

Exhibit No:
Issue: Effect of Plastic Pipe Retirements
on ISRS costs; Staff Adjustment
Errors, Deferred Taxes, Income
Taxes
Witness: Glenn W. Buck
Type of Exhibit: Direct Testimony
Sponsoring Party: Laclede Gas Company
File Nos.: GO-2016-0332, GO-2016-0333,
GO-2017-0201, GO-2017-0202,
GO-2018-0309, GO-2018-0310
Date Prepared: August 22, 2018

SPIRE MISSOURI INC.

**File Nos. GO-2016-0332, GO-2016-0333,
GO-2017-0201, GO-2017-0202,
GO-2018-0309, GO-2018-0310**

DIRECT TESTIMONY

OF

GLENN W. BUCK

August 2018

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GWB-D1

DIRECT TESTIMONY OF GLENN W. BUCK

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Glenn W. Buck, and my business address is 700 Market St., St. Louis, Missouri, 63101.

Q. WHAT IS YOUR PRESENT POSITION?

A. I am presently employed as Director, Regulatory and Finance, for Spire Missouri, Inc. (“Spire” or “Company”).

Q. PLEASE STATE HOW LONG YOU HAVE HELD YOUR POSITION AND BRIEFLY DESCRIBE YOUR RESPONSIBILITIES.

A. I was appointed to my present position in April 2013. In this position, I am responsible for the financial aspects of rate matters generally, including financial analysis and planning, for Spire Missouri and its two operating units, Spire Missouri East (f/k/a Laclede Gas (“Spire East”)) and Spire Missouri West (f/k/a Missouri Gas Energy (“Spire West”)). I am also responsible for monitoring regulatory trends and developments in Missouri and various other jurisdictions.

Q. WHAT WAS YOUR EXPERIENCE WITH THE COMPANY PRIOR TO BECOMING DIRECTOR, REGULATORY AND FINANCE?

A. I joined Spire in August 1986, as a Budget Analyst in the Budget Department. I was promoted to Senior Budget Analyst in June 1988, and transferred to the Financial Planning Department in December 1988 as an Analyst. I was promoted to Senior Analyst in February 1990, Assistant Manager in February 1994, and Manager in January 1996. In March of 1999 I was promoted to Manager, Financial Services. I have been working on regulatory issues since 1988 and have worked on rates cases since preparing the accounting schedules in GR-90-120. Further, I was responsible for the preparation of every one of the

1 Spire East operational unit's ISRS filings since the mechanism was established in August
2 of 2003.

3 **Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?**

4 A. I graduated from the University of Missouri - Columbia, in 1984, with a Bachelor of
5 Science degree in Business Administration.

6 **Q. HAVE YOU PREVIOUSLY FILED TESTIMONY BEFORE THIS COMMISSION?**

7 A. Yes, I have, in Case Nos. GR-94-220, GR-96-193, GR-99-315, GT-2001-329, GR-2001-
8 629, GR-2002-356, GO-2004-0443, GR-2005-0284, GR-2007-0208, GT-2009-0026, ER-
9 2010-0036, GR-2010-0171, GC-2011-0006, GC-2011-0098, GO-2012-0363, GR-2013-
10 0171, GR-2014-0007, GO-2015-0178, GO-2015-0179, GO-2015-0341, GO-2015-0343,
11 GO-2016-0196, GO-2016-0197, GO-2017-0332, GO-2017-0333, GR-2017-0215 and GR-
12 2017-0216. Further, I provided oral testimony before the Commission regarding the
13 Infrastructure System Replacement Surcharge ("ISRS") rulemaking in Case No. AX-2004-
14 0090.

