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MISSOURI GAS ENERGY

GR-2014-0007

DIRECT TESTIMONY

OF

STEVEN L. LINDSEY

September 16, 2013

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DIRECT TESTIMONY OF STEVEN L. LINDSEY

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Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Steven L. Lindsey, and my business address is 720 Olive Street, St. Louis, Missouri 63101.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by The Laclede Group, Inc. as the Executive Vice President and Chief Operating Officer for Distribution Operations and by Laclede Gas Company (“Laclede”) as its President. Missouri Gas Energy (“MGE” or “Company”) is a Division of Laclede Gas Company.

Q. HOW LONG HAVE YOU BEEN WITH LACLEDE?

A. I joined Laclede on October 1, 2012.

Q. WHERE WERE YOU EMPLOYED PRIOR TO JOINING LACLEDE?

A. Prior to joining Laclede, I was employed by AGL Resources, Inc. or its subsidiaries for nearly 24 years. Most recently, I served as senior vice president, southern operations of AGL Resources, Inc. and president of its Atlanta Gas Light, Chattanooga Gas and Florida City Gas subsidiaries since December 2011. In these roles, I managed the operations, top-line growth and strategic affairs of the utilities. Before assuming that role, I served as vice president and general manager of Atlanta Gas Light and Chattanooga Gas from 2005 to 2011, overseeing the day-to-day operations and market development of the utilities. Prior to that, I held a variety of positions within Atlanta Gas Light, including: Managing

1 Director – marketing, new business & marketer services; Managing Director, field
2 operations; Manager, engineering & new construction supervisor; Distribution Engineer;
3 and Commercial and Industrial Representative.

4
5 **Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?**

6 A I am a graduate of the Georgia Institute of Technology, where I received a bachelor's
7 degree in mechanical engineering.

8
9 **Q. HAVE YOU TESTIFIED IN OTHER REGULATORY PROCEEDINGS?**

10 A. Yes. As part of my responsibilities with my prior employer, I had an opportunity to
11 submit testimony in a number of regulatory proceedings on a variety of regulatory issues.
12 I also submitted testimony in Laclede's most recent general rate case proceeding, Case
13 No. GR-2013-0171, as well as its recent acquisition proceeding, Case No. GM-2013-
14 0254, in which Laclede sought and received Commission approval to acquire and operate
15 MGE.

16 **PURPOSE OF TESTIMONY**

17
18 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE?**

19 A. The purpose of my testimony is threefold. First, I will provide a brief update of the status
20 of Laclede's acquisition of MGE, including a summary of the steps we have taken to "hit
21 the ground running" in advancing our customer service goals for MGE. Second, I will
22 provide an overview of the Company's filing, while explaining some of the major factors

1 underlying our need to seek rate relief at this time. Finally, I will discuss some of the
2 more important policy issues that will come before the Commission in this case.

3 **STATUS OF ACQUISITION**
4

5 **Q. PLEASE DESCRIBE THE CURRENT STATUS OF LACLEDE’S ACQUISITION**
6 **OF MGE.**

7 A. I am extremely pleased to report that Laclede successfully completed its acquisition of
8 MGE effective September 1, 2013. Needless to say, we are very excited that this
9 transformative event has now been brought to a successful conclusion.
10

11 **Q. YOU SAID THAT LACLEDE HAS TAKEN STEPS TO “HIT THE GROUND**
12 **RUNNING” AS IT ASSUMES OPERATIONAL RESPONSIBILITY FOR MGE.**
13 **WHAT DO YOU MEAN BY THAT?**

14 A. We understood from the beginning of the acquisition process that a successful integration
15 of Laclede and MGE would require a tremendous amount of pre-planning and work in
16 advance of the closing date. To that end, we created a new Integration Management
17 Team many months ago charged with overseeing the integration of Laclede and MGE.
18 At the same time, we also formed integration teams in all of the functional areas that will
19 be essential to operating the companies in the years ahead. As a result of all the hard
20 work done by these teams, we now have a solid blueprint for integrating the two
21 companies in an orderly and effective manner. Perhaps even more importantly, the
22 employees in these functional areas have formed close working relationships with each
23 other that will benefit the integration process and our future operations in the years ahead.

