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

In the Matter of the Application of)
Laclede Gas Company to Change its)
Infrastructure System Replacement) **Case No. GO-2015-0341**
Surcharge in its Laclede Gas Service)
Territory)

In the Matter of the Application of)
Laclede Gas Company to Change its)
Infrastructure System Replacement) **Case No. GO-2015-0343**
Surcharge in its Missouri Gas Energy)
Service Territory)

POST-HEARING BRIEF OF STAFF

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INTRODUCTION

On August 3, 2015, Laclede Gas Company (“Laclede”) filed its *Verified Application and Petition of Laclede Gas Company to Change Its Infrastructure System Replacement Surcharge in Its Laclede Gas Service Territory and Motion to Set Early Prehearing Conference* pursuant to Sections 393.1009, 393.1012 and 393.1015 of the Revised Statutes of Missouri and Commission Rule 4 CSR 240-3.265 which authorize gas corporations to recover certain eligible infrastructure replacement costs through an infrastructure system replacement surcharge (“ISRS”). Laclede’s filing was docketed as Case No. GO-2015-0341. Also on August 3, 2015, Missouri Gas Energy (“MGE”), an operating unit of Laclede, filed its *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* pursuant to Sections 393.1009, 393.1012 and 393.1015 of the Revised Statutes of Missouri and Commission Rule 4 CSR 240-3.265. This filing was docketed as Case No. GO-2015-0343.

Case No. GO-2015-0341 represents Laclede's fourth ISRS filing since the conclusion of its most recent general rate case, Case No. GR-2013-0171. Since its last rate case, Laclede filed ISRS Case Nos. GO-2014-0212, GR-2015-0026 and GO-2015-0269, each of which is currently included in Laclede's ISRS rates. Case No. GO-2015-0343 represents MGE's third ISRS filing since the conclusion of its most recent general rate case, Case No. GR-2014-0007. Since its last rate case, MGE filed ISRS Case Nos. GR-2015-0025 and GO-2015-0270, each of which is currently included in MGE's ISRS rates.

On August 27, 2015, the Commission issued an *Order Setting Joint Evidentiary Hearing* which ordered that a joint evidentiary hearing was scheduled on October 15, 2015, for Case Nos. GO-2015-0341 and GO-2015-0343. A joint hearing was held as scheduled on October 15, 2015. This Order also ordered that the parties in Case No. GO-2015-0343 were to comply with the procedural schedule previously set for Case No. GO-2015-0341 on August 11, 2015.¹

According to the original procedural schedule for these cases, post-hearing briefs of all parties were due October 23, 2015. However, on October 23, 2015, an *Order Granting Motion for Extension of Time to File Briefs* was issued which extended the briefing date to October 26, 2015. This Post-Hearing Brief of Staff will follow the List of Issues previously filed herein. As indicated at the evidentiary hearing by counsel for The Office of the Public Counsel ("OPC"), OPC has withdrawn its opposition² to including the regulator stations in the Laclede Gas ISRS³ (Case No. GO-2015-0341)

¹ *Order Suspending Tariff, Scheduling Evidentiary Hearing and Setting Procedural Schedule*, issued August 11, 2015, Case No. GO-2015-0341.

² Tr. p. 27.

³ As used herein, "ISRS" stands for "Infrastructure System Replacement Surcharge."

which had previously been listed as Issue A on the List of Issues. Therefore, Issue A is no longer an issue and will not be addressed herein.

The Commission should also recognize that none of the contested issues involve the “rate design” of the ISRS rates. OPC’s testimony did not address the issue of rate design, and at the evidentiary hearing Mr. Buck of Laclede indicated that Laclede has no objection to the positions set forth in the Staff recommendations in either Case No. GO-2015-0341 or GO-2015-0343.⁴ Therefore, Staff’s recommended rate design which is set forth on Exhibit 101 (Amended Appendix B) for Case No. GO-2015-0341 and on Exhibit 102 Appendix B for Case No. GO-2015-0343 is uncontested and should be adopted by the Commission.⁵

ARGUMENT

Issue B. Is the telemetric equipment included in Laclede’s ISRS petition eligible for ISRS recovery under Section 393.1009(5)?

Staff believes the telemetric equipment included in Laclede’s ISRS filing is eligible for ISRS recovery and therefore included the telemetric equipment in Staff’s recommended ISRS revenue requirement for Laclede in this case.

Section 393.1009(5)(a) RSMo states

(5) "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

⁴ Tr. p. 70.

⁵ Obviously, if any of the contested ISRS revenue requirement related issues are decided contrary to Staff’s position, the actual ISRS rate (charge) calculations as shown on Exhibits 101 and 102 will need to be re-run based on the Commission’s decision on those issues; however, Staff’s methodology is uncontested and should be adopted by the Commission.

