

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

In the Matter of the Application of)
Missouri Gas Energy, a division of Laclede)
Gas Company for Approval to Change its) **File No. GO-2014-0179**
Infrastructure System Replacement Surcharge)

STAFF RECOMMENDATION

COMES NOW the Staff (“Staff”) of the Missouri Public Service Commission (“Commission”), by and through counsel, and for Staff’s *Recommendation* in this matter respectfully states:

1. On December 6, 2013, Missouri Gas Energy (“MGE”), a division of Laclede Gas Company, filed its Verified Application and Petition (“Application”) to change its Infrastructure System Replacement Surcharge (“ISRS”) pursuant to Sections 393.1009 to 393.1015 RSMo.

2. On December 9, 2013, the Commission issued its Order directing Staff to file its recommendation in this matter no later than February 4, 2014, pursuant to Commission Rule 4 CSR 240-3.265(11), which provides that the Staff may submit a report regarding its examination of the Application not later than sixty (60) days after the natural gas utility files its petition.

3. Pursuant to Section 393.1015.2(3), the Commission may hold a hearing on the petition and any associated rate schedules “and shall issue an order to become effective not later than one hundred twenty days after the petition is filed.”

4. This is MGE’s sixth ISRS filing since its most recent rate case, Case No. GR-2009-0355. MGE states that it has continued to incur costs related to ISRS-eligible infrastructure system replacements; from January 2013 through

September 2013, MGE claims those costs entitle MGE to \$1,576,722 of additional annualized revenues. In response to Staff data requests, MGE updated its Application and now requests an increase of \$1,919,949. MGE's Application also included a request to waive Commission Rule 4 CSR 240-4.020(2), which requires any regulated entity to file a 60-day notice that it intends to file a case that is likely to be contested.

5. Staff's *Recommendation*, attached hereto as Appendix A and incorporated by reference, recommends that the Commission reject the ISRS tariff (YG-2014-0244) filed by MGE on December 6, 2013. Staff recommends the Commission approve Staff's recommended ISRS incremental revenues of \$1,729,917 in this docket, for a total cumulative ISRS amount of \$8,073,369. Staff recommends that the Commission authorize MGE to file an ISRS rate for each customer class as reflected in Appendix B, attached hereto and incorporated by reference, to generate \$8,073,369. Finally, Staff recommends the Commission approve MGE's waiver request.

6. Staff's *Recommendation* also includes an attachment listing 23 work orders totaling \$1,528,905 for which Staff did not include either partial or total costs in its recommended revenue requirement. On February 3, 2014, Staff discussed these work orders with MGE, and MGE indicated it would attempt to obtain documentation related to those work orders as requested by Staff.

7. Staff verified that the Company has filed its current annual report and is not delinquent on any assessment. Staff is not aware of any other matter before the Commission that affects or is affected by this filing.

WHEREFORE, Staff respectfully submits its *Recommendation* attached hereto as Appendix A, and its recommended ISRS rate for each customer class as reflected in Appendix B. Staff recommends the Commission issue an order that:

1. Rejects the ISRS tariff (YG-2014-0244) filed by MGE on December 6, 2013;
2. Approves Staff's recommended ISRS incremental revenues of \$1,729,917 in this matter for a total cumulative ISRS amount of \$8,073,369;
3. Authorizes MGE to file an ISRS rate for each customer class as reflected in Appendix B that generates \$8,073,369 annually; and
4. Approves MGE's waiver request.

Respectfully Submitted,

**STAFF OF THE MISSOURI
PUBLIC SERVICE COMMISSION**

/s/ John D. Borgmeyer

John D. Borgmeyer
Deputy Legal Counsel
Missouri Bar No. 61992

Akayla Jones
Legal Counsel
Missouri Bar No. 64941

Attorneys for the Staff of the
Missouri Public Service Commission
P.O. Box 360
Jefferson City, Missouri 65102
Telephone: (573) 751-5472
Fax: (573) 751-9285
Email: john.borgmeyer@psc.mo.gov

CERTIFICATE OF SERVICE

I hereby certify that true and correct copies of the foregoing were served electronically to all counsel of record this 4th day of February, 2014.

