

**IN THE TENNESSEE PUBLIC UTILITY COMMISSION
AT NASHVILLE, TENNESSE**

IN RE:)	
)	
APPLICATION OF PIEDMONT)	
NATURAL GAS COMPANY, INC. AND)	DOCKET NO. 25-00074
SPIRE TENNESSE INC. FOR)	
APPROVAL OF A TRANSFER OF)	
AUTHORITY TO PROVIDE UTILITY)	
SERVICES PURSUANT TO T.C.A. 65-4-)	
113 AND RELATED AUTHORIZATIONS)	

**DIRECT TESTIMONY
OF
DAVID N. DITTEMORE**

**ON BEHALF OF
THE CONSUMER ADVOCATE DIVISION
OF THE
OFFICE OF THE TENNESSEE ATTORNEY GENERAL**

DECEMBER 1, 2025

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1 **Q1. PLEASE STATE YOUR NAME AND OCCUPATION FOR THE RECORD.**

2 A1. My name is David N. Dittmore. I am a self-employed consultant working in the utility
3 regulatory sector.

4 **Q2. PLEASE PROVIDE A SUMMARY OF YOUR BACKGROUND AND**
5 **PROFESSIONAL EXPERIENCE.**

6 A2. I received a Bachelor of Science Degree in Business Administration from the University
7 of Central Missouri in 1982. I am a Certified Public Accountant licensed in Oklahoma
8 (#7562). I was previously employed by the Kansas Corporation Commission (“KCC”) in
9 various capacities, including Managing Auditor, Chief Auditor, and Director of the Utilities
10 Division. I was self-employed as a utility regulatory consultant for approximately four
11 years, primarily representing the KCC staff in regulatory issues. I also participated in
12 proceedings in Georgia and Vermont, evaluating issues involving electricity and
13 telecommunications regulatory matters.

14 Additionally, during this time frame, I performed a consulting engagement for Kansas Gas
15 Service (“KGS”), my subsequent employer. For eleven years, I served as Manager and
16 subsequently Director of Regulatory Affairs for KGS, the largest natural gas utility in
17 Kansas, serving approximately 625,000 customers. KGS is a division of One Gas, a natural
18 gas utility serving about two million customers in Kansas, Oklahoma, and Texas. I joined
19 the Tennessee Attorney General’s Office in September 2017 as a Financial Analyst. In July
20 2021, I began my independent consulting practice.

21 I have been a Board Member of the Financial Research Institute (University of Missouri),
22 a member of the NARUC Subcommittee on Accounting, the Vice-Chair of the Accounting

1 Committee of the National Association of State of Utility Consumer Advocates
2 (“NASUCA”), and an active participant in NASUCAs’ Natural Gas and Water Committees.

3 Overall, I have over 35 years of experience in public utility regulation and have testified as
4 an expert witness on numerous occasions. A detailed overview of my background is
5 attached to my testimony as Exhibit DND-1.

6 **Q3. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

7 A3. I am testifying on behalf of the Consumer Advocate Division (“Consumer Advocate”) of
8 the Office of the Tennessee Attorney General.

9 **Q4. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

10 A4. The purpose of my testimony is to provide the overall recommendation of the Consumer
11 Advocate in this proceeding, including the conditions necessary to ensure the transaction
12 addresses the relevant factors and public interest standard as set forth in Tenn. Code Ann.
13 §65-4-113(b). In doing so, I’ve incorporated the conclusions reached not only in my
14 testimony, but also those reached in the testimonies of Mr. Clark Kaml and Mr. Bradley
15 Dixon.

16 The recommendations I am supporting reflect the minimum guardrails necessary to protect
17 customers from both the known and the potential negative implications of this transaction.

18 My testimony addresses Spire’s capability to operate the existing Piedmont system. It
19 identifies the shortcomings in the *Application*, including Spire’s failure to consider the
20 statutory language guiding the transaction.

1 **Q5. WHAT IS THE FUNDAMENTAL PREMISE YOU BELIEVE SHOULD BE**
2 **FOLLOWED IN THE COMMISSION’S CONSIDERATION OF THE JOINT**
3 **APPLICATION?**

4 A5. Duke’s desire to monetize its status as a monopoly service provider should not put
5 customers in a worse position in the form of incurring higher rates because of this
6 transaction. Customers did not have a seat at the negotiating table for this transaction. The
7 Commission must thoroughly examine this transaction to evaluate the customer impacts
8 and recognize the significant uncertainty the transaction will have on Spire’s future costs
9 to serve.

10 **Q6. DO YOU BELIEVE THE TRANSACTION SHOULD BE APPROVED AS**
11 **SUBMITTED BY THE JOINT APPLICANTS?**

12 A6. No, I do not. Significant conditions and guardrails must be adopted by the Commission to
13 ensure the transaction does not harm customers. Further, I recommend that Spire not be
14 permitted to adopt Piedmont’s current Annual Rate Mechanism (“ARM”) until it has
15 undergone a traditional rate case proceeding. Discontinuance of the ARM is necessary not
16 only to protect ratepayers from cost increases exclusive to this transaction, but also to
17 recognize it is improper for Spire to apply the provisions of Piedmont’s current ARM,
18 which are specifically tailored to Piedmont’s operations and were the result of a Piedmont
19 rate case— not a Spire rate case.

20 **Q7. HOW IS YOUR TESTIMONY ORGANIZED?**

21 A7. My testimony is outlined as follows:

- 22 I. Background of Transaction;
- 23 II. Summary Recommendations;

- 1 III. Applicable Statutory Language;
- 2 IV. Stakeholder Implications;
- 3 V. Discussion of Recommendations; and
- 4 VI. Comments on Purchase Price and Future Spire Regulation.

5 **I. BACKGROUND OF THE TRANSACTION**

6 **Q8. CAN YOU SUMMARIZE THE NATURE OF THE TRANSACTION?**

7 A8. Yes. As Mike Switzer testified, Duke is seeking to sell its Piedmont-Tennessee assets and
8 transfer the authority to operate those assets and franchise service territory to Spire
9 Tennessee (“Spire”). The proposed purchase price is \$2.48 billion. As of December 31,
10 2024, Piedmont reported a Rate Base value of \$1.3 billion.¹

11 **Q9. HAVE THE JOINT APPLICANTS COOPERATED WITH THE CONSUMER**
12 **ADVOCATE DIVISION DURING THE COURSE OF ITS REVIEW?**

13 A9. Yes. The Joint Applicants have cooperated in both discovery and in their participation in
14 informal meetings held between the parties. I believe both parties benefited from this level
15 of cooperation, as it allowed the Consumer Advocate to learn more about Spire and its
16 acquisition efforts in an informal setting, and for the Joint Applicants to learn of the
17 Consumer Advocate’s concerns with the specifics of the transaction.

18 I have also reviewed discovery responses provided by Spire to regulatory inquiries in
19 Missouri and Alabama and found them to be responsive, demonstrating a level of
20 cooperation with regulators in those states.

¹ *Petition of Piedmont Natural Gas Company, Inc. for Approval of Its 2025 Annual Review of Rates Mechanism Pursuant to Tenn. Code Ann. § 65-5-103(d)(6), Schedule 2, TPUC Docket No. 25-00036 (May 20, 2025).*

1 **Q10. IS THERE A DISTINCTION BETWEEN THE COOPERATIVE NATURE OF THE**
2 **APPLICANTS DURING THE REVIEW PHASE OF THIS DOCKET AND THE**
3 **COMPLETENESS OF THEIR APPLICATION?**

4 A10. Yes. The *Application* and corresponding Testimony have failed to identify a critical
5 element of the transaction that, absent regulatory intervention, would result in a \$247.5
6 million increase in rate base and, essentially, a \$247.5 million transfer of wealth from
7 Piedmont customers to Spire.² The *Application* also fails to address the cost implications
8 of the transaction, leaving open the primary issue in this *Application*, whether customers
9 will be better or worse off because of this transaction.

10 In summary, the level of cooperation during the Consumer Advocate’s review was very
11 positive; however, the failure to address fundamental and extremely material aspects of the
12 transaction in its filing raises concerns about Spire’s transparency before this Commission,
13 both in this proceeding and going forward.

14 **II. SUMMARY RECOMMENDATIONS**

15 **Q11. CAN YOU SUMMARIZE YOUR RECOMMENDATIONS?**

16 A11. Yes. They are as follows:

- 17 A. The Commission should find that Spire has the operational capability to own
18 and operate the Piedmont system, subject to other conditions identified below.
- 19 B. The Commission should require Spire to establish a regulatory liability equal to
20 the balance of Piedmont’s Accumulated Deferred Income Taxes (“ADIT”),
21 inclusive of its Excess Accumulated Deferred Income Tax Liability (“EADIT”)
22 as of the date of closing. Excess ADIT computations should continue with the
23 same regulatory treatment as occurred under Piedmont’s ARM filing.
- 24 C. The Commission should find that Spire does not have the eligibility or authority
25 to assume Piedmont’s existing ARM. All deferrals associated with Piedmont’s
26 current ARM mechanism should terminate at the date of closing of the

² This aspect of the transaction is discussed in detail later in my Testimony beginning at 21.

- 1 transaction. No accrued carrying charges should apply to Piedmont deferred
2 balances assumed by Spire at the date of closing. The future recoverability of
3 the Piedmont deferred ARM regulatory assets should be determined in a future
4 rate proceeding.
- 5 D. The Commission should prohibit Spire from submitting a general rate
6 proceeding until it is no longer operating under the Transition Service
7 Agreement and the normalized costs to provide service are known and
8 measurable.
- 9 E. The Commission should find that Piedmont customers should not pay rates
10 higher under Spire's ownership than they would have under Piedmont's
11 ownership. The evaluation of the reasonableness of future Spire costs to serve
12 should be based upon a comparison with Piedmont's 2024 Operating Expenses
13 adjusted for inflation, net of a productivity factor, rather than an assessment of
14 the prudence of Spire's actions. Spire's Tennessee customers should not be
15 required to incur increased costs from this transaction, even if such expenses
16 were prudently incurred by Spire.
- 17 F. Costs incurred under the Transition Services Agreement related to the provision
18 of ongoing operations should be charged to expense as incurred. Such costs
19 should not be recoverable in rates consistent with the proposed rate moratorium
20 in recommendation D above.
- 21 G. Recovery of integration costs incurred to establish technology should be subject
22 to a demonstration by Spire that overall operating costs have not increased from
23 those incurred by Piedmont.
- 24 H. Branding costs incurred necessary to develop and implement the Spire brand
25 across the newly acquired service territory should be recorded to a below-the-
26 line account and be ineligible for recovery from ratepayers.
- 27 I. The Commission should find that the existing Piedmont regulatory asset related
28 to pensions should be written off and should not be transferred to the books of
29 Spire based upon the terms of the Asset Purchase Agreement.
- 30 J. Spire should not be permitted to send personal customer information to third
31 parties other than for purposes necessary to operate the natural gas utility.
- 32 K. Spire should be required to submit annual operating metric results.
- 33 L. Additional Accounting Requirements must be established to accommodate the
34 termination of Piedmont's ARM tariff.
- 35 M. As a condition of this transaction, Piedmont shall be required to respond to all
36 regulatory inquiries for information and analysis that relate to a comparison of
37 Spire's operations with the former Piedmont operations. Spire customers shall
38 be held harmless for any information that Piedmont does not provide in this
39 regard.

1 **Q12. CAN YOU PLEASE IDENTIFY THE RECOMMENDATIONS SUPPORTED BY**
2 **OTHER WITNESSES IN THIS CASE?**

3 A12. Yes. Mr. Kaml supports the following recommendations:

- 4 1. The Commission should determine the recoverability of any costs
5 associated with the acquisition in this proceeding.
- 6 2. The Commission should deny recovery of transaction costs, acquisition
7 premium-related costs, due diligence costs, and any other cost-related terms
8 that may be used, now or in the future, to differentiate a related cost from
9 those listed above.
- 10 3. Limit any increase in the cost of debt to demonstrable increases in the
11 overall market cost of debt as measured by changes in Moody's Baa
12 corporate bond yields.
- 13 4. Monitor and compare the capital structure of Spire, and Spire-Tennessee to
14 the capital structure currently reflected in rates.
- 15 5. Refund the difference in financing costs to ratepayers, to the extent that debt
16 financing is used as part of the purchase, in both temporary and permanent
17 financing, in place of equity.

18 Mr. Dixon supports the following recommendations:

- 19 1. The Commission should require Spire TN to provide quarterly reports on
20 the status of the transition and integration of the systems. This report should
21 detail the following:
 - 22 a. All workstreams included in the Day 1 Operating Model Readout;
23 progress made towards full integration;
 - 24 b. Activities completed towards full integration;
 - 25 c. Expected remaining action items to complete full integration;
 - 26 d. Original budget for each workstream activity;
 - 27 e. Actual costs incurred to date;
 - 28 f. Expected remaining costs to implement full integration; and
 - 29 g. The expected completion date for full integration of each
30 workstream.

31 The report should also identify impediments and issues that have occurred,
32 expected solutions to those issues, and updated timelines for full integration.

33 Budgeted costs, incurred costs, and expected remaining costs should be split
34 between operations and maintenance expenses, and capital projects as well as
35 projected future costs towards completion of the integration into the Spire TN
36 system.

1 partnership, corporation or other entity without first obtaining the approval of
2 the commission.

3 (b) Upon petition for approval of the transfer of authority to provide utility
4 services, the commission shall take into consideration all relevant factors,
5 including, but not limited to, the suitability, the financial responsibility, and
6 capability of the proposed transferee to perform efficiently the utility services
7 to be transferred and the benefit to the consuming public to be gained from the
8 transfer. The commission shall approve the transfer after consideration of all
9 relevant factors and upon finding that such transfer furthers the public interest.

10 (c) Following approval of the transfer pursuant to this section, the transferee
11 shall be granted full authority to provide the transferred services subject to the
12 continuing regulation of the commission. The transferor shall no longer have
13 any authority to provide the transferred services, but shall retain authority to
14 provide other services, if any are retained, which were not included in such
15 transfer.

16 **Q14. THE STATUTE MENTIONS “BENEFIT TO THE CONSUMING PUBLIC TO BE**
17 **GAINED FROM THE TRANSFER.” HAVE THE JOINT APPLICANTS**
18 **DEMONSTRATED THAT THE ACQUISITION, AS PROPOSED, PRODUCES**
19 **RECOGNIZABLE BENEFITS TO THE CONSUMERS?**

20 A14. No, they have not. Spire has established itself as a capable and established operator.
21 However, this is only one factor in determining if the transaction is in the public interest.
22 The public interest goes well beyond merely confirming that Spire has a history of
23 providing quality service to its customers. There is significant uncertainty about the
24 implications of this transaction on the cost of delivering such service under Spire
25 ownership, a topic both companies have avoided altogether in the *Application*. This
26 uncertainty poses the possibility, and indeed the likelihood, that Piedmont’s current
27 customers may be worse off because of this transaction. I will also explain later in my
28 testimony that, as structured by Spire, there is a very high likelihood that its customer costs
29 will increase because of this transaction unless the Commission takes action in this
30 proceeding.

1 In certain areas, such as employee benefit costs, customer billing costs, and rate base,
2 evidence indicates that Spire's revenue requirement will increase compared to similar
3 functions provided by Piedmont. In other functional areas, such as technology costs and
4 corporate overheads, Spire provides no substantive information indicating that costs may
5 decrease under its ownership, nor does it offer any meaningful customer protection
6 measures associated with this uncertainty. In testimony, Spire states its expectation that
7 costs to serve under Spire ownership would be no greater than they are currently under
8 Piedmont's ownership.⁴ There is absolutely no data or analysis supporting this aspirational
9 expectation, nor is there any discussion of how this expectation may be actually
10 accomplished, nor is there mention of any objective measures that the Company may be
11 held to during the transition, nor any suggestions of appropriate resolutions should this
12 vague expectation not be met. A shell of a Transition Service Agreement has been provided
13 as part of this *Application*; however, the exact nature of services to be provided by
14 Piedmont, and at what cost, has not been finalized as of the date of this pre-filed testimony.
15 Further, Spire fails to acknowledge in the *Application* that its prospective customers will
16 lose the certainty of the existing ADIT Rate Base offset as a result of this transaction and,
17 in its place, suggests the ADIT issue is best addressed in a future ratemaking proceeding.⁵
18 The Spire Response to Consumer Advocate DR No. 1-12 is vague and falls far short of any
19 commitment to ensure its customers will be made whole on this vital issue. The Company
20 could have easily identified this issue in its *Application* and resolved it by committing to
21 the Commission that Spire would establish a regulatory liability on its books to mirror the

⁴ *Direct Testimony of Brittany Mathis* at 14: 2-3.

⁵ Spire's Response to Consumer Advocate DR No. 1-12(c).

1 former Piedmont ADIT liability. The absence of such a commitment puts Piedmont's
2 existing customers at a significant disadvantage on this issue, when a simple resolution
3 could have been offered to keep customers on an equal footing, fulfilling the narrative
4 detailed in the *Application*, that Spire is merely “‘step[ping] into the shoes’ of Piedmont.”⁶

5 **Q15. DO YOU BELIEVE THE APPLICATION IN THIS DOCKET WAS SUBMITTED**
6 **PREMATURELY?**

7 A15. Yes. The *Application* was premature as it does not provide any substantive information
8 necessary to draw reasonable conclusions about whether costs to serve will increase under
9 Spire's ownership. Thus, it cannot with any reasonable efforts be determined if there is
10 any real customer benefit to the transaction. The timing of the filing was driven by the
11 financial objectives of both entities, to the significant disadvantage of Piedmont's existing
12 Tennessee customers.

13 **Q16. EARLIER YOU INDICATED THAT THE APPLICATION AND TESTIMONY**
14 **REFLECTED A FUNDAMENTAL MISUNDERSTANDING OF REGULATORY**
15 **LAW AND THEORY AS IT RELATES TO ACQUISITIONS. PLEASE EXPLAIN**
16 **HOW YOU ARRIVED AT THIS CONCLUSION.**

17 A16. I will provide examples that highlight the flaws in the *Application* regarding the nature of
18 this proceeding. The statements of Mr. Switzer and Mr. Yonce highlight the lack of
19 understanding of the nature of this proceeding. Mr. Switzer states that the transaction will
20 benefit Piedmont's customers by transferring Piedmont's authority and related
21 authorizations to a respected local distribution operator that can seamlessly step into

⁶ *Application* at 9, ¶ 15.

1 Piedmont’s shoes and capably own and operate the transferred LDC operations. Mr.
2 Switzer makes two errors within this one sentence, which I will address separately.

