

# EXHIBIT

403

Exhibit No.:

Issue(s):

Reallocation of Gain on  
Sale of Forest Park Properties/  
Abandoned Leasehold Improvements  
at Laclede Gas building/  
Supplemental Executive Retirement  
Plan ("SERP") costs/  
Cost Allocation Manual ("CAM")/  
Incentive Compensation/  
Stock-Based Incentive Compensation/  
Account 930 Dues and Donations/  
Account 165 Prepayments/  
MGE's Software Assets/  
Uncollectible Accounts/  
Accumulated Deferred  
Income Taxes ("ADIT")

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GR-2017-0215  
GR-2017-0216

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Service Commission

## DIRECT TESTIMONY

OF

CHARLES R. HYNEMAN

Submitted on Behalf of the Office of the Public Counsel

LACLEDE GAS COMPANY  
MISSOURI GAS ENERGY

CASE NO. GR-2017-0215

CASE NO. GR-2017-0216

September 8, 2017

OPC Exhibit No. 403  
Date 12-15-17 Reporter A.F.  
File No. GR-2017-0215, GR-2017-0216

**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     )           Case No. GR-2017-0215  
Service   )

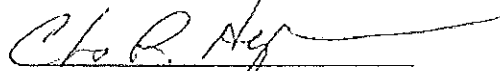
In the Matter of Laclede Gas Company     )  
d/b/a Missouri Gas Energy's Request to     )           Case No. GR-2017-0216  
Increase Its Revenues for Gas Service     )

**AFFIDAVIT OF CHARLES R. HYNEMAN**

STATE OF MISSOURI     )  
   )     ss  
COUNTY OF COLE     )

Charles R. Hyneman, of lawful age and being first duly sworn, deposes and states:


1. My name is Charles R. Hyneman. I am the Chief Public Utility Accountant for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my direct testimony.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

  
\_\_\_\_\_  
Charles R. Hyneman, C.P.A.  
Chief Public Utility Accountant

Subscribed and sworn to me this 8<sup>th</sup> day of September 2017.



JERENE A. BUCKMAN  
My Commission Expires  
August 23, 2021  
Cole County  
Commission #13754037

  
\_\_\_\_\_  
Jerene A. Buckman  
Notary Public

My Commission expires August 23, 2021.

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DIRECT TESTIMONY

OF

CHARLES R. HYNEMAN

LACLEDE GAS COMPANY  
MISSOURI GAS ENERGY

CASE NO. GR-2017-0215

CASE NO. GR-2017-0216

1 **Introduction**

2 **Q. Please state your name, title and business address.**

3 A. Charles R. Hyneman, Chief Accountant, Office of the Public Counsel (“OPC” or “Public  
4 Counsel”), P.O. Box 2230, Jefferson City, Missouri 65102.

5 **Q. What is the role of the Public Counsel?**

6 A. The Public Counsel represents and protects the interests of the public in any proceeding  
7 before or on appeal from the Missouri Public Service Commission (“Commission”).

8 **Q. Please describe your educational background.**

9 A. I earned an Associate in Applied Science (AAS) degree in Contracts Management from the  
10 Community College of the Air Force at Wright-Patterson Air Force Base. I also earned  
11 Bachelor of Science degrees in Accounting and in Business Administration (dual major)  
12 from Indiana State University at Terre Haute. Finally, I earned an MBA from the University  
13 of Missouri at Columbia. I performed post-graduate work in the area of finance for the  
14 University of Missouri.

15 **Q. Are you a Certified Public Accountant (“CPA”) licensed in the state of Missouri?**

16 A. Yes.

17 **Q. Are you a member of any professional Accounting organization?**

1 A. Yes. I am a member of the American Institute of Certified Public Accountants (“AICPA”).  
 2 The AICPA represents CPAs and the accounting profession nationally regarding rule-  
 3 making and standard-setting. The AICPA established accountancy as a profession and  
 4 developed its educational requirements, professional standards, code of professional ethics  
 5 and its commitment to serve the public interest.

6 **Q. Please summarize your professional experience in the field of utility regulation.**

7 A. My professional experience in accounting and auditing began in April 1993 when I began  
 8 my employment with the Staff of the Missouri Public Service Commission (“Staff”). As a  
 9 Staff regulatory auditor and auditing manager of the Commission’s Kansas City Auditing  
 10 office from 1993 to 2015, I participated in many different types of regulatory proceedings  
 11 involving all major electric, gas, and water utilities operating in the state of Missouri. I left  
 12 the Staff in November 2015 when I joined the OPC.

13 **Q. Please list the witnesses who will be filing direct testimony on behalf of the OPC in this**  
 14 **case and the issues they will be addressing in direct testimony.**

15 A. OPC witnesses and issues are shown below:

OPC Witness	Issues Addressed in Direct Testimony
Ara Azad	Corporate Allocations/Affiliate Transactions/Shared Services Allocation/Enterprise Software Allocation
Amanda Conner	Rate Case Expense/Severance/Case Working Capital/Management Expenses
Michael Gorman	Capital Costs/Return on Equity
Charles Hyneman	Forest Park Gain/Abandoned HQ Lease Costs/SERP/CAM/Incentive & Stock Compensation/Dues/Prepayments/ISRS Issues/Transition Costs in Rate Base/Retired Software Costs in Rate Base/Uncollectible Accounts/Deferred Income Taxes
Lena Mantle	Energy Efficiency Program Funding
David Pitts	Pension Costs/ Prepaid Pension Asset Financing through Long-Term Debt
John Riley	GSIP/ Gas Inventory in PGA/Off-System Sales Sharing
John Robinette	Depreciation/Laclede Negative Reserve/New Blue Conversion Costs/ Cast Iron Mains/ISRS Retirements

1 **Reallocation of Gain on Sale of Forest Park Properties**

2 **Q. Did Laclede sell and experience a gain on regulated utility plant assets since its last**  
3 **rate case?**

4 A. Yes. As reported in the October 14, 2014 St. Louis Business Journal, Laclede Gas  
5 Company sold property at 3950 Forest Park Ave. ("Forest Park") to IKEA Property Inc. for  
6 \$4,696,970, on May 14, 2014. Also on May 14, 2014, Laclede Gas Company sold  
7 additional property for \$3,603,030 to SLLC Real Estate LLC. At page 18 under Item 2,  
8 under the Properties section in Laclede's 2015 SEC Form 10-K, it states that "Laclede Gas  
9 entered into an agreement to sell the Forest Park property, which closed on May 14, 2014.  
10 As part of the agreement Laclede Gas leased back the property for a term that expired April  
11 1, 2015."

12 **Q. Did Laclede publicly state the reason why it sold the land and building at the Forest**  
13 **Park Service Center?**

14 A. Yes. In The Laclede Group's (now Spire Inc. or Spire) January 27, 2014 press release titled  
15 "The Laclede Group Announces New Downtown Home" it stated "earlier this year, Laclede  
16 agreed to sell this property to help the City of St Louis secure the new IKEA site in St.  
17 Louis' urban core and all the jobs that it will bring to the community."

18 **Q. Did Laclede recognize a gain on the sale of Forest Park?**

19 A. Yes. In Laclede's press release dated November 24, 2015 titled "The Laclede Group  
20 Reports 2015 Results, Raises Dividend 6.5 Percent Announces Earnings Guidance for Fiscal  
21 2016," Laclede reported that it recognized a "\$7.6 million non-recurring gain on sale of  
22 property in the third quarter of fiscal 2015."

23 **Q. Did Laclede construct a new building to house the employees who had to relocate from**  
24 **Forest Park due to Laclede's decision to sell the Forest Park property?**

1 A. Yes. Laclede constructed a new facility referred to as the Manchester Service Center  
2 ("Manchester"). As reported in an article in the May 6, 2016 edition of the St. Louis Post  
3 Dispatch (see Schedule CRH-D-1), many employees based at the new Manchester Service  
4 Center will be relocated from Laclede's Forest Park Service Center.

5 **Q. How is OPC proposing to treat the gain on sale of plant assets for the purposes of this**  
6 **rate case?**

7 A. OPC recommends that the gain on the sale of Forest Park be credited to the depreciation  
8 reserve of the new Manchester facility. The net effect of this proposal is that it will reduce  
9 Laclede's net rate base through the increase in the depreciation reserve. However, OPC's  
10 proposal will not affect the original cost of the new Manchester Service Center as reflected  
11 on Laclede's balance sheet.

12 **Q. Please describe OPC's proposed adjustment to reflect the Forest Park sale transaction**  
13 **in Laclede's cost of service in this rate case.**

14 A. The most appropriate treatment of the Forest Park gain on sale is to apply this gain as a  
15 credit to the construction work order cost of the Manchester facility. Because the  
16 Manchester building was constructed to house, at least in part, Laclede employees who were  
17 located at the Forest Park building, it is appropriate, fair, reasonable and proper accounting  
18 and ratemaking to offset the cost of the new building (Manchester) with the proceeds from  
19 the sale of the old building (Forest Park). Consistent with this accounting, the most  
20 theoretically correct treatment of the Forest Park gain is to reduce the original cost of the  
21 Manchester building with the gain from the sale of the Forest Park building.

22 Because OPC recognizes the gain on the sale of the Forest Park facility is the result of a  
23 regulated utility transaction that was designed to continue the same or similar regulated  
24 utility service, the sale of one building and the construction of a similar building is

1 essentially a “like-kind” exchange. The accounting and ratemaking of this “like-kind”  
2 exchange should be consolidated into one transaction.

3 However, there are potential issues with adjusting the original cost of an asset once the asset  
4 has been placed in service and such issues should be avoided, if possible. OPC’s proposal  
5 for the ratemaking treatment of the Forest Park gain avoids these issues and results in  
6 somewhat of a sharing of the gain between Laclede and its ratepayers.

7 **Q. Even with OPC’s proposed adjustment placing the gain in the depreciation reserve for**  
8 **the Manchester facility, will ratepayers still bear the burden of paying the depreciation**  
9 **expense and property taxes on the full amount of the cost of the Manchester Service**  
10 **Center with no offset?**

11 A. Yes. This is how OPC’s ratemaking proposal results in some sharing of the gain on the sale  
12 of the Forest Park utility assets. OPC’s proposal to share some of the gain on the sale of  
13 Forest Park is consistent with past Commission’s willingness to consider different rate  
14 treatment for the gains and losses associated with the sale of utility assets between  
15 ratepayers and shareholders.

16 **Q. Is OPC proposing a 50-50 sharing of the gain on the sale of Forest Park?**

17 A. No. Sound ratemaking theory would allocate 100% of the gain to ratepayers as it is the  
18 ratepayers who will bear the cost of the replacement facility. OPC’s proposal to share some  
19 of the gain simply illustrates the conservative nature of OPC’s proposal.

20 **Q. Describe how Laclede’s shareholders will share in a portion of the Forest Park gain on**  
21 **sale.**

22 A. If the gain on sale of Forest park was applied as a reduction to the construction cost of the  
23 Manchester building it would result in a \$7.6 million lower amount capitalized to plant in  
24 service. Applying the same depreciation rate to a lower plant balance results in lower



1 depreciation expense and lower property taxes recognized over the life of the building.  
2 Because OPC is not recommending the gain be applied to the construction cost of the  
3 Manchester building, Laclede's shareholders, other things being equal, will recognize higher  
4 profits than they otherwise would recognize had the cost of the Manchester building been  
5 reduced by the Forest Park \$7.6 million gain.

6 **Q. Please provide the pro forma journal entry to record this gain imputation to the**  
7 **depreciation reserve.**

8 A. The journal entry description of the accounting proposed by OPC would essentially reverse  
9 the gain recorded on Laclede's books and place that gain in the depreciation reserve for the  
10 Manchester Service Center. The journal entry would be as follows:

11 Debit - Gain on Sale of Forest Park Property \$7.6 million  
12 Credit --Depreciation Reserve-Manchester Svc Center \$7.6 million  
13

14 **Q. Does the Commission have a general policy on ratemaking treatment of gains and**  
15 **losses related to the sale of plant assets?**

16 A. The Commission states that it does not have such a policy. The Commission specifically  
17 stated in its Supplemental Report and Order in Case No. GM-81-368 that it has no  
18 general policy on the ratemaking treatment of gains and losses on the sale of utility  
19 assets:

20 ...it should be made clear that "below the line" treatment of the gain  
21 on sales of the Kennet gas properties is not indicative of a general  
22 policy to treat the gain on the sale of utility property in the same  
23 manner as to other utilities in future cases.  
24

25 The Commission has ordered certain gains and losses under certain specific facts and  
26 circumstances to be recorded below-the-line for ratemaking purposes. However, the

1 Commission has expressed that it is open to different ratemaking treatment for gains or  
2 losses on utility asset sales.

3 **Q. Are there circumstances in the present case that would support a Commission**  
4 **conclusion that above the line treatment is appropriate for the sale of the Forest Park**  
5 **property?**

6 **A.** Yes. The transaction in this case involves essentially the replacement of an old building with  
7 a new building. This transaction is separate and distinct and not comparable to a transaction  
8 where a utility records a gain or loss on the sale of a retired plant asset and does not plan to  
9 replace that very same asset with the construction of a replacement asset.

10 **Abandoned Leasehold Improvements at Laclede Gas building**

11 **Q. What are leasehold improvements?**

12 **A.** Leasehold improvements are capital improvements made to a building that is leased as  
13 opposed to a building that is owned.

14 **Q. Describe the leasehold improvements at issue in this case.**

15 **A.** In January 2014, Laclede announced it was moving from its long-time headquarters at  
16 720 Olive Street in Saint Louis, Missouri ("720 Olive") to a new headquarters building at  
17 700 Market Street ("700 Market"), a distance of .2 miles. Laclede occupied the 720 Olive  
18 headquarters since approximately 1970. (See Schedule CRH-D-1.1)

19 Because Laclede did not own its 720 Olive headquarters building, it cannot capitalize  
20 these building improvements to a utility plant in service account, such as a building.  
21 Laclede is required to record capital improvements to its 720 Olive building as a  
22 leasehold improvement.

1       Once a leasehold improvement is made, the cost is then amortized over the remaining life  
2       of the lease as the cost of the improvement is intended to provide benefit to Laclede's  
3       employees who work in the leased building. Laclede stated in response to Staff data  
4       request 209 that Laclede "originally chose to amortize leasehold improvements to 2020,  
5       which is the last year that the lease could have possibly been in effect. So when the  
6       Company left the building in 2015, we still had approximately 5 years left on that  
7       amortization schedule.'

8       **Q.     Why do you refer to these leasehold improvements as abandoned?**

9       A.     Laclede left 720 Olive in 2015 when it moved to its new 700 Market headquarters.  
10       Laclede made this move at least 5 years earlier than when it believed it was required. It  
11       anticipated that it would received the benefits of the leasehold improvements until 2020  
12       but in 2015, when it changed headquarters, it "abandoned" the benefits from its  
13       investment in leasehold improvements in the 720 Olive building.

14       **Q.     Are the abandoned leasehold improvements at the 720 Olive building used and  
15       useful in the provision of utility service to Laclede's customers?**

16       A.     No. In fact, I understand that the leasehold improvements made by Laclede at the 720  
17       Olive building have been demolished after Laclede left the building in 2015 and the  
18       building has been remodeled..

19       **Q.     Do the abandoned leasehold improvements at the 720 Olive provide any benefit or  
20       service to Laclede's customers?**

21       A.     No.

22       **Q.     Please summarize OPC's position on the rate recovery of Laclede's unamortized  
23       former leasehold improvements at its former 720 Olive headquarters building.**

1 A. The unamortized balance of these abandoned leasehold improvements should not be  
2 included in Laclede's rate base nor should any amortization of these abandoned leasehold  
3 improvements be included in Laclede's cost of service. The abandoned leasehold  
4 improvements at the 720 Olive building are not used and useful in the provision of utility  
5 service and provide no benefit to Laclede's customers.

6 **Q. What is the balance of the Laclede Gas building abandoned leasehold improvements**  
7 **Laclede is seeking to include in this case?**

8 A. Laclede's direct filing workpapers include \$1,681,386 of abandoned leasehold  
9 improvements which is the unamortized balance at December 31, 2016. Laclede is also  
10 proposing to recover an annual amortization expense of this deferral of \$469,224 to  
11 account 404. I obtained this data from Laclede's initial direct filing workpapers and  
12 Laclede's response to Staff data request 375.

13 **Q. In what account did Laclede defer these abandoned leasehold improvements?**

14 A. Laclede recorded these abandoned leasehold improvements as a regulatory asset in FERC  
15 account 182.3, Other regulatory assets.

16 **Q. Did Laclede account for this deferral appropriately?**

17 A. No. For costs to be eligible to be recorded in account 182.3 (Other regulatory assets), the  
18 cost must meet two separate tests. First, the cost must not be included in current rates.  
19 The second test is that the utility management must make a determination that the cost is  
20 "probable" of rate recovery.

21 **Q. Is it possible to record this type of cost – abandoned leasehold improvements – as a**  
22 **regulatory asset in account 182.3 without Commission approval?**

23 A. Yes. All that is required for a utility to record a regulatory asset is that the cost not be  
24 included in current rates and a specific determination, based on evidence, that the costs

1 are "probable" of rate recovery. If these two tests are met, the utility can record a  
2 regulatory asset without this Commission's approval.

3 **Q. Do you believe that there are facts sufficient to find Laclede would meet the second**  
4 **test required for the creation of a regulatory asset, that the cost is probable of rate**  
5 **recovery?**

6 A. No. I am not aware of any time this Commission has provided rate recovery of costs that  
7 are not used and useful in the provision of utility service and do not provide any ratepayer  
8 benefit. Laclede, to my knowledge, has no evidence that this cost is probable of rate  
9 recovery and therefore it did not record these costs appropriately.

10 **Q. Is past Commission treatment of a specific cost the exact type of evidence Laclede's**  
11 **management must obtain in order for it to book costs to a regulatory asset account**  
12 **182.3?**

13 A. Yes. In order to even defer these costs to a regulatory asset account Laclede's  
14 management must have sufficient evidence that it is probable that this Commission will  
15 allow rate recovery of this cost. Since this Commission does not allow rate recovery of  
16 costs that are not used and useful in the provision of utility service and provide no  
17 ratepayer benefit, Laclede's management does not appear to have met the FERC USOA  
18 test for deferring these costs and should have written these costs off to expense in 2015,  
19 the year Laclede abandoned the leasehold improvements.

20 **Q. What was the journal entry made by Laclede to record the creation of what it**  
21 **believes is a regulatory asset?**

22 A. The following journal entry was provided by Laclede in response to Staff data request  
23 No. 375:

**JE Summary - Retirement of 720 Olive Leasehold Improvements March 2015**

<u>Retirement of Assets:</u>		<u>Debit</u>	<u>Credit</u>
101000	Gas Plant in Service		(\$5,959,968)
111000	Accum Provision for Amortization	\$5,959,968	
<u>Unamort. Bal. Transfer to Reg Asset:</u>		<u>Debit</u>	<u>Credit</u>
111000	Accum Provision for Amortization		(\$2,502,527)
182360	Othr Regl Assets - Othr Programs	\$2,502,527	

1  
2 **Q. Assuming that for some reason the Commission determines there is a ratepayer**  
3 **benefit for these abandoned leasehold improvements and determines that these**  
4 **abandoned costs should be recovered in current rates, how should this deferral be**  
5 **treated?**

6 **A. Under this scenario, the Commission should not include this deferral in Laclede's rate base**  
7 **and should instead only amortize the deferral of the unamortized cost of the deferrals over**  
8 **the expected life of the new 700 Market headquarters building that replaced the 720 Olive**  
9 **headquarters building.**

10 However, allowing rate treatment for costs that provide no ratepayer benefit would be  
11 highly unusual and highly inappropriate ratemaking treatment. If the Commission did allow  
12 rate treatment of these abandoned leasehold improvements, the Commission would be  
13 requiring ratepayers to be exposed to paying for costs associated with a building no longer  
14 occupied by the Company, while also paying for costs associated with a new facility (700  
15 Market) designed to provide the same exact benefits as the old abandoned facility (720  
16 Olive).

17 **Supplemental Executive Retirement Plan ("SERP") costs**

18 **Q. What is a SERP?**

1 A. A SERP is a pension plan that provides pension benefits solely to highly-compensated  
2 former utility officers and executives. SERP stands for Supplemental Executive Retirement  
3 Plan. It is supplemental in that it provides former executives with pension benefits over and  
4 above the level of benefits they currently receive under the all-employee regular pension  
5 plan.

6 More formally, a SERP is defined as a supplemental pension plan that provides additional  
7 retirement benefits to a select group of employees. A SERP is classified as a  
8 nonqualified deferred compensation plan as opposed to an all-employee pension plan  
9 which is a qualified compensation plan.

10 **Q. What is the difference between a non-qualified and a qualified deferred**  
11 **compensation plan?**

12 A. Non-qualified compensation plans do not provide employers and employees with the tax  
13 benefits associated with qualified plans because non-qualified plans do not satisfy all of  
14 the requirements of the Internal Revenue Code § 401(a). Laclede's all-employee pension  
15 plan is a qualified plan while its SERP is a non-qualified plan. Because Laclede's SERP  
16 is a nonqualified plan, Laclede's management and Board of Directors are free to design  
17 the SERP in virtually any manner desired.

18 **Q. Are you proposing an adjustment to Laclede's 2016 test year per books SERP costs?**

19 A. Yes. Laclede's test year per books SERP costs is \$552,536. However, this amount is based  
20 on regular pension accrual accounting which, unlike traditional pension accounting, is not  
21 appropriate for ratemaking purposes. The most significant reason that accrual accounting is  
22 not appropriate for a SERP is that a SERP is not funded and there is not credit (offset) to this  
23 expense from the financial return on the assets placed in the pension fund.

24 In my adjustment I adjusted this per books accrual amount to an actual recurring cash  
25 payment amount for nine former Laclede executives of \$222,880. From this amount I

1 removed one excessive SERP recurring payment of \$201,460. I then added the average of  
2 the annual recurring SERP payments for the other eight SERP recipients of \$2,677 to arrive  
3 at a total adjusted and normalized annual SERP payment of \$24,097. Substituting \$24,097  
4 of annualized SERP expense for the SERP expense booked in Laclede's test year general  
5 ledger results in a negative adjustment of \$528,439.

6 **Q. What is the source of the data you used to develop your adjustment?**

7 A. I used the data Laclede provided to the Commission Staff ("Staff") in response to Staff data  
8 request 153.

9 **Q. Did the level of Laclede's annual recurring SERP payments change in 2014, 2015 or**  
10 **2016?**

11 A. No. There has been no apparent change in Laclede's annual recurring cash SERP payments  
12 since 2013.

13 **Q. What is the purpose of a supplemental pension plan such as a SERP?**

14 A. The IRS Audit Guide states that SERPs are maintained primarily for a select group of  
15 management or highly compensated employees. In theory, a SERP is designed to  
16 supplement qualified retirement plans such as Laclede's all-employee defined benefit  
17 pension plan by restoring benefits that are not included above a certain compensation  
18 threshold. SERPs accomplish this by "making up" for the benefits unavailable in the  
19 base qualified pension plan due to IRS employee maximum compensation limits for  
20 allowable tax deductions for the qualified pension plan expenses. The SERP plan usually  
21 covers only the company's highest compensated employees.

22 A basic restoration SERP is intended to "restore" benefits to employees whose benefits  
23 are lost under limitations imposed by the IRS Code [Code Sec. 415(b)(1)(a) and  
24 401(a)(17)] that apply to qualified retirement benefits.



1 For example, the 2016 IRS 401(a)(17) maximum salary limit (Defined Benefit Dollar  
2 Limit) is \$210,000. If a Laclede executive's compensation is \$220,000 during 2016, only  
3 \$210,000 of the \$220,000 can be used in the calculation of benefits in Laclede's qualified  
4 pension plan. The retirement payments to that executive that are based on the \$10,000  
5 compensation in excess of the \$210,000 are referred to as that employee's SERP benefit.

6 **Q. Has the Commission traditionally allowed rate recovery of SERP expenses?**

7 A. I am not aware that the Commission has specifically addressed the issue of SERP  
8 expenses in any Report and Order for any Missouri utility. I have sponsored SERP  
9 adjustments in many utility rate cases as a member of the Staff. In each of these rate cases  
10 the SERP issue settled and was not taken before the Commission.

11 **Q. When you sponsored SERP adjustments for the Commission Staff, what did Staff  
12 recommend on rate recovery of SERP expenses?**

13 A. Staff recommended rate recovery of only SERP "restoration plan" expenses and only to  
14 the extent the rate recovery was based on a "pay-as-you-go" or cash basis and the dollar  
15 amount of the SERP expense was reasonable and not significant.

16 For example, I was employed as a regulatory auditor for the Staff from 1993 to 2015.  
17 During this period I helped develop the Staff position on SERP rate recovery. At page 22  
18 of my January 2007 direct testimony in Case No. ER-2007-0004, Aquila Inc., I described  
19 Staff's position on the rate recovery of SERP as follows:

20 Q. Please explain the Staff's adjustment to remove the costs of  
21 Aquila's SERP from MPS and L&P's cost of service.

22  
23 A. Historically, the Staff has not been opposed to allowing rate  
24 recovery of SERP costs as long as the expense was not significant,  
25 was calculated on a pay-as-you-go, or cash basis, and the amount  
26 of the payment was strictly calculated to restore the amount of  
27 pension benefits that was disallowed by the IRS under the  
28 company's regular pension plan. In recent rate cases, Aquila has

1 not met any of these requirements. Aquila has let its SERP evolve  
2 into an additional executive benefit and compensation program  
3 well above what is traditionally known as a SERP. (emphasis  
4 added)  
5

6 **Q. To your knowledge has Staff expressed a different position on SERP rate recovery**  
7 **since you left the Commission Staff in December 2015?**

8 A. Staff did change its position on the appropriateness of capitalizing SERP expense since I  
9 left the Staff in 2015. However, I am not aware that the Staff has changed its position on  
10 the overall recovery of SERP expense.

11 **Q. Does the adjustment you are proposing for OPC in this case meet Staff's**  
12 **longstanding ratemaking standard for SERP costs?**

13 A. Yes. My review of Laclede's SERP plan is that it is a SERP restoration plan and is not  
14 modified to include additional executive benefits. With one adjustment discussed later in  
15 my testimony, Laclede's annual and ongoing SERP cash payments to its former  
16 executive employees are reasonable.

17 **Q. Does Laclede allocate a portion of its SERP costs to construction work in process**  
18 **("CWIP"), a process referred to as capitalization?**

19 A. Yes. My review of Laclede's direct filing indicates Laclede allocated (capitalized) 45.5%  
20 of SERP expenses to construction work in progress accounts.

21 **Q. Is it appropriate accounting to "capitalize" SERP payments to CWIP?**

22 A. No. Pension costs recorded under accrual accounting (the method of accounting for  
23 Laclede's all-employee defined benefit pension plan) represent costs incurred by Laclede  
24 for employee services performed currently (referred to as service cost) as well as other  
25 types of costs, such as interest.

1 Generally accepted accounting principles (“GAAP”) will soon not permit the  
2 capitalization of any part of pension or SERP expense other than the service cost portion  
3 of the expense. Because the SERP is accounted for on a pay-as-you go accounting  
4 method and not an accrual method, it does not have any service cost component and  
5 therefore it is inappropriate to capitalize any portion of SERP expense.

6 **Q. Does it appear that Laclede is proposing ratemaking treatment and accounting for**  
7 **its pension expense and SERP expense in a manner that is inconsistent with GAAP**  
8 **requirements that will be in effect in this rate case?**

9 A. Yes. My review of Laclede’s accounting indicates that Laclede continues to capitalize a  
10 portion of total pension and SERP costs inconsistent with current GAAP theory as to  
11 capitalization of costs. In fact, Laclede’s accounting is directly in contradiction to current  
12 GAAP theory and GAAP requirements that will be in effect in December 2017.

13 In December 2017, companies will be allowed under GAAP to capitalize only the service  
14 cost portion of pension costs. The service cost is just one of the components of pension  
15 cost and it represents the pension benefits an employee earned as compensation for  
16 providing services to the company in that one year. All other pension and SERP cost  
17 components such as interest costs, prior service costs, gains and losses on pension assets  
18 must be expensed under GAAP and are prohibited from being capitalized to plant  
19 accounts.

20 **Q. Will Laclede become subject to this GAAP requirement in this rate case test year?**

21 A. Yes. Laclede will not be required to apply this GAAP guidance until December 2017.  
22 This date, however, is still within the test year true-up date of this rate case and should be  
23 applied by Laclede in this rate case for the recording of pension and SERP on a going-  
24 forward basis.

1 **Q. Is OPC proposing an adjustment to remove the inappropriately capitalized SERP**  
2 **costs from plant in service accounts?**

3 A. Yes. In Laclede's test year books and records it appears that Laclede capitalized \$461,279 in  
4 SERP costs in the test year. I am proposing an adjustment to remove this amount.

5 **Cost Allocation Manual ("CAM")**

6 **Q. What is included in a CAM?**

7 A. A CAM includes the criteria, guidelines, and procedures a utility will follow to be in  
8 compliance with the Affiliate Transactions Rule, 4 C.S.R. 240-40.015.

9 **Q. Why is OPC addressing the issue of a CAM in this case?**

10 A. The Affiliate Transactions Rule requires Laclede to use a Commission-approved CAM as a  
11 basis for its transactions with affiliates and nonregulated operations. The requirements for a  
12 Commission-approved CAM can be found in 4 CSR 240-40.015 paragraphs 2(E) and 3(D).

13 The Commission approved Laclede's CAM on August 14, 2013 as a result of a stipulation  
14 and agreement to resolve a Laclede complaint case, Case No. GC-2011-0098 (See Laclede  
15 CAM Schedule CRH-D-3). In that case, OPC, Laclede, and Staff filed a *Unanimous Partial*  
16 *Stipulation and Agreement and Waiver Request and Request for Approval of Cost*  
17 *Allocation Manual* that, among other things, resolved certain affiliate transaction issues  
18 raised in the Staff complaint.

19 As noted in the direct testimony of OPC witness Ara Azad in the present case, since  
20 September 2013, Laclede has acquired four natural gas utilities including MGE and three  
21 out-of-state utilities, and created a separate shared-services company. Laclede's cost  
22 allocations and affiliate transactions are significantly more complex than they were when the  
23 Commission approved the Laclede CAM prior to these acquisitions. In effect, the CAM the  
24 Commission approved for Laclede was designed for a utility that no longer exists and

1 Laclede is applying CAM requirements created for a totally different utility company than  
2 the one that exists today.

3 Given these facts, OPC is requesting that the Commission order Laclede to update its CAM  
4 for all its acquisitions since September 2013 and file for approval of an updated CAM no  
5 later than six months after the Commission issues its report and order in this rate case. The  
6 Commission should also order Laclede to review recent Commission approved CAMs for  
7 KCPL and GMO and incorporate the general CAM components and internal controls that  
8 are included in those Commission-approved CAMs.

9 In addition to requiring Laclede to file a new CAM within six months of the closing of this  
10 rate case, OPC is also requesting the Commission order an audit of Laclede's affiliate  
11 transactions and cost allocations as described in the direct testimony of OPC witness Ara  
12 Azad.

13 **Q. Has OPC found serious problems with Laclede's management of its affiliate**  
14 **transactions and cost allocations in this rate case?**

15 **A.** Yes. OPC witness Ara Azad describes those concerns in her direct testimony. For example,  
16 she states that Laclede's CAM training materials are out of date and its CAM polices are not  
17 being enforced.

18 **Q. Were you significantly involved in the drafting of CAMs for Kansas City Power &**  
19 **Light Company ("KCPL"), KCP&L Greater Missouri Operations ("GMO") and The**  
20 **Empire District Electric Company ("Empire")?**

21 **A.** Yes. I was involved in the drafting of these CAMs while I was an employee of the  
22 Commission Staff in 2014 and 2015. The KCPL and GMO CAMs have been approved by  
23 the Commission in these utilities' 2016 rate cases. The Empire draft CAM was essentially  
24 completed on my last day as an employee of the Staff, or November 30, 2015. OPC, Staff  
25 and Empire are currently in negotiations and discussions on Empire's CAM. OPC, Staff

1 and Ameren Missouri (“Ameren”) are also currently in negotiations concerning an Ameren  
2 CAM with Staff taking the primary role in these negotiations. Staff’s primary drafters of the  
3 KCPL, GMO, Empire and Ameren CAMs are Robert Schallenberg and Steve Dottheim.

4 **Q. Does Laclede currently have a Commission-approved CAM?**

5 A. Yes. I was the Staff expert witness in the Affiliate Transactions Staff Complaint (Case No.  
6 GC-2011-0098) against Laclede Gas Company (“Laclede”). In that case, OPC, Laclede,  
7 and Staff filed a *Unanimous Partial Stipulation and Agreement and Waiver Request and*  
8 *Request for Approval of Cost Allocation Manual* that, among other things, resolved certain  
9 affiliate transaction issues raised in the Staff complaint. The Commission issued an order  
10 approving the partial stipulation and agreement on August 14, 2013.

11 **Incentive Compensation**

12 **Q. What is the Commission’s position on incentive compensation?**

13 A. The Commission generally allows utility employee incentive compensation based on  
14 components or criteria that have some reasonable degree of measurability and a finding that  
15 the attainment of those criteria benefits customers and utility operations such as the ability  
16 of the utility to provide safe and adequate service at reasonable rates.

17 Consistent with this overall philosophy, this Commission has held over many years that  
18 earnings and equity-based incentive compensation provides not only zero ratepayer benefit  
19 but results in a ratepayer detriment and therefore should not be included in utility rates.

20 **Q. Please provide the basis for your understanding of the Commission’s longstanding**  
21 **policy on incentive compensation.**

22 A. In its *Report and Order* in Case No. GR-96-285, a Missouri Gas Energy (“MGE”) case, the  
23 Commission explained its policy that compensation not significantly driven by the interests  
24 of ratepayers should not be included in a utility’s revenue requirement:

1           The Commission finds that the costs of MGE's inventive  
2           compensation program should not be included in MGE's revenue  
3           requirement because the incentive compensation program is driven at  
4           least primarily, if not solely, by the goal of shareholder wealth  
5           maximization, and it is not significantly driven by the interests of  
6           ratepayers.

7  
8           Approximately eight years later, the Commission reiterated and emphasized yet clarified its  
9           position on rate recovery of utility incentive compensation in its *Report and Order* in Case  
10          No. GR-2004-0209:

11          The Commission agrees with Staff and Public Counsel that the  
12          financial incentive portions of the incentive compensation plan  
13          should not be recovered in rates. Those financial incentives seek to  
14          reward the company's employees for making their best efforts to  
15          improve the company's bottom line. Improvements to the  
16          company's bottom line chiefly benefit the company's shareholders  
17          not its ratepayers. Indeed, some actions that might benefit a  
18          company's bottom line, such as a large rate increase, or the  
19          elimination of customer service personnel, might have an adverse  
20          effect on ratepayers.

21  
22          If the company wants to have an incentive compensation plan that  
23          rewards its employees for achieving financial goals that chiefly  
24          benefit shareholders, it is welcome to do so. However, the  
25          shareholders that benefit from that plan should pay the cost of that  
26          plan. The portion of the incentive compensation plan relating to the  
27          company's financial goals will be excluded from the company's cost  
28          of service revenue requirement.

