

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

In the Matter of the Application of Laclede Gas)
Company to Change its Infrastructure System) **File No. GO-2016-0333**
Replacement Surcharge in its Laclede Gas)
Service Territory)

In the Matter of the Application of Laclede)
Gas Company to Change its Infrastructure) **File No. GO-2016-0332**
System Replacement Surcharge in its)
Missouri Gas Energy Service Territory)

In the Matter of the Application of Laclede Gas)
Company to Change its Infrastructure System) **File No. GO-2017-0201**
Replacement Surcharge in its Missouri Gas)
Energy Service Territory)

In the Matter of the Application of)
Laclede Gas Company to Change its) **File No. GO-2017-0202**
Infrastructure System Replacement)
Surcharge in its Laclede Gas Service)
Territory)

STAFF REPORT

COMES NOW the Staff of the Missouri Public Service Commission (“Staff”) and for its *Report* in this matter states:

1. The Office of the Public Counsel (OPC) appealed the decision of the Commission in Case Nos. GO-2016-0332 and GO-2016-0333, regarding Spire Missouri’s (Company) Infrastructure System Replacement Surcharge (ISRS), to the Western District of the Missouri Court of Appeals. On November 21, 2017, the Western District overturned the Commission’s determination, finding that “... recovery of the costs for replacement of plastic components that are not worn out or in a deteriorated condition is not available under ISRS...”

and remanded the case for further proceedings consistent with its opinion.¹ What the Commission is now charged with is determining the amounts that Spire Missouri collected through its ISRS which are attributable to the replacement of plastic mains or service lines, and how that amount should be refunded to Spire Missouri's customers. Subsequent to the remand, the Commission ordered Staff, the Company, and OPC to meet and confer in a technical conference and to report back to the Commission how they believe the Commission should proceed. The parties responded on April 30, 2018, recommending the submission of proposed findings of fact and a recommended decision in Case Nos. GO-2016-0332 and GO-2016-0333, and requested additional time for the parties to hold another technical conference.² After holding an additional technical conference, on May 25, 2018, the parties amended their recommended approach. Specifically, the parties recognized Spire's agreement to make available "work order or other information in their possession necessary to make a determination of the amount of plastic pipe that was replaced," in the Unanimous Stipulation and Agreement filed in Case Nos. GO-2017-0201 and GO-2017-0202, and the parties requested that they be allowed to utilize this information in forming their arguments. The parties have differing views as to this calculation and methodology, and so the parties committed to each providing their positions in a brief or report. The

¹ *In the Matter of the Application of Laclede Gas Company to Change its Infrastructure System Replacement Surcharge in its Missouri Gas Energy Service Territory and in the Matter of the Application of Laclede Gas Company to Change its Infrastructure System Replacement Surcharge in its Laclede Gas Service Territory; Public Service Commission v. The Office of Public Counsel*, Opinion filed: November 21, 2017, WD80544 (2017), P. 2.

² *Response to Order Directing Filing*, Case Nos. GO-2016-0332 and GO-2016-0333, filed May 25, 2018.

attached *Report* outlines Staff's position as to the appropriate calculation of "plastic pipes that are not worn out or deteriorated"³ for which the replacement costs were improperly included in Spire's ISRSs and Staff's recommendation for the best manner to return those amounts to Spire Missouri's ratepayers.

2. An ISRS is statutorily authorized pursuant to Sections 393.1009, 393.1012 and 393.1015, RSMo. Section 393.1009 outlines criteria such as ISRS costs, what is a gas utility plant project and what types of gas utility plant projects qualify as eligible infrastructure system replacements. The Commission is given authority in Section 393.1015(10) to review the reasonableness of the rates or charges including the prudence of all replacements made by a gas corporation. Additionally, Commission Rule 4 CSR 240-3.265 lays out the criteria for any petition filed with the Commission for an ISRS or any change to an ISRS.

