

Exhibit No:
Issues: Overview, MGE Synergies & Transition Costs, Other Synergies, Trackers & Performance Metrics, Advertising
Witness: C. Eric Lobser
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

C. ERIC LOBSER

October 2017

TABLE OF CONTENTS

PURPOSE OF REBUTTAL TESTIMONY	1
UPDATE	1
PUBLIC HEARINGS	2
NAMING CONVENTION IN RATE CASE	6
AGREEMENTS & AGREEMENTS IN PRINCIPLE	7
TARIFF CLARIFICATIONS/CHANGES	9
OVERVIEW OF COMPANY’S RESPONSE	10
RESPONSE TO DISCRETE ISSUES	15
MGE SYNERGIES & TRANSITION COSTS	16
ALAGASCO & ENERGYSOUTH SYNERGIES	27
TRACKERS AND METRICS	30
ADVERTISING	31
CEL-R1	
CEL-R2	

1 **REBUTTAL TESTIMONY OF C. ERIC LOBSER**

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

A. My name is 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 submitted direct testimony on behalf of both Laclede Gas Company (“LAC”) in
6 Case No. GR-2017-0215 and Missouri Gas Energy (“MGE”) in Case No. GR-2017-0216.

7 **I. PURPOSE OF REBUTTAL TESTIMONY**

8 Q. **WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

9 A. The purpose of my rebuttal testimony is threefold. First, I want to bring the Commission
10 up-to-date on some of the developments that have occurred since our direct case was filed,
11 both in these cases and outside of these proceedings. Second, I want to provide an overview
12 of the Company’s response to a number of the recommendations that have been submitted
13 by the Staff of the Missouri Public Service Commission (“Staff”), the Office of the Public
14 Counsel (“OPC”) and several other parties in their direct cases. Finally, I want to
15 specifically address several discrete issues that have been raised by various parties.

16 **II. UPDATE**

17 Q. **WHAT DEVELOPMENTS HAVE OCCURRED SINCE LAC AND MGE FILED**
18 **THEIR DIRECT CASES IN APRIL?**

19 A. There are four items that I will be addressing. The first relates to the testimony that was
20 given by our customers during the public hearings conducted by the Commission for MGE
21 and LAC and are responses and perspectives on what measures could be taken to
22 constructively address the concerns that were raised. The second concerns the name change

1 of Laclede Gas Company to Spire Missouri, Inc. which was approved by the Commission
2 this summer and became effective at the end of August of this year. The third relates to
3 various issues that have been resolved by the parties and reflected in Stipulations and
4 Agreements that have or will be submitted to the Commission for its consideration. The
5 fourth concerns various changes we are making to our proposed tariffs based on the
6 constructive input we have received from various parties or to make certain corrections or
7 clarifications.

8 **A. PUBLIC HEARINGS**

9 **Q. PLEASE PROVIDE THE COMPANY'S PERSPECTIVE ON THE COMMENTS**
10 **THAT WERE MADE AT THE LOCAL PUBLIC HEARINGS IN THESE CASES.**

11 A. We very much appreciate all the customers who took the time and made the effort to testify
12 or simply attend the 11 local public hearings that were held in MGE's and LAC's service
13 areas. Additionally, there was an informal request to provide information about the rate
14 case from Representative Allen Green, which we accommodated with a 12th meeting with
15 customers, making it an even six in each jurisdiction. We take this input very seriously
16 and representatives from our senior management, customer service, and operations
17 attended each public hearing so they could learn first-hand what our customers were
18 thinking and what concerns they had.

19 **Q. HOW MANY CUSTOMERS TESTIFIED?**

20 A. Approximately 100 customers testified. While that represents a very small fraction of the
21 more than 1.1 million Missouri customers served by MGE and LAC – a factor that we
22 believe reflects well on the cost and quality of the service we are providing – we

1 nevertheless view the input of these customers as critical to our continuing efforts to further
2 enhance the value of our service to customers.

3 **Q. WERE THERE ANY COMMON THEMES EXPRESSED BY CUSTOMERS TO**
4 **WHICH YOU WOULD LIKE TO RESPOND?**

5 A. Consistent with testimony provided by customers at previous public hearings, a number of
6 those testifying indicated how difficult it would be for them to accommodate any increase
7 with their limited and relatively fixed incomes. We are certainly sympathetic with those
8 who expressed such a concern. That's why we have worked so hard to bend down the cost
9 curve through our growth activities and other efficiency initiatives over the past several
10 years, which have allowed us to stay out of a rate case for the past 4 years, and why we
11 will continue to pursue such efforts in the future. There are a number of more immediate
12 actions, however, that can be taken in these current rate cases to proactively address a
13 number of the concerns we heard.

14 **Q. WHAT ACTIONS DO YOU HAVE IN MIND?**

15 A. One of the most common concerns expressed during the public hearings came from seniors
16 (and others) who did not like paying a higher fixed monthly charge, regardless of their
17 usage. These customers appeared to prefer an approach that would lower the fixed monthly
18 charge so bills would be smaller in low use months and they could save additional money
19 if they reduced their usage in high use months. One of the primary proposals being made
20 by the Company in these cases, of course, is to implement a significant reduction in the
21 fixed monthly charges of both MGE and LAC in the event the Commission approves our
22 proposed revenue stabilization mechanism. Adoption of this proposal would be an ideal
23 way to respond in a constructive and decisive manner to these concerns.

1 **Q. ARE THEIR OTHER ACTIONS THAT THE COMMISSION COULD TAKE TO**
2 **ADDRESS THE COMMENTS THAT WERE MADE REGARDING THE ABILITY**
3 **OF CUSTOMERS TO PAY THEIR BILLS FOR UTILITY SERVICE?**

4 A. Yes. A number of customers testified in favor of increasing the resources for programs
5 that can help our most vulnerable customers pay for their utility service. A good first step
6 in that direction would be to approve the Company's proposal to extend LAC's low-income
7 energy affordable program to MGE, with the simplifications and other modifications we
8 have proposed to make both programs more effective.

9 Another step would be to maintain the Company's ability to offer its customers a variety
10 of energy efficiency programs and measures that can help them to use natural gas more
11 efficiently and thereby reduce both their usage and their bills for gas service. I know OPC
12 has proposed these energy efficiency programs be terminated in their entirety, but I do not
13 believe such a wholesale elimination of these important programs would be either wise or
14 consistent with what we heard from consumers at the public hearings. Further detail on this
15 is provided by Company witness Dean. Energy efficiency is another area that supports a
16 revenue stabilization mechanism, as it would permit the Company to support conservation
17 without being financially penalized for our efforts.

