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Witness: Karen Lyons
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GR- 2017-0216
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MISSOURI PUBLIC SERVICE COMMISSION

COMMISSION STAFF DIVISION

AUDITING DEPARTMENT

REBUTTAL TESTIMONY

OF

KAREN LYONS

Staff Exhibit No. 218
Date 12-18-17 Reporter AC
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
October 2017*

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KAREN LYONS**

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

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

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1 REBUTTAL TESTIMONY

2 OF

3 KAREN LYONS

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

5 LACLEDE GAS COMPANY and MISSOURI GAS ENERGY
6 GENERAL RATE CASE

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

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

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

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

14 A. Yes. I contributed to Staff’s Cost of Service Report filed in the Laclede Gas
15 Company (“LAC”) and Missouri Gas Energy (“MGE”) rate cases designated as Case No.
16 GR-2017-0215 and Case No GR-2017-0216, respectively, on September 8, 2017.

17 EXECUTIVE SUMMARY

18 Q. What is the purpose of your rebuttal testimony?

19 A. LAC and MGE have requested a tracker for major capital projects, integrity
20 management and cyber-security expenses, and environmental costs. I will respond to LAC
21 and MGE witness C. Eric Lobser’s direct testimony on LAC and MGE’s request for a
22 Cyber-Security tracker (“Cyber tracker”) and environmental expense tracker. Staff witness
23 Keith Majors addresses LAC and MGE’s request to track major capital projects in his
24 rebuttal testimony.

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1 I will also respond to LAC and MGE's witness Michael R. Noack who addresses
2 MGE's proposed ratemaking treatment for the Kansas property tax tracker that the
3 Commission approved in MGE's last rate case, Case No. GR-2014-0007.

4 Q. Please provide a brief summary of your testimony.

5 A. A tracker refers to a rate mechanism under which the amount of a particular
6 cost of service item actually incurred by a utility is "tracked" and compared to the amount of
7 that item currently included in a utility's rate levels. Any over-recovery or under-recovery of
8 the item in rates compared to the actual expenditures made by a utility is then booked to a
9 regulatory asset or regulatory liability account, and would be eligible to be included in the
10 utility's rates set in its next general rate proceeding through an amortization to expense.

11 Although Staff is not opposed to all proposed tracking mechanisms when considered
12 on a case-by-case basis, LAC's and MGE's request would inappropriately isolate for special
13 ratemaking treatment cyber and environmental costs, two areas of its cost of service for which
14 LAC and MGE are currently not incurring material costs, without considering other costs that
15 may decline and offset any cost increases that may occur in the future, pursuant to the
16 matching principle. This selective use of trackers represents an unfair ratemaking approach to
17 deal with potential isolated increasing costs, which could be offset by concurrent savings in
18 other cost of service areas. LAC and MGE's proposed ratemaking treatment for these
19 possible cost increases identified in their direct testimony does not propose to consider any
20 offsetting or mitigating savings in other aspects of the cost of service; therefore, as explained
21 more fully in my rebuttal testimony, Staff cannot recommend the Commission approve LAC
22 and MGE's proposal for alternative regulatory treatment for Cyber-Security and

1 environmental costs, both capital and expense. Staff witness Mark L. Oligschlaeger addresses
2 the general use of cost trackers in his rebuttal testimony.

3 Lastly, in Staff's Cost of Service Report filed on September 8, 2017, I discussed
4 LAC's request for a twelve (12)-year amortization for costs incurred relating to the St. Peters
5 Lateral Pipeline ("St. Peters Lateral"). Staff was still in the process of reviewing the costs and
6 savings related to the St. Peters Lateral at the time Staff's Cost of Service Report was filed.
7 In this testimony, I will discuss Staff's recommended treatment for the costs of this project.

