

Exhibit No:
Issue: Management Expenses,
Overtime Adjustment,
Kansas Property Taxes,
St. Peters Lateral
Witness: Michael R. Noack
Type of Exhibit: Surrebuttal Testimony
Sponsoring Party: Laclede Gas Company (LAC)
Missouri Gas Energy (MGE)
Case No.: GR-2017-0215
GR-2017-0216
Date Prepared: November 21, 2017

MISSOURI PUBLIC SERVICE COMMISSION

**LACLEDE GAS COMPANY
MISSOURI GAS ENERGY**

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

SURREBUTTAL TESTIMONY

OF

MICHAEL R. NOACK

NOVEMBER 2017

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1 **SURREBUTTAL TESTIMONY OF MICHAEL R. NOACK**

2 **Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS**
3 **ADDRESS?**

4 A. My name is Michael R. Noack and my business address is 7500 E 35th Terrace,
5 Kansas City, Missouri 64129.

6 **Q. ARE YOU THE SAME MICHAEL R. NOACK WHO PREVIOUSLY FILED**
7 **DIRECT, REBUTTAL AND TRUE-UP TESTIMONY IN THIS**
8 **PROCEEDING?**

9 A. Yes, I submitted direct, rebuttal and true-up direct testimony on behalf of both
10 Laclede Gas Company (“LAC”) in Case No. GR-2017-0215 and Missouri Gas
11 Energy (“MGE”) in Case No. GR-2017-0216.

12 **I. PURPOSE OF TESTIMONY**

13 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY IN**
14 **THIS PROCEEDING?**

15 A. The purpose of my surrebuttal testimony is to respond to certain issues raised or
16 positions taken by the Staff of the Missouri Public Service Commission (“Staff”)
17 and the Office of the Public Counsel (“OPC”) in their rebuttal testimony in these
18 proceedings. These include, among others:

19 (a) OPC’s adjustment to disallow over \$1 million of management expenses
20 based on the review of the expenses of our executive management team.

21 (b) OPC’s opposition to including an expense for Laclede customers paying
22 their gas bill with a credit card.

23 (b) Staff’s proposed adjustment relating to Kansas property taxes incurred
24 by the MGE operating utility.

1 (c) Staff's adjustment to normalize overtime hours for purposes of
2 computing the payroll adjustment.

3 (d) Staff's failure to include the costs expended for the St. Peters Lateral in
4 rate base.

5 **II. OPC ADJUSTMENT TO MANAGEMENT EXPENSES**

6 **Q. OPC WITNESS CONNER IN HER REBUTTAL TESTIMONY STATES**
7 **THAT SHE CONTINUES TO FIND EXAMPLES OF CHARGES IN**
8 **EXCESS OF WHAT IS NECESSARY FOR LACLEDE TO PROVIDE SAFE**
9 **AND ADEQUATE UTILITY SERVICE. HAS WITNESS CONNER**
10 **PROVIDED ANY WORKPAPERS IN SUPPORT OF HER**
11 **ALLEGATIONS?**

12 A. No, she has not. As explained in my rebuttal testimony, while Ms. Conner has
13 copies of each expense report, there are some receipts where the names of the
14 people included in the expense are noted on the back of the receipt or in the notes
15 section of the expense report and not visible to Ms. Conner. In these cases, it might
16 appear that one person spent \$60 on lunch, while in reality, the lunch was attended
17 by four or five people. Ms. Conner did not ask follow-up questions, but assumed
18 that the expense was excessive. Ms. Conner would then proceed to make an
19 adjustment to disallow the entire expense rather than reduce it to a reasonable level.
20 She also adjusted for items that were not charged or allocated to LAC/MGE.
21 Perhaps even worse, was her extrapolation of the officer expenses to each of 430
22 management employees. Senior management is expected to travel, and expense
23 levels will be considerably higher than that of other employees. Most of the
24 employees Ms. Conner extrapolates these officer expenses to would not even

1 charge \$6,000 in out of pocket expenses in an entire year, much less \$6,000 in
2 excessive expenses. It should further be noted that the Company also has a policy
3 that the highest ranking¹ employee at a Company function will pay for any group
4 related expenses. This is yet another reason why one cannot base the business
5 expenses of middle and lower management on the expenses incurred by the officers
6 and senior management of the Company. Finally, the Company travel and expense
7 policy is a guideline in which employees are expected to act reasonably and
8 prudently. As I stated in my rebuttal testimony, this adjustment is severely
9 excessive and overstated and should not be allowed.

