Exhibit No.:
Issue: Finance Case
Witness: Zephania Marevangepo
Sponsoring Party: MoPSC Staff
Type of Exhibit: Rebuttal Testimony
Case No.: GF-2009-0450
Date Testimony Prepared: March 16, 2010

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

REBUTTAL TESTIMONY

OF

ZEPHANIA MAREVANGEPO

LACLEDE GAS COMPANY

CASE NO. GF-2009-0450

Jefferson City, Missouri
March 2010

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Q. Please state your name?

A. My name is Zephania Marevangepo.

Q Please state your business address.

A. My business address is P.O. Box 360, Jefferson City, Missouri 65102.

Q. What is your present occupation?

A. I am employed as a Utility Regulatory Auditor II for the Missouri Public Service Commission (Commission). I accepted the position as a Utility Regulatory Auditor I in December 2008 and have since been promoted.

Q. Were you employed before you joined the Commission's Staff (Staff)?

A. Yes, I was employed by ABB Inc. in a manufacturing position.

Q. What is your educational background?

A. In July 2007, I earned Bachelor of Science degrees in Business Administration with an emphasis in Accounting and Financial Services from Columbia College. I also earned a Masters in Business Administration with an emphasis in Accounting from Lincoln University in May 2009.

Q. Have you filed testimony in other cases before this Commission?

A. No.

Q. Have you made recommendations in any other cases before this Commission?

A. Yes, I have made recommendations on finance cases, small water and sewer rate cases, and telephone certificate cases before this Commission.

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

A. The purpose of this Rebuttal testimony is to respond to the Direct testimony of Laclede Gas Company (Company or Laclede) witness, Lynn D. Rawlings in which she furnished the differences in positions between Laclede and Staff in regards to the finance application filed by Laclede. The Company witness also attempted to convince the Commission that the Staff's recommendation is not in the best interests of Laclede, its consumers or the Commission.

Q. Are there any schedules attached to this Rebuttal Testimony?

A. No.

Q. What was the Company's position in its Direct Testimony?

A. The company's application requested Authority to Issue and Sell First Mortgage Bonds, Unsecured Debt and Preferred Stock, in Connection with a Universal Shelf Registration Statement, to Issue Common Stock and Receive Capital Contributions, to issue or accept Private Placement Securities, and to Enter Into Capital Leases, all in a Total Amount Not to Exceed $600 Million.

Q. What was Staff's position in its Direct Testimony?

A. Staff recommended that the Commission authorize an aggregate amount of $600 million but with a long-term debt cap of $100 million.

Q. Has the Commission ever authorized amounts similar to the amount requested in this case?

A. Yes. Company witness Lynn D. Rawlings mentioned in her Direct Testimony that the Company filed applications for similar amounts in the past 10 years and the Commission granted the authority requested. Even though the Company has filed applications for similar amounts in the past, Staff believes the facts and circumstances in this case require it to take a fresh look at the amounts requested by the Company. In this case, Laclede has asked Staff to recommend approval of a three year financing authority but has not provided basic financial information that Staff requested. Without this information, the Staff cannot do a thorough evaluation of the reasonableness of Laclede's request.

Staff requested the Company provide it with projections that indicate the type of securities to be issued, the value of the securities to be issued, the possible time of issuance and the purpose for which the financing will be used.

Q. Did the Company provide this information to Staff?

A. No.

Q. Why are these projections important to Staff?

A. Staff uses these projections to determine the Company's total amount of anticipated financing needs which in turn provide a *reasonable* amount of financial flexibility.

Based on Staff's review of the application and information made available by the Company, Laclede's requested amount of financing is diametrically different from what its actual experience shows. Staff believes the Company has ignored its history, current operations, and present market conditions in developing its projections which are, in any event, subject to change.

