

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

In the Matter of the Application of Spire)	
Missouri Inc. to Change Its Infrastructure)	<u>Case No. GO-2021-0030</u>
System Replacement Surcharge in Its Spire)	Tariff No. YG-2021-0020
Missouri East Service Territory)	

STAFF RECOMMENDATION

COMES NOW the Staff of the Missouri Public Service Commission and in response to the Commission’s August 5, 2020, *Order Directing Notice, Setting Intervention Deadline, and Directing Filings, Setting Time for Responses, and Suspending Tariff Sheets* (“Order”) submits its *Staff Recommendation* to the Commission as set forth in detail in the attached appendices, and in support thereof states as follows:

1. Sections 393.1009, 393.1012 and 393.1015 of the Revised Statutes of Missouri and 20 CSR 4240-3.265 authorize gas corporations to recover certain eligible infrastructure replacement costs through an infrastructure system replacement surcharge (“ISRS”).

2. On August 4, 2020, Spire Missouri filed its *Verified Application and Petition of Spire Missouri Inc. to Change its Infrastructure System Replacement Surcharge for Its Spire Missouri East Service Territory and Request for Waiver from 60 Day Notice Rule* (“Application”). In its Application, Spire Missouri Inc. (“Spire Missouri”) requested a waiver from the 60 day notice requirement of 20 CSR 4240-4.017. Attached to Spire Missouri’s Application is a proposed P.S.C. MO. No. 7 Sixth Revised SHEET No. 12 CANCELLING P.S.C. MO. No. 7 Fifth Revised SHEET No. 12, bearing an effective date of September 3, 2020.

3. The ISRS surcharges reflected on Spire Missouri’s proposed Sheet 12 equate to an annual revenue requirement of \$7,383,272, and to total annual cumulative revenues of \$26,216,740.

4. On August 5, 2020 the Commission issued *Order Directing Notice, Setting Intervention Deadline, Directing Filings, Setting Time for Responses, and Suspending Tariff Sheets*, suspending the tariff sheet Spire Missouri filed on August 4, 2020 (assigned tariff tracking number YG-2021-0020) until December 2, 2020. In this order the Commission also ordered Staff to file its recommendation regarding the Application by October 2, 2020. Staff's recommendation is attached hereto as Appendix A, with supporting worksheets labelled as Appendices B-1, B-2, C-1, and C-2, each of which are incorporated herein by reference.

5. Spire Missouri's Application contains a primary revenue requirement request and an alternative. In its primary request, as shown in its Appendix A, Spire Missouri seeks ISRS recovery of costs associated with replacing all pipe, including plastic pipe. The Commission has disallowed ISRS recovery for plastic pipe replacement in prior ISRS filings, and this issue is before the Missouri Court of Appeals.

6. In its Appendix B, Spire Missouri calculated an alternative revenue requirement which excludes the cost of replacing plastic pipe. In its alternative revenue requirement, Spire Missouri uses the methodology the Commission adopted in its prior ISRS cases (case numbers GO-2018-0309, GO-2019-0115, GO-2019-0356, and GO-2020-0229) to calculate the amount of ineligible plastic in the requested ISRS recovery.

7. As discussed in Staff's Memorandum, attached hereto as Appendix A, Auditing Staff examined the Application and supporting direct testimony, work papers, work order authorizations, accounting entries for work orders, and a sample of invoices supporting the work order authorizations. Staff also communicated with Spire Missouri personnel through email and telephone for clarification of the Application.

8. Based on Staff's analysis of the information Spire Missouri provided to date, Staff cannot conclude that the cast iron, bare steel,¹ copper, and plastic pipe Spire Missouri East replaced was in a worn out or deteriorated condition. Subject to review of additional evidence that Spire files later in this proceeding demonstrating that the pipe referenced in the instant petition was in worn out or deteriorated condition, Staff recommends that the Commission disallow recovery of these costs.

9. Staff recommends that Spire Missouri recover costs associated with projects required by civic improvements, angle of repose situations, blanket work orders, service transfers, and header mains.

10. Staff points out that because it filed the Application, Spire Missouri bears the burden of proof.² The burden of proof is the preponderance of the evidence standard.³ In order to meet this standard, Spire Missouri must convince the Commission it is more likely than not that its allegations are true.⁴

11. Staff also reviewed Spire Missouri's categorization of ISRS-eligible and ISRS-ineligible tasks associated with blanket work orders, as described in Staff's Memorandum, Appendix A.

12. As shown in Appendix C-1, Staff recommends that Spire Missouri receive incremental pre-tax ISRS revenues for this case of \$3,456,165, with a total current and cumulative ISRS surcharge of \$22,289,633.

¹ Spire Missouri and Staff agree that cost of replacing steel coated and protected when it was installed should be excluded from the ISRS revenue requirement, and the parties agree on the methodology of separating these costs.

