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Issues: GSIP; Off-System Sales/ Capacity Release; PGA/ACA Tariff; CAM Gas Supply and Transportation Standards of Conduct
Witness: Anne M. Crowe
Sponsoring Party: MoPSC Staff
Type of Exhibit: Rebuttal Testimony
Case Nos.: GR-2017-0215 and GR-2017-0216
Date Testimony Prepared: October 20, 2017

MISSOURI PUBLIC SERVICE COMMISSION

COMMISSION STAFF DIVISION

PROCUREMENT ANALYSIS

REBUTTAL TESTIMONY

OF

ANNE M. CROWE

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
October, 2017

** Denotes Confidential Information **

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Q. Please state your name and business address.

A. Anne M. Crowe, P.O. Box 360, Jefferson City, MO. 65102.

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

A. I am employed by the Missouri Public Service Commission ("Commission") as Regulatory Auditor in the Procurement Analysis Unit, Commission Staff Division.

Q. Are you the same Anne M. Crowe who contributed to Staff's Class Cost of Service Report filed on September 22, 2017 in this case?

A. Yes, I am.

Q. Is the information you provided in Staff's Report still true and accurate to the best of your knowledge?

A. Yes.

EXECUTIVE SUMMARY

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my testimony is to respond to the direct testimony of LAC and MGE witnesses Mr. Eric Lobser and Mr. Scott A. Weitzel concerning the off-system sales margins and capacity release credits sharing mechanism ("OSS/CR") and the gas supply incentive plan ("GSIP"), OPC witness Mr. John S. Riley regarding OSS/CR, and Environmental

Defense Fund witness Mr. Gregory M. Lander concerning his proposed tariff and Gas Supply and Transportation Standards of Conduct changes.

Q. Please explain Staff's position regarding OSS/CR.

A. Staff is not opposed to Spire Missouri's proposal of changing the OSS/CR sharing mechanism to a flat percentage sharing such that 25% is retained by the Company and 75% goes to the ratepayers as a reduction to gas costs via the Purchased Gas Adjustment ("PGA")/Actual Cost Adjustment ("ACA"). However, Staff does not recommend allocating the total OSS/CR between LAC and MGE as Spire Missouri proposes. Staff recommends the MGE and LAC customers receive a credit based on the actual OSS/CR level achieved with the specific LAC and MGE assets as is currently the treatment of OSS/CR.

Q. What is Staff's position concerning the GSIP?

A. As I explained in the Class Cost of Service Report, Staff recommends eliminating the GSIP currently in effect for LAC and does not recommend implementing a similar GSIP for MGE.

Q. Please explain Staff's position regarding the tariff and Gas Supply and Transportation Standards of Conduct changes proposed by Gregory Lander.

A. Mr. Lander's proposal appears complicated and may be lacking sufficient detail to implement. Due to the lack of clarity with how each of the proposed tariff changes would be applied, Staff would recommend no changes to the tariff or Standards of Conduct ("SOC") at this time.

OFF-SYSTEM SALES MARGINS AND CAPACITY RELEASE CREDITS SHARING MECHANISM

Q. What are MGE's and LAC's proposals with regard to the OSS/CR sharing mechanism?

A. As Mr. Eric Lobser (Direct, page 19) and Mr. Scott Weitzel (Direct, page 29) explain, Spire Missouri is proposing to eliminate the dollar sharing tiers that trigger the increasing sharing percentages in the current OSS/CR sharing mechanism. Instead, they recommend a flat percentage sharing with 25% retained by the Company and 75% to the ratepayers through the PGA/ACA as a reduction to gas costs. Mr. Lobser further explains (Direct, page 20) Spire Missouri proposes an "allocation [between LAC and MGE customers] approximately reflecting such historic levels" of the total margins received on the OSS/CR transactions between the LAC and MGE customers. The proposed tariffs for LAC and MGE indicate LAC will be allocated 70% and MGE will be allocated 30% of the total OSS/CR.

Q. Are you opposed to the single sharing percentage of 25%?

A. No. As I stated in Staff's Class Cost of Service Report, I am not opposed to LAC's and MGE's request to move to a single 25% sharing percentage. With that being said, I am opposed to allocating total OSS/CR between MGE and LAC. The customer's share of OSS/CR should remain distinct to each division of Spire Missouri.

Q. Why are you opposed to allocating total OSS/CR between MGE and LAC?

A. LAC and MGE have different gas supply portfolios and PGA/ACA rates. LAC and MGE are served by different pipelines, and gas supply contracts. MGE and LAC customers pay rates based on the specific pipeline and supply used to serve them. Therefore, MGE customers' share of OSS/CR should be based on the MGE gas supply portfolio and the LAC customers' share should be based on the OSS/CR achieved using the LAC gas supply portfolio. In other words, these customers should get a credit based on the costs they pay.

