

**Exhibit No:**  
**Issue:** Update/Transition  
Costs/Treatment of Acquisition  
Savings/Regulatory Enhancements  
**Witness:** C. Eric Lobser  
**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**

**C. ERIC LOBSER**

**NOVEMBER 2017**

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1 **SURREBUTTAL TESTIMONY OF C. ERIC LOBSER**

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

A. My name is C. Eric Lobser and my business address is 700 Market St., St. Louis, Missouri, 63101.

3 Q. **ARE YOU THE SAME C. ERIC LOBSER WHO HAS PREVIOUSLY FILED**  
4 **DIRECT AND REBUTTAL TESTIMONY IN THESE PROCEEDINGS?**

5 A. Yes. I submitted direct and rebuttal testimony on behalf of both Laclede Gas Company  
6 (“LAC”) in Case No. GR-2017-0215 and Missouri Gas Energy (“MGE”) in Case No. GR-  
7 2017-0216.

8 **I. PURPOSE OF SURREBUTTAL TESTIMONY**

9 Q. **WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

10 A. The purpose of my surrebuttal testimony is twofold. First, I want to update the Commission  
11 on developments that have occurred in these cases since our rebuttal testimony was filed.  
12 Second, I will respond to the rebuttal testimony submitted by other parties on a number of  
13 discrete issues relating to transition costs, savings achieved as a result of Spire’s acquisition  
14 of Alagasco and EnergySouth; our proposals for enhancing the regulatory process in  
15 Missouri and several cost of service adjustments.

16 **II. UPDATE**

17 Q. **WHAT DEVELOPMENTS HAVE OCCURRED IN THE PAST SEVERAL**  
18 **WEEKS?**

19 A. There are three items that I will be addressing. The first relates to various issues that have  
20 been resolved by the parties and reflected in Stipulations and Agreements that have or will  
21 be submitted to the Commission for its consideration. The second concerns additional  
22 changes we are making to our proposed tariffs based on the constructive input we have

1 received from various parties or to make certain corrections or clarifications. The third  
2 relates to our proposal to form an informal working group that will focus on ensuring all  
3 of the tariffs resulting from this proceeding not only accurately reflect the agreements of  
4 the parties and decisions of the Commission, but are also reorganized and formatted in a  
5 way that will make them easier to use in the future.

6 **A. SUBSEQUENT AGREEMENTS**

7 **Q. IN YOUR REBUTTAL TESTIMONY, YOU INDICATED THAT A STIPULATION**  
8 **AND AGREEMENT HAD BEEN FILED ON THE SCHOOL TRANSPORTATION**  
9 **ISSUE AND THAT AN AGREEMENT IN PRINCIPLE HAD BEEN REACHED**  
10 **REGARDING DEPRECIATION RATES. DO YOU HAVE ANY ADDITIONAL**  
11 **UPDATES TO PROVIDE ON THIS SUBJECT?**

12 A. Since my rebuttal testimony was filed, the Commission approved the Stipulation and  
13 Agreement on the school transportation issue without objection from any party. We  
14 appreciate the Commission's action in that regard. We are still in the process of finalizing  
15 the agreement in principle we reached to maintain existing depreciation rates. I am hopeful  
16 that a Stipulation and Agreement addressing that issue and others will be filed before the  
17 start of the evidentiary hearings in this case.

18 **B. TARIFF CLARIFICATIONS/CHANGES**

19 **Q. HAS THE COMPANY MADE ANY ADDITIONAL CHANGES TO ITS**  
20 **PROPOSED TARIFFS IN THIS CASE BASED ON FEEDBACK RECEIVED**  
21 **FROM THE OTHER PARTIES?**

22 A. Yes. Similar to the changes we reflected as part of the rebuttal testimony filed by Company  
23 witness Weitzel in these cases, we have made additional modifications to our proposed

1 tariffs in response to concerns or suggestions made by parties in their rebuttal testimony or  
2 in subsequent discussions. These additional tariff changes are set forth in a schedule to  
3 Company witness Weitzel's surrebuttal testimony.

4 **Q. CAN YOU BRIEFLY DESCRIBE WHAT THESE TARIFF MODIFICATIONS**  
5 **RELATE TO?**

6 A. As discussed more fully by Mr. Weitzel, they primarily concern modifications made to our  
7 tariff proposals relating to: (a) the financing of distribution facility extensions, (b)  
8 requested changes in the role played by the Energy Efficiency Collaborative ("EEC") in  
9 developing energy efficiency programs, as well as recommended changes in the make-up  
10 of the EEC; (c) modifications to the funding and focus of certain energy efficiency  
11 programs; (d) changes to the tariffs relating to the Company's energy affordability  
12 program; and (e) the addition of certain safeguards to our proposed economic development  
13 and special contract tariffs.

14 **Q. IS IT YOUR TESTIMONY THAT THE OTHER PARTIES HAVE AGREED TO**  
15 **THESE TARIFF MODIFICATIONS?**

16 A. No. While we have made these changes in response to the input we have received from  
17 the parties and discussed most of them with the parties, I am not suggesting that we have  
18 received a formal sign-off on them. Consistent with the approach we took in rebuttal  
19 testimony, however, the purpose of presenting them as part of our surrebuttal testimony is  
20 to ensure that parties have as much of an opportunity as possible to review specific  
21 language and suggest any potential changes they believe to be appropriate.

