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** Tariff No. YG-2017-0195
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** Tariff No. YG-2017-0196

<u>JOINT REQUEST FOR CLARIFICATION OR MODIFICATION</u>

COMES NOW Spire Missouri Inc. ("Spire Missouri" or "Company") and the Staff of the Missouri Public Service Commission ("Staff") (collectively "the Signatories") and file this Joint Request for Clarification or Modification of the Commission's February 21, 2018 Report and Order ("Order") in the above referenced cases. In support thereof, the Signatories state as follows:

1. Since the Commission issued its Order in the above captioned cases, the Company and Staff have had an opportunity to confer regarding various aspects of the Order, and have agreed that there are a few areas where clarification or modification by the Commission would be beneficial and help ensure the effective and appropriate implementation of the decisions made in those areas. These areas include (a) the language related to the impacts of the Tax Cuts and Jobs Act ("TCJA"), both on the Company's current federal corporate tax reduction and the excess Accumulated Deferred Income Tax ("ADIT") balances; (b) language specifying the accounting treatment to be afforded the Company's pension and OPEB costs; (c) the actual amount of 2017 property taxes to be considered; and (d) inconsistencies in the language regarding incentive compensation. It should be noted that, in addition to this joint request, the Company is reserving its rights to seek clarification, modification or rehearing on other aspects of the Order.[1]

[1] The Company will be filing a separate request for clarification on disallowance of capitalized incentive compensation.

<u>TCJA Trackers</u>

2. In its Order, the Commission determined that separate trackers should be established to track and reconcile differences between the allowances in rates for the impacts of the TCJA on the Company's federal corporate tax rates and excess ADIT balances and the actual impacts experienced by the Company for these items. Staff and the Company request that the Commission clarify and/or modify its Order regarding these trackers in two respects:

First, as the Commission indicates at page 108 of its Order, the parties should be able to determine the impact of the reduction in corporate tax rates with a high degree of accuracy once the revenue requirement being authorized by the Commission in these two cases are known. However, it is probable that the TCJA will have other impacts on computation of utility income tax expense beyond the change in corporate tax rates that are not quantifiable at this time, such as changes in the tax deductibility of various cost items. Therefore, the Signatories request that Commission clarify its Order to specify that the tracker ordered by the Commission (that is separate from the mechanism tracking ADIT flow back to customers) be limited to capturing the financial impacts of any change in the calculation of income tax expense directly associated with implementation of the TCJA, other than the reduction in the corporate tax rate from 35% to 21%. The amount captured will be deferred for recovery or return in the next Spire Missouri East and West rate cases.

Second, in terms of the language for the excess ADIT tracker, the Company and Staff have a serious concern that a specific directive by the Commission to define the period over which tax timing differences associated with "protected" differences are recognized in rates would expose the Company to a normalization violation. Such a violation would, in turn, impair the Company's ability to take accelerated tax depreciation in the future that has been routinely used in the past to generate cash for utility investments and ultimately to reduce the cost of service paid by customers. To avoid such a result for customers, the Signatories respectfully request that the Commission modify its Order by deleting the last sentence of the top paragraph on page 114 ("As part of its calculation, Staff applied a 50/50 split between the "protected" and "unprotected" ADIT applying a 20-year amortization to protected ADIT and a 10-year amortization to unprotected ADIT.") and replacing it with the following: "However, the calculations and the determination of the actual split between protected and unprotected excess ADIT and the appropriate amortization period for the protected excess ADIT have not been completed as of the date of this Order. The protected component to be flowed back is being computed by the Company and is required to be based on either the average rate assumption method (ARAM) or the alternative Reverse South Georgia method in accordance with the normalization requirements of the TCJA."

Accounting for Pension and OPEB Expenses

3. At pages 90 to 99 of the Order, the Commission makes a number of determinations regarding the treatment that should be afforded for the pension costs incurred or to be incurred by the Company for the employees of Spire Missouri West and East. Previous Stipulations and Agreements approved by the Commission for the Company have routinely included language specifying the accounting treatment that will be followed to track and reconcile the allowances being provided in rates for the Company's ongoing expenses for pension and other post-employment benefits ("OPEBs") with the actual expenditures made by the Company for this purpose. Such language has also addressed any amortization amounts being included in rates to reduce regulatory assets or liabilities previously established for these items.

4. The language set forth in Attachment A, which is attached hereto and incorporated herein for all purposes, is consistent with the accounting language previously approved by the

Commission in the last rate case proceeding for Spire Missouri East for pension and OPEB expenses. The only material revisions relate to the updating of numbers to reflect the decisions made by the Commission regarding the allowances being provided in rates for these items and the addition of amortization language to reflect the Commission's decision regarding how the existing pension assets and liabilities of Spire Missouri East and Spire Missouri West will be amortized. For all of these reasons, the Signatories request that the Commission clarify its Order by approving the language set forth in Attachment A, hereto.

