

MEMORANDUM

TO: Missouri Public Service Commission Official Case File,
Case No. GR-2022-0136 – Spire Missouri, Inc., d/b/a Spire

FROM: Anne M. Crowe, Senior Utility Regulatory Auditor - Procurement Analysis
David Buttig, PE, Senior Professional Engineer - Procurement Analysis
Kwang Y. Choe, PhD, Economics Analyst - Procurement Analysis

/s/ David M. Sommerer 12/15/22 */s/ Jamie S. Myers 12/15/22*
Project Coordinator / Date Staff Counsel's Office / Date

SUBJECT: Staff's Recommendation for Spire Missouri, Inc., d/b/a/ Spire 2020-2021
Actual Cost Adjustment Filing

DATE: December 15, 2022

I. EXECUTIVE SUMMARY

On November 12, 2021, Spire Missouri Inc., d/b/a Spire (“Spire West” or “Company”) filed its Actual Cost Adjustment (“ACA”) for the 2020-2021 period in Case No. GR-2022-0136 for its Spire West division.

Spire West’s ACA filing reflects the commodity price spike experienced in February 2021 during Winter Storm Uri. In Case No. GT-2022-0084 Spire West received authority to increase the credit amount of its Filing Adjustment Factor (“FAF”)¹ to offset the increase in gas costs resulting from Winter Storm Uri for up to three years (2021-2023). The Company used the FAF to mitigate the customer impact in this filing.

The Commission’s Procurement Analysis Department (“Staff”) reviewed and evaluated Spire West’s billed revenues and actual gas costs for the period of October 1, 2020, to September 30, 2021. The Staff examined Spire West’s gas purchasing practices to determine the prudence of the Company’s purchasing and operating decisions, including:

- (1) A reliability analysis of estimated peak cold day requirements and the capacity levels needed to meet those requirements,
- (2) The Company’s rationale for its reserve margin for a peak cold day,
- (3) A review of normal, warm and cold weather requirements and the gas supply plans for meeting these requirements, and

¹ The FAF is designed to refund to, or recover from, customers any over- or under-recoveries of gas costs that have accumulated since the Company’s last ACA filing.

- (4) A review of Spire West’s hedging for the period to determine the reasonableness of the Company’s hedging plans.

Staff proposes two adjustments in the amounts of \$(4,661,103) and \$(25,000,000) (for a total of \$(29,661,103)) due to Cash Outs and Off-System Sales as explained in the Billed Revenue and Actual Gas Cost Section of this recommendation.

Staff recommends the Commission issue an order directing the Company to establish the ACA account balances shown in the table below to reflect the under or (over)-recovery balances as of September 30, 2021.

An under-recovery is an amount that is owed to the Company by its customers and is shown in the table below as a positive number. An over-recovery reflects an amount that is owed to the customer by the Company and is shown as a negative number (in parentheses). Spire Missouri West has an under-recovery.

Account	9-30-21 Ending Balance per Spire Missouri West Filing	Current Period Proposed Adjustment	9-30-21 Staff Recommended Ending Balance
ACA Balance	\$ 176,357,537	\$ (29,661,103)	\$ 146,696,434

Additionally, Staff recommends the Commission order the Company to respond to this Staff Recommendation Memorandum within 30 days.

This ACA Memorandum is organized into the following sections:

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Each section explains Staff’s concerns and recommendations.

STAFF'S TECHNICAL DISCUSSION AND ANALYSIS

II. BACKGROUND

Spire Missouri West's primary service areas are: Kansas City, St. Joseph and Joplin. For the 2010-2021 ACA period, the Company has an average of 497,836 residential customers, 33,633 commercial customers, 97 industrial customers, and 374 commercial and industrial transportation customers, for a total of 531,940 customers.

Spire Missouri West transports its gas supply over Panhandle Eastern Pipe Line ("PEPL"), Southern Star Central Gas Pipeline ("SSC"), Tallgrass Interstate Gas Transmission ("TIGT"), and Rockies Express Pipeline ("REX").

III. RELIABILITY ANALYSIS AND GAS SUPPLY PLANNING

As a regulated gas corporation providing natural gas services to Missouri customers, a local distribution company (LDC) is responsible for conducting reasonable long-range supply planning and the decisions resulting from that planning. A purpose of the ACA process is to review the LDC's planning for gas supply, transportation, and storage to meet its customers' needs. For this analysis, Staff reviewed Spire West's plans and decisions regarding estimated peak day requirements and the capacity levels to meet those requirements, peak day reserve margin and the rationale for this margin and natural gas plans for various conditions.

Staff has no proposed financial adjustments for the 2020-2021 ACA period related to reliability analysis and gas supply planning. Staff's other comments and recommendations are discussed in the rest of this section.

