

Exhibit No: 034
Issue: One-Time Capital Costs/Customer
Deposits, Prepayments, Economic
Development Memberships,
Governmental Interaction Costs
Witness: Lewis E. Keathley
Type of Exhibit: Rebuttal Testimony
Sponsoring Party: Laclede Gas Company (LAC)
Missouri Gas Energy (MGE)
Case Nos.: GR-2017-0215
GR-2017-0216
Date Prepared: October 17, 2017

LACLEDE GAS COMPANY
MISSOURI GAS ENERGY

GR-2017-0215
GR-2017-0216

REBUTTAL TESTIMONY

OF

LEWIS E. KEATHLEY

OCTOBER 2017

Spire Exhibit No. 34
Date 12-14-17 Reporter KE
File No. GR-2017-0215
GR-2017-0216

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1 **REBUTTAL TESTIMONY OF LEWIS E. KEATHLEY**

2 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3 A. My name is Lewis E. Keathley and my business address is 700 Market St., St. Louis,
4 Missouri, 63101.

5 Q. ARE YOU THE SAME LEWIS E. KEATHLEY WHO PREVIOUSLY FILED
6 DIRECT TESTIMONY IN THIS PROCEEDING?

7 A. Yes, I submitted direct testimony on behalf of both Laclede Gas Company (“LAC”) in
8 Case No. GR-2017-0215 and Missouri Gas Energy (“MGE”) in Case No. GR-2017-0216.

9 I. **PURPOSE OF TESTIMONY**

10 Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS
11 PROCEEDING?

12 A. The purpose of my rebuttal testimony is to respond to certain issues raised by witnesses
13 for the Staff of the Missouri Public Service Commission (“Staff”) and the Office of the
14 Public Counsel (“OPC”) in their direct testimony in these proceedings. Specifically, I
15 will explain why the exclusion by Staff and/or OPC of certain one-time capital costs
16 resulting from LAC’s acquisition of MGE is inappropriate and contrary to the terms of
17 the Stipulation and Agreement which recommended approval of the acquisition. I will
18 also explain why certain adjustments made by Staff to the Company’s customer deposits,
19 prepayments, economic development memberships, and governmental interaction costs
20 are inappropriate.

21
22 II. **PROPOSED EXCLUSION OF ONE-TIME CAPITAL COSTS**

23 Q. PLEASE DESCRIBE THE ONE-TIME CAPITAL COSTS THAT ARE NOW AT
24 ISSUE IN THESE PROCEEDINGS.

1 A. As I discussed in my direct testimony, under the Stipulation and Agreement approved by
2 the Commission in the MGE acquisition proceeding, Case No. GM-2013-0254, Laclede
3 was authorized to treat as a regulatory asset, or maintain on its books one-time capital
4 costs incurred to integrate LAC and MGE. Such costs are to be included, or amortized in
5 rates over a period consistent with their current Commission authorized depreciation rate
6 for the asset. Such treatment is conditioned on there being sufficient net synergies from
7 the integration process to offset the amounts being reflected in rates after consideration of
8 other amortized transition costs included in the case. The one-time capital costs being
9 afforded such treatment in these proceedings include items such as MGE's software costs
10 from a system with a vintage of 2006-2013 at MGE that was replaced by Laclede's new
11 Enterprise Software, as well as LAC office building Leasehold Improvements that were
12 eliminated as a result of integrating and redeploying administrative personnel.

13 **Q. HAS THE CONDITION YOU REFERENCE BEEN MET?**

14 A. Yes, the net synergies achieved by LAC and MGE as a result of their integration efforts
15 have significantly exceeded the level of transition costs for which recovery is being
16 sought in rates.

17 **Q. WHAT IS STAFF'S POSITION REGARDING THESE ONE-TIME CAPITAL**
18 **COSTS?**

19 A. At page 82 of the Staff Cost of Service Report, Staff witness Keith Majors identifies in
20 tabular format three capital transition costs deferred on the books of LAC and MGE,
21 reflecting both their individual Total Balance at June 2017 and Annual Amortization:
22 720 Olive Leasehold Improvements; MGE Retired Software; and Software Costs to
23 Integrate MGE. Regarding the first two items, Staff states that "[n]either of these items

1 are incrementally incurred capital transition costs.” Regarding the software costs
2 incurred to integrate MGE into LAC’s new Blue enterprise software, Staff acknowledges
3 that such costs are included in LAC’s books and records. Staff goes on to state, however,
4 “[t]hese expenses are incrementally incurred capital transition costs but are not identified
5 as such on the books and records of LAC and MGE. These costs are included on LAC’s
6 books and records in Account 391.5. Staff Adjustment P-35.2 removes the balance of
7 these costs from the cost of service.” Finally, in summary fashion, Staff states that it
8 “does not recommend inclusion in LAC or MGE rates of any amortization or rate base
9 treatment of transition costs” for three enumerated reasons that appear to allege
10 incomplete provision of information as required under the stipulation for Case No. GM-
11 2013-0254 as well as Staff’s purported inability to “independently validate the synergy
12 savings claimed in LAC’s and MGE’s model.” (*Id.*).

13 **Q. WHAT IS YOUR RESPONSE TO STAFF’S PROPOSAL?**

14 A. As Company witness Eric Lobser explained in his direct testimony, the referenced
15 stipulation permitted Laclede to continue rate base treatment of one-time capital costs
16 associated with facilities or other assets retired prior to the end of their useful life as a
17 result of integrating the two companies. The right to include these one-time costs to
18 achieve was contingent on the overall level of synergies achieved being sufficient to
19 cover such costs. As discussed by Company witnesses Lobser and Flaherty, the
20 Company has met this contingency and Staff is simply wrong in its assertions. Again, as
21 Mr. Lobser pointed out in his direct testimony:

22 As has been reflected in the quarterly synergy reports provided to Staff
23 and OPC over the past three and a half years, Laclede has achieved

1 synergies in excess of one-time costs to achieve, both operating expense
2 and capital, well before the end of the test year in these cases. These
3 synergies consisted of a wide variety of items, including eliminations of
4 redundant costs, supply chain and procurement savings from the added
5 scale, benefits produced by the sharing of best practices between the two
6 utilities, as well as other items. (Lobser Direct, page 44).

