

**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-2016-0333**
Infrastructure System Replacement) **Tariff No. YG-2017-0047**
Surcharge in its Laclede Gas Service)
Territory)

STAFF RECOMMENDATION

COMES NOW the Staff of the Missouri Public Service Commission and in response to the Commission’s October 3, 2016, *Order Directing Notice, Setting Intervention Deadline, Directing Filing and Suspending Tariff* (“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 September 30, 2016, Laclede Gas Company (“Laclede” or “Company”) filed its *Verified Application and Petition of Laclede Gas Company to Change Its Infrastructure System Replacement Surcharge in Its Laclede Gas 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 suspended the tariff sheet filed by Laclede on September 30, 2016 (assigned tariff tracking number YG-2017-0047) until January 28, 2017, and ordered Staff to file its recommendation regarding Laclede’s Application

¹ Laclede’s Application also referenced Commission Rules 4 CSR 240-2.060, 2.080 and 4.020(2)(B).

no later than November 29, 2016. Staff's recommendation is attached hereto as Appendix A and Appendix B, both of which are incorporated herein by reference.

3. This case represents Laclede's sixth ISRS filing since the conclusion of its most recent general rate case, Case No. GR-2013-0171. In its current Application, Laclede filed to recover ISRS qualifying infrastructure replacement costs incurred during the period March 1, 2016 through August 31, 2016, with pro-forma ISRS costs updated through October 31, 2016.

4. As part of Staff's examination of Laclede's Application, Auditing Staff reviewed supporting work papers, a representative sample of work orders, invoices, and other applicable documentation such as work order authorizations, as well as communicating with Laclede personnel to gain clarification of Laclede's Application when necessary.

5. Based upon its review and all of its calculations, Staff is recommending that Laclede receive ISRS revenues for this case of \$4,504,138. Due to the previously approved ISRS rates for Laclede which continue in effect, the total ISRS revenue requirement to be included in rates (including Staff's recommended amount for this case) is \$29,526,894.

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

7. Previously, on June 9, 2016, Laclede had filed a *Request for Waiver of Rule 4.020(2) for ISRS Case Filings, or in the Alternative, Notice of Intended Case Filings* (“Request”). The waiver request should be denied, particularly in light of the fact that revisions to the Commission’s *ex parte* rules are currently under consideration by the Commission. Laclede’s June 9, 2016, Request should serve as sufficient notice of intended case filing.

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

1. Rejects the Laclede ISRS tariff sheet (YG-2017-0047) P.S.C. MO No. 5 Consolidated, Twenty-Seventh Revised Sheet No. 12 cancelling P.S.C. MO No. 5 Consolidated, Twenty-Sixth Revised Sheet No. 12, as filed by Laclede on September 30, 2016;

2. Approves the Staff’s recommended ISRS surcharge revenues in this case in the incremental pre-tax revenue amount of \$4,504,138, with a total current and cumulative ISRS amount of \$29,526,894;

3. Authorizes Laclede to file an ISRS rate for each customer class as reflected in Appendix B; and

4. Denies Laclede’s waiver request.

Respectfully submitted,

/s/ Jeffrey A. Keevil

Jeffrey A. Keevil

Missouri Bar No. 33825

Attorney for the Staff of the

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 29th day of November, 2016.

/s/ Jeffrey A. Keevil

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. GO-2016-0333 Tariff Tracking No. YG-2017-0047
Laclede Gas Company

FROM: Jennifer Grisham, Regulatory Auditor, Auditing Department
Michael J. Ensrud, Rate & Tariff Examiner II, Procurement Analysis

/s/ Mark L. Oligschlaeger 11/29/16
Auditing Department / Date

/s/ David M. Sommerer 11/29/16
Commission Staff Division / Date

/s/ Jeffrey A. Keevil 11/29/16
Staff Counsel's Office / Date

SUBJECT: Staff Report and Recommendation Regarding the Verified Application and Petition of Laclede Gas Company to Change its Infrastructure System Replacement Surcharge in its Laclede Gas Service Territory

DATE: November 29, 2016

BACKGROUND

On September 30, 2016, Laclede Gas Company (“Laclede” or “Company”) filed the “Verified Application and Petition of Laclede Gas Company to Change its Infrastructure System Replacement Surcharge in its Laclede Gas Service Territory” with the Missouri Public Service Commission (“Commission”). The Application proposes to increase Laclede’s Infrastructure System Replacement Surcharge (ISRS) rates and implement a revised Tariff Sheet with a proposed effective date of October 30, 2016.