15 **I. PURPOSE OF TESTIMONY**

16 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

17 A. The purpose of my testimony is to express my strong disagreement with the Staff's and
18 OPC's inappropriate characterization that bypassing interspersed plastic mains and running
19 new plastic services in connection with our cast iron and steel replacement programs cause
20 a cost rather than create a cost reduction, as discussed in greater detail in the direct
21 testimony of Company Witnesses Lobser, Hoeflerlin, and Lauber. I fully oppose the
22 method used by both Staff and OPC to infer this non-existent cost by arbitrarily disallowing
23 ISRS costs based on the percentage of plastic facilities retired versus other facilities, then

1 multiplying that *retirement* percentage by the costs to *install*. Although I will focus on
2 Staff’s recommendation since it has already been filed, most of my criticisms also apply to
3 the method OPC has previously proposed in its pleadings. I will also address a number of
4 additional errors in Staff’s recommendation that, should the Commission were to consider
5 its deeply flawed method, greatly and inappropriately exaggerate the magnitude of its
6 proposed adjustment.

7 **Q. WHAT ADDITIONAL ERRORS ARE YOU REFERRING TO?**

8 A. Among others, I am referring to errors caused by the fact that Staff: (a) failed to recognize
9 that in many work orders the amount of cast iron and steel replaced exceeded the amount
10 of new plant installed; (b) excluded mandated relocation costs, even though the amount of
11 plastic facilities retired in relocations is irrelevant, because mandated relocations are
12 covered under ISRS; (c) removed other ISRS eligible costs necessary to comply with
13 “angle of repose” safety requirements; (d) excluded the cost of “transferring” or connecting
14 service lines to a new main – costs that must be incurred regardless of whether the service
15 line is being retired or reused; (e) excluded blanket work order costs incurred to meet other
16 safety requirements unrelated to the Company’s replacement programs; (f) excluded costs
17 relating to plastic facilities that are at or near the end of their useful service lives and thus
18 should be considered worn out or in a deteriorated condition; and (g) removed installation
19 costs without also removing the associated deferred taxes. In addition, Staff
20 inappropriately reduced the ISRS by double counting an income tax deduction. Although
21 Staff’s adjustment carries forward a compromise from past rate cases, this compromise no
22 longer exists, as it was not continued in the recent Spire Missouri rate cases.

23 **II. ADDITIONAL ERRORS**

1 **Q. HAVE YOU HAD AN OPPORTUNITY TO REVIEW THE**
2 **RECOMMENDATIONS FILED BY THE STAFF IN EACH OF THESE CASES?**

3 A. I have seen the workpapers for the two current cases, Case Nos. GO-2018-0309 and GO-
4 2018-0310. I have not had the benefit of seeing Staff workpapers in the remand cases¹.

5 **Q. HOW DID STAFF CALCULATE ITS ADJUSTMENTS FOR WHAT IT**
6 **PERCEIVED AS THE PLASTICS ISSUE?**

7 A. It appears that Staff tried to determine the “cost” of replacing plastic using a ratio analysis,
8 under which Staff calculated the amount of plastic pipe *replaced* in a work order and
9 compared that to the total amount of pipe *replaced*. Staff then applied that ratio to the work
10 order *installed* amount to determine the “ineligible costs.”

11 **Q. CAN YOU PROVIDE AN EXAMPLE OF HOW STAFF’S METHOD WORKS?**

12 Yes. A simple example may help explain it. Assume the Company replaced 2,000 feet of
13 main, consisting of 1,820 feet of cast iron main and 180 feet of interspersed plastic main,
14 in a main replacement work order that cost \$75,000 for the installation. In that case, Staff
15 would divide the 180 feet of plastic by the 2,000 foot total to arrive at a plastic ratio of .09
16 or 9.0%. Staff would then calculate 9% of \$75,000 and declare \$6,750 to be ISRS-
17 ineligible.²

18 **Q. ARE THERE INHERENT FLAWS IN THE WAY STAFF CALCULATED THE**
19 **INELIGIBLE COSTS?**

20 A. The first flaw is that Staff is comparing the amount of footage retired to the cost of pipe
21 installed by work order. Such a simplistic method cannot accommodate the many

¹ Those workpapers supported new evidence which Staff should not have offered, since the parties had agreed that they would rely only on evidence that was already in the record.