8 **INTEGRITY MANAGEMENT AND CYBER-SECURITY TRACKER**

9 Q. Please summarize LAC's and MGE's position regarding their request for an
10 Integrity Management and Cyber tracker.

11 A. Mr. Lobser states on page 38 of his direct testimony that LAC and MGE are
12 requesting a tracker for both capital and expense, "to comply with integrity management
13 expenses, whether from physical or cyber threats, that **may** be required or mandated above
14 current cost levels."

15 Q. Does Staff agree a Cyber tracker is necessary for LAC and MGE?

16 A. No. Use of trackers should be considered on a case-by-case basis to allow the
17 Commission to take into account unusual conditions, such as high volatility of costs, costs for
18 which there is no historical data, or for uncertain levels of costs imposed on utilities by new
19 Commission rules. LAC and MGE's request for a Cyber tracker is based on what **may** or
20 **may not** be required in the **future** in this area.

21 Q. Is Staff aware of any federal, state, and/or local laws, regulations, rules and/or
22 mandates that will result in additional costs for gas utilities?

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1 A. No. Staff asked this question of LAC and MGE in a data request referring to
2 all its requested trackers and received the following response:

3 Laclede has not compiled such a list, but they **could** include
4 governmental mandates in a variety of areas, including environmental
5 requirements as set forth in laws and rules issued by the Environmental
6 Protection Agency and Missouri Department of Natural Resources;
7 federal and state integrity management and pipeline safety
8 requirements, including those set forth in 49 CFR Part 192 and Section
9 40.030 of the Commission's rules; and customer service obligations,
10 including cold weather rule obligations, as set forth in Chapter 13 of the
11 Commission rules.
12 (Emphasis Added)

13 Unlike the North American Electric Reliability Corporation ("NERC") standards applicable to
14 electric utilities, there are currently no federal, state, or local laws, regulations, rules and/or
15 mandates that will result in LAC and MGE incurring additional Cyber-Security costs. This
16 also holds true for their requests for an environmental tracker discussed later in this testimony.

17 Q. Does LAC's and MGE's request for a Cyber tracker violate the matching
18 principle used to set rates in Missouri?

19 A. Yes. A utility's rates are developed based on the use of ratemaking
20 adjustments known as annualizations and normalizations to establish an ongoing investment,
21 revenue, and expense relationship. The amounts determined through the ratemaking
22 adjustments are intended to match the relationship with a utility investment, revenue, and
23 expense at a point in time, and anticipates that the same relationship will continue in the
24 foreseeable future, allowing the utility the opportunity to earn its authorized return. LAC and
25 MGE's proposal to isolate Cyber-Security costs through the use of a tracker without
26 considering changes that will occur within other areas of their cost of service disrupts the

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1 relationship that occurs between their investment, revenue, and expense. This is also true for
2 LAC's and MGE's request for an environmental tracker discussed later in this testimony.

3 Q. Are LAC and MGE currently incurring Cyber-Security costs?

4 A. Yes. Based on Staff's analysis of Cyber-Security costs for the period of 2013
5 through June 2017, LAC's and MGE's actual costs incurred for Cyber-Security prior to its
6 fiscal year 2017 were immaterial. Beginning in January 2017, Cyber-Security costs increased
7 marginally over historical costs.

8 Q. Do LAC and MGE consider Cyber-Security costs immaterial?

9 A. Yes. In its Objection letter dated June 9, 2017, LAC and MGE categorized
10 these costs as insignificant. LAC and MGE stated the following in the objection:

11 We are also objecting to DR 228, which requests integrity management
12 and cybersecurity costs going back to 2010, broken down in a host of
13 different ways. As you may know, we have asked that trackers be set
14 up in these two areas to account for changes in laws or other
15 requirements that may cause a significant increase in these expenses in
16 the future. **The expense and burden to try and identify and organize**
17 **these costs, especially cyber costs, back to 2010, is not worth the**
18 **insignificant contribution, if any, to an understanding of these**
19 **issues that might be derived from such backward-looking**
20 **information.**

21 (Emphasis Added)

22 Q. What types of costs are LAC and MGE categorizing as Cyber-Security?

23 A. LAC's and MGE's Cyber-Security costs include software maintenance and
24 license agreements, along with travel expenses, seminar fees, and trade memberships related
25 to Cyber-Security.

