BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Spire Missouri, Inc. d/b/a Spire (East) Purchased Gas Adjustment (PGA) Tariff Filing	)))	**Case No. GR-2021-0127**

STAFF STATEMENT OF POSITION

COMES NOW the Staff of the Missouri Public Service Commission ("Staff"), by and through counsel, and for its *Staff Statement of Position*, states as follows:

1. Was Spire Missouri's decision to enter into a firm transportation contract with Spire STL Pipeline LLC prudent?

Yes. The Purchased Gas Adjustment ("PGA") process is contained in Spire Missouri's tariffs. Spire Missouri's PGA tariffs authorize the Company to develop an estimate of its natural gas costs for the purposes of recovering the prudently incurred actual gas costs. There is no mark-up or profit on Spire Missouri's gas costs, but its purchasing decisions are subject to an annual prudence review. The Actual Cost Adjustment ("ACA") part of the PGA process is designed to compare the actual gas costs incurred versus the revenues billed to Spire Missouri's customers for those gas costs. This reconciliation results in either an over or under recovery of gas costs that is typically returned or charged over a subsequent year. In this particular case, the 12-month time period under review is for the 2019-2020 ACA period or the 12 months ending September 2020. (Sommerer direct, p. 2).

This Spire Missouri ACA period contained the first costs incurred for service to Spire Missouri under its contract with its affiliate, Spire STL Pipeline. Service started and gas started flowing to Spire Missouri from the Spire STL Pipeline in November of 2019. The significance of this service is illustrated by the large impact the contract had on

Spire Missouri's traditional gas portfolio coupled with the heightened scrutiny necessary due to the affiliated nature of the contract. Because this was an affiliate transaction, it brought with it the necessary reviews of this transaction with regards to Spire Missouri's cost allocation manual ("CAM") and the Commission's affiliate transactions rule for natural gas utilities, 20 CSR 4240-40.015. (Sommerer direct, p.2.).

Given these complexities, Staff obtained the assistance of Schumaker & Company, Inc., for this review. Staff consultant Dennis J. Schumaker conducted a prudency review of the actions undertaken by Spire Inc. in deciding to build and operate an interstate pipeline under its subsidiary Spire STL Pipeline, and with which Spire Missouri ultimately contracted for service. (Schumaker direct, Schedule DJS-d2, p.1.).

Staff consultant Schumaker conducted a review and found that:

- The decision made by Spire Inc. to build the Spire STL pipeline was reasonable and prudent.

    The decision by Spire Inc. to construct the Spire STL pipeline was rendered after a long review process undertaken by Spire Missouri (at that time called Laclede Gas Company) which began in 2011 and culminated on January 26th 2017 with Spire STL pipeline filing its application for a 7(c) Certificate at FERC.

    The operation of the Spire STL pipeline helped improve some operational issues within the distribution system.

    Reconfiguring Spire Missouri East's supply portfolio has yielded financial and non-financial benefits for the customers of Spire Missouri East.

    Spire developed a dashboard analysis showing potential financial benefits of Spire STL pipeline.

    Spire hired Concentric Consulting LTD ("Concentric") to develop an economic analysis of the Spire STL pipeline.

    The Spire Project Gas team's evaluation of Spire Missouri East's gas supply portfolio was thorough and complete.

- The Spire Inc. Board of Directors were involved in the decision-making process throughout this timeframe.

    Communications between the Project Gas team, the Board of Directors and Strategy Committee was frequent and complete.

    Several key benefits were presented during a Board Strategy Meeting.

- Missouri ratepayers have been shielded from the cost overruns by a precedent (founders) agreement that was negotiated at the start of the project.

    A favorable transportation rate was negotiated between Spire Missouri East and Spire STL pipeline.

    The Spire STL pipeline provides gas transportation services to Spire Missouri East at an allowed FERC rate that was established in the precedent agreement whereas services provided to Spire STL pipeline by Spire Missouri are provided at fully distributed cost to Spire STL pipeline.

- A qualified Project Management team was put in place to manage the Spire STL pipeline Project.

    Key individuals were hired with specific pipeline construction experience to run the project.

    Competitive bidding was used to select Principal General Contractor.

