BEFORE THE PUBLIC SERVICE COMMISSION OF
THE STATE OF MISSOURI

In the Matter of Laclede Gas Company's Request to Increase Its Revenue for Gas Service	))	**File No. GR-2017-0215**
In the Matter of Laclede Gas Company d/b/a Missouri Gas Energy's Request to Increase Its Revenues for Gas Service	)))	**File No. GR-2017-0216**

MOTION TO LATE FILE POSITION STATEMENTS AND AMENDED STATEMENT OF POSITIONS

COMES NOW the Office of the Public Counsel FOR ITS Motion to Late file and Statement of Position on the Issues states:

This filing is a complete list of OPC's positions on the issues in this case.

Position Statements

I. LAC Only Issues

a. Forest Park Property

i. How should any gain resulting from the sale of the Forest Park property be treated for ratemaking purposes?

OPC Position**:** OPC believes due to the nature of the sale of these rate base assets and the resulting gain on the sale, that the gain proceeds should be used to offset the resulting cost increases of the replacement properties. The Commission has expressed that it is open to different ratemaking positions on gain on sale of utility assets and OPC's proposed ratemaking treatment if fair and equitable to all parties in that it results in a lower cost for Laclede to provide utility service. OPC's proposal would also serve to discourage utilities from "gaming the system" to sell rate base assets and then replace the same type of assets so that its shareholders can confiscate the gains on sale of utility assets. Adopting Laclede's position would encourage utilities to manipulate asset sales to report higher profits to shareholders. Both the Forest Park building and the majority of the land buildings that were sold to IKEA were reflected to rates for decades.

ii. How should the relocation proceeds from the sale of the Forest Park property, other than proceeds used for relocation purposes or contributed to capital for the benefit of customers, be treated for ratemaking purposes?

OPC Position: Laclede received $5.7 million of relocation proceeds intended to cover costs of relocating Forest Park employees to other facilities. Laclede dedicated $2 million of these proceeds as contributed capital. Laclede was only able to identify approximately $200,000 related to relocation expense. The remaining $3.5 million of proceeds should be applied toward the construction of the $7.7 million construction cost of the Manchester replacement facility.

II. MGE Only Issues

a. Billing Units

i. Should the billing units for MGE customers be changed from ccf to therms, consistent with LAC?

OPC Position: No.

b. Kansas Property Tax

i. What is the appropriate amount of Kansas property tax expense to include in MGE's base rates?

OPC Position: $1,378,282

ii. Should the tracker for Kansas property tax expense be continued?

OPC Position: No.

c. Capitalization of Hydrostatic Testing

i. Should MGE continue to capitalize hydrostatic testing costs or recognize these costs as maintenance expenses?

OPC Position: No. MGE is required to expense hydrostatic testing costs as directed by the FERC Uniform System of Accounts and the Commission Report and Order in MGE's 2016 ISRS case.

III. LAC-MGE Common Issues

a. Cost of Capital

i. Return on Common Equity – What is the appropriate return on common equity to be used to determine the rate of return?

OPC Position: in agreement with MECG and MIEC.

In past cases, the Commission has repeatedly recognized Mr. Gorman to be a credible rate of return witness and has repeatedly relied on his analysis in determining an

appropriate return on equity.

> [T]he Commission finds Michael Gorman to be the most credible and most understandable of the three ROE experts who testified in this case.[1]
>
> Michael Gorman, the witness for SIEUA, AG-P and FEA, did the best job of presenting the balanced analysis the Commission seeks.[2]

In this case, Mr. Gorman has prepared a return on equity analysis that relies upon a proxy group of six natural gas public utilities. This proxy group is consistent with that relied upon by Laclede / MGE witness Ahern except that Mr. Gorman excluded Chesapeake Utilities Corp. "because it was not rated by S&P or Moody's." (Gorman Direct, page 21). As Mr. Gorman notes, exclusion of Chesapeake is necessary because, absent such a rating, it is impossible to know if Chesapeake is a true proxy for Laclede / MGE.

> Because Chesapeake Utilities does not have a bond rating from S&P or Moody's, it is not possible to determine whether or not the credit rating agencies have found that its investment risk is reasonably similar to that of the Companies or any of the other proxy group companies. (Gorman Direct, page 21).

The proxy group utilized by Mr. Gorman is a good fit for conducting a return on equity analysis for Laclede / MGE. As Gorman points out, "[t]he proxy group has an average corporate credit rating from S&P of A-, which is identical to the Companies' credit rating. The proxy group has an average corporate credit rating from Moody's of A2, which is a notch lower than the Companies credit rating of A1." (Gorman Direct, page 22).

