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MISSOURI PUBLIC SERVICE COMMISSION

LACLEDE GAS COMPANY
MISSOURI GAS ENERGY

GR-2017-0215
GR-2017-0216

REBUTTAL TESTIMONY

OF

MICHAEL R. NOACK

October 2017

Laclede Exhibit No. 029
Date 12-15-17 Reporter A.F
File No. GR-2017-0215
GR-2017-0216

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MRN-R1

1 REBUTTAL TESTIMONY OF MICHAEL R. NOACK

2 Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS
3 ADDRESS?

4 A. My name is Michael R. Noack and my business address is 7500 E 35th Terrace,
5 Kansas City, Missouri 64129.

6 Q. ARE YOU THE SAME MICHAEL R. NOACK WHO PREVIOUSLY FILED
7 DIRECT TESTIMONY IN THIS PROCEEDING?

8 A. Yes, I submitted direct testimony on behalf of both Laclede Gas Company ("LAC")
9 in Case No. GR-2017-0215 and Missouri Gas Energy ("MGE") in Case No. GR-
10 2017-0216.

11 I. PURPOSE OF TESTIMONY

12 Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS
13 PROCEEDING?

14 A. The purpose of my rebuttal testimony is to respond to certain issues raised or
15 positions taken by the Staff of the Missouri Public Service Commission ("Staff"),
16 the Office of the Public Counsel ("OPC") and certain other parties in their direct
17 testimony in these proceedings. These include:

18 a. the Staff's use of an inappropriate methodology for calculating the Operations and
19 Maintenance ("O&M") percentage that should be used to allocate employee payroll
20 and benefit costs between O&M expense and capital;

21 b. Staff's insufficient allowance for the costs LAC will incur to allow customers to
22 make payments with credit or debit cards without having to make a separate
23 payment (as MGE's customers now do);

1 c. Staff's proposed adjustment relating to Kansas property taxes incurred by MGE to
2 utility service.
3 d. Staff's proposal to provide no allowance in rates for future expenditures made by
4 MGE and LAC on their energy efficiency programs.
5 e. Staff's and OPC's inappropriate disallowance of severance costs that were incurred
6 to achieve, in a fair and humane way, significantly greater employee-related
7 synergies that Staff's has fully reflected in its recommended cost of service;
8 f. Staff's disallowance of necessary travel expenses;
9 g. Staff's inconsistent rate base treatment of various regulatory assets;
10 h. OPC's unwarranted exclusion of necessary and appropriate travel and other
11 management expenses;
12 i. Discussion of Staff's adjustment to salaries and wages;
13 j. Staff's adjustment to create a regulatory liability for the over amortization of the
14 Gas Safety AAO;
15 k. Staff's treatment of the costs associated with expenditures related to the St. Peters'
16 Lateral.

17 **II. MISCALCULATION OF O&M EXPENSE PERCENTAGE**

18 **Q. IN THE CASE FILED BY STAFF, HAS A PROPER O&M EXPENSE**
19 **PERCENTAGE BEEN USED TO REFLECT THE AMOUNT OF COSTS**
20 **WHICH SHOULD BE SPLIT BETWEEN O&M EXPENSE AND**
21 **CAPITAL WHICH IS ALSO COMMONLY REFERRED TO AS THE**
22 **TRANSFER RATE?**

23 A. No. At the time Staff filed its direct case, it used an incorrect transfer rate of 55.9%
24 taken from the Company's response to Staff data request 0044. The rate provided

1 on that data request response is actually a benefit loading rate which is used to add
2 to payroll dollars an amount for benefits such as medical, dental and life insurance.
3 That is not the proper rate to use to allocate payroll related costs between capital
4 and expense.

5 **Q. WERE THERE ANY OTHER PROBLEMS WITH THE WAY STAFF**
6 **CALCULATED THE O&M PERCENTAGE RATE?**

7 A. The rate Staff used was identical for both MGE and LAC, which is also incorrect.
8 Based on actual experience, the transfer rate for MGE is lower (a lower percentage
9 of costs gets allocated to capital) than the rate for LAC. As a result, more costs
10 should be allocated to O&M for MGE and more to capital for LAC.

11 **Q. HAS THE COMPANY RAISED THESE CONCERNS WITH THE STAFF?**

12 A. Yes, At the time of writing this rebuttal testimony, the issue has been explained to
13 Staff and I believe that Staff will be making corrections to reflect the proper transfer
14 rates for each operating unit.

15 **Q. WHAT COSTS OR ADJUSTMENTS ARE AFFECTED BY THE**
16 **APPLICATION OF THIS TRANSFER RATE?**

17 A. All of the payroll adjustments and the associated adjustments for payroll taxes and
18 the various payroll benefits would be affected by this transfer rate. In addition,
19 adjustments to pension and OPEB costs, which will be explained by Company
20 witnesses Buck and Fallert, would be affected by the transfer rates, as well as
21 incentive compensation and some insurance adjustments.