In his direct testimony⁶, Dr. Seamands, who is currently responsible for overseeing standards and testing for distributions operations, operations training and pipeline safety for Laclede in his position as Director, Field Operations Standards, and who was previously Chief Engineer for Laclede⁷, testified as to why the telemetric equipment which OPC challenges in this case is eligible for ISRS recovery.⁸ Dr. Seamands testified that the old telemetric equipment was obsolete, was no longer supported by the manufacturer, and that Laclede kept the old telemetric equipment until a time that Laclede expected to experience failures.⁹ He also testified that both state and federal rules require this equipment.¹⁰ At the evidentiary hearing Dr. Seamands described the telemetry equipment – the same equipment which OPC challenges – as “an integral component of the regulator station.”¹¹ As noted in Dr. Seamands’ rebuttal testimony, OPC – the only party challenging ISRS recovery of the telemetric equipment – did not file any rebuttal testimony in response to Dr. Seamands’ direct testimony on the foregoing issues.¹²

The Commission should find that the telemetric equipment included in Laclede’s ISRS petition is eligible for ISRS recovery under Section 393.1009(5) RSMo.

⁶ Ex. 3.

⁷ *Id.* at p. 1.

⁸ *Id.* at p. 3 line 13 through p. 6 line 21.

⁹ *Id.* at p. 5 line 1 through p. 6 line 21.

¹⁰ *Id.* at p. 4 lines 14 – 22; see 4 CSR 240-40.030(13)(S)(1).

¹¹ Tr. p. 46.

¹² Ex. 4 p. 2 lines 15 – 16.

Issue C.

(i) May Laclede and MGE submit estimated “budget” ISRS investments in the petition that are later replaced with actual ISRS investments?

In its application/petition in Case No. GO-2015-0341, Laclede filed to recover ISRS qualifying infrastructure replacement costs incurred during the period March 1, 2015 through June 30, 2015, with true-ups through August 31, 2015.¹³ In its filing, Laclede included its actual ISRS eligible plant expenditures from March 2015 through June 2015, as well as budgeted ISRS eligible plant additions through the end of August 2015.¹⁴ It is the “budgeted” amounts for July and August which are challenged by OPC in this case. During its audit, Staff began its review with the actual amounts provided in the filing and received the July 2015 actual ISRS eligible plant additions on August 14, 2015 and received the August update on September 14, 2015.¹⁵ Staff’s recommended ISRS related revenue requirement is, therefore, based on the actual updated amounts for July and August, rather than on any estimated amounts. Crucial to Staff’s recommendation to include these amounts is that Laclede provided the actual updated amounts to Staff in sufficient time for Staff to review the workpapers and work orders associated with this information and include the updated amounts in Staff’s recommendation.¹⁶

Likewise, in its application/petition in Case No. GO-2015-0343, MGE filed to recover ISRS qualifying infrastructure replacement costs incurred during the period

¹³ Ex. 100 p. 2.

¹⁴ *Id.*

¹⁵ *Id.*

¹⁶ *Id.*

March 1, 2015 through June 30, 2015, with true-ups through August 31, 2015.¹⁷ In its filing, MGE included its actual ISRS eligible plant expenditures from March 2015 through June 2015, as well as budgeted ISRS eligible plant additions through the end of August 2015.¹⁸ As in GO-2015-0341, it is the “budgeted” amounts for July and August which are challenged by OPC in this case. Similar to the situation in GO-2015-0341, during its audit Staff began its review with the actual amounts provided in the filing and received the July 2015 actual ISRS eligible plant additions on August 14, 2015 and received the August update on September 15, 2015.¹⁹ Staff’s recommended ISRS related revenue requirement is, therefore, based on the actual updated amounts for July and August, rather than on any estimated amounts. Crucial to Staff’s recommendation to include these amounts is that MGE provided the actual updated amounts to Staff in sufficient time for Staff to review the workpapers and work orders associated with this information and include the updated amounts in Staff’s recommendation.²⁰

Section 393.1015.1(1) RSMo, upon which OPC apparently relies, states

393.1015. 1. (1) At the time that a gas corporation files a petition with the commission seeking to establish or change an ISRS, it shall submit proposed ISRS rate schedules and its supporting documentation regarding the calculation of the proposed ISRS with the petition, and shall serve the office of the public counsel with a copy of its petition, its proposed rate schedules, and its supporting documentation.

The foregoing statute does not state that the supporting documentation cannot contain “budgeted” information which is later updated with actual amounts. Staff would also note that “true-up” procedures are a long-accepted feature included in many general

¹⁷ Ex. 102 p. 3.