A. Resource Plan

Staff introduced Spire West's revised Resource Plan in Case No. GR-2021-0122. The 2019-2020 ACA period was the first in which the revised plan was in effect. Staff and Spire discussed the revision both in advance of and subsequent to Spire's finalization of the plan, Staff will continue to monitor Spire's resource planning and demand forecasting.

B. Reserve Margin

The reserve margin for the peak day is ** [REDACTED] **. Staff normally considers this to be low. In previous ACA discussions with Staff related to its revised Resource Plan, Spire has expressed a high degree of confidence in its revised models for demand projection. ** [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] ** In light of this additional refinement, which addresses

some of the uncertainty intended to be covered by a somewhat higher reserve margin, Staff makes no additional recommendations related to reserve margin with the expectation that Spire will continue to observe the effectiveness of its demand modeling and make appropriate revisions to its Resource Plan if needed.

IV. BILLED REVENUE AND ACTUAL GAS COSTS

During this ACA period Staff performed a review and evaluation of the Company's actual gas costs and billed revenue. Based on its review, Staff proposes adjustments for Cash Outs and Off-System Sales to the September 30, 2021 ACA balance as explained below.

A. Cash Outs

Spire West's transportation tariffs contain a Cash Out provision which reconciles a transportation customer's imbalance by requiring the Company to either buy or sell gas to the transportation customer equal to the customer's monthly imbalance². At the end of each month, if the transporter used more gas than it put into Spire West's system, then the transporter pays the Company for the additional gas supplies it used. If the transporter used less gas than it put into the system, the Company purchases this gas from the transportation customer through a credit on the customer's bill. The cost of the gas purchased or sold to transportation customers through the Cash Out process flows through the PGA/ACA account. Staff determined in this period that the Cash Out amounts stated in the Company's bills issued to the transportation customers or their retail gas marketers did not agree with the higher, unsupported Cash Out amount reported in the Company's ACA filing. The underlying Cash Out bills should agree with the ACA filing. Therefore, to reconcile this discrepancy Staff proposes an adjustment to reduce the Cash Outs total by \$(4,661,103). This adjustment brings the Company's Cash Out amount in its ACA filing in line with the Cash Out bills issued to the transportation customers or their retail gas marketers.

B. Off-System Sale (OSS)

An off-system sale occurs when Spire West sells natural gas to a customer outside of its service area. Spire West makes a margin/profit from off-system sales, which is calculated by subtracting the cost of the gas supply, associated with the sale, from the gross revenues received from the sale as described in tariff sheet nos. R-27 and R-27.1. Per tariff sheet no. 11.6, Spire is allowed to keep 25% of the off-system sales profit with the remaining 75% flowing through the PGA/ACA to reduce the overall gas costs of Spire West's customers. In this ACA period Spire West made an off-system sale with the gas supply held in its SSC storage. The Company assigned a Cost of

² "Balancing" by a transportation customer or a pool of transportation customers means the amount of gas put into Spire West's system (receipts) is equal to the amount used or taken out of Spire West's system (deliveries). When a transportation customer puts more or less gas into Spire Missouri West's system than the gas actually used, this difference is referred to as an "imbalance."

Gas Supply of ** [REDACTED] ** per MMBtu to this OSS. The Staff believes a higher Cost of Gas Supply, in the amount of ** [REDACTED] ** per MMBtu, should have been assigned to this OSS. Based on the the Company's assignment of the Cost of Gas Supply and the OSS sharing percentages, the customer's gas costs were reduced \$75 million and the Company kept \$25 million. Based on Staff's assignment of the cost supply to the OSS, there should be no margin on the OSS. Staff's assignment reduces gas costs by \$100 million because the higher cost supply associated with the OSS is not included in the cost of gas. Therefore Staff proposes an adjustment to reduce gas costs by \$(25 million). This amount is based upon the \$100 million of gas costs that should not have been included in the ACA minus the \$75 million OSS sharing credit the Company has applied to the ACA balance.

V. WINTER STORM URI

Beginning on or around February 6, 2021, an Arctic air mass enveloped much of the continental United States with temperatures experienced throughout the Midwest well below normal between February 8 and February 18, 2021. Spire West indicated it was prepared for the cold weather event as a result of its normal practice of continuously monitoring weather and gas supply. It took steps to ensure storage levels were adequate, that available capacity would meet operational needs, and that the Company could find the appropriate level of supply to fill its capacity.³

The Staff evaluates prudence based on whether a reasonable person would find the utility's actions were reasonable based upon the circumstances and information that was known or should have been known at that time the decision was made, without the benefit of hindsight. Imprudence alone is not treated as a basis for a disallowance. However, when imprudence is coupled with harm to a utility's ratepayers, then a prudence disallowance is appropriate.