10
11 **III. OPC OPPOSITION TO INCLUDING IN COST OF SERVICE AN**
12 **EXPENSE FOR CREDIT CARD PAYMENTS**

13 **Q. PLEASE EXPLAIN YOUR UNDERSTANDING OF OPC WITNESS**
14 **CONNER'S REBUTTAL TESTIMONY IN OPPOSITION TO LACLEDE**
15 **INCLUDING THE COST OF CREDIT CARD PAYMENTS IN RATES.**

16 A. OPC witness Conner refers to this adjustment as the socialization of credit card
17 fees. Her position is that if a customer wants to pay their gas bill by credit card
18 they should be allowed to pay that way so long as they pay the cost of processing
19 the card payment. Her only argument in support of this position is that other
20 ratepayers do not subsidize postage fees for customers who choose to mail their
21 utility bill.

¹ i.e. a Vice-President would pay for a group meal attended by Director level or Manager level employees.

1 **Q. WOULD YOU PLEASE ONCE AGAIN EXPLAIN THE COMPANY'S**
2 **REASONS FOR PROPOSING THE ADJUSTMENT TO INCLUDE AN**
3 **ALLOWANCE FOR CREDIT CARD FEES FOR LAC?**

4 A. Besides the fact that MGE's customers do not pay a fee to pay their bill with a credit
5 card, eliminating the fee for credit card payments is consistent with the approach
6 taken by other businesses for the convenience of their customers. It is also in the
7 Company's interest to accept a credit card payment, as credit card companies are
8 in a much better position to assess creditworthiness and thus to assume the risk of
9 unpaid debt. Another advantage of credit card fees is that the check doesn't get lost
10 in the mail, thereby reducing unnecessary collection notices.

11 **Q. HAVE MGE CUSTOMERS TAKEN ADVANTAGE OF THIS CHANGE**
12 **AND MADE MORE CREDIT CARD PAYMENTS SINCE ELIMINATING**
13 **THE FEE?**

14 A. Yes. When MGE proposed the adjustment in Case No. GR-2009-0355 the number
15 of credit card payments estimated to be made was 228,852 at a discounted rate of
16 \$3.50 per payment. In 2016 MGE received almost 1.6 million electronic payments
17 with an average cost of \$.71 per payment. The number of electronic payments
18 received by MGE is more than double the number received by Laclede.

19 **Q. WOULD YOU EXPECT THE NUMBER OF CREDIT CARD PAYMENTS**
20 **TO RAMP UP TO THE MGE LEVEL RIGHT AWAY OR WOULD YOU**
21 **EXPECT THAT TO HAPPEN OVER TIME?**

22 A. In my adjustment, I used the assumption that each year going forward the number
23 of credit card payments would be on a level equal to MGE's. Upon further
24 reflection, and based on my experience with MGE, it is more likely that the first

1 year there will be an increase, the second year a bigger increase and so forth until
2 roughly the fourth year, when we would expect a level similar to MGE's
3 experience. I have prepared Schedule MRN-S1 which computes an adjustment
4 based on assuming an increase in the number of electronic payments by Laclede
5 customers of 30% the first year, 50% the second year, 75% the third year and then
6 in the fourth year being at the same level as MGE. Averaging those four years
7 amounts to an adjustment of \$1,057,932 or about \$458,000 less than the adjustment
8 shown in the true-up schedules. That would be a reasonable level to use in the cost
9 of service.

10 **IV. PROPERTY TAXES – TAXES ON KANSAS STORAGE GAS**

11 **Q. PLEASE EXPLAIN STAFF'S POSITION ON THE RATE TREATMENT**
12 **FOR KANSAS PROPERTY TAXES ASSESSED ON NATURAL GAS IN**
13 **STORAGE.**

14 A. Staff witness Karen Lyons has proposed to include in rates an ongoing level of
15 property taxes equal to the taxes paid in 2016 of \$1,122,514 and amortize the
16 remaining balance of the regulatory asset for past Kansas property taxes over a new
17 5-year period beginning with the effective date of the order in this case. She is also
18 recommending that the cash tracker that is currently in use for tracking these taxes
19 be eliminated.

20 **Q. DO YOU AGREE WITH THAT ADJUSTMENT?**

21 A. No. As I explained in my rebuttal testimony, the current indicated level of taxes
22 for gas in storage at January 1, 2017 is close to \$1.7 million or about \$600,000 more
23 than Staff's proposed level of current taxes. As of the date of this testimony, the
24 Company has received the tax bills from 4 of the 10 counties, representing

1 approximately 53% of the total county taxes, and each bill is almost exactly the
2 amount that was provided to Staff as an estimate. I would also point out that the
3 \$1.1 million tax amount paid for 2016 was by far and away the lowest level of tax
4 in the 8 years we have been paying this tax.

