

Exhibit No.:
Issue: ISRS Updates
Witness: Glenn W. Buck
Type of Exhibit: Direct Testimony
Sponsoring Party: Missouri Gas Energy, an Operating
Unit of Laclede Gas Company
Case No.: GO-2015-0179
Date Prepared: April 14, 2015

MISSOURI GAS ENERGY

GO-2015-0179

DIRECT TESTIMONY

OF

GLENN W. BUCK

APRIL 2015

DIRECT TESTIMONY OF GLENN W. BUCK

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- 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 Laclede Gas Company (“Laclede” 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. I am also responsible for monitoring regulatory trends and developments.
- Q. WHAT WAS YOUR EXPERIENCE WITH THE COMPANY PRIOR TO BECOMING DIRECTOR, REGULATORY AND FINANCE?**
- A. I joined Laclede 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.
- Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?**
- A. I graduated from the University of Missouri - Columbia, in 1984, with a Bachelor of Science degree in Business Administration.
- Q. HAVE YOU PREVIOUSLY FILED TESTIMONY BEFORE THIS COMMISSION?**

1 A. Yes, I have, in Case Nos. GR-94-220, GR-96-193, GR-99-315, GT-2001-329, GR-2001-
2 629, GR-2002-356, GO-2004-0443, GR-2005-0284, GR-2007-0208, GT-2009-0026, ER-
3 2010-0036, GR-2010-0171, GC-2011-0006, GC-2011-0098, GO-2012-0363, GR-2013-
4 0171, and GR-2014-0007. Further, I provided oral testimony before the Commission
5 regarding the Infrastructure System Replacement Surcharge (“ISRS”) rulemaking in Case
6 No. AX-2004-0090. I have also filed testimony in GO-2015-0178, a companion case to
7 this one.

8 **PURPOSE OF TESTIMONY**

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

10 A. The purpose of my testimony is to provide support for the Company’s inclusion of
11 budgeted (“proforma”) estimates, as updated by actual expenditures, in the current
12 Missouri Gas Energy (“MGE”) ISRS filing.

13 **Q. PLEASE DESCRIBE THE ISSUE RAISED BY THE OFFICE OF PUBLIC**
14 **COUNSEL (“OPC”) IN ITS MOTION FOR ORDER DENYING CERTAIN ISRS**
15 **COSTS.**

16 A. According to its Motion, the OPC stated, “Public Counsel raised these same issues in the
17 Laclede Gas Company ISRS case, Case No. GO-2015-0178, and a procedural schedule
18 has been set, and testimony filed in that case. A hearing is scheduled in that case for April
19 20, 2015. For this reason, Public Counsel asks the Commission to delay a ruling on this
20 motion until after the Commission fully addresses this issue in the Laclede case since the
21 argument raised herein is identical in both cases.”

22
23

1 **Q. IS IT UNUSUAL TO INCLUDE PROFORMA INFORMATION IN A CASE AND**
2 **THEN UPDATE IT WITH ACTUAL DETAILS WHEN THEY BECOME**
3 **AVAILABLE?**

4 A. Absolutely not. Parties have applied this same practice in rate cases for many years. The
5 estimates of capital expenditures to be “closed” to plant in service in the months of
6 January and February 2015 were provided as estimates in this ISRS case in much the
7 same way estimates are routinely included in the initial filing in rate cases and
8 subsequently updated and even “trued-up” with actuals during the pendency of those
9 proceedings.