Based upon financial metrics for this proxy group, Mr. Gorman has prepared and presented a return on equity analysis that relies upon several different forms of the discounted cash flow; risk premium; and capital asset pricing models. Specifically, Mr. Gorman provided the results of three versions of the discounted cash flow model resulting in a return on equity of 8.9% (Gorman Direct, pages 22-37). Additionally, Mr. Gorman conducted a risk premium analysis that results in a return on equity of 9.2%. (Gorman Direct, pages 37-43). Finally, Mr. Gorman conducted a capital asset pricing model analysis resulting in a return on equity of 9.4%. (Gorman Direct, pages 43-49). As Mr. Gorman concludes, his "recommended return on equity of 9.20% is at the approximate midpoint of my estimated range of 8.90% to 9.40%." (Gorman Direct, page 50).

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[1] Case No. ER-2012-0166, *Report and Order*, issued December 12, 2012, at page 70.
[2] Case No. ER-2007-0004, *Report and Order*, issued May 17, 2007, at page 62.

In contrast, Laclede / MGE Witness Ahern provides a flawed return on equity analysis. Ms. Ahern "estimates a return on equity of 10.00%". The 10.00% return on equity is then inflated to 10.35% by "adding a business risk adjustment of 20 basis points, and a flotation cost adder of 16 basis points." (Gorman Rebuttal, page 16). Not only is Ms. Ahern's return on equity analysis flawed, but her proposed inflationary adjustments for business risk and flotation costs are misplaced.

As Mr. Gorman points out, Ms. Ahern's DCF analysis relies on an average growth rate of 5.80% that "is substantially higher than the consensus economists' projected growth rate for the economy (4.2%)." (Gorman Rebuttal, page 24). As Mr. Gorman concludes then, Ms. Ahern's DCF analysis is acceptable as a "reasonable <u>high-end</u> DCF result." (*Id.*). That said, Ms. Ahern rejects the results of her DCF analysis on the basis of claimed rise in market prices, the use of accounting measures as proxies for capital appreciation, and the dramatic rise in interest rates and capital costs. As Mr. Gorman points out at pages 24-25 of his rebuttal testimony, Ms. Ahern's rationale for rejecting her DCF analysis results is misplaced. Ultimately, Gorman concludes that "the application of a DCF analysis produces reasonable and accurate estimates of the current market cost of equity for the utility companies of similar investment risk." (Gorman Rebuttal, page 25). Similarly, Ms. Ahern's risk premium and CAPM results are not an appropriate proxy for a Laclede / MGE return on equity. As Mr. Gorman shows, by utilizing more reasonable inputs, Ms. Ahern's risk premium estimate is reduced from 10.57% to 8.80%. (Gorman Rebuttal, page 29). Similarly, Ms. Ahern's CAPM result is reduced from 9.11% to 8.80%. (Gorman Rebuttal, page 32).

Ms. Ahern's business risk and flotation cost inflationary adjustments are similarly misplaced. Specifically, Ms. Ahern claims that because of the alleged size of Laclede / MGE, there are alleged investment risks that must be reflected in an increase to the authorized return on equity. As Gorman correctly points out, however, Laclede / MGE is not a stand-alone company, but is part of the larger, publicly traded Spire, Inc. As part of Spire, Laclede / MGE have entered into a service agreement with Spire "to receive services from its parent company structure." (Gorman Rebuttal, page 20). These services include "management expertise, access to capital, and technical expertise such as legal, engineering, financial and IT." (*Id.*). Given the fact that Laclede / MGE are part of a much larger corporate entity, any stand-alone investment risk is mitigated. In fact, recognizing

that Spire owns natural gas subsidiaries in numerous regions in the nation, this geographic diversity in operations "can mitigate small company risk." (*Id.*).

Finally, Ms. Ahern's attempts to inflate a return on equity by implementing a flotation cost adjustment should be similarly rejected. Ms. Ahern incorrectly estimates that there would have been three issuances of common equity over the period of May 2013 through May 2016 that would have resulted in flotation costs of approximately $59 million. As Gorman correctly points out, however, common equity for Laclede / MGE is not derived from stock issuances, but is largely the result of retained earnings. Recognizing that there are no flotation costs associated with retained earnings, there is no need for a flotation cost adjustment. (Gorman Rebuttal, page 23).