1 **III. INSUFFICIENT ALLOWANCE FOR CREDIT CARD FEES**

2 **Q. WOULD YOU PLEASE ONCE AGAIN EXPLAIN THE COMPANY'S**
3 **PROPOSED ADJUSTMENT TO INCLUDE AN ALLOWANCE FOR**
4 **CREDIT CARD FEES FOR LAC?**

5 A. The Company made an adjustment to reflect the cost for LAC to accept a credit (or
6 debit) card payment from a customer for the balance of their gas bill without
7 requiring the customer to pay an additional fee. Currently that cost is assessed to
8 the customer by the credit card company which creates a disincentive to customers
9 to pay through one of the available pay channels. Eliminating the fee for credit
10 card payments is consistent with the approach taken by other businesses for the
11 convenience of their customers. This includes MGE, whose customers do not pay
12 a fee to pay with a credit card. It is also in the Company's interest to accept a credit
13 card payment, as credit card companies are in a much better position to assess
14 creditworthiness and thus to assume the risk of unpaid debt.

15 **Q. WHAT IS THE DIFFERENCE BETWEEN THE ADJUSTMENTS**
16 **PROPOSED BY COMPANY AND STAFF?**

17 A. The Company adjustment was based on the actual experience of MGE in the most
18 recent 12-month period and reflected the average cost per transaction charged by
19 the vendor processing the credit card payments. The number of card payments each
20 month was compared to the number of residential bills for the same month and that
21 percentage of bills paid with credit cards was applied to the number of LAC
22 residential bills for the same months. On the other hand, the Staff simply added up
23 the last twelve months of credit card payments for LAC and multiplied that number
24 by the transaction cost charged by the vendor.

1 Q. **WHY DID YOU BASE YOUR ADJUSTED NUMBER OF PAYMENTS FOR**
2 **LAC ON THE NUMBER OF CREDIT CARD PAYMENTS MADE BY MGE**
3 **CUSTOMERS?**
4 A. MGE began accepting credit card payments without charging customers a fee in
5 2010. During the test year, MGE averaged approximately 130,000 credit card
6 payments a month or more than double the amount received by LAC. Once that
7 customer fee is eliminated, it should be expected that the number of credit card
8 payments by LAC customers will increase the same way MGE's did. Accordingly,
9 the allowance proposed by the Company relating to such payments is a far more
10 accurate estimate of what the actual fees are likely to be.
11 **IV. PROPERTY TAXES – TAXES ON KANSAS STORAGE GAS**
12 Q. **WHEN THIS CASE WAS ORIGINALLY FILED, DID YOU MAKE AN**
13 **ADJUSTMENT TO PROPERTY TAXES PAID ON GAS STORED IN**
14 **KANSAS?**
15 A. No. At the time of filing its direct case, and at present, the Company is collecting
16 in rates $1.6 million for the amortization of past property taxes that were paid by
17 MGE for gas stored in Kansas, but not included in rates as well as $1.4 million for
18 the estimated amount of current yearly property taxes on such gas inventories.
19 Q. **DO YOU AGREE AN ADJUSTMENT SHOULD BE MADE RELATING**
20 **TO THESE COSTS?**
21 A. Yes. An adjustment should be made to reflect the fact the past property taxes paid
22 but not included in rates will be fully amortized in June 2019 or just a little more
23 than a year after rates from this case go into effect. Taking into consideration that
24 the current level of taxes in rates of $1.4 million is also being tracked, the

1 Company has collected approximately $500,000 more in rates than what has been
2 paid which, when included with the past taxes being amortized, will result in the
3 balance being fully amortized sooner than June 2019.

4 **Q. WHAT IS STAFF'S PROPOSAL IN THIS CASE?**

5 A. Staff is proposing to take the balance of the paid but unrecovered taxes along with
6 any tracked overpayment of taxes since the 2014 rate case and amortize that
7 remaining balance over a new 5-year period. In addition to that amortization,
8 staff is proposing to include in rates $1,122,514 for current taxes without
9 continuing the tracker which we have now. The resulting total adjustment is a
10 reduction of $1,589,056.

11 **Q. DO YOU AGREE WITH THAT ADJUSTMENT?**

12 A. No. The current indicated level of taxes for gas in storage at January 1, 2017 is
13 over $1.6 million or $500,000 more than Staff's proposed level of current taxes. I
14 should also point out that the $1.1 million tax amount paid for 2016 was by far and
15 away the lowest level of tax in the 8 years we have been paying this tax. The level
16 of tax assessed is based on at least 3 factors – the level of gas in storage at January
17 1, the commodity cost per MMBTU of that gas in storage at January 1, and the mill
18 levies of the counties assessing the tax.

19 **Q. WHAT IS YOUR PROPOSAL?**

20 A. If Staff no longer wants to track these property taxes, I think the Commission should
21 include in rates the tax based on the gas in storage at January 1, 2017, which would
22 be $1,691,513 based on last year's mill levies. The alternative would be to compute
23 an average level of taxes paid over the past 3 or 4 years and continue to track this
24 expense due to the inability of the Company to have any control over these taxes.

