

Exhibit No:
Issue: Capital Structure, Pensions,
OPEBs, Rate Case Expense,
Incentive Compensation, LIRS,
IMS Allocation, Surveillance
Reporting
Witness: Glenn W. Buck
Type of Exhibit: Rebuttal Testimony
Sponsoring Party: Laclede Gas Company (LAC)
Missouri Gas Energy (MGE)
Case Nos.: GR-2017-0215
GR-2017-0216
Date Prepared: October 17, 2017

**LACLEDE GAS COMPANY
MISSOURI GAS ENERGY**

**GR-2017-0215
GR-2017-0216**

REBUTTAL TESTIMONY

OF

GLENN W. BUCK

OCTOBER 2017

TABLE OF CONTENTS

PURPOSE OF TESTIMONY 1
CAPITAL STRUCTURE..... 2
PENSION AND OPEB COSTS 9
SERP EXPENSE..... 14
RATE CASE EXPENSE 15
CAPITALIZED INCENTIVE COMPENSATION COSTS..... 22
LIRS 23
IMS ALLOCATIONS 24
SURVEILLANCE REPORTING 26

GWB-R1

GWB-R2

1 **REBUTTAL TESTIMONY OF GLENN W. BUCK**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

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

5 **Q. ARE YOU THE SAME GLENN W. BUCK WHO PREVIOUSLY FILED DIRECT**
6 **TESTIMONY IN THIS PROCEEDING?**

7 A. Yes, I submitted direct testimony on behalf of both Laclede Gas Company (“LAC”) in
8 Case No. GR-2017-0215 and Missouri Gas Energy (“MGE”) in Case No. GR-2017-0216.

9 **I. PURPOSE OF TESTIMONY**

10 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS**
11 **PROCEEDING?**

12 A. The purpose of my rebuttal testimony is to respond to a number of issues raised by
13 witnesses for the Staff of the Missouri Public Service Commission (“Staff”) and the Office
14 of the Public Counsel in their direct testimony. Specifically, I will respond to the testimony
15 submitted by these parties relating to: (a) the capital structure they propose be used for
16 establishing rates; (b) their proposed treatment of the Company historical and future costs
17 for employee pensions and post-retirement benefits other than pensions (“OPEBs”); (c)
18 their proposed treatment of rate case expense; (d) their proposed treatment of certain
19 capitalized incentive compensation costs; (e) Laclede Insurance Risk Services; (f) OPC
20 witness Azad’s confusion over our allocation of IMS costs between LAC and MGE, and
21 (g) Staff’s suggestions regarding additional surveillance reporting. I will also briefly
22 respond to the initial comments that have been made by certain parties regarding the
23 Company’s proposed revenue stabilization mechanism.

II. CAPITAL STRUCTURE

Q. WHAT IS THE COMPANY’S POSITION ON CAPITAL STRUCTURE?

A. The Company’s proposal is to utilize the actual capital structure of Laclede Gas Company as of September 30, 2017, not including any short term debt. The Staff is proposing to use the capital structure of the holding company and includes short term debt as a component. OPC witness Gorman remains silent as to capital structure stating, “I will provide detail on any concerns I have with the Companies’ proposed capital structure in my rebuttal testimony.” (Gorman Direct, Page 2, lines 18 – 19). As such, I will address any concerns Mr. Gorman has during surrebuttal. Although the final entries are being made, the preliminary true-up capital structure proposed by the company is:

Laclede - Pro-Forma	<u>Amount</u>	<u>Ratio</u>	Cost	Wtd. Avg <u>Cost</u>
Common Equity	1,167,500	54.51%	10.35%	5.64%
Long Term Debt	974,500	45.49%	4.20%	1.91%
Short Term Debt	-	0.00%	1.13%	0.00%
Total	<u>2,142,000</u>	<u>100.00%</u>		<u>7.55%</u>

Staff’s proposed capital structure (as of June 30, 2017) is: (Staff report, P. 8, l 15-16)

Staff	<u>Amount</u>	<u>Ratio</u>	Cost	Wtd. Avg <u>Cost</u>
Common Equity	2,028,200	48.84%	9.25%	4.52%
Long Term Debt	1,925,300	46.36%	4.13%	1.91%
Short Term Debt	199,439	4.80%	1.38%	0.07%
Total	<u>4,152,939</u>	<u>100.00%</u>		<u>6.50%</u>

1 **Q. ARE OTHER COMPANY WITNESSES ADDRESSING CAPITAL STRUCTURE IN**
2 **THIS PROCEEDING?**

3 A. Company witness Ahern is addressing why it is appropriate to use the utility-specific
4 capital structure rather than that of the parent.

5 **Q. IS IT APPROPRIATE TO INCLUDE SHORT TERM DEBT IN THE CAPITAL**
6 **STRUCTURE?**

7 A. No. Although the Company did utilize short term debt (“STD”) during the test year, the
8 vast majority of the amount outstanding was re-funding with \$170 million of long term
9 debt that funded on September 15, 2017. The remaining STD is supporting short term
10 assets that are not included in rate base. In fact, by tariff or through the AFUDC
11 calculation, these short term assets are clearly provided recovery for at short term interest
12 rates (or the surrogate thereto).

13 **Q. WHAT ARE THE ASSETS SUPPORTED BY SHORT TERM FUNDING**
14 **MECHANISMS?**

15 A. These assets include Construction Work In Progress (“CWIP), Deferred Purchased Gas
16 Costs, Unamortized PGA costs, Propane Inventory and hedging gains and losses.

17 **Q. WHY DO YOU SAY CWIP IS SUPPORTED BY STD?**

18 A. The FERC calculation for AFUDC explicitly required that the STD rate be used as the first
19 form of support for CWIP. FERC Gas Plant Instructions part 17¹ states:

20 (17) “Allowance for funds used during construction” includes the net cost for the
21 period of construction of borrowed funds used for construction purposes and a reasonable
22 rate on other funds when so used, not to exceed without prior approval of the Commission
23 allowances computed in accordance with the formula prescribed in paragraph (a) below,
24 except when such other funds are used for exploration and development or leases acquired
25 after October 7, 1969, no allowance on such other funds shall be included in these accounts.

¹ Source: <https://www.ecfr.gov/cgi-bin/text-idc?c=ecfr&SID=054f2bfd518f9926aac4b73489f11c67&rgn=div5&view=text&node=18:1.0.1.6.46&idno=18>

1 No allowance for funds used during construction charges shall be included in these
2 accounts upon expenditures for construction projects which have been abandoned.

3 (a) The formula and elements for the computation of the allowance for funds used
4 during construction shall be:

$$A_i = s \left(\frac{S}{W} \right) + d \left(\frac{D}{D+P+C} \right) \left[1 - \frac{S}{W} \right]$$
$$A_e = \left[1 - \frac{S}{W} \right] \left[p \left(\frac{P}{D+P+C} \right) + c \left(\frac{C}{D+P+C} \right) \right]$$

5
6 [View or download PDF](#)

7 A_i = Gross allowance for borrowed funds used during construction rate.

8 A_e = Allowance for other funds used during construction rate.

9 S = Average short-term debt.

10 s = Short-term debt interest rate.