26 Q. Did Staff include an annualized level of Cyber-Security costs in LAC's and
27 MGE's cost of service?

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1 A. As discussed in Staff's Cost of Service Report,¹ Staff needed the test year
2 balances for LAC and MGE for Cyber-Security costs in order to calculate specific
3 adjustments for this area. Since the filing of the Cost of Service Report, Staff has received
4 the balances and has made an adjustment to LAC's and MGE's cost of service for
5 Cyber-Security. Staff's annualized level of Cyber-Security costs for LAC is \$159,250
6 and \$85,293 for MGE. Staff's annualized level for these costs represents non-labor and
7 non-capital related costs.

8 Q. Did Staff include Cyber-Security labor costs in LAC's and MGE's cost of
9 service to the extent they were incurred by LAC and MGE?

10 A. Yes. Staff annualized LAC's and MGE's payroll costs using actual employee
11 levels and current hourly wage or salary, as of June 30, 2017, and will update payroll costs
12 and related benefits during the true-up period in this case. Any LAC and MGE employees
13 with Cyber-Security related job responsibilities are included in Staff's payroll annualization.

14 Q. Did Staff include Cyber-Security capital costs in LAC's and MGE's cost of
15 service to the extent they were incurred by LAC and MGE?

16 A. Yes.

17 Q. Did LAC and MGE recommend an adjustment to annualize Cyber-Security
18 costs in its direct case?

19 A. No.

20 Q. Are the types of costs LAC and MGE categorize as Cyber-Security consistent
21 with what Staff has experienced with Missouri electric utilities and their requests for
22 Cyber trackers?

¹ Staff Cost of Service Report, page 138.

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1 A. No. Kansas City Power & Light Company (“KCPL”) requested a Cyber
2 tracker in Case No. ER-2014-0370, and KCP&L Greater Missouri Operations Company
3 (“GMO”) requested a Cyber tracker in Case No. GR-2016-0156. The Commission denied
4 KCPL’s request for a Cyber tracker in Case No. ER-2014-0370, stating on page 58 of its
5 Report and Order:

6 The Commission concludes that KCPL has not met its burden of proof
7 to demonstrate that projected CIP/cyber-security increases are
8 extraordinary, so its request for a tracker will be denied.

9 KCPL did not pursue its request for a Cyber tracker in its subsequent rate case, Case No.
10 ER-2016-0285. In GMO’s rate case, Case No. ER-2016-0156, a Global settlement was
11 reached with the parties and as such, GMO was not authorized to implement a Cyber tracker.
12 In each of these cases, KCPL and GMO requested the trackers based on costs they were
13 incurring and expected to incur based on evolving NERC standards. The costs incurred
14 by KCPL and GMO were substantially higher in comparison to the costs categorized as
15 Cyber-Security by LAC and MGE. Although KCPL and GMO requested a Cyber tracker,
16 they did not request a tracker for software maintenance and license agreements, the types of
17 costs for which LAC and MGE are requesting a tracker. Instead KCPL and GMO annualized
18 these types of costs.

19 Q. Does Staff have any other concerns about LAC and MGE’s request for a
20 Cyber tracker?

21 A. Yes. The types of costs LAC and MGE are requesting to track are costs that
22 are incurred at the corporate level and allocated to the affiliated entities. Based on discussions
23 with LAC and MGE personnel, there is currently no way to distinguish Cyber-Security costs
24 from any other corporate cost allocated to the affiliates. Should the Commission approve

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1 LAC and MGE's request for a Cyber tracker, Staff recommends that LAC and MGE create
2 separate FERC subaccounts to record these costs.