1 Q. **DOES THIS MEAN THAT THE EXACT ORGANIZATIONAL AND**
2 **OPERATIONAL STRUCTURE OF THE COMPANIES IS SET IN CONCRETE?**

3 A. No. Any business that strives to provide outstanding customer service must constantly
4 evolve and improve both its structure and processes, so nothing is ever “set in concrete.”
5 That is especially true of an organization like ours that is just beginning the
6 implementation phase of its integration process. Despite all of the planning, there are
7 always external contingencies and newly-discovered facts that will impact the ultimate
8 direction and end state of the integration process in a given functional area. That said, I
9 want to assure the Commission that we have an intensive and robust process in place for
10 making sure that the integration will proceed in a manner that best advances the interests
11 of our customers and the communities that we serve.

12
13 Q. **WHAT IMMEDIATE STEPS HAS LACLEDE TAKEN IN THE MGE SERVICE**
14 **AREA TO SMOOTH THE INTEGRATION PROCESS AND ENHANCE**
15 **CUSTOMER SERVICE?**

16
17 A. Knowing how important employee commitment and enthusiasm is to maintaining quality
18 customer service, senior management, including myself and the President and CEO of
19 The Laclede Group, Suzanne Sitherwood, made a concerted effort to meet face to face
20 with all MGE employees on the first business day following the closing of the
21 acquisition. During those meetings, which were held at locations ranging from Joplin in
22 the South to St. Joseph in the North, we stressed our commitment to work with all
23 employees in a transparent, supportive and cooperative manner to achieve our common

1 goals and become a company that is increasingly known in the community for providing
2 outstanding customer service. We have also begun to reach out into the communities that
3 MGE serves to ramp up efforts aimed at obtaining additional resources for the
4 Company's most vulnerable customers, including discussions with community action
5 agencies on how to expand the funding for low-income energy assistance programs. As
6 this rate case filing shows, we have also proposed a number of initiatives to enhance the
7 tools available to MGE's customers to use natural gas more efficiently and safely. As
8 discussed later in my testimony, these include a proposal to implement an EnergyWise
9 Program that will assist customers in purchasing more energy efficient appliances and a
10 Red-Tag Program that will permit Company employees to make minor repairs on
11 customer-owned equipment to ensure they are left in a safe condition.

12
13 **Q. IS THE COMPANY ALSO FOLLOWING THROUGH ON ITS COMMITMENT**
14 **TO ACCELERATE ITS INVESTMENTS IN THE TECHNOLOGY AND**
15 **PHYSICAL INFRASTRUCTURE NEEDED TO SERVE MGE'S CUSTOMERS?**

16 **A.** Yes. As we said during the acquisition proceeding, Laclede is committed to making the
17 additional investments necessary to bring to MGE and its customers the same state-of-
18 the-art information management technology platform that Laclede recently completed
19 implementing on its own system. We are also moving forward at a rapid pace in
20 developing our plans to replace MGE's aging infrastructure, including cast iron and bare
21 steel mains, on an accelerated basis, just as Laclede has done over the past several years
22 with its cast iron main replacement program in the St. Louis area. We firmly believe that
23 both of these initiatives will enhance significantly the future quality and cost-

1 effectiveness of utility service. That is why we committed to make these investments
2 during the acquisition proceeding and why we are moving forward as quickly as we
3 prudently can to make good on that commitment.

4 **REASONS FOR SEEKING RATE RELIEF**
5

6 **Q. WHEN DID MGE LAST OBTAIN A GENERAL INCREASE IN ITS**
7 **DISTRIBUTION RATES?**

8 A. MGE last received a general increase in February of 2010, or more than three and a half
9 years ago this month. This marks a continuation of MGE's successful efforts to lengthen
10 the time between general rate case filings, which prior to the last two rate cases were
11 typically made at one to two year intervals.

