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and Synergies
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AUDITING DEPARTMENT

SURREBUTTAL TESTIMONY
OF

KEITH MAJORS

Staff Exhibit No. 255
Date 12-15-17 Reporter AF
File No. GR-2017-0215 GR-2017-0216

SPIRE MISSOURI, INC., d/b/a SPIRE
LACLEDE GAS COMPANY and MISSOURI GAS ENERGY

CASE NOS. GR-2017-0215 and GR-2017-0216

Jefferson City, Missouri
November 2017

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1 **SURREBUTTAL TESTIMONY OF**
2 **KEITH MAJORS**
3 **SPIRE MISSOURI, INC., d/b/a SPIRE**
4 **LACLEDE GAS COMPANY and MISSOURI GAS ENERGY**
5 **GENERAL RATE CASE**
6 **CASE NOS. GR-2017-0215 and GR-2017-0216**

7 Q. Please state your name and business address.

8 A. Keith Majors, Fletcher Daniels Office Building, 615 East 13th Street,
9 Room 201, Kansas City, Missouri, 64106.

10 Q. By whom are you employed and in what capacity?

11 A. I am a Utility Regulatory Auditor with the Missouri Public Service
12 Commission ("Commission").

13 Q. Are you the same Keith Majors who previously provided testimony in
14 this case?

15 A. Yes. I provided direct testimony in Staff's Revenue Requirement Cost of
16 Service Report ("COS Report"), filed in the Laclede Gas Company ("LAC") and Missouri
17 Gas Energy ("MGE") rate cases designated as Case No. GR-2017-0215 and Case No.
18 GR-2017-0216, respectively, filed September 8, 2017. I provided direct testimony concerning
19 corporate allocations, merger transition costs, and rate case expense. I provided rebuttal
20 testimony in these cases, filed October 17, 2017, concerning regulatory lag, surveillance
21 reports, construction accounting, and transition costs.

22 Q. What is the purpose of your surrebuttal testimony?

23 A. I will respond to the rebuttal testimony of the following Laclede Gas ("LAC")
24 and Missouri Gas Energy ("MGE") witnesses and subjects:

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- 1 • Glenn W. Buck – rate case expense
- 2 • Thomas J. Flaherty – synergies and transition costs
- 3 • Lewis E. Keathley – transition costs
- 4 • C. Eric Lobser – rate case expense, transition costs
- 5 • Ryan L. Hyman – transition costs
- 6 • Michael R. Noack – allocations and employee levels

7 **EXECUTIVE SUMMARY**

8 Q. Please summarize your surrebuttal testimony.

9 A. I will respond to LAC's and MGE's rebuttal testimony concerning rate case
10 expenses. Staff recommends allocation of rate case expenses, referred to as a sharing
11 mechanism, based on the awarded amount versus the company's requested revenue
12 requirement. Staff recommends removal of some rate case expenses for consulting work prior
13 to the sharing of the remaining expenses. LAC and MGE oppose Staff's recommendations as
14 described in the rebuttal testimony of LAC and MGE witnesses Buck and Lobser.

15 I will respond to LAC's and MGE's rebuttal testimony concerning transition costs and
16 synergies. After receiving additional information, Staff recommends amortization of deferred
17 MGE acquisition transition costs net of Staff's proposed adjustments to these costs. Staff
18 recommends amortization and inclusion in rate base of the allocated MGE software
19 integration costs. Staff does not recommend amortization or inclusion in rate base of the
20 MGE abandoned software costs or the LAC 720 Olive abandoned leasehold improvements.
21 LAC and MGE oppose Staff's recommendations as described in the rebuttal testimony of
22 LAC and MGE witnesses Flaherty, Lobser, and Keathley.

23 **RATE CASE EXPENSE**

24 Q. What is LAC's and MGE's recommendation regarding rate case expense?

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1 A. LAC and MGE request a three year amortization of current rate case expenses
2 and a five year amortization of current depreciation study expenses, as described in the direct
3 testimony of witness Noack. At the time of LAC's and MGE's direct filing, LAC and MGE
4 budgeted \$994,447 of Missouri jurisdictional rate case expenses, split between LAC and
5 MGE, \$596,668 and \$397,779, respectively, for an annual expense of \$198,889 for LAC and
6 \$132,593 for MGE.

7 Q. What is Staff's recommendation regarding rate case expense?

8 A. Staff recommends a "sharing" of rate case expenses incurred in relation to
9 these cases between shareholders and ratepayers, net of Staff's other rate case expense
10 adjustments. This sharing should be based on the percentage ratio ordered by the Commission
11 for revenue requirement compared to the utility's requested revenue requirement. The total
12 amount of incurred rate case expenses through September 30 is \$1,396,399. Staff
13 recommends this amount should be split 53.5% and 46.5% to LAC and MGE, respectively,
14 based on their requested revenue requirement increase.¹ This amount should be normalized
15 over four years, which is the approximate time between rate cases for both LAC and MGE.
16 Staff recommends a five year recovery period for the cost of LAC's depreciation study
17 expenses with no sharing of these expenses. The depreciation study expenses incurred
18 through September 30 for LAC and MGE are \$28,831 and \$25,283, respectively, for an
19 annual amount of \$5,766 and \$5,057, respectively. Staff recommends updating actual rate
20 case expense through the filing of reply briefs.

21 Q. On pages 16 and 17 of his rebuttal testimony, witness Buck states that LAC
22 and MGE were "affirmatively required" to file the current rate cases. How do you respond?

¹ LAC rate increase request: \$58,057,343, MGE rate increase request: \$50,401,070.

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1 A. Based on the advice of Staff Counsel, LAC and MGE were under no
2 requirement through Missouri statutes or in relation to the MGE Stipulation and Agreement in
3 GM-2013-0254² to file general rate cases. However, under the Missouri Infrastructure
4 System Replacement Surcharge (“ISRS”) statute, LAC and MGE cannot collect an ISRS for
5 more than three years unless they have filed a general rate case.³ Absent the current rate
6 proceedings, LAC and MGE would be required to cease collection of the ISRS. There is no
7 statutory requirement that LAC and MGE file for or collect an ISRS surcharge. Contrary to
8 witness Buck, LAC and MGE could have not filed these rate cases and simply ceased to
9 collect an ISRS. The filing of the current rate cases was absolutely voluntary and at LAC’s
10 and MGE’s sole discretion; the rate cases were not “mandated” or otherwise compelled.

11 Q. On page 18 of his rebuttal testimony, witness Buck states that the current rate
12 cases were not filed to increase LAC and MGE’s authorized revenue requirement, and instead
13 appears to contend that the General Assembly, The Office of the Public Counsel (“OPC”),
14 and “others” are responsible for the filing of these cases. How do you respond?

15 A. These comments are contradictory of other LAC and MGE witness testimony.
16 On page 2 of his direct testimony, LAC and MGE witness Noack lists LAC’s gross revenue
17 requirement of \$58.1 million, and MGE’s gross revenue requirement of \$50.4 million.
18 Clearly, these cases were filed to increase LAC’s and MGE’s authorized revenue
19 requirements above current levels reflecting collection of ISRS. LAC and MGE were not

² In the Matter of the Joint Application of Southern Union Company d/b/a Missouri Gas Energy, The Laclede Group, Inc., and Laclede Gas Company for an Order Authorizing the Sale, Transfer, and Assignment of Certain Assets and Liabilities from Southern Union Company to Laclede Gas Company and, in Connection Therewith, Certain other Related Transactions.

