

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

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

In The Matter of the Application of Laclede )  
Gas Company to Change its Infrastructure ) **Case No. GO-2016-0332**  
System Replacement Surcharge in its )  
Missouri Gas Energy Service Territory )

**RESPONSE TO RESPONSES TO  
ORDER DIRECTING FILING**

**COMES NOW** Laclede Gas Company (“Laclede” or “Company”), on behalf of itself and its Missouri operating unit, Missouri Gas Energy (“MGE”), and submits this Response to the responses filed by Staff and OPC to the Commission’s February 24, 2017 Order Directing Filing. In support thereof, Laclede states as follows.

1. On February 22, 2017, the Commission issued its Order Directing Filing of Reconciliation and Responses (hereinafter the “Order”) in which it directed its Staff to:

“ . . . file a reconciliation that complies with Subsection 386.420.4, RSMo. The reconciliation shall be detailed and contain the dollar value and rate impact of each contested issue decided by the Commission. It shall also contain the class billing determinants used by the Commission to calculate the rates and charges approved by the Commission.”

2. On February 23, 2017, the Staff filed a response to the Order in which it stated that it could not provide a quantification of the value of the issue raised by OPC relating to the eligibility of replacement costs on cast iron and unprotected steel safety replacement projects where some plastic facilities were also incidentally replaced. Staff indicated that that there was nothing on the evidentiary record to support such a quantification because “OPC never quantified the adjustment it sought and, in a DR

response, admitted that it was unable to do so.” Staff went on to note that performing such a quantification at this stage of the proceeding would require a significant amount of work and would involve adopting various assumptions which may involve disputed methodology.

3. On February 27, Laclede concurred with Staff’s February 23 pleading that there is insufficient evidence in the record to quantify the value of the incidental plastic pipe issue raised by OPC. Accordingly, while Laclede was able to reconcile the dollar value and rate impact of the hydrostatic testing issue that was contested and decided by the Commission, Laclede could not, and did not attempt to, provide a dollar value or rate impact for the incidental plastic pipe issue.

4. Staff and OPC also filed responses to the Order on February 27.

5. In its second effort to address the reconciliation issue, the Staff attempted to provide the quantification that it indicated just a few days ago would be impossible to develop without extensive work, and without engendering disputes regarding the assumptions used to arrive at the quantification. Laclede appreciates Staff’s apparent belief that it needed to provide something specific in response to the Commission’s second order on this issue, and its attempt to “cut the Gordian knot” to do so. Its recommendation, however, that the value of the incidental plastic issue might be 10% and 25% of the ISRS amounts for MGE and Laclede respectively is wholly unsupported by any evidence in the record. Moreover, the percentages are unaccompanied by any explanation as to the method used to derive the percentages or why such a method is appropriate. Given this lack of information, there is simply no basis upon which the Commission could make the findings necessary to approve these percentages as a reasonable quantification of the value of this issue. Moreover, there is no way that

Laclede can even begin to exercise its due process rights to challenge and rebut the propriety of the unstated assumptions underlying these quantifications. Suffice it to say that Laclede disagrees that these arbitrary percentages represent a reasonable or appropriate quantification of the value of the issue.

6. For its part, OPC attempts to explain the problem quantifying the value of its own issue by blaming Laclede for presenting its ISRS costs in a way that prevents reconciliation. (OPC Suggestions, par. 3) Yet that same presentation easily allowed the parties to calculate the value of the hydrostatic testing issue. In contrast, the plastics issue is entirely OPC's invention and it was OPC's duty to present evidence from which a methodology could be used to calculate a dollar value impact. OPC wholly failed to do so, and it is now impossible to derive such an impact from the record.

7. The purpose of quantifying the impact of an issue is to be able to provide a remedy in the event the Commission's decision on that issue is reversed. The Commission's decision did not address the pros and cons of OPC's methodology on the plastics issue because OPC never settled on a methodology. In direct testimony, where OPC is required to provide its case-in-chief in order to give the other parties a fair opportunity to reply, OPC witness Hyneman presented *no* method to assess the amount of ISRS costs, if any, to assign to the plastics issue. Rather, Mr. Hyneman only asserted that "[t]here are very simple methods that could be used to separate the eligible ISRS costs from the ineligible ISRS costs." (OPC Exh. 1, p. 10, lines 5-6) At the very end of the evidentiary hearing, Chairman Hall tried to identify OPC's methodology for disallowing ISRS costs due to the incidental plastic. As evidenced in Exhibit 1 attached hereto, OPC witness Hyneman maintained that there are "many ways" to determine the amount of

ISRS eligibility. Finally, Mr. Hyneman opined that “there are some costs that can't be directly allocated in an exact manner. This could be one of them.”

8. In the end, there is no way to quantify the value of this issue based on the evidence in the record. In its Suggestions, OPC insists that because some portions of plastic main were retired, “costs were incurred” to do so. (OPC Suggestions, par. 5) Laclede disagrees. It does not have a plastic replacement program in either its Laclede or MGE service territories, and it incurred no cost to replace plastic. Rather, the task Laclede faced was how to remove *cast iron* and *unprotected steel* mains in the best operational and cost-effective manner. As Laclede clearly demonstrated, replacing only the specific portions of cast iron or unprotected steel main would **increase** the cost of the replacement program. The method Laclede has chosen to accomplish this task is instead eliminating cast iron and unprotected steel mains in a faster, cheaper and more efficient manner, while at the same time providing customers an ISRS-reducing credit for the plastic pipe that is also incidentally replaced. This type of win-win approach by a utility should be rewarded, not penalized. Indeed, it takes a particularly shortsighted view by an anti-ISRS partisan to advocate a position that the Commission found to be a “disincentive to...replace deteriorated pipelines containing portions of plastic” and “contrary to the legislative purpose of the ISRS statutes.” (Report and Order, p. 21) Laclede and MGE customers deserve better from their consumer advocate.

