

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

In the Matter of the Application of)
Laclede Gas Company to Change its) **Case No. GO-2015-0343**
Infrastructure System Replacement) **Tariff No. YG-2016-0042**
Surcharge in its Missouri Gas Energy)
Service Territory)

STAFF RECOMMENDATION

COMES NOW the Staff of the Missouri Public Service Commission, by and through the undersigned counsel, and in response to the Commission’s August 5, 2015 *Order Directing Notice, Directing Filings and Setting Intervention Deadline* (“Order”) submits its *Staff Recommendation* to the Commission as set forth in detail in the attached appendices, and in support thereof respectfully states as follows:

1. On August 3, 2015, Missouri Gas Energy (“MGE” or “Company”), an operating unit of Laclede Gas Company (“Laclede”), filed its *Verified Application and Petition of Missouri Gas Energy, an Operating Unit of Laclede Gas Company, to Change Its Infrastructure System Replacement Surcharge in Its Missouri Gas Energy Service Territory* (the “Application”) pursuant to Sections 393.1009, 393.1012 and 393.1015 of the Revised Statutes of Missouri and Commission Rule 4 CSR 240-3.265¹ which authorize gas corporations to recover certain eligible infrastructure replacement costs through an infrastructure system replacement surcharge (“ISRS”).

2. In the Order the Commission ordered Staff to file its recommendation regarding MGE’s Application no later than October 2, 2015. Staff’s recommendation is attached hereto as Appendix A and Appendix B, both of which are incorporated herein by reference.

¹ MGE’s Application also referenced 4 CSR 240-2.060 and 2.080.

3. This case represents MGE's third ISRS filing since the conclusion of its most recent rate case, Case No. GR-2014-0007. In its current Application, MGE 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. MGE 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.

4. As part of Staff's examination of MGE's Application, Auditing Staff reviewed all supporting work papers, work orders, and other applicable documentation, as well as communicating with MGE personnel to gain clarification of MGE's Application when necessary. 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 received the August update on September 15, 2015.

5. Based upon its audit and calculations, Staff is recommending that MGE receive an overall amount of ISRS revenues for this case of \$1,878,151. Due to the previously approved ISRS rates for MGE which continue in effect, the total ISRS revenue requirement to be included in rates (including Staff's recommended amount for this case) is \$6,683,273.

6. Staff has developed proposed ISRS rates for MGE based on Staff's recommended revenue requirement for this case described above. Staff's proposed rates are consistent with the methodology used to establish MGE's past ISRS rates and are consistent with the overall methodology used to establish ISRS rates for other

gas utilities. Staff's proposed ISRS rates are contained in Appendix B, attached hereto and incorporated by reference herein.

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

1. Rejects the ISRS tariff sheet (YG-2016-0042) filed by MGE on August 3, 2015;
2. Approves the Staff's recommended ISRS incremental pre-tax revenues of \$1,878,151; and
3. Authorizes MGE to file an ISRS rate for each customer class as reflected in Appendix B.²

Respectfully submitted,

/s/ Jeffrey A. Keevil

Jeffrey A. Keevil
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Missouri Public Service
Commission
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CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed, hand-delivered, or transmitted by facsimile or electronic mail to counsel of record this 2nd day of October, 2015.

/s/ Jeffrey A. Keevil

² Due to the previously approved ISRS rates for MGE which continue in effect, total ISRS rates are projected to produce \$6,683,273 annually, which includes Staff's recommended amount for this case.

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. GO-2015-0343, Tariff Tracking No. YG-2016-0042 – Laclede Gas
Company d/b/a Missouri Gas Energy

FROM: Erin M. Carle, Auditing Department
Kim Cox, Tariffs/Rate Design - Energy
Thomas M. Imhoff, Tariffs/Rate Design – Energy

/s/Lisa K. Hanneken 10/2/15
Auditing Unit / Date

/s/Thomas M. Imhoff 10/2/15
Energy Unit / Date

/s/Jeff Keevil 10/2/15
Staff Counsel’s Office / Date

SUBJECT: Staff Report and Recommendation Regarding the Verified
Application and Petition of Missouri Gas Energy, an operating unit of Laclede
Gas Company, to Change Its Infrastructure System Replacement Surcharge

DATE: October 2, 2015

BACKGROUND

On June 19, 2015, Laclede Gas Company ("Laclede") d/b/a Missouri Gas Energy (“Company” or “MGE”) filed a notice that it intended to file its next change in its 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, MGE filed a Verified 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 September 2, 2015.

MGE 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 customer bills.

MGE’s current ISRS was established effective October 18, 2014 in ISRS Case No. GR-2015-0025, covering ISRS costs incurred through August 31, 2014. The amount of this ISRS as

ordered by the Commission was \$1,990,296. Since MGE's ISRS was established, it has been changed once in ISRS Case No. GR-2015-0270. The amount of this ISRS as ordered by the Commission was \$2,814,826, covering costs incurred through February 28, 2015. Prior to the establishment of the ISRS in GR-2015-0025,

In its August 3, 2015 Application MGE asserts that it has continued to incur costs related to ISRS-eligible infrastructure system replacements and that it submitted its Application to reflect the additional ISRS investments covering the period from March 1, 2015 through June 30, 2015, with pro-forma ISRS costs updated through August 31, 2015. The Commission issued an "Order Directing Notice, Directing Filings and Setting Intervention Deadline" on August 5, 2015, but did not suspend the pending tariff. This order set an intervention date of August 20, 2015. That order also establishes October 2, 2015 as the date Staff "shall file its recommendation in this matter."

