

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

In the Matter of Laclede Gas Company’s) **File No. GR-2017-0215**
Request to Its Revenues for Gas Service) Tariff No. YG-2017-0195

In the Matter of Laclede Gas Company d/b/a) **File No. GR-2017-0216**
Missouri Gas Energy’s Request to Increase) Tariff No. YG-2017-0196
Its Revenues for Gas Service)

SPIRE MISSOURI INC.’S REQUEST FOR CLARIFICATION

COMES NOW Spire Missouri Inc. (f/k/a Laclede Gas Company, and referred to herein as “Spire Missouri” or the “Company”) and files this Request for Clarification of the Commission’s February 21, 2018 Report and Order (“Order”) in the above cases, stating as follows:

1. Spire Missouri recognizes that these cases presented the Commission with an extraordinary number of complex issues to consider and decide. The Company very much appreciates the diligence with which the Commission and the RLJ went about the task of sorting through and resolving numerous issues in a very tight time frame. Because there were so many issues to resolve within such a short period of time, however, the Company believes it could benefit from additional clarification on a handful of issues. In addition to this request for clarification, the Company is reserving its rights to seek clarification, modification or rehearing on other aspects of the Order not specifically addressed herein.

2. The Company respectfully requests that the Commission clarify four aspects of its Order that address: (a) the intended treatment of capitalized incentive compensation costs; (b) the need for implementing transition rates for the upcoming summer period; (c) the intended effect of trackers, including those established for income taxes and property taxes; and (d) the intended purpose of the working group process that will be established to review the Company’s current Cost Allocation Manual (“CAM”). Each of these requests for clarification is discussed in turn.

Disallowance of Capitalized Earnings-Based Incentive Compensation

3. The Company seeks clarification that the Commission is not disallowing the capitalized portion of earnings-based incentive compensation in this case. This clarification is consistent with the statements made and positions taken by the Commissioners during the February 15 agenda meeting that such disallowances would apply only on a “going forward” basis. It is also consistent with the final sentence of the decision on page 124 of the Order that “*no* adjustment shall be made to remove the present value of any capitalized past incentive compensation.” Finally, it is consistent with the fact that the Company capitalized such compensation in good faith without a Commission order to the contrary. In fact, the most recent Commission order on the subject, in Case No. ER-2008-0318, approved an incentive compensation plan that, like Spire’s, was a mix of earnings-based and performance-based metrics.

4. The Commission considered this issue at its February 15 agenda meeting. The Commission determined that the Company would be at risk for a disallowance if it capitalized earnings-based incentive compensation going forward, but that there would not be a disallowance in this case for compensation that has already been capitalized. A transcript of the discussion on this issue by the Commissioners is attached hereto as Exhibit A. It fully supports the position described herein.

5. However, in the decision on page 124 of the Order, it is unclear whether the Commission intends to remove the capitalized portion of earnings-based incentive compensation going back to the Company’s last rate cases in 2013-2014. If so, this is not the result that the Commissioners voted for on February 15, when they said the risk of capital disallowance would be applied “going forward.” Clarification as requested herein would enable the Company to avoid a significant write-off. (See Exhibit 71 in this case)

6. The Company therefore requests that the Commission clarify its decision on this issue and, consistent with its February 15 discussion and the concluding sentence of its decision on this issue, confirm that there is no disallowance in this case for the capitalized portion of earnings-based incentive compensation. The Company understands that it is at risk for future capitalizations of such earnings-based incentive compensation for non-Union employees going forward.

Transition Rates

7. The Company seeks clarification from the Commission that transition rates are appropriate through September 2018 for the significant change in rate design in these cases, which provide customers with a lower fixed charge and simplified rate structure, but could be financially detrimental to the Company if implemented during a period of low usage. In its original April 11, 2017 rate case filing, the Company requested residential transition rates that would cover the period from the end of the rate case until the end of September 2018, when the transition to permanent rates would take effect. Spire Missouri West had implemented these same transition rates in its 2014 rate case (Case No. GR-2014-0007). On page 85 of the Order, the Commission presented the issue of residential customer charges and transition rates. In the Order, the Commission addressed the customer charge issue at length but did not appear to decide the transition issue.

8. Spire Missouri linked reduced residential customer charges to transition rates in that original April 11, 2017 filing. The Company did so because, it knew that while lower customer charges would benefit customers, it would detrimentally impact the Company if implemented in the Spring. The requested transition rates held fixed charges, including ISRS, steady and adjusted the usage charge to allow for summer revenues to recover a similar percentage of the revenue

requirement as the current rate design, but applied to the new revenue requirement. The proposed tariffs then provided for reduced fixed charges effective October 1, concurrent with the start of the Company's fiscal year. Without doing so in these cases the Company will have its revenues reduced by **_____** during this transition period; however, the \$17 million in lower annual revenue requirement approved in the cases would indicate this transition period should only be lower by \$7 million to maintain the same recovery percentage as the current rate design. If not addressed, this would result in a one-time loss of nearly **_____** in revenues during the remaining fiscal year for the Company, simply because its rate structure was changed to a more customer-friendly rate design at a disadvantageous time.

