Exhibit No.:	
Issue:	Revenue Requirement
Witness:	Greg Meyer
Type of Exhibit:	Rebuttal Testimony
Sponsoring Party:	Missouri Industrial Energy Consumers
Case No.:	GR-2017-0215 & GR-2017-0216
Date Testimony Prepared:	October 17, 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** Tariff No. YG-2017-0195
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** Tariff No. YG-2017-0196

Rebuttal Testimony and Schedule of

Greg Meyer

On behalf of

Missouri Industrial Energy Consumers

REDACTED VERSION

October 17, 2017

BRUBAKER & ASSOCIATES, INC.

Projects 10402 & 10403

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** Tariff No. YG-2017-0195
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** Tariff No. YG-2017-0196

STATE OF MISSOURI)
) **SS**
COUNTY OF ST. LOUIS)

Affidavit of Greg Meyer

Greg Meyer, being first duly sworn, on his oath states:

1. My name is Greg Meyer. I am a consultant with Brubaker & Associates, Inc., having its principal place of business at 16690 Swingley Ridge Road, Suite 140, Chesterfield, Missouri 63017. We have been retained by the Missouri Industrial Energy Consumers in this proceeding on their behalf.

2. Attached hereto and made a part hereof for all purposes are my rebuttal testimony and schedule which were prepared in written form for introduction into evidence in Missouri Public Service Commission Case No. GR-2017-0215 and GR-2017-0216.

3. I hereby swear and affirm that the testimony and schedule are true and correct and that they show the matters and things that they purport to show.

Greg R Meyer
Greg Meyer

Subscribed and sworn to before me this 16th day of October, 2017.

TAMMY S. KLOSSNER
Notary Public - Notary Seal
STATE OF MISSOURI
St. Charles County
My Commission Expires: Mar. 18, 2019
Commission # 15024862

Tammy S Klossner
Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION
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Rebuttal Testimony of Greg Meyer

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A Greg Meyer. My business address is 16690 Swingley Ridge Road, Suite 140, Chesterfield, MO 63017.

Q WHAT IS YOUR OCCUPATION?

A I am a consultant in the field of public utility regulation with Brubaker & Associates, Inc., energy, economic and regulatory consultants.

Q PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A This information is included in Appendix A to my testimony.

Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

A This testimony is presented on behalf of the Missouri Industrial Energy Consumers ("MIEC"), an entity that represents industrial customers in utility matters, including large-use transportation customers served by Laclede Gas Company ("LAC") and

Missouri Gas Energy ("MGE"). I will sometimes refer to both Laclede and MGE as "the Companies" or "Laclede."

Q WHAT IS THE SUBJECT OF YOUR TESTIMONY?

A My testimony addresses: (1) the Companies' request for certain expense trackers (major capital investments, integrity management, and environmental); (2) the Companies' Operation and Maintenance Expense incentive; (3) the Companies' request to adopt certain customer service performance metrics; and (4) the Companies' request to implement a Revenue Stabilization Mechanism.

Q ON PAGE 39 OF LACLEDE WITNESS ERIC LOBSER'S DIRECT TESTIMONY, HE PROVIDES A LIST OF COST ITEMS LACLEDE WOULD PROPOSE TO TRACK. PLEASE DESCRIBE THESE COSTS ITEMS.

A The list of cost items that Laclede wishes to track or defer for future rate recovery are:

- Costs (capital and/or expense) to comply with any federal, state, or local environmental law, regulation, or rule, as authorized by Section 386.286.
- Costs to comply with integrity management requirements, whether from physical or cyber threats, that may be required or mandated above current levels.
- Cost of all major capital projects necessary to support the business and provide customer benefits, but that do not produce any new revenues to offset the costs and have significant investment requirements with relatively high depreciation rates.

Q DOES MR. LOBSER DESCRIBE WHAT MIGHT HAPPEN IF THESE COST ITEMS ARE NOT ALLOWED TO BE TRACKED?

A Yes. Mr. Lobser, on page 38 of his direct testimony, states that, "Without timely cost recovery, however, such expenditures might be delayed, deferred or reduced unless Laclede inadvisably chooses to under-earn on its shareholders' capital until such costs are reflected in rates, and then only earn on the non-depreciated portion of the investment that still remains at such time."

Q DO YOU BELIEVE THAT THE COMMISSION SHOULD ADOPT ANY OF THESE COST ITEMS FOR TRACKING PURPOSES?

A No. I am opposed to the adoption of all of these proposed trackers.

Q WHAT IS THE BASIS FOR YOUR OPPOSITION TO THESE COST TRACKERS?

A I have several reasons for opposing these cost trackers. First, Laclede is proposing to isolate certain costs for tracking without looking at the other costs and revenues comprising the total operations of Laclede during the deferral period. Although rates are not changed during the tracking period, tracking is a form of single-issue ratemaking for that period of time when Laclede is not seeking a change in rates.

Second, Laclede has not provided any specific examples of costs it knows it must incur that would qualify for tracking. Potential costs that may result from compliance with environmental laws and physical or cyber threats are merely speculation regarding costs that may arise in the future.

