

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

In the Matter of the Application of Laclede)
Gas Company to Change its Infrastructure) **Case No. GO-2015-0341**
System Replacement Surcharge in its)
Laclede Gas Service Territory)

In The Matter of the Application of Laclede)
Gas Company to Change its Infrastructure) **Case No. GO-2015-0343**
System Replacement Surcharge in its)
Missouri Gas Energy Service Territory)

**STATEMENT OF POSITION OF
LACLEDE GAS COMPANY AND MISSOURI GAS ENERGY**

COMES NOW Laclede Gas Company (“Laclede”) and Missouri Gas Energy (“MGE”), and submit their Statement of Position in the respective above captioned cases, stating as follows:

1. The Statement of Position is presented in the same order as the List of Issues previously submitted by the parties.

ISSUE A. Are the regulator stations included in Laclede’s ISRS petition eligible for ISRS recovery under Section 393.1009(5)(a) RSMo?

POSITION: Yes. Section 393.1009(5)(a) RSMo (“Section 5(a)”) defines ISRS eligible gas utility plant projects as “Mains, valves, service lines, **regulator stations**, vaults and other pipeline system components installed to comply with state or federal safety requirements as replacements for existing facilities that have worn out or are in deteriorated condition.” (emphasis added) The two regulator stations in this ISRS filing are eligible for ISRS recovery under Section 5(a) because they were installed to comply with

federal or state safety requirements to replace old regulator stations that were worn out or in deteriorated condition.

These regulator station replacements are part and parcel of a larger Safety Replacement Program under which Laclede is replacing cast iron mains in the older part of its service territory in and around the City of St. Louis. Because the pressure system in this area is a low-pressure system (“LP System”), it features large diameter mains and more than 120 regulator stations. In order to replicate the LP system while replacing the cast iron main and most of the old regulator stations, including many with cast iron components, Laclede would need to buy more expensive large diameter mains and replace dozens of regulator stations, causing greater disruption in city streets and around homes, and at a much higher cost. Instead, Laclede has opted to install an intermediate pressure system (“IP System”) in connection with its cast iron main replacement program. This will allow Laclede to replace large diameter mains with less expensive smaller diameter mains, which are easier and cheaper to install. It will also allow Laclede to replace over 120 mostly old regulator stations (some dating to early last century) with *only six new regulator stations*, at a substantial cost savings.

In truth, Laclede really had no other reasonable choice but to convert to an intermediate pressure system in executing its cast iron main replacement program in the City of St. Louis. Low pressure systems are expensive and inconvenient to customers, because they allow water to

infiltrate the piping, causing operational and potential safety issues. As a result, the dinosaur LP systems are disappearing from the natural gas landscape. In summary, converting to an industry-standard IP system while replacing cast iron main and the associated regulator stations was significantly less expensive and more convenient for customers.

ISSUE B. Is the telemetric equipment included in Laclede's ISRS petition eligible for ISRS recovery under Section 393.1009(5)?

POSITION: Yes. Telemetry devices are pipeline system components that are crucial to Laclede's ability to monitor the pressure in its system. Both federal and state safety rules require that Laclede system be equipped with these devices, which are essentially computers that monitor and transmit pressure information. The telemetry equipment in this ISRS filing was installed to replace existing telemetric equipment that was worn out or was in a deteriorated condition.

The old analog equipment that Laclede replaced was turn of the century vintage, had lasted over 10 years, and Laclede was either experiencing or expecting to experience failures. The replaced equipment was undoubtedly deteriorated, because it had not only become obsolete by the discontinuance of the product line in 2007-2009, but was past obsolete by the discontinuance of parts and repair support by its manufacturer in 2011. This created the risk that Laclede would not be able to promptly repair equipment that suffered an outage. As a result, this old telemetry equipment was diminished, impaired and inferior in quality and value.

- C. (i) May Laclede and MGE submit estimated “budget” ISRS investments in the petition that are later replaced with actual ISRS investments?; and
- (ii) May Laclede and MGE update reserves for depreciation and accumulated deferred income taxes related to actual ISRS investment?

POSITION

- (i) Yes. There is nothing in the ISRS statutes or rules that prohibit updating ISRS schedules for continuing investments. This is the same practice used in every rate case, wherein the utility estimates amounts for an expected update period, which is later trued-up to actual. While Staff is not required to perform an update, the Company and Staff have agreed that Staff would do so several years ago, in connection with Laclede’s agreement to also bring forward depreciation and deferred tax reductions. Over time, the parties have developed a smoothly operating process, in which Laclede expedites its provision of the updated ISRS information, leaving Staff sufficient time to review the updated information for ISRS purposes (a full prudence review of the investments remains available in a rate case). The update period for Laclede and MGE is limited to two months, while depreciation and deferred tax reductions are updated further, in this case, three and one-half months.

The well-established, effective and common practice of updating ISRS information for new investments that are in service,

used and useful, does not violate the ISRS statute; rather, it fits squarely within, and actually supports, the intent of that statute, which is to encourage gas safety investments by allowing more timely cost recovery of these investments, subject to a targeted audit process backstopped by a later prudence review.

- (ii) As set forth in C.(i) above, Laclede and Staff agreed to update both depreciation and deferred tax expense reductions along with updating ISRS investments. It is both lawful and fair to update both of these items, which result in increases and offsetting decreases to ISRS filings. Laclede and MGE believe that if the Commission decides not to permit updating of ISRS investments, the same should apply to updating depreciation and deferred taxes.

WHEREFORE, Laclede Gas Company and Missouri Gas Energy respectfully request that the Commission accept for its consideration this Statement of Position.

Respectfully submitted,

/s/ Rick Zucker

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Certificate of Service

The undersigned certifies that a true and correct copy of the foregoing pleading was served on the parties to this case on this 9th day of October, 2015, by hand-delivery, e-mail, fax, or by United States mail, postage prepaid.

/s/ Marcia Spangler