12
13 **Q. WHY HAS MGE TRADITIONALLY FOUND IT NECESSARY TO FILE RATE**
14 **CASES ON A PERIODIC BASIS?**

15 A. The need to file for rate relief on a fairly routine basis has resulted from a number of
16 factors. MGE operates in a relatively mature market where customer growth
17 opportunities have been somewhat limited. At the same time, average customer usage
18 continues to decline as homes and businesses and the gas equipment they use become
19 increasingly energy efficient. While this trend towards the more efficient use of natural
20 gas is unquestionably a good thing, the decline in top line revenue has historically put
21 upward pressure on rates as fixed costs must be recovered over a smaller base. At the
22 same time, the costs of providing distribution services have continued to increase as a

1 result of normal escalations in wages, salaries, and benefits, as well as increased
2 investment in utility infrastructure.

3
4 **Q. HOW THEN HAS THE COMPANY BEEN ABLE TO REDUCE THE**
5 **FREQUENCY OF ITS RATE CASE FILINGS?**

6 A. A number of factors have contributed to this result. First, the implementation of a
7 straight fixed variable rate design has helped to mitigate the adverse impact of declining
8 customer usage on distribution rates. Although Laclede is open to considering
9 alternatives to MGE's current rate design, the positive contribution it has made to rate
10 stability is clear. Second, and even more importantly, has been the impact of the
11 Infrastructure System Replacement Surcharge or ISRS mechanism, which was enacted in
12 2003. By enabling gas utilities like MGE to recover their non-revenue producing
13 investments in safety upgrades and public improvement projects on a more timely basis,
14 this mechanism has made it possible to defer general rate relief for longer periods of time.

15
16 **Q. IS THIS SAME MECHANISM ALSO A MAJOR REASON WHY MGE HAS**
17 **FILED FOR RATE RELIEF AT THIS TIME?**

18 A. Unfortunately, yes. While the ISRS mechanism permits a gas utility to recover some of
19 its non-revenue producing investments between rate case filings, it nevertheless requires
20 that the utility file a rate case within three years of the establishment of an ISRS if the
21 utility wants to continue using the mechanism to recover these investments. Although
22 the Missouri General Assembly passed legislation this Spring, in the form of SB 240, that
23 would have extended this filing requirement from 3 to 5 years, the bill was vetoed by

1 Governor Nixon. As a result, we really had no choice but to file for rate relief at this
2 time. As our testimony substantiates, we can certainly justify a modest increase in rates
3 in the case given the increases we have experienced in our cost of service. However, the
4 feasibility of deferring rate recovery of these costs for a longer period of time was
5 effectively eliminated by the loss in ISRS revenue we would have experienced because
6 the filing requirement was not lengthened.

7
8 **Q. CAN YOU QUANTIFY WHAT EFFECT THE VARIOUS FACTORS DISCUSSED**
9 **ABOVE HAVE HAD ON THE COMPANY'S RATE REQUEST?**

10 **A.** Certainly. In this case, we have requested an increase of approximately \$23.4 million. A
11 significant portion of this request is being driven by rebasing approximately \$6.3 million
12 in our current and expected ISRS amounts. I should note that once the existing ISRS
13 charges already being collected by the Company are excluded, the increase actually will
14 be around \$17 million on an incremental basis. All told, well over one-fourth of our
15 request is related to long-term investments aimed at improving the safety and reliability
16 of our distribution system and providing more efficient and responsive service to our
17 customers. For additional details on these rate base additions, I would refer the
18 Commission to the direct testimony of Company witness Michael Noack.