1 This would ensure that the Company does not over or under collect such taxes and
2 that customers do not overpay or underpay them.

3 **V. ENERGY EFFICIENCY EXPENSE – CURRENT PORTION**

4 **Q. DOES STAFF AGREE WITH THE COMPANY THAT SOME CURRENT**
5 **LEVEL OF ENERGY EFFICIENCY COSTS SHOULD BE INCLUDED IN**
6 **RATES?**

7 A. No. Staff has included no allowance in rates for future expenditures on the
8 Company's Energy Efficiency programs. In support of its recommended treatment
9 of these costs, the Staff's Cost of Service Report only states that it recommends
10 that MGE and LAC continue to defer and amortize energy efficiency costs with no
11 allowance for these costs included in base rates.

12 **Q. WHY DOES THE COMPANY DISAGREE WITH THE STAFF**
13 **POSITION?**

14 A. We disagree for several reasons. First, both MGE and LAC have routinely
15 incurred a significant level of energy efficiency expenditures over the past four
16 years and there is no reason to conclude that there will be any material reduction
17 in the expenditures during the period rates will be in effect. Accordingly,
18 providing an ongoing allowance in rates is fully justified by this historical
19 experience. Additionally, other parties to this case have an interest in increasing
20 the amount spent on energy efficiency, so if anything, these costs would likely
21 increase rather than decrease. Second, if the Company accounts for the energy
22 efficiency costs in the manner Staff suggests with no current allowance in rates,
23 the regulatory asset, even though a portion of it is being amortized, will only
24 continue to grow. Schedule MRN-R1 illustrates for MGE and Laclede the Staff

1 recommendation for rate treatment of the current Energy Efficiency regulatory
2 asset compared with the Company's recommendation. Using MGE as an
3 example, if the Commission decides that only the amortization of the regulatory
4 asset should be allowed in rates, the total cost to rate payers over a 20-year period
5 based on annual energy efficiency costs based on the suggested 0.5% of revenues
6 would amount to about $7 million of revenue requirement, due to a regulatory
7 asset of about $18 million that never goes away. This results in a delay in
8 recovery for the Company and an addition cost to the customer.
9
10 **Q. PLEASE VERY BRIEFLY EXPLAIN WHAT IS SHOWN ON**
11 **REBUTTAL SCHEDULE MRN-R1.**
12 A. Rebuttal Schedule MRN-R1 begins with the current level Staff shows for MGE's
13 Deferred Energy Efficiency balance at June 30, 2017 of $14,684,915. Staff has
14 recommended amortizing this balance over ten years. However, as shown in
15 column (c) there are current costs (based on the Commission ordered .5% of
16 operating revenues) of approximately $2,500,000 each of those ten years which will
17 result in a deferred regulatory asset of $25,000,000 at the end of the 10-year period.
18 The asset has only grown and grown significantly over this period of time. On the
19 other hand, if the Commission adopts the Company proposal to include a current
20 level of costs in rates, that regulatory asset, while not completely being amortized
21 will at least be reduced at the end of the 10-year period. This is shown in columns
22 (e) and (f) of the schedule.
23 **Q. DO YOU BELIEVE THAT, IN PRIOR CASES, THE COMMISSION**
24 **INTENDED TO ESTABLISH A PERMANENT POLICY TO ONLY**

1 DEFER ENERGY EFFICIENCY EXPENSES, AND NOT TO ALLOW
2 SOME AMOUNT OF ON-GOING EXPENSES IN RATES?

3 A. No I do not believe the Commission, or the parties for that matter, intended such a
4 result when it ordered that a regulatory asset be set up in MGE Case No. GR-2009-
5 0355. At the time this asset was established, MGE had approximately $1 million
6 of rate payer funds that had been collected for Energy Efficiency programs but not
7 yet spent. Establishing a regulatory asset at that time was the easiest way to allow
8 MGE to spend the excess funds collected from ratepayers and begin to accumulate
9 any additional programs costs. Now that the programs are well-established,
10 substantial and ongoing, some level of current costs needs to be reflected in rates.

11 **VI. ELIMINATION OF SEVERANCE COSTS**

12 Q. **WHAT IS YOUR UNDERSTANDING OF STAFF'S ADJUSTMENT TO**
13 **ELIMINATE SEVERANCE COSTS?**

14 A. The Staff has recommended an adjustment of approximately $280,461 for LAC and
15 $516,248 for MGE to remove severance costs incurred by the Company in
16 connection with changes in employee levels implemented by the Company in 2016.
17 Before discussing Staff's adjustment, it needs to be pointed out that Staff's
18 adjustment for LAC is overstated by $46,737 for 2015 costs incorrectly removed
19 from 2016 and for MGE the adjustment is overstated $44,941 for 2015 costs again
20 incorrectly removed from 2016. According to Staff, this disallowance is
21 appropriate because the Commission does not customarily allow such costs on the
22 theory that the utility is able to realize offsetting savings from the reduction in
23 personnel costs. Since customers continue to benefit as well from these reductions
24 once new rates are established I do not necessarily agree with this theory. The

1 Company does not contest this adjustment, however, other than those severance
2 costs that should have been designated as transition costs by the Company and
3 eligible for partial recovery under the MGE Acquisition Stipulation and
4 Agreement.