10 **Q. IS INCLUSION OF PROFORMA INFORMATION IN THE ISRS APPLICATION**
11 **CONSISTENT WITH PAST PRACTICE IN ISRS CASES APPROVED BY THE**
12 **COMMISSION?**

13 A. Yes. There have been proforma estimates followed by reconciliations in ISRS cases
14 going back to at least 2009. In fact, the update of ISRS plant to reflect two months of
15 additional ISRS investments is part and parcel of a corresponding practice of also
16 updating ISRS plant to reduce ISRS revenues by reflecting an additional three and a half
17 to four months of accumulated depreciation expense and deferred tax liability. The
18 inclusion of estimates, updated by actual expenditures, was first approved for the Laclede
19 operating unit’s ISRS proceeding in early 2009 in Case No. GO-2009-0221. Such
20 practice has been approved by the Commission in every Laclede Report and Order issued
21 since that time including: Case Nos: GO-2009-0389, GO-2010-0212, GO-2011-0058,
22 GO-2011-0361, GO-2012-0145, GO-2012-0356, GO-2013-0352, GO-2014-0212, and
23 GR-2015-0026. Such practice has been continued at the MGE operating unit subsequent

1 to the acquisition including the preceding case, GR-2015-0025. The Office of Public
2 Counsel has had an opportunity to participate in each of these cases, and has in fact
3 participated in them.

4 **Q. HAS THE PRACTICE OF FILING PROFORMA INFORMATION FOLLOWED**
5 **BY UPDATE AND RECONCILIATION BEEN EXPRESSLY STATED?**

6 A. Yes. Since the time that this practice was instituted in 2009, the practice has been
7 explicitly stated by the Company in its ISRS applications, by the Commission Staff in its
8 ISRS recommendations, and by the Commission itself in its ISRS orders. Excerpts from
9 these applications, recommendations and orders expressly addressing the proforma and
10 update practice are attached as Exhibit GWB-1 in my Direct Testimony in GO-2015-
11 0178. Attached as Exhibit MGE GWB-1 is similar information from MGE's last ISRS
12 proceeding. At no time over this 6 year time frame and multiple series of ISRS filings
13 had OPC ever suggested that there was anything unlawful or improper about this practice.

14 **Q. ARE YOU SPONSORING MGE'S JANUARY 30, 2015 APPLICATION, ALONG**
15 **WITH THE EXHIBITS ATTACHED THERETO AND THE UPDATES?**

16 A. Yes, I am.

17 **Q. IS THE PERIOD OF TIME AVAILABLE TO REVIEW THE UPDATED ISRS**
18 **INFORMATION SUBSTANTIALLY DIFFERENT THAN THE PERIOD OF**
19 **TIME AFFORDED TO REVIEW UPDATED OR TRUED-UP INFORMATION IN**
20 **A RATE PROCEEDING?**

21 A. No, they are comparable. In this case, complete updated information related to the ISRS-
22 eligible property was supplied to Staff on March 12, 2015 which is 19 days prior to the
23 Staff making its recommendation on March 31. The same information was supplied to

1 OPC, which to this point had been inactive in ISRS updates, on March 19th after a
2 conversation between Laclede and OPC counsel. In my experience, this interval of time
3 between providing updated information and the reviewing party filing its
4 recommendation is consistent with the time intervals for providing and reviewing
5 updated information in rate cases where Staff or OPC had filing deadlines. For example,
6 in Laclede's 2007 general rate case proceeding, the Staff filed its revenue requirement
7 testimony and accounting schedules on May 4, 2007 based on updated information that
8 was provided on April 20, 2007 (for the period ending March 31, 2007). This two week
9 period for auditing updated information in the 2007 rate case was actually *shorter* than
10 the 19 day audit period provided for in this case. Similarly, in the Company's 2010
11 general rate case proceeding, the Staff filed its revenue requirement testimony and
12 accounting schedules on May 10, 2010 based, in part, on updated information that had
13 been supplied by the Company as late as April 28, 2010. Again, this was a significantly
14 shorter audit interval than the one afforded in this case.