9. In its Suggestions, OPC offered two proposals, neither of which are supported by the record or common sense. The first proposal is a convoluted and confusing stream of consciousness whereby the Commission first identifies total replacement costs and billing units, and then orders Laclede to run queries to identify work orders where some undefined amount of plastic was abandoned. It is not clear what

this grand scheme would accomplish. Moreover, OPC's suggestion constitutes nothing less than a request to conduct additional discovery long after the period for doing so has expired and the evidentiary hearing concluded. It should be rejected.

10. OPC's second method is even more absurd. It asks the Commission to simply eliminate both of the ISRS petitions under the theory that the ISRS statute does not permit the Commission to reject only a portion of a petition. Therefore, according to OPC, if a court of appeals finds any error in an ISRS petition, it should remand the petition to be eliminated in its entirety. OPC takes this position despite having challenged parts of ISRS petitions for many years. OPC gives no explanation as to its sudden epiphany that ISRS petitions are all or nothing affairs. Moreover, as Laclede pointed out in its own Response filed yesterday, OPC never included such a proposal in its case in chief, thereby depriving Laclede of any opportunity to challenge it in rebuttal testimony or cross examination the propriety of such a proposal. Pursuant to the Commission's evidentiary rules, this failure alone warrants rejection of such a suggestion.

11. In summary, the inability of the Commission and the parties to provide a quantification of the value of the incidental plastic pipe issue is solely attributable to OPC's failure to follow the Commission's evidentiary rules and provide such a quantification, or at least a method for arriving at such a quantification, in its case-in-chief. It is a failure that cannot be cured at this stage of the proceedings without inventing facts that do not exist in the evidentiary record and without running roughshod over the due process rights of the other parties.

12. For all of these reasons, the Commission should reject Staff and OPC's proposals and adopt the reconciliation attached to Laclede's February 27 Response.

**WHEREFORE**, Laclede Gas Company, on behalf of itself and its operating unit, MGE, respectfully requests that the Commission adopt Laclede's reconciliation.

Respectfully submitted,

**/s/ Rick Zucker**

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**CERTIFICATE OF SERVICE**

The undersigned certifies that a true and correct copy of the foregoing pleading was served on the General Counsel of the Staff of the Missouri Public Service Commission, and the Office of the Public Counsel, on this 28th day of February, 2017 by hand-delivery, fax, electronic mail or by regular mail, postage prepaid.

**/s/ Marcia Spangler**

CHAIRMAN HALL:

Let's say that there's currently  
3 100 feet of pipe in the ground, and 90 feet of that  
4 is cast iron and 10 feet of that is plastic. With  
5 me so far?

6 MR. Hyneman: Yes.

7 Q. And the company replaces that entire  
8 100 feet with 80 feet of plastic. Now, my  
9 understanding of OPC's position is that ten feet of  
10 plastic replaced is not ISRS eligible?

11 A. Yes. Any segment --

12 Q. So how would OPC recommend that we  
13 determine the amount that is ISRS eligible in that  
14 scenario?

15 A. Again, there are many ways.

16 Q. Give me one.

17 A. One is just simply what is the cost  
18 of the main that's replaced, the plastic main  
19 replaced, and they normally assign dollar amounts  
20 to that, what is that cost to the total work order  
21 cost.

22 Q. So 80 -- so we're putting in 80 feet  
23 of plastic.

24 A. Okay.

25 Q. What percent of that would you say is

Page 231

1 recoverable?

2 A. If they put 80 feet of plastic that  
3 replaces 10 feet of plastic?

4 Q. Well, 80 feet to replace 100 feet,  
5 but of the 100 feet, 10 feet's plastic.

6 Q. Then I would say that 90 percent  
7 would be ISRS eligible; 10 percent related to the  
8 10 percent of the pipe that's removed, the plastic  
9 that's removed would be.

10 Q. So you would say that the company  
11 should retire 100 feet and only get credit for 72,  
12 or is that --

13 A. No. I'm saying the portion of the

14 plastic that's installed that goes to replace the  
15 plastic that's in the ground --  
16 **Q. But that's the problem is that -- I**  
17 **mean, because you're replacing the entire line.**  
18 **It's difficult for me to figure out what plastic is**  
19 **replacing what plastic because the entire line is**  
20 **being replaced and it's being replaced with less**  
21 **total footage.**  
22 A. And given -- I don't know how common  
23 that scenario is, but when you come to cost  
24 allocations, you can have levels of precision. I  
25 think we illustrated earlier, there are some costs

Page 232

1 that can't be directly allocated in an exact  
2 manner. This could be one of them.  
3 In those situations, you come up with  
4 reasonable allocation factors; for example, the  
5 Massachusetts formula. When you need to allocate a  
6 specific cost that you don't have a really close  
7 allocation method, you do it under factors that are  
8 general in nature. Here you could put amount of  
9 time worked on a work order, total cost of  
10 materials. There are -- there is some way that you  
11 could do it to ensure that the piece -- that any  
12 costs related to new plastic does not go in the  
13 ISRS.  
14 And it's important because it's --  
15 that small piece, they're recovering that  
16 currently. Especially Laclede with its current  
17 earnings, it's recovering all of its costs. So the  
18 big issue here is it's going to recover the costs,  
19 just not in a separate surcharge.