3 First, the transaction does not, as claimed by Mr. Switzer, “transfer Piedmont’s authority
4 and related authorizations.”⁷ It is the State of Tennessee, through the Commission, that
5 grants the monopoly and authority to operate the system, not Duke Energy. Duke Energy
6 cannot unilaterally transfer the authorizations referred to by Mr. Switzer.

7 Scott Hempling, in his book *Regulating Mergers and Acquisitions of U.S. Electric Utilities:
8 Industry Concentration and Corporate Complication*, accurately makes this distinction in
9 stating that “[a] franchise is a special privilege, granted by state government to the utility,
10 to provide defined services subject to defined obligations.”⁸

11 Another misguided statement by the Applicants, this time by Mr. Yonce, is that
12 “Duke/Piedmont made a decision to sell this business and therefore, Spire views that as a
13 foregone conclusion.”⁹ This statement by the Applicants creates a narrative aimed at
14 convincing the Commission that its role in this proceeding is limited to simply confirming
15 that Spire has the experience to operate Piedmont’s utility service territory and to set aside
16 any meaningful review of the cost implications of this transaction on customers. However,
17 the ability and experience to operate is only part of the burden the Applicants have to show.
18 The discussion of customer benefit is the other portion of the burden that they have yet to
19 carry in the *Application* as filed.

⁷ *Direct Testimony of Mike Switzer* at 2:21.

⁸ Scott Hempling, *Regulating Mergers and Acquisitions of U.S. Electric Utilities*, at 3, fn 3 (2020).

⁹ Spire’s Response to Consumer Advocate DR No. 2-11.

1 **Q17. ABSENT THIS TRANSACTION, DO YOU BELIEVE DUKE WOULD CONTINUE**
2 **TO ALLOCATE CAPITAL TO PIEDMONT SUFFICIENT TO MAINTAIN SAFE**
3 **AND RELIABLE SERVICE?**

4 A17. Yes, I do. Absent this transaction, Duke has a strong financial incentive to continue to
5 provide safe and efficient service. To do otherwise would put the Company at risk for civil
6 litigation and would not be in their best financial interest. As expected, Duke's
7 commitment to safety absent this transaction is confirmed in its statement that "[a]bsent
8 this transaction, Piedmont would continue performing work and making the necessary
9 capital expenditures to meet minimum safety standards."¹⁰ This should dispel any notion
10 that if the transaction is not executed for any reason, the system would fall into disarray, or
11 the reduction in capital allocated to Tennessee would pose immediate and dire
12 consequences for customers. Any long-term customer detriments of a decrease in capital
13 assigned to Tennessee would be offset, at least in part, by lower customer bills resulting
14 from the reduction in Rate Base. I dismiss the contention made by Spire¹¹ that Piedmont
15 is somehow not currently providing safe service or that this will occur in the future, absent
16 this transaction. The level of capital expenditures deployed to operate the system must
17 balance the provision of safe and reliable service with customer affordability. The current
18 regulatory regime of the Piedmont ARM provides every incentive to deploy capital. Any
19 reduction in capital spending by Piedmont should not be assumed to put customers at risk;
20 rather, it should be acknowledged that such reductions tend to limit rate increases, thereby
21 enhancing customer affordability. The Commission, in regulating utilities, must always be
22 mindful of the incentives it is creating. Indeed, safe and reliable service is critically

¹⁰ Piedmont's Response to Consumer Advocate DR No. 1-16.

¹¹ Spire's Response to Consumer Advocate DR No. 2-6.

1 important, but it must also ensure it is not creating incentives for expenditures that would
2 result in a “gold-plated” system that may meet financial objectives of the utility but
3 unnecessarily increase customer bills with minimal safety and reliability benefits.

4 Further, there is no evidence to suggest a decrease in capital assigned to Tennessee would
5 be due to insufficiency of the regulatory environment and mechanisms available in
6 Tennessee. Throughout the due diligence material, the Tennessee regulatory environment
7 is described very favorable from a utility shareholder perspective.

8 **Q18. WHAT IS THE NEXT ASPECT OF MR. SWITZER’S STATEMENT THAT YOU**
9 **TAKE ISSUE WITH?**

10 A18. The next aspect of Mr. Switzer’s statement above concerns the reference to Spire simply
11 “stepping into the shoes” of Piedmont in the control and operation of the utility. This is a
12 gross oversimplification (and mischaracterization) of what will occur. [REDACTED]

13 [REDACTED]

14 [REDACTED]

15 [REDACTED]

16 [REDACTED]

17 [REDACTED]

18 [REDACTED] The exact services and costs associated with the transition services are
19 unknown at this time, indicating significant uncertainty about the costs that will be incurred
20 going forward, and indeed, whether those costs will exceed those experienced under
21 Piedmont ownership.

22 It will be some time before Spire fully operates the Piedmont system, using technology-
23 related assets owned and operated by Spire. [REDACTED]

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Spire is also not stepping into Piedmont’s shoes as it relates to the elimination of the \$247.5 million ADIT liability balance. If the “stepping into Piedmont’s shoes” analogy were accurate, Spire would have supported a protective feature in its *Application* to establish the regulatory liability to ensure its prospective customers were not harmed from the transaction. That level of commitment would be commensurate with the “stepping into Piedmont’s shoes” narrative. At this time that commitment has not been made, which harms Piedmont customers.

Lastly, Spire is not “stepping into Piedmont’s shoes” regarding the costs customers will incur for employee pension benefits. As I will explain later in this testimony, as proposed, Piedmont’s current customers will be paying for legacy pension benefits after they have been terminated, as well as for employee benefit costs that replace those terminated pension benefits, resulting in a clear double payment from the perspective of Piedmont’s customers.

The Commission should reject the mere notion that Spire is “stepping into Piedmont’s shoes” as if the companies and services are a 1 to 1 substitution. This *Application* and the ensuing implications for customers is much more nuanced than the Applicants would have the Commission believe.

¹² Spire’s Response to Consumer Advocate DR No. 2-2, CONFIDENTIAL Attachment –10.16 Day 1 Op Model Readout, at 10.

1 **IV. STAKEHOLDER IMPLICATIONS**

2 **Q19. WHAT ARE THE IMPLICATIONS OF THE TRANSACTION FOR THE THREE**
 3 **STAKEHOLDERS: PIEDMONT/DUKE, SPIRE, AND PIEDMONT'S CURRENT**
 4 **TENNESSEE CUSTOMERS?**

5 A19. The clear winner from this transaction is Duke, which is capturing a pre-tax gain of
 6 approximately [REDACTED] through the monetization of its monopoly certificate provided
 7 by the state of Tennessee. Duke, through its Piedmont-Tennessee division, has earned
 8 healthy returns each year through the operation of the system.¹³ On an after-tax basis, the
 9 estimated gain approximates [REDACTED]. The after-tax gain of approximately [REDACTED]
 10 [REDACTED] comes at a time when Duke has owned the system for less than ten years. Only
 11 time will tell whether the significant price paid over book value by Spire will prove
 12 beneficial for its shareholders.

13 The party at significant risk in this transaction is Piedmont's existing customers, who face
 14 a potential \$247.5¹⁴ million increase in Rate Base resulting from the acquisition, and an
 15 approximate \$750 thousand annual reduction to Income Tax Expense.¹⁵ Further, Spire's
 16 prospective customers are at risk of incurring higher transaction costs and duplicative costs
 17 for costs already incurred. The Company has offered no meaningful safeguards to its

¹³ Spire's CONFIDENTIAL Response to Consumer Advocate DR No. 1-1.

¹⁴ The reference to \$247.5 million represents the ADIT balance as of December 31, 2024 (see Schedule 18.0 within Piedmont's filing in Docket No. 25-00036). The balance at closing should be significantly higher, given that significant capital expenditures will have been made in 2025 and the generous tax-deductibility provisions of the U.S. Tax Code. The ADIT balances for utilities typically increase each year, and I would expect the same for Piedmont's 2025 recordings. For purposes of this discussion, I will refer to the 2024 ADIT balance, but the Commission should understand that the expected balance of this account at closing in 2026 should be significantly higher than \$247.5 million.

¹⁵ The transaction is taxable (see Spire Response to Consumer Advocate DR No. 1-12), and as such, the \$247.5 million balance of Accumulated Deferred Income Taxes does not transfer to Spire in the purchase. However, the Commission has the authority to require the establishment of an equivalent regulatory liability to protect Piedmont customers from incurring the \$247.5 million cost associated with this transaction. This issue will be explained later in testimony.

1 prospective customers if operating costs increase as a result of this transaction. The success
2 or failure of this transaction from a cost perspective will be determined in large part by
3 Spire's ability to integrate technology at a cost that equates to the technology-related costs
4 currently incurred by Spire's customers. Costs of such technology projects may be
5 significantly greater than anticipated, and in fact, Piedmont's rates include technology cost
6 overruns.

7 An apt example of the risk of cost overruns in technology integration projects was
8 Piedmont's corporate OASIS project.¹⁶ The OASIS project was initially forecasted to cost
9 [REDACTED]. Through October 31, 2017, the accumulated costs were [REDACTED],
10 resulting in a total cost over-run of [REDACTED]. The Tennessee portion of the cost
11 over-run was [REDACTED]. Thus, the potential for IT cost overruns, and their impact on
12 Tennessee customers is more than a simple theoretical concern.

13 **Q20. WHAT WERE THE IMPLICATIONS FOR PIEDMONT FROM ITS SPENDING IN**
14 **EXCESS OF BUDGETED CAPITAL EXPENDITURES?**

15 A20. The practical result was the additional capital expenditures increased the Company's
16 capital rider recovery rates. In other words, the extra spending increased the Company's
17 bottom line; thus, there were only positive financial implications from the cost over-runs,
18 as the impacts were reflected in higher customer bills. The lack of a cap on capital
19 expenditures included in ARM filings is a concern, especially as it relates to this
20 transaction, as I will discuss later in my testimony.

¹⁶ For a comprehensive overview of this project, refer the Consumer Advocate's Testimony in TRA Docket No. 17-000138. *Direct Testimony of David N. Dittmore* at 9:8 – 11:4, TRA Docket No. 17-00138 (February 2, 2018) and *Supplemental Testimony of David. N. Dittmore* at 9:8 – 11:4, TRA Docket No. 17-00138 (February 28, 2018).

1 **V. DISCUSSION OF RECOMMENDATIONS**

2 **Q21. DO YOU BELIEVE SPIRE IS A CAPABLE UTILITY THAT CAN SAFELY**
3 **OPERATE THE PIEDMONT SYSTEM?**

4 A21. Yes. Spire is a well-established Midwest-based utility. In addition to its Missouri
5 operations, Spire has extensive experience operating utilities in Alabama and Mississippi.
6 The operating metrics provided through discovery demonstrate Spire’s capability to
7 manage and operate a natural gas distribution system. Also, I am encouraged by Spire’s
8 Response to Consumer Advocate DR No. 1-42 detailing steps it takes to minimize costs to
9 install Mains and Service lines. Consumer Advocate witness Bradley Dixon also discusses
10 Spire’s capability to operate the existing Piedmont system in his testimony.

11 However, while the Consumer Advocate does not object to Spire as a prospective utility
12 operator, this does not necessarily imply that Spire will be able to operate the system at a
13 cost equivalent to Piedmont’s. As explained in Consumer Advocate witness Dixon’s pre-
14 filed direct testimony, [REDACTED]

15 [REDACTED] and there will be costs to “stand up” new
16 technology and expand Spire’s existing technology to incorporate its Tennessee
17 operations.¹⁷

18 **Q22. GIVEN YOUR OPINION THAT SPIRE IS A CAPABLE OPERATOR, DOES THIS**
19 **REPRESENT A NET BENEFIT TO CUSTOMERS, CONTRASTED WITH THE**
20 **CURRENT OPERATIONS OF PIEDMONT?**

¹⁷ *Direct Testimony of Bradley Dixon at 5.*

1 A22. To the best of my knowledge, Piedmont has been successful in providing safe and efficient
2 service to its customers. I am not aware of any safety-related issues identified by TPUC's
3 Pipeline Safety Staff, nor am I aware of any PHMSA enforcement actions involving
4 Piedmont-Tennessee. For purposes of evaluating this transaction from an operational
5 safety perspective, the *Application* proposes a transfer from one capable operator to
6 another.

7 **B. ADIT as a Regulatory Liability**

8 **Q23. NOW TO TURN TO THE ADIT ISSUE, WHAT IS ADIT, AND HOW ARE SUCH**
9 **BALANCES REFLECTED IN THE REVENUE REQUIREMENT?**

10 A23. ADIT represents the cumulative difference between income taxes paid to federal and state
11 taxing jurisdictions, and the level of income tax expense calculated pursuant to generally
12 accepted accounting principles ("GAAP"). Typically, utility rates incorporate income tax
13 expense calculations similar to those used for financial reporting purposes (consistent with
14 GAAP). However, due to accelerated tax depreciation and the repair deduction, the taxes
15 actually paid for utilities are typically significantly less than the expense computed under
16 GAAP. This difference in the annual level of income tax expense recorded per GAAP and
17 income tax that is actually paid, is recorded as a deferred tax liability under the theory that
18 such taxes will be due and payable at some point in the future. The ADIT liability balance
19 represents a source of cost-free capital that customers have provided in advance of amounts
20 that, in theory, will be paid in the future. The net result, from a cash flow perspective, is
21 that customers are paying for an item that the utility will not remit to the taxing authorities
22 for many years, if ever. These funds may be used to invest in a company's business and do
23 not require financing by utility shareholders. Because shareholders do not provide these

1 funds, the balance is used to reduce the rate base, recognizing that the ADIT liability
2 represents a source of funds that reduces a company's funding requirements. In other
3 words, ADIT represents funding provided by customers that is otherwise not required of
4 utility shareholders. Failing to reduce the rate base would allow a company to earn a return
5 on capital that customers provided.¹⁸

6 **Q24. WHY DOESN'T PIEDMONT'S ADIT BALANCE TRANSFER TO SPIRE AT THE**
7 **DATE THE TRANSACTION CLOSES?**

8 A24. The proposed transaction is taxable, and as a result, the ADIT balance of Piedmont does
9 not transfer to the purchaser, Spire.¹⁹

10 **Q25. WHAT IS YOUR RECOMMENDATION REGARDING THE IMPLICATION OF**
11 **THE ADIT ASSOCIATED WITH THIS TRANSACTION?**

12 A25. The Commission should require Spire to establish a regulatory liability for the value of
13 Piedmont's ADIT liability as of December 31, 2025. Further, 2025 activity in this account
14 should be reviewed to ensure that Piedmont's ADIT accruals align with its historical ADIT
15 growth rates.

16 The establishment of this regulatory liability is necessary to protect customers from the
17 elimination of the ADIT from this transaction and to provide certainty to ratepayers that
18 additional costs will not be incurred solely because of this transaction.

¹⁸ Utilities typically identify ADIT as funding provided by the federal government. However, this is not accurate as the IRS has essentially mandated that utility rates be based upon accrued taxes, rather than taxes actually paid. Thus, this difference between accrued taxes and cash tax payments represents funding provided by customers, not the IRS, nor the federal government. In theory, accrued taxes will eventually be paid. However, the reality is that growing Rate Base drives utilities' corporate earnings. Therefore, growing future capital expenditures ensure a higher level of tax deductions, which will significantly reduce future tax payments.

¹⁹ Spire's Response to Consumer Advocate DR No. 1-12.

1 **Q26. DOES THE COMMISSION HAVE THE AUTHORITY TO REQUIRE SPIRE TO**
2 **ESTABLISH A REGULATORY LIABILITY ON ITS BOOKS?**

3 A26. Yes. The Commission has the authority to oversee the books and records of Spire's
4 Tennessee jurisdictional operations. My proposal is well within the Commission's scope
5 of statutory authority.

6 **Q27. WOULD THE ESTABLISHMENT OF A REGULATORY LIABILITY BY THE**
7 **COMMISSION BE CONSISTENT WITH GAAP?**

8 A27. Yes. Accounting Standards Codification ("ASC") 980 addresses accounting for regulated
9 entities. This accounting code allows regulated entities to reflect the economic impact of
10 regulation and permits the recognition of an asset or liability based on order that is issued
11 by state regulatory commissions having jurisdiction over the rates of this subject utility.
12 This accounting pronouncement is commonly used in several different ways including
13 accounting for the deferred recovery of purchased gas cost, as well as the deferral of certain
14 expenses associated with annual rate mechanisms. Therefore, the accounting I am
15 recommending is consistent with the type of accounting already in use by Tennessee
16 jurisdictional utilities.

17 **Q28. WHAT ARE THE ACCOUNTING IMPLICATIONS OF SPIRE'S APPROACH TO**
18 **THE ADIT ISSUE VERSUS THAT YOU ARE PROPOSING?**

19 A28. Spire seeks to avoid recognizing on its books the \$247.5 million liability that currently
20 exists on the books of Piedmont. Thus, Spire's balance of retained earnings (equity) would
21 be \$247.5 million greater than that of Piedmont, as it avoids the recognition of the existing
22 ADIT liability on the books of Piedmont.

1 I am recommending the recognition of a regulatory liability in the same amount as
2 Piedmont's ADIT balance at the time of closing. This is necessary to ensure that Spire
3 customers do not lose the benefit of the existing ADIT balance on Piedmont's books. My
4 recommended treatment of the ADIT liability is consistent with Spire's assertion that they
5 are simply "stepping into Piedmont's shoes," as Spire's books would recognize a liability
6 in the same manner that Piedmont does today.

7 **Q29. IS SPIRE'S RECOMMENDATION TO ADDRESS THE ELIMINATION OF THE**
8 **ADIT IN A FUTURE REGULATORY PROCEEDING CONSISTENT WITH THE**
9 **MESSAGING THAT SPIRE IS STEPPING INTO THE SHOES OF PIEDMONT?**

10 A29. No, not at all. Spire's approach puts its customers at risk for losing \$247.5 million in
11 funding it provided for the operation of the Piedmont system; this is certainly not a
12 "stepping into the shoes" situation from the customers' standpoint. Under the Spire
13 approach, customers would essentially be funding a significant portion of Duke's tax bill
14 from this transaction, because of its monetization of its Tennessee monopoly assets.

15 **Q30. IF IN A FUTURE REGULATORY PROCEEDING THE COMMISSION**
16 **REQUIRED A REGULATORY LIABILITY OFFSET TO BE REFLECTED IN**
17 **RATE BASE, WOULD THIS ACTION REQUIRE THE ESTABLISHMENT OF A**
18 **LIABILITY ON THE BOOKS OF SPIRE?**

19 A30. Yes. A future regulatory determination that mirrors the existing Piedmont ADIT balance
20 would require Spire to recognize a significant liability on its books at that time.