¹⁸ *Id.*

¹⁹ *Id.*

²⁰ *Id.*

rate cases even though there is no explicit discussion of such procedures in the applicable statute, similar to the situation with the ISRS statute. Given that the intent of the ISRS statutes (Sections 393.1009 through 393.1015 RSMo) appears to have been to provide for faster recovery of eligible investment than would otherwise be allowed; given that both Laclede and MGE included the estimated July and August amounts in their filings; and given that Staff was provided with the actual updated amounts in sufficient time to review the associated workpapers and work orders and file its recommendations on time, Staff recommends including the actual July and August ISRS investments in this case.

(ii) May Laclede and MGE update reserves for depreciation and accumulated deferred income taxes related to actual ISRS investment amounts (including amounts from previously incurred ISRS costs since the current ISRS was established)?

Not only *may* reserves for depreciation and accumulated deferred income taxes related to actual ISRS investment amounts (including amounts from previously incurred ISRS costs since the current ISRS was established) be updated, they *must* be updated pursuant to the Commission's rules.²¹ 4 CSR 240-3.265(13) provides that:

(13) If the commission finds that a petition complies with the requirements of sections 393.1009 to 393.1015, RSMo, the commission shall enter an order authorizing the natural gas utility to impose an ISRS that is sufficient to recover *appropriate pretax revenues*, as determined by the commission. (Emphasis added)

4 CSR 240-3.265(1)(A) defines "appropriate pretax revenues" as follows:

(1) As used in this rule, the following terms mean:

(A) Appropriate pretax revenues—the revenues necessary to:

²¹ Accordingly, these items should be updated regardless of what the Commission decides on Issue C(i) above.

1. Produce net operating income equal to the natural gas utility's weighted cost of capital multiplied by the net original cost of eligible infrastructure system replacements, *including recognition of accumulated deferred income taxes and accumulated depreciation associated with eligible infrastructure system replacements that are included in a currently effective infrastructure system replacement surcharge (ISRS)*;
2. Recover state, federal, and local income or excise taxes applicable to such income; and
3. Recover all other ISRS costs

(Emphasis added)

As part of its audit and recommendation in both Case Nos. GO-2015-0341 and GO-2015-0343, as in any ISRS case, Staff updated the amounts of accumulated depreciation reserve and accumulated deferred income tax reserve associated with the new ISRS plant additions.²² Staff also included incremental accumulated depreciation and accumulated deferred income tax for replacements associated with the currently effective ISRS authorized for Laclede in Case Nos. GO-2014-0212, GR-2015-0026, and GO-2015-0269 and for MGE in Case Nos. GR-2015-0025 and GO-2015-0270.²³

This updating moves the balance for these items closer to the effective date of the new ISRS rates.²⁴ The depreciation reserve and deferred income tax reserve amounts *reduce rate base*, and thus *offset to some degree the rate impact of inclusion of ISRS eligible plant additions* in ISRS revenue requirement calculations.²⁵ The methodology used by Staff allows for consideration of all accumulated depreciation and deferred income taxes on ISRS qualifying infrastructure replacements costs through

²² Ex. 100 p. 3 and Ex. 102 p. 3.

²³ *Id.*

²⁴ *Id.*

²⁵ *Id.*

October 15, 2015.²⁶ This methodology is consistent with past reviews conducted by Staff and is consistent with Staff's view that the calculation of the ISRS revenue requirement should closely reflect the revenue requirement at the effective date of new ISRS rates.²⁷

Commission rule 4 CSR 240-3.265, quoted above, clearly requires these updates. While the rule does not specify a date to which these amounts should be updated (as stated above, Staff updated these items through October 15, 2015), Staff believes that its methodology – under which the calculation of the ISRS revenue requirement more closely reflects the revenue requirement at the effective date of new ISRS rates – is just and reasonable and in furtherance of the intent of the Commission's ISRS rules. Therefore, the Commission should order that these items be updated as set forth in Staff's recommendations (Ex. 100 and Ex. 102) through October 15, 2015, regardless of the Commission's decision on Issue C(i).

CONCLUSION

For the reasons set forth in this brief and in Staff's Exhibits in this case, the Commission should issue an order adopting Staff's recommendations on each of the contested issues.

WHEREFORE, Staff respectfully submits this Post-Hearing Brief for the Commission's consideration.

²⁶ *Id.* The ISRS tariffs in these cases were suspended by the Commission until December 1, 2015 (the 120-day effective date), unless otherwise ordered by the Commission.

²⁷ Ex. 100 p. 3 and Ex. 102 p. 3.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed, hand-delivered, or transmitted by facsimile or electronic mail to counsel of record this 26th day of October 2015.

/s/ Jeffrey A. Keevil