Finally, Laclede has failed to describe how any of these costs are extraordinary in nature and thus would qualify for such special regulatory treatment. The only justification Laclede provides for tracking these expenses is the possibility that they would not be able to earn their authorized rate of return. I will discuss each tracker in more detail in the next sections of my testimony.

Major Capital Projects

Q LACLEDE PROPOSES TO TRACK COSTS (CAPITAL AND EXPENSE) TO COMPLETE MAJOR CAPITAL PROJECTS. BESIDES THE REASONS YOU STATED BEFORE, DO YOU HAVE OTHER REASONS WHY THE COMMISSION SHOULD REJECT THE PROPOSAL?

A Yes, I do. In its direct testimony, Laclede provides no guidelines about what would qualify as a major capital project. The Missouri Public Service Commission Staff ("Staff") submitted MPSC Data Request No. 0312, which is attached as Schedule GRM-1, asking for the specific eligibility criteria for capital projects to be included in the tracker. Laclede's response indicates that the investment level would be no less than $5 million and that the depreciation rate would be no less than 6.7%, or that the asset would have a useful life of no more than 15 years.

Q IN ITS DIRECT TESTIMONY, DID LACLEDE LIST ANY CAPITAL PROJECTS THAT WOULD QUALIFY BASED ON THESE CRITERIA?

A No.

Q HAVE YOU PERFORMED ANY ANALYSIS TO DETERMINE WHAT TYPES OF INVESTMENT MIGHT QUALIFY FOR THIS PROPOSED TRACKER?

A Yes. First, I reviewed LAC's and MGE's Depreciation Expense Schedule (Schedule H-12) to determine which categories of plant had authorized depreciation rates of 6.7%, or higher. I have prepared two tables below that show those accounts, by company, which would qualify for the tracker based on this criterion.

Laclede Gas Company		
Account – Description	**Amount**	**Current Depreciation Rate**
386 – Other Property – Customer Premises	$ 22,975	7.14%
391.1 – Data Processing Systems	$12,891,697	20%
391.2 – Mechanical Office Equipment	$ 30,559	10%
391.4 – Data Processing Systems	$ 329,979	10%
392.1 – Transportation Equipment – Automobiles	$ 2,932,261	14.17%
392.2 – Transportation Equipment - Trucks	$16,547,461	8.18%
396 – Power Operated Equipment	$22,349,910	6.92%

Missouri Gas Energy		
Account – Description	**Amount**	**Current Depreciation Rate**
391 – Office Furniture & Fixtures	$ 3,956,542	9.09%
391.3 – Data Processing Software	$ 3,261,922	9.09%
392.1 – Transportation Equipment – Cars and Small Trucks	$ 5,650,033	13.2%
392.2 – Transportation Equipment – Heavy Trucks	$15,294,221	8.06%
395 – Power Operated Equipment	$ 3,063,341	10%

The above tables indicate which types of investment would qualify for the tracker based on the depreciation rate criterion. However, the criteria proposed by Laclede would also include a minimum investment threshold of $5 million per project. Therefore, I have removed from the above tables those FERC accounts that do not have $5 million of total investment. At this time, I am not convinced that an investment of $5 million or greater would be made for those types of investments. By applying the $5 million investment threshold, the tables would include the following types of plant:

Laclede Gas Company		
Account – Description	**Amount**	**Current Depreciation Rate**
391.1 – Data Processing Systems	$12,891,697	20%
392.2 – Transportation Equipment - Trucks	$16,547,461	8.18%
396 – Power Operated Equipment	$22,349,910	6.92%

Missouri Gas Energy		
Account – Description	**Amount**	**Current Depreciation Rate**
392.1 – Transportation Equipment – Cars and Small Trucks	$ 5,650,033	13.2%
392.2 – Transportation Equipment – Heavy Trucks	$15,294,221	8.06%

By applying both the investment threshold criterion ($5 million) and the depreciation rate criterion (6.7%), the investments that the Companies would be seeking special regulatory treatment for would include data processing systems, trucks, cars, small trucks and power operated equipment. These types of investments are not extraordinary and should not receive special regulatory treatment.

Q LACLEDE STATED THAT "WITHOUT TIMELY COST RECOVERY, HOWEVER, SUCH EXPENDITURES MIGHT BE DELAYED, DEFERRED OR REDUCED UNLESS LACLEDE INADVISABLY CHOOSES TO UNDER-EARN ON ITS SHAREHOLDERS' CAPITAL UNTIL SUCH COSTS ARE REFLECTED IN RATES, AND THEN ONLY EARN ON THE NON-DEPRECIATED PORTION OF THE INVESTMENT THAT STILL REMAINS AT SUCH TIME." DO YOU HAVE ANY EVIDENCE REGARDING CAPITAL INVESTMENTS TO ADDRESS THIS STATEMENT?

A Yes. In response to MPSC Data Request No. 0009, the following information was provided for the Companies.

