Exhibit No.:	______________
Issue(s):	Gas Supply Incentive Plan/ St Peter's Lateral Expenses/ Kansas Property Taxes/ Off-System Sales and Capacity Release Sharing Mechanism/ Company Lobbying Expenses Within GTI Dues
Witness/Type of Exhibit:	Riley/Surrebuttal
Sponsoring Party:	Public Counsel
Case No.:	GR-2017-0215 GR-2017-0216

SURREBUTTAL TESTIMONY

OF

JOHN S. RILEY

Submitted on Behalf of the Office of the Public Counsel

LACLEDE GAS COMPANY
MISSOURI GAS ENERGY

CASE NO. GR-2017-0215
CASE NO. GR-2017-0216

November 21, 2017

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 JOHN S. RILEY

STATE OF MISSOURI)
) **ss**
COUNTY OF COLE)

John S. Riley, of lawful age and being first duly sworn, deposes and states:

1. My name is John S. Riley. I am a Public Utility Accountant III for the Office of the Public Counsel.

2. Attached hereto and made a part hereof for all purposes is my surrebuttal testimony.

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

John S. Riley, C.P.A.
Public Utility Accountant III

Subscribed and sworn to me this 21st day of November 2017.

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI
JERENE A. BUCKMAN
My Commission Expires
August 23, 2021
Cole County
Commission #13754037

Jerene A. Buckman
Notary Public

My Commission expires August 23, 2021.

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SURREBUTTAL TESTIMONY

OF

JOHN S. RILEY

LACLEDE GAS COMPANY

MISSOURI GAS ENERGY

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Q. Please state your name and business address.

A. John S. Riley, PO Box 2230, Jefferson City, Missouri 65102

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

A. I am employed by the Missouri Office of the Public Counsel ("OPC") as a Public Utility Accountant.

Q. Are you the same John S. Riley who previously filed direct testimony in this case?

A. Yes.

Q. What is the purpose of your surrebuttal testimony?

A. To respond in opposition to the Staff's and Company's proposals concerning Laclede's Gas Supply Incentive Plan, amortization of St. Peter's pipeline expenses and the Kansas property tax expense and explain OPC's opposition to Staff and Company proposals to share Off-System Sales ("OSS") between Laclede, MGE and the ratepayer and oppose inclusion of a portion of Gas Technology Institute ("GTI") due to its lobbying purpose.

GAS SUPPLY INCENTIVE PLAN

Q. Could you summarize the OPC's opposition to the Gas Supply Incentive Plan ("GSIP")?

A. The OPC is opposed to the continuation of the GSIP at this time. Natural Gas prices have been too low and nonvolatile for some time and are expected to continue this way for an extended period of time. Because the purpose of the GSIP was to reduce "the impact of upward natural gas commodity price volatility on the Company's customers"[1], there is no justification for adjusting the parameters to provide the Company an opportunity to artificially inflate their revenue stream.

Q. Did the Company offer a proposal in rebuttal testimony to continue the GSIP?

A. Yes. Company witness Scott A. Weitzel proposes to continue the GSIP with changes to the current $4 benchmark that represents the lower boundary in the range. Presumably, Mr. Weitzel would like to see a lower benchmark so the Company could share in a price "savings" in the future.

Q. How does OPC respond to the Company's offer?

A. Natural gas has not been above $4 since November, 2014[2]. Currently, natural gas prices are hovering close to $3 MMBtu. Staff has also pointed out, in this case, that there is too much uncertainty in the company's future supply portfolio and that the GSIP should be discontinued.[3] Taking all of these issues into consideration, OPC still supports suspension of the program at this time and to have this discussion again in the Company's next rate case.

Q. The Company has offered to sit down with the interested parties "outside the context of these rate cases to modernize and update the GSIP".[4] Would OPC be interested in participating in these discussions?

A. Most certainly, however, the GSIP is a Company tariff and I question whether any agreed upon parameters could be placed into motion outside of a general rate case.

[1] Opening line of the Gas Supply Incentive Plan tariff 28-b.-1.
[2] Based on Henry Hub average weekly prices quoted on the EIA website.
[3] Rebuttal testimony of Anne Crowe, Page 7
[4] Weitzel rebuttal page 9, line 8 and 9.

ST PETER'S LATERAL EXPENSES

Q. Can you provide a brief explanation of this issue?

A. Yes. The Company began preliminary work on an alternative pipeline in response to concerns the Company had with an ongoing contract with MoGas and its pipeline. In response to the Company's actions, MoGas renegotiated its contract with LAC resulting in substantial annual savings for the utility. The savings is approximately $4.5 million annually. By the time the contract was renegotiated, LAC had incurred close to $2 million in preparatory work prior to cancelling the project.

