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SPIRE MISSOURI, INC.

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

DIRECT TESTIMONY

OF

C. ERIC LOBSER

AUGUST 2018

Spire Exhibit No. 5
Date 8/27/18 Reporter JMB
File No. GO-2016-0332+0333
GO-2017-0201+0202
GO-2018-0309+
0310

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Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Eric Lobser and my business address is 700 Market St., St. Louis, Missouri, 63101.

Q. WHAT IS YOUR PRESENT POSITION?

A. I am presently employed as Vice President - Regulatory & Governmental Affairs at Spire Inc.

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

A. I was elected to my present position in December 2014. In this position, I am responsible for directing and managing the state level regulatory and legislative work for Spire’s five utilities in three states, including Spire Missouri Inc. (“Spire” or the “Company”) and its two operating units in Missouri, Spire East and Spire West. As part of my duties, I am responsible for the research, assessment and development of regulatory and legislative enhancements that will position our utilities to better meet our customers’ needs and shareholders’ expectations. I am also responsible for overseeing our efforts to plan and pursue implementation of those enhancements in the applicable regulatory or legislative forum.

Q. WHAT WAS YOUR EXPERIENCE PRIOR TO ASSUMING YOUR CURRENT POSITION?

A. I joined Spire Missouri’s predecessor, Laclede Gas Company, in 1991 as a Budget Analyst in the Finance area and was chosen to handle similar duties for operations departments as a Senior Administrative Assistant. In 1993, I moved to Customer Accounting to supervise the correction bill issues and billing of our large volume commercial and industrial

1 customers and became Assistant to the Manager before moving on to the Treasury
2 department in 1999 as a Senior Treasury Analyst. I served in that position until August
3 2001, when I was promoted into the newly created Planning Department, where I supported
4 business planning, strategy development and analytical support for internal improvement
5 projects, before advancing to the position of Managing Director – Strategic Planning and
6 Corporate Development. In that position, I was responsible for researching, evaluating and
7 pursuing business opportunities in line with Spire’s short and long-term strategic business
8 development objectives. My duties included conducting natural gas industry analysis, from
9 “wellhead to burner tip”, target assessments and financial modeling throughout the bid
10 process, as well as due diligence and deal negotiation.

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

12 A. I graduated from Boston College in 1990 with a Bachelor of Science Degree in Finance. I
13 received my Masters in Business Administration from the University of Missouri – St.
14 Louis, in 2000.

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

17 A. Yes, I filed direct, rebuttal and surrebutal testimony in Spire Missouri’s most recent rate
18 case proceedings, Case Nos. GR-2017-0215 and GR-2017-0216.

19 **I. PURPOSE OF DIRECT TESTIMONY**

20 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

21 Q. The purpose of my direct testimony is to address two inter-related issues identified by the
22 Commission in its August 15, 2018 Order Scheduling Evidentiary Hearing. Specifically,
23 I will address the issues of (1) what costs, if any, were recovered through ISRS charges for

1 the replacement of plastic components that were not worn out or in a deteriorated condition,
2 and (2) the appropriate methodology for making this determination. I will also briefly
3 address why the methodology previously proposed by OPC and now Staff for this purpose
4 is inappropriate and should not be adopted by the Commission. As I will discuss, the
5 method proposed by the Company is based on an engineering analysis of the operational
6 and economical realities that drive the incurrence of the costs reflected in its ISRS charges
7 – an analysis that demonstrates that the retirement rather than reuse of plastic has reduced,
8 not increased, its ISRS costs and related charges. In contrast, the method previously
9 proposed by OPC and Staff is based on an arbitrary set of unexplained and unreasonable
10 assumptions that lack any support for cost causation, which, if adopted and followed would
11 effectively undermine the cost-effective and beneficial implementation of a very effective
12 safety pipeline replacement program for our customers and the community. In my view,
13 there is simply no economic, legal, policy or other basis that would justify such a counter-
14 productive result.