Laclede Gas Company

($/Millions)

Description	**FY15 Actual**	**FY16 Actual**	**FY17 Forecast**
ISRS			
Replacements	$ 67.5	$ 72.2	$ 82.6
Other Mandated Work	6.2	3.6	5.3
Gas Supply & Control	0.6	0.1	0.3
Total ISRS	$ 74.2	$ 75.9	$ 88.2
Non-ISRS			
New Business	$ 14.8	$ 18.5	$ 21.2
Meters	2.3	2.7	4.6
Vehicles & Equipment	4.9	5.7	15.5
Other Field Operations	1.7	0.7	2.7
STCC Lateral	---	0.2	---
IT Platform	---	---	1.0
IT	28.9	8.7	10.3
Facilities	9.8	4.4	5.0
Spire Implementation	---	0.2	4.1
Total Non-ISRS	$ 62.4	$ 41.1	$ 64.6
Total Capital Budget	$136.6	$117.0	$152.7

Missouri Gas Energy			
($/Millions)			
Description	**FY15 Actual**	**FY16 Actual**	**FY17 Forecast**
ISRS			
Replacements	$34.0	$50.8	$ 76.3
Other Mandated Work	3.7	8.3	8.4
Gas Supply & Control	0.2	0.1	0.3
Total ISRS	$37.9	$59.1	$ 85.0
Non-ISRS			
New Business	$12.8	$16.3	$ 21.3
Meters	7.2	6.6	9.0
Vehicles & Equipment	6.0	3.3	7.7
Other Field Operations	1.8	1.3	1.0
IT Platform	---	---	0.8
IT	---	0.5	1.4
Facilities	1.0	1.7	2.1
Spire Implementation	---	---	2.9
Total Non-ISRS	$28.9	$29.6	$ 46.2
Total Capital Budget	$66.8	$88.8	$131.2

As can be seen from the above tables, the majority of LAC's and MGE's capital budgets are attributed to Infrastructure Replacement Surcharge System ("ISRS") investments. ISRS allows customers' rates to be changed in between rate cases for qualifying investments, and thus deferral and tracking are unnecessary, even under the Companies' analysis.

Another item of note is the Non-ISRS category of New Business. The New Business category reflects the capital dollars that the Companies will expend to generate new revenues. These capital expenditures are specifically exempt from ISRS because the investments generate new revenues. These investments are also excluded from the capital tracker proposed by the Companies. Removing Total Capital Budget dollars for the ISRS investments and New Business categories produces the level of investment that is not associated with a special regulatory mechanism, or does not produce additional revenues for the Companies. The tables below summarize those calculations.

Laclede Gas Company

($/Millions)

Description	FY15 Actual	FY16 Actual	FY17 Forecast
Total Capital Budget	$136.6	$117.0	$152.7
Less:			
ISRS Investment	(74.2)	(75.9)	(88.2)
New Business	(14.8)	(18.5)	(21.2)
Net Investment	$ 47.6	$ 22.6	$ 43.3

Missouri Gas Energy

($/Millions)

Description	FY15 Actual	FY16 Actual	FY17 Forecast
Total Capital Budget	$66.8	$88.8	$131.2
Less:			
ISRS Investment	(37.9)	(59.1)	(85.0)
New Business	(12.8)	(16.3)	(21.3)
Net Investment	$16.1	$13.4	$ 24.9

Q DO THE COMPANIES HAVE AN INTERNAL SOURCE OF FUNDING TO MAKE THESE INVESTMENTS?

A Yes, a source is the ongoing accumulation of depreciation. Once plant is included in a utility's rate base, the associated net plant value begins to decline over time. This is due to the continued accumulation of annual depreciation associated with plant already included in rate base and rates. As a result, once rates are established, rate base is overstated by the additional accumulation of annual depreciation, which is a rate base reduction. In order to determine if there is really any under-earning on shareholder capital associated with these new plant additions, the annual depreciation expense included in rates, which has continued to accumulate and reduce rate base, should be deducted from the net investment levels calculated above. The following table shows that calculation for both LAC and MGE.

The Companies

($/Millions)

Description	**FY15 Actual**	**FY16 Actual**	**FY17 Forecast**
Net Investment – Laclede	$47.6	$22.6	$43.3
Annual Depreciation Expense – Laclede[1]	(41.4)	(41.4)	(41.4)
Net Investment for Return Recovery	$ 6.2	($18.8)	$ 1.9
Net Investment – MGE	$16.1	$13.4	$24.9
Annual Depreciation Expense – MGE[1]	(32.4)	(32.4)	(32.4)
Net Investment for Return Recovery	($16.3)	($19.0)	($ 7.5)

[1]Depreciation expense total obtained from 2013 Annual Reports.

The above table clearly shows that during the last three years in only two instances has LAC or MGE experienced plant additions in excess of additional annual accumulated depreciation for a year. In fact, over the three-year period for LAC and MGE, the net plant totals show that LAC and MGE are experiencing a decline in investment for assets not related to ISRS or invested to produce additional revenues. Stated another way, LAC and MGE are not experiencing any delay in earnings on shareholder capital as a result of regulatory lag. Had the contemplated trackers been in place for that period, the Companies may have experienced over-earnings on capital investments.