² $(180 \div [180+1820]) \times \$75,000 = \$6,750$

1 situations where the footage of pipe retired is greater than the footage of pipe installed. As
2 an example, in Work Order 900992, the Company retired 4,883 Ft. of Cast Iron, 1,331 Ft.
3 of Steel, and 649 Ft. of Plastic mains. In that same work order, 3,091 Ft. of services were
4 retired (1,845 ft of steel and copper, 1,246 plastic) In its place, the Company installed 2,465
5 ft of new plastic main and 3,238 ft of new plastic services. In the Company's view, instead
6 of trying to retain the older plastic by replacing all but 649 feet of main, the Company
7 chose a less costly alternative by bypassing the entire line, generating savings (or a negative
8 cost) by replacing rather than re-using the older plastic. But even ignoring this reality, the
9 amount of cast iron and steel replaced – which no party disputes is in a worn out or
10 deteriorated condition – covers, and therefore justifies, every foot of new plastic installed,
11 and more, an outcome that should unquestionably support full ISRS eligibility. But
12 somehow, Staff determined that the Commission should disallow 19% of the cost to install
13 replacement pipe.

14 **Q. DID STAFF INAPPROPRIATELY EXCLUDE ANY OTHER COSTS?**

15 A. Yes. Inexplicably, Staff removed costs related to relocation work, including those related
16 to public improvement projects, such as Work Order 900147. These are costs that the
17 Company must incur regardless of the age or condition of the facilities involved and are
18 separately authorized for recovery in the ISRS statute. The Staff also excluded costs
19 incurred to relocate facilities to comply with angle of repose (“AOR”) safety requirements,
20 such as Work Order 902101. Relocating AOR facilities is specifically required under 4
21 CSR 240-40.030(13)(Z).

22 **Q. WHAT IS A BLANKET WORK ORDER?**

1 A. Rather than cover a specific project, a blanket work order covers a large number of minor
2 miscellaneous ISRS eligible activity.

3 **Q. HOW DID STAFF TREAT BLANKET WORK ORDERS?**

4 A. Based on a review of Staff’s workpapers, Staff appears to have applied an “over-all”
5 ineligibility ratio to blanket work orders based on their analysis of the non-blanket work
6 order. This is the single largest source of their adjustments. Disallowed blanket service
7 line replacements totaled over \$8 million. These replacements are not part of the cast iron
8 main and service program but instead cover costs incurred to comply with other safety
9 requirements. A sample of over 100 of these individual tickets showed that these
10 replacements arose from:

Corrosion Inspections	21
Leak	43
Copper Pigtail	<u>46</u>
Total	110

11 Staff also excluded over \$1.5 million of costs related to service transfers even though a
12 service transfer has to be performed (if not renewed) in order to supply gas service to the
13 customer – a main without a service attached means no gas can flow. Finally, Staff also
14 disallowed the costs incurred in blanket main work orders. With these work orders, our
15 crews are routed out to fix a leak in the main but, upon arrival, realize that they have to
16 replace more pipe than anticipated. If more than 20 feet of pipe is replaced on a leak call,
17 it is appropriately capitalized and charged to these work orders. These are also part of the

1 blanket work orders and this is worth another \$60 thousand in inappropriate
2 disallowances.³

3 **Q. WHAT IS A SERVICE RENEWAL VERSUS A SERVICE TRANSFER?**

4 A. When Spire Missouri installs a new main on a given street, it must attach service lines to
5 that main to serve homes on that street. A service renewal is the replacement of the original
6 service line with a new service line. A service transfer occurs when Spire Missouri re-
7 attaches the old service line to the new main.

8 **Q. HAS STAFF MADE ANY ADDITIONAL INAPPROPRIATE ADJUSTMENTS**
9 **RELATED TO SERVICE LINES TRANSFERS/RENEWALS?**

10 A. Yes, as a result of the main replacement program, the Company is moving its system from
11 low pressure, a system in which mains are generally installed on both sides of the streets,
12 to intermediate pressure, a system in which only one main is required to serve both sides
13 of the street. Again, this main replacement activity will require service transfer (or
14 renewal) work to continue to provide service, oftentimes at a greater length than the
15 original installed line since the gas-carrying main is now on the other side of the street.
16 This type of work was recognized by the Western District Court of Appeals when it
17 concluded that there is, in fact, some level of incremental plastic that is replaced as part of
18 the Company's main replacement activity. As the Court stated:

19 "We recognize that the replacement of worn out or deteriorated
20 components will, at times, necessarily impact and require the
21 replacement of nearby components that are not in a similar
22 condition. Our conclusion here should not be construed to be a bar
23 to ISRS eligibility for such replacement work that is truly incidental
24 and specifically required to complete replacement of the worn out
25 or deteriorated components." (WD Order, Page 6, footnote 5).