19
20 **Q. CAN YOU QUANTIFY THE EFFECT ON YOUR REQUEST OF THE RISING**
21 **COSTS INCURRED BY THE COMPANY AS A RESULT OF ITS**
22 **INVESTMENTS IN EMPLOYEES?**

1 A. Yes. These costs are primarily comprised of the contributions made by the Company to
2 fund and amortize its legacy pension obligations, and to recognize three years' worth of
3 modestly rising medical, wage and salary costs for union and non-union employees, and
4 the costs associated with the performance incentive plan for management employees. In
5 total, this amount is approximately \$8 million of the request. Additional information
6 regarding the nature and amount of these costs can be found in the direct testimony
7 submitted by Company witness Michael Noack. When combined with the capital
8 investments described above, the total investment in infrastructure and employees
9 accounts for well over one-half of the requested increase.

10

11 **Q. WHAT EXPLAINS THE REMAINING AMOUNT OF THE INCREASE?**

12 A. A significant portion of the remaining amount, nearly \$3 million, relates to an ongoing
13 assessment and amortization of Kansas Ad Valorem taxes that the Company will be
14 permitted to collect consistent with a prior Commission order in the event the Company's
15 judicial challenge to this assessment is unsuccessful. Another \$2.5 million relates to
16 increases in property and liability insurance premium costs. We have worked
17 aggressively with our insurance providers to minimize this increase, but they have
18 advised us that this hardening of insurance premium costs is primarily due to market
19 conditions that have adversely affected insurance company investment returns and
20 weather-related loss experience from events such as Hurricane Sandy. This increase is
21 unrelated to the very unfortunate JJ's incident.

1 Q. **IF THE COMMISSION WERE TO GRANT THE ENTIRETY OF THE**
2 **INCREASE, WHAT INCREMENTAL IMPACT WOULD IT HAVE ON THE**
3 **COMPANY'S CUSTOMERS?**

4 A. The incremental portion of the increase, after deducting for ISRS charges already being
5 collected, translates into an increase of \$2.33 a month for the residential customer with
6 average usage. We fully understand that in these challenging economic times, even
7 modest increases of this nature can be problematic for some customers – which is why
8 we have proposed additional measures in this case to assist our most vulnerable
9 customers. To put this increase in perspective, however, it is important to note that our
10 overall rates to customers have benefited significantly over the past five years from
11 reductions in gas costs, much of which has been driven by the huge expansion in shale-
12 related gas supplies. As a result of this downward trend in gas prices, even with approval
13 of the full rate increase proposed by the Company in this case, overall customer rates still
14 would be less, on an inflation adjusted basis, than the rates MGE charged 10 years ago.
15 Given these considerations, this case presents an unusually good opportunity for the
16 Commission to provide the kind of financial relief that will enable the Company to
17 remain fully competitive in the capital markets and meet its public utility obligations
18 while still providing the customer with very favorable pricing.

19
20 Q. **DOES THIS MEAN THAT THE COMPANY HAS LESS NEED TO DRIVE**
21 **EFFICIENCIES AND REDUCE COSTS THROUGHOUT ITS UTILITY**
22 **OPERATIONS?**

1 A. Not at all, nor do we view it that way. In fact, our emphasis on containing costs and
2 creating efficiencies has never been higher. One of the primary reasons we are pursuing
3 a growth strategy is so that we can further bend down the inclining cost curve that MGE
4 has experienced for the past three decades. It is also why we are devoting additional
5 resources to improving our technology and empowering our employees to measure and
6 exceed our historical performance metrics. In short, we are committed to pursuing these
7 kinds of outcomes regardless of what the external environment may look like because we
8 believe it is always the right thing to do for our customers. With the successful
9 acquisition of MGE, we are on our way to achieving these objectives. To have the
10 capacity and financial strength to bring these long-term benefits to customers, however, it
11 is imperative that the Commission base its decision in this case on the cost of service
12 presently being incurred by MGE to provide utility service to customers.