11 D = Long-term debt.

12 d = Long-term debt interest rate.

13 P = Preferred stock.

14 p = Preferred stock cost rate.

15 C = Common equity.

16 c = Common equity cost rate.

17 W = Average balance in construction work in progress less asset retirement costs (See General
18 Instruction 24) related to plant under construction.

19
20 As can be seen by the formula, the FERC attributes short term debt to be the funding
21 source for CWIP to the extent short term debt is greater than CWIP. If CWIP exceeds
22 STD, only then are long term debt and equity rates utilized in the calculation. It should
23 be noted that CWIP is not included in rate base in Missouri.

24 **Q. YOU ALSO MENTIONED OTHER SHORT TERM ASSETS SUPPORTED BY**
25 **STD. IS THIS DISCUSSED IN YOUR TARIFFS?**

1 A. Yes. For example, LAC tariff sheet P.S.C. MO. No. 5 Consolidated, Sixteenth Revised
2 Sheet No. 22 related to deferred purchase gas costs states,

3 “Each month, carrying costs, at a simple rate of interest equal to the prime
4 bank lending rate (as published in The Wall Street Journal on the first
5 business day of such month), minus two percentage points, shall be applied
6 to the Company’s average beginning and ending monthly ACA accounts,
7 including the balance of any undistributed refunds received from the
8 Company in connection with natural gas supply, transportation and storage
9 services. In addition, carrying costs shall be applied to the average
10 beginning and ending balance of the cumulative payments made and/or
11 received in connection with the Company’s use of financial instruments as
12 adjusted for hedging gains and/or losses flowed through to customers
13 through paragraph 6 below”
14

15 Similarly, for the LAC operating unit (but not at MGE) the STD rate is currently applied
16 to natural gas stored underground as well as propane inventories. P.S.C. MO. No. 5
17 Consolidated, Original Sheet No. 28-h states,

18 “The Company shall maintain a Gas Inventory Carrying Cost Recovery
19 (“GICCR”) Account which shall accumulate entries related to the
20 Company’s recovery of carrying costs, as defined below, associated with its
21 investment in various natural gas and propane inventories. The inventories
22 covered by this section include Current Gas Stored Underground (Account
23 No. 164) for both Company-owned storage and leased storage and L.P. Gas
24 Stock (Account No. 151). Each month, the Company shall debit the GICCR
25 Account for the recovery of carrying costs by multiplying the end-of-month
26 balances in the aforementioned inventory accounts by a rate equal to the
27 average cost of short-term debt outstanding for the Laclede Group during
28 the month or, if not available, the prime rate published **in The Wall Street**
29 **Journal** on the first business day of such month minus two percentage
30 points.”
31

32 **Q. I DID NOT SEE UNDERGROUND GAS STORAGE IN YOUR LIST, BUT I DO**
33 **SEE PROPANE INVENTORY. PLEASE EXPLAIN.**

34 A. LAC has proposed to move its storage inventories into rate base, consistent with MGE and
35 other gas utilities in the state and around the country; however, the propane facilities will

1 be replaced with the change in LAC's gas supply portfolio, so we did not consider these to
2 be long-term assets and have not proposed to change the treatment of propane.

3 **Q. WHEN TAKING THESE SHORT-TERM ASSETS INTO CONSIDERATION,**
4 **SHOULD SHORT TERM DEBT BE INCLUDED IN THE RATEMAKING**
5 **CAPITAL STRUCTURE?**

6 A. No. The mere presence of these short term assets on the Laclede Balance Sheet provide
7 even more evidence that STD should not be in the capital structure. As shown on Schedule
8 GWB-R1, when the March 9, 2017 forward placement (funded on September 15, 2017) of
9 \$170 million of First Mortgage Bonds at Laclede are taken into consideration, short term
10 assets were in excess of STD for the 13 months ended December 2016 average (the test
11 year) and the 13 months ended April 2017 average (month of direct filing). Given that
12 Staff supports that natural gas inventories ("UGS") go back into rate base (and out of the
13 PGA clause) at LAC, these calculations do not include the UGS balances. If the balances
14 were included, the amount in excess would be even greater.²

15 **Q. ISN'T IT TRUE THAT THE PARENT AND LACLEDE SHARE A COMMERCIAL**
16 **PAPER ("CP") PROGRAM TO THE DETRIMENT OF THE UTILITY?**

17 A. Spire and the utility companies do participate in the same CP program. However, both the
18 legacy and new CP programs have the same issuer rating and borrow short term funds at
19 attractive interest rates, but because of the combined program, Laclede now has lower
20 overall borrowing costs due to lower rating agency fees. While the combine program saves
21 administrative costs, Laclede still has a dedicated portion of the borrowing capacity to
22 ensure its borrowing needs can be met. .

² For the 13 months ended December 2016, the LAC UGS balance was approximately \$69 million. A similar number for the April 2017 period would be \$66 million.

1 **Q. DOES THE MOPSC REQUIRE THAT UTILITIES COME TO IT FOR**
2 **FINANCING AUTHORITY?**

3 A. Yes. To meet the long-term needs of its regulated business, Laclede Gas has been filing
4 for Financing Authority with the Commission. The utility is the one that provides the long-
5 term funding necessary for both LAC and MGE. Further, the Company has consistently
6 honored the ring-fencing that we agreed to in both the Holding Company agreement and
7 the MGE stipulation, and the approach suggested by staff violates both the spirit and the
8 terms of that stipulation and the commission order approving it.

9 **Q. ARE THERE ANY OTHER ITEMS YOU WOULD LIKE THE COMMISSION**
10 **TO CONSIDER RELATED TO CAPITAL STRUCTURE?**

11 A. Yes. In the past, the use of a consolidated capital structure as compared to a utility specific
12 capital structure was generally a “non-issue” as the assets and liabilities of the holding
13 company largely consisted of Laclede Gas. Although Laclede Energy Resources (now
14 Spire Marketing) was a component of the total company, it was still relatively small (less
15 than 10% of earnings) and was not capital intensive nor in need of long term financing.
16 The Company today is much different – we are now a holding company of five utilities
17 rather than a single utility holding company – with utilities in 3 different states and a parent
18 company in the midst of building an interstate pipeline – all net users of financing. The
19 financing requirements of each of these entities are being met through either parent
20 company debt (or equity) or debt of the specific business unit to match their business needs.
21 Due to regulatory requirements in Alabama, the financing of those acquisition premiums
22 occurred at the parent company, since RSE rates are based on the utility’s capitalization
23 rather than rate base. As such, it is no longer appropriate to look to the holding company’s

1 capital structure when the stand-alone utility continues to finance itself through public
2 issuances, maintain its own credit ratings, and maintains filings at the SEC.