Q. How has Staff proposed to address these cost?

A. In reviewing Staff witness Karen Lyons rebuttal testimony on the subject, it would appear that, "Staff included an amortization of these costs be included in rates over a twelve year period that is consistent with the time period of expected savings from the negotiated contract with MoGas."[5]

Q. Why would you say it would "appear"?

A. Ms. Lyons indicates in her testimony that Staff is consistent with LAC's recommendation, however, Company witness Michael R. Noack has indicated that the Company wants rate base treatment of the expenses where he believes the Staff has not included the expenses in rate base.

Q. Where does OPC stand on this issue?

A. OPC believes that these are expenses that should be included in the cost of service and Staff and Company have agreed on a 12-year amortization period, however, OPC does not believe these expenses should be afforded rate base treatment.

[5] Lyons rebuttal, St. Peters Lateral Pipeline section, page 17, lines 12-14.

Q. Please explain.

A. These costs were preliminary work on a proposed pipeline that was never started. It would be unusual to include expenses in rate base as if they were assets and then provide the company a rate of return on what is essentially unused engineering studies and legal fees. The project did not go forward and no asset is there that benefits the ratepayer to the point that a rate of return should be rewarded to the Company.

Q. The Staff has proposed a 12 year amortization of the expense to match the remaining life of the contract. Does OPC agree with this timeframe?

A. There is a valid argument to match the amortization with the timing of the contract savings however, the savings in <u>one</u> year will exceed the total cost of the preliminary work. OPC could agree with a shorter amortization period so the Company could recoup its costs by the completion of their next rate case.

<u>KANSAS PROPERTY TAXES</u>

Q. Can you summarize Staff and Company positions' on including Kansas property tax in the Company's cost of service?

A. Yes. Staff witness Lyons proposes to eliminate the property tax tracker and include the 2016 property tax assessment of $1,122,514 in the Cost of Service. Company witness Noack proposes the 2017 tax assessment of $1,691,513 be the level of tax for the rate case.

Q. How does OPC view the differences?

A. Apparently, the taxing counties use the first day of the year to set the tax amount for the upcoming year. The price of natural gas on January 1, 2016 was $2.28 and the price on the first day of 2017 was $3.71. Neither of these prices represent the average price for the given year. The average price in 2016 was higher at $2.52 and the $3.71on January 1 was the most expensive day so far in 2017. Staff's 2016 level is the lowest dollar amount in the last eight years and the Company's level is the most expensive since 2010.

Q. Does OPC offer a compromise?

A. Yes. OPC suggest that the average price and storage level be calculated from 2009 forward to provide an average dollar amount to include in the Cost of Service. I have included a Company provided spreadsheet with OPC calculations (Schedule JSR-S-1) to explain the average level of Kansas tax assessment to include in the case.

Q. What is the dollar amount proposed?

A. OPC proposes $ 1,378,281.84 be included in the rate case for ongoing Kansas property tax expense.

<u>OFF-SYSTEM SALES MARGINS AND CAPACITY RELEASE CREDITS SHARING</u>

Q. The Company has proposed that the current graduated sharing mechanism used by both LAC and MGE be replaced by a single flat 25% mechanism. The Company also proposes that the total revenues received from this sharing be allocated between LAC and MGE. Staff agrees with the Company's flat rate calculation but opposes the allocation of the revenues between LAC and MGE. What is OPC's position on this issue?

A. OPC is opposed to using a single flat 25% sharing mechanism but agrees with Staff that revenues should not be allocated but remain distinct within the divisions.

Q. Why is OPC opposed to the 25% flat rate?

A. At the current levels of OSS this is merely an increase to the Company yet the customer still bears the expenses on their own.

Q. Please explain the revenue increase.

A. Based on the information from Staff Data Request No. 0257, MGE recovered $1,330,729.35 from OSS sales/release of $5,635,764.51 or about 23.5%. LAC received $2,420,395 of total sales/release of $10,067,984 or 24%. On a flat 25% sharing, MGE would receive $1,408,941.13 or $78,212 more. LAC would have received $2,516,996 or a $96,601 increase.[6] The sales figures used in this example were July 2016 through June 2017, using the prior year sales numbers for Laclede would have resulted in a substantially larger windfall for the Company. With the proposed Spire pipeline coming on line in a little more than a year, we simply cannot predict how these sales will develop. Less sales would create a greater benefit to a flat rate.

