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Issues: Prepayments
Customer Deposits
Dues and Donations
Lobbying
Witness: Wayne Hodges
Sponsoring Party: MoPSC Staff
Type of Exhibit: Surrebuttal Testimony
Case No.: GR-2017-0215
GR-2017-0216
Date Testimony Prepared: November 21, 2017

MISSOURI PUBLIC SERVICE COMMISSION
COMMISSION STAFF DIVISION
AUDITING DEPARTMENT

SURREBUTTAL TESTIMONY

OF

WAYNE HODGES

Staff Exhibit No. 248
Date 12-15-17 Reporter A. F.
File No. GR-2017-0215 GR-2017-0216

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

**LACLEDE GAS COMPANY AND MISSOURI GAS ENERGY
GENERAL RATE CASE**

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

*Jefferson City, Missouri
November 2017*

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Wayne Hodges

1 A. It is LAC's and MGE's position that property taxes paid under protest be
2 included in rate base as prepayments. On Page 6 of his rebuttal testimony, Mr. Keathley
3 contends that disputed tax payments, which he reports are isolated in escrow, are "unavailable
4 for other uses" during the duration of the appeals process. Mr. Keathley also contends that
5 Staff's recommendation is inappropriate because LAC and MGE cannot know if they
6 will prevail in their appeal of property taxes paid for the 2016 calendar year. On Page 6 of
7 Mr. Keathley's rebuttal testimony, he states that LAC received an unfavorable decision in its
8 2013 appeal regarding property taxes while MGE received unfavorable decisions in both 2014
9 and 2015.

10 Q. Do you agree with LAC's and MGE's position that disputed property taxes be
11 included in rate base as prepayments? ¹

12 A. No. Staff maintains that property taxes are not prepayments as defined by the
13 Uniform System of Accounts ("USOA"), because they are assessed at the beginning of the
14 calendar year and paid in arrears at the end of the calendar year. Both LAC and MGE are
15 merely appealing the amount of property tax levied. Because customers have already paid for
16 disputed property taxes through rates, and because property tax payments are paid in arrears,
17 it is Staff's position that property taxes paid under protest are not prepaid and therefore should
18 be excluded from prepayments.

19 Q. Why does Staff believe property taxes paid under protest have been paid by
20 customers in rates?

21 A. Property taxes are assessed as of January 1 of any given year by taxing
22 authorities based on the valuations of real estate and personal property. Once assessed values

¹ Laclede Gas and MGE Lewis E. Keathley rebuttal, page 6

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1 are determined, property tax rates (mill levy rates) are developed to determine the actual
2 property tax owed. Utilities are required to pay the property tax billed but can dispute
3 (protest) the amount assessed and paid. In order to file an appeal, MGE and LAC must pay
4 property taxes based on the assessed value of their property. Therefore, those taxes are paid
5 under protest.

6 The paid property taxes each year are those used to determine amount of property
7 taxes included in the cost of service calculation to determine the revenue requirement in any
8 given rate case. Staff does not deduct, for example, any disputed property taxes from its
9 determination of amounts annualized in the rate case. So any amount of property taxes paid
10 but disputed are included in the property tax calculation for rates. Therefore, the disputed
11 property taxes, along with all other property taxes, are paid in arrears by the utility and
12 collected from customers in advance of payment. In fact, property taxes are treated in the
13 Staff's cost of service cash flow analysis, called cash working capital, as payments made after
14 the customer supplies the funds.² Even though LAC and MGE are disputing a portion of
15 property taxes, customers are paying disputed property taxes in advance like all other property
16 taxes. Disputed property taxes certainly should not be included in prepayments as LAC and
17 MGE have not paid those in advance of amounts collected from customers in reimbursement
18 for property tax outlays.