15 **II. METHOD FOR ADDRESSING COST IMPACT**
16 **OF RETIRING PLASTIC FACILITIES**

17
18 **Q. HAVE ANY COSTS BEEN RECOVERED THROUGH, OR INCLUDED IN, THE**
19 **COMPANY'S ISRS CHARGES FOR THE REPLACEMENT OF PLASTIC**
20 **COMPONENTS THAT WERE NOT WORN OUT OR IN A DETERIORATED**
21 **CONDITION?**

22 **A.** No. As demonstrated by the testimony and analyses submitted by Company witnesses
23 Lauber, Hoeflerlin and Buck, the Company's practice of retiring plastic facilities that cannot
24 be operationally or economically reused has had the effect of reducing rather than
25 increasing the Company's ISRS costs and charges.

1 Q. WHAT METHODOLOGY THEN DO YOU RECOMMEND BE USED TO ADJUST
2 THE COMPANY'S ISRS CHARGES IN LIGHT OF THIS BASIC FACT?

3 A. At a minimum, the application of long-standing ratemaking principles and methods
4 indicate there is no basis for making any kind of downward adjustment to the Company's
5 ISRS charges. As the Company's witnesses have demonstrated, the practice of retiring
6 plastic facilities rather than reusing them has permitted the Company to avoid costs rather
7 than incur them.

8 Q. HAS THE COMMISSION RECOGNIZED THAT SUCH COST AVOIDANCE HAS
9 AN ECONOMIC VALUE?

10 A. Yes. For many years, the Commission has recognized that a utility's ability to avoid the
11 incurrence of costs through various actions is something that has a real and definable
12 economic value. In fact, the Commission's rules cover the ratepayer impact measure
13 (RIM) test for evaluating the efficacy of various demand side programs. The RIM is
14 defined as "a measure of the difference between the change in total revenues paid to a
15 utility and the change in total cost incurred by the utility as a result of the implementation
16 of demand side programs. The benefits are the *avoided costs* as a result of implementation."
17 (*emphasis supplied*).

18 Q. DO MISSOURI STATUTES ALSO RECOGNIZE THIS AVOIDED COST
19 CONCEPT?

20 A. Yes, the Missouri General Assembly has included the avoided cost concept as a key
21 component in the statutory provisions governing the Missouri Energy Efficiency
22 Investment Act ("MEEIA"). The value of the costs avoided by a natural gas utility as a
23 result of its retirement rather than reuse of certain plastic pipe are just as real and substantial

1 as those used to justify demand side incentives for electric utilities. They should likewise
2 be considered by the Commission in determining that the Company's ISRS charges have
3 not been increased as a result of this activity and that, at a minimum, no adjustment to the
4 Company's ISRS charges is appropriate due to the retirement rather than reuse of plastic.

5
6 **Q. BASED ON COST AVOIDANCE PRINCIPLES IS THERE AN**
7 **ARGUMENT TO BE MADE THAT THE COMPANY'S ISRS CHARGES**
8 **SHOULD BE INCREASED ABOVE THE LEVEL SOUGHT BY THE**
9 **COMPANY?**

10 A. Conceptually, yes.

11 **Q. IS THE COMPANY PROPOSING SUCH AN ADJUSTMENT?**

12 A. No, of course not. The Company believes its customers should receive the economic
13 benefit of the lower costs the Company has achieved in efficiently implementing its
14 replacement program, along with other associated benefits, such as a safer and better
15 designed system.

16 **Q. ARE THERE OTHER RATEMAKING PRINCIPLES THAT ALSO WARRANT A**
17 **FINDING THAT NO DOWNWARD ADJUSTMENT TO THE COMPANY'S ISRS**
18 **CHARGES SHOULD BE MADE?**

19 A. Yes. In allocating costs between classes, charges and functions, for example, the
20 Commission has also recognized for many years that cost causation principles should be
21 used to ensure that cost responsibility for a particular utility service is allocated or assigned
22 to who or what is causing a particular cost to be incurred. A good summary of this long-

1 standing principle was provided by the Commission in *Re: Missouri Gas Energy*, Case
2 No. GR-2004-0209, (2004), in which the Commission observed:

3 An allocation of revenue among the various classes begins with a class cost
4 of service study. Such studies seek to assign cost responsibility based on
5 **cost causation principles** by classifying all cost elements as customer-
6 related, demand-related, or commodity-related. The guiding principle is that
7 the class that causes the cost should be required to pay rates that will allow
8 the utility to recover that cost. (*Emphasis supplied*).