Q YOUR ANALYSIS ADDRESSES CURRENT PROJECTIONS THROUGH 2017. DO YOU HAVE ADDITIONAL INFORMATION REGARDING YEARS FOLLOWING 2017?

A Yes. In response to MPSC Data Request No. 0009, there is information for FY 2018 - FY 2021. I have prepared a table that shows the plant investments, exclusive of ISRS and New Business, compared to the additional accumulation of depreciation.

Laclede/MGE

($/Millions)

	FY18	**FY19**	**FY20**	**FY21**
Total Capital Budget – Laclede	$148.3	$144.8	$154.7	$156.1
Less:				
ISRS	(84.9)	(85.5)	(86.2)	(86.9)
New Business	(22.4)	(23.1)	(23.8)	(24.6)
Net Investment – Laclede	$ 41.0	$ 36.2	$ 44.7	$ 44.6
Less Annual Depreciation – FY 2016[1]	(49.7)	(49.7)	(49.7)	(49.7)
Net Investment for Return Recovery	($ 8.7)	($ 13.5)	($ 5.0)	($ 5.1)
Total Capital Budget – MGE	$112.2	$114.0	$115.1	$116.5
Less:				
ISRS	(73.8)	(75.7)	(77.7)	(79.8)
New Business	(19.6)	(19.7)	(17.7)	(19.9)
Net Investment – MGE	$ 18.8	$ 18.6	$ 19.7	$ 16.8
Less Annual Depreciation[1]	(32.0)	(32.0)	(32.0)	(32.0)
Net Investment for Return Recovery	($ 13.2)	($ 13.4)	($ 12.3)	($ 15.2)

[1]Current depreciation levels proposed by Laclede and MGE.

As can be seen from the above table, both LAC and MGE project that the net investment levels of Non-ISRS and Non-New Business plant will be offset by additional depreciation accumulation during the 2018 - 2021 time frame. This table utilizes an annual depreciation expense level from the rate cases. Finally, I believe these totals are conservative because they do not reflect the impacts from accelerated income tax and bonus depreciation deferrals, which also continue to accumulate and reduce rate base.

Accelerated depreciation and bonus depreciation tax deductions allow a utility to reduce its current income tax liability. However, for ratemaking purposes, the Internal Revenue Code requires normalization of these tax deductions and the inclusion of deferred taxes, which are used as an offset to rate base. My analysis does not account for this additional accumulation, which would further offset future plant additions.

Q PLEASE SUMMARIZE YOUR ARGUMENTS.

A I have shown, using the Companies' own data, that there is currently no need to adopt a cost tracker for major capital expenditures. The major capital expenditures that would qualify under the Companies' proposal (data processing, transportation equipment and power-operated equipment) are not extraordinary and should not be granted special regulatory treatment.

In addition, based on my analysis, the Companies are not experiencing under-earnings due to negative regulatory lag associated with Non-ISRS, Non-New Business capital investment programs and the contemplated trackers could cause the Companies to experience over-earnings.

Cyber Security

Q THE COMPANIES PROPOSE TO ESTABLISH A TRACKER FOR EXPENSES ASSOCIATED WITH INTEGRITY MANAGEMENT, WHETHER FROM PHYSICAL OR CYBER THREATS. WHY DO THE COMPANIES BELIEVE IT IS APPROPRIATE TO TRACK THESE EXPENSES?

A Company witness Lobser states that these costs are incurred to either comply with existing governmental mandates or protect and enhance critical infrastructure. Furthermore, he states protecting critical infrastructure from physical integrity issues and potential disruptions or damage due to cyber-attacks, as well as protection of sensitive customer information, is an increasingly challenging endeavor given the growing sophistication and ubiquity of those seeking to engage in such attacks. To the extent significant expenditures are mandated or necessary to meet this challenge, there should not be a financial disincentive to making them.

Q DID THE COMPANIES PROVIDE ANY ANALYSIS OR DISCUSSION OF PAST EXPENSE LEVELS IN THEIR WITNESSES DIRECT TESTIMONY?

A No.

Q DID THE COMPANIES PROVIDE ANY DISCUSSION ABOUT FUTURE COSTS OR BUDGETED COSTS COMPARED TO HISTORIC COSTS IN THEIR WITNESSES DIRECT TESTIMONY?

A No.

Q DID THE COMPANIES DESCRIBE WHY THESE COSTS SHOULD BE CONSIDERED EXTRAORDINARY AND SUBJECT TO TRACKING?

A No.

Q WHAT INFORMATION DO YOU HAVE TO RELY ON TO DETERMINE YOUR OPPOSITION TO THIS TRACKER?

A I relied on responses to Staff Data Requests to assist me in my evaluation. Based on the comment of Mr. Lobser, one could conclude that the purpose of the tracker is to protect the Companies' profits in case these costs increase in the future.

