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Capacity Release;
Witness: Anne M. Crowe
Sponsoring Party: MoPSC Staff
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MISSOURI PUBLIC SERVICE COMMISSION

COMMISSION STAFF DIVISION

PROCUREMENT ANALYSIS

Staff Exhibit No. 242
Date 12/15/17 Reporter AF
File No GR 2017-0215 GR-2017-0216

SURREBUTTAL TESTIMONY

OF

ANNE M. CROWE

**SPIRE MISSOURI INC. d/b/a SPIRE
LACLEDE GAS COMPANY and MISSOURI GAS ENERGY
GENERAL RATE CASE**

**CASE NOS. GR-2017-0215
and GR-2017-0216**

*Jefferson City, Missouri
November, 2017*

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ANNE M. CROWE
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GENERAL RATE CASE
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EXECUTIVE SUMMARY 1
OFF-SYSTEM SALES MARGINS AND CAPACITY RELEASE CREDITS
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GAS SUPPLY INCENTIVE PLAN 3

1 sharing mechanism ("OSS/CR") and gas supply incentive plan ("GSIP").

2 Q. Please explain Staff's understanding of MGE's and LAC's position regarding
3 OSS/CR.

4 A. Mr. Weitzel (Rebuttal pg. 9) states that the Company agrees with Staff's OSS/CR
5 recommendation.

6 Q. What is Staff's position concerning the GSIP?

7 A. As I explained in the Class Cost of Service Report, Staff recommends eliminating
8 the GSIP currently in effect for LAC and does not recommend implementing a similar GSIP for
9 MGE.

10 **OFF-SYSTEM SALES MARGINS AND CAPACITY RELEASE CREDITS SHARING**
11 **MECHANISM**

12 Q. What is Staff's position with regard to MGE's and LAC's OSS/CR sharing
13 mechanism?

14 A. As I stated in my rebuttal, Staff is not opposed to Spire Missouri's proposal of
15 changing the OSS/CR sharing mechanism to a flat percentage such that 25% is retained by the
16 Company and 75% goes to the ratepayers as a reduction to gas costs via the Purchased Gas
17 Adjustment ("PGA")/Actual Cost Adjustment ("ACA"). However, Staff recommends MGE's
18 and LAC's customers' credit to gas costs should be based on the actual OSS/CR level achieved
19 with the specific LAC and MGE assets (the assets used to achieve the specific OSS/CR level
20 within each division) as is currently the method for treatment of OSS/CR.

21 Q. What is Staff's understanding of MGE's and LAC's position on Staff's OSS/CR
22 sharing mechanism recommendation?

1 A. Mr. Weitzel (Rebuttal pg. 9) states that the Company agrees with Staff's OSS/CR
2 recommendation.

3 **GAS SUPPLY INCENTIVE PLAN**

4 Q. What is Staff's recommendation concerning the GSIP?

5 A. As I explained in the Class Cost of Service Report, Staff recommends eliminating
6 the GSIP currently in effect for LAC and does not recommend implementing a similar GSIP for
7 MGE. As an alternative, if the Commission determines a GSIP is appropriate for LAC and
8 MGE, Staff recommends the LAC GSIP continue in its current form and an MGE GSIP be
9 structured similar to LAC's with the same gas pricing tiers and an overall cap on earnings.

10 Q. What is the Company's response to Staff's recommendation?

11 A. Mr. Weitzel explains "The Company believes that the GSIP is good regulatory
12 policy because it seeks to motivate the Company to produce superior results for customers." It
13 also believes Spire Missouri's incentive should be expanded to include other gas supply savings,
14 such as its pipeline discount proposal in this case. (Weitzel Rebuttal, page 7)

15 Q. Why do you oppose Spire Missouri's proposal to add a pipeline discount
16 provision to the current GSIP?

17 A. As I stated in Staff's Class Cost of Service Report, LAC's proposed addition of a
18 pipeline discount element to the current GSIP, has the potential to create an incentive calculation
19 which would show an artificial "savings" such that LAC receives incentive payments at the same
20 time its customers' overall gas costs increase.

