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Witness: Anne M. Crowe
Sponsoring Party: MoPSC Staff
Type of Exhibit: Surrebuttal Testimony
Case Nos.: GR-2017-0215
GR-2017-0216
Date Testimony Prepared: November 21, 2017

MISSOURI PUBLIC SERVICE COMMISSION

COMMISSION STAFF DIVISION

PROCUREMENT ANALYSIS

SURREBUTTAL 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
November, 2017

HC

** 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.

Q. Are you the same Anne M. Crowe who contributed to Staff's Class Cost of Service Report filed on September 22, 2017, and filed rebuttal testimony on October 20, 2017, in this case?

A. Yes, I am.

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

A. Yes.

EXECUTIVE SUMMARY

Q. What is the purpose of your surrebuttal testimony?

A. The purpose of my testimony is to respond to the rebuttal testimony of LAC and MGE witness Mr. Scott Weitzel concerning off-system sales margins and capacity release credits sharing mechanism ("OSS/CR") and gas supply incentive plan ("GSIP").

Q. Please explain Staff's understanding of MGE's and LAC's position regarding OSS/CR.

A. Mr. Weitzel (Rebuttal pg. 9) states that the Company agrees with Staff's OSS/CR recommendation.

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.

OFF-SYSTEM SALES MARGINS AND CAPACITY RELEASE CREDITS SHARING MECHANISM

Q. What is Staff's position with regard to MGE's and LAC's OSS/CR sharing mechanism?

A. As I stated in my rebuttal, Staff is not opposed to Spire Missouri's proposal of changing the OSS/CR sharing mechanism to a flat percentage 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 recommends MGE's and LAC's customers' credit to gas costs should be based on the actual OSS/CR level achieved with the specific LAC and MGE assets (the assets used to achieve the specific OSS/CR level within each division) as is currently the method for treatment of OSS/CR.

Q. What is Staff's understanding of MGE's and LAC's position on Staff's OSS/CR sharing mechanism recommendation?

A. Mr. Weitzel (Rebuttal pg. 9) states that the Company agrees with Staff's OSS/CR recommendation.

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 an MGE GSIP be structured similar to LAC's with the same gas pricing tiers and an overall cap on earnings.

Q. What is the Company's response to Staff's recommendation?

A. Mr. Weitzel explains "The Company believes that the GSIP is good regulatory policy because it seeks to motivate the Company to produce superior results for customers." It also believes Spire Missouri's incentive should be expanded to include other gas supply savings, such as its pipeline discount proposal in this case. (Weitzel Rebuttal, page 7)

Q. Why do you oppose Spire Missouri's proposal to add a pipeline discount provision to the current GSIP?

A. As I stated in Staff's Class Cost of Service Report, LAC's proposed addition of a pipeline discount element to the current GSIP, has the potential to create an incentive calculation which would show an artificial "savings" such that LAC receives incentive payments at the same time its customers' overall gas costs increase.

Q. Please provide an example of how Spire Missouri's pipeline discount proposal has the potential to create artificial "savings" so that instead of ratepayers receiving a benefit, their overall gas costs could increase.

A. LAC recently negotiated a pipeline reservation discount of approximately $4,520,846 million of annual "savings" with MoGas pipeline.[1] If the pipeline discount provision was in effect as proposed, LAC would be entitled to keep $452,085 (10% of $4,520,846 discount). However, ** ________ ** prior to the MoGas discount, LAC added a new ** ____ ** . If the new ** ___ ** contract costs are passed on to ratepayers, the cost of that capacity would be ** ______ ** annually. The additional costs of the newly added ** ________ **, combined with the incentive "savings" payment, as proposed by LAC, would outweigh the discount by ** ______ **, thus causing an actual increase in costs to consumers. This is demonstrated in the table shown below.[3]

**

____________	______
____________	______
____________	______
____________	______

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This is just one example showing how it would be possible to increase ratepayer's overall gas costs while LAC earns an incentive payment for pipeline discount "savings," and illustrates why pipeline reservation costs cannot be viewed in isolation as Spire Missouri proposes.

Q. Please put into perspective the potential addition of Spire STL Pipeline LLC in relation to LAC's current portfolio.

A. LAC's projected peak day firm demand is ** ________ **. Adding the Spire STL Pipeline capacity of 350,000 Dth/day equates to roughly ** ___ ** of LAC's peak day.