29  
30          In a 2006 Empire rate case, the Commission again restated its position on earnings-based  
31          incentive compensation. In its *Report and Order* in Case No. ER-2006-0315, the  
32          Commission stated:

33          The Commission finds that the Staff reasonably applied objective  
34          criteria for the exclusion of certain incentive compensation. The  
35          Staff disallowed compensation related to charitable activities and  
36          activities related to the provision of services other than retail electric

1 service...We conclude that incentive compensation for meeting  
2 earnings goals, charitable activities, activities unrelated to the  
3 provision of retail electric service, discretionary awards, and stock  
4 options should not be recoverable in rates.  
5

6 **Q. Did the Commission apply its policy on utility incentive compensation in subsequent**  
7 **utility rate cases?**

8 A. Yes. The Commission reiterated its position on earnings-based incentive compensation in its  
9 *Report and Orders* in Case Nos. ER-2006-0314 and ER-2007-0291 - both KCPL rate cases.

10 **Q. Briefly, why does OPC not support incentive compensation components or criteria**  
11 **that are earnings based?**

12 A. The primary reason why OPC does not support the inclusion of the dollars associated with  
13 earnings-based incentive compensation in a utility's cost of service is the same as the  
14 primary reason stated by the Commission in the cases cited above. Earnings-based  
15 incentives (based on net income, return on equity, and increases in stock price) work as  
16 intended. However, these components of an incentive compensation plan focus utility  
17 management on maximizing net income in order to maximize their compensation. As the  
18 Commission stated in its *Report and Order* in Case No. GR-2004-0209, earnings-based  
19 incentives work to the detriment of utility ratepayers and also to the detriment of the utility  
20 itself.

21 Further, the incentives created by compensating employees through earnings-based  
22 programs provide motivations to utility management to file rate increase cases significantly  
23 higher than justified and significantly higher than needed to earn a reasonable return on  
24 equity. In addition, with utilities that have affiliates, earnings-based incentive compensation  
25 incents utility management to take actions causing utility operations to subsidize affiliate  
26 transactions and nonregulated operations.



1 **Q. Does OPC support the inclusion of incentive compensation in Laclede's cost of service**  
2 **in this rate case?**

3 A. In the past OPC has supported incentive compensation based on employee goals and  
4 objectives that, if attained, provide a direct customer benefit, including employee safety  
5 goals. However, consistent with Commission policy and precedent, OPC does not support  
6 incentive compensation payments based on earnings metrics such as net income, earnings  
7 per share, or stock appreciation. OPC also does not support the inclusion of any short-term  
8 compensation based on incentives that do not directly benefit utility customers.

9 **Q. What is the level of incentive compensation included in Laclede and MGE's test year**  
10 **books and records?**

11 A. Laclede states in response to Staff data request 61 that the amount charged to expense in the  
12 test year is \$3,799,469 for Laclede and \$1,589,920 for MGE.

13 **Q. Did OPC perform an audit of Laclede and MGE's short-term incentive compensation**  
14 **costs for this direct filing?**

15 A. No. OPC intends to review this issue further in rebuttal testimony. In past rate cases OPC  
16 has taken positions very similar to the Staff's rate case auditors on this particular issue. If  
17 Staff's position on this issue has not changed, OPC expects it will support the Staff on this  
18 issue in this rate case as well.

19 **Stock-Based Incentive Compensation**

20 **Q. Does OPC support the inclusion of any executive stock-based incentive compensation**  
21 **in Laclede's cost of service in this rate case?**

22 A. No. For the reasons discussed below, OPC does not support rate recovery of stock-based  
23 compensation.

1 **Q. What is the purpose of Laclede's stock-based compensation?**

2 A. Laclede stated in its 2016 Annual Report (page 86) the purpose of Laclede's Stock-based  
3 compensation is to encourage directors, officers, and employees to contribute to the  
4 Company's success and align the interests of Laclede's directors, officers and employees  
5 with the interests of Laclede's shareholders.

6 **3. STOCK-BASED COMPENSATION**

7  
8 Spire's 2015 incentive plan, The Laclede Group 2015 Equity  
9 Incentive Plan (the 2015 Plan), was approved at the annual meeting  
10 of shareholders of Spire on January 29, 2015. **The purpose of the**  
11 **2015 Plan is to encourage directors, officers, and employees of**  
12 **the Company and its subsidiaries to contribute to the Company's**  
13 **success and align their interests with that of shareholders.**  
14

15 **Q. Based on that quote from Laclede's 2016 Annual Report did Laclede define stock-**  
16 **based compensation as a shareholder cost?**

17 A. Yes. Laclede stated that stock compensation is paid to employees to align employee  
18 interests with shareholder interests. This is a shareholder cost, not a regulated utility cost.  
19 Regulated utility costs should encourage utility employees to align their interests with  
20 customers and customer benefits through the charging of the lowest possible utility rates  
21 commensurate with providing safe and adequate utility service.

22 **Q. What are the specific individual components of Laclede's stock-based compensation**  
23 **program?**

24 A. Laclede compensates its directors, officers and employees through grants and awards of  
25 restricted stock, restricted stock units, qualified and non-qualified stock options, stock  
26 appreciation rights, and performance shares payable in stock, cash, or a combination of both  
27 stock and cash.

1 **Q. Has the Commission recognized stock-based compensation as compensation that**  
 2 **should be reflected in a utility's cost of service in the past?**

3 **A.** No. To my knowledge, the Commission has never allowed rate recovery of stock-based  
 4 compensation. Stock-based compensation is based on earnings-based factors which, as  
 5 described above for non-stock based incentive compensation, the Commission does not  
 6 allow to be included in a utility's cost of service.

7 **Q. What is the dollar amount of stock-based compensation included in Laclede and**  
 8 **MGE's 2016 test year general ledger?**

9 **A.** Laclede charged \$1,360,155 of stock-based compensation to expense and capitalized  
 10 \$1,088,742 to plant in service accounts. OPC is proposing an adjustment to allocate both  
 11 amounts to Laclede's below-the-line non-operating accounts.

12 MGE charged \$654,760 of stock-based compensation to expense and capitalized \$589,308  
 13 to plant in service accounts. OPC is proposing an adjustment to allocate both amounts to  
 14 MGE's below-the-line non-operating accounts.

15 The below information was reflected in Laclede's direct filing Cash Working Capital  
 16 (CWC) workpapers:

			Post-Allocations	
		Stock Comp	Expense Rate	Total O&M
<b>LGC</b>	Jan - Sept	\$1,692,707	56.9519%	964,029
	Oct - Dec	\$756,189	52.3845%	396,126
		<u>\$2,448,897</u>		<u>1,360,155</u>
<b>MGE</b>	Jan - Sept	\$868,769	56.2251%	488,466
	Oct - Dec	\$375,298	44.3096%	166,293
		<u>\$1,244,068</u>		<u>654,760</u>

17  
 18 **Q. Is OPC proposing an adjustment to remove the amounts Laclede and MGE**  
 19 **capitalized to plant accounts as well as the expenses amounts?**

1 A. Yes. OPC is proposing to remove all stock-based compensation costs that are reflected in  
2 Laclede and MGE's test year expense accounts as well as the amount capitalized to plant  
3 accounts in the test year.

4 OPC is proposing an adjustment to remove \$1,088,742 of stock-based compensation from  
5 Laclede's plant accounts, which represents the total stock compensation cost of \$2,448,892  
6 less the amount allocated to expense of \$1,360,155. For MGE the plant adjustment is  
7 \$589,308, which reflects total amount of \$1,244,068 less the expense portion of \$654,760.

8 **Account 930 Dues and Donations**

9 **Q. Is OPC proposing an adjustment to remove certain dues and donations?**

10 A. Yes. OPC had very limited time to devote to this area and will depend to a significant  
11 extent on Staff's rate case auditors efforts to remove all inappropriate dues and donations  
12 costs from Laclede and MGE's test year general ledger. However, based on OPC's limited  
13 review it is proposing an adjustment to remove \$130,000 from Laclede's test year account  
14 930 balance and \$29,000 from MGE's test year 930 account balance.

15 **Q. What basic ratemaking theory does OPC apply to dues payments made by a regulated  
16 utility?**

17 A. OPC's position is based on the Commission's longstanding position on dues and donations.  
18 If the dues were paid to an organization that can be shown to provide reasonable ratepayer  
19 benefits then the dues payments should be eligible to be included in a utility's cost of  
20 service. It is incumbent on the utility to show how ratepayers benefit from the utility  
21 belonging to a specific outside organization.

22 Similarly, dues that are paid to promote shareholder interests, such as dues and all payments  
23 to the Missouri Energy Development Association ("MEDA") should be excluded from

1 utility operations and recorded to non-utility accounts. Payments to groups like MEDA that  
2 directly work against ratepayer interests should not be a part of any utility operations.

3 **Q. What is the Commission's longstanding position on rate recovery of dues and**  
4 **donations?**

5 **A.** The Commission provided a very good description of its treatment of dues and donations in  
6 its Fall 2014 edition of the PSConnection (See Schedule CRH-D-4). The PSConnection is  
7 an official publication of the Missouri Public Service Commission. It is published  
8 periodically each year and is free of charge to all Missourians. At page 7 of this document  
9 the Commission stated:

10 **Dues and Donations:**

11 During local public hearings in a rate case, customers often ask  
12 questions such as: "Am I paying, in my monthly utility bill, the costs  
13 of the company to have a luxury box or to advertise at a major  
14 sporting event?"

15  
16 The PSC Staff auditor(s) assigned to the dues and donations area will  
17 ask the company for a list of all dues and donations made by the  
18 utility company during the rate case test year. The Staff will also  
19 seek information on the nature and purpose of all dues and donations  
20 and how the utility company believes its ratepayers benefited from  
21 the expense.

22  
23 In the past, the Commission has typically not allowed dues and  
24 donations that: 1) provided no direct, quantifiable benefit to the  
25 ratepayer; 2) were not necessary in providing safe and adequate  
26 service to the ratepayer; or 3) represented an involuntary contribution  
27 on the part of the ratepayer to an organization.

28  
29 Those costs associated with charitable donations are routinely  
30 disallowed in the PSC Staff recommendation in a rate case on the  
31 general grounds that utility ratepayers should not be placed in the  
32 position of being "involuntary" donors to a charity or cause  
33 supported by the utility company. Also, any dues or donations  
34 associated with political advocacy or "lobbying" activities have not  
35 been allowed to be recovered in rates.

1  
2 That is not to say that any dues and donations are allowed to be  
3 recouped in rates. For example, the Commission does recognize dues  
4 and donations to some economic and civic organizations (such as  
5 Chambers of Commerce), business, industry and professional  
6 organizations.

7  
8 **Q. What is MEDA?**

9 A. MEDA is a lobbying group based in Jefferson City, Missouri consisting primarily of  
10 Missouri investor-owned utilities. MEDA Staff includes a President, Manager of  
11 Government Affairs, and Manager of Legislative & Member Services.

12 **Q. Does Laclede have a particularly close relationship with MEDA?**

13 A. Yes. Mr. Steve Lindsey of Laclede is MEDA's Chairman of the Board. Mr. Lindsey is the  
14 executive vice president and chief operating officer of distribution operations for Spire  
15 including Alagasco, Laclede Gas and Missouri Gas Energy.

16 **Q. What is the source of the data on which OPC is basing its adjustment?**

17 A. OPC's limited review of Laclede's response to OPC data request 1008.

18 **Q. What types of dues and donations is OPC proposing to exclude from Laclede and**  
19 **MGE's cost of service in this rate case?**

20 A. OPC is proposing to remove payments to MEDA, Missouri Chamber Foundation, Missouri  
21 Chamber of Commerce and Industry, Southern Gas Association, and the US Chamber of  
22 Commerce. OPC is not proposing to remove any dues paid to the American Gas Association  
23 ("AGA") or local Chamber of Commerce organizations. OPC is also not proposing to  
24 remove any dues paid to professional organizations which can provide Laclede and MGE  
25 with information and services that provide a direct benefit to regulated utility customers.

1 **Q. Why is OPC proposing to remove payments to MEDA from Laclede's cost of service?**

2 A. MEDA is a Missouri utility lobbying group primarily, if not exclusively, devoted to  
3 protecting and supporting the interests of utility shareholders. Payments to MEDA provide  
4 no customer benefit and, if incurred at all, should be charged to non-operating expenses  
5 (below-the-line). In response to OPC data request 1008, Laclede indicated that Laclede paid  
6 \$107,631 in MEDA dues in the test year and recorded \$35,631 of this amount to a non-  
7 operating account. MGE paid \$5,000 to MEDA in the test year and recorded all of this  
8 amount to a non-operating account.

9 **Q. Why is OPC proposing to remove payments to the Southern Gas Association**  
10 **("SGA")?**

11 A. OPC does not believe that a regional natural gas association can provide different or greater  
12 benefits than Laclede received from the much larger and national American Gas  
13 Association. Any services provided by the SGA would likely be duplicative of the benefits  
14 provided by the AGA. It would be unreasonable for Laclede to charge ratepayers for  
15 membership in several different associations simply because it has ratepayer funds to do so.  
16 OPC has not opposed rate recovery of AGA membership dues in this case.

17 **Q. Is OPC proposing to remove any cost for dues payments to local Chamber of**  
18 **Commerce organizations in cities in Laclede and MGE's service territory?**

19 A. No. The Commission has a longstanding policy of allowing rate recovery of dues paid to  
20 local Chamber of Commerce organizations and OPC is not challenging that policy in this  
21 rate case. OPC's adjustment removes dues payments to statewide and national Chamber of  
22 Commerce groups.

23 **Q. Is OPC's position of allowing dues payment to one chamber of commerce located in**  
24 **each city in a utility's service area consistent with the Staff's general position on this**  
25 **issue?**

1 A. I believe it is. OPC's position in this case is consistent with my understanding of the Staff's  
2 treatment of dues and donations dating back since 1993. I am not aware of Staff changing its  
3 ratemaking approach to this issue. For example, Staff witness Casey Westhues outlined the  
4 Staff's position at page 5 of her surrebuttal testimony in Case No. ER-2010-0130:

5 Q. Which costs were eliminated because they were seen as  
6 duplicative?  
7

8 A. The U.S Chamber of Commerce and Missouri Chamber of  
9 Commerce dues were eliminated as duplicative costs.  
10

11 Q. Why does the Staff regard these costs as duplicative?  
12

13 A. As was stated in the Staff's Cost of Service Report, Chamber of  
14 Commerce dues for cities and towns around the Joplin area were  
15 recommended for recovery in rates. The U.S and Missouri Chambers  
16 of Commerce serve the same general function as the local chambers  
17 of commerce and so are seen as duplicative costs for which recovery  
18 in rates is not recommended.  
19  
20

21 Q. Does Laclede and MGE make contributions to many organizations that are related to  
22 or appear to be related to natural gas utility operations?

23 A. Yes. For example, Laclede and MGE pays dues to several groups such as the AGA, APGA  
24 Security and Integrity Foundation, Energy Solutions Center, Gas Technology Institute,  
25 International Rights of Way, Missouri Association of Natural Gas Operators, National  
26 Association of Corrosion Engineers, Pipeline Association of Missouri, and Regulatory  
27 Environmental Group for Missouri. OPC is not proposing to remove any of the payments to  
28 these organizations from Laclede or MGE's cost of service in this rate case.

29 **Account 165 Prepayments**

30 Q. Is OPC proposing an adjustment to Laclede and MGE's level of Prepayments included  
31 in rate base?



1 A. Yes. OPC is proposing two adjustments. The first adjustment removes all dues payments  
2 from Laclede and MGE's Prepayments account included in rate base.

3 **Q. Why is OPC proposing to exclude dues payments from Laclede and MGE's Account**  
4 **165 Prepayments account?**

5 A. Dues payments are not appropriate to include in a rate base Prepayments account for  
6 several reasons. The first reason is that ratepayers, as a matter of equity, should not be  
7 forced to pay utility shareholders a 9%-10% profit on so-called prepaid dues payments. This  
8 is especially true in that many of these dues payments are of questionable ratepayer benefit  
9 and the ones that presumably have some ratepayer benefit have been reflected in Laclede  
10 and MGE's cost of service as an expense recovery. There Laclede and MGE are recovering  
11 dollar for dollar for these dues payments and ratepayers should not be forced to pay a profit  
12 on top of this expense.

13 The second reason is that the FERC Uniform System of Accounts ("USOA") for Natural  
14 Gas utilities does not contemplate dues payments being included in a Prepayments account.  
15 The USOA associates prepayments as "payments are made in advance for items such as  
16 insurance, rents, taxes or interest." It does not list dues payments or anything related to dues  
17 payments in the types of costs to reflect in Prepayments. The FERC defines the types of  
18 costs eligible to be included in the Prepayments account in its USOA as follows:

19 **165 Prepayments.**

20  
21 This account shall include payments for undelivered gas and  
22 other prepayments of rents, taxes, insurance, interest, and like  
23 disbursements made prior to the period to which they apply.  
24 Prepayments for gas are those amounts paid to a seller of gas  
25 under "take or pay" provisions of a gas purchase contract for a  
26 sale certificated by the Commission where future makeup of  
27 the gas not taken in the current period is provided for by the  
28 contract. (emphasis added)  
29

1 **Q. If a utility determines that it must classify dues payments as paid in advance as**  
2 **opposed to paid in arrears, what is the appropriate account in which to book these**  
3 **payments?**

4 **A. If it is determined dues payments must be recorded as a payment “in advance” as opposed to**  
5 **a payment “in arrears”, according to the FERC and its USOA, the appropriate account is**  
6 **Account 186, Miscellaneous Deferred Debits. This is the appropriate account to record an**  
7 **expenditure that is not of a type listed in other FERC balance sheet accounts. The recording**  
8 **of a so-called prepaid dues payment is a debit and it is not provided for in any other FERC**  
9 **balance sheet account. The FERC’s definition of Account 186 is as follows:**

10 186 Miscellaneous deferred debits

11  
12 A. This account shall include all debits not elsewhere provided for,  
13 such as miscellaneous work in progress, construction certificate  
14 application fees paid prior to final disposition of the application as  
15 provided for in gas plant instruction 15A, and unusual or  
16 extraordinary expenses not included in other accounts which are in  
17 process of amortization, and items the final disposition of which is  
18 uncertain.  
19

20 **Q. Please describe OPC’s second adjustment to Laclede and MGE’s Prepayments**  
21 **account, the removal of “property taxes under appeal” from Prepayment sub-account**  
22 **165.500.**

23 **A. Laclede’s 13-month average of this account includes approximately \$1,067,022 of property**  
24 **taxes under appeal. MGE’s 13-month Prepayments account includes approximately**  
25 **\$1,063,242 of property taxes under appeal. Property taxes under appeal have no**  
26 **characteristics of utility prepayments and do not meet the FERC USOA’s requirements for**  
27 **costs charged to this account. OPC proposes Laclede and MGE’s rate base Prepayments**  
28 **account exclude property taxes under appeal.**

1 **Q. In addition to OPC's proposed adjustment to remove dues payments and property**  
2 **taxes under appeal from its Prepayment accounts, do you have additional concerns**  
3 **with Laclede's accounting for prepayments?**

4 **A.** Yes. The Prepayments account is an account that is designed to be used as a regulated utility  
5 account for regulated utility charges. In this case, as reflected in its workpapers, Laclede has  
6 many charges to this regulated utility prepayment account for payments related to Kansas  
7 City Chiefs tickets, Paul McCartney concert tickets, tickets to the Saint Louis Symphony,  
8 tickets to Saint Louis Blues games, the Munny season tickets, tickets for Saint Louis  
9 Cardinals and Kansas City Royals games.

10 These payments are not in any way related to regulated operations and should not be  
11 recorded in a utility operating account. If Laclede decides to incur these types of non-utility  
12 charges, it should hire non-utility employees to account for these charges in its non-  
13 regulated accounts and not require regulated utility accounting and tax personnel to spend  
14 utility time and resources on non-utility operations.

15 Combining these non-regulated charges in a regulated utility account creates an additional  
16 burden for regulated utility personnel that should not be borne by these utility employees. It  
17 appears that regulated utility employees are required to go through thousands of line items in  
18 a spreadsheet to determine what prepayment charge should be included in the rate case and  
19 which charge should be excluded.

20 **Q. Is OPC asking the Commission to order Laclede to hire non-utility personnel to**  
21 **account for the cost of Laclede's leisure activities, such as attendance at sporting**  
22 **events, music theatres and pop concerts and account for these costs in non-utility**  
23 **accounts?**

1 A. Not necessarily. These accounting duties can be performed by charging these types of  
2 expenses to an existing non-regulated Spire entity to be performed by non-regulated  
3 company personnel who have no time allocations to utility operations.

4 **Q. Would this action reduce the cost to Laclede's regulated customers and reduce the**  
5 **risk that regulated customers will be charged for costs unrelated to utility operations?**

6 A. Yes, it would. It would also reduce the burden on regulatory auditors to review Laclede's  
7 books and records. Including non-regulated operations with regulated operations makes an  
8 already very difficult audit of Laclede and MGE much more difficult.

9 **Q. Do you have a one final concern about how Laclede is recording payments to a**  
10 **Prepayments account?**

11 A. Yes. In Staff data request 82.2 Staff asked Laclede to provide an explanation for the costs  
12 related to Gartner, Inc. In its response, Laclede identified Gartner, Inc. ("Gartner") as an IT  
13 analyst and research firm that provides advisory services to Laclede, such as IT strategy.  
14 This type of consulting service is usually only recorded as an outside service expense and  
15 billed in arrears and not in advance. However, Laclede, somehow, has determined that the  
16 services provided by Gartner should be recorded as a prepayment and amortized to expense.  
17 In this way, Laclede gets to earn a 9%-10% profit on this expense by including it in rate  
18 base as a prepayment as well as recover the full cost of the service as a test year expense.  
19 This is inappropriate accounting and should stop.

20 **ISRS Issues - Hydrostatic Testing -- MGE Only**

21 **Q. Please describe the MGE hydrostatic testing issue**

22 A. In Case No. GO-2016-0332, an MGE Infrastructure System Replacement Surcharge  
23 ("ISRS") case, MGE proposed to include hydrostatic (water pressure) testing on its mains as  
24 an eligible ISRS cost. Staff joined MGE to support this request. Staff's and MGE's position

1 was based upon a mistaken understanding that this testing cost, which does not extend the  
2 life of a plant asset, is allowed by the Federal Energy Regulatory Commission (“FERC”) to  
3 be capitalized. OPC provided evidence to the Commission in this case that the FERC  
4 explicitly ruled this test cannot be capitalized and must be expenses in the year the cost of  
5 the test was incurred. (See Schedules CRH-D-2 and CRH-D-5)

6 Consistent with OPC’s position the Commission, in its January 18, 2017 Report and Order  
7 ruled that hydrostatic testing “does not extend the useful life of a pipeline” (a mandatory  
8 requirement for a cost to be considered capital in nature as opposed to maintenance expense)  
9 and “is not an ISRS eligible expense.”

10 **Q. Based on this Commission’s determination is OPC proposing to remove costs that**  
11 **MGE incorrectly recorded to its plant account for mains?**

12 **A.** Yes. In OPC data request No. 1054 in this rate case OPC asked Laclede and MGE to list the  
13 work order number and the date (month and year) placed in service for each and every plant  
14 work order that includes dollars capitalized for hydrostatic testing for the period 2004  
15 through 2016:

16 OPC DR 1054: Please list the work order number and the date  
17 (month and year) placed in service for each and every plant work  
18 order that includes dollars capitalized for hydrostatic testing for the  
19 period 2004 through 2016. For each work order identified above,  
20 please also provide the dollar amount charged to the work order for  
21 hydrostatic testing.

22  
23 Response: Please refer to the attached spread sheet which lists the  
24 docket and amount of hydrostatic testing work order costs placed in  
25 service. Signed by: Glenn Buck  
26

27 In response to OPC data request 1054 Laclede witness Mr. Glenn Buck provided a  
28 spreadsheet labeled “Hydrostatic Testing Costs included in MGE ISRS Plant Investment”

1 which lists the docket and amount of MGE's hydrostatic testing work order costs placed  
2 in service beginning in 2014.

3 Presumably, if this response is accurate, MGE did not start capitalizing hydrostatic tests  
4 until 2014 even though it has been engaged in a main replacement program at least since  
5 1994 when it became a Missouri utility.

6 **Q. What is the amount Laclede witness Mr. Glenn Buck certifies was the total amount**  
7 **of hydrostatic testing charged to MGE's plant in service from 2004 through 2016?**

8 A. Mr. Buck certified in response to OPC data request No. 1054 that the total amount was  
9 \$2,301,675. Consistent with the Report and Order in Case No. GO-2016-0332, and  
10 consistent with the explicit requirements of FERC and its USOA, OPC proposes to  
11 remove this amount from MGE's mains plant account included in its rate base in this  
12 case.

13 **Q. Did MGE recover any ineligible hydrostatic testing costs through the ISRS since**  
14 **MGE's last rate case?**

15 A. Yes, MGE previously recovered ineligible hydrostatic costs through the ISRS.

16 **Q. What does OPC propose the Commission do to address the recovery of ineligible**  
17 **hydrostatic costs previously recovered through the ISRS?**

18 A. OPC proposes the Commission disallow all hydrostatic testing costs recovered through the  
19 ISRS since MGE's last rate case. Such disallowances are permitted under the authority  
20 granted the Commission by the ISRS statutes, Sections 393.1009 through 393.1015 RSMo.  
21 Due to the calculation difficulties OPC has not yet calculated the exact amount of this  
22 proposed adjustment.

1           **ISRS Issues – Plastic Issue**

2   **Q.    Does OPC propose any additional disallowances for costs recovered by Laclede and**  
3   **MGE through the ISRS?**

4   **A.    Yes. OPC also proposes an ISRS disallowance for all costs incurred replacing plastic mains**  
5   **and plastic service lines that were not worn out or in deteriorated condition at the time of**  
6   **replacement, as required by Section 393.1009(5)(a) RSMo. Laclede adopted a new**  
7   **replacement strategy in 2011, which MGE also adopted when acquired by Laclede in 2013,**  
8   **whereby Laclede/MGE will replace all mains and service lines in an entire neighborhood**  
9   **when it enters to replace cast iron. The result is millions of dollars of costs incurred**  
10   **replacing plastic mains and service lines that are not worn out or in deteriorated condition.**

11           The plastic mains and service lines were originally installed in the 1970s, 1980s, 1990s,  
12           2000s, and 2010s, and were operating safely and without incident when replaced. These  
13           replacements do not qualify for ISRS recovery because the plastic pipe was not impaired,  
14           and because there is no safety requirement mandating such replacements; both requirements  
15           of eligible replacements. This issue is currently on appeal before the Missouri Court of  
16           Appeals – Western District, in Case No. WD80544. Should OPC prevail in this appeal, the  
17           Commission should order a disallowance for all ineligible plastic replacement costs  
18           recovered through the ISRS since the last Laclede and MGE rate cases.

19  
20           **MGE Rate Base - One-Time Non-Capital Transition Cost**

21   **Q.    Describe this issue.**

22   **A.    In 2013, the Commission approved Laclede Gas Company’s acquisition of the Missouri**  
23   **natural gas utility properties of Missouri Gas Energy. In its July 17, 2013 *Order Approving***  
24   ***Unanimous Stipulation and Agreement* in Case No. GM-2013-0254 (“Acquisition Order”),**

1 the Commission outlined the treatment of transition costs related to Laclede's acquisition of  
2 MGE in the body of its Acquisition Order and in Attachment 1 thereto.

3 In its direct filing in the present case MGE proposes to include in its rate base \$8,620,933 of  
4 One-Time Non-Capital Transition Costs. This rate base treatment is in addition to a  
5 \$1,724,187 amortization expense of this of transition cost.

6 OPC opposes the inclusion of transition costs for several reasons. The primary reason is that  
7 while the Commission authorized an amortization to expense for these transition costs, it did  
8 not authorize rate base treatment. Secondly, while the Commission has allowed rate  
9 recovery of transition costs through an amortization to expense in the past, it has never  
10 allowed rate base treatment of merger or acquisition transition costs. Given that the  
11 treatment proposed by MGE in this case is unprecedented, and not supported by the  
12 Commission's Acquisition Order, it is especially incumbent on Laclede and MGE to  
13 provide support for including transition expenses in rate base. Laclede and MGE have not  
14 provided any such support.

15 **Q. How did the Commission define transition costs in its Acquisition Order?**

16 A. The Commission defined transition costs as "those costs incurred to integrate and merge the  
17 two entities into one organization, and includes integration planning and execution, and  
18 "costs to achieve."

19 **Q. How did the Commission address the issue of One-Time Non-Capital Transition Cost  
20 in the body of its Acquisition Order?**

21 A. In its Acquisition Order the Commission specifically allowed an amortization of these  
22 transition costs. The Commission approved the following agreement reflected at page 10 of  
23 the Stipulation and Agreement approved by the Commission in its Acquisition Order.

24 One-Time Non-Capital Transition Costs.

25 The Signatories agree that one half of one-time non-capital  
26 transition costs incurred no later than the first five years after  
27 closing, as described in Attachment 1, shall be amortized over a  
28 period of five years beginning upon the effective date of the rates



1 resulting from the next rate case filed by the Laclede and MGE  
2 Divisions on or after October 1, 2015.

3  
4 **Q. Did the Commission address the issue of One-Time Non-Capital Transition Costs in**  
5 **Attachment 1 to its 2013 Acquisition Order?**

6 A. Yes. In attachment 1 to its Acquisition Order the Commission ordered that 50 percent of  
7 these transition costs be treated below-the-line to non-utility operating accounts. The  
8 Commission allowed the other 50 percent to be deferred and amortized over five years  
9 beginning with this rate case.

10 **Attachment 1 transaction and transition cost treatment gm-**  
11 **2013-0254.pdf**

12  
13 **One-Time Non-Capital Transition Costs**

14  
15 Description - The non-rate base account expenditures incurred over  
16 a period not exceeding one twelve month period resulting from  
17 integrating and merging the operations of MGE and LGC other  
18 than changes that would occur absent the transaction incurred no  
19 later than the first five years after closing.

20  
21 Book Treatment 50% of these costs are recorded to the BTL  
22 account. The other 50% are deferred and amortized over a five  
23 year life beginning with the effective date of the first general rate  
24 case filed on or after October 1, 2015. The full amount of the  
25 amortization is allowed only upon a showing that the Net  
26 Synergies exceed the amount of the amortization.  
27

28 **Q. If the Commission contemplated allowing these transition costs to be included in rate**  
29 **base would it have stated so in its Acquisition Order?**

30 A. Yes, obviously it would have. The fact is the Commission has never allowed or even  
31 likely contemplated putting transition costs in rate base. In fact, I cannot recall any  
32 Missouri utility ever proposing such ratemaking treatment.

1 **Q. Did you review the transcript of the On-The Record Proceeding in GM-2013-0254?**

2 A. Yes, I did.

3 **Q. What were your findings?**

4 A. In my review I found that Laclede attorney Michael Pendergast explained to the  
5 Commission that instead of leaving the issue of how to treat transition costs to Laclede's  
6 next rate case, Laclede decided to try and resolve the issue in that GM-2013-0254  
7 Acquisition case. Laclede was successful in resolving the issue of transition costs by  
8 getting all parties to agree that Laclede can defer 50 percent of one-time transition costs  
9 and "seek an amortization" in its next rate case." In explaining this treatment to the  
10 Commission, Mr. Pendergast never once mentioned anything about reflecting these  
11 transition costs in rate base.

12 On-The-Record Proceeding  
13 July 10, 2013 VOLUME 1 Page 16 line 16:

14 Laclede counsel Mr. Pendergast:

15  
16  
17 There is a treatment of transition costs in the past. The  
18 Commission has determined that transition costs -- and these are  
19 really costs to achieve the various synergies associated with the  
20 particular combination of the companies -- can be recovered if  
21 there are savings sufficient to cover them. Rather than just hold  
22 that question in advance, we decided to try and resolve it now; and  
23 for one-time transition costs, we have the opportunity to defer  
24 them -- 50 percent of them and seek an amortization in our next  
25 rate case, subject to everybody's evaluation and making sure that  
26 we put everything in the right bucket and that they are prudent and  
27 reasonable.  
28

29 **Q. Based on your significant involvement in several past Missouri utility merger and**  
30 **acquisition cases, do you think parties to the GM-2013-0254 would likely have had**

1           **an issue with rate base treatment for transition costs and likely would not have**  
2           **signed the Stipulation and Agreement?**

3   A.    Yes, I do. I believe it would be very likely that, at a minimum, both Staff, given its prior  
4           treatment of transitions costs and OPC would have objected to this Laclede proposal.

5   **Q.    Do you believe that Laclede’s proposal to include transition costs in MGE’s rate**  
6           **base in this rate case violates at least the “spirit” of the Acquisition Stipulation and**  
7           **Agreement?**

8   A.    Yes, I do.

9   **MGE’s Software Assets**

10   **Q.    In MGE’s rate case workpaper “MGE Software-Reg Asset Amortization” provided**  
11           **with its direct testimony, MGE proposes rate recovery of \$2,239,152 in abandoned**  
12           **software costs. Is this issue very similar to Laclede’s abandoned leasehold**  
13           **improvements and MGE’s proposed rate recovery of One-Time Non-Capital Transition**  
14           **Costs?**

15   A.    Yes. In response to Staff data request 70.19, Laclede witness Glenn Buck stated that the cost  
16           of this software has been removed from plant in service and has been replaced by software  
17           maintained by Laclede. In effect, as with Laclede’s abandoned leasehold improvements,  
18           these abandoned software costs are not used and useful in the provision of utility service and  
19           do not provide any ratepayer benefit. Because these abandoned software costs fail to meet  
20           these very basic ratemaking tests, they should not be included in MGE’s cost of service in  
21           this rate case.

22   **Q.    How does MGE propose to recover the unamortized balance of these abandoned**  
23           **software costs?**

1 A. MGE proposes to increase its rate base by \$2,239,152 for the unamortized balance and  
2 increase its level of expenses to be recovered by an amortization of \$592,490 to account  
3 405, Amortization expense.

4 **Q. If the Commission considers these abandoned software costs to be acquisition**  
5 **transition costs, should MGE be afforded rate base treatment?**

6 A. No. As described above with respect to MGE's One-Time Non-Capital Transition Costs,  
7 neither the Commission nor any party to GM-2013-0254, Laclede Gas Company's  
8 acquisition of MGE, contemplated rate base treatment for any future recovery of real  
9 transition costs.

10 If MGE considers these abandoned software costs to be transition costs, which it is not, it is  
11 violating the spirit of the Stipulation and Agreement approved by the Commission in GM-  
12 2013-0254 by proposing transition cost recovery other than was agreed to by the parties to  
13 that case.

14 **Uncollectible Accounts**

15 **Q. Does OPC propose an adjustment to Laclede and MGE's calendar year 2016 level of**  
16 **Account 904 Uncollectible accounts?**

17 A. No. Laclede witness Timothy Krick states at page 4 of his direct testimony that "In fiscal  
18 2016, the Company made a significant change to its write-off policy for both LAC and  
19 MGE. This change precludes a comparison of net write-off levels in 2016 to those  
20 experienced before 2016." Based on this change in policy, OPC proposes no change to  
21 Laclede's test year Uncollectible Accounts amount of \$6,257,451 and MGE's test year  
22 amount of \$1,755,577.

1 **Accumulated Deferred Income Taxes (“ADIT”)**

2 **Q. Did you review Laclede’s and MGE’s workpapers to support its proposed level of**  
3 **accumulated deferred income taxes to include in rate base?**

4 A. Yes, I also reviewed responses to OPC and Staff data requests. Laclede and MGE did not  
5 provide adequate support for its ADIT balances. ADIT workpapers filed in the direct case  
6 include a general classification of book-tax timing differences with a set of numbers added  
7 together in the spreadsheet cells with no explanation. In the Prepayment workpapers  
8 Laclede and MGE went through each of the components to determine what should be and  
9 what should not be included in cost of service. This type of support is needed also for ADIT  
10 which includes many separate and individual tax-book timing differences.

