

Exhibit No: *Laclede Exh. No. 2*  
Issue: Updated Plant, Impermissible  
ISRS Issue; Effect of Incidental  
Plastic Pipe Replacement  
Witness: Glenn W. Buck  
Type of Exhibit: Rebuttal Testimony  
Sponsoring Party: Laclede Gas Company  
Case Nos.: GO-2016-0332; GO-2016-0333  
Date Prepared: December 23, 2016

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

JAN 5 2017

LACLEDE GAS COMPANY  
MISSOURI GAS ENERGY

Missouri Public  
Service Commission

GO-2016-0332  
GO-2016-0333

REBUTTAL TESTIMONY

OF

GLENN W. BUCK

December 2016

*Laclede* Exhibit No. 2  
Date 1-03-17 Reporter KF  
File No. GO-2016-0332  
GO-2016-0333

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EX-100

U.S. DEPARTMENT OF ENERGY  
NORTH CAROLINA DIVISION

1 **REBUTTAL TESTIMONY OF GLENN W. BUCK**

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

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

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

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

8 Q. **ARE YOU THE SAME GLENN W. BUCK WHO PREVIOUSLY FILED DIRECT**  
9 **TESTIMONY IN THESE PROCEEDINGS?**

10 A. I am.

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

12 A. The purpose of my rebuttal testimony is to respond to portions of the direct testimony  
13 filed on behalf of the Office of the Public Counsel (“OPC”) by Charles R. Hyneman.  
14 Specifically, I will address two issues raised by Mr. Hyneman and one component of a  
15 third issue. The first issue concerns Mr. Hyneman’s assertion that two months of updated  
16 ISRS plant was inappropriately included in these ISRS filings. This claim by OPC has  
17 been rejected twice by the Commission in the past year or so and I will explain why Mr.  
18 Hyneman has offered nothing new in his direct testimony that would warrant a departure  
19 from these decisions. Indeed, it is difficult to understand why the parties’ and the  
20 Commission’s resources are being squandered yet again on this issue.

21 The second issue involves Mr. Hyneman’s attempt to raise an impermissible  
22 “revenue requirement or ratemaking” issue relating to a small portion of the payroll  
23 expenses that have routinely been capitalized and included in ISRS plant. This is the

1 very kind of issue that Mr. Hyneman himself has previously recognized cannot be  
2 addressed in an ISRS proceeding but instead must be considered in a general rate case  
3 proceeding. Finally, I will briefly address the favorable financial impact on customers of  
4 recognizing the retirements of the plastic facilities replaced as a result of the Laclede Gas  
5 and MGE's cast iron and steel main replacements projects. This issue is also addressed  
6 by Laclede witness Mark Lauber.

7 **Updated Plant**

8 **Q. PLEASE DESCRIBE THE ISSUE RAISED BY MR. HYNEMAN IN HIS DIRECT**  
9 **TESTIMONY.**

10 A. In his testimony, Mr. Hyneman takes issue with the Staff's and Company's inclusion in  
11 their ISRS recommendations in this proceeding of two months of updated ISRS plant  
12 amounts incurred during September and October of 2016 (Hyneman Direct, Page 12,  
13 Line 8 – Page 14, line 19).

14 **Q. IS THIS THE SAME ISSUE THAT HAS BEEN LITIGATED AND DECIDED BY**  
15 **THE COMMISSION THE LAST TWO LACLEDE / MGE ISRS CASES?**

16 A. Yes. The updating issue involves a practice that has twice been affirmed by the  
17 Commission in the Company's two most recent ISRS proceedings. The Commission's  
18 decision in the first case was also affirmed by the Western District Court of Appeals.  
19 OPC appealed that decision to the Missouri Supreme Court which declined to hear the  
20 case on December 20, 2016, thus judicially affirming the Commission's decision. Given  
21 this, I have been advised by counsel that there is no justification for using the  
22 Commission's and party's resources to litigate the same issue, with the same facts, for a  
23 third time.

1 Q. DOES THIS MEAN THAT YOU HAVE NOT BEEN ABLE TO IDENTIFY ANY  
2 NEW FACTS OR CIRCUMSTANCES RAISED BY OPC IN EITHER ITS  
3 PLEADINGS OR IN MR. HYNEMAN'S TESTIMONY THAT WOULD  
4 WARRANT A RE-EXAMINATION OF THIS ISSUE?

5 A. That is correct.

6 Q. IS THE ISRS ELIGIBLE UTILITY PLANT INCLUDED IN THESE UPDATED  
7 AMOUNTS "IN SERVICE" AND "USED AND USEFUL" WITHIN THE  
8 MEANING OF THE ISRS STATUTE AND RULES?

