

Exhibit No:
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

TABLE OF CONTENTS

PURPOSE OF TESTIMONY 1
PROPOSED EXCLUSION OF ONE-TIME CAPITAL COSTS..... 1
CUSTOMER DEPOSIT ADJUSTMENTS 5
PREPAYMENT ADJUSTMENTS 6
ECONOMIC DEVELOPMENT MEMBERSHIPS 7
GOVERNMENTAL INTERACTION COSTS..... 7

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 POSITION 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)

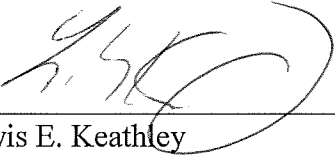
In the Matter of Laclede Gas Company)
d/b/a Missouri Gas Energy's Request to) File No. GR-2017-0216
Increase its Revenues for Gas Service)

A F F I D A V I T

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

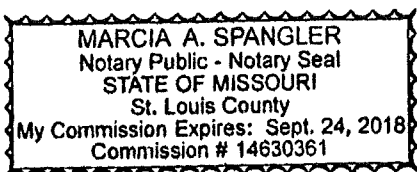
Lewis E. Keathley, of lawful age, being first duly sworn, deposes and states:

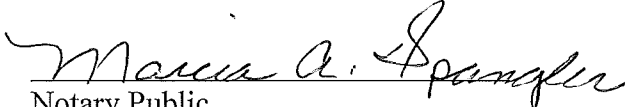
1. My name is Lewis E. Keathley. I am Senior Analyst, Regulatory Affairs for Laclede Gas Company. My business address is 700 Market St., St Louis, Missouri, 63101.
2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony on behalf of Laclede Gas Company and MGE.
3. I hereby 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