³ It should be noted that the numbers in this analysis are based on Spire East. Similar numbers can be determined for Spire West if need be.

1 **Q. HAS STAFF REMOVED PLASTIC MAIN AND SERVICE COSTS RELATED TO**
2 **PLASTIC PIPE THAT IS WORN OUT OR DETERIORATED?**

3 A. Yes, Staff removed installation costs related to plastic services which were at or very near
4 the end of their average service lives. The Spire East plastic and copper services are being
5 depreciated over a 44-year period and the Spire West depreciation rate is based on a 40
6 year life. To demonstrate the material impact of this error, approximately 8% of the Spire
7 East plastic service pipe that was removed was from 1974 or earlier.

8 **Q. PLEASE SUMMARIZE THIS PORTION OF YOUR TESTIMONY?**

9 A. Staff agreed with the Company and the Commission in the original ISRS cases and
10 supported full ISRS rate recovery of costs associated with the Company's main
11 replacement programs. Inexplicably, Staff charted a new course in the remand case and in
12 highethe current ISRS cases after the Western District remanded it back to the
13 Commission. Staff's arguments now in favor of the "ratio" method are misguided in an
14 attempt to comply with the remand and disallow costs, if any, related to plastic
15 replacement. Staff's arguments fail to take into account that the Company must replace its
16 cast iron and bare steel main. As Company witness Hoeflerlin testified, federal and state
17 regulators applied a great deal of pressure to accelerate gas utility replacement programs.
18 Spire Missouri's replacement program reflects its efforts to satisfy this directive by
19 planning to eliminate cast iron and bare steel at a faster pace. Given this reality, the
20 Company was faced with a choice on how best to accomplish this task and chose the most
21 cost-effective method to do so. This method included replacing plastic, rather than
22 incurring the cost necessary to re-use it. The Company's safety replacement program
23 targets cast iron and bare steel main; in doing so, some plastic facilities are sacrificed at

1 the altar of cost-efficiency. Staff’s simple allocation method ignores this reality and
2 wrongly allocates cost to the incidental replacement of plastic as if there was no
3 replacement program, a choice that is not available to the Company. Further, Staff
4 determines this allocation in a flawed manner, ignoring situations in which cast iron and
5 steel replaced, by themselves, exceed the amount of plastic installed, and wrongly applies
6 an allocation to relocations, AOR replacements and blanket work orders. In summary,
7 Staff’s allocation method ignores the fact that it is more expensive to retain the use of
8 interspersed plastic mains and to retain the use of plastic service lines by only performing
9 service transfers, than it is to replace plastic main by bypassing it, and to renew service
10 lines when appropriate. Spire Missouri’s replacement practices save money and reduce the
11 overall level of its ISRS charges. Further, it should be noted that the retirement of plastic
12 pipe results in further savings to the customer as the retired plastic results in reduced
13 depreciation expense, savings which are reflected in reduced ISRS charges to customers.
14 The Company should not be punished for achieving these savings through an ISRS
15 disallowance.

16 **III. DEFERRED TAXES**

17 **Q. ARE THERE OTHER ERRORS IN STAFF’S CALCULATIONS RELATING TO**
18 **THE TREATMENT OF DEFERRED TAXES??**

19 A. Yes. Staff removed as “ineligible” millions of dollars of main and service investment but
20 did not adjust either the deferred income taxes or, to a much lesser extent, property taxes,
21 for these disallowances. This has the effect of understating the rate base used to calculate
22 the Company’s ISRS charges while, to a much lesser extent, over-stating the property tax

1 expense includible in the rate filing. The net effect is to significantly and inappropriately
2 increase the Staff's disallowance of costs.