Another reason I recommend the OSS/CR should not be allocated but should be based on the actual OSS/CR level achieved with the specific LAC and MGE assets is that there are LAC and MGE tariff nuances concerning OSS/CR. For example, the firm transportation customers of LAC receive a share of the OSS/CR because (unlike MGE's transporters) they pay a portion of the LAC pipeline capacity reservation charges. Additionally, there is no LAC sharing on the capacity release credits from LAC's experimental school aggregation service customers. All of these capacity release credits flow through to LAC's firm customers.

Q. How is Spire Missouri proposing to allocate the total OSS/CR margins between LAC and MGE?

A. The proposed tariffs allocate 70% of OSS/CR to LAC and 30% to MGE "which are based on historical performance." (MGE tariff sheet no. 24.2 and LAC tariff sheet no. 28-i)

Q. Do you agree allocating 70% to LAC and 30% to MGE is an accurate allocation? Please explain.

A. No. The current levels of OSS/CR for LAC and MGE are not consistent enough to warrant an allocation. Over the last five years MGE's percentage of the total LAC and MGE OSS/CR has been as low as ** __ ** and as high as ** __ **. See the table below for the MGE and LAC percentages of the total OSS/CR.

Percent of Total OSS/CR					
	2011/12	2012/13	2013/14	2014/15	2015/16
MGE	** __ **	** __ **	** __ **	** __ **	** __ **
LAC	** __ **	** __ **	** __ **	** __ **	** __ **

In the 2013/2014 ACA period, MGE's percentage of the total OSS/CR was ** __ **. If Spire Missouri's proposal had been in effect in 2013/2014, allocation of OSS/CR would have shifted approximately ** _______ ** from LAC customers to MGE customers. This means the LAC customers would have had approximately ** _______ ** higher gas costs then they would have had the current method of OSS/CR stayed in effect.

Q. Mr. Riley of OPC suggests the sharing percentage should be changed to 5% LAC and MGE sharing and 95% to the ratepayers. Do you agree with this position? Please explain.

A. No. The Commission's decision in Case No. GR-2004-0209 authorized MGE to keep a percentage of OSS/CR as an incentive for MGE to maximize its OSS/CR levels. The Commission authorized percentages to begin at 15% and increase in 5% increments up to 30% being retained by MGE. The Commission-authorized percentages are significantly greater than the 5% OPC is suggesting.

GAS SUPPLY INCENTIVE PLAN

Q. What is Staff's recommendation concerning the GSIP?

A. As I explained in the Class Cost of Service Report, Staff recommends eliminating the GSIP currently in effect for LAC and does not recommend implementing a similar GSIP for MGE. As an alternative, if the Commission determines a GSIP is appropriate for LAC and MGE, Staff recommends the LAC GSIP continue in its current form and the MGE GSIP should be structured similar to LAC's with the same gas pricing tiers and an overall cap on earnings.

Q. What is Spire Missouri's proposal with regard to LAC's current GSIP and implementing an MGE GSIP?

A. For the LAC area, Spire Missouri proposes to 1) remove financial hedging costs and benefits from the GSIP calculation, 2) add a pipeline discount provision, and 3) remove the gas price tiers that govern LAC's eligibility for sharing savings under the GSIP. In addition, Spire Missouri proposes adding a similar GSIP for the MGE area with index prices for the locations in which MGE supplies are purchased. (Mr. Lobser Direct, page 21 and Mr. Weitzel Direct, pages 26-27)

Q. Please explain why Spire Missouri's proposed change of removing the financial hedging impacts is not appropriate.

A. Spire Missouri hedges to reduce the volatility of physical gas supply prices. LAC's tariff classifies hedging costs and benefits as a commodity-related charge.[1] LAC can hedge the price of gas through either a physical gas supply contract with a supplier, such as locking in a fixed price with a gas supplier, or a financial hedge, such as buying a futures contract on the New York Mercantile Exchange (NYMEX). Including hedging costs in the GSIP calculation captures the cost and benefit of both types of hedging (physical or financial). It would not be appropriate to include physical hedging costs but exclude financial hedging costs from the GSIP calculation. The impact of excluding financial hedging costs from the GSIP could mean that the Company is eligible for compensation under the GSIP at the same time customers are paying overall higher gas costs due to the cost of financially hedging gas prices.

Q. Please explain why Staff disagrees with LAC's proposal to remove the gas price tiers?

A. In Case No. GR-2007-0208, OPC witness Barbara A. Meisenheimer explained the gas pricing tiers (or bands) were designed to act as a ceiling and a floor to determine whether LAC is eligible for compensation. Ms. Meisenheimer explained the "ceiling was to act as a safeguard to ensure that Laclede was not compensated at a time when customers were paying an extremely high price for natural gas. Similarly, the bands floor was established in an effort to recognize that customers would be unwilling to pay for further reductions in the price of natural gas when the price was already very low."[2] Staff recommends the safeguards created by the gas

[1] Tariff Sheet No. 17.
[2] Direct Testimony Barbara A. Meisneheimer Case No. GR-2007-0208 page 14, lines 13-17.

pricing tiers remain intact if the Commission determines the GSIP should continue for LAC, and be adopted for MGE.