³ Missouri Revised Statutes Section 393.1012.

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1 “forced” to file these rate cases and were likewise not “forced” to incur the significant rate
2 case expenses that are now being requested for full recovery from customers.

3 Q. On page 19 of his rebuttal testimony, witness Buck states that “Laclede is not a
4 Company that has incurred the kind of “escalating” rate case expense that apparently drove
5 the Commission to consider the kind of rate case expense treatment being proposed by the
6 Staff in this case.” How do you respond?

7 A. LAC and MGE’s rate case expense in total in this proceeding has increased
8 from the level of incurred rate case expenses in prior cases. The following table details rate
9 case expenses for LAC and MGE, separately, for the last several rate cases, and the current
10 rate case based on total expenses through September 2017:

11

LAC Rate Case	Total Expense
GR-2007-0208	251,278
GR-2010-0171	206,582
GR-2013-0171	80,180
GR-2017-0215 Budget	596,668
GR-2017-0215 Actual Through September ⁴	687,999

12

13

MGE Rate Case	Total Expense
GR-2004-0209	937,906
GR-2006-0422	967,378
GR-2009-0355	1,035,745
GR-2014-0004	167,743
GR-2017-0216 Budget	397,779
GR-2017-0216 Actual Through September ⁵	597,269

14

⁴ Using Staff’s allocation based on revenue requirement request.

⁵ Using Staff’s allocation based on revenue requirement request.

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1 I agree with witness Buck that LAC has previously incurred low levels of rate case expense
2 compared to other utilities in Missouri, but this cost has obviously increased in the current
3 rate cases.

4 Q. To date, what amount and type of rate case expense have LAC and
5 MGE spent?

6 A. The table below details the categories and amounts of rate case expense spend
7 through September 2017:

8

Expense Category	Amount
Travel Expenses	** _____
Bill Inserts, Printing, etc.	_____
Gannet Fleming - Depreciation Study	_____
ScottMadden - Return on Equity	_____
ScottMadden - Class Cost of Service Study	_____
ScottMadden - Cash Working Capital	_____
ScottMadden - Rate Case Support	_____
Outside Legal Services	_____
Outside Services - Towers Watson & Deloitte	_____
Pricewaterhouse Coopers - Flaherty	_____ **
Total	\$1,396,399

9

10 It should be noted that rate case expenses are the incremental expenses necessary to complete
11 LAC's and MGE's rate cases. They do not include the payroll or benefits of LAC or MGE
12 employees that charge time to rate case expense. These expenses are included in payroll and
13 benefit expense and not allocated between shareholders and ratepayers.

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1 Q. The Commission ruled in Case No. ER-2014-0370, in support of a sharing
2 mechanism. Are the facts and circumstances in that case similar to the current case?

3 A. Yes they are. In its *Report and Order* in that case on pages 70-71, the
4 Commission found the following to support sharing of rate case expenses:

5 The evidence shows that the expenses in this case are driven
6 primarily by issues raised by KCPL, which has complete
7 control over the content and methodologies proposed when it
8 files its rate cases. In this case, KCPL has requested three new
9 trackers, two of which have never been requested before in
10 Missouri...

11 Each of these issues are unique to KCPL, and while KCPL
12 always has the opportunity to pursue new and unique issues in a
13 rate case, the decision to do so is entirely with KCPL's power.
14 In addition, KCPL has pursued some issues that only directly
15 benefit shareholders, such as the La Cygne accounting authority
16 and, of course, a higher ROE...
17

18 The facts are clearly similar between LAC and MGE, and the facts surrounding Case No.
19 ER-2014-0370. LAC and MGE have made the following, voluntary, shareholder focused
20 requests in the current cases:

- 21 • LAC and MGE employed outside expert witnesses to support its
22 recommended return on equity ("ROE"); at 10.35% it is the
23 highest in Missouri of large electric, gas, and water, and higher
24 than two nuclear-owning utilities;
- 25 • LAC and MGE have requested three new tracking mechanisms to
26 insulate shareholders from risk: an environmental expense tracker,
27 a cyber security tracker, and a major capital projects tracker;
- 28 • LAC and MGE have requested a Revenue Stabilization
29 Mechanism to insulate shareholders from risk;
- 30 • LAC and MGE have requested a performance based incentive
31 mechanism with essentially an ROE adder for performance above
32 a baseline between rate cases; and

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- 1 • LAC and MGE have requested a retention mechanism or a one-
2 time adder to ROE for its claimed benefits of acquisitions in
3 Alabama and Mississippi to Missouri customers.

4 Comparatively, LAC and MGE have asked for more new, unique shareholder focused
5 ratemaking tools than KCPL did in Case No. ER-2014-0370.

6 Q. Are there aspects of the way LAC and MGE managed these rate cases that
7 increased the overall expense?

8 A. Yes. Aside from the Cash Working Capital (“CWC”) study which is addressed
9 below, LAC hired Thomas J. Flaherty to provide testimony on corporate allocations and the
10 shared services corporate structure. This type of testimony is typically provided by in-house
11 personnel, such as LAC’s controller, Timothy W. Krick who also provided direct testimony.
12 LAC spent ** _____ ** on Mr. Flaherty’s direct testimony, more than any other
13 witness and more than the outside legal expenses. This amount does not include fees for
14 the rebuttal testimony which this witness filed, nor does this amount include any amounts for
15 surrebuttal testimony, hearings, and support for writing briefs, if necessary. Mr. Flaherty’s
16 hourly rate for these services is ** ___ ** per hour, which is the highest rate to Staff’s
17 knowledge for any non-attorney consultant in any recent rate case. This rate is higher than
18 any attorney in any recent rate case aside from one⁶. Staff recommends no adjustment related
19 to these fees but like other rate case expenses Staff recommends they be shared based upon
20 the requested versus ordered revenue requirement.

⁶ Case No. ER-2010-0355.

Rate Case Expense included attorneys charging ** _____ . **

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1 Q. On page 16 of his rebuttal testimony, witness Buck disagrees with Staff's
2 adjustments to rate case expense prior to the sharing mechanism. What additional
3 adjustments to rate case expense does Staff recommend?

4 A. Staff recommended the removal of the following expenses as described in my
5 direct testimony:

- 6 • ScottMadden CWC Lead Lag Study
- 7 • ScottMadden Other Expenses
- 8 • Former Employee Consulting and Legal Contract
- 9 • Other Unidentified Expenses

10 Q. Concerning the ScottMadden CWC lead-lag study expenses, on page 16,
11 witness Buck explains his view that Staff's adjustments discourage use of temporary labor.
12 Is this Staff's intent?

13 A. No. As it applies to the CWC lead lag study, LAC has performed all lead-lag
14 calculations by in-house personnel since at least 1999, in Case No. GR-99-315, which was
15 supported by witness Buck himself. In each LAC case since, LAC has used in-house
16 personnel to support CWC calculations; for the most part witness Buck.

17 CWC calculations are data-intensive and involve sampling thousands of invoice
18 and payment dates and amounts, which would be more efficiently completed by
19 in-house personnel. In the current cases, there are no substantially new CWC issues
20 that would necessitate the testimony of an outside expert such as LAC and MGE witness
21 Timothy S. Lyons.

22 However, if the Commission rejects Staff's adjustment, Staff recommends the sharing
23 mechanism apply to these costs in addition to all incremental rate case expenses.

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1 Q. Staff recommends removal of other ScottMadden expenses based on lack of
2 documentation. What are these expenses?