18 **Q. DID SEVERAL CUSTOMERS WHO OWN RENTAL PROPERTY EXPRESS**
19 **DISSATISFACTION AT BEING BILLED AT THE COMMERCIAL RATE FOR**
20 **SERVICE TO THAT RENTAL PROPERTY?**

21 A. Yes. A number of customers at the MGE public hearings raised this concern. The reason
22 this is an issue in MGE's service territory is that under MGE's current tariffs landlords are
23 billed at the commercial rate for gas used at their rental units when the units are temporarily

1 unoccupied, or the accounts are otherwise in the landlord's name. In contrast, landlords in
2 LAC's service territory pay the residential rate when these circumstances occur. We have
3 proposed in this case a change in the tariff that allows those apartments with 4 or less units
4 to continue to be billed at the residential rate when they are in the landlord's name, and we
5 believe such a change will be appreciated by owners of rental property who have repeatedly
6 expressed similar concerns over the years.

7 **Q. DID TWO CUSTOMERS TESTIFY THAT THEY HAD BEEN INVOLUNTARILY**
8 **ENROLLED IN THE COMPANY'S DOLLAR-HELP PROGRAM?**

9 A. Yes. And we very much regret that this occurred, not only because of any inconvenience
10 it may have caused the affected customers, but also because the error involved Dollar-Help,
11 an outstanding program that has assisted thousands of our most vulnerable customers to
12 maintain or restore their utility service over the years.

13 **Q. WHAT ACTIONS DID YOU TAKE IN RESPONSE TO THESE COMMENTS?**

14 A. I immediately investigated the circumstances causing this problem and learned that, in late
15 August, a software upgrade error caused approximately five thousand accounts to be
16 enrolled in Dollar-Help, principally in the LAC service territory. Of those, approximately
17 two thousand had been charged for or paid a one-dollar donation. The error was fixed in
18 early September by running a query to determine what accounts were impacted, issuing a
19 credit or adjustment to those customers and removing them from the program. Since then
20 we have also had a discussion with our IT personnel to ensure that this kind of problem
21 does not reoccur. Again, we regret the error and have reached out to the customers who
22 testified to apologize for any inconvenience it may have caused them.

1 **Q. WERE ANY OTHER BILLING, RATE, OR SERVICE ISSUES RAISED AT THE**
2 **PUBLIC HEARINGS?**

3 A. Yes. There were comments made by customers on a small number of other billing, rate,
4 or service matters. While the Company believes that the relatively small number of
5 concerns raised during the hearings reflects well on the overall quality and cost of the
6 service it provides, I want to assure the Commission that we have listened carefully to
7 each customer for guidance on how we can improve service in the future. To the extent
8 we are able to gather additional details on the matters raised during the public hearings that
9 may be of interest to the Commission we will address them in surrebuttal testimony.

10 **B. NAMING CONVENTION IN RATE CASE**

11 **Q. PLEASE DISCUSS THE COMPANY'S NAME CHANGE THAT OCCURRED IN**
12 **AUGUST.**

13 A. As the Commission is aware from the filings we made to obtain approval for the name
14 change, Laclede Gas Company has changed its corporate name to Spire Missouri, Inc. In
15 the future it will principally be doing business as Spire, but has also reserved the name
16 Spire Missouri West for MGE's traditional service area and Spire Missouri East for
17 Laclede Gas' traditional service area. Moreover, during the transition to the new name, the
18 Company has also reserved the names Missouri Gas Energy and Laclede Gas Company for
19 use until the transition is fully implemented.

20 **Q. HOW IS THE NAME CHANGE BEING REFLECTED IN THE PLEADINGS,**
21 **TESTIMONY AND OTHER FILINGS BEING MADE IN THESE CASES?**

22 A. After the name change became effective, OPC raised that very issue and suggested that
23 until the conclusion of this proceeding we continue to use the name designations that were

1 first employed when we initiated this case. In the interests of avoiding confusion, and to
2 be consistent with prior testimony, we will continue to use Laclede Gas or LAC when
3 referring to Laclede Gas Company's operations on the Eastern side of the state and
4 Missouri Gas Energy or MGE when referring to MGE's operations on the Western side of
5 the state.

6 **Q. WILL YOU BE ADDRESSING THE RATIONALE FOR AND IMPACT OF THE**
7 **NAME CHANGE ON THE COMPANY'S COST OF SERVICE IN THESE CASES?**

8 A. Yes. As I will explain later in my rebuttal testimony, the name change is just one part –
9 but a critical part – of Spire's one-time efforts to develop customer awareness about the
10 change and to establish a common corporate identity with our shared services model and
11 culture where all employees are collaborating in a very focused manner to provide excellent
12 customer service in the most efficient way possible. I should note that this matter was also
13 discussed at length by Company witness Steve Lindsey in his direct testimony.

14 **C. AGREEMENTS & AGREEMENTS IN PRINCIPLE**

15 **Q. TURNING TO THE THIRD ITEM YOU MENTIONED, WHAT AGREEMENTS**
16 **HAVE THE COMPANY AND OTHER PARTIES REACHED DURING THE**
17 **COURSE OF THESE PROCEEDINGS?**

18 A. To date we have submitted one Stipulation and Agreement resolving the school
19 transportation issue and have reached an agreement in principle with Staff and OPC to
20 maintain MGE's and LAC's existing depreciation rates at their current levels. We will
21 continue to work with the parties to resolve issues in a mutually acceptable way and will
22 submit for the Commission's consideration any additional agreements we are able to
23 complete. In the meantime, the Company reserves the right to address in surrebuttal

1 testimony any school transportation or depreciation issues in the event these agreements
2 are not approved or finalized as contemplated.

3 **Q. HAVE THE PARTIES COME TO AN AGREEMENT IN PRINCIPAL ON**
4 **DEPRECIATION RATES?**

5 A. I believe they have. It was tentatively agreed there would be no change in depreciation
6 rates (accept for the AMR item noted below), but if this agreement is not completed, we
7 reserve our right to address this topic in Surrebuttal.

8 **Q. WILL THE COMPANY ALSO BE SEEKING TO ESTABLISH A NEW**
9 **DEPRECIATION ACCOUNT AND AMORTIZATION TREATMENT RELATING**
10 **TO ITS RECENT PURCHASE OF ITS AUTOMATED METER READING**
11 **(“AMR”) DEVICES?**

12 A. Yes. Since it filed its direct case, LAC was able to negotiate the purchase of the AMR
13 devices in its system, which had been providing automatic meter reads for its customers
14 since 2005. The purchase agreement was effective July 1, 2017. Under the terms of its
15 agreement with the previous owner of this equipment, Landis and Gyr, LAC was able to
16 purchase the AMR devices for below book value, at \$16.6 million. LAC was also able to
17 negotiate a significant reduction in the cost (\$0.98 to \$0.24) of each meter reading, which
18 readings would continue to be electronically delivered to the Company over the Landis and
19 Gyr cellular network. To facilitate implementation of this new arrangement, we are asking
20 the Commission to establish a new depreciation account for this investment (Account 397.1
21 under communication equipment) and to order that the investment be amortized over seven
22 years.

