

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

In the Matter of a Working Case to)
Consider Policies to Improve)
Electric Utility Regulation) **File No. EW-2016-0313**

ADDITIONAL COMMENTS OF LACLEDE GAS COMPANY

COMES NOW Laclede Gas Company (“Laclede” or “Company”), pursuant to the Commission’s June 8, 2016 *Order Opening a Working Case to Consider Policies to Improve Electric Utility Regulation*, and submits the following Additional Comments in this proceeding.

Laclede is a public utility and gas corporation subject to the Commission’s regulatory jurisdiction. Through its operating units, Laclede Gas and Missouri Gas Energy, Laclede currently provides natural gas distribution services to over 1.1 million residential, commercial and industrial customers in Missouri.

We have taken great interest in the working case opened by Chairman Hall and the Commission in June of this year to consider policy initiatives to enhance regulatory mechanisms in order to meet current challenges. We appreciate the Commission’s efforts to continue the dialogue to study policy changes that better meet the modern ratemaking and regulatory needs of Missouri utilities and their customers. While the Working Case is formally geared towards electric utility regulation, as noted in our submission in July, we believe that broadening this topic could be valuable to all utilities, though solutions may naturally need to be tailored to each industry.

Through their dedicated employees and critical infrastructure, utilities have, for well over a century, provided Missouri residents, merchants and manufacturers the vital energy to fuel their production, commercial and home-life needs – in essence to increase their productivity and enrich their lives, while in turn developing the economy and the State. For a number of years

now, utilities have attempted to promote regulatory reforms necessary to address a host of current issues – but with limited success. We recognize such efforts must be done in a balanced and transparent manner that maintains or enhances customer service and protections, and creates accountability and incentives for utility performance. Most importantly, these reforms must continue promoting safe, reliable, and affordable energy to our customers. As such, we are pleased to see that regulators and legislators are interested in continuing this dialogue to assess regulatory policy reforms that have the potential to benefit both customers and the utilities that serve them.

The core foundation of the regulatory structure that has provided oversight for Missouri utilities has been in existence for over a century. This structure has remained largely unchanged over generations, with a few exceptions, some of which have been put into effect to help mitigate specific business challenges, while other solutions were enacted but never implemented due to the contentiousness of the current regulatory environment. Meanwhile, innovations in technology have dramatically changed the way utilities obtain, process, analyze, communicate and report operational and financial data. These improvements include enhanced communications between service representatives and field workers, as well as more granular data to support better business metrics that permit managers to effectively and efficiently run the company and interact with the community, investors, and regulators. Developments have been no less dramatic in production areas, which have lowered energy commodity prices, reduced volatility and promoted additional uses – new equipment, new businesses, new or expanded service territories – all adding to the health and development of Missouri’s economy.

At the same time, utilities have experienced business challenges related to aging infrastructure, which now needs upgrading to provide safety, reliability, efficiency and

environmental benefits to their customers. More recent challenges have also raised unexpected barriers to growth, formed by the current environment that enables and rewards contentious, litigious battles against change, rather than fostering a working collaboration to create progress. Such significant innovations, developments and challenges mean that reforms that were not previously possible or necessary now are, and as such, it is both practical and necessary to consider meaningful enhancements to the historic regulatory structures and ratemaking methods to meet the challenges of the modern era.

Key Business Challenges for Missouri's Utility Industry

- Litigious, contentious and dated process with limited interaction or collaboration
- Aging infrastructure impacting safety, reliability and efficiency of the utility's system
- Uncertainty caused by periodic, large rate cases and weather variances
- Limited customer protections and company performance incentives
- Challenging rate design issues related to energy efficiency and low-income customers
- Regulatory lag and delayed cost recovery to comply with mandated requirements
- Inadequate approaches to growth, expansion and economic development
- Pessimistic investor perceptions of Missouri regulation impacting capital accessibility

Addressing these business challenges faced by utilities on a one-off basis, when possible in the past, has resulted in some mitigation of these challenges; however, it has also created new challenges, complications and collateral concerns, which have lately resulted in a significant amount of contentiousness within the regulatory process. Frankly, there has to be a better way. Fortunately, we do not have to break new ground, as other states have already seen similar issues and provided useful guidance, lessons learned and keys to success from years and sometimes decades of practice putting more modern, comprehensive regulatory frameworks in place. States such as Arkansas, Oklahoma, Texas, Louisiana, Mississippi, Tennessee, Alabama, Georgia and South Carolina have adopted some form of a comprehensive ratemaking mechanism designed to

stabilize customer rates and streamline the regulatory process, while providing more timely review of all relevant factors, ongoing reporting on business results, earnings review mechanisms with a band around the allowed return, and various cost and performance incentives to align customer and utility interests. Kansas is currently assessing similar reforms. Some of these states also incorporate some form of a forward test year and weather mitigation.

These types of ratemaking initiatives demonstrate that there are creative solutions that can provide more timely, fair and balanced rate reviews, while maintaining regulatory oversight and creating both accountability and performance incentives that benefit customers. A structure is needed that can yield a more collaborative, certain and timely process that responds to current challenges and creates new opportunities to better ensure that utility operations continue to provide safe, reliable, affordable service and more stable rates for customers. A balance is needed that can enable lower costs than under the current system, resulting in more efficient use of the system, while also providing reasonable financial returns for utilities to ensure adequate reinvestment into their systems, which promotes increased efficiency and reliability.

A comprehensive ratemaking approach can achieve this balanced structure if it contains key foundational features and customer protections, including:

Foundational Features

- Comprehensive review of all relevant factors
- Oversight, accountability and transparency
- Collaborative, objective and streamlined approach
- More timely rate review and stable rates
- Benefits for both customers and utilities

Customer Protections

- Oversight elements
 - Filing requirements ensure robust information for review of all relevant factors
 - Ongoing reporting, analysis ensures timely prudency/rate review
 - Periodic review of structure and input to ensure process is working well
- Structural elements
 - Annual rate review improves timeliness, increases stability and reduces rate shock
 - Processes to ensure appropriate level of cost of capital and earnings/return
 - Performance-based incentives ensure accountability and aligned interests
- Adjustment elements
 - Defined disallowances to remove costs typically excluded from rates
 - Modification components for key items and appropriate treatment of unusual costs

We whole-heartedly support the assessment of policies to improve utility regulation, and sincerely hope that these policies result in real, substantive and comprehensive improvements to create a more balanced structure that benefits both customers and utilities, and paves the way for continued growth and development in the state of Missouri.

Respectfully Submitted,

/s/ Rick Zucker

Rick Zucker, Mo. Bar #49211
Associate General Counsel - Regulatory
Laclede Gas Company
Missouri Gas Energy
700 Market Street, 6th Floor
St. Louis, MO 63101
Telephone: (314) 342-0532
Fax: (314) 421-1979
Email: rick.zucker@spireenergy.com