/s/ John D. Borgmeyer

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. GO-2014-0179, Tariff Tracking No. YG-2014-0244 – Missouri Gas Energy

FROM: Matt Young, Auditing Department;
Bill Harris, Auditing Department
Joel McNutt, Tariffs/Rate Design – Energy

/s/Chuck Hyneman
/s/Tom Imhoff /s/John Borgmeyer
Project Coordinator / Date Staff Counsel's Office / Date

SUBJECT: Staff Report and Recommendation Regarding the Application and Petition of Missouri Gas Energy, a Division of Laclede Gas Company, Seeking the Missouri Public Service Commission's Approval to Increase Its Infrastructure System Replacement Surcharge and Request for Waiver

DATE: February 4, 2014

BACKGROUND

On December 6, 2013, Laclede Gas Company d/b/a Missouri Gas Energy ("MGE"), filed an Application and Petition ("Application") with the Missouri Public Service Commission ("Commission") to implement a change in MGE's Infrastructure System Replacement Surcharge (ISRS) and a revised Tariff Sheet with a proposed effective date of April 5, 2014.

MGE made its filing pursuant to Missouri Revised Statutes Sections 393.1009 through 393.1015, RSMo Cum. Supp. 2011 and Commission Rule 4 CSR 240-3.265, reference Natural Gas Utility Petitions for Infrastructure System Replacement Surcharge, which allow Missouri natural gas corporations to file a petition and proposed rate schedule with the Commission to recover certain infrastructure system replacement costs outside a formal rate case through a surcharge on customers' bills.

MGE asserts that it has continued to incur costs related to ISRS-eligible infrastructure system replacements. For the period from January 2013 through September 2013, MGE claims those costs entitle MGE to \$1,576,772 of additional annualized revenues. MGE updated its request in its response to Staff Data Request 4 and is now requesting an increase of \$1,919,949.

The Commission issued an "Order Directing Notice, Directing Filings And Setting Intervention Deadline" on December 9, 2013, but did not suspend the pending tariff. This Order set an intervention date of December 31, 2013. The pending ISRS tariff had a requested effective date of April 5, 2014.

This is MGE's sixth ISRS filing since its most recent rate case, Case No. GR-2009-0355. MGE initially filed a revised tariff sheet with an incremental revenue requirement of \$1,576,772.

MGE also filed a Request for Waiver of Commission Rule 4 CSR 240-4.020(2), which requires:

Any regulated entity that intends to file a case likely to be a contested case shall file a notice with the secretary of the commission a minimum of sixty (60) days prior to filing such case. Such notice shall detail the type of case and issues likely to be before the commission.

Commission Rule 4 CSR 240-4.020(2)(B) further states that a "party may request a waiver of this section for good cause."

MGE requests the waiver for good cause stating:

MGE believes that Commission Rule 4 CSR 240-4.020 is not applicable to this matter because this case is not likely to be a contested case within the meaning of Commission Rule CSR 240-4.020(2) in that goal of ISRS petitions is to provide eligible gas corporations with the ability to recover, on a timely basis, certain infrastructure replacement costs outside of a formal rate case filing via the ISRS. The purpose of these statutes would not be served by the imposition of a 60 day waiting period and, therefore, good cause exists for a waiver. However, in the event that the Commission nevertheless concludes that the filing of this Application is likely to be a contested case, MGE requests a waiver of the sixty (60) day notice for good cause.

MGE currently has five ISRS cases collecting revenue from its customers as shown in the table below.

STAFF'S INVESTIGATION

Staff from the Auditing and Energy Units participated in the investigation of MGE's Application. The investigation included a review of: the Application, all supporting documentation, Missouri statutory sections 393.1009, 393.1012 and 393.1015 RSMo and all additional data provided by MGE.

THE APPLICATION

MGE proposes to recover costs of ISRS-qualifying plant placed in service from January 1, 2013 through September 30, 2013.

STAFF'S REVIEW AND EXPLANATION OF ADJUSTMENTS

MGE's ISRS filings prior to its 2009 rate case, GR-2009-0355 were rolled in to MGE's base rates in the 2009 rate case. Since the 2009 rate case, the Commission has approved five separate MGE ISRS filings and MGE is currently collecting \$6,343,452 in ISRS charges. These ISRS charges, as well as any increase in ISRS charges the Commission approves in this current ISRS filing will be included in MGE's base rates in its current rate case, No. GR-2014-0007. Rates in

MGE's GR-2014-0007 rate case will include all plant investments through December 31, 2013. The following list shows MGE's current ISRS charges by ISRS case number.

| ISRS Case # | Commission-Ordered ISRS |
|--------------|-------------------------|
| GO-2011-0003 | \$1,224,824 |
| GO-2011-0269 | \$1,662,349 |
| GO-2012-0144 | \$891,255 |
| GO-2013-0015 | \$823,284 |
| GO-2013-0391 | <u>\$1,741,740</u> |
| Total | \$6,343,452 |

In accordance with Section 393.1015 (2), the Staff may (1) examine information of MGE to confirm that the underlying costs are in accordance with the provisions of sections 393.1009 to 393.1015, (2) confirm the proper calculation of the ISRS, and (3) submit a report regarding its examination to the Commission.