1 **Q. WHAT IS THE OVERALL IMPACT OF THESE CHANGES ON THE COST OF**
2 **SERVICE BEING SOUGHT BY THE COMPANY IN THIS CASE?**

3 A. As shown on Schedule CELR-1, the impact of this new arrangement is to *reduce* LAC's
4 cost of service in this case by approximately \$1.5 million, prior to the estimated costs of
5 approximately \$0.7 million for repair or replacement of these devices. This analysis
6 includes the annual return and property taxes of including the investment in rate base, the
7 annual impact of amortizing the investment over seven years (which is the expected
8 remaining life of these meter device attachments), the estimated incremental repair or
9 replacement cost, and the reduction in O&M expense due to reducing the per-read cost
10 from \$0.98 to \$0.24. The net impact of all of these factors is approximately a \$0.8 million
11 reduction in cost of service.

12 **D. TARIFF CLARIFICATIONS/CHANGES**

13 **Q. WHY IS THE COMPANY PROPOSING TO REVISE SOME OF ITS PROPOSED**
14 **TARIFF LANGUAGE IN THIS CASE?**

15 A. As the Commission knows, it is customary for proposed tariff language to change over the
16 course of a rate case as issues are raised, discussions held and input received from the
17 parties, so tariffs approved by the Commission at the conclusion of the proceeding tend to
18 differ from those filed at the beginning. Given the inherent complexity of filing two rate
19 cases at one time and trying to reconcile differences in the tariff language between LAC
20 and MGE, this proceeding has been no exception to that general rule. Rather than wait
21 until the latter stages of the proceeding, however, we thought it made sense to incorporate
22 a number of the tariff suggestions we have received from the parties in our rebuttal filing
23 so parties will have a longer period of time to review them. There are also several other

1 clarifications and/or corrections that we identified along the way and that we are also
2 proposing to adopt.

3 **Q. IS ANOTHER COMPANY WITNESS SPONSORING TESTIMONY THAT**
4 **SPECIFICALLY IDENTIFIES AND EXPLAINS THESE REVISIONS?**

5 A. Yes. Company witness Weitzel addresses these tariff modifications in his rebuttal
6 testimony. As Mr. Weitzel explains, they cover a variety of topics, including provisions
7 for the installation and pricing of excess flow valves, reinsertion of tariffs to cover certain
8 master meter and out of service area sales arrangements, and corrections or clarifications
9 to our low-income affordability program.

10 **III. OVERVIEW OF COMPANY'S RESPONSE**

11 **CAN YOU PLEASE PROVIDE A BRIEF OVERVIEW OF THE REBUTTAL**
12 **TESTIMONY BEING PROVIDED BY THE COMPANY'S WITNESSES IN**
13 **THESE CASES?**

14 A. Certainly. Before I do, however, I want to express my disappointment at a number of one-
15 sided recommendations made by the Staff, OPC and several other parties in their direct
16 case. To be fair, this is not to say that parties have not submitted any supportive positions,
17 but as of this writing, the scales are significantly tipped in favor of unreasonable and
18 arbitrary positions that are detrimental to the Company and not reflective of the significant
19 improvements it has made over these past four years. As Company witness Steven Lindsey
20 testified in his direct testimony, MGE and LAC have made historic progress in bending
21 down the cost curve that typically resulted in their filing rate cases every two or three years.
22 As a result of the favorable impact of our growth activities, the implementation of a shared
23 service model and the adoption of best practices across all of our businesses we have

1 managed to go over seven years without a base rate increase other than those for safety-
2 related and public improvement capital investments. Despite this favorable record and its
3 hugely positive impact on customers, Staff and OPC have submitted a series of
4 unreasonable and inappropriate adjustments that would have the Commission believe that:

- 5 • The Company lacks sufficient synergies to support recovery of less than \$10 million in
6 transition costs, while simultaneously recommending the Company should receive less
7 in rates than it is currently collecting, despite having made over a half billion in
8 investments in its utility infrastructure and incurring the impact of normal cost
9 pressures and inflation over the past 4 years.
- 10 • The Company should not receive rate base treatment for certain investments it has made
11 in the business, such as the one-time non-capital transition costs it has made over the
12 last several years to help integrate MGE and LAC, or deferrals of LAC pension costs
13 that were required by GAAP and have been part of rate cases going back to 1990. This
14 even carries over into cash outlays the Company has made for the Commission
15 approved Red Tag program for appliance repairs that benefit low-income customers,
16 the emergency energy assistance funds we provided MGE customers during the “Polar
17 Vortex” winter of 2013/2014, as well as our initial investment of \$2.2 million in a
18 pipeline reinforcement project that we used as leverage in a successful negotiation with
19 a key interstate pipeline that will save customers \$54 million over the next 12 years, or
20 20 times the amount of the requested reimbursement.
- 21 • The individual goals in management incentive plans did not really require employees
22 to “go above and beyond” their typical job duties or result in any meaningful customer
23 benefits, despite clear evidence to the contrary in the form of the successful acquisition

1 of four utilities, implementation of a shared service business model, the development
2 and extension of a new enterprise software system at a significantly favorable cost, and
3 integration of LAC and MGE under these more robust and capable platforms.

- 4 • The Company should have a portion of a lease expense for 800 Market disallowed for
5 temporary vacancies in cubicles, despite the Company creating additional cost savings
6 for customers related to those vacancies, and despite it already having plans in place to
7 reorganize functions to make use of that available space.
- 8 • The Company should have to pay for a portion of its rate case costs, despite the fact
9 these cases were required to be filed by external factors including Missouri statutes and
10 Commission-approved agreements, and despite the fact that costs have been incurred
11 to defend an earnings complaint case that was subsequently stayed and then
12 consolidated into these rate cases.
- 13 • The Company should share some or all of the gain it received for selling land that was
14 never paid for by customers, under the threat of eminent domain, despite leveraging the
15 situation to execute – on very favorable financial and operational terms – an already
16 developed plan to restructure its operations and move out of facilities that were
17 deteriorating and no longer capable of being used without major additional
18 expenditures.

19 The cumulative effect of these recommendations is to suggest there is no nexus between
20 exceptional performance by the utilities and the regulatory treatment they receive. To
21 the contrary, these positions suggest the benefits developed by the Company through
22 its significant investments and long hours of its dedicated employees to rework and
23 reimagine its business are to be taken for granted, without reimbursement of many of

1 the reasonable costs related to creating those benefits or any recognition for a job well
2 done. The Company would respectfully submit these are not the kind of
3 counterproductive messages the Commission should send to the regulated industry in
4 Missouri.

