Exhibit No.: 252
Issues: *Kansas Property Tax*
Cash Working Capital
Rate Base Treatment
Energy Efficiency
JJ's related costs
Witness: *Karen Lyons*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Surrebuttal Testimony*
Case Nos.: *GR-2017-0215 and GR-2017-0216*
Date Testimony Prepared: *November 21, 2017*

MISSOURI PUBLIC SERVICE COMMISSION

COMMISSION STAFF DIVISION

AUDITING DEPARTMENT

SURREBUTTAL TESTIMONY

OF

KAREN LYONS

SPIRE MISSOURI, INC., d/b/a SPIRE

LACLEDE GAS COMPANY and MISSOURI GAS ENERGY
GENERAL RATE CASE

CASE NOS. GR-2017-0215 and GR-2017-0216

Jefferson City, Missouri
November 2017

TABLE OF CONTENTS

SURREBUTTAL TESTIMONY OF

KAREN LYONS

SPIRE MISSOURI, INC., d/b/a SPIRE

LACLEDE GAS COMPANY and MISSOURI GAS ENERGY
GENERAL RATE CASE

CASE NOS. GR-2017-0215 and GR-2017-0216

SURREBUTTAL TESTIMONY

OF

KAREN LYONS

SPIRE MISSOURI, INC., d/b/a SPIRE

LACLEDE GAS COMPANY and MISSOURI GAS ENERGY
GENERAL RATE CASE

CASE NOS. GR-2017-0215 and GR-2017-0216

Q. Please state your name, employment position, and business address.

A. Karen Lyons, Utility Regulatory Auditor with the Missouri Public Service Commission ("Commission" or "PSC"), Fletcher Daniels State Office Building, 615 East 13th Street, Kansas City, Missouri 64106.

Q. Are you the same Karen Lyons who has previously provided testimony in this case?

A. Yes. I contributed to Staff's Cost of Service Report ("COS Report") and provided rebuttal testimony as part of this rate proceeding.

EXECUTIVE SUMMARY

Q. What is the purpose of your surrebuttal testimony?

A. The purpose of my surrebuttal testimony is to respond to statements and positions taken by LAC and MGE witness Michael R. Noack on Kansas Property taxes, energy efficiency costs, JJ's related costs, and rate base treatment for the St. Peters pipeline lateral, Red Tag program, and MGE's one-time Energy Affordability program.. I will also respond to LAC and MGE witness Timothy S. Lyons who addresses Cash Working Capital ("CWC").

KANSAS PROPERTY TAXES

Q. What is MGE's position regarding Kansas property taxes?

A. Mr. Noack recommends that the Commission authorize an annual level of Kansas property taxes of $1,691,513 if the existing tracker is discontinued or, as an alternative, include an annualized level of property taxes based on a three (3) or four (4) year period and continue the existing tracker.

Q. What level of annualized Kansas property taxes did Staff recommend in its direct case filed on September 8, 2017?

A. Staff recommended an annualized level of Kansas property taxes based on the taxes MGE paid in 2016.

Q. At the time of Staff's direct filing please explain why Staff recommended 2016 paid Kansas property taxes as being representative of an ongoing level of Kansas property taxes.

A. MGE's actual incurred Kansas property taxes have declined since 2013. Since there was a discernable downward trend, Staff included an annualized level based on the actual taxes paid in 2016.

Q. Does Staff agree that a level of Kansas property taxes of $1,691,513, as recommended by Mr. Noack, represents an ongoing annual level of Kansas property taxes?

A. No. With the exception of one year, MGE has not incurred the level of Kansas property taxes that Mr. Noack suggests represents an ongoing annual level since 2009.[1] The following table reflects MGE's historical actual Kansas property taxes paid for the period of 2009-2016:

[1] MGE did not pay actual Kansas property taxes for the period of 2009-2013 until the final court decision in December 2016.

MGE Historical Actual Kansas Property Taxes 2009-2016	
Year	Tax Amount
2009	$1,449,247
2010	$2,017,164
2011	$1,509,395
2012	$1,304,449
2013	$1,521,942
2014	$1,391,599
2015	$1,316,239
2016	$1,122,514

As can be seen from the table above, the only year that is higher than Mr. Noack's recommendation is 2010. The table also shows the downward trend for the period of 2013-2016 that supports Staff's recommended level at the time of its direct filing.

Q. Is Mr. Noack's recommendation based on known and measurable data?

A. No. Mr. Noack's recommendation is calculated using 2017 Kansas property tax assessments and 2016 mill levies.

Q. Has MGE received the actual Kansas property tax bills for 2017 at this time?

A. MGE has received and provided Staff 2017 tax bills for four (4) out of ten (10) Kansas counties to which MGE pays these taxes. Based on Staff's review of the tax statements, the taxes for the four (4) counties have increased when compared to the last three years of actual taxes paid by MGE for the respective counties.

Q. Based on Staff's knowledge of MGE's 2017 Kansas property taxes at this time, is MGE's recommended level of $1.6 million appropriate?

A. No. Assuming that MGE's recommended level of Kansas property taxes of $1.6 million is actually incurred in 2017, it doesn't change the fact that with the exception of one year, MGE has not incurred that level since 2009. To suggest that this will be the level MGE will incur every year is not reasonable.

Q. Based on Staff's knowledge of MGE's 2017 Kansas property taxes at this time, is Staff continuing to recommend an annualized level of these costs based on 2016 taxes?

A. No. Just as Mr. Noack's recommendation of $1.6 million for an annualized level of these taxes is not representative of an ongoing annual level, Staff's recommendation at the time it filed its direct case is no longer representative of an ongoing annual level of these taxes.

Q. Since Staff's review indicates that MGE's actual 2017 Kansas property taxes will be higher than the level Staff recommended at the time of its direct filing, is Staff revising its recommendation?

A. Yes. As previously discussed, Staff's recommendation of 2016 actual taxes, was based on a four (4) year downward trend. Since 2017 Kansas property taxes appear to be higher than any calendar year since 2010, Staff recommends a normalized level of Kansas property taxes of $1,454,069 which represents an average of actual Kansas property taxes paid by MGE for the period of 2009-2016. By using an average of these costs, it accounts for years that these taxes increased and years that these taxes declined. Staff also recommends continuation of the existing tracker mechanism for this item. Staff's revised normalized level of these taxes will be reflected in its true-up accounting schedules.