1                                   **C.     TARIFF INFORMAL WORKING GROUP**

2   **Q.    IS THE COMPANY PROPOSING ANY OTHER STEPS TO ENSURE AN**  
3           **ORDERLY AND EFFECTIVE REVIEW OF ITS PROPOSED TARIFF**  
4           **LANGUAGE IN THESE CASES?**

5   A.    Yes. In addition to the steps outlined above, we have proposed an informal working group  
6           during the pendency of this case with the other interested parties to review and revise the  
7           Company’s tariffs to accurately reflect any agreements or Commission decisions regarding  
8           such tariffs. A working group will also help with reformatting and reorganizing our tariffs  
9           to reflect the adoption of a single set of standard rules for both LAC and MGE, incorporate  
10          the Company’s new name and otherwise reorder and perhaps renumber the tariffs as  
11          appropriate.

12 **Q.    WHAT IS THE ULTIMATE GOAL OF THIS EFFORT?**

13 A.    It is our hope that the end result of this effort will be a less cluttered and better organized  
14          set of tariffs the Company, our customers, the Commission and participants in the  
15          regulatory process will find easier to review and use. We certainly appreciate the  
16          cooperation of the other parties in this endeavor and look forward to working with them as  
17          this proceeding continues to unfold.

18                                   **III.   GENERAL OBSERVATIONS**

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

22 A.    Yes. First, while there have been constructive discussions between the parties in an effort  
23          to resolve their differences in these cases, there are still a significant number of important

1 issues that remain unresolved. While other Company witnesses will address these various  
2 issues in their surrebuttal testimony, there are two areas of concern that I believe have  
3 particularly important policy implications and that, if adopted by the Commission, would  
4 be counterproductive for both the Company and its customers. I will accordingly focus on  
5 them in my own testimony.

6 **Q. WHAT IS YOUR FIRST AREA OF CONCERN?**

7 A. My first area of concern is based upon rebuttal testimony of various parties that suggests  
8 an unwillingness to even consider, let alone implement, new approaches for potentially  
9 enhancing the ratemaking process in Missouri, approaches enabled by the legislature.  
10 These proposed enhancements included adoption of an RSM to account for changes in  
11 customer usage between rate cases and a tracking mechanism for environmental costs.

12 **Q. HOW HAVE THE PARTIES RESPONDED TO THESE PROPOSED**  
13 **ENHANCEMENTS?**

14 A. A number of parties, including the National Housing Trust (“NHT”) and the Division of  
15 Energy (“DE”) have expressed an openness to adopting at least the RSM. Other parties,  
16 however, have evidenced a complete unwillingness to consider any changes to the process.

17 **Q. WHAT DO YOU BELIEVE THE COMMISSION SHOULD DO REGARDING**  
18 **THESE PROPOSED ENHANCEMENTS TO THE REGULATORY PROCESS?**

19 A. I believe it is critically important for the Commission to be open to making sensible  
20 improvements to the regulatory process when it has the opportunity to do so, especially in  
21 those instances where the legislature has seen fit to give it the authority and tools to make  
22 such improvements. Virtually every product, service, or process, whether it originates in  
23 the private sector or the public sector, can be improved upon in some way. That’s true of

1 both the way utilities provide services and the way they are regulated by the Commission.  
2 The key is an openness and commitment to continually pursuing such improvements. I  
3 believe approval of these two process enhancements proposed by the Company in these  
4 cases provides the Commission with an ideal opportunity to demonstrate a commitment to  
5 this shared goal.

6 **Q. WERE THESE THE ONLY REGULATORY ENHANCEMENTS THE COMPANY**  
7 **PROPOSED?**

8 A. No, and to be fair, we have seen some openness for other proposed enhancements such as  
9 the Economic Development Rider, Special Contracts and System Extension. While we  
10 believe all our proposed mechanisms have merit, we have carefully listened to what the  
11 other parties have had to say on these issues and pared back the number of process  
12 enhancements we are asking the Commission to approve in these cases. We have done so  
13 in recognition of the fact that improving the regulatory process in the right way requires a  
14 careful consideration of all points of view, especially of the views of those parties who are  
15 open to considering process improvements. We also understand it is incumbent on us to  
16 make principled accommodations to the concerns raised regarding the number, scope and  
17 pace at which such process changes are made. Accordingly, we have removed our request  
18 for trackers related to cyber-security and integrity management costs, major capital projects  
19 and the cost management tracker, but are requesting the Commission hold a separate  
20 proceeding to consider performance metrics related to the Company's service levels.

21 **Q. WHAT IS THE SECOND CONCERN?**

22 A. I would simply like to comment on some of the more extreme positions taken by OPC in  
23 this proceeding. While I recognize and respect that OPC needs to vigorously represent the



1 interests of consumers in utility rate proceedings, it has taken a number of positions in this  
2 proceeding I believe fall well outside the spectrum of defensible positions. Among other  
3 things, it has advocated for: (a) an abrupt shutdown of the Company's energy efficiency,  
4 energy assistance and appliance safety programs<sup>1</sup>; (b) a dramatic change to the framework  
5 that has been used for years to permit recovery of the Company's pension expenses; (c) an  
6 unorthodox and highly punitive adjustment to the Company's capital structure that would  
7 inappropriately reduce recovery of its cost of capital; (d) the elimination of over 30 million  
8 dollars in prudently incurred information system upgrades; and (e) opposition to rate design  
9 enhancements that would lower customer charges, protect customers and the Company  
10 alike from the vagaries of extreme weather, maintain a cost of capital in line with peer  
11 utilities, and create a more understandable and simplified rate structure. As this proceeding  
12 progresses, I am hopeful that some of these more extreme positions will be moderated, but  
13 if not, I would urge the Commission to reject them.