11 **Q. Has OPC sought additional documentation from Laclede and MGE related to its**  
12 **proposed level of ADIT?**

13 A. Yes. OPC will state its position on ADIT in its rebuttal testimony.

14 **Q. Does OPC have concerns about the level of accelerated depreciation book-tax ADIT**  
15 **Laclede proposes to include in its rate base in this case?**

16 A. Yes. Despite its massive spending on new plant additions in its Infrastructure System  
17 Replacement Surcharge (“ISRS”) program, Laclede is proposing a decrease in its rate base  
18 liability for accelerated depreciation. Laclede proposes a decrease in the amount of \$4.2  
19 million, from a balance of \$144,766,307 at December 31, 2015 to a balance of \$140,528,356  
20 at December 31, 2016. OPC has submitted questions to Laclede on this specific issue and  
21 requested additional support for its overall ADIT balance.

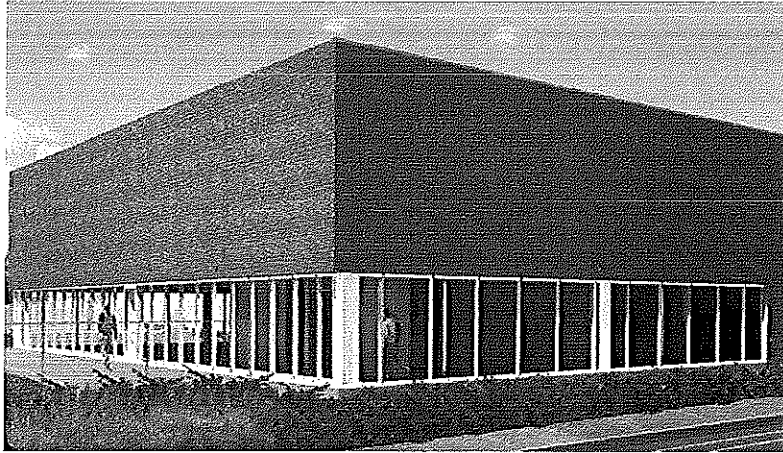
22  
23 **Q. Does this conclude your direct testimony?**

24 A. Yes, it does.

# ST. LOUIS POST-DISPATCH

## Laclede Gas center under construction in St. Louis

May 6, 2016



Rendering of Laclede Gas service center at 5311 Manchester

Under construction at Manchester and Macklind avenues in St. Louis is a Laclede Gas service center that will house about 100 construction and maintenance workers.

Completion of the project is expected in October, the company said Friday. Tarlton Corp. is the general contractor. A city building permit issued April 28 estimates a project cost of \$4 million.

Many employees who will be based at the 15,000-square-foot facility at 5311 Manchester worked previously at a Laclede service center on Forest Park Avenue just west of Vandeventer Avenue. That building was demolished and the site is now part of the Ikea store's parking lot.

Some employees based at Forest Park Avenue center were transferred to the headquarters of Laclede Group—last month renamed Spire—at 700 Market Street downtown.

The new 15,000-square-foot center on Manchester will be "more dynamic" and better suited than the Forest Park Avenue building to meet company and customer needs, the company said. "As longtime members of the community, we're excited to construct this new service center to help us as we grow as a company," Tim Goodson, vice president of field operations for Laclede Gas, said in a statement. "Its centralized location enables us to quickly respond to emergency situations in the city of St. Louis and continue accelerated pipeline replacement work."

The building will have a training room, meeting space, warehouse space, showers and lockers.

### **The Laclede Group Announces New Downtown Home**

Company partners with local businesses and neighbors to revitalize 700 Market building  
Company Release - 01/27/2014 15:15

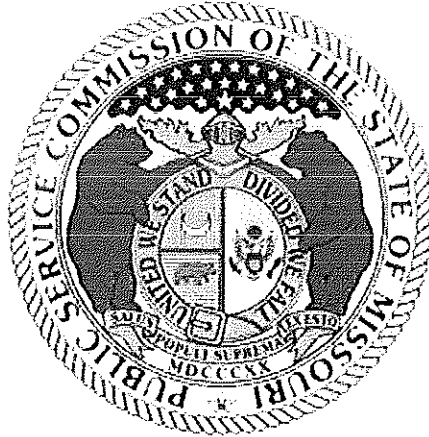
ST. LOUIS, Jan. 27, 2014 /PRNewswire/ -- The Laclede Group, Inc. (NYSE: LG) today confirmed its new home in downtown St. Louis at the 700 Market building. Many factors contributed to the decision to move, including the recent acquisition of Missouri Gas Energy. "We knew we needed different space, one that reflects our growing company. 700 Market will provide us with the kind of environment that fosters collaboration and efficiency, and helps attract and retain top talent to continue to drive value for customers and shareholders," said Suzanne Sitherwood, president and CEO of The Laclede Group. "Laclede has been downtown for more than 100 years. We look forward to remaining downtown and we're excited to be a part of revitalizing this building, a true gem in this city."

Together public and private support are bringing this building back to life. The Koman Group purchased the building from its previous New York owner. During the coming year, an HOK architecture and engineering team will make building updates. Arcturis architects and designers will work directly with The Laclede Group to update spaces inside and outside the building while keeping with architect Philip Johnson's vision. Centered between the future City Arch River and Ballpark Village, 700 Market adds to the momentum of public-private partnerships transforming the downtown landscape.

"The City of St. Louis is proud to have such a long-standing pillar of our community like Laclede demonstrate its commitment to the future of our great city. The revitalization of 700 Market contributes to our vision of making downtown St. Louis the place to live, work and play," said Mayor Francis Slay.

The 127,000-square-foot building, vacant for more than a decade, features large open areas that are best-suited for a single tenant such as Laclede. Employees will move into this space starting in early 2015. These positions will come from various offices across the St. Louis metro area and new positions related to the company's growth. This comes at the same time Laclede is accommodating another move from its Forest Park Parkway location. Earlier this year, Laclede agreed to sell this property to help the City of St Louis secure the new IKEA site in St. Louis' urban core and all the jobs that it will bring to the community.

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



In the Matter of the Application of Laclede Gas )  
Company to Change its Infrastructure System ) File No. GO-2016-0332  
Replacement Surcharge in its Missouri Gas ) Tariff No. YG-2017-0048  
Energy Service Territory )

In the Matter of the Application of Laclede Gas )  
Company to Change its Infrastructure System ) File No. GO-2016-0333  
Replacement Surcharge in its Laclede Gas ) Tariff No. YG-2017-0047  
Service Territory )

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**REPORT AND ORDER**

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**Issue Date:** January 18, 2017

**Effective Date:** January 28, 2017



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

In the Matter of the Application of Laclede Gas )  
Company to Change its Infrastructure System ) **File No. GO-2016-0332**  
Replacement Surcharge in its Missouri Gas ) **Tariff No. YG-2017-0048**  
Energy Service Territory )

In the Matter of the Application of Laclede Gas )  
Company to Change its Infrastructure System ) **File No. GO-2016-0333**  
Replacement Surcharge in its Laclede Gas ) **Tariff No. YG-2017-0047**  
Service Territory )

**APPEARANCES**

Appearing for **LACLEDE GAS COMPANY AND MISSOURI GAS ENERGY:**

**Michael C. Pendergast** and **Rick Zucker**, Laclede Gas Company, 700 Market Street, 6<sup>th</sup> Floor, St. Louis, Missouri 63101.

Appearing for **OFFICE OF THE PUBLIC COUNSEL:**

**Marc D. Poston**, Deputy Public Counsel, Post Office Box 2230, 200 Madison Street, Suite 650, Jefferson City, Missouri 65102-2230.

Appearing for the **STAFF OF THE MISSOURI PUBLIC SERVICE COMMISSION:**

**Kevin A. Thompson**, Chief Staff Counsel, and **Marcella Forck**, Legal Counsel, Post Office Box 360, Governor Office Building, 200 Madison Street, Jefferson City, Missouri 65102.

**REGULATORY LAW JUDGE:** Nancy Dippell

## REPORT AND ORDER

### I. Procedural History

On September 30, 2016, Laclede Gas Company filed applications and petitions to change its infrastructure system replacement surcharges (ISRS) in its Missouri Gas Energy (MGE) and Laclede Gas Service (Laclede) territories.<sup>1</sup> MGE requested an adjustment to its ISRS rate schedule to recover costs incurred in connection with eligible infrastructure system replacements made during the period March 1, 2016, through August 31, 2016, with pro forma ISRS costs updated through October 31, 2016. Laclede also requested an adjustment to its ISRS rate schedule to recover costs incurred in connection with eligible infrastructure system replacements made during the period March 1, 2016, through August 31, 2016, with pro forma ISRS costs updated through October 31, 2016. Laclede Gas Company provided Staff and Public Counsel updated actual cost information for the pro forma figures throughout Staff's audit on various dates from October 10 through November 21, 2016.

The Commission issued notice of the applications and provided an opportunity for interested persons to intervene, but no intervention requests were submitted in either case. The Commission also suspended the filed tariff sheets until January 28, 2017.

On November 29, 2016, the Staff of the Missouri Public Service Commission (Staff) filed its report recommending a \$72 correction to MGE's proposal due to a journal entry error and a \$7,489 correction to Laclede's proposal due to a difference in

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<sup>1</sup> Laclede Exhibit 5, *Verified Application and Petition of Missouri Gas Energy, an Operating Unit of Laclede Gas Company, to Change its Infrastructure System Replacement Surcharge in its Missouri Gas Energy Service Territory*, filed Sept. 30, 2016, File No. GO-2016-0332; and Laclede Exhibit 4, *Verified Application and Petition of Laclede Gas Company to Change its Infrastructure System Replacement Surcharge in its Laclede Gas Service Territory*, filed Sept. 30, 2016, File No. GO-2016-0333. (While these cases were not consolidated, they were heard simultaneously, and this Report & Order addresses both applications.)

the time periods recorded for accumulated depreciation and deferred taxes.<sup>2</sup> Staff recommended that the Commission reject the original tariff sheets and approve ISRS adjustments for MGE and Laclede based on Staff's determination of the appropriate amount of ISRS revenues.

On December 9, 2016, Laclede Gas Company filed a response accepting Staff's recommendation and attaching specimen tariffs. Also on December 9, 2016, the Office of the Public Counsel (Public Counsel or OPC) filed a motion in each case requesting that the Commission reject the proposed ISRS increase or, alternatively, schedule an evidentiary hearing.<sup>3</sup> A joint procedural schedule was set and written testimony was filed.

On December 19, 2016, Laclede Gas Company filed its *Response of Laclede Gas Company in Opposition to OPC's December 9 Motion, or in the Alternative, Motion to Strike Certain Issues* (December 19 Motion). Responses to the December 19 Motion were received and oral arguments were heard prior to the joint evidentiary hearing in these cases on January 3, 2017.

The parties also filed an issues list and statements of position prior to the hearing. The issues list contained five issues including Laclede Gas Company's motion to dismiss. On January 2, 2017, Public Counsel dismissed two of the five issues.

Post-hearing briefs were filed on January 6, 2017. On January 10, 2017, Public Counsel filed a *Motion to Strike Portions of Laclede's Brief or, in the Alternate, Allow OPC to Respond*. On January 16, 2017, Laclede and MGE filed *Laclede and MGE's*

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<sup>2</sup> *Staff Recommendation*, filed Nov. 29, 2016, File No. GO-2016-0332; and *Staff Recommendation*, filed Nov. 29, 2016, File No. GO-2016-0333.

<sup>3</sup> *Motion to Deny Proposed Rate Increases and, Alternatively, Motion for Hearing*, File Nos. GO-2016-0332 and GO-2016-0333 (filed Dec. 9, 2016).

*Motion to Strike and Response to OPC's Motion to Strike.* In response, Public Counsel filed the *OPC Response Regarding Motions to Strike* on January 17, 2017.

## **II. Outstanding Motions**

### **Public Counsel's Motion to Strike**

Public Counsel filed a motion to strike portions of Laclede's brief containing citations and excerpts of arguments during other Commission cases on appeal to the Western District Court of Appeals and the Missouri Supreme Court. Public Counsel is correct that these arguments were not specifically included in the evidence of record. Allegations were raised, however, regarding inconsistency with past positions. In fact, the record is replete with discussion of reversal of position by witnesses, individually, and the parties. Additionally, the record on appeal that Laclede references is in the Commission's Electronic and Information Filing System (EFIS) and the Commission could have taken administrative notice of those records. However, the Commission does not find these arguments to be relevant to this decision and did not rely on them in making this determination. Therefore, no prejudice resulted from these arguments and the Commission will deny Public Counsel's motion to strike as moot. Public Counsel's alternative request, to be allowed to respond, will be granted and has been accomplished with Public Counsel's motion to strike.

### **Laclede's Motion to Strike**

With regard to Laclede's motion to strike filed on January 16, 2017, the Commission disagrees with Laclede that "the matter of capitalization versus expense should be stricken from the parties' briefs." The testimony of Mr. Hyneman that Laclede

cites as being particularly offensive was given without objection, so the issue has been raised and is appropriate for briefing. Therefore, Laclede's motion to strike is denied.

### **Laclede's Motion to Dismiss**

On December 19, 2016, Laclede Gas Company filed its pleading asking the Commission to dismiss this action and effectively deny Public Counsel's request for a hearing for several reasons. Laclede Gas Company asked that, alternatively, the issues of updating and incentive compensation be stricken. Public Counsel later dismissed the updating and incentive compensation issues, so that request is moot.

First, Laclede Gas Company argues that Public Counsel was in defiance of the Commission's November 30, 2016, procedural order by raising new issues on the 70<sup>th</sup> day after the petitions had been filed, which was December 9, 2016. A review of that procedural order shows that the Commission did not direct Public Counsel to file a response to Staff's Recommendation. Rather the Commission ordered that, "Any other party wishing to respond or object to Staff's recommendation shall do so no later than December 9, 2016."<sup>4</sup> The Commission set no deadline for the filing of objections to the tariff sheets or requests for hearing. Thus, Public Counsel was in compliance with the Commission's procedural order.

Second, Laclede Gas Company argued that Public Counsel should have raised these new issues within the 60-day statutory deadline that Staff is required to follow.<sup>5</sup> Even though the statute does not set out deadlines for Public Counsel, or any other party or entity other than Staff and the Commission, the statute clearly contemplates

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<sup>4</sup> *Order Establishing Time to Respond to Staff's Recommendation*, File Nos. GO-2016-0332 and GO-2016-0333 (issued Nov. 30, 2016).

<sup>5</sup> Section 393.1015.2.(1), RSMo (Supp. 2012).

that Public Counsel will be involved in ISRS proceedings since it is required to receive notice of the filings when they are made.<sup>6</sup> Also, pursuant to Commission Rule 4 CSR 240-2.010(10), absent a filed notice of intent not to participate, Public Counsel is automatically a party to any case before the Commission. If the legislature had intended to mandate a deadline for the Public Counsel's filings, it would have done so in the statute.

Further, although the Commission must complete its order within 120 days of the petition being filed, it is within the Commission's discretion as to whether it holds a hearing in ISRS petitions.<sup>7</sup> In the current case, the Commission received Public Counsel's objections and determined that there was sufficient time to hold a hearing. A procedural schedule was set and the parties had an opportunity to conduct discovery, file written direct and rebuttal testimony, file an issues list and position statements, have a full opportunity for cross-examination at the evidentiary hearing, and file briefs. Thus, even though the procedural schedule was abbreviated and accommodations had to be made due to holidays, a full hearing was held and due process was served. Therefore, the Commission denies Laclede Gas Company's December 19 motion.

### **III. Findings of Fact**

Any finding of fact for which it appears that the Commission has made a determination between conflicting evidence is indicative that the Commission attributed greater weight to that evidence and found the source of that evidence more credible and more persuasive than that of the conflicting evidence.

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<sup>6</sup> Section 393.1015.1.(1), RSMo (Supp. 2012).

<sup>7</sup> Section 393.1015.2.(3), RSMo (Supp. 2012). ("The commission *may* hold a hearing on the petition and any associated rate schedules and shall issue an order to become effective not later than one hundred twenty days after the petition is filed." (Emphasis added)).

1. Laclede is a public utility and gas corporation incorporated under the laws of the state of Missouri. Laclede distributes and transports natural gas to customers in the City of St. Louis and the counties of St. Louis, St. Charles, Crawford, Jefferson, Franklin, Iron, St. Genevieve, St. Francois, Madison, and Butler.<sup>8</sup>

2. MGE is an operating unit of Laclede Gas Company that conducts business in Laclede Gas Company's MGE service territory under the fictitious name of Missouri Gas Energy. MGE is engaged in the business of distributing and transporting natural gas to approximately 500,000 customers in the western Missouri counties of: Andrew, Barry, Barton, Bates, Buchanan, Carroll, Cass, Cedar, Christian, Clay, Clinton, Cooper, Dade, DeKalb, Greene, Henry, Howard, Jackson, Jasper, Johnson, Lafayette, Lawrence, McDonald, Moniteau, Newton, Pettis, Platte, Ray, Saline, Stone, and Vernon.<sup>9</sup>

3. An ISRS is a statutorily authorized rate adjustment mechanism tool utilized by eligible gas corporations to recover the cost of certain infrastructure replacements by establishing and updating a surcharge on a customer's bill.<sup>10</sup> A qualifying gas corporation files an ISRS petition with the Commission seeking authority to recover the depreciation expense and return associated with eligible net plant additions, as well as amounts associated with property taxes for those additions.<sup>11</sup>

4. Once an ISRS is established, a gas corporation can submit to the Commission a proposed rate schedule changing the ISRS to recover the expense of infrastructure system replacements outside of a formal rate case. The cumulative

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<sup>8</sup> Laclede Exhibit 4; p. 2, ¶ 3-4.

<sup>9</sup> Laclede Exhibit 5; p. 2, ¶ 4-5.

<sup>10</sup> Staff Exhibit 6, *Rebuttal Testimony of Mark Oligschlaeger*, p. 3, Ins. 7-12.

<sup>11</sup> Staff Exhibit 6, p. 3, Ins. 13-15.

revenue requirement for all Commission-approved ISRS updates is then placed on customers' bills before being zeroed out at the next general rate case.

5. Staff performs an ISRS audit when a petition to change an ISRS is filed.<sup>12</sup> By statute, Staff may file a report of its audit within 60 days from the time an ISRS petition is filed.<sup>13</sup>

6. In contrast to the type of audit performed in a general rate case, an ISRS audit is limited in scope to a determination of whether the included projects are ISRS-eligible and whether the calculations were done correctly. While costs of an ISRS project may be included in rates, those costs are still subject to a prudence review in a subsequent rate case. If the costs are found to be imprudent, the amount of ISRS funds collected for the project can be refunded to customers.<sup>14</sup>

**A. Laclede**

7. The Commission approved Laclede's ISRS to go into effect on April 12, 2014, in File No. GO-2014-0212. Laclede's most recent general rate increase was approved by the Commission in File No. GR-2013-0171. Laclede has routinely sought approval to revise its ISRS to include the costs of additional infrastructure system replacements since its last general rate case. The Commission has approved five petitions to change Laclede's ISRS, with the last order approving a change to the ISRS being in File No. GO-2016-0196.<sup>15</sup> The cumulative Commission-approved ISRS amounts are included in Laclede's current ISRS rates.<sup>16</sup>

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<sup>12</sup> Staff Exhibit 3, *Direct Testimony of David Sommerer*, Schedule DMS-d2.

<sup>13</sup> Section 393.1015.2(2), RSMo (Supp. 2012).

<sup>14</sup> Sections 393.1009 and 393.1015, RSMo (Supp. 2012).

<sup>15</sup> Staff Exhibit 2, *Direct Testimony of Jennifer K. Grisham*, Schedule JKG-d1, p. 4.

<sup>16</sup> Staff Exhibit 2, Schedule JKG-d1, pp. 4-5.



8. On September 30, 2016, Laclede filed a petition seeking to recover costs for claimed ISRS eligible projects from March 1, 2016 updated through October 31, 2016.<sup>17</sup>

9. Laclede attached to its petition supporting documentation for the plant additions completed since the last approved ISRS change.<sup>18</sup> This included documentation identifying the type of addition, utility account, work order description, month of completion, addition amount, depreciation rate, accumulated depreciation, and depreciation expense.<sup>19</sup> The company also provided estimates of capital expenditures for projects completed through October 2016.<sup>20</sup>

10. Laclede provided Staff and Public Counsel updated actual cost information for the pro forma figures on October 19 and November 1, 16, 17, and 21, 2016.<sup>21</sup>

11. As part of its audit, Staff reviewed workpapers, a representative sample of work orders, invoices, and other applicable documentation.<sup>22</sup> Staff concluded that each of the projects it reviewed met the ISRS rule qualifications.<sup>23</sup> Laclede provided all work order authorizations for work orders over \$50,000.<sup>24</sup>

12. After performing its audit, Staff filed a recommendation that the Commission approve Laclede's petition for ISRS plant additions from March 1, 2016,

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<sup>17</sup> Staff Exhibit 2, Schedule JKG-d1, pp. 4-5; and Laclede Exhibit 4, p. 2.

<sup>18</sup> Laclede Exhibit 4.

<sup>19</sup> Laclede Exhibit 4, Appendix A and B.

<sup>20</sup> Laclede Exhibit 4.

<sup>21</sup> Staff Exhibit 2, Schedule JKG-d1, p. 4.

<sup>22</sup> Staff Exhibit 2, Schedule JKG-d1, p. 3.

<sup>23</sup> Staff Exhibit 2, Schedule JKG-d1, p. 3.

<sup>24</sup> Laclede Exhibit 2, *Rebuttal Testimony of Glenn W. Buck*, p. 10, lns. 5-10.

through October 31, 2016.<sup>25</sup> Staff recommended the Commission approve the inclusion of accumulated depreciation and deferred taxes through December 15, 2016.<sup>26</sup>

13. Based on its review and calculations, Staff recommended that Laclede receive an additional \$4,504,138 in ISRS revenues.<sup>27</sup> This was a different amount than the ISRS-related revenue increase Laclede requested due to Staff recording accumulated depreciation and deferred taxes through December 15, 2016, instead of December 1, 2016, as Laclede had done.<sup>28</sup>

14. Staff's recommended cumulative amount to be included in ISRS rates was \$29,526,894.<sup>29</sup> Staff also submitted a proposed ISRS rate design, which is consistent with the methodology used to establish Laclede's past ISRS rates and is consistent with the method used to establish rates for other gas utilities.<sup>30</sup>

15. Laclede concurred with and supported Staff's figures.<sup>31</sup>

16. No party disagreed, and the Commission finds, that all the utility plant additions submitted for ISRS classification were in service and used and useful before Staff filed its Recommendation on November 29, 2016.<sup>32</sup>

17. Additionally, it is undisputed that all of Laclede's replaced cast iron mains were worn out or deteriorated due to their age.<sup>33</sup>

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<sup>25</sup> Laclede Exhibit 1, *Direct Testimony of Glenn W. Buck*, Schedule GWB-1; and Staff Exhibit 2, Schedule JKG-d1.

<sup>26</sup> Staff Exhibit 2, Schedule JKG-d1, p. 4.

<sup>27</sup> Staff Exhibit 2, Schedule JKG-d1, p. 4.

<sup>28</sup> Staff Exhibit 2, Schedule JKG-d1, p. 4.

<sup>29</sup> Staff Exhibit 2, Schedule JKG-d1, p. 5.

<sup>30</sup> Staff Exhibit 2, Schedule JKG-d1, pp. 5 and 8.

<sup>31</sup> Laclede Exhibit 1, p. 3, Ins. 20-22.

<sup>32</sup> Laclede Exhibit 2, p. 3, Ins. 6-13.

<sup>33</sup> Transcript p. 149, Ins. 15-18.

18. Public Counsel did object, however, to certain portions of plastic mains and service lines that were replaced, claiming that those were not worn out or deteriorated under the requirements of the ISRS statute.<sup>34</sup>

19. Laclede determined it needed to replace, along with certain pieces of cast iron and bare steel pipe, the pieces of plastic pipe that had been used as patches to the cast iron pipe and to relocate the mains in easier to access areas.<sup>35</sup> The patches of plastic pipe varied from just a few feet to several hundred feet in length.<sup>36</sup>

20. The plastic pipe that was replaced also varied in age, with some being installed in the 1970s, 1980s, 1990s, 2000s, and 2010s.<sup>37</sup>

21. Laclede considered that the patches of plastic pipe and the plastic service lines were part of a larger system of pipeline and replaced entire neighborhoods of mains and service lines by running new plastic lines.<sup>38</sup> These lines were generally in new locations between the street and the sidewalks for easier access, were buried at a different depth, and required that service lines connect to the main line and enter the customers' buildings in different locations than the old lines.<sup>39</sup>

22. Because of the scope of the projects, entire neighborhoods had mains and services lines replaced and relocated with the old pipes abandoned in place.<sup>40</sup> In this

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<sup>34</sup> File No. GO-2016-0333, Item No. 7, *Motion to Deny Proposed Rate Increases and, Alternatively, Motion for Hearing* (filed Dec. 9, 2016).

<sup>35</sup> Laclede Exhibit 2, p. 11, ln. 20; and Laclede Exhibit 3, p. 10, lns. 8-10.

<sup>36</sup> Laclede Exhibit 3, *Rebuttal Testimony of Mark D. Lauber*, p. 9, lns. 17-18.

<sup>37</sup> OPC Exhibit 1, *Direct Testimony of Charles Hyneman*, Schedules CRH-D-2 and CRH-D-3; and OPC Exhibit 2.

<sup>38</sup> Tr. p. 128, lns. 14-23; and p. 132, lns. 12-22.

<sup>39</sup> Tr. pp. 140-142; and Laclede Exhibit 3, p. 10, lns. 1-13.

<sup>40</sup> Laclede Exhibit 3, pp. 10-11.

particular situation, the mains could not be replaced without replacing the service lines.<sup>41</sup>

23. Additionally, replacing the plastic pipe was an essential and indispensable step in completing the cast iron and steel main replacement projects.<sup>42</sup>

24. A majority of the pipeline replaced was cast iron and bare steel pipe.<sup>43</sup> Further, more cast iron and plastic in total was removed than new plastic put in place, due to efficiencies in the new placement and type of pipelines.<sup>44</sup>

25. By retiring the newer plastic patches, Laclede reduces the depreciation expenses related to that plastic pipe and customers receive a reduction in ISRS rates accordingly.<sup>45</sup>

## **B. MGE**

26. The Commission approved MGE's current ISRS to go into effect on October 8, 2014.<sup>46</sup> MGE's most recent general rate increase was approved by the Commission in File No. GR-2014-0007. Since then, MGE has routinely sought approval to revise its ISRS to include the costs of additional infrastructure system replacements. The Commission has approved three petitions to change MGE's ISRS since the last general rate case, with the latest order approving a change to the ISRS being in File No. GO-2016-0197.<sup>47</sup> The cumulative Commission-approved ISRS amounts are included in MGE's current ISRS rates.<sup>48</sup>

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<sup>41</sup> Tr. p. 141, Ins. 12-14; and Laclede Exhibit 3, p. 11, Ins. 11-13.

<sup>42</sup> Laclede Exhibit 3, p. 9, Ins. 8-10.

<sup>43</sup> Tr. p. 128, Ins. 6-9; and Staff Exhibit 5, *Rebuttal Testimony of Kimberly K. Bolin*, pp. 3-4.

<sup>44</sup> Laclede Exhibit 3, p. 8, Ins. 16-19; and p. 11, Ins. 17-19; and Staff Exhibit 5, p. 3, Ins. 11 and 21; and p. 7.

<sup>45</sup> Laclede Exhibit 2, p. 11, Ins. 3-14, and Revised Rebuttal Schedule GWB-2.

<sup>46</sup> The Commission approved Laclede's ISRS in File No. GR-2015-0025.

<sup>47</sup> Staff Exhibit 1, *Direct Testimony of Caroline Newkirk*, Schedule CNN-d1, p. 4.

<sup>48</sup> Staff Exhibit 1, Schedule CNN-d1, p. 4.

27. On September 30, 2016, MGE filed a petition seeking to recover costs for claimed ISRS eligible projects from March 1, 2016, updated through October 31, 2016.<sup>49</sup>

28. MGE attached to its petition supporting documentation identifying the type of addition, the utility account, work order description, month of completion, addition amount, depreciation rate, accumulated depreciation, and depreciation expense.<sup>50</sup> MGE also provided estimates of capital expenditures for projects completed through October 2016.<sup>51</sup>

29. MGE provided Staff and Public Counsel updated actual cost information for the pro forma figures throughout the Staff audit process including on October 10 and November 10, 18, and 21, 2016.<sup>52</sup>

30. As part of its audit, Staff reviewed workpapers, a representative sample of work orders, invoices, and other applicable documentation.<sup>53</sup> Staff concluded that each of the projects it reviewed met the ISRS rule qualifications.<sup>54</sup> MGE provided all work order authorizations for work orders over \$50,000.<sup>55</sup>

31. After performing its audit, Staff filed a recommendation that the Commission approve MGE's petition for ISRS plant additions from March 1, 2016, through October 31, 2016.<sup>56</sup> Staff recommended the Commission approve the inclusion of accumulated depreciation and deferred taxes through December 15, 2016.<sup>57</sup>

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<sup>49</sup> Staff Exhibit 1, Schedule CNN-d1, pp. 4-5; and Laclede Exhibit 5, p. 2.

<sup>50</sup> Laclede Exhibit 5, Appendix A and B.

<sup>51</sup> Laclede Exhibit 5.

<sup>52</sup> Staff Exhibit 2, Schedule CNN-d1, p. 3.

<sup>53</sup> Staff Exhibit 1, Schedule CNN-d1, p. 3.

<sup>54</sup> Staff Exhibit 1, Schedule CNN-d1, p. 3.

<sup>55</sup> Laclede Exhibit 2, p. 10, Ins. 5-10.

<sup>56</sup> Laclede Exhibit 1, Schedule GWB-1; and Staff Exhibit 1, Schedule CNN-d1.

<sup>57</sup> Staff Exhibit 1, Schedule CNN-d1, p. 4.

32. Based on its review and calculations, Staff recommended that MGE receive an additional \$3,362,598 in ISRS revenues.<sup>58</sup> This figure includes the correction of a \$72 disposition error in MGE's workpapers.<sup>59</sup> Additionally, Staff recommended the ISRS-related revenue increase of MGE include accumulated depreciation and deferred taxes through December 15, 2016.<sup>60</sup>

33. Staff's recommended cumulative amount to be included in ISRS rates is \$13,616,021.<sup>61</sup> Staff also submitted a proposed rate schedule, which is consistent with the methodology used to establish MGE's past ISRS rates and is consistent with the method used to establish rates for other gas utilities.<sup>62</sup>

34. MGE concurred with and supported Staff's figures.<sup>63</sup>

35. No party disagreed, and the Commission finds, that all the utility plant additions submitted for ISRS classification were in service and used and useful before Staff filed its Recommendation on November 29, 2016.<sup>64</sup>

36. Additionally, it is undisputed that all of MGE's replaced cast iron and bare steel mains were considered to be worn out or deteriorated due to their age.<sup>65</sup>

37. Public Counsel did object, however, to certain portions of plastic mains and service lines that were replaced, claiming that those were not worn out or deteriorated under the requirements of the ISRS statute.<sup>66</sup> Additionally, Public Counsel

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<sup>58</sup> Staff Exhibit 1, Schedule CNN-d1, p. 4.

<sup>59</sup> Staff Exhibit 1, Schedule CNN-d1, p. 4.

<sup>60</sup> Staff Exhibit 1, Schedule CNN-d1, p. 3.

<sup>61</sup> Staff Exhibit 1, Schedule CNN-d1, p. 5.

<sup>62</sup> Staff Exhibit 1, Schedule CNN-d1, p. 4.

<sup>63</sup> Laclede Exhibit 1, p. 3, lns. 20-22.

<sup>64</sup> Laclede Exhibit 2, p. 3, lns. 6-13.

<sup>65</sup> Tr. p. 149, lns. 15-18.

<sup>66</sup> File No. GO-2016-0332, Item No. 8, *Motion to Deny Proposed Rate Increases and, Alternatively, Motion for Hearing* (filed Dec. 9, 2016).

objected to certain hydrostatic testing costs as not eligible to be included in MGE's ISRS change request.<sup>67</sup>

38. The company determined it needed to replace, along with certain pieces of cast iron and bare steel pipe, the pieces of plastic pipe that had been used as patches to the cast iron pipe and to relocate the mains in easier to access areas.<sup>68</sup> The patches of plastic pipe varied in length from just a few feet to several hundred feet in length.<sup>69</sup>

39. The plastic pipe that was replaced also varied in age, with some being installed in the 1970s, 1980s, 1990s, 2000s, and 2010s.<sup>70</sup>

40. MGE considered that the patches of plastic pipe and the plastic service lines were part of a larger system of pipeline and replaced entire neighborhoods of mains and service lines by running new plastic lines.<sup>71</sup> These lines were generally in new locations between the street and the sidewalks for easier access, were buried at a different depth, and required that service lines connect to the main line and enter the customers' buildings in different locations than the old lines.<sup>72</sup>

41. Because of the scope of the projects, entire neighborhoods had mains and services lines replaced and relocated with the old pipes abandoned in place.<sup>73</sup> In this particular situation the mains could not be replaced without replacing the service lines.<sup>74</sup>

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<sup>67</sup> File No. GO-2016-0332, Item No. 8, *Motion to Deny Proposed Rate Increases and, Alternatively, Motion for Hearing* (filed Dec. 9, 2016).

<sup>68</sup> Laclede Exhibit 2, p. 11, Ins. 20; and Laclede Exhibit 3, p. 10, Ins. 8-10.

<sup>69</sup> Laclede Exhibit 3, p. 9, Ins. 17-18.

<sup>70</sup> OPC Exhibit 1, Schedules CRH-D-2 and CRH-D-3; and OPC Exhibit 2.

<sup>71</sup> Tr. p. 128, Ins. 14-23; and p. 132, Ins. 12-22.

<sup>72</sup> Tr. pp. 140-142; and Laclede Exhibit 3, p. 10, Ins. 1-13.

<sup>73</sup> Laclede Exhibit 3, pp. 10-11.

<sup>74</sup> Tr. p. 141, Ins. 12-14; and Laclede Exhibit 3, p. 11, Ins. 11-13.

42. Additionally, replacing the plastic pipe was an essential and indispensable step in completing the cast iron and steel main replacement projects.<sup>75</sup>

43. A majority of the pipeline replaced was cast iron and bare steel pipe.<sup>76</sup> Further, more cast iron and plastic in total was removed than new plastic put in place, due to efficiencies in the new placement and type of pipelines.<sup>77</sup>

44. By retiring the newer plastic patches, MGE reduces the depreciation expenses related to that plastic pipe and customers receive a reduction in ISRS rates accordingly.<sup>78</sup>

45. Hydrostatic testing is performed for several reasons.<sup>79</sup>

46. Hydrostatic testing is performed on newly installed pipelines to check for leaks.<sup>80</sup>

47. Hydrostatic testing is also performed on old pipeline to check for leaks as part of the company's maintenance or integrity management program.<sup>81</sup>

48. The third type of hydrostatic testing is what is at issue in this case. That is, hydrostatic testing that is done on pipe that has already been placed in the ground (generally prior to 1970) and is being tested to establish a baseline maximum pressure.