The Commission issued an order suspending the tariff on August 11, 2015. That order states that "The Commission will suspend that tariff until December 1, 2015, to allow sufficient time to review MGE's application."

On August 26, 2015 the Office of the Public Counsel filed a Motion to Reject Tariff and Alternate Motion for Evidentiary Hearing and Consolidation with GO-2015-0341. In response, on August 27, 2015, the Commission issued an "Order Setting Joint Evidentiary Hearing." This order scheduled a joint hearing for October 15, 2015 and ordered the parties to comply with the procedural schedule in File No. GO-2015-0341.

STAFF'S ISRS REVENUE REQUIREMENT CALCULATION

MGE's filing in Case No. GO-2015-0343 represents its third ISRS filing since the conclusion of its most recent rate case, Case No. GR-2014-0007. Subsequent to its last rate case, MGE filed ISRS Case No. GR-2015-0025 and GO-2015-0270, each of which are currently included in MGE'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, MGE will include estimated values for items that it will 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, MGE 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. MGE 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 then received the July 2015 actual ISRS eligible plant additions on August 14, 2015 and the August update on September 15, 2015. This was adequate time for Staff then to review the workpapers and work orders associated with the true-up information.

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 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 MGE in Case Nos. GR-2015-0025 and GO- 2015-0270.

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

STAFF RECONCILIATION

Commission Rule 4 CSR 240-3.265(17) requires a reconciliation of the ISRS revenue MGE 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 Nos. GR-2015-0025 and GO-2015-0270 became effective October 18, 2014 and May 22, 2015, respectively, 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. Although MGE performed a reconciliation to be included in this filing for both of the above mentioned cases, Staff determined that since the current ISRS rates have not been in place for 12 months, this was not required as part of 4 CSR 240-3.265(17) and any over/under collection determined by MGE’s reconciliation should not be included in the calculation of this ISRS filing. 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 MGE receive ISRS revenues for this case in the amount of \$1,878,151. MGE had proposed an ISRS related revenue requirement of \$1,807,205.

This amount will be included with the currently effective ISRS revenue requirements (Case No. GR-2015-0025 and GO-2015-0270). The below table shows the cumulative amount to be included in rates:

ISRS Case No.	Revenue Requirement	Cumulative
GR-2015-0025	\$1,990,296	
GO-2015-0270	\$2,814,826	\$4,805,122
GO-2015-0343	\$1,878,151	\$6,683,273

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 has verified that MGE 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

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

1. Rejects MGE's ISRS tariff sheet P.S.C. MO No. 6 Fifth Revised SHEET No. 10, Canceling Fourth Revised SHEET No. 10 as filed on August 3, 2015,
2. Approves the Staff's recommended ISRS surcharge revenues in this docket in the amount of incremental annual pre-tax revenues of \$1,878,151 with a total cumulative ISRS surcharge of \$6,683,273; and
3. Authorizes MGE to file an ISRS rate for each customer class as reflected in Appendix B, which generates \$6,683,273 annually.

Missouri Gas Energy

Appendix B

GO-2015-0025 \$1,990,296
 GO-2015-0270 \$2,814,826

CASE NO. GO-2015-0343

GO-2015-0343 proposed \$1,878,151

FILE NO. YG-2016-0042

Total \$6,683,273

ISRS RATE DESIGN

Company's Total ISRS Revenues \$6,683,273

Customer Rate Class	Number of Customers	Customer Charges	Ratio To Res. Cust. Charge	Weighted Customer #	Customer Percentage	ISRS charge	ISRS Revenues
Residential	441,101	\$23.00	1.0000	441,101	78.1045%	\$0.99	\$5,219,940
Small General Service	60,339	\$34.00	1.4783	89,197	15.7938%	\$1.46	\$1,055,545
Large General Service	3,082	\$115.40	5.0174	15,464	2.7381%	\$4.95	\$182,995
Large Volume Service	483	\$904.56	39.3287	18,996	3.3635%	\$38.78	\$224,794
TOTAL	505,005			564,757	100.0000%		\$6,683,273

* Due to rounding to the nearest penny, the designed ISRS rates will over collect by \$21,986. 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**

In the Matter of the Application of Laclede)
Gas Company to Change its Infrastructure)
System Replacement Surcharge in its)
Missouri Gas Energy Service Territory) Case No. GO-2015-0343

AFFIDAVIT OF KIM COX

State of Missouri)
) ss.
County of Cole)

AFFIDAVIT

COMES NOW Kim Cox 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.

Kim Cox
Kim Cox

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 15th day of October, 2015.

Laura Distler
NOTARY PUBLIC

LAURA DISTLER
Notary Public, Notary Seal
State of Missouri
Cole County
Commission # 15203914
My Commission Expires June 21, 2019

**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) Case No. GO-2015-0343
Missouri Gas Energy Service Territory)

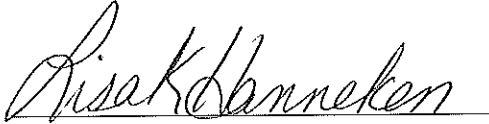
AFFIDAVIT OF LISA K. HANNEKEN

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

**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)
Missouri Gas Energy Service Territory)
Case No. GO-2015-0343

AFFIDAVIT OF THOMAS M. IMHOFF

State of Missouri)
) ss.
County of Cole)

AFFIDAVIT

COMES NOW Thomas M. Imhoff and on his oath declares that he is of sound mind and lawful age; that he contributed to the attached Staff Report and Recommendation and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.

Thomas M. Imhoff
Thomas M. Imhoff

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 15th day of October, 2015.

Laura Distler
NOTARY PUBLIC