#### 14 **IV. RESPONSE TO DISCRETE ISSUES**

15 **Q. WHAT SPECIFIC ISSUES WILL YOU BE ADDRESSING IN YOUR**  
16 **SURREBUTTAL TESTIMONY?**

17 A. First, I will respond to the rebuttal testimony relating to the 50% of transition costs the  
18 Company incurred to integrate MGE and LAC, which helped create the millions of dollars  
19 of synergies that have reduced the cost of service for the two operating units. Although I  
20 believe significant progress has been made with the other parties in recognizing an  
21 appropriate recovery of such costs in accordance with the terms of the Stipulation and

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<sup>1</sup> Mantle Rebuttal p. 5 "At this time, OPC is recommending no funding for low-income affordability programs, the Red-Tag program, a CHP program, energy efficiency programs, economic development riders, system expansion costs, and any other program or project that does not show monetary benefits to the customers that pay for the program greater than the costs of the program."

1 Agreement in the MGE acquisition proceeding, there are still a number of issues that  
2 remain. I will address each in turn. Second, I will address the rebuttal testimony that has  
3 been submitted regarding how the significant cost of service savings achieved by the  
4 Company as a result of Spire's acquisition of Alagasco and EnergySouth in 2014 and 2016,  
5 respectively, should be treated in this proceeding. Third, I will respond in greater detail  
6 to the rebuttal testimony submitted by certain parties regarding the Company's proposed  
7 enhancements to the regulatory process, including our proposed revenue stabilization  
8 mechanism, trackers for environmental compliance, cyber-security, integrity management,  
9 and major project costs, as well as performance metrics related to service levels and cost  
10 management.

11 **A. MGE TRANSITION COSTS**

12 **Q. HAS PROGRESS BEEN MADE IN RESOLVING DIFFERENCES OVER THE**  
13 **APPROPRIATE TREATMENT OF THE TRANSITION COSTS INCURRED TO**  
14 **INTEGRATE MGE AND LAC?**

15 A. I believe it has. Although I cannot be certain of all of the parties' positions on these issues,  
16 the latest information we have received from Staff indicates that it has included a majority  
17 of these transition costs in its proposed cost of service – a result that is certainly justified  
18 by the tens of millions of dollars in synergies they helped to achieve. It is my understanding  
19 the costs included by Staff also include certain severance costs relating to the closure of  
20 the MGE dispatching center that we should have classified as transition costs from the  
21 outset. While we appreciate Staff's recognition of these costs, I believe Staff has still  
22 inappropriately excluded certain transition costs and has unreasonably failed to provide  
23 rate base treatment for the costs it has included.

1 **Q. TURNING TO THE SECOND ISSUE FIRST, WHAT IS THE BASIS FOR STAFF'S**  
2 **POSITION THAT THESE TRANSITION COSTS SHOULD NOT BE INCLUDED**  
3 **IN RATE BASE?**

4 A. At pages 18 and 19 of his rebuttal testimony, Staff witness Keith Majors asserts that even  
5 if the Commission approved all the Company's transition costs to be amortized in rates, it  
6 should nevertheless not permit such costs to be included in rate base while they are being  
7 amortized. Mr. Majors notes that other utilities have not requested or received rate base  
8 treatment for transition costs, but acknowledges that the Commission has not decided the  
9 specific issue of whether such previously incurred costs by the Company, which have been  
10 shown to have related benefits in excess of those costs, should have the shareholder also  
11 bear the cost of capital during the amortization period in addition to only recovering half  
12 the expenditures. In support of his position, Mr. Majors also cites a Commission order  
13 relating to a prior deferral of safety costs for the proposition that the Commission has  
14 recognized deferred costs should generally not be included in rate base, even though the  
15 citation clearly references just AAOs.

16 **Q. IN YOUR VIEW ARE THESE VALID REASONS FOR NOT PROVIDING RATE**  
17 **BASE TREATMENT FOR THESE ITEMS?**

18 A. No. If Mr. Majors wants to use the treatment afforded other utilities for their transition  
19 costs as a basis for determining this issue, then I believe it affirmatively supports giving  
20 rate base treatment to the Company's transition costs. What Mr. Majors does not  
21 acknowledge in his testimony, is that KCPL, for example, was permitted to recover 100%  
22 of its transition costs, while Laclede has been limited to 50%. Providing rate base  
23 treatment for Laclede's transition costs would reduce this unexplained disparity in how

1 much of its transition costs each company was permitted to recover. Accordingly, if  
2 equivalence between utilities on this issue should be maintained, as Mr. Majors appears to  
3 suggest it should be, then rate base treatment is appropriate. Nor is Mr. Majors' point about  
4 the lack of rate base treatment of other deferred costs persuasive. Relevant to this topic, we  
5 have a number of examples of such treatment in this case, including the rate base treatment  
6 that Staff has previously recommended be afforded for deferred pension and energy  
7 efficiency costs.

8 **Q. WHAT WOULD BE THE EFFECT ON THE COMPANY OF NOT PROVIDING**  
9 **RATE BASE TREATMENT?**

10 A. In effect, Staff is suggesting that not only should shareholders permanently absorb fifty  
11 percent of the transition costs that were incurred<sup>2</sup> in relation to an acquisition that generated  
12 millions of dollars in synergies now being used to reduce the cost of service paid by  
13 customers, but that no carrying costs should be provided for those expenditures. In my  
14 opinion, there is nothing fair or equitable about such an approach, and I believe the  
15 Commission should permit these costs to be included in rate base while they are being  
16 amortized.

