

**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-2019-0356</u>
System Replacement Surcharge in its Spire)	Tariff No. YG-2020-0009
Missouri East Service Territory)	

STAFF RECOMMENDATION

COMES NOW the Staff of the Missouri Public Service Commission and in response to the Commission’s July 17, 2019, *Order Directing Notice, Setting Intervention Deadline, and Directing Filings* (“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”). On May 20, 2019, Spire Missouri Inc. (“Spire Missouri”) filed a request for a waiver from the 60 day notice requirement of 20 CSR 4240-4.017 to file an ISRS case for its Spire Missouri East Service Territory (“Spire East”), or in the alternative, notice that it would file an ISRS case within 60 days. The Commission granted the waiver on June 11, 2019.

2. On July 15, 2019, 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* (“Application”). Attached to Spire Missouri’s Application are two proposed versions of P.S.C. MO. No. 7

Third Revised SHEET No. 12 CANCELLING P.S.C. MO. No. 7 Second Revised SHEET No. 12, both bearing an effective date of August 14, 2019.

3. On July 17, 2019 the Commission requested clarification from Spire Missouri regarding which tariff sheet it intends to become effective. Spire Missouri filed a cover letter with its revised tariff sheet on July 18, 2019.¹ The ISRS surcharges reflected on Spire Missouri's proposed Sheet 12 equate to an annual revenue requirement of \$8,104,616, and to total annual cumulative revenues of \$17,137,738.

4. On July 25, 2019 the Commission issued *Order Suspending Tariff Sheets*, suspending the tariff sheet Spire Missouri filed on July 18, 2019 (assigned tariff tracking number YG-2020-0009) until November 12, 2019. In this order the Commission also ordered Staff to file its recommendation regarding the Application by September 13, 2019. Staff's recommendation is attached hereto as Appendix A, with supporting worksheets labelled as Appendix B, and Appendix C, each of which are incorporated herein by reference.

5. On July 23, 2019 Spire Missouri provided Staff with actual June 2019 costs, and on August 21, 2019 Spire Missouri provided Staff with actual July 2019 costs. The actual costs decrease Spire Missouri's requested revenue requirement by \$464,398; Spire Missouri's requested revised annual revenue requirement decreases from the initially-filed \$8,104,616 estimate to a revised \$7,640,218 actual. The actual costs and

¹ On July 29, 2019 Staff filed a notice, pointing out that the Commission took no action on the two tariff sheets Spire Missouri filed with its July 15, 2019. Staff stated that it considers these tariff sheets to be only exemplars.

costs approved in the GO-2019-0115 rehearing decision revise the requested cumulative annual revenue requirement from \$17,137,738 to \$16,191,318.²

6. Spire Missouri's Application contains two cost recovery requests. One request is to recover "new" ISRS qualifying infrastructure replacement costs incurred between February 1, 2019 and July 31, 2019 ("New Request"). The ISRS recovery requests for June and July 2019 plant in service additions were estimated at the time the Application was filed and subject to updating to actual costs, once they are known. The New Request is consistent with traditional procedure regarding the time frame of the costs requested for recovery in a typical ISRS recovery filing.

7. The second part of Spire Missouri's recovery request is a second renewal requesting reimbursement of costs incurred between October 1, 2017 and June 30, 2018 ("Old Request") that the Commission twice denied. The Commission initially denied reimbursement of these costs in docket GO-2018-0309, which Spire Missouri appealed to the Western District Court of Appeals. Using a different methodology, Spire East renewed its request for reimbursement of these same costs in case number GO-2019-0115, which the Commission denied due to a lack of jurisdiction.³

8. Because the Commission's decision in case number GO-2018-0309 disallowing the Old Request is pending before the appellate court, the Commission lacks

² The Commission authorized a Spire East ISRS revenue requirement of \$2,607,610 in case number GO-2018-0309.

In its August 21, 2019 *Report and Order on Rehearing* in case number GO-2019-0115 the Commission authorized a Spire East ISRS revenue requirement of \$5,943,490. This includes the revised revenue requirement from the *Unanimous Stipulation and Agreement as to Resolution of Property Tax Expense*, dated August 13, 2019, in case number GO-2019-0115. The Commission approved this stipulation August 21, 2019.