3 Q. Please summarize Staff's position regarding LAC and MGE's recommendation
4 for a Cyber tracker.

5 A. Staff has recommended, and the Commission has approved, trackers in the past
6 when: costs demonstrated significant fluctuation over time, the tracker was for new costs for
7 which there was little or no historical experience, and when costs were imposed upon utilities
8 by new Commission rules. In KCPL's 2014 rate case, the Commission denied KCPL's
9 request for a Cyber tracker. In that case, the costs incurred were much higher than what LAC
10 and MGE are experiencing and there was evidence that they would at least continue to incur
11 costs because of the NERC standards. In this case, LAC and MGE's Cyber-Security costs are
12 currently immaterial and there is no regulatory body such as NERC that will require LAC and
13 MGE to incur additional investment or expense in the foreseeable future. LAC's and MGE's
14 recommended ratemaking treatment for Cyber-Security costs also does not consider any
15 offsetting or mitigating savings in other aspects of LAC's and MGE's cost of service.
16 Consequently, Staff recommends the Commission deny LAC's and MGE's request for a
17 Cyber tracker.

18 **ENVIRONMENTAL TRACKER**

19 Q. Please summarize LAC's and MGE's position regarding its request for an
20 environmental tracker.

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1 A. LAC and MGE witness C. Eric Lobser recommends an environmental tracker
2 be implemented for both capital and expense costs made to comply with federal, state, or local
3 environmental laws, regulations, or rules.²

4 Q. Does Staff agree an environmental tracker should be implemented for LAC
5 and MGE's environmental costs?

6 A. No. As previously discussed, use of trackers should be considered on a
7 case-by-case basis to allow the Commission to take into account unusual conditions, such as
8 high volatility of costs, costs for which there is no historical data, or for uncertain level of
9 costs imposed on utilities by new Commission rules. LAC and MGE's incurred
10 environmental costs do not meet these criteria.

11 Q. Has LAC and MGE recently incurred environmental related capital costs
12 and expense?

13 A. No. During the course of the audit, Staff reviewed LAC's environmental costs
14 for the period of 2007 through June 2017 and MGE's environmental costs for the period of
15 1994 through June 2017. Although LAC has incurred environmental costs during this period,
16 insurance proceeds offset all of the costs during the period examined, and MGE has not
17 incurred any environmental costs since 2014.

18 Q. Have environmental costs for LAC and MGE fluctuated in the past?

19 A. Historically, LAC and MGE environmental costs have not had a high degree of
20 volatility. The costs for LAC have been and continue to be offset by insurance and third party
21 recoveries. MGE's historical costs were offset in part by insurance and third party recoveries

² C. Eric Lobser Direct Testimony, page 38.

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1 but it has since exhausted its ability to offset future costs with insurance recoveries. MGE
2 continues to have the potential for third party recoveries.

3 Q. How much of the insurance proceeds are still available for LAC to use to offset
4 environmental costs?

5 A. ** _____
6 _____
7 _____
8 _____ **

9 Q. Did LAC and MGE provide a budget for environmental costs they expect to
10 incur in the foreseeable future?

11 A. No. Staff requested budgeted environmental costs for the period of 2015-2020
12 in Staff Data Request No. 0227, Schedule KL-r1. LAC and MGE stated that there are no
13 budgets for expected environmental costs in their response to this data request.

14 Q. Has Staff included a normalized level of environmental costs for LAC and
15 MGE's cost of service in the past?

16 Q. Yes. In MGE's prior rate cases, Case Nos. GR-2009-0355 and GR-2014-0007,
17 the normalized level of costs included in MGE's cost of service was representative of the
18 actual costs MGE incurred since the effective date of rates in each of the cases. Since
19 insurance proceeds have offset LAC's environmental costs entirely since 2007, no level of
20 environmental costs has been included in base rates.