1 **Q31. ASSUME THAT THIS TRANSACTION MOVES FORWARD AND THE FUTURE**
2 **REGULATORY TREATMENT OF THE EXISTING ADIT BALANCE IS**
3 **UNCERTAIN. DO YOU BELIEVE SPIRE WOULD BE ACCEPTING OF A**
4 **FUTURE REGULATORY OUTCOME THAT WOULD REQUIRE THE**
5 **ESTABLISHMENT OF A \$247.5 MILLION LIABILITY ON ITS BOOKS?**

6 A31. No. Based on my 35 years of experience in utility regulation, including significant
7 experience as a Regulatory Director for a peer utility of Spire, I do not believe Spire would
8 readily agree to establish a \$247.5 million liability on its books in a future proceeding. I
9 think instead, Spire would argue against any regulatory outcome that would require the
10 recognition of such a significant liability on its books. Thus far, Spire has argued against
11 such recognition in this proceeding, despite the potential inequity this imposes on
12 Piedmont's customers. There is no reason to believe Spire would either propose or readily
13 accept such a future regulatory outcome, which would have negative implications for their
14 Balance Sheet and that they are unwilling to accept today.

15 **Q32. HOW ARE CUSTOMERS HARMED BY FOLLOWING THE COMPANY'S**
16 **SUGGESTION TO ADDRESS THE ADIT ISSUE IN A SUBSEQUENT**
17 **REGULATORY PROCEEDING?**

18 A32. Piedmont's Rate Base includes ADIT as an offset to Rate Base. The recognition of ADIT
19 as a Rate Base offset is readily accepted in regulatory calculations and represents a settled
20 issue. Spire, through its inaction in this proceeding, is now attempting to move this known
21 issue to a classification that is best described as "uncertain." As discussed in Consumer
22 Advocate witness Clark Kaml's Pre-Filed Direct Testimony, ratepayer uncertainty in this
23 case poses a risk to customers, representing a ratepayer cost rather than a benefit.

1 **Q33. WHAT ARE THE PRACTICAL IMPLICATIONS OF NOT ADDRESSING THE**
2 **ADIT ISSUE IN THIS PROCEEDING?**

3 A33. The first implication is setting aside an issue important to customers. If the Commission
4 does not address this issue in the current proceeding, customers face the risk of an
5 unjustified \$247.5 million transfer of wealth to Spire that would not occur absent this
6 transaction, plus the loss of an approximate \$750 thousand income tax expense credit
7 related to the current amortization of EADIT. Obviously, this outcome for customers
8 would easily render this transaction contrary to their interests and should not be approved.
9 If the Commission sets this issue aside for now but then requires the recognition of a
10 liability in future regulatory proceedings, the practical result is that Spire's Balance Sheet
11 would be materially misstated at the date it acquires Piedmont's Tennessee operations.

12 **Q34. IF THE COMMISSION DOES NOT ADDRESS THE ADIT LIABILITY IN THIS**
13 **PROCEEDING, WHAT IS THE IMPLICATION OF THIS ISSUE AS REFLECTED**
14 **ON SPIRE'S BALANCE SHEET?**

15 A34. If the Commission follows Spire's proposal to defer this issue, Spire will not record any
16 ADIT-related liability on its financial records, implying no future obligation exists. Under
17 this scenario, the reader of financial statements would conclude that the Company's Rate
18 Base, or net assets, do not include the \$247.5 million liability offset currently reflected on
19 Spire's books. If the Commission proceeds with Spire's proposal, one of two things would
20 be true, either Spire's financial statements will be misstated, or customers will incur the
21 costs of an additional \$247.5 million in Rate Base resulting from this transaction.

1 **Q35. DOES ADDRESSING THE ADIT ISSUE IN THIS DOCKET PROMOTE**
2 **ADMINISTRATIVE EFFICIENCY?**

3 A35. Yes. The accounting I am proposing is directly derived from the present request. The issue
4 has been evaluated in this proceeding and is ripe for the Commission's determination.
5 Addressing this issue in a subsequent proceeding will require a duplication of resources
6 and costs in that proceeding, which has already been incurred in this Docket. The failure
7 to address the regulatory implications of the ADIT liability in this proceeding, as suggested
8 by Spire, is not in the public interest.

9 **Q36. HAS A SIMILAR ISSUE INVOLVING SPIRE BEEN ADDRESSED WHEREBY**
10 **THE ADIT ELIMINATED IN A TAXABLE TRANSACTION BEEN TRANSLATED**
11 **TO A REGULATORY LIABILITY ON THE BOOKS OF SPIRE?**

12 A36. Yes. Attached as Exhibit DND-2 is a Stipulation and Agreement adopted in Case No. GM-
13 2013-0254 before the Missouri Public Service Commission. This case involved the request
14 by Spire to acquire the Missouri assets (under the division name Missouri Gas Energy,
15 ("MGE")) of the Southern Union Company. The MGE transaction was taxable in the same
16 manner as the current Piedmont acquisition. The disappearing ADIT issue was resolved in
17 that proceeding through the recognition of a Rate Base offset in future rate proceedings.
18 Exhibit DND-3 is a copy of a portion of the transcript in Case No. GM-2013-0254, which
19 demonstrates that the Regulatory Liability referenced in the Settlement Agreement was
20 indeed the balance of ADIT on the books of MGE.

21 **Q37. WHAT ARE THE IMPLICATIONS OF SPIRE'S ADIT BALANCE GOING**
22 **FORWARD AS A RESULT OF THIS TRANSACTION?**

1 A37. Spire will receive a step-up in tax basis because of this transaction. The practical
 2 implications of this are that Spire's tax deductions on Piedmont's acquired assets will be
 3 greater in the long run than they would have been under Piedmont's continued ownership.
 4 However, this increased tax deductibility will grow slowly and does not offset the existing
 5 Piedmont ADIT liability. If the Commission accepts my recommendation to establish
 6 regulatory liability, the step-up in tax basis would constitute a legitimate benefit of the
 7 transaction that would accrue slowly over time.²⁰

8 **Q38. HOW SHOULD THE REGULATORY LIABILITY BE AMORTIZED GOING**
 9 **FORWARD?**

10 A38. The ADIT balances may be categorized into two groups: EADIT balances and traditional
 11 ADIT balances. The weighted-average amortization rate for the EADIT portion of the
 12 regulatory liability should be 1.69% per year, consistent with the amortization of such
 13 balances in the past.²¹ Spire should create a separate subaccount to continue tracking the
 14 former Piedmont EADIT liability balances, inclusive of those imputed to Piedmont-
 15 Tennessee from its corporate asset allocations. The EADIT amortization of \$785,252²²
 16 should continue to represent a credit in the computation of Spire Income Tax Expense
 17 calculations going forward.²³

²⁰ Mr. Clark Kaml addresses Spire's characterization of benefits in this transaction in his testimony.

²¹ Schedule 52x, Piedmont's ARM filing, TPUC Docket No. 25-00036. The Tennessee portion of the EADIT for the thirteen-month average ending December 31, 2024, was \$46,585,754.

²² *2025 Annual Rate Review Filing Mechanism, In re: Petition of Piedmont Natural Gas Company, Inc for Approval of Its 2025 Annual Review of Rates Mechanism Pursuant to Tenn. Code Ann. § 65-5-103(d)(6)*, Schedule 8, line 23, TPUC Docket No. 25-00036 (May 20, 2025).

²³ In addition to the potential Rate Base increase of \$247.5 million, Spire customers also stand to incur additional income tax expenses from this transaction of \$785,252 from the elimination of the amortization of EADIT costs as identified on Schedule 52X of Piedmont's filing in TPUC Docket No. 25-00036.

1 The bulk of the traditional ADIT balance, approximating \$201 million (\$247.5 million total
 2 ADIT, less \$46.5 million of EADIT), represents book/tax timing differences and thus
 3 should be amortized over the remaining book life of the assets at a rate of 3.48% as shown
 4 in the table below. This amortization period represents the best estimate of the amortization
 5 of this liability under Piedmont’s ownership. The table supporting this calculation is shown
 6 below:

Regulatory Liability Amortization Calculation				
Line No.	Item		12/31/2024 Amount	Docket 25-00036 Source Schedule
1	Gross Plant in Service		\$ 2,057,396,986	Schedule 13
2	Less: Accumulated Depreciation		\$ 564,212,572	Schedule 16
3	Net Book Balance		\$ 1,493,184,414	
4	Divided By: Annual Depreciation Expense		51,958,622	Schedule 9
5	Remaining Life of Book Assets in Years		28.74	
6	Amortization Rate (1/Remaining Life)		3.48%	

8 **C. Spire is not eligible nor has the authority to operate under an annual rate**
 9 **mechanism absent a general rate case. ARM deferrals should cease at the**
 10 **closing date of the transaction. The future recoverability of the Piedmont**
 11 **deferred ARM regulatory assets should be determined in a future rate**
 12 **proceeding**

13 **Q39. IS SPIRE REQUESTING APPROVAL TO OPERATE UNDER THE ARM**
 14 **ADOPTED FOR PEIDMONT?**

15 A39. Yes. Spire has requested Commission approval to adopt Piedmont’s entire tariff, including
 16 the ability to operate under its ARM mechanism.²⁴

²⁴ Application at 9.

1 **Q40. DO YOU BELIEVE IT IS PROPER FOR SPIRE TO OPERATE UNDER AN ARM?**

2 A40. No.

3 **Q41. WHAT IS THE BASIS OF YOUR CONCLUSION?**

4 A41. Tenn. Code Ann. § 65-5-103(d)(6) states that “a public utility may opt to file for an annual
5 review of its rates *based upon the methodology adopted in its most recent rate case*”
6 (emphasis added). The statute goes on to state that the public utility must have engaged in
7 a general rate case within the past five years to be eligible to opt into an ARM. Neither of
8 these conditions will have been met by Spire, effective on the anticipated closing date of
9 March 31, 2026. As of that date, Spire will own the Piedmont system (sans the critical
10 technology needed to operate it effectively) and will no longer meet the criteria for
11 submitting an ARM filing.

12 Spire’s ownership of the majority of Piedmont’s assets does not, in turn, confer authority
13 to adopt the mechanics of Piedmont’s ARM, which were only initially determined to be
14 just and reasonable and in the public interest after an in depth rate case and one failed
15 attempt to draft an appropriate mechanism.²⁵ Spire’s acquisition of Piedmont’s Tennessee
16 assets forecloses it from submitting an ARM developed under Piedmont’s ownership.

17 Spire should not be permitted to present Piedmont’s former cost of operation for collection
18 in rates in 2026. Further, the existing Piedmont ARM tariff is in no way established to
19 consider the many questions arising from Spire’s ownership operation while the
20 intercompany transactions are occurring under the Transition Services Agreement
21 (“TSA”).

²⁵ *Order Denying Proposed Annual Review of Rates Mechanism*, TPUC Docket No. 21-00135 (July 25, 2022).

1 The ARM is applicable and tailored for each specific utility under the Commission's
2 jurisdiction. There is not a single ARM that applies to all jurisdictional utilities. ARMs
3 are designed to follow previously determined ratemaking determinations unique to the
4 utility in question. There will be many issues regarding Spire's revenue requirement that
5 are unique to Spire and unrelated to Piedmont's current operations. Spire is attempting to
6 force a square peg into a round hole with its request to operate under Piedmont's existing
7 ARM tariff.

8 Going forward, Spire may consider filing an ARM after submitting a general rate case,
9 which would allow for a comprehensive review of its costs under normal operating
10 conditions, when Spire will fully operate the system exclusively using its own assets and
11 employees.

12 **Q42. CONSISTENT WITH THE TERMINATION OF THE ARM, SHOULD ALL**
13 **DEFERRALS ASSOCIATED WITH PIEDMONT'S EXISTING ARM TARIFF**
14 **CEASE?**

15 A42. Yes. Spire's regulatory framework in Tennessee would revert to a traditional regulatory
16 model, except for the deferral of General Taxes described below. Going forward, Spire
17 could request the opportunity to enter alternative regulatory models provided for in existing
18 Tennessee statutes, and its normalized costs are known and measurable.

19 **D. The Commission should prohibit Spire from submitting a general rate case**
20 **filing until it is no longer operating under the TSA and its normalized**
21 **operating costs are known and measurable**

22 **Q43. WHY DO YOU BELIEVE SPIRE SHOULD BE PROHIBITED FROM**
23 **SUBMITTING A BASE RATE CASE UNTIL SUCH TIME AS IT IS NO LONGER**
24 **OPERATING UNDER THE TRANSITION SERVICE AGREEMENT?**

1 A43. There are several reasons supporting a rate case moratorium, as referenced below:

- 2 • The lack of a normalized test period upon which to set base rates.
- 3 • To provide Spire the appropriate incentive to minimize costs incurred
- 4 during the transition period.
- 5 • To ensure there are meaningful benefits to customers arising from this
- 6 transaction.

7 **Q44. PLEASE DISCUSS YOUR FIRST POINT RELATED TO THE NEED TO IMPOSE**
8 **A REASONABLE RATE MORATORIUM IN THIS PROCEEDING.**

9 A44. One of the fundamental elements in establishing a utility revenue requirement is the use of
10 a “normalized” test period. The goal of using a normalized test period is to eliminate non-
11 standard or one-time costs that do not represent an ongoing level of expense. Costs
12 incurred during this transition period should not serve as the basis for a normalized test
13 period. Further, ongoing normalized costs will not be known until Spire operates the
14 system on its own without Piedmont’s assistance under the TSA. The use of costs incurred
15 under the TSA to establish rates would not satisfy the normalized test period criteria
16 commonly used by regulators to establish just and reasonable rates.

17 **Q45. PLEASE TURN TO YOUR NEXT POINT THAT A RATE MORATORIUM**
18 **PROVIDES SPIRE WITH THE APPROPRIATE INCENTIVE TO MINIMIZE**
19 **COSTS DURING THE TRANSITION PERIOD.**

20 A45. If hypothetically, Spire was permitted to continue with Piedmont’s ARM (notwithstanding
21 the legality of such a scenario) and/or submit a rate case filing upon acquiring ownership
22 of the Piedmont system, Spire would arguably be eligible to recover costs it incurs under
23 the TSA. The potential recovery of TSA-related costs would reduce Spire’s incentive to
24 operate the system as cost-effectively as possible during this interim period.

1 **Q46. FINALLY, PLEASE ADDRESS YOUR THIRD POINT THAT A RATE**
2 **MORATORIUM WOULD PROVIDE BENEFITS FOR RATEPAYERS.**

3 A46. As proposed by Spire, there are no actual incremental benefits from the transaction. As
4 discussed in Consumer Advocate witness Clark Kaml's pre-filed Direct Testimony, the
5 claimed benefits identified in Schedule F of the *Application* are more accurately described
6 as maintaining the status quo between Piedmont's current ownership and Spire's future
7 ownership. A brief rate moratorium would provide a meaningful benefit to Piedmont's
8 existing Tennessee customers and would further the public interest, a requirement of the
9 existing statute.

10 **E. Increased costs resulting from this transaction should not be recovered**
11 **from Spire customers**

12 **Q47. PLEASE EXPLAIN YOUR NEXT RECOMMENDATION THAT FUTURE SPIRE**
13 **OPERATING COSTS SHOULD NOT RESULT IN HIGHER COSTS THAN**
14 **THOSE APPROVED IN PIEDMONT'S ARM FILING IN TPUC DOCKET NO. 25-**
15 **00036, ADJUSTED FOR NET INFLATION.**

16 A47. As mentioned earlier, the present transaction was done to accommodate the financial
17 interests of each set of utility shareholders. It was not done to reduce costs for consumers.
18 Duke voluntarily assumed an obligation to serve upon acquisition of Piedmont Natural Gas
19 in 2016, and it cannot simply walk away from that commitment if the alternative is
20 detrimental to captive customers' interests. I recommend that the operating cost
21 component of future Spire revenue requirement calculations be compared with Piedmont's
22 actual 2024 O&M costs as provided in TPUC Docket No. 25-00036 as shown below:²⁶

²⁶ Piedmont's Response to Consumer Advocate DR No. 2-1.

CY 2024 Summary -Direct Charged O&M vs Alloated O&M		
8	Total Amount Direct Charged to PNG-TN O&M	\$ 30,050,163
9	Total Service Company Allocated Charges to PNG-TN O&M	7,326,509
10	Total Piedmont Allocated Charges to PNG-TN O&M	17,169,613
11	TOTAL PNG-TN O&M Expense in CY 2024	\$ 54,546,286

1

2 **Q48. DO THE COSTS ABOVE INCLUDE THE ALLOCATION OF ASSET COSTS**
 3 **ASSOCIATED WITH CORPORATE PIEDMONT ASSETS?**

4 A48. Yes.

5 **Q49. HOW DO YOU RECOMMEND THE COMPARISON YOU ARE REFERRING TO**
 6 **SHOULD BE CONDUCTED IN FUTURE SPIRE RATEMAKING DOCKETS?**

7 A49. I recommend that the costs identified above be adjusted for inflation, less a reasonable
 8 offset for expected productivity. This pro-forma level of O&M charges should be assumed
 9 to represent the reasonable estimate of costs that would be incurred under Piedmont’s
 10 ownership. This *pro-form* cost level should then be compared with Spire’s actual O&M
 11 costs to assess whether O&M costs have increased under Spire's ownership.

12 **Q50. SHOULD SPIRE OBJECT TO THE CONCEPT OF COMPARING ITS ACTUAL**
 13 **COSTS TO THE LEGACY COSTS OF PIEDMONT?**

14 A50. No. Brittany Mathis’s stated that Spire’s goal is that there would be very limited, if any,
 15 financial impact on Tennessee customers as a result of the Proposed Transaction.²⁷ Further
 16 Ms. Mathis explained:²⁸

17 However, most legacy corporate support will continue to be provided under the
 18 TSA until the time when Spire’s financial and operational systems are set up

²⁷ Direct Testimony of Brittany Mathis at 12:7-9.

²⁸ Spire’s Response to Consumer Advocate DR No. 1-20.

1 and able to support Spire Tennessee's operations and therefore should be similar
2 or equal to the cost of those services currently being provided by Piedmont.

3 The Commission should hold Spire accountable for these statements designed to assure the
4 Commission that costs will not increase under Spire's ownership.

