

**Exhibit No:**  
**Issue:** Rate Base  
**Witness:** Lewis E. Keathley  
**Type of Exhibit:** Direct Testimony  
**Sponsoring Party:** Laclede Gas Company;  
Missouri Gas Energy  
**Case Nos.:** GR-2017-0215; GR-2017-0216  
**Date Prepared:** April 11, 2017

**LACLEDE GAS COMPANY  
MISSOURI GAS ENERGY**

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

**DIRECT TESTIMONY**

**OF**

**LEWIS E. KEATHLEY**

**APRIL 2017**

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**DIRECT TESTIMONY OF LEWIS E. KEATHLEY**

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**Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

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

**Q. WHAT IS YOUR PRESENT POSITION?**

A. I am employed by Spire as a Senior Analyst in Regulatory Affairs.

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

A. I started at Spire in June 2015. In my capacity as a Senior Analyst in Regulatory Affairs, I provide analytical and other support for a variety of regulatory matters involving Laclede Gas Company (“Laclede”) and its operating units in Eastern Missouri (“LAC”) and Western Missouri (Missouri Gas Energy, or “MGE”). I also assist with the preparation of filings relating to both operating units’ Infrastructure System Replacement Surcharge (“ISRS”) and Purchased Gas Adjustment/Actual Cost Adjustment tariff provisions. I am also the billing and account liaison for the MGE and Laclede school aggregation programs.

**Q. WHAT WAS YOUR PROFESSIONAL EXPERIENCE PRIOR TO ASSUMING YOUR CURRENT POSITION?**

A. From 1993 to 2008 I was employed by Anheuser-Busch Adventure Parks in St. Louis, Missouri in various capacities. Among my duties at Anheuser-Busch were budget planning and project management. From 2009-2014 I was employed by the Service Company of American Water in the Rates and Regulation department. As an employee of American Water, my duties included preparing and presenting rate change applications

1 and supporting documents to various state jurisdictions on a wide range of regulatory  
2 matters.

3 **Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?**

4 A. I graduated from the University of Missouri, College of Business in 1988 with a Bachelor  
5 of Science degree in Business Administration. I earned a Masters in Business  
6 Administration from Lindenwood University in 2008.

7 **Q. HAVE YOU PREVIOUSLY PARTICIPATED IN REGULATORY MATTERS?**

8 A. Yes. I prepared schedules and presented testimony on behalf of American Water to the  
9 Indiana Utility Regulatory Commission, Public Utilities Commission of Ohio, Tennessee  
10 Regulatory Authority, and the Public Service Commission of the Commonwealth of  
11 Kentucky.

12 **Q. HAVE YOU PREVIOUSLY FILED TESTIMONY BEFORE THIS**  
13 **COMMISSION?**

14 A. No I have not.

15 **PURPOSE OF TESTIMONY**

16 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

17 A. The purpose of my testimony is to sponsor and support the Rate Base being proposed by  
18 the Company in these proceedings for LAC and MGE, as well as the corresponding  
19 adjustments we are recommending be made to Rate Base.

20 **RATE BASE FOR LAC**

21 **Q. PLEASE DESCRIBE THE RATE BASE CALCULATION FOR LAC.**

22 A. The Total Rate Base calculation for LAC is on Schedule B of Schedule MRN-D2. On  
23 December 31, 2016, the Total Rate Base for LAC was approximately \$1,231.7 million.

1 This amount is LAC's Net Plant in Service, which is Gross Plant in Service (Schedule C  
2 on Schedule MRN-D2) minus Accumulated Depreciation & Amortization (Schedule D),  
3 plus Working Capital (Schedule E on Schedule MRN-D2), and less Customer Deposits  
4 (Schedule B-1 on Schedule MRN-D2), Customer Advances (Schedule B-2 on Schedule  
5 MRN-D2), Other Regulatory Liabilities (Schedule B-3 on Schedule MRN-D2), and  
6 Deferred Income Taxes (Schedule B-3 on Schedule MRN-D2).

7 Schedule E provides a summary of all working capital components with the monthly  
8 amounts for Materials and Supplies, Prepayments, natural gas in storage (shown on  
9 Schedules E-1, E-2, and E-3 on Schedule MRN-D2), Cash Working Capital which is  
10 calculated on Schedule E-4 on Schedule MRN-D2 and supported by the testimony of  
11 Laclede Witness Lyons, Other Regulatory Assets (Schedule E-5 on Schedule MRN-D2)  
12 and Insulation Financing/Energy Wise found on Schedule E-6 on Schedule MRN-D2.

13 **Q. PLEASE DESCRIBE THE CALCULATION FOR CUSTOMER DEPOSITS,**  
14 **CUSTOMER ADVANCES AND THE WORKING CAPITAL ITEMS,**  
15 **MATERIALS AND SUPPLIES, PREPAYMENTS, AND GAS INVENTORY.**

16 A. These items are calculated by taking an average of their monthly balance for 13 months.  
17 The first month and last month are recognized at 50% so that a large or small monthly  
18 balance does not unfairly influence the final monthly average.