In the final analysis, a return on equity of 9.2% (range of 8.9% to 9.4%) is consistent with the dictates of the Supreme Court *Hope* and *Bluefield* standards and adequately compensates shareholders for the cost of equity.

ii. Capital Structure – What capital structure should be used to determine the rate of return?

OPC Position: In its true-up testimony, Laclede / MGE propose a capital structure that consists of 54.2% common equity and 45.8% long-term debt. (Buck True-Up Direct, page 2). As Mr. Gorman points out, however, the proposed capital structure is equity rich. As with any other expense item, the Commission must consider whether the utility's capital structure is managed in a manner consistent with providing just and reasonable rates. To the extent that a utility unnecessarily includes an excessive amount of equity instead of debt in its capital structure, that capital structure does not lead to just and reasonable rates, and is therefore unreasonable. Instead, Mr. Gorman recommends a capital structure that consists of 47.2% equity and 52.8% long-term debt.

The unreasonable nature of the Laclede / MGE capital structure is readily apparent when one analyzes the capital structure utilized by state utility commissions in setting gas rates. Over the period of 2010-2017, the average capital structure used for ratemaking purposes has consisted of 51.05% common equity. (Gorman Rebuttal, page 12). Thus,

the equity component in the Laclede / MGE capital structure is clearly excessive.

The fundamental reason that the Laclede / MGE proposed capital structure is equity rich is founded on the fact that Laclede / MGE seeks to include goodwill as equity in the capital structure. As Gorman explains, goodwill is a paper asset that is recorded at the time of acquisitions. In essence, it represents the premium over book value that Spire paid for the acquisition of other utilities. As such, it is not a tangible asset that is used for the provision of service to ratepayers. (Gorman Rebuttal, page 7). Mr. Gorman then explains that, since it is not a tangible asset used to produce a cash flow, it cannot be assumed to be funded by debt. As such, goodwill must be funded entirely by equity.

> From a credit rating perspective, a goodwill asset has no economic value. A goodwill asset, unlike infrastructure investments that are included in a utility's rate base, produces no cash flow. Therefore, the existence of a goodwill asset cannot be funded by debt because it cannot produce cash flows adequate to meet the debt service obligations on a debt security. Therefore, these premium payments that represent transactions between shareholders, can only prudently and reasonably be financed by utility common equity. It would be imprudent to finance a goodwill asset with debt, because the goodwill asset would default on the obligations to meet the debt service obligation of a debt, and would cause significant distress on the utility's credit standing, and ability to operate as a financially sough going concern. (Gorman Rebuttal, pages 7-8).

When one eliminates goodwill as a component of equity in the capital structure, a capital structure that is consistent with the Spire consolidated capital structure appears. (Gorman Rebuttal, Schedule MPG-R-3 (page 2)).

The unreasonable nature of the Laclede / MGE capital structure is also reflected in the fact that the capital structure is not reflective of ongoing operations. Instead, the capital structure appears to be manipulated for purposes of establishing higher rates in this case. As reflected in Mr. Gorman's rebuttal testimony, the Laclede / MGE capital structure has historically consisted of 50% common equity. (Gorman Rebuttal, page 5).

In conclusion, the Laclede / MGE proposed capital structure contains too much equity. This equity-rich capital structure is a result of the decision to classify goodwill as equity in the proposed capital structure. In addition, the unreasonable nature of the Laclede / MGE proposed capital structure is reflected in the capital structure by the

Companies over the past several years as well as that used by other state utility commissions in establishing gas rates.

iii. Cost of Debt – What cost of long-term debt should be used to determine the rate of return?

OPC Position: MIEC / MECG agree that the appropriate cost of long-term debt is 4.159%. (Gorman Direct, page 19).

iv. Should short-term debt be included in the capital structure? If so, at what cost?

OPC Position: In his testimony, Mr. Gorman developed a reasonable capital structure consisting of 47.2% equity and 52.8% long-term debt. The proposed capital structure does not include any short-term debt.

b. Off System Sales (OSS) Margins and Capacity Release (CR) Credits Sharing Mechanism

i. Should the current four-tier sharing mechanism be used or should a flat rate of 25% be instituted?

OPC Position: The Commission should adopt a 95/5 sharing mechanism

ii. If the current sharing mechanism is retained, what is the appropriate LAC and MGE sharing percentage for OSS/CR?

OPC Position: The Commission should adopt a 95/5 sharing mechanism

c. Gas Supply Incentive Plan (GSIP)

i. Should LAC continue its current GSIP mechanism?