3 A. These expenses are related to a project manager for the rate case. At the time
4 of the direct filed case, Staff did not have any documentation or knowledge of this
5 individual's scope of work. Staff received the following explanation from the company in
6 response to Staff Data Request No. 0074.2:

7 Mr. Hanson provided project management assistance and
8 quality assurance for the project including periodic reporting to
9 senior management on project status and advancement.
10 Mr. Hanson's engagement freed up the time of the 2 principal
11 team leads to focus on testimony and schedule preparation for
12 the first combined rate case since the operating units combined.
13 Mr. Hanson also provided liaison support for the company's
14 interaction with our outside consultants / witnesses and final
15 QA on the testimony and schedules immediately prior to the
16 filing.

17 Although all of Mr. Hanson's duties could potentially be performed by in-house personnel,
18 other utilities do augment their staff for administrative tasks. Therefore, Staff withdraws
19 this adjustment.

20 Q. Staff recommended removal of expenses for a former employee consulting and
21 legal contract. What are these expenses?

22 A. These expenses are for former employee L. Craig Dowdy to provide services
23 after termination of his employment. This vendor's time is allocated 75% to the rate cases,
24 and involved research and development of direct testimony. Although all of Mr. Dowdy's
25 duties could potentially be performed by in-house personnel, other utilities do augment their
26 staff for legal services. Therefore, Staff withdraws this adjustment.

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1 Q. Staff recommended removal of other unidentified rate case expenses. Does
2 Staff still recommend removal of these amounts?

3 A. No. These expenses are legal fees. Therefore, Staff withdraws this adjustment.

4 Q. On page 21 of his rebuttal testimony, witness Buck argues that Staff
5 is interfering with LAC management's ability to determine how it should prosecute its
6 rate cases and states that Staff is substituting its judgement for LAC management. How do
7 you respond?

8 A. Staff's proposal to fairly allocate rate case expenses is not a substitute of
9 judgement, nor does Staff intend to manage LAC's affairs. Staff would not presume to
10 instruct LAC or MGE on what consultants and attorneys to employ to prosecute its rate case.
11 Similarly, the fact that a cost is not recovered through rates and funded by shareholders does
12 not preclude LAC or MGE from incurring those costs. There are several costs typically
13 removed from the cost of service, or booked to non-utility accounts, but which are
14 nonetheless incurred by LAC, MGE and most utilities:

- 15 • Incentive compensation tied to earnings per share (EPS)
- 16 • Charitable donations
- 17 • Some dues, such as duplicative chambers of commerce dues
- 18 • Political lobbying expenses
- 19 • Board of directors retreat expenses
- 20 • Certain executive expenses

21 These are costs that by their very nature, while undisputedly prudent from LAC's and MGE's
22 perspective, should be assigned to shareholders as opposed to customers. These expenses are
23 obviously not related to the provision of safe and adequate utility services and are
24 appropriately not recovered in rates. Staff does make a distinction of rate case expense from
25 the above costs as there is some portion of rate case expense based on the Commission's order

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1 ensuring just and reasonable rates. While LAC and MGE do not recover shareholder
2 allocated costs in their costs of service, this has not prevented LAC and MGE from spending
3 money on these items.

4 Q. On page 16 of his rebuttal testimony, witness Buck claims that Staff eliminated
5 fees paid for preparation of the depreciation study that was submitted with the company's
6 direct filing? Is this accurate?

7 A. No. Staff included a five year normalization of depreciation study expenses in
8 Staff's direct filing.⁷ Staff recommends no sharing of these expenses as LAC and MGE are
9 required to file a depreciation study every five years by Commission rule.

10 Q. Staff has recommended a normalization of rate case expenses, and LAC/MGE
11 has recommended an amortization of rate case expenses. What is the difference between
12 these two methods?

13 A. A normalization adjustment includes a "normal" level of expense in the cost of
14 service. Payroll overtime and non-wage maintenance are examples of normalization
15 adjustments. The cost of service is based on an ongoing level of expense and there is no
16 "tracking" of future amounts less than or greater than the amount in the cost of service
17 for future recovery. The majority of the expenses in the cost of service are not subject to
18 any tracking. Staff's normalization approach affords rate case expenses treatment similar
19 to other expenses. Staff recommends a four year normalization as this time period has
20 been the average between LAC's and MGE's rate cases since the time of establishment of the
21 ISRS surcharge.

⁷ Staff LAC direct accounting schedules – E-92.4 - \$4,129.
Staff MGE direct accounting schedules – E-65.4 - \$3,616.

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1 Q. Please summarize your testimony concerning rate case expense.

2 A. Staff recommends recovery of rate case expenses, net of Staff's adjustments,
3 based on the ratio of Commission authorized revenue requirement to company requested
4 revenue requirement. This methodology was ordered by the Commission in Case No.
5 ER-2014-0370. This sharing mechanism is straight-forward, easy to implement, and creates
6 an incentive for LAC and MGE to manage its rate case expenses. This mechanism properly
7 allocates the benefits of rate case expense to shareholders and ratepayers.

8 **MGE ACQUISITION TRANSITION COSTS AND SYNERGIES**

9 Q. What LAC/MGE witnesses address synergies and transition costs in their
10 surrebuttal testimonies?

11 A. LAC/MGE witnesses Lobser, Flaherty, and Keathley address these topics, and
12 my surrebuttal is responsive to their rebuttal testimony.

13 Q. Has Staff received additional information regarding synergy savings, and does
14 Staff have any updates to its recommendations concerning the same?

15 A. Yes. Staff received additional information regarding actual headcount
16 reductions on September 6, 2017. Staff had submitted Data Request No. 0040 on April 12,
17 2017, requesting the actual listing of terminated employees and commensurate salaries and
18 wages to validate the claimed labor savings. However, LAC's response to this request did not
19 provide the requisite detail for Staff to recommend recovery of synergies and transition costs.
20 After review of the additional information, Staff now recommends a 5 year amortization of
21 MGE transition costs, net of Staff's adjustments. Staff recommends the deferred amounts
22 should be split between LAC and MGE based on customer counts in the most recent available
23 Commission filed annual report and should not be included in rate base.

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1 The table below details the amount of transition costs Staff recommends should be
2 included in cost of service:

3

Transition Costs Summary	Total Amount	1/2 Deferred
Total through September 30, 2017	20,027,208	10,013,604
Spire Rebranding	(4,263,505)	(2,131,753)
Southern Union CSA	(1,137,381)	(568,691)
Additional Severance Costs	471,307	235,654
Net Total	\$15,097,629	\$7,548,815

4

5

5 Year Amortization of Transition Costs	Amounts
Total Deferred	7,548,815
LAC Portion (56%) ⁸	4,224,974
MGE Portion (44%)	3,323,841
LAC Annual Amortization	844,995
MGE Annual Amortization	664,768

6

7 Q. On page 10 of his rebuttal testimony, witness Noack identifies an additional
8 \$235,654 of severance costs that he recommends should be added to transition costs. Do you
9 agree with this recommendation?

10 A. Yes, I have added that amount to the total amount of Staff's
11 recommended deferral.

12 Q. On page 18 of his rebuttal testimony, witness Lobser references quarterly
13 synergy reports provided to Staff subsequent to the acquisition. Did these provide substantial
14 detail of synergy savings and employee savings?

⁸ Based on customer counts in 2016 Annual Report.