² "The burden of proof, meaning the obligation to establish the truth of the claim by preponderance of the evidence rests throughout upon the party asserting the affirmative of the issue. *Clapper v. Lakin*, 123 S.W.2d 27, 33 (Mo. 1938).

³ *Bonney v. Environmental Engineering, Inc.*, 224 S.W.3d 109, 120 (Mo.App. 2007); *State ex rel Amrine v. Roper*, 102 S.W.3d 541, 548 (Mo. banc 2003); and *Rodriguez v. Suzuki Motor Corp.*, 936 S.W.2d 104, 110 (Mo. banc 1996).

⁴ *Holt v. Director of Revenue, State of Missouri*, 3 S.W.3d 427, 430 (Mo.App. 1999); *McNear v. Rhoades*, 992 S.W.2d 877, 855 (Mo.App. 1999); *Rodriguez*, 936 S.W.2d at 109-111; and *Wollen v. Depaul Health Center*, 828 S.W.2d 681, 685 (Mo. banc 1992).

13. However, Staff developed an alternative revenue requirement if the Commission determines that the costs of replacing cast iron, bare steel, and copper pipe should not be excluded from the revenue requirement. As shown in Appendix C-2, Staff's proposed alternative revenue requirement is \$5,001,212, with a total current and cumulative ISRS surcharge of \$23,834,680.

14. Staff developed proposed ISRS rates for Spire Missouri's Spire East based on Staff's primary recommended ISRS revenue requirement. Staff's proposed rates are consistent with the methodology used to establish Spire East'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-1, attached hereto and incorporated by reference herein. Appendix B-2 is Staff's rate design for its alternative position.

15. Although Spire Missouri bases its proposed rates on the customer count in Spire East's most recent general rate case, GR-2017-0215, Staff's proposed ISRS rates are calculated based on the customer numbers Spire Missouri reported in its most recent annual report. The customer count in Spire Missouri's most recent annual report is more reflective of actual billing numbers and provides a more current count. This method of calculation is authorized under § 393.1015.5(1), RSMo and 20 CSR 4240-3.265.

16. Staff does not object to Spire Missouri's request for a waiver from the 60 day notice provisions of 20 CSR 4240-4.017(1).

17. Staff also notes that Spire Missouri filed its FY 2019 Annual Report and is not delinquent on its FY 2020 assessments.

WHEREFORE, for the reasons stated above and in Staff's attached Memorandum, incorporated herein as Appendix A, Staff recommends the Commission issue an order in this case that:

1. Rejects Spire Missouri's ISRS tariff sheet (tariff number YG-2021-0020) P.S.C. MO. No. 7 Sixth Revised SHEET No. 12 CANCELLING P.S.C. MO. No. 7 Fifth Revised SHEET No. 12, as filed on August 4, 2020;
2. Approves Staff's recommended ISRS surcharge revenues in this docket in the incremental pre-tax revenue amount of \$3,456,165 with a total current and cumulative ISRS surcharge of \$22,289,633;
3. Authorizes Spire Missouri to file an ISRS rate for each customer class as reflected in Appendix B-1, which generates \$22,289,633 annually; and,
4. Authorizes an effective date no sooner than November 17, 2020.

Respectfully submitted,

/s/ Robert S. Berlin

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CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been electronically mailed to all parties and/or counsel of record on this 2nd day of October, 2020.

/s/ Karen E. Bretz

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. GO-2021-0030, Tariff Tracking No. YG-2021-0020
Spire Missouri Inc., d/b/a Spire (East)

FROM: Michael J. Ensrud, Research/Data Analyst, Procurement Analysis
Jared Giacone, Utility Regulatory Auditor, Auditing
Jeremy Juliette, Utility Regulatory Auditor, Auditing
Keith Majors, Utility Regulatory Auditor, Auditing
Matthew R. Young, Utility Regulatory Auditor, Auditing
Karen Lyons, Utility Regulatory Auditor, Auditing

/s/ David M. Sommerer 10-02-20 /s/ Robert S. Berlin 10-02-20
Procurement Analysis/Date Staff Counsel's Office/Date

SUBJECT: Staff Report and Recommendation Regarding Spire East's ISRS Tariff
Submission in order to increase existing ISRS rates.

DATE: October 2, 2020

EXECUTIVE SUMMARY

On August 4, 2020, Spire Missouri Inc., d/b/a Spire ("Spire Missouri" or "Company") filed its *Verified Application and Petition of Spire Missouri Inc. to Change its Infrastructure System Replacement Surcharge for its Spire Missouri East Service Territory and Request for Waiver from 60 Day Notice Rule* ("Application") with associated workpapers. In support of its Application, Spire filed the Direct Testimony of Company witnesses Craig R. Hoferlin and Timothy H. Goodson on August 14, 2020. In its Application, Spire Missouri requests Commission approval to change the infrastructure system replacement surcharge ("ISRS") for its Spire Missouri East Service Territory ("Spire East") in order to recover costs incurred for ISRS-eligible replacements made between March 1, 2020 and August 31, 2020.

