

Laclede / MGE Rate Case

David Woodsmall
Midwest Energy Consumers Group

Staff Revenue Requirement

- Increase in base rates:

	Laclede	MGE	Total
9.00%	\$9.18 million	\$4.92 million	\$14.10 million
9.25%	\$11.38 million	\$6.40 million	\$17.78 million
9.50%	\$13.58 million	\$7.88 million	\$21.46 million

Source: Staff True-Up Accounting Schedules

- Staff's revenue requirement calculations reflect ISRS revenues being rolled into base rates and ISRS being reset to zero.
 - Myers Direct, page 2.



Exhibit No. 700
Date 12-6-17 Reporter A.F.
File No. GR-2017-0015, GR-2017-0016

Current ISRS Revenues

- Laclede ISRS Revenues: \$32.6 million
 - Myers Direct, page 3 (citing to Case No. GO-2017-0202).
- MGE ISRS Revenues: \$16.4 million
 - Myers Direct, page 3 (citing to Case No. GO-2017-0201).
- Current ISRS Revenues (\$49.0 million) are significantly higher than Staff's recommended revenue requirement (\$17.8 million).
- This is an overearnings case!

OPC Complaint

- April 26, 2016: OPC Complaint alleging overearnings.
- "Since the time the Commission established rates for Laclede in GR-2013-0171, Laclede has enjoyed significant and substantial earnings. An actual ROE that is significantly higher than necessary to attract capital to provide safe and reliable service or significantly higher than commensurate returns by enterprises having corresponding risks indicates that the current ordered rates are no longer just and reasonable."
 - Complaint, filed April 26, 2016, page 5.

Deny! Deny! Deny!

- “The Commission should dismiss OPC’s Complaint as wholly devoid of any facts necessary to support its allegation that Respondents are overearning.”
GC-2016-0297, Motion to Dismiss, page 1.
- “OPC’s conclusion that Laclede earned a 10.45% ROE is based on an egregious misapplication of income levels from one period to equity levels from a previous period (as well as an equally egregious failure to exclude a one-time gain from the sale of property – an exclusion which OPC has explicitly endorsed as appropriate in another proceeding).”
GC-2016-0297, Motion to Dismiss, page 3.

Complaint Outcome

- Because of other pending cases, Staff lacked the resources to conduct an earnings review.
 - Staff’s Response to Complaint, filed May 20, 2016.
- “OPC knew from the outset this complaint would be a challenge due to a number of factors, including OPC’s limited resources available to audit the company’s books and records, and the challenge of obtaining necessary data since Laclede possesses all the company data needed to prove Laclede’s rates are not just and reasonable.”
- As a result, OPC moved to stay the complaint proceeding. Therefore, by the time this case is resolved, overearnings will have continued for almost two years.
- OPC was right. They just did not have the resources to get the job done and protect consumers.

Manipulate Capital Structure

- LAC / MGE Proposed True-Up Capital Structure:
 - 54.2% common equity
 - 45.8% long-term debt
- Equity ratio is inflated by LAC / MGE inclusion of \$210 million of goodwill as equity. (Gorman Rebuttal, pages 5-8).
- LAC / MGE proposed equity ratio is significantly higher than the average used by state utility commissions over last 7 years. (Gorman Rebuttal, page 12).

Manipulate Capital Structure

- Gorman Proposed Capital Structure:
 - 47.2% common equity
 - 52.8% long-term debt
- Staff proposed Capital Structure:
 - 45.56% common equity
 - 47.97% long-term debt
 - 6.47% short-term debt
- Gorman and Staff capital structures more consistent with the highly leveraged Spire consolidated capital structure.

Manipulate Capital Structure

- Comparable Company Capital Structures:
 - Atmos Energy 51.4%
 - New Jersey Resources 48.5%
 - Northwest Natural Gas 52.4%
 - South Jersey Industries 49.1%
 - Southwest Gas Holdings 50.7%
 - Spire Inc. 41.7%
 - AVERAGE 49.0%**

Source: Gorman Rebuttal, Schedule MPG-3

Inflate Return on Equity

- LAC / MGE Proposed Return on Equity: 10.35%
 - Ahern Direct (page 3)
- Gorman proposed ROE: 9.20% (8.9-9.4%)
 - Gorman Direct (page 50)
- Staff proposed ROE: 9.25% (9.0-9.5%)
 - Staff Cost of Service Report (page 5).

Recent Authorized Average ROEs

– 2008	10.39%
– 2009	10.22%
– 2010	10.15%
– 2011	9.92%
– 2012	9.94%
– 2013	9.68%
– 2014	9.78%
– 2015	9.60%
– 2016	9.50%
– 2017 YTD	9.50%

- Source: Gorman Direct, Schedule MPG-12

Discovery Responsiveness

- “And while OPC anticipated Laclede would not be eager to provide answers to discovery, as the pleadings in this case have shown, OPC did not anticipate Laclede would be given four months to provide answers.”
 - *Motion to Stay Proceedings*, Case No. GC-2016-0297, page 1.
- Discovery disputes were noticed up by Staff (August 4, 2017), OPC (August 7, 2017) and MECG (July 10, 2017).
- OPC problems receiving responses regarding ADIT balances. LAC / MGE provided responses after almost 3 months.

Discovery Responsiveness

Q. Was Spire adequately responsive for purposes of your cost allocation review?

A. "No. In fact, Spire was the least responsive company in terms of discovery that I have encountered during the course of my career. Of the 137 data requests submitted in this area, 113 requests were provided after 20 calendar days. In other words, more than four out of every five data requests were responded to after the discovery turnaround timeframe established in the procedural schedule for this case."

Azad Direct, pages 46-47.

Questions?