7 **Q. WHAT IS OPC'S POSITION ON THIS ISSUE?**

8 A. OPC witness Charles Hyneman addresses the topics of Leasehold Improvements at
9 Laclede Gas Building and MGE's Software Assets in his direct testimony. Continually
10 characterizing the 720 Olive Street headquarters building as "abandoned," Mr. Hyneman
11 argues that the unamortized balance of these leasehold improvements should not be
12 included in Laclede's rate base nor should any amortization of these leasehold
13 improvements be included in Laclede's cost of service. While he acknowledges that such
14 leasehold improvements can be recorded as a regulatory asset in account 182.3 without
15 Commission approval, he erroneously suggests that such costs cannot be viewed as being
16 probable for rate recovery, turning a blind eye to the stipulation already approved that
17 provides the very parameters for such rate recovery. For the additional reasons addressed
18 above, Mr. Hyneman's opposition to legitimate one-time capital costs incurred to
19 facilitate the restructuring of MGE and LAC should be rejected.

20 **Q. YOU ALSO IDENTIFIED OPC'S OPPOSITION TO THE RECOVERY OF**
21 **MGE'S SOFTWARE REGULATORY ASSET AMORTIZATION. WHAT IS**
22 **YOUR RESPONSE?**

1 A. Again, Mr. Hyneman attempts to frame this issue with the negative connotation of
2 “abandoned” costs, which simply isn’t the case. They were instead costs incurred to
3 facilitate the integration of LAC and MGE and create the synergies resulting from that
4 integration. For all the reasons discussed above, OPC’s proposed disallowance should be
5 rejected, and the Company’s one-time capital costs related to replacing MGE’s software
6 from a system with a vintage of 2006-2013 to Laclede’s new Enterprise Software should
7 be approved.

8 **III. CUSTOMER DEPOSIT ADJUSTMENTS**

9 **Q. PLEASE DESCRIBE THE COMPANY’S POSTION REGARDING STAFF’S**
10 **PROPOSED ADJUSTMENTS TO CUSTOMER DEPOSITS AND INTEREST.**

11 A. Staff witness W. Hodges makes an adjustment to Rate Base to account for Customer
12 Deposits and includes deposits for both Residential and Commercial customers.
13 However, as detailed in CSR 240-10.040 (4), “The rate of interest of the cash deposit
14 shall be only three percent (3%) per annum if the utility keeps the cash deposit in a
15 separate and distinct trust fund and deposited as such in some bank or trust company and
16 not used by the utility in the conduct of its business.” MGE is already adhering to the
17 “...separate and distinct trust fund” provision for its Commercial customers and LAC
18 will be doing so in the near future. As a result, neither will be utilizing the Commercial
19 deposits in the operation of the business and their Commercial Deposits should
20 accordingly not be included in the Rate Base offset nor should the interest expense be
21 included in the cost of service.

22 **Q.**

1 IV. PREPAYMENT ADJUSTMENTS

2 Q. DO YOU AGREE WITH STAFF'S AND OPC'S POSITION THAT
3 PREPAYMENTS, AS THEY RELATE TO PROPERTY TAXES THAT ARE
4 UNDER APPEAL, SHOULD NOT BE INCLUDED IN RATE BASE?

5 A. No. Staff witness W. Hodges and OPC witness C. Hyneman make adjustments to
6 Prepayments to exclude property taxes that are under appeal with the State Tax
7 Commission. Per the Commission's Order, we must pay the amount of tax in full, and
8 that payment is held in escrow until the pending cases are final, at which point the
9 escrowed amounts will be released to the prevailing party. We have already received
10 unfavorable opinions in a 2013 case for LAC and in 2014/2015 for MGE, but both of
11 those decisions have been appealed. While the appeals process is pending, these funds are
12 unavailable for other uses. Since we have paid the tax as required, and cannot know if
13 we will prevail on appeal, Staff's adjustment is inappropriate. More important, adoption
14 of Staff's approach would provide a significant disincentive to utilities to pursue such
15 appeals in an effort to protect their customers, in that it would put them at financial risk if
16 the amount being protested is not reflected in rates and then the utility loses its appeal.
17 There is simply no policy justification for penalizing utilities that act in good faith to
18 protect the interests of their customers from what they believe is unfair taxation.

19 Q. DO YOU AGREE WITH STAFF'S EXCLUSION OF THE TREASURY (LINE OF
20 CREDIT) PREPAYMENTS?

21 A. No. These fees, which are similar to loan closing costs, are upfront costs that are a part of
22 our line of credit and need to be included in rates. Without these upfront costs, the
23 Company would not have a line of credit or we might be limited to a very short-term line

1 of credit (e.g., less than one year), which would leave the company exposed to liquidity
2 risk or, alternatively, subject to annual renegotiation at higher rates.

3 **V. ECONOMIC DEVELOPMENT MEMBERSHIPS**

4 **Q. PLEASE DESCRIBE THE COMPANY'S ADJUSTMENT TO STAFF'S DUES**
5 **AND DONATIONS ADJUSTMENT.**

6 A. Staff witness W. Hodges disallowed civic organization expenses that have a direct and
7 also an indirect benefit to our ratepayers. These expenses to Greater Kansas City
8 Chamber of commerce, Missouri Chamber Foundation, The Civic Council of Greater
9 Kansas City, and Regional Business Council enable LAC and MGE to participate in
10 organizations that improve the business environment and quality of life in its service
11 territory. These organizations also support community infrastructure improvements and
12 foster positive economic development opportunities for Missouri employers. Having
13 strong communities and as vibrant an economy as possible is important for all Missouri
14 citizens, but it especially important to utility customers given the role that economic
15 growth can play in helping to share the costs of utility service. Membership in these
16 groups is another tool that can be used to manage and control costs to our business.