17 **Q. DO YOU HAVE ANY ADDITIONAL COMMENTS REGARDING THE**  
18 **TRANSITION COSTS THAT STAFF HAS NOT INCLUDED IN ITS**  
19 **RECOMMENDED COST OF SERVICE?**

20 A. Yes. I continue to believe that Staff has inappropriately excluded certain transition costs,  
21 including those related to the SUG continuing services agreement ("CSA") and those  
22 related to making customers aware of our commission approved name change. I am still

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<sup>2</sup> This would be in addition to 100% of the transaction costs, which the Company had already agreed to forego.

1 at a complete loss to understand Staff's exclusion of the transition costs relating to the  
2 CSA. As I indicated in my rebuttal testimony, these costs are specifically identified as  
3 transition costs in the exhibit to the Stipulation and Agreement in the MGE acquisition  
4 proceeding as shown by Schedule CEL-S1 to my surrebuttal testimony. There is simply  
5 no basis for excluding them and Mr. Majors attempt to do so directly violates the terms of  
6 the Stipulation and Agreement that Staff signed. His exclusion of these costs should  
7 accordingly be rejected by the Commission.

8 **Q. WHAT ABOUT STAFF'S EXCLUSION OF THE COSTS INCURRED BY THE**  
9 **COMPANY TO MAKE CUSTOMERS AWARE OF THE NEW NAME?**

10 A. For the reasons addressed in my rebuttal testimony, I continue to believe that the exclusion  
11 of these corporate identity costs is inappropriate and is likely based upon Staff's belief that  
12 these costs fall under the category of Institutional Advertising, since they relate to the  
13 Company's name; however, as noted above, these were informational in nature and  
14 designed to make customers aware of the new name, which the PSC had approved just a  
15 couple of months ago. This was not about burnishing our image, but rather ensuring  
16 customers were aware of this change so they would recognize service employees that may  
17 come to their door and know who to contact in case they have a service request or even a  
18 simple question.

19 **Q. DO YOU HAVE ANY FURTHER SUGGESTIONS REGARDING THE**  
20 **TREATMENT OF TRANSITION COSTS?**

21 A. Based on our evaluation of Staff's EMS run, it appears that Staff is suggesting that  
22 transition costs be recovered over a five-year period. Since that is the treatment provided  
23 for in the MGE Acquisition Stipulation and Agreement, we certainly understand the basis

1 for this recommended time frame. That said, we believe that recovery over a four-year  
2 period would be preferable. Such an approach would hopefully permit these costs to be  
3 fully recovered by the conclusion of the Company's next rate case proceedings, so there is  
4 no remaining balance and the parties would not have to deal with them again. This  
5 treatment would be a modest change to the five-year period provided for in the MGE  
6 Acquisition Stipulation and Agreement, so we would hope the other parties to that  
7 agreement who are also in these cases would be amenable to such a change.

8 **B. ALAGASCO & ENERGYSOUTH SYNERGIES**

9 **Q. AT PAGE 15 OF HIS REBUTTAL TESTIMONY, STAFF WITNESS MARK**  
10 **OLIGSCHLAEGER DISCUSSES THE COMPANY'S PROPOSAL TO RETAIN A**  
11 **SHARE OF THE COST OF SERVICE SAVINGS ASSOCIATED WITH SPIRE'S**  
12 **ACQUISITION OF ALAGASCO AND ENERGYSOUTH. PLEASE RESPOND TO**  
13 **HIS COMMENTS.**

14 A. I found Mr. Oligschlaeger's discussion to be a thoughtful and fairly accurate summary of  
15 the Staff's and the Commission's historic approach for how the benefits and costs  
16 associated with utility acquisition or "M&A" activities should be allocated between  
17 shareholders and customers. I want to clarify, we believe such incentives should be limited  
18 to those situations where a utility's growth activities have produced real financial and/or  
19 operational benefits for utility customers. As I discussed in my rebuttal testimony, I think  
20 the evidence presented in these cases amply demonstrates that the Alagasco and  
21 EnergySouth acquisitions meet that test. Moreover, I do not believe that any party  
22 continues to seriously contend otherwise.

1 **Q. DOES MR. OLIGSCHLAEGER SUGGEST A FRAMEWORK FOR SHARING**  
2 **THE SYNERGIES RESULTING FROM SUCH ACTIVITIES IN THOSE**  
3 **INSTANCES WHERE ACTUAL SAVINGS ARE PRODUCED?**

4 A. Yes. He states that there should be no recovery of the premiums paid or transaction costs  
5 incurred to effectuate such transactions. At the same time, he also indicates that utilities  
6 should be permitted to recover transition costs (to the extent sufficient synergies have  
7 created to cover them) and “the utilities should be allowed to retain all of their achieved  
8 merger savings through the operation of regulatory lag until new general rates are  
9 established, at which point rates would incorporate all merger savings into the utility cost  
10 of service” In other words, utilities should be allowed to keep synergies between rate  
11 cases at which point they are flowed through to customers.

12 **Q. WHAT IS YOUR REACTION TO THIS SUGGESTED FRAMEWORK FOR**  
13 **ALLOCATING THE COSTS AND BENEFITS OF ACQUISITIONS BETWEEN**  
14 **CUSTOMERS AND SHAREHOLDERS?**

15 A. While I continue to believe that the alternatives outlined in my rebuttal testimony for  
16 sharing synergies have merit and should be considered by the Commission, I think Mr.  
17 Oligschlaeger has provided a fair and accurate summary of how the Staff and the  
18 Commission have addressed such matters in the past. In fact, this case is a perfect example  
19 of that framework being followed. Specifically, as a result of the Stipulation and  
20 Agreement in the MGE acquisition case, the Company is being permitted to recover certain  
21 transition costs, albeit at a lower 50% level, that were incurred to integrate Laclede and  
22 MGE and to create the synergies and other savings that substantially exceed those transition  
23 costs in value. Because the closing of the MGE acquisition was in rough proximity to the

1 timing of the 2013 and 2014 rate cases for LAC and MGE, respectively, the Company had  
2 approximately 4 years to retain the synergies it achieved as a result of integrating the two  
3 operation units. Accordingly, I believe the framework suggested by Mr. Oligschlaeger  
4 worked reasonably well for the both the Company and its customers in this instance,  
5 assuming its various components are fairly and fully implemented in these cases. To work  
6 appropriately for all acquisitions or mergers, however, the framework would need to be  
7 adjusted to fairly account for when a particular acquisition occurs.