21 Q. Please provide an example of how Spire Missouri's pipeline discount proposal has
22 the potential to create artificial "savings" so that instead of ratepayers receiving a benefit, their
23 overall gas costs could increase.

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1 A. LAC recently negotiated a pipeline reservation discount of approximately
2 \$4,520,846 million of annual "savings" with MoGas pipeline.¹ If the pipeline discount
3 provision was in effect as proposed, LAC would be entitled to keep \$452,085 (10% of
4 \$4,520,846 discount). However, ** _____ ** prior to the MoGas discount, LAC added a
5 new ** _____
6 _____ **. If the new ** _____ ** contract costs are passed on to
7 ratepayers, the cost of that capacity would be ** _____ - ** annually. The additional costs
8 of the newly added ** _____ **, combined with the incentive "savings" payment, as
9 proposed by LAC, would outweigh the discount by ** _____ **, thus causing an actual
10 increase in costs to consumers. This is demonstrated in the table shown below.³

11 **

_____	_____
_____	_____
_____	_____
_____	_____

12 **

13 This is just one example showing how it would be possible to increase ratepayer's overall
14 gas costs while LAC earns an incentive payment for pipeline discount "savings," and illustrates
15 why pipeline reservation costs cannot be viewed in isolation as Spire Missouri proposes.

16 Q. Please put into perspective the potential addition of Spire STL Pipeline LLC in
17 relation to LAC's current portfolio.

18 A. LAC's projected peak day firm demand is ** _____ **. Adding the Spire
19 STL Pipeline capacity of 350,000 Dth/day equates to roughly ** _____ ** of LAC's peak day.

¹ CorEnergy SEC Form 8-K page 7 <http://investors.coreenergyreit.com/investors/financial-information/sec-filings/default.aspx>

² **

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³ **

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1 LAC's pipeline reservation costs for the 2015-2016 ACA period were approximately ** ____
2 ____ **. The addition of Spire STL Pipeline capacity reservation charges will be an increase
3 of approximately ** ____ ** which is roughly ** ____ ** of LAC's pipeline reservation
4 costs. LAC will have to either have its gas delivered to Spire STL Pipeline by a third party or it
5 will have to reserve capacity on REX. If Spire were to reserve an equivalent amount of
6 capacity on REX for the five winter months only at the reservation rate of LAC's current
7 ** ____ **, Staff estimates the combined cost of Spire STL and REX to be ** ____
8 ____ ** which is about ** ____ ** of LAC's pipeline reservation costs. The amount of
9 money at stake and the uncertainty surrounding LAC's gas supply portfolio is exactly why the
10 GSIP should be discontinued. If the GSIP is not discontinued, Staff is opposed to adding a
11 pipeline discount incentive to the current LAC GSIP and the proposed MGE GSIP.

12 Q. What is LAC's position, with regard to Staff's concern, about the uncertainty of
13 LAC's gas supply portfolio structure in the near future?

14 A. Mr. Weitzel states he does not believe Staff's concern regarding the uncertainty of
15 LAC's gas supply portfolio is a valid reason for discontinuing the GSIP. He explains the
16 Company seeks to work with Staff, OPC, and other interested parties outside the rate case "to
17 modernize and update the GSIP." (Rebuttal, pages 8-9)

18 Q. Is this further support for discontinuing the GSIP?

19 A. Yes. As Staff explains, the potential upcoming pipeline changes are a significant
20 change to LAC's gas supply portfolio. It does not seem reasonable to continue the GSIP and then
21 after the rate case, work towards revising it.

⁴ Case No. GR-2016-0224, DR1, file: *dr1-selecte input to def fy216.xlsm*, tab: *dem and cap*

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1 Q. What does Mr. Weitzel say is the "main weakness" of LAC's existing GSIP?