9 A. Yes. In fact, the September plant was in service and used and useful before Laclede Gas  
10 and MGE even filed their ISRS petitions in this case on September 30, while the October  
11 plant was in service and used and useful at various dates ranging from four to eight weeks  
12 before the Staff filed its November 29 Recommendations and Memoranda in these  
13 proceedings.

14 Q. DO YOU HAVE ANY COMMENTS REGARDING MR. HYNEMAN'S CLAIM  
15 THAT PROVIDING "SUPPORTING DOCUMENTATION SO LATE IN THE  
16 PROCESS HARM OPC'S ABILITY TO EFFECTIVELY AUDIT THE ISRS  
17 PETITIONS"? (Hyneman Direct, p. 14, l. 6-14)

18 A. Yes. These projects are the same sort of projects, with similar scopes of work, as were  
19 submitted to Staff and OPC when the applications were first filed on September 30, 2016.  
20 As indicated by the Staff in its Memoranda in these proceedings, Staff had adequate time  
21 to audit the supporting documentation. Further, as demonstrated by the 50+ data requests  
22 received from OPC (many with multiple parts), OPC had an adequate amount of time to  
23 seek and receive discovery responses, and to submit a report, at the same time Staff made

1 its recommendation. It is my firm opinion that if an ISRS audit is performed in the  
2 manner intended by the statute, there is sufficient time to audit the updated information.

3 **Q. IS THE PERIOD OF TIME AVAILABLE TO REVIEW THE UPDATED ISRS**  
4 **INFORMATION SUBSTANTIALLY DIFFERENT THAN THE PERIOD OF**  
5 **TIME AFFORDED TO REVIEW UPDATED OR TRUED-UP INFORMATION IN**  
6 **A RATE PROCEEDING?**

7 **A.** No, they are comparable. The complete updated information related to the ISRS-eligible  
8 property for September 2016 was provided to Staff and OPC on October 19 and 20, 2016,  
9 for the Laclede and MGE operating units respectively, which is 40 days or nearly six  
10 weeks before the November 29, 2016 due date for filing recommendations. The actual  
11 figures for October were provided to Staff and OPC on November 10, 2016 which is 19  
12 days prior to the due date for Staff's Recommendation. In my experience, this interval of  
13 time between providing updated information and the reviewing party filing its  
14 recommendation is consistent with the time intervals for providing and reviewing  
15 updated information in rate cases where Staff or OPC had filing deadlines. For example,  
16 in Laclede's 2007 general rate case proceeding, the Staff filed its revenue requirement  
17 testimony and accounting schedules on May 4, 2007 based on updated information that  
18 was provided on April 20, 2007 (for the period ending March 31, 2007). This two week  
19 period for auditing updated information in the 2007 rate case was actually shorter than  
20 the 19 day audit period provided for in this case. Similarly, in the Company's 2010  
21 general rate case proceeding, the Staff filed its revenue requirement testimony and  
22 accounting schedules on May 10, 2010 based, in part, on updated information that had  
23 been supplied by the Company as late as April 28, 2010. Again, this was a shorter audit

1 interval than the one afforded in these cases, and, as discussed later in this testimony,  
2 ISRS filings require a less burdensome audit process because the scope of that process is  
3 less expansive and so well defined by the ISRS Statute and Rules.

4 Q. ARE THERE ANY OTHER REASONS THE COMMISSION SHOULD NOT  
5 GIVE ANY WEIGHT TO MR. HYNEMAN'S CLAIMS REGARDING HIS  
6 SUPPOSED INABILITY TO AUDIT THE UPDATED PLANT AMOUNTS?

7 A. Yes. I think it is important to keep in mind that the Commission Staff is the party that is  
8 authorized by the ISRS Statute to evaluate the ISRS information supplied by the  
9 Company and make recommendations to the Commission regarding the costs that should  
10 be authorized in an ISRS proceeding. That statutorily authorized party has done its audit  
11 and *timely* submitted recommendations to the Commission verifying the accuracy and  
12 eligibility of the updated plant amounts in this case. The fact that another party like OPC  
13 claims to be unable to conduct a second and duplicative audit of such information should  
14 be of no consequence. The statute does not even contemplate that OPC would play a  
15 role in the audit process, let alone one that renders meaningless the recommendations  
16 made by the party that is given that role. It is even more unfortunate that while it wishes  
17 to play this duplicative role, OPC has not bothered to also abide by the 60 day deadline  
18 prescribed by the ISRS Statute for making recommendations regarding potential  
19 adjustments to ISRS filings – a failure that places the Commission and other parties at a  
20 distinct disadvantage in being able to assess and respond to OPC's concerns.