Laclede made its filing pursuant to Sections 393.1009, 393.1012 and 393.1015 of the Revised Statutes of Missouri and Commission Rules 4 CSR 240-2.060, 2.080, and 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 since the Commission’s last decision in Case No. GO-2016-0196 and submitted its Application to reflect ISRS investments for the period from March 1, 2016 through August 31, 2016, with pro-forma ISRS costs updated through October 31, 2016. Laclede estimated in its Application that it was entitled to an incremental increase of ISRS revenues in this case of \$4,961,233.

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On October 3, 2016, the Commission issued an “Order Directing Notice, Setting Intervention Deadline, Directing Filing and Suspending Tariff.” That Order set the following dates:

- Staff’s Recommendation shall be filed no later than November 29, 2016
- Suspension of the tariff sheet until January 28, 2017.

In relation to notice requirements, Laclede has filed the following on June 9, 2016:

LACLEDE GAS AND MISSOURI GAS ENERGY’S REQUEST FOR WAIVER OF RULE 4.020(2) FOR ISRS CASE FILINGS, OR IN THE ALTERNATIVE, NOTICE OF INTENDED CASE FILINGS

This submission suffices for notice under 4 CSR 240-4.020(2). However, the waiver request should be denied, particularly in light of the fact that revisions to the Commission’s *ex parte* rules are currently under consideration by the Commission.

STAFF REVIEW AND REVENUE CALCULATION

On September 30, 2016, Laclede Gas Company (“Laclede” or “Company”) filed an application and tariff sheet in Case No. GO-2016-0333 to change its Infrastructure System Replacement Surcharge (ISRS). This is the sixth ISRS filing since the conclusion of the Company’s most recent general rate case, Case No. GR-2013-0171. Since that case, Laclede filed ISRS Case Nos. GO-2014-0212, GR-2015-0026, GO-2015-0269, GO-2015-0341, and GO-2016-0196, the results of which are all currently included in Laclede’s ISRS rates.

The Laclede tariff filed with this Application has been suspended until January 28, 2017. Laclede’s ISRS case No. GO-2015-0341 was filed in August 2015; the effective date of rates in that case was December 1, 2015. Since that date, but before filing the current ISRS case, Laclede has had one other ISRS case—GO-2016-0196. The statute, 393.1015.3 RSMo, states that “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.” Based upon Laclede’s previous ISRS filing history and this statute, the Staff recommends that the tariffs resulting from this ISRS filing should not go into effect any earlier than December 1, 2016.

Commission Rule 4 CSR 240-3.265(18) states, “... The commission shall reject an ISRS petition after a commission order in a general rate proceeding unless the ISRS revenues requested in the

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petition, on an annualized basis, will produce ISRS revenues of at least the lesser of 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." Laclede's requested ISRS revenues exceeds the one-half of one percent of the natural gas utility's base revenue level approved by the commission in the most recent Laclede rate case and Laclede's cumulative ISRS revenues, including this filing, do not exceed ten percent of the base revenue levels approved by the commission in the last Laclede rate case.

In this Application, Laclede filed to recover ISRS qualifying infrastructure replacement costs incurred during the period of March 1, 2016 through October 31, 2016. The ISRS recovery requested for September and October 2016 plant additions was included on an estimated basis at the time Laclede's Application was filed, but documentation supporting actual ISRS plant addition costs for those months was supplied by Laclede during the course of Staff's audit and review in this case.

As part of its examination of Laclede's Application, Auditing Staff reviewed workpapers, a representative sample of work orders, invoices, and other applicable documentation, such as work order authorizations. Staff also communicated with Laclede personnel to clarify Laclede's Application when necessary.

The following documentation was provided to Staff on the following dates:

- October 3, 2016 – Work order authorizations for ISRS projects over \$50,000 for the months of March 1, 2016 through August 31, 2016
- October 19, 2016 – Work order authorizations for September 2016
- November 1, 2016 – A sample of invoices related to costs incurred between March 1, 2016 and September 30, 2016
- November 16, 2016 – A sample of invoices for October 2016
- November 17, 2016 – A sample of work orders for October 2016
- November 21, 2016 – A sample of work orders related to costs incurred between March 1, 2016 and September 30, 2016 was retransmitted due to system limitations for e-mail attachments.

