

**FILED<sup>2</sup>**

JAN 5 2017

Missouri Public  
Service Commission

Exhibit No.:

Issue: ISRS Rates

Witness: David M. Sommerer

Sponsoring Party: MoPSC Staff

Type of Exhibit: Direct Testimony

Case No.: GO-2016-0333

Date Testimony Prepared: December 16, 2016

**MISSOURI PUBLIC SERVICE COMMISSION**

**DIRECT TESTIMONY**

**OF**

**DAVID M. SOMMERER**

**LACLEDE GAS COMPANY**

**CASE NO. GO-2016-0333**

Staff Exhibit No. 4  
Date 1-03-17 Reporter XF  
File No. GO-2016-0332  
GO-2016-0333

Staff 4

Jefferson City, Missouri  
December, 2016

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DIRECT TESTIMONY  
OF  
DAVID M. SOMMERER  
LACLEDE GAS COMPANY  
CASE NO. GO-2016-0333

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Direct Testimony of  
David M. Sommerer

1 Caroline Newkirk will address the ISRS application filed by Missouri Gas Energy "MGE,"  
2 an operating unit of Laclede Gas Company, in Case No. GO-2016-0332.

3 Q. Are you the same David Sommerer who contributed to the Memorandum  
4 attached as Appendix A and Appendix B of the Staff Recommendation filed on November 29,  
5 2016 in Case No. GO-2016-0333?

6 A. Yes.

7 Q. Is the information contained in the Staff Recommendation still true and accurate  
8 to the best of your knowledge?

9 A. Yes.

10 **STAFF RATE DESIGN FOR THE GAS ISRS**

11 Q Please describe the Staff's proposed rate design.

12 A. Staff's proposed rates are consistent with the methodology used to establish the  
13 Company's past ISRS rates and consistent with the overall methodology used to establish  
14 ISRS rates for other natural gas utilities. Staff's proposed ISRS rates are contained in  
15 Appendix B of Schedule DMS-d2. The rate design contained on Appendix B of the Staff  
16 memorandum, and attached as part of Schedule DMS-d2, was prepared under my supervision.  
17 The Staff used the customer levels from the most current annual report available at the time of  
18 the preparation of Staff's November 29, 2016, memorandum to provide the basis of the rate  
19 design.

20 Q. Does this conclude your direct testimony?

21 A. Yes, it does.

**BEFORE THE PUBLIC SERVICE COMMISSION**

**OF THE STATE OF MISSOURI**

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

**AFFIDAVIT OF DAVID M. SOMMERER**

STATE OF MISSOURI )  
 ) ss.  
COUNTY OF COLE )

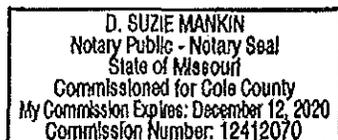
**COMES NOW DAVID M. SOMMERER** and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing Direct Testimony; and that the same is true and correct according to his best knowledge and belief.

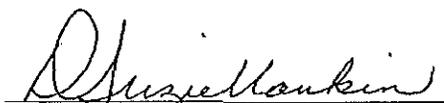
Further the Affiant sayeth not.

  
**DAVID M. SOMMERER**

**JURAT**

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 15<sup>th</sup> day of December, 2016.



  
**Notary Public**

**David M. Sommerer**

**Educational Background and Work Experience**

In May 1983, I received a Bachelor of Science degree in Business and Administration with a major in Accounting from Southern Illinois University at Carbondale, Illinois. In May 1984, I received a Master of Accountancy degree from the same university. Also, in May 1984, I sat for and passed the Uniform Certified Public Accountants examination. I am currently a licensed CPA in Missouri. Upon graduation, I accepted employment with the Commission.