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1 A. No, which is why Staff submitted several data requests for supporting
2 documentation. I have attached one of the quarterly reports Mr. Lobser references
3 as Confidential Schedule KM-s1. It is a one page summary document of the current fiscal
4 year's synergies.

5 Q. What documentation and support for synergy savings did LAC and MGE
6 provide to Staff?

7 A. Staff Data Request No. 0070 requested the following information:

8 1) Provide the MGE Acquisition synergy tracking model (or
9 other model tracking savings/synergies from the MGE
10 acquisition) with all supporting documentation, all synergy
11 reports, actual and expected savings from its inception,
12 projected through December 2016 by month, at the MGE and
13 Laclede Gas level including labor and non-labor. Identify the
14 baseline time period used to identify merger savings/synergies
15 resulting from the MGE acquisition. 2) If the information
16 identified in item 1 is not available, identify the method
17 MGE/Laclede uses to identify synergies/savings resulting from
18 the acquisition of MGE.

19 LAC and MGE provided an internally designed and maintained synergy tracking model that
20 LAC and MGE offer to prove synergies, identified as the "Post Close Tracking Model", the
21 same model referenced on page 6 of the rebuttal testimony of witness Flaherty. This model
22 was designed to report labor and non-labor savings identified by capital and non-capital
23 amounts. This model is the source of the synergies listed in the monthly reports pursuant to
24 Case No. GM-2013-0254, and was provided in response to Staff Data Request No. 0070.
25 LAC and MGE provided their model, which is a spreadsheet with six tabs with absolutely no
26 calculations for non-labor savings, in response to this data request. Other than the listing of
27 numbers for labor and non-labor amounts, LAC and MGE did not provide any other
28 documentation or calculations to support the claimed synergies. Staff requested all supporting

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1 documentation and workpapers to support the figures, and to date that is all the calculation
2 support Staff has received. Staff was invited to a meeting on June 16 to discuss synergies and
3 was informed that no specific calculations for the non-labor synergies were readily available.
4 Staff considers this documentation wholly inadequate for establishing the legitimacy of
5 synergy savings, and in no way justifies recognition of the claimed synergy savings.

6 On page 8 of his testimony, witness Flaherty asserts that Staff has all the information
7 it needs from this spreadsheet with no details. It is difficult to comprehend how Mr. Flaherty
8 could evaluate the validity of synergy savings with no supporting calculations of the
9 claimed synergies.

10 Q. On page 8 and 9 of his rebuttal testimony, witness Flaherty comments on
11 Staff's need for synergy information by FERC account, and that he does not typically review
12 this information. How do you respond?

13 A. Given Mr. Flaherty's endorsement of synergy savings with no supporting
14 calculations, I am not surprised he would not require any additional information to support his
15 client's claimed synergy savings. Mr. Flaherty was not a party to Stipulation in GM-2013-
16 0254, nor was he involved in the negotiations thereof. Therefore, his opinion of whether or
17 not Staff should receive the information and whether or not the information would be relevant
18 is of little apparent value.

19 Q. On page 9 of his rebuttal testimony, witness Flaherty references quantifying
20 synergy savings by "cost element affected", and "insurance or specific capital project". Is this
21 the kind of information Staff requested and expected of LAC?

22 A. Yes it is. I was not involved in the negotiations of the Stipulation in
23 GM-2013-0254, but I would have expected detailed calculations of claimed synergies, not just

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1 numbers on a sheet with no support. I agree with witness Flaherty that this information would
2 be helpful to have.

3 Q. On page 10 of his rebuttal testimony, witness Flaherty claims in his experience
4 the synergy savings by FERC account are not insightful, and the identification of synergy
5 savings by FERC account would involve a high degree of judgement. How do you respond?

6 A. It would seem difficult to make an accurate determination of savings without
7 FERC account information. For example, the business case "Medium Term Growth
8 Opportunities" is the last business case synergy category on LAC's tracking model. This is
9 the only narrative description readily available. This business case lists \$3.9 million of
10 synergies, with no description of what the pre-merger cost was, and what the post-merger cost
11 was, how it was calculated, and what exactly was saved.

12 For this specific synergy, Staff did ask for additional explanation in Staff Data
13 Request No. 0070.17:

14 **Question:**

15 Reference "Business Case ID" "SLS - 005". Provide an
16 explanation of "Medium Term Growth Opportunities". Provide
17 an explanation why this activity is a cost savings ("synergy")
18 enabled by the acquisition of MGE. Was it feasible for MGE
19 under Southern Union/ETE ownership and Laclede Gas
20 standalone to complete this task?

21 **Response:**

22 See common response in 70.7. A standard, strategic approach was
23 applied to sales and marketing at MGE as a result of the business
24 combination of Laclede and MGE. The greater portfolio of
25 medium-term initiatives for customer growth is available due to
26 the economic possibilities created by the combination of Laclede
27 and MGE, and was not an opportunity SUG/ETE would have had.
28

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1 This level of detail is apparently all Mr. Flaherty needs to validate this claimed savings.
2 In Staff's opinion, with no calculations, this vague narrative does not provide the support
3 Staff has received in prior cases in which merger transition cost recovery was sought.

4 To calculate a synergy savings, the first step would be to determine the pre-merger
5 cost. This would likely involve a query from the general ledger which would include the
6 costs by FERC account. Post-merger when the savings are actually being realized, actual cost
7 information would be obtained from the general ledger by FERC account. For example,
8 if pre-merger LAC and MGE maintained two of the same software subscriptions, and
9 post-merger one could be eliminated, then the calculation of the cost savings would be the
10 difference. LAC's six-tab spreadsheet tracking model does not have these calculations.
11 What it does have is a listing of "business cases" – categories of savings – with claimed
12 savings by numbers.

13 Q. Did the stipulation in Case No. GM-2013-0254 specify that supporting
14 calculations for the claimed synergies were to be provided?

15 A. Not specifically. The stipulation did provide for the following on page 10:

16 Laclede Gas shall provide in any rate case a listing of all the
17 annual cost reductions by FERC divisional accounts related to
18 the synergies that the Company alleges justified the deferred
19 transition costs.

20 Staff requested this information that LAC was required to produce and provide to Staff in
21 Staff Data Request No. 0070.4 on July 6. LAC and MGE objected to this request. I have
22 attached the objection as Confidential Schedule KM-s2. LAC eventually provided a response
23 on July 27, which I have attached as Confidential Schedule KM-s3. This single tab
24 spreadsheet lists the synergy categories ("business cases") along with various FERC accounts.

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1 This document simply lists each “business case” category of synergies with FERC
2 Accounts that apply broadly to the claimed savings.

3 Q. On page 19 of witness Lobser’s rebuttal testimony, he states “I’m not sure how
4 taking the whole of the cost savings and breaking those into FERC accounts is either helpful
5 or practical...” How do you respond?

6 A. Aside from LAC being required to do so as part of the stipulation in Case No.
7 GM-2013-0254, this is exactly the type of analysis that would readily show actual
8 calculations of synergies. A calculation of a non-labor synergy would involve at least two
9 pieces of information: 1) the combined costs prior to the acquisition and, 2) the combined
10 costs after the acquisition, both in sufficient detail. To determine the combined historical
11 costs, one would necessarily have to obtain actual cost information from the general ledger or
12 other accounting document that would include a FERC account distribution.