17 **VI. GOVERNMENTAL INTERACTION COSTS**

18 **Q. PLEASE DESCRIBE LACLEDE'S ADJUSTMENT TO STAFF'S PAYROLL**
19 **ADJUSTMENT AS IT PERTAINS TO EXTERNAL AFFAIRS EMPLOYEES**
20 **AND MEDA PARTICIPATION.**

21 A. Staff witness A. Nieto made an adjustment for one half of the salary for two of the
22 Company's External Affairs employees. The Company had already moved one half of the
23 salary for these two employees below the line as a conservative estimate of the portion of

1 their time they spend advocating for the Company. The other half of their salaries are
2 appropriately charged to utility account 920.

3 **Q. DO EITHER OF THESE EMPLOYEES DO WORK FOR THE UTILITY THAT**
4 **IS NOT OF AN ADVOCACY NATURE?**

5 A. Yes. First, it should be noted that they are both full time year-round employees whereas
6 the legislature is only in session for 5 months of the year, with one of the employees
7 working out of Lee's Summit. These employees certainly do things other than lobbying,
8 including working with and participating in economic development groups. The
9 Jefferson City employee even periodically serves as a liaison to the Staff and OPC when
10 they request access to sensitive company documents, and occasionally attends
11 Commission agenda meetings.

12 **Q. HOW HAS STAFF TREATED THE COSTS RELATED TO THE MISSOURI**
13 **ENERGY DEVELOPMENT ASSOCIATION ("MEDA")?**

14 A. Staff witness Hodges removed any "above-the-line" costs related to MEDA, stating,

15 "If an organization is found to provide legislative activities in part or in
16 whole, Staff made an adjustment to eliminate those lobbying costs. These
17 types of costs primarily benefit LAC and MGE shareholders and should
18 therefore be absorbed by the shareholders of LAC and MGE. Staff
19 believes that any costs related to the Missouri Energy Development
20 Association ("MEDA") should be treated below-the-line for ratemaking
21 purposes and absorbed by the shareholders. The purpose of MEDA is "to
22 work closely with Missouri Investor-Owned Utilities and their strategic
23 partners, representing their interests and advocating balanced policies in
24 legislative and regulatory arenas." Accordingly, MEDA is engaged in
25 governmental affairs and lobbying activities on behalf of Missouri
26 regulated utilities on an ongoing basis." (COS Report, p. 120, ln 25- p.
27 121, ln 3)
28

29 **Q. IS IT APPROPRIATE TO REMOVE ALL OF THE MEDA COSTS?**

1 A. No. First, it is important to note that MEDA has a paid contract lobbyist and the costs
2 related to him are paid for by the Company in a below the line account. Further, the
3 Company's contribution to any MEDA sponsored events at the Capitol are also below-
4 the-line. However, MEDA provides valuable services for the Company's employees and
5 customers by opposing legislation that could adversely affect their interests and
6 supporting legislation that could benefit those interests. Just as importantly, they monitor
7 the activities in the House and Senate to keep its members informed of issues being
8 considered that may impact the Company, the industry, their employees and their
9 customers. Given the fact that over 2000 bills can be filed in a single session of the
10 General Assembly there are a lot of issues of potential concerns, ranging from changes in
11 tax laws that can have a significant impact on our cost of service, initiatives that can
12 affect the safety of our employees, to appropriation, such as Utilicare energy assistance
13 funding, that can be very important to our most vulnerable customers. A recent example
14 of efforts to obtain positive outcomes for our customers, are MEDA's effort over the past
15 several years (with the help of the Company's governmental affairs personnel) to form
16 coalitions that successfully advocated for the resumption of Utilicare funding which had
17 previously remained unfunded for years. Finally, MEDA also hosts groups for Missouri
18 utilities such as the Supplier Diversity Task Force. For all of these reasons, these
19 expenses should be deemed reasonable and included in the Company's cost of service.

20 Q. **DOES THIS COMPLETE YOUR REBUTTAL TESTIMONY?**

21 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 Gas) File No. GR-2017-0215
Service)

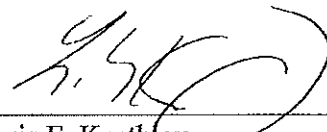
In the Matter of Laclede Gas Company)
d/b/a Missouri Gas Energy's Request to) File No. GR-2017-0216
Increase its Revenues for Gas Service)

AFFIDAVIT

STATE OF MISSOURI)
) SS.
CITY OF ST. LOUIS)

Lewis E. Keathley, of lawful age, being first duly sworn, deposes and states:

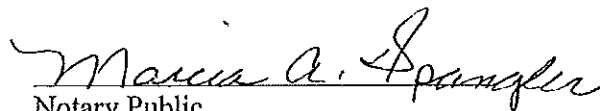
1. My name is Lewis E. Keathley. I am Senior Analyst, Regulatory Affairs for Laclede Gas Company. My business address is 700 Market St., St Louis, Missouri, 63101.
2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony on behalf of Laclede Gas Company and MGE.
3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct to the best of my knowledge and belief.



Lewis E. Keathley

Subscribed and sworn to before me this 16th day of OCTOBER, 2017.





Notary Public

Exhibit No:
Issue: Hydrostatic Testing; Replacements
of Cast Iron and Bare Steel with
Incidental Plastic Pipe
Witness: Mark D. Lauber
Type of Exhibit: Rebuttal Testimony
Sponsoring Party: Laclede Gas Company (LAC)
Missouri Gas Energy (MGE)
Case Nos.: GR-2017-0215
GR-2017-0216
Date Prepared: October 17, 2017

**LACLEDE GAS COMPANY
MISSOURI GAS ENERGY**

**GR-2017-0215
GR-2017-0216**

REBUTTAL TESTIMONY

OF

MARK D. LAUBER

October 2017

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REBUTTAL TESTIMONY OF MARK D. LAUBER

1

2 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Mark D. Lauber, and my business address is 700 Market St., St. Louis, Missouri, 63101.