3 **Q. DOES USING THE PARENT COMPANY’S CAPITAL STRUCTURE ALSO SEEK**
4 **TO ALLOCATE TO MISSOURI FINANCIAL BENEFITS FROM ACQUISITION**
5 **ACTIVITIES IN OTHER STATES THAT MISSOURI RATEPAYERS HAVE NOT**
6 **SUPPORTED IN ANY WAY?**

7 A. Yes. Such an approach would result in Missouri ratepayers receiving the benefit of lower
8 cost debt incurred by Spire Inc. to finance the unrelated acquisition of Alagasco and
9 EnergySouth. It would also mean that the regulated utility customers should be exposed
10 to the “non-regulated” activities of all the subsidiaries of Spire Inc., a position that seems
11 incongruous with efforts to have ring-fencing provisions and a requirement for approval of
12 financing authority at Laclede.

13 **Q. DO YOU HAVE ANY OTHER OBSERVATIONS REGARDING MR. MURRAY’S**
14 **CONTRIBUTION TO THE STAFF COST OF SERVICE REPORT?**

15 A. On pages 26 and 27, Mr. Murray: 1) discusses what amount of debt LAC could issue if it
16 was “stand-alone;” 2) caps on equity ratios related to the GR-2013-0171 case; and, 3) what
17 equity ratios were for KCPL in a recent rate case. While all of these observations may be
18 of interest to Mr. Murray, they seem to have little or no relevance to this proceeding. The
19 reality is that customers are sharing the benefits of Spire’s growth strategy including the
20 low cost debt used to finance the MGE acquisition, the lower “all in cost” of commercial
21 paper, and the benefits of scale when entering the capital markets as a larger corporation
22 and with a still solid investment grade credit rating. Laclede’s weighted average cost of

1 debt today is about 4.2% whereas the cost of debt prior to the MGE acquisition was
2 approximately 5.6% -- a real savings for both the LAC and MGE customers.

3
4 **III. PENSION AND OPEB COSTS**

5 **Q. ARE THERE ANY DIFFERENCES BETWEEN THE COMPANY AND THE**
6 **STAFF ON PENSION AND OPEB COSTS AND THE RELATED ASSETS /**
7 **LIABILITIES?**

8 A. Yes. The difference can be broken down into 3 main components: (1) O&M transfer rate;
9 (2) 2018 contribution level for pensions; and (3) the balance of the FAS 87 related prepaid
10 pension asset for the periods prior to September 1994 and the FAS 88 related asset prior to
11 September 1996 ("Historic Pension Asset"). Additionally, although the Staff is proposing
12 amortization of the prepaid asset / liability over an 8-year period while the Company
13 proposed a 10-year period, however, we would accept the Staff's proposal if that is their
14 preference. I believe the difference on the O&M transfer rate is more a matter of
15 misunderstanding and will be worked out between the parties during technical conferences,
16 so I do not plan on spending any rebuttal time on the issue but reserve the right to bring
17 this matter up in surrebuttal if necessary. The issue related to the Historic Pension Asset
18 is being addressed by Company witness Fallert.

19 **Q. WHAT PENSION CONTRIBUTION LEVELS ARE BEING RECOMMENDED BY**
20 **THE COMPANY AND STAFF RESPECTIVELY?**

21 A. The Company is seeking \$31 million in rates for contributions to the LAC pension plan
22 and \$5 million to the MGE plan based on an actuarially smoothed funding scenario to target
23 a funded status in the 90%+ range within the next several years. Staff is recommending a

1 \$29 million contribution to the LAC fund and \$0 to the MGE fund, both based on the
2 ERISA minimums. (Staff Report, P. 69, ln 13-18).

3 **Q. IN RECENT YEARS, THE COMPANY’S RATES HAVE BEEN SET USING THE**
4 **ERISA MINIMUM BASIS FOR PENSION FUNDING. WHY ARE YOU**
5 **SUGGESTING CHANGING THE FUNDING METHODS?**

6 A. As I noted in my direct testimony, funding requirements will be less volatile and susceptible
7 to the vagaries of frequent changes in governmental policies as we move towards a 100%
8 funded status. The discount rate currently used to value liabilities is artificially high based
9 on an historical “look back” for multiple years to create the rate. The rate is the result of
10 governmental policy that, on its face, was meant to avoid the appearance of, and required
11 contributions to, underfunded retirement plans but, also, subject the sponsoring companies
12 to new or increased variable premiums from the Pension Benefit Guarantee Corp
13 “(PBGC”) and the government. OPC Witness Pitts (Pitts Direct, P. 12, l 13 – P. 14, l. 2)
14 discusses the dramatic increase in PBGC variable premium in his direct testimony.³

15 Under the Company proposal, funding levels, albeit higher than the minimum,
16 should be more stable and lessen the need for funding spikes due to unexpected benefit
17 payouts or plan losses threatening to impose benefit payment restrictions. A higher funded
18 status will also lessen or avoid the PBGC variable premiums. Further, the increased
19 funding level is more in line with what funding levels would be if the “true” market
20 discount rates were in place at this time.

21 **Q. MR. PITTS FILED DIRECT TESTIMONY ON BEHALF OF OPC. WHAT**
22 **WERE HIS RECOMMENDATIONS?**

³ Please note that I disagree with many of Mr. Pitts observations and conclusions.

1 A. Mr. Pitts' recommendations were fourfold: 1) amortize the pension asset over 20 years 2)
2 lower the return on the assets to the pre-tax cost of debt; 3) change the funding policy to
3 minimize the frictional cost of PBGC variable premiums; 4) "Mandate" a strategic
4 financing review, presumably concerning asset allocations and funding and an independent
5 retiree medical benefit review. Mr. Pitts noted the difference between the LAC and MGE
6 plans.

7 **Q. PLEASE RESPOND TO MR. PITTS' RECOMMENDATIONS.**

8 A. I will not rebut item4 other than to note that the Company's pension and benefit plans
9 already receive Board-level scrutiny and utilize some of the nation's leading investment
10 advisory and actuarial firms to assist us in our stewardship of the plan assets while being
11 mindful of each plans' liabilities and relative durations. Further, the Company has in the
12 past, and will continue in the future to rationalize our employee retirement benefits as part
13 of our overall employee compensation package. As we have grown, we have unified
14 programs (to the extent permissible through collective bargaining) to gain economies of
15 scale and minimize administrative fees. It should be noted that the MPSC investigated the
16 pension plan practices of all the utilities in the state and didn't find any shortcomings on
17 Laclede's behalf. Further, Mr. Pitts is seemingly crossing the line of management
18 discretion. As to the third item Mr. Pitts noted, the Company is acutely aware of the
19 expense and is also looking for ways to minimize the PBGC variable premiums. Our
20 funding proposal is a step in that direction.