21  
22 **Impermissible ISRS Issue**

23 Q. DOES MR. HYNEMAN RAISE ANY IMPERMISSIBLE ISSUES IN DIRECT  
24 VIOLATION OF THE ISRS STATUTES?

1 A. Yes. On page 14, line 20 through page 18, line 1, Mr. Hyneman raises an issue he refers  
2 to as "...prohibited compensation costs in its ISRS surcharge". Mr. Hyneman's  
3 testimony suggests that the Commission should "order Laclede to remove all earnings  
4 and equity-based incentive compensation costs from the work orders included in this  
5 ISRS" (p.17, l. 23-24).

6 Q. **IS THIS A PROPER MATTER TO BE BROUGHT UP IN AN ISRS**  
7 **PROCEEDING?**

8 A. No. OPC has for the first time questioned the decade old practice of allocating to ISRS  
9 plant the capitalized portion of the Company payroll and benefits, a small portion of  
10 which may include some earnings-based incentive compensation. The amount of  
11 incentive compensation that should be in rates, however, is a general or base ratemaking  
12 issue that is properly determined in a general rate case. It is not a subject for the focused  
13 purpose of an ISRS filing. In fact, Section 393.1015.2(2) explicitly directs the Staff to  
14 examine the Company's information to determine two distinct matters: whether projects  
15 qualify as ISRS-eligible and whether the charges were properly calculated. The section  
16 goes on to state that "No other revenue requirement or ratemaking issues may be  
17 examined in consideration of the petition..." While Laclede looks forward to  
18 demonstrating the customer benefits of a compensation plan that includes incentives, that  
19 demonstration must occur in a general rate case, and not in an ISRS case. Indeed, when  
20 calculating ISRS charges, the ISRS Statute specifically directs the Commission to  
21 consider only income and property tax rates, capital structure, cost of capital and  
22 depreciation rates. (Section 393.1015.4 RSMo).

1 Q. HAS THE STAFF OF THE COMMISSION RECOGNIZED THE LIMITED  
2 NATURE OF THE AUDIT SCOPE IN ISRS PROCEEDINGS IN THE PAST?

3 A. Yes. Staff accurately summarized its role in an ISRS audit in a Recommendation and  
4 Memorandum filed on March 31, 2015 in a Laclede ISRS case, Case No. GO-2015-0178,  
5 as follows:

6 “While Section 393.1015.2(2) allows the Staff to perform an examination of an  
7 ISRS filing and make a report of its examination to the Commission, Section  
8 393.1015.2(2) also places two significant restrictions on the Staff’s ISRS  
9 examination.

10 First, the Staff must submit a report...no later than sixty days after a utility  
11 files an ISRS application.

12 ...The second significant audit scope restriction is that the Staff is prohibited  
13 from examining any other revenue requirement or ratemaking issues (such as  
14 increases in revenues or decreases in other costs that may offset the need for an  
15 ISRS).” (Staff Memorandum, p. 3)

16  
17 The Staff further confirmed that the scope of its review of calculations consists of “the  
18 appropriate capital structure and capital cost rates, income tax rates, return on plant,  
19 depreciation expense, property taxes, depreciation reserve, and deferred income taxes.”

20 (*Id.*)

21 Notably, this analysis of the Staff’s audit function was authored by Charles Hyneman,  
22 then of Staff’s Audit Department. Yet Mr. Hyneman, now an auditor and witness for  
23 OPC, is attempting to raise in these 2016 ISRS cases the very type of ratemaking issue  
24 that he acknowledged did not belong in Laclede’s 2015 ISRS case.

25 Q. DOES MR. HYNEMAN’S PROPOSAL HAVE FARTHER REACHING  
26 IMPLICATIONS FOR THE EFFECTIVE OPERATION OF THE ISRS PROCESS  
27 IF THE COMMISSION ALLOWS IT TO BE CONSIDERED IN THIS  
28 PROCEEDING?

1 A. Yes. Mr. Hyneman's recommendation appears to be nothing more than an impermissible  
2 tactic to introduce red herring issues that seemingly require Commission decisions so as  
3 to delay the implementation of new ISRS rates. It leads one to wonder what general rate  
4 case issues will be raised next in the context of an ISRS proceeding. Rate case issues are  
5 specifically prohibited from being considered so that ISRS filings can be processed in the  
6 timely manner contemplated by the ISRS statute.