OPC Position: Neither company should have a GSIP. It should be eliminated.

ii. Should a similar GSIP be approved for MGE?

OPC Position: Neither company should have a GSIP. It should be eliminated.

iii. If a GSIP is instituted for MGE and/or continued for LAC, should the gas pricing tiers that determine company eligibility for retaining a share of savings be updated or eliminated?

OPC Position: Neither company should have a GSIP. It should be eliminated.

d. PGA/ACA Tariff Revisions

i. Should LAC have new PGA/ACA tariff provisions pertaining to costs associated with affiliated pipeline transportation agreements?

OPC Position:

e. CAM

i. Should a working group be created following this rate case to explore ideas for modifying the LAC and MGE CAM?

OPC Position: Only after the independent third party external auditor has been retained. Modifications to the Company's CAM should be based on recommendations from the Commission-ordered independent third-party external auditor. LAC's CAM was approved by the Commission prior to its many utility acquisitions and is not completely out of date and non-effective. LAC should be required to update its CAM with the new CAM provisions adopted and approved by the Commission in KCPL and KCPL-GMO's last rate case. LAC should be required to file for approval of an updated CAM within 6 months from the close of this rate case.

ii. Should an independent third-party external audit be conducted of all cost allocations and all affiliate transactions, including those resulting from Spire's acquisitions, to ensure compliance with the Commission's Affiliate Transactions Rule, 4 CSR 240-20.015?

OPC Position: Yes. Yes. Other than limited rate case reviews, no audit of Spire's cost allocations and affiliate transactions has been conducted in many years, it at all. Spire has acquired several utilities since 2013 with no oversight on how costs are allocated to the various Spire entities. In a Staff Report filed in 2016 the Staff raised significant concerns with Laclede's cost allocations and affiliate transactions. An independent audit will be a first step the Commission can take to mitigate the significant concerns with Spire's policies, procedures and affiliate rule compliance. The mere fact that Laclede opposes any outside review should raise additional concerns.

f. Gas Inventory Carrying Charges

i. Should LAC's natural gas and propane inventory carrying costs be recovered through rate base inclusion, as currently is the case with MGE, or recovered through the PGA/ACA process?

OPC Position**:** LAC's gas storage costs should continue to be recovered through the PGA as ordered by the Commission in every rate case and PGA case since 2005. LAC and Staff have provided no substantive reasons why the Commission should change its definition of gas costs to be recovered in a PGA, a definition that includes gas inventory costs for the past 12 years. The Commission should not make such a major change in ratemaking policy and potentially significantly increase costs to ratepayers without sound evidence why such a change is needed and

why the Commission was wrong in its 2005 LAC decision to include inventory cost in the PGA.

i. Should Line of Credit (LOC) fees be removed from LAC's PGA consistent with inventory inclusion in rate base?

g. Propane Facilities

i. Should LAC and MGE ask the Commission for authorization to change the regulatory treatment of its propane facilities?

h. Credit Card Processing Fees

i. Should an amount be included in LAC's base rates to account for fees incurred when customers pay by credit card, in the same manner fees are currently included in MGE's base rates?

OPC Position: OPC opposes socialization of credit-card fees for both companies.

ii. If yes, what is an appropriate amount to include in LAC's base rates for credit card fees?

i. Trackers

i. Should LAC and MGE be permitted to implement an environmental tracker?

OPC Position: OPC supports witness Greg Meyer's position.

j. Surveillance

i. Should LAC and MGE provide surveillance data to the Commission?

OPC Position: LAC's surveillance data is not user friendly and is therefore not effective. Both Staff and OPC, the entities who use this data, have reached this conclusion. OPC suggests the Commission order LAC to provide the same data as Missouri electric utilities provide under the Fuel Adjustment Clause rules. This action by the Commission would put all major Missouri electric and natural gas utilities in the same position as to surveillance data. In addition, the annual report surveillance data provided by MGE and Laclede is based on a September ending fiscal year but Laclede does not file this annual report until April of the following year. The Commission should order Laclede to file its annual report to the Commission no later than December 31 of each calendar year.

k. Cash Working Capital

i. Should non-cash expenses such as income tax expenses not paid be reflected in a Cash Working Capital Analysis?

OPC Position: A. OPC does not believe that income taxes that are not paid be included in Cash Working Capital Analysis.

l. Severance Expenses

i. Should LAC and MGE's severance expense be included in cost of service?

OPC position: No.