While Section 393.1015(2) allows the Staff to perform an examination of an ISRS filing and make a report of its examination to the Commission, Section 393.1015(2) also places two significant scope restrictions on the Staff's ISRS examination. First, the Staff must submit a report regarding its examination to the Commission no later than sixty days after a utility files an ISRS application. Second, the Staff is legally prohibited from examining any other revenue requirement or ratemaking issues (such as increases in revenues or decreases in other costs that may offset the need for an ISRS). This examination is different from a normal Staff rate case audit where all items of a utility's revenues, expenses, investments, gains and losses are examined and the resulting revenue requirement recommended by Staff is based on a comprehensive examination as opposed to a single-issue examination as required by the Section 393.1015(2).

The scope of Staff's examination of MGE's ISRS application consisted of two parts. The first part was a review of the accuracy of the calculation of the ISRS revenue requirement components used to calculate the overall ISRS revenue requirement. This part of Staff's examination included reviewing MGE's calculation of the appropriate capital structure and capital cost rates, income tax rates, return on plant, depreciation expense, property taxes, depreciation reserve, and deferred income taxes. In addition to these individual components of an ISRS revenue requirement, the Staff also examined MGE's proposed level past under or over collection of the five ISRS surcharges that are currently in effect.

With the exception of the level of under collection of previous ISRS revenues included in this current ISRS filing, the Staff found no significant errors in MGE's calculations. In its original filing on Dec 6, 2013, MGE increased its proposed ISRS revenue requirement by adding under collection of previous ISRS revenues of \$303,636. MGE asserted that it had under collected the

level of ISRS revenues authorized in the five ISRS surcharges that are currently in effect. Based on discussion with Staff, MGE determined that it made an error in its December 6, 2013 ISRS Application. MGE updated its ISRS revenue requirement in response to data request No. 4, which was received by the Staff on January 21, 2014. In its updated filing, MGE corrected its under collection error and is now seeking an increase in the current ISRS a level of under collection of previous ISRS revenues in the amount of \$678,801. Based on information MGE provided to the Staff in response to data request No.1, the Staff calculated past ISRS revenue under collections of \$698,537. This is the level the Staff included in its GO-2014-0179 ISRS revenue requirement described below.

The second part of Staff's examination consisted of a review of the plant work order documentation supporting the inclusion of the costs of specific gas plant projects in MGE's ISRS Application. Staff auditors reviewed a significant number of work orders on January 27th and January 30th, 2014. During its examination of these work orders, Staff auditors determined that 23 work orders reflected projects that are not eligible ISRS gas utility plant projects as described in Section 393.1009 (5)(c). Section 393.1009(3) defines eligible infrastructure system replacements as gas utility plant projects that:

- (a) Do not increase revenues by directly connecting the infrastructure replacement to new customers;
- (b) Are in service and used and useful;
- (c) Were not included in the gas corporation's rate base in its most recent general rate case; and
- (d) Replace or extend the useful life of an existing infrastructure;

Section 393.1009 (5) restricted the types of plant projects that may be included in the ISRS by limiting gas utility plant projects as projects that consist only of:

- (a) Mains, valves, service lines, regulator stations, vaults, and other pipeline system components installed to comply with state or federal safety requirements as replacements for existing facilities that have worn out or are in deteriorated condition;
- (b) Main relining projects, service line insertion projects, joint encapsulation projects, and other similar projects extending the useful life or enhancing the integrity of pipeline system components undertaken to comply with state or federal safety requirements; and
- (c) Facilities relocations required due to construction of improvement of a highway, road, street, public way, or other public work by or on behalf of the United States, this state, a political subdivision of this state, or another entity having the power of eminent domain provided that the costs related to such projects have not been reimbursed to the gas corporation.

Based on Staff's review, it has determined the appropriate annualized revenue requirement for the pending ISRS Application is \$1,729,917 based on ISRS plant placed in service during the period January 1, 2013 through September 30, 2013.