49. This third type of testing is done only one time. If the testing shows leaking or deterioration the pipe is repaired or replaced (and the cost of testing and repair may or may not be eligible for inclusion in ISRS rates). If there is no problem,

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<sup>75</sup> Laclede Exhibit 3, p. 9, Ins. 8-10.

<sup>76</sup> Tr. p. 128, Ins. 6-9; and Staff Exhibit 5, pp. 3-4.

<sup>77</sup> Laclede Exhibit 3, p. 8, Ins. 16-19; and p. 11, Ins. 17-19.

<sup>78</sup> Laclede Exhibit 2, p. 11, Ins. 3-14, and Revised Rebuttal Schedule GWB-2.

<sup>79</sup> Tr. p. 145, Ins. 11, through p.146, Ins. 23.

<sup>80</sup> Tr. p. 145, Ins. 11-14.

<sup>81</sup> Tr. p. 145, Ins. 11-19.



nothing physical occurs. The testing determines the maximum allowable operating pressure and records are kept of that result.<sup>82</sup>

50. The third type of testing provides confidence to the company that the pipeline is expected to last for an additional period of years. However, no physical changes have been made to the pipe in contrast to relining, insertion, or joint encapsulation projects.<sup>83</sup>

#### IV. Conclusions of Law

Laclede and MGE are each a “gas corporation” and a “public utility” as those terms are defined by Section 386.020, RSMo (Supp. 2012). The Commission’s authority is limited to that specifically granted by statute or warranted by clear implication as necessary to effectively render a specifically granted power.<sup>84</sup> Laclede and MGE are subject to the Commission’s jurisdiction, supervision, control, and regulation, as provided in Chapters 386 and 393, RSMo.

Sections 393.1009 through 393.1015, RSMo (Supp. 2012) (“ISRS statutes”) authorize a gas corporation to establish or change an ISRS rate schedule outside of a general rate case after approval by the Commission. An ISRS is a statutorily permitted form of rate adjustment mechanism that allows a public utility to change rates based on the consideration of a single issue.<sup>85</sup> Thus, the Commission has the authority under the ISRS statutes to consider and approve ISRS requests such as the ones proposed in the petitions.<sup>86</sup>

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<sup>82</sup> Laclede Exhibit 3, p.5, Ins. 18-21.

<sup>83</sup> Tr. p. 121, Ins. 21-22; and pp. 123-124.

<sup>84</sup> *State ex rel. Int'l Telecharge, Inc. v. Mo. Pub. Serv. Comm'n*, 806 S.W.2d 680, 686 (Mo. App. W.D. 1991).

<sup>85</sup> *Liberty Energy Corp. v. Office of Pub. Counsel*, 464 S.W.3d 520 (Mo. 2015).

<sup>86</sup> Laclede Exhibits 4 and 5.

Since Laclede and MGE brought the petitions, they bear the burden of proof.<sup>87</sup> The burden of proof is the preponderance of the evidence standard.<sup>88</sup> In order to meet this standard, Laclede and MGE must convince the Commission it is “more likely than not” that its allegations are true.<sup>89</sup> Section 393.1015.2(4), RSMo (Supp. 2012), states that “[i]f the commission finds that a petition complies with the requirements of sections 393.1009 to 393.1015, the commission shall enter an order authorizing the corporation to impose an ISRS that is sufficient to recover appropriate pretax revenue, as determined by the commission pursuant to the provisions of sections 393.1009 to 393.1015.”

### Eligible Expenses

The first issue for determination is whether the Commission should approve ISRS revenue requirement increases for Laclede and MGE in this case. Public Counsel argues that the Commission should reject the ISRS change petitions because they seek to recover ineligible expenses not authorized by law. These allegedly ineligible expenses were of two types: the replacement of plastic pipe mains and service lines that were relatively new; and hydrostatic testing of plastic pipe to establish a maximum allowable operating pressure (MAOP).<sup>90</sup>

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<sup>87</sup> “The burden of proof, meaning the obligation to establish the truth of the claim by preponderance of the evidence, rests throughout upon the party asserting the affirmative of the issue”. *Clapper v. Lakin*, 343 Mo. 710, 723, 123 S.W.2d 27, 33 (1938).

<sup>88</sup> *Bonney v. Environmental Engineering, Inc.*, 224 S.W.3d 109, 120 (Mo. App. 2007); *State ex rel. Amrine v. Roper*, 102 S.W.3d 541, 548 (Mo. banc 2003); *Rodriguez v. Suzuki Motor Corp.*, 936 S.W.2d 104, 110 Mo. banc 1996).

<sup>89</sup> *Holt v. Director of Revenue, State of Mo.*, 3 S.W.3d 427, 430 (Mo. App. 1999); *McNear v. Rhoades*, 992 S.W.2d 877, 885 (Mo. App. 1999); *Rodriguez*, 936 S.W.2d at 109-111; *Wollen v. DePaul Health Center*, 828 S.W.2d 681, 685 (Mo. banc 1992).

<sup>90</sup> *Motion to Deny Proposed Rate Increases and, Alternatively, Motion for Hearing*, File Nos. GO-2016-0332 and GO-2016-0333 (filed Dec. 9, 2016).

Section 393.1012.1, RSMo (Supp. 2012), provides that a gas corporation may petition the Commission to change its ISRS rate schedule “to provide for the recovery of costs for eligible infrastructure system replacements.”<sup>91</sup> That term is defined in Section 393.1009(3), RSMo (Supp. 2012) as “gas utility plant projects that: (a) Do not increase revenues by directly connecting the infrastructure replacement to new customers; (b) Are in service and used and useful; (c) Were not included in the gas corporation's rate base in its most recent general rate case; and (d) Replace or extend the useful life of an existing infrastructure.”<sup>92</sup>

Further, a “gas utility plant project” is defined in Section 393.1009(5), RSMo (Supp. 2012). That section states:

“Gas utility plant projects’ may consist only of the following:

(a) Mains, valves, service lines, regulator stations, vaults, and other pipeline system components installed to comply with state or federal safety requirements as replacements for existing facilities that have worn out or are in deteriorated condition;

(b) Main relining projects, service line insertion projects, joint encapsulation projects, and other similar projects extending the useful life or enhancing the integrity of pipeline system components undertaken to comply with state or federal safety requirements; and

(c) Facilities relocations required due to construction or improvement of a highway, road, street, public way, or other public work by or on behalf of the United States, this state, a political subdivision of this state, or another entity having the power of eminent domain provided that the costs related to such projects have not been reimbursed to the gas corporation.<sup>93</sup>

First, Public Counsel argues that Laclede and MGE have not shown that replacing plastic pipe was done “to comply with state or federal safety requirements” because the existing facilities were “worn out or deteriorated.” To determine eligibility,

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<sup>91</sup> Emphasis added.

<sup>92</sup> Emphasis added.

<sup>93</sup> Emphasis added.

the Commission must determine if the existing facilities were worn out or deteriorated.<sup>94</sup> No party disputed that the cast iron and bare steel pipes were considered worn out or deteriorated. The issue is whether certain costs associated with replacing connected plastic mains and service lines at the same time that cast iron and steel mains and service lines are replaced can be recovered through the ISRS.

Staff and Laclede Gas Company witnesses testified that the plastic mains being replaced were interspersed with the cast iron and steel pipe because they had been used to repair earlier problem areas.<sup>95</sup> Thus, when Laclede and MGE replace the deteriorated and worn out cast iron and steel, some plastic pipe is also incidentally replaced.<sup>96</sup> Additionally, because of the scope of the projects, entire neighborhoods had mains and services lines replaced and relocated with the old pipes abandoned in place.<sup>97</sup> The relocation of the mains further necessitated the replacement of the service lines. Even with all of this interrelated replacement, because of the new efficiencies achieved with the type of replacement pipe, the new locations, and abandoning the old pipe in place, more cast iron and plastic pipe in total was retired than new plastic pipe was installed.<sup>98</sup>

The Commission concludes that because the plastic pipe in this case was an integral component of the worn out and deteriorated cast iron and steel pipe, as evidenced by the credible testimony of Staff and Laclede Gas Company witnesses, the cost of replacing it can be recovered.

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<sup>94</sup> *Office of the Public Counsel v. P.S.C.*, 464 S.W.3d 520, 525 (Mo. 2015).

<sup>95</sup> Laclede Exhibit 3, p. 9, Ins. 10-13.

<sup>96</sup> Laclede Exhibit 3, p. 9, Ins. 5-7.

<sup>97</sup> Tr. p. 128, Ins. 14-23; and p. 132, Ins. 12-22; and Laclede Exhibit 3, pp. 10-11.

<sup>98</sup> Staff Exhibit 5, p. 3, Ins. 11 and 21; p. 7; and p. 9.

This decision can be distinguished from the Commission's decision to not allow telemetry expenses as part of ISRS because those items were discrete additions to ISRS-eligible projects and were included in the pipeline replacement projects as a matter of convenience.<sup>99</sup> In contrast, the incidental replacement of plastic pipe connected to cast iron or steel, is not discrete and separate. These plastic pipes that are being replaced were installed to fix an immediate problem and intended to remain until Laclede or MGE could schedule the entire main replacement.<sup>100</sup> The plastic patches are no longer separate and discreet once integrated into the system. Thus, the Commission concludes that once installed, these patches become part of the "facility" that is being replaced.

Furthermore, not allowing recovery of the portions of the main replacement projects that incidentally consist of plastic pipe would be a disincentive to the gas utilities to replace deteriorated pipelines containing portions of plastic.<sup>101</sup> Such a disincentive would be particularly troubling in these circumstances as the more patches there are in a pipe, the more vulnerable that pipe is to leaks, which could cause a degradation of safety.<sup>102</sup> Pragmatically, that result would be troubling, but it would also be contrary to the legislative purpose of the ISRS statutes. Therefore, the Commission concludes that each project that replaced cast iron, steel, and plastic pipes contemporaneously were all part of a single segment of pipeline that was worn out or deteriorated.

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<sup>99</sup> *In the matter of the Verified Application and Petition of Laclede Gas Company to Change Its Infrastructure System Replacement Surcharge in Its Laclede Gas Service Territory, and In the Matter of the Application of Laclede Gas Company to Change Its Infrastructure System Replacement Surcharge in Its Missouri Gas Energy Service Territory*, File Nos. GO-2015-0341 and GO-2015-0343, (*Report & Order*, issued Nov. 12, 2015).

<sup>100</sup> Staff Exhibit 5, pp. 5-6.

<sup>101</sup> Staff Exhibit 5, p. 5, Ins.10-14.

<sup>102</sup> Tr. p. 135, Ins. 9-23; and Tr. p. 136, ln. 22 through p. 138, ln. 14.

The hydrostatic testing at issue, however, is not an ISRS eligible expense. Pursuant to Section 393.1009(3), RSMo (Supp. 2012), the first criteria for ISRS eligibility is that it must be a gas utility plant project, the definition of which includes, “Main relining projects, service line insertion projects, joint encapsulation projects, and other similar projects extending the useful life. . .” of a pipe.<sup>103</sup> Laclede argues that hydrostatic testing extends the useful life of a pipe in that the testing provides confidence to the company that the pipeline is expected to last for an additional period of years. However, hydrostatic testing must first qualify as a project similar to main relining, service line insertion, or joint encapsulation before it matters whether useful life is extended.

The evidence shows that nothing physically is added to or taken away from the pipes that are tested.<sup>104</sup> If the testing shows no leaking or deterioration the maximum allowable operating pressure is determined, but nothing further occurs. The testing provides confidence to the company that the pipeline is expected to last for an additional period of years, but without first bearing some similarity to relining, insertion, or joint encapsulation projects, that extra confidence is irrelevant to ISRS eligibility.<sup>105</sup>

Consistent with this conclusion, the Federal Energy Regulatory Commission (FERC) has determined that hydrostatic testing does not extend the useful life of a pipeline.<sup>106</sup> That determination was expressly for the purpose of expanding on accounting guidance that had been previously issued in an “accounting release.”<sup>107</sup>

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<sup>103</sup> Emphasis added.

<sup>104</sup> Tr. 123.

<sup>105</sup> Tr. 123-124.

<sup>106</sup> *Order on Accounting for Pipeline Assessment Costs*, FERC Docket No. AI05-1-000 (issued June 30, 2005) (FERC Order); OPC Exhibit 5.

<sup>107</sup> FERC Order, para. 1.

The FERC order specifically addresses the costs incurred when conducting baseline testing,<sup>108</sup> “The act of inspecting or assessing a pipeline segment does not by itself increase the useful life of a pipeline asset or improve its efficiency.”<sup>109</sup> While the Commission is not bound by the FERC decision, it is a helpful guide in the Commission’s analysis of this issue.

Laclede and MGE have not shown the pipe at issue will last any longer after testing than it would have lasted without. The only thing that has changed is that the company now has knowledge that it did not have previously. Even if the company had shown hydrostatic testing results in longer-lasting pipe, it has not shown that hydrostatic testing meets the definition of an ISRS-eligible project. The Commission concludes that this type of hydrostatic testing is not an ISRS-eligible expense.

#### V. Decision

In making this decision, the Commission has considered the positions and arguments of all of the parties. After applying the facts to the law, the Commission finds that the substantial and competent evidence in the record supports the conclusion that Laclede and MGE have met, by a preponderance of the evidence, their burden of proof to demonstrate that the petitions and supporting documentation comply with the requirements of Sections 393.1009 to 393.1015, RSMo (Supp. 2012) with the exception of the hydrostatic testing expense at issue. The Commission concludes that Laclede and MGE shall be permitted to change their ISRS rates to recover ISRS revenues equal to those set out by Staff in its Recommendations, less the hydrostatic testing expenses.

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<sup>108</sup> FERC Order, para. 30.

<sup>109</sup> FERC Order, para. 21.

Further, these ISRS revenues shall follow the rate design for each customer class as set out in Appendix B of the Staff Recommendations.

Since the revenues and rates authorized in this order differ from those contained in the tariffs Laclede and MGE submitted with their petitions, the Commission will reject those tariff sheets. The Commission will allow Laclede and MGE an opportunity to submit new tariff sheets consistent with this order. Further, because Public Counsel's objections and request for hearing was not filed until the 70<sup>th</sup> day of this 120-day proceeding and due to the various state and federal holidays interfering with the hearing schedule, the Commission finds good cause to make this order effective in less than 30 days.<sup>110</sup>

**THE COMMISSION ORDERS THAT:**

1. The motions contained in the *Response of Laclede Gas Company in Opposition to OPC's December 9 Motion, or in the Alternative, Motion to Strike Certain Issues* is denied.
2. The January 10, 2017, motion to strike portions of Laclede's brief is denied and the alternate motion to allow OPC to respond is granted.
3. The January 16, 2017, *Laclede and MGE's Motion to Strike and Response to OPC's Motion to Strike* is denied.
4. The tariff sheet filed by Laclede Gas Company for its Laclede service territory on September 30, 2016, and assigned Tariff No. YG-2017-0047, is rejected.

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<sup>110</sup> In fact, even though the parties were fully aware of the time constraints on the Commission to issue its order within the 120-day statutory period, the parties originally agreed to a procedural schedule providing for a hearing on Jan. 10, 2017, with briefs not filed until Jan. 16, 2017 (the Martin Luther King, Jr. State Holiday). That schedule would have effectively given the Commission only 12 days to prepare this Report & Order, hold a properly noticed meeting to vote on the order, and issue it with a reasonable amount of time to allow for rehearing requests before it became effective.



5. Laclede Gas Company is authorized to adjust its Infrastructure System Replacement Surcharge for its Laclede service territory in an amount sufficient to recover ISRS revenue of \$4,504,138 for File No. GO-2016-0333.

6. Laclede Gas Company is authorized to file composite/cumulative ISRS rates for each customer class consistent with Staff's recommended rate design.

7. Laclede Gas Company shall file a tariff sheet in compliance with this order no later than 1:00 p.m., January 19, 2017.

8. Staff shall review the tariff sheet required by Ordered Paragraph 7 above after it is filed by Laclede Gas Company and file a recommendation as to whether the tariff sheet is in compliance with this order no later than 4:00 p.m., January 20, 2017.

9. Any party wishing to respond or comment on the tariff sheet required by Order Paragraph 7 above shall file its response no later than 4:00 p.m., January 20, 2017.

10. The tariff sheet filed by Missouri Gas Energy, an Operating Unit of Laclede Gas Company on September 30, 2016, and assigned Tariff No. YG-2017-0048, is rejected.

11. Missouri Gas Energy, an Operating Unit of Laclede Gas Company is authorized to adjust its Infrastructure System Replacement Surcharge sufficient to recover revenues of \$3,362,598 less the amount of the hydrostatic testing as set out in this order for File No. GO-2016-0332.

12. Missouri Gas Energy, an Operating Unit of Laclede Gas Company is authorized to file composite/cumulative ISRS rates for each customer class consistent with Staff's recommended rate design method.

13. Missouri Gas Energy, an Operating Unit of Laclede Gas Company shall file a tariff sheet in compliance with this order no later than 1:00 p.m., January 19, 2017.

14. Staff shall review the tariff sheet required by Ordered Paragraph 13 above once it is filed and file a recommendation as to whether the tariff sheet is in compliance with this order no later than 4:00 p.m., January 20, 2017.

15. Any party wishing to respond or comment on the tariff sheet required by Order Paragraph 13 above shall file its response no later than 4:00 p.m., January 20, 2017.

16. This order shall become effective on January 28, 2017.

**BY THE COMMISSION**



*Morris L. Woodruff*  
Morris L. Woodruff  
Secretary

Hall, Chm., Stoll, Kenney, and Coleman, CC, concur,  
Rupp, C., dissents,  
and certify compliance with the provisions  
of Section 536.080, RSMo.

Dated at Jefferson City, Missouri,  
on this 18<sup>th</sup> day of January, 2017.

## Appendix 1 - CAM

### I. INTRODUCTION

The Missouri Public Service Commission (“Commission”) enacted the Affiliate Transactions Rules found at 4 CSR 240-40.015 and 40.016 (the “Rules”). The Rules describe a cost allocation manual (“CAM”) as including the criteria, guidelines and procedures the utility will follow to be in compliance with the Rules. The Rules also state that the CAM should set forth cost allocation, market valuation and internal cost methods related to transactions with affiliates.

The purpose of this CAM is to aid Laclede Gas Company (“Laclede”) in complying with the requirements of the Rules and in doing so, to provide the Commission with transparency into processes and procedures that govern how costs are determined, allocated and assigned between Laclede and its affiliates, and define how fair market price (FMP) and fully distributed cost (FDC) are to be calculated. This CAM only addresses a portion of the requirements of the Rules and in Laclede’s opinion compliance with this CAM constitutes evidence of compliance with those portions of the Rules.

Laclede will seek, through a waiver request, specific Commission approval of any provision of this CAM that varies from the specific requirements of any Commission rules or Commission approved Stipulation and Agreement, including those reached in Case Nos. GM-2001-342 and GR-2010-0171.

The CAM, including all Appendices, and associated CAM Reports will be submitted to the Commission’s EFIS filing system in accordance with the timelines outlined in the Rules and any waivers or variances to the Rules approved for Laclede by

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the Commission. Once the CAM is officially approved by the Commission, any changes to the CAM will be submitted to Staff and OPC. Any changes to the Commission-approved CAM or the Services and Facilities Agreement will be filed with the Commission for approval. All contracts and agreements between Laclede and one or more of its affiliates (including Laclede Group, Inc.) will be maintained and made available to Staff and OPC during their effectiveness and for at least six years afterwards, on mutually agreeable terms.

### II. ANNUAL REPORTING REQUIREMENTS, RECORD RETENTION AND ACCESS TO RECORDS

Laclede and its affiliates shall adhere to reporting requirements of the Rules and maintain records of all procedures, allocation methods, and transactional data relating to sales and purchases of goods and services between Laclede and its affiliates.

Laclede Gas Company shall maintain the following information in a mutually agreed-to electronic format regarding affiliate transactions on a fiscal year basis and consistent with the waiver approved in Case No. GE-2011-0171, shall provide such information, in addition to the information required by 4 CSR 240-40.015 Section 4 to the Chief Staff Counsel, Manager of the Auditing Department and the OPC on or before December 15<sup>th</sup> of each year by submitting an annual report to the non-case related portion of EFIS devoted to affiliate transaction submissions. Specifically, Laclede shall submit:

1. A full and complete list of all affiliated entities as defined by the Commission's Affiliate Transactions Rules including the following:

- An organization chart depicting the total family of companies within the Laclede Group, Inc. structure.

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- An organizational chart for Laclede Gas Company and any affiliate doing business with Laclede Gas.
- A listing and comprehensive and detailed description of each non-regulated activity engaged in by Laclede Gas and its affiliates.
- The total dollar amount of revenues and expenses for each non-regulated activity for the last fiscal year.
- A listing of all Laclede Gas Company cost centers and functions that directly or indirectly assign or allocate cost to any non-regulated activity engaged in by Laclede Gas Company or any affiliated entity.

2. For each good and service provided to Laclede Gas Company by affiliated entities or provided to affiliated entities by Laclede Gas Company, Laclede shall provide on a fiscal year basis:

- A description of all Laclede Gas Company functions that provide support to non-regulated affiliated business units, including Laclede Group, Inc. and the positions and number of employees providing each function; a requirement that may be satisfied by submission of the employee affiliate time allocation data base that Laclede currently provides to Staff;
- A list and description of each good and service;
- The dollar amount of each transaction involving such goods and services, including the FERC USoA account charged;
- A full and complete list of each contract entered into by Laclede Gas Company with affiliated entities;
- A full and complete list of each affiliate transaction undertaken by Laclede Gas Company with affiliated entities without a written contract together with a brief explanation of why there was no contract; and,
- The procedures to be used to measure and assign costs to non-regulated units for each function provided by Laclede Gas Company.

3. The annual dollar amount of each service and good charged to each affiliate by Laclede Gas Company and the annual dollar amount of each service and good purchased from each affiliate;

4. The basis used (e.g., fair market price, FDC, etc.) to record each affiliate transaction and, unless otherwise addressed herein, a detailed discussion of the basis for determining

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the charges from Laclede Gas Company to affiliated companies, and charges to Laclede Gas Company from affiliated companies, including:

- For all FDC calculations, a description of the cost allocation process employed for each service and good and justification for the allocation method used unless otherwise addressed in this CAM.
  - For all FDC calculations, how direct, indirect and common activities are assigned for each service and good unless otherwise addressed in this CAM.
  - How the fair market price or value for each service and good is determined unless otherwise addressed in this CAM.
  - A description of the criteria employed to determine whether volume discounts or other pricing considerations were provided by Laclede Gas Company to affiliates.
5. In addition, Laclede Gas Company shall maintain on a fiscal year basis books of accounts and supporting records in sufficient detail to permit verification of compliance with the Commission's Affiliate Transactions Rules and shall provide access to all information and personnel necessary to audit individual transactions between it and its affiliates to ensure it complies with the pricing and costing standards set forth in this CAM.
6. Laclede's gas marketing affiliate(s) shall provide an annual presentation to Staff and OPC to discuss future business plans and strategies.
7. Recitation of the annual reporting requirements listed above is not intended to preclude the Staff or OPC from seeking additional information from Laclede Gas Company and its affiliates regarding any aspect of its compliance with the rules and the CAM at anytime or to preclude Laclede or its affiliates from objecting to the provision of such additional information, consistent with the Stipulation and Agreement in GM-2001-342.

**III. SERVICES AND FACILITIES AGREEMENT**

The Laclede Group and each affiliate taking or receiving services, sharing facilities or having other affiliate transactions with Laclede Gas will sign and become a party to a Services and Facilities Agreement (“SFA”). The SFA establishes procedures, terms and conditions for providing shared services and facilities and other activities. To the extent that the SFA specifies terms and conditions for providing shared services and facilities and other activities relating to Laclede Gas Company’s regulated services, the SFA shall comply with the Commission’s Affiliate Transactions Rules and applicable Commission orders. A copy of the SFA is attached hereto as Attachment1.

**IV. ACCOUNTING PROCEDURES**

Laclede Gas Company and its affiliates shall maintain adequate books and records with respect to the transactions described in this CAM and in the SFA in order to record the costs, payments and receipts to be assigned to Laclede Gas Company and affiliates. Laclede Gas Company shall be responsible for ensuring that all costs, payments and receipts associated with transactions covered by this CAM are properly and consistently assigned in accordance with the terms and provisions of the CAM and SFA.

Laclede Gas Company, each affiliate and The Laclede Group, Inc. will maintain records supporting its affiliated transactions for at least six years or as required by other Commission rules or law, whichever is greater.

Laclede Gas Company shall conduct audits concerning its compliance with any rules, Commission Orders, Commission-approved Stipulations and Agreements, Laclede’s CAM and its SFA relating to Laclede affiliated transactions no less often than

every three calendar years and shall file with its annual CAM submission its internal audit plan for affiliate transactions.

V. EVIDENTARY STANDARDS FOR AFFILIATED TRANSACTIONS

In each and every transaction that involves either the purchase or receipt of information, assets, goods or services by Laclede Gas Company from an affiliated entity, Laclede shall create written documentation that supports both the fair market price of such information, assets, goods and services and the fully distributed cost to produce or acquire the information, assets, goods or services for itself.

A. In all transactions, unless a Commission approved waiver applies, that involve the provision of information, assets, goods or services to affiliated entities, Laclede Gas Company must demonstrate that:

- It considered and included all operating, capital and other costs incurred to complete the transaction in its FDC analysis;
- It calculated the costs at times relevant to the transaction in its FDC analysis;
- It allocated all joint and common costs (including Laclede's cost of capital) appropriately in its FDC analysis;
- It adequately determined, documented, calculated and explained the fair market price of the information, assets, goods or services, including a description of the methods and procedures used to determine the current prices of these or related services in the competitive market; and,
- The dollar amount of the FMP and FDC will be readily discernible upon a review or audit of the transaction.

B. *Gas Supply and Transportation Standards of Conduct.* Consistent with the Unanimous Partial Stipulation and Agreement filed on July 16, 2013, in Case No. GC-2011-0098, Laclede shall rely on its Gas Supply and Transportation Standards of Conduct as set forth in Appendix 2 for its gas supply and transportation procurement and sales



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transactions processes (Gas Transactions), including off-system sales and capacity release.

### C. *Gas Supply and Transportation Standards of Conduct Documentation*

Laclede shall include its Gas Supply and Transportation Standards of Conduct as part of its CAM. For any updates to the Gas Supply and Transportation Standards of Conduct Laclede shall request Commission approval and copies of any change shall be provided to Staff and OPC by submitting both a copy of the modified version, with changes accepted, and a draft version that shows the additions and deletions (track-changes).

## VI. SERVICES, FACILITIES AND ACTIVITIES

The SFA will be reviewed by Laclede Gas Company on an annual basis to ensure that the policies and procedures in the SFA are designed and administered in a manner that, except as necessary or needed to provide corporate support services as described below, ensures that no preferential service (as defined by 4 CSR 240-40.015(1)(H)) is provided to any affiliate of Laclede Gas Company through its transactions under the SFA. Each affiliated party to the SFA will determine the appropriate level of services, facilities or other activities it requires and will make such requests as it deems appropriate.

*A. Corporate Support Facilities.* Upon the terms and subject to the conditions of the CAM and SFA, a Party may request the use of:

(a) facilities, including office space, warehouse and storage space, fixtures and office furniture and equipment;

(b) computer equipment (both stand-alone and mainframe) and networks, peripheral devices, storage media, and software;

(c) communications equipment, including audio and video equipment, radio equipment, telecommunications equipment and networks; and,

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(d) vehicles, including automobiles, trucks, and vans

No Party, including Laclede Gas Company, shall have an obligation to provide any of the foregoing to the extent that such item or items are not available (either because such Party does not possess the item or the item is otherwise being used). A Party has sole discretion in scheduling the use of facilities, equipment or capabilities so as to avoid interference with that Party's operations. Laclede Gas Company shall not schedule the use of facilities, equipment or capabilities if it interferes with Laclede Gas Company's operations.

*B. Corporate Support Services.* The Parties may enter into agreements for services upon the terms and subject to the conditions of the CAM and the SFA. No Party, including Laclede, shall be obligated to offer any of the following corporate support services to any affiliated or unaffiliated party:

(a) Joint corporate oversight and governance, administrative and management services, including accounting (i.e., bookkeeping, billing, accounts receivable administration and accounts payable administration, and financial reporting); audit; executive; finance; insurance; information systems services; investment advisory services; legal; library; record keeping; secretarial and other general office support; real estate management; security holder services; tax; treasury; and other administrative and management services;

(b) Personnel services, including recruiting; training and evaluation services; payroll processing; employee benefits administration and processing; labor negotiations and management; and related services;

(c) Research and development, including drafting and technical specification development and evaluation; engineering; environmental; research; testing; and training.

No Party, including Laclede Gas Company, shall have an obligation to provide any of the foregoing to the extent that it is not capable of providing such service (either

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because such Party does not have personnel capable of providing the requested service or the service is otherwise being used). A Party has sole discretion in scheduling of services so as to avoid interference with the Party's operations. Laclede Gas Company shall schedule the provision of any services so as to avoid interference with regulated operations.

*C. Cash Management.* The Parties may enter into one or more arrangements providing for the central collection, management, investment and disbursement of cash by a Party. Any such cash management arrangement shall be fully consistent with the pricing standards of the Rules and shall not provide a preferential service (information, treatment or actions by the regulated gas corporation which places the affiliated entity at an unfair advantage over its competitors). If such cash management arrangement is established, then pursuant to the SFA:

(a) the Parties participating in such arrangement shall establish appropriate inter-company accounts to track the amount of cash transferred and/or received by each Party to such arrangement and the pro rata portion of the earnings received or interest paid by each such party from the investment or borrowing of cash; and

(b) the Party responsible under the arrangement for the management and investment of such cash shall establish a separate account or accounts for such purpose, which account(s) and the records associated therewith shall clearly indicate that other Parties have an interest in said account(s) and the proceeds thereof and shall not be subject to set-off by the bank or other institution holding the same except to the limited extent of expenses arising from the management, handling and investment of the account(s).

*D. Agreements, Etc.* A Party may evidence their agreement with respect to the availability, provision or use of the facilities, services and activities described in this CAM by entering into an agreement, lease, license or other written memorandum or evidence consistent with the terms of the SFA.

VII. ASSET TRANSFERS

Laclede Gas Company shall not sell, lease, assign or transfer to any affiliate or third party any of its utility assets that are used and useful in the performance of Laclede's public utility obligations without obtaining prior Commission approval.

VIII. CHARGES; PAYMENT

*A. Charges.* Charges for the use of facilities, equipment, capabilities or services shall be determined in accordance with the section below regarding cost principles. By requesting the use of facilities, equipment, capabilities and/or services, a Party shall be deemed to have agreed to pay, and shall pay, to the Provider or Providers the charge determined therefor in accordance with Commission rules, the CAM and the SFA.

*B. Payment.* Payment for the facilities, services and other activities shall be accounted for on a monthly basis and shall accrue interest if not made by the last day of the month following the month in which the service was rendered. Late payments shall bear interest at a simple rate per annum equal to the prime bank lending rate as published in The Wall Street Journal (on the first day of the month) minus one percentage point. Such interest shall be based on the period of time that the payment is late.

IX. TRANSFER PRICING/COSTING METHODOLOGY

*A. Use of Facilities or Goods or Services -- General.* (i) Facilities, goods or services provided to Laclede Gas Company by an affiliated provider shall be charged to Laclede Gas Company at the lesser of the FMP for such facilities, goods or services or the FDC to Laclede Gas Company to provide the facilities, goods or services to itself, subject to all applicable Commission approved waivers.

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(ii) Facilities, goods or services, including shared services provided by Laclede Gas Company to an affiliate, shall be charged by Laclede Gas Company at the greater of the fair market price of such facility, good or service or at the fully distributed cost incurred by Laclede Gas Company in providing such facility, good or service to itself.

*B. Fair Market Price.* The fair market price of an asset or service as used in subsection A (i) and (ii), means:

1. The price of an arms-length exchange for the same good or service for cash in the marketplace at or near to the date of the transaction. If there is evidence that the marketplace transaction was not conducted at arms-length (the amount at which assets, goods or services would change hands between an unaffiliated willing buyer and seller, neither being under any compulsion to buy or sell and both having reasonable knowledge of the relevant facts) or if there is evidence that the market price has changed materially between the date of the marketplace exchange and the date of the affiliate transaction, then the marketplace transaction cannot be used as the basis of determining the fair market price in a transaction with an affiliate, unless appropriate adjustments are made to reflect such market changes.

2. In the absence of a cash transaction on which to base fair market price, or in situations where the cash transaction cannot be used as described in number one above, Laclede will determine and document the fair market price established by the transactions of other unaffiliated entities that have bought or sold the same or similar items in recent cash transactions under comparable terms and conditions.

a. Laclede's Human Resources Department or Procurement personnel will make reasonable efforts through market surveys to ensure that the fully distributed cost

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allocated to affiliates for services provided by Laclede falls within the range of prices charged for such services by outside companies or firms that engage in similar work. If the results of such surveys demonstrate that the costs charged by Laclede for such services consistently fall below such range, then an adjustment shall be made at the time of Laclede's annual CAM filing to bring the amount allocated within the range. The results of the market surveys will be made available to the Staff and OPC as requested. The market survey performed by Laclede will be updated in each rate case, but not less than every 18 months.

3. In the absence of cash transactions made by Laclede in the marketplace (number one above) and a lack of data about transactions by other entities (number two above), Laclede can use benchmarking practices (4 CSR 240-40.015 (3)(D) and 4 CSR 240-40.016 (4)(D)), if approved by the Commission in a later filing.

4. For costs and revenues generally subject to PGA/ACA recovery, refer to the requirements in Appendix 2, Gas Supply and Transportation Standards of Conduct.

*C. Fully Distributed Costs.* The fully distributed cost of an asset or service as used in subsections A (i) and A (ii), means: (1) Laclede Gas Company's cost of labor(including all labor overheads such as pensions and OPEBs), the rent or capital costs associated with the facilities used by such employees, the depreciation expense on equipment used by such employees, and debt and equity costs associated with any utility investments consumed in the process of providing the asset or service that would be directly attributed and charged to the asset or service; and (2) a reasonable allocated share of Laclede Gas Company's indirect joint and common labor and administrative and general costs. The actual application of fully distributed cost allocations occurs through

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what is commonly called the “three-step” allocation method. This method begins with the premise that to the maximum extent practical, all costs which can be specifically attributed to a business segment are directly charged to that business segment. Secondly, indirect costs which cannot be directly charged are allocated to business segments on the basis of a causal relationship. In the third step, any remaining costs which cannot be reasonably associated with a specific, identifiable, causal relationship shall be allocated using a general allocator as described below.

(i) *Direct Costs.* Costs incurred for materials or services that are specifically attributable to goods or services provided to an affiliate shall be charged directly to the books and records of the affiliate, using standard voucher account distribution procedures. Such charges will be visible in the accounting records through cash vouchers, invoices, or other source documents.

(ii) *Direct Labor Costs.* Amounts for direct labor (and direct labor overheads) used in providing a service to an affiliate shall be charged to the accounts of affiliates based on direct labor and overhead rates as applied to time-keeping records. For most employees, direct labor shall be charged under a positive time reporting methodology under which an employee shall report each pay period the amount of time incurred in performing the service. Based on the time reported each pay period, the regular, predetermined account distribution for the employee shall be adjusted to reflect the distribution of direct labor charges to the service.