$\$2,607,610 + \$5,943,490 + \$7,640,218$ (which includes \$1,590,490 in old costs) = \$16,191,318

³ Missouri Public Service Commission, *Report and Order on Rehearing*, GO-2019-0115, 49-50 (Aug. 21, 2019).

jurisdiction to hear and decide Spire Missouri's Old Request in this docket. As the Western District Court of Appeals explained in *State ex rel. Missouri Cable Telecommunications Ass'n v. Missouri Public Service Commission*, the purpose of jurisdictional boundaries is to respect due process rights "keeping the regulatory process out in the open, similar to the purpose of Missouri's Sunshine Law."⁴ For this reason, Staff does not include the Old Request in its revenue requirement in this proceeding.

9. Regarding Spire East's New Request for ISRS cost recovery, Auditing Staff examined the Application and supporting work papers, work order authorizations, accounting entries for a selection of work orders, and a sample of invoices supporting the work order authorizations for the period of February 1, 2019 through July 31, 2019. Auditing and Engineering Staff also visited Spire Missouri's headquarters in August, 2019 to discuss the ISRS application and went to two job sites.

10. Consistent with the methodology the Commission adopted in case numbers GO-2018-0309 and GO-2019-0115, Staff separated the cost of ISRS-ineligible plastic from the cost of ISRS-eligible parts of the system, as discussed in the Staff Auditing and Engineering sections of Staff's Memorandum, Appendix A. Spire Missouri did not create avoided cost studies as it did in case number GO-2019-0115.

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

⁴ *State ex re. Missouri Cable Telecommunications Ass'n v. Missouri Public Service Commission*, 929 S.W.2d 768, 774. (W.D. Mo. 1996).

12. Based on Staff's analysis of the information Spire Missouri provided, Staff concludes that Spire Missouri's request for ISRS reimbursement for each New Request project Staff reviewed complies with 20 CSR 4240-3.265 regarding natural gas utility plant projects that are eligible for ISRS recovery and the Commission's *Report And Order* in case numbers GO-2018-0309 and GO-2019-0115.

13. Based upon its review and all of its calculations, Staff recommends that Spire Missouri receive incremental pre-tax ISRS revenues for this case of \$4,439,498 with a total current and cumulative ISRS surcharge of \$12,990,598.

14. Staff developed proposed ISRS rates for Spire Missouri's Spire East based upon on Staff's recommended ISRS revenue requirement for this case described above. 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, attached hereto and incorporated by reference herein.

15. The proposed ISRS rates are calculated based on the customer count used in the last Spire East general rate case, case number GR-2017-0215. Using rate case customer count rather than annual report figures was necessary because of revisions that took place in the rate case, such as newly-designed and newly-established rate classes. This method of calculation is authorized under § 393.1015.5.(1), RSMo.

16. Staff also notes that the Spire Missouri is current on its FY 2018 Annual Report (submitted April, 2019) and is not delinquent on paying its assessment.

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

1. Rejects Spire Missouri's ISRS tariff sheet (tariff number YG-2020-0009) P.S.C. MO. No. 7 Third Revised SHEET No. 12 CANCELLING P.S.C. MO. No. 7 Second Revised SHEET No. 12, as filed on July 18, 2019;
2. Approves Staff's recommended ISRS surcharge revenues in this docket in the incremental pre-tax revenue amount of \$4,439,498 with a total current and cumulative ISRS surcharge of \$12,990,598;
3. Authorizes Spire Missouri to file an ISRS rate for each customer class as reflected in Appendix B, which generates \$12,990,598 annually; and,
4. Authorizes an effective date no later than November 12, 2019.

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 13th day of September, 2019.