13 Q. During your employment at the Commission, have you evaluated synergy
14 savings documentation on other occasions?

15 A. Yes, on two occasions. The first is the Great Plains Energy (“GPE”)
16 acquisition of Aquila, Inc., Case No. EM-2007-0374. In subsequent rate cases,
17 Staff evaluated synergy documentation that was far above the detail provided in this case.
18 It was not uncommon to have six tabs on one spreadsheet, in the nearly 100 individual
19 spreadsheets of calculations and documentation provided to Staff. Great Plains Energy/Kansas
20 City Power & Light created this documentation and readily provided it to Staff.

21 The second example is the current pending GPE merger with Westar. Based upon the
22 initial documentation provided to Staff in this proceeding, GPE has a robust and detailed

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1 synergy tracking process similar to process used in the Aquila. This level of detail is what
2 Staff expected LAC would provide to support its claimed synergies.

3 Q. Would the synergy savings calculations by FERC account be as relevant for
4 labor savings?

5 A. No. Labor is charged to substantially all FERC Operations and Maintenance
6 (“O&M”) accounts, and below-the-line and capital accounts. The key information for the
7 labor savings calculation would be actual positions eliminated with actual ending salary and
8 wage information.

9 Q. On page 12 of his testimony, witness Flaherty states “the Staff can work with
10 ranges of salary data to confirm the level of savings actually realized”. Do you agree?

11 A. No. Mr. Flaherty may be unfamiliar with the Missouri Staff in that regard.
12 Staff does not use “ranges” of salaries and wages to annualize payroll expense. Staff uses
13 specific employee information including employee number, department, annual salary and
14 wage, hire date, and (frequently) by employee name. Staff is held to the highest standard to
15 hold this information in confidence. I am unaware of any time this confidence has been
16 broken by Staff.

17 LAC’s synergy tracking model includes “estimates” of salary and wage information,
18 which is exactly why Staff asked for actual employee terminations by date, position, and
19 wage. Staff received the requested information very late in its audit.

20 Q. Earlier in your testimony, you mentioned that Staff now supports amortization
21 of some transition costs. Please explain why Staff has seemingly changed its position.

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1 A. LAC did not provide any calculations for the claimed synergies in their
2 tracking model. LAC also used “estimates” of labor savings. Therefore, Staff could not
3 comfortably rely upon this model to support amortization of \$10 million of transition costs.

4 Staff requested actual employee terminations by salary and date terminated to verify
5 that the level of these savings would exceed the amortization of transition costs. Based on the
6 information provided to Staff, these savings do exceed the level of amortized transition costs.

7 Q. What are the annual savings of salary, wage and benefits from the verified
8 terminated positions?

9 A. In salary and wages, the annual savings from Staff’s analysis is \$7.7 million.
10 Using a 40% benefits adder is amount is \$10.8 million. This annual amount exceeds a five
11 year amortization of any transition costs.

12 Q. On page 20 of his rebuttal testimony, witness Lobser addresses Staff’s
13 assertion that some claimed synergies were unrelated to the acquisition, and that Staff has
14 recommended an “adjustment” to synergy savings and cost of service. Does Staff recommend
15 some cost of service adjustment based on this assertion?

16 A. No. Staff simply points out that some of the claimed synergies, such as the
17 closing of the Missouri Natural Gas (“MoNat”) division offices, are not the direct result of
18 acquiring MGE. In this example, these offices were located in the vicinity of St. Louis. MGE
19 is a Kansas City service territory. It is difficult to comprehend how the closing of these
20 offices was a result of the purchase of MGE. These savings are a result of a business decision
21 by LAC; obviously not the result of the purchase of MGE.

22 LAC/MGE claimed that several outsourcing opportunities were a direct result of the
23 acquisition. These outsourcings included custodial (janitorial) services at LAC district

1 offices, the MGE call center, field collections, and maintenance of automobiles and light
2 trucks. It is quite feasible that MGE could have outsourced these functions absent its
3 purchase by LAC.

4 **ADJUSTMENTS TO TRANSITION COSTS**

5 Q. On page 21 of his rebuttal testimony, witness Lobser identifies that Staff
6 recommends some deferred claimed transition costs on the basis that they are not truly
7 transition costs, or that LAC has already collected those costs. What are these costs?

8 A. Staff recommends that the following claimed costs not be recovered as
9 transition costs:

- 10 • Amounts paid to Southern Union / Energy Transfer Partners under
11 the terms of the Continuing Services Agreement (“CSA”);
- 12 • Amounts paid to various vendors to support the rebranding of LAC
13 and MGE to “Spire;”
- 14 • Abandoned leasehold improvements at 720 Olive, the former LAC
15 headquarters; and
- 16 • Abandoned software costs at MGE.

17 **SOUTHERN UNION CONTINUING SERVICES AGREEMENT**

18 Q. For item 1, did the Stipulation in Case No. GM-2013-0254 allow LAC and
19 MGE to defer costs paid under the CSA?

20 A. Yes, it did. Attachment 1 to the Stipulation clearly states that “SUG transition
21 charges”, which were paid under the CSA to support the operations of MGE immediately
22 following the acquisition, were to be deferred as transition costs. These costs were necessary
23 to ensure a smooth transition from Southern Union to LAC ownership.

24 Q. Why does Staff not recommend recovery of these expenses as transition costs?

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1 A. These costs, in a similar form, were included in the cost of service in prior
2 rate cases, and in rates being collected by MGE that were in effect during the acquisition
3 resulting from Case No. GR-2009-0355. That case included \$5.0 million of what were then
4 “Joint and Common Costs” (“JCC”) billed from Southern Union to MGE and included in cost
5 of service. They included costs for “back office” functions of MGE managed from a
6 Houston, Texas location of the Southern Union headquarters. On August 30, 2013, and prior
7 to that date, the JCC were billed and collected from MGE. On September 1, 2013, the next
8 day and effective date of the acquisition, costs similar to the JCC costs were billed to MGE
9 under the CSA. The CSA costs were transition costs, but were not incremental costs to
10 achieve, and were already being collected in a somewhat different form by MGE. The CSA
11 costs were essentially “back office” costs in a reduced amount paid to Southern Union on a
12 temporary basis while LAC’s “back office” service to MGE was fully implemented.

13 Q. After the MGE acquisition, did MGE receive allocations for the “back office”
14 functions from LAC?

15 A. Yes. As a term of the Stipulation and Agreement in Case No. GM-2013-0254,
16 LAC agreed to limit the corporate allocations it would seek from ratepayers in its next general
17 rate case. This agreement was essentially a carryover from the stipulation and agreement in
18 the prior sale case, Case No. GM-2011-0412⁹. The \$5.0 million of JCC expenses,
19 which became LAC allocated expenses, were included in MGE’s last prior case, Case No.
20 GR-2014-0007.

21 Q. Please continue.

⁹ In the Matter of Southern Union Company d/b/a Missouri Gas energy, Sigma Acquisition Corporation and Energy Transfer Equity, L.P. for an Order Authorizing them to Perform in Accordance with a Merger Agreement and to Undertake Related Transactions.

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1 A. Effective September 1, 2013, MGE would have paid Southern Union CSA
2 costs, and allocated some amount of LAC corporate overheads. All the while, MGE
3 would have been collecting the \$5.0 million of JCC costs included in rates in Case No.
4 GR-2009-0355.

5 LAC would have allocated some of the corporate overheads to MGE beginning
6 September 1, 2013. These corporate costs were established in its last rate case prior to
7 the acquisition of MGE, Case No. GR-2013-0171, and in the rate case prior, Case No.
8 GR 2010-0171. All the while, LAC would have been collecting the full allocation of
9 corporate costs it received in rates, and it will continue to collect those higher costs until the
10 effective date of new rates in this case. This is beneficial to LAC as a result of regulatory lag;
11 a phenomenon quite familiar to the Commission.

