Exhibit No:	012
Issue:	**Cash Working Capital**
Witness:	**Timothy S. Lyons**
Type of Exhibit:	**Rebuttal Testimony**
Sponsoring Party:	**Laclede Gas Company (LAC)** **Missouri Gas Energy (MGE)**
Case Nos.:	**GR-2017-0215** **GR-2017-0216**
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LACLEDE GAS COMPANY
MISSOURI GAS ENERGY

GR-2017-0215
GR-2017-0216

REBUTTAL TESTIMONY

OF

TIMOTHY S. LYONS

OCTOBER 2017

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SCHEDULES

REBUTTAL TESTIMONY OF TIMOTHY S. LYONS

Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS.

A. My name is Timothy S. Lyons. I am a Partner at ScottMadden, Inc. My business address is 1900 West Park Drive, Suite 250, Westborough, Massachusetts 01581.

Q. ARE YOU THE SAME TIMOTHY S. LYONS WHO PREVIOUSLY SPONSORED DIRECT TESTIMONY IN THIS PROCEEDING?

A. Yes, I am. I provided direct testimony ("Direct Testimony") before the Missouri Public Service Commission (the "Commission") on behalf of Laclede Gas ("LAC") and Missouri Gas Energy ("MGE"), operating units of Laclede Gas Company ("Laclede" or "Company").

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of this rebuttal testimony ("Rebuttal Testimony") is to respond to the Staff of the Missouri Public Service Commission's ("Staff") Cost of Service Report ("Staff Report") related to the Company's proposed Cash Working Capital ("CWC") requirement. In addition, this rebuttal testimony will respond to the direct testimony of Amanda C. Conner on behalf of the Office of the Public Counsel ("OPC") related to the CWC issue.

Q. HAVE YOU PREPARED SCHEDULES SUPPORTING YOUR REBUTTAL TESTIMONY?

A. Yes. Schedules TSL-R1 through TSL-R4 support this rebuttal testimony. The Schedules were prepared by me or under my direction and are incorporated herein by reference.

I. SUMMARY OF STAFF AND OPC RECOMMENDATIONS AND THE COMPANY'S RESPONSE

Q. PLEASE SUMMARIZE STAFF'S RECOMMENDATIONS RELATED TO THE COMPANY'S PROPOSED CWC REQUIREMENTS.

A. Staff recommends the following changes to the Company's CWC requirements:

1. Decrease the collection lag by adjusting the Account Receivable ("A/R") balance for those accounts that will later become uncollectible and included in bad debt expense.
2. Decrease the revenue and expense lags associated with Gross Receipts Tax ("GRT") payments for the service and billing lag.
3. Decrease the revenue and expense lags associated with Sales and Use Tax for the service and billing lags.
4. Increase the expense lag associated with Federal and State Income Taxes for changes in service period and payment deadlines.
5. Reduce the expense lag associated with Property Tax.
6. Measure separately and increase the expense lag associated with vacation payments.
7. Eliminate the net lead-lag days associated with the Missouri Public Service Commission ("PSC") Assessment due to its reclassification as a prepayment.

8. Increase the expense lag associated with Pension and Other Post-Employment Benefits ("OPEB") payments.
9. Increase the expense lag associated with employee benefit expenses using data from a prior rate case.
10. Measure separately and increase the expense lag associated with Federal Unemployment Tax Act ("FUTA") and State Unemployment Tax Act ("SUTA") payments.
11. Measure separately and increase the expense lag associated with incentive compensation payments.

Q. PLEASE DESCRIBE THE OPC'S PROPOSED ADJUSTMENT TO THE COMPANY'S CWC REQUIREMENT.

A. The OPC proposes one modification which would remove current income tax expense from the Company's CWC requirement based on its position that Laclede does not pay, nor is it expected to pay in the near future, income taxes due to its current operating loss position resulting from bonus depreciation and other tax deductions.

Q. WHAT IS THE COMPANY'S POSITION ON THESE RECOMMENDATIONS?

A. The Company position on these recommendations is described below:

1. The Company opposes the proposed decrease in the collection lag. Bad debt expense recovers only the uncollectible revenues and not the carrying cost

associated with uncollectible revenues, *i.e.*, the number of days from when the bill is calculated and posted to A/R to when the bill is considered uncollectible and included in bad debt expense. The carrying costs associated with uncollectible revenues are included in the CWC requirement.

2. The Company opposes the proposed increase in the expense lag associated with Gross Receipt Taxes ("GRT"). The proposed increase is based on the Company's response to Discovery Request ("DR") No. 139 in MGE's most recent rate case, Case No. GR-2014-0007. The Company does not oppose using the monthly, quarterly and semi-annual lag days reflected in the response to DR No. 139; however, the lag days are then weighted by monthly, quarterly, semi-annual and annual tax payment percentages that are inconsistent with the Company's 2016 tax payments. For example, Staff's analysis assumes that 23.0 percent of GRT tax payments are monthly, whereas 96.1 percent of LAC's and 85.9 percent of MGE's 2016 GRT tax payments were monthly.

3. The Company opposes the proposed increase in the expense lag associated with Federal and State Income Taxes. The Company's calculation reflects the actual tax payments during the test year. However, should the Commission adopt Staff's approach, there are several important corrections that should be made to the calculation, including: (a) the service period should reflect the fiscal year ending September 30 rather than individual quarters consistent with how income taxes are assessed; and (b) the tax payments should reflect the respective deadlines for the quarterly tax payments.