13 **IMPORTANT POLICY ISSUES**
14

15 Q. **YOU MENTIONED THAT YOU WANTED TO COMMENT ON A NUMBER OF**
16 **THE IMPORTANT POLICY ISSUES THAT WILL COME BEFORE THE**
17 **COMMISSION IN THIS CASE. PLEASE DO.**

18 A. As we have in the past, we are hopeful that we can use this proceeding to build upon the
19 measures that have allowed us to reduce the frequency of our general rate case filings in
20 the past. We also want to explore programs that will better enable the Company and its
21 customers to cope with the challenge of maintaining service in a difficult economy. As
22 we do, I want to emphasize that the Company intends to work with the Staff, Public
23 Counsel and other parties to develop constructive ways to accomplish these goals. I am

1 optimistic that solutions acceptable to everyone can be reached and recommended to the
2 Commission. To that end, I want to discuss five issues that are of particular importance in
3 this case.
4

5 **Q. WHAT IS THE FIRST ISSUE?**

6 A. The first issue centers on identifying appropriate sources of additional revenue to help
7 customers maintain service in an economy that continues to struggle. I know that
8 addressing the issues of low-income customers has been a matter of some concern to the
9 Commission as evidenced by orders it issued last year requesting that participants in the
10 regulatory process comment on the feasibility and desirability of establishing a special
11 rate for such customers. While the comments made by a number of parties at that time,
12 including the Office of the Public Counsel, suggested that there are legal uncertainties
13 and policy concerns that may preclude establishment of a special rate class, the Company
14 believes there are several measures that could be taken to provide customers with
15 additional help in this area. They include re-introducing a new energy affordability
16 program for MGE's most vulnerable customers and potentially expanding MGE's low-
17 income weatherization programs.
18

19 **Q. PLEASE IDENTIFY THE ADDITIONAL SOURCES OF REVENUE THAT**
20 **COULD BE USED TO EXPAND THE COMPANY'S CURRENT LOW-INCOME**
21 **ENERGY AFFORDABILITY AND WEATHERIZATION PROGRAMS.**

22 A. As discussed in the direct testimony of Company witness Michael Noack, these potential
23 sources include the added revenues that would be generated by increasing MGE's late

1 payment charge to 1.5% -- to be more in line with the fees charged by both regulated and
2 unregulated businesses – and by increasing its existing reconnection charge by \$30.

3
4 **Q. WHY SINGLE OUT THESE SOURCES OF REVENUE FOR THIS PURPOSE?**

5 A. One of the main concerns voiced by those who oppose special rate programs for low-
6 income customers is that the rates of customers who can afford to pay their bills should
7 not subsidize service for other customers, particularly in the absence of explicit statutory
8 authority for such an approach. While I sympathize with that concern, I think it is easier
9 to justify using the revenues received from these sources because those revenues are
10 being produced at absolutely no additional cost to customers who pay their bills on time
11 and continue to take service throughout the year. Accordingly, customers who pay late
12 fees and reconnection fees should have no particular objection, let alone a compelling
13 one, to using a portion of these revenues to help customers with truly special needs.

14
15 **Q. WHAT CHANGES TO MGE’S CURRENT PROGRAMS SHOULD BE MADE TO**
16 **ACHIEVE THIS GOAL?**

17 A. I don’t presume to know the precise answer to that. Generally speaking, however, I
18 believe that such changes should be directed at giving customers a greater incentive to
19 continue paying for utility service after the winter heating season ends. Measures that
20 help customers pay for arrearages that have accumulated during the winter heating season
21 or that reduce the monthly charge for summer service are among the ideas that should be
22 considered. If such incentives are effective in keeping on the system customers who
23 historically have left during the summer season, they will not only benefit those

1 customers by ensuring uninterrupted service, but also the remaining customers by
2 promoting a greater contribution to the fixed costs by all customers and reducing the
3 costs incurred by the Company to disconnect and reconnect customers between winter
4 heating seasons. That said, I believe strongly that collaboration with other stakeholders
5 is the preferred way for developing such solutions, particularly when those stakeholders
6 bring the type of deep and long-standing experience with the issue that Staff and Public
7 Counsel do. Accordingly, rather than put a stake in the ground on the specific contours
8 of such a program, I am signaling the Company's strong commitment to sit down with
9 these parties during the course of this proceeding to see what sensible solutions we can
10 develop together.