3. Prior to 2011, LAC, now Spire East, only replaced impaired gas mains and service lines, the costs of which it then sought recovery of through its ISRS. Spire East then established a Neighborhood Replacement Program in connection with its ISRS in 2011, in which mains were moved to accommodate changing areas, service lines were systematically replaced as nearby pipes required replacement to ensure a secure infrastructure and gas pressure per square inch was modified as new service lines and mains went into service.⁴

³ *In the Matter of the Application of Laclede Gas Company to Change its Infrastructure System Replacement Surcharge in its Missouri Gas Energy Service Territory and in the Matter of the Application of Laclede Gas Company to Change its Infrastructure System Replacement Surcharge in its Laclede Gas Service Territory; Public Service Commission v. The Office of Public Counsel*, Opinion filed: November 21, 2017, WD80544 (2017), P. 2.

⁴ *In the Matter of the Application of Laclede Gas Company to Change its Infrastructure System Replacement Surcharge in its Missouri Gas Energy Service Territory and in the Matter of the Application of Laclede Gas Company to Change its Infrastructure System Replacement Surcharge in its Laclede Gas Service Territory; Public Service Commission v. The Office of Public Counsel*, Opinion filed: November 21, 2017, WD80544 (2017), P. 2.

This change in replacement strategy resulted in the replacement of plastic mains and service lines previously installed as “patches” to temporarily extend the life of larger neighborhood cast iron and unprotected steel systems.⁵ After the Spire West (formerly MGE) system was acquired, Spire Missouri applied a similar neighborhood replacement program approach to that system. Additionally, Spire Missouri has a Cast Iron Replacement Program, which is a Commission-ordered program pursuant to 4 CSR 240-40.030(15)(D), that requires gas utilities to devise a system to replace the cast iron mains and transmission or feeder lines in their infrastructure at the greatest risk of hazard.⁶

4. In the 2016 Spire East (Case No. GO-2016-0333) and Spire West (Case No. GO-2016-0332) Application to Change Infrastructure System Replacement Surcharge cases, OPC, in its direct testimony, challenged Spire Missouri’s replacement program as far as it replaced plastic pipe that was not in a worn out or in a deteriorated condition rather than the cast iron, bare steel, or copper mains and service lines that it described as “corrosive metal infrastructure.” According to OPC this was a violation of the requirements of Section 393.1009(5)(a) because the plastic pipes were “fairly new infrastructure.”⁷ The Commission found this argument to be invalid and upheld Spire Missouri’s replacement costs including plastic piping in its orders stating that “each project that replaced cast iron, steel, and plastic pipes contemporaneously were all part of a single segment of pipeline that was worn

⁵ Laclede Exhibit 3, *Rebuttal Testimony of Mark D. Lauber* Case Nos. GO-2016-0332 and GO-2016-0333, p. 9, *Ins.* 17-22.

⁶ 4 CSR 240-40.030(15)(D).

⁷ OPC Exhibit 1, *Direct Testimony of Charles R. Hyneman*, Case Nos. GO-2016-0332 and GO-2016-0333, P. 6.

out or deteriorated.”⁸ OPC appealed the Commission’s orders in both cases to the Western District of the Missouri Court of Appeals, which overturned the Commission’s orders and remanded the cases.⁹ In Spire East’s and Spire West’s subsequent ISRS filings (Case Nos. GO-2017-0201 and GO-2017-0202) the parties agreed that “if the courts make a final, non-appealable decision reversing the Commission’s January 18 Order on the grounds that the Commission’s decision on the Plastics Issue is unlawful or unreasonable, then the court’s final decision shall be applied to the Current Cases in the same manner as it is applied to the Prior Cases, as applicable.”¹⁰

5. The Western District in its Opinion stated that Section 393.1009(5)(a) clearly sets out two requirements for component replacements to be eligible for cost recovery under ISRS: 1) the replaced components must be installed to comply with state or federal safety requirements; and 2) the existing facilities being replaced must be worn out or in a deteriorated condition.¹¹ Furthermore, it determined that trying to assign ISRS

⁸ *Report and Order, In the Matter of the Application of Laclede Gas Company to Change its Infrastructure System Replacement Surcharge in its Missouri Gas Energy Service Territory and In the Matter of the Application of Laclede Gas Company to Change its Infrastructure System Replacement Surcharge in its Laclede Gas Service Territory*, Case Nos. Go-2016-0332 and GO-2016-0333, P. 21.

