Exhibit No:	
Issue:	**Capital Structure, Pensions, OPEBs, Revenue Stabilization Mechanism, Depreciation Studies**
Witness:	**Glenn W. Buck**
Type of Exhibit:	**Direct Testimony**
Sponsoring Party:	**Laclede Gas Company; Missouri Gas Energy**
Case Nos.:	**GR-2017-0215, GR-2017-0216**
Date Prepared:	**April 11, 2017**

LACLEDE GAS COMPANY
MISSOURI GAS ENERGY

GR-2017-0215
GR-2017-0216

DIRECT TESTIMONY

OF

GLENN W. BUCK

April 2017

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DIRECT TESTIMONY OF GLENN W. BUCK

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

A. My name is Glenn W. Buck, and my business address is 700 Market St., St. Louis, Missouri, 63101.

Q. **WHAT IS YOUR PRESENT POSITION?**

A. I am presently employed as Director, Regulatory and Finance, for Laclede Gas Company (“Laclede” or “Company”).

Q. **PLEASE STATE HOW LONG YOU HAVE HELD YOUR POSITION AND BRIEFLY DESCRIBE YOUR RESPONSIBILITIES.**

A. I was appointed to my present position in April 2013. In this position, I am responsible for the financial aspects of rate matters generally, including financial analysis and planning, for Laclede and its two Missouri operating units, Laclede Gas (“LAC”) and Missouri Gas Energy (“MGE”). I am also responsible for monitoring regulatory trends and developments in Missouri and various other jurisdictions.

Q. **WHAT WAS YOUR EXPERIENCE WITH THE COMPANY PRIOR TO BECOMING DIRECTOR, REGULATORY AND FINANCE?**

A. I joined Laclede in August 1986, as a Budget Analyst in the Budget Department. I was promoted to Senior Budget Analyst in June 1988, and transferred to the Financial Planning Department in December 1988 as an Analyst. I was promoted to Senior Analyst in February 1990, Assistant Manager in February 1994, and Manager in January 1996. In March of 1999 I was promoted to Manager, Financial Services. I have been working on regulatory issues since 1988 and have worked on rates cases since preparing the accounting schedules in GR-90-120.

Q. **WHAT IS YOUR EDUCATIONAL BACKGROUND?**

A. I graduated from the University of Missouri - Columbia, in 1984, with a Bachelor of Science degree in Business Administration.

Q. **HAVE YOU PREVIOUSLY FILED TESTIMONY BEFORE THIS COMMISSION?**

A. Yes, I have, in Case Nos. GR-94-220, GR-96-193, GR-99-315, GT-2001-329, GR-2001-629, GR-2002-356, GO-2004-0443, GR-2005-0284, GR-2007-0208, GT-2009-0026, ER-2010-0036, GR-2010-0171, GC-2011-0006, GC-2011-0098, GO-2012-0363, GR-2013-0171, GR-2014-0007, GO-2015-0178, GO-2015-0179, GO-2015-0341, GO-2015-0343, GO-2016-0196, GO-2016-0197, GO-2017-0332 and GO-2017-0333. Further, I provided oral testimony before the Commission regarding the Infrastructure System Replacement Surcharge ("ISRS") rulemaking in Case No. AX-2004-0090.

PURPOSE OF TESTIMONY

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

A. The purpose of my testimony is to present evidence to the Commission concerning the following:

1. The capital structure that the Company recommends be used in this proceeding;
2. Income statement adjustments related to pensions and post-retirement benefits other than pensions ("OPEBs");
3. The mechanics of the Revenue Stabilization Mechanism sponsored by Company Witness Scott A. Weitzel; and
4. The submission of Depreciation Studies, databases and property unit catalogues for both LAC and MGE.

