

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

In the Matter of the Verified Application and	)	
Petition of Laclede Gas Company to Change	)	<b><u>File No. GO-2015-0178</u></b>
Its Infrastructure System Replacement Surcharge	)	Tariff No. YG-2015-0252
In Its Laclede Gas Service Territory	)	

**STAFF RECOMMENDATION**

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

1. Laclede Gas Company (“Company” or “Laclede”) filed an application and petition with the Commission January 30, 2015, requesting a change in its Infrastructure System Replacement Surcharge (ISRS) and a revised tariff sheet with a proposed effective date of March 2, 2015.

2. Sections 393.1009 to 393.1015 RSMo. and Commission Rule 4 CSR 240-3.265 define an ISRS and grant utilities such as Laclede the ability to collect costs associated with eligible infrastructure system replacements.

3. The Commission ordered Staff to file its recommendation regarding Laclede’s application no later than March 31, 2015. Staff’s recommendation is attached here as Appendix A and incorporated by reference.

4. As explained in Staff’s *Recommendation*, Laclede requested an ISRS rate to reflect ISRS-eligible infrastructure system costs incurred from September 1, 2014, through December 31, 2014, including pro forma ISRS costs updated through February 28, 2015. Staff does not recommend any adjustments to Laclede’s updated application. Appendix A explains Staff’s calculations to determine that the appropriate annualized revenue requirement for the pending ISRS application in this matter is \$5,646,149.

When added to the \$7,062,051 from Case No. GO-2014-0212 and \$2,780,045 from Case No. GR-2015-0026 currently being collected through Laclede's ISRS, the total level of the current Laclede ISRS will be \$15,488,245 upon the effective date of the Commission's order in this matter, as shown in Staff's Appendix B, attached here and incorporated by reference.

5. Staff's proposed revenue requirement is \$5,646,149. Staff 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 this Commission that affects or is affected by this filing.

**WHEREFORE**, Staff recommends the Commission issue an order in this case that: (1) Rejects Laclede's proposed revised ISRS tariff sheet, Tariff Sheet PSC MO No. 5 Consolidated Twenty-Fourth Revised Sheet No. 12 cancelling PSC MO No. 5 Consolidated Twenty-Third Revised Sheet No. 12, filed January 30, 2015; (2) Approves Staff's recommended ISRS surcharge revenues in this docket in the incremental amount of annual pre-tax revenues of \$5,646,149, with a total current and cumulative ISRS surcharge of \$15,488,245, as shown on Staff's Appendix B; (3) Authorizes Laclede to file an ISRS rate for each customer class reflecting a total ISRS surcharge of \$15,488,245 annually and (4) Grants such other and further relief as the Commission considers just in the circumstances.

Respectfully Submitted,

**/s/ Whitney Payne**

Whitney Payne

Legal Counsel

Missouri Bar No. 64078

Attorney for the Staff of the

Missouri Public Service Commission

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### **CERTIFICATE OF SERVICE**

I hereby certify that a true and correct copy of the foregoing was served by electronic mail, or First Class United States Postal Mail, postage prepaid, on this 31<sup>st</sup> day of March, 2015, to all counsel of record.

**/s/ Whitney Payne**

**MEMORANDUM**

TO: Missouri Public Service Commission Official Case File  
Case No. GO-2015-0178, Tariff Tracking No. YG-2015-0252 – Laclede Gas  
Company

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

/s/Charles Hyneman 03/31/15

/s/Thomas M. Imhoff 03/31/15

Project Coordinator / Date

/s/John Borgmeyer 03/31/15

Staff Counsel’s Office / Date

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

DATE: March 31, 2015

**BACKGROUND**

On January 30, 2015, Laclede Gas Company (“Laclede” or “Company”) filed an Application and Petition (“Application”) with the Missouri Public Service Commission (“Commission”) to implement a change in Laclede’s Infrastructure System Replacement Surcharge (ISRS) and a revised Tariff Sheet with a proposed effective date of March 2, 2015.

Laclede 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, 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. For the period from September 1, 2014 through February 28, 2015, Laclede estimated in its Application that those costs entitled Laclede to \$5,317,257 (per Laclede’s January 30, 2015 Application).

Laclede's requested amount was revised and updated to \$5,646,149 based on Laclede's March 12, 2015 updated ISRS Application. This updated ISRS Application includes approximately \$20 million in ISRS plant work orders, which is 47 percent of the total ISRS plant included in this filing. Laclede's updated Application was received via email by Staff on March 12, 2015.

The Commission issued an “Order Directing Notice, Directing Filings And Setting Intervention Deadline” on February 3, 2015, but did not suspend the pending tariff.

The Commission issued an “Order Suspending Tariff” on February 10, 2015. The Commission suspended Sheet No. 12 until May 30, 2015.

