

Exhibit No:
Issues: AMR Devices
Witness: C. Eric Lobser
Type of Exhibit: True-Up Rebuttal Testimony
Sponsoring Party: Laclede Gas Company,
Missouri Gas Energy
Case Nos.: GR-2017-0215;
GR-2017-0216
Date Prepared: December 20, 2017

**LACLEDE GAS COMPANY
MISSOURI GAS ENERGY**

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

TRUE-UP REBUTTAL TESTIMONY

OF

C. ERIC LOBSER

December 20, 2017

1 **TRUE-UP REBUTTAL TESTIMONY OF C. ERIC LOBSER**

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

A. My name is C. Eric Lobser and my business address is 700 Market St., St. Louis, Missouri, 63101.

3 Q. **ARE YOU THE SAME C. ERIC LOBSER WHO HAS PREVIOUSLY FILED**
4 **TESTIMONY IN THESE PROCEEDINGS?**

5 A. Yes. I have submitted direct, rebuttal, and surrebuttal testimony on behalf of both Laclede
6 Gas Company (“LAC”) in Case No. GR-2017-0215 and Missouri Gas Energy (“MGE”) in
7 Case No. GR-2017-0216.

8 **I. PURPOSE OF TRUE-UP REBUTTAL TESTIMONY**

9 Q. **WHAT IS THE PURPOSE OF YOUR TRUE-UP REBUTTAL TESTIMONY?**

10 A. The purpose of my true-up rebuttal testimony is to address true-up direct testimony filed
11 by Staff witnesses Keenan B. Patterson and Lisa M. Ferguson related to LAC’s purchase
12 of its automated meter reading (“AMR”) device system during the true-up period.
13 Specifically, I will address (i) costs associated with the AMR purchase that should be
14 allowed in rates; (ii) the time period over which the AMRs should be amortized and the
15 date by which LAC plans to replace the current AMR system.

16 **II. AMR COSTS**

17 Q. **PLEASE SUMMARIZE HOW THE AMR DEVICES BECAME A TRUE-UP**
18 **ISSUE?**

19 A. Prior to July 1, 2017, the AMR devices attached to our meters and the communications
20 network were both owned and maintained by a company called Landis & Gyr (“L&G”).
21 Pursuant to a contract between LAC and L&G, LAC purchased meter readings from L&G
22 for a price of roughly 98 cents per meter read. Effective July 1, LAC purchased the entire

1 system of AMR devices for \$16.6 million, a price that was below L&G's book value.
2 While LAC now owns the AMR devices, L&G continues to own and maintain the cellular
3 network. Accordingly, the cost per meter read was reduced from 98 cents to 24 cents, a
4 cost saving that will create significant benefits for customers for years to come because
5 LAC reached this agreement during the true-up period and not afterwards. While
6 customers will save on the reduced meter read expenses LAC developed through this
7 transaction, these savings are partially offset by the need for LAC to collect over time a
8 return of, and a return on, the \$16.6 million investment, and to recover other costs
9 associated with this arrangement, as discussed below.

10 **Q. AFTER APPLYING THESE OFFSETS, WHAT IS THE NET EFFECT ON THE**
11 **CUSTOMER?**

12 A. After applying the offsets requested by the Company, customers benefit by about \$1
13 million per year as a result of LAC making this deal when the opportunity arose.

14 **Q. I UNDERSTAND THAT STAFF AGREES TO ADD TO RATES A RETURN OF,**
15 **AND A RETURN ON, THE \$16.6 MILLION INVESTMENT. WHAT ARE THE**
16 **OTHER COSTS, AND DOES STAFF AGREE TO THEM?**

17 A. The other costs are estimated costs to maintain the AMR system, and estimated property
18 taxes on the \$16.6 million capital investment. Staff has rejected both of these items. The
19 maintenance costs total about \$0.7 million per year, and LAC estimates that the annual
20 property taxes will be about \$0.4 million.

21 **Q. WHY DOES STAFF REJECT THE MAINTENANCE COSTS?**

22 A. Staff believes that L&G will continue to maintain the AMR devices. While L&G will
23 maintain its communications network and perform rudimentary maintenance on the

1 devices, LAC now has the financial responsibility for the cost of the individual devices that
2 L&G replaces when they stop working or functioning properly. The costs reflected in the
3 \$0.7 million are the amortization, property tax and return on the new replacement devices
4 based on a historic failure rate that LAC has seen since the 2005 installation of this system.
5 This is a reasonable approach since these costs would have been included in the 98 cents
6 charged by L&G, they in fact represent just over 8 cents of that amount, and because LAC
7 intends to maintain this AMR system until the entire system is replaced by the year 2024.

8 **Q. WHY DOES THE STAFF REJECT PROPERTY TAX EXPENSE?**

9 A. Staff believes the 2018 property taxes on the \$16.6 million investment in the current
10 devices are not known and measurable, nor even due until the end of calendar 2018.
11 However, for property owned during 2016, Staff included in rates amounts estimated to
12 pay property taxes in 2017, amounts that will continue to be collected in 2018 and beyond,
13 until LAC's next rate case. In this case, what is known and measurable is that LAC paid
14 \$16.6 million for the AMR system, that property taxes will be due on this investment in
15 2018 and beyond, and that this would have been a cost that was part of the 98 cents
16 previously being paid by LAC, and included in rates. We have estimated this amount to
17 be \$0.4 million annually, or about 5 cents of the original 98 cents being paid previously for
18 these devices. While LAC would certainly understand the Staff making a conservative
19 estimate of those property taxes, assuming they will be zero and including no rate
20 allowance at all for a cost that is certain to occur is unreasonable, in that it neither
21 recognizes the facts of the situation, nor the significant benefits being provided to
22 customers.