2 A. Mr. Weitzel says the "main weakness in the existing GSIP is that it utilizes an
3 arbitrary benchmark that removes incentives when gas prices are below \$4.00 per mcf or above
4 \$8.99 per mcf." (Rebuttal, page 7) He explains that excluding incentive sharing based on the
5 level of gas prices does not make sense, "since a dollar saved is a dollar saved regardless of the
6 level of gas prices." (Rebuttal, page 8)

7 Q. Do you agree the pricing tiers do not make sense and should be removed?

8 A. No. The safeguards created by the gas pricing tiers, which create a ceiling and a
9 floor in determining LAC's incentive earnings eligibility, should remain intact if the Commission
10 determines the GSIP should continue for LAC, and be adopted for MGE. The ceiling is to
11 ensure that LAC is not compensated at the same time customers are paying extremely high gas
12 prices. The floor "was established in an effort to recognize that customers would be unwilling to
13 pay for further reductions in the price of natural gas when the price was already very low."⁵

14 Q. If the Commission were to decide to continue LAC's GSIP and adopt one for
15 MGE, would Staff be opposed to updating the pricing tiers so that they reflect current gas prices?

16 A. No. Staff would recommend the first tier be set at \$2.50 and the third tier be set at
17 \$6.50. Staff reviewed the historical first-of-month index⁶ gas prices for the locations where
18 LAC and MGE buy their supply. In the last six to twelve months, these prices have generally
19 been in the \$2.50 to \$3.00 range. Staff chose \$2.50 as the first tier or floor price and then used
20 the same \$4.00 spread between the first tier and the third tier incentive ceiling price that was

⁵ Direct Testimony Barbara A. Meisenheimer Case No. GR-2007-0208 page 14, lines 13-17.

⁶ The FOM index is a gas price developed and published by Platt's in its trade publication, *Inside FERC's Gas Market Report*. The index price is generally based on a volume-weighted average of fixed price gas supply transactions occurring during the last five business days of the month at a specific location. It is common for an LDC to use index pricing to set the price of gas it buys from its suppliers. Once the FOM index is set at the beginning of the month, it does not change throughout the month.

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1 initially set when the GSIP tiers were revised August 1, 2007.⁷ Currently, Staff's proposed floor
2 of \$2.50 makes LAC/MGE potentially eligible for incentive earnings. The U.S. Energy
3 Information Administration forecasts the 2018 average annual natural gas price to be \$3.10
4 per MMBtu.

5 Q. What does Mr. Weitzel say in his rebuttal testimony regarding Spires's proposal to
6 remove hedging costs from the GSIP incentive calculation?

7 A. Mr. Weitzel was silent in his rebuttal on this Spire proposal.

8 Q. Please explain again why removing hedging costs from the GSIP is not
9 appropriate.

10 A. As I explained in my rebuttal, "LAC can hedge the price of gas through either a
11 physical gas supply contract with a supplier, such as locking in a fixed price with a gas supplier,
12 or a financial hedge, such as buying a future contract on the New York Mercantile Exchange
13 (NYMEX). Including hedging costs in the GSIP calculation captures the cost and benefit of both
14 types of hedging (physical or financial). It would not be appropriate to include physical hedging
15 costs but exclude financial hedging costs from the GSIP calculation. The impact of excluding
16 financial hedging costs from the GSIP could mean that the Company is eligible for compensation
17 under the GSIP at the same time customers are paying overall higher gas costs due to the cost of
18 hedging gas prices."

19 Q. Does this conclude your surrebuttal testimony?

20 A. Yes, it does.

⁷ Tariff Sheet No. 28-b.1

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Laclede Gas Company's)
Request to Increase Its Revenues for) Case No. GR-2017-0215
Gas Service)

In the Matter of Laclede Gas Company)
d/b/a Missouri Gas Energy's Request to) Case No. GR-2017-0216
Increase Its Revenues for Gas Service)

AFFIDAVIT OF ANNE M. CROWE

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW ANNE M. CROWE and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing Surrebuttal Testimony; and that the same is true and correct according to her best knowledge and belief.

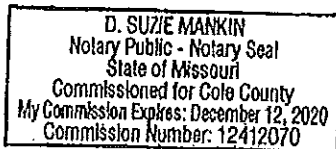
Further the Affiant sayeth not.

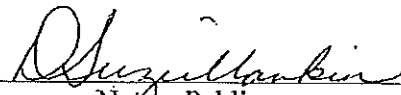


ANNE M. CROWE

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 17th day of November, 2017.





Notary Public