Q. You mentioned in your rebuttal testimony that you did not intend to update these costs as part of Staff's true-up audit and recommended the discontinuation of the tracker approved by the Commission in Case No. GR-2014-0007. Please explain why Staff now recommends a different level of Kansas property taxes to include in MGE's cost of service and why Staff believes the tracker should be continued.

A. Staff revised its recommendation based on new information that was not available at the time of its direct filing. Although Staff does not have all the 2017 tax statements, after review of 2017 tax information currently available, Staff is certain that the taxes will increase and be higher than the last several years. Staff's recommendation of $1.1 million is simply no longer an appropriate ongoing annual level. Staff has a responsibility to MGE and its customers to include costs that are representative of costs that MGE will incur in the near future using known and measurable data. Consequently, Staff used an average of MGE's actual paid Kansas property taxes for the period of 2009-2016 to represent an ongoing annual level.

Staff recommendation of approximately $1.4 million will likely be less than what MGE will pay in 2017 for these taxes and could be more than what they incur in future years. The manner in which these taxes are assessed is completely different than the assessment of Missouri property taxes for Missouri utilities. Kansas property taxes are assessed using the gas volumes in Kansas storage and the Platt's daily pipeline price for the first trading day of January less a $0.02 withdrawal allowance. Although both fluctuate, the use of a gas price based on one day as opposed to an average gas price may have a significant impact on the level of Kansas property taxes that MGE will pay. The one day gas price used to assess Kansas property taxes may result in lower Kansas property taxes than were assessed during the period of 2013-2016 or may increase the level of these taxes owed by MGE, like what has occurred for the 2017 tax year. In contrast, property taxes assessed in the State of Missouri do not have the variability to determine a utility assessment comparable to the gas price used in the State of Kansas. For this reason Staff recommends the continuation of the existing tracker.

Q. Is Staff recommending continuing MGE's existing Kansas property tax tracker permanently?

A. No. If the Commission approves the continuation of MGE's Kansas property tax tracker, Staff recommends that the continuation of the tracker be reevaluated in MGE's next rate case.

Q. Since Kansas property taxes are assessed on natural gas storage volumes and the price of gas as of January 1, why does Staff believe a reevaluation of the tracker is necessary?

A. The initial tracker approved by the Commission in Case No. GR-2014-0007 through a Stipulation and Agreement was based on the uncertainty of whether MGE would actually be responsible for paying these taxes and what amount MGE would actually pay. In this case MGE is responsible for paying these taxes on an annual basis. Staff would prefer to see what the impact of these costs will be in the next couple of years, and in MGE's next rate case determine if an appropriate level of these taxes can be calculated using normal regulatory concepts such as annualizations and normalizations.

Q. Does Staff's recommendation for the unamortized balance of historical (2009-2013) Kansas property taxes change from what it recommended in Staff's Cost of Service Report filed on September 8, 2017?

A. At the time Staff filed its direct testimony, Staff recommendation for the unamortized balance was based on discontinuing the Kansas property tax tracker. Since Staff is now recommending to continue the Kansas property tax tracker, Staff recommends an unamortized balance as of September 30, 2017, of $1,382,549. Staff will include an annual amortization based on five (5) years, consistent with the Stipulation and Agreement in Case No. GR-2014-0007, in Staff's true-up accounting schedules. Staff further recommends that any over or under-recovery of Kansas property taxes be used to offset the regulatory asset balance. Staff also recommends that successful appeals of Kansas Property taxes by MGE also be used to offset the regulatory asset balance.

Q. Please summarize Staff's position regarding the annualized level of Kansas property taxes and the related tracker.

A. Based on 2017 Kansas tax statements received subsequent to Staff's direct filing, Staff reevaluated MGE's historical Kansas property taxes paid for the period of 2009-2016 and what MGE will likely pay in 2017. The level of Kansas property taxes recommended by Staff at the time of its direct filing, $1.1 million, is not reflective of what MGE will incur on an annual basis in the near future for these taxes. Although the 2017 Kansas property taxes owed by MGE will likely be higher than the last several years, Mr. Noack's recommendation of approximately $1.6 million is not reflective of what MGE will incur on an annual basis. The variability of the natural gas storage volumes and gas price based on one day used in the assessment by the State of Kansas contributed to the increase in these taxes in 2017. Consequently, Staff recommends the Commission approve Staff's recommended normalized level of Kansas property taxes of $1,454,069 and continuation of the existing tracker.

CASH WORKING CAPITAL (CWC)

Q. Are there specific issues that LAC and MGE witness Timothy S. Lyons addresses in his rebuttal testimony regarding CWC?

A. Yes. Mr. Lyons opposes Staff's expense lags for state and federal income tax, gross receipts tax ("GRT"), employee benefits, the elimination of the PSC assessment in the CWC schedule, and the elimination of bad debts in the collection lag.

Q. Please explain Mr. Lyons' position with regard to the expense lag Staff used for state and federal income taxes.

A. Mr. Lyons states the following on page 12 of his rebuttal testimony:

> The Company opposes Staff's proposed increase in the expense lag associated with Federal and State Income Taxes since it does not reflect actual tax payments during the test year. The Company's proposed expense lag associated with Federal and State Income Taxes was based on actual tax payments during the test year. However, should the Commission adopt Staff's approach, there are several important corrections that should be made to the calculation. First, Staff's calculation should be corrected to reflect service periods based on the fiscal year ending September 30 rather than individual quarters. Federal and State Income are not assessed on individual quarters but rather on the fiscal year. Second, Staff's calculation should be corrected to reflect Federal and State tax payment deadlines. Specifically, the Internal Revenue Service deadlines for corporate tax payments are April 18, June 15, September 15 and December15.

Q. Did Staff use actual tax payments to calculate the federal and state income tax expense lags?

A. No. Although Mr. Lyons states in his rebuttal testimony that he used actual tax payments for the 2016 test year to calculate LAC's and MGE's federal and state income tax lag, Staff was not provided supporting information. Staff requested actual tax payments including the date of the payment for the 2016 fiscal year in Staff Data Request No. 0503, Schedule KL-s1. LAC and MGE responded as follows:

> Missouri Gas Energy is not a separate legal entity, so there are no Federal or State tax payments made by it. Laclede Gas Company was in a non-tax paying situation in 2016 so there

> were no Federal or State payments made by it that year. The dates Mr. Lyons quotes are the statutory dates.