8 **Q. PLEASE EXPLAIN WHAT YOU MEAN.**

9 A. Under the ISRS statute, as well as the statute that authorized adjustment clauses for fuel  
10 costs incurred by electric utilities, environmental compliance costs incurred by electric,  
11 water and gas utilities, and customer usage revenue variations for gas utilities, the  
12 prescribed maximum period between rate cases is effectively 4 years. Accordingly, when  
13 an acquisition occurs during this 4-year rate case cycle, as did the Alagasco and  
14 EnergySouth acquisitions, that framework is unnaturally truncated and no longer provides  
15 the same fair and effective results for sharing the synergies that are subsequently achieved.  
16 In effect, the utility is prevented from fully receiving its fair share of the cost savings it has  
17 invested significant time, effort and dollars into achieving before they are reflected in  
18 customer rates.

19 **Q. WHAT HAPPENS WHEN THIS OCCURS?**

20 A. The benefit to the Company is reduced while the benefit to the customer is increased by  
21 effectively shortening the time the utility has to retain the synergies it has created. For  
22 example, by the time this case is concluded, Laclede and Spire will have had one year less  
23 to retain the synergies achieved as a result of the Alagasco acquisition as compared to the



1 MGE acquisition and three years less to benefit from those achieved as a result of the ESI  
2 acquisition.

3 **Q. HOW WOULD YOU PROPOSE TO ADDRESS THIS FLAW IN THE SYNERGY**  
4 **SHARING FRAMEWORK SUGGESTED BY MR. OLIGSCHLAEGER?**

5 A. One of the approaches for sharing in the benefits created by such acquisitions relates to  
6 retaining a portion of the allocated costs that have been shifted away from Missouri  
7 ratepayers and spread across Spire's now larger customer base. As I outlined in my rebuttal  
8 testimony, those savings amounted to approximately \$13MM in 2016 and have been  
9 increasing in 2017. Costs allocated to Spire Alabama (Alagasco) in the fiscal year ended  
10 September 30, 2017, net of allocations back from Spire Alabama, result in net cost savings  
11 to Missouri ratepayers who would have otherwise had to bear those costs. The same result  
12 would occur for costs allocated to Spire Gulf and Spire Mississippi (EnergySouth) (no  
13 shared services are provided to Missouri by either of these small utilities). Taking the one  
14 year less of cost savings at the 2017 rate for Spire Alabama, plus three years of savings  
15 from the EnergySouth companies, results in an estimate of the total savings level that the  
16 Company would have otherwise benefited from had they not been truncated by external  
17 and unrelated filing requirements. Providing the Company the benefit of just 50% of these  
18 cost savings amortized over 4 years would result in a retention amount of approximately  
19 \$3.2 MM, which equates to less than 20% of the net costs allocated out of Missouri a  
20 fraction of the annual cost of service reductions that will be received by its Missouri  
21 customers for years to come (see Confidential Schedule CEL-S2). This approach would  
22 allow the Company to still benefit from the framework Mr. Oligschlaeger described, while

1 also providing Missouri customers benefits from the lower cost of service these synergies  
2 have created.

3 **Q. IS THE COMPANY ALSO SEEKING TO RECOVER ANY TRANSACTION OR**  
4 **TRANSITION COSTS AS PART OF THIS PROPOSAL?**

5 A. No. Even though the Commission and Staff have permitted the recovery of transition costs  
6 in this and other cases, we have tried to simplify our proposal as much as possible and just  
7 focus on a sharing of the actual synergies achieved as a result of these transactions.

8 **Q. WOULD IMPLEMENTATION OF THIS PROPOSAL REQUIRE ANY**  
9 **ADDITIONAL EVALUATION BY THE STAFF OR OTHERS REGARDING THE**  
10 **IMPACT OF THESE ACQUISITIONS ON ALAGASCO OR ENERGYSOUTH?**

11 A. No. One of the virtues of this simplified approach is that the Staff and other parties already  
12 have access to all of the information they need to implement it. Specifically, they know  
13 exactly what reductions in Missouri's portion of shared corporate support service costs  
14 have been achieved because they are embedded in their own cost of service  
15 recommendations in these cases. In other words, the amount of these costs that have been  
16 allocated to other jurisdictions is known and has been quantified. Moreover, the validity  
17 and accuracy of those quantifications do not depend in any way on obtaining further  
18 information regarding the operations of Alagasco or EnergySouth. The fact that the  
19 Company's proposal is not seeking transaction or transition costs also obviates the need  
20 for any additional information along those lines.