⁹ *In the Matter of the Application of Laclede Gas Company to Change its Infrastructure System Replacement Surcharge in its Missouri Gas Energy Service Territory and in the Matter of the Application of Laclede Gas Company to Change its Infrastructure System Replacement Surcharge in its Laclede Gas Service Territory; Public Service Commission v. The Office of Public Counsel*, Opinion filed: November 21, 2017, WD80544 (2017).

¹⁰ *Stipulation and Agreement, In the Matter of the Application of Laclede Gas Company to Change its Infrastructure System Replacement Surcharge in its Missouri Gas Energy Service Territory and In the Matter of the Application of Laclede Gas Company to Change its Infrastructure System Replacement Surcharge in its Laclede Gas Service Territory*, Case Nos. GO-2017-0201 and GO-2017-0202, Pp. 2-3.

¹¹ *In the Matter of the Application of Laclede Gas Company to Change its Infrastructure System Replacement Surcharge in its Missouri Gas Energy Service Territory and in the Matter of the Application of Laclede Gas Company to Change its Infrastructure System*

eligibility to plastic pipes that were not worn out or deteriorated by evaluating an entire neighborhood system as a singular unit was not supported by Section 393.1009(5)(a), regardless of whether Spire Missouri's replacement strategy incidentally improved safety.¹² It further stated that the conclusion reached in its Opinion is not meant to prohibit the Commission from considering those costs related to the Neighborhood Replacement Program in a general rate case.¹³ However, the effect of the Western District's opinion is that, as a result of Spire Missouri's Neighborhood Replacement Program, both Spire East and Spire West have collected ineligible costs through their respective ISRSs. Section 393.1012(1), RSMo, provides that ISRS revenues may be refunded based on findings of the Commission to the extent provided in Section 393.1009(5) or (8) [*sic*; statute says 393.1009, but reference should be to 393.1015], RSMo, regarding gas utility plant projects and appropriate revenues exclusive of other rates and charges. Therefore, because the Western District found that Spire Missouri included costs in its ISRSs that were not supported by Section 393.1009(5)(a), Staff recommends that the Commission order the associated costs be refunded to Spire Missouri's ratepayers.

Replacement Surcharge in its Laclede Gas Service Territory; Public Service Commission v. The Office of Public Counsel, Opinion filed: November 21, 2017, WD80544 (2017), P. 5.

¹² ***In the Matter of the Application of Laclede Gas Company to Change its Infrastructure System Replacement Surcharge in its Missouri Gas Energy Service Territory and in the Matter of the Application of Laclede Gas Company to Change its Infrastructure System Replacement Surcharge in its Laclede Gas Service Territory; Public Service Commission v. The Office of Public Counsel***, Opinion filed: November 21, 2017, WD80544 (2017), Pp. 5-6.

¹³ ***In the Matter of the Application of Laclede Gas Company to Change its Infrastructure System Replacement Surcharge in its Missouri Gas Energy Service Territory and in the Matter of the Application of Laclede Gas Company to Change its Infrastructure System Replacement Surcharge in its Laclede Gas Service Territory; Public Service Commission v. The Office of Public Counsel***, Opinion filed: November 21, 2017, WD80544 (2017), Pp. 7-8.

6. Staff's full recommendation is outlined in Attachment A to this pleading. To summarize, given that the Western District did not direct the Commission as to how to calculate the amount Spire Missouri over collected through its ISRS, the Commission must determine two things:

1) What is the proper amount to return to Spire Missouri's customers pursuant to the Western District Court of Appeal's overturning and remand of the Commission's Order?

And, 2) What is the appropriate method to return this amount to Spire's customers?

There is little evidence in the records of Case Nos. GO-2016-0332; GO-2016-0333; GO-2017-0201; and GO-2017-0202 relating to how to calculate the costs associated with the replacement of plastic pipe. However, at the hearing in GO-2016-0332 and GO-2016-0333, Chairman Hall inquired as to whether it would be possible to determine what percentage of the ISRS request would be ineligible for recovery. Counsel for Spire Missouri responded to the Chairman's question, stating that although it would require a lot of work, it would be possible to calculate how much plastic was replaced.¹⁴ Spire Missouri witness Glenn Buck testified that it would be possible to determine the ineligible amount of plastic by using a simple average.¹⁵ Some of the pipe replaced was deteriorated and worn out. However, some sections of pipe replaced included "patches" of plastic pipe that was not worn out or deteriorated, but was still