If LAC and MGE did not make tax payments, Staff is unclear as to what Mr. Lyons used to calculate the LAC and MGE federal and state income tax expense lag.

Q. Does Staff agree with changing the service period to the fiscal year period as suggested by Mr. Lyons?

A. Yes.

Q. Does Staff agree with the estimated tax payment due dates included in Mr. Lyons rebuttal testimony?

A. No. The due dates referenced by Mr. Lyons are based on an article. Since Staff updated the service period consistent with LAC's and MGE's fiscal year, Staff used the estimated payment due consistent with the Internal Revenue Service ("IRS") Publication 502. Installment payments are due by the 15th day of the 4th, 6th, 9th, and 12th months of the corporation's tax year. Based on LAC's and MGE's fiscal year of 12 months ending September 30, the estimated tax payments are due by January 15, March 15, June 15, and September 15.

Q. What is Staff's revised federal and state income tax expense lag based on the revisions discussed above?

A. Staff revised its recommended federal and state income expense lag for LAC and MGE to 37.50 days. Staff's revision will be reflected in its true-up accounting schedules.

Q. Please explain Mr. Lyons' position with regard to the expense lag Staff used for LAC's and MGE's GRT.

A. Mr. Lyons states the following on page 10 of his rebuttal testimony:

> The Company opposes the proposed decrease in the expense lag associated with GRT. While the Company does not oppose the lag days associated with the monthly, quarterly and semi-annual tax payments, the percentages used to weight the lag days is inconsistent with the Company's 2016 tax payments. For example, Staff's analysis assumes that 23.0 percent of GRT tax payments are monthly, which results in an expense lag of 42.21 days. However, the Company's 2016 tax payments for LAC, as included in Figure 2, show that 96.1percent of 2016 GRT tax payments are monthly, and for MGE, as included in Figure 3, show that 85.9 percent of 2016 GRT tax payments are monthly.

Q. Do you agree with Mr. Lyons that the reduced expense lag for LAC and MGE is not reflective of 2016 GRT tax payments?

A. Staff agrees that LAC's GRT expense lag needs to be revised. Consistent with LAC and MGE, Staff utilized MGE's GRT tax payments at the time of its direct filing to calculate the GRT expense lag for both LAC and MGE. The difference is that Staff utilized a weighted average of MGE's GRT tax payments that is not consistent with LAC's GRT tax payments. Staff has since received LAC's 2016 GRT tax payments and calculated a revised expense lag.

Q. Mr. Lyons suggests that the inconsistency applies to MGE. Do you agree?

A. No. Mr. Lyons provides a chart on page 11 of his rebuttal testimony that suggests for the calendar year 2016, approximately $20 million of MGE's GRT payments, of approximately $24 million in total, is billed on a monthly basis. This is simply not true. MGE pays a significant amount of gross receipt taxes to the city of Kansas City on a quarterly basis. Mr. Lyons' chart indicates that MGE paid $1.3 million to all MGE's municipalities that require quarterly tax payments for the entire 2016 calendar year. Mr. Lyons' calculation is grossly understated. In fact, in the first quarter of 2016, MGE paid $3.7 million to Kansas City for quarterly GRT payments. This amount increases to over $4 million when all municipalities that require a quarterly payment are included. Staff continues to recommend 42.21 days for MGE's GRT expense lag.

Q. What is Staff's revised GRT expense lag for LAC based on the revisions discussed above?

A. Staff revised its recommended GRT expense lag for LAC to 31.39 days. Staff's revision will be reflected in its true-up accounting schedules.

Q. Please explain Mr. Lyons' position with regard to the expense lag Staff used for employee benefits.

A. Mr. Lyons opposes Staff's higher employee benefits expense lag of 33.64.[2]

Q. Does Staff agree with LAC's and MGE's employee benefit lag of 9.46 days?

A. Yes. Since filing its direct case, Staff received employee benefit invoices for LAC's and MGE's employee benefits. Staff now accepts LAC's and MGE's employee benefit expense lag.

Q. Please explain Mr. Lyons' position with regard to Staff's elimination of the PSC assessment in its CWC schedule.

A. Mr. Lyons opposes excluding the PSC assessment from the CWC requirement despite reclassification as a prepayment.[3]

Q, Does Staff believe that the PSC assessment should be included in both prepayments and CWC?

A, No. Staff has traditionally included the PSC assessment in either the prepayments balance in rate base or as part of the CWC analysis. Staff prefers to include the

[2] Timothy S. Lyons Rebuttal, page 5.
[3] Timothy S. Lyons Rebuttal, page 5.

PSC assessment in CWC and not as a prepayment. In this case, Staff took the conservative approach and accepted LAC's and MGE's position to include the PSC assessment as a prepayment. Since Staff included the PSC assessment as a prepayment, Staff excluded it from LAC's and MGE's CWC.

Q. Does the USOA define a prepayment?

A. Yes. The USOA defines a prepayment as follows:

> This account shall include payments for undelivered gas and other prepayments of rents, taxes, insurance, interest, and like disbursements made prior to the period to which they apply. Prepayments for gas are those amounts paid to a seller of gas under "take or pay" provisions of a gas purchase contract for a sale certificated by the Commission, where future makeup of the gas not taken in the current period is provided for by the contract.

Q. How is the PSC assessment assessed?

A. Approximately a week before the start of the Missouri Public Service Commission's fiscal year, July 1, utilities are sent a bill identifying the amount of their PSC assessment for the upcoming fiscal year. Utilities have an option to pay the entire assessment on July 15 or to make quarterly payments on July 15, October 15, January 15, and April 15. Most utilities, including LAC and MGE, opt to make four (4) quarterly payments.

Q. Based on how LAC and MGE pay the assessment, is it a prepayment as defined by the USOA?

A. It certainly would be a prepayment if LAC and MGE made the full payment for the PSC Assessment on July 15 since they would be paying the entire year in advance. By choosing to make four (4) quarterly payments, a portion of the PSC assessment is paid in advance and a portion is paid in the arrears.