21 **Q. MR. PITTS SUGGESTS THAT THE COMMISSION ONLY PROVIDE A RETURN**
22 **ON THE PREPAID PENSION ASSET AT THE COMPANY'S WEIGHTED**
23 **AVERAGE COST OF DEBT RATHER THAN AT THE WEIGHTED AVERAGE**

1 **COST OF CAPITAL AND AMORTIZE THE ASSET OVER A 20 YEAR PERIOD**
2 **(DIRECT, P. 17, L. 5-9). DO YOU SEE ANY FLAWS OR INCONSISTENCIES**
3 **WITH THAT POSITION?**

4 A. Mr. Pitts' recommendation appears to be an opportunistic way of lowering the asset return
5 in a way that is inconsistent with the Stipulation and Agreements signed by the Company,
6 Staff and OPC. Those Stipulations specified that the asset would receive rate base
7 treatment and none indicated that the treatment would be at anything but the weighted
8 average cost of capital⁴. It would appear that Mr. Pitts is suggesting an "end-around" on
9 the agreements to which his current client was a party.

10 **Q. MR. PITTS SEEMS TO BE ADVOCATING SECURITIZATION OF THE**
11 **PENSION / OPEB ASSET BY ISSUING DEBT AND NOTES THAT RATING**
12 **AGENCIES ALREADY VIEW UNFUNDED "LIABILITIES AS CORPORATE**
13 **DEBT IN ITS RATING PROCESS" (P. 6, L. 6-7). WOULD SUCH**
14 **SECURITIZATION BE VIEWED FAVORABLY BY MARKET?**

15 A. In my opinion, no. Were the Company to borrow \$150 million to fund such obligations
16 (obligations that exist because customers have benefited from lower tariff rates in the past
17 than were needed to fully fund this cost of service item), its balance sheet would become
18 unnecessarily leveraged in comparison to its peers. Even though Moody's may take that
19 approach in determining its rating, market investors look at more than just a rating in
20 choosing among investment alternatives. Investors consider things such as actual balance
21 sheet leverage when making such decisions and would note that such actions could

⁴ See Schedule GWB-R2 for examples of the language dating back to the 2002 Stipulation and Agreement.

1 potentially constrain the Company’s funding alternatives when future capital infusions are
2 needed to support new property investments.

3 **Q. DO YOU HAVE ANY OTHER OBSERVATIONS CONCERNING MR. PITTS’**
4 **TESTIMONY?**

5 A. I find it ironic that Mr. Pitts bemoans the fact that retirement costs have been
6 “systematically understated” particularly at the expense of “*future* ratepayers” by “keeping
7 retirement costs artificially low”. (Direct, p. 4, ln 3-11) Yet his solution to the prepaid
8 pension asset is to amortize it over a 20-year period to the detriment of that same generation
9 of future ratepayers. He apparently chose the 20-year period so it would only result in a
10 “minor increase in rates” when coupled with the imputed securitization – again
11 perpetuating the “pay it later” approach that he remonstrates against.

12 **Q. PLEASE CONTINUE.**

13 A. Mr. Pitts’ recommendation to provide a return based on the Company’s weighted cost of
14 debt on its face appears to make the funding of the pension asset less costly. However, if
15 the Company did what he suggested and securitized the asset with a debt issuance, it would
16 likely the vehicles available to fund other company assets more expensive. To keep a
17 balanced capital structure, it could push the Company to do its next financing through
18 equity to pay for other assets, thereby increasing the weighted average cost of capital for
19 those other equally important needs. As cash is fungible, supposedly “earmarking” a
20 funding source to specific assets within the same organizational structure is nothing more
21 than optics – ultimately, all long-term financing (both debt and equity) will be used to fund
22 all long-term assets, pensions or otherwise.

23

1 **IV. SERP EXPENSE**

2 **Q. WHAT IS A SERP?**

3 A. SERP is an acronym that stands for Supplemental Employee Retirement Plan. LAC offers
4 these SERP benefits to employees as a benefit restoration plan for employees who have a
5 portion of their income exceed the IRS Section 415 limits for eligibility under a “qualified”
6 pension plan. The SERP also covers benefits on the portion of employee pay that was
7 deferred in the Deferred Income Plan. Please note that the IRS gives a tax deduction on
8 SERP costs as benefit payments are made (in contrast to the qualified plan where
9 contributions into qualified trusts are deductible).

10 **Q. WHAT ARE THE POSITIONS OF THE PARTIES REGARDING SERP COSTS?**

11 A. Laclede is seeking recovery of SERP costs based on a 3-year average of cash payments for
12 the period ended December 31, 2016. Staff included a 3-year average based on actuarial
13 reports for periods ended September 2016. It is unclear from the workpapers what OPC
14 did but testimony states that it only included recurring amounts that OPC deemed
15 appropriate. Stating,

16 “From this amount I removed one excessive SERP recurring payment of
17 \$201,460. I then added the average of the annual recurring SERP payments
18 for the other eight SERP recipients of \$2,677 to arrive at a total adjusted and
19 normalized annual SERP payment of \$24,097. Substituting \$24,097 of
20 annualized SERP expense for the SERP expense booked in Laclede’s test
21 year general ledger results in a negative adjustment of \$528,439.” (Hyneman
22 Direct, p.12, l 25 – p.13, l 5)
23

24 **Q. ARE THE PAYMENTS MR. HYNEMAN RECOMMENDS EXCLUDING**
25 **“EXCESSIVE”?**

26 A. No. As previously noted, the SERP is a restoration plan which offers no special or
27 enhanced benefit but, only reflects what would have been paid through the qualified plan

1 if not for the Section 415 limits on funding. The annual payment he refers to is for a former
2 CEO who had over 40 years of service to the company and its customers. Further, the lump
3 sum payments are in lieu of annual annuity payments and reflect the employee election to
4 receive their benefits in that fashion – an election available to all employees. Since Staff
5 and OPC prefer to only reflect cash payments in rates rather than the FAS 87 accrual, it
6 would be wholly inappropriate to not recognize the payments from a lump sum election.

7 **Q. IS THE STAFF’S TESTIMONY CONSISTENT WITH ITS WORKPAPERS?**

8 A. No. As I indicated above, Staff’s adjustment appears to be taking a 3-year average of
9 payments for fiscal 2016 according the actuarial reports. However, the Staff’s direct
10 testimony indicates that “Staff’s revenue requirement recommendations are normalized
11 levels of recurring supplemental executive retirement plan (“SERP”) payments and an
12 eight-year amortization of large lump-sum SERP payments...” (Direct, p 105, ln 18 – 20)

13 **Q. WHY IS THE STAFF’S ADJUSTMENT DIFFERENT FROM THE COMPANY’S**
14 **ADJUSTMENT?**

15 A. It is largely a timing issue as the Company’s adjustment is in sync with the test year in this
16 proceeding whereas Staff’s was based on fiscal years. Further, the Company’s adjustment
17 reflects the actual timing of the cash on the Company’s books and is, therefore, preferable.