4. The Company opposes excluding the PSC Assessment from the CWC requirement despite reclassification as a prepayment. The PSC Assessment should be included in the CWC requirement to reflect the carrying cost associated with the prepayment once it is amortized and charged to an expense account. Similar to any expense, there is a carrying cost associated with the number of days from when the prepayment is recorded as an expense to when the expense is recovered from customers. In other words, the Company must wait 51.16 days and 47.92 days, respectively, the duration of the revenue lag, to receive the cash associated with LAC and MGE expenses.
5. The Company does not oppose the proposed increase in the expense lag associated with Pension and OPEB payments.
6. The Company opposes the proposed increase in the expense lag associated with Employee Benefit expenses. Staff's calculation is based on data from MGE related to a prior rate case proceeding. The Company's calculation is based on actual invoices paid by the Company during the test year.
7. The Company opposes the OPC's proposed removal of current income tax expenses from the CWC requirement. The Company has calculated a current income tax liability in its proposed cost of service.

Q. WHAT IS THE COMPANY'S POSITION ON THOSE EXPENSES THAT STAFF PROPOSES TO MEASURE SEPARATELY?

A. There are several expenses that Staff proposes to measure separately. In general, the expenses reflect a level of granularity not included in the Company's prior lead-lag studies. The Company's approach in the past was to strike a balance between the level of precision and the level of effort/cost in preparing the studies. The lead-lag study could, for example, attempt to measure the net lead-lag associated with most test year expenses. However, the increase in precision would likely not be supported by the increase in the level of effort/cost. On the other hand, the lead-lag study could use a single net lead-lag to measure all test year expenses, such as a 45-day convention. However, the decrease in precision would likely not be supported by the decrease in level of effort/cost, particularly related to significant expenses such as purchased gas costs.

The Company's approach in prior lead-lag studies was to strike a balance between the level of precision and effort/cost by including certain expenses in the study, such as purchased gas costs, while excluding other expenses. Nevertheless, Staff's proposal to separately identify and measure the net lead-lag days associated with vacation payments, FUTA and SUTA payments, and incentive compensation payments is not inconsistent with lead-lag studies prepared by other companies. Staff's approach to calculation of the expense lag associated with vacation payments, FUTA and SUTA payments and incentive compensation payments generally reflects the Company's CWC requirements.

Q. WHAT IS THE COMPANY'S POSITION ON THE REMAINING RECOMMENDATIONS?

A. The Company's position on the remaining recommendations is discussed below.

1. The Company does not oppose Staff's proposed change in methodology to calculate the expense lag associated with Use and Sales Taxes; however, the Company's calculation generated a slightly different result.
2. Staff accepted as reasonable the Company's calculation of the expense lag associated with interest expense; however, Staff's analysis uses 83.85 days rather than the 83.35 days included in the Company's lead-lag study.

Q. WHAT IS THE IMPACT OF THE COMPANY'S REBUTTAL POSITION RELATIVE TO STAFF?

A. Figure 1 compares the Company's rebuttal CWC requirement with that of Staff. The rebuttal CWC requirement is based on a revised lead-lag study applied to Staff's test year adjusted expenses to produce an illustrative, apples-to-apples comparison between the Company's rebuttal testimony and Staff's direct testimony of the CWC requirement. The illustrative, apples-to-apples comparison is meant to compare the impact of the revised lead-lag study rather than present the Company's position regarding cost of service items.

Figure 1: Comparison of CWC Requirement

	CWC Requirement ($Millions)		
Company	Company Lead-Lag	Staff Lead Lag	Difference
LAC	$14.2	$23.5	($9.3)
MGE	$4.2	$1.1	$3.1

The comparison shows that the Company's rebuttal CWC requirement for LAC is $14.2 million as compared to Staff's CWC requirement for LAC of $23.5 million, or a reduction of $9.3 million. The comparison also shows that the Company's revised CWC requirement for MGE is $4.2 million as compared to Staff's CWC requirement for MGE of $1.1 million, or an increase of $3.1 million.

II. THE COMPANY'S RESPONSE TO STAFF AND OPC RECOMMENDATIONS

Q. WHAT IS STAFF'S RECOMMENDATION REGARDING THE COLLECTION LAG?

A. Staff proposes to decrease the collection lag from 33.78 days to 33.47 days for LAC and from 30.53 days to 30.48 days for MGE.[1] The proposed decrease is based on an adjustment to the A/R balance for accounts that will later become uncollectible (i.e., "uncollectible revenues") and included in bad debt expense. Staff's rationale for the proposed decrease is that since bad debt expense is recovered separately in the cost of service, then it is not necessary to include it in the CWC requirement.

Q. WHAT IS THE COMPANY'S POSITION ON STAFF'S RECOMMENDATION REGARDING THE COLLECTION LAG?

A. The Company opposes the proposed decrease in the collection lag since bad debt expense recovers only uncollectible revenues and not the carrying cost associated with uncollectible revenues; *i.e.,* the number of days from when the bill is calculated and posted to A/R to when the bill becomes uncollectible and included

[1] Staff Report, Missouri Public Service Commission, pg. 57.

in bad debt expense. The carrying costs associated with uncollectible revenues is included in the CWC requirement.

The Company's calculation of the collection lag reflects the carrying costs associated with uncollectible revenues. Specifically, the calculation is based on the turnover in the A/R balance, which is measured as the ratio of the Company's annual revenues to its average A/R balance. The A/R balance increases when customer bills are calculated and mailed to customers and decreases when customer payments are received or when an amount becomes uncollectible and is included in bad debt expense. The lower the turnover in the A/R balance, the higher the collection lag and CWC requirement. The higher the turnover in the A/R balance, the lower the collection lag and CWC requirement.