In its ISRS filing on December 6, 2013, MGE requested a new ISRS in the amount of \$1,576,772. In part based on discussions with Staff and correcting for errors in its December 6, 2013 filing, MGE updated its proposed ISRS to \$1,919,949, an increase of \$343,177, in response to Staff data request No. 4. A reconciliation of MGE's December 6, 2013 and January 21, 2014 ISRS filings is shown below:

| | MGE Filing 12/6/13 | MGE Update 1/21/14 | Change |
|---|-----------------------|-----------------------|------------|
| Total Return on ISRS Plant additions | \$912,621 | \$913,917 | \$1,295 |
| Annual Depreciation Expense | \$271,733 | \$238,452 | (\$33,281) |
| Annual Property Taxes | \$88,779 | \$88,779 | \$0 |
| Reconciliation of previous ISRS filings | \$303,638 | \$678,801 | \$375,163 |
| Proposed ISRS Revenues | \$1,576,772 | \$1,919,949 | \$343,177 |

In its examination of MGE's proposed ISRS work order documentation, the Staff did not include either partial or total costs of 23 plant work orders totaling \$1,528,905. This list of work orders, the reasons for the Staff adjustment and the dollar amount of each adjustment is included in Attachment A to this Memorandum. The reasons why Staff did not include the costs of certain gas utility plant projects that MGE did include in its ISRS recommendation are summarized below. Approximately 30% of the total Staff adjustments, or \$467,075, were related to costs included in MGE's ISRS application that were actually reimbursed to MGE by various third parties including the Missouri Department of Transportation ("MoDot") and the City of Independence. Section 393.1003 (5)(c) specifically prohibits reimbursed plant projects from being included in an ISRS.

1. MGE removed the plant work order from its 1/21/14 updated ISRS calculation;
2. The work order files reviewed by Staff did not include any documentation that the work was required to be performed by an entity having power of eminent domain as required by Section 393.1009 (5)(c);
3. No documentation that the work was safety related;
4. Work results in new service and thus not eligible per Section 393.1009 2(a);
5. Work was partially or wholly reimbursed by third party and thus is not an eligible gas utility plant project per Section 393.1003 (5)(c)

On February 3, 2014, representatives of MGE and Laclede Gas Company ("Company") participated in a conference call with Staff to address some of the issues the Staff found during its review of the plant work orders at MGE Headquarters. The Company indicated that it was aware of the issue of how MGE accounts for plant reimbursements, which was based on a Stipulation and Agreement in MGE's last rate case, No. GR-2009-0355 and will work with the Staff on how to address this issue as it relates to the pending MGE rate case and prior MGE ISRS cases. The issue of inadequate documentation in the ISRS work orders at MGE's

Headquarters was also discussed. MGE requested and the Staff provided a list or work orders in which the Staff found inadequate documentation supporting inclusion in the current ISRS filing. MGE indicated it will attempt to obtain the documentation required by the Staff.

The total difference between MGE’s incremental ISRS revenues of \$1,919,949 and the Staff’s proposed level of \$1,729,912 is \$190,032. This difference is shown in the chart below:

| | MGE Updated | Staff | |
|--|--------------------|----------------------|----------------------|
| | Filing DR 4 | Calculation | Difference |
| Eligible ISRS Plant | \$12,423,012 | \$10,894,108 | (\$1,528,905) |
| Deferred Taxes (Current) | (2,406,492) | (\$2,126,387) | \$280,105 |
| Deferred Taxes (Previous ISRS) | (11,508) | (\$4,182) | \$7,326 |
| Accumulated Depreciation (Current) | (175,671) | (\$211,293) | (\$35,621) |
| Accumulated Depreciation (Previous ISRS) | (890,456) | (\$1,269,670) | (\$379,214) |
| Total ISRS Rate Base | \$8,938,885 | \$7,282,576 | (\$1,656,309) |
| Financial Return on ISRS Rate Base | \$913,917 | \$744,575 | (\$169,342) |
| Depreciation Expense | \$238,452 | \$208,532 | (\$29,920) |
| Property Taxes | \$88,779 | \$78,273 | (\$10,506) |
| Previous under collection of ISRS Revenues | <u>\$678,801</u> | <u>\$698,537</u> | <u>\$19,736</u> |
| Total ISRS Revenue Requirement | \$1,919,949 | \$1,729,917 | (\$190,032) |

THE ISRS RATE SCHEDULES

Staff’s recommended rates are consistent with the methodology used to establish MGE’s past ISRS rates and consistent with the overall methodology used to establish ISRS rates for other gas utilities. Staff’s recommended ISRS rates are contained in Attachment B, attached hereto and incorporated by reference herein.

The Staff has verified that the Company has filed its current annual report and is not delinquent on any assessment. The Staff is not aware of any other matter before the Commission that affects or is affected by this filing.

REQUESTED WAIVER

Staff does not object to MGE’s request for waiver pursuant to Commission Rule 4 CSR 240-4.020(2).

