



**LAC Position:** LAC estimates property taxes to be approximately \$400,000.

## II. Incentive Compensation

- a. *What level of expense should be included in the cost of service to account for incentive compensation plans utilized by LAC/MGE?*

**LAC Position:** Offering employees the opportunity to earn a portion of their compensation through market-based incentives is a common, prudent and wise way to operate a business and attract qualified applicants. The Company has made its operations more efficient, lowered its historical inclining cost profile, as evidenced by the modest rate increases requested in these cases, and improved its service, all successes achieved through the efforts of employees, who have been compensated at a market-based rate through base salary and incentives. It is only reasonable for customers who are reaping these benefits to pay the market value compensation of the employees who produced them. This should include all of the hard-working employees of the Company, from the entry level clerks to the executives.

The Commission should include in rates the earnings based incentives as part of the incentive compensation package. Spire Missouri's revenues are based on its cost of service. If employees can increase the Company's earnings by controlling those costs, customers will benefit. In fact, customers are benefitting in these rate cases through rates that are lower than they would otherwise be. Likewise, employee efforts that increase revenues by activities such as customer growth, also benefit customers, because more revenues for the Company means less the customer has to pay in increased rates. The Commission has previously approved incentive programs with an earnings component when accompanied by service and operational components in a 'balanced scorecard.' (See *re: Ameren*, Case No. ER-2008-0318, Report and Order dated January 27, 2009)

In the absence of an earnings based incentive program in the market, the Company would have to offer additional base salary in order to attract employees. Of course, a payment of increased base salary at a market rate would almost certainly go unchallenged. However, LAC/MGE prefers to manage through incentives which are designed to align the interests of employees and customers and enhance performance levels.

With respect to capitalizing incentive compensation, employee compensation is a mix of capital and expense, based on the employee's function. All compensation should follow the employee's capital-expense ratio, including

base wages and salaries, performance based compensation and earnings based compensation. The Commission should not make a capital adjustment for any compensation, but if the Commission decides to make an adjustment, it should be applied only to the equity incentive program and only back as far as the previous rate case.

### III. OPC Issue - **Forest Park Depreciation Reserves**

- a. *Did Laclede improperly use mass asset accounting in addition to gain accounting for the retirement of the Forest Park buildings? If yes, what adjustment should be made to reserves?*

**LAC Position:** This is not a true-up issue, but was raised and presented in the main hearing. The Commission should strike OPC's testimony, and remove this issue from the true-up issues list. If the Commission decides to accept the improper testimony, it should also accept the affidavit of Glenn Buck on this issue, which shows that the customer has again benefitted from the Forest Park sale, as the capital amount contributed by the Company from relocation proceeds reduced rate base, while the Forest Park buildings written off by the Company had no effect on rate base.

### IV. Company issue - **Weather Normalization Adjustment Rider Tariff**

- a. *What modifications, if any, should be made to the weather normalization adjustment rider tariff submitted by Staff on the last day of the evidentiary hearing as Exhibit 281?*

**LAC/MGE Position:** The Weather Normalization Adjustment Rider Tariff (hereinafter "WNAR Tariff") was submitted by the Staff on the last day of the evidentiary hearing in these proceedings and marked as Exhibit 281. The Company reserved the right to comment on this tariff during the true-up hearing. While the Company is open to considering the Weather Normalization Tariff in place of the Revenue Stabilization Mechanism ("RSM") it has proposed in these cases, there are several changes that would need to be made to the WNAR Tariff to make it an acceptable and workable alternative to the RSM.

First, like the proposed RSM, the WNAR Tariff should be approved for both LAC's and MGE's Residential and Small General Service Classes. Because the WNAR Tariff adjustments would not vary based on non-weather-related changes in customer usage, Staff's previous objections to applying the RSM to the Small General Service Classes should not be an obstacle to applying the WNAR Tariff to these classes.

Second, the arbitrary \$0.01 per therm (or ccf) limit on adjustments under the WNAR Tariff should be eliminated as its practical effect would be to substantially increase rather than mitigate the exposure of both the Company and its customers to the financial impact of weather-related changes in customer usage compared to today. This would effectively eviscerate the entire purpose of such a tariff. Elimination of this adjustment limit would also be consistent with the operation of the Company's PGA clause, the statute that authorizes this kind of mechanism and the vast majority of similar clauses approved in other jurisdictions. If the Commission determines that some limit is appropriate, I would recommend that it: (1) be a limit only on **upward** adjustments and (2) that it be set at \$0.05 per therm or ccf. This would ensure that any monthly increase for the average customer would not exceed \$3.35 while providing customers with an opportunity to receive a larger monthly decrease if the weather is exceptionally cold. The WNAR Tariff should also provide that any adjustment amounts falling outside the \$0.05 limit would be deferred for recovery from customers in the next WNAR adjustment.

Third, the WNAR Tariff should allow for at least three adjustments per year, including the annual required one. If the WNAR is to provide bill relief to customers in a cold winter and balances are to be kept at appropriate levels, at least 3 adjustments should be authorized; provided that, like the PGA mechanism, there must be at least 60 days between each adjustment.

Respectfully submitted,

**/s/ Rick E. Zucker**

Rick E. Zucker #49211  
Associate General Counsel  
Laclede Gas Company  
700 Market Street, 6th Floor  
St. Louis, MO 63101  
(314) 342-0533 (telephone)  
(314) 421-1979 (fax)  
E-mail:[rick.zucker@spireenergy.com](mailto:rick.zucker@spireenergy.com)

**/s/ Michael C. Pendergast**

Michael C. Pendergast #31763  
Of Counsel  
Fischer & Dority, P.C.  
423 Main Street  
St. Charles, MO 63301  
(314) 288-8723 (telephone)  
E-mail:[mcp2015law@icloud.com](mailto:mcp2015law@icloud.com)

ATTORNEYS FOR LAC AND MGE

**CERTIFICATE OF SERVICE**

I certify that a true and correct copy of the foregoing was served electronically, or hand-delivered, or via First Class United States Mail, postage prepaid, on all parties of record herein on this 2nd day of January, 2018.

**/s/ Marcia Spangler**