Commission Rule 4 CSR 240-3.265 sets forth the definitions of natural gas utility plant projects that are eligible for ISRS treatment. As a result of its review, Staff concluded that each of the projects Staff reviewed met the ISRS rule qualifications.

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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 December 15, 2016. This methodology is consistent with past reviews conducted by the Auditing Staff, and it is consistent with Staff's view that the calculation of the ISRS revenue requirement should closely reflect the revenue requirement at the effective date of the ISRS rates.

The Auditing 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 Laclede in Case Nos. GO-2014-0212, GR-2015-0026, GO-2015-0269, GO-2015-0341, and GO-2016-0196 as required by 4 CSR 240-3.265(20)(K).

STAFF RECONCILIATION

Commission Rule 4 CSR 240-3.265(17) requires a reconciliation of the ISRS revenue Laclede collected from customers in the prior 12-month period to account for over or under-collection of ISRS revenue. Staff performed a reconciliation through December 31, 2015 during Case No. GO-2016-0196. Because the required twelve-month period has not elapsed, it is not necessary for Staff to perform a reconciliation in this case.

AUDITING SUMMARY AND CONCLUSIONS

Based upon its review and all of its calculations, Staff is recommending that Laclede receive additional ISRS revenues of \$4,504,138. This is the different than Laclede's requested ISRS-related revenue requirement of \$4,511,627, as updated on November 10, 2016. The difference is attributed to Staff recording accumulated depreciation and deferred taxes through December 15, 2016, whereas Laclede recorded it through December 1, 2016.

Upon Commission approval, this amount will be included with the currently-in-effect ISRS rates (Case Nos. GO-2014-0212, GR-2015-0026, GO-2015-0269, GO-2015-0341, and GO-2016-0196). The below table shows the cumulative amount to be included in rates:

ISRS Case No.	Revenue Requirement	Cumulative
GO-2014-0212	\$7,018,225	
GR-2015-0026	\$2,780,045	\$9,798,270
GO-2015-0269	\$5,378,541	\$15,176,811
GO-2015-0341	\$4,456,045	\$19,632,856

GO-2016-0196	\$5,389,900	\$25,022,756
GO-2016-0333	\$4,504,138	\$29,526,894

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 2015 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, other than Laclede's last two ISRS cases which are currently on appeal.

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 (YG-2017-0047) P.S.C. MO No. 5 Consolidated, Twenty-Seventh Revised Sheet No. 12 cancelling P.S.C. MO. No. 5 Consolidated, Twenty-Sixth-Sheet No. 12, as filed on September 30, 2016;
2. Approves the Staff's recommended ISRS surcharge revenues in this docket in the incremental pre-tax revenue amount of \$4,504,138 with a total current and cumulative ISRS surcharge of \$29,526,894;
3. Authorizes Laclede to file an ISRS rate for each customer class as reflected in Appendix B, which generates \$29,526,894 annually.

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

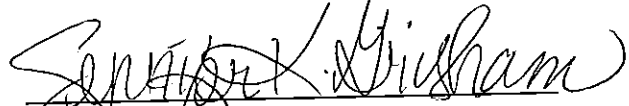
In the Matter of the Application of)	
Laclede Gas Company to Change its)	Case No. GO-2016-0333
Infrastructure System Replacement)	Tariff No. YG-2017-0047
Surcharge in its Laclede Gas Service)	
Territory)	

AFFIDAVIT

State of Missouri)
) ss.
County of Cole)

COMES NOW Jennifer K. Grisham and on her oath declares that she is of sound mind and lawful age; that she contributed to the attached Staff Memorandum; and that the same is true and correct according to her best knowledge and belief.

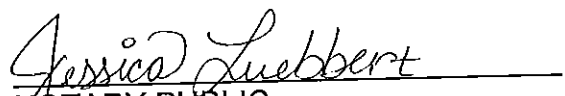
Further the Affiant sayeth not.



Jennifer K. Grisham

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 28th day of November, 2016.



NOTARY PUBLIC

JESSICA LUEBBERT
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: February 19, 2019
Commission Number: 15633434