3 Q. WHAT IS YOUR PRESENT POSITION?

4 A. I am presently employed as Director of Health, Safety and Environmental Compliance for
5 Spire, formerly Laclede Gas Company ("Company").

6 Q. PLEASE STATE HOW LONG YOU HAVE HELD YOUR POSITION AND
7 BRIEFLY DESCRIBE YOUR RESPONSIBILITIES.

8 A. I was appointed to my present position in November 2015. In this position, I am responsible
9 for the occupational health and safety of the Company's employees, the Company's
10 compliance with environmental laws and regulations, and completing the Company's
11 environmental objectives.

12 B. WHAT WAS YOUR EXPERIENCE WITH THE COMPANY PRIOR TO
13 BECOMING DIRECTOR, HEALTH, SAFETY, AND ENVIRONMENTAL
14 COMPLIANCE?

15 A. I joined Laclede in January 1987, as a staff engineer. I was promoted to Engineer I in
16 January 1990, Engineer II in January 1992, Assistant to the District Superintendent,
17 Construction & Maintenance in May 1993, Senior Maintenance Engineer in January
18 1997, and Superintendent of Maintenance Engineering in January 1999. I was appointed
19 Manager of Pipeline Safety Compliance in April 2013 with responsibility for pipeline
20 safety at both Laclede Gas (LAC) and MGE following Laclede's acquisition of MGE.

21 Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?

1 A. I received a Bachelor of Science degree in Electrical Engineering from the University of
2 Missouri at Rolla in December 1986. Since January 1997, I have been certified as a
3 International Cathodic Protection Specialist by the National Association of Corrosion
4 Engineers (NACE).

5 Q. **HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?**

6 A. Yes. I submitted testimony in Case No. GC-2006-0318, as well as Case Nos. GO-2016-
7 0332 and GO-2016-0333.

8 I. **PURPOSE OF TESTIMONY**

9 Q. **WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

10 A. The purpose of my rebuttal testimony is to respond to portions of the direct testimony filed
11 on behalf of the Office of the Public Counsel ("OPC") by Charles R. Hyneman.
12 Specifically, I will address two issues. The first concerns Mr. Hyneman's assertion that
13 project expenditures made to hydrostatically test, or hydro-test, certain pipeline facilities
14 should be expensed rather than capitalized. I will explain why this assertion is incorrect in
15 that it fails to recognize that such testing is a vital and essential component of allowing the
16 asset to be in service and function in its intended manner and is inconsistent with the
17 capitalization of other testing expenditures that are made to ensure facilities can be placed
18 in service and made operational in a safe manner.

19 Q. **IS ANY OTHER WITNESS SUBMITTING TESTIMONY ON THIS ISSUE?**

20 A. Company witness Michael Noack is also submitting rebuttal testimony on this issue in
21 which he explains why capitalization is a preferred accounting treatment for this item and
22 why adoption of OPC's recommended approach would result in a higher revenue
23 requirement for customers in this case.

1 Q. WHAT IS THE SECOND ISSUE YOU WILL BE ADDRESSING?

2 A. The second issue relates to Mr. Hyneman's assertion that that the Commission should
3 disallow certain costs previously collected by the Company through its ISRS mechanism
4 because the Company replaced cast iron main that contained incidental patches of plastic,
5 and replaced some plastic service lines as part of its cast iron replacement program. As I
6 will discuss, Mr. Hyneman's proposed disallowance – which he makes no effort to quantify
7 in his direct testimony – should be rejected by the Commission because it is based on a
8 demonstrably false premise. Specifically, I will explain why Mr. Hyneman is simply
9 incorrect when he asserts that the Company has spent “million and millions of dollars” to
10 replace such plastic pipe. In fact, by replacing this incidental pipe as part of its cast iron
11 program, the Company has actually saved its customers millions and millions of dollars
12 and, in the process, constructed a far safer and more reliable system than would have been
13 the case had it not done so. As a result, there is absolutely no basis for OPC's proposed
14 adjustment.

15 II. TREATMENT OF HYDROSTATIC TESTING COSTS

16 Q. PLEASE EXPLAIN WHAT HYDROSTATIC TESTING IS IN THE CONTEXT OF
17 NATURAL GAS PIPELINE FACILITIES.

18 A. Hydrostatic testing of natural gas pipelines is a pressure test process where a pipeline is
19 taken out of service and tested for strength and possible leaks by filling the pipeline with
20 pressurized water. Hydrostatic testing has long been used to determine, verify and improve
21 pipeline integrity.

22 Q. WHAT SPECIFIC FLAWS CAN A HYDROSTATIC TEST IDENTIFY?

1 A. Several types of flaws can be detected through hydrostatic testing, including manufacturing
2 defects, stress corrosion cracking, galvanic corrosion, internal corrosion, mechanical
3 damage, and weld defects. One of the key objectives of the test is to find possible flaws
4 that exist in the pipeline. The test creates a certain amount of stress for a given time to
5 allow these possible flaws to be exposed as leakages. The test pressure is designed to
6 provide a sufficient tolerance between itself and the maximum operating pressure such that
7 surviving flaws in the pipeline shall not grow over time after the pipeline is placed into
8 service at the intended operating pressure.