Spire Missouri's Application contains a primary revenue requirement request and an alternative. Its primary request is for reimbursement of all replaced pipe, including plastic pipe. This equates to an annual revenue requirement of \$7,383,272, before considering updates incorporating July and August actual costs. Its alternative calculation includes an adjustment removing the costs of replacing plastic pipe. This alternative reduces the annual revenue requirement to \$6,999,953, before consideration of July and August actual costs. Spire Missouri's alternative revenue requirement also includes an adjustment to remove the cost of replacing coated steel pipe.

In the current ISRS case, Spire Missouri did not provide Staff with sufficient evidence to show that cast iron, bare steel, copper, and plastic pipe was worn out or deteriorated. At this time Staff recommends that the Commission disallow recovery of these costs. Staff recommends that Spire Missouri recover costs associated with projects required by civic improvements, angle of repose situations, blanket work orders, service transfers, and header mains. After these adjustments, Staff's primary recommendation is a revenue requirement of \$3,456,165. Staff believes its proposed

revenue requirement reflects recovery for the costs shown by Spire Missouri to be ISRS eligible. However, Staff also calculated an alternative revenue requirement of \$5,001,212 if the Commission believes that no adjustments should be made excluding the costs of replacing cast iron, bare steel, and copper pipe. Staff's alternative revenue requirement incorporates the methodology of removing the costs of plastic pipe as the Commission has approved in Case Numbers GO-2018-0309, GO-2019-0115, and GO-2019-0356.

STAFF REVIEW AND REVENUE CALCULATIONS

A. Introduction and Methodology

Staff proposes an incremental revenue requirement of \$3,456,165, as shown in Appendix C-1. Staff's proposed revenue requirement will increase the cumulative revenue requirement for Spire East to \$22,289,633. Below is a table illustrating Spire Missouri's annual ISRS revenue requirements and cumulative requirements since its last general rate case:

Case Number	Case Revenue Requirement	Cumulative Requirement
GO-2020-0229	\$5,519,188	\$18,833,468
GO-2019-0356	\$4,763,180	\$13,314,280
GO-2019-0115	\$5,943,490	\$8,551,100
GO-2018-0309	\$2,607,610	\$2,607,610

Section 393.1015.3, RSMo, states: "A gas corporation may effectuate a change in its rate pursuant to the provisions of this section no more often than two times every twelve months." The Spire East tariffs filed with this Application are suspended until December 2, 2020. In Spire Missouri's last general rate case, Case Number GR-2017-0215, effective April 19, 2018, the ISRS balances were reset to zero. Since then, Spire Missouri's Spire East ISRS surcharge changed four times:

Case Number	Effective Date
GO-2018-0309	October 8, 2018
GO-2019-0115	May 25, 2019 ¹
GO-2019-0356	November 16, 2019
GO-2020-0229	May 25, 2020

Staff asserts Spire Missouri's filing complies with Section 393.1015.3, RSMo.

Commission Rule 20 CSR 4240-3.265(18), Natural Gas Utility Petitions for Infrastructure System Replacement Surcharges, states:

The commission shall reject an ISRS petition after a commission order in a general rate proceeding unless the ISRS revenues requested in the petition, on an annualized basis, will produce ISRS revenues of at least the lesser of

¹ Modified by order on rehearing, effective August 21, 2019.

one-half of one percent (1/2%) of the natural gas utility's base revenue level approved by the commission in the natural gas utility's most recent general rate case proceeding or one (1) million dollars, but not in excess of ten percent (10%) of the subject utility's base revenue level approved by the commission in the utility's most recent general rate proceeding.²

Spire Missouri's requested ISRS revenues for Spire East exceed one-half of one percent of the natural gas utility's base revenue level the Commission approved in the most recent Spire East rate case. Spire Missouri's cumulative ISRS revenues, including the amounts requested in this filing, do not exceed ten percent of the base revenue levels approved by the Commission in the last Spire East rate case, Case Number GR-2017-0215.³

In this Application, Spire Missouri filed to recover current qualifying ISRS costs incurred during the period of March 1, 2020 through August 31, 2020. The ISRS recovery requested for July and August 2020 plant in service additions was included on an estimated basis at the time Spire Missouri filed its Application. Spire Missouri provided Staff with updated workpapers supporting actual ISRS plant addition costs for July on August 4, 2020 and for August on September 18, 2020. Therefore, the actual ISRS costs for July and August 2020 are incorporated in Staff's recommended ISRS revenue requirement.