Q WHEN DID THE COMPANIES BEGIN MONITORING THESE COSTS?

A Spire, the parent company of Laclede and MGE, created a specific department during fiscal year 2017 to monitor cyber security. Prior to this time, there was not even a budget separately prepared for this cost area.

Q BASED ON YOUR REVIEW OF INFORMATION FROM STAFF DATA REQUESTS, DO YOU BELIEVE THE COSTS IDENTIFIED ARE SIGNIFICANT ENOUGH TO QUALIFY FOR TRACKING PURPOSES?

A No. These costs are simply not a significant portion of the Companies' operating and maintenance expenses. Based on the response to Staff Data Request 228, the total costs booked as expense from October 2016-June 2017 were *************** This cost level is a total Spire expense total. The level of costs are not significant enough to merit tracking. Furthermore, there is no evidence that these costs will increase significantly into the future. The Companies have failed to produce sufficient evidence to warrant consideration of a special tracking mechanism for these costs.

Environmental Costs

Q DO THE COMPANIES PROPOSE A TRACKER TO COMPLY WITH ANY FEDERAL, STATE OR LOCAL ENVIRONMENTAL LAW REGULATION OR RULE?

A Yes.

Q ARE THE COMPANIES RELYING ON THE SAME REASONS FOR PROPOSING THIS TRACKER AS RELIED ON FOR THE CYBER SECURITY TRACKER?

A Yes. In addition, the Companies also cite Section 386.266 as support for the tracker, by claiming that Missouri law already authorizes the Commission to approve an adjustment mechanism that permits gas, electric and water utilities to change rates between rate cases to reflect increases and decreases in such costs.

Q DID THE COMPANIES PROVIDE ANY OF THE INFORMATION (PRIOR EXPENSE LEVELS, FUTURE COSTS OR BUDGETED COSTS COMPARED TO HISTORIC COSTS, OR EXTRAORDINARY NATURE) YOU DISCUSSED ABOVE REGARDING THE CYBER SECURITY TRACKER?

A No, once again nothing was provided in Mr. Lobser's testimony to support special regulatory recovery treatment of those expenses.

Q DID THE STAFF SUBMIT DATA REQUESTS REGARDING ENVIRONMENTAL COSTS?

A Yes, the Staff submitted discovery in this area of the rate cases.

Q DID THE COMPANIES PROVIDE ANY HISTORICAL PERSPECTIVE ON THE ENVIRONMENTAL LAWS, REGULATIONS, RULES AND MANDATES THEY HAD TO COMPLY WITH?

A Yes. Staff submitted Data Request 226 asking for this information. The Companies responded by saying that since Laclede is not proposing to track costs before 2017, they have not completed such a list. However, Laclede does provide a list of mandates that may have been in effect. This response is simply inadequate. Research of the environmental laws, regulations, rules and mandates that have been in effect prior to 2017 and the effect on costs in 2017 and into the future should have been undertaken by the Companies as part of the justification for a tracker. Once again, the Companies are requesting a tracker without any supporting evidence.

Q DID THE COMPANIES PROVIDE ANY HISTORIC COSTS OF COMPLIANCE WITH ENVIRONMENTAL LAWS, REGULATIONS OR RULES?

A Yes. In response to Staff data requests, the Companies' historic costs for the last several years were provided. Based on the last three years of costs (FY 2014-2016), MGE's environmental costs have not been significant when compared with its current total operating expenses. Comparing FY 2016 environmental costs to MGE's proposed total operating expense in this case, environmental costs account for approximately eight one hundredths of one percent (.08%) of MGE's total operating expenses.

When analyzing the environmental cost for LAC, the percentage to total operating expenses is even lower at two one hundredths of one percent (.02%). These costs are not significant to the total operating costs of the Companies.

Q EARLIER, YOU MENTIONED THAT LACLEDE USES SECTION 386.266 AS SUPPORT FOR THIS TRACKER. SPECIFICALLY, THE COMPANIES CLAIM THAT THE TRACKER SHOULD BE ADOPTED BECAUSE THE LEGISLATURE SAW A NEED TO ALLOW THEM TO HAVE A SURCHARGE. DO YOU HAVE ANY COMMENTS?

A Yes. I find it interesting that the Companies are not advocating for the rider authorized by this section, as it would reduce the regulatory lag associated with these costs. In his direct testimony, Mr. Lobser states that if these trackers are not adopted, such expenditures might be delayed, deferred or reduced unless Laclede inadvisably chooses to under-earn on it shareholders' capital until such costs are reflected in rates.

Q DO THE COMPANIES PROVIDE ANY EXPLANATION WHY THEY DON'T SEEK THE RIDER?

A Yes, Mr. Lobser states that the use of a tracker is a modest proposal because it was done to accommodate those stakeholders who express concern whenever rates are adjusted outside of a rate case. Mr. Lobser also states that using a tracker will alleviate concerns about single-issue ratemaking.

Q DO YOU AGREE THAT TRACKERS DO NOT CONSTITUTE SINGLE-ISSUE RATEMAKING?