3 **IV. INCOME TAX ISSUE**

4 **Q. DID THE STAFF MAKE AN ADJUSTMENT RELATED TO THE INCOME**
5 **TAXES REFLECTED IN THE REVENUE REQUIREMENT?**

6 A. Yes. According to the Staff recommendation,

7 "In Spire East ISRS cases going back many years, both the Company and
8 Staff have chosen to incorporate half of the value of certain income tax
9 deductions in ISRS revenue requirement. This 50/50 split was agreed to
10 because there had been a previous dispute over the applicability of these
11 particular deductions to ISRS plant additions. Staff has continued in this
12 case to reflect half of the value of the tax deductions in question in Spire
13 East's ISRS revenue requirement in this case."⁴

14
15 The Staff took the liberty of extending this treatment to Spire West. The total value of this
16 "split" based on Staff's adjusted case is over \$1 million.

17 **Q. DOES THE COMPANY AGREE THAT THIS "SPLIT" SHOULD CONTINUE?**

18 A. No. This "splitting" of the tax issue was the result of specific Stipulations and Agreements
19 in every Spire East rate case since GR-2005-0284, when tax matters were part of
20 settlements. However, the tax treatment of IRS Code § 263A ("263A") deductions was
21 clearly defined in the recent rate case and no such settlement agreement was reached to
22 recognize or split the value of any deductions that might occur in future ISRS cases. Such
23 a split would be inappropriate in the absence of an agreement.

24 **Q. HOW ARE 263A DEDUCTIONS GENERATED BY SPIRE MISSOURI?**

25 A. As a point of background, Spire Missouri 'self-constructs' much of its distribution network
26 using its own union labor force. In layman's terms, 263A allows Spire Missouri to deduct

⁴ Staff recommendation, Page 5 of 7

1 for tax purposes certain support costs (such as some of our sales and back office costs) that
2 would otherwise be capitalized for book purposes. The theory behind this is that external
3 construction companies are able to deduct such costs for IRS purposes so it is appropriate
4 for companies who “self-construct” assets to do likewise. Unlike accelerated depreciation
5 deductions under IRS Code §168, which are required to be normalized, 263A deductions
6 can be, and are, flowed through to customers as part of the rate case process. Once these
7 deductions are established in a rate case, the benefit of those deductions flows through to
8 customers year after year, until rates are established again in the next rate case. Customers
9 receive the benefits of these deductions every year, regardless of the amount of the annual
10 deduction actually received by the Company between rate cases.

11 **Q. HOW MUCH OF A BENEFIT IS FLOWING THROUGH TO CUSTOMERS AS A**
12 **RESULT OF THE GR-2017-0215 AND GR-2017-0216 RATE CASES?**

13 A. I have prepared Schedule GWB-D1 to illustrate the benefit flowing through to customers.
14 The source documents for this schedule’s preparation were the Staff’s final amended
15 accounting schedules in each of those proceedings. As the schedule shows, Spire Missouri
16 customers received the benefit of over \$27 million of tax deductions annually related to
17 263A, which resulted in annual revenue requirement savings of over \$9.2 million.
18 Customers will continue to enjoy these benefits each and every year until base rates are
19 again reset – regardless of what the Company’s actual deductions. Those actual deductions
20 could be higher or lower in subsequent years but the customers will maintain that constant
21 benefit. Staff’s adjustment has the effect of providing customers additional 263A
22 deductions on top of the amounts set in the rate case.

23 **Q. CAN INCOME TAX MATTERS BE ADDRESSED IN ISRS PROCEEDINGS?**

1 A. According to the ISRS Statutes, the only matters that may be considered in terms of income
2 taxes are the tax rates themselves. Section 393.1015.4(1) states:
3 “4. In determining the appropriate pretax revenue, the commission shall consider
4 only the following factors:
5 (1) The current state, federal, and local income tax or excise rates;”
6

7 **Q. PLEASE SUMMARIZE THIS PORTION OF YOUR TESIMONY.**

8 A. Absent an agreement by the parties, it is inappropriate to arbitrarily include a splitting of
9 the income tax issue. Further, the fully litigated rate case clearly defined how 263A costs
10 were to be treated and customers are receiving millions of dollars in benefits each year
11 related to this deduction, regardless of the Company’s ability to generate the same. There
12 is simply no justification for “double dipping” the Company and providing customers a
13 duplicative benefit in these ISRS cases. Finally, the ISRS statute clearly notes that this is
14 not an issue that is appropriate for consideration in an ISRS filing.