RECOMMENDATION

Based upon the above, Staff recommends that the Commission issue an order in this case that:

1. Rejects the ISRS tariff (YG-2014-0244) filed by MGE on December 6, 2013;
2. Approves the Staff's recommended ISRS incremental revenues of \$1,729,917 in this docket for a total cumulative ISRS amount of \$8,073,369.
3. Authorizes MGE to file an ISRS rate for each customer class as reflected in Appendix B that generates \$8,073,369 annually; and
4. Approves MGE's waiver request.

P.S.C. MO. No. 6

Original SHEET NO. 10, Canceling P.S.C. MO. No. 1 Fifteenth Revised SHEET No. 10

BEFORE THE PUBLIC SERVICE COMMISSION

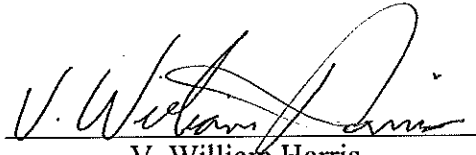
OF THE STATE OF MISSOURI

In the Matter of the Application of Missouri Gas)
Energy, a division of Laclede Gas Company, for) Case No. GO-2014-0179
Approval to Change its Infrastructure System)
Replacement Surcharge)

AFFIDAVIT OF V. WILLIAM HARRIS

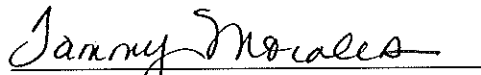
STATE OF MISSOURI)
) ss.
COUNTY OF JACKSON)

V. William Harris, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Recommendation in memorandum form, to be presented in the above case; that the information in the Staff Recommendation was developed by him; that he has knowledge of the matters set forth in such Staff Recommendation; and that such matters are true and correct to the best of his knowledge and belief.



V. William Harris

Subscribed and sworn to before me this 3rd day of February, 2014.



Notary Public



TAMMY MORALES
My Commission Expires
January 7, 2018
Clay County
Commission #14451086

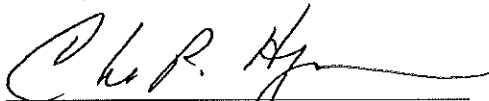
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of Missouri Gas)
Energy, a division of Laclede Gas Company, for) Case No. GO-2014-0179
Approval to Change its Infrastructure System)
Replacement Surcharge)

AFFIDAVIT OF CHARLES R. HYNEMAN


STATE OF MISSOURI)
) ss.
COUNTY OF JACKSON)

Charles R. Hyneman, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Recommendation in memorandum form and Attachment A, to be presented in the above case; that the information in the Staff Recommendation and Attachment A was developed by him; that he has knowledge of the matters set forth in such Staff Recommendation and Attachment A; and that such matters are true and correct to the best of his knowledge and belief.



Charles R. Hyneman

Subscribed and sworn to before me this 3rd day of February, 2014.



Notary Public



TAMMY MORALES
My Commission Expires
January 7, 2018
Clay County
Commission #14451088

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of)
Missouri Gas Energy, a division of)
Laclede Gas Company, for Approval to)
Change its Infrastructure System)
Replacement Surcharge)

File No. GO-2014-0179

AFFIDAVIT OF JOEL McNUTT

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Joel McNutt, of lawful age, on oath states: that he participated in the preparation of the foregoing Staff Recommendation in memorandum form, to be presented in the above case; that the information in the Staff Recommendation was provided to him; that he has knowledge of the matters set forth in such Staff Recommendation; and that such matters are true to the best of his knowledge and belief.


Joel McNutt

Subscribed and sworn to before me this 3rd day of February, 2014.

SUSAN L. SUNDERMEYER
Notary Public - Notary Seal
State of Missouri
Commissioned for Callaway County
My Commission Expires: October 03, 2014
Commission Number: 10942086


Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of Missouri Gas)
Energy, a division of Laclede Gas Company, for)
Approval to Change its Infrastructure System)
Replacement Surcharge)

Case No. GO-2014-0179

AFFIDAVIT OF MATTHEW R. YOUNG

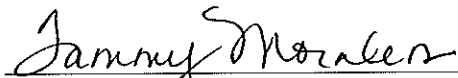
STATE OF MISSOURI)
) ss.
COUNTY OF JACKSON)

Matthew R. Young, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Recommendation in memorandum form, to be presented in the above case; that the information in the Staff Recommendation was developed by him; that he has knowledge of the matters set forth in such Staff Recommendation; and that such matters are true and correct to the best of his knowledge and belief.



Matthew R. Young

Subscribed and sworn to before me this 3rd day of February, 2014.



Notary Public



TAMMY MORALES
My Commission Expires
January 7, 2018
Clay County
Commission #14451086