12 In summary:

- 13 • LAC paid Southern Union for post-acquisition support under the
14 CSA in the amount of \$1.1 million, beginning September 1, 2013.
- 15 • At the same, MGE was collecting \$5.0 million annually in rates for
16 substantially the same costs, recovering the CSA costs through
17 regulatory lag. These rates were established in Case No. GR-2009-
18 0355.
- 19 • LAC allocated MGE a portion of corporate costs, limited to \$5.0
20 million per the Stipulation and Agreement in Case No. GM-2013-
21 0254, beginning September 1, 2013. MGE recovered these cost in
22 rates resulting from GR-2014-0007 beginning June 12, 2014.
- 23 • At the same time, LAC collected the full amount of corporate costs
24 established in rates from Case No. GR-2010-0171 and Case No.
25 GR-2013-0171, retaining the residual through regulatory lag. LAC
26 will continue to collect the full amount of unallocated corporate
27 costs through the effective date of rates in this case.

28 While the stipulation language states that LAC is allowed to defer and recover the CSA
29 expenses, the intent was not for LAC and MGE to double recover these expenses.

1 **SPIRE REBRANDING EXPENSES**

2 Q. What other Staff witness addresses this issue?

3 A. Staff witness Jason Kunst also provides rebuttal testimony concerning the
4 Spire rebranding costs.

5 Q. For item 2, the Spire rebranding costs, witness Lobser claims on page 22 that
6 these costs were necessary to integrate LAC and MGE. How do you respond?

7 A. It is difficult to comprehend how expenses to advertise a corporate name
8 change incurred nearly four years after the purchase of MGE were necessary and even related
9 to the integration of MGE into LAC. Simply put the "Spire" rebranding and the
10 commensurate development and advertising expenses were the result of a choice by LAC and
11 one it should pay for. There was no requirement for MGE or LAC to adopt the "Spire" name,
12 a name and branding that was new and original to LAC and MGE. It is more common for the
13 acquired to adopt the acquirer's name and branding in Missouri, as has been the case with
14 these recent acquisitions:

- 15 • Aquila, Inc. purchased St. Joseph Light & Power, which it
16 continued to operate as a division, under the general "Aquila"
17 branding.
- 18 • Great Plains Energy purchased Aquila, Inc, and operates it
19 generally under the "KCP&L" branding, with the additional
20 "Greater Missouri Operations" description, with KCP&L
21 employees.
- 22 • Liberty Utilities purchased the Atmos Gas properties and operates
23 them under the Liberty Utilities branding, a branding which
24 previously existed.
- 25 • Liberty Utilities purchased The Empire District Electric Company
26 and operates it under the "Empire District – A Liberty Utilities
27 Company".

Surrebuttal Testimony of
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1 In contrast to LAC, none of these acquisitions required rebranding to the parent company's
2 brand, in this case "Spire".

3 Q. Has the "Spire" rebranding effort created customer confusion?

4 A. Yes. Staff witness Kunst addresses customer frustration with the "Spire"
5 rebranding in his rebuttal testimony. The reaction to the "Spire" rebranding has not been
6 positive, based upon the general reaction throughout the local public hearings. For over
7 100 years, LAC operated under the branding "Laclede Gas Company". MGE operated under
8 the branding "Missouri Gas Energy" since 1994, and prior to that it operated under the
9 branding "Gas Service Company" for many years. The prior names included the word "gas"
10 which may be the source of the confusion as "Spire" is not used with the word "gas".

11 Q. Did LAC, and its parent company Spire, Inc., own the rights to the "Spire"
12 name?

13 A. ** _____
14 _____
15 _____
16 _____
17 _____
18 _____
19 _____ **

20 Q. ** _____
21 _____ **

22 A. ** _____
23 _____ **

Surrebuttal Testimony of
Keith Majors

1 Q. On page 22 of his testimony, witness Lobser asserts that the rebranding costs
2 were necessary to merge LAC and MGE together, and that the rebranding was integral to the
3 “Shared Services” business model. How do you respond?

4 A. The shared services model was active starting in late 2015. Prior to that date,
5 LAC provided services to MGE similar to the way it does now. As witness Lobser states,
6 the name change was part of the effort to bring together individual utilities under one
7 “team name”. This is a result of Spire’s growth strategy which added the Alagasco and
8 EnergySouth properties. Regardless of any claimed benefits, if the shared services model
9 necessitated the name change, and Spire’s growth strategy necessitated the shared services
10 model, then logically Missouri ratepayers should not pay for the name change and rebranding
11 as a facet of Spire’s growth strategy. The Spire name change and rebranding are more akin to
12 transaction costs related to the acquisition strategy. The Commission has never allowed
13 recovery of transaction costs as they do not benefit customers in any way.

14 Witness Lobser states on page 24 that these expenditures were reasonable and incurred
15 to achieve the integration of MGE and LAC. It is difficult if not impossible to make that
16 connection since these costs were incurred nearly four years after the merger.

17 Q. On page 24, witness Lobser explains the benefits of having customers know
18 who is serving them, and having clearly marked vehicles, uniforms, and name badges.
19 Do you disagree with these comments?

20 A. No. Customers should know who provides their utility service, and should
21 have a strong visual identity of their utility. The customers knew Laclede Gas Company for
22 over 100 years, and now Spire has created the very problem it wants its customers to pay for.

1 Q. On page 25, witness Lobser states that LAC is not requesting customers pay
2 for the name change, and that customers are mistaken. How do you respond?

3 A. Witness Lobser's answer to his own question is not completely true, at best.
4 The simple fact is that LAC is asking customers to pay for ½ of the total \$4.2 million of
5 rebranding and name change expenses.

6 **720 OLIVE ABANDONEND LEASEHOLD IMPROVEMENTS**

7 Q. For item 3, what are the abandoned leasehold improvements at 720 Olive?

8 A. These assets were improvements to LAC's former headquarters. Leasehold
9 improvements are fixtures, furnishings, and custom equipment that could not be used at
10 LAC's new headquarters at 700 Market. LAC moved to its new headquarters in 2015,
11 subsequent to the acquisition of MGE on September 2013. LAC is requesting an amortization
12 of the remaining balance of \$1.3 million of leasehold improvements. LAC requests recovery
13 of these amounts on the premise that they are one-time capital transition costs.

14 Q. On page 5 of his rebuttal testimony, LAC witness Keathley claims the
15 leasehold improvements are not abandoned, in that they were costs incurred to facilitate the
16 integration of LAC and MGE. How do you respond?

17 A. Per the Stipulation in Case No. GM-2013-0254, LAC and MGE are allowed
18 recovery of one-time capital transition costs in their respective FERC accounts, similar to
19 other capital plant investments. The operative word here is "capital." The 720 Olive
20 leasehold improvements, regardless of whether or not they are called "abandoned," are not
21 incremental capital investments incurred to merge LAC and MGE and subsequently enable
22 synergies. These items are not "used and useful" to provide utility services to ratepayers and
23 should therefore not be included in cost of service, as transition costs or otherwise.

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1 Q. Witness Lobser claims the 720 Olive improvements were necessarily
2 abandoned to integrate LAC and MGE. How many MGE employees were transferred from
3 Kansas City to the St. Louis headquarters?