5 **F. Costs incurred under the transition service agreement related to the**
6 **provision of ongoing operations should be charged to expense and not**
7 **recovered from customers**

8 **Q51. PLEASE TURN TO YOUR NEXT POINT THAT COSTS INCURRED BY SPIRE**
9 **UNDER THE TRANSITION SERVICES AGREEMENT SHOULD NOT BE**
10 **INCLUDED IN A FUTURE ARM OR REVENUE REQUIREMENT**
11 **CALCULATION. WHY DO YOU BELIEVE THIS SAFEGUARD IS**
12 **NECESSARY?**

13 A51. During the effective period of the TSA, yet to be defined services will be billed at yet to be
14 defined rates, with no caps in place. It seems likely that a significant level of involvement
15 of Duke labor will continue to be required to assist if not direct the operations of Spire's
16 Tennessee operations. This will coincide with Spire's management team spending time
17 overseeing the new operations of Spire and building out the necessary technology systems,
18 so that Spire may operate the system on a stand-alone basis at some point in the future.

19 It must be remembered that Piedmont is currently fully compensated for the costs of
20 operating its system on a stand-alone basis. Spire will assume these fully compensatory
21 rates upon the close of the transaction. To the extent Spire can operate the system under
22 the TSA at a cost lower than Piedmont's current operating costs, it will retain these
23 additional margins. I think it is more likely that operating expenses will increase during
24 this transition period, as there will likely be duplication of management oversight of Spire's

1 new operations: one through the experienced oversight of existing Piedmont management
2 and the other through Spire's management.²⁹

3 This transaction is motivated for the exclusive benefit of each set of shareholders.
4 Piedmont's Tennessee customers should not be required to incur costs that were incurred
5 for the benefit of each shareholder group. In this interim period, shareholders may benefit
6 from any synergies resulting from operations conducted under the TSA.

7 **G. Recovery of integration costs incurred to establish technology should be**
8 **subject to a demonstration by Spire that overall operating costs have not**
9 **increased from that incurred by Piedmont**

10 **Q52. PLEASE TURN TO YOUR NEXT RECOMMENDATION THAT INTEGRATION**
11 **COSTS ASSOCIATED WITH TECHNOLOGY UPGRADES AND NEWLY**
12 **CREATED SYSTEMS SHOULD BE CAPITALIZED AND MAY BE**
13 **RECOVERABLE, SUBJECT TO A DEMONSTRATION THAT TOTAL SPIRE**
14 **COSTS ARE NOT GREATER THAN WOULD HAVE BEEN INCURRED BY**
15 **PIEDMONT.**

16 A52. After the close of the transaction, Piedmont's technology and related costs will no longer
17 be incurred directly by Spire but instead will be charged to Spire through the TSA.
18 Eventually, Spire will complete the necessary technology and system upgrades and operate
19 the system without the assistance of Piedmont/Duke employees or assets.

20 There is a significant risk that these costs will exceed what Piedmont's customers currently
21 incur. To the extent that the total costs to provide service, inclusive of the newly created
22 technology asset costs, whether directly charged or allocated, are greater than Piedmont's

²⁹ I am not referring here to "on the ground" Spire employees who've transitioned from Piedmont to Spire. Instead, I'm referring to out of state management employees whose time is charged to Tennessee operations, whether that be from Piedmont through the TSA, or Spire as they familiarize themselves with the new system.

1 former costs, these incremental costs should not be recovered from Spire's Tennessee
2 customers.

3 **Q53. WHY SHOULD THE COST RECOVERY STANDARD BE ESTABLISHED**
4 **THROUGH A COMPARISON OF SPIRE'S COSTS TO SERVE WITH THOSE OF**
5 **PIEDMONT, RATHER THAN ON A SHOWING OF PRUDENCE?**

6 A53. Piedmont customers did not request this transaction, and they should not be left with higher
7 bills because of the transaction. It is entirely possible that Spire could prudently incur
8 transition costs, but nonetheless, those costs could be higher than necessary, or stated
9 another way, higher than they were under Piedmont's ownership.

10 Secondly, the reality of a prudence review is that the burden falls on intervenors such as
11 the Consumer Advocate to demonstrate imprudence.³⁰ The Commission has historically
12 passed through the cost overruns to Piedmont customers.

13 Thirdly, at the time of this writing, there are no established budgets (or at least none have
14 been presented) to demonstrate that the costs of the various conversions will not increase
15 costs for consumers. A second reason for such a budget is to provide an initial piece of
16 information upon which to compare the eventual final costs of the particular conversion
17 project. This would be the first step in evaluating prudence, even assuming such an
18 endeavor could be undertaken.

³⁰ I am not asserting that companies do not bear the legal burden of demonstrating prudence; I am pointing to a practical obstacle that intervenors face in proving imprudence.

1 For the above reasons, the Commission should conclude that costs incurred by Spire during
2 the period the TSA is effective shall not be included in a future revenue requirement
3 determination.

4 **Q54. DO YOU HAVE A HYPOTHETICAL SITUATION THAT DEMONSTRATES THE**
5 **VIRTUAL IMPOSSIBILITY OF EFFECTIVELY CHALLENGING PRUDENCE**
6 **WITHIN THE EXISTING TENNESSEE REGULATORY FRAMEWORK?**

7 A54. Yes. First, I would like to emphasize that the failure of Spire to present budgeted costs for
8 the major IT transformation projects pose an initial roadblock to the evaluation of prudence,
9 even assuming the following challenges were successfully worked through. For the sake
10 of discussion, we'll assume good-faith budgets are in hand and the sum of these budgeted
11 costs, if met, translates to a revenue requirement amount comparable to, or less than that
12 of Piedmont.³¹ This would be the first step in demonstrating that the proposed transaction
13 was reasonable and in the public interest. Unfortunately, this was not done, and we are left
14 with little substance on which to evaluate the public-interest component of this transaction.
15 Continuing, let's further assume that a \$25 million budgeted technology upgrade actually
16 costs \$50 million. Under a best-case scenario, it would require at least one round of
17 discovery even to identify the cost overrun. This leaves one round of discovery to address
18 the prudence of a technical IT upgrade, determine why budgeted costs were exceeded, and
19 whether those costs could have been avoided, on a technical project outside the Consumer
20 Advocate analyst's scope of expertise. The notion that a prudence review can be conducted

³¹ It is possible that if good faith budgets had been prepared, then they may demonstrate that the likely costs of Spire's ownership could be greater than that of Piedmont, thus demonstrating the public interest test was not met in this transaction. The lack of budgets in this regard may avoid what could otherwise be an obstacle to demonstrating that the transaction is in the public interest.

1 for complex and sophisticated projects under existing timelines and procedures, and that
2 such reviews provide meaningful protection against customers incurring excessive costs,
3 is inaccurate. Any narrative that promotes the use of prudence reviews as a customer
4 protection feature should be rejected by the Commission.

5 **Q55. IN YOUR EXPERIENCE, ARE YOU AWARE OF ANY SITUATION IN WHICH A**
6 **REGULATED UTILITY VOLUNTARILY ACKNOWLEDGED THAT ITS**
7 **ACTIONS WERE IMPRUDENT?**

8 A55. No.

9 **H. Branding costs associated with the new entity should not be recoverable**
10 **from customers**

11 **Q56. WHAT IS YOUR RATIONALE FOR RECOMMENDING EXCLUSION OF**
12 **BRANDING COSTS FROM RECOVERY FROM PROSPECTIVE SPIRE**
13 **CUSTOMERS?**

14 A56. Costs associated with the display of Spire as the new owner/operator of the former
15 Piedmont system are exclusive to the transaction, of which the primary objective is to
16 advance the position of each entity's shareholders. Customers should not incur these costs,
17 as they provide no incremental value. The costs may be necessary to inform customers of
18 the new ownership; however, the transaction itself is unnecessary from the customers'
19 perspective, and thus the costs associated with spreading the Spire brand should likewise
20 be absorbed by Spire shareholders.

21 **I. Piedmont's existing regulatory assets associated with deferred pension**
22 **costs should be written off before the close of the transaction**

23 **Q57. IDENTIFY THE AMOUNT AND THE NATURE OF PIEDMONT'S CURRENT**
24 **PENSION-RELATED REGULATORY ASSETS?**

1 A57. As of December 31, 2024, Piedmont had a Deferred Debit (Regulatory Asset) related to
2 deferred pension costs of \$5,190,054.³² This amount represents legacy funding that the
3 Commission had previously authorized Piedmont to recover from ratepayers to support the
4 pension benefit of Piedmont employees.

5 **Q58. WHY DO YOU BELIEVE THESE ASSETS SHOULD NOT TRANSFER TO THE**
6 **BOOKS OF SPIRE?**

7 A58. Spire is not offering the pension plan of Piedmont in this transaction. In other words, the
8 pension plan for qualifying legacy Piedmont employees is being terminated. In its place,
9 employees will be offered a 401(k) type benefit. Further, Piedmont/Duke is retaining the
10 pension assets used to pay out employee pension benefits.³³ By transferring this asset to
11 Spire the implication is that Spire customers should provide recovery of a cost that no
12 longer exists for a benefit that is no longer offered to employees. To add insult to injury,
13 Piedmont would retain the cash associated with an over-funded³⁴ pension plan.

14 **Q59. GIVEN THAT THE EXISTING PENSION PLAN IS OVER-FUNDED, DOES THE**
15 **REPLACEMENT OF THE EXISTING PENSION PLAN WITH A 401(k)- TYPE**
16 **BENEFIT TRANSLATE TO AN INCREMENTAL COST?**

17 A59. Yes, at least in the short run. The Expected Company Contributions that are incorporated
18 into Piedmont's revenue requirement is expected to be ■⁵ Therefore, replacing the

³² 2025 Annual Rate Review Filing Mechanism, In re: Petition of Piedmont Natural Gas Company, Inc for Approval of Its 2025 Annual Review of Rates Mechanism Pursuant to Tenn. Code Ann. § 65-5-103(d)(6), Schedule 2, line 13, TPUC Docket No. 25-00036 (May 20, 2025).

³³ Application, CONFIDENTIAL Exhibit A, Asset Purchase Agreement.

³⁴ Piedmont Response to Consumer Advocate DR No. 1-19.

³⁵ Piedmont Response to Consumer Advocate DR No. 1-18, CONFIDENTIAL Attachment, at 11.

1 pension plan with an alternative employee benefit will increase customer costs, at least in
2 the foreseeable future.

3 **Q60. WHAT IMPACT WOULD THE ELIMINATION OF THIS REGULATORY ASSET**
4 **DURING THE RECORDING OF THE TRANSACTION HAVE ON THE**
5 **PURCHASE PRICE OF THE TRANSACTION?**

6 **A60.** The elimination of the Deferred Regulatory Pension costs would reduce the purchase price
7 by approximately \$5 million, pursuant to the [REDACTED]

8 [REDACTED]

9 **J. Spire should be prohibited from sending customer information to third**
10 **parties other than what is necessary for the provision of natural gas service**

11 **Q61. WHAT IS THE BASIS FOR YOUR RECOMMENDATION THAT THE**
12 **COMMISSION PROHIBIT SPIRE FROM SHARING PERSONAL**
13 **INFORMATION?**

14 **A61.** I submitted direct testimony in TPUC Docket No. 20-00086, identifying that Piedmont
15 routinely shared personal customer information, including name, address, and phone
16 number, to a third-party vendor for the purpose of earning below-the-line commissions
17 from a third-party warranty provider.³⁶ My understanding is that Piedmont no longer
18 participates in this practice. Therefore, I recommend that the Commission prohibit Spire
19 from sharing its customers' personal information without their consent for any purpose
20 other than the operation of the regulated utility.

³⁶ *Direct Testimony of David N. Dittmore* at 17, TPUC Docket No. 20-00086 (November 30, 2020).

1 **K. Spire should be required to submit annual operating metric results**

2 **Q62. PLEASE ADDRESS YOUR RECOMMENDATION THAT SPIRE SUBMIT**
3 **ANNUAL OPERATING METRICS DOCUMENTING ITS PERFORMANCE IN**
4 **TENNESSEE.**

5 A62. Spire currently monitors a comprehensive number of operating metrics for its various
6 properties. This high-level overview would allow the Commission and the Consumer
7 Advocate to monitor the Company’s overall performance. I recommend the Commission
8 require Spire to submit an annual filing containing the identical information for its
9 Tennessee operations as was provided in Confidential Spire Response to Consumer
10 Advocate DR No. 1-45. This reporting requirement should not pose any incremental
11 burden on Spire, as this same information accumulated for its other operating areas would
12 be accumulated and tracked for Tennessee subsequent to the close of the transaction.

13 **L. Additional accounting requirements must be established to accommodate**
14 **the termination of Piedmont’s ARM tariff**

15 **Q63. ARE THERE IMPLICATIONS THAT SHOULD BE ADDRESSED RELATED TO**
16 **THE TERMINATION OF PIEDMONT’S ARM AS A RESULT OF THE PETITION?**

17 A63. Yes.

18 **Q64. PLEASE DISCUSS THE ACCOUNTING TREATMENT YOU ARE SUPPORTING**
19 **THAT RESULTS FROM THE TERMINATION OF THE ARM.**

20 A64. The termination of the ARM tariff at the date of closing requires that two separate
21 accounting considerations be addressed, one related to General Taxes and the other related
22 to the non-recurring regulatory ARM deferred asset costs established in TPUC Docket No.
23 25-00036.

1 **Q65. PLEASE TURN TO THE FIRST ITEM, RELATED TO THE ISSUE OF GENERAL**
 2 **TAXES AS IT RELATES TO BOTH THE TRANSACTION IN GENERAL AND**
 3 **THE TERMINATION OF THE ARM.**

4 A65. Piedmont’s 2024 General Tax amounts (which excludes state and federal income taxes) are
 5 significantly lower than its 2023 tax levels as shown in the table below:

Piedmont Natural Gas Company, Inc.			
2025 ARM Annual Filing			
Historical Base Period Ending 12/31/24			
File Name: Schedule 52 Other Workpapers Calculation of General Taxes			
Description of Schedule: Schedule 52V.1 Income Statement Balances for General			
Year to Date			
	Current Year	Prior Year	
Income Statement			
0408000-Nc Property Tax-Electric	72,367	62,156	property tax
0408100-Franchise Tax	7,011,584	1,430,390	gross receipts
0408120-Franchise Tax - Non Electric	6	(44)	franchise
0408121-Taxes Property-Operating	3,397,617	6,688,555	property tax
0408150-State Unemployment Tax	5,580	6,153	payroll
0408151-Federal Unemployment Tax	20,105	20,150	payroll
0408152-Employer FICA Tax	2,199,247	2,071,962	payroll
0408360-Sc Property Tax-Electric		-	property tax
0408470-Franchise Tax	(4,331,823)	3,474,091	franchise
0408840-Miscellaneous Taxes - Electric	4,270	22,437	miscellaneous
0408851-Sales & Use Tax Exp	(525,056)	(55,951)	sales and use
0408960-Allocated Payroll Taxes	(695,161)	(644,536)	payroll
6 Taxes Other Than Income Taxes (408.1)	7,158,735	13,075,361	

7 The table above reflects Piedmont’s Schedule 52V submitted in TPUC Docket No. 25-
 8 00036.

9 The 2024 amounts currently recovered in base rates may not reflect Spire’s ongoing level
 10 of General Tax expense during the transition period. They may instead reflect one-time
 11 credits for refunds applicable to prior years that are not expected to continue on an annual
 12 basis. For this reason, coupled with the fact that most of these items are outside Spire’s
 13 control, I recommend that Spire be permitted to defer General Tax amounts that differ from

1 the 2024 balance of \$7,158,735, effective with the date the transaction closes. The 2026
2 deferral should be made on a pro rata basis.

3 **Q66. PLEASE CONTINUE WITH YOUR SECOND ACCOUNTING**
4 **RECOMMENDATION.**

5 A66. Piedmont's recent ARM filing included an ARM Rider base rate recovery of \$1,943,876.³⁷

6 This aspect of the revenue requirement should be satisfied by September 30, 2026, upon
7 the rates becoming effective for 12 months. As of October 1, 2026, these costs should be
8 fully recovered from Piedmont's former customers.³⁸ Therefore, I am recommending that
9 beginning October 1, 2026 Spire record that portion of Piedmont's former ARM Rider
10 Rates into a regulatory liability to reflect the over-recovery of these rates since the rate will
11 extend beyond such time as the associated revenue requirement is recovered. This
12 regulatory liability should accumulate at an approximate rate of \$1,943,876 per year. The
13 appropriate disposition of this regulatory liability should be determined within Spire's next
14 base rate proceeding.

³⁷ *Joint Stipulation and Settlement*, at 3, TPUC Docket No. 25-00036 (August 25, 2025).

³⁸ In theory, these costs would be recovered at that time; however, there may be some shortfall or excess as anticipated billing determinants will differ from actual billing determinants. Any deviations in actual recoveries from expected recoveries should be carried on Spire's books as a regulatory asset or liability.

1 **M. Piedmont shall be required to respond to all regulatory inquiries for**
2 **information and analysis that relate to a comparison of Spire’s operations**
3 **with the former Piedmont operations and support for any regulatory**
4 **balances acquired by Spire. Spire customers shall be held harmless from**
5 **Piedmont’s unwillingness or Spire’s inability to provide information in**
6 **future regulatory proceedings**

7 **Q67. PLEASE DISCUSS YOUR NEXT RECOMMENDATION REGARDING**
8 **PIEDMONT INFORMATION THAT MAY BE NECESSARY IN FUTURE**
9 **REGULATORY FILINGS.**

10 A67. The retention of historic information is necessary for effective regulation. Examples would
11 include, but not be limited to, records necessary to support legacy regulatory assets and
12 liabilities, plant records necessary to conduct depreciation studies, and historic operating
13 metrics necessary to evaluate whether quality of service has improved under Spire’s
14 operations. This transition of records between parties should not disadvantage Spire
15 customers, and any claims that records are no longer available or that Spire does not have
16 access to the requested data should be rejected in favor of Spire’s customers in any future
17 regulatory dispute. The Asset Purchase Agreement should clearly state that Piedmont
18 remains responsible for cooperating with Spire and that all reasonable regulatory requests
19 for information and supporting documentation should be honored. Piedmont should retain
20 responsibility for documenting and supporting all balances for which it receives
21 compensation under the Asset Purchase Agreement. Furthermore, Piedmont should be
22 required to provide support for any historic operations that relate to the issue of whether
23 Spire’s costs have increased relative to those of Piedmont.