/s/ Karen E. Bretz

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. GO-2019-0356, Tariff Tracking No. YG-2020-0009
Spire Missouri, Inc.-East

FROM: Michael J. Ensrud, Rate & Tariff Examiner, Procurement Analysis
Charles T. Poston, Utility Regulatory Engineer, Engineering Analysis Dept.
Jared Giacone, Utility Regulatory Auditor, Auditing Department
Jeremy Juliette, Utility Regulatory Auditor, Auditing Department
Antonija Nieto, Utility Regulatory Auditor, Auditing Department
Matthew R. Young, Utility Regulatory Auditor, Auditing Department
Karen Lyons, Utility Regulatory Auditor, Auditing Department

<u>/s/ Mark L. Oligschlaeger</u> 09/13/19 Auditing Department/Date	<u>/s/ Daniel I. Beck, PE</u> 09/13/19 Engineering Analysis Department/Date
<u>/s/ David M. Sommerer</u> 09/13/19 Procurement Analysis/Date	<u>/s/ Robert S. Berlin</u> 09/13/19 Staff Counsel's Office/Date

SUBJECT: Staff Report and Recommendation Regarding Spire East's ISRS Tariff Submission

DATE: September 13, 2019

EXECUTIVE SUMMARY

On July 15, 2019, Spire Missouri, Inc. ("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* ("Application"), with associated workpapers and the direct testimony of Craig R. Hoeflerlin. 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"). Spire Missouri's request includes two components – reimbursement for (1) ISRS-eligible costs incurred between February 1, 2019 and May 31, 2019 (including pro forma ISRS costs for June and July 2019) and (2) costs incurred between October 1, 2017 and June 30, 2018 that the Commission denied in cases GO-2018-0309 and GO-2019-0115. The ISRS surcharges Spire Missouri seeks equates to a revenue requirement of \$8,104,616, which is adjusted downwardly to \$7,640,218 after updating for June and July actual costs.

Consistent with the Commission's *Report and Order on Rehearing*, dated August 21, 2019, Staff did not consider previously-denied costs in calculating Spire Missouri's revenue requirement. Staff recommends that only current projects between February and July 2019 be considered ISRS-eligible, and Staff concludes that each current project that Spire Missouri submitted is eligible for ISRS recovery. Staff's recommended revenue requirement for the February through July 2019 period is \$4,439,498. Staff's revenue requirement uses the methodology the Commission approved in case numbers GO-2018-0309 and GO-2019-0115.

INTRODUCTION

Spire Missouri initially filed two versions of a revised tariff Sheet No. 12 in its Application. After the Commission requested clarification on July 17, 2019 regarding which sheet Spire Missouri intends to take effect, Spire submitted a revised Sheet No. 12 on July 18, 2019, bearing a proposed effective date of August 14, 2019. On July 25, 2019 the Commission suspended the sheet Spire Missouri filed July 18, 2019 until November 12, 2019. Staff considers this third tariff Sheet 12 as the only tariff sheet pending in this application. The Commission's July 25, 2019 order directs Staff to file a recommendation by September 13, 2019.

Similar to its filing in case number GO-2019-0115, Spire Missouri's current filing has two components to its cost recovery request. One request is for recovery of "new" costs for the period of February 1, 2019 to May 31, 2019, plus pro forma ISRS costs for the months of June and July 2019. These costs can be characterized as costs consistent with traditional, long-standing ISRS practice in that they relate to current, not past ISRS costs. Neither Staff nor the Commission addressed these costs in past ISRS cases. Cost data for the months of June 2019 and July 2019 were estimated and subject to updating to actual costs incurred once known.

The other component is Spire Missouri's renewed request to recover "old" costs from a previous time period that Staff and the Commission addressed in previous proceedings. Specifically, Spire Missouri requests recovery of ISRS costs incurred during the period of October 1, 2017 to June 30, 2018 that the Commission deemed ineligible for recovery in Spire Missouri's ISRS case number GO-2018-0309. The Commission's Report and Order in this case is on appeal at the Missouri Court of Appeals, Western District, in docket number WD82302 (consolidated with WD82373, which is the appeal in the Spire West case).

In case number GO-2019-0115, Spire Missouri resubmitted these old costs the Commission rejected in case number GO-2018-0309, in addition to requesting reimbursement for costs for the time period of July 2018 through January 2019. The Commission disallowed recovery for the old costs, stating that it does not have jurisdiction over matters before the appellate court.