21 Q. Has LAC or MGE requested an environmental tracker in the past?

22 A. Yes. MGE requested some form of an environmental tracker in Case Nos.
23 GR-2004-0209, GR-2006-0422, GR-2009-0355, and GR-2014-0007, all previous general

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1 rate cases. Parties to the 2009 and 2014 rate cases entered into a Stipulation and Agreement
2 settling the cases, and as such, MGE was not authorized to implement a tracker. The 2004
3 and 2006 rate cases were litigated. In each of these cases, the Commission denied MGE's
4 request for an environmental tracker. To the best of Staff's knowledge, LAC has not
5 requested an environmental tracker in the past.

6 Q. In their request for an environmental tracker, did LAC and MGE also request
7 carrying costs applicable to any deferred costs?

8 A. Yes. Although Mr. Lobser did not address carrying costs specifically
9 related to the environmental tracker in his direct testimony, the response to Staff Data Request
10 No. 0310, Schedule KL-r2, states the following:

11 Similar to the guidance given in 386.266.2, amounts subject to the
12 tracker would be deferred at a carrying cost each month equal to the
13 Company's net of tax cost of capital, with related depreciation and
14 property taxes also deferred for capital items.

15 Q. In the event the Commission approves LAC's and MGE's request for an
16 environmental tracker, does Staff recommend carrying costs?

17 A. Staff recommends no carrying cost treatment for LAC's and MGE's requested
18 environmental tracker.

19 Q. Mr. Lobser states on page 38 of his direct testimony that LAC's and MGE's
20 earnings will be impacted if their proposed trackers are not authorized. Do you agree?

21 A. Yes, if LAC and MGE experienced increases in environmental and
22 Cyber-Security costs and all other costs in LAC and MGE's cost of service remained flat.
23 However, this scenario is not realistic. LAC and MGE may experience cost increases in some
24 areas of their cost of service but may also experience costs that decline that will offset, at least
25 in part, any increase in other areas of their cost of service.

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1 Q. Please summarize Staff's position regarding LAC and MGE's recommendation
2 for an environmental tracker.

3 A. Staff has recommended, and the Commission has approved a tracker, in the
4 past when: costs demonstrate significant fluctuation over time, there are new costs for which
5 there is little or no historical experience, and/or for costs imposed upon utilities by new
6 Commission rules. Over the last several years, LAC and MGE have not incurred any
7 environmental costs and there is no indication that LAC and MGE will incur material costs in
8 the foreseeable future. LAC still has significant insurance proceeds that can be used to offset
9 future costs and both LAC and MGE have possible third party recoveries that can be used to
10 offset future costs. If the Commission approves an environmental tracker, the incentive to
11 pursue these third party recoveries for environmental expense may be mitigated or eliminated.
12 LAC's and MGE's recommended ratemaking treatment for environmental costs does not
13 consider any offsetting, or mitigating savings in other aspects of LAC's and MGE's cost of
14 service. Consequently, Staff recommends the Commission deny LAC's and MGE's request
15 for an environmental tracker.

16 **KANSAS PROPERTY TAX**

17 Q. Please summarize Staff's position with regard to MGE's recommendation for
18 the Kansas property tax deferral and the annualized level of Kansas property taxes.

19 A. As discussed in detail in Staff's Cost of Service Report filed on September 8,
20 2017,³ MGE is currently allowed to amortize \$1.6 million annually for deferred Kansas
21 property taxes incurred during the period of 2009-2013. The unamortized balance for these
22 costs as of September 30, 2017, the end of the true-up period in this case, is \$2.3 million.

³ Staff Cost of Service, pages 130-135.