Section 393.1015.5(1) and 20 CSR 4240-3.265 provide that customers' monthly ISRS charges are calculated based on the customer numbers reported in the company's most recent annual report. "Provided, however, that the monthly ISRS may vary according to customer class and may be calculated as determined during the most recent general rate proceeding"⁴ Spire Missouri used customer counts from its most recent general rate case, Case Number GR-2017-0215, in calculating the specific ISRS rate for all applicable customer classes subject to paying an ISRS charge.⁵ However, Staff opines that the customer numbers in Spire Missouri's most recent annual report are more reflective of actual billing numbers and allow a more current count.⁶ Additionally, the number of customers from the more recent annual report will be closer to the actual number of customers billed for this ISRS revenue, which should minimize future reconciliations. For these reasons, Staff used the customer numbers in Spire Missouri's most recent annual report to determine the recommended ISRS rates.

As part of its examination of Spire Missouri's Application, Auditing Staff reviewed supporting workpapers, work order authorizations, accounting entries for work orders, and a sample of invoices supporting the work order authorizations. Staff also communicated throughout its review with Spire

² See also section 393.1012.1, RSMo.

³ Ten percent of the annualized revenues in Case No. GR-2017-0215 is \$34,414,036.

⁴ Section 393.1015.5(1), RSMo.

⁵ Application at ¶ 23.

⁶ For its Spire East territory, Spire Missouri reported 654,616 customers in its 2019 annual report in Tracking No. BMAR-2020-1620. It reported 645,960 customers in its most recent general rate case in Case No. GR-2017-0215.

Missouri’s personnel through email and telephone for clarification of the Application. Staff continues to communicate with Spire and review the additional evidence and responses Spire provides.

B. Worn Out or Deteriorated Pipe

As a part of the testimony filed in support of its application Spire Missouri attached photographs of cast iron pipe samples taken from projects included in this ISRS case.⁷ The supporting testimony only contained very general statements about the type and extent of deterioration that the photographs of cast iron pipe were intended to document. No photographs of physical evidence related to the worn out or deteriorated condition of copper, steel, or plastic pipes were provided. Based on the information provided to date, Staff cannot conclude that the pipes that were replaced in the projects included for cost recovery within this ISRS case were worn out or in deteriorated condition. Therefore, Staff removed the cost of work orders that include cast iron, bare steel, copper, and plastic pipes to calculate its recommended revenue requirement. The remaining costs that are ISRS-eligible are projects required by civic improvements, angle of repose situations, blanket work orders, service transfers, and header mains. After this adjustment, Staff recommends Spire Missouri recover ISRS revenues of \$3,456,165 for its Spire East service territory (*see* attached Appendix C-1). This results in cumulative annual ISRS revenues for Spire East of \$22,289,633. Staff will review any evidence Spire provides later in this proceeding which is intended to demonstrate that the pipes replaced during this ISRS period were in fact worn out or in a deteriorated condition.

However, if the Commission approves a revenue requirement consistent with recent Spire ISRS cases (excluding plastic pipe replacement but including the cost of cast iron, bare steel, and copper pipe replacements), Staff recommends Spire East receive additional ISRS revenues of \$5,001,212 (Appendix C-2), which results in a cumulative ISRS revenue requirement of \$23,834,680. Appendix B-1 shows the Staff’s proposed rate design, excluding plastic, cast iron, bare steel, and copper pipe. Appendix B-2 shows the Staff’s proposed rate design, excluding plastic and coated steel, but including cast iron, bare steel, and copper.

The table below shows the differences between Spire Missouri’s and Staff’s ISRS revenue requirements.

Spire Missouri’s ISRS Revenue Requirement, July and August 2020 actuals	\$7,413,263
Spire Missouri’s ISRS Revenue Requirement, July and August 2020 actuals, with coated steel adjustment and plastic adjustment (alternative recommendation)	\$5,684,300
Staff’s ISRS Revenue Requirement, July and August 2020 actuals, with steel adjustment, plastic adjustment, and worn out and deteriorated adjustment (primary recommendation)	\$3,456,165
Staff’s ISRS Revenue Requirement, July and August 2020 actuals, with coated steel adjustment and plastic adjustment (alternative recommendation)	\$5,001,212

⁷ Case No. GO-2021-0030, Direct Testimony of Mr. Timothy H. Goodson, Schedule THG-2.

C. Plastic Pipe

In its Appendix A, Spire Missouri seeks ISRS recovery of costs associated with all replaced pipe, including the costs associated with the replacement of plastic infrastructure, which the Commission disallowed in prior ISRS filings.⁸ Spire Missouri has pending appeals concerning this issue. Consistent with prior Commission orders, Staff did not include those costs in its current revenue requirement.