15 **Q. DOES THIS COMPLETE YOUR DIRECT TESTIMONY?**

16 A. Yes.

Ratepayer Savings in Base Rates - Flow-through of 263A Deductions
Based on Final Schedules in Rate Case

	With 263A		Without 263A	
	<u>East</u>	<u>West</u>	<u>East</u>	<u>West</u>
Operating Income Requirement	102,946,990	69,077,788	102,946,990	69,077,788
Tax Additions				
Book Depreciation	51,063,580	32,913,067	51,063,580	32,913,067
Other	1,483,248	118,188	1,483,248	118,188
Total Additions	<u>52,546,828</u>	<u>33,031,255</u>	<u>52,546,828</u>	<u>33,031,255</u>
Tax Subtractions				
Interest Sync	23,068,942	15,258,862	23,068,942	15,258,862
Book Depreciation	51,063,580	32,913,067	51,063,580	32,913,067
MACRS Depreciation (IRS Code § 168)	14,415,797	40,971,903	14,415,797	40,971,903
Other	5,046,743	-	5,046,743	-
IRS Code §263A (Self-Constructed Assets)	16,196,036	10,850,002	0	0
Total Subtractions	<u>109,791,098</u>	<u>99,993,834</u>	<u>93,595,062</u>	<u>89,143,832</u>
Taxable Income	45,702,720	2,115,209	61,898,756	12,965,211
Current Income Taxes (Statutory Rate)	11,630,545	538,284	15,752,154	3,299,420
Deferred Taxes	3,459,175	10,801,204	3,459,175	10,801,204
Total Taxes	<u>15,089,720</u>	<u>11,339,488</u>	<u>19,211,329</u>	<u>14,100,624</u>
Current Taxes Gross Up (1.34135)	<u>15,600,632</u>	<u>722,027</u>	<u>21,129,151</u>	<u>4,425,677</u>
Ratepayer Savings (263A)	<u>5,528,520</u>	<u>3,703,650</u>		

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

In the Matter of the Application of Laclede Gas)
Company to Change its Infrastructure System) **File No. GO-2016-0333**
Replacement Surcharge in its Laclede Gas Service)
Territory)

In the Matter of the Application of Laclede)
Gas Company to Change its Infrastructure) **File No. GO-2016-0332**
System Replacement Surcharge in its)
Missouri Gas Energy Service Territory)

In the Matter of the Application of Laclede Gas)
Company to Change its Infrastructure System) **File No. GO-2017-0201**
Replacement Surcharge in its Missouri Gas Energy)
Service Territory)

In the Matter of the Application of Laclede)
Gas Company to Change its Infrastructure) **File No. GO-2017-0202**
System Replacement Surcharge in its)
Laclede Gas Service Territory)

In the Matter of the Application of Spire Missouri)
Inc. to Establish an Infrastructure System) **File No. GO-2018-0309**
Replacement Surcharge in its Spire Missouri East)
Service Territory)

In the Matter of the Application of Spire Missouri)
Inc. to Establish an Infrastructure System) **File No. GO-2018-0310**
Replacement Surcharge in its Spire Missouri West)
Service Territory)

A F F I D A V I T

STATE OF MISSOURI)
) **SS.**
CITY OF ST. LOUIS)

Glenn W. Buck, of lawful age, being first duly sworn, deposes and states:

1. My name is Glenn W. Buck. I am Director, Regulatory and Finance for Spire Missouri Inc. My business address is 700 Market St., St Louis, Missouri, 63101.

2. Attached hereto and made a part hereof for all purposes is my direct testimony on behalf of Spire Missouri Inc.

3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct to the best of my knowledge and belief.

Glenn Buck
Glenn W. Buck

Subscribed and sworn to before me this 22 day of August 2018.

Marcia A. Spangler
Notary Public



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