BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Laclede Gas Company's Request to Increase Its Revenues for Gas Service	))	**File No. GR-2017-0215** 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	)))	**File No. GR-2017-0216** Tariff No. YG-2017-0196

SPIRE MISSOURI'S CLOSING STATEMENT

Pursuant to the instructions given by Judge Dippell at yesterday's hearing in the above-captioned cases, Spire Missouri Inc. (f/k/a Laclede Gas Company and referred to herein as "Spire Missouri" or "Company") submits this closing statement summarizing its position on the matters addressed at the hearing on February 5, 2018. This closing statement will:

- summarize the positions taken by the Parties at the evidentiary hearing;
- briefly discuss why the tax proposals submitted by the other Parties for the *first time* at the hearing cannot be acted upon or accepted by the Commission over the Company's objections; and
- outline the Company's proposal to resolve the tax issue and provide the Company with a reasonable and sustainable result in these cases while reducing the revenues paid by its Missouri customers by a cumulative $11.9 million.

I. POSITION TAKEN BY SPIRE MISSOURI

At the February 5 hearing, Spire Missouri presented three reasons why the Commission cannot, without the Company's consent, recognize the impacts from the Tax Cuts and Job Acts of 2017 (the "Tax Law"). First, because the Tax Law was not even passed until three months after the September 30, 2017 end date of the true-up period, such action would violate the Parties' Commission-approved agreement in this case that no revenue, expense or rate base item

change past that date.[1]

Second, even if the Tax Law had been passed during the true-up period, its impacts are in no way known and measurable, as required by the May 24 Order, or by Commission legal principles. (Ex. 298, Att. A, p. 4 ("virtually impossible" to determine accurate adjustments); Ex. 72, pp. 1-2)

Third, even if the Tax Law impacts had occurred during the true-up period, and were known and measurable, there is still no evidence or agreed upon method to allocate those impacts among customer classes. The existing cost allocation agreement did not contemplate the Tax Law change, and sound reasons exist to consider a different allocation for these costs.[2] Absent an agreement by all parties, the Commission must provide an opportunity, including an evidentiary hearing, to consider how to allocate those impacts.

Despite these clear barriers to recognizing the impacts of the Tax Law in these cases, the Company indicated its willingness to do so in the context of a reasonable and sustainable result in these cases, particularly with respect to rate base and capital structure. The imperative to do so was underscored by the adverse market reaction to the Commission's January 31, 2018 agenda discussions.

According to Spire witness Steven Rasche, investors and credit rating agencies are watching these rate case proceedings very closely. While they do not dictate regulatory policy or outcomes to the Commission, they do provide immediate and unbiased feedback. From the time the Commission began deliberations at 9:30 a.m. on January 31, through the next 5½ hours of trading, Spire lost roughly $125 million in market value. (Rasche) The credit rating agency Moody's also made inquiries that very day, and later issued a statement that the Commission's

[1]*See* May 24, 2017 *Order Adopting Procedural Schedule and Delegating Authority*, page 8, paragraph 3.
[2]For example, the Commission may want to allocate ta greater proportion of Tax Law impacts to residential and small general service customers, since larger customers are already receiving their own significant benefits.

use of the parent company capital structure would be credit negative for Spire. (Ex. 73) This would increase borrowing costs, and have long and far reaching negative impacts for our customers, our employees and our company. (Rasche)

The next day, February 1, investor analysts explained the market's reaction to the Commission's discussion. For example, Credit Suisse stated in Exhibit 74:

> In our opinion, the drive [by the Commission] to reduce financing cost reimbursement would appear to overlook ringfencing provisions and $210M of unrecoverable goodwill taken on by investors in the pursuit of cost savings and cross-border efficiencies that also benefit customers.

All told, in two days, Spire lost over $270 million in market capitalization. This negative market feedback stands in stark contrast to the market's reaction to the first Commission Agenda discussions in this case, on January 23, where there was no unusual market movement. (Rasche)

As it discusses and debates the many issues in this case, the Commission should not expect its preliminary thoughts to be flawless. The Company hopes that, in the face of severely adverse feedback from an impartial party, the Commission is willing to reconsider those preliminary thoughts prior to issuing a final decision.