9 **Q. DO FEDERAL SAFETY REGULATIONS REQUIRE THAT CERTAIN**
10 **FACILITIES BE HYDROSTATICALLY-TESTED?**

11 A. Yes, federal pipeline safety regulations require that pipeline operators subject all newly
12 constructed pipelines to a post construction pressure test, and to keep records of that
13 pressure test. Hydrostatic testing is the method used by the Company to perform these
14 tests on natural gas transmission lines, which are typically the larger, highest pressure lines
15 in the system. The cost of the test is included with the capital cost of constructing the
16 pipeline. The current federal requirements came into existence in 1970 with the inception
17 of the federal pipeline safety code. All pipelines installed after July 1970 require a
18 documented one-time pressure test completed in compliance with regulatory requirements
19 to establish a Maximum Allowable Operating Pressure (MAOP). Pipelines installed prior
20 to 1970 must meet either a specific pressure test, operating history, or design requirements
21 as outlined in 4 CSR 240-40.030(12)(M) [49 CFR part 192.616] to establish an MAOP.
22 Additionally, pressure testing is one acceptable option to assess certain threats defined by
23 4 CSR 240-40.030(16), Pipeline Integrity Management for Transmission Lines [49 CFR

1 part 192 Subpart O]. Furthermore, an advisory bulletin issued by DOT's Pipeline
2 Hazardous Materials Safety Administration (PHMSA) on January 10, 2011, provided
3 specific regulatory interpretations that placed a renewed focus on locating and verifying
4 the records of historical pressure tests of transmission pipelines.

5 **Q. WHY DID PHMSA PLACE A RENEWED FOCUS ON HYDROSTATIC TESTING**
6 **IN JANUARY 2011?**

7 **A.** The renewed focus occurred as a result of the September 2010 explosion in San Bruno,
8 California resulting from a natural gas transmission pipeline failure. PHMSA sought to
9 have pipeline operators undertake detailed threat and risk analyses that integrate accurate
10 data and information from their entire pipeline system, especially when calculating MAOP.
11 In doing so, PHMSA stated that "PHMSA's goal is to improve the overall integrity of
12 pipeline systems and reduce risks." The identification and review of hydrostatic pressure
13 testing records is a key component in ensuring the adequacy of MAOP calculations for
14 transmission lines. PHMSA's new interpretations stated that traceable, verifiable and
15 complete records were necessary which led the Company to determine that certain
16 hydrostatic testing projects were required.

17 **Q. WHAT ARE THE CONSEQUENCES IF HYDROSTATIC TESTING IS NOT**
18 **DONE ON A PIPELINE FACILITY WHERE IT IS REQUIRED?**

19 **A.** The choice would be for the Company to perform a hydrostatic test or replace the line. The
20 test is required to determine if the line is safe to operate at its MAOP. If the line passes,
21 the hydrostatic test successfully extended the life of the line and avoided the cost of
22 replacement. If the line fails the test and an unacceptable flaw is identified, the Company
23 can often make an investment during the test to enhance the integrity of the line. However,

1 if the line needs to be replaced, the new line must still be subjected to a one-time post
2 construction hydrostatic test that also becomes part of the capital cost of the line.

3 **Q. SO THE EXPENDITURE FOR HYDROSTATIC TESTING ALLOWS THE**
4 **PIPELINE FACILITY TO BE PLACED BACK IN SERVICE AND PERFORM ITS**
5 **INTENDED FUNCTION?**

6 A. Yes. The completion of a one-time hydrostatic pressure test will allow these pipelines to
7 continue to be operated and maintained into the future in a similar manner as a newly
8 constructed pipeline.

9 **Q. HOW IS OPC PROPOSING TO ACCOUNT FOR THESE HYDROSTATING**
10 **TESTING COSTS?**

11 A. At pages 33-35 of his direct testimony OPC witness Charles Hyneman is proposing that
12 these costs be treated as an expense item rather than capitalized and recovered over the
13 remaining life of the facility. He also proposes to disallow certain hydrostatic costs that
14 the Company capitalized and began to recover in ISRS charges that were approved by the
15 Commission in filings made prior to when OPC first raised the hydrostatic testing issue in
16 the Company's most recent ISRS filings.

17 **Q. DO YOU AGREE WITH THESE RECOMMENDATIONS?**

18 A. No. In terms of OPC's proposal to disallow certain hydrostatic testing costs that were
19 included in previous ISRS charges approved by the Commission, I have been advised by
20 legal counsel that that such a disallowance is inappropriate since it concerns an eligibility
21 (rather than prudence) issue that must be raised at the time an ISRS filing is made, not
22 years later in a rate case. Indeed, Mr. Hyneman himself has testified before this
23 Commission that the focus in an ISRS proceeding is ISRS eligibility, as contemplated by

1 Section 393.1015.2(4). In response to questions from his counsel in Case Nos. GO-2016-
2 0332 and GO-2016-0333, Mr. Hyneman testified as follows:

3 Q. Could we raise prudence issues in this?

4 A. No.

5 Q. What is the purpose of this case?

6 A. To determine that the costs that are going to be charged in the
7 surcharge are ISRS eligible costs and it's calculated correctly.

8 Q. And that's the only issue?

9 A. That's the whole thing. (Emphasis added)¹

10 **Q. HOW ABOUT OPC'S RECOMMENDATION THAT HYDROSTATIC TESTS**
11 **SHOULD BE EXPENSED RATHER CAPITALIZED?**

12 A. I disagree with that recommendation as well for several reasons. First, contrary to what
13 Mr. Hyneman implies in his testimony, as more fully discussed below, the Commission
14 has made no determination that such costs should be expensed rather than capitalized.
15 Second, hydrostatic testing costs are a one-time expenditure that serve the same purpose as
16 similar one-time pipeline testing costs that have been routinely capitalized for many years,
17 namely to permit a particular asset to be safely placed in service or, in this case, to be placed
18 back in service. Third, because the incurrence and amount of these expenditures can vary
19 from year to year, capitalization can better ensure that such costs are not over or under
20 recovered over time. Finally, expensing of these costs, as proposed by OPC, would require
21 that the Company's revenue requirement and rates be increased significantly above the

¹ Transcript of Evidentiary Hearing, Vol. I, January 3, 2017, page 248, lines 7-14, Case Nos. GO-2016-0332 and GO-2016-0333.

1 level being proposed by the Company in order to establish an ongoing allowance for such
2 expenditures.