15 **Q. SHOULD THERE BE ANY HEIGHTENED CONCERN REGARDING THE**
16 **AMOUNT OF TIME PROVIDED TO AUDIT ISRS ADDITIONS VERSUS THE**
17 **AUDIT TIME IN OTHER PROCEEDINGS?**

18 A. No. In fact, just the opposite is true. That's because the ISRS statute provides for a
19 simplified audit process, as ISRS costs can be audited again for prudence in a subsequent
20 rate case. The ISRS legislation (393.1015(2)(2)) provides that,

21 "The staff of the commission may examine information of the gas corporation to confirm
22 that the underlying costs are in accordance with the provisions of sections 393.1009 to
23 393.1015, and to confirm proper calculation of the proposed charge, and may submit a
24 report regarding its examination to the commission not later than sixty days after the
25 petition is filed. No other revenue requirement or ratemaking issues may be examined in

1 consideration of the petition or associated proposed rate schedules filed pursuant to the
2 provisions of sections 393.1009 to 393.1015.”

3
4 The scope of the audit is meant to determine if the included projects are ISRS-eligible
5 and if the calculations were done correctly. Section 393.1015(8) provides that,

6 “Commission approval of a petition, and any associated rate schedules, to establish or
7 change an ISRS pursuant to the provisions of sections 393.1009 to 393.1015 shall in no
8 way be binding upon the commission in determining the ratemaking treatment to be
9 applied to eligible infrastructure system replacements during a subsequent general rate
10 proceeding when the commission may undertake to review the prudence of such costs. In
11 the event the commission disallows, during a subsequent general rate proceeding,
12 recovery of costs associated with eligible infrastructure system replacements previously
13 included in an ISRS, the gas corporation shall offset its ISRS in the future as necessary to
14 recognize and account for any such overcollections.”

15
16 In other words, even though the costs of an ISRS project may be in ISRS rates, those
17 costs are subject to a prudence review in a subsequent rate case and, if the costs are found
18 to be imprudent, ISRS amounts collected on the project will be refunded to customers in
19 future ISRS proceedings. In contrast, an audit in a rate case proceeding must determine
20 both the propriety and prudence of a particular expenditure without any subsequent
21 opportunity to revisit the issue at a later time. By reserving the right to a subsequent
22 prudence review, and by limiting the scope of the ISRS audit to ISRS eligibility, the
23 legislature clearly intended to ease the burden of the audit in ISRS proceedings. The
24 timing of prudence reviews are also set out in the Commission’s ISRS rules at 4 CSR
25 240-3.265(15).

26 **Q. HOW MANY “NEW” WORK ORDERS “CLOSED” IN JANUARY AND**
27 **FEBRUARY 2015?**

28 **A.** Of the 379 total ISRS projects and associated work orders in this case, 38 (10%) new
29 work orders totaling \$3.65 million were “closed” in either January or February business.
30 However, approximately 68% of the dollars closed from these “new” work orders were

1 associated with just 6 of the 38 projects (equivalent to \$2.5 million of that total). With so
2 few work orders comprising the vast cost majority of the additional new projects, these
3 work orders could have been reviewed for ISRS eligibility in a relatively short amount of
4 time.

5 **Q. HAS THE COMPANY MADE EFFORTS TO PROVIDE UPDATED**
6 **INFORMATION IN A TIMELY FASHION?**

7 A. Yes. With the implementation of our new accounting system, we are now able to “close”
8 the business month days faster than previously. Additionally, being conscious of the
9 Staff’s need to have adequate time to review such information, we have purposely filed
10 our ISRS cases later in the month to accommodate Staff and OPC by providing more
11 time to audit the updated information. In this instance, filing our application on January
12 30 caused the Staff’s 60 day statutory recommendation date to be March 31. Since MGE
13 provided its January and February updated information to the Staff on March 12, as I
14 indicated earlier, the Staff had 19 days to review the updated information prior to making
15 its recommendation. Additionally, the Company is willing and has, in the past (upon
16 request), updated the ISRS information monthly as the work orders closed. In this case,
17 even without inquiry, Laclede gave Staff the January business information at the
18 beginning of March, effectively giving them approximately 4 weeks to review the
19 January projects. Further, it is our intention to continue this practice of providing the
20 updates shortly after each month’s close, to help expedite the examination process.