IV. Rate Design/Class Cost of Service

a. Rate Design

i. Should a Revenue Stabilization Mechanism or other rate adjustment mechanism be implemented for the Residential and SGS classes for MGE and LAC? If so, how should it be designed and should an adjustment cap be applied to such a mechanism?

i. OPC Position: No. As stated in the surrebuttal testimony of OPC witness Marke: "The current regulatory environment does not justify the present adoption of this regulatory tool. Managing risk through ratemaking (outside of a rate case) is a zero-sum endeavor. To the extent that decoupling alleviates the utility's risk of revenue variability or volatility (which is the stated goal of the proposal) decoupling will result in a risk transfer to consumers who must pay additional rate adjustments. This transfer of risk should also explicitly recognize this reality in a reduction to the allowable return on equity (utility profit).

If the Commission elects to award the Company with a decoupling mechanism, OPC suggests, at a minimum, the following conditions be applied to help reduce the risk transfer to captive ratepayers:

- An initial notification to customers informing them of the decoupling process via mail, public notification for any future adjustments and a detailed explanation on the Company's website;
- Adjustments be confined to bi-annual true-ups (winter and summer) at this initial stage with filed EFIS surveillance reports similar to the electric fuel adjustment clause ("FAC") format;
- Any given adjustment should be "capped" at a 3% increase above rates set in this case with excess under-recovery carried over to future adjustments;
- Lower the residential customer charge to $14.00 in line with nation-wide natural gas averages and the other investor-owned utilities in Missouri;

- Provide an explicit provision for the Commission to account and adjust for revenue volatility due to the occurrence of an economic recession/depression and
- Make an explicit downward adjustment to the allowed return on equity of at least 10 basis points to recognize the risk transfer from shareholders to ratepayers.

ii. Reflective of the answer to part i, what should the Residential customer charge be for LAC and MGE, and what should the transition rates be set at until October 1, 2018?

OPC Position: If the Commission elects to adopt a decoupling mechanism, OPC recommends a residential $14 customer charge. If no decoupling mechanism is adopted OPC recommends that the Laclede residential customer charge be set at $22 and MGE at $20.

iii. Reflective of the answer to part i, should LAC's weather mitigated Residential Rate Design be modified to collect a customer charge and variable charge for all units of gas sold, or should it be continued in its current form?

OPC Position: Public Counsel did not file testimony on this issue and reserves the right to base a final position on the testimony provided at hearing.

iv. What are the appropriate respective LAC and MGE Class Revenue allocations?

OPC Position: Public Counsel did not file testimony on this issue and reserves the righT to base a final position on the testimony provided at hearing.

v. What are the appropriate respective LAC Transportation and MGE Large Volume rate designs?

OPC Position: Public Counsel did not file testimony on this issue and reserves the right to base a final position on the testimony provided at hearing.

b. Class Cost of Service

i. Should the general service classes of each rate division be consolidated or modified? If so, how? What inter-class revenue requirement shifts, if any, should be made in implementing rates resulting from this case?

OPC Position: If the Commission elects to adopt a decoupling mechanism, OPC recommends a residential $14 customer charge. If no decoupling mechanism is adopted OPC recommends that the Laclede residential customer charge be set at $22 and MGE at $20.

ii. What is the appropriate cost allocation to the customer classes of LAC's and MGE's Underground Storage Costs?

OPC Position: Public Counsel did not file testimony on this issue and reserves the right to base a final position on the testimony provided at hearing.

iii. What is the appropriate cost allocation to the customer classes of LAC's Gas Inventory and Propane Inventory Costs?

OPC Position: Public Counsel did not file testimony on this issue and reserves the right to base a final position on the testimony provided at hearing.

iv. What is the appropriate cost allocation to classes of LAC's and MGE's Measuring and Regulating Station Costs?

OPC Position: Public Counsel did not file testimony on this issue and reserves the right to base a final position on the testimony provided at hearing.

V. Pensions and OPEBs

a. What is the appropriate amount of pension expense to include in base rates?

OPC Position: OPC supports the Staff's position on this issue.

b. What is the appropriate amount of the LAC and MGE pension assets?

OPC Position: At September 30, 2017 the amount is approximately $131.4 million prepaid asset for Laclede and a regulatory liability of $28,440,981for MGE

c. How should pension regulatory assets be amortized?