3 **Q. WHY IS MR. HYNEMAN INCORRECT IN SUGGESTING THAT THE**
4 **COMMISSION HAS ALREADY DETERMINED THAT HYDROSTATIC**
5 **TESTING COST SHOULD BE EXPENSED RATHER THAN CAPITALIZED?**

6 A. As someone who also participated in the ISRS cases in which OPC first raised the issue of
7 whether hydrostatic testing costs were ISRS-eligible, I am aware that OPC also raised the
8 issue of whether such costs should be expensed or capitalized. I have reviewed the
9 Commission's Report and Order which resolved these issues. While Mr. Hyneman is
10 correct that the Commission determined that such costs were not ISRS-eligible, it did not
11 reach or even attempt to resolve the issue of whether such costs should be expensed or
12 capitalized. Any implication to the contrary is inaccurate.

13 **Q. PLEASE EXPLAIN YOUR STATEMENT THAT CAPITALIZATION RATHER**
14 **THAN EXPENSING OF THESE COSTS IS APPROPRIATE GIVEN THE**
15 **NATURE OF SUCH COSTS AND THE REASON THEY ARE BEING INCURRED.**

16 A. Whenever a utility installs a new main or service, it is tested, pursuant to applicable safety
17 requirements, to ensure that it has no physical defects that would preclude it from operating
18 properly and safely. The costs incurred to perform such testing are a one-time expenditure
19 and are properly capitalized as part of the cost of the asset. The hydrostatic testing costs at
20 issue here serve an identical purpose. As I previously discussed, they too are incurred on
21 a one-time basis, are mandated by applicable safety regulations and are necessary to
22 establish an MAOP and ensure that the pipeline has no physical defects that would preclude
23 it from operating properly and safely. The only difference -- and it is a difference without

1 a distinction – is that hydrostatic testing costs are incurred to ensure that the asset can be
2 placed back into service rather than placed into service for the first time.

3 **Q. DOES CAPITALIZATION ALSO ENSURE THAT THESE ONE-TIME COSTS**
4 **WILL BE MORE APPROPRIATELY AND ACCURATELY RECOVERED FROM**
5 **CUSTOMERS OVER TIME?**

6 A. Yes. As discussed more fully by Company witness Mike Noack, capitalization means that
7 the hydrostatic testing costs incurred to qualify this asset to provide service to customer for
8 years into the future will be spread over the remaining useful life of the asset rather than
9 recovered immediately from customers, as is the case with expenses. As a result,
10 customers will pay for this cost in better proportion to how they are benefitting from the
11 asset over time. In addition, it is my understanding that capitalization will better ensure
12 that these costs, which can vary from year to year, will not be over or under-recovered from
13 customers.

14 **Q. SHOULD THE COMMISSION NEVERTHELESS AGREE THAT THESE**
15 **HYDROSTATIC COSTS SHOULD BE EXPENSED RATHER THAN**
16 **CAPITALIZED, WOULD AN UPWARD ADJUSTMENT NEED TO BE MADE TO**
17 **THE COMPANY'S REVENUE REQUIREMENT AND RATES IN THIS CASE?**

18 A. Yes. As explained by Company witness Noack, adoption of OPC's proposal would require
19 that an allowance for hydrostatic testing expenditures be added to the Company's revenue
20 requirement in this case. While Mr. Noack quantifies the amount of this adjustment in his
21 rebuttal testimony, I would simply note that it is significantly greater than the revenue
22 requirement amount resulting from the Company's capitalization of these costs.
23 Regardless of the technical accounting considerations, I consider this upward impact on

1 rates to be yet another factor that warrants the capitalization treatment being proposed by
2 the Company in these proceedings.

3 **III. INCIDENTAL REPLACEMENT OF PLASTIC FACILITIES**

4 **Q. HAVE YOU REVIEWED MR. HYNEMAN'S TESTIMONY AND**
5 **RECOMMENDATIONS REGARDING THE COSTS HE CLAIMS HAVE BEEN**
6 **INCURRED BY THE COMPANY IN CONNECTION WITH THE INCIDENTAL**
7 **REPLACEMENT OF PLASTIC MAIN AND SERVICES THAT HAS OCCURRED**
8 **DURING THE COURSE OF THE COMPANY'S CAST IRON REPLACEMENT**
9 **PROGRAM?**

10 **A.** Yes. Mr. Hyneman has proposed that the Commission disallow in this proceeding certain
11 costs that have been collected through MGE's or LAC's ISRS mechanism because they
12 were allegedly incurred to replace some plastic mains and services as part of the operating
13 units' cast iron and unprotected steel replacement programs. According to Mr. Hyneman,
14 MGE and LAC have spent "millions and millions of dollars" to replace these plastic
15 facilities and since they were not in a worn-out or deteriorated condition, they were not
16 eligible for ISRS inclusion.

17 **Q. HAS THE COMMISSION PREVIOUSLY REJECTED OPC'S POSITION ON**
18 **THIS ISSUE?**

19 **A.** Yes. Unlike the issue of whether hydrostatic testing expenditures should be capitalized or
20 expensed, the Commission actually reached and ruled upon this issue in the Company's
21 most recent ISRS cases. In doing so, the Commission rejected OPC's contention that
22 alleged costs associated with the replacement of these plastic facilities should be excluded
23 from the Company's ISRS mechanism. As Mr. Hyneman notes, OPC has appealed the

1 Commission's decision and OPC seeks to preserve its ability in these cases to adjust the
2 Company's cost of service should it prevail on appeal.

3 **Q. DO YOU BELIEVE THAT THE COMMISSION SHOULD CONSIDER**
4 **PRESERVING OPC'S ABILITY TO MAKE A DISALLOWANCE FOR THESE**
5 **COSTS SHOULD IT PREVAIL ON APPEAL?**

6 A. No, I do not. First, OPC is continuing to propose that some amount of costs be excluded
7 from the Company's ISRS filings for the costs supposedly incurred to replace these plastic
8 facilities, without ever providing a quantification of those costs or even a method for
9 calculating them. OPC did not provide such critical information in the Company's last
10 ISRS filings nor have they done so in these rate cases. I have been advised by legal counsel
11 that it should have done so in its direct testimony if it wanted to preserve that issue for
12 Commission consideration.