5 Q. **WHAT SEVERANCE COSTS ARE YOU REFERRING TO?**

6 A. These include $471,307 in severance costs that were incurred by the Company in
7 connection with the integration and consolidation of MGE's dispatching center. As
8 a result of this initiative, the Company achieved approximately $643,000 in
9 synergies or savings per year associated with the dispatching function. Under the
10 MGE Acquisition Stipulation and Agreement, 50% of these costs are therefore
11 eligible for recovery. The Company agrees, of course, to absorb the other 50% of
12 these transition costs pursuant to the terms of the S&A as well as the other
13 severance costs disallowed by Staff.

14 Q. **WHAT THEN IS THE TOTAL VALUE OF THESE SEVERANCE COSTS**
15 **THAT THE COMPANY IS PROPOSING TO RECOVER IN RATES?**

16 A. The total value of these eligible transition costs at 50% is $235,654.

17 **VII. DISALLOWANCE OF NECESSARY TRAVEL EXPENSES**

18 Q. **DID STAFF MAKE AN ADJUSTMENT TO DISALLOW TRAVEL**
19 **EXPENSES OF COMPANY EMPLOYEES?**

20 A. Yes. While the adjustment was small in terms of dollars, the expenses disallowed
21 by Staff are normal, necessary and recurring in nature and proper business
22 expenses. The expense reports identify trips to Kansas City to meet with outside
23 attorneys in order to monitor the ongoing JJ's litigation, along with other business
24 purposes for the trips and these expenses should be allowed. MGE has not incurred

1 any costs of the nature covered in the stipulation and agreement approved in GR-
2 2014-0007 related to the JJ's incident and does not have any expense of this type
3 in the test year.

4 **VIII. RATE BASE TREATMENT OF REGULATORY ASSETS**

5 Q. **HAS STAFF INCLUDED IN RATE BASE ALL OF THE REGULATORY**
6 **ASSETS FOR WHICH THEY RECOMMEND RECOVERY THROUGH**
7 **AMORTIZATION OF THE ASSET?**

8 A. No. Staff has included in rate base the regulatory assets associated with Energy
9 Efficiency expenditures for both Laclede and MGE and Laclede's Low Income
10 Program. On the other hand, Staff has not included in rate base the Laclede or
11 MGE approved red tag program deferred costs nor the deferred costs of MGE's low
12 income affordability program.

13 Q. **DO YOU AGREE WITH STAFF'S TREATMENT OF THESE**
14 **REGULATORY ASSETS?**

15 A. No. All of these assets are similar in that investor funds have been expended for
16 the benefit of customers without inclusion in the cost service. A return should be
17 earned on each of these regulatory assets.

18 **IX. OPC ADJUSTMENT TO MANAGEMENT EXPENSES**

19 Q. **PLEASE DESCRIBE OPC WITNESS CONNER'S ADJSUTMENT TO**
20 **DISALLOW OVER $1 MILLION OF MANAGEMENT OUT OF POCKET**
21 **EXPENSE FOR LACLEDE AND MGE.**

22 A. Ms. Conner requested from the Company the expense reports for each of the
23 officers of Laclede and Spire (OPC DR 1033). Ms. Conner listed each expense for
24 the officers and based on her review of the expenses and her interpretation of the

1 Company's travel and expense policies determined that each officer had an average
2 of $6,027 of inappropriate expenses either because Ms. Conner deemed an officer
3 to have not followed a policy, to have not identified other individuals sharing in the
4 expense, or in her interpretation of the location and amount, the expense was
5 deemed to not be eligible for rate recovery. Ms. Conner then multiplies the $6,027
6 allegedly ineligible officer expense times the 430 management employees of Spire
7 for a total excess expense amount of $2.6 million. Of that amount, $1.7 million is
8 allocated to Missouri utilities and then she multiplies that amount by 60% to arrive
9 at her adjustment of $1.023 million.

10 Q. **DO YOU AGREE WITH MS. CONNER'S ADJUSTMENT?**

11 A. No, for several reasons. First, while Ms. Conner has copies of each expense report,
12 there are some receipts where the names of the people included in the expense are
13 noted on the back of the receipt or in the notes section of the expense report and not
14 visible to Ms. Conner. In these case, it might appear that one person spent $60 on
15 lunch, while in reality, the lunch was attended by four or five people. Ms. Conner
16 did not ask follow-up questions, but assumed that the expense was excessive. Ms.
17 Conner would then proceed to disallow the entire expense rather than reduce it to a
18 reasonable level. Perhaps even worse, was her extrapolation of the officer expenses
19 to each of 430 employees. Senior management is expected to travel, and expense
20 levels will be considerably higher than that of other employees. Many management
21 employees would not even charge $6,000 in out of pocket expenses in an entire
22 year, much less $6,000 in excessive expenses. It should further be noted that the
23 Company also has a policy that the highest ranking[1] employee at a Company

[1] i.e. a Vice-President would pay for a group meal attended by Director level or Manager level employees.

