

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

In the Matter of the Verified Application and Petition)	
of Missouri Gas Energy, an Operating Unit of)	File No. GO-2015-0270
Laclede Gas Company, to Change Its Infrastructure)	Tariff No. YG-2015-0306
System Replacement Surcharge in Its Missouri)	
Gas Energy Service Territory)	

STAFF RECOMMENDATION TO APPROVE TARIFF SHEETS

COMES NOW the Staff of the Missouri Public Service Commission, by and through counsel, and for its recommendation in this matter hereby states:

1. On April 17, 2015, Missouri Gas Energy (“MGE” or “Company”), an operating unit of Laclede Gas Company, filed this application to change its Infrastructure System Replacement Surcharge (ISRS), along with a motion for expedited treatment. MGE filed this application pursuant to the *Joint Notice of Voluntary Dismissal Without Prejudice* submitted in two recent ISRS applications, GO-2015-0178 and GO-2015-0179. Laclede and MGE voluntarily dismissed those ISRS petitions and re-filed them as GO-2015-0269 and GO-2015-0270, respectively, in order to resolve a dispute with the Office of the Public Counsel over certain items.

2. On April 20, the Commission provided notice of the application and directed MGE to file sample customer notices as required by the ISRS statute and Commission Rule 4 CSR 240-3.265. The Commission set a deadline for intervention and ordered Staff to file its recommendation in this matter no later than June 16, 2015.

3. In the *Joint Notice of Voluntary Dismissal*, Staff agreed that it should be able to submit its recommendations regarding the re-filed applications within two weeks. Accordingly, Staff hereby submits its recommendation, attached here as Appendix A, in advance of the Commission’s ordered deadline.

4. Staff's recommendation explains its review of MGE's ISRS. Staff's calculations are shown in Appendix B, also attached here and incorporated by reference. Appendix B shows Staff's recommended ISRS revenue in this case of \$2,814,926, for a total cumulative ISRS revenue requirement of \$4,805,222.

5. Staff verified that MGE has filed its annual report, and that the Company 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.

6. MGE requested expedited treatment based on the fact that its filing contains information that has been available for longer than the typical ISRS filing, due to the dismissal and refiling. Staff does not object to MGE's request for expedited treatment.

WHEREFORE, Staff recommends the Commission issue an order in this case that:

(1) Rejects MGE's ISRS tariff sheet revised Tariff Sheet P.S.C. MO No.6 Fourth Revised SHEET No. 10, Canceling Third SHEET No. 10 as filed on April 17, 2015;

(2) Approves the Staff's recommended ISRS surcharge revenues in this docket in the amount of incremental annual pre-tax revenues of \$2,814,926 with a total cumulative ISRS surcharge of \$4,805,222; and

(3) Authorizes MGE to file an ISRS rate for each customer class as reflected in Appendix B, which generates \$4,805,222 annually.

Respectfully Submitted,

/s/ John D. Borgmeyer

John D. Borgmeyer
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CERTIFICATE OF SERVICE

I hereby certify that true and correct copies of the foregoing were served electronically to all counsel of record this 1st day of May, 2015.

/s/ John D. Borgmeyer

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. GO-2015-0270 Tariff Tracking No. YG-2015-0306 – Laclede Gas
Company d/b/a Missouri Gas Energy

FROM: Lisa Hanneken, Utility Services – Auditing Unit
Brian Wells, Utility Services – Auditing Unit
Michael J. Ensrud, Tariffs/Rate Design - Energy
Thomas M. Imhoff, Tariffs/Rate Design – Energy

/s/Thomas M. Imhoff 05/01/15
Project Coordinator / Date

/s/John Borgmeyer 05/01/15
Staff Counsel's Office / Date

SUBJECT: Staff Report and Recommendation Regarding the Application and
Petition of Missouri Gas Energy Seeking the Missouri Public Service
Commission's Approval to Increase Its Infrastructure System Replacement
Surcharge

DATE: May 1, 2015

BACKGROUND

On April 17, 2015, Laclede Gas Company ("Laclede") d/b/a Missouri Gas Energy ("MGE" or "Company"), 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 Motion for Expedited Treatment with a revised Tariff Sheet with a proposed effective date of May 22, 2015.

The Application is a re-filing of MGE's ISRS application filed on January 30, 2015, in File No. GO-2015-0179. The January application was for costs incurred from September 1, 2014 to December 31, 2014. An update of costs incurred in January and February 2015, was also provided.

On March 31, 2015, the Staff filed its Recommendation. Staff did not recommend any adjustments to MGE's updated application in the amount of \$2,871,524 annually.

On April 10, 2015, the Office of Public Counsel ("OPC") filed a Motion for Order Denying Certain ISRS costs. OPC objected to ISRS investments incurred by MGE during January and February 2015 that were not included in the January 30, 2015 filing.