5 **Q. PLEASE PROVIDE AN OVERVIEW OF THE REBUTTAL TESTIMONY.**

6 A. Company witnesses will be providing rebuttal to various intervenor positions that have
7 resulted in a one-sided, unfair and unreasonable portrayal of our cost of service, including
8 our efforts to integrate our now much larger organization under a shared service model and
9 provide customers with the benefits of such growth. Below noted are the witnesses and
10 their key positions:

- 11 • Pauline Ahern will explain why the return on equity recommendations made by Staff
12 and OPC are insufficient to permit the Company to attract capital in the competitive
13 marketplace.
- 14 • She and Glenn Buck will also explain why Staff's proposed use of our parent
15 company's capital structure, inclusion of short term debt in that capital structure and
16 attempts to artificially lower the actual cost of debt, restrict its overall return and create
17 a hypothetical and highly leveraged pro-forma capitalization for Laclede are flawed
18 and inappropriate.
- 19 • Glenn Buck and Jim Fallert will also address issues raised by Staff and OPC relating
20 to the proper treatment of pension expense and our pension assets, and Mr. Buck will
21 also address a number of other issues, including why a sharing of rate case expense is
22 not appropriate.

- 1 • Tom Flaherty and I will explain how Staff and OPC have taken an unnecessarily narrow
2 and inappropriate view of synergies and transition costs, including the exclusion of
3 certain costs that were part of the one-time integration of MGE and growth of Laclede
4 that drove significant customer benefits.
- 5 • He and Tim Krick will also explain why various criticisms of the Company’s allocation
6 process and results and its compliance with affiliate transactions requirements are
7 unfounded.
- 8 • Mark Mispagel will address the benefits of an incentive program to align employees
9 behind key goals and objectives that help effectively and efficiently grow the company
10 and provide benefits to customers through low rates and quality service.
- 11 • Keri Feldman will respond to Staff’s recommendations regarding the level of revenues
12 that should be established in this case, including why Staff’s approach for normalizing
13 for weather and customer usage is flawed.
- 14 • Shaylyn Dean will address OPC’s position to eliminate energy efficiency programs due
15 to the current lower gas price environment and Staff’s desire to change the structure of
16 the Energy Efficiency Collaborative to be more advisory in nature.
- 17 • Scott Weitzel will respond to a number of issues raised by various parties regarding the
18 Company’s tariff proposals in this case, including proposals relating to its PGA/ACA
19 tariffs as well as its base tariffs and general rules for service. This will include a
20 description of those changes we believe should be made to our tariff proposals based
21 on the input we have received from the parties.

- 1 • Ryan Hyman will explain why there is no basis for Staff’s and OPC’s proposal to
2 exclude significant information management system upgrade costs for MGE and how
3 this integration saved an equally significant amount for MGE and LAC customers.
- 4 • Susan Kopp will also explain how the necessary restructuring of the Company’s
5 facilities to recognize changes in our shared services business model and operations,
6 particularly the number and location of large service centers and supporting satellites,
7 has resulted in a significant upgrade in the quality of the facilities used to serve our
8 customers at a very modest cost to customers; all while contributing to the civic and
9 economic fabric of the communities in which we operate.
- 10 • Mark Lauber will respond to certain issues raised by OPC regarding the treatment of
11 hydrostatic testing expenditures and why the proposed elimination of ISRS dollars
12 related to certain plastic patches of pipe replaced as part of its cast iron replacement
13 program has saved customers millions and millions of dollars rather than costing them
14 millions as alleged by OPC.
- 15 • Mike Noack, Tim Lyons and Lew Keathley will also be addressing certain issues that
16 have been raised regarding the proper calculation of cash working capital and transfers
17 to capital, recovery of certain expenses and a number of rate base issues.

18 **IV RESPONSE TO DISCRETE ISSUES**

19 **Q. WHAT SPECIFIC ISSUES WILL YOU BE ADDRESSING IN YOUR REBUTTAL**
20 **TESTIMONY?**

21 A. There are three main issues I will address. The first centers on the Staff’s and OPC’s
22 proposed treatment of the one-time “transition costs” that were incurred by the Company
23 during the course of integrating LAC and MGE following the acquisition of MGE in 2013

1 and the associated synergies or savings that warrant recovery of those costs. This includes
2 what I believe to be inappropriate disallowances of certain one-time advertising and other
3 costs incurred in connection with establishing a single, customer-centric identity and
4 culture. The second concerns the Staff's treatment of the additional savings that have been
5 achieved, mostly in the area of administrative overheads, as a result of acquiring Alagasco
6 and EnergySouth in 2014 and 2016, respectively. Additionally, I will discuss other
7 disallowances not covered elsewhere in testimony, such as those relating to certain
8 advertising costs.

9 **A. MGE SYNERGIES & TRANSITION COSTS**

10 **Q. WHAT DOES THIS ISSUE INVOLVE?**

11 A. As part of the proceeding (Case No. GM-2013-0254) that authorized Laclede Gas
12 Company's acquisition of MGE in 2013, the Commission approved the terms of a
13 Stipulation and Agreement ("S&A") that, among other things, permitted the Company to
14 recover certain one-time non-capital and capital "transition costs" incurred to integrate
15 LAC and MGE. For those transition costs that were one-time expense items, the S&A
16 provided that the Company could defer 50% of such costs and recover them over a 5-year
17 period, so long as there were sufficient savings and synergies from the combination of the
18 two companies to cover these costs. For those transition costs that were one-time capital
19 costs, the S&A provided the Company could treat them in the normal accounts of the
20 Company as rate base expenditures, again so long as the level of synergies achieved were
21 sufficient to cover the ongoing revenue requirement impact of such capital items.

22 **Q. WHAT IS THE MAGNITUDE OF THESE TRANSITION COSTS?**

1 A. The total amount of non-capital transition costs identified by the Company as of June 30,
2 2017, amount to approximately \$8.9 million (see Attachment CEL R-2). The impact on
3 the revenue requirement sought in these cases is \$1.8 million annually, plus a return for
4 cost of capital, reflecting rate base treatment of these prior incurred cash costs to be
5 amortized into rates over a 5-year period, for a total of \$2.4 million. The total amount of
6 one-time capital costs at this same date is approximately \$36 million, which have an annual
7 revenue requirement impact of \$6.6 million for depreciation/amortization, cost of capital
8 and property tax. This means that, when combined, both of these transition cost amounts
9 would affect revenue requirement by approximately \$9 million annually.