18 **V. RATE CASE EXPENSE**

19 **Q. WHAT IS YOUR UNDERSTANDING OF STAFF’S PROPOSED ADJUSTMENT**
20 **RELATING TO THE EXPENSES INCURRED BY THE COMPANY TO**
21 **CONDUCT THESE RATE CASES?**

22 A. Staff is recommending that rate case expense be split between the Company and its
23 customers based on the ratio of the revenue requirement approved by the Commission

1 and the amount requested by the Company. Staff has also removed the fees paid to an
2 outside consultant used by the Company to perform its cash work capital analysis
3 because Laclede did this work in house the last time an analysis was prepared. Finally,
4 the Staff has eliminated the costs of two other consultants who helped prepare the
5 Company's rate case filing, including the fees paid for preparation of the depreciation
6 study that was submitted with the filing. OPC is also recommending a similar
7 disallowance of rate case expense.

8 **Q. DO YOU AGREE WITH THESE ADJUSTMENTS?**

9 A. No, I do not believe these adjustments are either reasonable or appropriate.

10 **Q. WHY DO YOU DISAGREE WITH STAFF'S AND OPC'S PROPOSAL TO**
11 **EFFECTUATE A "SHARING" OF RATE CASE EXPENSE?**

12 A. I disagree with it for several reasons. First, I do not believe the proposed adjustment is
13 consistent with prior Commission determinations on this issue in that the Company was
14 affirmatively required to file these rate cases. In other words, it was not an elective action
15 taken by the Company to increase its revenue requirement, but instead an action that was
16 effectively mandated by statute and prior Commission's agreements and orders. Second,
17 application of such an adjustment to a Company like Laclede is particularly inappropriate
18 given the Company's long-standing record of tightly managing such expenses. Third,
19 Staff's proposal to exclude consulting costs produces a disincentive to pursuing the most
20 cost-effective way to manage the temporary resource demands of a rate case that may occur
21 every three or four years, a result that can have detrimental impacts for both the utility and
22 its customers, and represents an inappropriate attempt to infringe on management's

1 prerogative to determine how this aspect of its business affairs should be conducted. This
2 infringement is particularly troublesome in an area that involves critical and complex
3 strategic decisions over how litigation should be conducted.

4 **Q. DID THE COMPANY ELECT TO FILE THESE RATE CASES?**

5 A. No. The Company had no choice but to file these rate cases. Under the Missouri ISRS
6 statute, the Company is affirmatively required to file a rate case three years after its ISRS
7 goes into effect. Moreover, because of the Stipulation and Agreement in the MGE
8 acquisition proceeding, the Company was required to file its MGE and LAC rate cases
9 simultaneously. The date on which the Company filed these cases was virtually the last
10 day on which it could have satisfied these mandatory rate case filing requirements.

11 **Q. WERE THERE OTHER FACTORS THAT COMPELLED THE COMPANY TO**
12 **FILE THESE RATE CASES?**

13 A. As the Commission will recall, OPC initiated an earnings complaint against Laclede in
14 April of 2016, which has since been consolidated with these cases. In the end, OPC moved
15 to have the Commission stay its complaint proceeding because the Company was required
16 to file rate cases in April as a result of the ISRS statute and the prior MGE acquisition
17 agreement. As a consequence, the Company's current rate cases were not initiated because
18 the Company wanted to exercise its right to seek a rate increase, but because the law, prior
19 agreement and the consumers' representative insisted that they be filed. The fact that OPC
20 is now attempting to disallow rate case expense that it played such an instrumental role in
21 causing the Company to incur makes its proposed adjustment even more objectionable.

22 **Q. WHY IS THIS SIGNIFICANT?**

1 A. Because it is clear that a rate case expense sharing adjustment is not appropriate when the
2 rate case is mandated rather than something that is being voluntarily pursued by the utility
3 to raise rates. This concept was recognized by the Commission at the time the propriety of
4 such adjustments were being discussed, it has been recognized in other cases where
5 expenses are incurred for filings mandated by law (such as depreciation studies) and it is
6 implicit in the entire rationale discussed by Staff for why rate case expenses adjustments
7 are appropriate.

8 **Q. PLEASE EXPLAIN THAT LAST POINT.**

9 A. Throughout its discussion of this issue in its Cost of Service Report, that Staff posits that a
10 sharing of rate case expense is appropriate because the rate case is being pursued by the
11 utility to increase its authorized revenue requirement – a goal that benefits the Company’s
12 shareholders as well as its ratepayers. While I don’t agree with such a theory as a basis for
13 disallowing these expenses, the fact remains that these cases were not initiated for that
14 reason. It was instead required because the General Assembly, OPC and others have
15 insisted that it is necessary to protect consumers. Because of that requirement, the
16 Company has been forced to incur significant litigation costs, which are significantly
17 higher because of the need to address issues raised by other parties, with other agendas –
18 issues that have nothing to with the revenue requirement that should be authorized for the
19 Company. Given these considerations, it would be singularly inappropriate to endorse the
20 rate case expense adjustment proposed by the Staff and OPC in these cases.

21 **Q. YOU STATED THAT APPLYING A RATE CASE EXPENSE ADJUSTMENT TO**
22 **LACLEDE WAS PARTICULARLY INAPPROPRIATE GIVEN THE**

1 **COMPANY’S LONG HISTORY OF MINIMIZING WHAT IT SPENDS FOR**
2 **SUCH PURPOSES. PLEASE EXPLAIN WHAT YOU MEAN BY THAT POINT.**

3 A. At page 112 of its Cost of Service Report, the Staff discusses why the Commission
4 developed an interest in examining alternative treatments of rate case expense such as the
5 sharing adjustment in this case. Specifically, Staff notes that “The Commission stated its
6 concern over rate case expense issues was related to testimony presented in recent rate
7 cases and the recent escalation in the amount of claimed rate case expenses by Missouri
8 utilities.”

9 **Q. IS THIS RATIONALE FOR SUCH TREATMENT OF RATE CASE EXPENSE**
10 **APPLICABLE TO LACLEDE?**

11 A. No it is not. Laclede is not a Company that has incurred the kind of “escalating” rate case
12 expense that apparently drove the Commission to consider the kind of rate case expense
13 treatment being proposed by the Staff in this case. In fact, the Company has consistently
14 incurred a very low level of rate case expense compared to other utilities in Missouri.

15 **Q. WHAT IS THE BASIS FOR THAT STATEMENT?**

16 A. Several years ago the Commission Staff conducted an analysis of the level of rate case
17 expenses incurred by various regulated utilities in Missouri. Staff’s analysis showed that
18 Laclede, by far, consistently incurred the lowest level of rate case expense of any of the
19 utilities it examined.

20 **Q. HAS THAT REMAINED TRUE IN THESE CURRENT CASES?**

1 A. Yes. Even though the Company is conducting two rate cases in these proceedings, the
2 amount of rate case expense it is claiming in this case is still significantly below the
3 historical norm experienced by other utilities.