On April 15, 2015 the parties filed a Joint Notice of Voluntary Dismissal Without Prejudice to resolve OPC Motion. The parties agreed that the new application would include the details of January and February 2015 ISRS-eligible investments and exclude cost relating to telemetric equipment replacement. Under the terms of the Joint Notice, the parties also agreed that Staff should be in a position to file its recommendation within 2 weeks of the re-filing of MGE's

Application. On April 16, 2015 the Commission issued “Notice of Dismissals and Order Cancelling Joint Evidentiary Hearing.”

MGE made its filing pursuant to Missouri Revised Statutes Sections 393.1009, 393.1012 and 393.1015 and Commission Rule 4 CSR 240-3.265, 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 customer bills.

MGE’s current ISRS was established October 18, 2014 in ISRS Case No. GR-2015-0025, covering ISRS costs incurred January 1, 2014 through August 31, 2014. The amount of this already-approved ISRS as ordered was \$1,990,296. Prior to the establishment of this ISRS, MGE's ISRS plant through December 31, 2013 was included in MGE's rate base in its last general rate case, No. GR-2014-0007.

In its April 17, 2015, Application MGE asserts that it has continued to incur costs related to ISRS-eligible infrastructure system replacements. For the period from September 1, 2014 through February 28, 2015, MGE estimates that it is entitled to update and increase its current ISRS in the amount of \$2,869,628.

The Commission issued an “Order Directing Notice, Directing Filings and Setting Intervention Deadline” on April 20, 2015, but did not suspend the pending tariff. This order set a number of relevant dates:

- Any entity wishing to intervene shall file an application to do so no later than April 30, 2015.
- No later than April 30, 2015, MGE shall file sample customer notices as required by Commission Rule 4 CSR 240-3.265.
- “No later than ten days after MGE files the sample customer notices, as directed in ordered paragraph number 4, the Office of the Public Counsel may file a response to those notices.” (OPC may have as long as until May 10, 2015 to respond.)
- No later than June 16, 2015, the Staff of the Missouri Public Service Commission shall file its recommendation in this matter.

STAFF REVIEW AND REVENUE CALCULATION

On April 17, 2015, Missouri Gas Energy’s (“MGE”s or “Company”) filed Case No. GO-2015-0270, this filing is MGE’s second ISRS filing since the conclusion of its most recent rate case, Case No. GR- 2014-0007. Since that case, MGE filed ISRS Case No. GR-2015-0025 in July 2014, which is currently included in MGE’s ISRS rates.

In this Application, MGE filed to recover ISRS qualifying infrastructure replacement costs incurred during the period September 1, 2014 through February 28, 2015. As part of the Auditing Staff’s examination of MGE’s Application, Auditing Staff reviewed a representative sample of workpapers, work orders, and other applicable documentation; Staff communicated with MGE personnel to clarify MGE’s Application when necessary.

Commission Rule 4 CSR 240-3.265 for Natural Gas Infrastructure System Replacement Surcharges sets forth the definitions of natural gas utility plant projects that are eligible for ISRS treatment. As a result of its review, Staff concluded that each of the projects Staff reviewed met the ISRS rule qualifications.

The methodology used by the Auditing Staff allows for consideration of all accumulated depreciation and deferred income taxes on ISRS qualifying infrastructure replacements costs through May 15, 2015. This methodology is consistent with past reviews conducted by the Auditing Staff, and is consistent with Staff's view that the calculation of the ISRS revenue requirement should closely reflect the revenue requirement at the effective date of the ISRS rates.

The Company's Application used a cutoff date for accumulated depreciation of May 31, 2015. However, this cutoff date was inconsistent with the cutoff dates the Company used in other parts of its calculation. Upon discussion with the Company, Staff determined that the date should have been May 15, 2015. Revision of the date increased the overall revenue requirement by \$1,741.

The Audit Staff also included incremental accumulated depreciation, accumulated deferred income tax and any change in property tax rates for replacements associated with the currently effective ISRS authorized for MGE in Case No. GR-2015-0025 as required by 4 CSR 240-3.265(20)(K).

In its review, Staff identified an oversight in the Company's workpapers concerning a formula for its calculation of deferred income taxes. The oversight caused the Company's calculation of revenue requirement to be overstated. Staff's proposed revenue requirement employs the correct formula, decreasing the Company's proposed revenue requirement by \$58,339.

STAFF RECONCILIATION

Commission Rule 4 CSR 240-3.265(17) requires that Staff reconcile the ISRS revenue MGE collected from customers in the prior period to account for over or under-collection of ISRS revenue.

Since the tariff for the ISRS surcharge authorized in Case No. GR-2015-0025 became effective October 18, 2014, it is not necessary for the Audit Staff to perform a reconciliation of surcharges for purposes of this case because the required twelve-month (12) period has not elapsed. The Audit Staff, however, will perform a reconciliation at the time of the Company's next ISRS filing of the differences between the revenues resulting from the ISRS and the appropriate pretax revenues authorized by the Commission for all approved surcharges as required by 4 CSR-3.265(17) at the end of each twelve-month (12) period that an ISRS is in effect.

Based upon its review and all of its calculations, Staff is recommending that MGE receive ISRS revenues of \$2,814,926. This is lower than MGE's requested ISRS-related revenue requirement of \$2,869,628.

