Exhibit No.:	
Issue:	**Policy/Overview**
Witness:	**Steven L. Lindsey**
Type of Exhibit:	**Surrebuttal Testimony**
Sponsoring Party:	**Laclede Gas Company (LAC)** **Missouri Gas Energy (MGE)**
Case Nos.	**GR-2017-0215** **GR-2017-0216**
Date Prepared:	**November 21, 2017**

LACLEDE GAS COMPANY
MISSOURI GAS ENERGY

GR-2017-0215
GR-2017-0216

SURREBUTTAL TESTIMONY

OF

STEVEN L. LINDSEY

NOVEMBER 2017

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<u>**SURREBUTAL TESTIMONY OF STEVEN L. LINDSEY**</u>

Q. **PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A. My name is Steven L. Lindsey, and my business address is 700 Market Street, St. Louis, Missouri 63101.

Q. **ARE YOU THE SAME STEVEN L. LINDSEY WHO PREVIOUSLY FILED DIRECT TESTIMONY IN THESE PROCEEDINGS?**

A. Yes, I previously filed direct testimony in these proceedings on behalf of Laclede Gas Company (now known as Spire Missouri Inc. but referred to herein as "Laclede" or the "Company") and its two operating units Laclede Gas Company (now known as Spire Missouri East but referred to herein as "LAC") and Missouri Gas Energy (now known as Spire Missouri West but referred to herein as "MGE").

I. PURPOSE OF TESTIMONY

A. The purpose of my surrebuttal testimony is to provide a policy overview of our response to the rebuttal testimony and positions presented by the Staff of the Missouri Public Service Commission ("Staff"), Office of the Public Counsel ("OPC") and other parties to this proceeding.

II. GENERAL OBSERVATIONS

Q. DO YOU HAVE ANY GENERAL OBSERVATIONS REGARDING THE TESTIMONY AND POSITIONS PRESENTED BY THE OTHER PARTIES IN THEIR REBUTTAL FILINGS?

A. Yes. First, I want to acknowledge that some progress has been made in resolving a number of the issues in these cases and I want to express my appreciation to those parties who have cooperated in making that happen. That said, there are still some major issues that have not been resolved. Having been involved in a number of ratemaking and other regulatory proceedings over the years, I fully understand that there will always be differences of opinion on the appropriate methodology or approach for addressing a particular cost of service item. That is simply a normal part of the regulatory process and I am not suggesting that there is anything untoward or exceptional about the fact that such differences exist. However, given the operational and financial benefits that we have been able to bring to Missouri utilities, I am disappointed some parties have taken positions that either do not encourage further efforts in that direction, or that affirmatively penalize the Company for its good works. Regulation should encourage utilities to undertake actions to lower costs and improve service to its customers. The positions I will discuss below have particularly important policy implications that, if adopted by the Commission, would be counterproductive for the Company, its customers and the regulated environment in Missouri.

III. THE COMPANY SHOULD BE ENCOURAGED TO UNDERTAKE ACTIVITIES THAT BENEFIT CUSTOMERS

Q. WHAT BENEFICIAL ACTS HAS THE COMPANY TAKEN?

A. In my direct testimony, I explained how our growth and integration activities over the past several years, including Laclede's acquisition of MGE in 2013 and Spire's acquisitions of Alagasco and EnergySouth in 2014 and 2016, respectively, have benefited utility customers in Missouri by enabling us to "bend down" the historic cost curve experienced by both MGE and LAC, improve safety and reliability, and advance customer service. The evidence presented by the

Company in these rate cases has clearly demonstrated that these benefits are both real and substantial, resulting in a cost of service for both operating units that is millions of dollars lower than it otherwise would have been.

Q. WHAT POSITIONS HAVE OTHER PARTIES TAKEN THAT FAIL TO ENCOURAGE THE COMPANY'S SUCCESSFUL ACTIVITIES?

Rather than give the Company some modest recognition for its role in creating financial and operational customer benefits, the Staff and OPC have proposed to retain those benefits without any recognition of the costs incurred to create them.