7 **Q. DOES MR. HYNEMAN'S OWN TESTIMONY INDICATE THAT THIS IS AN**  
8 **ISSUE THAT SHOULD BE CONSIDERED IN A RATE CASE?**

9 A. Yes. Each of the instances cited by Mr. Hyneman where this or a similar issue was  
10 considered by the Commission happened in a rate case. And that is exactly where the  
11 issue belongs, given the kind of information that would need to be developed to properly  
12 litigate such an issue, including the actual structure and purpose of any incentive  
13 compensation, any information on the actual impact of such incentive compensation, and  
14 how such compensation works in tandem with other forms of compensation. The  
15 complexity and breadth of these types of issues are precisely why the legislature excluded  
16 them from consideration in ISRS cases.

17 **Q. DO YOU HAVE ANY OTHER COMMENTS ON MR. HYNEMAN'S**  
18 **TESTIMONY REGARDING THIS MATTER?**

19 A. I just want to note that Mr. Hyneman seems to make some spurious allegations regarding  
20 the Company's accounting practices (p. 17, l. 1 – 22). I can assure the Commission that  
21 the Company tracks its compensation costs, and all other costs for that matter, consistent  
22 with good accounting practices and in compliance with the FERC system of accounts.  
23 Mr. Hyneman was discussing only one small component of administrative and general



1 related to the testimony as required by the Order Establishing Procedural Schedule. It is  
2 possible that the inaccuracy in the chart was caused at least in part by OPC's use of  
3 preliminary estimates rather than actual data.

4 **Q. PLEASE EXPLAIN.**

5 A. As part of the materials submitted to the Staff and OPC with the initial ISRS workpapers,  
6 the Company supplied all work order authorization lead (or top) sheets for work orders  
7 over \$50,000 in value. The Company supplies lead sheets because they are used to  
8 determine the ISRS eligibility of the project. In a DR, OPC asked for, and received,  
9 backup sheets behind the work order lead sheets. The figures on the backup sheets are  
10 based on preliminary estimates that are later supplemented with actual data.

11 **Q. WHAT ARE THE ACTUAL FIGURES?**

12 A. Rebuttal Schedule GWB-1 is based on actual, as completed, information and provides an  
13 analysis of the work orders that OPC attempted to analyze on page 7 of its direct  
14 testimony. For example, on work order 900547, 6,896 feet of cast iron main (and 2,125  
15 feet of other main) was retired, while only 6,306 feet of new plastic main was installed.

16 **Q. IS IT UNUSUAL IN THE ISRS FOR A SMALLER AMOUNT OF MAIN TO  
17 REPLACE A LARGER AMOUNT OF MAIN?**

18 A. No. As Company witness Lauber can discuss, it is not an uncommon occurrence that  
19 more main will be retired on a work order than is being installed due to more efficient  
20 installation methods as well as the reduced need to provide back-feed as the system is  
21 moved from low pressure to intermediate pressure. Similarly, on work order 900547,  
22 almost 3,000 more feet of service line was replaced than installed. Mr. Lauber is

1 providing testimony of why it is necessary to replace service lines (including plastic  
2 service lines) as part of the cast iron replacement program.

3 **Q. DOES THE EARLY RETIREMENT OF PLASTIC MAINS CAUSE THE**  
4 **COMPANIES' ISRS REQUESTS TO INCREASE?**

5 A. No. In fact its quite the opposite. By retiring newer vintages of plastic, our customers  
6 are receiving the benefit of reduced depreciation expense related to plastic pipe being  
7 retired. Rebuttal Schedule GWB-2 gives an example of how property accounting works  
8 for a plant investment that is retired early. As can be shown by the example, when an  
9 asset is retired, the net plant investment doesn't change but the amount of depreciation  
10 expense related to the retired plant goes down. This reduction in the depreciation  
11 expense related to the retired pipe is passed on to the consumer as part of the ISRS filing.  
12 For the nine work orders discussed in OPC testimony, the reduced depreciation expense  
13 related to the plastic pipe that was retired amounted to almost \$53,000 on an annual basis,  
14 thus reducing the ISRS request by this amount.

15 **Q. ARE THERE OTHER ECONOMIC IMPLICATIONS OF LEAVING THE**  
16 **INTERSPERSED PLASTIC MAIN IN PLACE?**

17 A. As Company Witness Lauber can explain in further detail, it would be uneconomic from  
18 a construction standpoint to connect to plastic mains that are often buried at a lower depth  
19 than main that is being installed today. Further, most of the plastic that is woven into the  
20 current cast iron system is buried under pavement so the cost to uncover, reconnect, re-  
21 bury and, repave the interspersed plastic would be much more costly than abandoning it  
22 in place, thereby putting upward pressure on ISRS rates.