1 **VI. COMMENTS ON PURCHASE PRICE AND FUTURE SPIRE REGULATION**

2 **Q68. REGARDING THE SIGNIFICANT PURCHASE PRICE ABOVE BOOK VALUE,**
3 **ISN'T SPIRE COMMITTING NOT TO RECOVER THE AMORTIZATION OF**
4 **SUCH COSTS WITHIN THE REVENUE REQUIREMENT?**

5 A68. Yes.

6 **Q69. DOES SPIRE'S STATEMENT THAT IT WILL NOT REQUEST RECOVERY OF**
7 **THE AMORTIZATION OF THE ACQUISITION PREMIUM REPRESENT A**
8 **BENEFIT OF THE TRANSACTION?**

9 A69. No. Spire's commitment is more accurately described as the absence of a detriment to the
10 transaction. After all, absent the transaction, there would not be amortization of an
11 acquisition premium within Piedmont's revenue requirement.

12 **Q70. BASED UPON YOUR EXPERIENCE, DO YOU BELIEVE THE COMPANY**
13 **INTENDS TO INDIRECTLY GENERATE RETURNS AND CASH FLOW ON THE**
14 **ENTIRE BALANCE IT IS PAYING TO DUKE?**

15 A70. Yes.

16 **Q71. HOW MIGHT THIS OCCUR GIVEN THE STATEMENTS BY SPIRE THAT IT**
17 **WILL NOT SEEK RECOVERY OF THE AMORTIZATION OF THE**
18 **ACQUISITION PREMIUM?**

19 A71. An investor (Spire in this instance) may elect to pay more than the book value for a
20 regulated utility for one or more of the following reasons:

- 21 1. The ability to generate returns above its true cost of capital;
22 2. Excessively favorable terms associated with the ARM; and

1 3. Double Leveraged Capital Structure, whereby Spire would earn an equity
2 return plus taxes when its true costs were debt. This financial engineering
3 technique is discussed in the testimony of Consumer Advocate witness
4 Clark Kaml.

5 **Q72. CAN YOU BRIEFLY ADDRESS THE FIRST TWO ISSUES IDENTIFIED ABOVE,**
6 **SPECIFICALLY WHY AN INVESTOR WOULD BE WILLING TO PAY MORE**
7 **THAN BOOK VALUE FOR AN ENTITY EARNING AN ABOVE MARKET**
8 **RETURN ON EQUITY AND/OR OPERATING UNDER A REGULATORY**
9 **MECHANISM THAT IS FAVORABLE FROM AN INVESTOR STANDPOINT?**

10 A72. Yes. First, the book value, or, as used in this discussion, the Rate Base of Piedmont, is a
11 critical consideration in assessing the purchase price of a utility because it represents the
12 value on which a utility generates a return on equity. To use an analogy, an investor is
13 willing to pay more than the face value of a Treasury bill if it pays 6%, when the actual rate
14 is 4%. In the same way, a buyer of a utility would be willing to pay more than the book
15 value (or Rate Base) if it can earn an above-market return.

16 The second reason a purchaser would be willing to pay a premium so far in excess of book
17 value is the opportunity to operate under a very favorable regulatory regime.

18 The third point, related to a double-leveraged capital structure and its implications on
19 customers, is addressed in the testimony of Consumer Advocate witness Clark Kaml.

20 **Q73. LOOKING AHEAD, ARE THERE UNIQUE IMPLICATIONS FROM THE**
21 **APPLICATION OF AN ARM FILING FOR SPIRE COMPARED WITH THE**
22 **OTHER TWO GAS UTILITIES OPERATING IN TENNESSEE?**

23 A73. Yes. Spire is unique in that its Tennessee operations will constitute a much larger share of
24 its total operations than those of the other two gas utilities, Atmos and Chattanooga Gas

1 Company. Spire's Tennessee operations will be much more material to Spire's overall
2 operations than either Atmos or Chattanooga Gas Company.

3 **Q74. HOW WOULD THIS IMPACT SPIRE'S OPERATIONS UNDER AN ARM**
4 **MECHANISM?**

5 A74. Thus far, ARMs in Tennessee wholly eliminate regulatory lag rather than simply reducing
6 it. This elimination of lag coupled with solid authorized returns on equity produces healthy
7 earnings and cash flow. Unlike many states, the ARM in Tennessee contains no cap on
8 recovery of annual capital expenditure costs. This feature of ARM mechanisms in
9 Tennessee creates a strong financial incentive to add Rate Base, which produces earnings
10 and cash flow growth. Currently, there is no adequate means by which to ensure that all
11 such spending is necessary let alone prudent in terms of timing or purpose. This incentive
12 is enhanced for an entity like Spire, as the incentive to spend will have a much greater
13 impact on Spire's overall earnings than on those of its peers.

14 **Q75. DO YOU HAVE ANYTHING ELSE YOU WISH TO MENTION REGARDING THE**
15 **PROSPECTIVE CAPITAL BUDGET OF SPIRE?**

16 A75. Yes. Spire projects capital expenditure on new customers to be approximately \$64 million
17 per year.³⁹ When compared with a historic customer growth rate of approximately 1%, or
18 2,000 customers per year, this equates to an average capital spend of \$32,000 per customer.
19 A per-customer cost of this magnitude places a significant burden on Piedmont's (or
20 Spire's) legacy customer base. While Nashville's overall growth is well known,

³⁹ Spire Response to Consumer Advocate DR No. 2-6. Spire indicates this forecast is subject to change.

1 Piedmont's historical customer growth has been relatively modest, averaging 1% annually,
2 but the costs of serving these new customers are quite significant.

3 **Q76. CAN YOU SUMMARIZE THE POINT YOU ARE MAKING BASED UPON THE**
4 **DISCUSSION ABOVE?**

5 A76. Yes. I believe the factors above need to be taken into consideration in any prospective
6 ARM adopted by Spire's Tennessee operations. Spire's operations in Tennessee will be
7 unique, which may support the implementation of an ARM mechanism. However, in that
8 event the determination of such a mechanism should be made based upon an analysis of
9 Spire alone, not Spire taking on the considerations of Piedmont.

10 **Q77. DOES THIS COMPLETE YOUR TESTIMONY?**

11 A77. Yes, however, I reserve the right to supplement my testimony if additional information
12 becomes available.

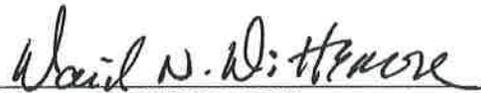
IN THE TENNESSEE PUBLIC UTILITY COMMISSION
AT NASHVILLE, TENNESSEE

IN RE:)
)
APPLICATION OF PIEDMONT)
NATURAL GAS COMPANY, INC. AN)
SPIRE TENNESSEE INC. FOR)
APPROVAL OF A TRANSFER OF)
AUTHORITY TO PROVIDE UTILITY)
SERVICES PURSUANT TO T.C.A. §)
65-4-113 AND RELATED)
AUTHORIZATIONS)

DOCKET NO. 25-00074

AFFIDAVIT

I, David Dittemore, on behalf of the Consumer Advocate Division of the Attorney General's Office hereby certify that the attached Testimony represents my opinion in the above-referenced case and the opinion of the Consumer Advocate Division.


DAVID N. DITTEMORE

Sworn to and subscribed before me
This 13th day of November, 2025


NOTARY PUBLIC



My Commission Expires: 1/31/2027

David Dittimore

Exhibit DND-1

Utility Regulatory Experience (Listing of Testimony provided from 2015 – current is attached)

Principal – Blue River Consulting – July 2021 – Current

Provide expert witness testimony on behalf of clients in the areas of utility revenue requirement, regulatory policy, tariff provisions, and civil litigation.

Tennessee Attorney General’s Office; Financial Analyst 2017 – July 2021

Developed recommendations on behalf of the TN AG’s office representing retail customers in matters before the Tennessee Public Utility Commission. Responsible for preparing expert witness testimony and pre-filed exhibit as well as responding to cross-examination questions in contested technical hearings before the Commission. In this position I also spend a significant amount of time explaining technical regulatory issues to attorneys and other AG Staff.

Kansas Gas Service, Division of One Gas (OGS); Director Regulatory Affairs 2014 – 2017; Manager Regulatory Affairs, 2007 - 2014

Responsible for directing the regulatory activity of Kansas Gas Service (KGS), a division of ONE Gas, serving approximately 625,000 customers throughout central and eastern Kansas. In this capacity I formulated strategic regulatory objectives for KGS, formulated strategic legislative options for KGS and led a Kansas inter-utility task force to discuss those options, participated in ONE Gas financial planning meetings, hired and trained new employees and provided recommendations on operational procedures.

Principal Strategic Regulatory Solutions; 2003 -2007

Serving clients regarding revenue requirement and regulatory policy issues in the natural gas, electric and telecommunication sectors.

Kansas Corporation Commission; 1984- 1999

Utilities Division Director - 1997 - 1999; Responsible for managing employees with the goal of providing timely, quality recommendations to the Commission covering all aspects of natural gas, telecommunications and electric regulation; respond to legislative inquiries as requested; sponsor expert witness testimony before the Commission on selected key regulatory issues; provide testimony before the Kansas legislature on behalf of the KCC regarding proposed utility legislation; manage a budget in excess of \$2 Million; recruit professional staff; monitor trends, current issues and new legislation in all three major utility industries; address personnel issues as necessary to ensure that the goals of the agency are being met; negotiate and reach agreement where possible with utility personnel on major issues pending before the Commission including mergers and acquisitions.

Asst. Division Director - 1996 - 1997; Perform duties as assigned by Division Director.

Exhibit DND-1

Chief of Accounting 1990 - 1995; Responsible for the supervision of employees within the accounting section; areas of responsibility included providing expert witness testimony; hired and provided hands-on training for new employees; coordinated and managed consulting contracts on major staff projects such as merger requests and rate increase proposals;

Managing Regulatory Auditor, Senior Auditor, Regulatory Auditor 1984 - 1990; Performed audits and analysis as directed; provided expert witness testimony on numerous occasions before the KCC; trained and directed less experienced auditors on-site during regulatory reviews.

Education

- B.S.B.A. (Accounting) Central Missouri State University
- Passed CPA exam; (Oklahoma certificate # 7562) – Not a license to practice

Other

- Board Member – Financial Research Institute 2007 – 2017
- Vice Chair – NASUCA Accounting Committee, active member NASUCA Natural Gas and Water Committees

**BEFORE THE PUBLIC SERVICE COMMISSION
STATE OF MISSOURI**

In the Matter of the Application of Southern)
Union Company d/b/a Missouri Gas Energy,)
The Laclede Group, Inc. and Laclede Gas Company)
for an Order Authorizing Sale, Transfer, and) **Case No. GM-2013-0254**
Assignment of Certain Assets and Liabilities)
from Southern Union Company to Laclede Gas)
Company and, in Connection Therewith, Certain)
other Related Transactions)

STIPULATION AND AGREEMENT

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**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of the Joint Application of Southern Union Company d/b/a Missouri Gas Energy)	
The Laclede Group, Inc., and Laclede Gas Company for an Order Authorizing the Sale, Transfer, and Assignment of Certain Assets and Liabilities from Southern Union Company to Laclede Gas Company and, in Connection Therewith, Certain other Related Transactions)	Case No. GM-2013-0254

STIPULATION AND AGREEMENT

COME NOW Southern Union Company d/b/a Missouri Gas Energy (“SUG”), The Laclede Group, Inc. (“LG”), Laclede Gas Company (“Laclede Gas” or the “Company”)¹, the Staff of the Missouri Public Service Commission (“Staff”), Office of the Public Counsel (“OPC”), City of Kansas City, IBEW Local Union No. 53, Midwest Gas Users Association and Missouri Department of Natural Resources (collectively “Signatories”) and respectfully request that the Missouri Public Service Commission (“Commission”) approve the following Stipulation and Agreement (hereinafter referred to as the “Stipulation” or “Agreement” or “Stipulation and Agreement”). Counsel for the Kansas City Power & Light Company, KCP&L Greater Missouri Operations Company, a non-signatory party to this case, has had an opportunity to review this Stipulation and Agreement and has indicated he will not object to it or request a hearing on the issues resolved. Counsel for United Steelworkers District 11, AFL-CIO does not join in this Agreement at this time and is still considering its position. In support of this Stipulation and Agreement, the Signatories state the following:

¹ Upon the closing of this Transaction any reference in this Stipulation and Agreement to “Laclede Gas” or “Laclede Gas Company” or “Company” in connection with events occurring after that date are intended to include the MGE Division unless otherwise specified herein.

BACKGROUND

On January 14, 2013, Southern Union Company, d/b/a Missouri Gas Energy, The Laclede Group, Inc., and Laclede Gas Company (“Joint Applicants”) filed a Joint Application asking the Commission to approve a transaction (the “Transaction”) in which Laclede Gas would acquire the entire franchise, works, and systems of Southern Union’s Missouri Gas Energy operating division (“MGE” or “MGE Division” or “MGE operating division”) all in accordance with a certain Purchase and Sale Agreement (“PSA”). In addition, by the Joint Application, Laclede Gas seeks authority from the Commission to obtain the funds necessary to finance the Transaction. Also, filed with the Commission in support of the Joint Application were the direct testimonies and schedules of Mark D. Waltermire, Suzanne Sitherwood, Steven L. Lindsey and Robert J. Hack.

By Order issued January 15, 2013, the Commission directed that notice of the filing of the Joint Application be given to potentially interested persons and entities and established February 13, 2013 as a deadline for the filing of Applications to Intervene.

Interventions were filed and granted by the Commission on behalf of United Steelworkers District 11 AFL-CIO; City of Kansas City, Missouri; IBEW Local Union No. 53; Kansas City Power & Light Company and KCP&L Greater Missouri; Midwest Gas Users’ Association and the Missouri Department of Natural Resources.

On February 4, 2013, Laclede Gas filed its Motion for Leave to Enter into Certain Interest Rate Swap Agreements which request was approved by Commission Order issued on February 13, 2013.

In response to a Motion for an Order Establishing an Early Technical Conference filed on February 14, 2013 by the Joint Applicants, the Commission that same day by order scheduled a

Technical Conference for March 18, 2013, and directed the parties to file a proposed Procedural Schedule on or before March 22, 2013.

On March 13, 2013, the Joint Applicants filed their First Amended Joint Application by Interlineation and the Supplemental Direct Testimony of Suzanne Sitherwood.

Certain of the Signatories appeared at the Technical Conference on March 18, 2013, and thereafter on March 21, 2013 the Joint Applicants and Staff filed with the Commission a motion requesting an extension of the deadline for filing a proposed procedural schedule. By order issued March 22, 2013, the Commission extended the time to file a procedural schedule to April 15, 2013.

On April 16, 2013, certain Signatories (LG, Laclede Gas, MGE, and Staff) filed a Motion for One Day Extension of Time and Status Report seeking an additional two weeks to undertake discovery and to engage in discussions prior to establishing a formal procedural schedule.

On April 22, 2013, the Commission issued its Order Further Extending Time to File Proposed Procedural Schedule which set a filing date no later than April 29, 2013.

On April 27, 2013, a Joint Motion for Extension of Time was filed seeking additional time to discuss procedural mechanisms that would allow Laclede Gas, Staff and other parties to facilitate settlement of Laclede's rate case (GR-2013-0171), and also allow the acquisition case parties to reach an agreement on a procedural schedule.

On May 13, 2013, Staff, LG, Laclede Gas, and MGE filed a Joint Motion for Further Extension of Time seeking a 10 day extension to file procedural schedule for good cause shown.

On May 22, 2013, having resolved all issues affecting the setting of a procedural schedule, the parties filed a Joint Motion to Establish Procedural Schedule which the Commission adopted in its Order Adopting Procedural Schedule on May 29, 2013.

Having engaged in discovery or having had the opportunity to engage in discovery, the Signatories met to discuss resolution of this matter on a number of occasions. As a result, the Signatories have now reached a Unanimous Stipulation and Agreement set forth below which they recommend to the Commission, subject to the conditions and representations contained in the Agreement, that the acquisition of the MGE assets by the Laclede Gas Company will be reasonable and not detrimental to the public interest. This Agreement disposes of all issues in this case.

APPROVAL OF THE TRANSACTION

In view of the foregoing, the Signatories agree that:

I. GENERAL

The Commission should issue its Order:

(a) authorizing SUG and Laclede Gas to perform in accordance with the terms of the PSA;

(b) authorizing the sale, transfer and assignment of certain assets and liabilities of Southern Union as more fully described in the PSA, from SUG to Laclede Gas, with a requested effective date of July 31, 2013, and a closing date effective as of the first of September 2013, subject to the provisions of the PSA and Southern Union's unilateral right to waive the condition of simultaneous closing of the transaction with Laclede Gas and the sale of its New England Gas Company assets to Plaza Massachusetts Corp.;

(c) transferring from SUG to Laclede Gas SUG's certificates of convenience and necessity or granting a certificate or certificates of convenience and necessity authorizing Laclede Gas to provide natural gas service as a gas corporation and public utility, subject to the jurisdiction of the Commission, in the service areas presently served by SUG through MGE and, in connection therewith, waiving the requirements of 4 CSR 240-3.205;

(d) authorizing Laclede Gas to provide natural gas service in the areas served by SUG through its MGE operating division in accordance with the rules, regulations, rates and tariffs of MGE as may be on file with and approved by the Commission on the effective date of the closing of the transaction, including the tariff sheets reflecting the existing base rates, ISRS rates and purchase gas adjustment of MGE and authorizing Laclede Gas to adopt said tariff sheets, and to operate under the same as they may be changed from time to time as provided by law;

(e) authorizing Laclede Gas to adopt SUG's authorized depreciation rates for the involved assets;

(f) authorizing Laclede Gas to raise up to and including \$1.02 billion, at any time beginning July 31, 2013 and ending one year after closing of the Transaction, by issuing common or preferred stock, receiving paid-in-capital, and issuing long-term indebtedness, including debt evidenced by First Mortgage Bonds, by using the Laclede Gas assets and the MGE assets acquired from Southern Union as security as may be necessary in connection with the financing of the transaction contemplated by the PSA and this Joint Application or as may be necessary in accordance with the terms and conditions of any of Laclede Gas' financing instruments and to execute, enter into, deliver and perform in accordance with all necessary agreements, notes and other documents as are necessary to issue the debt;

(g) finding in accordance with Section 393.200 RSMo, that the money, property or labor to be procured or paid for by Laclede Gas through the issuance and sale of debt and equity is reasonably required and necessary for the purposes set forth above and will be used therefore and that such purposes are not in whole or in part reasonably chargeable to operating expenses or to income;

(h) authorizing SUG to transfer to Laclede Gas and Laclede Gas to acquire and record on its books and records the current levels of certain assets and liabilities of SUG related to the MGE assets;

(i) authorizing Laclede Gas to account for MGE's pension benefit costs on a basis consistent with MGE's currently approved methodology as established in MGE Case No. GR-2009-0355 stipulation and agreement to use FAS 87 calculations for regulatory purposes that do not reflect the impact of purchase accounting and that the prepaid pension asset receives similar treatment as the prepaid pension asset under MGE's approved methodology;

(j) authorizing Laclede Gas to account for the MGE gas employees and retirees postretirement welfare benefit cost on a basis consistent with the methodology used by SUG immediately prior to the sale and finding that the FAS 106 calculations do not reflect the impact of purchase accounting;

(k) authorizing SUG, effective upon the closing of the transaction, to terminate its responsibilities as a gas corporation in Missouri subject to the jurisdiction of the Commission;

(l) authorizing SUG and Laclede Gas to enter into, execute and perform in accordance with the terms of all other documents which may be reasonably necessary and incidental to the performance of the Transaction which is the subject of the PSA and this Joint Application;

(m) granting such other relief as may be deemed necessary to accomplish the purposes of the PSA and the Joint Application, as amended, and to consummate the sale, transfer and assignment of the assets and related transactions pursuant to the PSA.