9
10 **Q. HAS THE COMMISSION STAFF RECENTLY REAFFIRMED THIS COST**
11 **CAUSATION PRINCIPLE AS A BASIS FOR ALLOCATING COSTS?**

12 A. Yes. In the Company's most recent rate case proceedings, Case Nos. GR-2017-
13 0215 and GR-2017-0216, the Staff repeatedly reaffirmed the principle that costs
14 should be allocated on the basis of cost causation principles.

15 **Q. WHAT EFFECT DOES THE COST CAUSATION PRINCIPLE HAVE ON**
16 **WHETHER AN ADJUSTMENT TO THE COMPANY'S ISRS CHARGES**
17 **SHOULD BE MADE DUE TO ITS PRACTICE OF RETIRING PLASTIC**
18 **FACILITIES THAT CANNOT BE OPERATIONALLY OR**
19 **ECONOMICALLY REUSED?**

20 A. There are really only two valid options for such activities – reuse the facilities by
21 undertaking expensive and involved reconnection activities or retire those facilities
22 by installing new facilities that bypass them. Because the practice that bypasses
23 the facilities has a lower cost than reusing them, application of the cost causation
24 principle means this activity has resulted in negative costs and that *none* of the
25 Company's ISRS revenues, costs or charges should be allocated to the retirement
26 of plastic facilities. To do otherwise would stand the cost causation principle on
27 its head by allocating positive cost to a function or activity that has lowered cost.

1 Looked at another way, a process that reuses the plastic facilities results in
2 incremental costs, so cost causation would say costs are driven by the *reuse* of
3 plastics, not the retirement of them.

4
5 **Q. SHOULD THE COMMISSION ADOPT THE METHODOLOGY THAT**
6 **HAS PREVIOUSLY BEEN PROPOSED BY OPC AND STAFF FOR**
7 **ADJUSTING THE COMPANY’S ISRS CHARGES?**

8 A. No. As I understand it, OPC and Staff are proposing to adjust the Company’s ISRS
9 charges based on a methodology that simply determines the percentage of plastic
10 facilities *retired*, measured by feet, to all facilities *retired*, and then applies that
11 percentage to exclude an equivalent amount of the cost of newly *installed* plant. I
12 do not know whether OPC or Staff intend to provide any additional justification for
13 the methodology or showing of cost causation in their direct testimony, but no such
14 justification has been provided to date. I strongly believe the failure to provide one
15 results from the fact that it is simply not possible to develop any such justification.

16 **Q. WHY DO YOU SAY THAT?**

17 A. We have stated over and over that costs are reduced by our methodology, not
18 increased, and OPC and Staff have had more than a year and a half to develop and
19 provide a reasoned justification for such a cost adjustment method, but have failed
20 to do so. Their method simply assumes, without any substantiation or evidence, that
21 there is a proportional relationship between the percentage of plastic *retired* and the
22 level of ISRS costs and charges that were *incurred*. This unsupported assumption

1 ignores the cost causation and cost avoidance principles I previously discussed and
2 the real-world considerations that drive the Company's ISRS costs.

3 **Q. DO YOU BELIEVE SUCH A METHOD IS NOT CONSISTENT WITH THE**
4 **COURT OF APPEALS OPINION?**

5 A. Yes. It is my understanding that the Court of Appeals was not presented with, and
6 did not rule upon, what cost, if any, should be adjusted for the plastic facilities that
7 were not worn out or deteriorated, which is the issue that is being addressed in this
8 proceeding. That said, however, even without addressing that issue, the Court of
9 Appeals recognized, that some plastic pipe that was replaced could be eligible for
10 ISRS inclusion either because of its age or the very incidental nature of the
11 replacement, which would suggest that an across-the-board generic approach would
12 not be reasonable. Along these lines, the Company has raised a number of issues
13 itself as to why this blanket exclusion of all plastic facilities is inappropriate,
14 including the fact that the replacement of many plastic facilities was unavoidable
15 and had to be done simply to resume or maintain service. The indiscriminate
16 method proposed by OPC and Staff for the first time in the post-hearing
17 submissions just sweeps by all of these considerations.