10 **Q. WHAT POSITIONS HAVE STAFF AND OPC TAKEN WITH REGARD TO**
11 **THESE TRANSITION COSTS?**

12 A. Mr. Majors has proposed in pages 74-83 of Staff's Cost of Service report to exclude them
13 from our cost of service on the theory that the Company has failed to demonstrate synergies
14 sufficient to cover them and he believes some of the synergies were not directly related
15 enough to the MGE transaction. Both he and Mr. Hyneman of OPC (on pages 7-11 and
16 36-41) take issue with whether certain transition costs identified as such by the Company
17 actually qualify as transition costs, and they do not believe that such transitions costs
18 related to the MGE integration should receive rate base treatment.

19 **Q. WHAT DO YOU MAKE OF STAFF'S CONTENTION THAT THE COMPANY**
20 **HAS NOT DEMONSTRATED SUFFICIENT SYNERGIES?**

21 A. I am both disappointed and astounded that they would make such a claim. Based on the
22 information that has been provided by the Company, any objective observer could readily
23 see that the Company has achieved synergy levels that exceed this amount by a very wide

1 margin. As shown in Table 1 in Company witness Flaherty's testimony, these synergies
2 amounted to an annual run rate of nearly \$50 million. The only way that someone could
3 assert otherwise is to ignore several years' worth of information that demonstrated these
4 cost savings as well as significant additional data provided in the discovery period, which
5 conclusively established that such synergies are, by any measure, significantly greater than
6 our claimed transition costs.

7 **Q. WHAT INFORMATION ARE YOU REFERRING TO THAT HAS BEEN**
8 **PROVIDED BY THE COMPANY TO PROVE UP ITS SYNERGIES?**

9 A. It includes the synergy tracking information that has been provided to Staff and OPC every
10 quarter since the MGE acquisition was completed. These reports provided a quarterly and
11 accumulated quantification of the synergies being achieved and the functional areas in
12 which they were being achieved. In total, it identified nearly \$50 million in synergies that
13 have been realized since the acquisition closed. In addition, we also included information
14 showing how employee levels were changing, by department, over this period of time –
15 information that was geared towards demonstrating how the synergies were being reflected
16 in personnel levels.

17 **Q. DID STAFF OR OPC EVER RAISE ANY CONCERNS REGARDING THE**
18 **SUFFICIENCY OF THIS INFORMATION?**

19 A. No. I am unaware of any instance where the Staff or OPC complained about either the
20 contents, format or sufficiency of this information during the three plus years it was being
21 provided.

22 **Q. WHAT ASSERTION WOULD STAFF THEN HAVE TO DISALLOW THE**
23 **COMPANY'S TRANSITION COSTS?**

1 A. Instead of relying upon the basic requirement that “Laclede Gas shall not include in
2 customer rates any amount of transition cost that exceed the level of cost reductions
3 actually experienced by the Company” Staff has instead leaned on some language about
4 how such a showing might be done. This includes one that would look to take those savings
5 and parse them out by “FERC divisional accounts”, and another (which is in a footnote to
6 an attachment), which suggested “Net Synergies” could be determined by comparing the
7 “pre-merger/pre-integration costs the two companies’ operations versus costs of the
8 combined operations during the test year or update period in the rate case in which
9 transition costs are sought to be recovered”

10 **Q. WHAT IS YOUR ASSESSMENT OF THESE APPROACHES AND DID THE**
11 **COMPANY PROVIDE THIS INFORMATION?**

12 A. I’m not sure how taking the whole of the cost savings and breaking those into FERC
13 accounts is either helpful or practical and this is discussed in more detail in Witness
14 Flaherty’s testimony. Again, the standard at question here was whether the synergies were
15 greater than the transition costs, and indeed they are. That said, the Company did provide
16 Staff a response to a data request that indicted what FERC accounts these savings relate to
17 based upon their functional area. In terms of providing a “before and after” view of the
18 combined companies, such an analysis would be riddled with a myriad of unrelated cost
19 changes, both up and down, as a result of typical cost pressures as well as savings from the
20 allocation of shared costs to the Spire Alabama, Spire Gulf and Spire Mississippi entities
21 that occurred as a result of acquisitions subsequent to the MGE acquisition but before the
22 update period in these rate cases. That said, a review of our filings for the annual FERC
23 Form-2 submissions would provide such a point of comparison. Using that approach results

1 in a “pre” Total O&M of \$294.1 million, and a “post” Total O&M of \$247.7 million, or a
2 difference of \$46.5 million, which doesn’t include the impact of inflation or other unrelated
3 cost increases over that timeframe, but does include the impact of the Alagasco acquisition,
4 but not the EnergySouth acquisition, given the data was as of December 31, 2016. By
5 means of comparison, the O&M savings from our synergy reporting showed \$36.8 million,
6 with other synergies in Capital and Customer Growth.

7 **Q. WHAT OTHER INFORMATION HAS THE COMPANY PROVIDED TO**
8 **DEMONSTRATE THE SYNERGIES IT HAS ACHIEVED?**

9 A. We also provided Staff with various business cases, employee headcount reductions and
10 other data, that even under the most conservative view, would support achieved synergy
11 levels substantially greater than the level of claimed transition costs.

12 **Q. HAS STAFF ASSERTED THAT SOME OF THE SYNERGIES ARE NOT**
13 **SYNERGIES CREATED BY THE ACQUISITION OF MGE?**

14 A. Yes. On page 78 Mr. Majors listed eleven areas that have a “Total Savings to Date” of
15 \$23.9 million in cumulative synergies that he asserts are “unrelated to the acquisition”.
16 This is an unfair and overly narrow perspective, as these are costs savings enabled by our
17 change to a shared services business model, restructuring of facilities and integration onto
18 more capable technology platforms. Such savings would not have been achieved but for
19 the integration of MGE into newBlue and such systems as CC&B, Maximo and Salesforce
20 CRM that were not previously available, our enhanced ability to manage outsourced
21 services with lower administrative costs and effective shared service oversight, and the
22 restructuring and rationalization of our operations and administrative facilities that

1 occurred on both sides of the state as part of the integration. These adjustments are also
2 addressed in the testimony of Mr. Flaherty.

