Exhibit No.:	
Issue:	*AMR Devices*
Witness:	*Lisa M. Ferguson*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*True-Up Rebuttal Testimony*
Case No.:	*GR-2017-0215 & GR-2017-0216*
Date Testimony Prepared:	*December 20, 2017*

MISSOURI PUBLIC SERVICE COMMISSION

COMMISSION STAFF DIVISION

AUDITING DEPARTMENT

TRUE-UP REBUTTAL TESTIMONY

OF

LISA M. FERGUSON

SPIRE MISSOURI INC. d/b/a SPIRE

LACLEDE GAS COMPANY and MISSOURI GAS ENERGY GENERAL RATE CASE

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

Jefferson City, Missouri
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Q. Please state your name and business address.

A. Lisa M. Ferguson, 111 N. 7th Street, Suite 105, St. Louis, MO 63101.

Q. By whom are you employed?

A. I am employed by the Missouri Public Service Commission ("Commission") as a member of the Auditing Staff ("Staff").

Q Are you the same Lisa M. Ferguson who contributed to Staff's true-up direct testimony filing on November 28, 2017, in this case?

A. Yes, I am.

Q. What is the purpose of your true-up rebuttal testimony in this proceeding?

A. My true-up rebuttal testimony will further clarify Staff's position regarding LAC witness C. Eric Lobser's proposal in his rebuttal testimony for inclusion of AMR devices as part of rate base as well as inclusion of an additional O&M amount for meter replacement costs and estimated property tax related to these meter devices.

<u>AUTOMATED METER READING (AMR) DEVICES</u>

Q. Please give an overview of this issue.

A. As stated in my true-up direct testimony filed in this case, LAC negotiated the purchase of AMR meter devices already deployed in its system through an executed amendment to a service agreement with Landis+Gyr that was renewed and extended until March 31, 2024, including a reduction in cost for meter reading from this same vendor.

Q. Please describe Staff's position regarding LAC's AMR devices.

A. As part of Staff's true up audit in this proceeding, Staff included in the cost of service $16,624,220 for the 700,262 already deployed meter interface units (MIU's) that LAC purchased on July 1, 2017, from Landis+Gyr as part of the executed amendment to the initial 2005 automated meter reading services agreement. As a result of this purchase and amendment, LAC now owns the meter interface units, and as such, this addition to plant will provide LAC a return on this asset under standard ratemaking principles. Staff has also included an amortization of the cost of the meters of $2,216,253 in LAC's expense. This amortization reflects a return of the total cost of the meters over a 7.5 year period as proposed by Staff witness Keenan Patterson in his true up direct testimony. As part of the purchase and agreement amendment, the per device read fee per month is reduced from $0.985 per meter per month to $0.24 per meter per month until June 30, 2020, and then $0.30 per meter per month subsequent to that date. Therefore, in addition, Staff included a reduction to LAC's expense of $6,200,553 for the ongoing reduction in meter reading services costs that results from the amendment. Landis+Gyr continue to be responsible for the maintenance and installation of the MIUs as part of the amended agreement.

Q. What is LAC's position regarding the AMR devices?

A. As far as Staff is aware, LAC has agreed with Staff's position regarding the inclusion of the $16,624,220 in plant in service in Account 397.2, the amortization of these meter devices over a 7.5 year life, as well as the reduction to O&M expense relating to the reduction in meter reading costs.

Q. What disagreement remains between LAC and Staff regarding the AMR meter devices?

A. LAC has proposed inclusion of $1.1 million in the cost of service relating to two items. In LAC's true up workpapers, the Company describes $694,256 as "estimated maintenance costs of devices" and $415,605 as "property taxes Schedule CEL R-1" related to the ownership of the devices.

Q. Does Staff agree that the $694,256 actually represents maintenance costs for the AMR devices?

A. No. Staff received invoices and had discussions with LAC personnel and determined that the costs that LAC witness Lobser is referring to in his rebuttal testimony is for actual replacement of meter devices. Per the second paragraph in the executed amendment to automated meter reading services agreement with Landis+Gyr, LAC is responsible for the "purchase of replacement or additional MIUs". However, the invoices Staff received are dated 10/05/17 and 11/06/17 with payment recorded in the general ledger in November and December 2017. These invoices are capital in nature and are subsequent to the true up cutoff date in this rate proceeding. If Staff were to include this cost in the cost of service, there would be a violation of the matching principle for which all other investment, revenue and expenses are established in this case.