CAPITAL STRUCTURE

Q. PLEASE EXPLAIN SCHEDULE F.

A. Schedule F details the elements of Laclede's capital structure and calculates certain embedded costs for the various kinds of capital used to finance the company's provision of utility service. The capital structure components consist of common equity and long-term debt as of December 31, 2016. Schedule F contains the adjusted two-component capital structure and the resultant weighted average cost of capital. Short-term debt was not included in the capital structure because the average level of construction work in progress, propane, margin calls on our multi-year hedging program, and deferred gas costs subject to PGA carrying costs (none of which are proposed to be included in base rates) exceeds the average level of short-term debt outstanding during the test year after taking into consideration the forward placement of $170 million of long-term debt instruments that are scheduled to be funded at any point on or before September 15, 2017. These private placements will mature in three tranches ranging between fifteen and forty years at interest rates between 3.58% to 4.38%.

Q. ARE YOU REQUESTING THESE CAPITAL STRUCTURE COMPONENTS BE UPDATED THROUGH SEPTEMBER 30, 2017?

A. Yes. The Company is requesting an update of all elements of the capital structure.

PENSION AND OPEB EXPENSE

Q. WHAT BASIS OF ACCOUNTING DOES LACLEDE USE TO DETERMINE PENSION AND OTHER POSTRETIREMENT BENEFITS ("OPEBS") EXPENSES FOR FINANCIAL REPORTING PURPOSES?

A. Laclede calculates its pension expense on an accrual basis in accordance with the Financial Accounting Standards Board ("FASB") codification ASC 715, formerly Statement of Financial Accounting Standard ("FAS") FAS 87 and FAS 88. As these terms (FAS 87 and 88) are commonly used in the regulatory arena, I will continue to utilize them in my testimony in place of the new topic name. These standards were developed by the FASB, which has responsibility for establishing the Generally Accepted Accounting Principles ("GAAP") that must be followed by all companies that are publicly traded in the United States. Laclede was first required to adopt the provisions of these statements effective October 1, 1987.

Q. HOW DOES LACLEDE CALCULATE ITS OPEBS EXPENSE?

A. Laclede also calculates its OPEBs expense on an accrual basis in accordance with ASC 715. The portion of ASC 715 dealing with OPEBs, which was formerly found in FAS No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions, measures OPEB cost in much the same manner as FAS 87 measures pension cost. Laclede was first required to adopt the provisions of FAS 106 effective October 1, 1994.

Q. PLEASE BRIEFLY DESCRIBE THE COST MEASUREMENT OBJECTIVES OF FAS 87, FAS 88, AND FAS 106.

A. One of the primary objectives is to ensure that pension and OPEB costs are assigned to the time periods in which benefits are earned. Another objective of these statements is to provide a basis for ensuring comparability of reported pension and OPEB costs between different companies, and consistency in amounts reported from period to period by an individual company.

Q. HOW DO FAS 87 AND FAS 106 ADVANCE THIS OBJECTIVE?

A. FAS 87 and FAS 106 advance this objective by establishing the basic framework for calculating and accruing net pension and OPEB cost to recognize the compensation cost of an employee's benefits over the approximate working life of that employee. Pension and OPEB costs are based on the valuation of two separate components: 1) plan liabilities for benefits earned by employees; and 2) qualified plan assets, if any, to pay such benefits. Changes in the value of liabilities are netted against changes in the value of plan assets to determine periodic net cost. Depending on the magnitude of the changes in these two components, total net pension cost may result in either expense or income to a company. FAS 87 and FAS 106 also provide for systematic recognition (i.e., amortization) of gains and losses arising from differences between a plan's expected and actual experience.

Q. HOW DOES FAS 88 AFFECT THIS CALCULATION PROCESS?

A. FAS 88 is merely an extension of the FAS 87 measurement process. It generally requires immediate recognition of all or part of that portion of the FAS 87 gains and losses that have not been recognized as of the date that certain specific types of pension plan transactions or triggering events occur. In Laclede's case, this could occur when lump-sum benefit payments are made to retirees in exchange for the full settlement of the Company's retirement obligation to them.

REGULATORY QUALIFIED PENSION PLAN / OPEB EXPENSE

Q. **DOES LAC USE THE CALCULATION OF PENSION EXPENSE FOR FINANCIAL REPORTING PURPOSES AS DESCRIBED ABOVE IN SETTING CUSTOMER RATES?**

A. No. Rates have been set based on the ratemaking treatment recommended by the parties and approved by Commission in the Company's 2002 rate case (Case No. GR-2002-356) and continued thereafter in the Company's subsequent rate cases (Case Nos. GR-2005-0284, GR-2007-0208, GR-2010-0171 and GR-2013-0171).