Property Tax

5. The Report and Order states on page 114 that coupled with the extraordinary event of decreased income tax expense it would not be just to exclude known and measurable property taxes of approximately $1.4 million. Spire and Staff have agreed that the appropriate amount of increased property taxes is $1,724,687. The Signatories request that the Commission replace the $1.4 million with $1,724,687[2] in its response to this Joint Request for Clarification.

Incentive Compensation

6. Page 124 of the Report and Order states that as to capitalizing earnings based and equity based employee incentive compensation amounts in base rates, "Thus, that incentive compensation expense will not be included in rates and no part of the earnings based or incentive based compensation for the current case (back to the previous settlement) should be capitalized in rate base." However, the Report and Order also states that, "The Commission determines that no adjustment shall be made to remove the present value of any capitalized past incentive compensation." The Signatories agree that the decision in this portion of the Order is unclear. Staff requests clarification as to whether rate base should be adjusted for incentive compensation

[2] The $1,724,687 represents the difference in Staff's annualized level at the True-Up and 2017 actual property taxes for Spire Missouri East (LAC) and Spire Missouri West (MGE).

capitalized subsequent to prior settlements or if the Commission is ordering no rate base adjustments for capitalized earnings based or incentive based compensation. The Company also requests clarification and, as indicated above, intends to present its views on which determination is most appropriate in a separate pleading.

CONCLUSION

WHEREFORE, for the foregoing reasons, Spire Missouri Inc. and the Staff respectfully request that the Commission clarify and modify its Order on the issues outlined above in a manner consistent with the recommendations set forth herein.

Respectfully Submitted,

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ATTORNEYS FOR THE STAFF OF THE MISSOURI PUBLIC SERVICE COMMISSION

CERTIFICATE OF SERVICE

The undersigned certifies that a true and correct copy of the foregoing pleading was served on the parties of record in these cases on this 27th day of February, 2018 by hand-delivery, fax, electronic mail or by regular mail, postage prepaid.

/s/Marcia Spangler

Pensions and Other Post-Employment Benefits

1. The purpose of this document is to define the ratemaking treatment applicable to pension costs and Other Post-Employment Benefits for Spire Missouri East (formerly referenced as "Laclede") and Spire Missouri West (formerly referenced as "Missouri Gas Energy" or "MGE") in accordance with the Report and Order issued by the Commission on February 21, 2018, and prior stipulation and agreements.

2. The parties agree that, unless explicitly defined herein, this document does not prevent Staff or Company from recommending alternative treatment of any aspect of pension and OPEB costs in any future rate case.

3. The funds provided for pensions and OPEBs in the cost of service are designated specifically for reasonable and prudently incurred pensions and OPEBs costs, and will be tracked and reconciled in future proceedings. The mechanism of recovery through rates for both pensions and OPEBs costs is a tracking mechanism of the cash collected and the cash utilized for pension and OPEB funding. The overall goal of this tracking mechanism is to ensure exact recovery of pension and OPEBs costs. For the purposes of this Stipulation and Agreement, it is assumed that the amount established in rates is the exact amount collected by the Company, and the amounts of amortizations are also the exact amounts collected by the Company. Amounts recovered in rates that are more than actual cash payments creates overfunding by customers and shall be returned to customers subsequently in the ratemaking process. Amounts recovered in rates that are less than actual cash payments creates underfunding by customers and shall be recovered by the Company subsequently in the ratemaking process. To accomplish the objectives above, the parties agree to the following.

4. Spire Missouri East shall continue to be authorized to record as a regulatory asset or liability, the difference between the pension expense used in setting rates for Spire Missouri East ($29,000,000) and Spire Missouri West ($5,472,636) (amounts stated before the application

of transfer rates) and the pension expense as recorded for financial reporting purposes as determined in accordance with GAAP pursuant to Accounting Standards Codification (ASC) 715 (previously FAS 87 and FAS 88, or such standard as the FASB may issue to supersede, amend, or interpret the existing standards), and such difference shall be recovered from or returned to customers in future rates. The difference between the amount of pension expense included in Spire Missouri East's and Spire Missouri West's rates and the amount funded by each in accordance with ERISA minimums shall be included in their respective rate bases in future rate proceedings.

5. The Company shall continue to be allowed rate recovery for contributions it has made and will make to its pension trust that exceed the ERISA minimum for any of the following reasons:

(a) the minimum required contribution is insufficient to avoid the benefit restrictions specified for at-risk plans pursuant to the Pension Protection Act of 2006, thereby causing an inability by the Company to pay out pension benefits to recipients in its normal and customary manner, including lump sum payments; and

(b) the minimum required contribution is not sufficient to avoid any Pension Benefit Guarantee Corporation ("PBGC") variable premiums.

