

**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 Replacement) Case No. GO-2016-0332
Surcharge in its Missouri Gas Energy)
Service Territory)

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

OPC’S SUGGESTIONS ON RECONCILIATION

COMES NOW the Office of the Public Counsel (“OPC”) and for its Suggestions on Reconciliation, states as follows:

1. When the Public Service Commission (“Commission”) issues rate orders it is required to also approve “a detailed reconciliation containing the dollar value and rate or charge impact of each contested issue decided by the commission, and the customer class billing determinants used by the commission to calculate the rates and charges approved by the commission in such proceeding.” Section 386.420.4 RSMo. The reconciliation must be sufficient “to permit a reviewing court and the commission on remand from a reviewing court to determine how the public utility's rates and charges, including the rates and charges for each customer class, would need to be temporarily and, if applicable, permanently adjusted to provide customers or the public utility with any monetary relief that may be due...” *Id.*

2. There were two issues raised in this case; hydrostatic testing costs and costs incurred replacing plastic pipe that was not worn out or deteriorated (“plastic

issue”). The plastic issue was the only issue raised in an application for rehearing and is the only issue eligible for appeal.

3. The plastic issue is unique in that the ability of OPC, the Staff, and the Commission to calculate the value of the issue is controlled by the manner in which Laclede presented its Infrastructure System Replacement Surcharge (“ISRS”) costs to the Commission. Laclede’s pdf copies of spreadsheets filed with the Commission do not distinguish between costs incurred replacing plastic pipe from costs incurred replacing other types of pipe. Calculating the value of the plastic issue was a topic addressed in pre-filed testimony, during the hearing, and in the briefs. OPC’s brief addressed this issue in a 4-page section of its brief titled “How Should Laclede Account for Ineligible Costs?”, and cites to the hearing transcript where Laclede’s witness and Laclede’s counsel both stated that such calculation could be done.¹

4. During the February 24, 2017 teleconference where the regulatory law judge sought the assistance of the parties in preparing the reconciliation, Laclede and the Staff alleged OPC had sole responsibility for valuing the plastic issue for purposes of reconciliation. This argument is inconsistent with the statutory requirement that the reconciliation is to be completed “*with the assistance of the parties to such proceeding.*” Section 386.420.4 RSMo. The Commission has an obligation to approve the reconciliation and the parties have an obligation to assist the Commission.

5. During the February 24, 2017 teleconference each party offered a proposal on how to determine the value of the plastic issue. Laclede’s proposal was to value the plastic issue at zero under a theory that had Laclede replaced only the cast iron, it would have incurred greater costs. There are several problems with this theory. First, Laclede

did not replace only the cast iron pipe, and there should be no question that when Laclede replaced thousands of feet of plastic main, and hundreds of plastic service lines, costs were incurred. In some projects Laclede replaced *more* plastic than any other type of pipe material.² Second, such a broad conclusion would require separate cost comparisons for each project since the amount of plastic, cast iron, steel and copper varied by project. The record of the case does not include any such cost comparison and Laclede's proposal, therefore, does not provide a reasonable method of valuing the plastic issue.

6. The Staff's stated proposal was to assume ten percent (10%) of Laclede's total project costs were incurred replacing plastic pipe. When questioned by the regulatory law judge on the basis of this proposal, the Staff acknowledged the theory had no basis in fact. While OPC could support the concept of basing the value on a percentage of project costs, more work would need to be done to determine a reasonable percentage. One method would be to take the total feet of pipe added in each work order and compare that to the total feet of plastic pipe abandoned, and use that percentage as a reasonable basis for determining the overall cost of replacing plastic pipe that is not worn out or deteriorated.

7. OPC offers two proposals based upon the record. OPC's first proposal draws upon the spreadsheet data in the record that provides the cost for every work order that Laclede claimed was eligible for the ISRS under Section 393.1009(5)(a) for replacements. By totaling the replacements only, the value will be narrowed to the category under which the disputed plastic replacements were claimed to qualify. Laclede's stated value of the total replacement costs was included in the attachments to

¹ Transcript pp. 30-31, 101-102.