Q. **WHY WAS AN ALTERNATIVE TREATMENT OF THIS EXPENSE USED TO SET RATES IN THOSE CASES?**

A. Prior to the 2002 case, the Company's rates were based on pension expense as calculated pursuant to FAS 87 and FAS 88. Our experience during those years was that FAS 87 and FAS 88 had produced unacceptable volatility and cash flow effects in setting rates. We expressed these concerns in that case, and subsequently worked with the Staff and other parties to develop a ratemaking treatment for this expense that we believe is in the best interests of the Company and its customers.

Q. **PLEASE DESCRIBE THE CURRENT RATEMAKING TREATMENT OF PENSION EXPENSE.**

A. In Case No. GR-2002-356, pension expense included in rates was based on the expected level of cash contributions into the pension trusts, plus an additional allowance to amortize the existing prepaid pension asset on the Company's books. LAC's rates in Case No. GR-2002-356 were based on an expected cash contribution of zero (based on the ERISA minimum funding calculation), plus an allowance of $3.4 million for amortization of the prepaid pension asset. The difference between pension expense as calculated pursuant to FAS 87 and FAS 88 for financial reporting purposes and pension expense included in rates is deferred as a regulatory asset or liability. This methodology was continued in Case No. GR-2005-0284, except that the allowance in rates was increased to $4.1 million to reflect the fact that contributions to the pension funds had increased to about $0.7 million. The methodology was again continued in Case No. GR-2007-0208, but with the allowance increased to $4.8 million in partial recognition of anticipated increases in funding requirements. Finally, the allowance was increased in Case No. GR-2010-0171 to $15.5 million to reflect movement toward increased future funding levels that occurred shortly thereafter and that remain in effect today.

Q. **WHAT HAVE BEEN THE FUNDING REQUIREMENTS SUBSEQUENT TO THE SETTLEMENT OF CASE NO. GR-2010-0171?**

A. As can be seen on Schedule GWB-D1, the required funding level has exceeded the allowance in rates each year since the last rate case was concluded. The current estimate includes the full effect of the 2012 adoption of the "Moving Ahead for Progress in the 21st Century Act" passed in July 2012 as modified by the Highway and Transportation Funding Act of 2014.

.**Q. DOES MGE USE THE CALCULATION OF PENSION EXPENSE FOR FINANCIAL REPORTING PURPOSES AS DESCRIBED ABOVE IN SETTING CUSTOMER RATES?**

A. No. Rates have been set based on the ratemaking treatment recommended by the parties and approved by Commission in MGE's 2004 rate case (Case No. GR-2004-0209) and continued thereafter in the MGE's subsequent rate cases (Case Nos. GR-2006-0422, GR-2009-0355, and GR-2014-0007).

Q. **WHY WAS AN ALTERNATIVE TREATMENT OF THIS EXPENSE USED TO SET RATES IN THOSE CASES?**

A. Similar to LAC, prior to the 2004 case, MGE's rates were based on pension expense as calculated pursuant to FAS 87 and FAS 88 and exhibited similar volatility.

Q. **PLEASE DESCRIBE THE CURRENT RATEMAKING TREATMENT OF PENSION EXPENSE.**

A. In Case No. GR-2004-0209, pension expense included in rates was based on the expected level of cash contributions into the pension trusts. MGE's rates in Case No. GR-2004-0209 were based on an expected cash contribution of zero (based on the ERISA minimum funding calculation), plus an allowance of $1.1 million for amortization of the prepaid pension asset (over a 7 year period) ("Tier 1" amortization). The difference between pension expense as calculated pursuant to FAS 87 and FAS 88 for financial reporting purposes and pension expense included in rates is deferred as a regulatory asset or liability. This methodology was continued in Case No. GR-2006-0422, except that the allowance in rates was increased to $10.3 million to reflect the fact that contributions to the pension funds had increased and included the continued amortization of the Tier 1 and post-2004 ("Tier 2") pension asset balances, with the Tier 2 being amortized over a five year period. The methodology was again continued in Case No. GR-2009-0355, but with the allowance increased to $14.8 million, again reflecting increased funding requirements as well as continuing the Tier 1 and Tier 2 amortizations. The post-2006 period asset deferral (approximately $14.1 million) ("Tier 3") was also being amortized over a 5 year period. Finally, the allowance was decreased in Case No. GR-2014-0007 to $8.8 million to reflect a slight decrease in the funding requirement as well as an over-amortization of the assets in Tiers 1, 2 and 3. Further, consistent with paragraph 7 of the Stipulation and Agreement in GR-2014-0007, Tiers 1, 2, and 3 balances were combined with the post-2009 deferrals (Tier 4") and the total was reflected in rates over a 5 year period. Like the LAC pension asset, this liability is being tracked and the unamortized balance is included in rate base with any under/over recoveries of such tracked amounts to be reflected in the current rate proceeding.