4 A. Five total employees¹⁰ were moved to the St. Louis headquarters, three of
5 which were moved to 720 Olive prior to the move to 700 Market. It is not reasonable to
6 believe that these five employees could not be accommodated at 720 Olive.

7 To be clear, Staff does not dispute the decision to move from 720 Olive to 700
8 Market, nor does Staff recommend any adjustments related to the move. Staff does dispute
9 that the move to 700 Market was caused by the acquisition of MGE.

10 Q. Did any other LAC or MGE witnesses testify as to why the Company moved
11 its headquarters to 700 Market?

12 A. Yes, beginning on page 3 of her rebuttal testimony, LAC witness Susan M.
13 Kopp comments on the move to 700 Market, one of LAC's recent facilities changes:

14 Q. WOULD YOU PLEASE PROVIDE THE
15 COMMISSION WITH SOME HISTORICAL CONTEXT
16 FOR WHY THE COMPANY RESTRUCTURED ITS
17 MISSOURI FACILITIES OVER THE PAST SEVERAL
18 YEARS?
19

20 A. Certainly. There were three primary goals underlying the
21 facilities restructuring. The first was to have facilities that could
22 accommodate the Company's shared service model and future
23 growth...

24 On page 5 of witness Kopp's testimony, she elaborates on the poor state of 720 Olive.
25 This fact, combined with LAC's decision to change its corporate structure to a shared
26 service model, necessitated the move to 700 Market. As witness Kopp states, the move was

¹⁰ Response to Staff Data Request No. 0381.

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1 also driven by Spire's future growth. Ratepayers should not pay to support the growth
2 strategy of Spire.

3 **MGE SOFTWARE ABANDONMENTS**

4 Q. For item 4, what are the MGE software abandonments?

5 A. These assets were the remaining balances of the MGE software utilized under
6 prior Southern Union ownership. They include software to record all calls into the MGE call
7 center, the customer billing system, the field employee dispatching system, and the
8 geographic information system ("GIS"). These assets are no longer "used and useful" for
9 utility service. On the contrary, the investment in software and conversion to integrate MGE
10 into LAC's existing "new Blue" system are incremental capital transition costs. These assets
11 are currently "used and useful"; therefore, Staff has included an amortization of these costs in
12 its recommended cost of service and has included the balance in rate base.

13 Q. On page 17 of his rebuttal testimony, witness Flaherty claims the MGE
14 software abandonment is a legitimate cost-to-achieve. How do you respond?

15 A. Like the abandoned 720 Olive leasehold improvements, these abandonments
16 are not even legitimate costs for purposes of rate recovery at this time; they are abandonments
17 that should have been written off to expense at the time they were abandoned and not "used
18 and useful" utility property. They are not incremental outlays of capital that were incurred to
19 achieve cost savings. They were abandonments related to integrating MGE into LAC's
20 "New Blue" company-wide package of enterprise software. On the contrary, the costs of
21 integrating MGE into "New Blue" are an incremental cost to achieve and Staff has included
22 an amortization of these costs in expense and included the balance in rate base.

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1 Q. At the time of the acquisition, was LAC aware that these abandonments would
2 likely occur?

3 A. Yes. Referencing the rebuttal testimony of LAC and MGE witness Hyman on
4 page 7, LAC knew MGE's software systems were aging when it performed its due diligence
5 in acquiring MGE:

6 During the course of our acquisition of MGE and in the months
7 that followed, we performed a detailed analysis of the MGE's
8 current system, including its functionality, age, ability to
9 service, etc. We identified a couple of reasons why we needed
10 to replace MGE's systems with LAC's. First, the financial
11 systems that MGE relied upon were owned by their previous
12 owner. Therefore, when MGE was sold their backend financial
13 systems were not assets that came along with the company.
14 Also, MGE's former owner was no longer supporting the
15 technology that MGE used. In fact, they had abandoned that
16 technology completely as they were moving towards SAP and
17 were letting MGE "finger".

18 Witness Hyman continues his explanation of the poor state of MGE's systems on page 14 of
19 his testimony:

20 Like LAC's prior IMS system, MGE's legacy information
21 management system was also too old and too unserviceable to
22 have been maintained and used for any extended period of time.

23 And he continues on page 15 of his testimony:

24 In fact, MGE's previous owner was abandoning the back end
25 technology that supported MGE. They had isolated MGE's
26 technology and were providing just enough support to keep it
27 running until they found a buyer for MGE. This was
28 communicated directly to me by the CIO of ETE. Once we
29 started diligence on MGE, it became apparently clear what
30 Energy Transfer was doing.

31 From the testimony of Mr. Hyman, it is clear that these abandonments were contemplated at
32 the time of the acquisition.

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1 Q. If LAC knew MGE would require large investments in software, would LAC
2 have considered this fact when offering a purchase price for MGE?

3 A. Undoubtedly, yes they would have. During the due diligence phase of
4 evaluating MGE for a purchase, LAC would have considered all items of plant investment;
5 assets, liabilities, and all other aspects of the business. As witness Hyman testifies,
6 LAC knew MGE's software had limited value in the future and would have adjusted its
7 purchase price accordingly. Therefore, these abandonments can be considered a cost of
8 acquiring MGE.

9 **ALAGASCO & ENERGYSOUTH SYNERGIES**

10 Q. On page 30 of his rebuttal testimony, witness Lobser recommends inclusion of
11 transaction costs related to the Alagasco and EnergySouth acquisitions by Spire. Was this
12 adjustment recommended in his direct testimony?

13 A. No, it was first recommended in his rebuttal testimony.

14 Q. Does the Commission typically allow recovery of transaction costs in the cost
15 of service?

16 A. No. The Commission has routinely denied recovery of transaction costs
17 through the cost of service. Transaction costs and acquisition premiums may receive some
18 indirect recovery by utilities outside the normal ratemaking process, by the offsetting merger
19 synergy savings not yet flowed through to customers in rates against these merger costs.
20 Most acquiring utilities forego requesting rate recovery of transaction costs. For example, in
21 Case No. GM-2013-254, LAC and MGE agreed in the Stipulation and Agreement on page 9
22 to never seek recovery of transaction costs:

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1 b. Transaction Costs. Transaction costs are those costs
2 incurred to effectuate and close the Transaction. Laclede Gas
3 including its MGE division shall not ever seek to directly or
4 indirectly include or recover in any future proceeding any
5 transaction costs, which as defined herein include, but are not
6 limited to, outside service costs relating to gaining regulatory
7 approval, development of transaction documents, investment
8 banking costs, and costs related to raising equity incurred prior
9 to closing of the Transaction. Neither Laclede Gas nor its MGE
10 division shall seek either direct or indirect rate recovery or
11 recognition of any transaction costs through any purported
12 acquisition savings adjustment (or similar adjustment) in any
13 future general ratemaking proceeding in Missouri. See
14 Attachment I.

15 This term of the stipulation was not “foisted” upon LAC and MGE, it was proposed in the
16 direct testimony of LAC witness Mark D. Waltermire.