Staff's calculation of the collection lag eliminates the carrying costs associated with uncollectible revenues by reducing the monthly A/R balance, creating an artificially higher turnover in the A/R balance. Staff's proposal understates the Company's cash needs to fund its receivables.

Q. WHAT IS STAFF'S RECOMMENDATION REGARDING THE EXPENSE LAG ASSOCIATED WITH GROSS RECEIPTS TAX ("GRT") PAYMENTS?

A. Staff proposes to decrease the expense lag associated with MGE's GRT payments from 45.54 days to 42.21 days.[2] As discussed above, the proposed decrease is based on data from the Company's response to DR No. 139 in MGE's prior rate case, Case No. GR-2014-0007. Staff's analysis calculates the expense lag

[2] Ibid, pgs. 58-59.

associated with GRT payments based on a weighted average of monthly, quarterly, and semi-annual GRT tax payments to communities in the service area.[3] Staff's analysis also removes the service and billing lags from the calculation of the revenue and expense lags associated with GRT tax payments. Staff states that service and billing lags should not be included in the revenue and expense lags because the utility does not provide a service to customers for remittance of the taxes. Staff concluded that because GRT tax payments are not associated with a service provided by the Company, the revenue lag should not begin until the proposed tax is billed to customers.

Q. WHAT IS THE COMPANY'S POSITION ON THE EXPENSE LAG ASSOCIATED WITH GRT PAYMENTS?

A. The Company opposes the proposed decrease in the expense lag associated with GRT. While the Company does not oppose the lag days associated with the monthly, quarterly and semi-annual tax payments, the percentages used to weight the lag days is inconsistent with the Company's 2016 tax payments. For example, Staff's analysis assumes that 23.0 percent of GRT tax payments are monthly, which results in an expense lag of 42.21 days. However, the Company's 2016 tax payments for LAC, as included in Figure 2, show that 96.1 percent of 2016 GRT tax payments are monthly, and for MGE, as included in Figure 3, show that 85.9 percent of 2016 GRT tax payments are monthly.

[3] Accounting Exhibit, Missouri Public Service Commission: GR-2017-0215-CWC-GRT Expense Lag-GR-2017-0215.xls.

Figure 2: Comparison of Expense Lag related to GRT (LAC)

LAC Payment Type	Staff Analysis Payments	%	Dollar Days	Days Lag	Company Analysis Payment (1)	%	Days Lag	Wgt'd Days Lag
Monthly	$ 3,762,655.72	23.0%	$ 120,910,425.33	32.13	$ 30,805,650	96.1%	32.13	30.87
Quarterly	10,408,764.54	63.6%	624,696,123.22	60.02	711,915	2.2%	60.02	1.33
Semi-Annual	2,196,449.41	13.4%	229,762,992.38	104.61	519,034	1.6%	104.61	1.69
Annual					34,382	0.1%	209.21	0.22
All Muncipalities	$ 16,367,869.67	100.0%	$ 975,369,540.92	59.59	$ 32,070,981	100.0%		34.12
			Less Service Lag	15.21				15.21
			Less Billing Lag	2.17				2.17
GRT Lag				42.21				16.74

Using the 2016 tax payments to weight the lag days results in an expense lag of 16.74 days for LAC and 22.41 days for MGE.

Figure 3: Comparison of Expense Lag related to GRT (MGE)

Missouri Gas Energy Payment Type	Staff Analysis Payments	%	Dollar Days	Days Lag	Company Analysis Payment (1)	%	Days Lag	Wgt'd Days Lag
Monthly	$ 3,762,655.72	23.0%	$ 120,910,425.33	32.13	$ 20,940,357.94	85.9%	32.13	27.61
Quarterly	10,408,764.54	63.6%	624,696,123.22	60.02	1,388,947.14	5.7%	60.02	3.42
Semi-Annual	2,196,449.41	13.4%	229,762,992.38	104.61	2,041,074.77	8.4%	104.61	8.76
Annual					-			
All Muncipalities	$ 16,367,869.67	100.0%	$ 975,369,540.92	59.59	$ 24,370,379.85	100.0%		39.79
			Less Service Lag	15.21				15.21
			Less Billing Lag	2.17				2.17
GRT Lag				42.21				22.41

Q. WHAT IS STAFF'S RECOMMENDATION REGARDING THE EXPENSE LAG ASSOCIATED WITH FEDERAL AND STATE INCOME TAXES?

B. Staff proposes to increase the expense lag associated with Federal and State income taxes from 31.90 days to 60.25 days.[4] The proposed increase is based on service periods that reflect individual quarters rather than a full calendar year, and tax payment deadlines of April 15, July 15, October 15, and January 15.

[4] Ibid, pg. 59.

Q. WHAT IS THE COMPANY'S POSITION ON STAFF'S RECOMMENDATION REGARDING THE EXPENSE LAG ASSOCIATED WITH FEDERAL AND STATE INCOME TAXES?

A. The Company opposes Staff's proposed increase in the expense lag associated with Federal and State Income Taxes since it does not reflect actual tax payments during the test year. The Company's proposed expense lag associated with Federal and State Income Taxes was based on actual tax payments during the test year.

However, should the Commission adopt Staff's approach, there are several important corrections that should be made to the calculation. First, Staff's calculation should be corrected to reflect service periods based on the fiscal year ending September 30 rather than individual quarters. Federal and State Income Taxes are not assessed based on individual quarters but rather on the fiscal year. Second, Staff's calculation should be corrected to reflect Federal and State tax payment deadlines. Specifically, the Internal Revenue Service deadlines for corporate tax payments are April 18, June 15, September 15 and December 15.[5]

The impact of these corrections is included in Schedule TSL-R4 which shows an expense lag associated with Federal and State Income Taxes of 38.39 days.