Q. Does Staff recommend an alternative treatment for the inclusion of the PSC assessment in LAC's and MGE's cost of service?

A. Yes. An alternative would be to exclude the PSC assessment from prepayments and include LAC's and MGE's PSC assessment in Staff's CWC accounting schedule that includes an expense lag that recognizes the portion of the PSC assessment that is paid in advance and the portion that is paid in the arrears.

Q. Please explain Mr. Lyons' position with regard to Staff's elimination of the bad debt in the collection lag calculation.

A. Mr. Lyons opposes excluding the bad debt from the collection lag, suggesting that Staff's calculation eliminates the carrying costs for uncollectibles, also referred to as bad debt.[4]

Q. What is the intent of including CWC in a utility cost of service?

A CWC is the measurement of the utility's cash flows of revenues received and expenses paid to vendors, employees, taxing authorities, etc. In other words, CWC is the amount of cash necessary to pay day to day expenses which are incurred to provide service to its ratepayers.

Q. Is there a cash flow associated with bad debt?

A. No. Bad debt is considered a non-cash item which means that LAC and MGE do not pay out an expense for these costs.

Q. Do Mr. Lyons' CWC workpapers recognize that bad debt is a non-cash item?

A. Yes. Mr. Lyons eliminates bad debt expense from LAC's and MGE's CWC schedule but does not remove it from his calculation of the collection lag. It is Staff's opinion

[4] Timothy S. Lyons Rebuttal Testimony, page 8.

that Mr. Lyons' treatment of bad debt is inconsistent. Consequently, Staff's recommendation to eliminate bad debt from the collection lag remains unchanged.

Q. Are there any other issues that need to be addressed related to CWC?

A. Yes. Beginning on page 17 of Mr. Lyons' rebuttal testimony, he addresses two corrections that need to be made to Staff's recommended CWC for LAC. The corrections are related to the level of purchased gas included in Staff's CWC schedule and the expense lag for cash vouchers. Staff informed LAC of these errors prior to filing rebuttal testimony and made the corrections to Staff's CWC schedule at that time.

Q. Please summarize Staff's recommendation for LAC's and MGE's CWC.

A. Staff's recommendations for LAC's and MGE's CWC will be reflected in its true-up accounting schedules and are as follows:

- Staff revised the expense lags for state and federal income tax to reflect the estimated tax due dates as reported by the IRS and based its calculation on LAC's and MGE's fiscal year. Staff's revised lag for LAC's and MGE's federal and state expense lag is 37.50 days

- Staff revised LAC's GRT expense lag based on a significant amount of LAC's GRT that is paid on a monthly basis. Staff's revised GRT expense lag for LAC is 31.39 days. Staff opposes Mr. Lyons' suggestion that a significant amount of MGE's GRT is paid on a monthly basis. Staff's recommendation for MGE's GRT remains unchanged.

- Staff accepts LAC's and MGE's employee benefit expense lag of 9.46 days.

- Staff opposes the inclusion of the PSC assessment in both prepayments and CWC. Staff continues to support the PSC assessment in LAC's and MGE's prepayments if it is not included in CWC. Staff also recommends an alternative to exclude the PSC assessment from prepayments and include LAC's and MGE's PSC assessment in Staff's CWC accounting schedule that includes an expense lag that recognizes the portion of the PSC assessment that is paid in advance and the portion that is paid in the arrears.

- Staff continues to support the elimination of bad debts in its recommended collection lag.

RATE BASE TREATMENT

Q. What is LAC's and MGE's position regarding rate base treatment for the Red Tag Program, LAC's St. Peters pipeline lateral, and MGE's one-time Energy Affordability Program?

A. Mr. Noack suggests that Staff is inconsistent by recommending rate base treatment for the LAC and MGE Energy Efficiency programs and LAC's Low Income Program but excludes the unamortized balances for LAC's and MGE's red tag deferred costs, and MGE's one-time energy affordability deferred costs from rate base.[5] He also suggests that rate base treatment is appropriate for the St. Peters pipeline lateral since the project was terminated because a lower rate was negotiated with MoGas and the lower rate results in significant savings for LAC's customers.[6]

Q. What is Staff's response to Mr. Noack's rebuttal testimony suggesting that Staff is inconsistent with regard to rate base treatment for the deferred costs for the Red Tag Program and MGE's one-time Energy Affordability Program?

A. Rate base treatment for LAC's Energy Efficiency Program and its Low Income Program was a provision agreed to in a Stipulation and Agreement and subsequently approved

[5] GR-2017-0215 and GR-2017-0216 Rebuttal Testimony Michael R. Noack, page 11.
[6] GR-2017-0215 and GR-2017-0216 Rebuttal Testimony Michael R. Noack, page 15.

by the Commission[7]. In Case No. GR-2014-0007, Staff recommended rate base treatment for MGE's Energy Efficiency Program deferred costs. Staff's recommendation was based on the large balance of the regulatory asset and is consistent with how these costs were treated for LAC and other utilities. Staff determines rate base treatment for deferred costs on a case by case basis. The fact that other existing deferred costs are included in rate base, such as LAC's and MGE's Energy Efficiency Programs and LAC's Low Income Program, is irrelevant.

Q. What does Staff consider when determining whether deferred costs should be included in a utility rate base?

A. Staff has generally recommended rate base treatment for deferred costs that are capital in nature, costs that are amortized over a long period of time, and deferred balances that are significant. For example, in KCPL's 2010 rate case, the Commission approved construction accounting for costs related to KCPL's Iatan 2 generating unit and approved rate base treatment. In this example, the Commission approved two regulatory assets that are being amortized over a 47.7 and 46 year period, the estimated life of the asset. In this example, the longer amortization period results in a larger economic detriment to KCPL if the unamortized balance is not included in rate base. Similarly, there would be a larger economic impact to LAC and MGE, due to the size of the deferral balance, if the unamortized balances of its Energy Efficiency program costs are not included in rate base.

Q. Are the costs included in the deferral balances for the LAC and MGE Red Tag program and MGE's one-time Energy Affordability Program capital in nature or require a lengthy amortization periods?

[7] Laclede Gas Company, Case No. GR-2007-0208, Unanimous Stipulation and Agreement, Low Income Program, pages 13-16, Energy Efficiency Program, pages 16-20.