From 1984 to 1990 I assisted with audits and examinations of the books and records of public utilities operating within the state of Missouri. In 1988, the responsibility for conducting the Actual Cost Adjustment (ACA) audits of natural gas utilities was given to the Accounting Department. I assumed responsibility for planning and implementing these audits and trained available Staff on the requirements and conduct of the audits. I participated in most of the ACA audits from early 1988 to early 1990. On November 1, 1990, I transferred to the Commission's Energy Department. Until November of 1993, my duties consisted of reviews of various tariff proposals by electric and gas utilities, Purchased Gas Adjustment (PGA) reviews, and tariff reviews as part of a rate case. In November of 1993, I assumed my present duties of managing a newly created department called the Procurement Analysis Department (now known as the Procurement Analysis Unit). This Department was created to more fully address the emerging changes in the gas industry especially as they impacted the utilities' recovery of gas costs. My duties have included managing the Procurement Analysis staff, reviewing ACA audits and recommendations, participating in the gas integrated resource planning project, serving on the gas project team, serving on the natural gas commodity price task force, and participating in matters relating to natural gas service in the state of Missouri. In July of 2006, the Federal Issues/Policy Analysis Section was transferred to the Procurement Analysis Unit. That group analyzes filings made before the Federal Energy Regulatory Commission (FERC). During the reorganization in August 2011, the Federal Issues/Policy Analysis Section was transferred to the Secretary/ General Counsel Division. In 2015, I assumed the responsibility for the rate design aspects of the Gas Infrastructure System Replacement Surcharge (ISRS) process. The Gas ISRS allows for a more expedited process of including eligible pipeline replacements in rates prior to general rate cases.

CASES WHERE TESTIMONY

WAS FILED

DAVID M. SOMMERER

COMPANY	CASE NO.	ISSUES
Laclede Gas Company (MGE)	GO-2016-0197	ISRS rates
Laclede Gas Company	GO-2016-0196	ISRS rates
Liberty Utilities (Midstates Natural Gas) Corp d/b/a Liberty Utilities	GR-2014-0152	Special Contact Customers Gas Contract
Missouri Gas Energy	GR-2014-0007	Gas Supply Incentive Plan Property Tax PGA Recovery
Laclede Gas Company	GR-2010-0171	Bad Debt in PGA, CAM
Atmos Energy Corporation	GR-2009-0417	Affiliated Transactions
Atmos Energy Corporation	GR-2008-0364	Affiliated Transactions
Missouri Gas Energy	GR-2009-0355	PGA tariff
Laclede Gas Company	GT-2009-0026	Tariff Proposal, ACA Process
Missouri Gas Utility	GR-2008-0060	Carrying Costs
Laclede Gas Company	GR-2007-0208	Gas Supply Incentive Plan, Off-system Sales, Capacity Release
Laclede Gas Company	GR-2005-0284	Off-System Sales/GSIP
Laclede Gas Company	GR-2004-0273	Demand Charges
AmerenUE	EO-2004-0108	Transfer of Gas Services
Aquila, Inc.	EF-2003-0465	PGA Process, Deferred Gas Cost
Missouri Gas Energy	GM-2003-0238	Pipeline Discounts, Gas Supply
Laclede Gas Company	GT-2003-0117	Low-Income Program
Laclede Gas Company	GR-2002-356	Inventory, Off-System Sales
Laclede Gas Company	GR-2001-629	Inventory, Off-System Sales
Laclede Gas Company	GR-2001-387	ACA Price Stabilization
Missouri Gas Energy	GR-2001-382	ACA Hedging/Capacity Release
Laclede Gas Company	GT-2001-329	Incentive Plan

COMPANY	CASE NO.	ISSUES
Laclede Gas Company	GO-2000-394	Price Stabilization
Laclede Gas Company	GT-99-303	Incentive Plan
Laclede Gas Company	GC-99-121	Complaint PGA
Laclede Gas Company	GR-98-297	ACA Gas Cost
Laclede Gas Company	GO-98-484	Price Stabilization
Laclede Gas Company	GR-98-374	PGA Clause
Missouri Gas Energy	GC-98-335	Complaint Gas Costs
United Cities Gas Company	GO-97-410	PGA Clause
Missouri Gas Energy	GO-97-409	PGA Clause
Missouri Gas Energy	GR-96-450	ACA Gas Costs
Missouri Public Service	GA-95-216	Cost of Gas
Missouri Gas Energy	GO-94-318	Incentive Plan
Western Resources Inc.	GR-93-240	PGA tariff, Billing Adjustments
Union Electric Company	GR-93-106	ACA Gas Costs
United Cities Gas Company	GR-93-47	PGA tariff, Billing Adjustments
Laclede Gas Company	GR-92-165	PGA tariff
United Cities Gas Company	GR-91-249	PGA tariff
United Cities Gas Company	GR-90-233	PGA tariff
Associated Natural Gas Company	GR-90-152	Payroll
KPL Gas Service Company	GR-90-50	Service Line Replacement
KPL Gas Service Company	GR-90-16	ACA Gas Costs
KPL Gas Service Company	GR-89-48	ACA Gas Costs
Great River Gas Company	GM-87-65	Lease Application
Grand River Mutual Tel. Company	TR-87-25	Plant, Revenues
Empire District Electric Company	WR-86-151	Revenues
Associated Natural Gas Company	GR-86-86	Revenues, Gas Cost

cont'd David M. Sommerer

COMPANY	CASE NO.	ISSUES
Grand River Mutual Telephone	TR-85-242	Cash Working Capital
Great River Gas Company	GR-85-136	Payroll, Working Capital
Missouri-American Water Company	WR-85-16	Payroll