3 **Q. DO YOU AGREE WITH STAFF AND OPC’S ASSERTION THAT SOME OF THE**
4 **COST IDENTIFIED BY THE COMPANY AS TRANSITION COSTS DO NOT**
5 **QUALIFY AS SUCH?**

6 A. No. Staff witness Majors has proposed that approximately \$2.6 million of the \$8.8 million
7 in non-capital transition costs be disallowed as well as certain of the capital transition costs.
8 I would note these one-time non-capital costs only represent half of the costs incurred by
9 the Company. As such, it is particularly disturbing that while Staff is making an
10 extraordinary effort to include every cost savings it can find, even if those savings were
11 derived from actions unrelated to LAC and MGE, it is at the same time picking and
12 choosing which transition costs relate to the MGE integration, and will thus be eligible for
13 partial recovery to the extent such costs are exceeded by synergy savings. OPC witness
14 Hyneman has proposed the exclusion of \$3.9 million of capital costs related to the
15 abandoned leasehold improvement at 720 Olive and the abandoned software costs at MGE,
16 as well as the related \$1.0 million in amortizations.

17 **Q. PLEASE DISCUSS MR MAJORS’ ADJUSTMENTS.**

18 A. For the \$1.1MM related to the Continuing Services Agreement costs, Mr. Majors states
19 that “These costs were necessary to effectively transition ownership of MGE to LAC, and
20 were otherwise one-time costs necessary to ensure the transfer of ownership.” However,
21 that precisely matches the description of transition costs in Attachment 1 of the S&A.
22 Specifically, Attachment 1 describes “SUG transition charges* – SUG charges to Laclede

1 Gas to support the operations of the MGE division after the transaction.” And then in the
2 footnote states that they “*Represents one-time transition costs.”

3 For the \$1.5MM related to rebranding, Mr. Majors relies upon statements made by Mr.
4 Kunst later in the testimony to the effect of “During the test year, costs were incurred for
5 outside consulting work and capital associated with the rebranding strategy. The
6 rebranding was a corporate decision, driven by the recent acquisitions and the potential for
7 future acquisitions.” and was of “no benefit to ratepayers”, and should therefore not be
8 included.

9 **Q. DOES THIS REFLECT A CORRECT UNDERSTANDING OF THE S&A?**

10 A. No. It is an incorrect reading of the S&A, which identifies “Transition Costs” as “costs
11 incurred to integrate and merge the two entities into one organization.” Such costs are not
12 required to directly drive benefits though we would argue that such expenditures do benefit
13 customers; however, since transitions costs must be exceeded by synergy savings. This is
14 discussed in more detail later in my testimony, but such one-time costs were necessary to
15 reduce confusion and make customers aware of the change in their utility’s name, as it was
16 also a key component of the internal cultural change of bringing together individual utilities
17 under one “team name” as part of our shared services business model that brought
18 tremendous benefits to customers. Again, “Transition Costs” are to integrate the two
19 utilities, not necessarily to drive benefits to customers, and they are only included in rates
20 if cost reductions exceed such costs. This is done in spades, with nearly \$50MM in
21 synergies, and less than \$10MM in costs.

22 OPC opposes recovery of the capital transition costs on the theory that the Leasehold
23 Improvements at 720 Olive and the MGE TOA software are no longer used and useful;

1 however, this is exactly the point – the integration of MGE and LAC required that these
2 investments be abandoned so the combined companies could move forward with an
3 integrated system and integrated shared services in the new 700 Market facilities, which is
4 further discussed by Company witness Kopp.

5 **Q. PLEASE STATE YOUR UNDERSTANDING OF STAFF’S PROPOSED**
6 **ADJUSTMENT RELATING TO EXPENDITURES INCURRED BY THE**
7 **COMPANY TO ESTABLISH A NEW CORPORATE IDENTITY AND**
8 **CULTURE.**

9 A. As noted above, Staff has proposed to disallow approximately \$1.5 million in costs
10 incurred by the Company to establish its new corporate identify as Spire as well as the
11 customer-centric culture and mission that comes with it. These include costs for
12 developing our corporate identity, name and culture, costs for communicating it both
13 internally and externally, and costs for reflecting the new name on vehicles, facilities and
14 uninforms. According to Staff witness Jason Kunst these expenditures should be
15 disallowed because they provide “no direct benefit to ratepayers”. (Staff Cost of Service
16 Report, p. 108).

17 **Q. DO YOU AGREE WITH STAFF’S ASSESSMENT?**

18 A. No, I very much disagree with it. First, I think it important to recognize that changing our
19 name to Spire was only one part of a comprehensive effort to establish a unified customer-
20 centric culture and mission for all Spire employees. To drive customer centered outcomes
21 it is incredibly important that our corporate values, goals and practices for realizing those
22 goals be developed and communicated on a consistent basis through all of Spire’s utility
23 businesses. Having a single corporate identity, culture and mission is an essential

1 component of that effort. Simply put such a culture change was necessary to break down
2 silos and make sure all employees are playing for the same team, with the same name on
3 everyone's jersey. Second, the expenditures were a reasonable, one-time transition cost
4 incurred to achieve the integration of MGE and LAC. This means that the Company has
5 already absorbed 50% of these costs. It also means that under the terms of the S&A from
6 the MGE acquisition proceeding, the Company is entitled to recover the remaining portion
7 in rates.

8 **Q. ARE THERE OTHER CUSTOMER BENEFITS RESULTING FROM THESE**
9 **EFFORTS TO INFORM CUSTOMERS OF OUR NEW IDENTITY?**

10 A. Absolutely. First, it is critical that customers be informed as to who is serving them. As a
11 company that regularly enters people's homes and businesses, we know a recognizable,
12 reliable and reputable name means a lot to the people we serve. Having clearly marked
13 vehicles, full uniforms and matching name badges helps customers easily identify who we
14 are and that we're there to serve them. Just two months ago, a man claiming to be a Laclede
15 Gas worker (not in a uniform) knocked on a customer's door and entered their home.
16 Unfortunately, this happens yearly. With a strong visual identity and a name that carries
17 with it a reputation of safety and service, customers feel—and are—safer when welcoming
18 us into where they live and work. It also serves to maintain trust and confidence between
19 the Company and its customers which is an important element of customer satisfaction.

20 **Q. DOES COMMUNICATING WHO WE ARE TO CUSTOMERS ALSO ENHANCE**
21 **THE EFFECTIVENESS OF OTHER CUSTOMER SERVICE FUNCTIONS?**

22 A. Yes. Clearly and effectively communicating who we are to our customers is also the first
23 step in making general, safety, energy efficiency and other advertising effective. It also

1 helps to reduce complaints and calls that would otherwise result from customer confusion,
2 helps to ensure that customers understand the significance of any billing or service notices
3 they receive and enhances the safety and effectiveness of our field workers.

4 **Q. DID THE COMPANY TAKE STEPS TO ENSURE THAT THESE**
5 **EXPENDITURES WERE INCURRED IN A PRUDENT AND COST-EFFECTIVE**
6 **MANNER?**

7 A. Yes. We rolled out our communications plan based on studies of what approaches would
8 be most effective. We also made a selective use of various media, including lower cost
9 social media and paid searches as well as higher-visibility media from more traditional
10 avenues. Finally, we limited the expenditures to a relative short but effective window of
11 time, beginning 60 days before the name change became effective and ending it 60 days
12 after that date.