Consistent with the Commission's August 21, 2019 *Report and Order on Rehearing* in case number GO-2019-0115, Staff believes the Commission does not have jurisdiction to include old ISRS costs in this case, because these costs are on appeal. Therefore, Staff recommends that the Commission reject old ISRS costs in this proceeding for the same reasons the Commission rejected them in case number GO-2019-0115.

According to Appendix A, Schedule 8 of its Application, Spire Missouri requests a revenue requirement of \$8,104,616, which includes \$1,590,345 of old costs. On July 23, 2019 Spire Missouri provided Staff with actual June 2019 costs, and on August 21, 2019 Spire Missouri provided Staff with actual July 2019 costs. This revised revenue requirement decreases Spire Missouri's request by \$464,398 from the initially-filed \$8,104,616 to \$7,640,218.

Spire East states that the surcharges established in prior cases, plus the surcharge requested in this case, would produce cumulative ISRS revenues of \$16,191,318 annually.¹

Spire Missouri states in its Application that it is complying with notice requirements:

24. Pursuant to 4 CSR 240-3.265(8) and (9), Spire East intends to continue using the annual notices and customer bill language approved by the Commission in Case No. GO-2018-0309, at the time its current ISRS was first established.

Spire Missouri filed its 2018 Annual Report (submitted April 2019) and is not delinquent on paying its assessments.

CALCULATION OF ISRS RATE SCHEDULES

Most ISRS filings utilize the most current annual report figures to establish the customer-count used in the calculation of rates. The ISRS rates in this case are calculated based on the customer-count used in the last general rate case, case number GR-2017-0215. The relevant statute clearly allows for this substitution:

393.1015.(1) The monthly ISRS charge may be calculated based on a reasonable estimate of billing units in the period in which the charge will be in effect, which shall be conclusively established by dividing the appropriate pretax revenues by the customer numbers reported by the gas corporation in the annual report it most recently filed with the commission pursuant to subdivision (6) of section 393.140, and then further dividing this quotient by twelve. **Provided, however, that the monthly ISRS may vary according to customer class and may be calculated based on customer numbers as** determined during the most recent general rate proceeding of the gas corporation so long as the monthly ISRS for each customer class maintains a proportional relationship equivalent to the proportional relationship of the monthly customer charge for each customer class. [Emphasis added.]

¹ The Commission authorized a Spire East ISRS revenue requirement of \$2,607,610 in case number GO-2018-0309.

In its August 21, 2019 *Report and Order on Rehearing* in case number GO-2019-0115 the Commission authorized a Spire East ISRS revenue requirement of \$5,943,490. This includes the revised revenue requirement from the *Unanimous Stipulation and Agreement as to Resolution of Property Tax Expense*, dated August 13, 2019, in case number GO-2019-0115. The Commission approved this stipulation August 21, 2019.

$$\$2,607,610 + \$5,943,490 + \$7,640,218 \text{ (which includes } \$1,590,490 \text{ in old costs)} = \$16,191,318$$

This change in method of calculation was necessary because of revisions that took place in the most recent general rate cases and because of the addition of newly-designed and newly-established rate classes.

AUDITING REVIEW AND REVENUE CALCULATIONS

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 November 12, 2019. 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 East’s ISRS surcharge changed twice – in case number GO-2018-0309, with an effective date of October 8, 2018, and in Case No. GO-2019-0115, with an effective date of August 23, 2019. Staff asserts Spire Missouri is in compliance with this statute.

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 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.

Spire Missouri’s requested ISRS revenues for Spire East exceed one-half of one percent of the natural gas utility’s base revenue level approved by the Commission in the most recent Spire East rate case, and 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.

In this Application, Spire Missouri filed to recover qualifying ISRS costs incurred during the period of February 1, 2019, through July 31, 2019.² The ISRS recovery requested for June 2019 and July 2019 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

² As discussed above, Staff did not consider the old costs from October 2017 through June 2018 that Spire Missouri included in its Application.

supporting actual ISRS plant addition costs for June on July 23, 2019 and for July on August 21, 2019. The actual ISRS costs for June and July 2019 are incorporated in Staff's recommended ISRS revenue requirement.