5 **Q. DO YOU AGREE WITH STAFF THAT THE TRACKER SHOULD BE**
6 **ELIMINATED?**

7 A. No. The level of taxes paid in 2016 of \$1.1 million and the amount of taxes which
8 will be due in 2017 of \$1.7 million highlight the reasons for keeping the tracker.
9 Spire has no control over the level of taxes that are being assessed. The taxes are
10 based on at least 3 factors – the level of gas in storage at January 1, the commodity
11 cost per MMBTU of that gas in storage at January 1, and the mill levies of the
12 counties assessing the tax. Weather and the commodities markets control the first
13 two factors and the tax policy of the county affects the third factor.

14 **Q. WHAT IS YOUR PROPOSAL?**

15 A. If Staff no longer wants to track these property taxes, I recommend the Commission
16 include in rates the tax based on the gas in storage at January 1, 2017, which would
17 be \$1,691,513 based on last year's mill levies and the confirmation from the tax
18 bills already received. The alternative would be to compute an average level of
19 taxes paid over the past 3 or 4 years and continue to track this expense due to the
20 inability of the Company to have any control over these taxes. This would ensure
21 that the Company does not over or under collect such taxes and that customers do
22 not overpay or underpay them.

23 **V. STAFF'S ADJUSTMENT FOR OVERTIME HOURS**

1 **Q. DO YOU AGREE WITH STAFF’S METHOD FOR COMPUTING THE**
2 **OVERTIME PORTION OF THEIR PAYROLL ADJUSTMENT?**

3 A. No I do not. I believe there are two errors in the method of calculating the overtime
4 hours and dollars staff included in their payroll adjustment. The first is the method
5 of computing the average overtime hours to use. The Company does not take issue
6 with the two-year average Staff used to normalize the overtime hours but does take
7 issue with the method of computing the average.

8 **Q. WHAT ARE YOUR CONCERNS WITH STAFF’S METHOD OF**
9 **COMPUTING THE AVERAGE OVERTIME HOURS?**

10 A. Staff used a two-year average which included calendar year 2016 and the first 6
11 months of 2017 multiplied by 2 to arrive at a 12-month number. By computing the
12 2017 hours in that fashion, Staff has totally ignored the period of the year when the
13 most overtime is worked – that being the “fall rush” period when customers are
14 scrambling to get reconnected in advance of the cold weather. The better method
15 would have been to take a two-year average of hours for the 12-month periods of
16 July to June with the average updated to September for true-up purposes.

17 **Q. DID STAFF USE THE PROPER HOURLY RATE TO COMPUTE THE**
18 **OVERTIME ADJUSTMENT?**

19 A. No, that is the second error in the adjustment. In Staff witness Nieto’s rebuttal
20 testimony, she describes how she used the latest overtime wage rate to compute the
21 overtime adjustment. However, Ms. Nieto failed to include the pay increases which
22 went into effect in August and September 2017 for the union employees. Those
23 increases went into effect within the true-up period and should be taken into account
24 in computing the adjustment.

1 **VI. INCLUSION OF ST. PETERS' LATERAL COSTS IN RATE BASE**

2 **Q. WHAT IS STAFF'S RECOMMENDED TREATMENT OF THE ST.**
3 **PETERS LATERAL COSTS?**

4 A. Staff has recommended that the costs incurred prior to reaching an agreement on a
5 contract with MoGas should be amortized and included in rates over a 12-year
6 period, but should not be included in rate base.

7 **Q. DO YOU AGREE WITH STAFF WITNESS LYONS STATEMENT IN HER**
8 **REBUTTAL TESTIMONY THAT STAFF'S TREATMENT IS**
9 **CONSISTENT WITH THE COMPANY'S RECOMMENDATION?**

10 A. No. The Company recommended including in rates amortization of the costs over
11 a 12-year period but also requested inclusion of those costs in rate base.

12 **Q. WHY SHOULD THOSE COSTS BE GIVEN RATE BASE TREATMENT?**

13 A. Investor supplied funds have been expended to achieve those significant cost
14 savings for our customers. The funds were expended for a project to build a line in
15 the western section of LAC's service territory. If completed, this project would
16 have created a significant amount of capital that would have been included in rate
17 base. Rather than pursue this project to completion, the Company sacrificed the
18 potential earnings from this project in exchange for a pipeline discount that will
19 flow \$54 million in savings to LAC customers over the next 12 years. Given the
20 magnitude of those savings and the fact that they significantly exceed the revenue
21 requirement that would be necessary to provide a return on as well as a return of
22 this investment, I believe the Company's proposed treatment of this investment
23 remains the most appropriate and equitable one.