Although Spire Missouri seeks inclusion of costs related to the replacement of plastic pipe in its primary case, it calculated an alternative ISRS revenue requirement excluding the previously disallowed plastic pipe costs (calculated in Spire Missouri's ISRS Model Appendix B).⁹ Excluding the costs of replacing plastic pipe, using the methodology described below, reduces Spire Missouri's requested revenue requirement in its application for Spire East from \$7,383,272 to \$6,999,953. In this alternative revenue requirement, Spire Missouri used the same methodology the Commission applied in the prior Spire East ISRS cases to calculate the amount of ineligible plastic in the requested ISRS recovery. The feet of plastic main and service lines replaced or retired were divided by the total footage of the pipe replaced or retired to arrive at the percentage of costs associated with plastic to be removed from the ISRS recovery. Staff reviewed all the work orders Spire Missouri provided to confirm the feet of main and service lines replaced and retired by the type of pipe (plastic, cast iron, steel, etc.), and concluded that Spire Missouri's calculations regarding removal of plastic pipe replacement costs are consistent with the methodology used in Case No. GO-2020-0229.

D. Coated Steel Pipe

A portion of Staff's audit focused on the condition of the different types of steel pipe on Spire East's system. The categories of steel pipe include: 1) bare steel without cathodic protection, 2) bare steel that was installed and later protected, and 3) steel that was coated and protected when it was installed. Staff found that in the current and previous ISRS cases, Spire presented little to no evidence or testimony supporting the worn out or deteriorated condition of the third steel category, steel that was coated and cathodically protected when it was installed. As a result, Staff recommends that this category of steel should be excluded. During a meeting on September 17, 2020, Spire Missouri indicated it reached the same conclusion and that it would remove those costs in its model with August updates. To exclude the cost of replacing coated steel, Spire Missouri identified steel retirements that were vintages of 1950 and after, and modified the plastic disallowance percentage to include the footage of coated steel retirements. Staff reviewed Spire Missouri's adjustment and agrees with this methodology. After updating its initial revenue requirement model for actual ISRS additions and the removal of costs related to coated steel, the alternative revenue requirement for Spire East (Spire Missouri's ISRS Model Appendix B) totals \$5,684,300.

⁸ Application at ¶ 7.

⁹ *Id.* at ¶ 9.

E. Blanket Work Orders

Staff reviewed Spire Missouri’s workpapers concerning “blanket work orders.” Blanket work orders are work orders that cover a large number of tasks and do not close for an extended period. Issues arose in Spire Missouri’s previous ISRS filings regarding the eligibility for recovery of costs in blanket work orders. In this proceeding, Spire Missouri categorized each separate task in the blanket work order as either ISRS-eligible or ISRS-ineligible. Spire Missouri then calculated the percentage of eligible versus ineligible tasks and applied the ineligible task percentage to the total blanket work order costs to calculate an amount that are not ISRS-eligible. Staff reviewed Spire Missouri’s categorization and submitted several data requests on September 24, 2020 to determine if each task it considers eligible meets the requirements of ISRS recovery. The responses to those data requests are still pending as of the filing of this report, with a required due date of October 14, 2020.

Staff analyzed the blanket work orders to determine how much of Spire Missouri’s request consists of blanket work orders. The results are in the table below. Staff used the current case and the past four ISRS cases for the analysis, as they are the cumulative ISRS filings since Spire Missouri’s last general rate case.

	Total Blanket Work Order Request	Total Gross ISRS Plant Request (Before Adjustment for Plastic)	Blanket Work Orders as Percentage of Total ISRS Request	Figures as of:
GO-2021-0030	\$16,764,760	\$42,926,831	39%	Aug 2020 final update
GO-2020-0229	\$20,344,136	\$55,181,666	37%	Feb 2020 final update
GO-2019-0356	\$19,851,063	\$51,912,413	38%	Jul 2019 final update
GO-2019-0115	\$18,164,079	\$55,554,141	33%	Jan 2019 final update
GO-2018-0309	\$17,774,159	\$67,583,414	26%	Jun 2018 final update

Although Spire Missouri’s level of detail in support of its work orders has improved, Staff is concerned that over the past ISRS filings, the portion of Spire Missouri’s ISRS applications driven by blanket work orders is substantial compared to total plant additions. Spire Missouri is unable to provide Staff with documentation to support the blanket work orders beyond a brief text description of each task charged to the blanket work order. Since the ratio of blanket work orders request compared to the total recovery request is currently substantially high, Staff finds the documentation required for blanket work orders should increase from the current level of justification. Accordingly, Staff recommends that Spire Missouri modify its blanket work order procedure to provide more documentation. At this time Staff does not propose any disallowances related to blanket work orders. Staff is interested in discussing this issue further with the Company.