Q. Do you know why the Company has not provided these projections?

A. No. However, the Staff notes that if these projections were to show a high amount of long-term debt, this would result in unfavorable projected credit ratios that would show a significant strain on the Company's credit rating. Although Laclede claims that Commission approval of its requested authority, by itself, will allow it financial flexibility, this simply is not true. In fact, if the Commission allows Laclede the ability to pledge its utility assets as collateral for unforeseen events not tied to identifiable needs, this could limit Laclede's future debt capacity to fund more critical needs of Laclede's regulated utility operations.

Q. After learning from the Company witness of the possible impact that might be caused by lack of such flexibility, do you still maintain your position?

A. Yes. The Company should provide reasonable support for its requested financing authority so that Staff can properly evaluate Laclede's reasonable capital needs. Without this support, the Staff cannot recommend the Commission authorize Laclede to collateralize its regulated utility properties for unforeseen circumstances which may include liquidity needs caused by The Laclede Group's financing needs.

Most importantly, the requirement of the Company to provide support for its financing authority should not be interpreted as the Staff trying to substitute its business judgment for that of the company's management. Staff believes it is reasonable and prudent and in the public interest for the regulated utility to provide adequate support for its requested financing authority.

Q. How are Staff's conditions different from the ones in the previous cases?

A. Most of the conditions are the same except for a few that addresses the preferred stock issue and long-term capital investments. Staff is trying to make sure that amounts of long-term capital investments financed under previous authorities are not included in the current case.

Q. Why did Staff recommend the Commission not authorize the issuance of preferred stock?

A. There are many different types of preferred stock, some of which are treated more like debt. The Company must specify the type of preferred stock it plans to issue and whether the preferred stock is to be issued in lieu of debt. The Company has not done so. If the Company has any amount of preferred stock to be considered under the debt cap, Staff's recommendation No. 2 shall be kept in place.

Q. What is Staff's position on Capital Leases?

A. Staff's initial position on Capital leases was that the Commission should authorize the reclassification of existing operating leases after the Financial Accounting Standards Board (FASB) has approved that change. However, after considering a fuller explanation by the Company of the benefits of Capital leases over operating leases, Staff recommends that the Commission authorize Laclede to convert its operating leases to capital leases and to enter into new capital leases provided that the lease(s) passes the following four Capital Lease Tests (According to GAAP – Generally Acceptable Accounting Principles):

1. The lease conveys ownership to the lessee at the end of the lease term;
2. The lessee has an option to purchase the asset at a bargain price at the end of the lease term;
3. The term of the lease is 75% or more of the economic life of the asset;
4. The present value of the rent, using the lessee's incremental borrowing rate, is 90% or more of the fair market value of the asset.

However, to the extent the Company enters into new capital leases, this amount shall be considered under Staff's proposed debt cap in this case.

Q. What does Staff think about the safeguards that are already in place?

A. The 65% debt-to-capital ratio was a condition imposed in Laclede's restructuring case, Case No. GM-2001-342. However, this ratio does not address Staff's concern in this case regarding the matter of the pre-approval of debt financing due to unforeseen issues that are not driven by Laclede's capital needs.

Q. On page 7, lines 12 through 20 of her Direct testimony, Ms. Rawlings implies that other Missouri utilities have been authorized to issue debt, equity (including preferred stock) and other financing instruments for predefined periods, much as Laclede has been allowed to do. What is your understanding of how Staff has addressed other Missouri utility company finance cases?

A. In the most recent Kansas City Power & Light (KCPL) Company Finance Case, Case No. EF-2010-0178, KCPL requested authority to issue $650 million in debt financing. In that case, Staff performed a "capital needs" analysis and determined that $200 million of the requested debt financing was for potential spending needs. Although those potential spending needs were targeted for specific capital projects, i.e. long-term capital investment, KCPL voluntarily reduced its requested debt authority with the understanding that it could file another finance case if it needed to do so. KCPL's financing authority expires at the end of 2011, one year less than the period requested by Laclede.