13 **Q. DOES THAT MEAN YOU CAN'T OFFER ANY OPINION REGARDING THE**
14 **MERITS OF OPC'S POSITION?**

15 A. No. Even without the benefit of any information on how OPC would quantify its proposed
16 adjustment, I can state that there is no real basis for a disallowance of any amount.

17 **Q. PLEASE EXPLAIN WHY YOU BELIEVE THERE IS NO BASIS FOR A**
18 **DISALLOWANCE OF ANY AMOUNT RELATING TO THIS ISSUE.**

19 A. There is no basis for a disallowance of any amount because OPC's entire position on this
20 issue rests on the false assumption that the Company has incurred some additional cost in
21 connection with its incidental replacement of these plastic facilities. That is simply not
22 correct. In fact, the opposite is true. Specifically, by replacing these patches of plastic pipe
23 as part of its cast iron and unprotected steel replacement programs, the Company has

1 actually saved its customers millions of dollars in costs that they would otherwise have to
2 pay for in rates.

3 **Q. EXACTLY HOW HAS THE COMPANY SAVED ITS CUSTOMERS MONEY BY**
4 **REPLACING PLASTIC PIPE AS PART OF ITS CAST IRON AND**
5 **UNPROTECTED STEEL REPLACEMENT PROGRAMS?**

6 A. As the Commission recognized in rejecting OPC's position on this issue in the Company's
7 last ISRS proceedings, it would have been uneconomic, unsafe and operationally
8 impractical to even try and integrate the newer plastic pipe being installed as part of the
9 cast iron and unprotected steel replacement programs with the scattered segments of older
10 plastic pipe.

11 **Q. PLEASE EXPLAIN WHY IT WOULD HAVE BEEN UNECONOMIC TO**
12 **COMPLETE THESE PROJECTS IN A MANNER THAT CONTINUED TO**
13 **UTILIZE THE PLASTIC PIPE THAT WAS REPLACED?**

14 A. The existing pieces of plastic main vary in length from just a few feet to several hundred
15 feet. Plastic mains were typically installed as a repair or replacement of a specific portion
16 of cast iron or unprotected steel main to address the safety and integrity of the system.
17 Several years ago, Laclede ended its focus on piecemeal repairs and replacements and
18 developed a strategic plan to orderly and efficiently accelerate the elimination of cast iron
19 and steel. Our plan is to bring customers a safer system faster and in a cost-effective
20 manner.

21 **Q. PLEASE CONTINUE.**

22 A. Cast iron and the subject steel mains are typically installed deeper than is required or
23 necessary for plastic pipe; however the original plastic pipe installed as piecemeal

1 replacements had to be installed at the same depth to connect to the older main. These
2 older mains are also commonly under pavement which is currently avoided where possible
3 when we install plastic pipe for replacement of these mains. Installing pipe at greater
4 depths and under pavement significantly drives up cost. An attempt to utilize the plastic
5 pipe that is being replaced would require tie-in connections at a greater depth and in
6 locations often under pavement which would significantly drive up cost. Similar issues
7 exist for many of our plastic service lines. The main tie-in connection would be at a
8 completely different location and depth from the previous location before the main was
9 replaced. Additionally, where feasible the Company moves meters located inside to an
10 outside location. If a plastic service line is serving an inside meter the new outside meter
11 may have to be at an entirely different location than the previous point of entry into the
12 customer's building. Service lines are an integral part of the distribution system feeding
13 our customers. If the main is being replaced in a different location then the services also
14 must be relocated and replaced. Because of these considerations, it is far more economic
15 and cost effective to abandon the incidental patches of plastic facilities at the same time the
16 cast iron or unprotected steel facilities are being replaced and install a single unified
17 pipeline system than it would be to try and integrate the new pipeline facilities with these
18 patches of older plastic mains and services.

19 **Q. HAS THE COMPANY CONDUCTED ANY ANALYSIS TO CONFIRM THAT IT**
20 **IS, IN FACT, SAVING MONEY WITH THIS APPROACH?**

21 **A.** Originally, the Company had not performed an engineering analysis because engineering
22 personnel considered it axiomatic that bypassing the old main would be less expensive than
23 tying into it. We have now performed such an analysis. Attached as Schedule MDL-R1

1 to my Rebuttal Testimony is an engineering analysis that was performed on an actual cast
2 iron replacement project in which 2549 feet of main was replaced, consisting of 2330 feet
3 of cast iron main and two small patches of plastic pipe totaling 219 feet. This project is
4 representative of what the Company typically encounters when it replaces cast iron main
5 as part of its replacement program. Using our standard analytical tools for estimating
6 construction costs, the engineering analysis estimated the cost to install one continuous
7 plastic main to bypass the cast iron facilities and plastic pipe versus replacing only cast
8 iron facilities and tying the new pipe into the older plastic patches.

9 **Q. WHAT WERE THE RESULTS OF THIS ANALYSIS?**

10 A. It was about 20% more expensive to use the plastic patches rather than bypassing them.
11 The extra cost arises from extra tie-in holes and fittings that are needed to incorporate the
12 plastic patches into the new main. In summary, there is no cost, but rather a cost savings
13 associated with replacing the older plastic piping.

14 **Q. DID THE COMPANY ANALYZE A DIFFERENT WAY TO REPLACE THE CAST
15 IRON MAIN?**

16 A. Yes. Prior to 2011, the Company was not strategically replacing entire neighborhoods of
17 cast iron, but rather patching areas of cast iron that were leaking and needed attention. This
18 is how the two plastic patches became interspersed in this cast iron main. The Company
19 looked at the cost to perform the two patches and found the cost to be about \$76,400 to
20 install 219 feet of plastic main. If the Company continued with a piecemeal approach at
21 this pace, it would take 23 excavations in this neighborhood to ultimately complete the
22 replacement of the entire 2,549 feet of main at a total cost of just under \$900,000, versus
23 the \$285,600 to bypass the entire main in one job.