Q. IN WHAT WAY HAVE STAFF AND OPC PROPOSED TO RETAIN THE BENEFITS OF THE COMPANY'S GROWTH AND INTEGRATION EFFORTS?

A. It is my understanding that Staff's proposed cost of service has been reduced by the tens of millions of dollars in synergy savings resulting from the Company's acquisition and integration of Missouri Gas Energy in 2013. Staff has also recommended a substantial reduction in the costs that would have otherwise been borne by Missouri utility customers for corporate support services, but are now being shared with Alabama and Mississippi customers owing to Spire's acquisitions of Alagasco and EnergySouth.

Q. HAS THE STAFF, OPC OR OTHER PARTIES RECOMMENDED THAT ANY OF THE COSTS INCURRED TO ACHIEVE THESE SUBSTANTIAL SAVINGS BE INCLUDED IN THE COST OF SERVICE FOR MGE OR LAC?

A. Although the matter has not yet been resolved, I remain hopeful that the amounts agreed to in the MGE acquisition case, being 50% of the relatively modest transition costs incurred to integrate LAC and MGE, will ultimately be reflected in rates. However, Staff and OPC have opposed the Company's proposal to retain even a modest share of the savings created, or the costs incurred, to complete the Alagasco and EnergySouth acquisitions, although Staff witness Oligschlaeger did acknowledge that the utility should retain acquisition savings for some period of time. Despite the additional millions of dollars of savings brought by these acquisitions, none of the parties have agreed to support recovery of the cost to achieve those benefits.

Q. HOW SHOULD THE COMMISSION CONSIDER THE COSTS INCURRED RELATED TO THESE ACQUISITIONS?

A. It would be a positive step by the Commission to encourage the exceptional efforts undertaken by the Company to reduce costs by acquiring and integrating other utilities. It is myopic to believe that conferring all of the benefits of these transactions on customers while recognizing none of the costs that were necessary to create them will lead to future benefits. I would strongly urge the Commission to take a more balanced approach in apportioning these benefits and costs by adopting one of the alternatives that Company witness Lobser discusses in his testimony.

Q. WHAT IS THE BASIS FOR YOUR STATEMENT THAT SOME PARTIES HAVE TAKEN POSITIONS THAT NOT ONLY FAIL TO ENCOURAGE

BENEFICIAL ACTIONS, BUT ATTEMPT TO AFFIRMATIVELY PENALIZE THE COMPANY FOR THESE ACTIONS?

A. Certain parties' positions have attempted to effectively 'double dip,' by taking the benefits of the company's efforts to lower costs and improve service, while at the same time proposing adjustments or methodologies that affirmatively penalize the Company for the very acquisition and integration activities that made these benefits possible. The most egregious example comes from Staff witness Murray and OPC/MIEC witness Gorman, both of whom have attempted to leverage the financing of the acquisition transactions to argue for a lower cost of capital. Other Company witnesses are addressing this issue in detail. In effect, this uses Spire's success in reducing costs through acquisition to reduce Spire Missouri's return. The Commission should not follow such a counterproductive path.

Q. PLEASE DISCUSS WHY YOU BELIEVE THE CAPITAL STRUCTURE ARGUMENTS MADE BY OTHER PARTIES ARE COUNTER-PRODUCTIVE?

A. As explained by other Company witnesses, Staff, OPC and MIEC are selectively and inappropriately using financial elements relating to the acquisitions (i.e. debt offerings by Spire and goodwill) to artificially reduce the equity component of Spire Missouri's actual capital structure. While they employ different theories in an effort to support this hypothetical reduction to the Company's historical equity levels, the end result of both is to remove millions of additional dollars from a cost of service that was already significantly lower because of the synergies and other savings achieved through these acquisitions. Moreover, because of the way these adjustments are structured, they could conceivably continue to penalize the Company for years into the future even as the savings and efficiencies created for customers from these transactions continued to accumulate.

Q. ARE THERE OTHER EXAMPLES?

A. Yes. Another notable adjustment by OPC is the proposed elimination of more than $32 million in information management system upgrades that gave MGE the benefit of LAC's new information management system for a fraction of what it would have cost MGE to install such a system on its own. Adding MGE to LAC's information management system not only provided MGE a badly needed upgrade at a reduced cost, but also unleashed operational efficiencies that improved the quality of our service. There is also the proposal by Staff and OPC to seize all or part of the gain on the sale of the Company's Forest Park facility, even though the sale was part of a facility restructuring that resulted in a significant upgrade to the quality and functionality of the Company's service facilities at a favorable cost to customers.