19 Q. What is Staff's recommendation concerning property taxes?

20 A. Property taxes paid under protest should not be included in prepayments.

² See Cash Working Capital Schedule 8, line 16 for Laclede and Schedule 8, line 14 for MGE in Staff's Accounting Schedules filed on September 8, 2017 in the Laclede Gas and Missouri Gas Energy rate cases

1 **LINE OF CREDIT FEES IN PREPAYMENTS**

2 Q. What is LAC's and MGE's position with regard to the treatment of line of
3 credit fees in prepayments?

4 A. Mr. Keathley's assertion is that line of credit fees are upfront costs that are a
5 part of LAC's and MGE's line of credit, and therefore should be included in rate base through
6 inclusion in the prepayments line item. Mr. Keathley also contends that without these upfront
7 costs LAC and MGE would be void of a line of credit, or they might be limited to a very
8 short-term line of credit (e.g., less than one year), which would leave LAC and MGE exposed
9 to liquidity risk or alternatively, subject to annual renegotiation at higher rates.³

10 Q. Do you agree with LAC's and MGE's position that line of credit fees be
11 included in rates as prepayments?

12 A. Yes. Staff included all line of credit fees with the exception of two LAC
13 accounts. Amortization for Debt Transaction Costs ended in March 2017 and amortization
14 for JP Morgan's line of credit fees concluded in February 2017 and, as such, both should be
15 excluded from LAC's prepayments.

16 Q. Does Staff intend to update LAC's and MGE's prepayments in the true-up
17 phase of this case?

18 A. Yes. Staff will include line of credit fees to the extent LAC is paying the fees
19 through September 30, 2017.

20 **CUSTOMER DEPOSITS**

21 Q. What is LAC's and MGE's position with regard to the treatment of customer
22 deposits in rate base and the related customer deposit interest?

³ Laclede Gas and MGE Lewis E. Keathley rebuttal, page 6

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1 A. According to Page 5 of his rebuttal testimony, Mr. Keathley referenced Public
2 Service Commission Rule 4 CSR 240-10.040 for commercial and industrial deposits which
3 states: "The rate of interest of the cash deposit shall be only three percent (3%) per annum if
4 the utility keeps the cash deposit in a separate and distinct trust fund and deposited as such in
5 some bank or trust company and not used by the utility in the conduct of business."⁴

6 On Page 5 of his rebuttal testimony, Mr. Keathley contends that MGE is already
7 adhering to the separate and distinct trust fund provision and that LAC plans to do the same in
8 the near future. It is also Mr. Keathley's contention that LAC and MGE have no plans to
9 utilize commercial deposits in the operation of the business and, therefore, those funds should
10 not be included in the Rate Base offset nor should the interest expense be included in the cost
11 of service.

12 Q. Is it Staff's opinion that the commercial customer deposits are being used by
13 LAC and MGE in the conduct of business?

14 A. Yes. In response to Staff Data Request 0506.1, the commercial customer
15 deposits "enables us to provide a deposit at one of our "relationship banks" who [sic] provide
16 lines of credit at favorable rates."

17 Q. Do ratepayers pay for line of credit fees?

18 A. Yes. Staff included line of credit fees in its recommended balance for
19 prepayments. Prepayments are included in Staff's Accounting Schedule 2 as an addition to
20 rate base.

21 Q. What is the normal ratemaking for customer deposits in this jurisdiction?

22 A. Customer deposits are treated as an offset (reduction) to rate base because they

⁴ Laclede Gas and MGE Lewis E. Keathley rebuttal, page 5

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1 are customer supplied funds. By reducing rate base, customers are provided a return on the
2 monies they originally supplied to the utility. Interest is also included in rates to represent any
3 refunds to customers.

4 Q. How is LAC's and MGE's proposed ratemaking for a portion of its customer
5 deposits different from the normal ratemaking for this item outlined above?

6 A. Both companies propose to treat customer deposits for commercial customers
7 in a segregated account with a trust fund and not include those commercial deposits as an
8 offset to rate base.