1 Q. ISN'T IT POSSIBLE THAT THERE COULD BE INSTANCES WHERE THE
2 REVERSE WOULD BE TRUE, AND IT WOULD BE LESS EXPENSIVE TO
3 REPLACE THE CAST IRON FACILITIES BY TYING INTO THE EXISTING
4 PLASTIC FACILITIES?

5 A. Based on my experience, I believe such instances would be rare and certainly not sufficient
6 to offset the overwhelming savings associated with the far more numerous instances where
7 it is more cost effective to replace both the cast iron or bare steel facilities and the older
8 plastic facilities.

9 Q. ASIDE FROM THESE ECONOMIC CONSIDERATIONS, WOULD CONTINUED
10 USE OF THESE PLASTIC PIPELINE SEGMENTS COMPROMISE THE SAFETY
11 AND OPERATIONAL INTEGRITY OF THE COMPANY'S DISTRIBUTION
12 SYSTEM?

13 A. Yes, in several ways. The very nature of the construction process required to create deeper
14 excavations and in locations which are generally exposed to more traffic creates higher
15 safety risk for our crews. Also, the additional tie-in points would increase the number of
16 connections and fittings required, which in general increases the risk of future leakage.
17 Additionally, continuing to use these plastic segments may cause installations in non-
18 standard locations which may be more difficult to locate causing higher risk of third party
19 damage.

20 Q. GIVEN ALL OF THESE CONSIDERATIONS, IS THERE ANY CONCEIVABLE
21 BASIS FOR OPC'S PROPOSED DISALLOWANCE?

22 A. No. As I indicated earlier in my testimony, after nearly a year of discovery, OPC has still
23 failed to quantify a disallowance relating to the plastic issue or even offer a method for

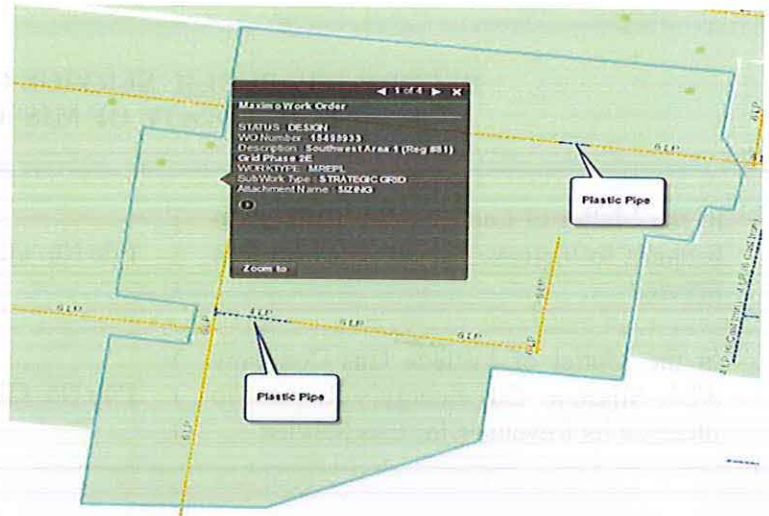
1 calculating such a disallowance. In the end, I think this persistent failure is a natural
2 byproduct of the fact that there are simply no additional costs that have been incurred by
3 the Company as a result of its incidental replacement of some plastic pipe as part of its cast
4 iron and unprotected steel replacement programs. OPC's contention to the contrary is
5 based on nothing more than a completely unsupported and entirely fictitious assumption
6 that such additional costs have been incurred. Its attempt to continue this obvious fiction
7 should be rejected by the Commission.

8 **Q. DOES THIS COMPLETE YOUR REBUTTAL TESTIMONY?**

9 **A. Yes.**

	Scenario 1 - All New Pipe	Scenario 2 - Utilize Existing Plastic	WO 60181	WO 60933
Cast Iron Abandoned	2384'	2384'	51'	9', (319)'
Plastic Installed	2549'	2330'	51'	168'
Plastic Existing Used	N/A	219'	NA	NA
Total Plastic Pipe	2549'	2549'	51'	168'
Cost	\$285,634.75	\$341,132.05	\$29,417.88	\$45,989.21

*319' of Steel main was abandoned in the alley between Franke Ct and Tamm Ave. Originally there was no main where the plastic was installed in this WO.



MDL-R1

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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) File No. GR-2017-0215
Service)

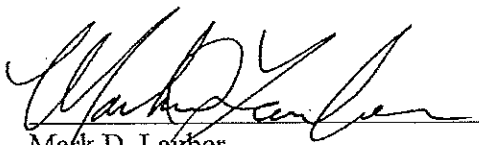
In the Matter of Laclede Gas Company)
d/b/a Missouri Gas Energy's Request to) File No. GR-2017-0216
Increase its Revenues for Gas Service)

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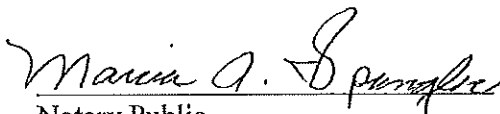
STATE OF MISSOURI)
) SS.
CITY OF ST. LOUIS)

Mark D. Lauber, of lawful age, being first duly sworn, deposes and states:

1. My name is Mark D. Lauber. I am Director, Health and Safety, Environment and Crisis Management for Laclede Gas Company. My business address is 700 Market St., St Louis, Missouri, 63101.
2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony on behalf of Laclede Gas Company and MGE.
3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct to the best of my knowledge and belief.


Mark D. Lauber

Subscribed and sworn to before me this 16th day of OCTOBER 2017.


Notary Public