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1 The balance of the deferred Kansas property taxes will be fully amortized in early 2019 using
2 the same annual amortization of \$1.6 million. Since MGE has historically filed a rate case
3 every three years, allowing an annual amortization of \$1.6 million to continue in rates will
4 result in a significant over-recovery of these costs. Staff recommends spreading the
5 unamortized balance as of September 30, 2017, over a five-year period. MGE was also
6 allowed to recover \$1.4 million annually in its last general rate case for ongoing Kansas
7 property taxes. As part of the Stipulation and Agreement in Case No. GR-2014-0007, MGE
8 agreed to track the difference between any Kansas Ad Valorem taxes paid and the allowance
9 included in rates. Consequently, Staff recommends that the amortization previously discussed
10 be reduced by the amount of over-collection of the allowance for ongoing Kansas property
11 taxes that was included in base rates in Case No. GR-2014-0007. Since MGE is now
12 incurring Kansas property taxes as part of its normal operating expenses, Staff further
13 recommends that the Kansas property tax tracker approved by the Commission in Case No.
14 GR-2014-0007, be discontinued as it is no longer needed.

15 Q. Does Staff intend to update the annualized Kansas property taxes in this case
16 as part of a true-up audit?

17 A. No. Kansas property taxes are assessed on January 1 of each year with half of
18 the taxes due the end of the same year and the remaining half due the first quarter of the
19 following year. MGE will not be assessed for 2018 property taxes until January 1, 2018,
20 which is outside the scope of this rate case. Consequently, Staff will not true-up Kansas
21 property taxes.

22 Q. Please explain MGE's position with regard to Kansas property taxes.

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1 A. In its direct filing, MGE included a workpaper that identifies the unamortized
2 balance of the regulatory asset that was established in Case No. GR-2014-0007. Regarding
3 this matter, Mr. Noack states the following on page 15 of his direct testimony:

4 Schedule H-15 is a reconciliation of the regulatory asset and the
5 ongoing expense associated with Ad Valorem taxes assessed on
6 storage gas in Kansas. As part of the Stipulation and Agreement in
7 GR-2014-0007, MGE agreed to include in rates \$1.6 million associated
8 with the amortization of the regulatory asset related to the past
9 assessment of Kansas Ad Valorem taxes and \$1.4 million to reflect an
10 ongoing level of expense. MGE also agreed to track the ongoing level
11 of expense and record to the regulatory asset the difference between the
12 \$1,400,000 included in rates and what is actually paid each year. As of
13 December 31, 2016 the balance of the regulatory asset related to
14 Kansas Ad Valorem taxes is \$3.6 million.

15 Q. Did MGE revise the annual amortization of \$1.6 million for the regulatory
16 asset approved in Case No. GR-2014-0007?

17 A. No. As discussed above and in Staff's Cost of Service Report beginning on
18 page 130, the current annual amortization included in MGE's base rates is \$1.6 million.
19 The unamortized balance as of September 30, 2017, is approximately \$2.3 million. Allowing
20 an annual amortization of \$1.6 million to continue will result in a significant over-collection
21 of the deferred costs.

22 Q. Did MGE make an adjustment to reflect an annualized level of Kansas
23 property taxes based on actual costs incurred by MGE?

24 A. No.

25 Q. Since MGE did not make an adjustment to the regulatory asset or recommend
26 an annualized level of Kansas property taxes, what is the impact of MGE's requested revenue
27 requirement?

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1 A. MGE's requested revenue increase is overstated. As discussed in my direct
2 testimony, the Commission approved an annual amortization of \$1.6 million for deferred
3 property taxes for the period of 2009-2013. Failure to reduce the annual amortization results
4 in a significant over-collection of the deferred Kansas property taxes. Likewise, the
5 Commission approved the inclusion of \$1.4 million in MGE's base rates to represent an
6 ongoing level of Kansas property taxes. Since the 2014 rate case, MGE has not incurred that
7 level of costs for Kansas property taxes. As part of the Stipulation and Agreement in Case
8 No. GR-2014-0007, MGE agreed to track any over or under-recovery and any differences
9 would be recovered from or returned to customers. However, MGE did not make an
10 adjustment to return any over-collection of ongoing Kansas property taxes to its customers in
11 its direct filing.