As part of its examination of Spire East's application, Auditing Staff reviewed supporting workpapers, work order authorizations, accounting entries for a selection of work orders, and a sample of invoices supporting the work order authorizations. Staff visited Spire Missouri's St. Louis headquarters from August 19, 2019 to August 21, 2019 to discuss the ISRS application, interview personnel, and visit two active job sites. Staff also communicated throughout its review with Spire Missouri's personnel through email and telephone for clarification of the Application.

In its Application, Spire Missouri seeks recovery of \$1,590,490 of disallowed ISRS costs from case number GO-2018-0309 (related to the replacement of plastic infrastructure) that is on appeal. Staff did not include those costs in its current revenue requirement. This is consistent with the Commission's August 21, 2019 Report and Order on Rehearing, in which the Commission, citing a Western District Appeals Court opinion, stated that the Commission loses jurisdiction to an appellate court once an appeal has been filed. Although Spire Missouri primarily seeks inclusion of these costs, it did calculate an alternative ISRS revenue requirement without the previously disallowed costs. Excluding the costs of replacing plastic pipe, using the methodology described below, reduces Spire Missouri's revenue requirement for Spire East to \$5,555,722.

Inclusion of costs associated with replacing plastic main and service lines undertaken as part of Spire Missouri's main and service line replacement program were at issue in previous ISRS applications. Spire Missouri provided avoided cost studies for each proposed ISRS-eligible work order in case number GO-2019-0115 to support ISRS recovery of these costs. Because the Commission adopted a different methodology in case number GO-2019-0115, Spire Missouri did not prepare any avoided costs studies to support the replacement of plastic in the current case.

In its ISRS Model Appendix C filed in this case, Spire Missouri used the same methodology the Commission applied in case numbers GO-2018-0309 and GO-2019-0115 (Spire East's prior 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 adjustments are consistent with Staff's methodology used in case numbers GO-2018-0309 and GO-2019-0115.

Staff also 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 of time. Issues arose in prior 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 blanket work order total amounts to calculate an amount of blanket work order costs that are not ISRS eligible. Staff reviewed Spire Missouri's categorization to determine if each task it considers eligible meets the requirements of ISRS recovery. Tasks considered eligible are mandated relocations, replacements due to leak repairs and corrosion inspections, and replacement of copper and cast iron pipe. Ineligible items include relocations at a customer's request, replacements due to excavation damage, replacement of plastic not related to a leak repair, and installation of new services. After review of these calculations, Staff accepted the amount of Spire's adjustment for blanket work orders.

Consistent with past ISRS reviews Auditing Staff conducted and with Staff's view that the calculation of the ISRS revenue requirement should closely reflect 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, 2019.

Staff took into account 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 any current income taxes that would be applicable for recovery under ISRS.

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. The reconciliation in this case is also affected by the *Unanimous Stipulation and Agreement as to Resolution of Property Tax Expense* in case number GO-2019-0115³ ("Property Tax Stipulation"). Paragraph five of the Property Tax Stipulation "resets" the approved revenue requirement in the prior ISRS case by stating:

The Signatories further agree that the appropriate revenue requirement for Spire Missouri East Case No. GO-2019-0115 is \$5,943,490 and \$6,501,455 for Spire West Case No. GO-2019-0116, and that such amounts should be approved by the Commission.

³ Approved by the Commission in its August 21, 2019 *Report and Order on Rehearing* in case number GO-2019-0115.