    Approvals at all levels of government were sought and granted.

- Spire Inc. has created an organization similar to what we have observed at other electric and gas utilities.

    The Spire STL pipeline affiliate was created due to anticipated supply need and the absence of an available unaffiliated company that met Spire standards to partner with Spire on this effort.

    Spire is in general compliance with the Missouri Affiliate Rules with respect to Spire STL pipeline.

(Schumaker direct, Schedule DJS-d2, p.2.).

Importantly, Staff noted that it had concerns with the availability of information that Spire Missouri was able to initially provide Staff. Staff also noted that Spire Missouri took on Spire STL Pipeline's risk with regard to the decision of Spire STL Pipeline to proceed with construction while all appellate reviews had not been exhausted. Although the risk may have seemed low at the time, the fact that there was only one affiliated precedent agreement supporting the market need for the Spire STL Pipeline subjected the FERC decision to issue a certificate to Spire STL Pipeline to extra scrutinty. (Sommerer direct, p.5.). But, as discussed in detail in the report included in Staff's testimony, Staff made no finding of imprudence with regard to Spire Missouri's decision to enter into a contract with Spire STL Pipeline. (Sommerer direct, Schedule DSM-d2, p.4.; Schumaker direct, Schedule DJS-d2, pp.1-63.).

2. If not, should the Commission order a disallowance of gas costs for the Spire Missouri East 2019-2020 Actual Cost Adjustment period based on that decision?

Possibly. If the Commission finds that Spire Missouri's decision to enter into a firm transportation contract with Spire STL Pipeline was not prudent, it may be appropriate for the Commission to order a disallowance. Staff's understanding of the Commission's prudence standard is that once a party has raised serious doubt about the prudency of an expenditure, the party proposing the disallowance needs to evaluate the harm to customers of the alleged imprudent decision and propose any necessary disallowances to hold the customers "harmless". (Sommerer rebuttal, p.3.).

The harm would be assessed by comparing the costs that Spire Missouri would have incurred assuming a prudent course of action, versus the actual expenses incurred that result from the imprudent action. Simply put, if the historical portfolio in place before the implementation of the Spire STL Pipeline, with reasonable updates of costs to maintain such historical service, is less than the costs of the new portfolio with Spire STL Pipeline, then a disallowance might be warranted. (Sommerer rebuttal, p.4.).

3. If so, what disallowance of gas costs should be ordered?

Staff does not recommend that the Commission order a further disallowance. [1] Staff concluded that there was not a major cost difference between maintaining service from the traditional gas supply and the transportation configuration as opposed to the new portfolio configuration with Spire STL Pipeline. One of the key drivers that has constrained costs is that the rate Spire Missouri pays Spire STL Pipeline is capped at 25 cents per MMBtu pursuant to the contract between Spire Missouri and Spire STL Pipeline. With the cap in place, the costs associated with service from the Spire STL Pipeline do not appear to exceed the estimated costs Spire Missouri would have incurred if it had maintained its historical service. (Sommerer rebuttal, p.4.).

OPC, EDF and CCM proposed issues:

1. Was it reasonable and prudent for Spire Missouri, Inc. d/b/a Spire (East), in managing its gas supply and pipeline capacity, to have relied on obtaining service from Spire STL Pipeline prior to the latter having received a non-appealable certificate of public convenience and necessity from FERC?

While this is a narrower question than Question 1 above, Staff partially answered this question in its response to Question 1 above.

[1] Staff proposed one adjustment to Spire East's September 30, 2020 ACA account balances as a result of Spire East's asset management agreement with Spire Marketing. (Sommerer direct, schedule DSM-d2, pp.7-8.). The *Partial Stipulation and Agreement* between Spire Missouri and Staff, filed on January 6, 2023, and approved by the Commission on January 25, 2023, resolved this adjustment.

2. If the answer to the forgoing is negative, what action should the Commission take?

See Staff's responses to Questions 2 and 3 above.

WHEREFORE, Staff submits its *Staff Statement of Position* for the Commission's information and consideration.

Respectively submitted,

/s/ Jamie S. Myers

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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served electronically on all counsel of record on this 14th day of July, 2023.

/s/ Jamie S. Myers