Q. **WHAT HAVE BEEN THE FUNDING REQUIREMENTS SUBSEQUENT TO THE SETTLEMENT OF CASE NO. GR-2014-0007?**

A. Subsequent to the rate case, due to the adoption of the "Moving Ahead for Progress in the 21st Century Act" passed in July 2012 as modified by the Highway and Transportation Funding Act of 2014, the ERISA minimum funding requirement at MGE temporarily dropped to $0 and a regulatory liability has resulted. As of December 31, 2016, it is approximately $27.5 million and is expected to grow to $34.1 million as of September 30, 2017.

Q. PLEASE DESCRIBE THE ADJUSTMENT THAT YOU HAVE INCLUDED IN THIS CASE FOR PENSION EXPENSE.

Laclede proposes the continuation of the ratemaking treatment implemented in in the past regarding pension expense. Specifically, we propose that the Commission continue to authorize Laclede to defer the difference between pension expense calculated pursuant to FAS 87 and FAS 88 (or any successor issued by the FASB) and the amount included in rates. In recognition of a higher level of funding to gradually get Laclede to a 90% ERISA funded basis, we have included pension expense in rates of $36 million in this case, allocated between LAC and MGE, as shown on each operating unit's Schedule H5. The change in funding recommendation has a goal of gradually moving to a 90+%

ERISA funded level so that Laclede's funding requirements will be less volatile and susceptible to the vagaries of frequent changes in governmental policies.

Q. **PLEASE DESCRIBE THE ADJUSTMENT THAT YOU HAVE INCLUDED IN THIS CASE FOR OPEB EXPENSE.**

Similar to pensions, OPEBS are also tracked and a fixed amount is provided for in rates. Specifically, we propose that the Commission should continue to defer the difference between OPEB expense calculated pursuant to FAS 106 (or any successor issued by the FASB) and the amount included in rates. Further, the difference between the rate allowance and the amount contributed to our VEBA and welfare rabbi trusts should continue to be tracked for rate base recognition and future recovery from / return to customers. Based on the 2018 projections from Willis Towers Watson, we are requesting an allowance of $8.6 million, allocated between LAC and MGE, as shown on each company's Schedule H5.

Q. **PLEASE DESCRIBE THE ADJUSTMENT THAT YOU HAVE INCLUDED IN THIS CASE FOR PREPAID PENSION/OPEB ASSETS/LIABILITIES.**

A. In MGE's last rate case, a regulatory liability was established for approximately $6.5 million dollars as of May 1, 2014 and is being amortized over a 5-year period (and is currently at $3.6 million as of December 31, 2016). As of May 1, 2014, Laclede had legacy assets for both pensions and OPEB totaling $140.6 million. We are proposing that these legacy assets / liabilities ("legacy balances"), as measured as of that date, remain at each operating unit. Since May 1, 2014, the net pension / OPEB assets at the combined operating units ("new balances") have grown by $19.4 million through December 31, 2016 and will be allocated between the two units. The new balances have been added to the legacy balances and, due to the size of such assets, we propose to amortize such amounts into rates over 10-year periods. Such amortizations are shown on each operating unit's Schedule H5. I have also supplied these balances to Laclede witness Keathley for inclusion in rate base. Such balances are detailed on Schedule E5 for each unit.