Staff also included the offsets prescribed by paragraph seven of the Property Tax Stipulation:

The Signatories agree that the difference between property tax expenses as originally approved by the Commission and as recalculated pursuant to this Stipulation for the period when rates went into effect on, May 25, 2019, until the August 23, 2019 effective date for the revised tariff sheets, will be reflected in the annual reconciliation amounts in Spire's current ISRS filings GO-2019-0356 and GO-2019-0357 in the amounts of approximately \$118,855 for Spire Missouri East and \$69,314 for Spire Missouri West. [footnote omitted]

Staff adjusted Spire East's billed revenues before making a comparison to authorized revenues and found that as of July 31, 2019, Spire East under-collected ISRS revenue by \$357,249. The amounts identified in paragraph seven of the Property Tax Stipulation represent the dollar amount over-collected by Spire Missouri between May 25, 2019 and August 23, 2019. Including the new approved revenue requirement and the offset identified in the stipulation reduces Spire East's under-collection to \$238,393, which is shown as follows:

Total ISRS Revenue Undercollection	\$	(357,249)
Property Tax Settlement GO-2019-0115	\$	118,855
Total amount to be reconciled over 12 months	\$	(238,393)

Based upon its review and calculations made in response to this ISRS Application, Staff recommends Spire East receive additional ISRS revenues of \$4,439,498 (See attached Appendix C to this memo). Staff's recommendation results in a cumulative annual ISRS revenue requirement of \$12,990,598.

ENGINEERING SECTION

From an engineering review standpoint, Spire Missouri's filings are significantly different from what it filed in case numbers GO-2019-0115 and GO-2019-0116. In its previous ISRS cases, Spire Missouri created more than five hundred avoided cost studies in order to provide supporting evidence regarding ISRS eligibility. The avoided cost studies were intended to demonstrate cost savings associated with the replacement, rather than reuse, of existing plastic natural gas mains and service lines. However, due to the Commission's decision to adopt the methodology previously used for removing the cost of replacing ISRS-ineligible plastic components, avoided cost studies are no longer needed. Therefore, Spire Missouri did not create any avoided cost studies for Staff to examine in Case Nos. GO-2019-0356 and GO-2019-0357.

Although Staff did not have engineering studies to review for the present ISRS cases, Staff did participate in an on-site examination of pipeline replacement projects. On August 21,

2019, Spire Missouri escorted Staff to two active construction sites in the Spire East service area. Staff met with construction personnel, asked questions about the work being performed, and directly observed the conditions of materials and equipment in the field.

The first site visited was a project that included the replacement of cast iron pipe, but that was not considered by Spire Missouri to be ISRS-eligible due to the small amount of cast iron being replaced. Spire Missouri provided two samples of cast iron gas main removed from the ground for inspection. Those sections of cast iron pipe were reported to have been in service for approximately one hundred years. The pipe observed by Staff was visibly deteriorated and the fracture marks associated with its removal demonstrated its brittle nature.

Spire Missouri characterized the second construction site Staff visited as part of an ISRS-eligible project. At the time Staff was on-site, Spire Missouri was using directional boring equipment to install new plastic service lines. A new plastic natural gas main had already been installed under the street in the months prior to Staff's visit and would serve as the replacement for the existing cast iron main. The type of work performed and the explanations for construction decisions were consistent with those that Staff discussed with Spire Missouri in previous ISRS cases.

Staff has found the evidence it has observed thus far to be reasonable and aligned with Staff's expectations with regard to the work that would be necessary to move gas meters to the outside of customers' properties and to replace cast iron pipe with new plastic pipe.

Engineering Staff also reviewed the direct testimony of Mr. Craig Hoeflerlin. Mr. Hoeflerlin provided testimony covering the history of the regulatory oversight related to mandated programs to replace cast iron and bare steel piping. Attached as schedules to his testimony are copies of documents from the Department of Transportation ("DOT") and the Pipeline and Hazardous Materials Safety Administration ("PHMSA") that contain recommendations about the replacement of aging and high-risk pipeline infrastructure that includes cast iron and bare steel. He also provides references to applicable sections of the State and Federal safety rules.

Staff notes that while Mr. Hoeflerlin's testimony provides useful background information, compliance with the law and with mandated safety programs is not by itself sufficient to justify the ISRS eligibility of any particular expense. However, as a part of its verified application, Spire has attested to both the specific sections of the ISRS statute and the State or Federal safety requirements that apply to individual work orders.

Nothing in Staff's review of Mr. Hoeflerlin's direct testimony causes Staff to change its recommendation in this case.