1 **Q. AREN'T CUSTOMERS ALREADY PAYING FOR MAINTENANCE/**
2 **REPLACEMENTS AND PROPERTY TAXES IN THE 24 CENT METER READ**
3 **CHARGE?**

4 A. No. While, customers were paying for those costs in the 98-cent charge that was in rates,
5 those costs are not covered by the new 24-cent charge per meter read. Instead, LAC is
6 bearing those costs, which amount to about 13 cents. Fairness and equity call for rates that
7 reflect these costs of service in order to 'hold harmless' the company that produced the
8 savings that will inure to the customers' benefit. When combined with L&G's 24-cent
9 charge for the system, and the roughly 49 cents for depreciation and capital cost of the
10 \$16.6 million investment, the new cost would be approximately 86 cents, resulting in a
11 lower cost of about 12 cents per device on a monthly basis, permitting customers to enjoy
12 a benefit of roughly one million dollars per year.

13 **Q. WHAT MESSAGE DOES STAFF SEND BY REJECTING MAINTENANCE AND**
14 **PROPERTY TAX EXPENSE?**

15 A. By rejecting reimbursement of maintenance and property tax expense, Staff is discouraging
16 LAC from taking actions that benefit customers. Certainly, LAC could have deferred this
17 purchase until after the true-up period and kept all of the expense reduction. Instead, the
18 Company took this action at a time that allowed customers to take advantage of a cost
19 reduction, while better positioning the Company to assess the best options and timing for
20 replacing the system without the pressure of a looming 2020 contract expiration date. Staff
21 should take steps to encourage these kind of customer beneficial actions by permitting the
22 Company to recover the costs to maintain the AMR system and by providing some
23 allowance for property taxes.

1 **Q. ARE THERE OTHER EXAMPLES WHERE STAFF HAS WORKED WITH THE**
2 **COMPANY TO ENCOURAGE ACTIONS THAT ARE BENEFICIAL TO**
3 **CUSTOMERS?**

4 A. Yes. Staff recognized a customer beneficial action by the Company when LAC passed up
5 an opportunity to build a \$30 million lateral connection to St. Peters, and instead accepted
6 an offer from MoGas to decrease its pipeline charges by \$4.5 million per year for 12 years.
7 The total cost savings of \$54 million are being passed through directly to customers without
8 any return to the Company. In this case, Staff permitted the Company to recover in rates,
9 over four years, \$2.1 million invested by the Company in the St. Peters lateral that led to
10 the MoGas discount. Staff's position on this issue represents the kind of constructive
11 regulation that creates win-win situations and encourages the Company to take actions that
12 benefit customers.

13 **III. AMR AMORTIZATION PERIOD**

14 **Q. STAFF WITNESS PATTERSON STATES THAT THE COMPANY SEEKS A 7.5**
15 **YEAR AMORTIZATION PERIOD FOR THE AMR DEVICE SYSTEM. IS THAT**
16 **ACCURATE?**

17 A. It is close. In my rebuttal, I suggested an amortization period of seven years. This period
18 should apply to the entire system of AMR devices, current and future, since LAC plans to
19 replace the system in its entirety by the year 2024. As with other areas, we are willing to
20 work with Staff on an appropriate approach to recovery of these costs – costs that would
21 still be fully borne by customers at the 98-cent level had LAC been less proactive.

1 **Q. STAFF WITNESS FERGUSON STATES ON PAGE 4, LINE 11 OF HER TRUE-UP**
2 **DIRECT TESTIMONY THAT LAC WILL REPLACE ITS AMR DEVICES**
3 **BEGINNING IN 2020. IS THAT ACCURATE?**

4 A. Ms. Ferguson is correct that the original AMR contract was set to expire in 2020. However,
5 as she notes on page 2, line 17, of her true-up direct, the contract has been extended to
6 2024. Mr. Patterson is correct on page 2, line 15 of his true-up direct where he states that
7 LAC intends to complete replacement of the AMR devices by 2024. The timing allows
8 the Company to replace the AMR system in an orderly fashion without being held hostage
9 to an expiring contract.

10 **Q. DO YOU HAVE ANY COMMENTS REGARDING OTHER POTENTIAL ISSUES**
11 **THAT MAY NEED TO BE ADDRESSED AT THE TRUE-UP HEARING?**

12 A. We are still working with the Staff and OPC to finalize any adjustments relating to our
13 agreement in principle on the incentive compensation issue. We are also waiting to review
14 Staff's current EMS run which is supposed to be submitted to the parties very shortly and
15 which should reflect settlements that have been reached on other issues. While I do not
16 anticipate there being any disputes on these matters, we reserve the right to raise any
17 unanticipated concerns that may arise at the true-up hearing.

18 **Q. DOES THIS COMPLETE YOUR TRUE-UP REBUTTAL TESTIMONY?**

19 A. Yes.