21 **Q. PLEASE SUMMARIZE WHY YOU BELIEVE THIS ALTERNATIVE PROPOSAL**  
22 **SHOULD BE APPROVED BY THE COMMISSION?**

1 A. In the event the Commission does not adopt one of the other alternatives I have proposed  
2 for synergy sharing, I believe it should approve this one for a number of reasons. First,  
3 for the reasons discussed above, I believe such an approach is fully consistent with the  
4 Commission's historic framework of relying on regulatory lag to allocate the synergies and  
5 other benefits of acquisitions or other M&A activities between shareholders and customers.  
6 In fact, it is a very conservative version of that framework in that it does not attempt to  
7 recover transition costs and seeks to share only 50% of the amounts the Company would  
8 be permitted to retain as a result of applying a full measure of regulatory lag. Second, it  
9 rationalizes the Commission's framework by not having the timing of a particular  
10 acquisition or merger radically impact the amount or percentage of resulting synergies that  
11 a utility is permitted to retain through regulatory lag. There is simply no reason why the  
12 amount of synergies a utility is permitted to retain should vary based solely on when the  
13 acquisition occurred compared to when totally unrelated external factors, such as the ISRS  
14 statute, may require the next rate case to be filed. Third, such an approach would send a  
15 very positive message to investors and others regarding the Commission's openness to  
16 encouraging the *right* kind of growth – namely growth that provides significant and long-  
17 term benefits to customers. It would do so by providing additional clarity and certainty  
18 on how the costs and benefits of such activity will be treated and by establishing that this  
19 Commission remains interested in seeking regulatory solutions that promote favorable  
20 outcomes for shareholders and customers alike when their interests can be aligned. Finally,  
21 it would enable Spire, and other Missouri holding companies, to compete on a more level  
22 playing field for growth opportunities that may arise in the future by not arbitrarily  
23 subjecting synergy sharing to an artificial time clock that our competitors do not have to

1 contend with. Given all of these considerations, I would strongly urge the Commission to  
2 approve this proposal.

3 **C. REGULATORY ENHANCEMENTS**

4 **Q. WHAT REGULATORY ENHANCEMENTS HAS THE COMPANY PROPOSED**  
5 **THE COMMISSION ADOPT IN THESE CASES?**

6 A. We have proposed a number of them, but after careful consideration of concerns raised  
7 regarding the number, scope and pace at which such process changes are made, we have  
8 removed our request for trackers related to cyber-security and integrity management costs,  
9 major capital projects and the cost management tracker. What remains are what we feel to  
10 be three key enhancements to the regulatory process. First and foremost, we have proposed  
11 that the Commission adopt the Company's proposed revenue stabilization mechanism  
12 ("RSM") to account for revenue variations between rate cases due to usage changes by  
13 residential and small general service customers. Secondly, we have also proposed an  
14 environmental tracking mechanism that would permit the Company to track and recover  
15 from or return to customers increases and decreases in environmental compliance costs  
16 between rate cases. Finally, we have suggested a mechanism that would make the  
17 Company more accountable for how well it performs in providing service to its customers.

18 **1. REVENUE STABILIZATION MECHANISM (RSM)**

19 **Q. HOW HAVE THE PARTIES RESPONDED TO THIS PROPOSAL IN THEIR**  
20 **REBUTTAL TESTIMONY?**

21 A. As I previously indicated, a number of parties have expressed openness to the adoption of  
22 the Company's proposed RSM. The National Housing Trust ("NHT") and the Division of  
23 Energy ("DE") in particular have expressed potential support, while the Staff has raised a

1 number of technical concerns with the mechanism that it believes should be addressed if  
2 such a mechanism were to be adopted by the Commission. Unfortunately, the Office of  
3 the Public Counsel (“OPC”) and the Missouri Industrial Energy Consumer (“MIEC”) have  
4 expressed opposition.

5 **Q. WHAT IS YOUR RESPONSE TO THESE COMMENTS?**

6 A. As discussed by Company witness Weitzel and Lyons, we believe the benefits of the RSM  
7 far outweigh the concerns raised in that it would allow LAC and MGE to develop more  
8 customer-friendly, simple rate designs that permit less reliance on a high, fixed customer  
9 charge (which was the subject of so much concern during our local public hearings), while  
10 also helping the Company to further promote the interests of its customers in the area of  
11 energy conservation and greater ability to manage their bills through lower usage. We have  
12 also provided additional analysis and some suggested modifications to our rate design  
13 based on some of the constructive concerns that have been raised while also explaining  
14 why other concerns are misplaced and do not require changes in the mechanism. These  
15 include a concern that has been raised regarding the potential impact of adding or losing  
16 customers (which is excluded from the RSM) on average customer usage, as well as  
17 whether the RSM was intended to include the revenue variations due to the impact of  
18 energy efficiency programs.

19 **Q. HOW DO YOU RESPOND TO THE OPPOSITION EXPRESSED BY MIEC AND**  
20 **OPC TO THE RSM.**

21 A. I am surprised by the opposition of MIEC since the change has no effect on their clients.  
22 The testimony of OPC witness Marke is even more disappointing because adoption of the  
23 RSM would permit the Commission to affirmatively address in a favorable and fair way