RECOMMENDATIONS

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

1. Rejects Spire Missouri's ISRS tariff sheet (YG-2020-0009) P.S.C. MO No. 7 Third Revised SHEET No. 12 CANCELLING P.S.C. MO. No. 7 Second Revised SHEET No. 12, as filed on July 18, 2019;
2. Approves the Staff's recommended ISRS surcharge revenues in this docket in the incremental pre-tax revenue amount of \$4,439,498 with a total current and cumulative ISRS surcharge of \$12,990,598;
3. Authorizes Spire Missouri to file an ISRS rate for each customer class as reflected in Staff's Appendix B, which generates \$12,990,598; and
4. Authorizes an effective date no later than November 12, 2019.

SPIRE MISSOURI INC. - EAST
 CASE NO. GO-2019-0356 & YG-2020-0009
 RATE DESIGN

Staff's Total ISRS Rev Req

\$12,990,598

<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	604,973	\$22.00	1.0000	604,973	86.0152%	\$1.54	\$11,173,889
SGS-Small Gen. Service	36,743	\$35.00	1.5909	58,455	8.3111%	\$2.45	\$1,079,663
LGS-Large Gen. Service	3,882	\$125.00	5.6818	22,057	3.1360%	\$8.75	\$407,391
LV-Large Volume Service	67	\$914.25	41.5568	2,784	0.3959%	\$63.96	\$51,426
SL-Unmetered Gas Light	84	\$6.00	0.2727	23	0.0033%	\$0.42	\$423
IN-Interruptable	20	\$837.40	38.0636	761	0.1082%	\$58.59	\$14,061
General LP	36	\$17.94	0.8155	29	0.0042%	\$1.26	\$542
Vehicular Fuel	8	\$23.38	1.0627	9	0.0012%	\$1.64	\$157
LVTSS-Large Volume Transport & Sales Service	147	\$2,131.41	96.8823	14,242	2.0249%	\$149.12	\$263,045
TOTAL	645,960			703,333	100.00%		\$12,990,598

* Due to rounding to the nearest penny, the designed ISRS rates will over collect by \$568. However, it should be noted that the total amount collected will be trued-up at a later date.

**Spire Missouri East
ISRS Revenue Requirement Calculation**

ISRS Activity:

	Staff Recommendation: July 2019 Update	Spire's Filing: July 2019 Update	Difference
<u>Gas Utility Plant Projects - Main Replacements and Other Projects Extending Useful Life of Mains:</u>			
<u>Work Orders Placed in Service</u>			
Gross Additions	28,859,312	28,859,312	-
Deferred Taxes	(161,760)	(176,374)	14,614
Accumulated Depreciation	(229,873)	(229,873)	-
Total Net	28,467,679	28,453,065	14,614
<u>Gas Utility Plant Projects - Service Line Replacements and Insertion Projects:</u>			
<u>Work Orders Placed in Service</u>			
Gross Additions	17,901,691	17,901,691	-
Deferred Taxes	(121,333)	(135,573)	14,240
Accumulated Depreciation	(300,111)	(300,111)	-
Total Net	17,480,247	17,466,007	14,240
<u>Gas Utility Plant Projects - Regulator Stations:</u>			
<u>Work Orders Placed in Service</u>			
Gross Additions	-	-	-
Deferred Taxes	-	-	-
Accumulated Depreciation	-	-	-
Total Net	-	-	-
<u>Gas Utility Plant Projects - Main Relocations net of Reimbursements:</u>			
<u>Work Orders Placed in Service</u>			
Gross Additions	1,122,375	1,122,375	-
Deferred Taxes	(10,489)	(11,382)	893
Accumulated Depreciation	(7,492)	(7,492)	-
Total Net	1,104,394	1,103,501	893
<u>Increase in Accumulated Deferred Income Taxes and Accumulated Depreciation Associated with Eligible Infrastructure System Replacements which are included in a Currently Effective ISRS</u>			
Total Incremental Accumulated Depreciation	(871,417)	(871,417)	-
Total Incremental Accumulated Deferred Taxes	(672,632)	(672,632)	-
Total ISRS Rate Base	45,508,271	45,478,524	29,747
Overall Rate of Return per GR-2017-0215	7.20%	7.20%	0.00%
UOI Required	3,275,549	3,273,408	2,141
Income Tax Conversion Factor	1.34135	1.34135	0.00
Revenue Requirement on Capital before Interest Deductibility	4,393,658	4,390,786	2,872
Total ISRS Rate Base	45,508,271	45,478,524	29,747
Weighted Cost of Debt per GR-2017-0215	1.89%	1.89%	0.00%
Interest Deduction	860,106	859,544	562
Marginal Income Tax Rate	25.45%	25.45%	0.00%
Income Tax Reduction due to Interest	218,882	218,739	143
Income Tax Conversion Factor	1.34135	1.34135	0.00
Revenue Requirement Impact of Interest Deductibility	(293,597)	-	(293,597)
<u>263A Transfers Deduction</u>			
Service Transfers Deduction	10,488,014	10,488,014	-
263A and Service Transfers Tax Deductible Items	13,140,411	13,140,411	-
Income Tax Factor	0.3414	0.3414	-
Income Tax Reduction due to Deductible Items	4,485,479	4,485,479	-
Applicable Income Tax	-	823,973	(823,973)
Total Revenue Requirement on Capital	3,275,549	4,390,786	(1,115,237)
Depreciation Expense	932,965	932,965	-
Net Property Taxes	(7,409)	(7,409)	-
Total ISRS Revenues	4,201,105	5,316,342	(1,115,237)
ISRS Revenue Undercollection June 2018 through July 2019	238,393	239,380	(987)
Total Spire East ISRS Revenues	4,439,498	5,555,722	(1,116,224)