Staff reviewed Spire West's actions and decisions as it related to Winter Storm Uri, February 12th through February 21st, including a review of natural gas purchases, storage utilization, and hedging. Spire West issued an Operational Flow Order⁴ (OFO) for the period, effective February 12, 2021 until February 20, 2021. Spire West stated declaring an OFO was the best way to protect and maintain the integrity of its distribution system. Based on Staff's review, no additional adjustments to Spire West's ending ACA balances have been recommended.

³ Case No. AO-2021-0264 Data Request No. 294.

⁴ Spire West's tariff Sheet No. 16.8 states the "Company may issue Operational Flow Orders (OFO's) to Transportation Customers as necessary to protect the integrity of its system or any portion thereof and/or to insure compliance with the requirements of upstream pipeline companies." An OFO requires the transporters to match the amount of gas put into the system with the amount of gas they use.

VI. HEDGING

In its review of Spire West’s purchasing practices, Staff reviewed the Company’s Risk Management Strategy, Gas Supply Risk Management Policy and its financial hedging transactions for the 2020-2021 ACA period.

The Company implemented its financial hedging transactions based on its risk management strategy. Spire West combined storage and financial instruments to hedge portions of the volumes needed for the winter heating season, November 2020 through March 2021.

Staff has the following comments on Spire West’s hedging practices:

A. ** [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] **

B. Evaluation of Hedge Program

Staff reviews the prudence of a Company’s decision-making based on what the Company knew or reasonably could have known at the time it made its hedging decisions. A Company’s hedging planning should be flexible enough to incorporate changing market circumstances. A Company should evaluate its hedging strategy in response to changing market dynamics as to how much the existing hedging strategy actually benefits its customers while balancing market price risk. For example, Spire West should routinely review and evaluate the adequacy of its hedge coverage regarding the appropriate volumes of financial instruments as well as the possible use of more cost-effective financial instruments to assess exposure to market prices when the market prices become relatively less volatile.

Staff recommends the Company analyze the benefits/costs based on the outcomes from the hedging strategy, and evaluate any potential improvements on the future hedging plan and its implementation to achieve a cost effective hedging outcome as the Company reviews and develops

its hedging program each year in the Company's Risk Management Strategy.⁵ For example, the Company should continue to evaluate the performance of its hedge program in terms of the various types of financial instruments used, ** [REDACTED]

[REDACTED]. ** Staff recommends the Company well document the rationale for its hedging decisions.

VII. RECOMMENDATIONS

1. Staff recommends the Commission issue an order directing the Company to establish the ACA account balance as shown in the table below to reflect the under or (over)-recovery balance as of September 30, 2021.

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2. Staff recommends that the Commission issue an order requiring the Company to file a written response to all of the comments, concerns and recommendations included in this Staff Recommendation Memorandum within 30 days.

⁵ The Company's Risk Management Strategy dated July 2015 was the most recent on available for the 2020-2021 ACA period. Staff notes that the Company indicated during recent updates that it would evaluate and update its risk management strategy, which considers a longer term hedging, among other changes. Staff will continue to monitor the change in the Company's hedging strategy.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Spire Missouri, Inc. d/b/a)
Spire (West) Purchased Gas Adjustment) Case No. GR-2022-0136
(PGA) Tariff Filing)

AFFIDAVIT OF ANNE M. CROWE

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW ANNE M. CROWE and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Staff Recommendation* in Memorandum form; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.



ANNE M. CROWE

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 13th day of December 2022.



Notary Public

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: April 04, 2025
Commission Number: 12412070

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Spire Missouri, Inc. d/b/a)
Spire (West) Purchased Gas Adjustment) Case No. GR-2022-0136
(PGA) Tariff Filing)

AFFIDAVIT OF DAVID T. BUTTIG, PE

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW DAVID T. BUTTIG, PE and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Staff Recommendation* in Memorandum form; and that the same is true and correct according to his best knowledge and belief.

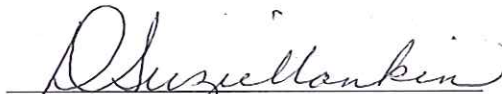
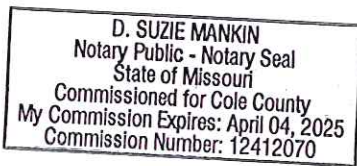
Further the Affiant sayeth not.



DAVID T. BUTTIG, PE

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 14th day of December 2022.



Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Spire Missouri, Inc. d/b/a)
Spire (West) Purchased Gas Adjustment) Case No. GR-2022-0136
(PGA) Tariff Filing)

AFFIDAVIT OF KWANG Y. CHOE, PhD

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW KWANG Y. CHOE, PhD and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Staff Recommendation* in Memorandum form; and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.



KWANG Y. CHOE, PhD

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 13th day of December 2022.



Notary Public

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: April 04, 2025
Commission Number: 12412070