Q. WHAT IS STAFF'S RECOMMENDATION REGARDING THE TREATMENT OF THE PSC ASSESSMENT IN THE LEAD-LAG STUDY?

[5] https://www.irs.com/articles/2016-federal-tax-calendar

A. Staff proposes to eliminate the net lead-lag days associated with the PSC Assessment since Staff proposes to include the PSC Assessment in prepayments.[6] The proposed change is based on Staff's position that since prepayments are included in the Company's rate base and thus earn a return, there is no CWC requirement associated with the prepayments.

Q. WHAT IS THE COMPANY'S POSITION ON STAFF'S RECOMMENDATION REGARDING THE TREATMENT OF THE PSC ASSESSMENT IN THE LEAD-LAG STUDY?

A. The Company opposes Staff's proposal to eliminate the net lead-lag days associated with the PSC Assessment for the following reasons. Including the net lead-lag days associated with the PSC Assessment would recover the carrying costs associated with the PSC Assessment once it is amortized and charged to an expense account. Similar to any expense, there is a carrying cost associated with the expense that reflects the number of days from when the prepayment is recorded as an expense to when the expense is recovered from customers. In other words, the Company must wait 51.16 days and 47.92 days, respectively, the duration of the revenue lag to receive the cash associated with the expense for LAC and MGE.

Prepayments are included in rate base because they are an upfront investment on which a utility earns a return. However, the rate base treatment reflects only the carrying cost of the prepayment and not the carrying cost of the expense.

[6] Ibid, pg. 59.

When prepayments are amortized and charged to an expense account, there is a carrying cost associated with the expense from the time it is recorded as an expense to the time the Company receives the cash associated with the expense.

Thus, the Company recommends inclusion of the net lead-lag days associated with the PSC Assessment in the lead-lag study.

Q. WHAT IS STAFF'S RECOMMENDATION REGARDING THE EXPENSE LAG ASSOCIATED WITH PENSION AND OPEB EXPENSES?

A. Staff proposes to increase the expense lag associated with Pension and OPEB payments from a negative 37.12 days to 84.95 days.[7] The increase is based on the Company's response to DR 67 in this proceeding. Staff's calculation reflects two changes from the Company's filing: (a) a June 15, 2016 payment related to a 2014-15 service period; and (b) test year payments related to the service period October 1, 2015 through September 30, 2016.

Q. WHAT IS THE COMPANY'S POSITION ON STAFF'S RECOMMENDATION TO INCREASE THE EXPENSE LAG ASSOCIATED WITH PENSION AND OPEB EXPENSES?

A. The Company does not opposes Staff's proposed increase in the expense lag associated with Pension and OPEB payments.

[7] Ibid, pg. 59.

Q. WHAT IS STAFF'S RECOMMENDATION REGARDING THE EXPENSE LAG ASSOCIATED WITH EMPLOYEE BENEFIT EXPENSES?

A. Staff proposes to increase the expense lag associated with Employee Benefit expenses from 9.45 days to 33.64 days.[8] The proposed increase is based on the expense lag used in MGE's last rate case and reflects Staff's concerns with the Company's proposed expense lag associated with Employee Benefit expenses. Staff has requested additional data and states they will address the expense lag in rebuttal testimony.

Q. WHAT IS THE COMPANY'S POSITION ON STAFF'S RECOMMENDATION TO INCREASE THE EXPENSE LAG ASSOCIATED WITH EMPLOYEE BENEFIT EXPENSES?

A. The Company opposes Staff's proposed increase in the expense lag associated with employee benefit expenses. The Company's calculation of the expense lag associated with Employee Benefit expenses is based on actual invoices paid by the Company during the test year. The expense lag was determined by separating the expenses into five groups: (a) medical expense; (b) dental expenses; (c) vision expenses; (d) prescriptions; administrative fees; and (e) 401k matching expenses. The lag days for each group were measured independently.

The Company's calculation of the expense lag associated with Employee Benefit expenses is consistent with the study filed in its prior rate case.

It is important to note that the Company receives weekly invoices related to medical and dental expenses. Medical and dental expenses represent

[8] Ibid, pg. 59.

approximately 65.0 percent of total group insurance expenses. The invoices reflect the prior week's coverage or service period. The invoices are paid within 3 to 5 days of receipt. This process creates an expense lag of approximately 8.0 days.

Q. WHAT IS STAFF'S RECOMMENDATION REGARDING THE EXPENSE LAG ASSOCIATED WITH VACATION PAYMENTS, FUTA AND SUTA PAYMENTS, AND INCENTIVE COMPENSATION PAYMENTS?

B. Staff proposes to measure separately and increase the expense lag associated with vacation payments,[9] FUTA and SUTA payments,[10] and incentive compensation payments.[11]

Q. WHAT IS THE COMPANY'S POSITION REGARDING STAFF'S RECOMMENDATION TO CHANGE THE EXPENSE LAG ASSOCIATED WITH VACATION PAYMENTS, FUTA AND SUTA PAYMENTS, AND INCENTIVE COMPENSATION PAYMENTS?

A. The proposed changes reflect a level of granularity not included in the Company's prior lead-lag studies. As stated earlier, the Company's prior lead-lag studies reflected a balance between level of precision and effort/cost by including certain expenses, such as purchased gas costs, while excluding other expenses.