21 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

22 A. The Company believes the current process of updating the ISRS information fits squarely
23 with the legislative intent, which was to allow more timely cost recovery of gas safety

1 investments and government mandated relocations under a targeted audit process that is
2 backstopped by a later review for prudence in a rate case. The provision of proforma
3 information on ISRS projects is consistent with the common practice of using such
4 information, as updated with actuals, in other rate proceedings. There is more than
5 adequate time to review such projects and meet the 60 day timeframe for a Staff
6 Recommendation regarding eligibility and accuracy.

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

8 **A. Yes.**

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

In the Matter of the Application of Missouri Gas)
Energy, an operating unit of Laclede Gas Company,) Case No. GO-2015-00____
For Approval to Establish an Infrastructure System)
Replacement Surcharge)

**VERIFIED APPLICATION AND PETITION OF MGE TO ESTABLISH
AN INFRASTRUCTURE SYSTEM REPLACEMENT SURCHARGE**

COMES NOW Missouri Gas Energy ("MGE"), an operating unit of Laclede Gas Company, pursuant to Sections 393.1009, 393.1012 and 393.1015 RSMo; 4 CSR 240-3.265; and, 4 CSR 240-2.060, 2.080, and 3.265 of the Rules of the Missouri Public Service Commission ("Commission"), and for its Verified Application and Petition to Establish an Infrastructure System Replacement Surcharge, respectfully states as follows to the Commission:

SUMMARY

1. Sections 393.1009-1015 RSMo, and Commission Rule 4 CSR 240-3.265, provide eligible gas corporations with the ability to recover certain infrastructure system replacement costs outside of a formal rate case filing via the implementation of an Infrastructure System Replacement Surcharge (ISRS). A petition must be filed with the Commission for review and approval before an adjustment can be made to a gas corporation's rates and charges to provide for the recovery of the costs associated with eligible infrastructure system replacements. This Application and Petition seeks to adjust MGE's rates by establishing an ISRS rate schedule.

2. MGE's last rate case, Case No. GR-2014-0007 (the "Rate Case"), was decided effective May 1, 2014, covering ISRS eligible costs incurred through

Moniteau, Pettis, Platte, Ray, Saline, Stone, and Vernon.

6. MGE is subject to the jurisdiction of the Missouri Public Service Commission as provided by law.

7. Communications in regard to this Application should be addressed to the undersigned counsel and to:

Michael R. Noack
Director, Pricing and Regulatory Affairs
Missouri Gas Energy
3420 Broadway
Kansas City, Missouri 64111
816-360-5560
Fax: 816-360-5536
E-mail: michael.noack@thelacledegroup.com

THE ISRS REQUEST

8. MGE, per this application, requests an adjustment to its rates and charges through its ISRS rate schedule to provide for the recovery of costs for infrastructure system replacements and relocations eligible for ISRS recognition. These ISRS eligible costs were incurred during the period January 1 – June 30, 2014, and also include pro forma ISRS costs updated through August 31, 2014.

9. In accordance with the provisions of sections 393.1009, 393.1012 and 393.1015 RSMo, and Commission Rule 4 CSR 240-3.265, the proposed ISRS rate schedule reflects the appropriate pre-tax ISRS revenues necessary to produce net operating income equal to MGE's weighted cost of capital multiplied by the net original cost of the requested infrastructure replacements which are eligible for the ISRS, including recognition of accumulated deferred income taxes and accumulated depreciation associated with the aforesaid

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. GR-2015-0025, Tariff Tracking No. YG-2015-0028 – Missouri Gas
Energy

FROM: Matthew Young, Auditing Department
Joel Molina, Auditing Department
Charles Hyneman, Auditing Department
Tom Imhoff, Tariffs/Rate Design – Energy

/s/Charles Hyneman 09/23/14
Auditing Department / Date

/s/Thomas M. Imhoff 09/23/14
Tariff, Rate Design Section / Date

/s/John Borgmeyer 09/23/14
Staff Counsel's Office / Date

SUBJECT: Staff Report and Recommendation Regarding the Application and Petition of
Missouri Gas Energy Seeking the Missouri Public Service Commission's
Approval to Increase Its Infrastructure System Replacement Surcharge

DATE: September 23, 2014

BACKGROUND

On July 25, 2014, Laclede Gas Company ("Laclede") d/b/a Missouri Gas Energy ("Company" or "MGE"), filed an Application and Petition ("Application") with the Missouri Public Service Commission ("Commission") to implement a change in MGE's Infrastructure System Replacement Surcharge ("ISRS") and a revised Tariff Sheet with a proposed effective date of August 25, 2014.