4 **Q. HOW DO YOU BELIEVE THESE CONSIDERATIONS SHOULD AFFECT THE**
5 **COMMISSION'S DECISION ON THIS ISSUE?**

6 A. If a concern over escalating rate case expenses was the motivating factor behind the
7 Commission's decision to consider a sharing of rate case expense, then the Commission
8 should recognize that such an adjustment is not appropriate where those circumstances do
9 not exist, as is the case here. To do otherwise, would suggest that extraordinary efforts by
10 utilities to minimize the very costs that the Commission found excessive elsewhere are of
11 no consequence to the Commission. I do not believe that is the kind of message that the
12 Commission should send if it wants to maintain a sound public policy on this issue.

13 **Q. PLEASE EXPLAIN YOUR STATEMENT THAT ADOPTION OF STAFF'S**
14 **PROPOSED ADJUSTMENT WOULD PRODUCE A DISINCENTIVE TO**
15 **MANAGE RATE CASE EXPENSE IN THE MOST COST-EFFECTIVE**
16 **MANNER POSSIBLE.**

17 A. Under Staff's approach, a utility is penalized whenever it uses outside resources to meet
18 the technical demands imposed by a rate case. It is difficult to understand how this makes
19 any sense from an economic or policy standpoint. The use of outside resources can meet
20 some of the temporary demands of preparing and processing a rate case, which may occur
21 only once every three or four years, without the need to add a permanent position that
22 would otherwise be reflected in rates. This permits a utility to lower what it would

1 otherwise need in rates on an ongoing basis for full time employees. At the same time, the
2 limited one-time cost of these outside resources are typically amortized and recovered over
3 a multi-year period, further reducing the cost impact on customers. It is simply
4 inexplicable why the Staff would want to penalize this cost-effective practice for
5 controlling rate case expenses by disallowing a portion of those outside costs when they
6 incurred.

7 **Q. DOES THIS TREATMENT OF THE EXPENSES INCURRED FOR OUTSIDE**
8 **RESOURCES ALSO INTERFERE WITH MANAGEMENT’S ABILITY TO**
9 **DETERMINE HOW IT SHOULD TRY CASES BEFORE THE COMMISSION?**

10 A. Yes. Staff’s approach essentially tells management that it will have to pay a potentially
11 steep financial penalty if it chooses to use an outside resource or expert on a particular issue
12 by disallowing a significant portion of that cost if such a decision is made. In fact, the Staff
13 has taken such a concept to the extreme in this case by disallowing all of the expenses
14 incurred for the outside expert who performed the Company’s cash working capital
15 analysis in these cases because, in Staff’s view, such an analysis was performed by in house
16 personnel in the Company’s last rate case. I find this attempt by Staff to substitute its
17 judgment for how the Company should try its case to be hugely inappropriate. We would
18 never presume to tell the Staff, OPC or any other party who they may hire to prepare and
19 prosecute their cases and quite frankly they have no business telling us. This is just one
20 more reason why Staff’s and OPC’s proposed rate case expense adjustments are
21 inappropriate and should be rejected.

1 **VI. CAPITALIZED INCENTIVE COMPENSATION COSTS**

2 **Q. IS THIS ISSUE BEING ADDRESSED BY ANY OTHER COMPANY WITNESS?**

3 A. Yes. Company witness Mark Mispagel is addressing in his rebuttal testimony the overall
4 issue of incentive compensation and why it is a fully appropriate cost to include the
5 Company's cost of service in these proceedings. Accordingly, my rebuttal testimony will
6 be limited to providing additional reasons for why the proposals by Staff and OPC to
7 exclude the capitalized portion of incentive compensation from recovery in rates is flawed
8 and should be rejected by the Commission.

9 **Q. WHAT ARE THE STAFF AND OPC PROPOSING IN THIS REGARD?**

10 A. Both the Staff and OPC proposed to exclude from the Company's rate base what they have
11 quantified as the capitalized portion of certain incentive compensation cost that were
12 included in these capital items. (See Staff's Cost of Service Report, p. 103; Direct
13 Testimony of OPC witness Hyneman, p. 24-25). Staff proposes to apply its adjustment to
14 rate base additions made by the Company since 2003 which OPC appears to support.

15 **Q. WHY DO YOU DISAGREE WITH THESE ADJUSTMENTS?**

16 A. For the reasons stated by Company witness Mispagel, I do not believe there is any
17 justification for excluding incentive compensation costs from rates so I obviously believe
18 it is inappropriate to exclude any of these costs that may have been capitalized. Whatever
19 determination is made on this overall issue though, I believe both adjustments are also
20 inappropriate in that OPC and Staff seek to extend these disallowances that were made
21 prior to the end of the update periods in MGE's and LAC's last rate case proceeding. I
22 have been advised by legal counsel that, at a minimum, it would be legally impermissible
23 to change the treatment of rate base items that were included in rates at the time these cases

1 were resolved. From a non-legal perspective, I think such adjustments also represent a re-
2 trading of the terms of the settlement agreements that were reached in those cases. There
3 are undoubted other issues that were settled and disposed of in those cases that the
4 Company might also wish to change if given an opportunity. Those issues are closed now
5 and retroactively seeking to impose a different result in this case would be no more
6 inappropriate if the Company would attempt to do so than it is for OPC and Staff. For all
7 of these reasons, their proposed adjustments should be rejected.

8 **VII. LIRS**

9 **Q. WHAT IS LACLEDE INSURANCE RISK SERVICES (“LIRS”)**

10 A. LIRS is an affiliated company owned by Spire Inc. and provides reinsurance services to
11 the organization’s insurance providers. LIRS does not transact business with either LAC
12 or MGE. LIRS is an insurance company approved by the United States Department of
13 Labor and approved and regulated by the South Carolina Department of Insurance, its state
14 of incorporation.

15 **Q. WHAT POSITION HAS STAFF TAKEN IN REGARD TO LIRS?**

16 A. Staff’s testimony states, ‘The purpose of this adjustment is to adjust LAC and MGE’s
17 books and records to reflect the insurance provided by LIRS to LAC and MGE at the cost
18 associated with insurance as required in the Commission’s affiliate transaction rules. LAC
19 is providing a financial advantage to LIRS, its affiliate, if LAC and MGE compensates
20 LIRS for insurance above the lesser of fair market value or the fully distributed costs to
21 LAC and MGE to provide the insurance to LAC and MGE.’ (Cost of Service Report, p.
22 85, ln 13 – 19).

1 **Q. ARE LACLEDE AND MGE PROVIDING A FINANCIAL ADVANTAGE TO**
2 **LIRS?**

3 A. No. The Staff believed that LAC and MGE are engaged in affiliate transactions with LIRS
4 regarding employee life insurance based on an error by Laclede in a report Staff relied
5 upon. As stated above, there is no affiliate transaction in this instance. The Company
6 contracts for insurance with third party vendors, and pays premiums to them. LIRS has a
7 reinsurance relationship with those insurance companies whereby LIRS takes on some of
8 the risk in exchange for a portion of the premium. These transactions are done at arms-
9 length between LIRS and those insurance companies.