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[9] Ibid, pg. 59.
[10] Accounting Exhibit, Missouri Public Service Commission: GR-2017-0215-CWC-Taxes.xls.
[11] Accounting Exhibit, Missouri Public Service Commission: Spire East, Accounting Schedule: 08; Accounting Exhibit, Missouri Public Service Commission: Spire West, Accounting Schedule: 08.

Nevertheless, Staff's proposal to separately identify and measure the net lead-lag days associated with vacation payments, FUTA and SUTA payments and incentive compensation payments is not inconsistent with lead-lag studies used by other companies. Staff's approach to calculation of the expense lag associated with vacation payments, FUTA and SUTA payments and incentive compensation payments is generally consistent with the Company's CWC requirements.

Q. WHAT IS STAFF'S RECOMMENDATION REGARDING THE EXPENSE LAG ASSOCIATED WITH OTHER O&M EXPENSES/ CASH VOUCHERS?

A. Staff states that they accept the Company's expense lag associated with Other O&M/ Cash Vouchers expenses.[12] Staff's workpapers for LAC reflect Other O&M/ Cash Voucher expenses of a negative $568,449,695 and an expense lag of 62.85 days, while the workpapers for MGE reflect Other O&M/ Cash Voucher expenses of $40,840,147 and an expense lag of 36.90 days, consistent with the Company's expense lag for Other O&M expenses for MGE.

Q. WHAT IS THE COMPANY'S POSITION REGARDING THE EXPENSE LAG ASSOCIATED WITH OTHER O&M EXPENSES?

A. The Company believes that Staff's calculation requires two corrections. First, we assume based on the MGE workpaper that the LAC workpaper needs to be corrected by reversing the sign on the Purchased Gas – Back Out (i.e., making it a

[12] Staff refers to these expenses as "Cash Vouchers"; Staff Report, Missouri Public Service Commission, pg. 57.

negative) which would then result in Other O&M/ Cash Voucher expenses of a positive $39,215,429 (rather than a negative $568,449,695). Furthermore, we assume based on the MGE workpaper that the LAC workpaper needs to be corrected by replacing the expense lag of 62.85 days with 36.90 days, consistent with the Company's expense lag for other O&M expenses for LAC.

Based on the two corrections describe above, the Company agrees with Staff's proposed treatment of Other O&M expenses.

Q. WHAT IS STAFF'S RECOMMENDATION REGARDING THE EXPENSE LAG ASSOCIATED WITH PROPERTY TAXES?

A. Staff proposes to decrease the expense lag associated with property tax payments from 183.00 days to 182.50 days.[13] The proposed decrease reflects a one-day reduction in the service period, effectively eliminating the day of the property tax payment. The Company does not object to the proposed change.

Q. WHAT IS STAFF'S RECOMMENDATION REGARDING THE EXPENSE LAG ASSOCIATED WITH USE AND SALES TAXES?

A. Staff proposes to decrease the revenue lag associated with Use and Sales Taxes from 51.16 days to 33.47 days for LAC and from 47.92 days to 30.48 days for MGE.[14] Staff also proposes to decrease the expense lags associated with Use and Sales Taxes from 70.04 and 39.01 days to 52.66 and 15.76 days, respectively. The proposed decrease is based on removal of the service periods since Staff

[13] Staff Report, Missouri Public Service Commission, pg. 59.
[14] Staff Report, Missouri Public Service Commission, pgs. 58-59.

states that there is no service that is provided. Similar to the GRT lag, Staff states that since the Company does not actually provide a service to customers with respect to these taxes, both the revenue and expense lags should be reduced by the sum of the service and billing lags.

Q. WHAT IS THE COMPANY'S POSITION REGARDING STAFF'S RECOMMENDATION TO CHANGE THE EXPENSE LAG ASSOCIATED WITH USE AND SALES TAXES?

A. The Company does not oppose Staff's proposal to change the expense lag methodology; however, it is important to note that the Company's calculations produce a slightly different result. Specifically, the Company's calculations produce an expense lag for Use Taxes of 52.66 days for LAC and MGE, and an expense lag for Sales Taxes of 21.63 days for LAC and MGE.

Q. WHAT IS THE OPC'S RECOMMENDATION REGARDING INCOME TAX EXPENSE IN THE CWC REQUIREMENT?

A. As noted previously, the OPC's recommended modification would remove current income tax expense from the Company's CWC requirement, based on OPC's position that LAC does not pay, nor is it expected to pay in the near future, income taxes due to its current operating loss position resulting from bonus depreciation and other tax deductions.

Q. WHAT IS THE COMPANY'S POSITION REGARDING OPC'S RECOMMENDATION REGARDING INCOME TAX EXPENSE IN THE CWC REQUIREMENT?

A. The Company opposes the OPC's proposed removal of current income tax expenses from the CWC requirement. The Company has calculated a current income tax liability in its proposed cost of service.

CONCLUSION

Q. CAN YOU PLEASE SUMMARIZE THE IMPACT OF THE COMPANY'S REBUTTAL POSITION RELATIVE TO STAFF?

A. As discussed previously at page 7 above, Figure 1 (replicated below) compares the Company's rebuttal CWC requirement with that of Staff. The rebuttal CWC requirement is based on a revised lead-lag study applied to Staff's test year adjusted expenses to produce an illustrative, apples-to-apples comparison between the Company's rebuttal CWC requirement and Staff's CWC requirement. The illustrative, apples-to-apples comparison is meant to compare the impact of the revised lead-lag study rather than present the Company's position regarding cost of service items.