[1] CorEnergy SEC Form 8-K page 7 http://investors.corenergy reit/investors/financial-information/sec-filings/default.aspx
[2] ** ______________________________ **
[3] ** ____ **

LAC's pipeline reservation costs for the 2015-2016 ACA period were approximately ** ____ ____ **. The addition of Spire STL Pipeline capacity reservation charges will be an increase of approximately ** ________ ** which is roughly ** ____ ** of LAC's pipeline reservation costs. LAC will have to either have its gas delivered to Spire STL Pipeline by a third party or it will have to reserve capacity on REX. If Spire were to reserve an equivalent amount of capacity on REX for the five winter months only at the reservation rate of LAC's current ** ____________ **, Staff estimates the combined cost of Spire STL and REX to be ** ____ ____ ** which is about ** ____ ** of LAC's pipeline reservation costs. The amount of money at stake and the uncertainty surrounding LAC's gas supply portfolio is exactly why the GSIP should be discontinued. If the GSIP is not discontinued, Staff is opposed to adding a pipeline discount incentive to the current LAC GSIP and the proposed MGE GSIP.

Q. What is LAC's position, with regard to Staff's concern, about the uncertainty of LAC's gas supply portfolio structure in the near future?

A. Mr. Weitzel states he does not believe Staff's concern regarding the uncertainty of LAC's gas supply portfolio is a valid reason for discontinuing the GSIP. He explains the Company seeks to work with Staff, OPC, and other interested parties outside the rate case "to modernize and update the GSIP." (Rebuttal, pages 8-9)

Q. Is this further support for discontinuing the GSIP?

A. Yes. As Staff explains, the potential upcoming pipeline changes are a significant change to LAC's gas supply portfolio. It does not seem reasonable to continue the GSIP and then after the rate case, work towards revising it.

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[4] Case No. GR-2016-0224, DR1, file: *dr1- selecte input to deffy216.xlsm*, tab: *dem and cap*

Q. What does Mr. Weitzel say is the "main weakness" of LAC's existing GSIP?

A. Mr. Weitzel says the "main weakness in the existing GSIP is that it utilizes an arbitrary benchmark that removes incentives when gas prices are below $4.00 per mcf or above $8.99 per mcf." (Rebuttal, page 7) He explains that excluding incentive sharing based on the level of gas prices does not make sense, "since a dollar saved is a dollar saved regardless of the level of gas prices." (Rebuttal, page 8)

Q. Do you agree the pricing tiers do not make sense and should be removed?

A. No. The safeguards created by the gas pricing tiers, which create a ceiling and a floor in determining LAC's incentive earnings eligibility, should remain intact if the Commission determines the GSIP should continue for LAC, and be adopted for MGE. The ceiling is to ensure that LAC is not compensated at the same time customers are paying extremely high gas prices. The 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."[5]

Q. If the Commission were to decide to continue LAC's GSIP and adopt one for MGE, would Staff be opposed to updating the pricing tiers so that they reflect current gas prices?

A. No. Staff would recommend the first tier be set at $2.50 and the third tier be set at $6.50. Staff reviewed the historical first-of-month index[6] gas prices for the locations where LAC and MGE buy their supply. In the last six to twelve months, these prices have generally been in the $2.50 to $3.00 range. Staff chose $2.50 as the first tier or floor price and then used the same $4.00 spread between the first tier and the third tier incentive ceiling price that was

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[5] Direct Testimony Barbara A. Meisenheimer Case No. GR-2007-0208 page 14, lines 13-17.
[6] 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 days 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.

initially set when the GSIP tiers were revised August 1, 2007.[7] Currently, Staff's proposed floor of \$2.50 makes LAC/MGE potentially eligible for incentive earnings. The U.S. Energy Information Administration forecasts the 2018 average annual natural gas price to be \$3.10 per MMBtu.

Q. What does Mr. Weitzel say in his rebuttal testimony regarding Spires's proposal to remove hedging costs from the GSIP incentive calculation?

A. Mr. Weitzel was silent in his rebuttal on this Spire proposal.

Q. Please explain again why removing hedging costs from the GSIP is not appropriate.

A. As I explained in my rebuttal, "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 future 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 hedging gas prices."

Q. Does this conclude your surrebuttal testimony?

A. Yes, it does.

[7] Tariff Sheet No. 28-b.1

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 Surrebuttal 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 17th day of November, 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