9 Q. Do you agree with LAC's and MGE's position that commercial customer
10 deposits should be excluded as an offset from rate base, and the related interest expense be
11 excluded from cost of service?

12 A. No. As a condition of obtaining utility service, some customers are required to
13 pay deposits. Conversely, there are no shareholder investments involved. Using MGE's
14 methodology, the removal of commercial deposits in the amount of \$2,367,550 from rate base
15 and interest expense in the amount of \$71,027 from expenses would result in a net increase to
16 the revenue requirement of approximately \$150,000 that customers would be asked to pay.
17 Therefore, it is Staff's assertion that an offset to rate base for all customer deposits is
18 appropriate for ratemaking purposes. Such treatment is also consistent with how Staff handled
19 MGE's customer deposits in its most recent utility rate case (Case No. GR-2014-0007).

20 Customers that are required to pay customer deposits are also entitled to an interest
21 amount on those paid deposits. For residential customers, Staff calculated interest expense
22 based on the prime bank lending rate plus one percentage point for LAC and MGE. For
23 commercial and industrial customers, Staff used the same interest rate for LAC customers and

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1 a 3% interest rate for MGE's customers.⁵ After reviewing a follow up data request, Staff
2 learned that MGE is earning an interest return in excess of 3 percent in the aforementioned
3 trust fund, which results in an additional recovery of commercial customer deposits through
4 customer rates and the general operation of the trust fund. This can be thought of as a
5 windfall for LAC and MGE. Because deposits are customer-supplied funds that are returned
6 with interest, it is Staff's assertion that interest expense be included in LAC's and MGE's
7 Cost of Service. When deposits are returned to commercial customers, MGE and LAC are
8 required to disburse those refunds with 3% interest.

9 Q. Why does Staff believe customer deposits for the commercial customers
10 should be treated like all other customer deposits from customers?

11 A. The customer deposits paid to LAC and MGE represent interest-free money to
12 the utilities. As such, customers, regardless of commercial or residential, should be given the
13 benefit of the interest-free nature of these funds. As noted above, the discretionary nature of
14 LAC and MGE's decision to sequester a portion of its customer deposit receipts that increases
15 the revenue requirement when such an augmentation is avoidable and unnecessary is simply
16 unreasonable and detrimental to all of LAC and MGE customers.

17 Q. Is Staff's position on this matter contrary to the terms of Commission Rule
18 4 CSR 240-10.040?

19 A. No. Nothing in the Rule requires utilities to place commercial and industrial
20 customer deposits in a separate trust fund. There is also the issue of what is most economical
21 for customers. Even though MGE has the option, the establishment of the Fifth Third Trust
22 Fund provides no economic benefit for customers nor is it necessary for the provision of safe,

⁵ Interest rate consistent with LAC tariff JG-2003-0023 and MGE tariff Y G-2014-0056

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1 adequate, and reliable utility service. In fact, LAC and MGE's proposal in effect costs
2 consumers higher rates. LAC and MGE's proposal regarding these commercial deposits is
3 discretionary – neither entity is required to do this approach.

4 Q. When did MGE establish a trust fund for commercial customer deposits?

5 A. MGE established the trust in question through Fifth Third Bank in 2014,
6 subsequent to LAC acquiring MGE. Prior to the acquisition, Southern Union established a
7 trust agreement with Chase Bank of Texas on January 5, 2000. Since that time, MGE has
8 been earning interest on customer supplied funds. In addition, fees related to the
9 administration of the trust fund have also been included in MGE's cost of service.⁶

10 Q. Since MGE is not recommending the exclusion of commercial customer
11 deposits as an offset to rate base, did MGE make an adjustment to eliminate the fees to
12 administer the trust fund from the test year in this case?