**MEMORANDUM**

**TO:** Missouri Public Service Commission Official Case File  
Case No. GO-2016-0333 Tariff Tracking No. YG-2017-0047  
Laclede Gas Company

**FROM:** Jennifer Grisham, Regulatory Auditor, Auditing Department  
Michael J. Ensrud, Rate & Tariff Examiner II, Procurement Analysis

/s/ Mark L. Oligschlaeger 11/29/16  
Auditing Department / Date

/s/ David M. Sommerer 11/29/16  
Commission Staff Division / Date

/s/ Jeffrey A. Keevil 11/29/16  
Staff Counsel's Office / Date

**SUBJECT:** Staff Report and Recommendation Regarding the Verified Application and Petition of Laclede Gas Company to Change its Infrastructure System Replacement Surcharge in its Laclede Gas Service Territory

**DATE:** November 29, 2016

**BACKGROUND**

On September 30, 2016, Laclede Gas Company ("Laclede" or "Company") filed the "Verified Application and Petition of Laclede Gas Company to Change its Infrastructure System Replacement Surcharge in its Laclede Gas Service Territory" with the Missouri Public Service Commission ("Commission"). The Application proposes to increase Laclede's Infrastructure System Replacement Surcharge (ISRS) rates and implement a revised Tariff Sheet with a proposed effective date of October 30, 2016.

Laclede made its filing pursuant to Sections 393.1009, 393.1012 and 393.1015 of the Revised Statutes of Missouri and Commission Rules 4 CSR 240-2.060, 2.080, and 3.265, which allow Missouri natural gas corporations to file a petition and proposed rate schedule with the Commission to recover certain infrastructure system replacement costs outside a formal rate case, through a surcharge on customers' bills.

Laclede asserts that it has continued to incur costs related to ISRS-eligible infrastructure system replacements since the Commission's last decision in Case No. GO-2016-0196 and submitted its Application to reflect ISRS investments for the period from March 1, 2016 through August 31, 2016, with pro-forma ISRS costs updated through October 31, 2016. Laclede estimated in its Application that it was entitled to an incremental increase of ISRS revenues in this case of \$4,961,233.

On October 3, 2016, the Commission issued an “Order Directing Notice, Setting Intervention Deadline, Directing Filing and Suspending Tariff.” That Order set the following dates:

- Staff’s Recommendation shall be filed no later than November 29, 2016
- Suspension of the tariff sheet until January 28, 2017.

In relation to notice requirements, Laclede has filed the following on June 9, 2016:

LACLEDE GAS AND MISSOURI GAS ENERGY’S REQUEST FOR WAIVER OF RULE 4.020(2) FOR ISRS CASE FILINGS, OR IN THE ALTERNATIVE, NOTICE OF INTENDED CASE FILINGS

This submission suffices for notice under 4 CSR 240-4.020(2). However, the waiver request should be denied, particularly in light of the fact that revisions to the Commission’s *ex parte* rules are currently under consideration by the Commission.

**STAFF REVIEW AND REVENUE CALCULATION**

On September 30, 2016, Laclede Gas Company (“Laclede” or “Company”) filed an application and tariff sheet in Case No. GO-2016-0333 to change its Infrastructure System Replacement Surcharge (ISRS). This is the sixth ISRS filing since the conclusion of the Company’s most recent general rate case, Case No. GR-2013-0171. Since that case, Laclede filed ISRS Case Nos. GO-2014-0212, GR-2015-0026, GO-2015-0269, GO-2015-0341, and GO-2016-0196, the results of which are all currently included in Laclede’s ISRS rates.

The Laclede tariff filed with this Application has been suspended until January 28, 2017. Laclede’s ISRS case No. GO-2015-0341 was filed in August 2015; the effective date of rates in that case was December 1, 2015. Since that date, but before filing the current ISRS case, Laclede has had one other ISRS case—GO-2016-0196. The statute, 393.1015.3 RSMo, states that “A gas corporation may effectuate a change in its rate pursuant to the provisions of this section no more often than two times every twelve months.” Based upon Laclede’s previous ISRS filing history and this statute, the Staff recommends that the tariffs resulting from this ISRS filing should not go into effect any earlier than December 1, 2016.