Some departments or organizations are expected to provide a recurring, predictable level of services to a Party or Parties. For these departments or organizations, annual reviews shall be performed and documented to determine a normal distribution of

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time to such services. The distribution percentages derived from such reviews shall then be used to allocate time with respect to each pay period. For these departments or organizations, direct labor shall be charged to the service under an exception time reporting methodology. That is, significant deviations of actual activity from these predetermined percentages shall be reported and shall result in adjustments to the predetermined distribution of direct labor charges to the affiliate functions. Officers of Laclede Gas Company shall also utilize either a positive time or an exception time reporting methodology.

Overtime costs shall be reflected in the direct labor rates charged to a service. Direct labor shall be charged based either on the base and overtime pay amounts actually incurred by Laclede Gas Company or, as adjusted on a departmental or organizational basis, to reflect estimated overtime incurred based on an overtime review performed periodically.

All charges for direct labor charges shall reflect a cost for nonproductive time. The cost for nonproductive time shall be based either on actual nonproductive time incurred by Laclede Gas Company, or as adjusted on a departmental or organizational basis, to reflect estimated nonproductive time derived from a periodic review. The cost for nonproductive time reflects time incurred for vacations, holidays, and other paid absences.

Many payroll-related costs are charged through separate journal entries via clearing account distributions that directly follow the payroll charged to the accounts of the affiliate and as described below.



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(iii) *Indirect and Allocated Costs.* When costs benefit more than one entity or when costs cannot be specifically associated with a particular activity, the fully distributed cost of each expense item (including administrative and general costs, and the cost of facilities, equipment, machinery, furniture and fixtures used to provide the service) shall be allocated as set forth below: For some expense items that cannot reasonably be directly assigned and cannot also be reasonably allocated using any cost-causation allocation factor it is common to combine three financial components to determine an allocation factor referred to as a general allocator (also known as a Massachusetts Formula or Three-Factor Formula). This three-component allocation factor is derived by calculating the percent of each affiliate's share of the total of each financial component. The three components which are included in the allocation factor are to be selected as the most reasonable factors on which the specific costs should be allocated.

Laclede currently uses a general allocator based on 1) fixed assets and investments, 2) revenues, and 3) direct payroll. These factors should be continuously monitored for fairness, relevance, reasonableness and appropriateness and, if the business or operational considerations supporting the propriety of the general allocator computation change materially, and continued use of the allocation method results in an inequitable allocation of costs, Laclede shall immediately change one or more of the component factors to ensure that the costs are being allocated on the most equitable and appropriate basis. Laclede shall document the reason for the change and the reasons for the selection of new factors.

## Appendix 1 - CAM

In addition, each party shall be free in a subsequent rate case to propose changes to the calculation of the components used in Laclede's fully distributed cost determination, the financial metrics to be included in the general allocator and in the allocation factors described below.

The following expense items are allocated as indicated below:

Administrative & General Expenses – Total miscellaneous administrative and general expenses charged to the utility that cannot reasonably be directly assigned shall be allocated to affiliated entities based on the percentage of each affiliates' direct payroll charges as compared with total payroll charges. These expenses include phone charges, office and computer supplies, printing, subscriptions, travel, and other general expense items. Administrative and general expenses identifiable and specific to a particular affiliate will be charged directly to that affiliate.

Annual Report & SEC Reporting Costs – These costs shall be allocated to each affiliated entity based on the three-component allocation method as applied to the previous fiscal year unless a review of the SEC Reports and Annual Report indicate that the three-factor formula does not result in a reasonable allocation of these costs.

Board of Director Fees – Unless a review of the Board of Director minutes indicate that the three-factor formula does not result in a reasonable allocation of these costs, these costs shall be allocated to each affiliate based on the three component allocator.

Depreciation – An allocation of depreciation expense related to the cost of utility-owned facilities, equipment, machinery, furniture or fixtures utilized by an affiliate or in providing a service to an affiliate shall be charged to each affiliate based on the portion of

## Appendix 1 - CAM

time each asset or class of asset is dedicated to non-utility work. Furniture and fixtures will be allocated on a cost per employee basis as applied to direct man-hours reported for each affiliate.

Employee-Related Costs – Expenses related to payroll taxes, medical, dental, and vision insurance costs, pension and other post-retirement benefit costs, incentive compensation plan costs, and employee savings plan costs will be allocated based on direct payroll hours charged to each affiliate.

Information Systems – The costs of projects dedicated to affiliates will be charged directly to each affiliate. All costs, including capital costs related to the operation of mainframe systems will be allocated based on a percentage of operating and production time dedicated to routine affiliate activities as compared to the total for each system. Such allocations shall be based on a study performed annually. Costs related to network applications, including capital costs, will be allocated based on the number of personal computers assigned on a departmental basis. The departmental allocation of costs will be appropriately allocated to affiliates based on the proportion of direct labor reported by each department for an affiliate.

Insurance – The cost of insurance directly related to the property or activities of any affiliate will be charged directly to each affiliate. The cost of insurance policies (including capital costs on the prepaid insurance costs included in the regulated rate base) applicable to more than one entity will be allocated based on the proportion of each affiliate's share as compared with the total company as follows:

Property Insurance – fixed assets at book value (net plant)

Liability Insurance – actual claims cost

## Appendix 1 - CAM

Workmen's Compensation – actual claims cost will be charged directly and the administrative fees will be allocated based on number of employees submitting claims.

Officers & Directors Liability Insurance – three-component allocator as described above

Such allocations shall be based on the above parameters at September 30 of the previous fiscal year.

Outside audit fees – Outside audit fees shall be allocated based on the three factor allocation formula.

Rent – Rent expense for costs associated with operating leases for space dedicated to affiliated operations will be priced on a cost per square foot basis and charged directly to each affiliate. In addition, an allocation of indirect costs for rent will be made based on an annual cost per man-hour of rent expense as applied to direct payroll hours charged to each affiliate. Rent expense related to capital leases will include a capital cost component.

Vehicle costs – The operating and capital costs related to applicable vehicle groups will be allocated based on direct payroll hours charged to each affiliate and/or through the allocation of administrative and general expense described above.

The allocation factors described above are to be used for recordkeeping and financial reporting purposes and do not necessarily represent how such costs will be allocated or assigned for ratemaking purposes in subsequent rate cases.

When it becomes known that one of the above allocation methods no longer appears reasonable or equitable, Laclede will adjust or modify the allocation

## Appendix 1 - CAM

methodology to ensure that the costs are allocated on the most reasonable and equitable basis possible and will document the reasons for the changes.

### *D. Transfer Pricing/Costing Methodology for Energy-Related Goods and Services.*

Transactions between Laclede Gas and its affiliates for energy-related goods and services will be priced and conducted in accordance with the Gas Supply and Transportation Standards of Conduct, Appendix 2 to the CAM.

### X. CUSTOMER REQUESTS ABOUT GOODS AND SERVICES

Where requirements relating to customer requests for information concerning the goods and services provided by an affiliated entity are applicable, Laclede Gas Company will provide customers with an oral or written disclaimer indicating that regulated services are not tied to the use of the affiliated entity and that other service providers may be available.

### XI. DISPUTE RESOLUTION

If there is a dispute between Laclede Gas Company and any affiliate regarding a billing, representatives of all involved parties will meet to resolve the issues. Managers and other executives of the affected parties may also be consulted. In the event that a resolution cannot be reached, the issue will be referred to senior management for final resolution. Documentation of disputes and resolutions will be maintained by Laclede Gas Company including recommendations for changes to policies, procedures, and processes to assure adequate protections for Laclede Gas Company on a moving forward basis.

XII. EXCEPTIONS TO APPLICATION OF METHODOLOGIES

Laclede Gas Company may employ a different allocation or pricing methodology than those described herein in the event it determines to its best knowledge and belief that application of the methodologies or costing principles described herein would not be in the best interests of its customers receiving regulated utility service, provided that Laclede Gas Company shall maintain information sufficient to show how costs would have been allocated to such services pursuant to the methodologies set forth in this CAM, and provided further that such alternative methodology will be subject to review and adjustment in any subsequent Commission case proceeding. In the event Laclede Gas Company enters into a non-complying affiliate transaction, it shall document such transaction and file a notice of that transaction to the Commission and Public Counsel within 10 days of doing so as required by 4 CSR 240-40.015 (10)(A)2 and 4 CSR 240-40.016 (11)(A)2 for variances from the Affiliate Transaction Rule.

XIII. STAFF AND OFFICE OF THE PUBLIC COUNSEL CHALLENGES

Nothing in Laclede Gas Company's CAM prevents the Staff, OPC or any other party from challenging whether the prices charged for specific transactions are consistent with the pricing methodology set forth in this CAM and in Commission rules, or from suggesting changes in such methodology or in the allocation methodology used to assign costs between Laclede Gas Company and its affiliates during a case before the Commission.

XIV. ACCESS TO UTILITY RECORDS

Laclede Gas Company shall ensure that it prohibits access by affiliates, subsidiaries, and third parties to customer specific information (such as customer lists,

## Appendix 1 - CAM

customer usage, etc.) possessed by the utility unless specifically authorized by the customers in writing. Laclede shall maintain all documentation of such authorizations.

Submitted,

The Laclede Group, Inc.  
Laclede Gas Company  
Laclede Investment LLC  
Laclede Development Company  
Laclede Pipeline Company  
Laclede Energy Resources, Inc.  
Laclede Venture Corp.  
Laclede Gas Family Services, Inc.

SERVICES AND FACILITIES AGREEMENT  
Updated for EnergySouth, Mobile Gas and Willmut Gas

THIS SERVICES AND FACILITIES AGREEMENT (this "Agreement") is made and entered among Spire Inc. and each of the affiliated entities identified on Exhibit A hereto (collectively "the Parties"), as such Exhibit A may be amended from time to time in accordance with the provisions of this Agreement.

WITNESSETH;

WHEREAS, the Parties are related by virtue of common ownership, directly or indirectly, of their equity securities by Spire Inc.; and

WHEREAS, the Parties believe that the central management of certain services and the provisions to each other of certain services and facilities are or may be efficient and cost effective, and the Parties desire to make provision for these and other transactions as between Laclede Gas Company and another Spire Inc. Entity or Entities;

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants contained herein, the Parties hereby agree as follows:

ARTICLE I

Definitions and Interpretation

Section 1.1. *Definitions.* As used in this Agreement, the following terms shall have the respective meanings set forth below unless the context otherwise requires:

*"Commission"* means the Missouri Public Service Commission.

*"Cost Allocation Manual" or "CAM"* means the then effective version of the Laclede Gas Company Cost Allocation Manual.

*"Spire Entity"* means Spire Inc. and any of the entities identified on Exhibit A.

*"Party"* means each, and *"Parties"* means all, of the entities who are from time to time a party to this Agreement.

*"Provider"* means a Party who has been requested to, and who is able and willing to, furnish facilities, provide services or have other transactions with a Requestor under the terms of this Agreement.

*"Requestor"* means a Party who desires to use facilities, receive services or have other transactions with a Party and has requested another Party to furnish such facilities, provide such services or transactions.

Section 1.2. Purpose and intent; Interpretation. (a) The purposes and intent of this



Agreement are to set forth procedures and policies to govern (i) transactions between a Spire Inc. Entity and Laclede Gas Company, whether such transactions occur directly or indirectly as the end result of a series of related transactions and (ii) the allocation of certain joint service costs. It is not intended to govern transactions between Spire Inc. Entities that do not involve Laclede Gas Company, although such entities may elect to apply the provisions of this Agreement to transactions among themselves. This Agreement shall be interpreted in accordance with such purposes and intent.

(b) The headings of Articles and Sections contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

## ARTICLE II

### Use of Facilities and Services

Section 2.1. Facilities. Upon the terms and subject to the conditions of this Agreement, a Requestor may request a Provider or Providers to make available or provide facilities and equipment as described in the CAM. A Provider shall have no obligation to provide any facilities to the extent that such item or items are not available (either because such Provider does not possess the item or the item is otherwise being used); and it is understood that a Provider has sole discretion in scheduling the use by a Requestor of facilities, equipment or capabilities so as to avoid interference with such Provider's operations.

Section 2.2. Services. Upon the terms and subject to the conditions of this Agreement, a Requestor may request a Provider or Providers to provide services as described in the CAM. A Provider shall have no obligation to provide any service to the extent that it is not capable of providing such service (either because such Provider does not have personnel capable of providing the requested service or the service is otherwise being used); and it is understood that a Provider has sole discretion in scheduling the use by a Requestor of services so as to avoid interference with such Provider's operations.

Section 2.3. Joint Purchasing. A Party may also request that another Party or Parties enter into arrangements to effect the joint purchase of goods or services from third Parties. Laclede Gas will only participate in such arrangements if its fully distributed cost for such goods or services is not thereby increased.

Section 2.4. Cash Management. The Parties may enter into one or more arrangements providing for the central collection, management, investment and disbursement of cash by a Party. If such an arrangement is established, then such procedures as are set forth in the CAM will apply.

Section 2.5. *Agreements, Etc.* A Party may evidence their agreement with respect to the availability, provision or use of the facilities, services and activities by entering into an agreement, lease, license or other written memorandum or evidence consistent with the terms of this Agreement.

## ARTICLE III

## Charges; Payment

Section 3.1. *Charges.* Charges for the use of facilities, equipment, capabilities or services provided to or by Laclede Gas Company shall be determined as set forth in the CAM.

Section 3.2. *Accounting.* Each Party shall maintain adequate books and records with respect to the transactions subject to this Agreement and shall be responsible for maintaining internal controls where applicable to ensure the costs associated with such transactions are properly and consistently determined and billed in accordance with the terms and provisions of this Agreement and the CAM.

Section 3.3. *Payment.* Payment for the facilities, services and other activities shall be on a monthly basis and shall be made in accordance with the procedures set forth in the CAM.

## ARTICLE IV

### Cost Apportionment Methodology

The cost allocation and pricing principles and methods specified in the then effective CAM shall be used to price and allocate costs relating to services provided to or by Laclede Gas Company under this Agreement.

## ARTICLE V

### Limitations of Liability

Section 5.1. *No Warranties for Facilities or Services.* Each Party acknowledges and agrees that any facilities, equipment or capabilities made available, and any services provided, by a Provider to a Requestor hereunder, are so made available or provided WITHOUT ANY WARRANTY (WHETHER EXPRESS, IMPLIED OR STATUTORY AND NOTWITHSTANDING ANY ORAL OR WRITTEN STATEMENT BY A PARTY'S EMPLOYEES, REPRESENTATIVES OR AGENTS TO THE CONTRARY) WHATSOEVER. ALL SUCH WARRANTIES (INCLUDING, WITHOUT LIMITATION, THE WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE) ARE HEREBY DISCLAIMED AND EXCLUDED.

Section 5.2. *No Partnership.* The Parties acknowledge and agree that this Agreement does not create a partnership between, or a joint venture of, a Party and any other Party. Each Party is an independent contractor and nothing contained in this Agreement shall be construed to constitute any Party as the agent of any other Party except as expressly set forth in Sections 2.3 and 2.4.

Section 5.3. *No Third Party Beneficiaries.* This Agreement is intended for the exclusive benefit of the Parties hereto and is not intended, and shall not be deemed or construed, to create any rights in, or responsibilities or obligations to, third parties.

## ARTICLE VI

### Term

Section 6.1. *Term.* This Agreement will be effective on the date provided herein and shall continue, unless terminated as provided in Section 6.2 or renewed as hereinafter provided, until the tenth anniversary of such date (the "Initial Term"). Unless written notice that this Agreement shall terminate on the last day of the Initial Term or any then current renewal term is provided by a Party at least 30 days prior to the expiration of the Initial Term or such renewal term, this Agreement shall continue for successive renewal terms of five years as to such Party and any other Parties not providing any such termination notice.

Section 6.2. *Termination.* Any Party may terminate this Agreement as to it by providing at least 30 days prior written notice to the other Parties of the effective date of such termination. Any such termination shall not affect the terminating Party's accrued rights and obligations under this Agreement arising prior to the effective date of termination or its obligations under Section 8.4.

## ARTICLE VII

### Confidential Information

Each Party shall treat in confidence all information which it shall have obtained regarding the other Parties and their respective businesses during the course of the performance of this Agreement. Such information shall not be communicated to any person other than the Parties to this Agreement, except to the extent disclosure of such information is required by a governmental authority. If a Party is required to disclose confidential information to a governmental authority, such Party shall take reasonable steps to make such disclosure confidential under the rules of such governmental authority. Information provided hereunder shall remain the sole property of the Party providing such information. The obligation of a Party to treat such information in confidence shall not apply to any information which (i) is or becomes available to such Party from a source other than the Party providing such information, or (ii) is or becomes available to the public other than as a result of disclosure by such Party or its agents.

## ARTICLE VIII

### Miscellaneous

Section 8.1. *Entire Agreement, -Amendments.* Upon its effectiveness as provided in Section 6.1, this Agreement shall constitute the sole and entire agreement among the Parties with respect to the specific subject matter hereof and shall, with respect to such subject matter, supersede all previous agreements, proposals, oral or written, negotiations, representations, commitments and all other communications between some or all of the Parties. Except as provided in Section 8.2 with respect to new Parties and except as Spire Inc. may amend Exhibit A to this Agreement to delete any terminated Party, this Agreement shall not be amended, modified or supplemented except by a written instrument signed by an authorized representative of each of the Parties hereto.

Section 8.2. *New Parties.* Any other entity which is or may become an affiliate of Spire Inc. or any of the other Parties to this Agreement may become a party to this Agreement by executing an agreement adopting all of the terms and conditions of this Agreement. Such agreement must be signed by Spire Inc. in order to become effective, but need not be signed by any other Party to this Agreement. Upon such execution by Spire Inc. such entity shall be deemed to be a Party and shall be included within the definition of "Party" for all purposes hereof, and Exhibit A shall be amended to add such entity.

Section 8.3. *Assignment.* This Agreement may not be assigned by any party without the prior written consent of Spire Inc.

Section 8.4. *Access to Records.* During the term of this Agreement and for any period thereafter required by law, Laclede Gas Company shall maintain and provide, in accordance with the terms of the Stipulation and Agreement approved in GM-2001-342, reasonable access to any and all books, documents, papers and records of Laclede Gas Company which pertain to services and facilities provided to or received by Laclede Gas Company.

Section 8.5. *Partial Invalidity.* Wherever possible, each provision hereof shall be interpreted in such manner as to be effective and valid under applicable law, but in case any one or more of the provisions contained herein shall, for any reason, be held to be invalid, illegal or unenforceable in any respect, such provision shall be ineffective to the extent, but only to the extent, of such invalidity, illegality or unenforceability without invalidating the remainder of such invalid, illegal or unenforceable provision or provisions or any other provisions hereof, unless such a construction would be unreasonable.

Section 8.6. *Waiver.* Failure by any Party to insist upon strict performance of any term or condition herein shall not be deemed a waiver of any rights or remedies that such Party may have against any other Party nor in any way to affect the validity of this Agreement or any part hereof or the right of such Party thereafter to enforce each and every such provision. No waiver of any breach of this Agreement shall be held to constitute a waiver of any other or subsequent breach.

Section 8.7. *Governing Law.* This Agreement shall be governed by, construed and interpreted pursuant to, the laws of the State of Missouri.

IN WITNESS WHEREOF, the Parties have each caused this Agreement to be executed by a duly authorized representative on August 8, 2003 or otherwise joined in this Agreement by executing an agreement to adopt its terms and conditions.

## EXHIBIT A

Spire Inc.

Laclede Gas Company (Subsidiary of Spire Inc.)

Alabama Gas Corporation (Subsidiary of Spire Inc.)

EnergySouth (Subsidiary of Spire Inc.)

    Mobile Gas (Subsidiary of EnergySouth)

    Willmut Gas (Subsidiary of Energy South)

Laclede Investment LLC (Subsidiary of Spire Inc.)

    Laclede Energy Resources, Inc. (Subsidiary of Laclede Investment LLC)

        Laclede Gas Family Services, Inc. (Subsidiary of Laclede Energy Resources, Inc.)

        LBR Storage Services, Inc. (subsidiary of Laclede Energy Resources, Inc.)

Laclede Development Company (Subsidiary of Spire Inc.)

    Laclede Oil Services, LLC (Subsidiary of Laclede Development Company)

    Laclede Venture Corp. (Subsidiary of Laclede Development Company)

Laclede Pipeline Company (Subsidiary of Spire Inc.)

Laclede Insurance Risk Services, Inc. (Subsidiary of Spire Inc.)

Spire Resources LLC (Subsidiary of Spire Inc.)

    Spire Pipelines LLC (Subsidiary of Spire Resources LLC)

        Spire STL Pipeline LLC (Subsidiary of Spire Pipelines LLC)

Shared Services Corporation (Subsidiary of Spire Inc.)

**AGREEMENT TO ADOPT TERMS AND CONDITIONS  
OF SERVICES AND FACILITIES AGREEMENT**

This Agreement to Adopt Terms and Conditions of Services and Facilities Agreement made and entered into as of this 12th day of September, 2016 between SPIRE INC. ("SPIRE") and LACLEDE INSURANCE RISK SERVICES INC. ("LACLEDE INSURANCE").

WHEREAS SPIRE is currently a Party to a Services and Facilities Agreement (hereinafter "SFA") which has been approved by the Missouri Public Service Commission and which sets forth terms and conditions to govern certain transactions between Laclede Gas Company, SPIRE INC. and affiliated entities of both;

WHEREAS new affiliates of SPIRE may become a Party to the SFA by agreeing to the terms and conditions of such Agreement; and

WHEREAS, LACLEDE INSURANCE desires to become a Party to the SFA subject to the terms and conditions of this Agreement;

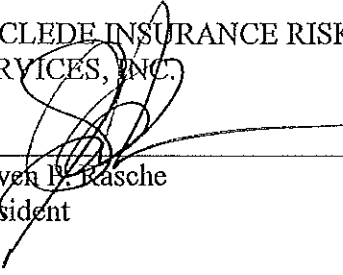
NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, SPIRE and LACLEDE INSURANCE agree as follows:

1. LACLEDE INSURANCE adopts and agrees to all of the terms and conditions of the SFA, subject to the explicit understanding that such agreement extends only to transactions between LACLEDE INSURANCE and Laclede Gas Company.

2. In exchange for this agreement by LACLEDE INSURANCE, SPIRE and LACLEDE INSURANCE agree that LACLEDE INSURANCE is, and shall hereafter be, a Party to the SFA for the purposes herein specified.

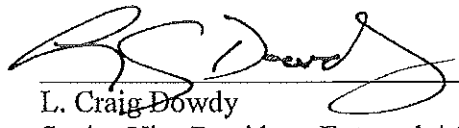
IN WITNESS WHEREOF, the Parties have each caused this Agreement to be executed by a duly authorized representative on September 12th, 2016.

LACLEDE INSURANCE RISK  
SERVICES, INC.

  
\_\_\_\_\_  
Steven P. Rasche  
President

9/9/16  
\_\_\_\_\_  
Date

SPIRE INC.

  
\_\_\_\_\_  
L. Craig Dowdy  
Senior Vice President, External Affairs,  
Corporate Communications and Marketing

9/12/16  
\_\_\_\_\_  
Date

**AGREEMENT TO ADOPT TERMS AND CONDITIONS  
OF SERVICES AND FACILITIES AGREEMENT**

This Agreement to Adopt Terms and Conditions of Services and Facilities Agreement is made and entered into as of this 12/14 day of September, 2016 by and between SPIRE INC. ("SPIRE") and LACLEDE OIL SERVICES, LLC ("LACLEDE OIL").

WHEREAS SPIRE is currently a Party to a Services and Facilities Agreement (hereinafter "SFA") which has been approved by the Missouri Public Service Commission and which sets forth terms and conditions to govern certain transactions between Laclede Gas Company, SPIRE INC. and affiliated entities of both;

WHEREAS new affiliates of SPIRE may become a Party to the SFA by agreeing to the terms and conditions of such Agreement; and

WHEREAS, LACLEDE OIL desires to become a Party to the SFA subject to the terms and conditions of this Agreement;

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, SPIRE and LACLEDE OIL agree as follows:

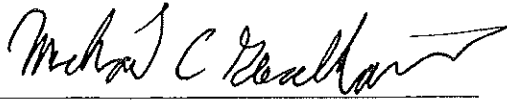
1. LACLEDE OIL adopts and agrees to all of the terms and conditions of the SFA, subject to the explicit understanding that such agreement extends only to transactions between LACLEDE OIL and Laclede Gas Company.

2. In exchange for this agreement by LACLEDE OIL, SPIRE and LACLEDE OIL agree that LACLEDE OIL is, and shall hereafter be, a Party to the SFA for the purposes herein specified.

IN WITNESS WHEREOF, the Parties have each caused this Agreement to be executed by a duly authorized representative on September 12/14 2016.



LACLEDE OIL SERVICES, LLC

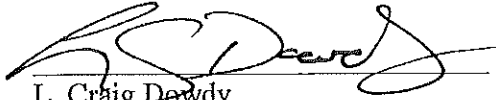


Michael C. Geiselhart  
President

9/9/16

Date

SPIRE INC.



L. Craig Dowdy  
Senior Vice President, External Affairs,  
Corporate Communications and Marketing

9/12/16

Date

**AGREEMENT TO ADOPT TERMS AND CONDITIONS  
OF SERVICES AND FACILITIES AGREEMENT**

This Agreement to Adopt Terms and Conditions of Services and Facilities Agreement is made and entered into as of this 12<sup>th</sup> day of September, 2016 by and between SPIRE INC. (“SPIRE”) and SHARED SERVICES CORPORATION (“SHARED SERVICES”).

WHEREAS SPIRE is currently a Party to a Services and Facilities Agreement (hereinafter “SFA”) which has been approved by the Missouri Public Service Commission and which sets forth terms and conditions to govern certain transactions between Laclede Gas Company, SPIRE INC. and affiliated entities of both;

WHEREAS new affiliates of SPIRE may become a Party to the SFA by agreeing to the terms and conditions of such Agreement; and

WHEREAS, SHARED SERVICES desires to become a Party to the SFA subject to the terms and conditions of this Agreement;

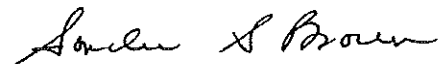
NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, SPIRE and SHARED SERVICES agree as follows:

1. SHARED SERVICES adopts and agrees to all of the terms and conditions of the SFA, subject to the explicit understanding that such agreement extends only to transactions between SHARED SERVICES and Laclede Gas Company.

2. In exchange for this agreement by SHARED SERVICES, SPIRE and SHARED SERVICES agree that SHARED SERVICES is, and shall hereafter be, a Party to the SFA for the purposes herein specified.

IN WITNESS WHEREOF, the Parties have each caused this Agreement to be executed by a duly authorized representative on June 12<sup>th</sup>, 2016.

SHARED SERVICES CORP.

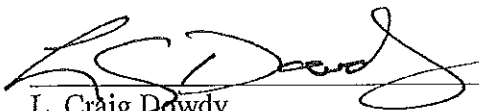


Sondra S. Brown  
Chief Financial Officer

9-9-16

Date

SPIRE INC.



L. Craig Dowdy  
Senior Vice President, External Affairs,  
Corporate Communications and Marketing

9/12/16

Date

AGREEMENT TO ADOPT TERMS AND CONDITIONS  
OF SERVICES AND FACILITIES AGREEMENT

This Agreement to Adopt Terms and Conditions of Services and Facilities Agreement is made and entered into as of this 24<sup>th</sup> day of September, 2016 by and between SPIRE INC. (“SPIRE”) and LER STORAGE SERVICES INC. (“LER STORAGE”).

WHEREAS SPIRE is currently a Party to a Services and Facilities Agreement (hereinafter “SFA”) which has been approved by the Missouri Public Service Commission and which sets forth terms and conditions to govern certain transactions between Laclede Gas Company, SPIRE INC. and affiliated entities of both;

WHEREAS new affiliates of SPIRE may become a Party to the SFA by agreeing to the terms and conditions of such Agreement; and

WHEREAS, LACLEDE STORAGE desires to become a Party to the SFA subject to the terms and conditions of this Agreement;


NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, SPIRE and LER STORAGE agree as follows:

1. LER STORAGE adopts and agrees to all of the terms and conditions of the SFA, subject to the explicit understanding that such agreement extends only to transactions between LER STORAGE and Laclede Gas Company.

2. In exchange for this agreement by LER STORAGE, SPIRE and LER STORAGE agree that LACLEDE INSURANCE is, and shall hereafter be, a Party to the SFA for the purposes herein specified.


IN WITNESS WHEREOF, the Parties have each caused this Agreement to be executed  
by a duly authorized representative on September 12, 2016.

LER STORAGE SERVICES  
INC.

  
\_\_\_\_\_  
Stephen F. Rasche  
Chief Executive Officer

9/9/16  
\_\_\_\_\_  
Date

SPIRE INC.

  
\_\_\_\_\_  
L. Craig Dowdy  
Senior Vice President, External Affairs,  
Corporate Communications and Marketing

9/12/16  
\_\_\_\_\_  
Date

**AGREEMENT TO ADOPT TERMS AND CONDITIONS  
OF SERVICES AND FACILITIES AGREEMENT**

This Agreement to Adopt Terms and Conditions of Services and Facilities Agreement is made and entered into as of this 14~~th~~ day of September, 2016 by and between SPIRE INC. (“SPIRE”) and ENERGYSOUTH (“ENERGYSOUTH”).

WHEREAS SPIRE is currently a Party to a Services and Facilities Agreement (hereinafter “SFA”) which has been approved by the Missouri Public Service Commission and which sets forth terms and conditions to govern certain transactions between Laclede Gas Company, SPIRE INC. and affiliated entities of both;

WHEREAS new affiliates of SPIRE may become a Party to the SFA by agreeing to the terms and conditions of such Agreement; and

WHEREAS, ENERGYSOUTH desires to become a Party to the SFA subject to the terms and conditions of this Agreement;

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, SPIRE and ENERGYSOUTH agree as follows:

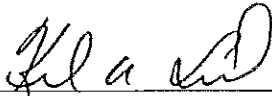
1. ENERGYSOUTH adopts and agrees to all of the terms and conditions of the SFA, subject to the explicit understanding that the allocation and/or charging of joint and common costs between SPIRE and its regulated utility affiliates shall be subject to the allocation and assignment methodologies typically used for allocating shared costs between regulated entities, all as identified in the Cost Allocation Manual (“CAM”) referenced in the SFA, and as revised from time to time pursuant to the terms of the CAM.

2. Nothing in the SFA or CAM, or ENERGYSOUTH's agreement to abide by the terms and conditions of the SFA and CAM, shall be construed as establishing any form of regulatory jurisdiction over ENERGYSOUTH's activities.

3. In exchange for this agreement by ENERGYSOUTH, SPIRE and ENERGYSOUTH agree that ENERGYSOUTH is, and shall hereafter be, a Party to the SFA.

IN WITNESS WHEREOF, the Parties have each caused this Agreement to be executed by a duly authorized representative on September 14<sup>th</sup>, 2016.

ENERGYSOUTH

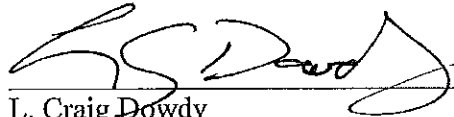


Kenneth A. Smith  
President

9/14/16

Date

SPIRE INC.



L. Craig Dowdy  
Senior Vice President, External Affairs,  
Corporate Communications and Marketing

9/12/16

Date

**AGREEMENT TO ADOPT TERMS AND CONDITIONS  
OF SERVICES AND FACILITIES AGREEMENT**

This Agreement to Adopt Terms and Conditions of Services and Facilities Agreement is made and entered into as of this 14~~th~~ day of September, 2016 by and between SPIRE INC. ("SPIRE") and ALABAMA GAS CORPORATION ("ALAGASCO").

WHEREAS SPIRE is currently a Party to a Services and Facilities Agreement (hereinafter "SFA") which has been approved by the Missouri Public Service Commission and which sets forth terms and conditions to govern certain transactions between Laclede Gas Company, SPIRE INC. and affiliated entities of both;

WHEREAS new affiliates of SPIRE may become a Party to the SFA by agreeing to the terms and conditions of such Agreement; and

WHEREAS, ALAGASCO desires to become a Party to the SFA subject to the terms and conditions of this Agreement;

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, SPIRE and ALAGASCO agree as follows:

1. ALAGASCO adopts and agrees to all of the terms and conditions of the SFA, subject to the explicit understanding that the allocation and/or charging of joint and common costs between SPIRE and its regulated utility affiliates shall be subject to the allocation and assignment methodologies typically used for allocating shared costs between regulated entities, all as identified in the Cost Allocation Manual ("CAM") referenced in the SFA, and as revised from time to time pursuant to the terms of the CAM.



2. Nothing in the SFA or CAM, or ALAGASCO's agreement to abide by the terms and conditions of the SFA and CAM, shall be construed as infringing in any way on the statutory powers of the Alabama Public Service Commission to regulate the ALAGASCO's activities, rates, charges or terms and conditions of service.

3. In exchange for this agreement by ALAGASCO, SPIRE and ALAGASCO agree that ALAGASCO is, and shall hereafter be, a Party to the SFA.

IN WITNESS WHEREOF, the Parties have each caused this Agreement to be executed by a duly authorized representative on September 14<sup>th</sup>, 2016.

ALABAMA GAS CORPORATION



\_\_\_\_\_  
Kenneth A. Smith  
President

\_\_\_\_\_  
Date

9/14/16

SPIRE INC.



\_\_\_\_\_  
L. Craig Dowdy  
Senior Vice President, External Affairs,  
Corporate Communications and Marketing

\_\_\_\_\_  
Date

9/12/16

**AGREEMENT TO ADOPT TERMS AND CONDITIONS  
OF SERVICES AND FACILITIES AGREEMENT**

This Agreement to Adopt Terms and Conditions of Services and Facilities Agreement is made and entered into as of this 14<sup>th</sup> day of September, 2016 by and between SPIRE INC. (“SPIRE”) and MOBILE GAS (“MOBILE”).

WHEREAS SPIRE is currently a Party to a Services and Facilities Agreement (hereinafter “SFA”) which has been approved by the Missouri Public Service Commission and which sets forth terms and conditions to govern certain transactions between Laclede Gas Company, SPIRE INC. and affiliated entities of both;

WHEREAS new affiliates of SPIRE may become a Party to the SFA by agreeing to the terms and conditions of such Agreement; and

WHEREAS, MOBILE desires to become a Party to the SFA subject to the terms and conditions of this Agreement;

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, SPIRE and MOBILE agree as follows:

1. MOBILE adopts and agrees to all of the terms and conditions of the SFA, subject to the explicit understanding that the allocation and/or charging of joint and common costs between SPIRE and its regulated utility affiliates shall be subject to the allocation and assignment methodologies typically used for allocating shared costs between regulated entities, all as identified in the Cost Allocation Manual (“CAM”) referenced in the SFA, and as revised from time to time pursuant to the terms of the CAM.


2. Nothing in the SFA or CAM, or MOBILE's agreement to abide by the terms and conditions of the SFA and CAM, shall be construed as infringing in any way on the statutory powers of the Alabama Public Service Commission to regulate the MOBILE's activities, rates, charges or terms and conditions of service.

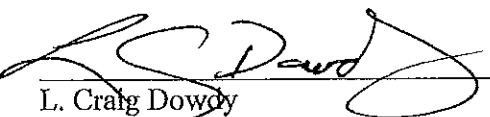
3. In exchange for this agreement by MOBILE, SPIRE and MOBILE agree that MOBILE is, and shall hereafter be, a Party to the SFA.

