

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

In the Matter of the Application of Laclede Gas)	
Company to Change its Infrastructure System)	<u>Case No. GO-2016-0332</u>
Replacement Surcharge in its Missouri Gas)	Tariff No. YG-2017-0048
Energy Service Territory.)	

In the Matter of the Application of Laclede Gas)	
Company to Change its Infrastructure System)	<u>Case No. GO-2016-0333</u>
Replacement Surcharge in its Laclede Gas)	Tariff No. YG-2017-0047
Service Territory.)	

**STATEMENT OF POSITION OF
LACLEDE GAS COMPANY AND MISSOURI GAS ENERGY**

COMES NOW Laclede Gas Company (“Laclede”) and its operating unit Missouri Gas Energy (“MGE”) (together, “Laclede/MGE” or the “Companies”), and submit their Statement of Position in the respective above captioned cases, stating as follows:

1. The Statement of Position is presented in the same order as the List of

Issues previously submitted by the parties.

Issue #1:

Whether it is lawful and appropriate to consider the Infrastructure System Replacement Surcharge (“ISRS”) adjustments proposed by OPC, since they were not filed until after the 60 day period provided for the Staff to file its report regarding the Staff’s examination.

Position:

It was neither lawful nor appropriate for OPC to hold its adjustments to the Laclede/MGE ISRS filings until 10 days after Staff filed its Recommendations. The legislature made a clear offer to gas utilities, as legislatures have made in virtually every state that needs safety replacements. That offer sought to spur the pace of safety

investments by allowing the utilities more contemporaneous recovery of those investments than would otherwise be available under the general rate case process. The legislature laid out very clear deadlines for ISRS applications – a Staff recommendation within 60 days and a Commission order within 120 days. The legislature’s limited time frame was accompanied by a concentration of the scope of ISRS cases to ensure revenues were calculated using the correct tax, capital cost and depreciation rates, and that projects were ISRS eligible. Eligibility lies in simply ensuring that projects do not already increase revenues by connecting to new customers, are in service and used and useful, are not already in rate base from the previous rate case, and replace or extend the useful life of an existing infrastructure. Any other issues are excluded from ISRS consideration and deferred to a rate case.

Staff is the entity tapped to do an ISRS audit and file a report. The ISRS statute does not prohibit OPC from performing a duplicative audit, but it also does not allow OPC more time than the 60 day deadline to file a report.

OPC must be required to file its report within the legally-mandated 60 day time period. OPC already knows that this is the case; its repeated opposition to the update process has hinged upon its understanding that the 60 day deadline applies to OPC as well as Staff. There are repeated examples of OPC itself acknowledging that it was subject to the 60 day deadline. For example, in a recent brief filed at the Western District Appeals Court, OPC stated that the “Legislature created a mechanism for public participation when it established a sixty-day review period and mandated the petitioning utilities serve OPC with the petition, rate schedules, and supporting documentation.”

OPC may argue that it has not always been held to that deadline in past cases, so it should not be held to it in this case. To the extent the other parties permitted OPC to violate the deadline in the past does not mean that the legal requirement for meeting the deadline is waived. Certainly Laclede and MGE should not be punished in this case for being accommodating to OPC's transgressions in past cases, especially when OPC itself recognized that it was subject to the 60 day requirement.

The general nature of OPC's complaints makes it even more egregious that OPC did not meet the 60 day mandate. The issues raised in this case were neither specific to this case, nor even came to light late in the process. OPC can try to raise them again in the next ISRS case, which will undoubtedly be filed in the near future.

In summary, OPC's objections in this case should be dismissed as untimely.

Issue #2:

May Laclede and MGE's ISRS filings be updated during the ISRS case to replace two months of budgeted ISRS investments with updated actual ISRS investments?

Position:

Yes. The Commission should dismiss Issue #2 as it has already decided this issue twice in favor of the updating process. The first of these decisions was affirmed by the Western District Court of Appeals, and transfer of that case was denied by the Missouri Supreme Court. The issue has been decided. If the Commission does decide to hear the issue for a third time, it should again uphold the process for the same reasons it and the other tribunals have done so.

Issue #3:

A. Whether it is appropriate to consider whether earnings-based incentive compensation costs should be included in an ISRS.

B. If the answer to 3A is yes, whether it is appropriate to include those earnings-based incentive compensation costs in Laclede's and MGE's ISRS plant-in-service balances?

Position:

A. It is not appropriate to consider the capitalized portion of earnings-based incentive compensation in an ISRS case. Whether this specific cost component should be in rates is a ratemaking issue. The ISRS statute is clear that no such ratemaking issues are to be examined in an ISRS case. (393.1015.2(2) RSMo)

B. Laclede believes that the capitalized portion of earnings-based incentive compensation does benefit customers and should be included in rates. Again, this is a matter to be decided in a rate case and not an ISRS case.

Issue #4:

Whether it is appropriate to include "hydrostatic" testing costs in MGE's ISRS revenues.

Position:

It is appropriate to include the costs of hydrostatic testing in MGE's ISRS revenues. The test is a one-time event done to meet PHMSA safety requirements. If the test is not performed, the line in question must be replaced, an expensive alternative. Performing the test allows the Company to extend the useful life of that line at a much lower cost. Further, if the line fails the test, MGE can either effect a temporary change to improve the integrity of the line, or replace it.

Issue #5:

Laclede's and MGE's strategy when replacing cast iron and steel mains and service lines is to also replace connected plastic mains and service lines at the same time. Can all costs associated with these replacements be recovered through the ISRS?

Position:

Yes. Over time, temporary fixes and partial replacements have resulted in some plastic line of varied ages interspersed within the cast iron and steel main network. In such cases, when Laclede/MGE replaces their cast iron or steel main, some plastic pipe is also incidentally replaced. This is an integral and necessary part of completing these cast iron and steel main replacement projects. The Commission should not disallow for ISRS purposes some or all of the installation cost to replace cast iron and steel mains because every foot of the line replaced is not made of those materials. OPC's position incorrectly ignores the practical realities of how replacement projects for cast iron and steel must be done for economic, safety and operational reasons. It also ignores the intent of the ISRS legislation to incentivize operators to replace facilities in a more expedited manner and on a more significant scale to improve safety. Further, in many cases, the number of feet of plastic main facilities installed is actually less than the number of feet of cast iron and steel being replaced, even excluding the portion of plastic pipeline that is also being replaced. Finally, the customer receives credit for the amount of incidental plastic that is replaced through a decrease to depreciation expense, which *reduces* the amount of ISRS requested in these proceedings.

WHEREFORE, Laclede Gas Company and Missouri Gas Energy respectfully request that the Commission accept for its consideration this Statement of Position.

Respectfully submitted,

/s/ Rick Zucker

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Certificate of Service

The undersigned certifies that a true and correct copy of the foregoing pleading was served on the parties to this case on this 28th day of December, 2016, by hand-delivery, e-mail, fax, or by United States mail, postage prepaid.

/s/ Rick Zucker