Commission Rule 4 CSR 240-3.265(18) states, “... The commission shall reject an ISRS petition after a commission order in a general rate proceeding unless the ISRS revenues requested in the

petition, on an annualized basis, will produce ISRS revenues of at least the lesser of one-half of one percent (1/2%) of the natural gas utility's base revenue level approved by the commission in the natural gas utility's most recent general rate case proceeding or one (1) million dollars, but not in excess of ten percent (10%) of the subject utility's base revenue level approved by the commission in the utility's most recent general rate proceeding." Laclede's requested ISRS revenues exceeds the one-half of one percent of the natural gas utility's base revenue level approved by the commission in the most recent Laclede rate case and Laclede's cumulative ISRS revenues, including this filing, do not exceed ten percent of the base revenue levels approved by the commission in the last Laclede rate case.

In this Application, Laclede filed to recover ISRS qualifying infrastructure replacement costs incurred during the period of March 1, 2016 through October 31, 2016. The ISRS recovery requested for September and October 2016 plant additions was included on an estimated basis at the time Laclede's Application was filed, but documentation supporting actual ISRS plant addition costs for those months was supplied by Laclede during the course of Staff's audit and review in this case.

As part of its examination of Laclede's Application, Auditing Staff reviewed workpapers, a representative sample of work orders, invoices, and other applicable documentation, such as work order authorizations. Staff also communicated with Laclede personnel to clarify Laclede's Application when necessary.

The following documentation was provided to Staff on the following dates:

- October 3, 2016 – Work order authorizations for ISRS projects over \$50,000 for the months of March 1, 2016 through August 31, 2016
- October 19, 2016 – Work order authorizations for September 2016
- November 1, 2016 – A sample of invoices related to costs incurred between March 1, 2016 and September 30, 2016
- November 16, 2016 – A sample of invoices for October 2016
- November 17, 2016 – A sample of work orders for October 2016
- November 21, 2016 – A sample of work orders related to costs incurred between March 1, 2016 and September 30, 2016 was retransmitted due to system limitations for e-mail attachments.

Commission Rule 4 CSR 240-3.265 sets forth the definitions of natural gas utility plant projects that are eligible for ISRS treatment. As a result of its review, Staff concluded that each of the projects Staff reviewed met the ISRS rule qualifications.

The methodology used by the Auditing Staff allows for consideration of all accumulated depreciation and deferred income taxes on ISRS qualifying infrastructure replacements costs through December 15, 2016. This methodology is consistent with past reviews conducted by the Auditing Staff, and it is consistent with Staff's view that the calculation of the ISRS revenue requirement should closely reflect the revenue requirement at the effective date of the ISRS rates.

The Auditing Staff also included incremental accumulated depreciation, accumulated deferred income tax, and any change in property tax rates for replacements associated with the currently effective ISRS authorized for Laclede in Case Nos. GO-2014-0212, GR-2015-0026, GO-2015-0269, GO-2015-0341, and GO-2016-0196 as required by 4 CSR 240-3.265(20)(K).

#### STAFF RECONCILIATION

Commission Rule 4 CSR 240-3.265(17) requires a reconciliation of the ISRS revenue Laclede collected from customers in the prior 12-month period to account for over or under-collection of ISRS revenue. Staff performed a reconciliation through December 31, 2015 during Case No. GO-2016-0196. Because the required twelve-month period has not elapsed, it is not necessary for Staff to perform a reconciliation in this case.

#### AUDITING SUMMARY AND CONCLUSIONS

Based upon its review and all of its calculations, Staff is recommending that Laclede receive additional ISRS revenues of \$4,504,138. This is the different than Laclede's requested ISRS-related revenue requirement of \$4,511,627, as updated on November 10, 2016. The difference is attributed to Staff recording accumulated depreciation and deferred taxes through December 15, 2016, whereas Laclede recorded it through December 1, 2016.

Upon Commission approval, this amount will be included with the currently-in-effect ISRS rates (Case Nos. GO-2014-0212, GR-2015-0026, GO-2015-0269, GO-2015-0341, and GO-2016-0196). The below table shows the cumulative amount to be included in rates:

ISRS Case No.	Revenue Requirement	Cumulative
GO-2014-0212	\$7,018,225	
GR-2015-0026	\$2,780,045	\$9,798,270
GO-2015-0269	\$5,378,541	\$15,176,811
GO-2015-0341	\$4,456,045	\$19,632,856

GO-2016-0196	\$5,389,900	\$25,022,756
GO-2016-0333	\$4,504,138	\$29,526,894

### THE ISRS RATE SCHEDULES

Staff's recommended rates are consistent with the methodology used to establish Laclede's past ISRS rates and consistent with the overall methodology used to establish ISRS rates for other gas utilities. Staff's recommended ISRS rates are contained in Appendix B, attached hereto and incorporated by reference.