13 A. No.

14 Q. Please summarize Staff's recommendation on this issue.

15 A. MGE should not be allowed to earn a return on customer supplied funds at the
16 expense of its customers in addition to charging its customers the costs to administer the trust
17 fund. MGE's decision to remove commercial deposits from rate base and the related interest
18 expense from the income statement, would serve as a detriment to all MGE's customers as it
19 would increase the revenue requirement unnecessarily. Therefore, Staff recommends that all
20 customer deposits, including those provided by commercial customers, be treated as an offset
21 (reduction) to rate base with interest expense for customer provided funds included in the cost
22 of service calculation. This approach is how rates have been set for all utilities under the

⁶ Staff Data Request 0506, Schedule WH-s1

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1 jurisdiction of this Commission. However, if the Commission approves the proposal of LAC
2 and MGE for customer deposits in this case where the deposits for all residential customers
3 are used to offset rate base but commercial customers' deposits are excluded from the
4 traditional treatment as an offset to rate base, then the Commission should also authorize the
5 elimination of the trust administration fees LAC and MGE incur to operate the escrow
6 established for the segregation of the deposits collected from commercial customers. These
7 fees are in Staff's cost of service calculation currently.

8 Q. If the Commission authorizes the treatment proposed by Staff that all customer
9 deposits be treated as reduction to rate base, are there costs that need to be removed from
10 recovery in rates?

11 A. Yes. Should the Commission approve all customer deposits to be used as an
12 offset to rate base, then the costs relating to the administration of the trust fund should not be
13 included in either LAC or MGE rate structure. Also, the interest costs for all customer
14 deposits should be included in rates at the recommended level of the prime interest rate plus
15 one. The interest rate currently used by Staff in these cases is 5.25%.

16 **ECONOMIC DEVELOPMENT (DUES AND DONATIONS)**

17 Q. What is LAC's and MGE's position with regard to the treatment of economic
18 development memberships, dues and donations?

19 A. It is Mr. Keathley's contention that expenses paid to the Greater Kansas City
20 Chamber of Commerce, the Missouri Chamber Foundation, the Civic Council of Greater
21 Kansas City, and the St. Louis Regional Business Council be included in Cost of Service
22 because they provide both a direct and indirect benefit to LAC's and MGE's customers.⁷

⁷ Laclede Gas and MGE witness Keathley rebuttal, page 7

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1 Q. Has the Commission provided guidance in prior cases as to the rate recovery
2 of dues?

3 A. Yes. In the Commission's *Report and Order* in Case No. EO-85-185, four
4 criteria were established by Staff, and accepted by the Commission, for disallowance of dues
5 and donations:

- 6 (1) involuntary ratepayer contributions of a charitable nature;
- 7 (2) supportive of activities which are duplicative of those performed by
8 other organizations to which the Company belongs or pays dues;
- 9 (3) active lobbying activities which have not been demonstrated to
10 provide any direct benefit to the ratepayers; or,
- 11 (4) costs of other activities that provide no benefit or increased service
12 quality to the ratepayer.⁸

13 Q. Do you agree with LAC's and MGE's position that dues and donations paid to
14 those organizations should be allowed for recovery in customer rates?

15 A. No. Based on Staff's criteria used in Case No. EO-85-185, Staff recommends
16 removal of chamber of commerce dues if they are in the following categories:

- 17 1) Chamber of commerce dues that serve areas outside the utility's
18 service territory
- 19 2) Chamber of commerce dues for statewide chambers of commerce
- 20 3) Chamber of commerce dues that are duplicative of other chamber
21 dues in the same area.

22 While the organizations that Staff disallowed are not Chamber of Commerces' strictly
23 speaking, by definition they do serve for purposes of economic development. Staff removed
24 contributions to the Greater Kansas City Chamber of

25 Commerce because, according to information obtained from the organization's
26 website,⁹ the Greater Kansas City Chamber of Commerce is not directly involved in either

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1 the economic development or convention/visitors functions. Instead, those efforts are handled
2 by two separate organizations: the Kansas City Area Development Council and the
3 Convention & Visitors Association of Greater Kansas City. Therefore, it is Staff's position
4 that dues and donations paid to the Greater Kansas City Chamber of Commerce should not be
5 allowed in Cost of Service because they are not necessary for the provision of safe and
6 adequate utility service and provide no direct benefit to either LAC's or MGE's customers.