OPC Position: The prepaid pension asset for Laclede and pension regulatory liability for MGE should be assigned a financial return equal to LAC's actual long-term debt financing cost approved by the Commission in this rate case. The pension asset and liability should be amortized over a period of years. OPC supports a 10-year amortization period but is willing to be flexible on this issue.

d. What is the appropriate amount of SERP expense to include in base rates?

OPC Position: No. Capitalization of any SERP payments or SERP accruals under any accounting method is inconsistent with the Commission's matching principle, sound ratemaking principles and current generally accepted accounting principles ("GAAP")

e. Should SERP payments be capitalized to plant accounts?

OPC Position: No. Capitalization of any SERP payments or SERP accruals under any accounting method is inconsistent with the Commission's matching principle, sound ratemaking principles and current generally accepted accounting principles ("GAAP")

f. Should the prepaid pension asset be funded through the weighted cost of capital or long-term debt?

OPC Position: Long-term debt. OPC's witness in this case, Mr. Davit Pitts, is a pension actuary. Mr. Pitts explains the primary reasons why a pension obligation, including a prepaid pension asset which is a pension obligation of Missouri ratepayers, is more in the nature of a long-term debt obligation. Therefore a prepaid pension asset is more appropriately funded with LAC's long-term debt proceeds.

VI. Income Taxes

a. What is the appropriate amount of income tax expense to include in base rates for LAC and MGE?

OPC Position: OPC supports the Staff position on this issue

b. What is the appropriate amount of accumulated deferred income tax to include for LAC and MGE?

OPC Position: OPC is waiting for documentation supporting a reconciliation between the accumulated deferred income taxes (ADIT) reported for LAC and MGE for financial reporting and ratemaking purposes. OPC notes that LAC recently increased its ADIT rate base offset by approximately $100 million. OPC will audit this new LAC positon when documentation is received.

VII. Incentive Compensation for Employees

a. What is the appropriate amount of employee incentive compensation to include in base rates?

OPC Position: OPC supports the Staff position on this issue

b. What criteria should be applied to determine appropriate levels of employee incentive compensation?

OPC Position: OPC supports the Staff position on this issue

c. c .Earnings Based Incentive Compensation – Should LAC and MGE be permitted to include earnings based and/or equity based employee incentive compensation amounts in base rates?

OPC Position: No. The Commission has a clear and longstanding position against allowing such expenses in a utility cost of service. The basis of this positon is that these expenses are incurred for the sole benefit of utility shareholders and thus should be allocated to shareholders. Laclede has provided no evidence in this case on which the Commissions should even reconsider its ratemaking positon, let alone reverse its positon.

d. Should LAC and MGE be permitted to capitalize earnings based and equity-based employee incentive compensation amounts in base rates?

OPC Position: No. The Commission has a clear and longstanding position against allowing such expenses in a utility cost of service. The basis of this positon is that these expenses are incurred for the sole benefit of utility shareholders and thus should be allocated to shareholders. Laclede has provided no evidence in this case on which the Commissions should even reconsider its ratemaking positon, let alone reverse its positon. Consistent with the longstanding Commission position on this issue, no expense should be reflected in cost of service and no amount should be capitalized to plant in service.

VIII. Commercial Deposits

a. Should LAC be required to deduct commercial deposits held in trust funds pursuant to 4 CSR 240-10.040(4) from rate base, and should there be corresponding adjustments made to MGE's rate base and expense?

OPC Position: Public Counsel did not file testimony on this issue and reserves the right to base a final position on the testimony provided at hearing.

b. Should any deposits held by LAC or MGE for the purpose of assuring payment of customer balances and defraying bad debt be deducted from rate base?

OPC Position: Public Counsel did not file testimony on this issue and reserves the right to base a final position on the testimony provided at hearing.

IX. Uncollectibles

a. What is the appropriate amount of bad debt to include in base rates?

OPC Position: LAC recently made a significant change to its accounting for bad debt expense, including a major extension of time before an account receivable will be written off to expense. The Laclede witness on this issue even admits that historical data cannot be used for this adjustment, but, despite that testimony, Laclede proposes to use historical data as the basis of its adjustment. Because of this change in accounting for bad debt expense, the only expense data available under the new policy is the most recent 12 months ending September 2017. OPC proposes the Commission adopt a bad

debt expense level for Laclede that was actually incurred over the most recent twelve months under the new revised bad debt expense accounting policy.

X. Software

a. How should the costs of the NewBlue software be allocated?