IN WITNESS WHEREOF, the Parties have each caused this Agreement to be executed by a duly authorized representative on September 14<sup>th</sup>, 2016.

MOBILE GAS

SPIRE INC.

  
\_\_\_\_\_  
Kenneth A. Smith  
Chief Operating Officer

  
\_\_\_\_\_  
L. Craig Dowdy  
Senior Vice President, External Affairs,  
Corporate Communications and Marketing

9/14/16  
\_\_\_\_\_  
Date

9/12/16  
\_\_\_\_\_  
Date

**AGREEMENT TO ADOPT TERMS AND CONDITIONS  
OF SERVICES AND FACILITIES AGREEMENT**

This Agreement to Adopt Terms and Conditions of Services and Facilities Agreement is made and entered into as of this 11<sup>th</sup> day of September, 2016 by and between SPIRE INC. (“SPIRE”) and WILLMUT GAS (“WILLMUT”).

WHEREAS SPIRE is currently a Party to a Services and Facilities Agreement (hereinafter “SFA”) which has been approved by the Missouri Public Service Commission and which sets forth terms and conditions to govern certain transactions between Laclede Gas Company, SPIRE INC. and affiliated entities of both;

WHEREAS new affiliates of SPIRE may become a Party to the SFA by agreeing to the terms and conditions of such Agreement; and

WHEREAS, WILLMUT desires to become a Party to the SFA subject to the terms and conditions of this Agreement;

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, SPIRE and WILLMUT agree as follows:

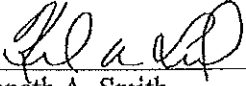
1. WILLMUT adopts and agrees to all of the terms and conditions of the SFA, subject to the explicit understanding that the allocation and/or charging of joint and common costs between SPIRE and its regulated utility affiliates shall be subject to the allocation and assignment methodologies typically used for allocating shared costs between regulated entities, all as identified in the Cost Allocation Manual (“CAM”) referenced in the SFA, and as revised from time to time pursuant to the terms of the CAM.

2. Nothing in the SFA or CAM, or WILLMUT's agreement to abide by the terms and conditions of the SFA and CAM, shall be construed as infringing in any way on the statutory powers of the Mississippi Public Service Commission to regulate the WILLMUT's activities, rates, charges or terms and conditions of service.

3. In exchange for this agreement by WILLMUT, SPIRE and WILLMUT agree that WILLMUT is, and shall hereafter be, a Party to the SFA.

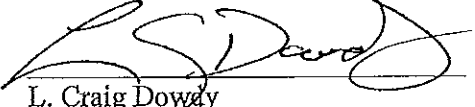
IN WITNESS WHEREOF, the Parties have each caused this Agreement to be executed by a duly authorized representative on September 14<sup>th</sup>, 2016.

WILLMUT GAS

  
\_\_\_\_\_  
Kenneth A. Smith  
Chief Operating Officer

9/14/16  
\_\_\_\_\_  
Date

SPIRE INC.

  
\_\_\_\_\_  
L. Craig Dowdy  
Senior Vice President, External Affairs,  
Corporate Communications and Marketing

9/12/16  
\_\_\_\_\_  
Date

**AGREEMENT TO ADOPT TERMS AND CONDITIONS  
OF SERVICES AND FACILITIES AGREEMENT**

This Agreement to Adopt Terms and Conditions of Services and Facilities Agreement is made and entered into as of this 12<sup>th</sup> day of September, 2016 by and between SPIRE INC. (“SPIRE”) and SPIRE RESOURCES LLC, and its subsidiaries, SPIRE PIPELINES LLC and SPIRE STL PIPELINE LLC (collectively the “SPIRE COMPANIES”).

WHEREAS SPIRE is currently a Party to a Services and Facilities Agreement (hereinafter “SFA”) which has been approved by the Missouri Public Service Commission and which sets forth terms and conditions to govern certain transactions between Laclede Gas Company, SPIRE INC. and affiliated entities of both;

WHEREAS new affiliates of SPIRE may become a Party to the SFA by agreeing to the terms and conditions of such Agreement; and

WHEREAS, the SPIRE COMPANIES desire to become a Party to the SFA subject to the terms and conditions of this Agreement;

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, SPIRE and SHARED SERVICES agree as follows:

1. The SPIRE COMPANIES adopt and agree to all of the terms and conditions of the SFA, subject to the explicit understanding that such agreement extends only to transactions between the SPIRE COMPANIES and Laclede Gas Company.
2. In exchange for this agreement by the SPIRE COMPANIES, SPIRE and the SPIRE COMPANIES agree that the SPIRE COMPANIES are, and shall hereafter be, Parties Party to the SFA for the purposes herein specified.

IN WITNESS WHEREOF, the Parties have each caused this Agreement to be executed  
by a duly authorized representative on ~~June~~<sup>Sept.</sup> 12, 2016.

SPIRE RESOURCES, LLC.  
SPIRE PIPELINES, LLC  
SPIRE STL PIPELINE, LLC

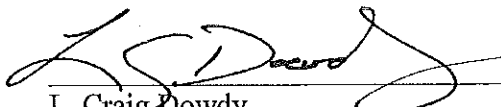


Michael C. Geiselhart  
President

Date

9/9/16

SPIRE INC.



L. Craig Dowdy  
Senior Vice President, External Affairs,  
Corporate Communications and Marketing

Date

9/12/16

**AGREEMENT TO AFFIRM TERMS AND CONDITIONS  
OF SERVICES AND FACILITIES AGREEMENT**

This Agreement to Affirm Terms and Conditions of Services and Facilities Agreement is made and entered into as of this 14<sup>th</sup> day of September, 2016 by and between SPIRE INC. (“SPIRE”) and LACLEDE GAS COMPANY (“LACLEDE GAS”).

WHEREAS SPIRE is currently a Party to a Services and Facilities Agreement (hereinafter “SFA”) which has been approved by the Missouri Public Service Commission and which sets forth terms and conditions to govern certain transactions between Laclede Gas Company, SPIRE INC. and affiliated entities of both;

WHEREAS new affiliates of SPIRE have become a Party to the SFA by agreeing to the terms and conditions of such Agreement; and

WHEREAS, LACLEDE GAS and SPIRE desire to affirm their status as Parties to the SFA subject to the terms and conditions of this Agreement;

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, SPIRE and LACLEDE GAS agree as follows:

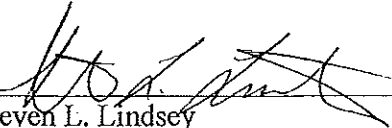
1. LACLEDE GAS and SPIRE affirm their agreement to all of the terms and conditions of the SFA, subject to the explicit understanding that the allocation and/or charging of joint and common costs between SPIRE and its regulated utility affiliates shall be subject to the allocation and assignment methodologies typically used for allocating shared costs between regulated entities, all as identified in the Cost Allocation Manual (“CAM”) referenced in the SFA, and as revised from time to time pursuant to the terms of the CAM.



2. In exchange for this agreement, SPIRE and LACLEDE GAS agree that LACLEDE GAS and SPIRE are, and shall hereafter continue to be, Parties to the SFA.

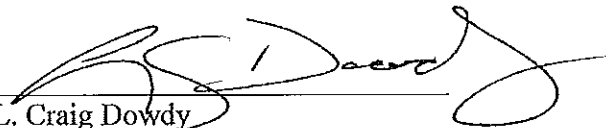
IN WITNESS WHEREOF, the Parties have each caused this Agreement to be executed by a duly authorized representative on September \_\_\_\_, 2016.

LACLEDE GAS COMPANY

  
\_\_\_\_\_  
Steven L. Lindsey  
Chief Executive Officer and President

9/14/2016  
\_\_\_\_\_  
Date

SPIRE INC.

  
\_\_\_\_\_  
L. Craig Dowdy  
Senior Vice President, External Affairs,  
Corporate Communications and Marketing

9/14/2016  
\_\_\_\_\_  
Date

**AGREEMENT TO AFFIRM TERMS AND CONDITIONS  
OF SERVICES AND FACILITIES AGREEMENT**

This Agreement to Affirm Terms and Conditions of Services and Facilities Agreement is made and entered into as of this 14<sup>th</sup> day of September, 2016 by and between SPIRE INC. (“SPIRE”) and LACLEDE PIPELINE COMPANY (“LACLEDE PIPELINE”).

WHEREAS SPIRE is currently a Party to a Services and Facilities Agreement (hereinafter “SFA”) which has been approved by the Missouri Public Service Commission and which sets forth terms and conditions to govern certain transactions between Laclede Gas Company, SPIRE INC. and affiliated entities of both;

WHEREAS new affiliates of SPIRE have become a Party to the SFA by agreeing to the terms and conditions of such Agreement; and

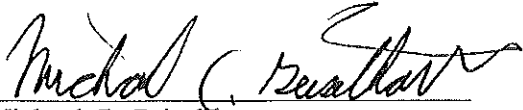
WHEREAS, LACLEDE PIPELINE desires to affirm its status as a Party to the SFA subject to the terms and conditions of this Agreement;

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, SPIRE and LACLEDE PIPELINE agree as follows:

1. LACLEDE PIPELINE affirms its agreement to all of the terms and conditions of the SFA,
2. In exchange for this agreement by LACLEDE PIPELINE, SPIRE and LACLEDE PIPELINE agree that LACLEDE PIPELINE is, and shall hereafter continue to be, a Party to the SFA.

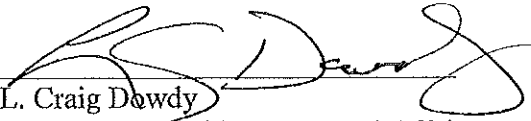
IN WITNESS WHEREOF, the Parties have each caused this Agreement to be executed by a duly authorized representative on September 14, 2016.

LACLEDE PIPELINE COMPANY

  
\_\_\_\_\_  
Michael C. Geiselhart  
President

9/14/2016  
Date

SPIRE INC.

  
\_\_\_\_\_  
L. Craig Dowdy  
Senior Vice President, External Affairs,  
Corporate Communications and Marketing

9/14/2016  
Date

**AGREEMENT TO AFFIRM TERMS AND CONDITIONS  
OF SERVICES AND FACILITIES AGREEMENT**

This Agreement to Affirm Terms and Conditions of Services and Facilities Agreement is made and entered into as of this 14<sup>th</sup> day of September, 2016 by and between SPIRE INC. (“SPIRE”) and LACLEDE DEVELOPMENT COMPANY (“LACLEDE DEVELOPMENT”).

WHEREAS SPIRE is currently a Party to a Services and Facilities Agreement (hereinafter “SFA”) which has been approved by the Missouri Public Service Commission and which sets forth terms and conditions to govern certain transactions between Laclede Gas Company, SPIRE INC. and affiliated entities of both;

WHEREAS new affiliates of SPIRE have become a Party to the SFA by agreeing to the terms and conditions of such Agreement; and

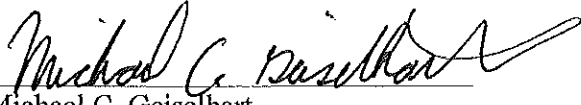
WHEREAS, LACLEDE DEVELOPMENT desires to affirm its status as a Party to the SFA subject to the terms and conditions of this Agreement;

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, SPIRE and LACLEDE DEVELOPMENT agree as follows:

1. LACLEDE DEVELOPMENT affirms its agreement to all of the terms and conditions of the SFA,
2. In exchange for this agreement by LACLEDE DEVELOPMENT, SPIRE and LACLEDE DEVELOPMENT agree that LACLEDE DEVELOPMENT is, and shall hereafter continue to be, a Party to the SFA.

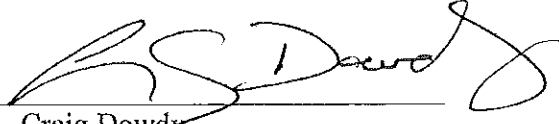
IN WITNESS WHEREOF, the Parties have each caused this Agreement to be executed by a duly authorized representative on September 14, 2016.

LACLEDE DEVELOPMENT COMPANY

  
\_\_\_\_\_  
Michael C. Geiselhart  
President

9/14/2016  
Date

SPIRE INC.

  
\_\_\_\_\_  
L. Craig Dowdy  
Senior Vice President, External Affairs,  
Corporate Communications and Marketing

9/14/2016  
Date

**AGREEMENT TO AFFIRM TERMS AND CONDITIONS  
OF SERVICES AND FACILITIES AGREEMENT**

This Agreement to Affirm Terms and Conditions of Services and Facilities Agreement is made and entered into as of this 14/11 day of September, 2016 by and between SPIRE INC. (“SPIRE”) and LACLEDE GAS FAMILY SERVICES INC (“LACLEDE FAMILY”).

WHEREAS SPIRE is currently a Party to a Services and Facilities Agreement (hereinafter “SFA”) which has been approved by the Missouri Public Service Commission and which sets forth terms and conditions to govern certain transactions between Laclede Gas Company, SPIRE INC. and affiliated entities of both;

WHEREAS new affiliates of SPIRE have become a Party to the SFA by agreeing to the terms and conditions of such Agreement; and

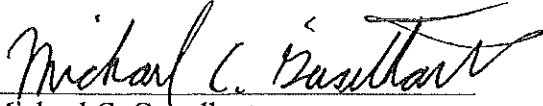
WHEREAS, LACLEDE FAMILY desires to affirm its status as a Party to the SFA subject to the terms and conditions of this Agreement;

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, SPIRE and LACLEDE FAMILY agree as follows:

1. LACLEDE FAMILY affirms its agreement to all of the terms and conditions of the SFA.
2. In exchange for this agreement by LACLEDE FAMILY, SPIRE and LACLEDE FAMILY agree that LACLEDE FAMILY is, and shall hereafter continue to be, a Party to the SFA.

IN WITNESS WHEREOF, the Parties have each caused this Agreement to be executed by a duly authorized representative on September 14, 2016.

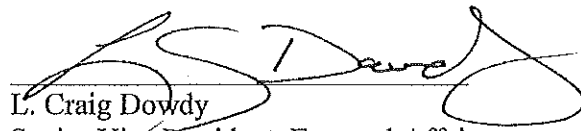
LACLEDE GAS FAMILY SERVICES, INC.



Michael C. Gieselhart  
President

9/14/2016  
Date

SPIRE INC.



L. Craig Dowdy  
Senior Vice President, External Affairs,  
Corporate Communications and Marketing

9/14/2016  
Date

**AGREEMENT TO AFFIRM TERMS AND CONDITIONS  
OF SERVICES AND FACILITIES AGREEMENT**

This Agreement to Affirm Terms and Conditions of Services and Facilities Agreement is made and entered into as of this 14<sup>th</sup> day of September, 2016 by and between SPIRE INC. ("SPIRE") and LACLEDE INVESTMENT LLC. ("LACLEDE INVESTMENT").

WHEREAS SPIRE is currently a Party to a Services and Facilities Agreement (hereinafter "SFA") which has been approved by the Missouri Public Service Commission and which sets forth terms and conditions to govern certain transactions between Laclede Gas Company, SPIRE INC. and affiliated entities of both;

WHEREAS new affiliates of SPIRE have become a Party to the SFA by agreeing to the terms and conditions of such Agreement; and

WHEREAS, LACLEDE INVESTMENT desires to affirm its status as a Party to the SFA subject to the terms and conditions of this Agreement;

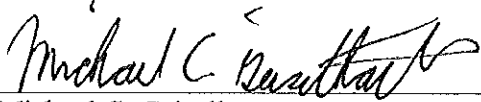
NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, SPIRE and LACLEDE INVESTMENT agree as follows:

1. LACLEDE INVESTMENT affirms its agreement to all of the terms and conditions of the SFA.
2. In exchange for this agreement by LACLEDE INVESTMENT, SPIRE and LACLEDE INVESTMENT agree that LACLEDE INVESTMENT is, and shall hereafter continue to be, a Party to the SFA.

IN WITNESS WHEREOF, the Parties have each caused this Agreement to be executed by a duly authorized representative on September 14, 2016.



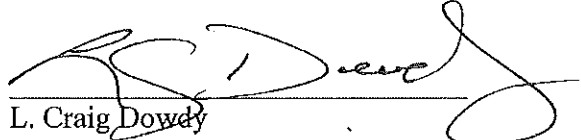
LACLEDE INVESTMENT LLC



Michael C. Geiselhart  
President

9/14/2016  
Date

SPIRE INC.



L. Craig Dowdy  
Senior Vice President, External Affairs,  
Corporate Communications and Marketing

9/14/2016  
Date

**AGREEMENT TO AFFIRM TERMS AND CONDITIONS  
OF SERVICES AND FACILITIES AGREEMENT**

This Agreement to Affirm Terms and Conditions of Services and Facilities Agreement is made and entered into as of this 14<sup>th</sup> day of September, 2016 by and between SPIRE INC. ("SPIRE") and LACLEDE VENTURE CORP. ("LACLEDE VENTURE").

WHEREAS SPIRE is currently a Party to a Services and Facilities Agreement (hereinafter "SFA") which has been approved by the Missouri Public Service Commission and which sets forth terms and conditions to govern certain transactions between Laclede Gas Company, SPIRE INC. and affiliated entities of both;

WHEREAS new affiliates of SPIRE have become a Party to the SFA by agreeing to the terms and conditions of such Agreement; and

WHEREAS, LACLEDE VENTURE desires to affirm its status as a Party to the SFA subject to the terms and conditions of this Agreement;

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, SPIRE and LACLEDE VENTURE agree as follows:

1. LACLEDE VENTURE affirms its agreement to all of the terms and conditions of the SFA,
2. In exchange for this agreement by LACLEDE VENTURE, SPIRE and LACLEDE VENTURE agree that LACLEDE VENTURE is, and shall hereafter continue to be, a Party to the SFA.

IN WITNESS WHEREOF, the Parties have each caused this Agreement to be executed by a duly authorized representative on September 14<sup>th</sup>, 2016.

LACLEDE VENTURE CORP.

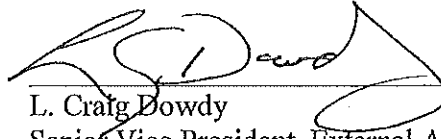


Michael C. Geiselhart  
President

9/30/16

Date

SPIRE INC.



L. Craig Dowdy  
Senior Vice President, External Affairs,  
Corporate Communications and Marketing

9-28-16

Date

**AGREEMENT TO AFFIRM TERMS AND CONDITIONS  
OF SERVICES AND FACILITIES AGREEMENT**

This Agreement to Affirm Terms and Conditions of Services and Facilities Agreement is made and entered into as of this 14<sup>th</sup> day of September, 2016 by and between SPIRE INC. ("SPIRE") and LACLEDE ENERGY RESOURCES ("LER").

WHEREAS SPIRE is currently a Party to a Services and Facilities Agreement (hereinafter "SFA") which has been approved by the Missouri Public Service Commission and which sets forth terms and conditions to govern certain transactions between Laclede Gas Company, SPIRE INC. and affiliated entities of both;

WHEREAS new affiliates of SPIRE have become a Party to the SFA by agreeing to the terms and conditions of such Agreement; and

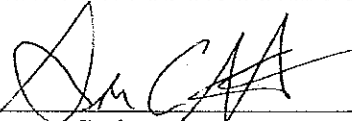
WHEREAS, LER desires to affirm its status as a Party to the SFA subject to the terms and conditions of this Agreement;

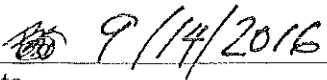
NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, SPIRE and LACLEDE GAS agree as follows:

1. LER renews its agreement to all of the terms and conditions of the SFA,
2. In exchange for this agreement by LER, SPIRE and LER agree that LER is, and shall hereafter continue to be, a Party to the SFA.

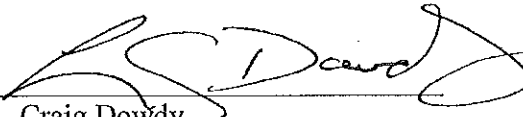
IN WITNESS WHEREOF, the Parties have each caused this Agreement to be executed by a duly authorized representative on September 14<sup>th</sup>, 2016.

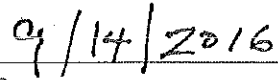
LACLEDE ENERGY RESOURCES

  
\_\_\_\_\_  
George Godat  
Vice President and General Manager

  
\_\_\_\_\_  
Date

SPIRE INC.

  
\_\_\_\_\_  
L. Craig Dowdy  
Senior Vice President, External Affairs,  
Corporate Communications and Marketing

  
\_\_\_\_\_  
Date

**Gas Supply and Transportation Standards of Conduct**

To assist in ensuring that energy-related transactions between Laclede Gas Company (“Laclede” or “Company”) and its affiliates are conducted in a manner fully consistent with the interests of the Company’s utility customers, including their interest in having such transactions priced and accounted for in a reasonable and appropriate manner, Laclede agrees to formalize and comply with the following standards of conduct and associated document requirements relating to such transactions:

- A. **Purchases of gas supplies for multi-month periods (purchases for longer than 1-month)**
1. Laclede will acquire multi-month gas supplies in accordance with a competitive bidding process in which requests for proposals (RFP’s) are submitted by Laclede to a list of eligible suppliers at the various supply locations connected to the pipelines on which Laclede holds firm transportation or through another competitive bidding process. For any exceptions to the competitive bid and award process, Laclede will have a documented process for the supply approval and award process, including (a) justification requirements, (b) authorization process, (c) contemporaneous documentation requirements (for internal Company information and external communications with suppliers), and (d) effective monitoring and controls.
  2. Such RFP process shall be open to all gas suppliers who wish to bid. **The intent is to gain the broadest practical participation by eligible suppliers in submitting competitive supply bids for the supply location(s) where Laclede purchases gas.** Once such a process is reasonably developed and appropriately implemented and effectively monitored and controlled, the results of that process are intended to establish the fair market price for the purchase. Laclede shall provide with its annual CAM report submission an explanation of any credit, performance or other criteria that Laclede takes into consideration in determining which suppliers are sent RFPs as part of the RFP process.
  3. In the event a gas supply contract for firm gas supply is awarded to an affiliate as a result of the RFP or other competitive bidding process, the affiliate shall be held to the same performance requirements as non-affiliated suppliers.
  4. In the event a gas supply contract is awarded, Laclede shall maintain the following contemporaneous documentation: (a) any diversity, credit, or reliability-related volume limitations placed on the maximum volumes Laclede will purchase from an individual supplier or from any one supplier on a specific pipeline (broken down by baseload, combo, and swing); (b) an explanation of the diversity, credit and/or reliability-related reasons for imposing such limitations; (c) a description of the process used to transmit the

## Appendix 2 - Gas Supply and Transportation Standards of Conduct

supply request to all eligible suppliers, evaluate bids, and negotiate final prices and terms; (d) a list of all suppliers that were sent each RFP; (e) a complete summary of all bids received and all prices accepted, together with copies of all underlying documents, contracts and communications; (f) a summary and explanation of suppliers disqualified for credit, performance or other criteria, and (g) a copy of the policy or procedure employed by Laclede for awarding contracts in instances where an affiliate and an unaffiliated supplier have offered identical pricing terms. For phone calls or texts, Laclede shall maintain contemporaneous logs documenting the discussions and decisions.

5. In the event a gas supply contract is awarded to an affiliate at a location in which no other contracts were awarded, the Company shall maintain contemporaneous documentation showing that the affiliate's bid price was equal to or lower than the bids received from non-affiliated suppliers, and that any upward or downward adjustment in the final contract price was justified by changes in the market.
6. In the event a gas supply contract is awarded to an affiliate at a location at which Laclede also awarded gas supply contracts to non-affiliated suppliers, the Company shall maintain contemporaneous documentation showing that the price established under the contract awarded the affiliate was within or lower than the range of prices established under contracts awarded to entities other than the affiliate.
7. If the affiliate's bid price or contract price does not meet the criteria in paragraphs 5 or 6, Laclede may not award the gas supply contract to the affiliate, unless the Company can demonstrate and contemporaneously document that a more favorable bid was rejected for legitimate reasons relating to the rejected bidder or bidders' creditworthiness, performance history (or lack thereof), or other consideration bearing on the fitness and reliability of the bidder to provide the requested service.
8. In the interests of optimizing the competitive benefits of the RFP process, the RFP will permit suppliers to propose alternative ways of satisfying the basic quantity, reliability, delivery and pricing terms of the RFP in addition to those specifically contemplated by the RFP, provided that the RFP shall explicitly advise suppliers that proposing such alternatives is permissible. The RFP may also utilize ranges for such quantity, reliability, delivery and pricing terms. In the event any such alternative produces a supply arrangement that is at least as favorable in its basic terms as other initial bids received by the Company during the RFP process then there shall be no need to rebid the proposed supply arrangement. In the event the Company itself makes a material change in the basic quantity, reliability, delivery or pricing terms of the RFP, or changes the range applicable to such terms, after initial bids have been received then the proposed supply arrangement shall be rebid.

### **B. Short term purchases of gas supply (one month or less)**

## Appendix 2 - Gas Supply and Transportation Standards of Conduct

1. The Company shall maintain contemporaneous documentation sufficient to establish that its short-term purchases of gas supply are acquired in accordance with a competitive bidding process, taking into account the terms and conditions, location and time at which the purchase was made.
2. The Company shall, within the next six months, develop a documented information exchange process where eligible suppliers will be notified of gas supplies that the Company may wish to purchase on a given day(s), and/or suppliers notify Laclede of supply and prices each is willing to offer. Such process may rely on instant messaging, emails, telephone calls, postings on a Company-developed website, awards made on an electronic trading platform (not just price discovery), or some other mechanism to notify bidders and/or Laclede. The intent is **to gain the broadest practical participation by eligible suppliers in submitting competitive supply bids for the supply location(s) where Laclede purchases gas.** Once such a process is reasonably developed and appropriately implemented and effectively monitored and controlled, the results of that process are intended to establish the fair market price for the purchase.
3. Emergency short term purchases of gas supply may also be made without following the competitive bidding procedure if necessitated by supply reliability considerations, provided that such purchases and the emergency circumstances are documented. Emergency conditions will include, but not be limited to, natural disasters, extreme weather events, well freeze-offs, curtailment of pipeline transportation or storage services, failure of supply, damage to or breakdown of Company facilities, changes in deliveries to the Company's take points that are beyond the Company's control, and other similar or unforeseen events affecting the availability of gas supplies. In the event short term purchases of gas supply are made on an emergency basis, nothing shall be construed as precluding Staff or OPC from raising an issue regarding the reasonableness of the emergency circumstances claimed by the Company and their effect on the propriety of the transaction.
4. For each and every gas supply inquiry and/or award, Laclede shall maintain the following contemporaneous documentation: (a) any diversity, credit, or reliability-related volume limitations placed on the maximum volumes Laclede will purchase from an individual supplier or from any one supplier on a specific pipeline; (b) an explanation of the diversity, credit, and/or reliability-related reasons for imposing such limitations; (c) a description of the process used to transmit and/or receive supply notifications to eligible suppliers, evaluate bids/responses, and negotiate final prices and terms; (d) copies of all written communications and descriptions of all unwritten communications that solicit bids from suppliers; (e) a list of all suppliers that were notified of Laclede's gas supply needs; (f) copies of all bids/responses/inquiries received and all prices accepted, together with copies of all underlying



## Appendix 2 - Gas Supply and Transportation Standards of Conduct

documents, contracts and communications; (g) a list of all suppliers disqualified for credit, performance or other criteria along with an explanation of the basis for each disqualification; and (h) a copy of the policy or procedure employed by Laclede for awarding contracts in instances where an affiliate and an unaffiliated supplier have offered identical pricing terms. For phone calls or texts, Laclede shall maintain contemporaneous logs documenting the inquiries, discussions and decisions.

### C. Sales of gas supply also referred to as Off-System-Sales (OSS)

1. The Company shall maintain contemporaneous documentation sufficient to establish that its sales of gas were made at the fair market price for comparable sales, taking into account the terms and conditions, location and time at which the sale was made. The fair market price shall be determined pursuant to the process described below and any amount received for gas must be sufficient to cover: (i) the highest Cost of Gas Supply (CGS) on the pipeline on which the sale is made, as determined by the CGS schedule referenced in Laclede Gas Company's OSS tariff and as adjusted for any documented exceptions as permitted by such tariff; plus (ii) make some positive contribution to Laclede Gas Company's fixed gas supply costs.
2. The Company shall, within the next six months, develop a documented information exchange process where eligible bidders/buyers will be notified of gas supplies that the Company may have for sale on a given day(s). Such process may rely on instant messaging, emails, telephone calls, postings on a Company-developed website, awards made on an electronic trading platform (not just price discovery) or some other mechanism to notify bidders/potential gas buyers. The intent is **to gain the greatest reduction in gas costs for Laclede's customers consistent with maintaining a reliable supply of gas**. Once such a process is reasonably developed and appropriately implemented and effectively monitored and controlled, the results of that process are intended to establish the fair market price for the sale. For phone calls or texts, Laclede shall maintain contemporaneous logs documenting the inquiries, discussions and decisions.
3. **Unsolicited OSS Requests**— Laclede shall only accommodate unsolicited OSS requests where the Company can operationally provide such supplies without incurring any known penalty or detriment. Laclede shall maintain contemporaneous logs of all instances identifying where it has accommodated and/or refused such requests, including: the identity of the requesting counter-party; the date the request was made; the pricing and quantity of the gas supply requested; the awarded pricing, quantity, receipt/deliver point(s); and any other terms.

### D. Releases of transportation or storage capacity by Laclede

## Appendix 2 - Gas Supply and Transportation Standards of Conduct

1. All Laclede releases of pipeline transportation or storage capacity to an affiliate, including prearranged releases, must be effectuated by posting the release as biddable on the applicable pipeline's Electronic Bulletin Board ("EBB"). The Company shall maintain contemporaneous documentation sufficient to show that such release was made to an affiliate at the highest bid price (the posted release price is considered a bid price), on the pipeline's EBB for that release and that the amount received by the Company was at least sufficient to make a contribution to the Company's fixed pipeline reservation costs.
  2. For pre-arranged releases to an affiliate of greater than a month and less than a year, the pre-arranged transaction shall be posted for two consecutive daily posting periods.
- E. Purchases of transportation and storage capacity from the capacity release market by Laclede** – All Laclede purchases of pipeline transportation or storage capacity from an affiliate must be effectuated by releasing and bidding for the capacity on the applicable pipeline's EBB. Laclede shall maintain contemporaneous documentation sufficient to show that the purchase price paid for such capacity was equal to or lower than the price of other comparable transportation alternatives available to the Company to meet the same resource needs. Laclede shall maintain contemporaneous documentation sufficient to show that the affiliate was given no preferential treatment over non-affiliates. Resource needs will be fully documented by the Company and subject to review.
- F. Purchase of unsolicited gas supply** — Laclede shall only consider accommodating unsolicited requests for short-term purchase of gas supply where the Company can operationally take such supplies without incurring any known penalty or detriment. Laclede shall maintain a contemporaneous log of all instances identifying where it has accommodated and/or refused such requests, including: the identity of the requesting supplier; the date the request was made; the pricing and quantity of the gas supply offered; the awarded pricing, quantity, receipt/delivery point(s); and any other terms.
- G. Negotiations with suppliers** – Laclede shall conduct all negotiations with its gas commodity and pipeline suppliers independently and shall at no time seek to tie the terms of any arrangement to any action on the part of the other party that would favor a Laclede affiliate. Nothing herein shall prevent either Laclede or an affiliate from jointly attending customer meetings, events or other functions where multiple customers or suppliers are also present.
- H. Off-System Sales (OSS) and Capacity Release Protocols**

In recognition that markets for OSS and capacity releases can vary depending on weather and availability of supply and capacity options, and in recognition that Laclede holds firm capacity in areas not used to serve its native load and the reservation costs of that firm

## Appendix 2 - Gas Supply and Transportation Standards of Conduct

capacity is charged to Laclede's customers, Laclede will routinely evaluate its processes for soliciting potential buyers to maximize net revenues for OSS and capacity releases.

Laclede will take necessary actions to assure reasonable participation by buyers of its OSS and capacity releases. Laclede will take necessary actions to assure documentation is developed and maintained to show compliance with its processes and procedures.

- I. **Document Retention** – All documentation and records that must be maintained in accordance with the provisions of these Standards of Conduct shall be maintained for a minimum of six years.
- J. **Future Revisions** – It is expressly understood that Laclede, the Staff, and the Office of the Public Counsel reserve the right to propose at any time prospective changes to these Standards of Conduct to reflect changing market conditions, the potential implementation of new regulatory or operational models for managing gas supply assets, or other developments that cannot be fully anticipated at this time. Any such change must be approved by the Commission before being implemented. See also Sections I. and V.C. of CAM.
- K. **Asset Management Arrangements/Agreements** – The CAM and referenced Standards of Conduct do not pertain to Asset Management Arrangements/Agreements (AMAs). Accordingly, if Laclede Gas chooses to use one or more AMAs, 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 these Standards of Conduct addressing AMAs are approved by the Commission.

# PSC Connection

Missouri Public Service Commission Publication VOL. 4, NO. 8 – FALL 2014

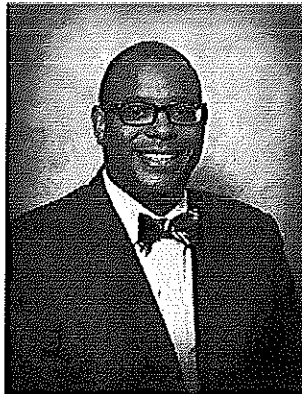


## Setting Utility Rates: Putting The Pieces Together

# Chairman's Corner

The Missouri Public Service Commission is charged with ensuring that the state's investor-owned public utility companies provide safe, adequate, and reliable service at just and reasonable rates. To carry out this responsibility, the Commission is given the power to inspect the books, records, and premises of regulated utility companies to ensure that service is provided in accordance with these standards. The Commission Staff works hard to carry out its obligations in an evenhanded manner, while ensuring that Missouri consumers are provided reliable and affordable utility services.

This edition of the *PSConnection* focuses on explaining what the Commission Staff undertakes when reviewing a utility company. The article, "**Complete Review**," outlines how the PSC Staff audits a utility's rate request. Further in this issue, you will find the article "**Quality of Service**," which highlights the PSC Staff's review of other elements of providing service that may be unrelated to the cost of service, such as safety inspections, and customer service. As discussed, in "**From the Archives: A Look Back 50 Years**," five decades ago, the Commission's regulation was much different than it is today. In 1964, the Commission's duties included regulation of the rates, fares, and services of railroads, motor carriers, street railroads, and Pullman car companies.



In the 101 years of its existence, the Commission's duties have evolved. The business of providing utility services is undergoing a profound evolution. This evolution is driven in large part by a variety of technological advances and public policy enactments. Some of these advances and enactments include environmental regulations such as the EPA's Clean Power Plan, which seeks to reduce carbon emissions from power plants; smart grid technologies; the increased emphasis on the promotion of energy efficiency as embodied in Missouri's Energy Efficiency Investment Act; Missouri's Renewable Energy Standard, which requires electric utilities to generate increasing amounts of electricity from renewable resources; the increased deployment of distributed generation, including rooftop solar generation; the development of new energy storage technologies; and the recovery of record amounts of natural gas.

All of these public policies and technological advances present challenges and opportunities; challenges, because some of these policies require new thinking; opportunities because these policies have the potential to lower consumers' bills and are good for the environment.