Figure 1: Comparison of CWC Requirement

	CWC Requirement ($Millions)		
Company	Company Lead-Lag	Staff Lead Lag	Difference
LAC	$14.2	$23.5	($9.3)
MGE	$4.2	$1.1	$3.1

The comparison shows that the Company's rebuttal CWC requirement for LAC is $14.2 million as compared to Staff's CWC requirement for LAC of $23.5 million, or a reduction of $9.3 million. The comparison also shows that the Company's revised CWC requirement for MGE is $4.2 million as compared to Staff's CWC requirement for MGE of $1.1 million, or an increase of $3.1 million.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes, it does.

LACLEDE GAS COMPANY

REBUTTAL TESTIMONY CASH WORKING CAPITAL REQUIREMENT

Line	Description	Revenue Requirement Amount	Average Daily Amount	Revenue Lag	Ref.	Expense Lag	Ref.	Net (Lead)/Lag Days	Working Capital Requirement
	Operation and Maintenance Expenses								
1	Purchased Gas Costs	$ 303,832,562	832,418	51.16		(39.44)		11.72	$ 9,757,407
2	Purchased Gas Costs - Back Out	(303,832,562)	(832,418)	51.16		(51.16)		0.00	-
3	Payroll & Employee Withholdings	64,150,222	175,764	51.16		(11.96)		39.20	6,889,587
4	Vacation - Union & Non-Union	3,368,324	9,228	51.16		(182.50)		(131.34)	(1,212,027)
5	Pension and OPEB	21,018,400	57,585	51.16		(84.95)		(33.79)	(1,945,865)
6	Employee Benefits	17,914,706	49,081	51.16		(9.45)		41.71	2,047,193
7	Incentive Compensation	945,735	2,591	51.16		(258.50)		(207.34)	(537,225)
8	Bad Debt Expense	7,318,951	20,052	51.16		51.16		102.32	2,051,781
9	PSC Assessment	1,956,325	5,360	51.16		0.00		51.16	274,216
10	Other O&M Expense/Cash Vouchers	39,215,429	107,440	51.16		(36.90)		14.26	1,532,222
11	Total O&M Expenses	$ 155,888,092	427,091						$ 18,857,288
12	Taxes Other Than Income Taxes								
13	Payroll Taxes	$ 5,572,506	15,267	51.16		(11.96)		39.20	598,474
14	FUTA and SUTA	126,336	346	51.16		(60.25)		(9.09)	(3,146)
15	Property Taxes	16,362,372	44,828	51.16		(182.50)		(131.34)	(5,887,688)
16	Gross Receipt Taxes	33,503,393	91,790	33.78		(16.74)		17.04	1,564,450
17	Use Tax	358,929	983	33.78		(52.66)		(18.88)	(18,565)
18	Sales Tax	8,204,103	22,477	33.78		(21.63)		12.15	273,035
19	Total Other Taxes	$ 64,127,639							$ (3,473,439)
20	Income Taxes								
21	Federal Income Taxes	$ 24,284,706	66,533	51.16		(38.39)		12.77	849,745
22	State Income Taxes	$ 3,816,168	10,455	51.16		(38.39)		12.77	133,531
23	Interest Payments	$ 24,315,902	66,619	51.16		(83.35)		(32.19)	(2,144,405)
24	Subtotal	$ 272,432,507	$ 570,698						$ 14,222,720
25	Staff's Testimony								23,498,145
26	Difference								$ (9,275,425)

MISSOURI GAS ENERGY

REBUTTAL TESTIMONY CASH WORKING CAPITAL REQUIREMENT

Line	Description	Revenue Requirement Amount	Average Daily Amount	Revenue Lag	Ref.	Expense Lag	Ref.	Net (Lead)/Lag Days	Working Capital Requirement
	Operation and Maintenance Expenses								
1	Purchased Gas Costs	$ 209,704,476	574,533	47.92		(36.37)		11.54	$ 6,631,384
2	Purchased Gas Costs - Back Out	(209,704,476)	(574,533)	47.92		(47.92)		0.00	-
3	Payroll & Employee Withholdings	23,899,058	65,477	47.92		(11.96)		35.96	2,354,232
4	Vacation - Union & Non-Union	4,529,916	12,411	47.92		(182.50)		(134.58)	(1,670,277)
5	Pension and OPEB	-	-	47.92		(84.95)		(37.04)	-
6	Employee Benefits	261,627	717	47.92		(9.46)		38.45	27,562
7	Incentive Compensation	384,307	1,053	47.92		(258.50)		(210.58)	(221,722)
8	Bad Debt Expense	3,501,893	9,594	47.92		(47.92)		0.00	-
9	PSC Assessment	1,286,287	3,524	47.92		0.00		47.92	168,862
10	Other O&M Expense/Cash Vouchers	40,840,147	111,891	47.92		(36.90)		11.02	1,232,618
11	Total O&M Expenses	$ 74,703,235	204,666						$ 8,522,659
12	Taxes Other Than Income Taxes								
13	Payroll Taxes	$ 2,389,873	6,548	47.92		(11.96)		35.96	235,420
14	FUTA and SUTA	52,546	144	47.92		(60.25)		(12.33)	(1,776)
15	Property Taxes	12,254,750	33,575	47.92		(182.50)		(134.58)	(4,518,588)
16	Gross Receipt Taxes	24,439,784	66,958	30.53		(22.41)		8.12	543,811
17	Use Tax	358,929	983	30.53		(52.66)		(22.12)	(21,756)
18	Sales Tax	6,313,130	17,296	30.53		(21.63)		8.90	153,977
19	Total Other Taxes	$ 45,809,012							$ (3,608,912)
20	Income Taxes								
21	Federal Income Taxes	$ 23,212,269	63,595	47.92		(38.39)		9.53	605,853
22	State Income Taxes	$ 3,647,642	9,994	47.92		(38.39)		9.53	95,206
23	Interest Payments	$ 14,523,421	39,790	47.92		(83.35)		(35.43)	(1,409,931)
24	Subtotal	$ 161,895,579	$ 318,045						$ 4,204,875
25	Staffs Testimony								1,111,976
26	Difference								$ 3,092,899