Upon Commission approval, this amount will be included with the currently in effect ISRS (Case No. GR-2015-0025). The below table shows the accumulative amount to be included in rates:

ISRS Case No.	Revenue Requirement	Accumulative
GR-2015-0025	\$1,990,296	
GO-2015-0270	\$2,814,926	\$4,805,222

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 Appendix B, attached hereto and incorporated by reference.

Staff sought and received correction as to the date when the customer counts used (in the calculation) were filed with the Commission. MGE claimed in its application that the customer counts used to compute its ISRS were reflected in its Annual Report. In reality, MGE used the "customer counts" in its amended Annual Report that was submitted on September 10, 2014. These are the customer counts Staff is using in this case and are consistent with customer counts used in MGE's last ISRS case – GR-2015-0025.

Staff has verified that MGE has filed its 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.

RECOMMENDATION

Staff raises no objection to the Motion for Expedited Treatment. Based upon the rationale stated above, Staff recommends the Commission issue an order in this case that:

1. Rejects MGE's ISRS tariff sheet revised Tariff Sheet P.S.C. MO No.6 Fourth Revised SHEET No. 10, Canceling Third SHEET No. 10 as filed on April 17, 2015.
2. Approves the Staff's recommended ISRS surcharge revenues in this docket in the amount of incremental annual pre-tax revenues of \$2,814,926 with a total cumulative ISRS surcharge of \$4,805,222; and
3. Authorizes MGE to file an ISRS rate for each customer class as reflected in Appendix B, which generates \$4,805,222 annually.

MISSOURI GAS ENERGY
(Laclede Owned)

Missouri Gas Energy (Laclede Owned)

Appendix B

GO-2015-0025	\$ 1,990,296
GO-2015-0270	\$ 2,814,926
Total	<u>\$ 4,805,222</u>

GO-2015-0270

YG-2015-0306

ISRS RATE DESIGN

Company's Total ISRS Revenues

Customer Rate Class	Number of Customers	Customer Charges	Ratio To Res. Cust. Charge	Weighted Customer #	Customer Percentage	ISRS charge	ISRS Revenues
Residential	440,372	\$23.00	1.000000	440,372	78.19%	\$0.71	\$3,757,426.34
Small General Service	60,087	\$34.00	1.478261	88,824	15.77%	\$1.05	\$757,883.38
Large General Service	2,939	\$115.40	5.017391	14,746	2.62%	\$3.57	\$125,819.61
Large Volume Service	489	\$904.56	39.328696	19,232	3.41%	\$27.96	\$164,092.67
TOTAL	<u>503,887</u>			<u>563,174</u>	<u>100.00%</u>		<u>\$4,805,222.00</u>

* Due to rounding to the nearest penny, the designed ISRS rates will under-collect by \$6180. However, it should be noted that the total amount collected will be true-up at a later date.

BEFORE THE PUBLIC SERVICE COMMISSION

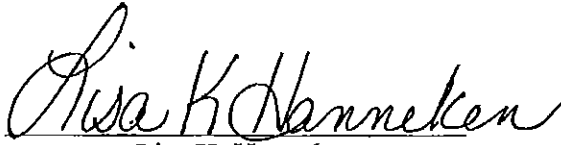
OF THE STATE OF MISSOURI

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Petition of Missouri Gas Energy an) File No. GO-2015-0270
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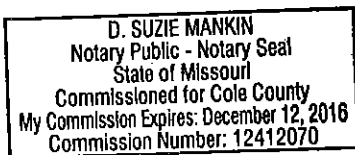
AFFIDAVIT OF LISA K. HANNEKEN

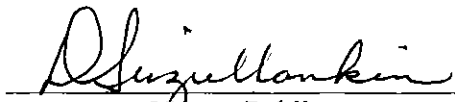
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Lisa K. Hanneken, of lawful age, on her oath states: that she 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 her; that she has knowledge of the matters set forth in such Staff Recommendation; and that such matters are true and correct to the best of her knowledge and belief.


Lisa K. Hanneken

Subscribed and sworn to before me this 30th day of April, 2015.




Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

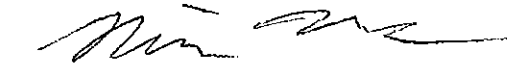
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AFFIDAVIT OF BRIAN WELLS

STATE OF MISSOURI)
) ss.
COUNTY OF ST LOUIS)

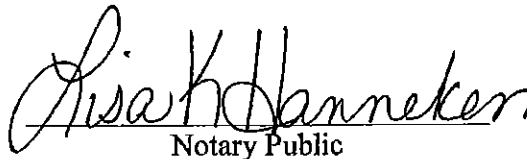
Brian Wells, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Recommendation in memorandum form, to be presented in the above case; that the information in the Staff Recommendation was developed by him; that he has knowledge of the matters set forth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



Brian Wells

Subscribed and sworn to before me this 30th day of April, 2015.

LISA K. HANNEKEN
Notary Public - Notary Seal
State of Missouri
Commissioned for Franklin County
My Commission Expires: April 29, 2018
Commission Number: 14967136



Notary Public