12 Q. The Commission approved a tracker for MGE's Kansas property taxes in Case
13 No. GR-2014-0007. Does Staff recommend continuation of the tracker?

14 A. No. At the time the parties agreed to a tracker for MGE's Kansas property
15 taxes, MGE fought the imposition of these costs in court for approximately 15 years.
16 MGE and other litigants exhausted all of its options in court, with the exception of the
17 United States Supreme Court⁴ during that case. Kansas property taxes were new costs
18 imposed on MGE of which there was no historical actual data that could be used to determine
19 an appropriate amount to include in base rates. Kansas property taxes are now a normal
20 operating cost for MGE that can be adequately included in rates using historical data.

21 Q. Has Staff previously recommended a cost tracker for a Missouri utility and
22 later recommended the tracker be discontinued?

⁴ United States Supreme Court denied the Petition for a Writ of Certiorari in Case number 13-1216.

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1 A. Yes. Staff recommended the use of a tracker in two KCPL rate cases, Case
2 No. ER-2010-0355, and Case No. ER-2012-0174, for operation and maintenance (“O&M”)
3 costs of Iatan 2. Staff recommended a tracker for Iatan 2 O&M costs because of KCPL’s
4 limited operational experience with Iatan 2 and lack of historical Iatan 2 O&M costs at the
5 time of Case No. ER-2010-0355, to reasonably determine an annualized level of O&M
6 expense. This tracker was only intended to cover the initial years of operation of the Iatan 2
7 unit, until an adequate history of the unit’s O&M expenses existed. The tracker for Iatan 2
8 O&M was discontinued in Case No. ER-2014-0370. Iatan Unit 2 O&M costs are now treated
9 as a normal component of O&M expense in the cost of service, just like the expenses
10 associated with all the other power plants operated by KCPL.

11 Q. Please summarize Staff’s position regarding MGE’s proposed treatment of
12 Kansas property taxes.

13 A. Kansas property taxes are now a normal operating expense for MGE and as
14 such a tracker is no longer needed. Staff recommends discontinuing the Kansas property tax
15 tracker established in the 2014 rate case and to include an annualized level of Kansas property
16 taxes in base rates, based on 2016 actual incurred costs. Staff further recommends the
17 unamortized balance of the regulatory asset be revised to \$547,106 for the update period of
18 June 30, 2017, and \$467,106 for the true-up period of September 30, 2017. These balances
19 should also be reduced by the over-collection of annual Kansas property taxes that occurred
20 after rates were set in the 2014 rate case.⁵

⁵ Staff’s Cost of Service Report, pages 130-135.

1 ST. PETERS LATERAL PIPELINE

2 Q. Please explain how Staff is treating St. Peters Lateral Pipeline ("St. Peters
3 Lateral") costs in this case.

4 A. Staff reviewed the amended contract with MoGas to confirm the amount of
5 savings that will benefit LAC and its customers and the costs that LAC incurred prior to
6 reaching an agreement with MoGas. Staff confirmed the amended contract results in an
7 annual savings of \$4.5 million for the period of 2019-2030, savings of approximately
8 \$54 million over the life of the contract. Laclede incurred approximately \$2 million in
9 expenses prior to reaching an agreement with MoGas. The costs incurred by Laclede
10 primarily consisted of typical preliminary construction costs such as the use of engineering
11 consultants, procurement of easements, and legal costs. Since the negotiated discount with
12 MoGas far exceeds the level of costs incurred by Laclede, Staff included an amortization of
13 these costs be included in rates over a twelve year period that is consistent with the time
14 period of expected savings from the negotiated contract with MoGas.