MGE made its filing pursuant to Missouri Revised Statutes Sections 393.1009 through 393.1015, RSMo Cum. Supp. 2010 and Commission Rule 4 CSR 240-3.265, Natural Gas Utility Petitions for Infrastructure System Replacement Surcharges, which allow Missouri natural gas corporations to file a petition and proposed rate schedule with the Commission to recover certain infrastructure system replacement costs outside a formal rate case through a surcharge on customers' bills.

MGE asserts that it has continued to incur costs related to ISRS-eligible infrastructure system replacements. For the period from January 1, 2014 through August 31, 2014, MGE claims those costs entitle MGE to \$2,775,348 of additional annualized revenues.

The Commission issued an "Order Directing Notice, Directing Filings And Setting Intervention Deadline" on July 29, 2014, but did not suspend the pending tariff. This order set an intervention date of August 13, 2014. \

The Commission issued an "Order Suspending Tariff" on August 14, 2014. That order states the "Commission must issue an order regarding the application effective no later than November 22, 2014."

should not recur in the future. As a result of the acquisition of MGE by Laclede, MGE is currently converting its plant accounting systems to be compatible with the plant accounting systems of Laclede as well as changing personnel and some accounting practices, such as the appropriate treatment in ISRS cases of plant in service that has not been classified into detailed plant accounts. Staff recommends that MGE and Laclede develop and implement appropriate accounting internal controls to ensure that no ISRS plant that has been included in rate base in the prior rate case is included in subsequent ISRS applications.

Section 393.1009 (5) restricts the types of plant projects that may be included in the ISRS by limiting gas utility plant projects as projects that consist only of:

- (a) Mains, valves, service lines, regulator stations, vaults, and other pipeline system components installed to comply with state or federal safety requirements as replacements for existing facilities that have worn out or are in a deteriorated condition;
- (b) Main relining projects, service line insertion projects, joint encapsulation projects, and other similar projects extending the useful life or enhancing the integrity of pipeline system components undertaken to comply with state or federal safety requirements; and
- (c) Facilities relocations required due to construction of improvement of a highway, road, street, public way, or other public work by or on behalf of the United States, this state, a political subdivision of this state, or another entity having the power of eminent domain provided that the costs related to such projects have not been reimbursed to the gas corporation.

After a review of the work orders requested from the company, Staff identified work orders 004315 and 004430 as work orders that do not qualify as ISRS plant projects as defined by Section 393.1009 (5). The descriptions of the work orders included replacement of underperforming rectifiers and work necessary to replace the ground bed around the rectifiers. Since work of this nature does not fit into the projects described by paragraphs (a), (b), or (c), Staff did not include the plant costs associated with these work orders in its ISRS revenue requirement recommendation.

Staff Data Request No.2 was an inquiry pertaining to contributions and reimbursements received by the Company for the costs of certain construction projects. During an examination of the transactions listed in the Company's response, Staff discovered that contributions were being accounted for using two methods. Though no adjustment has been proposed in this case, Staff does recommend that MGE take actions to ensure consistent accounting treatment for plant contributions.

MGE's July 25, 2014 ISRS application contained two months of estimated plant additions (July and August 2014). The practice of including budgeted construction costs is consistent with Laclede's prior ISRS cases. After Staff obtained the actual costs for these two months, the actual totals were substantially below the budgeted amounts used in the Company's calculation of the revenue requirement. The difference between the Company's estimated numbers in its application and the actual numbers that were later provided to Staff is the primary driver of the

**STATE OF MISSOURI
PUBLIC SERVICE COMMISSION**

At a session of the Public Service Commission held at its office in Jefferson City on the 8th day of October, 2014.