Staff has verified that Laclede has filed its 2015 annual report and is not delinquent on any assessment. Staff is not aware of any other matter before the Commission that affects or is affected by this filing, other than Laclede's last two ISRS cases which are currently on appeal.

### RECOMMENDATION

Based upon the rationale stated above, Staff recommends the Commission issue an order in this case that:

1. Rejects Laclede's ISRS tariff sheet (YG-2017-0047) P.S.C. MO No. 5 Consolidated, Twenty-Seventh Revised Sheet No. 12 cancelling P.S.C. MO No. 5 Consolidated, Twenty-Sixth-Sheet No. 12, as filed on September 30, 2016;
2. Approves the Staff's recommended ISRS surcharge revenues in this docket in the incremental pre-tax revenue amount of \$4,504,138 with a total current and cumulative ISRS surcharge of \$29,526,894;
3. Authorizes Laclede to file an ISRS rate for each customer class as reflected in Appendix B, which generates \$29,526,894 annually.

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

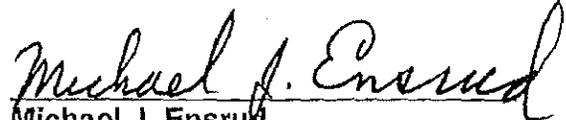
In the Matter of the Application of	)	
Laclede Gas Company to Change its	)	<b>Case No. GO-2016-0333</b>
Infrastructure System Replacement	)	Tariff No. YG-2017-0047
Surcharge in its Laclede Gas Service	)	
Territory	)	

**AFFIDAVIT**

State of Missouri    )  
                                  ) ss.  
County of Cole        )

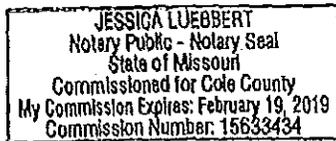
**COMES NOW** Michael J. Ensrud and on his oath declares that he is of sound mind and lawful age; that he contributed to the attached Staff Memorandum; and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.

  
Michael J. Ensrud

**JURAT**

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 20<sup>th</sup> day of November, 2016.



  
NOTARY PUBLIC



LACLEDE GAS COMPANY  
CASE NO. GO-2016-0333 & YG-2017-0047  
ISRS RATE DESIGN

Staff's Total ISRS Rev Req

\$29,526,894

<u>Customer Rate</u>	<u>Cust #</u>	<u>Customer Charge</u>	<u>Ratio To Res</u>	<u>Weighted Cust #</u>	<u>Customer Percentage</u>	<u>ISRS Charge</u>	<u>ISRS Revenues</u>
Residential	606,244	\$19.50	1.0000	606,244	87.9401%	\$3.57	\$25,965,989
Com & Ind. Class 1	30,824	\$25.50	1.3077	40,308	5.85%	\$4.67	\$1,726,442
Com & Ind. Class 2	9,006	\$44.29	2.2713	20,455	2.97%	\$8.11	\$876,114
Com & Ind. Class 3	606	\$88.57	4.5421	2,752	0.40%	\$16.21	\$117,891
Large Volume	72	\$874.78	44.8605	3,230	0.47%	\$160.12	\$138,342
Interruptible	18	\$776.36	39.8133	717	0.10%	\$142.10	\$30,694
Transportation	147	\$2,069.94	106.1508	15,604	2.26%	\$378.88	\$668,341
Transportation - Other	0	\$1,707.94	87.5867	0	0.00%	\$0.00	\$0
Gas Light	87	\$5.69	0.2918	25	0.00%	\$1.04	\$1,087
Vehicular Fuel	8	\$22.09	1.1328	9	0.00%	\$4.04	\$388
Liquid Propane	43	\$17.00	0.8718	37	0.01%	\$3.11	\$1,606
	<u>647,055</u>			<u>689,383</u>	<u>100.00%</u>		<u>\$29,526,894</u>

\* Due to rounding to the nearest penny, the designed ISRS rates will under-collect by \$4,401. However, it should be noted that the total amount collected will be trued-up at a later date.

Appendix B