9. Currently, Spire Missouri East's residential fixed charges are \$23.44, and the new customer charge will be \$22, a reduction of \$1.44 per month, or 6.1% from existing fixed charges. Given the fact that Spire Missouri's revenue requirement is declining in this case, a reduction to a \$22 residential monthly customer charge, as approved by the Commission, is acceptable for the transition period, which allows for the volumetric rate to be similar to the current average volumetric rates for Spire Missouri East, before settling into permanent rates with a lower volumetric charge. Spire Missouri West's residential fixed charge is currently \$25.41, and its new customer charge will be \$20. Maintaining Spire Missouri West's current \$23 residential customer charge for the transition period would represent a reduction of \$2.41 per month, or 9.5%, from existing fixed charges, which results in a volumetric rate nearly the same as the permanent volumetric rate, before settling into permanent rates with a lower customer charge. In total, by utilizing transition rates the combination of the proposed customer and volumetric charges to be in effect during the summer transition period would result in the same percentage reduction for the typical residential customer as the overall percentage reduction the Commission has approved on

an annual basis of approximately 5% for Spire Missouri East, and 1% for Spire Missouri West. The Company will work with Staff to review these rates, which would lower costs for customers during the interim period and provide additional reductions effective October 1, ahead of the winter period, at which time the permanent rates would go into effect.

Effect of Trackers

10. The Commission discussed a number of different trackers in the Order. The Company seeks clarification on one aspect of these trackers. Specifically, a tracker mechanism ensures that rate recovery over time equals the actual reasonable and prudently incurred cost of the item tracked, not more and not less. (See Order, p.12, par. 12). Consistent with that principle, the Order provided for the continuance of the existing Kansas Property Tax tracker, which is designed to fully reconcile the \$1.45 million allowance for such taxes in rates to the actual property taxes paid by the Company, with any difference to be recovered from or returned to customers in Spire Missouri West's next rate case. (Order, p. 26)

11. However, other trackers established by the Commission in these cases do not refer to tracked amounts being recovered or returned in the next rate case, but for "possible inclusion," "possible recovery," or "potential recovery" in the next rate case. These include the current and deferred tax trackers ("possible inclusion," pp. 113-14, 146), the property tax tracker ("possible inclusion," pp. 114-15), and the AMR maintenance tracker ("possible recovery" or "potential recovery," pp. 143-44).

12. The Company seeks clarification that these trackers are not intended to be discretionary items for the Commission's consideration in the next rate case, but are instead intended to operate as defined on page 12 of the Order, to provide full recovery of actual reasonable and prudent costs, not more and not less.

Cost Allocation Manual

13. Spire Missouri requests clarification that the Commission intends to establish a working group for interested stakeholders to review the Company's CAM for potential modifications and updates, and not to require that the existing CAM be scrapped and the document rewritten in its entirety.

14. Spire Missouri uses a CAM that was agreed to by Staff, Public Counsel and the Company, and approved by the Commission in 2013. (Order, p. 57) This CAM has worked well for the last four years. In this case, the parties submitted a CAM issue asking the following: "Should a working group be created following this rate case to explore ideas for modifying the LAC and MGE CAM?" The Commission found that Staff, Public Counsel and the Company all supported a working group to explore ideas to consider changes to the CAM. (*Id.*)

15. No party suggested that the current approved CAM be jettisoned and the parties made to start from scratch. In fact, Public Counsel sought to verify the Company's compliance with the existing CAM. Spire Missouri asks the Commission to clarify that the working group should explore ideas for modifying the CAM, but that the Company not be required to completely rewrite it if the parties to the working group do not believe that to be the best course.

WHEREFORE, Spire Missouri respectfully requests that the Commission clarify its Order on the issues outlined above in a manner consistent with the requests set forth herein.

Respectfully Submitted,

/s/ Rick Zucker

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ATTORNEYS FOR SPIRE MISSOURI INC.

CERTIFICATE OF SERVICE

The undersigned certifies that a true and correct copy of the foregoing pleading was served on the parties of record in these cases on this 27th day of February, 2018 by hand-delivery, fax, electronic mail or by regular mail, postage prepaid.

/s/Marcia Spangler

February 15, 2018 Agenda Meeting
Incentive Compensation Discussion

43:05:

Chairman Hall:

...Four of us agreed that, going forward, we do not want the Company to have an incentive compensation package that includes an earnings-based component. And, going forward, we do not want that included in rates and we don't want, going forward, for it to be capitalized based upon whether the labor is in connection with capital work, capital project.

Having said that, I don't think it is appropriate to go backwards and try to figure out the extent to which the Company capitalized earnings-based compensation in the past. I don't think the evidence is supportive of that approach. It feels a little bit like retroactive ratemaking. If the Company was doing something in violation of a tariff, then we should have a complaint case and we should take that issue up, but I don't think that the prior black box settlements made it clear what to do on this, which is one reason I don't like black box settlements. I'll return to script...

So I'm going to change my position on this narrow issue - that I don't think we should go backwards and try to capture the extent to which earnings-based compensation was capitalized, but I want to make it very clear that this Commission does not approve of that practice.

Commissioner
Kenney:

Thank you for bringing this issue back up Mr. Chairman. I was unaware that the \$1.9 million of past earning incentives was up for recapture. I realize the \$4.8 million that was non-Union incentive, earnings-based - I did not support that, but I appreciate your bringing this up. I support your position.

Commissioner
Rupp:

Yeah, I'm still not 100% sold why its bad policy to do this moving forward. But I definitely don't want to go back and do any recoup. So, in the spirit of compromise, Mr. Chairman, I could go along with your position, especially since last time it was 4-1, and I believe that's where the votes are.

Commissioner
Coleman:

I think that you said it very well, Mr. Chairman, so I'll support that position.

Commissioner
Silvey:

Yes, I'll support the Chairman's position.