10 **VIII. IMS ALLOCATIONS**

11 **Q. WHAT IS IMS?**

12 A. IMS refers to Laclede's Information Management System ("IMS") platform (sometimes
13 also referred to as "newBlue"). The IMS provides enhanced accounting tools, cross-
14 functional communication, data tracking and analyses, and other essential business
15 processes in the areas of customer service, billing and information, financial performance,
16 supply chain/inventory, human resources and asset management. It was first put in place
17 at LAC in 2013. After they were acquired by LAC, MGE was integrated into the newBlue
18 platform with the last module (Customer Care and Billing) going live in September 2015
19 and costs of the system have been ratably allocated between LAC and MGE in this
20 proceeding.

21 **Q. WHAT ADJUSTMENT DOES OPC WITNESS AZAD PROPOSE RELATED TO**
22 **THE IMS PLATFORM COSTS?**

1 A. Ms. Azad’s proposed adjustment “allocates the net book value and depreciation expense
2 associated with the enterprise software system to the 12 companies that are allocated shared
3 services costs per the company’s 2017 company-wide 3-factor allocator rather than wholly
4 accounting for the software on the books of MGE and LAC.” (Azad Direct, p. 45, l. 24 –
5 p. 46, l. 3). Ms. Azad states that the reason for her adjustment is that, “The company has
6 provided no study to demonstrate compliance with the cost recording procedures outlined
7 by the CAM or any analysis otherwise to demonstrate why or how the company believes
8 it is prudent to account for the enterprise management system of the entire enterprise on
9 the books of only its Missouri utilities.”

10 **Q. DO YOU AGREE WITH MS. AZAD’S OBSERVATION?**

11 A. Ms. Azad is mistaken in two ways. First, the newBlue system is not used by the other
12 utilities. The utilities in Alabama and Mississippi utilize Alagasco’s IMS system and
13 receive no real benefits from the newBlue system so no costs should be allocated to them.
14 The other affiliates are charged both depreciation and cost of capital charges in proportion
15 to their usage through a quarterly CAM journal entry. The remaining dollars should
16 rightfully be allocated between LAC and MGE.

17 Second, her claim that no study was undertaken related to these cost allocations is wrong.
18 As clearly noted in the Company’s workpapers, direct integration costs for MGE were
19 allocated fully to MGE and the remaining costs of the IMS platform were allocated
20 between LAC and MGE using different drivers depending on the module. For example,
21 CC&B costs were allocated based on the number of customers at each utility whereas
22 Powerplant costs were allocated based on fixed assets.

1 **IX. SURVEILLANCE REPORTING**

2 **Q. HAVE YOU REVIEWED STAFF'S RECOMMENDATIONS THAT THE**
3 **COMPANY PROVIDE ADDITIONAL SURVEILLANCE REPORTING**
4 **RELATING TO ITS FINANCIAL PERFORMANCE?**

5 A. Yes. I should note that the Company already provides surveillance reports and a significant
6 amount of other financial information on a periodic basis to Staff and OPC. That said, the
7 Company would certainly be willing to consider enhancements to those submissions if it
8 would help to make progress on the various measures the Company has proposed in these
9 cases to introduce additional accuracy and accountability in connection with providing high
10 quality service in a cost-effective manner. What we would hesitate to do is expend the
11 resources required to accumulate and report such data if there is no definite and
12 constructive purpose to be served by doing so.

13 **Q. DOES THIS COMPLETE REBUTTAL TESTIMONY?**

14 A. Yes.

Laclede Gas Company
Short Term Assets Versus Short Term Debt

	Average		Actual April 2017
	13 Months Ended December 2016	13 Months Ended April 2017	
Short Term Assets ⁽¹⁾			
Propane	11,950,971.25	11,951,159.91	11,950,912.72
Unamortized PGA	22,851,921.41	18,743,931.99	15,420,279.60
Deferred Purchased Gas Costs	(5,124,740.54)	(1,207,301.66)	(48,002.09)
CWIP	45,666,583.50	55,807,963.32	78,700,372.82
Assets Supported By STD	<u>75,344,735.62</u>	<u>85,295,753.56</u>	<u>106,023,563.05</u>
Average Notes Payable	229,085,432.59	247,617,740.28	258,520,000.00
Proforma Long Term Debt Issue	(170,000,000.00)	(170,000,000.00)	(170,000,000.00)
Short Term Asset In Excess of Debt	<u>16,259,303.03</u>	<u>7,678,013.28</u>	<u>17,503,563.05</u>

⁽¹⁾ Please note that this excludes Natural Gas Stored Underground which, if included, would make the excess assets be substantially higher.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

FILED
AUG 20 2002

Missouri Public
Service Commission

In the Matter of Laclede Gas)
Company's Tariff to Revise Natural)
Gas Rate Schedules.)

Case No. GR-2002-356

PARTIAL STIPULATION AND AGREEMENT

On January 25, 2002, Laclede Gas Company ("Laclede" or "Company") submitted to the Missouri Public Service Commission ("Commission") revised tariff sheets reflecting increased rates for gas service provided to customers in its Missouri service area. The proposed tariff sheets contained a requested effective date of February 25, 2002 and were designed to produce an annual increase of approximately 6.3 percent (\$36.092 million) in charges for gas service. In addition to the proposed tariff sheets, the Company also submitted its minimum filing requirements and prepared direct testimony in support of the requested rate increase.

By Order dated January 31, 2002, the Commission suspended the proposed tariff sheets and established a procedural schedule for interventions and evidentiary hearings. On March 19, 2002, the Commission issued its Order in which it established additional and revised procedural dates, adopted a test year and true-up procedures and granted various applications to intervene. Specifically, the Commission granted the applications to intervene filed by Union Electric Company d/b/a AmerenUE; the Missouri Energy Group (Barnes-Jewish Hospital, Emerson Electric Company, SSM HealthCare, and St. John's Mercy Health Care); Missouri Industrial Energy Consumers (Adam's Mark Hotels, Alcoa Foil Products, Anheuser-Busch Companies Inc., The Boeing Company, DaimlerChrysler, Ford Motor Company, General Motors Corporation, Hussmann

accounting policy it originally implemented upon adoption of FAS 87, for financial reporting purposes only, effective October 1, 2002, including without limitation:

- (a) Market Related Value implemented prospectively over a four-year period.
- (b) Amortization of unrecognized gains or losses only to the extent that they fall outside of a 10% corridor as described in FAS 87 and FAS 106.
- (c) Amortization of unrecognized gains or losses falling outside of the 10% corridor over the average remaining service life of participants.

