

managed its taxes, which have already resulted in tens of millions of dollars in savings to customers through a significantly lower effective rate for current taxes, as well as hundreds of millions of dollars in deferred taxes that help offset its rate base investments – both of which have already been reflected in rates or are included in these rate cases. Because the Company has already reduced its effective federal tax rate as a result of these actions, there will be somewhat less of an impact from the reduction in corporate tax rates set forth in the Tax Law. That said, the impacts will still be significant and should be addressed in a timely way.

4. In doing so, the Company would simply point out that because the Tax Law became effective some three months after the September 30, 2017 ending date of the True-up period in these proceedings. A strict application of the procedural orders in these cases and traditional Commission ratemaking practices would argue that recognizing the impacts resulting from the Tax Law in these cases is not appropriate. As Staff pointed out in its argument to disallow property taxes associated with the Company's AMR purchase:

Staff accepts that for the matching principle and regulatory lag to work, they must work in a symmetrical manner for both ratepayers and shareholders. So, if a cost cutting measure occurs outside the test year, the shareholders benefit until the rate case passes those savings onto customers.

For instance, there are several upcoming cost reductions that could offset increases to property taxes and plant investment, such as the newBlue allocation to Alagasco and EnergySouth, *and the reduction in taxes due to the recently passed tax reform*. Staff, for its part, has not violated the matching principle by reaching outside the test year to lower Spire Missouri's cost of service.

(Staff Reply Brief pp 63-67; *emphasis supplied*)

5. Staff's concern focuses on applying ratemaking practices and principles in a consistent manner, including a strict interpretation of the matching principle. In Staff's view, this would preclude recognition of cost or revenue changes occurring after the end of a true-up or update period in a rate case. And given the Staff's statement during the evidentiary hearing that it would be unlawful to violate this principle (Tr. 2587), the Company expects that the Staff

would continue to take the position that such effects cannot be recognized.

6. The Company believes, however, that strict application of the matching principle has often done more harm than good, and it is one of the primary reasons that the Company has advocated for legislation that would modernize the rate case process in Missouri by extending the Commission's ratemaking determinations to periods between rate cases and allowing more frequent recognition of significant revenue and cost changes in a manner that continually considers all relevant factors. In fact, legislation pending in the Missouri General Assembly would flow through these tax changes to customers as part of an annual true-up mechanism.

7. In these cases, the Company has only asked for fair treatment, meaning recovery of its current cost of providing utility service under a rate design that provides a reasonable opportunity to achieve that objective. To that end, while Commission ratemaking practices and even the law may preclude recognition of these effects from the Tax Law, the Company believes it has the right to voluntarily permit these benefits to be flowed through to its customers as part of a reasonable, overall resolution of these rate cases. The Company does not expect to retain an undue benefit related to this tax law change.

8. In furtherance of that goal, the Company has attached hereto, and incorporates by reference herein, the affidavit requested by the Commission. In it, the Company seeks to quantify, as best it can at this time, the effects of the Tax Law on the Company's proposed cost of service. Please note that the attached affidavit contains material non-public data and is being filed as Confidential under 4 CSR 240-2.135(8).

9. As explained in the attached affidavit, determining the effects of the Tax Law is a difficult task given the comprehensive nature of the changes being made in the tax code, the fact that the Tax Cuts and Jobs Act was signed into law just one month ago, and the fact that guidance has yet to be issued by the Treasury Department on several key and material areas. In

addition, the legislation and the related commentary and guidance is over 1,000 pages long, and the Company must evaluate each tax position that it has used in order to understand the impact on the effective tax rate. These positions include, among others, the treatment of incentive compensation, the loss of bonus depreciation and the taxation of certain payments such as Contributions-in-aid to Construction that were previously untaxed. The Company has, for many years, used a prudent but assertive position on these and other tax matters and is still assessing its tax positions to determine which, if any, are impacted.

10. In addition, there are several significant issues that are yet to be resolved in the rate cases, and while testimony to date has focused on the revenue or cost of service impact of these issues, there is also an income tax impact associated with these items. As a result, decisions yet to be made by the Commission in the rate cases, on issues such as ROE, capital structure, rate base, incentive compensation and others, will directly and significantly impact the magnitude of the Tax Law changes.¹

11. In light of these uncertainties, the Company has accordingly attempted to quantify the impact of the Tax Law changes by: (a) applying the new federal tax rate provided in the Tax Law to the cost of service proposed by the Company for MGE and LAC in these cases, and (b) recognizing certain offsetting cost changes that have also incurred since the end of the true-up period, most notably property tax assessments that have now been paid by or

¹ The impact of the Tax Law will also be influenced by a wide-variety of other complex and detailed factors such as the Law's effect on deferred taxes, which are now a rate base offset, but will have to be revalued (lowered) to reflect the new federal tax rate, and that reduction amortized into customer rates over time as the underlying timing differences reverse (principally those associated with accelerated tax depreciation). That calculation is particularly complex and the reversal period will likely stretch up to 20 years, based on our initial assessment. Accordingly, the Company believes this issue should be addressed separately. The Company understands from how the 1986 tax reform was addressed in Missouri, that deferred taxes were handled in separate proceedings because of their complex nature and underlying drivers. As such, we would recommend the deferred tax impacts be handled in a separate proceeding and adjustment.

assessed to the Company.² Both the incremental effect of these Tax Law changes as well as the overall revenue requirement that would result from them for MGE and LAC are quantified in the Affidavit.³

12. The Company hopes this information has been useful and it will be happy to provide additional information or scenarios if that would be helpful to the Commission. Simply put, the Company is committed to working with the Commission to turn this post-true-up event into additional savings we can provide to our customers in an equitable and timely manner. Spire Missouri is justifiably proud of the fact that it has not raised base rates for anything other than ISRS charges since 2010. As noted above, the record is replete with the benefits Spire Missouri has brought to its customers over that period. Spire Missouri appreciates the Commission's efforts to add the Tax Law savings on top of these benefits for our customers and, in that same spirit, the Company looks forward to the Commission reaching a balanced resolution to this issue along with the many other items under consideration in this case.

13. The Company would respectfully request that the Commission extend the date for requesting a hearing until January 26, 2018 to afford it an opportunity to review the responses of other parties before making a decision on whether a hearing is necessary.

WHEREFORE, for the foregoing reasons, Spire Missouri Inc. respectfully requests that the Commission accept this response and affidavit and extend the date for requesting a hearing until January 26, 2018.

²It should be noted that the Company's quantification of these property taxes does not include the Company's AMR investments, since those costs are already included in the Company's proposed cost of service for LAC. In terms of recognizing these costs, the Company would simply observe that if a departure from the Commission's ratemaking practices is appropriate to recognize the post-true up effects of the Tax Law, there should be no complaint about making allowance for these effects as well.

³ Please note that the downward effect of the Tax Law changes on revenue requirement would be less if applied to the cost of service recommendations of the Staff or other parties, since they are designed to produce less income.

Respectfully submitted,

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ATTORNEYS FOR SPIRE MISSOURI INC.

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 22nd day of January, 2018.

/s/ Rick Zucker