23 **Q. DOES THIS COMPLETE YOUR REBUTTAL TESTIMONY?**

1 A. Yes.

**Summary of OPC Work Orders**

Work Order	Mains			Total
	Footage Installed	Cast Iron Retirements	Other Retirements	
900547	6,306	6,896	2,125	9,021
900546	6,639	7,252	536	7,788
900836	5,335	4,259	1,409	5,668
900983	3,676	4,269	-	4,269
900882	2,190	3,301	1,642	4,943
900609	3,517	2,597	1,377	3,974
900747	9,373	9,819	123	9,942
901163	1,913	2,077	443	2,520
901090	4,884	4,128	1,162	5,290
<b>Totals</b>	<b>43,833</b>	<b>44,598</b>	<b>8,817</b>	<b>53,415</b>

Work Order	Services			Total
	Footage Installed	Steel / Copper Retirements	Copper Retirements	
900547	6,390	2,604	6,654	9,258
900546	3,903	2,364	4,022	6,386
900836	6,793	3,691	3,909	7,600
900983	5,926	2,307	3,568	5,875
900882	15,624	1,151	6,661	7,812
900609	3,521	2,837	1,842	4,679
900747	3,613	1,304	2,585	3,889
901163	714	404	1,106	1,510
901090	6,196	2,394	3,876	6,270
<b>Totals</b>	<b>52,680</b>	<b>19,056</b>	<b>34,223</b>	<b>53,279</b>

Note: WO 900882 Installed footage is not yet available for services, assumed installed amount was equal to amount retired

**Example of Early Retirement on ISRS**

**Assumptions**

Investment (Year 0)

**15,000**

Depreciation Rate (10 year life, no salvage)

10%

**Retired at the beginning of year 9**

Year	Gross Plant		Accum. Depr		Net Plant	Depreciation Expense Paid by Customers
	Debit	Credit	Debit	Credit		
0	<b>15,000</b>			-		
Bal	15,000			-	15,000	
1				1,500		1,500
Bal	15,000			1,500	13,500	
2				1,500		1,500
Bal	15,000			3,000	12,000	
3				1,500		1,500
Bal	15,000			4,500	10,500	
4				1,500		1,500
Bal	15,000			6,000	9,000	
5				1,500		1,500
Bal	15,000			7,500	7,500	
6				1,500		1,500
Bal	15,000			9,000	6,000	
7				1,500		1,500
Bal	15,000			10,500	4,500	
8				1,500		1,500
Bal	15,000			12,000	3,000	
9		<b>15,000</b>	<b>15,000</b>	-		\$0
Bal	-		(3,000)		3,000	

**Net Plant Does Not Change**

Annual Depreciation Expense decreases by: **\$1,500**

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

In the Matter of the Application of Laclede )  
Gas Company to Change its Infrastructure ) File No. G0-2016-0332  
System Replacement Surcharge in its )  
Missouri Gas Energy Service Territory )

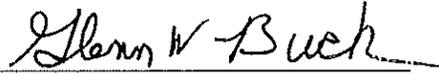
In The Matter of the Application of Laclede )  
Gas Company to Change its Infrastructure ) File No. GO-2016-0333  
System Replacement Surcharge in its )  
Laclede Gas Service Territory )

AFFIDAVIT

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

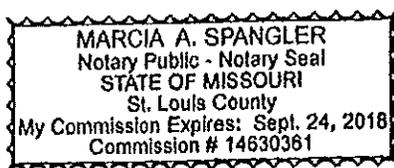
Glenn W. Buck, of lawful age, being first duly sworn, deposes and states:

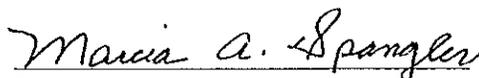
1. My name is Glenn W. Buck. My business address is 700 Market Street, St. Louis, MO 63101 and I am the Director, Regulatory and Finance for Laclede Gas Company, including its Laclede Gas and Missouri Gas Energy ("MGE") operating units.
2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony on behalf of Laclede Gas Company and MGE.
3. I hereby swear and affirm that my answers contained in the attached rebuttal testimony to the questions therein propounded are true and correct to the best of my knowledge and belief.



Glenn W. Buck

Subscribed and sworn to before me this 22nd day of December, 2016.



  
Notary Public

### Summary of OPC Work Orders

Work Order	<b>Mains</b>			
	Footage	Cast Iron	Other	Total
	Installed	Retirements	Retirements	Retirements
900547	6,306	6,896	2,125	9,021
900546	6,639	7,252	536	7,788
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Note: WO 900882 Installed footage is not yet available for services, assumed installed amount was equal to amount retired