A. No. Red Tag program costs are deferred by LAC and MGE for repairs made to low income customers' equipment to avoid disconnection. MGE's one-time Energy Affordability Program was established in MGE's last rate case, Case No. GR-2014-0007, to assist low-income customers with high gas bills from the unusually cold winter of 2013-2014.

Q. Does Staff consider the costs included in the deferral balances for the LAC and MGE Red Tag program and MGE's one-time Energy Affordability Program significant?

A. No. The unamortized balances for the LAC and MGE Red Tag Program are $34,911 and $46,315 respectively as of September 30, 2017. The unamortized balance of MGE's one-time Energy Affordability Program is $336,181.

Q. Please summarize Staff's recommended accounting treatment for the deferred costs for the LAC and MGE Red Tag program and MGE's one-time Energy Affordability Program.

A. Staff recommends including a four (4) year amortization of the deferred costs for the LAC and MGE Red Tag program and a five (5) year amortization of the deferred costs for MGE's one-time Energy Affordability Program. Staff further recommends no rate base treatment.

Q. Why is Staff recommending different amortization periods for the LAC and MGE Red Tag program and MGE's one-time Energy Affordability Program?

A. Staff's recommended amortization period for MGE's one-time Energy Affordability Program is consistent with its tariff approved in Case No. GR-2014-0007.[8] The Commission approved stipulations and tariffs from LAC's and MGE's last rate case were

[8] MGE one-time Energy Affordability Program, Tariff Sheet No R-93.

silent on the amortization period for their respective Red Tag Programs. Staff recommended a four (4) year amortization based on LAC's and MGE's recent history of filing rate cases.

Q. Please provide a brief summary of the St. Peters pipeline lateral.

A. On March 1, 2017, LAC entered into a contract for approximately 13 years with MoGas Pipeline LLC ("MoGas") to supply pipeline services to LAC's system at a reduced price per volume of natural gas flow. As part of the agreement with MoGas, LAC agreed to abandon the St. Peters pipeline lateral that was started prior to negotiations with MoGas. LAC invested approximately $2 million on the St. Peters Pipeline before the MoGas contract was completed. Staff discusses this issue in further detail in its Cost of Service Report filed on September 8, 2017, and in my rebuttal testimony filed on October 17, 2017.

Q. What is LAC's position regarding rate base treatment for the St. Peters pipeline lateral?

A. Mr. Noack stated the following on page 16 of his rebuttal testimony:

> Given the magnitude of those savings and the fact that they significantly exceed the revenue requirement that would be necessary to provide **a return on as well as a return of this investment,** I believe the Company's proposed treatment of this investment remains the most appropriate and equitable one. (Emphasis added)

Q. Was Staff aware LAC's recommendation included rate base treatment for the St. Peters pipeline lateral prior to LAC filing rebuttal testimony?

A. No. Staff first learned about LAC's recommendation to amortize costs related to the St. Peters pipeline lateral from an email received from Mr. Noack on May 8, 2017, more than a month after LAC filed its direct testimony in this case. LAC did not provide its recommended ratemaking treatment for the St. Peters pipeline lateral in its direct testimony filed on April 11, 2017, even though LAC was aware of the costs incurred for the project prior to LAC filing direct testimony and even though the amended contract with MoGas was finalized prior to LAC filing direct testimony.

Q. Does Staff agree that rate base treatment is appropriate for the St. Peters pipeline because of the magnitude of the savings from the negotiated MoGas contract and the fact that they significantly exceed the revenue requirement as stated by Mr. Noack?

A. No. The costs incurred by LAC for the St. Peters pipeline lateral are abandoned costs and preliminary construction costs, that will not benefit LAC's customers in the future, and as such, Staff was under no obligation to include the costs in LAC's cost of service. However, Staff recognizes that LAC customers will benefit from the savings from the negotiated contract with MoGas and commends LAC for reducing the costs for its customers. Consequently, Staff agreed to amortize the costs incurred by LAC for the St. Peters pipeline lateral over a twelve (12) year period, consistent with the MoGas contract, with no rate base treatment. Staff considers its treatment of these costs to be fair to both LAC and its customers.

Q. Does Staff have an alternative proposal for the treatment of LAC's St. Peters pipeline lateral costs?

A. Yes. As discussed, Staff is not supportive of rate base treatment for these costs but would consider amortizing the costs associated with the St. Peters pipeline lateral of a four (4) year period which would allow LAC to recover the costs much sooner.

ENERGY EFFICIENCY

Q. Please summarize LAC's and MGE's rebuttal testimony regarding an allowance in rates in addition to the amortization of the deferred balance for energy efficiency costs.

A. LAC and MGE witness Michael R. Noack recommends the inclusion of an allowance in base rates in addition to the amortization of previously deferred costs for the following reasons:[9]

> We disagree for several reasons. First, both MGE and LAC have routinely incurred a significant level of energy efficiency expenditures over the past four years and there is no reason to conclude that there will be any material reduction in the expenditures during the period rates will be in effect. Accordingly, providing an ongoing allowance in rates is fully justified by this historical experience. Additionally, other parties to this case have an interest in increasing the amount spent on energy efficiency, so if anything, these costs would likely increase rather than decrease. Second, if the Company accounts for the energy efficiency costs in the manner Staff suggests with no current allowance in rates, the regulatory asset, even though a portion of it is being amortized, will only continue to grow.

Q. Does Staff agree with Mr. Noack's rationale for including an allowance for energy efficiency costs in addition to the amortization of the deferred balances?

A. To the extent LAC and MGE are allowed to continue the energy efficiency programs, Staff does not dispute that the regulatory asset for these costs will continue to grow. However, there is still uncertainty about the amount of expense LAC and MGE will incur in the future and because of this uncertainty, including an expense level for these costs in base rates in addition to the amortization of deferred costs is premature.

Q. Why does Staff believe there is uncertainty associated with the amount of energy efficiency costs LAC and MGE will incur in the future?