Challenges and opportunities provide regulators a chance to reexamine the regulatory model and the utilities a chance to reexamine the traditional business model. This is something we can do together. These challenges and opportunities also require an increased emphasis on consumer education and outreach. Since our last edition, our consumer outreach activities have doubled from last year. This is due in part to the creation of a new position, a consumer services outreach coordinator who is dedicated to increasing public awareness of our agency.

This edition of the *PSConnection* is one opportunity we have to inform the public about what we do and how we do it. It is also an opportunity to highlight the rapidly evolving nature of the business and regulation of public utility service. I hope that you will enjoy this issue of the *PSConnection*.

**Robert S. Kenney**

## PSConnection

### GOVERNOR

Jeremiah W. (Jay) Nixon

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Stephen M. Stoll  
William P. Kenney  
Daniel Y. Hall  
Scott T. Rupp

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The Missouri Public Service Commission regulates investor-owned electric, steam, natural gas, water and sewer utilities in Missouri. The Commission also has limited jurisdiction over telecommunications providers in the state. Its mission is to ensure Missouri consumers have access to safe, reliable and reasonably priced utility service while allowing those utility companies under our jurisdiction an opportunity to earn a reasonable return on their investment. The PSC also regulates manufacturers and retail dealers who sell new and used manufactured homes and modular units. The Commission was established in 1913. The PSC is comprised of five commissioners, who are appointed by the governor.



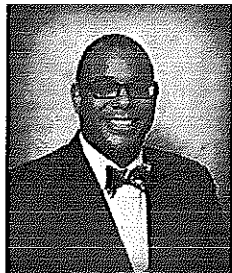
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# Meet The Commissioners

The Commission consists of five commissioners who are appointed by the governor with the advice and consent of the Missouri Senate. Commissioners are appointed to six-year terms. These terms are staggered so that no more than two terms expire in any given year.



**Chairman Robert S. Kenney**, of St. Louis, was appointed to the Missouri Public Service Commission on July 29, 2009 by Governor Jay Nixon. He was unanimously confirmed by the Missouri Senate on January 13, 2010. He was named chairman in March of 2013. Prior to his appointment, Chairman Kenney served as Missouri Attorney General Chris Koster's Chief of Staff. Chairman Kenney also served as a Missouri Assistant Attorney General in the Labor and Consumer Protection Divisions. Before that Chairman Kenney was a shareholder at the Polsinelli law firm.

**Commissioner Stephen M. Stoll**, of Festus, was appointed to the Missouri Public Service Commission by Governor Jay Nixon in June, 2012, and unanimously confirmed by the Missouri Senate in January, 2013. Commissioner Stoll was elected to the Missouri House of Representatives from 1992-1996. In 1998, he was elected to the Missouri Senate, serving until 2005. Commissioner Stoll also served as Director of Administration for Jefferson County and city administrator for the city of Festus. He is also a former educator.



**Commissioner William P. Kenney**, of Lee's Summit, was appointed to the Missouri Public Service Commission by Governor Jay Nixon on January 9, 2013. On January 24, 2013, he was confirmed by the Missouri Senate to a six-year term. Prior to his appointment, he was Chief of Staff for Lt. Gov. Peter Kinder. Commissioner Kenney played professional football for 11 years, 10 with the Kansas City Chiefs. Commissioner Kenney was also elected to the Missouri Senate, serving from 1994 to 2002.

**Commissioner Daniel Y. Hall**, of Columbia, was appointed to the Missouri Public Service Commission by Governor Jay Nixon on September 27, 2013. He was confirmed by the Missouri Senate in January, 2014. Commissioner Hall served as Legislative Director for the Office of the Governor from 2009-13. From 2003 to 2009, he served as Senior Counsel and Assistant Missouri Attorney General. Prior to his work in state government, Commissioner Hall served as an associate at Bryan Cave, LLP in Kansas City.



**Commissioner Scott T. Rupp**, of Wentzville, was appointed to the Missouri Public Service Commission on March 25, 2014, by Gov. Jay Nixon. He was confirmed by the Missouri Senate on April 3, 2014. Commissioner Rupp represented the 2nd District in the Missouri Senate from 2006-2014. He was a member of the Missouri House of Representatives from 2002-2006. Prior to his appointment, Commissioner Rupp was employed by UMB in O'Fallon as vice-president of business development, specializing in commercial lending.

## FROM THE ARCHIVES

Did You Know: In 1964, as part of its duties, the Missouri Public Service Commission regulated the rates, fares and services of railroads, motor carriers, street railways and express and Pullman car companies. See page 13.

**50** Years  
A Look Back

## What's Inside

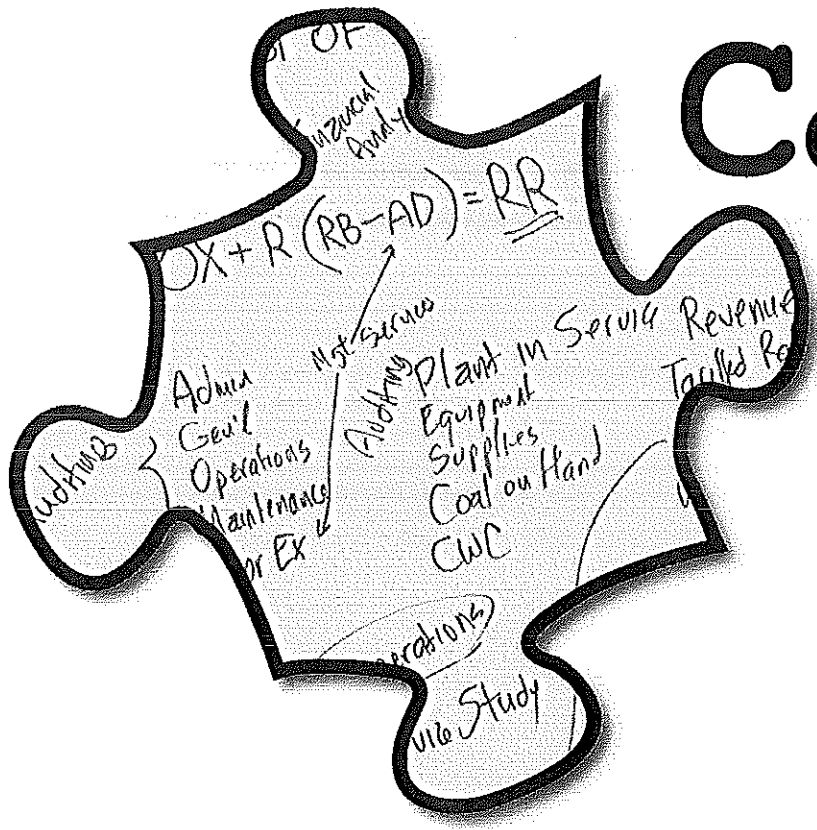
- 4**      **COMPLETE REVIEW**  
An inside look at a PSC staff audit.
  
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Here are some safety tips and helpful information as the weather turns cold.

## Our Mission

*To ensure that Missourians receive safe and reliable utility service at just and reasonable rates.*

### **On The Cover**

*In this edition, we take a look at the many pieces of an in-depth audit conducted by the PSC Staff.*



# COMPLETE REVIEW

**D**uring rate case proceedings, the PSC Staff thoroughly reviews the books and records of the company, including the general ledger, invoices, actuarial reports, independent audit reports, Board of Director materials, financial statements, income statements, balance sheets, and other documents.

**By Kim Bolin**

Utility services and infrastructure are essential to the economy of Missouri. They provide heating and cooling during extreme temperatures. They offer access to emergency services and vital information systems. They provide safe drinking water and assure the environmentally sound disposal of wastewater. Virtually every Missouri citizen receives some form of utility service from a company regulated by the Missouri Public Service Commission (Commission or PSC).

The Commission has the statutory responsibility of ensuring that consumers receive “safe and adequate” service at rates that are “just and reasonable.” According to the law, those rates must be set at a level which will provide the companies’ shareholders with an opportunity to earn a reasonable return on their investment. It is important to note that shareholders must be given an opportunity, not a guarantee, to earn a reasonable return on their investment to maintain market viability. Rates should also be set at a level to allow a utility to recover its ongoing



level of prudently incurred expenses that are necessarily incurred in order to provide utility services.

General rate cases are complex and can, at times, draw much public attention. The five Commissioners will ultimately decide the case. That decision will be based upon a thorough review of the evidence in the case submitted by all participating parties in the proceeding.

The Public Service Commission Staff (PSC Staff) plays a key role in the development of

that evidence through its audit of the books and records of the company seeking a rate increase.

The PSC Staff is not a consumer advocate. The PSC Staff is a neutral party separate from the Commissioners for purposes of a rate case proceeding.

The PSC Staff's job is to present a position that it believes will be the best balance between the needs of the utility and the needs of the public. The PSC Staff has worked hard to

## Those Likely To Participate In A Rate Case Before The PSC

➤ **Public Service Commissioners** -- Five members of the Public Service Commission (Commission) who decide all cases brought before the agency. Commissioners are appointed by the governor with the advice and consent of the Missouri Senate. In cases before it, Commissioners issue a ruling based on a thorough review of all of the evidence presented.

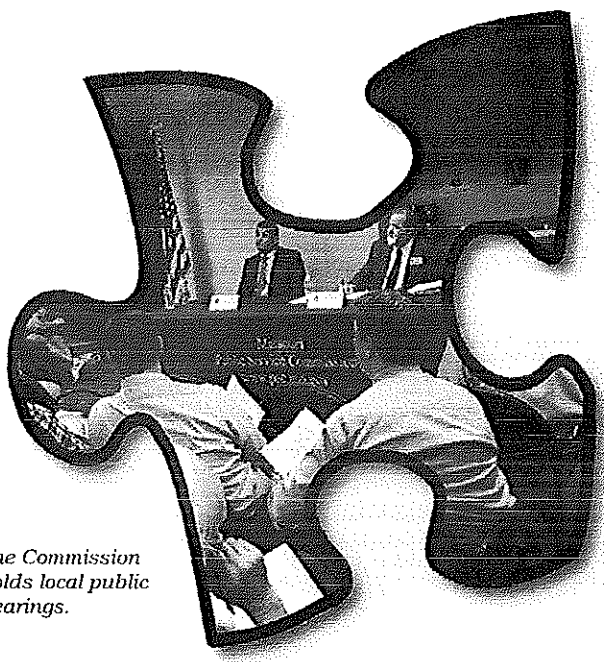
➤ **Public Service Commission Staff (PSC Staff)** -- A group of professionals that includes specialists in the fields of engineering, accounting, law, finance, management, economics and customer services. The PSC Staff is separate from the Commissioners who decide cases brought before it. The PSC Staff is a party in all cases before the Commission. When the PSC Staff makes a recommendation to the Commission, it is NOT an official position of the Commission. The PSC Staff recommendation carries the same weight, no more no less, as all other testimony filed in a case. The PSC Staff **is not** the consumer advocate. The PSC Staff proposes a position that, in its opinion, is the best balance between the utility and the general public.

➤ **Office of the Public Counsel (OPC)** --The consumer advocate. The Office of the Public Counsel is a separate state agency representing the general public (typically residential and small business customers) before the Public Service Commission.

➤ **Intervenors** -- Someone who files to participate in a case before the Public Service Commission. Intervenors are typically large business customers, governmental agencies or representatives of a customer group with a particular interest in a case, an interest that is different from that of the general public.

➤ **General Public** -- In addition to being represented by the Office of the Public Counsel, the general public can also submit comments in cases before the Commission. They are also invited to comment on the rate request or any service related issues when the Commission holds local public hearings in the company's service territory. Comments received during the formal local public hearing process are recorded by a court reporter and become a part of the official record in the case.

*The Commission holds local public hearings.*



present that position for more than 100 years of utility regulation in Missouri.

**So what does the PSC Staff do when a rate case is filed with the Commission?**

In developing its recommendations as to the amount of an increase, if any, that should be granted, the PSC Staff will spend several months conducting their audit. They will examine all of the company's costs of providing safe and adequate service to its customers.

The PSC Staff will thoroughly review the books and records of the company, including the general ledger, invoices, actuarial reports, independent audit reports, Board of Director materials, financial statements, income statements, balance sheets, and other internal documents. When reviewing these items, the PSC Staff looks for trends among the company's historical costs, increases and decreases in the company's test-year expenses and any abnormal levels of specific costs.

All rate case audits are based upon a selected "test year." In a rate case, the test year is a 12 month operating period used to evaluate the cost of service to customers and the adequacy of the rates a utility is charging or proposes to charge.

As part of its review, the PSC Staff also tours and inspects various utility facilities; interviews company personnel; and sends numerous data requests to obtain information and documents from the company. The PSC Staff will also examine all of the testimony and other filings

made by the company and every other party ("intervenor") in the rate case.

When the rate case is filed with the Commission, the utility will file "testimony" from various utility representatives and consultants that summarize and describe the utility's reasoning for seeking an increase in its customer rate levels. Similarly, at the conclusion of its audit process, the Commission Staff and other parties will also file testimony or reports that summarize their audit findings, conclusions and recommendations.

In rate cases, the Commission will hold local public hearings to give consumers the opportunity to comment on the rate increase request or any service related problems. At those hearings, there are several issues that often are of interest to the general public. Let's take a moment to discuss two of those issues: utility company employee compensation expense, and dues and donations.

**Employee Incentive Compensation Expense:** When a company files for a rate increase, one of the items reviewed is employee compensation. One part of employee compensation may be incentive compensation, or bonuses or awards, paid to company employees. The PSC Staff may perform a multi-year analysis of bonuses and awards as part of its audit in determining what it will recommend as just and reasonable rates.

The PSC Staff will examine the criteria for future bonuses and awards and what employees are eligible for those bonuses or awards. Based upon this examination, the PSC Staff will determine if the bonuses and awards are based on measurable results that provide a benefit to ratepayers.

Determining if bonuses and awards should be included can be a complicated and time-consuming analysis. For example, the performance standard may be based on certain financial results of the company, such as the earning per share or rates of return on equity or investment. PSC Staff usually recommends disallowance of these awards because they primarily benefit the utility and its shareholders.

In contrast, a performance standard based on customer service criteria is of benefit to the customer and may be allowed to be recovered by the utility company in customer rates. For instance, an incentive compensation program tied to improving the quality of service a utility customer receives, such as faster responses to

customer inquiries received at a utility “call center,” will usually be a cost recommended by the PSC Staff to be included in rates. Performance standards intended to improve employee safety are also generally recommended for rate recovery.

**Dues and Donations:** During local public hearings in a rate case, customers often ask questions such as: “Am I paying, in my monthly utility bill, the costs of the company to have a luxury box or to advertise at a major sporting event?”

The PSC Staff auditor(s) assigned to the dues and donations area will ask the company for a list of all dues and donations made by the utility company during the rate case test year. The Staff will also seek information on the nature and purpose of all dues and donations and how the utility company believes its ratepayers benefited from the expense.

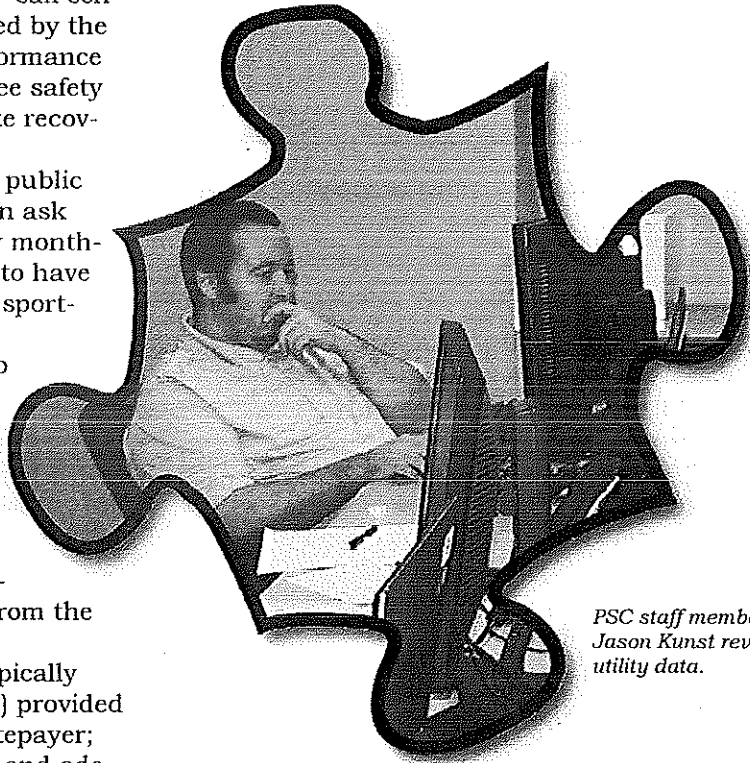
In the past, the Commission has typically not allowed dues and donations that: 1) provided no direct, quantifiable benefit to the ratepayer; 2) were not necessary in providing safe and adequate service to the ratepayer; or 3) represented an involuntary contribution on the part of the ratepayer to an organization.

Those costs associated with charitable donations are routinely disallowed in the PSC Staff recommendation in a rate case on the general grounds that utility ratepayers should not be placed in the position of being “involuntary” donors to a charity or cause supported by the utility company. Also, any dues or donations associated with political advocacy or “lobbying” activities have not been allowed to be recovered in rates.

That is not to say that any dues and donations are allowed to be recouped in rates. For example, the Commission does recognize dues and donations to some economic and civic organizations (such as Chambers of Commerce), business, industry and professional organizations.

**What other types of issues are commonly examined by Commission Staff and other parties as part of the rate case process?**

Besides reviewing expenses incurred by the company during a rate case, the PSC Staff also reviews other items and provides recommendations on subjects such as: rate of return, low income weatherization, depreciation and rate design.



*PSC staff member  
Jason Kunst reviews  
utility data.*

### **Rate of Return**

An analysis must be performed to determine the return (or “profit”) a company will be allowed to earn on investments used in providing utility service to its customers. This profit level is usually referred to as the “rate of return.” The rate of return calculation takes into account both the necessary return the utility should earn on its equity investment, as well as the interest required to be paid to the company’s debtholders. The PSC Staff provides its own analysis in each rate case before the Commission as to the appropriate level of rate of return for that utility. As part of this analysis, the PSC Staff uses various financial models and comparisons of other utilities within the state as well as other national utilities’ financial earnings to determine a reasonable rate.

### **Low Income Weatherization**

The Commission has approved programs designed to help low-income customers with energy conservation efforts. The Low Income Weatherization Assistance Program (LIWAP) is administered by the Missouri Division of Energy

**R**ate case audits are based upon a selected “test year.” In a rate case, the test year is a 12 month operating period used to evaluate the cost of service to customers and the adequacy of the rates a utility is charging or proposes to charge.

using federal, state, and utility funding. It is administered locally by Community Action Agencies or other local agencies. The LIWAP provides money to help low-income consumers purchase home weatherization repairs (insulation, etc.) and energy-efficient appliances. As part of the rate case, the PSC Staff reviews the weatherization programs in the utility’s service territory to determine if the programs are effective and what level of funding should be included in rates.

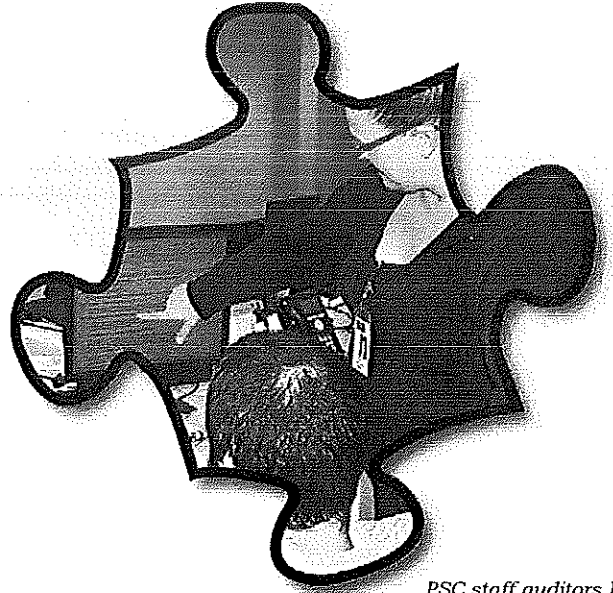
#### **Depreciation**

Depreciation is the return of the Company’s investment in utility assets over the life of its property used to provide service to its customers. The depreciation rate for each classification of property is designed to recover, over the life of the asset, the cost of the investment plus any cost to remove it (net of salvage proceeds) when it is no longer being used to provide utility service. The PSC Staff reviews the history of the Company’s investments, such as how long the equipment has been in service and what the industry expects the life to be, in order to determine an estimated life span of the investment on which the recommended depreciation rate will be based.

#### **Rate Design**

After reviewing all utility costs, the PSC Staff recommends which and how much of those costs should be recovered in customer rates (the total amount of costs is commonly referred to as the “revenue requirement”) and also how that revenue requirement should be recouped from the various classes of customers (such as residential, commercial and industrial).

Rate design recommendations are normally based upon a “class cost of service study.” This type of study also provides information useful in formulating recommendations on the amount of the “customer charge” (a monthly fixed rate charge on the customer bill) and the amount of the commodity charge (variable charge on the



*PSC staff auditors Lisa Ferguson and Jason Kunst confer during a work session.*

bill based upon the customers actual usage of the utility service for a month). The process of determining how much of a utility’s overall revenue requirement should be recovered from each customer class is commonly referred to as “rate design.”

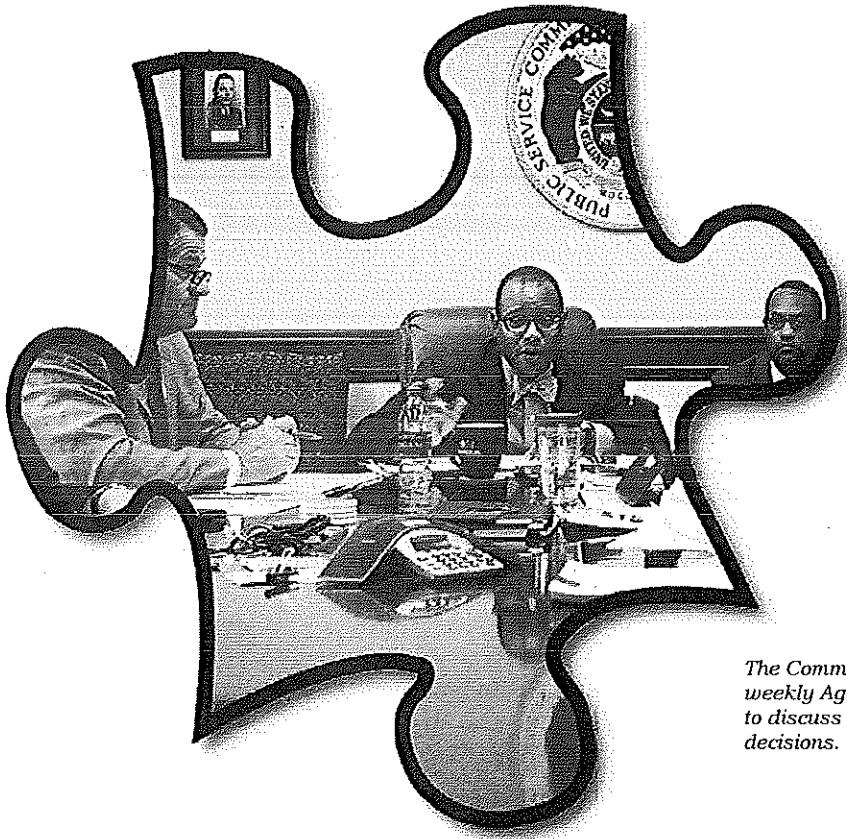
#### **How Are Rate Cases Resolved?**

Rate cases may be resolved through negotiation of the parties (rate case settlements), or by submission of issues to the Commission through the hearing process.

#### **Settlement and Negotiations**

Not every rate case results in a hearing before the Commission. In every rate case, parties meet to see if they can come to an agreement on the amount of the rate increase, rate design and other issues pending in the case. This process usually begins after the PSC Staff has filed its direct testimony in the case outlining the results of its audit.

If the parties can reach an agreement, the



*The Commission holds weekly Agenda meetings to discuss cases and issue decisions.*

agreement will be filed for Commission consideration. However, in some cases, all parties do not agree on all issues presented in the case. When this happens a partial agreement is filed and the Commission will then hear all of the remaining issues in the rate case.

#### **Litigated Hearings**

For rate cases that go to hearing, the Commission will hear evidence for each individual issue in dispute among the parties.

All witnesses supporting a position in the case must take the witness stand and undergo cross-examination by opposing parties, as well as questioning from the Commissioners.

Based upon the evidence presented to it in both written testimony and in the hearing room, the Commission will decide each issue based upon which party it believes has submitted the most persuasive evidence on the matter.

The Commission's decisions on all litigated issues are outlined in a document called a "Report and Order."

*Kim Bolin works in the Audits, Accounting & Financial Analysis Department of the PSC.*

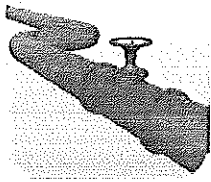
## **How To Watch Rate Case Hearings**

The PSC regularly webcasts rate case hearings and other events on its website ([www.psc.mo.gov](http://www.psc.mo.gov)).

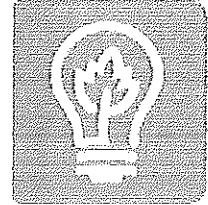
To view a live webcast, click on the "Events Now Streaming" link on the top left corner of the homepage. If a webcast is in progress, you will see the title of the event.

If you click on the title (i.e. Hearing or Agenda), you will be able to view the live webcast. If no events are streaming, the box will say "No Events Active."

Past webcasts can also be viewed. Those events can be found by clicking on the link "Archived Videos" toward the bottom of the homepage.



# Charges That May Appear On Your Bill



## Renewable Energy Standard Rate Adjustment Mechanism

The Renewable Energy Standard Rate Adjustment Mechanism (RESRAM) is a charge that may appear on electric customers' bills to reflect costs of complying with the renewable energy standard. A RESRAM allows electric companies to adjust rates outside of a general electric rate case to reflect prudently incurred renewable energy standard costs (such as solar and wind). These costs would be costs above renewable energy costs already included in the company's base rates. This renewable energy standard rate adjustment mechanism was allowed by legislation passed in 2008.

## Energy Efficiency Investment Charge

The Energy Efficiency Investment Charge or Demand-Side Programs Investment Mechanism (EEIC or EEC, DSIM) is a charge which encourages utility companies to implement demand-side and energy efficiency programs. The mechanism is reflected as a separate line item on customer bills and allows utilities to receive cost recovery of program costs, lost revenues and a utility incentive. The energy efficiency framework was part of the Missouri Energy Efficiency Investment Act (MEEIA) created by legislation passed in 2009.

## Infrastructure System Replacement Surcharge

The Infrastructure System Replacement Surcharge (ISRS) appears on bills of most of the natural gas companies under the regulation of the Missouri Public Service Commission.

The ISRS was created by legislation in 2003. The surcharge is designed to provide the utility company more timely recovery of a portion of the expenditures it incurs to replace and extend the useful life of its existing infrastructure (pipeline system) for those projects that were completed after the company's most recent rate case.

Many utility companies have plans in place to replace aging infrastructure on a yearly basis. In addition, there are times when pipelines need to be relocated in connection with local, state and federal public improvement and safety requirements. The ISRS reflects recovery of costs associated with these types of activities.

The ISRS on customer bills can change twice a year. The ISRS is re-set to zero when the Commission reaches a decision in a general rate increase request filed by the company because any amounts not recovered will be included in permanent rates.

An ISRS charge also appears on the bills of Missouri-American Water Company water customers who live in St. Louis County.

## Fuel Adjustment Charge

The Fuel Adjustment Charge (FAC) is designed to address fuel and purchased power cost volatility, as well as, company off-system sales revenues. These costs can go up and down.

The FAC attempts to capture those costs in a more timely fashion. If those costs decrease, the customer receives more timely benefit of lower rates. If costs increase, the company can recover those costs more quickly.

An annual true-up is necessary to reflect actual customer usage for that period of time reflected in the FAC charge. If an over-collection or under-collection has occurred, it is ultimately reflected as an adjustment in the customer's FAC.

The FAC has been on the electric bills of some customers since 2007. The charge was allowed by legislation passed in 2006.

# Quality Of Service

By Debbie Bernsen

When a utility company files a rate case with the Public Service Commission, PSC Staff engineers, auditors, economists and financial analysts begin a full audit of the books and records of the company. Each cost of providing service to customers is carefully examined.

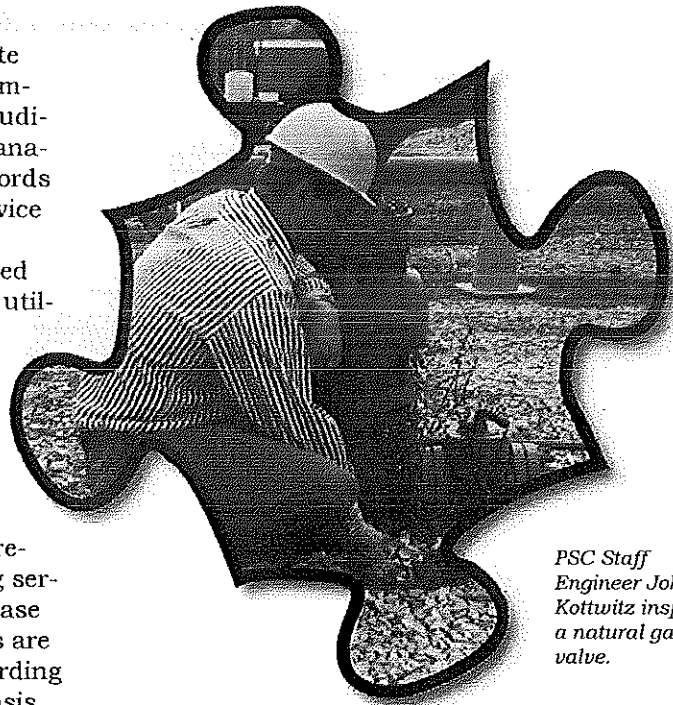
But costs are not the only items examined by the PSC Staff. The quality of service the utility company provides is also an important part of setting rates that are just and reasonable. Quality of service includes such things as safety and reliability, handling customer inquiries and company general management practices.

As a customer of a utility under the jurisdiction of the PSC, you should expect to receive safe and adequate service. Monitoring service closely doesn't just occur when a rate case is filed. Reporting procedures and practices are in place that provide basic information regarding the companies' performance on a regular basis. Commission safety jurisdiction extends to not only regulated utilities but to municipal gas and electric systems and electric cooperatives.

The PSC technical staff continually works in the field examining the systems that provide natural gas to heat your home in the winter; power plants which produce electricity to light, heat, and cool your home; treatment plants that ensure safe drinking water and sewer systems which assure the environmentally sound disposal of wastewater. PSC Staff also inspect telecommunications facilities as well as new manufactured homes and modular units. All of these field operations strive to ensure the safety and reliability of utility systems.

As an example, PSC Staff natural gas safety unit members are in the field throughout the year evaluating pipeline systems. The Commission has jurisdiction over all in-state natural gas pipeline operators including five intrastate transmission pipelines, six investor-owned natural gas distribution utilities and 41 municipally-owned natural gas distribution systems.

During the 2013 calendar year, PSC Staff in the natural gas pipeline safety section conducted 78 comprehensive office and field inspections, follow-up inspections, construction inspections and other investigations. These inspections/



*PSC Staff Engineer John Kottwitz inspects a natural gas valve.*

investigations resulted in staff being in the field over 605 inspection-person days.

The Consumer Services Unit of the PSC responds to information requests and investigates consumer complaints and inquiries regarding utility service.

Consumer Services Staff ensures utility compliance with Commission rules and regulations as well as with the utilities' Commission-approved tariffs. Full-time investigators handle a variety of consumer issues including: billing problems, payment arrangements, denial of service issues, disconnection and service connection issues, enforcement of rules and regulations and safety issues.

The Commission received over 16,400 customer-related contacts in the 2014 fiscal year. Often, Consumer Services investigators will file testimony and take positions on service related issues that are a part of a rate case filed by a utility company under PSC jurisdiction.

PSC Staff in the Commission's Engineering and Management Services Unit have the responsibility of performing analyses regarding the efficiency and effectiveness of the utility managerial practices utilized by companies under the Commission's jurisdiction. Such an analysis is performed a variety of times including during the

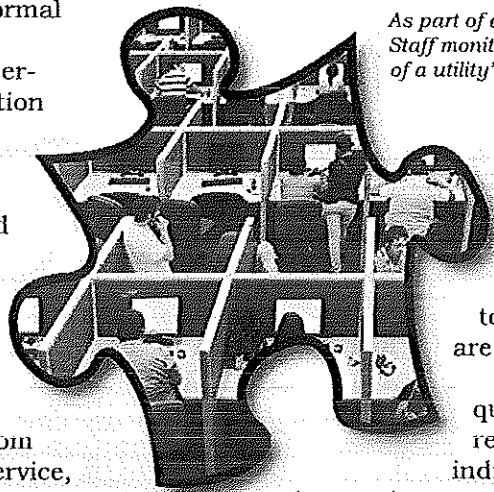
filing of a rate case and during informal review periods.

Meter reading and call center performance, billing, credit and collection activities, service order processes, payment remittance as well as service connection and disconnection activities are all areas reviewed by the PSC Staff. PSC Staff continually monitors the service provided to customers, working to ensure customers receive safe and adequate service.

Customers of a regulated utility generally have one source from which to obtain necessary utility service, and that is the utility that has been granted a Commission certificate of convenience and necessity. Under that certificate, that utility is typically the only utility that can provide the specific utility service within that specified area. They are a monopoly. In return, the utility is required to provide service (such as electricity or water) to all customers within that specified area who wish to receive such service. The utility company cannot choose who it serves. Costs associated with customer service are included in the rates customers pay.

The PSC Staff reviews the adequacy of customer service by examining a variety of service quality metrics, operating procedures, customer input and documentation. In addition, the PSC Staff maintains a data base of measurements on monthly call center performance for all gas, electric and a number of water companies under Commission jurisdiction. These reporting requirements have been developed over time by Commission orders or by formal agreements entered into between the PSC Staff and the utility company.

The PSC Staff maintains a number of quantitative indicators that track the performance of a call center regarding the center's responsiveness to customer calls and concerns. On an informal basis, the PSC Staff will contact the company if customer service metrics indicate a decline in the service being provided to customers. The



*As part of an audit, the PSC Staff monitors the performance of a utility's call center.*

PSC Staff will discuss with the company what actions are needed to correct the situation and will monitor the company's responses to ensure corrective actions are taken.

Some aspects of service quality, however, do not readily lend themselves to indicators. Examples include the consistent application of credit and collection practices, detection and correction of billing errors and the effective training of call center representatives. The PSC Staff will also review operating procedures, billing rule compliance, utility customer complaints received by the Commission and customer opinion survey results.

Results of PSC Staff reviews are documented in reports that detail present practices and areas for potential improvements as well as violations of Commission rules and regulations, where detected. This report may be filed within a pending case with the company or provided to the company informally for its response. The PSC Staff conducts follow-up reviews to ensure that recommendations made for improvement are acted upon and addressed by the utility company.

If you have a service related issue with your utility company, we would encourage you to first contact the utility company to see if you can work out the issue. If the issue has not been resolved to your satisfaction after contact with the company, please call the Public Service Commission's Consumer Services Unit at 1-800-392-4211.

*Debbie Bernsen works in the Audits, Accounting & Financial Analysis Department of the PSC.*



# From The Archives

50 years  
A Look Back

In 1964, as part of its duties, the Missouri Public Service Commission (Commission or PSC) regulated the rates, fares and services of railroads, motor carriers, street railways and express and Pullman car companies. It also regulated bus and truck companies operating in the state.