LACLEDE GAS COMPANY

Gross Receipts Tax

LAC Payment Type	Staff Analysis Payments	%	Dollar Days	Days Lag		Company Analysis Payment	%	Days Lag	Wgt'd Days Lag
Monthly	$ 3,762,655.72	23.0%	$ 120,910,425.33	32.13	$	30,805,650	96.1%	32.13	30.87
Quarterly	10,408,764.54	63.6%	624,696,123.22	60.02		711,915	2.2%	60.02	1.33
Semi-Annual	2,196,449.41	13.4%	229,762,992.38	104.61		519,034	1.6%	104.61	1.69
Annual						34,382	0.1%	209.21	0.22
All Muncipalities	$ 16,367,869.67	100.0%	$ 975,369,540.92	59.59	$	32,070,981	100.0%		34.12
			Less Service Lag	15.21					15.21
			Less Billing Lag	2.17					2.17
GRT Lag				42.21					16.74

MISSOURI GAS ENERGY

Gross Receipts Tax

Missouri Gas Energy Payment Type	Staff Analysis Payments	%	Dollar Days	Days Lag	Company Analysis Payment	%	Days Lag	Wgt'd Days Lag
Monthly	$ 3,762,655.72	23.0%	$ 120,910,425.33	32.13	$ 20,940,357.94	85.9%	32.13	27.61
Quarterly	10,408,764.54	63.6%	624,696,123.22	60.02	1,388,947.14	5.7%	60.02	3.42
Semi-Annual	2,196,449.41	13.4%	229,762,992.38	104.61	2,041,074.77	8.4%	104.61	8.76
Annual					-			
All Muncipalities	$ 16,367,869.67	100.0%	$ 975,369,540.92	59.59	$ 24,370,379.85	100.0%		39.79
			Less Service Lag	15.21				15.21
			Less Billing Lag	2.17				2.17
GRT Lag				42.21				22.41

LACLEDE GAS COMPANY

Use Tax

Line	Description	Service Period Start	Service Period End	Midpoint	Payment Date	Payment	Payment (Lead)/Lag Days	Dollar-Days	Composite (Lead)/Lag Days
1	Fourth Quarter	10/1/2015	12/31/2015	(46.00)	1/26/2016	$ 46,220	(72.0)	$ (3,327,875)	
2	First Quarter	1/1/2016	3/31/2016	(45.50)	4/26/2016	$ 73,383	(71.5)	$ (5,246,892)	
3	Second Quarter	4/1/2016	6/30/2016	(45.50)	7/22/2016	$ 122,078	(67.5)	$ (8,240,268)	
4	Third Quarter	7/1/2016	9/30/2016	(46.00)	10/25/2016	$ 117,247	(71.0)	$ (8,324,566)	
5									
6	Total					$ 358,929		$ (25,139,601)	(70.04)
7									
8	Less: Service Lag								15.21
9	Less: Billing Lag								2.17
10									
11	Net Lag								(52.66)

Sales Tax

Line	Description	Service Period Start	Service Period End	Midpoint	Payment Date	Payment	Payment (Lead)/Lag Days	Dollar-Days	Composite (Lead)/Lag Days
1	January 2016	1/1/2016	1/31/2016	(15.50)	2/20/2016	$ 1,277,142	(35.50)	$ (45,338,549)	
2	February 2016	2/1/2016	2/29/2016	(14.50)	3/20/2016	$ 1,319,141	(34.50)	$ (45,510,356)	
3	March 2016	3/1/2016	3/31/2016	(15.50)	4/30/2016	$ 1,099,525	(45.50)	$ (50,028,376)	
4	April 2016	4/1/2016	4/30/2016	(15.00)	5/20/2016	$ 742,936	(35.00)	$ (26,002,751)	
5	May 2016	5/1/2016	5/31/2016	(15.50)	6/20/2016	$ 424,627	(35.50)	$ (15,074,266)	
6	June 2016	6/1/2016	6/30/2016	(15.00)	7/31/2016	$ 364,835	(46.00)	$ (16,782,415)	
7	July 2016	7/1/2016	7/31/2016	(15.50)	8/20/2016	$ 332,209	(35.50)	$ (11,793,411)	
8	August 2016	8/1/2016	8/31/2016	(15.50)	9/20/2016	$ 329,173	(35.50)	$ (11,685,644)	
9	September 2016	9/1/2016	9/30/2016	(15.00)	10/31/2016	$ 348,947	(46.00)	$ (16,051,559)	
10	October 2016	10/1/2016	10/31/2016	(15.50)	11/20/2016	$ 349,013	(35.50)	$ (12,389,977)	
11	November 2016	11/1/2016	11/30/2016	(15.00)	12/20/2016	$ 499,919	(35.00)	$ (17,497,167)	
12	December 2016	12/1/2016	12/31/2016	(15.50)	1/31/2017	$ 1,116,635	(46.50)	$ (51,923,550)	
13	Total					$ 8,204,103		$ (320,078,020)	(39.01)
	Less: Service Lag								15.21
	Less: Billing Lag								2.17
	Net Lag								(21.63)