A. Currently LAC and MGE are allowed to recover energy efficiency costs based on a target level of .5% of its gross operating revenues. Currently, LAC and MGE have not met this target level. In addition, Mr. Noack states that there are parties to this case that

[9] Michael R. Noack Rebuttal Testimony, pages 7-9.

would like to increase the target level for these costs. Mr. Noack fails to mention that there is a party to this case that recommends discontinuation of the energy efficiency programs for LAC and MGE.[10]

Q. How do LAC and MGE currently recover their energy efficiency costs?

A. LAC and MGE are currently allowed to defer energy efficiency costs that include a ten (10) year amortization and rate base treatment.[11]

Q. Do LAC and MGE customers pay more in rates based on the current ratemaking treatment approved by the Commission for energy efficiency costs?

A. Yes. Customers pay higher rates anytime unamortized costs are included in rate base. Mr. Noack's recommendation to include a level of costs in base rates would benefit LAC and MGE customers by reducing the rate base balance that includes a return. However, as previously discussed there is uncertainty surrounding the target level of energy efficiency costs and whether these programs will continue.

Q. Is it Staff's opinion that the inclusion of an amount in base rates in addition to the continuation of the regulatory asset may lead to reconciliation issues?

A. Yes. Although Staff has audited costs that included a base level and costs in a regulatory asset in the past with little to no problems, during the course of this audit, Staff had a considerable amount of difficulty reconciling LAC's actual energy efficiency costs to the costs it recorded to its regulatory asset. Staff had several discussions with LAC personnel to resolve this issue but, ultimately, they too could not reconcile these costs either. Reconciliation of these costs is much more difficult if the Commission approves a level of these costs be included in LAC's and MGE's base rates.

[10] Case No. GR-2017-0215 Office of the Public Counsel, Lena M. Mantle Direct Testimony.
[11] Case No. GR-2017-0215 Staff Cost of Service Report, pages 141-144.

Q. Does Staff have any other concerns with regard to LAC's and MGE's energy efficiency costs?

A. Yes. On page 107 of Staff's Cost of Service Report, Staff stated the following in error, "Advertising costs relating to the energy efficiency programs being implemented by LAC and MGE were deferred and treated as part of the energy efficiency recovery." The energy efficiency advertising costs not included in the deferred balances is addressed on page 143 of Staff's Cost of Service Report. Staff disallowed these costs and therefore did not include them in the energy efficiency deferred balance as the statement above suggests. This issue is discussed in more detail in Staff's report.

Q. Does Staff have an alternative proposal for the treatment of LAC's and MGE's energy efficiency costs?

A. Yes. Although Staff continues to recommend LAC and MGE continue to defer its energy efficiency costs, if the Commission approves the continuation of the programs and the inclusion of an amount in base rates in addition to allowing LAC and MGE to continue to defer these costs, Staff recommends that the amount included in base rates be no more than $1 million each for LAC and MGE. Staff further recommends that a distinctive FERC sub account is established for these costs.

<u>JJ'S RELATED COSTS</u>

Q. What is MGE's position regarding Staff's disallowance for JJ's related expenses?

A. Mr. Noack states the following beginning on page 10 of his rebuttal testimony:

> While the adjustment was small in terms of dollars, the expenses disallowed by Staff are normal, necessary and recurring in nature and proper business expenses. The expense reports identify trips to Kansas City to meet with outside

> attorneys in order to monitor the ongoing JJ's litigation, along with other business purposes for the trips and these expenses should be allowed. MGE has not incurred any costs of the nature covered in the stipulation and agreement approved in GR-2014-0007 related to the JJ's incident and does not have any expense of this type in the test year.

Q. Does Staff agree with Mr. Noack that the costs disallowed by Staff are normal operating expenses?

A. Staff agrees that business expenses incurred by outside attorneys for general legal matters are ongoing costs and should be included in MGE's cost of service. However, business expenses incurred for legal matters related to JJ's is not a normal expense.

Q. Did MGE advise Staff that it was not seeking any JJ related costs in this case?

A. Yes. In response to Staff Data Request No. 0125, Schedule KL-s2, MGE responded that it did not have actual incident related expenses in respect to the JJ's litigation during the test year, or for periods going forward.

Q. Do you agree with Mr. Noack's statement that MGE has not incurred any costs of the nature covered in the GR-2014-0007 Commission approved Stipulation and Agreement?

A. No. The Stipulation and Agreement approved by the Commission on April 23, 2014 states the following:

> The Parties agree that the rates recommended herein do not include any costs associated with the February 19, 2013 explosion at JJ's Restaurant (the "Incident"). MGE shall be authorized to defer and record to its own subaccount of FERC Account No. 182 as a regulatory asset all costs incurred or payments received by MGE in connection with the Incident, including, but not limited to: (a) **all legal fees, outside expert fees, consulting fees or other similar fees and expenses incurred by or on behalf of MGE relating to the investigation and assessment of the Incident and any litigation activities associated with the Incident**; (b) all

> unreimbursed damages or costs incurred or paid by or assessed against MGE as a result of the Incident; (c) all costs incurred to recover such costs from potentially responsible third parties and insurance companies; and (d) all reimbursements and recoveries of costs and damages from third parties and insurance companies. MGE shall have the right to seek recovery of any deferred costs, net of third party recoveries, in its next general rate case proceeding, provided that other Parties shall have the right to review and propose a different treatment of such costs, including the right to oppose any rate recovery of such costs. The fact that such costs and reimbursements are being deferred pursuant to this Stipulation and Agreement shall not be raised by MGE as a reason why such costs or reimbursements should be included in rates in a future rate case proceeding. (Emphasis added)

The language in the Stipulation and Agreement clearly identifies all costs related to the JJ's incident including legal fees and expenses incurred for litigation activities. The costs Staff disallowed include travel expenses associated with JJ's related litigation, Schedule KL-s3.

Q. What is the value of this issue?

A. Staff made an adjustment to eliminate $2,919 from MGE's cost of service.

Q. Please summarize Staff's position.

A. MGE claimed that JJ's incident costs were not booked in the test year and will not be booked in the future. MGE customers should be held harmless for the JJ related incident and as such, Staff recommends that the Commission approve Staff's disallowance and hold MGE customers harmless for all costs associated with the JJs incident.

Q. Does this conclude your surrebuttal testimony?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Laclede Gas Company's Request to Increase Its Revenues for Gas Service	)))	Case No. GR-2017-0215
In the Matter of Laclede Gas Company d/b/a Missouri Gas Energy's Request to Increase Its Revenues for Gas Service	)))	Case No. GR-2017-0216

AFFIDAVIT OF KAREN LYONS

STATE OF MISSOURI)
) ss.
COUNTY OF JACKSON)

COMES NOW KAREN LYONS and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing Surrebuttal Testimony; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.