(n) directing Laclede Gas to submit to the Commission within sixty (60) days of closing the transaction a listing and description of all items that Laclede Gas exercised under the authority in paragraph (m) above.

II CONDITIONS

Laclede Gas has represented to the Signatories that it intends to own and operate two divisions in Missouri, the MGE Division (defined on page 1) and the Laclede Division, which will serve the territories currently served by Laclede Gas. The Signatories recommend that the Commission approve the proposed Transaction involving the sale of the assets of SUG to Laclede Gas, subject to the following conditions:

1. RATE MORATORIUM

Except as provided herein, Laclede Gas Company shall not file a general rate case for its Laclede Gas service territory for non-gas costs for either division of the combined entity prior to October 1, 2015, unless there is the occurrence of a significant, unusual event that has a major impact on any of its Missouri service territories. For purposes of this agreement, major impact is defined as loss of \$5,000,000 of net income of the combined entity from (i) terrorist activity or an act of God; (ii) a significant change in federal or state tax laws; or (iii) a significant change in federal or state utility or environmental laws or regulations, or (iv) a significant change in financial markets. The Laclede and MGE Divisions will be permitted to file ISRS requests which conform to Missouri statutes, throughout the term of the general rate case moratorium, but neither Laclede Gas nor its MGE Division shall seek throughout the expected term of the Moratorium to use any statutory provision providing for the tracking and recovery or return of increases or decreases in uncollectible expense, including the provisions of Senate Bill 240 as truly agreed to and passed in the 2013 session of the Missouri General Assembly.

Laclede Gas will be permitted to file a general rate case for its MGE Division service territory by no later than September 18, 2013. If Laclede Gas does not file a general rate case for its MGE division service territory by September 18, 2013 then Laclede Gas Company shall not file a general rate case for its MGE division service territory prior to October 1, 2015.

For the first general rate case filing made by Laclede Gas subsequent to October 1, 2015, Laclede Gas shall include both its Laclede and MGE Division service territories. For any future rate case filings by Laclede Gas after the first joint rate case filing, nothing in this Stipulation and Agreement precludes any party from asserting or challenging the lawfulness and reasonableness of Laclede Gas receiving an increase to general rates for one of its regulated divisions without having a rate case involving its entire regulated operations by including both Laclede Gas Divisions.

2. RATE BASE OFFSET

Laclede Gas shall include a rate base offset for its MGE Division in the amount of \$125 million. Laclede Gas' MGE Division shall amortize this rate base offset over a period of ten years commencing on the effective date of close. For clarification, the outstanding balance of such rate base offset shall serve to reduce rate base for rate making purposes in the context of all future rate proceedings during the amortization period, which will effectively prevent customers from paying a return on such rate base offset. This shall result in lower rates and charges in future periods. .

3. PREMIUM AND ACQUISITION COSTS

a. Premium. The acquisition premium is the total purchase price above net book value. The amount of any acquisition premium paid for MGE in connection with the Transaction shall not be recovered in retail distribution rates. Nothing herein shall preclude any party to this Agreement from taking a position in any future ratemaking proceedings involving the Laclede or MGE Divisions in Missouri regarding the ratemaking measures and adjustments necessary to ensure no impact from the acquisition premium on rates. Neither Laclede Gas nor its MGE division shall seek either direct or indirect rate recovery or recognition of any acquisition premium in any future general ratemaking proceeding in Missouri. In addition, neither Laclede

Gas nor its MGE division shall seek to recover in Missouri the amount of any acquisition premium in the Transaction as being a "stranded cost" regardless of the terms of any legislation permitting the recovery of stranded cost from Missouri ratepayers.

b. Transaction Costs. Transaction costs are those costs incurred to effectuate and close the Transaction. Laclede Gas including its MGE division shall not ever seek to directly or indirectly include or recover in any future proceeding any transaction costs, which as defined herein include, but are not limited to, outside service costs relating to gaining regulatory approval, development of transaction documents, investment banking costs, and costs related to raising equity incurred prior to closing of the Transaction. Neither Laclede Gas nor its MGE division shall seek either direct or indirect rate recovery or recognition of any transaction costs through any purported acquisition savings adjustment (or similar adjustment) in any future general ratemaking proceeding in Missouri. See Attachment 1.

c. Transition Costs. Transition Costs are those costs incurred to integrate and merge the two entities into one organization, and includes integration planning and execution, and "costs to achieve." Transition costs include capital and non-capital costs. Non-capital transition costs can be ongoing costs or one-time costs. See Attachment 1.

(1) Capital Transition Costs. All one-time capital-related transition costs shall be amortized over a period consistent with their current Commission authorized depreciation rate.

(2) On-going Non-Capital Transition Costs. Such transition costs shall be expensed on Laclede Gas' books as incurred. However, in no event shall any amount of markup for transition services that are provided by SUG above actual cost be included in the determination of future rates for Laclede Gas.

(3) One-Time Non-Capital Transition Costs. The Signatories agree that one half of one-time non-capital transition costs incurred no later than the first five years after closing, as described in Attachment 1, shall be amortized over a period of five years beginning upon the effective date of the rates resulting from the next rate case filed by the Laclede and MGE Divisions on or after October 1, 2015. Laclede Gas shall provide in any rate case a listing of all the annual cost reductions by FERC divisional accounts related to the synergies that the Company alleges justified the deferred transition costs. Laclede Gas shall not include in customer rates any amount of transition costs that exceed the level of cost reductions actually experienced by the Company. Laclede Gas will develop and maintain documentation supporting the cost reductions and transition costs information required to justify recovery of eligible transition costs consistent with the provisions of this agreement. Any party shall be free to challenge Laclede Gas' representation of eligible transition costs and offsetting savings. Laclede Gas shall record and separately identify all one-time transition costs by month, by FERC account and provide a report of all such costs to the Staff and OPC each year on January 15th until such time as the Company files its next general rate case. Such report shall identify with specificity the costs reductions resulting from the incurrence of the one-time transition costs.

4. TREATMENT OF REGULATORY ASSETS

Until otherwise ordered by the Commission, the pre-acquisition regulatory assets of Laclede Gas and MGE relating to Pensions, OPEB's, low-income energy affordability and weatherization programs, energy-efficiency programs, deferred Kansas ad valorem tax payments and any other regulatory deferrals approved by the Commission prior to the date of filing this Stipulation and Agreement shall be accounted for separately and, for ratemaking purposes, shall be eligible for inclusion in the cost of service for the company that originally booked the asset in

accordance with the Commission approved terms and conditions that created or continued the asset.

5. AFFILIATE TRANSACTIONS AND COST ALLOCATION MANUAL (CAM)

The Laclede and MGE Divisions shall comply with the Commission's Affiliated Transaction and Marketing Affiliate Transaction Rules, 4 CSR 240-40.015 and -40.016, and any variances or waivers granted by the Commission thereto. This agreement relating to affiliate transactions rule annual reporting requirements shall not waive any part of the record keeping requirements of Laclede Gas or its parent, or any of its affiliates as required by the Affiliate Transaction and Marketing Affiliate Transactions Rules. Laclede Gas shall provide Staff and OPC full access to records of affiliated entities in accordance with the Affiliate Transaction and Marketing Affiliate Transaction Rules and any variances or waivers granted by the Commission thereto. Laclede Gas shall file a Stipulation and Agreement in Case No. GC-2011-0098 within fourteen days of filing the Stipulation and Agreement in this case.

6. ADHERENCE TO PREVIOUS COMMISSION ORDERS AND STIPULATIONS AND AGREEMENTS

The Laclede and MGE Divisions shall comply with all requirements still effective after closing resulting from all Commission-approved stipulation and agreements and Commission orders in all cases applicable to Laclede Gas Company and MGE and MGE predecessor companies so long as such agreements and orders have not been superseded by a subsequent Commission order, unless specifically addressed in this Stipulation and Agreement.

7. TARIFFS

Laclede Gas shall file with the Commission an adoption notice to be effective upon the closing of the Transaction adopting the rates, tariffs, rules and regulations for gas service then in effect for SUG's Missouri jurisdictional gas operations which are the subject of this proceeding,

and will continue all services currently provided by SUG through its MGE operating division in Missouri without interruption, subject to any changes to the rates, tariffs, rules regulations and services hereafter made in accordance with applicable law.

8. DEPRECIATION RELATED-ISSUES

a. Laclede Gas shall maintain all records necessary to meet requirements of the Uniform System of Accounts, gas utility depreciation studies and rate case filings including all requirements presented in Commission Rules 4 CSR 240-40. Data maintained and provided for gas utility depreciation studies shall include cost of removal and salvage associated with plant retirements. This data shall be provided to Staff and OPC upon request or as ordered by the Commission.

b. SUG shall transfer all plant and depreciation reserve records to Laclede Gas in compliance with the format set forth in Title 18: Conservation of Power and Water Resources, Part 201 – Uniform System of Accounts Prescribed For Natural Gas Companies Subject To The Provisions Of The Natural Gas Act (FERC USOA). Laclede Gas shall also maintain plant by account that allows for the specific identification of the assets acquired from SUG to the extent such plant account data is available from SUG.

c. Laclede Gas shall adopt the currently ordered depreciation rates for the involved assets acquired from SUG approved by the Commission in Case No. GR-2009-0355 and attached as Attachment 2.

d. Laclede Gas shall conduct an audit of plant in service as recorded in its Continuing Property Record (CPR) according to the requirements of 4 CSR 240-40.040 Uniform System of Accounts Gas Corporations for both the Laclede and MGE Divisions in conjunction with or prior to the next depreciation study for either or both divisions submitted pursuant to Commission rules after October 1, 2015. Any omissions or discrepancies noted in these listings

shall be promptly reported to the Manager of the Engineering and Management Services Unit of the Missouri Public Service Commission.

9. CREDIT IMPACTS AND REMEDIAL MEASURES

In the unanticipated event that Standard & Poor's ("S&P") Moody's, or Fitch downgrade Laclede Gas' credit rating to or below BBB- (or each rating agency's equivalent) where the business or financial risk introduced by this Transaction was a significant contributing factor to the downgrade, Laclede Gas commits to file:

a. Notice with the Commission with copies to the Signatories within five (5) business days;

b. A pleading with the Commission within 60 days which shall include the following:

(1) A plan identifying all reasonable steps, taking into account the costs, benefits and expected outcomes of such actions, that will be taken to maintain or restore Laclede Gas' credit rating to a notch or more above BBB-. If Laclede Gas' plan does not involve taking steps to maintain or restore its credit rating to a notch or more above BBB-, then Laclede Gas shall concisely state why the cost of such steps is not reasonable or necessary;

(2) Additionally, Laclede Gas shall specifically address the impact, or lack thereof, it believes the BBB- or below grade credit rating has had and will have on its capital costs;

(3) Documentation, including but not limited to, a cost of capital study showing how Laclede Gas will not pass along higher capital costs to its Missouri customers, directly or indirectly, due to the downgrade.

(4) File with the Commission, every 45 days thereafter until Laclede Gas has regained its a credit rating above BBB-, a status report with respect to the implementation of

steps to restore its credit rating above BBB-, and a study that estimates the increased cost of capital, if any, Laclede Gas has incurred due to a non-investment grade credit rating.

(5) If the Commission determines that Laclede Gas' BBB- or below credit rating has caused its service to decline, Laclede Gas shall be required to file a report that demonstrates to the Commission that it can adequately safeguard capital produced and secured by its public utility assets. If Laclede Gas cannot sufficiently demonstrate this ability, then Laclede Gas shall execute reasonable steps to restore its credit rating to above BBB- status.

10. PROTECTION FROM ADVERSE CAPITAL COST IMPACTS

a. Laclede Gas shall not recommend an increase to the cost of capital for its Laclede or MGE Divisions as a result of this Transaction. Any net increases in the cost of capital Laclede Gas seeks shall be supported by documented proof: (a) that the increases are a result of factors not associated with the Transaction; (b) that the increases are not a result of changes in business, market, economic or other conditions caused by the Transaction; and (c) that the increases are not a result of changes in the risk profile of Laclede Gas caused by the Transaction. Notwithstanding any other paragraph of this Stipulation and Agreement, Laclede Gas shall ensure that the retail distribution rates² for its customers shall not increase as a result of the Transaction. The provisions of this section are intended to recognize the Commission's authority to consider, in appropriate proceedings, whether this Transaction has resulted in capital cost increases for Laclede Gas – due to a credit ratings downgrade or any other factor resulting from the Transaction – and to disallow such capital cost increases from recovery in Laclede Gas' retail distribution rates.

²Retail distribution rates “shall include fixed monthly charges, volumetric delivery charges, Purchased Gas Adjustment and Actual Costs Adjustment rates.”

b. Laclede Gas shall use good faith efforts to fulfill the foregoing commitment as well as all of its other commitments in this Stipulation and Agreement and that failure to comply may expose it to penalties as provided by law.

c. Laclede Gas shall provide documentation that it has access to adequate working capital short-term lines of credit for the addition of MGE operations.

d. In the event that there is a downgrade to Laclede's current rating, Laclede shall notify the Staff and OPC.

11. OTHER FINANCIAL CONDITIONS

a. If Laclede Gas' credit rating and/or quality declines primarily because of the acquisition, then to the extent there are known and measurable increases in financing costs, such as higher commercial paper or credit facility costs, on a net basis considering all other capital cost effects of the Transaction, then these higher costs shall not be included in Laclede Gas rates for either Division, whether through gas adjustment clauses, infrastructure replacement surcharges or permanent rates.

b. Prior to its current financing authorization expiring, Laclede Gas shall submit a financing application requesting authority in accordance with the requirement of Section 393.200 RSMo. Laclede Gas shall file a 60-day notice of intention to file a financing application. Laclede Gas shall maintain records for purposes of identifying and quantifying unreimbursed expenditures for the combined Laclede and MGE Divisions with zero as the starting balance for its MGE division.

c. Laclede Gas shall not provide LG or any affiliates access to Laclede Gas' credit facilities. LG's credit facility shall not be increased to the detriment of Laclede Gas' credit facility.

d. In the event LG's non-regulated operations should result in Laclede Gas' credit ratings being downgraded to at or below BBB- (or each rating agency's equivalent), Laclede Gas shall pursue additional legal and structural separation from LG to ensure Laclede Gas continues to have access to capital at a reasonable cost. Laclede Gas shall not increase its dividend to LG until there is sufficient evidence that Laclede Gas' credit rating has been restored to one notch above BBB-, or its equivalent.

e. In the event LG or another affiliate of Laclede Gas voluntary or involuntarily enters into a bankruptcy proceeding, Laclede Gas shall take all reasonably necessary steps to ensure that Laclede Gas is not consolidated with such affiliated debtor in bankruptcy.

f. If Laclede Gas' credit ratings become impaired (i.e. if Laclede Gas credit ratings are downgraded to BBB- or below) due to risks associated with any of Laclede Gas' affiliates, then Laclede Gas shall file with the Commission a comprehensive risk management plan that assures Laclede Gas' access to and cost of capital will not be further impaired, which shall include a non-consolidation opinion if required by two of the three rating agencies.

g. Laclede Gas shall not enter into any "make well" agreements, or guarantee the notes, debentures, debt obligations or other securities of its parent or affiliates, without first seeking and receiving Commission authorization.

h. Laclede Gas shall not adopt, indemnify, guarantee, or assume responsibility for payment of the current or future liabilities of any affiliate without first seeking and receiving Commission authorization.

i. Laclede Gas shall not allow any affiliate's debt to be recourse to Laclede Gas without first seeking and receiving Commission authorization.

j. Laclede Gas shall not allow Laclede Gas' equity to be pledged as collateral or security for any affiliate or non-affiliate debt or liabilities, without first seeking and receiving Commission authorization.

k. Laclede Gas represents that the authorized pre-tax rate of return in Case No. GR-2009-0355 will be equal to or higher than the pre-tax rate of return that Laclede Gas will sponsor in the next rate case filed prior to October 1, 2015, involving the MGE division.

l. Laclede Gas represents that LG and Wells Fargo have performed the necessary due diligence to ensure that LG's proposed purchase price for the MGE assets is not excessive. In addition to relying on such due diligence analysis, Laclede represents that it is relying on traditional acquisition/merger conditions and not relying on any special ratemaking considerations to justify the value it has assigned to the MGE assets. To the extent the goodwill assigned to the MGE assets is impaired and negatively effects Laclede Gas' cost of capital primarily as a result of this transaction, all net costs associated with the decline in Laclede's credit quality, considering all other capital cost effects of the Transaction and the impairment, shall be excluded from the determination of rates.

m. For the first five years after closing of the Transaction, Laclede shall provide Staff and OPC its annual goodwill impairment analysis in a format consistent with the provisions of paragraph 32a within 30 days after it is performed. Thereafter, this analysis will be made available for Staff and OPC upon request.