OPC Position: New Blue is an "enterprise" software system that should be allocated to all Spire entities in the Spire enterprise. Spire choses to allocate the Spire Enterprise software costs only to LAC and MGE. This action is imprudent and inefficient. LAC has provided no rationale why an enterprise software system should not be allocated to all business entities in the enterprise. LAC has provided no rationale why an enterprise software system cost allocation scheme should be restricted to only Missouri utility ratepayers

XI. Performance Metrics

a. Should a proceeding be implemented to evaluate and potentially implement a performance metrics mechanism? If yes, how should this be designed?

OPC Position: No.

XII. Transition Costs

a. What amount of one-time capital costs incurred to integrate MGE and LAC should LAC or MGE be permitted to recover?

OPC Position: OPC supports Staff position on this issue

b. Should LAC be permitted to recover legacy MGE software costs as a transition cost?

OPC Position: No. OPC supports Staff position on this issue

c. Should LAC or MGE be permitted to recover leasehold improvements associated with 720 Olive as a transition cost?

OPC Position: No. OPC supports Staff position on this issue. In addition, these costs are not of the nature of acquisition transition costs.

d. Should LAC be permitted to recover one-time costs associated with the name change to Spire as a transition cost?

OPC Position: OPC supports Staff position on this issue

e. Should LAC or MGE be permitted to recover costs associated with the Southern Union Continuing Services agreement as a transition cost?

OPC Position: OPC supports Staff position on this issue

f. Should the deferred transition costs be included in rate base?

OPC Position: No. OPC supports Staff position on this issue

g. Should the transition costs be allocated between LAC and MGE? If yes, how?

OPC Position: OPC supports Staff position on this issue with the exception of the allocation of New Blue software costs.

h. Should LAC's and MGE's cost of service be adjusted to reflect the recognition of merger synergies through the test year?

OPC Position: Yes. LAC and MGE assert a continuing of merger savings yet made no adjustment to its test year books and records to reflect any ongoing savings. To the extent the Commission allows any transition costs in these rate cases, it should also reflect the ongoing merger savings attributed to these merger transition costs.

XIII. Corporate Identity (Rebranding) Costs

a. If the corporate identity/rebranding costs are determined to not be a transition cost, should they be included in base rates?

OPC Position: OPC supports Staff position on this issue

b. Should rebranding litigation costs be included in base rates?

OPC Position: OPC supports Staff position on this issue

XIII. Tariff Issues

a. Economic Development Rider

i. Should MGE's current Economic Development Rider be modified and extended to LAC? If so, how should it be modified?

OPC Position: Yes

b. Special Contract Rider

i. Should a generic Special Contract Tariff be included in MGE's and LAC's tariff book? If so, how should it be designed?

OPC Position: OPC supports Staff position on this issue

c. Facilities Extension Tariff

i. Should MGE and LAC be authorized to allow financing of line extensions beyond the free allowance? If so, how should such tariff be designed?

OPC Position: Agree with Staff's proposed tariff.

d. Excess Flow Valve ("EFV")

i. Should MGE's and LAC's Excess Flow Valve ("EFV") tariff be modified? If so, how should such tariff be designed?

XIV. Customer Programs

a. Energy Efficiency

i. What is the goal of the company's energy efficiency programs?

- The goal of energy-efficiency programs should be to reduce the cost of providing natural gas to all customers

ii. Are the goals for LAC's and MGE's low income programs different from other utilities' energy efficiency programs? If so, what is the goal for LAC's and MGE's low income programs?

- Yes. While cost-effectiveness should be the ultimate goal, customer safety and energy affordability should be goals of low-income energy efficiency programs.

iii. Should LAC and MGE suspend funding of their energy efficiency programs pending the results of cost efficiency studies?

- Yes. Stable, reduced natural gas fuel prices have been a blessing for consumers but have, in turn, decreased the cost effectiveness of natural gas energy efficiency programs. Moreover, the near certain, erasure of sweeping regulatory environmental regulation in the form of the Clean Power Plan has minimized justification of natural gas energy efficiency programs as an emission reduction complement to electric demand-side-management programs. Finally, equity issues persist regarding high numbers of free ridership (i.e., customers who would still purchase efficient natural gas appliances regardless of whether there was a rebate) making it more difficult to justify additional rate increases for these programs in the face of potential cuts to low-income programs such as state-funded Utilicare and federally-funded LIHEAP.

iv. Should LAC's and MGE's energy efficiency targets or program funding levels be modified? If so, how?

- Energy efficiency funding should be stopped until it is clear that the measures delivered are cost-effective to both the participant and the non-participant.

v. What, if any, Commission approval should be required to change targets or program funding levels. If any, when should such approval be required?