Q. WHY DID YOU CHOOSE THE DATE OF MAY 1, 2014?

A. This was the closest date to Laclede's acquisition of MGE that also provided a point of reference reviewed by parties as part of MGE's rate case and, as explained by Laclede witness Lobser, we believe this was an equitable allocation of these costs.

REVENUE STABILIZATION MECHANISM

Q. IS THE COMPANY REQUESTING A REVENUE STABILIZATION MECHANISM ("RSM") IN THIS PROCEEDING?

A. Yes. As discussed in the Direct testimony of Laclede witnesses Lobser and Weitzel, the Company is requesting an RSM applicable to variations in base revenues due to changes in Residential and Small General Service (SGS) customer usage occurring as a result of abnormal weather or conservation. It would help to protect Residential and SGS customers and the Company from the effects of these revenue variations while, at the same time, allowing the company to meaningfully lower its reliance on higher customer charges. In addition to benefitting low use customers - a past stated goal of the Office of Public Counsel as well as certain other consumer intervenors – implementation of the RSM would allow the operating units to be more supportive of customer conservation efforts. This would further reduce the Company's financial disincentive to assist its customers in becoming more energy efficient and, in the process, save them real dollars on the largest portion of their bill – the gas costs. I should note that such a mechanism is authorized by S.B. 179 which was passed into law effective August 28, 2005. It can be found at RSMo §386.266.3.

Q. HOW DOES THE MECHANISM WORK?

A. The starting point would be the base tariff revenues per customer by customer class resulting from this proceeding. Attached to this testimony as Schedule GWB-D2 is an ***illustrative*** example of how this process would work. At the top of the schedule, residential base revenues are priced out at the illustrative current tariff rates. The examples that follow show what a February period RSM adjustment would be in periods that are colder than normal, during normal weather, and when weather is warmer than normal.

Q**. IS LACLEDE ISOLATED FROM ALL REVENUE VARIATIONS WITH AN RSM IN PLACE?**

A. No. The RSM is not a full decoupling mechanism. First, Laclede remains subject to revenue variations due to changes in customer usage for all of its other rate classes that are not subject to the RSM. Second, the revenues received can and will vary based on changes in customer counts. In one of the examples shown on Schedule GWB-D2, it is assumed that there is 0.5% customer growth. Laclede would retain the benefit of the additional customer growth between rate cases, consistent with the current regulatory treatment – thus giving the company an incentive to grow the customer base so as to spread the largely fixed costs of providing service over a larger customer base. Conversely, Laclede will absorb any revenue deficiency in periods of customer contraction, as has occurred in a number of years, also consistent with current regulatory treatment.

Q. HOW OFTEN WILL ADJUSTMENTS OCCUR?

A. In order to create a mechanism that helps stabilize customers' bills, we are proposing that, similar to with the PGA clause, the RSM will have one required filing a year as well as up to 3 additional discretionary filings no closer than 60 days apart per filing. Similarly, the RSM allows for an annual "true-up" at the end of each RSM year to reconcile actual base revenues per customer by customer class to the tariffed base revenues per customer with any over- or under- recovery returned to or collected from those customer classes as part of the next required annual RSM filing.

DEPRECIATION STUDIES

Q. **ARE THE OPERATING UNITS REQUIRED TO SUMBIT DEPRECIATION STUDIES IN THIS PROCEEDING?**

A. Yes. 4 CSR 240-3.235(1)(A) requires that any gas utility which submits a general rate increase request shall submit "Its depreciation study, database and property unit catalog. However, a gas utility need not submit a depreciation study, database or property unit catalog to the extent that the commission's staff received these items from the utility during the three (3) years prior to the utility filing for a general rate increase or before five (5) years have elapsed since the last time the commission's staff received a depreciation study, database and property unit catalog from the utility." LAC last submitted a study in December 2012. MGE filed its last study with the September 2013 rate case filing.

Q. **HAVE THE DEPRECIATION STUDIES BEEN UPDATED FOR THIS PROCEEDING?**

A. Yes. Laclede engaged the services of Gannett Fleming to update the depreciation studies for both the LAC and MGE operating units. With the filing of this case, the Company is submitting the operating units' studies, database and property unit catalogues.