4. The Parties agree that gains and losses for all pension lump sum settlements shall be calculated only to the minimum extent permitted by FAS 88. The Company shall also be authorized to record as a regulatory asset/liability, as appropriate, the difference between the pension expense used in setting rates (Minimum ERISA contribution plus the amortization described below) and pension expense as determined pursuant to FAS 87 and FAS 88. This regulatory asset/liability shall be included in the Company's rate base in future rate proceedings. The prepaid pension asset, on the Company's books at October 1, 2002, is the maximum amount that will be considered for inclusion in rate base in future rate proceedings, so long as the ERISA Minimum method of determining pension expense prescribed herein is in effect. The Parties further agree that the Company shall reduce the regulatory asset/liability by Three Million, Four Hundred Thousand Dollars (\$3,400,000) on an annual basis. Such amortization shall commence on July 1, 2003 and shall be re-evaluated in the Company's next rate case proceeding. The rates established in this case for the SERP and Directors Retirement Plan are based on actual payments to participants under these plans.

(c) Amortization of unrecognized gains or losses falling outside of the 10% corridor over the average remaining service life of participants.

5. The Parties further agree that gains and losses for all pension lump-sum settlements shall continue to be calculated only to the minimum extent permitted by FAS 88 and that the Company shall continue to be authorized to record as a regulatory asset/liability, as appropriate, the difference between the pension expense used in setting rates (\$4,052,902 described above) and the pension expense as determined pursuant to FAS 87 and FAS 88. This regulatory asset/liability shall continue to be included in the Company's rate base in future rate proceedings. The prepaid pension asset on the Company's books at October 1, 2002, is the maximum amount that will be considered for inclusion in rate base in future rate proceedings, so long as the ERISA Minimum method of determining pension expense prescribed herein is in effect. The Parties further agree that the Company shall continue to reduce the rate base annually as described above in paragraph 4. The rates established in this case for the Supplemental Retirement Plan (SERP) and Directors Retirement Plan are based on actual payments to participants under these plans.

6. The Parties agree that the rates resulting from this case also make provision for the recovery of Other Post-Employment Benefits ("OPEBs") costs on a FAS 106 basis. The Parties further agree that the Company shall continue to be authorized to apply its accounting policy relative to OPEBs consistent with that specified for FAS 87 above, for financial reporting purposes only, as was initially effective October 1, 2002. For ratemaking and funding purposes, the OPEBs expense will continue to be determined using the market-related value implemented prospectively over

by Fidelity Natural Gas Company and apply the rate schedules, rules and regulations approved in this case for Laclede to the service provided to such customers.

- (e) Laclede also agrees at the time it files its next application for a general rate increase, to submit to the parties a new credit scoring study using the same methods, sampling techniques, validation report score ranges and definitions as presented to Staff and Public Counsel in this case.

Pensions and Other Post-Employment Benefits

5. The Parties agree that the rates established in this case for the Laclede Division and Missouri Natural Division pension plans include an allowance of \$4,821,245 (based on the fiscal 2007 ERISA Minimum Contribution of \$942,550 as determined by the Company's actuary and a \$3,878,695 amortization of the existing prepaid pension asset). (All amounts are stated prior to application of transfer rate.) The Company shall continue to be authorized to record as a regulatory asset/liability, as appropriate, the difference between the pension expense used in setting rates and the pension expense as recorded for financial reporting purposes as determined in accordance with GAAP pursuant to FAS 87 and FAS 88 (or such standard as the FASB may issue to supersede, amend, or interpret the existing standards), and that such difference shall be subject to recovery from or return to customers in future rates. The difference between the amount of pension expense included in Laclede's rates and the amount funded by Laclede shall be included in the Company's rate base in future rate proceedings.

6. The Company shall be allowed rate recovery for contributions it makes to its pension trust that exceed the ERISA minimum for any of the following reasons:

termination in Laclede's next rate case proceeding, credit scoring as the means of determining when the Company may require deposits for new customers under the terms agreed upon by the Company, Staff and the Office of the Public Counsel ("Public Counsel"). As a result, there will be no change to Laclede's tariff on deposits in this case. Laclede also agrees, at the time it files its next application for a general rate increase, to submit to the parties, concurrent with its application a new credit scoring study using the same methods, sampling techniques, validation report score ranges and definitions as presented to Staff and Public Counsel in this case.

Pensions and Other Post-Employment Benefits

5. The Company shall continue to be authorized to record as a regulatory asset/liability, as appropriate, the difference between the pension expense used in setting rates and the pension expense as recorded for financial reporting purposes as determined in accordance with GAAP pursuant to Accounting Standards Codification (ASC) 715 (previously FAS 87 and FAS 88, or such standard as the FASB may issue to supersede, amend, or interpret the existing standards), and such difference shall be recovered from or returned to customers in future rates. The difference between the amount of pension expense included in Laclede's rates and the amount funded by Laclede shall be included in the Company's rate base in future rate proceedings.

6. The Company shall be allowed rate recovery for contributions it makes to its pension trust that exceed the ERISA minimum for any of the following reasons:

- (a) the minimum required contribution is insufficient to avoid the benefit restrictions specified for at-risk plans pursuant to the Pension Protection Act of 2006, thereby causing an inability by Laclede to pay out pension

by reference, as complete replacements for the tariff sheets and rate schedules set forth in Laclede Gas' December 21, 2012 filing. The Attachment 1 tariff sheets contain the ISRS-related changes described above, including tariff changes that: (a) promote customer convenience and efficient service by avoiding charging customers for miniscule late fees; (b) permit the Company to make minimal repairs while already at the customer's premises for another reason in order to avoid service interruptions and enhance customer safety, (c) provide changes needed to accommodate the Company's new billing system (R-39 and R-40); (d) enhance the Company's low income program (R-44-a); and (e) make a minor change to the Company's PGA tariff relating to historical billing distinctions for certain transportation customers that are no longer valid.

Pensions and Other Post-Employment Benefits

6. Laclede shall continue to be authorized to record as a regulatory asset/liability, as appropriate, the difference between the pension expense used in setting rates (\$15,500,000) and the pension expense as recorded for financial reporting purposes as determined in accordance with GAAP pursuant to Accounting Standards Codification (ASC) 715 (previously FAS 87 and FAS 88, or such standard as the FASB may issue to supersede, amend, or interpret the existing standards), and such difference shall be recovered from or returned to customers in future rates. The difference between the amount of pension expense included in Laclede's rates and the amount funded by Laclede in accordance with the ERISA minimums shall be included in the Company's rate base in future rate proceedings.

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

In the Matter of Laclede Gas Company's)
Request to Increase its Revenues for Gas) File No. GR-2017-0215
Service)

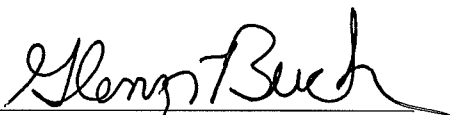
In the Matter of Laclede Gas Company)
d/b/a Missouri Gas Energy's Request to) File No. GR-2017-0216
Increase its Revenues for Gas Service)

AFFIDAVIT

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 Laclede Gas Company. My business address is 700 Market St., St Louis, Missouri, 63101.
2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony on behalf of Laclede Gas Company and MGE.
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 W. Buck

Subscribed and sworn to before me this 16th day of OCTOBER 2017.



Notary Public