19 **RATE BASE FOR MGE**

20 **Q. PLEASE DESCRIBE THE RATE BASE CALCULATION FOR MGE.**

21 A. The Total Rate Base calculation for MGE is on Schedule B of Schedule MRN-D1. On  
22 December 31, 2016, the Total Rate Base for MGE was approximately \$792.5 million.  
23 This amount is the Company's Net Plant in Service, which is Gross Plant in Service

1 (Schedule C on Schedule MRN-D1) minus Accumulated Depreciation & Amortization  
2 (Schedule D on Schedule MRN-D1), plus Working Capital (Schedule E on Schedule  
3 MRN-D1), and less Customer Deposits (Schedule B-1 on Schedule MRN-D1), Customer  
4 Advances (Schedule B-2 on Schedule MRN-D1), Other Regulatory Liabilities (Schedule  
5 B-3 on Schedule MRN-D1), and Deferred Income Taxes (Schedule B-4 on Schedule  
6 MRN-D1).

7 Schedule E provides a summary of all working capital components with the monthly  
8 amounts for Materials and Supplies, Prepayments, natural gas in storage, and Other  
9 Regulatory Assets being shown on Schedules E-1, E-2, E-3 and E-5 on Schedule MRN-  
10 D1. The Cash Working Capital portion is calculated on Schedule E-4 on Schedule MRN-  
11 D1 and is supported by the testimony of Laclede Witness Lyons.

12 **Q. PLEASE DESCRIBE THE CALCULATION FOR CUSTOMER DEPOSITS,**  
13 **CUSTOMER ADVANCES AND THE WORKING CAPITAL ITEMS**  
14 **MATERIALS AND SUPPLIES, PREPAYMENTS, AND GAS INVENTORY.**

15 A. These items are calculated by taking an average of their monthly balance for 13 months.  
16 The first month and last month are recognized at 50% so that a large or small balance  
17 does not unfairly influence the final monthly average.

18 **Q. PLEASE IDENTIFY THE RATE BASE OFFSET ADJUSTMENT BEING MADE**  
19 **FOR MGE IN THESE PROCEEDINGS.**

20 A. The rate base offset adjustment is reflected on line 3 of Schedule B3 on Schedule MRN-  
21 D1. Consistent with the method used to calculate the rate base offset in Case No. GM-  
22 2013-0254, as modified in Case No. GR-2014-0007, the rate base offset had a value of  
23 \$(78.9) as of December 31, 2016 – the end of the proposed test year in this case.

1 **Q. DOES THE COMPANY INTEND ON UPDATING THE VALUE OF THE RATE**  
2 **BASE OFFSET ADJUSTMENT AS PART OF THE TRUE-UP IT IS PROPOSING**  
3 **IN THIS PROCEEDING?**

4 A. Yes. It will be updated in the true-up along with the other rate base items with the  
5 exception of Cash Working Capital.

6 **Q. HAVE YOU MADE ANY ADJUSTMENTS TO MGE'S PLANT IN SERVICE?**

7 A. Yes. MGE has been allocated \$67.8 million of the LAC Enterprise Software. This is  
8 reflected in a reduction to the LAC Plant in Service along with a corresponding increase  
9 to MGE's Plant in Service on Schedule C. The amount allocated to MGE consists of a  
10 direct cost of \$32.5 million incurred to enhance the software for inclusion of MGE  
11 operations. The other portion of the adjustment allocates a share of the remaining  
12 software to MGE. A corresponding adjustment has also been made to the depreciation  
13 reserve.

14 **ONE-TIME CAPITAL AND NON-CAPITAL TRANSITION COSTS**

15 **Q. PLEASE DESCRIBE THE ONE-TIME CAPITAL COSTS/REGULATORY**  
16 **ASSETS.**

17 A. Under the Stipulation and Agreement approved by the Commission in the MGE  
18 acquisition proceeding, Case No. GM-2013-0254, Laclede was authorized to treat as a  
19 regulatory asset, or maintain on its books one-time capital costs incurred to integrate  
20 LAC and MGE. Such costs are to be included or amortized in rates over a period  
21 consistent with their current Commission authorized depreciation rate for the asset. Such  
22 treatment is conditioned on there being sufficient net synergies from the integration

1 process to offset the amounts being reflected in rates after consideration of other  
2 amortized transition costs included in the case.

3 **Q. HAS THIS CONDITION BEEN MET?**

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

7 **Q. CAN YOU DESCRIBE THE ONE-TIME CAPITAL COSTS BEING AFFORDED  
8 SUCH TREATMENT IN THESE PROCEEDINGS?**

9 A. Yes. They include items such as MGE's software costs from a system with a vintage of  
10 2006-2013 at MGE that was replaced by Laclede's new Enterprise Software, as well as  
11 LAC office building Leasehold Improvements that were eliminated as a result of  
12 integrating and redeploying administrative personnel.

13 **Q. HAVE YOU ALSO MADE AN ADJUSTMENT TO MGE'S RATE BASE TO  
14 INCLUDE THE VALUE OF ONE-TIME, NON-CAPITAL TRANSITION COSTS?**

15 A. Yes. An adjustment was made to MGE's rate base to include approximately \$8.6 million  
16 of these costs, which costs will be recovered over a five year period consistent with the  
17 terms of the Stipulation and Agreement in Case No. GM-2013-0254. These one-time,  
18 non-capital transition costs and the offsetting synergies are noted on Schedule E-5 on  
19 Schedule MRN-D1.

20 **Q. DOES THIS COMPLETE YOUR DIRECT 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

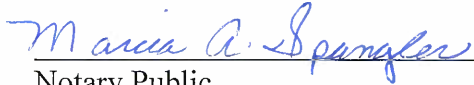
STATE OF MISSOURI )  
 ) SS.  
CITY OF ST. LOUIS )

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 direct 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 3<sup>rd</sup> day of April 2017.

  
\_\_\_\_\_  
Notary Public