Karen Lyons
KAREN LYONS

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Jackson, State of Missouri, at my office in Kansas City, on this 20th day of November, 2017.

Beverly M. Webb
Notary Public

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

BEVERLY M. WEBB
My Commission Expires
April 14, 2020
Clay County
Commission #12464070

Missouri Public Service Commission

Respond Data Request

Data Request No.	0503
Company Name	Spire-Investor(Gas)
Case/Tracking No.	GR-2017-0215
Date Requested	10/30/2017
Issue	General Information & Miscellaneous - Other General Info & Misc.
Requested From	Lew Keathley
Requested By	Mark Johnson
Brief Description	Laclede Gross Receipts tax
Description	Reference Timothy Lyons rebuttal testimony, pages 11-12. For Laclede Gas Company (Laclede) and Missouri Gas Energy (MGE) provide all Federal and State tax payments including the date the payments were made for the fiscal year 2016. Provide all supporting documentation. Data Request submitted by Karen Lyons (Karen.lyons@psc.mo.gov)
Response	Please see the attached.
Objections	NA

The attached information provided to **Missouri Public Service Commission** Staff in response to the above data information request is accurate and complete, and contains no material misrepresentations or omissions, based upon present facts of which the undersigned has knowledge, information or belief. The undersigned agrees to immediately inform the **Missouri Public Service Commission** if, during the pendency of Case No. **GR-2017-0215** before the Commission, any matters are discovered which would materially affect the accuracy or completeness of the attached information. If these data are voluminous, please (1) identify the relevant documents and their location (2) make arrangements with requestor to have documents available for inspection in the **Spire-Investor(Gas)** office, or other location mutually agreeable. Where identification of a document is requested, briefly describe the document (e.g. book, letter, memorandum, report) and state the following information as applicable for the particular document: name, title number, author, date of publication and publisher, addresses, date written, and the name and address of the person(s) having possession of the document. As used in this data request the term "document(s)" includes publication of any format, workpapers, letters, memoranda, notes, reports, analyses, computer analyses, test results, studies or data, recordings, transcriptions and printed, typed or written materials of every kind in your possession, custody or control or within your knowledge. The pronoun "you" or "your" refers to **Spire-Investor(Gas)** and its employees, contractors, agents or others employed by or acting in its behalf.

Security :	Public
Rationale :	NA

Laclede Gas Company / Missouri Gas Energy
GR-2017-0215 / GR-2017-0216

Response to MPSC Data Request 0503

Question:

Reference Timothy Lyons rebuttal testimony, pages 11-12. For Laclede Gas Company (Laclede) and Missouri Gas Energy (MGE) provide all Federal and State tax payments including the date the payments were made for the fiscal year 2016. Provide all supporting documentation.

Response:

Missouri Gas Energy is not a separate legal entity, so there are no Federal or State tax payments made by it. Laclede Gas Company was in a non-tax paying situation in 2016 so there were no Federal or State payments made by it that year. The dates Mr. Lyons quotes are the statutory dates.

Signed by: Glenn Buck

Missouri Public Service Commission

Respond Data Request

Data Request No.	0125.1
Company Name	Laclede Gas Company-Investor(Gas)
Case/Tracking No.	GR-2017-0215
Date Requested	5/4/2017
Issue	Expense - A&G - Injuries and Damages
Requested From	Lew Keathley
Requested By	Mark Johnson
Brief Description	Accounting treatment for incident
Description	1. How is MGE accounting (accruals and deferrals) for specific JJ's incident-related expenses. Response should include (but not be limited to) legal fees, repairs and maintenance, estimated damages, increased insurance premiums, etc. 2. Please provide a detailed listing (by FERC account) of any incident-related expense amounts incurred or accrued through (a) the test year ended December 31, 2016 and (b) the most current to date (updating monthly through the conclusion of this case). (Case No. GR-2014-0007 DR 92) Requested by: Lisa Ferguson lisa.ferguson@psc.mo.gov
Response	Please see the attached
Objections	NA

The attached information provided to **Missouri Public Service Commission** Staff in response to the above data information request is accurate and complete, and contains no material misrepresentations or omissions, based upon present facts of which the undersigned has knowledge, information or belief. The undersigned agrees to immediately inform the **Missouri Public Service Commission** if, during the pendency of Case No. **GR-2017-0215** before the Commission, any matters are discovered which would materially affect the accuracy or completeness of the attached information. If these data are voluminous, please (1) identify the relevant documents and their location (2) make arrangements with requestor to have documents available for inspection in the **Laclede Gas Company-Investor(Gas)** office, or other location mutually agreeable. Where identification of a document is requested, briefly describe the document (e.g. book, letter, memorandum, report) and state the following information as applicable for the particular document: name, title number, author, date of publication and publisher, addresses, date written, and the name and address of the person(s) having possession of the document. As used in this data request the term "document(s)" includes publication of any format, workpapers, letters, memoranda, notes, reports, analyses, computer analyses, test results, studies or data, recordings, transcriptions and printed, typed or written materials of every kind in your possession, custody or control or within your knowledge. The pronoun "you" or "your" refers to **Laclede Gas Company-Investor(Gas)** and its employees, contractors, agents or others employed by or acting in its behalf.

Security :	Public
Rationale :	NA

Laclede Gas Company / Missouri Gas Energy
GR-2017-0215 / GR-2017-0216

Response to MPSC Data Request 0125

Question:

1. Please provide a copy of all internal correspondence (memos, reports, studies, etc.) regarding the incident at JJ's restaurant.
2. How is MGE accounting (accruals and deferrals) for specific incident-related expenses. Response should include (but not be limited to) legal fees, repairs and maintenance, estimated damages, increased insurance premiums, etc.
3. Please provide a detailed listing (by FERC account) of any incident-related expense amounts incurred or accrued through (a) the test year ended December 31, 2016 and (b) the most current to date (updating monthly through the conclusion of this case).