## **STAFF’S ISRS REVENUE REQUIREMENT CALCULATION**

Laclede's Commission-approved ISRS charges prior to its GR-2013-0171 rate case ("2013 rate case") were rolled into Laclede's base rates in the 2013 rate case. Rates in Laclede's 2013 rate case include \$14,811,000 of cumulative ISRS revenues (all ISRS plant investments through December 31, 2013). The 2013 rate case *Amended Stipulation and Agreement* states:

1. The Parties agree and recommend that Laclede be authorized to transfer into its Missouri jurisdictional base rate revenues, as of September 1, 2013, the Fourteen Million, Eight Hundred Eleven Thousand Dollars (\$14,811,000) related to the Infrastructure System Replacement Surcharge ("ISRS") revenues that have previously been approved by the Commission and that Laclede is currently collecting in rates.

15. As required by Commission rules, the Company's current ISRS shall be reset to zero as of September 1, 2013. Plant in service additions for inclusion in a future ISRS shall be limited to additions subsequent to January 31, 2013. The Parties agree to continue their resolution of the ISRS issue regarding income tax by reducing the Company's filed amount by one-half of the value of the Staffs tax adjustment and, in exchange for this reduction, implementation of the ISRS as soon as reasonably possible, contingent on the Company's timely provision of data and information, including response to discovery, and the availability of the Parties' resources to process the surcharge.

Since the 2013 rate case, the Commission has, in its File No. GO-2014-0212 *Order Approving Unanimous Stipulation and Agreement, Order Granting Motion For Expedited Treatment and Order Approving Tariff*, established Laclede's current ISRS. On April 12, 2014 Laclede began charging its customers \$7,062,051, on an annual basis, through this ISRS. Laclede's ISRS was updated in File No. GR-2015-0026 when, in its *Order Approving Compliance Tariff*, the Commission approved a Stipulation and Agreement among parties in that case which resulted in an increase to Laclede's ISRS in the amount of \$2,780,045, effective October 18, 2014. These ISRS charges, as well as any increase in ISRS charges the Commission approves in this current ISRS filing, will be included in Laclede's base rates in its next general rate case.

The ISRS plant in service coverage period for the GO-2014-0212 ISRS was February 1, 2013 through February 28, 2014. The plant coverage period in the GR-2015-0026 ISRS update was

March 1, 2014 through August 31, 2014. The ISRS plant coverage period for this currently-proposed ISRS update, GO-2015-0178, is September 1, 2014 through February 28, 2015.

In accordance with Section 393.1015.2(2), the Staff may (1) examine information of Laclede 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(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(2) also places two significant 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. Consistent with this requirement the Commission established a deadline for Staff to file a recommendation regarding Laclede's application in this docket. In its February 3, 2015 *Order Directing Notice, Directing Filings and Setting Intervention Deadline* the Commission ordered that "no later than March 31, 2015, the Staff of the Missouri Public Service Commission shall file its recommendation in this matter."

The second significant audit scope restriction is that the Staff is 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). Single-issue examination resulting in single-issue ratemaking as required by the Section 393.1015.2(2) is significantly different from a normal Staff rate audit where all items of a utility's revenues, expenses, investments, gains and losses are examined. The resulting revenue requirement recommended by Staff is based on a comprehensive examination of many factors affecting the utility's revenue requirement.

The scope of Staff's examination of an ISRS application consists of two parts. The first part is a review of the accuracy of the calculation of the ISRS revenue requirement components used to calculate the overall proposed ISRS revenue requirement. This part of Staff's examination included reviewing Laclede'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.

The Staff verified Laclede's use of the appropriate capital structure and capital cost components as approved by the Commission in its February 21, 2014 *Order Approving Late-Filed Exhibit* in the 2013 rate case. The Staff also verified that the depreciation rates used by Laclede to calculate the ISRS were the same rates approved by the Commission its June 26, 2013 *Order Approving Unanimous Stipulation and Agreement* in the 2013 rate case.

As noted above, the 2013 rate case *Amended Stipulation and Agreement* at paragraph 15 states that the parties "agree to continue their resolution of the ISRS issue regarding income tax by reducing the Company's filed amount by one-half of the value of the Staff's tax adjustment..." This issue dates back several years to a difference in income tax methodology used by the Staff and Laclede in calculating income tax expense for the ISRS. The parties to the 2013 rate case determined to temporarily resolve this issue by splitting the difference in the ISRS revenue

requirement under the two methods. The Staff has made this adjustment in its proposed ISRS revenue requirement.

Table 1 shows that from its January 30, 2015 initial ISRS Application until March 12, 2015 supplemental ISRS Application (received by the Staff via an email on March 12, 2015), Laclede's requested ISRS plant increased by over \$3 million and its ISRS revenue requirement increased by \$332,892.

Table 1

	1/30/2015	3/12/2015
	Initial Application	Supplemental Application
ISRS Plant GO-2015-0178	\$39,665,391	\$42,967,846
Deferred Taxes on ISRS Plant GO-2015-0178	(\$3,636,491)	(\$3,644,601)
Depreciation Reserve on ISRS Plant GO-2015-0178	(\$451,271)	(\$476,810)
Increase in Depreciation Reserve on current ISRS Plant	(\$1,131,711)	(\$1,131,711)
Increase in Deferred Taxes on current ISRS Plant	(\$5,619,839)	(\$5,619,839)
Proposed ISRS Rate Base	\$28,826,079	\$32,094,885
Proposed ISRS update revenue requirement	\$5,313,257	\$5,646,149

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 Laclede's ISRS application. Staff reviewed a number of selected work order documents.

