BEFORE THE PUBLIC SERVICE COMMISSION OF THE STATE OF MISSOURI

In the Matter of Laclede Gas Company's Request to Increase Its Revenue for Gas Service	))	**File 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	)))	**File No. GR-2017-0216**

STAFF'S RESPONSE TO SPIRE MISSOURI'S REQUEST FOR CLARIFICATION AND MOTION FOR EXPEDITED TREATMENT

COMES NOW the Staff of the Missouri Public Service Commission ("Staff"), by and through counsel, and responds to Spire Missouri Inc.'s ("Spire Missouri" or "Company") *Motion for Clarification and Request for Expedited Treatment* as follows:

1. Spire Missouri maintains that the Commission's Amended Report and Order, in regard to the treatment of capitalized earnings based and equity based incentive compensation, is unclear. Staff disagrees with Spire Missouri's interpretation of the Commission's Amended Report and Order.

2. The Company states that it interprets the Commission's Amended decision to mean that no capitalized incentive compensation costs are to be disallowed in this case, and that the decision was simply intended to put the Company on notice that the capitalization of earning-based incentive compensation will be subject to disallowance on a "going forward" basis. The Company's interpretation relies on the following sentence, included in both the Commission's initial February 21, 2018, Report and Order and its March 7, 2018, Amended Report and Order:

> The Commission determines that no adjustment shall be made to remove the value of any capitalized **past** incentive compensation.

3. The March 7, 2018, Amended Report and Order included modifications to the Commission's decision on this issue, including to the time period deemed as the "current case."

4. Spire Missouri has explicitly been told that "earnings based and equity based incentive compensation should not be recovered in rates."[1] Staff disagrees with the Company's interpretation of the Commission's Amended Report and Order that any and all costs of incentive compensation capitalized during the test year and true-up period of the current rate case should remain in rates. Staff is cognizant that the Commission's decision regarding the capitalization of incentive compensation concludes with the statement, "no adjustment shall be made to remove the value of any capitalized past incentive compensation that may have been involved." However, Staff interprets the statement to be modified by preceding language in the Commission's decision on page 127. To do otherwise, would render the following meaningless:

> …that incentive compensation expense will not be included in rates and ***no part of the earnings based or equity based incentive compensation for the current case (test year through true-up period) should be capitalized in rate base going forward.*** (Emphasis added)

Staff reads this language to be plain on its face; that any earnings based or equity based incentive compensation capitalized during the test year or true-up period for this current case, should not be reflected in rate base on a going forward basis. Any other interpretation of the Commission's Order would reflect a disallowance of earnings based and equity based compensation in expense but allow the **same cost** to be recovered in rates through rate base. This interpretation would set rates on inconsistent methodology.

[1] Amended Report and Order, pg 127.

5. To accomplish Staff's interpretation of the Amended Report and Order, Staff *must* adjust the test year and true-up period to exclude those capitalized amounts from rate base. Capitalized expenses, for accounting purposes, are treated the same as a capital project. The utility earns a "return of" and a "return on" the capitalized amounts through the rates set by the Commission, until such time reserve amounts (similar to depreciation expense) reduce the balance of the capitalized expense to zero. If the equity based capitalized incentive compensation booked during the test year and true-up period remain in rate base for this case, those capitalized amounts *will remain in rate base* until such time they are zeroed out on Spire Missouri's books at an unknown future date. Therefore, until that time, earnings based and equity based incentive compensation would continue to be recovered in rates, as well as a return earned on those amounts.

WHEREFORE, Staff prays that the Commission will accept the above as *Staff's Response to Spire Missouri's Motion for Clarification and Request for Expedited Treatment*; and grant such other and further relief as is appropriate under the circumstances.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I certify that a true and correct copy of the foregoing was served electronically, or hand-delivered, or via First Class United States Mail, postage prepaid, on all parties of record herein on this 12th day of March, 2018.

/s/ Mark Johnson