1 function will pay for any group related expenses. This is yet another reason why
2 one cannot base the business expenses of middle and lower management on the
3 expenses incurred by the officers and senior management of the Company. Finally,
4 the Company travel and expense policy is a guideline in which employees are
5 expected to act reasonably and prudently. I disagree with Ms. Conner that obtaining
6 air travel other than through the corporate travel agent is grounds for disallowance
7 of the entire cost of the flight. In summary, this adjustment is severely excessive
8 and overstated and should not be allowed.

9 **X. SALARIES AND WAGES**

10 Q. **ARE THERE DIFFERENCES BETWEEN STAFF AND COMPANY**
11 **RELATED TO THE ADJUSTMENT TO SALARIES AND WAGES?**

12 A. Yes. There are currently significant differences in the amount of total salaries and
13 wages to include in the cost of service for each of the Companies.

14 Q. **WOULD YOU PLEASE DESCRIBE THE MAJOR DIFFERENCES**
15 **BETWEEN STAFF AND COMPANY?**

16 A. The most significant difference between Staff and Company we believe relates to
17 an error Staff made in reflecting the amount of payroll which should be capitalized.
18 We are in discussions with Staff at the present time to resolve this difference. If
19 we are unsuccessful in resolving this difference, I will address the specifics of the
20 differences between the parties in my surrebuttal testimony.

21 Q. **WHAT OTHER DIFFERENCES ARE THERE BETWEEN STAFF AND**
22 **COMPANY?**

23 A. The first difference relates to the use by Staff of an incorrect transfer rate or the
24 percentage of payroll costs which should be capitalized and included in plant in

1 service. First Staff used a rate which was not a transfer rate but rather an overhead
2 loading rate for pensions and benefits. The Company has provided Staff with the
3 proper transfer rates and I believe Staff will change their adjustment to reflect the
4 correction.
5 The second major difference is in the number of and allocation of shared service
6 employees to Laclede and MGE. Staff has used allocation factors which
7 improperly allocate payroll costs to other Spire companies. An example of this is
8 the Regulatory Department. With the exception of the Vice-President of
9 Regulatory, each of the Missouri employees in the department should either be
10 directly assigned to a Missouri utility or allocated between the Missouri utilities.
11 Staff's allocation shifts payroll costs for these employees to the utilities in Alabama
12 and Mississippi, even though they perform no work for those utilities.
13 The third difference relates to the computation of overtime hours included in Staff's
14 adjustment. Staff is using a three-year average of calendar year overtime hours.
15 However, for the 2017 overtime included in the average, Staff takes the actual
16 overtime for the first six months of 2017 and multiplies those overtime hours by
17 two.
18 Q. **IS THAT THE PROPER WAY TO COMPUTE THAT AVERAGE?**
19 A. No it is not because it fails to take into consideration the overtime hours worked
20 during "fall rush" which is the time in October and November when customers are
21 scrambling to get turned back on and significant amounts of overtime is worked.
22 Q. **WHAT IS YOUR RECOMMENDATION FOR NORMALIZING**
23 **OVERTIME HOURS?**

1 A. My recommendation would be to use a three-year average of overtime hours for
2 twelve month periods ending June 30, 2015, 2016 and 2017.

3 **XI. OVERCOLLECTION OF GAS SAFETY AAO**

4 Q. **DO YOU AGREE WITH STAFF'S ADJUSTMENT TO REDUCE EXPENSE**
5 **TO REFUND AN OVERCOLLECTION OF LACLEDE'S GAS SAFETY**
6 **AAO?**

7 A. No. I have reviewed the stipulation and agreement from GR-2005-0284 and also
8 from GR-2013-0171 and was not able to find any language in those stipulations
9 which required or even mentioned tracking the amortization of those costs. The
10 stipulation and agreement in GR-2005-0284 called for amortization of the balance
11 of costs deferred pursuant to the AAO established in Case No. GR-2002-356 over
12 a 10-year period. The stipulation did not require the balance be tracked and any
13 over collection of that amortization is simply caused by regulatory lag which is
14 similar to rate case expense and is usually normalized over 3 or 4 years depending
15 on the past rate case history of the utility. There are stipulation and agreements and
16 Commission orders where costs are specifically designated for tracking, such as
17 pension costs and OPEBs and the Kansas property taxes related to gas held in
18 storage for MGE. However, the amortization of the gas safety AAO was not
19 designated for tracking and Staff's adjustment to refund any over amortization
20 should be disallowed.