The Company's strong preference is to begin passing through the benefit of the Tax Law to our customers now rather than later. To that end, Mr. Rasche outlined the rate base and capital structure outcomes that would make it feasible for the Company to do so while, at the same time, mitigating these adverse market reactions. As outlined in Attachment 1 (Ex. 71) and discussed below, the rate base and capitalization elements are all supported by the evidence in this case and are consistent with Commission treatment of the other gas utilities it regulates. Spire Missouri asks the Commission to:

(1) recognize the Company's actual capital structure of 54.2% equity and 45.8% long-

term debt. This capitalization has been used by Spire Missouri and approved by the Commission for the past decade or more, and removes the influence of financing activities of other jurisdictions and non-regulated businesses;

(2) allow the Company to include gas storage inventories in rate base at its overall cost of capital, just as every other gas utility is currently allowed to do, including MGE.

(3) limit the disallowance of earnings-based incentives to expense items rather than extending it to capital investments made in good faith and used to serve customers today; and

(4) allow the Company to amortize over a ten-year period, rather than write off in its entirety, the disputed portion of our prepaid pension asset that arose from pension contributions made prior to 1996 to support benefits for our largely union workforce.

With respect to tax reform, on Exhibit 71, the Company agreed to deduct revenues in the sum of $20 million to account for its estimate of the effect of lower current tax rates. As discussed below, the Company would also be willing to pre-finance, as part of an overall reasonable resolution of these cases, the potential impact of the Tax Law on the Company's accumulated deferred incomes taxes (ADIT), as certain Parties suggested at the evidentiary hearing. As shown on Revised Exhibit 71, attached hereto as Attachment 2, the rate base and capitalization changes would increase revenues by $28 million, offset by a Tax Law revenue reduction of $28.5 million, netting an additional $0.5 million for customers from the Commission's current position and an overall decrease for customers of $11.9 million.[3]

II. POSITIONS TAKEN BY OTHER PARTIES

It is not possible to respond in any meaningful way to the tax proposals put forth by

[3]The Company's estimate of these Tax Law impacts is preliminary in nature and strictly tied to the specific outcomes proposed. The estimate also does not include other potential adverse impacts from the Tax Law that would have the effect of reducing any savings that might be achieved under the law, such as lower cash flow.

the other Parties at the evidentiary hearing because those Parties provided no advance notice of their recommendations or of any of the analysis underlying them. The Company was never given an opportunity to conduct discovery or rebut their recommendations, and there is no transcript of the hearing to even capture with precision what they said.

As part of this procedural ambush, OPC, Consumers Council, MIEC and MECG submitted a Non-Unanimous Stipulation and Agreement that recommended reductions be approved for their estimate of the Tax Law's changes to current corporate taxes, as well as a further reduction to rates to account for the Tax Law's changes to ADIT. These parties also suggested a tracker, given the unknown amount of these benefits, but provided no details on how that tracker would supposedly work.[4]

For its part, Staff reversed the positions it had taken at the January 3 hearing, in its January 17 Reply Brief, and in its January 25 affidavit. The Company heard for the first time that Staff suddenly believed the tax impacts for both current and deferred taxes had become known and measurable, relying in part on its misuse of estimated information the Company provided as part of confidential settlement discussions.

The parties provided none of this information to Spire Missouri until they gave live testimony towards the end of the evidentiary hearing, over the Company's objections.[5] The parties' actions can only be described as a gross violation of the Company's due process rights. As Missouri courts have long held due process "requires that administrative hearings be fair and consistent with rudimentary elements of fair play." ***State ex rel Fischer v. Public Service Comm'n of Missouri***, 645 S.W.2d 39, 43 (Mo.App.W.D. 1982). An essential component of this requirement is that "parties be afforded a full and fair hearing at a meaningful time and in

[4] As indicated in Section III below, the Company does not believe a tracker is appropriate in this case.
[5] In contrast, all of the tax numbers relied upon by the Company, including those in Exhibit 71, were consistent with the Company's January 22 affidavit.

a meaningful manner." *Id.* That decidedly did not occur yesterday.

In fact, none of the rudimentary elements of a full and fair hearing were observed in this instance. In addition to those already identified, such violations included the parties' attempts to capture in rates cost changes occurring months after the end of the true-up period, to use hastily assembled estimates rather than known and measurable costs, and to propose revenue changes without addressing class cost of service allocation or rate design.

Moreover, the parties did not even comply with the already truncated procedures being used to address the tax issue, after the evidentiary record had been closed and reply briefs filed. These procedures included the opportunity for parties to file reply affidavits on January 25 setting forth their positions on these tax issues. This would have provided the Company at least some information on what the parties intended to propose at the evidentiary hearing, but none of the Signatories to the Non-Unanimous Stipulation and Agreement filed anything other than brief responses to the Company's affidavit. Moreover, while the Staff did file an affidavit, it chose to take a position at the evidentiary hearing that was directly contrary to its own affidavit, testifying instead to recommendations and numbers never seen by the Company.

