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Service Commission

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Date 10/15/15 Reporter Angie
File No. GO-2015-0341
GO-2015-0343

MEMORANDUM

TO: Missouri Public Service Commission Official Case File,
Case No. GO-2015-0341, File No. YG-2016-0041, Laclede Gas Company

FROM: Erin M. Carle - Auditing
Thomas M. Imhoff - Energy - Tariffs / Rate Design

/s/ Lisa K. Hanneken 10-02-2015
Auditing Unit / Date

/s/ Thomas M. Imhoff 10-02-2015
Energy Unit / Date

/s/ Jeff Keevil 10-02-2015
Staff Counsel's Office / Date

SUBJECT: Staff Report and Recommendation Regarding the Verified Application
and Petition of Laclede Gas Company for Establishment of an
Infrastructure System Replacement Surcharge for its Laclede Division.

DATE: October 2, 2015

BACKGROUND

On June 19, 2015, Laclede Gas Company ("Laclede" or "Company") filed a notice that it intended to file its next change in Laclede's Infrastructure System Replacement Surcharge (ISRS) and requested a waiver, if applicable from the sixty day notice period requirement for a contested case.

On June 30, 2015, the Missouri Public Service Commission issued an order granting the requested waiver.

On August 3, 2015, Laclede filed an Application and Petition ("Application") with the Commission to implement a change in Laclede's ISRS and a revised Tariff Sheet with a proposed effective date of September 2, 2015. Laclede also filed a motion to set an early pre-hearing conference to establish a procedural schedule if an evidentiary hearing is needed.

Laclede made its filing pursuant to Missouri Revised Statutes Sections 393.1009 through 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 customers' bills.

Laclede asserts that it has continued to incur costs related to ISRS-eligible infrastructure system replacements and submitted its Application to reflect ISRS investments for the period from March 1, 2015 through June 30, 2015, with pro forma ISRS costs updated through August 31, 2015. Laclede estimated in its Application that those costs entitled Laclede to an incremental increase of ISRS revenues of \$4,330,031 (per Laclede's August 3, 2015 Application).

On August 5, 2015, the Commission issued an "Order Directing Notice, Directing Filings And Setting Intervention Deadline" which set an intervention deadline of August 20, 2015, but did not suspend the pending tariff.

On August 11, 2015, the Commission issued an "Order Suspending Tariff, Scheduling Evidentiary Hearing and Setting Procedural Schedule". The Commission suspended Laclede's pending ISRS tariff sheet, 25th Revised Sheet No. 12 until December 1, 2015. The procedural schedule had a direct testimony date for Laclede of August 28, 2015, with Staff's recommendation due on October 2, 2015. Rebuttal/Surrebuttal testimony is due on October 9, 2015 with an evidentiary hearing scheduled for October 15, 2015.

STAFF REVIEW AND REVENUE CALCULATION

Laclede's filing in Case No. GO-2015-0341 represents its fourth ISRS filing since the conclusion of its most recent rate case, Case No. GR-2013-0171. Subsequent to its last rate case, Laclede filed ISRS Case Nos. GO-2014-0212, GR-2015-0026 and GO-2015-0269, each of which are currently included in Laclede's ISRS rates.

Under the current statute and rules, Staff and other parties have 60 days in which to review the ISRS rate request and file recommendations with the Commission. From that point, the Commission has an additional 60 days to conduct a hearing and issue its order regarding the ISRS rate adjustment. During the 60 day review process, Staff will review all workpapers and associated work orders for the Company's ISRS eligible plant additions. In its original filing, Laclede will include estimated values for items that they true-up during the review process. Staff has been performing a true-up analysis with ISRS cases dating back to at least 2009. Under the current ISRS statutes and rules, there is no specific discussion of the use of true-up procedures. Per legal advice, the use of true-up procedures by the Staff in its audits of ISRS applications is permissible, but not required or mandatory.

In its current Application, Laclede filed to recover ISRS qualifying infrastructure replacement costs incurred during the period March 1, 2015 through June 30, 2015 with true-ups through August 31, 2015. Laclede included in its filing actual ISRS eligible plant expenditures from March 2015 through June 2015, as well as budgeted ISRS eligible plant additions through the end of August 2015. Staff began its review with the actual amounts provided in the filing and received the July 2015 actual ISRS eligible plant additions on August 14, 2015 and the August update on September 14, 2015. This was adequate time for Staff to then review the workpapers and work orders associated with the true-up information. It should be noted that plant-in-service related to telemetry and regulator stations from prior ISRS cases has been included in the rates for this ISRS. This is due to an agreement between Laclede and the Office of the Public Counsel ("OPC") in Laclede's previous ISRS filing. The values related to these items were excluded from the previous ISRS filings, with the agreement that they could be considered in future ISRS filings.

In addition, Staff also updates the amounts of accumulated depreciation reserve and accumulated deferred income tax reserve associated with ISRS plant additions. This adjustment moves the balance for these items closer to the effective date of new ISRS rates. The depreciation reserve and deferred income tax reserve amounts reduce rate base, and thus offset to some degree the rate impact of inclusion of ISRS eligible plant additions in ISRS revenue requirement calculations. 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 October 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 120-day effective date of the ISRS rates, which, in this case, is currently December 1, 2015.

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 Laclede in Case Nos. GO-2014-0212, GR-2015-0026, and GO-2015-0269.

As part of the Auditing Staff's examination of Laclede's Application, Auditing Staff reviewed all supporting workpapers, work orders, and other applicable documentation; as well as communicating with Laclede personnel to gain clarification of Laclede's Application when necessary.