7 Staff removed contributions to the Missouri Chamber of Commerce and Industry
8 because it is a statewide organization that, according to its website,¹⁰ advocates on behalf of
9 Missouri employers and businesses in the halls of the State Capitol, the courtroom, and
10 beyond. While Staff recognizes the benefit of such activities, it is Staff's position that
11 ratepayers do not receive a direct benefit from membership dues for a chamber of commerce
12 working to improve an area located outside MGE's and Laclede's service territory. Staff has
13 recommended rate recovery to one local organization. Staff is opposed to rate recovery of
14 multiple memberships for chambers of commerce as those are duplicative and unnecessary for
15 the provision of safe and adequate service. Removal of these dues would relate to the Staff's
16 second criteria used by the Commission. The Civic Council of Greater Kansas City,
17 according to its website,¹¹ engages in a variety of company advocacy accomplished through
18 staff and contract lobbyists, as well as in partnership with other like-minded organizations and
19 groups in the Greater Kansas City Metropolitan Area.

20 Civic Council Staff may spend multiple legislative sessions educating and informing
21 elected officials and policy makers about Civic Council strategic priorities before focusing on

⁹ Greater Kansas City Chamber of Commerce, www.KCchamber.com

¹⁰ Missouri Chamber of Commerce and Industry, www.MOchamber.com

¹¹ Civic Council of Greater Kansas City, www.KCciviccouncil.org

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1 a specific bill. In addition to participating in statewide coalitions, the Civic Council
2 collaborates with other regional stakeholders and partners, including the Greater Kansas City
3 Chamber of Commerce, to advance the civic agenda. Therefore, it is Staff's position that dues
4 and donations paid to the Civic Council of Greater Kansas City should not be allowed in Cost
5 of Service because they do not provide a direct benefit to customers and do not enable the
6 Company to provide safe, reliable, and adequate service to those customers.

7 The St. Louis Regional Business Council – equipped with both a business and civic
8 mission – focuses on advocating for regional governance and legislative initiatives, according
9 to the organization's website.¹² The Regional Business Council also seeks to enlarge the
10 overall participation and financial investments of company members. Therefore, it is Staff's
11 assertion that dues and donations paid to the Regional Business Council be excluded from
12 Cost of Service as they are not necessary for the provision of safe and adequate utility service
13 and do not enable the Company to provide safe, reliable, and adequate service to customers.

14 Q. Has the Commission recently issued an order determining the standard for
15 recovery of dues and donations?

16 A. Yes. In the *Report and Order* in Case No. GR-96-285, an MGE rate case, the
17 Commission affirmed its decisions in KCPL Case Nos. EO-85-185, ER-83-49, ER-82-66, and
18 Missouri Power & Light ER-82-180. The Commission stated:

19 The rule has always been that dues to organizations may be
20 allowed as operating expenses where a direct benefit can be shown
21 to accrue to the ratepayers of the company. Conversely, where that
22 sort of benefit does not appear, disallowance of the dues is
23 required.¹³

¹² St Louis Regional Business Council, www.STLrbc.org

¹³ Commission Reports, 5 Mo. P.S.C 3d., page 455.

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1 In Missouri Public Service Case No. ER-97-394, the Commission found the following
2 regarding contributions to various country clubs, rotary clubs, and a host of charities:

3 The Commission has traditionally disallowed donations such as
4 these. The Commission finds nothing in the record to indicate any
5 discernible ratepayer benefit results from the payment of these
6 donations. The Commission agrees with the Staff in that
7 membership in the various organizations involved in this issue is
8 not necessary for the provision of safe and adequate service to the
9 MPS ratepayers.¹⁴

10 Q. For the dues and donations Staff has removed from the cost of service, is Staff
11 claiming that it was imprudent for LAC and MGE to contribute to these organizations?