Q. Please explain the matching principle.

A. Rates are developed for a utility based on the use of ratemaking adjustments such as annualizations and normalizations that are used to establish a relationship for ongoing levels of investment, revenue, and expense. The amounts determined through ratemaking adjustments are intended to match the relationship among utility investment, revenue, and expense at a point in time that is usually set during the rate case process. It is anticipated that the same relationship will continue into the foreseeable future and this allows the utility the opportunity to earn its authorized return. LAC's proposal to include investment past the September 30, 2017, true up cutoff disrupts the matching relationship that is projected to occur among its investment, revenue, and expense in the future. The cost of service would no longer contemplate all other revenues, expenses, and investment changes that would occur during the period when those AMR meter devices would be added to plant in service. Staff has not included the future capital of the AMR meter devices in this case in order to keep the relationship between LAC's investment, revenue and expense intact. If these devices had needed to be replaced before close of the true-up period at September 30, 2017; those replacement costs have been included in Staff's true-up plant in service at that date.

Q. Would Staff have included the $694,256 (approx. $700,000) as an ongoing level of expense if these costs were in fact maintenance expenses?

A. Not in this case. Staff did not include a level of ongoing maintenance expense for the AMR devices because paragraph 4 of the executed amendment specifies that all maintenance and installation costs are included in the amended contract as Landis+Gyr's responsibility through March 2024. For this reason, LAC should not be incurring any additional maintenance expenses associated with these meters at this time. Staff also asked in Staff Data Request No. 507:

> Would the $700,000 (that was included in LAC witness Lobser's CEL R-1) include any annual maintenance that would need to be performed on the Meter Interface Units (MIU's)? If not, please provide the annual maintenance cost that would be necessary for the deployed meter devices and the appropriate FERC accounts this cost would be recorded in.

LAC's response to this data request indicated:

> No. All annual maintenance is built into the monthly service fee of $0.24. (That is currently included in Staff's cost of service) Landis+Gyr dedicates about 8 full time employees to working the maintenance calls for this system. Vehicle expenses and administrative expenses are also built into the fee. This is part of what we pay the service fee for. The service fee also includes operating the system and providing us a read. No study has ever been done to see how much it would cost LAC to do the maintenance.

Q. Does Staff agree that the $415,605 of estimated property taxes related to ownership of the AMR devices should be included in the cost of service?

A. No. Staff also does not believe it is appropriate to include this item. LAC will not be assessed property tax on the MIUs any earlier than January 2018 and will not pay property tax on the MIUs until at least December 31, 2018. This means that these property taxes are not known and measureable, nor have they been incurred during the true-up period; hence no inclusion should be made for them in the cost of service. In addition to this cost not being known and measureable, inclusion of this cost would also violate the matching principle as discussed above.

Q. Would you agree that the purchase of these AMR devices lowered costs for customers, all else being equal?

A. Yes, this purchase overall was beneficial to customers, but it is inappropriate to violate ratemaking principles to include future capital costs and future expenses in this case without considering any other changes in the cost of service during this same time period, such as changes in revenues, expenses, other investment, accumulated reserve and accumulated deferred income taxes. LAC could have weighed the options of purchasing the AMR devices before or after the true up cutoff in this case along with all other relevant factors to determine what the appropriate timing for purchase of these devices is. If LAC had purchased the AMR devices after the true up cutoff in this case, LAC would have benefitted from regulatory lag and the AMR devices would have been reviewed by Staff and captured as plant in service in the next general rate proceeding.

Q. Through its position on this issue, is Staff penalizing LAC for lowering costs and providing a benefit to customers?

A. No. Staff does not manage utilities and only LAC knows the best time to make investments. Staff is simply following established ratemaking principles of which LAC is also fully aware.

Q. Staff included costs for the St. Peter's lateral in its case, which was not fully built but was used to negotiate significant savings from one of LAC's gas suppliers. The purchase of the AMR devices also produced savings for customers. How are these two situations different?

A. Staff believes it is important for utilities to keep all costs to a minimum, not just for the benefit of customers but also to benefit shareholders through the opportunity to earn a better return. The difference between the costs expended for the St. Peters lateral and the $1.1 million that is proposed by LAC here for the AMR devices is that the costs for the lateral were actually spent prior to the true up cutoff in this case. The $1.1 million that LAC proposes be included was not incurred prior to September 30, 2017.

Q. Does this conclude your true-up rebuttal testimony?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Laclede Gas Company's Request to Increase Its Revenues for Gas Service	)))	Case No. GR-2017-0215
In the Matter of Laclede Gas Company d/b/a Missouri Gas Energy's Request to Increase Its Revenues for Gas Service	)))	Case No. GR-2017-0216

AFFIDAVIT OF LISA M. FERGUSON

STATE OF MISSOURI)
) ss.
COUNTY OF ST. LOUIS)

COMES NOW LISA M. FERGUSON and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing True-Up Rebuttal Testimony; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.

Lisa M. Ferguson
LISA M. FERGUSON

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the City of St. Louis, State of Missouri, at my office in St. Louis, on this 19th day of December 2017.

VIVIAN KINCAID
Notary Public - Notary Seal
State of Missouri
Commissioned for St. Louis County
My Commission Expires: June 06, 2018
Commission Number: 14893349

Vivian Kincaid
Notary Public