12. SERVICE QUALITY CONDITIONS

a. Customer Service Performance Reporting

Laclede Gas Company and its MGE Division shall continue to provide all service quality reporting that exists at the moment prior to the closing of this transaction. Both Laclede Gas and its MGE division will strive to meet or exceed the customer service and operational

performance levels currently provided to its customers. Laclede Gas shall provide the Staff and OPC monthly reports (within 30 days of month-end) on its performance with respect to such metrics and standards for Laclede Gas and its MGE Division. Such reports shall contain monthly information including but not limited to: calls offered, abandoned call rate and average speed of answer performance, customer service organization charts, customer service staffing, number of estimated bills (including consecutive estimates), number of inside and outside installed automated meter reading devices (AMR), a list of customer pay station locations, and the actual Missouri jurisdictional bad debt write-off by customer class, including the dollar amount written-off, number of accounts written-off and revenue by customer class. Laclede shall continue to file MGE's Annual Customer Service Report in this docket. Representatives of the Laclede Gas and MGE Divisions shall meet with the Staff and OPC on a quarterly basis to discuss: (a) actual performance relative to pre-acquisition service metrics identified herein; (b) any material improvement to or decline from historical performance levels, together with an explanation for such decline; (c) the measures being taken or to be taken to address any material decline in such service levels and the timeline for completing such measures; and (d) any substantive changes in customer service procedures, metrics or standards relating to call center operations and staffing, customer billing, meter reading, customer remittance, credit and collections, and connections, disconnection and reconnection. The Staff and/or OPC may request additional periodic meetings with Laclede Gas to discuss customer service operating procedures and the level of service being provided to the customer.

b. Virtual Hold Reporting and Interactive Voice Response (IVR)

Laclede Gas Company shall continue to provide to Staff and OPC for its Laclede and MGE Division operations the Call Back In Queue (CBIQ) and the Monthly Virtual Hold Executive Summary Reports that shall include information on Eligible Calls, Return Calls

Selected and Continue Hold Options. In the event that Laclede Gas utilizes an alternative call back technology in the future, comparable reporting metrics shall continue to be required.

All changes to the Laclede or MGE Division IVR shall be discussed in advance, prior to implementation, with the Staff. In particular, for all changes that would potentially lengthen or prolong the customer time in the IVR, Laclede Gas shall provide all analysis to the Staff as part of the discussion.

c. Customer Service Operating Procedures

The present practices of Laclede Gas and MGE in the following areas shall be continued, or improved upon to ensure that customers do not experience a decline in service levels:

(1) Laclede Gas and its MGE division shall follow credit and collection practices consistent with Commission rules.

(2) Laclede Gas and its MGE Division shall restore service consistent with Commission rules.

(3) Laclede Gas and its MGE division shall use bill test procedures to ensure bill accuracy.

(4) Laclede Gas and its MGE division shall take appropriate steps to maintain the operation of its automated meter reading system.

(5) Laclede Gas shall, for its Laclede and MGE Divisions, identify: (a) personnel responsible for handling Commission complaints and ensure they have proper authority, (b) after hours contact personnel, and (c) management employee(s) accountable for ensuring Laclede Gas employees are trained in and maintain a working knowledge of Missouri customer service rules and regulations.

(6) Laclede Gas and its MGE Division shall continue their participation in LIHEAP.

(7) Laclede Gas and its MGE Division shall take appropriate steps to maintain timely operation of its “stopped meter reporting” and shall submit monthly “stopped meters reports” to the Staff and OPC.

(8) Laclede Gas and its MGE Division shall submit monthly “inactive meters showing consumption” reports to the Staff and OPC.

(9) Laclede Gas shall provide monthly reports to the Staff and OPC indicating the number of insourced and the outsourced personnel by functional area as defined on page 13 of the Booz & Company, November 15, 2012 Synergies Study Results – Board of Directors Review presentation.

(10) Within 30 days after closing of the Transaction, Laclede Gas shall provide its organizational charts as of the date of closing, by each operating division and department, and all subsequent revised organizational charts as they become available. Laclede Gas shall provide on a quarterly basis updated employee rosters by each operating division and department. In addition, Laclede Gas shall provide on a monthly basis its Promotions and Transfers Reports, and its Hires and Separations Reports. If the reports do not include MGE personnel, Laclede Gas will provide similar information for MGE personnel.

(11) Laclede Gas shall provide a quarterly synergies report to the Staff and the OPC which specifically quantifies each of the synergies that result from the merger and as described in Laclede Gas filings in GM-2013-0254 unless Laclede Gas develops such report on a more frequent basis. Laclede Gas shall maintain all supporting documentation used to develop these quarterly reports for the review of Staff and OPC upon request.

(12) Laclede Gas shall provide the Staff and OPC within 10 business days all merger related presentations made to its Board of Directors.

(13) Laclede Gas shall notify the Staff and OPC regarding progress on the implementation of major systems affecting customer service levels, including but not limited to customer billing, customer call center operations, credit and collections, connection, disconnection and reconnection, payment remittance, service order process and meter reading.

(14) Laclede's obligation to provide the information set forth in paragraphs 9-12 shall continue until Laclede's next rate case after the moratorium in which elimination of or modification of such obligations may be proposed.

13. CONTINUING SERVICES AGREEMENT (CSA)

a. SUG shall make all of the services outlined in the draft CSA and its schedules (attached as Attachment 3 to this Stipulation) available to Laclede Gas as required under the terms of that agreement. SUG and Laclede Gas represent that the CSA agreement and its schedules comprise all services necessary from SUG to continue and maintain the operations at pre-transactions levels. Nothing herein shall preclude any party from challenging the necessity, propriety or cost of a particular continuing service in any general rate case proceeding in which the cost of such service is sought to be recovered.

b. SUG and Laclede Gas shall provide the Signatories the final CSA upon closing of the Transaction.

c. SUG and Laclede Gas represent that the goal of transition services is 1) to provide for a seamless transition of all operating functions from SUG to Laclede Gas and 2) to ensure that all operating functions are performing at pre-transaction levels prior to the termination of remaining transition services. Not less than 30 days prior to the termination of any CSA, Laclede Gas shall notify the Signatories and, if requested by a Signatory, coordinate a technical

conference with the Signatories to describe how the transition service will be provided by Laclede Gas.

d. Laclede Gas shall provide to the Signatories, at least every 90 days after close of the transaction until completion of all CSA services, a transition status report of the progress being made towards the assumption by Laclede Gas of all transition services that are being provided to Laclede Gas. Laclede Gas shall provide advance notice to the Signatories of all changes to transition plans and/or CSAs, including but not limited to those that impact customer service quality and gas supply. Copies of any and all amendments or other changes to the transition plans/CSAs shall be provided with the Laclede Gas transition status reports. Laclede Gas shall file these status reports in the Commission's Electronic Filing Information System ("EFIS"), under the case number GM-2013-0254.

e. SUG and Laclede Gas shall participate throughout the period continuing services are being provided in in-person meetings in Jefferson City with the Signatories to discuss transition status and progress. Upon the determination of the Signatories these in-person meetings may be handled instead through a conference call.

f. During the first 9 months following the close of the transaction, the Laclede Gas management and a representative of SUG shall attend quarterly meetings with the Signatories to provide presentations and status reports on the progress of the transaction and transition plans. After the nine-month period, Laclede Gas management shall continue to attend such meetings subject to discussion in Laclede Gas and MGE Division's next rate case regarding the continuing need for such meetings. When possible, parties will attempt to coordinate these meetings with any other meetings that may be scheduled for other purposes.

g. Laclede Gas shall notify the signatories immediately if the CSA is determined to be required beyond the 9 month transition period after date of close.

h. Laclede Gas management including the Chief Executive Officer of LG, the President of Laclede Gas and the Senior Vice President, Chief Innovation and Integration Officer and any other participants that Laclede Gas deems necessary shall be present for a minimum of two on-the-record presentations before the Commission to be scheduled in May 2014 and December 2014. If transition concerns still exist after December 2014, an additional on the record presentation may be required. Laclede Gas shall present witnesses to provide live testimony and be prepared to discuss the status of the transition and any problem areas and to offer action plans to ensure completion of a seamless transition without disruption to ratepayers. Laclede Gas witnesses shall be available for questions from the Signatories regarding the progress of the transition involving matters contained in this Stipulation. After the closing of this Transaction, the Staff shall file a pleading on behalf of the Signatories proposing dates for the on the record presentations. A representative from SUG management shall be present for the first on-the-record presentation in May 2014.

i. The Joint Applicants represent to the Signatories that they anticipate the CSAs will only be needed for a period of 9 months from the date of closing.

14. GAS SUPPLY AND HEDGING PLANS

a. Laclede Gas shall assume from SUG, the transportation, storage and related contracts in place for the MGE division; and shall also assume MGE's gas supply and hedging contracts, including both physical and financial hedging. To the extent that the assignment by SUG of any gas supply and hedging contracts require third party consent the PSA provides for SUG to obtain such consents, and SUG has created a process to do so. Although none are expected, Laclede Gas shall promptly inform Staff and OPC of any issues it encounters regarding the consents and shall provide Staff and OPC evidence of such contract assumptions within 30 days after closing of the Transaction. After the closing, Laclede Gas shall provide to

Staff and OPC a list of all contracts that were not assumed and a description of all modified terms in contracts that were assumed. If Laclede Gas does not assume a contract or modifies a contract in any material way, it shall have the burden of showing and documenting that on a net basis such changes in the assumption of, or terms and conditions of contracts were beneficial to customers.

b. Laclede Gas shall present to Staff and OPC its gas supply and hedging plans for its Missouri customers every fall, no later than October 30. The gas supply and hedging plan presentations shall include at least as much detail as the MGE plans included prior to the Transaction. The presentation shall include Laclede Gas' and MGE's gas supply and hedging plans for the upcoming 24 months. Laclede Gas gas supply and hedging plans presentation shall include gas supply plans for normal, colder and warmer weather, storage plans, and hedging plans including strategies and control policies, and implementation (timing, types, etc.) of hedges.

c. MGE shall not delay normal gas supply planning and hedging related to the operation of these properties because of the proposed sale of these properties.

d. MGE and Laclede Gas shall provide to Staff and OPC a listing of all financial hedges related to the MGE properties, including a list of hedges that were liquidated before 5 days prior to the related contract expiration from the date of the Purchase and Sale Agreement until closing of the Transaction. MGE shall transfer all OTC and exchange-traded financial hedges that will reflect the same cost for natural gas that would have otherwise been attributable to the operation of these properties absent the sale and purchase of assets.

e. Lacking details from Laclede Gas as to how the MGE supply functions will be carried out after the completion of the transaction, Laclede Gas' Gas Supply Department shall update the Staff procurement department and OPC on a monthly basis for the first three years following close of the Transaction through a series of monthly conference calls. Such calls shall

address any current and known or planned material changes in the gas supply functions, practices and personnel being employed by the MGE Division to manage its gas supply assets. Laclede's update shall include a written explanation and documents to support how current or planned material changes to MGE's gas supply functions, practices and personnel are consistent with the objective of providing safe and adequate service reliability while achieving the most economical cost. If in any given month there are no current or planned material changes to MGE's gas supply functions, practices and personnel a statement to that effect shall be provided.

f. Laclede Gas may present a proposal to Staff, OPC and the Commission regarding a comprehensive framework for considering, evaluating and potentially approving or incenting gas supply, transportation or hedging. Any Party shall be free to support, oppose or seek modification to such a proposal if made by the Company.

g. Laclede Gas' CAM and Standards of Conduct, once approved by the Commission, shall be applied to gas supply transactions for the Laclede and MGE Divisions. The CAM and referenced Standards of Conduct to be filed in Case No. GC-2011-0098 do not pertain to Asset Management Arrangements/Agreements ("AMAs"). Accordingly, if Laclede Gas chooses to use one or more AMAs for its Laclede or MGE Divisions, Laclede Gas shall document fair market price and fully distributed cost as set forth in 4 CSR 240-40.015 and 40.016, unless and until changes to the CAM and referenced Standards of Conduct addressing AMAs are approved by the Commission.

15. GAS SAFETY

Laclede Gas represents that it is fully familiar with the safety line replacement programs which SUG has initiated. Laclede Gas intends to continue with these programs and will utilize its resources in such a manner so as to provide safe and reliable service for its Missouri customers. After the acquisition, the combined company shall continue to follow all

Commission orders that were issued relating to safety matters involving MGE.

Laclede Gas shall retain all the maintenance/operations records for the facilities which are the subject of the Transaction and maintain the records necessary to demonstrate compliance with the specific requirements of pipeline safety regulations. These records shall be made available to Staff or OPC for inspection.

16. INSULATION OF MGE FROM LG BUSINESS

To insulate the MGE Division and Laclede Gas from the Transaction, LG represents that:

a. MGE will be owned and operated as a division of Laclede Gas, which shall remain a separate subsidiary of LG, unless otherwise approved by the Commission.

b. Laclede Gas shall not transfer to LG or any subsidiary thereof, directly or indirectly, assets necessary and useful in providing service to MGE's Missouri customers without Commission approval.

c. Laclede Gas will diligently exercise its best efforts to insulate the Laclede and MGE Divisions from any adverse consequences from its other operations or the activities of any of its affiliates.

d. Laclede Gas shall submit reports certifying its compliance with this paragraph on a quarterly basis to the Staff electronically through EFIS and to OPC, and other interested parties that are permitted to receive proprietary or confidential information as contemplated by applicable Commission rules or orders until the Commission determines that the Laclede and MGE Divisions are insulated from LG's other operations and the activities of any of its affiliates or that the requirement is no longer needed.

17. FURTHER INSULATING CONDITIONS

To further protect customers from potential negative impacts of this Transaction, Laclede Gas represents that:

a. The Transaction shall have no adverse effect on Laclede Gas' budget and funds, including the MGE division's budget and funds, to meet capital needs, including, but not limited to, service line and main replacement programs. Laclede Gas affirms its commitment to the safety line replacement program schedules for MGE currently in effect and approved by the Commission in its Case No. GO-2002-0050.

b. For the next MGE rate case prior to October 1, 2015, total joint and common costs allocated to the MGE Division for purposes of setting retail distribution rates will not increase as a result of the Transaction above the levels authorized by the Commission in Case No. GR-2009-0355 and proposed in the Surrebuttal Testimony of Michael R. Noack, dated October 14, 2009. Schedule H-8 - Corporate Allocation, of Mr. Noack's testimony reflects pro forma joint and common costs before application of the Expense Capital Rates of \$5,087,099. Net corporate plant allocated to MGE is \$669,314 per Schedule C, page 1 of 2, column e, line 35. It is understood, however, that joint and common costs allocated to MGE for purposes of setting retail distribution rates may increase or decrease for reasons that are not a result of the Transaction (including, but not limited to, factors such as wages and salaries increasing over time, organizational differences which result in a function being provided at the corporate level versus at the business unit or vice versa, labor efficiencies and technological efficiencies). Laclede Gas agrees that in any rate proceeding, it has the burden of proving the reasonableness of any allocated or assigned cost to Laclede Gas, including its MGE division, from any LG affiliate, including all corporate overhead allocations.

c. Laclede Gas shall retain all documentation relative to the analysis of the Transaction. This documentation shall include a list of: (1) all Laclede Gas and MGE personnel, consultants, legal and financial and accounting advisers; (2) the time (in hours) spent by those individuals on related work; (3) other expenses, costs or expenditures incurred or recognized by

Laclede Gas that are related to the Transaction; (4) business entities (corporate, subsidiary and division) where the costs were booked, including account number, account description and amount; and (5) description of the nature of the work performed and costs incurred.

d. Laclede Gas shall maintain its books and records so that all acquisition costs related to the Transaction are segregated and recorded separately. Subject to the protections found in 4 CSR 240-2.135 and/or 4 CSR-240- 2.085, during its next general rate proceeding, Laclede Gas shall disclose to the Staff, OPC, and other interested and authorized parties the acquisition, merger, transition, and transaction costs recorded in Laclede Gas's books and records in the appropriate test year and test year updates or true-ups. This condition does not restrict Laclede Gas' right to seek rate recovery of merger and acquisition costs related to future transactions. Other parties may oppose recovery of merger and acquisition costs related to future transactions.

e. Laclede Gas shall create and maintain records listing the names of LG employees whose costs are allocable to Missouri jurisdictional operations, number of hours worked, type of work performed and travel and other expenses incurred for all work related to all merger and acquisition activities related to the Transaction through the end of the test year, updated test year or true-up test year in MGE's next general rate case.

f. Laclede Gas shall submit to the Commission's Staff electronically in EFIS as a filing to this case and to OPC verified journal entries reflecting the recording of the Transaction on Laclede Gas' books and records and provide a narrative description of each such entry within ninety (90) days of closing.

g. Within six (6) months of the closing of the Transaction, Laclede Gas shall perform, provide, and discuss with all interested and authorized parties a study of the impact of the acquisition of MGE by Laclede Gas on Laclede Gas' structure, organization, and costs.

Laclede Gas shall verify the accuracy of corporate administrative and general ("A&G") allocations to MGE, including the specific impacts of the acquisition of MGE by Laclede Gas on Laclede Gas' A&G expense and cost allocation methodology and identify the process used to allocate A&G costs, transition costs and expenses to its regulated, merger and acquisition, sale and non-regulated functions of its regulated divisions as well as its non-regulated subsidiaries.

h. Laclede Gas shall provide to Staff and OPC on a monthly basis monthly Statement of Income and Balance Sheets that shall be consistent with SEC financial reporting requirements. Such monthly reports shall reflect financial results for Laclede Gas and its MGE Division regulated and non-regulated operations on a separate basis. Laclede Gas shall also provide to Staff and OPC variance reporting reflecting all changes in all revenues, expenses and capital investment on a monthly basis.

18. INTERSTATE AND INTRASTATE TRANSPORTATION AND STORAGE COSTS

a. In making decisions regarding interstate or intrastate pipeline transportation and storage capacity for either divisions, Laclede Gas shall continue to evaluate alternatives with the objective of ensuring safe and adequate reliability while achieving the most economical cost. Laclede Gas and MGE shall formally conduct a comprehensive evaluation as deemed necessary by them but no less frequently than every three years. This evaluation shall be submitted and presented to Staff, OPC, and other interested parties subject to the protections found in 4 CSR 240-2.135 and/or 4 CSR 240-2.085.

b. For Laclede Gas' comprehensive evaluation of pipeline transportation capacity and storage capacity, including pipeline storage and on-system storage (Demand/Capacity Analysis), Laclede Gas shall provide to Staff and OPC for each Laclede and MGE Division service area (MGE's service areas are Kansas City, Joplin, and St. Joseph):

- (1) Laclede Gas' estimated peak day (coldest day) requirements for the next five years and the capacity (on-system storage and pipeline capacity and any delivered supply) available to meet such requirements.
- (2) All supporting documentation, workpapers, analyses and calculations (including but not limited to projected growth (positive or negative), HDD or temperature data reviewed, the peak HDD and date of occurrence and timeframe/method used to determine peak HDD, contract demand studies and any forecast assumptions affecting contract capacity. The documentation shall include fully functioning electronic spreadsheets and workpapers (in Excel, if possible), including source data and output data.
- (3) A complete explanation of the methodology and logic and reasoning used in the Company evaluation and estimates/forecasts.
- (4) An explanation of the inclusion (or exclusion) of firm, interruptible, school aggregation, and transportation volumes in the Company's capacity evaluation. Include references to the Company's tariff language where appropriate.