12 A. No. In the same manner that utilities contribute to charitable organizations, it is
13 management's prerogative to contribute dues to organizations that promote economic
14 development, provide community benefits, or promote general goodwill. However, like
15 charitable contributions, ratepayers should not be responsible for expenses that LAC and
16 MGE cannot demonstrate have clear benefits to ratepayers, or are necessary in the provision
17 of utility service.

18 In the KCPL Case No. ER-2014-0370 *Report and Order*, page 68, the Commission
19 recognized this distinction:

20 Prudence is not the only consideration in determining what costs
21 should be included in rates; the benefit to customers must also be
22 considered when deciding what costs are reasonable for customer
23 rates.

24 KCPL has pursued issues in this case that benefit only the
25 shareholders, such as La Cygne construction accounting and some
26 elements of the rate of return recommendation. Utility expenses
27 that are highly discretionary and do not benefit customers, such as
28 charitable donations, political lobbying expenses, and incentive
29 compensation tied to earnings per share are typically allocated
30 entirely to shareholders.[Footnotes omitted]

¹⁴ Commission Reports, 7 Mo. P.S.C 3d., page 212.

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1 Q. Please summarize your surrebuttal testimony on dues and donations.

2 A. Staff recommends that the Commission should not allow the membership dues.
3 Staff identified, as LAC and MGE has not shown a clear benefit for the ratepayers associated
4 with these contributions, some of the contributions are of a charitable nature, and some are
5 duplicative of other contributions.

6 **MISSOURI ENERGY DEVELOPMENT ASSOCIATION (MEDA)**

7 Q. What is LAC's and MGE's position regarding the treatment of costs related to
8 the Missouri Energy Development Association ("MEDA")?

9 A. According to Page 9 of his rebuttal testimony, it is Mr. Keathley's contention
10 that MEDA provides invaluable services for LAC's and MGE's employees and customers by
11 taking positions concerning proposed legislation that could potentially benefit the interests of
12 both. The examples cited by Mr. Keathley include funding for Utilicare Energy Assistance
13 and the Supplier Diversity Task Force. Mr. Keathley also stated that LAC and MGE pays
14 MEDA's contract lobbyist fees through a below the line account.

15 Q. Do you agree with LAC's and MGE's position that MEDA costs should not be
16 removed from Cost of Service?

17 A. No. MEDA, according to its website,¹⁵ advocates on behalf of Missouri
18 Investor-Owned Utilities and their strategic partners while representing company interests and
19 promoting balanced policies in both legislative and regulatory arenas. It is Staff's assertion
20 that MEDA expenditures do not provide a direct benefit to customers or enable the Company
21 to provide safe, reliable, and adequate service to customers and, therefore, should be excluded
22 from Cost of Service which is consistent with the treatment of MEDA costs in past utility rate

¹⁵ Missouri Energy Development Association, www.MissouriEnergy.org

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1 cases. The costs associated with lobbying or political advocacy efforts by utilities or utility
2 associated should be normally presumed non-recoverable in customer rates except in highly
3 unusual circumstances.

4 Q. Does that conclude your surrebuttal testimony?

5 A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Laclede Gas Company's)
Request to Increase Its Revenues for) Case No. GR-2017-0215
Gas 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 WAYNE HODGES

STATE OF MISSOURI)
) ss.
COUNTY OF JACKSON)

COMES NOW WAYNE HODGES and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing Surrebuttal Testimony; and that the same is true and correct according to his best knowledge and belief.

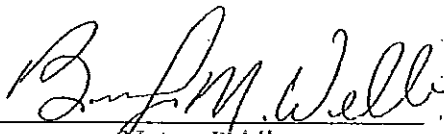
Further the Affiant sayeth not.