21 **XII. ST. PETERS' LATERAL COSTS**

22 Q. **PLEASE EXPLAIN THE COMPANY'S ADJUSTMENT TO INCLUDE IN**
23 **RATE BASE THE PRELIMINARY COSTS TO BUILD A LATERAL**
24 **PIPELINE TO SECURE ADDITIONAL SOURCES OF GAS.**

1 A. The St. Peters' pipeline was being designed and developed to address concerns
2 Laclede had with its pipeline contract on MoGas. Progress on building this
3 alternative pipeline caused MoGas to enter into negotiations for a substantial
4 discount (~ $4.5 million annually), which addressed key concerns. As such, the
5 project was terminated, but the benefits of the lower negotiated rate created by this
6 project will accrue to customers for the next 12 years, which is why the Company
7 proposed a 12 year recovery of the cost it invested in planning its pipeline, a cost
8 that is a small fraction of the benefit to customers.

9 Q. **WHAT IS STAFF'S POSITION ON THE COMPANY'S ADJUSTMENT?**

10 A. Based on communications with Staff it is my understanding that Staff is accepting
11 Company's adjustment to amortize the costs over a 12-year period but has not
12 included the deferred costs in rate base.

13 Q. **DO YOU AGREE WITH STAFF'S POSITION?**

14 A. I agree with Staff to the extent it is recommending at least a partial recovery of this
15 investment. But I would note that investor supplied funds have been expended to
16 achieve significant cost savings for our customers. Given the magnitude of those
17 savings and the fact that they significantly exceed the revenue requirement that
18 would be necessary to provide a return on as well as a return of this investment, I
19 believe the Company's proposed treatment of this investment remains the most
20 appropriate and equitable one.

21 **XIII. REGULATORY TREATMENT OF**
22 **HYDROSTATIC TESTING COSTS**
23

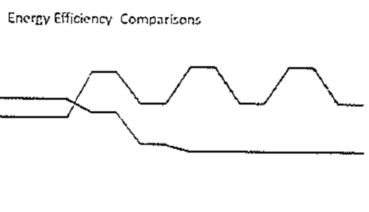
24 Q. **OPC WITNESS HYNEMAN IN HIS TESTIMONY STATES THAT ALL**
25 **HYDROSTATIC TESTING PERFORMED BY THE COMPANY SHOULD**
26 **BE SHOULD BE EXPENSED AND NOT CAPITALIZED; WHILE MR.**

1 **LAUBER IN HIS REBUTTAL TESTIMONY EXPLAINS WHY THE**
2 **TESTING SHOULD BE CAPITALIZED. CAN YOU QUANTIFY FOR**
3 **THE COMMISSION THE DIFFERENCE IN REVENUE REQUIREMENT**
4 **BETWEEN CAPITALIZING THE COSTS IN THIS CASE VERSUS**
5 **EXPENSING THE COSTS?**
6 A. Yes. During the test year, MGE capitalized $3,152,252 of hydrostatic testing
7 costs. The revenue requirement associated with those costs consist of $293,603 at
8 staff's midpoint rate of return plus $45,392 of depreciation expense plus $30,134
9 of property taxes for a total capitalized revenue requirement of $369,129. This
10 compares to the revenue requirement of $3,152,252 if those costs are expensed.
11 **Q.. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY?**
12 A. Yes it does.

Laclede Gas Company

	EE Tranche (a)	Yearly Amortization Proposed by Staff (b)	Estimated Annual Costs based on .5% of Revenue (c)	Expense in Rates (d)	Balance of Regulatory Asset per Staff Recommendation (e)	Cost of Capital @ 10% (e)	Revenue Requirement (f)
Balance of Energy Efficiency Regulatory Asset	12,711,044						
year 1		(1,271,104)	3,650,000	-	15,089,940	1,271,104	2,542,209
year 2		(1,271,104)	3,650,000	-	17,468,835	1,271,104	2,542,209
year 3		(1,271,104)	3,650,000	-	19,847,731	1,271,104	2,542,209
year 4	14,600,000	(1,271,104)	3,650,000	-	22,226,626	1,271,104	2,542,209
year 5		(2,731,104)	3,650,000	-	23,145,522	2,222,663	4,953,767
year 6		(2,731,104)	3,650,000	-	24,064,418	2,222,663	4,953,767
year 7		(2,731,104)	3,650,000	-	24,983,313	2,222,663	4,953,767
year 8	14,600,000	(2,731,104)	3,650,000	-	25,902,209	2,222,663	4,953,767
year 9		(4,191,104)	3,650,000	-	25,361,104	2,590,221	6,781,325
year 10		(4,191,104)	3,650,000	-	24,820,000	2,590,221	6,781,325
year 11		(2,920,000)	3,650,000	-	25,550,000	2,590,221	5,510,221
year 12	14,600,000	(2,920,000)	3,650,000	-	26,280,000	2,590,221	5,510,221
year 13		(4,380,000)	3,650,000	-	25,550,000	2,628,000	7,008,000
year 14		(4,380,000)	3,650,000	-	24,820,000	2,628,000	7,008,000
year 15		(2,920,000)	3,650,000	-	25,550,000	2,628,000	5,548,000
year 16	14,600,000	(2,920,000)	3,650,000	-	26,280,000	2,628,000	5,548,000
year 17		(4,380,000)	3,650,000	-	25,550,000	2,628,000	7,008,000
year 18		(4,380,000)	3,650,000	-	24,820,000	2,628,000	7,008,000
year 19		(2,920,000)	3,650,000	-	25,550,000	2,628,000	5,548,000
year 20		(2,920,000)	3,650,000	-	26,280,000	2,628,000	5,548,000
		(59,431,044)		-		45,359,952	104,790,996