Q. Please explain why Staff opposes Spire Missouri's proposal to add a pipeline discount provision to the GSIP.

A. Under Spire Missouri's proposal, if Spire Missouri negotiates discounts with its pipelines it would receive a discount based on the difference between the FERC approved maximum tariff rate and the discounted rate. This would mean that the higher the FERC rate, the greater Spire Missouri's compensation would be; which would eliminate an incentive for Spire Missouri to work toward keeping interstate pipeline rates as low as possible, and could lead to higher gas costs for its customers.

Q. What is Staff's recommendation concerning the GSIP?

A. As I explained in the Class Cost of Service Report, Staff recommends eliminating the GSIP currently in effect for LAC and does not recommend implementing a similar GSIP for MGE. As an alternative if the Commission determines a GSIP is appropriate for LAC and MGE, Staff recommends the LAC GSIP continue in its current form and the MGE GSIP be structured similar to LAC's with the same gas pricing tiers and an overall cap on earnings of $2.5 million.

TARIFF AND GAS SUPPLY AND TRANSPORTATON STANDARDS OF CONDUCT REVISIONS

Q. The Environmental Defense Fund witness, Mr. Gregory M. Lander, proposes several changes to LAC's current tariff and Spire Missouri's Cost Gas Supply and Transportation SOC which is part of the Cost Allocation Manual and applies to both LAC and MGE. He proposed no changes to MGE's tariff. What is the purpose of his proposed changes?

A. Mr. Lander states the changes are proposed to "reflect recent trends in the natural gas market and to protect ratepayers from any unreasonable costs associated with affiliated pipeline transportation agreements."[3]

Q. What are some of Staff's concerns with Mr. Lander's proposed changes?

A. Mr. Lander's proposal appears complicated and may be lacking sufficient detail to implement. Staff is concerned Mr. Lander's proposal does not take into consideration issues such as ** __________ ** from LAC's propane cavern, capacity turn back, SOC bidding requirements, and Staff's GSIP recommendations. LAC receives revenue from ** ________ ____________________________________. **. If LAC were to take the propane cavern and vaporization facilities out of service, it is unclear how these ** ________________ ** would be treated under Mr. Lander's proposal. In terms of Mr. Lander's example of allowing Spire Missouri to recover new pipeline costs up to the amount of turn back capacity on Enable Mississippi River Transmission, LLC ("Enable MRT"), it is unclear how an increase in Enable MRT rates would impact his proposal. LAC is the largest shipper on Enable MRT; if LAC turns back a portion of its Enable MRT capacity there is the possibility that Enable MRT will file a rate case with the FERC to increase its rates due to the lost revenue from LAC. In Mr. Lander's First-Of-Month ("FOM")[4] benchmark comparison it is not clear whether current Enable MRT rates or the new Enable MRT rates would be used. If the new Enable MRT rates are used in the calculation, it may mean that ratepayers' gas costs will increase due to the higher Enable MRT

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[3] Direct Testimony Gregory Lander page 3, line 28 and page 4, lines 1-2.
[4] The FOM index is a gas price developed and published by Platt's in its trade publication, *Inside FERC's Gas Market Report*. The index price is generally based on a volume-weighted average of fixed price gas supply transactions occurring during the last five business day of the month at a specific location. It is common for an LDC to use index pricing to set the price of gas it buys from its suppliers. Once the FOM index is set at the beginning of the month, it does not change throughout the month.

rates for the remaining capacity and to the extent there are costs from the replacement capacity outstanding.

Regarding Mr. Lander's proposed SOC changes concerning bidding transportation capacity, Staff's view is that a requirement to bid pipeline capacity does not necessarily mean it was a prudent decision to add that capacity. In addition, the SOC transportation bidding requirements would not be applied retroactively to Spire STL Pipeline. In terms of the GSIP changes, Staff's primary recommendation is that the current LAC GSIP be discontinued. If the Commission agrees with Staff, the GSIP FOM benchmark would not be available to make Mr. Lander's proposed gas supply cost comparisons.

Q. What would Staff recommend at this time?

A. Due to the lack of clarity with how each of the proposed changes would be applied, Staff would recommend no changes to the tariff or SOC at this time.

Q. Does this mean Staff will not review Spire Missouri's (LAC's) decision to contract with Spire STL Pipeline and the related costs of any contract with Spire STL Pipeline if it is built?

A. No. Staff will review such decision and costs as part of its annual PGA/ACA process.

Q. Does this conclude your 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 ANNE M. CROWE

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

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

Further the Affiant sayeth not.

Anne M Crowe

ANNE M. CROWE

JURAT

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

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 12, 2020
Commission Number: 12412070

D Suzie Mankin

Notary Public