11
12 **Q. WHAT IS THE SECOND ISSUE YOU WISH TO ADDRESS?**

13 A. To promote customer safety, we are also proposing in this case that the Commission
14 approve the implementation of the "red-tag" program similar to the one that was recently
15 approved for Laclede in its last rate case.

16
17 **Q. PLEASE EXPLAIN HOW THIS PROGRAM WOULD WORK.**

18 A. Whenever service needs to be initiated or restored, MGE's field employees will conduct a
19 visual inspection of each connected appliance prior to relighting, and will not relight an
20 appliance that does not meet the requirements of safe service as outlined in MGE's visual
21 inspection standard. Instead, the employee will place a warning notice or "red-tag" on the
22 appliance and advise the customer to contact a licensed professional for repairs, in some
23 cases before service can be restored or initiated. This can obviously be an aggravating

1 experience for the customer and present safety concerns if the customer does not quickly
2 have the repairs performed by a licensed professional.

3
4 **Q. HOW DOES THE COMPANY PROPOSE TO ADDRESS THIS PROBLEM?**

5 A. For low-income customers, we are proposing that a limited amount of funding be set
6 aside to help such customers who face a denial or disconnection of service due to unsafe
7 equipment or piping obtain needed repairs so long as the cost does not exceed \$450. I
8 should note that these are the same funding amounts and limits that were proposed by the
9 Company in Laclede's last rate case. I should also note that under this program the
10 customer would be free to choose whatever licensed professional they wanted to use to
11 perform the work. For all other customers, the Company is proposing that MGE's field
12 employees be permitted to make minor repairs to customer equipment or piping if the
13 repair can be made in less than 15 minutes and at an equipment cost of less than \$20.
14 The entire purpose of these changes is to devote a very modest amount of resources so
15 that a condition that threatens public safety and the continued receipt of utility service can
16 be corrected with a minimum of inconvenience to the customer. Details of this expanded
17 program are addressed in the direct testimony of Company witness Michael Noack.

18
19 **Q. IS THE COMPANY ALSO PROPOSING OTHER CUSTOMER-ORIENTED**
20 **PROGRAMS THAT ARE OPEN TO ALL CUSTOMERS?**

21 A. Yes, our proposal to implement an EnergyWise program is another example of a program
22 that is designed to assist all customers in using natural gas in the most efficient way
23 possible. This program advances that goal by offering customers favorable financing

1 terms for the purchase of high-efficiency natural gas appliances and equipment.
2 Additional details of this program can also be found in the direct testimony of Company
3 witness Michael Noack.
4

5 **Q. WHAT IS THE THIRD ISSUE YOU WANTED TO ADDRESS?**

6 A. The third issue involves a refinement of MGE's straight-fixed variable rate design. As I
7 said before, Laclede is open to considering potential alternatives to this rate design during
8 the course of this case. For starters, however, we believe that establishing a
9 winter/summer differential in the customer charge component of the rate design is a good
10 first step that should be taken in this case. Specifically, we are proposing that the
11 residential customer charge during the summer months of April through September be
12 reduced by approximately one-fourth, or \$7, to \$20 per month and that the winter
13 customer charge be increased by an offsetting amount effective with the beginning of the
14 Company's fiscal year on October 1, 2014. These changes are before the application of
15 any increase.
16

17 **Q. WHY DO YOU BELIEVE THAT SCULPTING THE CUSTOMER CHARGE IN**
18 **THIS MANNER IS APPROPRIATE?**

19 A. First, by making it less expensive to maintain service during the summer months, it
20 should serve to reduce the incentive that customers currently have to cease taking service
21 during that period. This, in turn, should benefit remaining customers by, as I said before,
22 promoting a greater contribution to fixed costs by customers that would otherwise leave
23 the system over the summer and by reducing the costs incurred by the Company for

1 disconnecting and reconnecting customers. Second, I believe customers may find it more
2 appealing to have a somewhat lower customer charge during the summer period when
3 their usage is also lower. Third, this is an ideal time to make such a change given the
4 significant degree to which gas costs – which are largely collected during the winter
5 period – have declined over the past five years. In effect, sculpting rates in the manner
6 proposed by the Company will rebalance the proportion of costs that are being collected
7 from customers during each period to levels that are more consistent with historical
8 experience.