F. Taxes and Depreciation

Consistent with past ISRS reviews, Auditing Staff verified that the calculation of the ISRS revenue requirement closely reflects the revenue requirement for ISRS-qualifying plant as of the effective date of the ISRS rates. Staff included all accumulated depreciation and deferred income taxes on ISRS qualifying infrastructure replacement costs through October 31, 2020.

Staff included in its ISRS revenue requirement calculations tax deductions associated with interest expense, capitalized overheads, and service transfers associated with ISRS plant additions in this period. All of these tax deductions are directly associated with and incremental to the ISRS plant additions in this proceeding. The amounts of these tax deductions associated with installation of ISRS-eligible plant generated enough tax savings to offset current income taxes that would be applicable for recovery under ISRS.

Staff also reviewed whether property taxes associated with ISRS eligible plant projects should be included in the ISRS revenue requirement. Commission Rule 20 CSR 4240-3.265(1) requires property taxes be collected due within twelve months of the ISRS filing on the total cost of eligible infrastructure system replacement less any related facility retirements. Spire Missouri reduces the plant values by two percent per year, which reflects increased accumulated depreciation, and then restates the property tax amount using the most current rate. The incremental difference is then added or subtracted from the current ISRS filing. Staff reviewed Spire Missouri's calculations and is in agreement regarding property taxes for the current ISRS.

G. Reconciliation

Commission Rule 20 CSR 4240-3.265(17) requires a reconciliation of the ISRS revenue Spire Missouri collected from Spire East customers in the prior twelve month period to account for over- or under-collection of previously approved ISRS revenue. Spire Missouri explains in its Application that its reconciliation corrects an error in its prior reconciliation in the July 2019 case, Case Number GO-2019-0356 and reconciles ISRS revenues between October 8, 2018 and June 30, 2020. Spire Missouri had a net under-collection of ISRS revenues in the prior twelve month period. The amount of this under-collection is \$2,672,735. Included in this under-collection is a reconciliation for the one time bill credit approved in the remand cases.¹⁰ For Spire East, customers have received one time bill credits in an amount of \$89,275 in excess of the authorized remand amount. Staff has included this amount in its total ISRS revenue requirement.

ANNUAL REPORT AND ASSESSMENTS

Spire Missouri requested a waiver of the 60 day notice provisions of 20 CSR 4240-4.017(1). Staff has no objection to the waiver request.

¹⁰ The Commission's *Unanimous Stipulation and Agreement* in Case Nos. GO-2016-0332, GO-2016-0333, GO-2017-0201, GO-2017-0202, GO-2018-0309, GO-2018-0310 requires a reconciliation of one-time bill credits.

Spire Missouri filed its 2019 annual report with the Commission. As discussed above, Staff's basis for calculating ISRS rates is the customer count in the annual report.

As of the drafting of this memo, Spire East is not delinquent on its FY 2020 assessments.

RECOMMENDATION

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

1. Rejects Spire Missouri's proposed increase in ISRS rates, as filed on August 4, 2020 and assigned YG-2021-0020 Tariff Number.
2. Approves Staff's proposed substitute ISRS rates as show on Appendix B-1. These rates are based on \$22,289,633 being the appropriate cumulative revenue requirement for this proceeding plus Staff's use of most current customer count in calculating appropriate ISRS rates. Staff's proposed ISRS rates will generate this level of revenue based upon customer levels from the Company's most current annual report.
3. Establishes incremental ISRS revenue requirement of \$3,456,165 annually as being the amount to which Spire Missouri is entitled.
4. Finds that the existing ISRS \$18,833,468 Revenue Requirement will increase to \$22,289,633. This figure represents both the revenue requirement from the current case plus the revenue requirement from the four previous ISRS cases, GO-2018-0309, GO-2019-0115, GO-2019-0356 and GO-2020-0229. It is the cumulative revenue requirement the ISRS rates are designed to recover.
5. Substitutes the effective date the Commission finds appropriate to no sooner than November 17, 2020.

P.S.C. MO. No. 7

6th Revised Sheet No. 12, CANCELLING 5th Revised Sheet No. 12

SPIRE MISSOURI INC. - EAST
CASE NO. GO-2021-0030 & YG-2021-0020
ISRS RATE DESIGN
Primary Recommendation

REV. REQ.