Question from prior case (Case No. GR-2014-0007 DR 92)

Response:

MGE does not have any actual incident-related expenses in respect to the JJ's litigation during the test year, or for periods going forward. MGE/Southern Union paid the $1 million dollar SIR (self-insured retention) prior to Laclede taking ownership of MGE in 2013. Once the SIR level of cost was met, the rest of the expenses have been paid by the former owner's (Southern Union) insurance program which accepted coverage of the incident. Consequently, Laclede/Spire's insurance program was not affected by the JJ's incident.

Signed by: Glenn Buck

Missouri Gas Energy
Case No. GR-2017-0215
Test Year:12 months ending December 31, 2016
Update Period: 12 months ending June 30, 2017
True Up Period: 12 months ending September 30, 2017
JJ's Related Costs
Source: OPC Data request 1033

Staff Adjustment to eliminate JJ related costs booked in the test year -$2,918.92
FERC Account 921, Adjustment E-58.2

ER #	Employee Number	Expense Date	Payment Batch Date	Expense Type	Distribution Amount	Amount Disallowed	Justification	Account Code
IEX1113958	08951	01/18/2016	02/12/2016	BUSINESS MEALS	$64.32	$64.32	lunch w/D Schlee, V McCarthy attys with Schlee Huber re: JJ's House of Elan mediation in KC	921000
IEX1113958	08951	01/18/2016	02/12/2016	BUSINESS MEALS	$50.07	$50.07	dinner re: JJ's House of Elan mediation in KC	921000
IEX1113958	08951	01/19/2016	02/12/2016	BUSINESS MEALS	$129.74	$129.74	dinner w/D Schlee, w/Schlee Huber, A Joslin w/EIM re: re: JJ's House of Elan mediation in KC	921000
IEX1113958	08951	01/20/2016	02/12/2016	LODGING	$358.00	$358.00	re: JJ's House of Elan mediation in KC	921000
IEX1113958	08951	01/25/2016	02/12/2016	BUSINESS MEALS	$98.95	$98.95	dinner w/D Schlee w/Schlee Huber law firm re: JJ's federal mediation	921000
IEX1113958	08951	01/26/2016	02/12/2016	BUSINESS MEALS	$95.86	$95.86	dinner w/D. Schleel & V McCarthy w/Schlee Huber law firmre: JJ's federal mediation	921000
IEX1113958	08951	01/27/2016	02/12/2016	LODGING	$550.89	$550.89	re: JJ's federal mediation	921000
IEX1137352	08951	03/04/2016	03/25/2016	AIRFARE	$349.96	$349.96	flight to KC for MGE Hse of Elan case	921000
IEX1137352	08951	03/04/2016	03/25/2016	TRAVEL SERVICES	$15.00	$15.00	fee to book flight to KC for MGE Hse of Elan case	921000
IEX1137352	08951	03/13/2016	03/25/2016	BUSINESS & TRAVEL MEALS & ENTERTAINMENT	$8.67	$8.67	lunch KC for MGE Hse of Elan case	921000
IEX1137352	08951	03/13/2016	03/25/2016	BUSINESS & TRAVEL MEALS & ENTERTAINMENT	$90.81	$90.81	dinner w/A Joslin EIM KC for MGE Hse of Elan case	921000
IEX1137352	08951	03/14/2016	03/25/2016	BUSINESS & TRAVEL MEALS & ENTERTAINMENT	$114.15	$114.15	dinner w/D Schlee & V McCarthy attys w/Schlee Huber KC for MGE Hse of Elan case	921000
IEX1137352	08951	03/15/2016	03/25/2016	LODGING	$367.26	$367.26	KC for MGE Hse of Elan case	921000
IEX1137352	08951	03/15/2016	03/25/2016	PARKING	$35.95	$35.95	parking at lambert airport KC for MGE Hse of Elan case	921000
IEX1137352	08951	03/15/2016	03/25/2016	TRAVEL-MISC	$4.22	$4.22	fule for rental car KC for MGE Hse of Elan case	921000
IEX1147831	08951	03/13/2016	05/20/2016	MILEAGE	$25.92	$25.92	R/T to Lambert re: KC trip re: JJ's lawsuit	921000
IEX1159977	08951	06/23/2016	07/15/2016	BUSINESS & TRAVEL MEALS & ENTERTAINMENT	$16.35	$8.18	lunch MGE issues JJ's & Koeb cases	921000
IEX1159977	08951	06/23/2016	07/15/2016	TRAVEL-MISC	$25.58	$25.58	fuel for rental car MGE meeting w/ Schlee re: JJ's case	921000
IEX1159977	08951	06/24/2016	07/15/2016	BUSINESS & TRAVEL MEALS & ENTERTAINMENT	$29.28	$14.64	dinner MGE issues JJ's & Koeb cases	921000
IEX1159977	08951	06/24/2016	07/15/2016	BUSINESS & TRAVEL MEALS & ENTERTAINMENT	$7.33	$7.33	breakfast MGE meeting w/atttys on JJ's case	921000
IEX1159977	08951	06/25/2016	07/15/2016	BUSINESS & TRAVEL MEALS & ENTERTAINMENT	$16.35	$8.18	lunch MGE issues JJ's & Koeb cases	921000
IEX1159977	08951	06/25/2016	07/15/2016	BUSINESS & TRAVEL MEALS & ENTERTAINMENT	$63.73	$63.73	dinner MGE meeting w/atttys on JJ' scase	921000
IEX1159977	08951	06/25/2016	07/15/2016	BUSINESS & TRAVEL MEALS & ENTERTAINMENT	$11.98	$11.98	breakfast w/V McCarthy atty re: MGE JJ's case	921000
IEX1159977	08951	06/26/2016	07/15/2016	BUSINESS & TRAVEL MEALS & ENTERTAINMENT	$16.35	$8.18	lunch MGE issues JJ's & Koeb cases	921000
IEX1159977	08951	06/26/2016	07/15/2016	TRAVEL-MISC	$26.34	$26.34	fuel for rental car MGE meeting w/ Schlee re: JJ's case	921000
IEX1159977	08951	06/27/2016	07/15/2016	RENTAL CARS	$219.16	$109.58	rental car to KC for MGE JJ's case and Koeb case	921000
IEX1159977	08951	06/28/2016	07/15/2016	LODGING	$550.89	$275.45	meeting on MGE issues JJ's & Koeb cases	921000