² Laclede Exhibit No. 2, Revised Rebuttal Schedule GWB-1, see work order 900547.

the Direct Testimony of Laclede witness Mr. Glenn Buck. For Laclede Gas, Mr. Buck identified the replacement costs to be \$40,679,361.58.³ For MGE, Mr. Buck totaled the replacement costs to be \$35,997,222.77.⁴ Including these totals in the reconciliation, along with the billing units, would allow the Commission on remand to determine the total amount of replacements costs that were recovered from customers through the ISRS.

8. OPC has no doubt Laclede could run a query through its data system to narrow these replacement costs even further by identifying only those work orders where existing plastic was abandoned due to the replacement. The Commission could direct Laclede to run such query since Laclede's assistance is required by Section 386.420 RSMo. The Commission could also recognize that due to Laclede's new mass-replacement strategy the majority of Laclede's work orders replaced plastic and the total replacement costs approximate the total work orders that included ineligible costs.

9. Setting aside for the moment Laclede's stated ability to determine the plastic issue costs, OPC's confidence in Laclede's ability to determine the plastic issue costs is also due to Laclede's 2013 purchase of a new \$60 million enterprise information management system ("EIMS"). Laclede described the new EIMS as "a fully integrated and comprehensive information management system that will be capable of providing enhanced accounting tools, cross-functional communication, data tracking and analyses, and other essential business processes in the areas of customer service, billing and information, financial performance, supply chain/inventory, human resources and asset

³ Laclede Exhibit No. 2, Direct Testimony of Glenn Buck, Schedule GWB-2 (Appendix A, Schedule 1, page 34 of 72 (mains), and 64 of 72 (service lines)).

⁴ Laclede Exhibit No. 2, Direct Testimony of Glenn Buck, Schedule GWB-2 (Appendix B, p. 25 of 25).

management.”⁵ Laclede further stated the new EIMS would “enhance the Company’s ability to centralize, more rapidly access and more robustly analyze and track safety-related infrastructure data and records as well as compliance requirements.”⁶ Laclede’s \$60 million investment should have no difficulty running an inquiry to gather the data the Commission needs to do the reconciliation.

10. OPC’s second proposed method for reconciling the value of the plastic issue is to reverse the entire cost of the ISRS increase, which is consistent with the statutory mandate that the Commission’s authority is limited to approving a petition if it “finds that a petition complies with the requirements of sections 393.1009 to 393.1015.” See Section 393.1015.1(4) RSMo [emphasis added]. The statute does not contemplate a process wherein the Commission approves or rejects only a portion of a petition. The Commission should have rejected the petitions in their entirety since the Commission can approve only those petitions that comply with the ISRS statutes. A corrected order on remand, therefore, would reject the entire petition and all costs in the petition.

11. The General Assembly anticipated parties may not agree on how to value an issue and provided a process to ensure such dispute would not prohibit the filing of the reconciliation. “In the event there is any dispute over the value of a particular issue or the correctness of a billing determinant, the commission shall also include in the reconciliation a quantification of the dollar value and rate or charge impact associated with the dispute.” Section 386.420.4 RSMo. Including the values recommended by each party in the reconciliation will satisfy this requirement.

⁵ Verified Application for an Order Establishing a Depreciation Rate for the Company’s New Enterprise Information Management System, Case No. GO-2012-0363, filed May 18, 2012.

⁶ *Id.*

WHEREFORE, the Office of the Public Counsel respectfully offers its position on how to value the contested issue in the reconciliation.

Respectfully submitted,

OFFICE OF THE PUBLIC COUNSEL

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CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed, emailed or hand-delivered to all counsel of record this 27th day of February 2017.

/s/ Marc Poston