\$22,289,633

Staff's Total ISRS Rev Req

<u>Customer Rate Class</u>	<u>Cust #</u>	<u>Customer Charge</u>	<u>Ratio To Residential</u>	<u>Weighted Cust #</u>	<u>Customer Percentage</u>	<u>Cal ISRS Charge</u>	<u>ISRS Revenues</u>
Residential	613,447	\$22.00	1.0000	613,447	85.2023%	\$2.58	\$18,991,274
SGS (Small Gen. Service)	34,933	\$35.00	1.5909	55,575	7.7189%	\$4.10	\$1,720,514
LGS-Large Gen. Service	5,901	\$125.00	5.6818	33,528	4.6568%	\$14.66	\$1,037,982
LV-Large Volume Service	53	\$914.25	41.5568	2,203	0.3059%	\$107.21	\$68,186
SL-Unmetered Gas Light	72	\$6.00	0.2727	20	0.0027%	\$0.70	\$608
IN-Interruptable	17	\$837.40	38.0636	647	0.0899%	\$98.20	\$20,033
General LP	36	\$17.94	0.8155	29	0.0041%	\$2.10	\$909
Vehicular Fuel	7	\$23.38	1.0627	7	0.0010%	\$2.74	\$230
LVTSS-Large Volume Transport & Sales Service	150	\$2,131.41	96.8823	14,532	2.0184%	\$249.94	\$449,897
TOTAL	654,616			719,989	100.00%		\$22,289,633

* Due to rounding to the nearest penny, the designed ISRS rates **will under-collect by \$3140**. However, it should be noted that the total amount collected will be trued-up at a later date.

SPIRE MISSOURI INC. - EAST
CASE NO. GO-2021-0030 & YG-2021-0020
ISRS RATE DESIGN
Alternative Position

REV. REQ.

\$23,834,680

Staff's Total ISRS Rev Req

<u>Customer Rate Class</u>	<u>Cust #</u>	<u>Customer Charge</u>	<u>Ratio To Residential</u>	<u>Weighted Cust #</u>	<u>Customer Percentage</u>	<u>Cal ISRS Charge</u>	<u>ISRS Revenues</u>
Residential	613,447	\$22.00	1.0000	613,447	85.2023%	\$2.76	\$20,307,689
SGS (Small Gen. Service)	34,933	\$35.00	1.5909	55,575	7.7189%	\$4.39	\$1,839,775
LGS-Large Gen. Service	5,901	\$125.00	5.6818	33,528	4.6568%	\$15.67	\$1,109,932
LV-Large Volume Service	53	\$914.25	41.5568	2,203	0.3059%	\$114.64	\$72,912
SL-Unmetered Gas Light	72	\$6.00	0.2727	20	0.0027%	\$0.75	\$650
IN-Interruptable	17	\$837.40	38.0636	647	0.0899%	\$105.01	\$21,421
General LP	36	\$17.94	0.8155	29	0.0041%	\$2.25	\$972
Vehicular Fuel	7	\$23.38	1.0627	7	0.0010%	\$2.93	\$246
LVTSS-Large Volume Transport & Sales Service	150	\$2,131.41	96.8823	14,532	2.0184%	\$267.27	\$481,082
TOTAL	654,616			719,989	100.00%		\$23,834,680

* Due to rounding to the nearest penny, the designed ISRS rates **will over-collect by \$821**. However, it should be noted that the total amount collected will be trued-up at a later date.

**Spire Missouri East
Staff Recommended ISRS Revenue Requirement Calculation**

ISRS Activity:**Gas Utility Plant Projects - Main Replacements and Other Projects Extending Useful Life of Mains:**

<u>Work Orders Placed in Service</u>	
Gross Additions	2,832,004
Deferred Taxes	(16,427)
Accumulated Depreciation	<u>(16,193)</u>
Total Net	<u>2,799,384</u>

Gas Utility Plant Projects - Service Line Replacements and Insertion Projects:

<u>Work Orders Placed in Service</u>	
Gross Additions	8,189,926
Deferred Taxes	(54,281)
Accumulated Depreciation	<u>(121,241)</u>
Total Net	<u>8,014,404</u>

Gas Utility Plant Projects - Regulator Stations:

<u>Work Orders Placed in Service</u>	
Gross Additions	-
Deferred Taxes	-
Accumulated Depreciation	<u>-</u>
Total Net	<u>-</u>

Gas Utility Plant Projects - Main Relocations net of Reimbursements:

<u>Work Orders Placed in Service</u>	
Gross Additions	1,013,296
Deferred Taxes	(8,869)
Accumulated Depreciation	<u>(6,450)</u>
Total Net	<u>997,977</u>

**Increase in Accumulated Deferred Income Taxes and Accumulated Depreciation
Associated with Eligible Infrastructure System Replacements which are included in a
Currently Effective ISRS**

Total Incremental Accumulated Depreciation	(1,859,630)
Total Incremental Accumulated Deferred Taxes	<u>(1,414,990)</u>

Total ISRS Rate Base	8,537,144
Overall Rate of Return per GR-2017-0215	<u>7.20%</u>
UOI Required	614,478
Income Tax Conversion Factor	<u>1.34135</u>
Revenue Requirement on Capital	<u>824,230</u>