The Spire STL pipeline raises several questions. The purpose of a graduated percentage sharing mechanism to incentivize the Company into performing above and beyond their normal business boundaries. If it does come to pass that LAC will purchase a majority of its natural gas through a Spire pipeline, then isn't the Company proposal rewarding LAC to work less? An elevated flat rate isn't going to make LAC and MGE more efficient. If a single rate is going to be the standard, then let it be at a level that the Commission has determined in the past as a sufficient benchmark.

If the Commission finds that 95/5 proposal unacceptable then the present tier step percentage should continue so the Company has goals to attain rather than a flat 25% for selling credits back to its sister company.

Q. Staff opposes the Company request that the total OSS/CR be allocated between LAC and MGE. Is OPC in agreement with Staff?

A. Yes we are. We agree with Staff witness Ms. Anne M. Crowe is correct that the prospective company credits should stay separate due to the division's differences in gas portfolio attributes.

[6] Staff DR 0257, Off-System Sales and Capacity Release Reports/Details.

COMPANY LOBBYING EXPENSES WITHIN GTI DUES

Q. Does OPC have concerns with a portion of the Company's dues to Gas Technology Institute ("GTI")?

A. Yes. In response the Staff Data Request No. 0355, Company indicated that it pays a $25,000 membership to GTI's Carbon Management Information Center ("CMIC"). (Schedule JSR-S-2). The CMIC is clearly a lobbying/promotional arm of the GTI and these payments should be eliminated from the Cost of Service.

Q. How did you determine the CMIC performs a lobbying function?

A. The Center's Objectives and Benefits are plainly displayed on the CMIC website[7]. I've included copies of these pages on the schedule. The key messages are quoted below:

> **<u>Objectives</u>**
>
> Help investors inform policymakers, public utility commissions, trade allies, codes and standards bodies, and customers about the significant environmental and energy efficiency advantages of direct natural gas and propane use.
>
> **<u>Benefits</u>**
>
> Provide a clear, concise, and technically defensible message to policymakers, regulatory authorities, public interest groups and others in reducing the nation's energy consumption and carbon emissions.

I am not suggesting that the CMIC is actually lobbying on behalf of its members however, it is an advertising, promotional arm of the GTI that should not be funded by the ratepayer.

Q. Does this conclude your surrebuttal testimony?

A. Yes it does.

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[7].http://www.gastechnology.org/Expertise/Pages/Carbon-Management-Information-Center.aspx

Kansas Property
By Year

	2009 Tax	2010 Tax	2011 Tax	2012 Tax	2013 Tax	Past Taxes Total	2014 AV	2014 Tax	2014 Tax Rate	2015 AV	2015 Tax	2015 Tax Rate	2016 AV	2016 Act. Tax	2016 Tax Rate
Allen County	12,240.76	15,125.00	30,104.94	20,102.50	23,104.34	100,677.54	136,258	19,189.70	0.140834	137,439	19,426.92	0.141349	112,569	15,767.56	0.14007
Anderson County	720,374.64	1,005,152.36	703,517.74	498,548.38	572,922.24	3,500,515.36	3,075,528	443,837.88	0.144313	3,353,529	494,257.36	0.147384	2,827,642	433,981.36	0.15348
Elk County	207,904.72	159,967.44	117,182.84	166,111.80	175,738.76	826,905.56	1,057,324	181,245.48	0.171419	903,747	148,023.78	0.163789	630,291	112,799.24	0.17896
Jefferson County	47,754.12	61,941.44	59,126.22	34,703.78	37,637.10	241,162.66	220,313	28,528.80	0.129492	330,660	45,087.72	0.136357	241,594	33,541.44	0.13883
Leavenworth County	35,166.78	46,703.98	43,938.30	25,287.50	28,044.42	179,140.98	197,308	20,939.28	0.106125	296,543	32,817.76	0.110668	216,571	24,355.10	0.11246
Meade County	108,780.56	144,165.06	134,015.18	103,899.22	118,909.20	609,769.22	1,469,782	159,874.08	0.108774	705,649	70,861.46	0.10042	744,565	94,856.84	0.12740
Montgomery County	199,259.28	299,352.70	232,009.08	329,574.36	381,424.06	1,441,619.48	2,918,922	415,639.50	0.142395	2,494,513	331,960.88	0.133076	1,739,592	269,264.94	0.15479
Rice County	109,155.38	270,911.88	187,259.52	120,634.54	168,077.78	856,039.10	1,143,148	149,577.50	0.130847	1,168,714	159,566.86	0.136532	915,929	127,140.10	0.13881
Woodson County	8,610.84	13,843.76	2,241.54	5,587.28	7,185.98	37,469.40	46,894	7,662.18	0.163394	41,135	7,008.96	0.170389	29,407	5,018.26	0.17065
Total	1,449,247.08	2,017,163.62	1,509,395.36	1,304,449.36	1,513,043.88	7,793,299.30	10,265,477.00	1,426,494.40		9,431,929.00	1,309,011.70		7,458,160.00	1,116,724.84	
							avg tax rate		13.8960%			13.8790%			14.9732%
January 1 NG price	5.41	5.82	4.54	2.91	3.3			4.32			3.01			2.28	