As a result of this additional failure to comply with the procedural requirements, the Company has been given no opportunity to exercise its discovery rights under 4 CSR 240-2.090, in order to obtain a better understanding of the basis for and propriety of the recommendations, or to submit rebuttal testimony, either written or live, as provided in 4 CSR 240-2.130. Instead, all the Company was afforded was a brief opportunity for its attorney to ask a few questions regarding the numbers and proposals they had just seen on these complicated tax issues, all without the benefit of the measures the Commission has specifically designed to ensure that such cross examination can be effective or the ability of the Company to have its own subject matter experts respond to factual assertions and proposals with which

it disagrees.[6]

Staff witness Oligschlaeger illustrated the deprivation of due process suffered by the Company as a result of this approach. Even though Staff and some of the other parties attempted to justify their use of estimates rather than known and measurable data to fashion their recommendations, pointing to other cases where estimates had been used, Mr. Oligschlaeger acknowledged that in these other cases, parties had been given an opportunity to submit discovery, question the basis of such estimates and submit testimony if they disagreed with the propriety of what was being proposed by another party. As Mr. Oligschlaeger further acknowledged, none of these due process protections were afforded to the Company at the February 5 hearing because of time constraints. As Missouri courts have long recognized, however, "[n]either convenience, nor expediency, nor necessity is a proper matter to consider in determining whether the Commission's actions are authorized by statute." ***Pub. Serv. Comm'n v. Oneok, Inc***., 318 S.W.3d 134, 137 (Mo. App. 2009). The same is true in determining whether the Commission's actions accord with the requirements of due process.

From a due process standpoint, the evidentiary hearing was neither "full" nor "fair" and it certainly did not accord with the required "rudimentary elements of fair play." As a consequence, the Commission cannot and should not entertain the recommendations made by these parties at the hearing in the absence of any agreement from the Company.

III. PROPOSED RESOLUTION

[6] The proposals that were made by Staff, OPC and the other parties contain elements with which the Company strongly disagrees, including the lack of offsets from impacts of the Tax Law that will adversely affect the Company, the amortization periods proposed by the parties to force a prepayment of ADIT for protected and unprotected assets, the estimates of the remaining service lives for such assets, as well as others. It is especially troublesome, however, that a number of parties not only used information provided by the Company in privileged settlement discussions to formulate their recommendations, but then misrepresented or ignored the caveats the Company had made concerning the reliability of such information for developing such recommendations. The failure to disclose the intended use of such information makes these parties' actions even more disappointing.

Beginning from a baseline revenue requirement of $37.6 million from preliminary Commission discussions, the Company requests a $0.5 million decrease to reflect (i) a fair and reasonable outcome on rate base items and capital structure, and (ii) the effect of the January 1, 2018 Tax Law on both current and deferred taxes.

The Company's original proposal at the February 5 hearing, Exhibit 71, captured reductions in current taxes. However, in response to other parties' comments at the February 5 hearing, the Company is also offering to decrease revenues to account for ADIT reductions. (See Attachment 2, Revised Exhibit 71) The amount of the ADIT reduction reflects $8.5 million in deferrals per year, until the next rate case proceeding. The Company believes this amount will meet or exceed the effect of the Tax Law in its early years. Attachment 3 is a worksheet showing how the Company derived the $8.5 million ADIT reduction.

The Company reserves the right to allocate the ADIT reductions between protected and unprotected deferrals as it sees fit, in order to avoid the disastrous effect of a normalization violation.[7] The Company will update the amortization period for the remaining balances of the protected and unprotected deferrals at the next rate proceeding as actual known and measurable amounts will be available. Finally, although the parties suggested a tracker for ADIT reductions, no tracker is either necessary or advisable. Rather, the status of ADIT reductions should be reviewed in the next rate case.

After nearly 8 years of no increases to distribution costs other than for ISRS investments, the end result of this case would be a nearly $12 million decrease to the Company's current revenues. That is a remarkable result for our customers, a reasonable result for our employees, and an acceptable result for our investors.

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[7] The Company must be conservative in flowing protected deferrals because a normalization violation could prevent the Company from taking accelerated depreciation, a very bad result for customers.

WHEREFORE, for the foregoing reasons**,** Spire Missouri Inc. respectfully requests that the Commission grant the Company's proposed resolution.

Respectfully submitted,

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ATTORNEYS FOR SPIRE MISSOURI INC.