13 **Q. DURING THE PUBLIC HEARING A NUMBER OF CUSTOMER EXPRESSED**
14 **CONCERN ABOUT PAYING FOR THE NAME CHANGE. IS THE COMPANY**
15 **REQUESTING THEY DO THAT?**

16 A. No. Under the MGE Acquisition S&A, transition costs may only be recovered in rates if
17 there are sufficient synergies or savings to offset them. As I indicated earlier, the synergies
18 produced by our growth activities have been well in excess of our transition costs, including
19 these expenditures which were part and parcel of our efforts to integrate our businesses.
20 Accordingly, customers are not and will not be asked to pay any net costs associated with
21 the name change. To the contrary, they will benefit significantly from the overall impact
22 of our growth and integration activities. Moreover, they will continue to benefit in the
23 future in this specific area, and the ability to advertise with a single name will enable us to

1 reduce advertising costs in the future as set up, design, development and other advertising
2 costs will not have to be duplicated for businesses using multiple names.

3 **Q. WHAT IS MR HYNEMAN’S POSITION REGARDING TRANSITION COSTS**
4 **FOR THE LEASEHOLD IMPROVEMENTS AND SOFTWARE COSTS?**

5 A. Mr. Hyneman excludes \$1.7 million capital and \$0.5 million amortization for the 720 Olive
6 leasehold improvements under the belief that they are not regulatory assets, which he
7 asserts need to 1) not currently be in rates, and 2) be “probable” of rate recovery. “I am not
8 aware of any time this Commission has provided rate recovery of costs that are not used
9 and useful in the provision of utility service and do not provide any ratepayer benefit.” He
10 also excludes \$2.2 million in abandoned software costs and \$0.6 million in amortizations
11 for similar reasons.

12 **Q. DOES THIS REFLECT A CORRECT UNDERSTANDING OF THE S&A?**

13 A. No. In fact, it seems to fly in the face of the S&A terms that were developed to recover
14 transition costs related to the integration of MGE and LAC. While many of these costs
15 were non-capital related, and half have already been incurred by the Company, some of the
16 costs were capital-related. As per the S&A definition of “Capital Transition Costs”, “All
17 one-time capital-related transition costs shall be amortized over a period consistent with
18 their current Commission authorized depreciation rate.” and as per Attachment 1, such
19 Capital Transition Costs are “Recorded either as a Regulatory Asset or in the normal
20 accounts of the Company and earmarked as transition costs.”

21 **Q. SHOULD THE TRANSITION COST RECEIVE RATE BASE TREATMENT?**

22 A. Yes. Capital Transition Costs are described in Attachment 1 as “rate base account
23 expenditures”, and while non-capital costs are not as explicit, there is nothing that prohibits

1 those from receiving rate base treatment, similar to other agreed upon deferred costs not
2 currently recognized in rates. Again, these transition costs are recognized for deferral in
3 the S&A and have helped create significant benefits for customers – costs that were
4 incurred in the past by the Company, only half of which are included in this deferral if they
5 are exceeded by those aforementioned customer benefits, and now is the time to properly
6 include them in rates with appropriate rate recovery that recognizes the cost of capital for
7 these deferred out-of-pocket expenses that will be recovered over a 5-year period. To sum
8 up this issue, the S&A set the terms under which MGE deferred all these costs. The
9 Company incurred the totality of these costs; expensed its portion and deferred the 50%
10 under the S&A. Customers are enjoying the benefits of the savings in this case. The
11 Company simply ask that parties honor the S&A and allow recovery of the savings to cover
12 the 50% share. As proven, the benefits far outweigh recovery of this asset.

13 **B. ALAGASCO & ENERGYSOUTH SYNERGIES**

14 **Q. HAS THE COMPANY ALSO ACHIEVED ADDITIONAL SYNERGIES AS A**
15 **RESULT OF ITS SUBSEQUENT ACQUISITIONS OF ALAGASCO AND**
16 **ENERGYSOUTH ?**

17 A. Yes, and they have been significant. In these cases alone, the Company has been able to,
18 on a net basis, allocate approximately \$13 million in corporate support or shared services
19 service cost to these other Spire utilities thereby reducing the amount of such costs that
20 need to be recovered from Missouri customers. This is a classic example of how our shared
21 service model and acquisition strategy has allowed us to spread these joint and common
22 costs over a larger customer base and reduce the per customer cost of these essential
23 functions.

1 **Q. DID THE SHARED SERVICES COSTS SIGNIFICANTLY INCREASE IN ORDER**
2 **TO PROVIDE THESE SERVICES TO ALABAMA?**

3 A. No. As was shown in Figure VIII – 7 on page 70 of Company witness Flaherty’s direct
4 testimony, shared services in Missouri have been going down, whether on a real or nominal
5 basis, and while Alabama did allocate some costs to Missouri, those were relatively
6 insignificant and have been netted out of the \$13 million noted above. The gross
7 allocations from Missouri to now both Alabama and Mississippi have been increasing in
8 2017, as have the allocations back into Missouri; however, on a net basis, this number will
9 be significantly larger for the year ended September 30, 2017.

10 **Q. HAS SPIRE INCURRED OTHER COSTS TO ACHIEVE THESE SAVINGS?**

11 A. Yes. Spire incurred approximately \$18.8 million in transaction costs in connection with
12 its purchase of Alagasco and \$4.7 million in connection with its purchase of EnergySouth.

13 **Q. HOW HAS THE STAFF REFLECTED THESE SAVINGS AND RELATED COSTS**
14 **IN ITS REVENUE REQUIREMENT RECOMMENDATIONS IN THESE CASES?**

15 A. The Staff has effectively applied all the savings to reduce revenue requirement while
16 recognizing none of the costs that were incurred to achieve them. In fact, the Staff has
17 attempted to go beyond merely capturing all the savings associated with these transactions
18 and has proposed to reduce the Company’s Missouri cost of service even further by
19 reflecting in its capital structure the favorable impact of the debt that was issued by the
20 Company’s parent, Spire, to acquire these companies.

21 **Q. IS SUCH TREATMENT FAIR OR APPROPRIATE FROM A PUBLIC POLICY**
22 **STANDPOINT?**

1 A. No. From a fairness standpoint, I see nothing at all equitable about Staff attempting to
2 seize all of these savings while ignoring the costs incurred to achieve them. Missouri has
3 previously recognized that it is appropriate to provide some opportunity to recover at least
4 a portion of the costs incurred to create such synergies or savings. This opportunity has
5 been afforded in a variety of ways, including permitting the utility to recover certain
6 transition costs of the kind at issue in this proceeding and allowing utilities to retain a
7 portion of the synergies achieved for a number of years before they are reflected and shared
8 with customers in a rate case.