Schedule JSR-S-1

Laclede Gas Company / Missouri Gas Energy
GR-2017-0215 / GR-2017-0216

Response to MPSC Data Request 0355

Question:

1. Provide a detailed explanation on how Gas Technology Institute (GTI) dues are currently assessed for participating members.
2. Reference Company response to OPC data request 2062. Separately for Laclede Gas Company and Missouri Gas Energy, please provide supporting documentation of the $350,000 cap affixed to membership dues for GTI. Also, for Laclede Gas Company and Missouri Gas Energy, please provide the amount of dues paid for the 12 month period ending December 31. 2016 by month and FERC account, and indicate if payments to both GTI and American Gas Association are booked above or below the line.

Response:

1. GTI's Utilization Technology Development (UTD) fees are assessed at $0.50/meter annually, with a cap of $350,000 for "an individual company". This was confirmed by GTI to be for a corporate entity, or Spire Inc.
2. Please see page 3 of the attached prospectus. Neither LAC nor MGE are members of UTD.

LAC/MGE are members of GTI's Emerging Technology Program (ETP) for energy efficiency technology deployment as part of Energy Efficiency Collaborative, with annual membership dues of $25,000 booked into the EEC regulatory asset account. Laclede Gas is also a member of GTI's Carbon Management Information Center (CMIC) related to environmental information and tools on carbon management, with annual member fee of $25,000, expensed above the line.

Dues for American Gas Association, excluding the itemized lobbying expense, are booked above the line, with lobbying expense below the line.

Signed by: Glenn Buck

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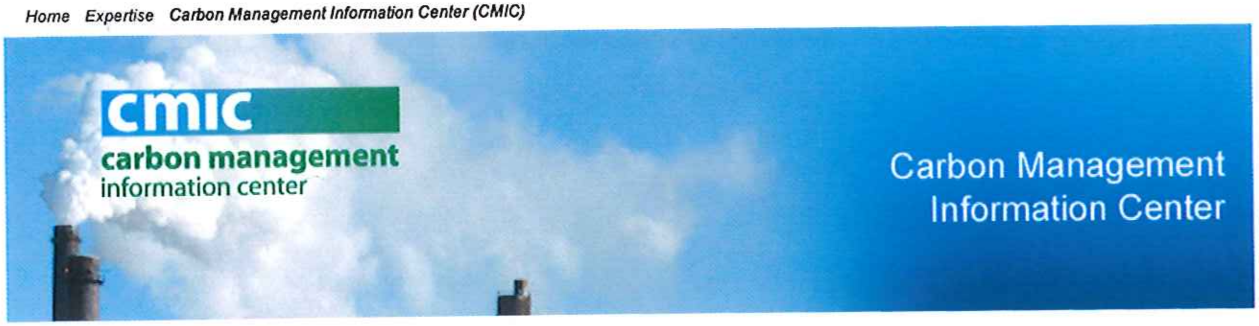

GTI's Carbon Management Information Center (CMIC) helps its members address natural gas and propane industry issues and opportunities in the evolving arena of source energy efficiency and greenhouse gas emissions.

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Background

Objectives

The Carbon Management Information Center (CMIC) was established to:

- Serve as a clearinghouse for relevant carbon management information.
- Develop credible information products and functional tools to meet the needs of investors and their customers.
- Help investors inform policymakers, public utility commissions, trade allies, codes and standards bodies, and customers about the significant environmental and energy efficiency advantages of direct natural gas and propane use.

Benefits

The Carbon Management Information Center (CMIC) serves the gas industry, its customers, and other stakeholders by developing resources and analytical tools that:

- Clearly evaluate opportunities for natural gas and propane to improve total energy efficiency and reduce greenhouse gas emissions.
- Identify opportunities to capture financial value through carbon emission reductions and energy efficiency programs
- Promote the direct use of natural gas where it can provide an opportunity to achieve life cycle cost savings.
- Provide a clear, concise, and technically-defensible message to policymakers, regulatory authorities, public interest groups and others in reducing the nation's energy consumption and carbon emissions.

Progress and Recent Developments

Available Tools

- Energy and Emissions Analysis Tool

Learn more about CMIC

Contact us.
energyutilization@gastechnology.org .

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