As part of its work, the PSC's Bus and Truck Department conducted road checks in cooperation with the State Highway Patrol, the State Highway Department and representatives from the Interstate Commerce Commission. These road checks reviewed operating rights, weights and safety equipment, all required of certificated motor carriers.

Often members of the PSC Legal Department accompanied inspectors from the Bus and Truck Department when safety and compliance inspections were made. According to the 1964 PSC Annual Report, "a member of the Legal Department, on the scene at the time of the inspection, facilitates prompt disposition of a legal problem".

Southwestern Bell Telephone Company and 143 independent telephone companies served 712 telephone exchanges in Missouri in 1964. That year, Missouri's first expanded direct distance dialing service was offered in Springfield. The new service allowed telephone users to dial many of their calls directly, instead of asking an operator to handle them.

Statistics showed that natural gas usage continued to grow in Missouri from 1951 through 1963. According to the PSC Annual Report, natural gas consumption during the period increased by 112 percent; income from

natural gas sales increased by 158 percent; investment in plant increased by 176 percent and the number of consumers increased by approximately 38 percent.

In the mid-1960s, the PSC saw the creation of a number of small water utilities by people who were engaged in real estate ventures. The Commission noted that most of these systems were located too far from the local municipal system to justify the extension of water lines to subdivisions being developed. Developers established the systems as public utilities, and in order to conform to the law, they were granted certificates to operate under PSC jurisdiction.

In 1964, E.L. McClintock served as a Commissioner on the PSC. Affectionately known as the Dean of the Public Service Commission, McClintock served as a Commissioner on the PSC longer than anyone in the agency's 100 year history. McClintock was a member of the PSC from 1945 to 1967, serving under five different governors.

PSC offices in 1964 were located on the tenth floor of the Jefferson Office Building in Jefferson City. Today, PSC offices are located in the Governor Office Building on Madison Street.

Over the past 50 years, utility regulation has changed, but the Public Service Commission's core mission remains the same. The PSC continues its work to ensure Missouri's consumers receive safe and adequate service at just and reasonable rates.

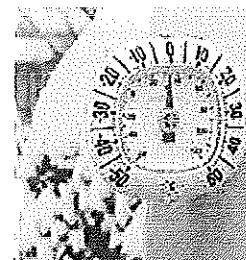
*Source: 1963-1964 Missouri Public Service Commission Annual Report*

# Get Ready For

# WINTER

## Facts About The Cold Weather Rule

- Prohibits disconnection of heat-related service from November 1 through March 31 when the temperature is forecasted to drop below 32 degrees.
- Allows you to budget your payments over 12 months.
- Does not require a deposit if payment agreement is kept.
- Allows arrearage balance to be spread out over 12 months or longer if both customer and utility agree to the time period.
- Prohibits disconnection of registered low-income elderly or disabled customers who make a minimum payment.
- Allows reconnection of your service for less than the full amount owed.

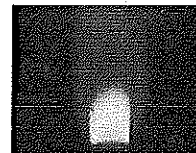


## Be Prepared For Winter

- Add caulk or weatherstripping to seal air leaks around doors and windows.
- Clean or replace furnace filters once a month.
- Make sure appliance vents and exhaust ducts are in good condition and properly connected to exhaust the combustion gases outside.
- Keep the area around the gas furnace and gas water heater clear.
- Check the chimney to make sure it is not blocked by debris or bird nests.
- Replace rusted vent pipes.

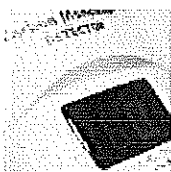
## If You Smell Natural Gas

- Don't use your phone, because it may cause a spark.
- If you smell natural gas leave your home or business immediately and then contact 911 and your natural gas provider.
- Don't smoke, light a match or use a lighter or any open flame.
- Don't operate any electrical light or appliance switches.
- Stay away from the building until you've been told that it is safe to return by officials.



## Carbon Monoxide Poisoning

Carbon Monoxide is a toxic gas that is odorless and colorless. It can kill you before anyone is aware it is in your home.



- Before heating season, have your heating system checked.
- Make sure appliance vents and exhaust ducts, such as those on your furnace, water heaters and ranges, are not blocked.
- Never operate your car or other gas-powered engines (i.e. generators) in an enclosed space, such as a garage or basement.
- It is recommended that homes and businesses purchase carbon monoxide detectors, like fire alarms.

# Connections: News, Notes & Events



## Good turnout at local public hearings across the state

The Missouri Public Service Commission held 34 local public hearings around the state this year to receive customer comment in cases as well as any service related issues. More than 3,300 people attended these public hearings.

## Community outreach efforts

The PSC is committed to increasing its visibility in communities around the state of Missouri. The PSC has expanded its role to provide educational information about utility regulation and energy conservation to consumers across the state. Building effective community partnerships is key to educating and empowering the public about utility services such as billing, service quality, energy conservation and safety. If your organization would like to form a partnership with the Commission or if your organization is aware of a community event where the Commission's Consumer Outreach services would be beneficial, please call 1-800-392-4211.



## PSC's Bob Leonberger receives NAPSRLifetime Leadership Award

Bob Leonberger, manager of the PSC's Safety/Engineering section, was presented the National Association of Pipeline Safety Representatives (NAPSRL) Lifetime Leadership Award. Leonberger was honored for his leadership and contributions to national pipeline safety; for serving as NAPSRL National Officer and NAPSRL Central Regional Officer; for advancing pipeline safety through participation in the organization's Grant Allocation Committee, Legislation Committee and Security Committee. The award was presented at the NAPSRL meeting September 17 in Springfield, IL.



## Commissioner Stoll receives scouting honor

Commissioner Stephen Stoll was honored with the 2014 Good Scout Award by the River Trails District Troop this spring. Commissioner Stoll earned the Eagle Scout award as a youth. "It was very nice to be recognized by an organization I love being a part of," Stoll said. "I consider it a real honor."



# Employee Spotlight



Five Questions With:

## *Shelley Brueggemann*

**Chief Litigation Attorney**

**1) What are your main job duties?**

As an external litigation attorney in the Office of the General Counsel, I represent the PSC in lawsuits involving PSC law or other related actions, and intervening in or initiating actions as authorized by the Commission. This representation also includes defending the Commission and its orders and decisions in the circuit courts, appellate courts and any other forum.

**2) How did you come to work at the PSC?**

After a few years as an assistant prosecutor, I decided it was time to find a job outside of the criminal justice system where I could continue to serve the public, preferably in an area that worked with essential needs. When a position with the PSC was advertised I jumped at the chance to apply because the PSC regulated investor-owned utilities providing essential electric, gas, water, sewer, or telecommunications services to customers. The regulation of such critical services was exactly the type of important public service that I wanted to be part of carrying out.

**3) What did you do before working at the PSC?**

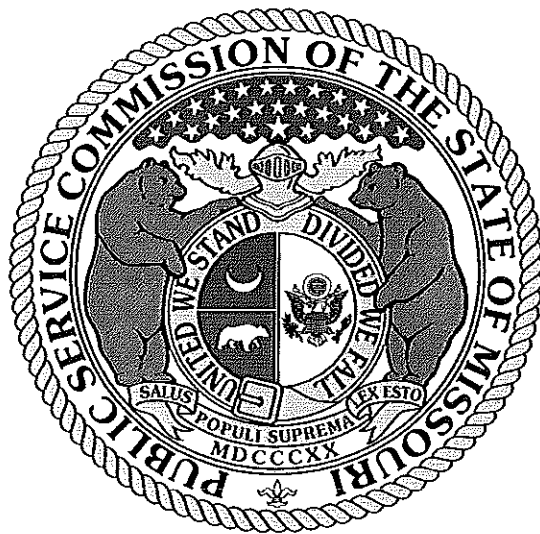
I graduated from Drury College with a Bachelor of Arts Degree, majoring in Biology and Psychology. For two summers, my most adventurous job was working as a trail guide by horse-back in the San Juan Mountains in southwest Colorado. I was also lucky enough to study abroad for a semester in London, England, and a summer in San Jose, Costa Rica. After law school, I was hired as an assistant prosecutor for Montgomery County and Audrain County, Missouri. I then took on the role of Student Legal Services Coordinator at the University of Missouri—Columbia, while continuing as part-time assistant prosecutor for Montgomery County working on a wide variety of felony and misdemeanor criminal cases.

**4) What is the most interesting thing about your job?**

In this job, my work takes me to a wide variety of courts and forums where every case is different and I must quickly adapt to be effective in that arena. This also allows me the opportunity to work with many different interested parties and stakeholders on the issues that closely affect them and learn.

**5) What is one thing people do not know about you?**

While working at the PSC, I finished my Master of Public Affairs degree juggling work, school and my then toddler son with the support and help of my husband and family, completing the last semester while pregnant with our daughter.



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JAN 5 2017

Missouri Public Service Commission

111 FERC ¶61,501  
UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Pat Wood, III, Chairman;  
Nora Mead Brownell, Joseph T. Kelliher,  
and Suedeen G. Kelly.

Jurisdictional Public Utilities and Licensees                      Docket No. AI05-1-000  
Natural Gas Companies  
Oil Pipeline Companies

ORDER ON ACCOUNTING FOR PIPELINE ASSESSMENT COSTS

(Issued June 30, 2005)

**I. Introduction**

1. The Office of Pipeline Safety (OPS) of the U.S. Department of Transportation has developed regulations that require natural gas pipeline and hazardous liquid pipeline operators to develop, implement and follow an integrity management program for segments of pipeline in high consequence areas (IM Regulations).<sup>1</sup> On November 5, 2004, the Federal Energy Regulatory Commission (Commission) published a notice of a proposed accounting release, which would require that an entity recognize costs incurred in performing pipeline assessments that are part of a pipeline integrity management program as maintenance expense and would apply to all entities under the jurisdiction of the Commission.<sup>2</sup> This order expands on the accounting guidance in the proposed

<sup>1</sup> See 49 C.F.R. § 192 (2004), Pipeline Safety: Pipeline Integrity Management in High Consequence Areas (Gas Pipelines), Final Rule effective January 14, 2004; and 49 C.F.R. § 195 (2004), Pipeline Safety: Pipeline Integrity Management in High Consequence Areas (Hazardous Liquid Operators with 500 or more miles of Pipeline), Final Rule effective February 15, 2002. In general, "high consequence areas" are locations surrounding a pipeline where a leak or rupture could do the most harm to humans or the environment. See definition contained in 49 C.F.R. § 192.903 and 49 C.F.R. § 195.450 (2004).

<sup>2</sup> *Accounting for Pipeline Assessment Costs*, Notice of Proposed Accounting Release, Docket No. AI05-1-000 (Nov. 5, 2004), 69 Fed. Reg. 67,727 (Nov. 19, 2004), referred to herein as the November 5 notice. The proposed accounting release only provided accounting guidance on the costs of performing pipeline assessment techniques like smart pigging, hydrostatic testing, and direct assessment. It did not provide guidance on other actions to be taken as part of an integrity management program.

OPC Exhibit No. 5  
Date 01-03-17 Reporter KF  
File No. GO-2016-0332  
GO-2016-0333

03 15  
Docket No. AI05-1-000

-2-

accounting release and addresses the proper accounting for costs that pipeline operators will incur in implementing all aspects of a pipeline integrity management program, not just pipeline assessment activities. This order concludes that certain costs incurred related to a pipeline integrity management program should be capitalized, while others should be expensed, as discussed below. This order benefits the public because it interprets the Commission's existing accounting rules and standardizes and properly classifies expenditures made by pipelines in connection with an integrity management program.

## II. Background

### A. Integrity Management Programs Required by the OPS

2. The IM Regulations require natural gas and hazardous liquid pipeline operators to assess, evaluate, repair and validate, through a comprehensive analysis, the integrity of pipeline segments that could affect high consequence areas in the event of a leak or failure. This process requires pipeline operators to incur costs to develop integrity management plans, prepare pipelines for inspection, conduct pipeline assessments, make subsequent repairs, and perform other ongoing activities of an integrity management program.

3. To develop an integrity management plan, pipeline operators must first identify pipeline segments that are located in high consequence areas and prepare a written plan for an initial assessment of the identified pipeline segments. Documents must also be prepared to detail the testing methods to be used, risk factors considered in selecting the appropriate testing method, and the schedule of testing and inspecting. In support of these activities, operators must integrate into a recordkeeping system all information relevant to the integrity management plans related to each high consequence area.

4. Next, pipeline operators must make necessary additions, modifications, and replacements to segments of pipeline that require inline inspection tools, like a smart pig, that are not currently designed for inline inspections. These activities may include, for example, installing pig launchers and receivers and replacing portions of pipe that cannot currently accommodate inline inspection tools.

5. Pipeline operators must then assess the identified pipeline segments to locate anomalies such as cracks, dents, and leaks using hydrostatic tests, smart pigs, or direct assessment activities. The IM Regulations require gas pipeline operators to complete an initial assessment of 50 percent of all pipe located in a high consequence area by

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December 2007, complete the remaining 50 percent by December 2012, and conduct re-assessments every 7 to 10 years.<sup>3</sup> Oil pipeline operators will be required to complete a baseline assessment of 50 percent of all pipe located in a high consequence area by February 2005, complete the remaining 50 percent by August 2009, and conduct re-assessments every 5 years.

6. Any major defect identified through pipeline assessments must be investigated and remedied within prescribed time limits. The required remedial action will depend upon the nature of the discovered defects. Accordingly, a pipeline may be required to incur minor repairs, like recoating, or a pipeline may need to replace large segments of pipe. Pipeline operators must also evaluate the need for additional preventative and mitigative measures to protect high consequence areas and enhance public safety. This evaluation may result in installing automatic shut-off valves or remote control valves and installing computerized monitoring and leak detection systems.

7. Pipeline operators will also be required to incur ongoing program costs to conduct training and drills, enhance damage prevention programs, and meet periodic reporting requirements to comply with the IM Regulations.

#### **B. Proposed Accounting Release**

8. The Commission issued the November 5 proposed accounting release to clarify the proper accounting for pipeline assessment activities in an integrity management program. The proposed accounting release noted that many jurisdictional entities have accounting policies that recognize pipeline assessment activities as a maintenance activity when performed specifically for the purpose of testing and reporting on the condition and integrity of existing pipe to prevent failure. The proposed accounting release also noted that other entities have accounting policies that recognize the same costs as capital expenditures. Accordingly, the Commission was concerned that the increase in pipeline assessment costs as a result of the new IM Regulations, coupled with the diverse accounting practices in the industry, could severely reduce the comparability of financial statements among jurisdictional entities and make review of existing rates more difficult.

9. The Commission proposed that pipeline assessment activities related to an integrity management program be accounted for as maintenance and charged to expense in the period incurred. The Commission allowed all interested parties an opportunity to comment on the proposed accounting for pipeline assessment cost.

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<sup>3</sup> The re-assessment intervals relate to pipelines operating at or above 50 percent of the specified minimum yield strength of the pipe.



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**C. Comments on the Proposed Accounting Release**

10. The proposed accounting release was noticed on November 5, 2004, and comments were due as provided in the notice. The Commission received fourteen comments concerning various aspects of the proposed accounting release. The majority of commenters were supportive of the Commission's effort to provide guidance on the proper treatment of pipeline assessment costs.<sup>4</sup> Two general areas of concern were raised: whether the costs of pipeline assessment activities should be expensed or capitalized, and the proposed effective date of any new accounting regulations.

**1. Should the Costs of Pipeline Assessment Activities be Expensed or Capitalized?**

11. Several commenters agreed that the costs of pipeline assessment activities performed as part of a pipeline integrity management program should be accounted for as maintenance expense. Other commenters argued that there are certain instances when capitalization of such costs is appropriate. Several commenters stated it was appropriate to capitalize the initial assessment costs of a new or a newly repaired pipeline being converted to a new service. One commenter thought that the costs of pipeline assessments performed as part of an integrity management program should be expensed except when the activity results in substantial amounts of pipeline being replaced or recoated. Commenters also stated that technologically advanced pipeline assessment costs should be capitalized if the assessment could detect original construction defects and the subsequent rehabilitation improves the pipeline beyond its original construction. Finally, several commenters stated that any assessment which leads to a capital expenditure should be capitalized.

12. Other commenters disagreed with the proposal to expense the costs of assessment activities in an integrity management program. These commenters generally viewed that all integrity management work, including assessments, consists of a series of activities that directly and immediately enhance pipeline facilities. As such, they argued that all pipeline assessment costs should be capitalized. The majority of these commenters

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<sup>4</sup> Comments were received from Association of Oil Pipelines, Interstate Natural Gas Association of America, Texas Pipeline Association, Kinder Morgan Interstate Pipelines, Williston Basin Interstate Pipeline Company, Embridge Energy Partners LP, El Paso Corp., NiSource Inc., Northern Natural Gas Company, Duke Energy Gas Transmission, Alliance Pipeline LP, Colonial Pipeline Company, Magellan Pipeline Company, LP, and Southern California Gas Company & San Diego Gas and Electric Company.

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claimed that capitalizing pipeline assessment costs is consistent with generally accepted accounting principles (GAAP) under Emerging Issues Task Force Issue 90-8, Capitalization of Costs to Treat Environmental Contamination (EITF 90-8). The commenters explained that EITF 90-8 concludes that environmental contamination treatment costs should be charged to expense except when the costs extend the life, increase the capacity, or improve the safety or efficiency of property. These commenters stated that pipeline assessment activities are directly related to the subsequent repairs of a pipeline which will extend the life, increase the capacity, and improve the safety or efficiency of the pipeline.

13. These commenters stated that capitalizing pipeline assessment costs is consistent with GAAP because they claim an assessment has a lasting value that remains long after the integrity assessment has been completed. One commenter explained that under Financial Accounting Standards Board Concepts Statement No. 6, Elements of Financial Statements, assets are defined as probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events. The commenter also explained that expenses are outflows or "using up" of an asset from carrying on business activities. These commenters stated that pipeline assessments have the characteristics of an asset, rather than normal operating expenses that are of no particular value after the expenditure has been made. Commenters also explained that pipeline assessments create a quantifiable knowledge base on which safety remediation will be based which has value. Commenters claimed that pipeline integrity information is vital, and that not having this information would make them willing to pay less for a pipeline system. Commenters also argued that GAAP permits the size of an expenditure as a consideration for capitalization.<sup>5</sup>

14. These commenters also stated that Operating Expense Instructions No. 2 could not have been intended to include pipeline assessment costs. The commenters stated this Instruction was established long before the Pipeline Safety Improvement Act of 2002 and could not have envisioned the extent and magnitude of expenditures now to be required by the IM Regulations.

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<sup>5</sup> The commenters' argument is based on the Commerce Clearing House *Accounting Research Manager*, Interpretations and Examples\08. Property, Plant, Equipment and Natural Resources, Measurement - Capitalization of Costs Incurred During Ownership (2005).

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15. Several of these commenters cited past orders by the Chief Accountant which permitted the capitalization of pipeline assessment costs when it was a part of a major rehabilitation project. They assert that the pipeline integrity management program required by the IM Regulations represents a major rehabilitation project. Additionally, the commenters stated that the baseline assessments required by the IM Regulations are properly characterized as one-time events rather than ongoing inspections, tests, or maintenance and the costs meet the Chief Accountant's standards for capitalization.

## 2. Effective Date

16. The majority of commenters opposed the proposed effective date of January 1, 2005. Alternatively, most of the commenters suggested the Commission have a January 1, 2006 effective date. The commenters stated that more time is needed to develop controls and procedures to separately identify and properly account for components of projects. The commenters also stated that more time is needed to allow for more discussion and consideration of the complexities of all the issues and allow for petitions for rehearing.

17. The commenters noted that retroactive accounting treatment would have unfair rate consequences. Commenters also state that in determining whether retroactive application of a new rule is appropriate, a key consideration is whether retroactive application would produce substantial inequitable results, with particular reference to whether parties relied on the old standard. Additionally, commenters note that a prospective approach is consistent with the approach employed by other accounting standard bodies to ensure orderly dissemination of new information in the capital markets.

## IV. Discussion

18. As a result of pipeline integrity management programs mandated by the IM Regulations, pipeline operators will incur costs to: (1) prepare a plan to implement the program; (2) identify high consequence areas; (3) develop and maintain a recordkeeping system to document program implementation and actions; (4) prepare affected pipeline segments for inspection; (5) inspect affected pipeline segments; and (6) develop and perform remediation actions to correct an identified condition which could threaten a pipeline's integrity.

19. The proposed accounting release addressed the proper accounting for only the assessment or inspection part of the integrity management program under the Uniform System of Accounts (USofA). However, based on the comments received in response to the proposed accounting release, it became apparent that there is different accounting

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taking place regarding the costs related to the various other activities pipelines are performing to implement their integrity management programs. Consequently, the Commission will take this opportunity to provide specific guidance on how jurisdictional entities shall account for all activities related to developing and implementing an integrity management program.

20. Before addressing how entities must account for costs incurred as part of an integrity management program, we want to first address the claim raised by commenters that all costs related to integrity management programs should be capitalized because they extend the useful lives and improve the efficiency and safety of the pipeline assets. These commenters also contend that all costs should be capitalized since they in effect are part of a major rehabilitation effort, and the Commission has permitted similar costs that are part of a rehabilitation project to be capitalized in the past.

21. The Commission's accounting rules provide that costs incurred to inspect, test and report on the condition of plant to determine the need for repairs or replacements are to be charged to maintenance expense in the period the costs are incurred.<sup>6</sup> The pipeline integrity management program as implemented by the IM Regulations incorporates a process for continual evaluation and assessment or inspection, along with remediation, so as to maintain the integrity of the pipeline. Its primary aim is not to increase the capacity or efficiency of the pipeline. Broadly speaking, pipeline assessment activities provide information about the condition of existing facilities to ensure that operation of the pipeline remains within established safety parameters. The act of inspecting or assessing a pipeline segment does not by itself increase the useful life of a pipeline asset or improve its efficiency.

22. Additionally, since the integrity management program provides for a process of continual evaluation and assessment it can not be considered analogous to those one-time major rehabilitation projects where we have allowed capitalization of assessment costs in the past. Accordingly, we clarify that entities may not capitalize all integrity management costs, but must either capitalize or expense those costs as discussed below.

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<sup>6</sup> See Operating Expense Instructions No. 2, Maintenance, Item 2 of 18 C.F.R. Parts 101 and 201 (2004) and Instructions for Operating Revenues and Operating Expenses 4-4, paragraph A of Part 352 (2004).

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23. As to the treatment to be afforded specific categories of actions under the integrity management program requirements, we will first clarify how entities should account for: (1) the costs that pipeline operators incur to prepare a plan to implement the program; (2) the costs that pipeline operators incur to identify high consequence areas; and (3) the costs that pipeline operators incur to develop and maintain a recordkeeping system to document program implementation and actions.

24. Under the requirements of the USofA, costs incurred in preparing instructions for operations and maintenance activities are required to be expensed.<sup>7</sup> Consequently, costs incurred in preparing a plan to implement an integrity management program should be charged to the appropriate operation and maintenance account in the period incurred. Costs incurred to identify high consequence areas must also be charged to maintenance expense as they are part of the process for determining what segments to inspect or test, which, as discussed above, is a maintenance activity.

25. With certain exceptions discussed below in footnote 8, the costs incurred to develop and maintain a recordkeeping system to document integrity management program implementation and actions must also be charged to the appropriate operation and maintenance expense account in the period incurred, since these costs relate to maintaining the integrity of the pipeline,<sup>8</sup> a maintenance activity.<sup>8</sup> Also, the incurrence of these costs does not provide any measurable benefits for future accounting periods and, as such, capitalization of these types of costs is improper.

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<sup>7</sup> See Operating Expense Instructions No. 1, Supervision and Engineering, Item 3 of 18 C.F.R. Parts 101 and 201 (2004) and Instructions for Operating Revenues and Operating Expenses 4-4, paragraph A of 18 C.F.R. Part 352 (2004).

<sup>8</sup> Internal and external costs, if any, incurred to develop internal-use computer software during the application development stage should be capitalized. In addition, costs for upgrades and enhancements to existing internal-use software that result in additional functionality should be capitalized. See the American Institute of Certified Public Accountants' Statement of Position Number 98-1, Accounting for Costs of Computer Software Developed or Obtained for Internal Use.

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26. Next, we clarify that pipeline additions or modifications undertaken to prepare for a pipeline assessment should be accounted for in accordance with applicable USofA requirements related to the addition and replacement of plant.<sup>9</sup> For example, pig launchers or receivers installed or pipe modified to accommodate pigging can be capitalized if they are considered retirement units or result in a substantial addition.

27. Further, as noted above, the Commission's accounting rules provide that costs incurred to inspect, test and report on the condition of plant to determine the need for repairs or replacements are to be charged to maintenance expense. Accordingly, costs to inspect affected pipeline segments under an IM program must be charged to maintenance expense in the period the costs are incurred.

28. Finally, remedial and mitigation actions to correct an identified condition which could threaten a pipeline's integrity should also be accounted for in accordance with applicable USofA requirements related to the addition and replacement of plant.<sup>10</sup> These actions may include replacing identified segments of pipe or installing automatic shut-off valves and computerized monitoring and leak detection systems. If an entity replaces a retirement unit as part of a remedial action, then those costs should be capitalized to the appropriate plant account. However, minor items of property replaced as part of a remedial action should be expensed to the appropriate maintenance account.

29. The PAR included an effective date of implementation of January 1, 2005. In order to allow companies sufficient time to develop controls and procedures to implement any necessary changes to their accounting and reporting systems, we will make this guidance effective January 1, 2006 and prospective in application. Amounts capitalized in periods prior to January 1, 2006 will be permitted to remain as recorded.

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<sup>9</sup> See Electric Plant Instruction No. 10, Additions and Retirements of Electric Plant, 18 C.F.R. Part 101 (2004); Gas Plant Instruction No. 10, Additions and Retirements of Gas Plant, 18 C.F.R. Part 201 (2004); and Carrier Property Instruction No. 3-6, Replacements, 18 C.F.R. Part 352 (2004).

<sup>10</sup> *Id.*

30. In reaching the foregoing accounting determinations the Commission is aware that implementing pipeline integrity management programs will involve significant costs. In the OPS' Final Regulatory Evaluation (FRE), it estimates that the total cost of complying with its IM Regulations over a twenty year period will be \$4,701.38 million.<sup>11</sup> Part of this cost is attributable to entities that are jurisdictional to the Commission such as interstate natural gas pipelines and part is attributable to non-jurisdictional entities such as local distribution companies. The Interstate Natural Gas Association of America estimates that 58 percent, or approximately \$2,730 million of the overall \$4,701.38 million cost of the rule, will be incurred by entities that are jurisdictional to the Commission.<sup>12</sup> The first year cost of complying with the IM Regulations for all entities is estimated to be \$793.77 million, of which \$262.12 million is estimated to be the cost of baseline testing. Since the integrity management programs are in their second year, these costs have already been incurred. For years two through seven, the total annual cost of complying with the IM Regulations by all entities is estimated to be \$309.78 million. In years eight through ten, the total annual cost of complying with the IM Regulations is estimated to be \$345.87 million. For years two through ten, the baseline testing component of this cost is \$262.12 million, or 79 percent of the overall cost for that period. Baseline testing includes both the estimated cost of testing the pipelines and the cost of required piping modifications to accommodate testing.<sup>13</sup> Assuming the pipeline inspection costs incurred during years one through ten are approximately the same as those estimated to be incurred in years eleven through twenty, approximately \$208 million of the \$262.12 million annual figure for baseline testing will be capitalized as it will consist of costs such as the addition of pig launchers and receivers, and the replacement of portions of pipe to allow the use of inline testing techniques as discussed above. Thus, a significant portion of the cost of integrity management programs can be expected to be capitalized as a result of the guidance provided in this order.

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<sup>11</sup> See Final Regulatory Evaluation, Pipeline Integrity Management in High Consequence Areas (Gas Transmission Pipelines), U.S. Department of Transportation, Research and Special Programs Administration, Docket RSPA-00-7666-356, at 42-58 and Exhibit 8. Exhibit 8 of the FRE is attached to this order.

<sup>12</sup> Interstate Natural Gas Association of America's comments, filed January 19, 2005, at 16.

<sup>13</sup> See FRE at 52.

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31. Pipeline operators have also implemented other integrity management programs in non-high consequence areas to prevent the negative social, economic, and legal impacts of a major pipeline incident. While our guidance here focuses on the accounting treatment of costs incurred in compliance with the Pipeline Safety Act and OPS implementing regulations, the same principles would apply for accounting for similar costs incurred in pipeline integrity programs that fall outside the Pipeline Safety Act and those specific OPS regulations.

The Commission orders:

(A) Pipelines shall account for expenditures in furtherance of pipeline integrity management systems in accordance with the requirements of this order.

(B) This order shall be effective for all IM expenditures incurred on or after January 1, 2006.

By the Commission. Commissioner Brownell dissenting in part with a separate statement attached.

( S E A L )

Magalie R. Salas,  
Secretary.



UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

Accounting For Pipeline Assessment Costs

Docket No. AI05-1-000

(Issued June 30, 2005)

BROWNELL, Commissioner, dissent in part:

The Office of Pipeline Safety (OPS) issued regulations in December 2003 to establish new integrity management requirements (IM Regulations). OPS estimates the cost of compliance for both jurisdictional and non-jurisdictional pipelines to be \$4.7 billion over twenty years. Our Notice of Proposed Accounting Release (PAR) raised two issues: whether these costs should be expensed or capitalized, and the proposed effective date of any new regulations.

The order finds that the accounting guidance provided herein should be effective January 1, 2006 and amounts capitalized prior to January 1, 2006 will be permitted to remain as recorded. I agree. The order also finds that the costs incurred after January 1, 2006 should generally be expensed. The basis for this finding is the conclusion that the primary aim of the IM Regulations is not to increase the capacity or efficiency of the pipeline. As such, the order treats the costs of implementing the IM Regulations as ordinary maintenance costs which must be expensed pursuant to our accounting instructions. The order makes two notable exceptions. First, the order expressly directs that all internal and external costs computer enhancements should be capitalized.<sup>1</sup> Second, the order states that costs initially incurred to modify a pipeline to permit the use of in-line inspection tools will be capitalized.<sup>2</sup> Since the net effect of these findings is that most of the costs necessary to set up the new safety program are capitalized and the on-going costs incurred to maintain the program are expensed, I do not disagree with the outcome.

However, I do not view these costs solely as costs to perform routine or ordinary maintenance activities. OPS pointed out that Congress directed additional safety measures that would impose a change and require activities not previously performed.<sup>3</sup> OPS determined that one benefit from the new safety program would be increased capacity (and efficiency) because pipelines may be allowed to operate at higher pressures. From a short term perspective, increases in operating pressures could make additional gas available in rapid order to alleviate an emergency, like that experienced in

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<sup>1</sup> Order at fn 8.

<sup>2</sup> Order at paragraph 30.

<sup>3</sup> OPS's Final Regulatory Evaluation at 2 and 8.

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California in 2000. From a long term perspective, increases in pressures could obviate or delay the need for new pipelines.<sup>4</sup> OPS also stated that one of the principle benefits of the IM Regulations is the reduction in the number of accidents that result in deaths, serious injury and property damage.<sup>5</sup>

Specifically, OPS identified 9 cost items that will be incurred to implement its IM Regulations. Based on OPS' explanations, those cost items fall into two categories: costs necessary to set up the new safety program and the costs of maintaining on-going compliance. Some examples are instructive. Data Integration involves first year costs to retrieve old data, prepare it for use in future integrity information, and to realign data management systems to facilitate integration. OPS characterizes retrieval of old data as a "one-time" cost for "set up".<sup>6</sup> Subsequently, OPS estimates annual expenditures for years two through twenty. Integrity Plans involves first year costs to create the plans, which OPS again describes as a "one-time" cost and annual expenses for years 2 through 20 to "review the plans, makes changes as needed, and to prepare routine reports."<sup>7</sup> OPS differentiates assessment activity as either Baseline Testing or Subsequent Testing. Baseline Testing involves setting up the new safety program and the initial inspections and evaluations, including all modifications to the pipeline infrastructure to permit the use of in-line inspection tools. The costs for Baseline Testing extend beyond the first year because the IM Regulations allow ten years to complete the initial assessment. Once the initial testing is completed on a segment of pipe, Subsequent Testing involves the on-going, periodic reassessments and reevaluations of those pipeline segments.<sup>8</sup> The costs necessary to set up a new safety program are not the routine maintenance expenditures addressed by our accounting instructions.

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<sup>4</sup> Id. at 30.

<sup>5</sup> Id. at 17.

<sup>6</sup> Id. at 56 and 60 and Exhibit 8.

<sup>7</sup> Id. at 40 and 60 and Exhibit 8.

<sup>8</sup> Id. at 52 and 60 and Exhibit 8.

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In sum, the IM Regulations encompass more than standard maintenance. The IM Regulations require both an initial rehabilitation of the pipeline infrastructure by setting up a new safety program and the subsequent on-going compliance with that new safety program. The new safety program will extend the life, increase the capacity and improve the safety of the pipeline infrastructure. Therefore, consistent with GAAP accounting and Commission precedent, I would permit pipelines to capitalize all first year costs and all Baseline Testing costs after the first year.<sup>9</sup>

For these reasons, I dissent in part with today's order.

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Nora Mead Brownell  
Commissioner

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<sup>9</sup> The order permits 79 percent of Baseline Testing costs after the first year to be capitalized on the assumption that those expenditures are pipeline modifications costs. See Order at paragraph 30.

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Attachment

**EXHIBIT 8. THE ESTIMATED COST OF THE FINAL RULE**  
(Costs in millions of 2001 dollars)

Year	Segment ID	Integrity Plans	Valve Analysis	Annual Repairs	Baseline Testing	Subsequent Testing	Data Integration	Prevention & Mitigation	Total
1	15.05	104.13	11.53	11.08	262.12	-	387.32	2.55	793.77
2	-	11.53	-	1.38	262.12	-	32.21	2.55	309.78
3	-	11.53	-	1.38	262.12	-	32.21	2.55	309.78
4	-	11.53	-	1.38	262.12	-	32.21	2.55	309.78
5	-	11.53	-	1.38	262.12	-	32.21	2.55	309.78
6	-	11.53	-	1.38	262.12	-	32.21	2.55	309.78
7	-	11.53	-	1.38	262.12	-	32.21	2.55	309.78
8	-	11.53	-	1.38	262.12	35.84	32.21	2.81	345.87
9	-	11.53	-	1.38	262.12	35.84	32.21	2.81	345.87
10	-	11.53	-	1.38	262.12	35.84	32.21	2.81	345.87
11	-	11.53	-	1.38	-	51.91	32.21	2.81	99.82
12	-	11.53	-	1.38	-	51.91	32.21	2.81	99.82
13	-	11.53	-	1.38	-	51.91	32.21	2.81	99.82
14	-	11.53	-	1.38	-	51.91	32.21	2.81	99.82
15	-	11.53	-	1.38	-	57.31	32.21	2.81	105.22
16	-	11.53	-	1.38	-	57.31	32.21	2.81	105.22
17	-	11.53	-	1.38	-	57.31	32.21	2.81	105.22
18	-	11.53	-	1.38	-	50.89	22.21	2.81	98.81
19	-	11.53	-	1.38	-	50.89	22.21	2.81	98.81
20	-	11.53	-	1.38	-	50.89	22.21	2.81	98.81
<b>30-yr Total</b>									<b>4,701.38</b>