Q. ARE YOU RECOMMENDING ANY CHANGES IN DEPRECIATION RATES IN THIS CASE?

A. We are currently reviewing the results of the studies but are not recommending any changes at this time.

Q. **DOES THIS COMPLETE YOUR DIRECT TESTIMONY?**

A. Yes.

Pension Plan Contributions
Fiscal Years 2011 - 2017

Year	Contribution
2011	16,815,000
2012	33,310,000
2013	23,400,000
2014	16,100,000
2015	27,450,000
2016	26,020,000
2017	29,000,000

Hypothetical Billing Determinants - Month of February							
		Customer Charge		Usage		Total	Revenue/Customer
Customers & Therms	(A)	**455,770**	(B)	**62,714,017**			
Therms / Customer (B ÷ A)			(C)	**137.6**			
Tariff Rates		$ 20.00	(D)	**$ 0.2350**			
Revenues		$ 9,115,400		$ 14,737,794		$ 23,853,194	$ 52.34
Annual Usage / Customer				782	(E)	**356,412,140**	

.5% Customer Growth / 10% More Usage Than Normal - Month of February							
Actual Customers & Therms	(F)	**458,049**	(G)	**69,330,368**			
Therms / Customer (G ÷ F)			(H)	**151.4**			
Tariff Rates		$ 20.00		$ 0.23500			
Revenues		$ 9,160,980		$ 16,292,636		$ 25,453,616	$ 55.57
Usage Variance for RSM (H - C)			(I)	**(13.8)**			
RSM Deferral (I X A X C)					(J)	**$ (1,473,779)**	$ (3.23)
RSM Rate (J ÷ E)			(K)	**$ (0.0041)**		(assumes a $0 previous balance for RSM)	
Unadjusted Revenues		$ 45,580		$ 81,063		$ 126,643	

.5% Customer Loss / Normal Usage - Month of February							
Actual Customers & Therms	(F)	**453,491**	(G)	62,400,426			
Therms / Customer (G ÷ F)			(H)	**137.6**			
Tariff Rates		$ 20.00		$ 0.23500			
Revenues		$ 9,069,820		$ 14,664,100		$ 23,733,920	$ 52.34
Usage Variance for RSM (H - C)			(I)	**0.0**			
RSM Deferral (I X A X C)					(J)	**$ -**	$ -
RSM Rate (J ÷ E)			(K)	**$ -**		(assumes a $0 previous balance for RSM)	
Unadjusted Revenues		$ (45,580)		$ (73,694)		$ (119,274)	

.5% Customer Loss / 10% Less Usage Than Normal - Month of February							
Actual Customers & Therms	(F)	**453,491**	(G)	56,160,384			
Therms / Customer (G ÷ F)			(H)	**123.8**			
Tariff Rates		$ 20.00		$ 0.23500			
Revenues		$ 9,069,820		$ 13,197,690		**$ 22,267,510**	$ 49.11
Usage Variance for RSM (H - C)			(I)	**13.8**			
RSM Deferral (I X A X C)					(J)	**$ 1,473,779**	$ 3.23
RSM Rate (J ÷ E)			(K)	**$ 0.0041**		(assumes a $0 previous balance for RSM)	
Unadjusted Revenues		$ (45,580)		$ (66,324)		$ (111,905)	

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
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

AFFIDAVIT

STATE OF MISSOURI)
) SS.
CITY OF ST. LOUIS)

Glenn W. Buck, of lawful age, being first duly sworn, deposes and states:

1. My name is Glenn W. Buck. I am Director, Regulatory and Finance for Laclede Gas Company. My business address is 700 Market St., St Louis, Missouri, 63101.

2. Attached hereto and made a part hereof for all purposes is my direct testimony on behalf of Laclede Gas Company and MGE.

3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct to the best of my knowledge and belief.

Glenn W Buck
Glenn W. Buck

Subscribed and sworn to before me this 3rd day of April 2017.

Marcia A. Spangler
Notary Public

MARCIA A. SPANGLER
Notary Public - Notary Seal
STATE OF MISSOURI
St. Louis County
My Commission Expires: Sept. 24, 2018
Commission # 14630361