¹⁴ *Transcript – Volume 1 (Evidentiary Hearing 1-3-17), Case Nos. GO-2016-0332 and GO-2016-0333, Tr. 30-31.*

¹⁵ *Transcript – Volume 1 (Evidentiary Hearing 1-3-17), Case Nos. GO-2016-0332 and GO-2016-0333, Tr. 101-102.*

replaced with new pipe.¹⁶ Therefore, some of the costs of installing the new replacement pipe must necessarily be attributed to the plastic pipe that was replaced. Therefore, Staff finds it reasonable to calculate the costs associated with replacing plastic pipe, in this circumstance, by reviewing all of the Companies' relevant Work Orders to calculate the *actual* percentage of plastic replaced vs. the total amount of pipe replaced.

Staff began its investigation with a review of the record in Case Nos. GO-2016-0332 and GO-2016-0333, and the Western District Court of Appeals' opinion. Staff determined that there was not enough information contained within the record to calculate an appropriate value of the replacement cost of the plastic pipe considered in those cases. Therefore, Staff intended to rely on, with agreement of Spire Missouri and OPC, all of the work orders related to the original applications filed in GO-2016-0332; GO-2016-0333; GO-2017-0201; and GO-2017-0202.¹⁷ Staff reviewed the work orders provided by Spire Missouri and determined to its best ability the actual percentage of plastic pipe replaced, and the associated costs, in each case. Spire Missouri provided some, but not all, of the requested work orders, so Staff provides two alternative approaches to account for the potential plastic in these work orders: Either apply the average percentage of plastic in the provided work orders to the work orders not provided, or disallow all costs relating to those work

¹⁶ *Report and Order*, Case Nos. GO-2016-0332 and GO-2016-0333, 11-12; Case No. GO-2016-0333, Item No. 7, *Motion to Deny Proposed Rate Increases and, Alternatively, Motion for Hearing* (filed Dec. 9, 2016); Laclede Exhibit 2, Case Nos. GO-2016-0332 and GO-2016-0333, p. 11, ln 20; Laclede Exhibit 3, Case Nos. GO-2016-0332 and GO-2016-0333, p. 9, lns. 8-10, lns. 17-18, and p. 10, lns 8-10; Laclede Exhibit 2, Case Nos. GO-2016-0332 and GO-2016-0333, p. 11, lns.3-14, and Revised Rebuttal Schedule GWB-2.

¹⁷ *Response to Order Directing Filing*, Case Nos. GO-2016-0332 and GO-2016-0333, filed May 25, 2018.

orders not provided. Each of these alternatives, while inexact, is consistent with the approach discussed by Chairman Hall and Spire Missouri, and ultimately proposed by OPC, in Case Nos. GO-2016-0332 and GO-2016-0333.¹⁸ Attachment A to Staff's *Report* reflects the appropriate amount of refund for each applicable case based on the Commission's determination of Option 1 or Option 2 being the appropriate manner of calculation.

7. As for "how" this amount should be returned to Spire Missouri's ratepayers, Staff would further recommend that once the Commission has determined the appropriate refund amount, that amount should be considered in Spire Missouri's current ISRS filings (Case Nos. GO-2018-0309 and GO-2018-0310). This is consistent with the manner in which the differences between the revenues resulting from an ISRS and the appropriate pretax revenues as found by the Commission are treated. Further, Commission Rule 4 CSR 240-3.265(18) states:

A natural gas utility that has implemented an ISRS shall file revised ISRS rate schedules to reset the ISRS to zero when new base rates and charges become effective following a commission order establishing customer rates in a general rate proceeding that incorporates eligible costs previously reflected in an ISRS into the subject utility's base rates. **If an over or under recovery of ISRS revenues, including any commission ordered refunds, exists after the ISRS has been reset to zero, that amount of over or under recovery shall be tracked in an account and considered in the next ISRS filing of the natural gas utility...**

¹⁸ *The Brief of the Office of the Public Counsel*, Case Nos. GO-2016-0332 and GO-2016-0333, filed January 6, 2017, Pp. 20-23.