WAYNE HODGES

JURAT

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



Notary Public



BEVERLY M. WEBB
My Commission Expires
April 14, 2020
Clay County
Commission #12484070

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

Missouri Public Service Commission

Respond Data Request

Data Request No.	0506
Company Name	Spire-Investor(Gas)
Case/Tracking No.	GR-2017-0215
Date Requested	10/31/2017
Issue	Expense - A&G - Miscellaneous A&G Expense
Requested From	Low Keathley
Requested By	Mark Johnson
Brief Description	Trust Fund Provision
Description	Please reference Lewis E. Keathley's rebuttal testimony, page 5 by providing: 1) A detailed explanation as to why Missouri Gas Energy (MGE) established a trust fund for commercial and industrial customer deposits in addition to why Laclede Gas Company (LAC) intends to do the same in the future. 2) Also, please provide the date MGE created a separate and distinct trust fund for commercial and industrial customer deposits and provide all supporting documents that include, but are not limited to, the contract and named trustee. 3) Beginning with the date that MGE created the trust fund, please provide all bank and/or trust statements and any other documentation that supports the level of commercial and industrial balances provided in Staff data request 0117. And, 4) Please provide a timeline specific to Laclede's intent to implement a similar trust fund for commercial and industrial customer deposits. Data Requested by Wayne Hodges (wayne.hodges@psc.mo.gov).
Response	Please see the attached.
Objections	NA

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

Security :	Public
Rationale :	NA

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

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

Response to MPSC Data Request 0506

Question:

1. A detailed explanation as to why Missouri Gas Energy (MGE) established a trust fund for commercial and industrial customer deposits in addition to why Laclede Gas Company (LAC) intends to do the same in the future.
2. Also, please provide the date MGE created a separate and distinct trust fund for commercial and industrial customer deposits and provide all supporting documents that include, but are not limited to, the contract and named trustee.
3. Beginning with the date that MGE created the trust fund, please provide all bank and/or trust statements and any other documentation that supports the level of commercial and industrial balances provided in Staff data request 0117. And,
4. Please provide a timeline specific to Laclede's intent to implement a similar trust fund for commercial and industrial customer deposits.

Response:

1. At the time that Laclede Gas acquired MGE, MGE followed a practice of holding an amount equal to the deposits assessed on commercial customers in a segregated trust account. According to Commission Rule 4 CSR 240-10.040(4), providing this security allowed MGE to pay those commercial customers 3% interest on their deposits, rather than the Prime + 1% rate generally required. Upon acquisition, Laclede decided to continue this practice in the MGE service territory. Spire Missouri would like to extend this practice to its eastern service territory concurrent with the settlement of this rate case, for consistency across all of its customer base. The benefit to the company is lower interest expense, while the customer benefits from having his deposit segregated in a trust account rather than being part of general corporate funds.
2. Southern Union entered into a trust agreement with Chase Bank of Texas on January 5, 2000. On September 1, 2013, as part of the acquisition of MGE assets by Laclede Gas from Southern Union, that trust agreement was assigned by Southern Union to Laclede Gas (copy of assignment included here). By 2013, Chase Bank of Texas had been succeeded by JPMorgan Chase Bank, N.A., as trustee. JPMorgan Chase did not wish to retain the MGE trust account, so Laclede established a new trust account with Fifth Third Bank on March 5, 2014, and transferred all the assets (approximately \$4 million) to the new account. A copy of the documentation for opening the trust account and entering into an investment management agreement with Fifth Third Bank is attached here.
3. Monthly statements for the trust account are included here as available in our files for March 2014 through September 2017. These balances have consistently been enough to provide collateral for the amount of the deposits collected from

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commercial customers, as disclosed in our response to Staff's data request 0117 (also included here).

4. If Spire Missouri East is permitted to follow this practice, the change could be implemented relatively quickly. A program change would be required to adjust the rate of interest credited to commercial customers' deposits in our eastern service territory, and then a small amount of additional funds would need to be deposited into the existing trust account.

Signed by: Glenn Buck