A I agree the results of a tracker are included within the context of a rate case when all relevant factors are considered. However, trackers do not consider all relevant factors for those periods of time between rate cases when deferrals are being accumulated. Those tracked costs are measured without any consideration given to the other operations of the utility. In this way, trackers are no different than riders which adjust rates in between rate cases.

Q DO YOU THINK THE COMPANIES SHOULD BE ALLOWED TO TRACK THESE ENVIRONMENTAL COSTS?

A No. The Companies have done nothing to support their request for an environmental tracker. They have not provided any analysis of environmental laws, rules or mandates that have been in force in the past. They have provided no testimony about the historic levels of costs. I have shown that these costs are not material to the total operations of each utility. The Companies have not met their burden to receive a tracker for these costs.

Performance Metrics

Q ON PAGE 41 OF HIS DIRECT TESTIMONY, MR. LOBSER PROPOSES THAT THE COMPANIES WORK WITH THE COMMISSION AND OTHER STAKEHOLDERS TO ESTABLISH PERFORMANCE METRICS IN KEY AREAS OF CUSTOMER SERVICE, SAFETY, RELIABILITY AND OTHER AREAS TO ENSURE AN ACCEPTABLE LEVEL OF CUSTOMER SERVICE IS MAINTAINED AND BETTER ALIGN THE INTERESTS OF LACLEDE AND ITS CUSTOMERS. HAVE YOU BEEN PROVIDED A LIST OF PERFORMANCE METRICS THAT LACLEDE WANTS TO IMPLEMENT IN THIS RATE CASE?

A No, I have not. I am only aware of conversations which continue to emphasize the concept of performance metrics.

Q HOW DOES LACLEDE PROPOSE TO IMPLEMENT THE PERFORMANCE METRICS?

A Mr. Lobser provided the following explanation on page 41 of his direct testimony:

> "Between four to six metrics would be chosen based on desired areas of focus for customer benefits, with each metric worth an amount equal to five basis points multiplied by the equity component of rate base established in this proceeding, plus or minus, to create bilateral accountabilities and incentives. … The sum of the amounts would be deferred in that regulatory account for recovery or refund at the next rate proceeding."

Q ARE YOU IN FAVOR OF ADOPTING PERFORMANCE METRICS FOR LACLEDE?

A No. Once again, Laclede is proposing a new special regulatory tool without any specific information. In this case, the Companies have not provided anything in the way of specific performance metrics to address.

Q DO YOU BELIEVE THAT IT IS TOO LATE IN THIS RATE CASE TO ADOPT PERFORMANCE METRICS?

A Yes. If the Companies want to introduce performance metrics into the regulatory process, they should have provided the 4-6 metrics they wanted to pursue in their direct testimony filing. This would have allowed the parties to address these metrics in either their direct or rebuttal testimonies as well as pursuing discovery on the specific metrics. At the time of this rebuttal testimony, the specific metrics Laclede is pursuing are still unknown. It is simply too late in this rate case process to fully address this issue.

Operation and Maintenance ("O&M") Expense Incentive

Q LACLEDE IS PROPOSING AN O&M EXPENSE BENCHMARK TRACKER. WOULD YOU PLEASE DESCRIBE THE OPERATION OF THIS TRACKER?

A Laclede is proposing that a benchmark be created, based on prior year O&M costs for both LAC and MGE. That level of expense would be fixed and then inflated each year by the Consumer Price Index – for all Urban Consumers (CPI-U). A symmetrical range (dead band) around this level of expense would be determined. If the actual expenses in a year were less than the CPI-U adjusted historic O&M expenses, and below the dead band range, 50% of the reduction in expense would be deferred and included in the Companies' next rate case as an addition to cost of service. Similarly, if the expenses increased beyond the symmetrical range, 50% of the increased expenses would be deferred and used to reduce expenses in the next rate case.

Q DO YOU SUPPORT THE O&M INCENTIVE MECHANISM?

A No. I do not believe the mechanism will achieve results favorable to customers. First, if the Companies achieve cost reductions from the benchmark level, they may recognize greater profits without the necessity of filing a rate case. In addition, in the next rate case, cost of service is increased for the previous years' reduced expenses. Customers do not enjoy the savings in the year they occur and pay higher rates in the next rate case.

Conversely, if expenses go up, the customers will see a benefit in a reduced cost of service in the next case. However, given the utilities' ability to file rate cases at any time, I believe the utilities will seek to have these increased costs expeditiously included in rates. As a result, I do not see the likelihood of this mechanism producing significant customer savings. Therefore, I am not in support of the O&M incentive mechanism.

Revenue Stabilization Mechanism ("RSM") – Decoupling

Q THE COMPANIES HAVE PROPOSED AN RSM. WOULD YOU AGREE THAT THE RSM IS ANOTHER NAME FOR DECOUPLING?

A Yes.

Q WHAT REASONS DID THE COMPANIES PROPOSE FOR ADOPTING THE RSM?