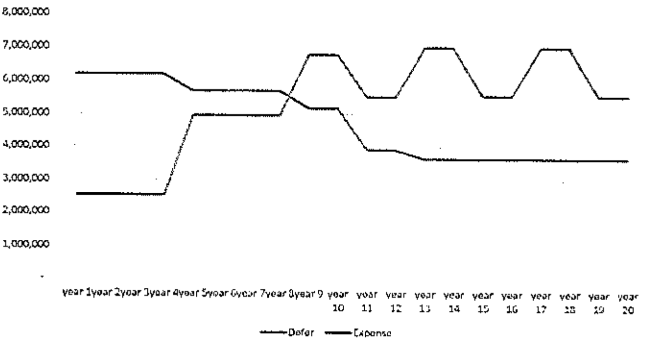
	Defer	Expense
year 1	2,542,209	6,192,209
year 2	2,542,209	6,192,209
year 3	2,542,209	6,192,209
year 4	2,542,209	6,192,209
year 5	4,953,767	5,683,767
year 6	4,953,767	5,683,767
year 7	4,953,767	5,683,767
year 8	4,953,767	5,683,767
year 9	6,781,325	5,175,325
year 10	6,781,325	5,175,325
year 11	5,510,221	3,904,221
year 12	5,510,221	3,904,221
year 13	7,008,000	3,650,000
year 14	7,008,000	3,650,000
year 15	5,548,000	3,650,000
year 16	5,548,000	3,650,000
year 17	7,008,000	3,650,000
year 18	7,008,000	3,650,000
year 19	5,548,000	3,650,000
year 20	5,548,000	3,650,000



	EE Tranche (a)	Yearly Amortization Proposed by Staff (b)	Estimated Annual Costs based on .5% of Revenue (c)	Expense in Rates (d)	Balance of Regulatory Asset per Staff Recommendation (e)	Cost of Capital @ 10% (e)	Revenue Requirement (f)
Balance of Energy Efficiency Regulatory Asset	12,711,044						
year 1		(1,271,104)	3,650,000	3,650,000	11,439,940	1,271,104	6,192,209
year 2		(1,271,104)	3,650,000	3,650,000	10,168,835	1,271,104	6,192,209
year 3		(1,271,104)	3,650,000	3,650,000	8,897,731	1,271,104	6,192,209
year 4	-	(1,271,104)	3,650,000	3,650,000	7,626,626	1,271,104	6,192,209
year 5		(1,271,104)	3,650,000	3,650,000	6,355,522	762,663	5,683,767
year 6		(1,271,104)	3,650,000	3,650,000	5,084,418	762,663	5,683,767
year 7		(1,271,104)	3,650,000	3,650,000	3,813,313	762,663	5,683,767
year 8	-	(1,271,104)	3,650,000	3,650,000	2,542,209	762,663	5,683,767
year 9		(1,271,104)	3,650,000	3,650,000	1,271,104	254,221	5,175,325
year 10		(1,271,104)	3,650,000	3,650,000	(0)	254,221	5,175,325
year 11		-	3,650,000	3,650,000	(0)	254,221	3,904,221
year 12	-	-	3,650,000	3,650,000	(0)	254,221	3,904,221
year 13		-	3,650,000	3,650,000	(0)	(0)	3,650,000
year 14		-	3,650,000	3,650,000	(0)	(0)	3,650,000
year 15		-	3,650,000	3,650,000	(0)	(0)	3,650,000
year 16	-	-	3,650,000	3,650,000	(0)	(0)	3,650,000
year 17		-	3,650,000	3,650,000	(0)	(0)	3,650,000
year 18		-	3,650,000	3,650,000	(0)	(0)	3,650,000
year 19		-	3,650,000	3,650,000	(0)	(0)	3,650,000
year 20		-	3,650,000	3,650,000	(0)	(0)	3,650,000
		(12,711,044)		73,000,000		9,151,952	94,862,996