17 The Commission discussed recovery of transaction costs in Case No. EM-2007-0374¹¹
18 on page 127 of its Report and Order in that case:

19 351. Transaction costs are generally not recovered through rates
20 but rather charged to shareholders because transaction costs
21 consist of costs incurred by both the acquiring company as well
22 as the acquired company to complete the transaction, and not to
23 facilitate the provision of utility service – such costs are
24 properly considered to be a part of the purchase price of the
25 acquisition. [footnote omitted]

26
27 352. Absent the specific rate and accounting treatment being
28 requested by the Applicants, pursuant to Generally Accepted
29 Accounting Principles, transaction costs would be added to the
30 value of the consideration being given by Great Plains for the
31 Aquila stock being acquired to arrive at the total purchase price
32 of the transaction. [footnote omitted]

33
34 353. Transaction costs do not meet the normal criteria for
35 traditional expenses used to establish rates. These costs are not
36 used or useful nor necessary for the provision of safe and

¹¹ In the Matter of the Joint Application of Great Plains Energy Incorporated, Kansas City Power & Light Company, and Aquila, Inc., for Approval of the Merger of Aquila, Inc., with a Subsidiary of Great Plains Energy Incorporated and for Other Related Relief.

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1 adequate service. These costs are investor costs incurred in the
2 buying and selling of their stock. These are the costs of a non-
3 regulated holding company. Great Plains and its Board decided
4 to incur these costs. Recovery of these transaction costs would
5 result in regulated utilities subsidizing their non-regulated
6 parent companies. [footnote omitted]

7 The Commission concluded that transaction costs should not be recovered in cost of service
8 on page 240 of the Report and Order in that case:

9 ...Consequently, the Commission concludes that, in this
10 instance, establishing a mechanism to allow recovery of the
11 transaction costs of the merger would have the same effect of
12 artificially inflating rate base in the same way as allowing
13 recovery of an acquisition premium. This would result in an
14 increase in rates to ratepayers that would exceed what would
15 otherwise be the case.

16 Q. Has LAC provided any supporting documentation for the transaction costs?

17 A. No. Staff does not have any invoices for the \$18.8 million of claimed
18 Alagasco transaction costs and \$4.7 million of claimed EnergySouth transaction costs. Staff
19 has pending data requests for these documents.

20 Q. Why did Staff not request these documents sooner?

21 A. LAC's proposal to recover Alabama and Mississippi transaction costs in
22 Missouri rates was first proposed in the rebuttal testimony of witness Lobser. In his direct
23 testimony, witness Lobser did not reference transaction costs:

24 **Q. IS THERE ANYTHING IN THE CURRENT**
25 **REVENUE REQUIREMENT FOR SUCH TREATMENT?**
26

27 A. No. We would like to work with parties to determine
28 how this may be included in this rate case, whether through
29 some retention mechanism or a one-time incentive adder to
30 Laclede's ROE.

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1 In his direct testimony, witness Lobser requested a synergy retention mechanism or an ROE
2 adder for the reduction of allocations to LAC and MGE. There is no mention of transaction
3 cost recovery in his direct testimony.

4 Q. Other than Commission precedent, are there other reasons why the
5 Commission should deny rate recovery of these costs?

6 A. Yes, there are several:

- 7 • The Alagasco and EnergySouth transaction costs were incurred on
8 the books and records of The Laclede Group, or Spire, and should
9 be considered ownership costs.
- 10 • The transaction costs from the Alagasco acquisition were incurred
11 in September 2014, 15 months before the test year in this case.
12 LAC's adjustments for these costs are retroactive ratemaking.
- 13 • LAC did not seek Commission authority to defer these expenses on
14 the books of LAC and MGE at the time they were incurred.
- 15 • LAC did not seek authority from the Commission to acquire
16 Alagasco or EnergySouth. The Commission and rate case parties
17 have typically evaluated and taken positions on issues involving
18 transaction and transition costs before the transactions are
19 consummated.
- 20 • LAC specifically did not seek recovery of transaction costs when it
21 purchased MGE.
- 22 • ETE specifically did not seek recovery of transaction costs when it
23 purchased MGE's former parent, Southern Union.
- 24 • LAC and MGE are currently retaining synergy savings through the
25 reduction of corporate allocations after the purchase of Alagasco
26 and EnergySouth
- 27 • Spire, through ownership of Alagasco and EnergySouth, is
28 benefitting from retention of reduced costs through regulatory lag,
29 in the rates of Alagasco and EnergySouth.
- 30 • LAC and MGE has made no effort to properly allocate transaction
31 costs to all its corporate affiliates that benefit from the purchase of
32 Alagasco and EnergySouth

1 **ALLOCATION OF SHARED SERVICES EMPLOYEES**

2 Q. On page 14 of his rebuttal testimony, witness Noack identifies differences in
3 payroll expense related the allocation of shared services employees. What is this issue?

4 A. Shared services employees are those that provide services to more than one
5 Spire entity. In its direct filing, Staff used one allocation factor, a company-wide three factor
6 allocator based on plant, revenues, and wages, to allocated shared service employee costs.
7 Staff has since received additional information that identifies LAC's recommended
8 allocation factors by department and individual. I evaluated the allocation information and
9 gave the information to Staff witness Antonija Nieto to include in Staff's annualized payroll
10 expense. I do not believe shared services employee allocations will be an issue at the time of
11 Staff's true-up filing.

12 **LACLEDE INSURANCE RISK SERVICES (LIRS)**

13 Q. On pages 23-24 of his rebuttal testimony, LAC witness Buck describes Staff's
14 LIRS adjustment. Briefly describe this issue.

15 A. LIRS provides reinsurance services to some LAC and MGE's insurance
16 providers. Reinsurance involves ceding risk from LAC and MGE's primary insurers to LIRS,
17 with LIRS accepting some actual risk of claim payment in exchange for a portion of the paid
18 premium from the insurer. Generally speaking, the purpose of a company-owner reinsurance
19 subsidiary is to levelize risk, lower premium cost, and reduce volatility.

20 Staff's adjustment in its direct testimony addressed the affiliate transaction identified
21 in the 2016 Laclede Affiliate Transaction Report. This report has since been corrected to
22 remove this transaction.

Surrebuttal Testimony of
Keith Majors

1 Q. Does Staff still recommend an adjustment to LAC and MGE's cost of service
2 based on the LIRS arrangement?

3 A. Not at this time. LIRS does not provide services to LAC or MGE but LAC
4 and MGE do provide services to LIRS in the form of payroll, benefits, and an allocation of
5 other costs. Therefore, the services provided to LIRS are an affiliate transaction. The
6 arrangement with LIRS is relatively new. Staff at this time does not believe the LIRS
7 arrangement is detrimental to customers based on the current information provided by LAC
8 and MGE. Staff will continue to monitor this arrangement and the associated affiliate
9 transactions in the future.

10 Q. Does that conclude your surrebuttal testimony?

11 A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

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


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

AFFIDAVIT OF KEITH MAJORS

STATE OF MISSOURI)
) ss.
COUNTY OF JACKSON)

COMES NOW KEITH MAJORS and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing Surrebuttal Testimony; and that the same is true and correct according to his best knowledge and belief.

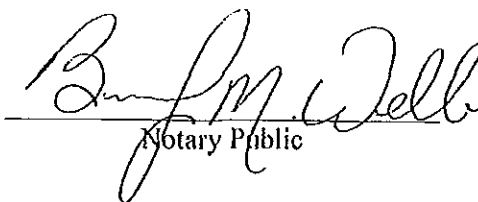
Further the Affiant sayeth not.



KEITH MAJORS

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Jackson, State of Missouri, at my office in Kansas City, on this 20th day of November, 2017.



Notary Public



BEVERLY M. WEBB
My Commission Expires
April 14, 2020
Clay County
Commission #12464070

THE SCHEDULES
REFERENCED IN THE
SURREBUTTAL TESTIMONY OF
KEITH MAJORS
HAVE BEEN DEEMED
CONFIDENTIAL
IN ITS ENTIRETY