Only certain types of gas utility plant projects are eligible to be included in an ISRS. Section 393.1009 (5) restricts the types of plant projects that may be included in the ISRS to 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 a 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.

Due to the nature of the ISRS as a continuing and cumulative surcharge, the Staff has the ability to adjust Laclede's total ISRS, including all previous ISRS updates, in Laclede's next ISRS filing,

if found to be appropriate. The ability to examine all previous ISRS costs in subsequent ISRS applications is an important safeguard given the limited time available to audit ISRS costs (a maximum of 60 days) in any individual application.

Based on Staff's limited ISRS review, it is not proposing any adjustments to Laclede's updated ISRS Application. Staff has determined the appropriate annualized revenue requirement for the pending ISRS Application (GR-2015-0178) is \$5,646,149, based on ISRS plant placed in service during the period September 30, 2014 through February 28, 2015.

When added to the \$7,062,051 annual ISRS revenues currently being collected in Laclede's initial current ISRS (GO-2014-0212), and the \$2,780,045 ISRS revenues currently being collected in the GR-2015-0026 ISRS update the total level of the current Laclede ISRS will be \$15,488,245 on the effective date of the tariff from this docket.

### **THE ISRS RATE SCHEDULES**

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

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**

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

1. Rejects Laclede's ISRS tariff sheet revised Tariff Sheet P.S.C. MO No. 5 Consolidated, Twenty-Fourth Revised Sheet No. 12 cancelling P.S.C. MO. No. 5 Consolidated, Twenty-Third Revised Sheet No. 12, filed January 30, 2015;
2. Approves the Staff's recommended ISRS surcharge revenues in this docket in the incremental amount of annual pre-tax revenues of \$5,646,149 with a total current and cumulative ISRS surcharge of \$15,488,245;and
3. Authorizes Laclede to file an ISRS rate for each customer class as reflected in Appendix B, which generates \$15,488,245 annually.



**LACLEDE GAS COMPANY**  
**CASE NO. GO-2015-0178**  
 ISRS RATE DESIGN

**APPENDIX B**

Staff's Total ISRS Revenue Calculation  
**GO-2014-0212** \$15,488,245  
**GR-2015-0026** \$7,062,051  
**GO-2015-0178** \$2,780,045  
 \$5,646,149

<b>Customer Rate Class</b>	<b>Ave Cust # Sept. 13</b>	<b>Customer Charge</b>	<b>Ratio To Res</b>	<b>Weighted Cust #</b>	<b>Customer Percentage</b>	<b>ISRS Charge</b>	<b>ISRS Revenues</b>
Residential	602,420	\$19.50	1.6250	978,933	88.0849%	<b>\$1.89</b>	\$13,642,807
Com & Ind. Class 1	30,895	\$25.50	2.1250	65,652	5.9074%	<b>\$2.47</b>	\$914,952
Com & Ind. Class 2	8,945	\$44.29	3.6908	33,015	2.9707%	<b>\$4.29</b>	\$460,104
Com & Ind. Class 3	589	\$88.57	7.3808	4,347	0.3912%	<b>\$8.57</b>	\$60,586
Large Volume	73	\$874.78	72.8983	5,322	0.4788%	<b>\$84.66</b>	\$74,164
Interruptible	16	\$776.36	64.6967	1,035	0.0931%	<b>\$75.14</b>	\$14,426
Transportation	133	\$2,069.94	172.4950	22,942	2.0643%	<b>\$200.33</b>	\$319,727
Transportation - Other	0	\$1,707.94	142.3283	0	0.0000%	<b>\$0.00</b>	\$0
Gas Light	83	\$5.69	0.4742	39	0.0035%	<b>\$0.55</b>	\$548
<i>Vehicular Fuel</i>	4	\$22.09	1.8408	7	0.0007%	<b>\$2.14</b>	\$103
Liquid Propane	42	\$17.00	1.4167	60	0.0054%	<b>\$1.65</b>	\$829
<b>TOTAL</b>	<u>643,200</u>			<u>1,111,351</u>	<u>100.0000%</u>		<u>\$15,488,245</u>

\* Due to rounding to the nearest penny, the designed ISRS rates will over collect by \$21,228. However, it should be noted that the total amount collected will be trued-up at a later date.





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


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

Case No. GO-2015-0178

**AFFIDAVIT OF THOMAS M. IMHOFF**

STATE OF MISSOURI    )  
                                  ) ss  
COUNTY OF COLE    )

Thomas M. Imhoff, 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.

  
\_\_\_\_\_  
Thomas M. Imhoff

Subscribed and sworn to before me this 30<sup>th</sup> day of March, 2015.

LAURA DISTLER  
Notary Public - Notary Seal  
STATE OF MISSOURI  
Commissioned for Cole County  
My Commission Expires: June 21, 2015  
Commission Number: 11203914

  
\_\_\_\_\_  
Notary Public