15 Q. Is Staff's treatment of the St. Peters Lateral consistent with LAC's
16 recommendation?

17 A. Yes.

18 Q. Does this conclude your rebuttal testimony?

19 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

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

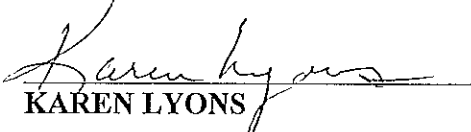
In the Matter of Laclede Gas Company)
d/b/a Missouri Gas Energy's Request to) Case No. GR-2017-0216
Increase Its Revenues for Gas Service)

AFFIDAVIT OF KAREN LYONS

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

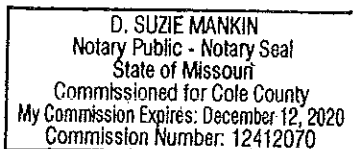
COMES NOW KAREN LYONS and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing Rebuttal Testimony; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.


KAREN LYONS

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 13th day of October, 2017.




Notary Public

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

Response to MPSC Data Request 0227

Question:

1. Please provide, separately for Laclede and MGE, the following in Excel format; a) the total actual environmental costs incurred for the period of 2010 through September 30, 2017 (when available) broken out by capital and expense, labor and non-labor, by month, and by FERC Account b) the budgeted environmental costs for the period of 2015-2020 in the same format as part (a)
2. Identify if Laclede and/or MGE is allocated any environmental costs from Spire or any other entity. If so, provide the allocation factors and supporting documentation for each entity to which Laclede and MGE allocates costs.

Response:

1. For MGE, please see DR 0053 for January 1, 2013 through December 31, 2016 and the attached file for January 1, 2010 through September 30, 2013. There is no company labor in any of the expenditures and the cost are not budgeted. For Laclede, please see DR 0052 for October 1, 2012 through December 31, 2016 and DR 0332 from GR-2013-0171 for October 1, 2007 through September 30, 2012. There is no budget.
2. There is no environmental cost from Spire or any other entity allocated to MGE or Laclede. All cost are direct charged.

Signed by: Glenn Buck

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

Response to MPSC Data Request 0310

Question:

Please provide a more detailed explanation of how the environmental compliance tracker mechanism referenced in Mr. Lobser's direct testimony at page 38, lines 2 – 4 is proposed to operate. This explanation should include, but not necessarily be limited to, discussions of the specific eligibility criteria for costs to be included in the tracker; what offsets should be applied against increases in eligible capital and expense costs for purposes of recording tracker deferrals; and any limits on the amount of costs that can be deferred and/or recovered in rates.

Response:

Section 386.266.2 authorizes the Commission to implement an environmental cost adjustment mechanism and periodic rate adjustments outside a rate case; however, the Company is merely seeking to defer, for later recovery at its next rate proceeding, its prudently incurred environmental compliance costs that exceed those that may be established in the current rate proceeding. Specifically, the tracker would reflect "increases and decreases in its prudently incurred costs, whether capital or expense, to comply with any federal, state, or local environmental law, regulation, or rule."

Such amounts would be offset by proceeds, if any, received from insurers or other third parties that reimburse the Company for such environmental compliance costs. To the extent a capital investment was made to comply with an environmental law, regulation, or rule, and such investment resulted in the retirement of another capital item that was being used for the same purpose, an adjustment would be made to account for such retirement and its impact on depreciation, deferred taxes, etc. in the same manner that such retirements are recognized for ISRS purposes.

Similar to the guidance given in 386.266.2, amounts subject to the tracker would be deferred at a carrying cost each month equal to the Company's net of tax cost of capital, with related depreciation and property taxes also deferred for capital items. Qualified expenses deferred would be included in rate base in the next rate case proceeding and amortized over a similar period as they were deferred, and any related plant would then be put into service for ratemaking purposes. The Company is not proposing a specific limit on the amount of compliance costs that may be deferred, but the amortization period would be extended where the combined revenue requirement of the amortization and capital and related costs put into rates would be greater than 2.5% of gross revenues, before GRT, sales tax and similar pass through taxes.

Signed by: Glenn Buck