9 **Q. WHY IS IT IMPORTANT TO PROVIDE SUCH AN OPPORTUNITY FROM A**
10 **PUBLIC POLICY PERSPECTIVE?**

11 A. As we have demonstrated in this proceeding, growth activities of the kind undertaken by
12 Laclede and Spire over the past several years can result in significant, long-term benefits
13 for customers. These include the kind of financial benefits that arise from sharing fixed
14 administrative costs over a larger customer base, driving synergies as functions are
15 combined and redundancies are reduced and services are more efficiently supported with
16 more capable resources and business platforms, or as greater scale allows greater
17 purchasing power. They also include the enduring improvements in operational and
18 service performance that are achieved as the best practices from each business are adopted
19 and socialized across all businesses. From a public policy standpoint, it only makes sense
20 to provide a regulatory environment that encourages (or at least does not discourage) such
21 beneficial activities by permitting a more equitable distribution of the savings and costs
22 associated with them.

1 **Q. ARE THERE ALTERNATIVES TO STAFF’S ONE-SIDED APPROACH TO THIS**
2 **ISSUE THAT WOULD ACHIEVE THIS PUBLIC POLICY GOAL?**

3 A. Yes. One would be to deduct from the savings reflected in this case half of the transaction
4 costs incurred to make these acquisitions happen. If amortized over the same five-year
5 period used for those transition costs incurred in connection with the MGE acquisition, this
6 would equate to an adjustment or offset of \$2.35 million. Another approach would be to
7 simply permit the Company to retain, on a one-time basis, a percentage of these cost
8 savings. While I believe permitting the Company to retain 50% of these savings for this
9 one case would be appropriate, at a minimum I would recommend a sharing percentage of
10 at least 25%. This approach would equate to an adjustment of \$3.25 million. A final
11 alternative would be to adjust whatever return on equity is approved in these cases by 10
12 to 25 basis points. The value of such an adjustment would be approximately \$1.75 million
13 for each 10 basis points.

14 **Q. DO YOU HAVE A PREFERENCE FOR ONE OF THESE ALTERNATIVES,**
15 **OVER ANOTHER?**

16 A. I believe any of these approaches would achieve the intended purpose of providing a more
17 hospitable regulatory environment for the kind of growth activities that can significantly
18 benefit customers over the long-term. We would accordingly support whatever alternative
19 the Commission believes is most appropriate to further this goal.

20 **C. TRACKERS AND METRICS**

21 **Q. DID ANY OF THE PARTIES ADDRESS THE COMPANY’S PROPOSALS TO**
22 **ESTABLISH CERTAIN TRACKERS FOR VARIOUS COSTS OR TO**
23 **IMPLEMENT PERFORMANCE AND COST METRICS TO HOLD IT MORE**

1 **ACCOUNTABLE FOR PROVIDING QUALITY SERVICE IN A COST-**
2 **EFFECTIVE MANNER?**

3 A. Not really. Accordingly, I am reserving the right to address in my surrebuttal testimony
4 any comments or recommendations parties may provide on these items in their rebuttal
5 testimony. We have provided responses to DRs that include additional information on the
6 capital investment requirements and depreciation period related to the tracker for major
7 capital projects. Additionally, we have provided in responses to DRs what the process to
8 put such performance metrics in place might look like, what metrics might be considered
9 to hold the Company accountable to the quality, safety and reliability of service, how
10 reporting would occur and how the results would be assessed and included for rate
11 treatment. Given the degree to which performance metrics, including cost management
12 measures, have been historically and successfully used across all industries and various
13 organizations, we believe the parties should have the confidence to adopt the principles
14 relating to the proposal in this proceeding, pending agreement on the specifics, but
15 recognize that, because of the time constraints of this proceeding, the establishment of such
16 metrics might be best achieved in a separate proceeding after the conclusion of these cases.

17 **D. ADVERTISING**

18 **Q. WHAT ISSUES HAVE BEEN RAISED REGARDING THE EXPENDITURES**
19 **MADE BY THE COMPANY FOR ADVERTISING AND ESTABLISHING THE**
20 **NEW SPIRE CORPORATE IDENTITY?**

21 A. The Staff has proposed to disallow certain advertising or external communication costs and
22 normalize other costs. The most significant of these is Staff witness Wayne Hodges’
23 proposed treatment of approximately \$470,000 in costs associated with the Company’s

1 campaign to alert customers of its pipeline replacement or “upgrade” program. (See p. 106-
2 108 of Staff’s Cost of Service testimony)

3 **Q. WHY DO YOU DISAGREE WITH STAFF’S TREATMENT OF THE COSTS**
4 **INCURRED BY THE COMPANY FOR ITS PIPELINE UPGRADE CAMPAIGN?**

5 A. I should note that the Staff does not appear to have a concern with the substance of this
6 campaign or whether its costs should be included in rates. In fact, the Staff has actually
7 proposed that the costs already incurred by the Company be normalized and amortized in
8 rates over a four-year period on the theory that it is one-time cost.

9 **Q. IS THIS A ONE-TIME EXPENDITURE?**

10 A. No. The Company will be continuing this program for the indefinite future. It is designed
11 to ensure that customers are aware of the Company’s ongoing efforts to replace its aging
12 cast iron and unprotected steel facilities; a process that will last at least another 10 to 20
13 years. That said, we did temporarily scale back on this program during our campaign to
14 make customers aware of the name change.

15 **Q. WHY IS IT IMPORTANT FOR CUSTOMERS TO RECEIVE THIS**
16 **INFORMATION?**

17 A. It is important for several reasons. First, the Company’s pipeline replacement programs
18 require that that LAC and MGE crews deploy resources to numerous neighborhoods where
19 facilities need to be replaced. While we take a number of steps to let customers know when
20 we will be working in a particular area, the campaign is an additional tool to advise
21 customers why we have a presence in their neighborhoods and are making physical
22 alterations in and around their streets and sidewalks. Not only does that provide customers
23 with a greater sense of security as to why these activities are taking place, but also

1 minimizes the calls that come into our call center – a result that frees up those resources
2 for other purposes. Second, the expenditures for this program are reflected on customer’s
3 bill every month in the form of a separate charge and we believe that customers have a
4 right to know where their money for this charge is going. The main point, however, is that
5 this campaign will be continuing in the future and the amount excluded by Staff should
6 therefore be reincluded in the cost of service approved by the Commission in these cases.

7 **Q. DOES THIS COMPLETE YOUR REBUTTAL TESTIMONY?**

8 **A. Yes.**