Missouri Gas Energy
Schedule MRN-R1

	EE Tranche (a)	Yearly Amortization Proposed by Staff (b)	Estimated Annual Costs based on .5% of Revenue (c)	Expense in Rates (d)	Balance of Regulatory Asset per Staff Recommendation (e)	Cost of Capital @ 10% (e)	Revenue Requirement (f)
Balance of Energy Efficiency Regulatory Asset	14,684,915						
year 1		(1,468,492)	2,500,000	-	15,716,424	1,468,492	2,936,983
year 2		(1,468,492)	2,500,000	-	16,747,932	1,468,492	2,936,983
year 3		(1,468,492)	2,500,000	-	17,779,441	1,468,492	2,936,983
year 4	10,000,000	(1,468,492)	2,500,000	-	18,810,949	1,468,492	2,936,983
year 5		(2,468,492)	2,500,000	-	18,842,458	1,881,095	4,349,586
year 6		(2,468,492)	2,500,000	-	18,873,966	1,881,095	4,349,586
year 7		(2,468,492)	2,500,000	-	18,905,475	1,881,095	4,349,586
year 8	10,000,000	(2,468,492)	2,500,000	-	18,936,983	1,881,095	4,349,586
year 9		(3,468,492)	2,500,000	-	17,968,492	1,893,698	5,362,190
year 10		(3,468,492)	2,500,000	-	17,000,000	1,893,698	5,362,190
year 11		(2,000,000)	2,500,000	-	17,500,000	1,893,698	3,893,698
year 12	10,000,000	(2,000,000)	2,500,000	-	18,000,000	1,893,698	3,893,698
year 13		(3,000,000)	2,500,000	-	17,500,000	1,800,000	4,800,000
year 14		(3,000,000)	2,500,000	-	17,000,000	1,800,000	4,800,000
year 15		(2,000,000)	2,500,000	-	17,500,000	1,800,000	3,800,000
year 16	10,000,000	(2,000,000)	2,500,000	-	18,000,000	1,800,000	3,800,000
year 17		(3,000,000)	2,500,000	-	17,500,000	1,800,000	4,800,000
year 18		(3,000,000)	2,500,000	-	17,000,000	1,800,000	4,800,000
year 19		(2,000,000)	2,500,000	-	17,500,000	1,800,000	3,800,000
year 20		(2,000,000)	2,500,000	-	18,000,000	1,800,000	3,800,000
		(46,684,915)		-		35,373,139	82,058,054



	EE Tranche (a)	Yearly Amortization Proposed by Staff (b)	Estimated Annual Costs based on .5% of Revenue (c)	Expense in Rates (d)	Balance of Regulatory Asset per Staff Recommendation (e)	Cost of Capital @ 10% (e)	Revenue Requirement (f)
Balance of Energy Efficiency Regulatory Asset	14,684,915						
year 1		(1,468,492)	2,500,000	2,500,000	13,216,424	1,468,492	5,436,983
year 2		(1,468,492)	2,500,000	2,500,000	11,747,932	1,468,492	5,436,983
year 3		(1,468,492)	2,500,000	2,500,000	10,279,441	1,468,492	5,436,983
year 4	-	(1,468,492)	2,500,000	2,500,000	8,810,949	1,468,492	5,436,983
year 5		(1,468,492)	2,500,000	2,500,000	7,342,458	881,095	4,849,586
year 6		(1,468,492)	2,500,000	2,500,000	5,873,966	881,095	4,849,586
year 7		(1,468,492)	2,500,000	2,500,000	4,405,475	881,095	4,849,586
year 8	-	(1,468,492)	2,500,000	2,500,000	2,936,983	881,095	4,849,586
year 9		(1,468,492)	2,500,000	2,500,000	1,468,492	293,698	4,262,190
year 10		(1,468,492)	2,500,000	2,500,000	-	293,698	4,262,190
year 11		-	2,500,000	2,500,000	-	293,698	2,793,698
year 12	-	-	2,500,000	2,500,000	-	293,698	2,793,698
year 13		-	2,500,000	2,500,000	-	-	2,500,000
year 14		-	2,500,000	2,500,000	-	-	2,500,000
year 15		-	2,500,000	2,500,000	-	-	2,500,000
year 16	-	-	2,500,000	2,500,000	-	-	2,500,000
year 17		-	2,500,000	2,500,000	-	-	2,500,000
year 18		-	2,500,000	2,500,000	-	-	2,500,000
year 19		-	2,500,000	2,500,000	-	-	2,500,000
year 20		-	2,500,000	2,500,000	-	-	2,500,000
		(14,684,915)		50,000,000		10,573,139	75,258,054

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	)))	File 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	)))	File No. GR-2017-0216

AFFIDAVIT

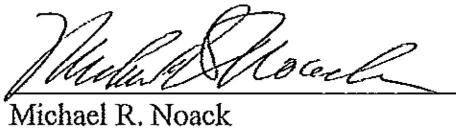
STATE OF MISSOURI)
) SS.
CITY OF ST. LOUIS)

Michael R. Noack, of lawful age, being first duly sworn, deposes and states:

1. My name is Michael R. Noack. I am Director of Pricing and Regulatory Affairs for Missouri Gas Energy, an operating unit of Laclede Gas Company. My business address is 7500 E. 35th Terr., Kansas City, Missouri, 64129.

2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony on behalf of Laclede Gas Company and MGE.

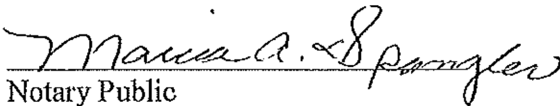
3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct to the best of my knowledge and belief.



Michael R. Noack

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

MARCIA A. SPANGLER
Notary Public - Notary Seal
STATE OF MISSOURI
St. Louis County
My Commission Expires: Sept. 24, 2018
Commission # 14630361



Notary Public