STAFF RECONCILIATION

Commission Rule 4 CSR 240-3.265 (17) requires a reconciliation of the ISRS revenue Laclede collected from customers in the prior 12-month period to account for over or under-collection of ISRS revenue.

Since the tariff for the ISRS surcharge authorized in Case No. GO-2015-0269 became effective May 22, 2015, it was not necessary for the Audit Staff to perform a reconciliation of surcharges for purposes of this case because the required twelve-month (12) period provided in 4 CSR 240-3.265(17) has not elapsed. In addition, a reconciliation for GO-2014-0212 and GR-2015-0026 was performed in Laclede's last ISRS filing, and therefore a reconciliation for these ISRS surcharges is not currently due to be performed. 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 pursuant to 4 CSR 240-3.265(17).

Based upon its review and all of its calculations, Staff is recommending that Laclede receive ISRS revenues for this case in the amount of \$4,499,676. Laclede had proposed an ISRS related revenue requirement of \$4,330,031.

This amount will be included with the currently effective ISRS revenue requirements (Case Nos. GO-2014-0212, GR-2015-0026 and GO-2015-0269). The below table shows the cumulative amount to be included in rates:

ISRS Case No.	Revenue Requirement	Cumulative
GO-2014-0212	\$7,018,225	
GR-2015-0026	\$2,780,045	\$9,798,270
GO-2015-0269	\$5,378,541	\$15,176,811
GO-2015-0341	\$4,499,676	\$19,676,487

THE ISRS RATE SCHEDULE

Staff's proposed rates are consistent with the methodology used to establish Laclede's past ISRS rates and consistent with the overall methodology used to establish ISRS rates for other utilities. Staff's proposed ISRS rates are contained in Appendix B, attached hereto and incorporated by reference herein.

Staff has recalculated Laclede's filed rates using the customer count that is consistent with the most-current annual report on file. Also, Staff has recalculated Laclede's filed rates using the revised revenue requirement as described above.

Staff has verified that Laclede has filed its 2014 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 recommends that the Commission issue an order in this case that:

1. Rejects the ISRS tariff sheet (YG-2016-0041) filed by Laclede on August 3, 2015;
2. Approves the Staff's recommended ISRS incremental pre-tax revenues of \$4,499,676; and
3. Authorizes Laclede to file an ISRS rate for each customer class as reflected in Appendix B. Total ISRS rates are projected to produce \$19,676,487 annually and are consistent with the revised revenue requirement established in this case.

LACLEDE GAS COMPANY
CASE NO. GR-2015-0026
ISRS RATE DESIGN

Staff's Total ISRS Revenue Calculation **\$19,676,487**

GO-2014-0212 \$7,018,225
GR-2015-0026 \$2,780,045
GO-2015-0269 \$5,378,541
GO-2015-0341 \$4,499,676

<u>Customer Rate Class</u>	<u>Ave Cust # Sept. 13</u>	<u>Customer Charge</u>	<u>Ratio To Res</u>	<u>Weighted Cust #</u>	<u>Customer Percentage</u>	<u>ISRS Charge</u>	<u>ISRS Revenues</u>
Residential	602,420	\$19.50	1.6250	978,933	88.0849%	\$2.40	\$17,332,016
Com & Ind. Class 1	30,895	\$25.50	2.1250	65,652	5.9074%	\$3.14	\$1,162,368
Com & Ind. Class 2	8,945	\$44.29	3.6908	33,015	2.9707%	\$5.45	\$584,522
Com & Ind. Class 3	589	\$88.57	7.3808	4,347	0.3912%	\$10.89	\$76,969
Large Volume	73	\$874.78	72.8983	5,322	0.4788%	\$107.56	\$94,219
Interruptible	16	\$776.36	64.6967	1,035	0.0931%	\$95.45	\$18,327
Transportation	133	\$2,069.94	172.4950	22,942	2.0643%	\$254.50	\$406,186
Transportation - Other	0	\$1,707.94	142.3283	0	0.0000%	\$0.00	\$0
Gas Light	83	\$5.69	0.4742	39	0.0035%	\$0.70	\$697
Vehicular Fuel	4	\$22.09	1.8408	7	0.0007%	\$2.72	\$130
Liquid Propane	42	\$17.00	1.4167	60	0.0054%	\$2.09	\$1,053
TOTAL	<u>643,200</u>			<u>1,111,351</u>	<u>100.0000%</u>		<u>\$19,676,487</u>

* Due to rounding to the nearest penny, the designed ISRS rates will over collect by \$19,918. However, it should be noted that the total amount collected will be trued-up at a later date.

APPENDIX B

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

In the Matter of the Application of Laclede)
Gas Company to Change its Infrastructure)
System Replacement Surcharge in its)
Laclede Gas Service Territory)

Case No. GO-2015-0341

AFFIDAVIT OF LISA K. HANNEKEN

State of Missouri)
City) ss.
County of St. Louis)

AFFIDAVIT

COMES NOW Lisa K. Hanneken and on her oath declares that she is of sound mind and lawful age; that she contributed to the attached Staff Report and Recommendation and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.



Lisa K. Hanneken

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the ^{CITY} County of ST. LOUIS State of Missouri, at my office in ST. LOUIS, on this 30TH day of SEPTEMBER, 2015.


NOTARY PUBLIC



SAMANTHA ROACH
My Commission Expires
April 14, 2017
St. Louis City
Commission #13471166