1 many of the concerns that OPC has repeatedly raised over the years regarding the impact  
2 of high-fixed charges on low-use customers, while also removing a disincentive for the  
3 Company to more aggressively support customers' efforts to conserve energy and better  
4 manage their bills. Until very recently, I believed this was a goal that Dr. Marke supported  
5 based on his longtime involvement in our Energy Efficiency Collaboratives. Rather than  
6 seize this opportunity, Dr. Marke raises a number of specious arguments in support of  
7 rejecting the RSM out of hand. Among others, these include his flatly incorrect claim on  
8 page 8 of his rebuttal testimony that the RSM would result in "shifting risk to captive  
9 ratepayers away from shareholders by ensuring recovery of the Company's profits  
10 irrespective of market conditions or inefficient utility behavior." As discussed in the  
11 testimony of Company witness Weitzel, the mechanism only protects the Company from  
12 variations in revenue due to weather and conservation. By its very terms, the RSM leaves  
13 the Company fully exposed to the impact of changes in market conditions, such as a loss  
14 of customers because of a poor economy or other reasons. The RSM also leaves the  
15 Company subject to any adverse changes in the cost of providing utility service, whether  
16 they result from market changes, inefficient or imprudent management practices or other  
17 factors. The concern for the mitigation of risk from the vagaries of weather, to which both  
18 the Company and customer are exposed, is largely misplaced since both LAC and MGE  
19 rate designs already have significant mitigation. Additionally, since most peers already  
20 have some form of decoupling, not making this change would mean the Company is more  
21 exposed to this risk than its peers. In summary, not having the RSM would likely result in  
22 a higher cost of capital, higher fixed charges, less customer-friendly rate designs, and a



1 testimony in Schedule CEL-S3, language that reflects these prior orders as well as the  
2 language of the statutory section that authorizes an environmental cost recovery  
3 mechanism for gas utilities.

4 **Q. ARE THERE OTHER FACTORS THAT SUPPORT ADOPTION OF SUCH A**  
5 **MECHANISM?**

6 A. Yes, the Company expects that its environmental liabilities over the next several years  
7 could be significant, especially in terms of the remediation costs incurred to address the  
8 former manufactured gas plants of MGE and LAC. Presently, we anticipate that  
9 environmental costs may be incurred beginning next year, with the potential for  
10 significantly greater costs after that. We would, of course, continue to pursue  
11 reimbursement for these costs from our insurance companies and other potentially  
12 responsible third parties and would use any such proceeds to offset our compliance costs.

13 **Q. WOULD A RULEMAKING PROCEEDING NEED TO BE HELD TO**  
14 **IMPLEMENT THIS MECHANISM?**

15 A. Since we are proposing a deferral rather than an adjustment mechanism it is unclear under  
16 the statute whether a rulemaking would be required. However, if the Commission makes  
17 a policy decision to implement this proposal, and the RSM for that matter, the Company  
18 would actively participate in any rulemaking the Commission thought appropriate to flesh  
19 out any additional details.

### 20 3. PERFORMANCE METRICS

21 **Q. HOW ARE YOU PROPOSING TO IMPLEMENT PERFORMANCE METRICS**  
22 **GIVEN THE CONCERNS EXPRESSED THAT THERE IS NOT ENOUGH TIME**  
23 **DURING THIS PROCEEDING TO DO SO?**



1 A. We are proposing that the Commission establish a separate proceeding to consider the  
2 potential approval and implementation of our proposal to hold the Company financially  
3 accountable for providing quality service as measured by performance metrics to be  
4 established by the parties. We would recommend that the Commission open such a  
5 proceeding and permit the parties that participated in this case to also participate in that  
6 one. The concept would be to determine if the parties could reach a consensus on such  
7 performance metrics, but all parties would have the right to propose, support, or oppose  
8 the adoption of any or all performance metrics on any grounds other than the grounds that  
9 such a mechanism can only be implemented in a general rate case proceeding. In the event  
10 the parties were unable to agree to in part or in whole on a set of performance metrics or  
11 other details regarding the operation of such a mechanism (other than those details  
12 specified above), then such disputes would be submitted to the Commission for its  
13 resolution after the opportunity for an evidentiary hearing and all parties would retain their  
14 right to judicial review of any decision made by the Commission in connection with such  
15 matters.

16 **Q. WOULD YOU RECOMMEND SOME BASIC GUIDELINE TO GOVERN SUCH A**  
17 **PROCEEDING?**

18 A. Yes. To better ensure a successful result and to make sure such an experiment is relatively  
19 modest in nature, I would propose consistent with my earlier testimony that:

- 20 (1) the total sum of any positive or negative financial adjustments associated  
21 with exceeding or falling below such performance metrics not exceed \$2 million annually,  
22 after tax, across both business units;

1           (2)     each performance metrics have a range of acceptable annual performance  
2 level that is reasonably achievable based on historical experience and reporting on results  
3 toward the annual result shall be made on a quarterly basis;

4           (3)     any positive or negative financial adjustments for each particular metric be  
5 equivalent in value and only be made for performance that exceeds or falls below the range  
6 established for the metric;

7           (4) any financial adjustments be credited or debited each year to a regulatory asset  
8 or liability, as applicable, subject to an annual review to confirm their accuracy and the  
9 accumulated net value of such financial adjustments be tracked for return to or recovery  
10 from customers over 4-year period in Spire Missouri's next rate case proceeding.