CERTIFICATE OF SERVICE

I certify that a true and correct copy of the foregoing was served electronically, or hand-delivered, or via First Class United States Mail, postage prepaid, on all parties of record herein on this 6th day of February, 2018.

/s/ Rick Zucker____

Attachment 1 - Ex. 71

Items Impacting Income Tax

PROPOSED TAX CALCULATION AND RATE CASE OUTCOME

Item (millions)	Rate Base Impact Gross	Rate Base Impact Net	Rate Base	Rev. Req.	
Preliminary Commission Indications			$1,877	$37.6	
Gas storage in rate base	$ 120	$ 120	$1,997	$11.9	
Pre-'96 pension funding recovery	-	-	1,997	1.6	*
Capitalization of incentive comp.	29	19	2,016	1.9	**
Spire Missouri LT capitalization			2,016	12.7	
				$28.0	
			$2,016	$65.6	

IMPACTS ON CUSTOMER RATES

Customer Position		
Revenue Requirement	$65.6	
Tax Benefit	($20.0)	***
Net Requirement	$45.6	^^
ISRS (through Feb '17)	$49.0	
Net Rate Impact	($3.4)	

NET OUTCOME COMPARED TO FILED CASE

Filed Position as updated	$112.5
Net Requirement	$45.6
Reduction	($66.9)
	-59%

* Includes amortization of pre-96 pension asset over 10 years with no rate base treatment

** Allows capitalization of earnings-based incentive compensation to present. The Company understands that it is at risk for future non-Union incentive capitalizations.

*** A primary complexity in calculating the impact of Tax Reform is not knowing the final rate case outcome. We have estimated the Tax Benefit based upon the discussions at the Commission Agenda Meetings and our proposal in this document.

^^ Includes ISRS investments through September 2017.

Items Impacting Income Tax

PROPOSED TAX CALCULATION AND RATE CASE OUTCOME

Item (millions)	Rate Base Impact Gross	Net	Rate Base	Rev. Req.	
Preliminary Commission Indication			$1,877	$37.6	
Gas storage in rate base	$ 120	$ 120	$1,997	$11.9	
Pre-'96 pension funding recovery	-	-	1,997	1.6	*
Capitalization of cash incentive comp.	29	19	2,016	1.9	**
Spire Missouri LT capitalization			2,016	12.7	
				$28.0	
			$2,016	$65.6	

IMPACTS ON CUSTOMER RATES

Customer Position		
Revenue Requirement	$65.6	
Tax Benefit - Current	($20.0)	***
Tax Benefit - ADIT	($8.5)	***
Net Requirement	$37.1	^^
ISRS (through Feb '17)	$49.0	
Net Rate Impact	($11.9)	

NET OUTCOME COMPARED TO FILED CASE

Filed Position as updated	$112.5
Net Requirement	$37.1
Reduction	($75.4)
	-67%

* Includes amortization of pre-96 pension asset over 10 years with no rate base treatment

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Spire Missouri **ATTACHMENT 3**

Preliminary Estimate of Deferred Tax Effects from Tax Reform

	Protected ($Millions)	Unprotected ($Millions)	Total ($Millions)
Deferred Taxes by Category (est. 50% / 50%)	$171.9	$171.9	$343.8
Difference In Effective Tax Rates	33.71%	33.71%	
Excess ADIT	$57.9	$57.9	$115.9
Tax Factor Gross Up	1.341	1.341	
Gross Up Excess ADIT	$77.7	$77.7	
Amortization Flow Back Period - Years	20*	15**	
Revenue Requirement Effect - Deferred Taxes	$3.9	$5.2	$9.1
Adjustment to decrease probability of normalization violation	($0.6)	$0.0	($0.6)
Net Estimate of Adjusted Revenue Requirement***	$3.3	$5.2	$8.5

*Actual flow back by year is not available at this time, as the calculation requires a detailed assessment of the timing of reversals of book to tax differences by vintage by class. Given the nature of these reversals, the benefits are anticipated to be back-end loaded (in the later years of the asset life, consistent with the nature of book and tax depreciation methods). For purposes of this estimate, we have used a protected flow back period that assumes straight-line for simplicity purposes.

**Unprotected flow back period is an estimate of the blended average of the expected benefit of the reversal of underlying deductions, primarily deductions for repairs and maintenance and pension contributions.

***The company reserves the right to allocate ADIT reductions between protected and unprotected deferrals as it sees fit, in order to avoid the disastrous effect of a normalization violation.