18 **Q. HAS THE COMPANY ATTEMPTED TO QUANTIFY WHAT**
19 **MODIFICATIONS WOULD NEED TO BE MADE TO THE**
20 **DISALLOWANCE PROPOSED BY STAFF AND OPC TO TAKE INTO**
21 **ACCOUNT THESE VARIOUS FLAWS?**

22 A. Company witness Glenn Buck identifies in greater detail the nature and potential
23 impact of a number of the flaws inherent in the method proposed by Staff and OPC.

1 However, the Company does not believe it has an obligation to provide a more
2 specific quantification of these errors because it has fully supported its position --
3 for nearly two years now -- that *no* adjustment to its ISRS charges is appropriate
4 due to the retirement of plastic facilities, which did not cause any additional costs
5 to be incurred, and neither Staff or OPC have offered anything to rebut the
6 operational, economic, engineering and other factual considerations underlying that
7 conclusion. Nor have they offered anything to support their own method. Under
8 such circumstances, any attempt to specifically adjust their method to take into
9 consideration other factors would suggest that there may be some underlying
10 validity to that approach. There simply is no such justification.

11 **Q. ARE THERE OTHER CONSIDERATIONS THAT CAST DOUBT ON THE**
12 **VALIDITY OF THE METHOD THAT OPC AND STAFF HAVE**
13 **PROPOSED?**

14 **A.** Yes, and paramount among these are the reservations that the witnesses for OPC
15 and Staff have previously expressed regarding the propriety of such a method.
16 Unlike the expert testimony provided by the Company in support of its position,
17 none of the witnesses tendered by OPC and Staff offered anything in support of
18 their current recommendation to use a percentage-based method to adjust ISRS
19 charges. To the contrary, they all expressed significant concerns regarding the
20 appropriateness of using such a method. OPC witness Hyneman previously
21 addressed this issue in response to questions from Chairman Hall, testifying that
22 adjusting ISRS charges based on a simple percentage of the plastic retired would
23 not be appropriate under the circumstances posited by Chairman Hall, namely

1 where the footage of pipe installed is less than the footage of non-plastic pipe
2 retired. While Mr. Hyneman went on to suggest that it would be appropriate to use
3 some kind of allocation under such circumstances he never described what that
4 allocation might be. OPC still hasn't done so.

5 **Q HAVE WITNESSES FOR THE STAFF EXPRESSED SIMILAR**
6 **CONCERNS?**

7 A. Yes. For its part, the Staff witnesses who addressed this issue also expressed
8 significant reservations regarding the use of a percentage-based method for
9 adjusting ISRS charges, which isn't surprising since they originally supported the
10 Company's position on this issue. Those reservations were summarized in Staff's
11 Brief filed in January of 2017 in which it referenced Staff witness Bolin's testimony
12 that the use of percentages would not be appropriate and that Staff had not even
13 developed a methodology for doing so. Further, Staff witness Oligschlaeger
14 testified that OPC's percentage method was inadequate. In short, all of the experts
15 who have testified in this proceeding, including myself, Company witnesses Buck,
16 Hoferlin and Lauber, Staff witnesses Bolin and Oligschlaeger, and OPC witness
17 Hyneman have unanimously agreed that the percentage method now being
18 proposed by OPC and Staff is flawed. I do not know, of course, whether Staff and
19 OPC will finally seek to provide some justification of this method or substantiation
20 of any cost causation in their Direct Testimony, so I reserve the right to rebut
21 whatever they may offer to the extent the abbreviated schedule in this matter
22 permits me to do so.

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

1 A. Yes.

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

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

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

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

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

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

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

AFFIDAVIT

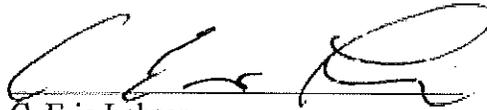
STATE OF MISSOURI)
) **SS.**
CITY OF ST. LOUIS)

C. Eric Lobser, of lawful age, being first duly sworn, deposes and states:

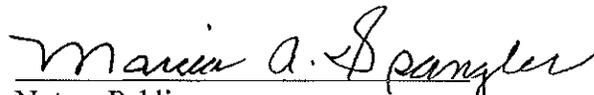
1. My name is C. Eric Lobser. I am Vice President, Regulatory & Governmental Affairs for Spire Missouri Inc. My business address is 700 Market St., St Louis, Missouri, 63101.

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

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


C. Eric Lobser

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


Notary Public