If Laclede Gas revises the transportation capacity or storage capacity from that identified in the Demand/Capacity Analysis, Laclede Gas shall prepare an addendum to the Demand/Capacity Analysis within 6-months of making such changes, explaining the changes and the rationale for the changes, and provide the addendum to Staff and OPC. Laclede Gas shall file the Demand/Capacity Analyses and addendums, in EFIS, under case number GM-2013-0254.

c. Laclede Gas shall notify OPC, Staff, and other interested parties, subject to the protections found in 4 CSR 240-2.135 and/or 4 CSR 240-2.085, if and when Laclede Gas adds or changes pipeline capacity (transportation and storage capacity) of a quantity equal to or greater than 10% of Laclede Gas or MGE Division's existing capacity and shall keep and provide OPC and Staff, appropriate documentation regarding such decisions. Laclede Gas' notification shall be provided within 30 days of the effective date of changes. This documentation shall include, but not be limited to: all proposed terms, including rates (and any discounts), amount of capacity,

delivery and take points, any storage capabilities, maximum storage quantities, maximum daily withdrawal quantities, maximum daily injection quantities, whether the capacity is firm, interruptible, etc., capacity release and off-system sales opportunities, the reason for the additional capacity or change, and all negotiations regarding the new or change in capacity. This information shall be provided upon request within the time normally provided for discovery under the Commission's rules. However, in no event shall the providing of this information constitute preapproval by OPC or Staff or any other proper party.

19. TRANSPORTATION TARIFFS [ALL CUSTOMER CLASSES]

Laclede Gas shall retain the same terms and conditions of its MGE Division's current transportation service tariffs, including the threshold for eligibility for such service, until such time that changes may be proposed in any subsequent general rate case proceeding that is initiated commencing not less than three or more years after the effective date of the Commission Order approving this Stipulation and Agreement. Nothing herein shall preclude changes in rates or charges for service during such period as may be approved by the Commission as a result of (i) any ISRS filing made by the Company or (ii) a general rate case proceeding initiated by Laclede Gas so long as Laclede Gas does not seek in such a rate case proceeding to increase a transportation rate element or charge or the distribution rates for any customer class by a greater than equal percentage. This provision should not be read or interpreted to mean or require Laclede Gas or its MGE division to file any proposed change to the aforesaid terms and conditions of transportation, including eligibility thresholds, in such rate case or preclude Laclede Gas or its MGE division from making, or preclude any Signatory from opposing, Commission filings to implement changes to the aforesaid terms and conditions of transportation service that are mutually agreeable to Midwest Gas User's Association.

20. ENERGY EFFICIENCY PROGRAMS

The Transaction shall have no impact on Commission orders related to the respective energy efficiency programs of Laclede Gas or MGE. The Commission's orders with respect to MGE's existing energy efficiency programs shall remain in full force and effect with respect to MGE until further modified by the Commission.

21. LOW INCOME WEATHERIZATION PROGRAM

MGE shall retain the same terms and conditions of the tariff for the weatherization program now existing between the City of Kansas City, Missouri and MGE for the counties of Clay, Platte and Jackson, and between MGE and the approved Social Agencies for the rest of MGE's service territory, although modifications to such weatherization tariff may be proposed in tariff filings and in any subsequent general rate case proceedings.

22. ASSUMPTION OF KCMO FRANCHISE AGREEMENT

Subject to Commission approval of the Transaction and after Closing of the Transaction, Laclede Gas will execute, pursuant to Section 5(A) of the existing franchise agreement between the City of Kansas City, Missouri and MGE dated October 7, 2010, an assumption of all rights and responsibilities of such Franchise Agreement.

23. ISRS MONITORING AND REPORTING REQUIREMENTS

a. Each year, Laclede Gas shall provide one and three year plans (ISRS Plans) to Staff and OPC for its gas utility plant projects for its MGE Division for which it will be seeking to recover some or all of the costs through ISRS charges. The ISRS Plans will be provided on an annual cycle that is consistent with the planning cycle that Laclede Gas uses for MGE. Staff, OPC and Laclede Gas will work together to determine the timing of the annual filing, the first of which will occur no later than 8 months after the close of the acquisition.

b. The ISRS Plans will, to the extent reasonably practical, show the location and type of the gas utility plants projects, the amount of the estimated costs associated with each project (or a series of closely related projects) that is expected to exceed \$100,000 in cost over a three year period and the analysis performed by or for Laclede Gas to justify each gas utility project. The ISRS reports will also identify the criteria (e.g. compliance with state or federal safety standards, required facility relocations, etc.) used by Laclede Gas to determine that the projects will be included in its one year and three year plans for MGE and fully explain how each of the projects met the identified criteria. If major revisions are made to the ISRS Plans in between when annual ISRS Plans are provided to Staff and OPC, the revised ISRS Plans and supporting documentation shall also be provided to Staff and OPC.

c. Within 30 days of providing annual ISRS Plans or revised ISRS Plans to Staff and OPC for MGE projects, and prior to implementation of the plans, Laclede Gas shall meet with Staff and OPC to discuss feedback on the plans if such meetings are requested by Staff or OPC.

d. When filing to establish or change an ISRS for MGE, Laclede Gas shall, to the extent reasonably practical, file a report (1) showing how the actual cost of the projects compared to the estimated cost of the project and (2) documenting the extent to which the completed or partially completed project met the criteria used to justify the project.

e. These requirements related to the MGE ISRS gas utility plant projects shall remain in place through December 31, 2018.

24. RETAIL GAS MARKETING PLAN REPORTING

Laclede Gas shall provide its annual retail gas marketing plans to Staff and OPC. These plans will be provided on an annual cycle that is consistent with the planning cycle for gas marketing that Laclede Gas uses for the Laclede and MGE service territories. Staff, OPC and

Laclede Gas will work together to determine the timing of the annual submissions, the first of which will occur no later than 8 months after the close of the transaction.

25. TREATMENT OF INCIDENT-RELATED FEES, COSTS AND EXPENSES

Laclede Gas shall account for any costs or damages associated with the incident that occurred in MGE's service territory on February 19, 2013 in a manner that will insulate the customers of the Laclede Division from any rate impacts associated with such costs. All Signatories reserve the right to take whatever position they believe is appropriate regarding the recovery of such costs in the rates of the MGE Division.

26. DEFERRED TAXES

The Signatories stipulate that for ratemaking and regulatory accounting purposes, deferred taxes shall be per MGE's books as calculated under the applicable normalization rules (and reflecting the appropriate deferred tax elements for ratemaking purposes such as tax associated with CIAC).

27. FILING OF ANNUAL REPORTS

Laclede Gas shall, until its next rate case, file separate annual reports for its Laclede and MGE Divisions.

28. ASSUMPTION OF EXECUTION RISK

Neither Laclede Gas nor its MGE Division shall include in its retail distribution rates charged to Missouri consumers any costs related to its execution risk associated with the Transaction.

29. ADHERENCE TO MISSOURI RULES

Laclede Gas and its MGE Division shall comply with all Missouri Commission rules, including the Affiliated Transactions Rule, 4 CSR 240-40.015, reporting requirements and other practices, and its filed and approved tariffs. This paragraph shall not be construed as a waiver of

any rights or remedies available to Laclede Gas under the law. No conditions or agreements entered into between parties to this case shall restrict or limit LG's compliance with Missouri Commission rules.

30. NO DETRIMENTAL IMPACT

Laclede Gas represents that this transaction shall not have any detrimental effect on Laclede Gas or MGE Division utility customers, including, but not limited to: increased rates or any adverse effect on quality of service, and further agrees that, should such detrimental effects nevertheless occur, nothing in the approval or implementation of the proposed acquisition shall impair the Commission's ability to protect such customers from such detrimental effects.

31. COMMISSION AUTHORITY

Laclede Gas acknowledges that the Commission has, and will continue to have, the authority after the proposed acquisition to regulate, through the lawful exercise of its statutory powers, and ensure the provision of service, instrumentalities and facilities as shall be safe and adequate and in all respects just and reasonable and not jeopardize the ability of Laclede Gas or MGE to meet its Missouri utility obligations, including MGE's service line replacement program. Laclede Gas also agrees that the Commission has the authority, through the lawful exercise of its ratemaking powers, to ensure that the rates charged by Laclede Gas or MGE for regulated utility service are not increased as a result of the unregulated and/or non-jurisdictional activities of LG affiliates and LG agrees, consistent with such standard, that rates should not be increased due to such activities.

32. ACCESS TO INFORMATION

a. LG and Laclede Gas shall provide the Staff and OPC with access, upon reasonable written notice during normal working hours and subject to appropriate confidentiality and discovery procedures, to all written information provided to common stock, bond, or bond

rating analysts, that directly or indirectly pertains to Laclede Gas or any affiliate that has affiliate transactions with MGE or with Laclede Gas to the extent such transaction(s) with Laclede Gas or any affiliate affect the allocation of costs to MGE. Such information includes, but is not limited to: reports provided to, and presentations made to, common stock analysts and bond rating analysts. For purposes of this condition, "written" information includes but is not limited to: all electronic documents including spreadsheets in original format with formulas and links to other spreadsheets intact, any written and printed material, audio and videotapes, computer disks and electronically stored information. Nothing in this condition shall be deemed to be a waiver of LG's or Laclede Gas's or MGE's right to seek protection of the information, to assert any claim of privilege, or to object, for purposes of submitting such information as evidence in any evidentiary proceeding, to the relevancy or use of such information by any party.

b. Nothing in this Stipulation and Agreement shall limit Staff's or OPC's access to any information whatsoever in any other proceedings. Nothing in this Stipulation and Agreement shall preclude the Staff or OPC from seeking additional information from Laclede and its affiliates. Nothing in this Stipulation and Agreement shall preclude the Staff or OPC from performing spot reviews or conducting oversight of the Company's operations. Nothing in this Stipulation and Agreement is intended to impinge, restrict or limit in any way Staff or OPC's discovery powers, including the right to access information and investigate matters related to Laclede Gas and its Laclede and MGE divisions.

c. LG, Laclede Gas, and MGE shall provide Staff and OPC access to and copies of, if requested by Staff or OPC, the complete LG, and Laclede Gas Board of Directors' meeting minutes, including all agendas and related information distributed in advance of the meeting, presentations and handouts, provided that privileged information shall continue to be subject to

protection from disclosure and Laclede Gas shall continue to have the right to object to the provision of such information on relevancy grounds

d. Information sought by Staff and OPC shall be made available in either St. Louis or Jefferson City or Kansas City upon request. The location of the information will be determined by the Staff and OPC.

e. Any Signatory may request that Laclede provide a copy of a report submitted to Staff and OPC pursuant to this Stipulation and Agreement, provided that Laclede Gas reserves the right to object to such request and/or seek suitable protections to ensure such information is not improperly disclosed.

33. COMMITMENTS ARE MISSOURI JURISDICTIONAL

The conditions set forth herein are intended to apply only in the context of Missouri jurisdictional regulatory activities and are not intended to restrict in any way the ability of LG or Laclede Gas to take any position whatsoever regarding matters covered herein in proceedings before the Federal Energy Regulatory Commission or any other non-Missouri jurisdictional regulatory authority.

34. FERC APPROVAL OF JOINT APPLICATION

Prior to closing of this Transaction, SUG and Laclede Gas Company shall obtain all necessary authorizations under Sections 7(b) and 7(c) of the Natural Gas Act in FERC Docket No. CP13-497-000.

35. SUG/MGE DATA ROOM FILES

All electronic data residing in the SUG/MGE data room shall be provided by electronic media, with all cell references intact as they exist today, to Staff and OPC upon the closing of this transaction.

III. PREFILED TESTIMONY TO BE RECEIVED INTO EVIDENCE

The prefiled direct testimony and schedules of Mark D. Waltermire, Suzanne Sitherwood, Steven L. Lindsey and Robert J. Hack shall be received into evidence without the necessity of the witnesses taking the stand.

IV. NO DETRIMENT

The Signatories agree that the intent of the Stipulation is to avoid detrimental impacts to customers, and that this Stipulation should be interpreted accordingly.

V. GENERAL PROVISIONS

(a) This Stipulation has resulted from negotiations among the Signatories and the terms hereof are interdependent. In the event the Commission does not adopt this Stipulation in total, then this Stipulation shall be void and no Signatory shall be bound by any of the agreements or provisions hereof. The stipulations herein are specific to the resolution of this proceeding, and all stipulations are made without prejudice to the rights of the Signatories to take other positions in other proceedings except as otherwise provided herein. The Signatories agree that any and all discussions related hereto shall be privileged and shall not be subject to discovery, admissible in evidence, or in any way used, described or discussed.

(b) This Stipulation is being entered into for the purpose of disposing of all issues in this case. The Signatories represent that the terms of this Stipulation constitute a fair and reasonable resolution of the issues addressed herein, in a manner which is not detrimental to the public interest. Except as otherwise addressed herein, none of the Signatories to this Stipulation shall be deemed to have approved, accepted, agreed, consented or acquiesced to any accounting principle, ratemaking principle or cost of service determination underlying, or supposed to underlie any of the issues provided for herein.

(c) The Signatories further understand and agree that the provisions of this Stipulation relate only to the specific matters referred to in the Stipulation, and no Signatory or person waives any claim or right which it otherwise may have with respect to any matter not expressly provided for in this Stipulation. The Signatories further reserve the right to withdraw their support for the settlement in the event that the Commission modifies the Stipulation in a manner which is adverse to the Signatory, and further, the Signatories reserve the right to contest any such Commission order modifying the settlement in a manner which is adverse to the Signatory contesting such Commission order. The Signatories agree that the details of this agreement have no precedential value in any future proceeding not related to enforcement of this agreement.

(d) The non-utility Signatory Parties enter into this Stipulation in reliance upon information provided to them by the Joint Applicants and this Stipulation is explicitly predicated upon the truth of representations made by the Joint Applicants.

(e) In the event the Commission accepts the specific terms of this Stipulation without modification, the Signatories waive, with respect to the issues resolved herein: their respective rights pursuant to Section 536.070(2), RSMo 2000 to call, examine and cross-examine witnesses; their respective rights to present oral argument or written briefs pursuant to Section 536.080.1, RSMo 2000; their respective rights to the reading of the transcript by the Commission pursuant to Section 536.080.2, RSMo 2000; their respective rights to seek rehearing pursuant to Section 386.500, RSMo 2000; and their respective rights to judicial review pursuant to Section 386.510, RSMo 2000. Furthermore, in the event the Commission accepts the specific terms of this Stipulation without modification, the Signatories agree that the prefiled testimony of all witnesses who have prefiled testimony in this case shall be included in the record of this proceeding without the necessity of such witnesses taking the stand.

(f) The Staff shall have the right to provide, at any agenda meeting at which this Stipulation is noticed to be considered by the Commission, whatever oral explanation the Commission requests, provided that the Staff shall, to the extent reasonably practicable, promptly provide other Signatories with advance notice of when the Staff shall respond to the Commission's request for such explanation once such explanation is requested from Staff. Staff's oral explanation shall be subject to public disclosure, except to the extent it refers to matters that are privileged or previously designated confidential by any signatory.

(g) Except as otherwise addressed in this Stipulation, Commission approval of the sale of assets of SUG to Laclede Gas, and for the Joint Applicants to execute and perform in accordance with the terms of the Agreement, does not in any way, limit, form a basis for determination, or constitute a defense against any Signatory proposing, or the Commission ordering, the disallowance and/or imputation of account balances, expenses, revenues and/or other ratemaking findings, regarding MGE or Laclede Gas operations in a future rate proceeding.

(h) To assist the Commission in its review of this Stipulation, the Signatories also request that the Commission advise them of any additional information that the Commission may desire from the Signatories relating to the matters addressed in this Stipulation, including any procedures for furnishing such information to the Commission.

WHEREFORE, the Signatories recommend that SUG's sale of its Missouri properties to Laclede Gas is reasonable and not detrimental to the public interest and respectfully request that the Commission approve this Stipulation and Agreement subject to the conditions contained herein.

Respectfully submitted,

/s/ Robert S. Berlin

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ATTORNEYS FOR MISSOURI DEPARTMENT
OF NATURAL RESOURCES

CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or electronically mailed to all counsel of record this 2nd day of July, 2013.

/s/ Robert S. Berlin

1 Thank you.

2 JUDGE WOODRUFF: Mr. Stoll.

3 COMMISSIONER STOLL: First of all, I want to thank
4 everyone for their hard work and being able to accomplish
5 this stipulation and agreement that is before us. And my
6 questions are probably a little more basic about some
7 aspects of the stipulation agreement, that could someone
8 just basically explain the -- on page 8, No. 2, the rate
9 base offset. How does that come about and why? What is
10 that?

11 MR. PENDERGAST: The rate base offset is designed
12 to reflect the fact that, as a result of the acquisition,
13 there will no longer be the same level of rate base offset
14 there would have traditionally been because of various
15 kinds of tax effects that have to be paid off immediately.
16 And while this is not in any way directly related to the
17 loss of that offset, I think the approach in Missouri has
18 been we don't want to put ratepayers in a position where,
19 on day 1, they have a larger rate base to deal with
20 because of the transaction.

21 So, we have -- as has been done in prior
22 transactions -- agreed to, for rate making purposes,
23 reflect an offset that will sort of, in a rough test kind
24 of way, recapture that benefit over time so there will not
25 be any financial detriment to customers.

1 COMMISSIONER STOLL: And how is that amount, a
2 hundred twenty-five million dollars, arrived at? Is that
3 -- what goes into determining that amount that you put in
4 here?

5 MR. PENDERGAST: Well, Commissioner, it is one
6 that is based, I think, on the parties up-to-date
7 understanding of what kind of impacts this would have
8 based on, you know, what the financial situation of MGE
9 will be at closing, and what's necessary to go ahead and
10 give some consideration for that. You know, it's kind of
11 an adjustment where, you know, you need to be very careful
12 that you're not doing something to run afoul of the IRS's
13 normalization rule. So, it really is an independently-
14 determined number that's designed to just make sure there
15 won't be a financial detriment to customers.

16 COMMISSIONER STOLL: The parties agree on this --

17 MR. PENDERGAST: Yes.

18 COMMISSIONER STOLL: -- on this figure? Okay. On
19 page 17, and 17M, could somebody just explain to me what
20 the annual goodwill impairment analysis is? What is that?

21 MR. PENDERGAST: Well, my understanding is, when
22 you have goodwill on the books and it's an item that
23 you're not recovering in rates, you have to go ahead and
24 on an annual basis to an analysis to make sure that your
25 ability to carry that on your books hasn't been impaired.