Q. DO OTHER COMPANY WITNESSES ADDRESS THE SPECIFIC SHORTCOMINGS OF THESE PROPOSED ADJUSTMENTS?

A. Yes. The flaws in these adjustments are discussed at length in the rebuttal and surrebuttal testimony of other Company witnesses. As the Company's main policy witness, the purpose of my surrebuttal testimony is to simply make sure the Commission understands that these positions reflect poorly on the regulatory process in Missouri. In effect, it would discourage regulated utilities in Missouri from engaging in the kind of beneficial acquisitions that Laclede and its corporate parent have completed over the past several years, and that have resulted in St. Louis becoming the nerve center of a much larger operation. Rather than withhold benefits and even exact penalties, as some parties have proposed in this case, the Commission should fashion policies that encourage the utilities it regulates to produce positive outcomes for their customers. This kind of forward thinking cannot only directly benefit Missourians, but it could also have indirect benefits to the Company by encouraging the RRA to raise Missouri's regulatory ranking above Below Average/1.

IV. THE COMMISSION SHOULD APPROVE MARKET BASED COMPENSATION

Q. DO YOU AGREE WITH USW LOCAL 11-6'S REBUTTAL TESTIMONY REGARDING THE RECOGNITION OF INCENTIVE COMPENSATION IN RATES?

A. I agree with USW Local 11-6 witness Mark Boyle that the Company's rates should include incentive compensation for our Union employees. I want to emphasize that the same consideration also applies to LAC and MGE management employees, as covered in the rebuttal testimony of Company witness Mark Mispagel. Offering incentives as part of compensation is a market reality. It is common and prevalent in the business, including utility, marketplace. Quite simply, if Spire Missouri did not offer this component in its compensation, it could not attract the talent necessary to run an efficient organization for our customers. With incentives, service improves, costs are reduced and other operational benefits are achieved. Without incentives, the Company would have to increase its base pay to a nonincentive market rate. Ironically, the Company could probably recover this cost without dispute, but would lose the motivational mechanism necessary to drive improved performance.

Q. HOW DOES THIS COMPENSATION MODEL BENEFIT CUSTOMERS?

A. The Company aligns its incentive programs to improve service, meet performance metrics, manage costs and grow the business. All those factors benefit customers. It is simply not true that if the company or shareholders win, customers have to lose, and vice versa. Utility profit is nothing more than revenues minus expenses. If the utility adds revenue by adding customers there are more customers to share the costs of the system. Managing expenses is how we "bend down" the cost curve in our business. In both cases, we are able to stay out of rate cases longer, and customers reap the benefit of rates that are lower than they otherwise would be. That is why after more than four years, our requested increase is not more than it is. Spire has been diligent in managing its costs and growing the base over which it recovers those costs. Those efforts have benefited the company, customers and our employees – a true example of a situation where all parties win. Our compensation philosophy is a major component in enabling those benefits. It is unsustainable to give customers all of the benefits that Spire has created while denying to the Company an important portion of the costs incurred to achieve those benefits.

Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS FOR THE COMMISSION.

A. Spire has delivered significant improvements to our customers in terms of investment, costs and service. The tools and structures I mentioned can encourage those improvements and are vital to continuing them. I recommend the Commission consider these factors as being consistent with good regulatory policy and reject attempts by parties in this case to unduly penalize or hamper Spire's efforts to serve our customers.

Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A. Yes.

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
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

AFFIDAVIT

STATE OF MISSOURI	)	
	)	SS.
CITY OF ST. LOUIS	)	

Steven L. Lindsey, of lawful age, being first duly sworn, deposes and states:

1. My name is Steven L. Lindsey. I am Executive Vice President and Chief Operating Officer for Distribution Operations for Spire, Inc. and President of Laclede Gas Company. My business address is 700 Market St., St Louis, Missouri, 63101.

2. Attached hereto and made a part hereof for all purposes is my surrebuttal testimony on behalf of Laclede Gas Company and MGE.

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

Steven L. Lindsey

Subscribed and sworn to before me this 20 day of November 2017.

Tara A. Dortch
Notary Public

TARA A. DORTCH
My Commission Expires 3/9/2019
NOTARY PUBLIC NOTARY SEAL
15633816
St. Louis County
STATE OF MISSOURI