Since the Western District remanded this case to the Commission, Spire East and West have had their respective ISRSs reset to zero.¹⁹ As such, pursuant to Commission Rule 4 CSR 240-3.265(18), if the Commission were to order a refund, the proper treatment of that amount would be to track that amount in an account and consider it in the Companies' next ISRS filings.

8. In conclusion, Staff recommends that the Commission approve its proposal to use the actual percentage of plastic pipe replaced, determined from the work orders provided by the Company, and apply the average percentage of plastic pipe replaced to the work orders not provided. Utilizing this methodology, Staff's proposed calculation of over collected ISRS revenues is \$3,634,344 (\$1,242,097 relating to Spire West and \$2,392,247 relating to Spire East).

Staff considers this alternative to be the most reasonable because it accounts for all relevant work orders and most closely calculates the average amounts included in the ISRS which do not meet statutory requirements. Staff further recommends that this amount be tracked in an account and considered in Spire Missouri's ISRS filings currently before the Commission, Case Nos. GO-2018-0309 and GO-2018-0310, consistent with the provisions of Commission Rule 4 CSR 240-3.265(18). Staff considers this to be the most reasonable approach because it is consistent with Commission rules and permits customers to realize the benefit of the over collection in conjunction with the current ISRS filing. For a more detailed outline of Staff's recommendations, please refer to Staff's Attachment A.

¹⁹ Case Nos. GR-2017-0215 and GR-2017-0216.

WHEREFORE, for the foregoing reasons, Staff respectfully requests that the Commission accept this *Staff Report*; approve the Staff's recommended amounts of \$1,242,097 relating to Spire West and \$2,392,247 relating to Spire East to be tracked and considered in Spire Missouri's 2018 ISRS filings (GO-2018-0309 and GO-2018-0310); and grant such further and other relief as is just in the circumstances.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served by electronic mail, or First Class United States Postal Mail, postage prepaid, on this 29th day of June, 2018, to all counsel of record.

/s/ Whitney Payne

cost of the plastic pipe. Spire Missouri provided 66 out of 116 and 23 out of 128 work order authorizations for Cases Nos. GO-2017-0201 and GO-2017-0202, respectively. As was the case in the GO-2016-0332 and GO-2016-0333 cases, the work order authorizations provided were only for projects totaling over \$25,000 and did not include open “blanket” work orders.

STAFF’S REVENUE CALCULATION FOR CASES NOS. GO-2016-0332 and GO-2016-0333

Staff reviewed every work order authorization provided by Spire for Cases Nos. GO-2016-0332 and GO-2016-0333. Each work order authorization contained the feet of main and service lines replaced and retired by the type of pipe (plastic, cast iron, steel, etc.) and the vintage year of the pipe. For the work orders provided, Staff determined the actual percentage of plastic footage replaced for mains and service lines compared to the total footage replaced for mains and service lines. Staff then applied the actual individual plastic main and service percentages to the work order cost to determine the value of the replacement of plastic pipe. Staff did not remove any amounts for work orders that were associated with relocations required by a governmental authority, encapsulation work orders, and meter and regulator replacement work orders.

To account for the costs associated with work orders that were not provided, Staff performed two different calculations for the Commission to consider. The first calculation applied the average percentage of plastic replaced in the provided work orders to the work orders not provided. This methodology assumes that the work orders that were not provided by Spire were comparable to the group of work orders that were made available to Staff. This methodology also follows the approach discussed during the hearing for Case Nos. GO-2016-0332 and GO-2016-0333 as a possible approach for calculating the amount of plastic replaced. The second calculation was to remove all costs for the work orders that were not provided. Under this methodology it would be assumed that all of the mains and service lines replaced in those work orders were plastic. Without evidence to the contrary, it is impossible for Staff to disprove this assumption. Please see attached Appendix A for results of Staff’s calculations under both approaches for these cases.