Total ISRS Rate Base	8,537,144
Weighted Cost of Debt per GR-2017-0215	<u>1.89%</u>
Interest Deduction	161,352
Marginal Income Tax Rate	<u>25.45%</u>
Income Tax Reduction due to Interest	41,061
Income Tax Conversion Factor	<u>1.34135</u>
Revenue Requirement Impact of Interest Deductibility	<u>55,077</u>

263A Transfers Deduction	1,428,110
Service Transfers Deduction	<u>527,343</u>
263A and Service Transfers Tax Deductible Items	1,955,453
Income Tax Factor	<u>25.45%</u>
Income Tax Reduction due to Deductible Items	<u>497,628</u>

Total Revenue Requirement on Capital	614,478
Depreciation Expense	216,764
Net Property Taxes	(47,812)
ISRS Undercollection	<u>2,672,735</u>

Total ISRS Revenues	<u><u>3,456,165</u></u>
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**Spire Missouri East
Staff Alternative ISRS Revenue Requirement Calculation**

ISRS Activity:**Gas Utility Plant Projects - Main Replacements and Other Projects Extending Useful Life of Mains:**

<u>Work Orders Placed in Service</u>	
Gross Additions	17,524,095
Deferred Taxes	(152,283)
Accumulated Depreciation	<u>(81,177)</u>

Total Net 17,290,635

Gas Utility Plant Projects - Service Line Replacements and Insertion Projects:

<u>Work Orders Placed in Service</u>	
Gross Additions	10,703,549
Deferred Taxes	(79,791)
Accumulated Depreciation	<u>(151,767)</u>

Total Net 10,471,991

Gas Utility Plant Projects - Regulator Stations:

<u>Work Orders Placed in Service</u>	
Gross Additions	-
Deferred Taxes	-
Accumulated Depreciation	<u>-</u>

Total Net -

Gas Utility Plant Projects - Main Relocations net of Reimbursements:

<u>Work Orders Placed in Service</u>	
Gross Additions	1,013,296
Deferred Taxes	(8,869)
Accumulated Depreciation	<u>(6,450)</u>

Total Net 997,977

**Increase in Accumulated Deferred Income Taxes and Accumulated Depreciation
Associated with Eligible Infrastructure System Replacements which are included in a
Currently Effective ISRS**

Total Incremental Accumulated Depreciation	(1,859,630)
Total Incremental Accumulated Deferred Taxes	(1,414,990)

Total ISRS Rate Base	25,485,982
Overall Rate of Return per GR-2017-0215	<u>7.20%</u>
UOI Required	1,834,405
Income Tax Conversion Factor	<u>1.34135</u>
Revenue Requirement on Capital	<u>2,460,579</u>

Total ISRS Rate Base	25,485,982
Weighted Cost of Debt per GR-2017-0215	<u>1.89%</u>
Interest Deduction	481,685
Marginal Income Tax Rate	<u>25.45%</u>
Income Tax Reduction due to Interest	122,580
Income Tax Conversion Factor	<u>1.34135</u>
Revenue Requirement Impact of Interest Deductibility	<u>164,423</u>

263A Transfers Deduction	3,646,088
Service Transfers Deduction	<u>527,343</u>
263A and Service Transfers Tax Deductible Items	4,173,431
Income Tax Factor	<u>25.45%</u>
Income Tax Reduction due to Deductible Items	<u>1,062,063</u>

Total Revenue Requirement on Capital	1,834,405
Depreciation Expense	541,884
Net Property Taxes	(47,812)
ISRS Undercollection	<u>2,672,735</u>

Total ISRS Revenues 5,001,212

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of Spire)
Missouri Inc. d/b/a Spire to Change its)
Infrastructure System Replacement)
Surcharge in its Spire Missouri East)
Service Territory)

Case No. GO-2021-0030

**AFFIDAVIT OF MICHAEL J. ENSRUD, JARED GIACONE,
JEREMY JULIETTE, KEITH MAJORS,
MATTHEW R. YOUNG, KAREN LYONS**

STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

COME NOW Michael J. Ensrud, Jared Giacone, Jeremy Juliette, Keith Majors, Matthew R. Young, Karen Lyons, and on their oath declares that they are of sound mind and lawful age; that they contributed to the foregoing *Staff Recommendation* in memorandum form; and that the same is true and correct according to their best knowledge and belief, under penalty of perjury.

Further the Affiants sayeth not.

/s/ Michael J. Ensrud
Michael J. Ensrud

/s/ Jared Giacone
Jared Giacone

/s/ Jeremy Juliette
Jeremy Juliette

/s/ Keith Majors
Keith Majors

/s/ Matthew R. Young
Matthew R. Young

/s/ Karen Lyons
Karen Lyons