A The Companies listed four reasons why the Commission should adopt an RSM. I have listed those reasons below:

1. Tying recovery of fixed costs to variable customer usage is inappropriate since most of those fixed costs do not, as their name implies, increase or decrease simply because customers use more or less gas due to variations in weather or other factors.

2. Allowing over-recovery of costs during periods of high use is an unintroduced consequence of a volumetric rate design.

3. Making recovery of such costs dependent on factors that are completely outside of the utility's control serves no valid economic or performance objective.

4. Making recovery of fixed costs dependent on how much gas its customers use discourages the utility from pursuing energy efficiency programs.

In addition to these four reasons, Laclede also mentions that an RSM would simplify rate designs for both Companies and would provide residential and commercial customers with more stability in their bills.

Q IT APPEARS FROM A REVIEW OF THE ABOVE REASONS, THAT THERE ARE SOME COMMON THEMES FROM THE ABOVE LIST. PLEASE DESCRIBE THOSE THEMES.

A From my review of those reasons, I have observed the following themes.

- An RSM is necessary to guarantee the recovery of fixed costs.
- An RSM is necessary to alleviate the fluctuations in revenues from weather.
- An RSM is necessary to allow a utility to pursue energy efficiency programs.

Q PLEASE COMMENT ON THE THEME THAT AN RSM IS NEEDED TO GUARANTEE THE RECOVERY OF FIXED COSTS.

A The recovery of fixed costs from the implementation of an RSM is somewhat unclear. Currently, the Companies are recovering all of their fixed costs except for possibly one component and that is the recognition of its profits.

In response to MIEC Data Request 2, the Companies affirm that they have historically recovered all of their operating expenses, interest payments, depreciation expense and income taxes. The only fixed costs remaining after recognizing those costs is the return on equity or profits. Stated differently, the Companies are seeking an RSM to assure recovery of their profits.

Q YOU STATED THAT WEATHER IS ANOTHER REASON WHY AN RSM HAS BEEN PROPOSED. PLEASE DISCUSS.

A Weather mitigation is, in my opinion, the primary reason the Companies are requesting an RSM. Although other reasons are identified, weather mitigation is the primary objective of the RSM. In response to MIEC Data Request No. 8, the Companies state that they have not attempted to break down the variation in revenues between weather and energy efficiency but admit that weather variations cause the greatest impact to variations in revenues.

Q AN RSM HAS BEEN PROPOSED TO ENCOURAGE THE PROMOTION OF ENERGY EFFICIENCY MEASURES. PLEASE DISCUSS THIS CONCEPT.

A First, as I previously discussed, the effect of energy efficiency measures is subordinate to the protection an RSM offers for weather fluctuation. Revenue variations from weather are greater than the revenue variations form adopting energy efficiency measures. Second, adopting an RSM would reduce the savings that customers would generate on their own by independently adopting energy efficiency measures. For example, if a customer installed a new furnace some of the savings from this new furnace would not be realized due to an RSM charge.

Q FINALLY, LACLEDE PROPOSES THAT AN RSM WILL PROVIDE MORE RATE STABILITY FOR RESIDENTIAL AND COMMERCIAL CUSTOMERS. PLEASE COMMENT.

A I find this argument the most puzzling. The Companies propose that an RSM will provide rate stability. However, when you review how the Companies propose that the RSM would function, the following steps are outlined.

- The RSM would have one required filing a year as well as up to three additional discretionary filings.
- The RSM would allow for an annual true-up of each RSM year.

It is evident from the above conditions that rates for residential and commercial customers could change up to four times a year, but at a minimum once. I cannot reconcile how changes in rates up to a maximum of four times a year provides more rate stability than having no rate changes between rate cases that are years apart. This argument simply does not make sense.

Q DO YOU HAVE ANY OTHER REASONS WHY YOU OPPOSE AN RSM?

A Yes, I have two additional arguments. First, an RSM engages in single-issue ratemaking. Second, an RSM has not been demonstrated to be needed to reduce rate case filings.

An RSM is single-issue ratemaking because it adjusts revenues outside of a rate case without looking at all relevant factors. The calculation of revenues is the last step in the rate case process. Once all necessary costs to provide safe and adequate service are determined, the revenues are then computed to collect those costs. With an RSM, revenues are automatically adjusted to the level established in the prior rate case without any analysis to determine if those revenues are necessary to recover the current cost of service. This situation violates the all relevant factor test.

It is interesting to note that in the Companies' proposal for an environmental tracker, they claim a rider/surcharge was not pursued because of stakeholder concerns over single-issue ratemaking outside of a rate proceeding where all relevant factors are considered. On this issue though, the Companies ignore this concern and continue to support an RSM which is exactly the opposite of why they argued for an environmental tracker, rather than a rider.

I surmise that both LAC's and MGE's concerns regarding stakeholder objections to single-issue ratemaking are completely offset by the Companies desire to protect profits through the implementation of an RSM/decoupling proposal.