MISSOURI GAS ENERGY

Use Tax

Line	Description	Service Period Start	Service Period End	Midpoint	Payment Date	Payment	Payment (Lead)/Lag Days	Dollar-Days	Composite (Lead)/Lag Days
1	Fourth Quarter	10/1/2015	12/31/2015	(46.00)	1/26/2016	$ 46,220	(72.0)	$ (3,327,875)	
2	First Quarter	1/1/2016	3/31/2016	(45.50)	4/26/2016	$ 73,383	(71.5)	$ (5,246,892)	
3	Second Quarter	4/1/2016	6/30/2016	(45.50)	7/22/2016	$ 122,078	(67.5)	$ (8,240,268)	
4	Third Quarter	7/1/2016	9/30/2016	(46.00)	10/25/2016	$ 117,247	(71.0)	$ (8,324,566)	
5									
6	Total					$ 358,929		$ (25,139,601)	(70.04)
7									
8	Less: Service Lag								15.21
9	Less: Billing Lag								2.17
10									
11	Net Lag								(52.66)

Sales Tax

Line	Description	Service Period Start	Service Period End	Midpoint	Payment Date	Payment	Payment (Lead)/Lag Days	Dollar-Days	Composite (Lead)/Lag Days
1	January 2016	1/1/2016	1/31/2016	(15.50)	2/20/2016	$ 1,277,142	(35.50)	$ (45,338,549)	
2	February 2016	2/1/2016	2/29/2016	(14.50)	3/20/2016	$ 1,319,141	(34.50)	$ (45,510,356)	
3	March 2016	3/1/2016	3/31/2016	(15.50)	4/30/2016	$ 1,099,525	(45.50)	$ (50,028,376)	
4	April 2016	4/1/2016	4/30/2016	(15.00)	5/20/2016	$ 742,936	(35.00)	$ (26,002,751)	
5	May 2016	5/1/2016	5/31/2016	(15.50)	6/20/2016	$ 424,627	(35.50)	$ (15,074,266)	
6	June 2016	6/1/2016	6/30/2016	(15.00)	7/31/2016	$ 364,835	(46.00)	$ (16,782,415)	
7	July 2016	7/1/2016	7/31/2016	(15.50)	8/20/2016	$ 332,209	(35.50)	$ (11,793,411)	
8	August 2016	8/1/2016	8/31/2016	(15.50)	9/20/2016	$ 329,173	(35.50)	$ (11,685,644)	
9	September 2016	9/1/2016	9/30/2016	(15.00)	10/31/2016	$ 348,947	(46.00)	$ (16,051,559)	
10	October 2016	10/1/2016	10/31/2016	(15.50)	11/20/2016	$ 349,013	(35.50)	$ (12,389,977)	
11	November 2016	11/1/2016	11/30/2016	(15.00)	12/20/2016	$ 499,919	(35.00)	$ (17,497,167)	
12	December 2016	12/1/2016	12/31/2016	(15.50)	1/31/2017	$ 1,116,635	(46.50)	$ (51,923,550)	
13	Total					$ 8,204,103		$ (320,078,020)	(39.01)
	Less: Service Lag								15.21
	Less: Billing Lag								2.17
	Net Lag								(21.63)

LACLEDE GAS COMPANY

Federal and State Income Tax

Line	Description	Service Period Start	Service Period End	Midpoint of Service Period	Payment Date	Percent of Taxes Due	Days from Midpoint to Payment Date	(Lead)/Lag Days
1	First Payment	10/1/2015	9/30/2016	(182.50)	4/18/2016	25.00%	(17.50)	(4.38)
2	Second Payment	10/1/2015	9/30/2016	(182.50)	6/15/2016	25.00%	(75.50)	(18.88)
3	Third Payment	10/1/2015	9/30/2016	(182.50)	9/15/2016	25.00%	(167.50)	(41.88)
4	Fourth Payment	10/1/2016	9/30/2017	(182.00)	12/15/2016	25.00%	107.00	26.75
5	Federal Income Tax (Lead)/Lag Days							(38.39)

https://www.irs.com/articles/2016-federal-tax-calendar

MISSOURI GAS ENERGY

Federal and State Income Tax

Line	Description	Service Period Start	Service Period End	Midpoint of Service Period	Payment Date	Percent of Taxes Due	Days from Midpoint to Payment Date	(Lead)/Lag Days
1	First Payment	10/1/2015	9/30/2016	(182.50)	4/18/2016	25.00%	(17.50)	(4.38)
2	Second Payment	10/1/2015	9/30/2016	(182.50)	6/15/2016	25.00%	(75.50)	(18.88)
3	Third Payment	10/1/2015	9/30/2016	(182.50)	9/15/2016	25.00%	(167.50)	(41.88)
4	Fourth Payment	10/1/2016	9/30/2017	(182.00)	12/15/2016	25.00%	107.00	26.75
5	Federal Income Tax (Lead)/Lag Days							(38.39)

https://www.irs.com/articles/2016-federal-tax-calendar

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

COMMONWEALTH OF MASSACHUSETTS	)	
	)	SS.
CITY OF WORCESTER	)	

Timothy S. Lyons, of lawful age, being first duly sworn, deposes and states:

1. My name is Timothy S. Lyons. My business address is 1900 West Park Drive, Suite 250, Westborough, MA 01581 and I am a Partner at ScottMadden Inc..

2. Attached hereto and made a part hereof for all purposes is my rebuttal 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.

Timothy S. Lyons

Timothy S. Lyons

Subscribed and sworn to before me this 17th day of October, 2017.

Notary Public

KIMBERLY H. DAO
MY COMM. EXPIRES MARCH 11, 2022
NOTARY PUBLIC
COMMONWEALTH OF MASSACHUSETTS