- No. The Company should be responsible for all final decisions regarding its energy efficiency programs. Checks and balances would occur if the Company files tariff sheets for the energy efficiency programs that meet the requirements of the

Commission's promotional practices rules.

vi. Should the collaborative become advisory instead of consensus?
- Yes.

vii. In addition to the amortization of the deferred balance, should a level of energy efficiency costs be included in base rates?
- No

viii. Shall measures installed pursuant to the Low-Income Multifamily programs receive a bonus incentive? If so, at what levels?
- Incentives for any programs should be determined in a manner that meets the goal of the energy efficiency programs and minimizes free riders.

ix. Should LAC and MGE meet the Commission's promotional practices rules regarding tariff filings for energy efficiency programs?
- Yes. Tariff sheets for energy efficiency programs should be filed with the information required by the promotional practices rules that allow the Commission to determine whether or not the program is violating its promotional practices rules.

b. Low Income Energy Assistance Program

i. Should LAC's current Low Income Affordability Program continue, or should the Commission approve LAC's proposed Low Income Affordability Program?
- The Low Income Affordability Program should be discontinued to reduce the rates to all low-income customers.

ii. Should LAC's Low Income Affordability Program be extended to MGE and be made available to MGE's customers?
- LAC's Low Income Affordability Program should be not be extended to MGE because it will increase the costs to all low-income customers.

iii. Should the Commission order a collaborative of interested parties be formed to work with the Company to develop a new low-income assistance program, covering both the LAC and MGE service areas and incorporating elements of successful low-income energy assistance programs in Missouri?
- OPC will participate in any collaborative developing low-income assistance programs.

iv. What is the appropriate funding level for each division?
- To reduce the energy cost burden on all low-income customers, there should be no ratepayer funding of low-income affordability program.

v. How should credits be applied to customer bills?
- To reduce the energy cost burden on all low-income

customers, there should be no ratepayer funding of low-income affordability program.

c. Red Tag Program

i. Should the company modify the budget of its red tag program?

- To reduce the energy cost burden on all customers, there should be no ratepayer funding of the red tag program.

ii. Should the company be required to file effectiveness reports on its red tag program?

- To reduce the energy cost burden on all customers, there should be no ratepayer funding of the red tag program. However, if the red tag program is allowed to continue, records should be kept to insure the company is not violating the Commission's affiliate transaction rules.

iii. Should the company modify its red tag program to replace appliances with high-efficiency appliances where applicable?

- To reduce the energy cost burden on all customers, there should be no ratepayer funding of the red tag program. However, if the red tag program is allowed to continue, it should promote the installation of high-efficiency appliances where applicable but not require the installation of high-efficiency appliances.

iv. Should the unamortized balance be included in rate base?

- No

d. CHP

i. Should LAC and MGE implement a CHP pilot program as proposed by Division of Energy?

OPC Position: No. The CHP pilot program as requested by the Division of Energy is a violation of the prohibited promotional practices rule and is a regressive subsidy for an already mature technology. The excessive funding and pilot designation is without merit.

e. Weatherization Administration

i. How should future administration of the Companies' low income weatherization program be conducted?

- OPC supports the position of Staff

f. Check-off box on bill for L-I Weatherization

i. Should customers be provided, on the customer bill, an option to opt-in to a program to contribute $1 dollar to Low-Income Weatherization?

- OPC has no position on this issue.

g. Red Tag Program

i. Should the company modify the budget of its red tag program?
ii. Should the company be required to file effectiveness reports on its red tag program?
iii. Should the company modify its red tag program to replace appliances with high-efficiency appliances where applicable?
iv. Should the unamortized balance be included in rate base?

h. CHP

i. Should LAC and MGE implement a CHP pilot program as proposed by Division of Energy?
i. Should LAC and MGE implement a CHP pilot program as proposed by Division of Energy?

OPC Position: No. The CHP pilot program as requested by the Division of Energy is a violation of the prohibited promotional practices rule. It is a load building program at the expense of the electric and steam heat utilities.

i. Weatherization Administration

i. How should future administration of the Companies' low income weatherization program be conducted?

j. Check-off box on bill for L-I Weatherization

i. Should customers be provided, on the customer bill, an option to opt-in to a program to contribute $1 dollar to Low-Income Weatherization?

WHEREFORE OPC respectfully requests the Commission accept this completed list of Statement of Positions on the Issues.