Finally, the RSM cannot be claimed to reduce the number of rate case filings. In the current case, LAC was required to file a rate case according to the ISRS statutes. Similarly, in both Companies' last rate cases, only revenue requirement associated with the ISRS investment was ultimately included in base rates. Concern about revenue instability was not a driver of the base rates established as a result of the last cases.

Q PLEASE SUMMARIZE YOUR POSITION ON THE RSM.

A I am opposed to the implementation of an RSM. The Companies have failed to demonstrate that their present operations have resulted in a lack of revenue support to pay all of their fixed costs. The Companies have admitted that weather variations are the most predominant factor they are trying to eliminate in proposing an RSM. They cannot claim that an RSM will reduce rate case filings. Finally, the RSM will create more rate instability as customer rates can change up to four times a year in between rate cases.

Q DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A Yes, it does.

Appendix A

Qualifications of Greg Meyer

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A Greg R. Meyer. My business address is 16690 Swingley Ridge Road, Suite 140, Chesterfield, MO 63017.

Q PLEASE STATE YOUR OCCUPATION.

A I am a consultant in the field of public utility regulation and a Principal with the firm of Brubaker & Associates, Inc. ("BAI"), energy, economic and regulatory consultants.

Q PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A I graduated from the University of Missouri in 1979 with a Bachelor of Science Degree in Business Administration, with a major in Accounting. Subsequent to graduation I was employed by the Missouri Public Service Commission. I was employed with the Commission from July 1, 1979 until May 31, 2008.

I began my employment at the Missouri Public Service Commission as a Junior Auditor. During my employment at the Commission, I was promoted to higher auditing classifications. My final position at the Commission was an Auditor V, which I held for approximately ten years.

As an Auditor V, I conducted audits and examinations of the accounts, books, records and reports of jurisdictional utilities. I also aided in the planning of audits and investigations, including staffing decisions, and in the development of staff positions in which the Auditing Department was assigned. I served as Lead Auditor and/or Case

Supervisor as assigned. I assisted in the technical training of other auditors, which included the preparation of auditors' workpapers, oral and written testimony.

During my career at the Missouri Public Service Commission, I presented testimony in numerous electric, gas, telephone and water and sewer rate cases. In addition, I was involved in cases regarding service territory transfers. In the context of those cases listed above, I presented testimony on all conventional ratemaking principles related to a utility's revenue requirement. During the last three years of my employment with the Commission, I was involved in developing transmission policy for the Southwest Power Pool as a member of the Cost Allocation Working Group.

In June of 2008, I joined the firm of Brubaker & Associates, Inc. as a Consultant. Since joining the firm, I have presented testimony and/or testified in the state jurisdictions of Florida, Idaho, Illinois, Indiana, Maryland, Missouri and Washington. I have also appeared and presented testimony in Alberta and Nova Scotia, Canada. These cases involved addressing conventional ratemaking principles focusing on the utility's revenue requirement. The firm Brubaker & Associates, Inc. provides consulting services in the field of energy procurement and public utility regulation to many clients including industrial and institutional customers, some utilities and, on occasion, state regulatory agencies.

More specifically, we provide analysis of energy procurement options based on consideration of prices and reliability as related to the needs of the client; prepare rate, feasibility, economic, and cost of service studies relating to energy and utility services; prepare depreciation and feasibility studies relating to utility service; assist in contract negotiations for utility services, and provide technical support to legislative activities.

In addition to our main office in St. Louis, the firm has branch offices in Phoenix, Arizona and Corpus Christi, Texas.

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

Response to MPSC Data Request 0312

Question:

Please provide a more detailed explanation of how the major capital cost tracker mechanism referenced in Mr. Lobser's direct testimony at page 38, lines 6 – 8 is proposed to operate. This explanation should include, but not necessarily be limited to, discussions of the specific eligibility criteria for the capital project costs to be included in the tracker; what amounts of depreciation and deferred taxes would be offset against increases in the eligible capital costs for purposes of recording tracker deferrals; and how any carrying costs included in the tracker balances are to be calculated, as well as the carrying cost rate proposed by the Companies.

Response:

As stated in Mr. Lobser's direct testimony, an item eligible for the capital cost tracker would need to: (a) be a significant capital expenditure; (b) have a relatively high depreciation rate (i.e. a relatively short useful life); (c) be necessary to support the business and provide customer benefits and (d) produce no new revenue for the Company. For purposes of (a), the Company would propose a dollar threshold of no less than $5 million for the total investment. For purposes of (b), the Company would propose that the item have a depreciation rate of no less than 6.7% or a useful life of no more than 15 years. To the extent a capital investment qualified, the depreciation, taxes and carrying costs of the investment would be deferred until the next rate case at a carrying cost each month equal to the Company's net of tax cost of capital. To the extent such investment resulted in the retirement of another capital item that was being used for the same purpose, an adjustment would be made to account for such retirement and its impact on depreciation, deferred taxes, etc. in the same manner that such retirements are recognized for ISRS purposes. Any taxes, depreciation or carrying costs deferred would then be included in rate base in the next rate case proceeding and recovered through amortization over the remaining useful life of the asset.

Signed by: Glenn Buck