11 **Q.     DOES THIS COMPLETE YOUR SURREBUTTAL TESTIMONY?**

12 **A.     Yes.**

### Transaction and Transition Costs

| <b>Name</b>                           | <b>Description</b>  | <b>Book Treatment</b>   |
|---------------------------------------|---|---|
| Transaction Costs                     | Expenditures incurred in order to complete the acquisition of MGE assets  | Costs will be excluded from any ATL account. Costs charged to BTL account.  |
| One-Time Non-Capital Transition Costs | The non-rate base account expenditures incurred over a period not exceeding one twelve month period* resulting from integrating and merging the operations of MGE and LGC other than changes that would occur absent the transaction incurred no later than the first five years after closing. | 50% of these costs are recorded to the BTL account. The other 50% are deferred and amortized over a five year life beginning with the effective date of the first general rate case filed on or after October 1, 2015. The full amount of the amortization is allowed only upon a showing that the Net Synergies exceed the amount of the amortization. **  |
| Capital Transition Costs              | Rate base account expenditures resulting from integrating and merging the operations of MGE and LGC other than changes that would occur absent the transaction incurred no later than the first five years after closing.   | Recorded either as a Regulatory Asset or in the normal accounts of the Company and earmarked as transition costs. These costs will be amortized or depreciated over a period consistent with current depreciation rates for that asset class. In no event will any portion of such Regulatory Asset amortization be included in customer rates without a showing that the amount of amortization is exceeded by the Net Synergies net of other amortized transition costs included in the case. |
| On-going Non-Capital Transition Costs | On-going, multiple year expenditures incurred resulting from integrating and merging the operations of MGE and LGC other than changes that would occur absent the transaction.  | Recorded on books as incurred and offset against synergies to arrive at Net Synergies. No special accounting treatment is applicable. In no event will any portion of these costs be included in customer rates without a showing that the amount of recurring transition costs is less than or equal to synergy cost savings included in the case.   |
| SUG transition charges***             | SUG charges to Laclede Gas to support the operations of the MGE division after the transaction.   | No markup over SUG actual costs to provide such services will be included in rates.   |

ATL=Above the line

BTL=Below the line. Not eligible for recovery in consumer rates.

SUG=Southern Union Gas Company

\* If the Company believes a one-time transition cost will exceed a twelve month period the Company agrees to notify the Staff and OPC within 30 days of being aware of the occurrence.

\*\*As used herein, Net Synergies means the level of ongoing cost reductions reflected in the test year or update period in the rate case in which transition costs are sought to be recovered resulting from the merger or integration of the LGC and MGE operations based on a comparison of actual pre-merger/pre-integration costs of the two companies' operations versus costs of the combined operations during the test year or update period in the rate case in which transition costs are sought to be recovered. It is expressly understood that any party shall be able to challenge Laclede Gas' representation of eligible transition costs and eligible savings.

\*\*\* Represents one-time transition costs.

**Synergy Sharing Proposal**

FY 2017 Shared Service Allocations (\$000)

|   |     |                        |     |             |
|---|-----|------------------------|-----|-------------|
| Missouri Allocated Costs to Alabama           |     |                        |     | ***         |
| Less: Alabama Allocated Costs to Missouri     |     |                        |     | ***         |
|   |     |                        |     | <hr/>       |
| Net Reduced Costs to Missouri                 |     |                        |     | ***         |
| <br>  |     |                        |     |             |
| Missouri Allocated Costs to Gulf              |     |                        |     | ***         |
| Plus: Missouri Allocated Costs to Mississippi |     |                        |     | ***         |
|   |     |                        |     | <hr/>       |
| Net Reduced Costs to Missouri*                |     |                        |     | ***         |
| <br>  |     |                        |     |             |
| Savings from Alagasco Acquisition             | *** | Years                  | 1   | ***         |
| Savings from Alagasco Acquisition             | *** | Years                  | 3   | ***         |
|   |     |                        |     | <hr/>       |
| Total Savings                                 |     |                        |     | ***         |
| Sharing                                       |     |                        | 50% | ***         |
|   |     |                        |     | <hr/> <hr/> |
| Amortization                                  |     | Years                  | 4   | \$3,176     |
| <br>  |     |                        |     |             |
| Total Costs Allocated out of Missouri         |     |                        |     | ***         |
|   |     | Net Sharing Percentage |     | 17%         |

\* Neither Spire Gulf nor Spire Mississippi provide shared services to Spire Missouri

**Section 286.266.2**  
**Authorization Language for Environmental**  
**Compliance Cost Adjustment Mechanism**  
**(Emphasis Supplied)**

Subject to the requirements of this section, any electrical, gas, or water corporation may make an application to the commission to approve rate schedules authorizing periodic rate adjustments outside of general rate proceedings to reflect increases and decreases in its prudently incurred costs, whether capital or expense, to comply with any federal, state, or local environmental law, regulation, or rule. Any rate adjustment made under such rate schedules shall not exceed an annual amount equal to two and one-half percent of the electrical, gas, or water corporation's Missouri gross jurisdictional revenues, excluding gross receipts tax, sales tax and other similar pass-through taxes not included in tariffed rates, for regulated services as established in the utility's most recent general rate case or complaint proceeding. In addition to the rate adjustment, the electrical, gas, or water corporation shall be permitted to collect any applicable gross receipts tax, sales tax, or other similar pass-through taxes, and such taxes shall not be counted against the two and one-half percent rate adjustment cap. Any costs not recovered as a result of the annual two and one-half percent limitation on rate adjustments may be deferred, at a carrying cost each month equal to the utilities net of tax cost of capital, for recovery in a subsequent year or in the corporation's next general rate case or complaint proceeding.

**Prior Commission Deferral Authorizations**  
**For Environmental Compliance Costs**  
**Relating to Manufactured Gas Plants**

The Parties agree that Laclede shall be granted accounting authorization to defer, or to continue to defer, and book to Account 182.3 the following amounts incurred, received or recorded by Laclede during the Deferral Period:

All costs incurred or payments received by Laclede during the Deferral Period (including, but not limited to, all legal and consulting fees) in connection with: 1) the investigation, assessment, removal, disposal, storage, remediation or other treatment of residues, substances, materials, and/or property that are associated with former manufactured gas operations or located on former manufactured gas plant sites; 2) the dismantling and/or removal of facilities formerly utilized in manufactured gas operations; 3) efforts to recover such costs from potentially responsible third parties and insurance companies; and 4) reimbursement and recoveries of costs from third parties and insurance companies.