Additional contributions made pursuant to this Paragraph will increase Spire Missouri East and Spire Missouri West's rate base by increasing the prepaid pension asset and/or reducing the accrued liability, and will receive regulatory treatment as described in this section. The Company shall inform the Staff and OPC of contributions of additional amounts to its pension trust funds pursuant to this Paragraph in a timely manner.

6. Pursuant to the Report and Order issued by the Commission on February 21, 2018, the revenue requirement recovered in rates includes an allowance to amortize the September 30,

2017 balance of Spire Missouri East and Spire Missouri West's prepaid pension asset/liability of $16,424,212 and ($-3,555,123), respectively (amounts stated before the application of transfer rates). Such an allowance is based on an 8-year amortization of a prepaid pension balance of $131,393,693 for Spire Missouri East, and a prepaid pension balance of ($-28,440,981) for Spire Missouri West as of September 30, 2017. The prepaid pension balances shall be included in the respective rate bases of Spire Missouri East and West. In the event the amortizations of the asset or liability becomes fully amortized between rate cases, the amount included in rates between the date it became fully amortized and the effective date of rates in the next rate case shall be returned to shareholders or ratepayers, as appropriate.

7. The provisions of ASC 715 (previously FAS 158) require certain adjustments to the prepaid pension asset/Other Post-Employment Benefits ("OPEB") asset and/or accrued liability with a corresponding adjustment to equity (i.e., decreases/increases to Other Comprehensive Income). The Company will continue to be allowed to maintain a regulatory asset/liability to offset any adjustments that would otherwise be recorded to equity caused by applying the provisions of ASC 715 or any other FASB statement or procedure that requires accounting adjustments to equity due to the funded status or other attributes of the pension or OPEB plans. The adjustments described in this paragraph will not increase or decrease rate base.

8. The Company shall continue to be authorized to revert to the accounting policy it originally implemented upon adoption of FAS 87, for financial reporting purposes only, effective October 1, 2002, including without limitation:

(a) Market-Related Value implemented prospectively over a four-year period;

(b) Amortization of unrecognized gains or losses only to the extent that they fall outside of a 10% corridor as described in FAS 87 and FAS 106; and

(c) Amortization of unrecognized gains or losses falling outside of the 10% corridor over the average remaining service life of participants.

9. Gains and losses for all pension lump-sum settlements shall continue to be calculated only to the minimum extent permitted by ASC 715 (previously FAS 88).

10. The rates resulting from this case also make provision for the recovery of OPEB costs on an ASC 715 (previously FAS 106) basis. The Company shall continue to be authorized to apply its accounting policy for OPEBs consistent with ASC 715 (previously FAS 87) for pensions, for financial reporting purposes, as was initially effective October 1, 2002. The rates established in these case for ASC 715 (previously FAS 106) expenses include an allowance of $8,600,000 for Spire Missouri East and $0 for Spire Missouri West (amounts stated prior to application of transfer rate). The Company will fund the trusts based on ASC 715 (previously FAS 106) as calculated for financial reporting purposes. The difference between the amount of OPEB expense included in the rates of Spire Missouri East and Spire Missouri West and the amount funded by them shall be recorded in a regulatory asset/liability, as appropriate, and such difference shall be recovered from or returned to customers in future rates and included in rate base in future rate proceedings. The Company may consider the funded status of the OPEB trusts in determining the allocation of contributions to the trusts. The rates recommended herein include an allowance to amortize the September 30, 2017 balance of Spire Missouri East and Spire Missouri West's prepaid OPEB asset of $5,196,899 and $271,711 respectively (amounts stated before the application of transfer rates). Such an allowance is based on an 8-year amortization of Spire Missouri East's prepaid OPEB balance of $41,575,188, and Spire Missouri West's prepaid OPEB balance of $2,173,690 at September 30, 2017.

11. In the event that ASC 715 (previously FAS 106) OPEB expense becomes negative, the Company shall set up a regulatory liability to offset the negative expense. In future years, when such expense becomes positive again, the amount in rates will remain zero until the prepaid asset, if any, which was created by the negative expense, is reduced to zero. The regulatory liability will be reduced by the same rate as the prepaid asset. This regulatory liability is a non-cash item and should be excluded from rate base in future years.

Accounting Authorizations/Reservation of Rights

12. The Company shall, for book purposes, be authorized to continue to normalize the income tax timing differences inherent in the recognition of pension costs, OPEB costs, and Accounting Authority Order (AAO) recoveries as discussed above by recording and recognizing in any future rates deferred income tax expense for such differences.