOUT  
Case Name: Laclede Gas Company/GR-99-315  
Date Taken: 09/13/04

Page # 7 Line # 10  
Should read: the net salvage costs in the future will become  
Reason for change: "profits" should be "costs"

Page # 19 Line # 5  
Should read: that are attached that -- Mr. Kottemann's  
Reason for change: spell name correctly

Page # 26 Line # 16  
Should read: referred to the plant in the numerator --  
Reason for change: extraneous "A"

Page # 29 Line # 12  
Should read: WMS-8 attached to my supplemental rebuttal  
Reason for change: correct initials

Page # 31 Line # 18  
Should read: time I have conducted studies for them. I  
Reason for change: remove period

Page 34 Line 12 over recoveries returned soon after they've taken -- correct tense  
Witness signature: William M. Stout

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