STAFF’S REVENUE CALCULATION FOR CASES NOS. GO-2017-0201 and GO-2017-0202

Staff reviewed every work order authorization provided by Spire Missouri for Cases Nos. GO-2017-0201 and GO-2017-0202 just as it did for Case Nos. GO-2016-0332 and GO-2016-0333. Using this information, Staff determined the actual percentage of plastic footage replaced for mains and service lines compared to the total footage replaced for mains and service lines in these two cases. (The percentage amounts for plastic pipe replacement are different for the 2017 ISRS cases than the percentage amounts calculated for the 2016 ISRS cases.) As in the previous cases, Staff did not remove any amounts for work orders that were associated with relocations required by a governmental authority, encapsulation work orders, and meter and regulator replacement work orders. Staff performed the same two calculations as in it did in the previous cases, but using the percentages of plastic removed in the work orders for Case Nos. GO-2017-0201 and GO-2017-0202. Please see Appendix A for results of Staff’s calculations under both approaches for these cases.

Part of the ISRS calculation recognizes certain offsets to the value of new ISRS-eligible plant. The offsets related to accumulated deferred taxes and accumulated depreciation reserve tied to plant added in previous ISRS cases that are still in effect. For purposes of its remand calculations in Case Nos. GO-2017-0201 and GO-2017-0202, Staff removed accumulated depreciation and deferred

income taxes related to the plastic replaced in the previous cases, Nos. GO-2016-0332 and GO-2016-0333. Staff used the same methodologies to quantify these offset amounts as it used to quantify plastic pipe replacement costs.

TREATMENT OF ISRS REFUND

Spire Missouri's current ISRS rate has been reset to \$0 due to the most current rate cases where rates became effective April 19, 2018. Spire Missouri has two pending ISRS cases (Nos. GO-2018-0309 and GO-2018-0310) before the Commission at this time. The amount of this refund could be included in the reconciliation process calculation that is required as part of the pending current ISRS cases. Commission regulation 4 CSR-240-3.265 (18) explicitly authorizes this process. It states:

A natural gas utility that has implemented an ISRS shall file revised ISRS rate schedules to reset the ISRS to zero when new base rates and charges become effective following a commission order establishing customer rates in a general rate proceeding that incorporates eligible costs previously reflected in an ISRS into the subject utility's base rates. If an over or under recovery of ISRS revenues, including commission ordered refunds, exists after the ISRS has been reset to zero, that amount of over or under recovery shall be tracked in an account and considered in the next ISRS filing of the natural gas utility.

STAFF'S CONCLUSIONS

Staff proposes that the ISRS refund be calculated by using the actual individual plastic percentage amount for each work order that was provided and then applying the average of the provided work orders to the missing work orders. This assumes that the work orders that were not provided were comparable to the group of work orders that were available. By using this methodology, the total amount of refund would be \$3,634,344 (\$1,242,097 for Spire West customers and \$2,392,247 for Spire East customers). Staff proposes to return these amounts to Spire customers by including the amounts in Spire Missouri's reconciliation calculation in the pending current ISRS cases before the Commission.

Staff's Calculation for Remand in Cases Nos. GO-2016-0332, GO-2016-0333, GO-2017-0201 and GO-2017-0202

Case No.	Company	Revenue Requirement in Original Filing	Average % of Plastic Mains	Average % of Plastic Service Lines	Revenue Requirement for Option 1	Amount of Refund for Option 1	Revenue Requirement for Option 2	Amount of Refund for Option 2
GO-2016-0332	MGE (Spire West)	\$3,186,298	11.93%	61.25%	\$2,524,571	\$661,727	\$2,429,550	\$756,748
GO-2016-0333	Laclede Gas Company (Spire East)	\$4,505,138	6.35%	87.86%	\$2,678,236	\$1,826,902	\$1,823,565	\$2,681,573
GO-2017-0201	MGE (Spire West)	\$3,000,749	9.08%	91.02%	\$2,420,379	\$580,370	\$2,338,420	\$662,329
GO-2017-0202	Laclede Gas Company (Spire East)	\$3,044,481	5.98%	71.25%	\$2,479,136	\$565,345	\$2,153,979	\$890,502
Total		\$13,736,666			\$10,102,322	\$3,634,344	\$8,745,514	\$4,991,152
Total for MGE Only		\$6,187,047			\$4,944,950	\$1,242,097	\$4,767,970	\$1,419,077
Total for Laclede Only		\$7,549,619			\$5,157,372	\$2,392,247	\$3,977,544	\$3,572,075

Option 1 is Staff's calculation of applying the average of the provided work orders to the work orders not provided.
 Option 2 is Staff's calculation of removing all costs for the work orders that were not provided.