In the Matter of the Application of Missouri Gas Energy, an Operating Unit of Laclede Gas Company, for Approval to Establish an Infrastructure System Replacement Surcharge)	
)	<u>File No. GR-2015-0025</u>
)	Tariff No. YG-2015-0028
)	

**ORDER REGARDING ADJUSTED ISRS RATES AND
ORDER GRANTING MOTION FOR EXPEDITED TREATMENT**

Issue Date: October 8, 2014

Effective Date: October 18, 2014

On July 25, 2014¹, Missouri Gas Energy, an operating unit of Laclede Gas Company (hereafter “MGE”) filed an application with the Missouri Public Service Commission under Sections 393.1009, 393.1012 and 393.1015, RSMo Cum. Supp. 2013, requesting that the Commission authorize the company to adjust its Infrastructure System Replacement Surcharge (hereafter “ISRS”) for numerous gas utility plant projects. Laclede’s request to change its ISRS rates was accompanied by an implementing tariff.

That tariff had an effective date of August 25. The Commission suspended the tariff until November 22.

In its ISRS application, MGE seeks to adjust its ISRS rate schedule to reflect costs incurred in connection with ISRS-eligible infrastructure system replacements made during the period of January 1 through June 30, including pro forma ISRS costs updated through

¹ All calendar references are to 2014 unless otherwise indicated.

August 31. The specific infrastructure system replacements for which Laclede seeks ISRS recognition are set forth in Appendix A to its application.

Section 393.1015.1(2), RSMo, requires that the Commission publish notice of MGE's ISRS filing. Therefore, on July 29, the Commission directed that notice of the filing be mailed to the county commission of the counties served by MGE. It also directed that notice be given to the media serving the area served by MGE and to the members of the General Assembly representing that area.

In that same order, the Commission directed that any person wishing to intervene in this matter file an application to intervene no later than August 13. The Commission received no intervention requests.

Section 393.1015.2(2), RSMo, requires the Staff of the Commission ("Staff") to file a report regarding an ISRS application no later than 60 days after it was filed. Staff filed its Recommendation on September 23, supplemented by an Amended Staff Recommendation on September 30, advising the Commission to reject the tariff sheets.

Those sheets would allow Laclede to recover incremental annual pre-tax revenues of \$2,775,348. Instead, Staff recommends that the Commission authorize Laclede to file ISRS rates as reflected in Attachment B to the Amended Staff Recommendation. Tariff sheets comporting with Attachment B would allow MGE to recover an incremental amount of annual pre-tax revenues of \$1,990,296.

MGE responded on October 2, stating that it agreed with and accepted Staff's Amended Recommendation. MGE filed a specimen tariff to reflect the incremental ISRS revenue requirement that it and Staff agreed upon. The Commission received no other responses to the Staff Recommendation.

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

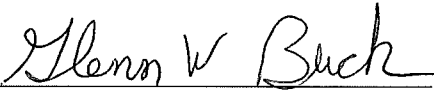
In the Matter of the Application of Missouri Gas)
Energy, an operating unit of Laclede Gas) File No. GO-2015-0179
Company, for approval to Change its)
Infrastructure System Replacement Surcharge)

A F F I D A V I T

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

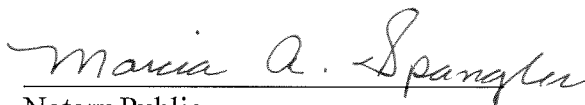
Glenn W. Buck, of lawful age, being first duly sworn, deposes and states:

1. My name is Glenn W. Buck. My business address is 700 Market Street, St. Louis, MO 63101 and I am the Director, Regulatory and Finance for Laclede Gas Company.
2. Attached hereto and made a part hereof for all purposes is my direct testimony on behalf of Laclede Gas Company.
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 14th day of April, 2015.



Notary Public