9
10 **Q. WHAT IS THE FOURTH ISSUE YOU WANT TO ADDRESS?**

11 A. We are also proposing in this proceeding that the Commission make or at least consider
12 several revisions to MGE’s PGA/ACA tariffs to make them more consistent with
13 Laclede’s. These revisions include incorporation of a gas supply incentive mechanism
14 similar in nature to the incentive mechanism in Laclede’s tariff and consideration of
15 potentially moving the recovery of gas inventory carrying costs from base rates into the
16 PGA.

17
18 **Q. WHY IS IT APPROPRIATE TO INCLUDE A GAS INCENTIVE MECHANISM
19 IN MGE’S PGA TARIFF SIMILAR TO THE ONE IN LACLEDE’S?**

20 A. The same considerations that prompted the inclusion of such an incentive mechanism in
21 Laclede’s tariff – namely the provision of an incentive to promote superior financial
22 results in the procurement of gas supply – are equally applicable to MGE and its
23 procurement of such supplies. The same thing is true with regard to the PGA being a

1 superior mechanism for recovering the carrying costs of maintaining natural gas
2 inventories. Given the historical volatility of interest rates and natural gas prices,
3 recovery of inventory carry costs through the PGA is a way to ensure that customers will
4 not be significantly over or under charged for such costs. While the recent stability in
5 natural gas prices has changed this dynamic somewhat, it is certainly appropriate to
6 consider adopting a similar treatment of these costs in this case.

7
8 **Q. ARE THERE OTHER REASONS FOR MAKING THESE REVISIONS TO**
9 **MGE'S PGA TARIFF?**

10 A. Yes. At some point in the future, it may make sense for a variety of reasons to develop a
11 single PGA tariff for both the MGE and Laclede Divisions of Laclede Gas Company.
12 Taking steps now to bring more consistency to the two sets of tariffs will make that
13 endeavor more feasible if and when the time to consider such a combination arrives.

14
15 **Q. WHAT IS THE FIFTH AND FINAL ISSUE YOU WISH TO DISCUSS?**

16 A. The final issue involves one of the most critical matters in any rate proceeding, namely
17 the need for the Commission to provide the Company with an adequate opportunity to
18 earn a fair and reasonable return on its investments in utility infrastructure. While the
19 agreement approved by the Commission in Case No. GM-2013-0254 limits MGE to an
20 overall return no greater than that approved in MGE's last general rate case proceeding, it
21 is essential that the Commission establish a return on equity that is sufficient to meet this
22 ceiling. Specifically, such action is necessary to ensure that Missouri will be viewed by
23 investors as a place where their discretionary investments are welcomed with a realistic

1 opportunity to earn competitive returns. Maintaining reliable utility service, and the
2 infrastructure necessary to provide it, not only produces jobs directly (as evidenced by
3 more than 150 additional jobs at Laclede Gas that have been attributed to infrastructure
4 replacement), but it is also a key element of our state's ability to attract and retain the
5 businesses which provide additional jobs for Missouri citizens. By helping to attract the
6 capital necessary to support and maintain those services, I truly believe that the
7 establishment of a competitive return will benefit not only the Company and our
8 customers, but the State of Missouri as well. I would accordingly recommend that the
9 Commission give strong consideration to the return and capital structure
10 recommendations submitted on behalf of MGE by witnesses Pauline Ahern and Glenn
11 Buck.

12
13 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

14 **A.** Yes, it does. Thank you.