In a recent Union Electric Company, d/b/a AmerenUE (AmerenUE) Finance Case, Case No. EF-2009-0266, AmerenUE requested authority to issue $350 million of debt financing. In that case, AmerenUE requested permission to refinance outstanding short-term debt. Staff requested and received from AmerenUE an itemized list of AmerenUE's capital investments in order to ensure that the amount of short-term debt that would be refinanced was supported by long-term capital investments. AmerenUE's financing authority is limited to one year.

Another recent finance case that may be considered relevant to Laclede's request is that of Missouri Gas Utility, Inc. (MGU). Because MGU's financing request is tied to the expansion of their system, there has been little doubt that the requested financing supported capital investment in their Missouri system.

Also, in both the KCPL and AmerenUE finance cases the companies provided pro forma financial statements that showed the pro forma impact of the amount of debt authority requested. Laclede has not done so in its case. Laclede has represented to Staff that it does not have financial projections that show anticipated security issuances by type, amount and timing. This causes Staff even greater concern about recommending a higher amount of debt authority. Staff does not believe it is prudent to recommend that Laclede be given financing authority to issue debt to fund events that Laclede cannot determine will happen - and if they do happen - how much debt would Laclede need to issue? Although Laclede claims the Staff is attempting to limit its financial flexibility by tying Laclede's debt authority to actual capital expenditures, Staff asserts that it is protecting Laclede's financial flexibility by ensuring that Laclede does not encumber its regulated utility assets for uses that Laclede cannot even identify. The Commission should not authorize debt financing based on undetermined and uncertain needs for debt. If an unknown event should cause Laclede the need to issue a significant amount of short-term debt that needs to be refinanced with long-term debt, Staff believes it is prudent and reasonable for the Staff and Commission to review any new request to ensure it is related to Laclede's regulated gas operations.

Q. Based on past Staff experience, has Staff ever reviewed finance cases in an expedited manner?

A. Yes. Staff has reviewed finance cases on an expedited basis in the past. The most recent and relevant example is AmerenUE's Application for financing authority filed on May 9, 2009. In that instance, Staff issued a recommendation within two weeks to allow for an order to be issued by the requested date of May 31, 2008. According to Paragraph 14 of AmerenUE's Application, AmerenUE desired a quick turnaround do to the following reason:

> To provide Applicant flexibility with respect to the issuance of the New Indebtedness given dynamic and rapidly changing market conditions, Applicant requests that the order or orders of the Commission in this proceeding be issued by May 31, 2008. Applicant recognizes this date may be shorter than that in which applications have been historically completed, but are requesting this treatment due to **volatile and changing markets that the Applicants face.** (Emphasis added)

Staff believes this case is relevant for the reasons emphasized in the language above. Laclede has implied that Staff is attempting to foreclose on its ability to access debt financing in the event Laclede should face an emergency need that would require an additional $150 million in debt. This simply is not the case.

Q. Should Laclede have an unforeseen crisis causing the need to request authority to issue new long-term debt, would the Staff timely respond?

A. Yes. Staff would accommodate any requested expedited treatment should an emergency need occur.

Q. Does this conclude your Rebuttal testimony?

A. Yes it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Laclede Gas Company's Verified Application for Authority to Issue and Sell First Mortgage Bonds, Unsecured Debt and Preferred Stock, in Connection with a Universal Shelf Registration Statement, to Issue Common Stock and Receive Capital Contributions, to issue or accept Private Placement Securities, and to Enter Into Capital Leases, all in a Total Amount Not to Exceed $600 Million	)	Case No. GF-2009-0450

AFFIDAVIT OF MAREVANGEPO, ZEPHANIA

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Zephania Marevangepo, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 8 pages to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

Zephania Marevangepo

Subscribed and sworn to before me this 16th day of March, 2010.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 08, 2012
Commission Number: 08412071

D Suzie Mankin
Notary Public