24 **Q. DOES THAT CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

1 A. Yes, it does.

LACLEDE GAS COMPANY
Twelve Months Ending December 31, 2016 Trued up to September 30, 2017

Credit Card Fees

| Line | | Total MGE Credit | MGE Residential | Percent Using | Laclede | Proforma Credit | Current Laclede | Increase in |
|------|--|------------------|------------------|---------------|-------------------|---------------------|-------------------|---------------------|
| No. | Month | Card | Bills | Cards | Residential Bills | Card Payments | Electronic | Electronic |
| | (a) | Transactions | Bills | | | | Transactions | Transactions |
| | | (b) | | | | | | |
| 1 | October | 128,690 | 440,102 | 29.2% | 594,216 | 173,754 | 62,620 | 111,134 |
| 2 | November | 129,459 | 443,515 | 29.2% | 595,564 | 173,841 | 65,078 | 108,763 |
| 3 | December | 133,028 | 450,412 | 29.5% | 602,511 | 177,950 | 65,703 | 112,247 |
| 4 | January | 144,724 | 457,505 | 31.6% | 610,284 | 193,053 | 75,110 | 117,943 |
| 5 | February | 146,405 | 458,237 | 31.9% | 610,446 | 195,035 | 79,413 | 115,622 |
| 6 | March | 166,098 | 460,561 | 36.1% | 611,844 | 220,657 | 94,072 | 126,585 |
| 7 | April | 140,540 | 458,966 | 30.6% | 608,979 | 186,475 | 78,351 | 108,124 |
| 8 | May | 156,795 | 440,969 | 35.6% | 607,271 | 215,927 | 88,193 | 127,734 |
| 9 | June | 143,581 | 469,849 | 30.6% | 604,588 | 184,756 | 80,581 | 104,175 |
| 10 | July | 139,180 | 452,137 | 30.8% | 601,748 | 185,234 | 71,788 | 113,446 |
| 11 | August | 144,317 | 449,631 | 32.1% | 599,709 | 192,487 | 75,991 | 116,496 |
| 12 | September | 127,224 | 447,844 | 28.4% | 598,104 | 169,910 | 66,337 | 103,573 |
| 13 | Total | <u>1,700,041</u> | <u>5,429,727</u> | | <u>7,245,265</u> | <u>2,269,081</u> | <u>903,237</u> | <u>1,365,844</u> |
| 14 | Average MGE Transaction Cost | | | | | \$ 0.70 | \$ 0.70 | \$ 0.70 |
| 15 | Adjustment | | | | | <u>\$ 1,594,554</u> | <u>\$ 634,733</u> | <u>\$ 959,821</u> |
| 16 | Year 1 increase in credit card payments - 30% increase | | | | | | | 409,753 |
| 17 | Year 2 increase in credit card payments - 50% increase | | | | | | | 682,922 |
| 18 | Year 3 increase in credit card payments - 75% increase | | | | | | | 1,024,383 |
| 19 | Year 4 increase in credit card payments -100% increase | | | | | | | 1,365,844 |
| 20 | Average increase in payments | | | | | | | <u>870,726</u> |
| 22 | Total Payments | | | | | | | 1,505,458 |
| 22 | Average MGE Transaction Cost | | | | | | \$ | 0.70 |
| 22 | Adjustment | | | | | | | <u>\$ 1,057,932</u> |

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

In the Matter of Laclede Gas Company's)
Request to Increase its Revenues for Gas) File No. GR-2017-0215
Service)

In the Matter of Laclede Gas Company)
d/b/a Missouri Gas Energy's Request to) File No. GR-2017-0216
Increase its Revenues for Gas Service)

AFFIDAVIT


STATE OF MISSOURI)
) SS.
COUNTY OF JACKSON)

Michael R. Noack, of lawful age, being first duly sworn, deposes and states:

1. My name is Michael R. Noack. I am Director of Pricing and Regulatory Affairs for Missouri Gas Energy, an operating unit of Laclede Gas Company. My business address is 7500 E. 35th Terr., Kansas City, Missouri, 64129.

2. Attached hereto and made a part hereof for all purposes is my surrebuttal testimony on behalf of Laclede Gas Company and MGE.

3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct to the best of my knowledge and belief.



 Michael R. Noack

Subscribed and sworn to before me this 15th day of November 2017.



LINDA L LANE
My Commission Expires
May 20, 2018
Clay County
Commission #14418000

Linda L. Lane

 Notary Public