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of Spire)
Missouri, Inc. to Change its Infrastructure)
System Replacement Surcharge in its)
Spire Missouri East Service Territory) Case No. GO-2019-0356

AFFIDAVIT OF CHARLES T. POSTON, PE

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW CHARLES T. POSTON, 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.

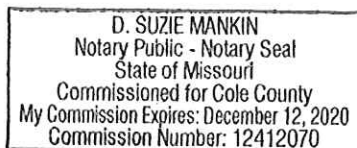
Further the Affiant sayeth not.

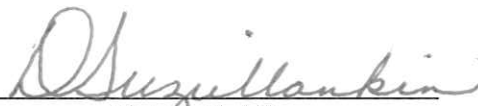


CHARLES T. POSTON, PE

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 12th day of September 2019.





Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of Spire)
Missouri, Inc. to Change its Infrastructure) Case No. GO-2019-0356
System Replacement Surcharge in its)
Spire Missouri East Service Territory)

AFFIDAVIT OF JARED GIACONE

STATE OF MISSOURI)
) ss.
COUNTY OF JACKSON)

COMES NOW JARED GIACONE 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.



JARED GIACONE

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Jackson, State of Missouri, at my office in Kansas City, on this 12th day of September 2019.



M. RIDENHOUR
My Commission Expires
July 22, 2023
Platte County
Commission #19603483



Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of Spire)
Missouri, Inc. to Change its Infrastructure)
System Replacement Surcharge in its)
Spire Missouri East Service Territory) Case No. GO-2019-0356

AFFIDAVIT OF JEREMY JULIETTE

STATE OF MISSOURI)
) ss.
COUNTY OF JACKSON)

COMES NOW JEREMY JULIETTE 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.



JEREMY JULIETTE

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Jackson, State of Missouri, at my office in Kansas City, on this 13th day of September 2019.



M. RIDENHOUR
My Commission Expires
July 22, 2023
Platte County
Commission #19603483



Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of Spire)
Missouri, Inc. to Change its Infrastructure) Case No. GO-2019-0356
System Replacement Surcharge in its)
Spire Missouri East Service Territory)

AFFIDAVIT OF MATTHEW R. YOUNG

STATE OF MISSOURI)
) ss.
COUNTY OF JACKSON)

COMES NOW MATTHEW R. YOUNG 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.



MATTHEW R. YOUNG

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Jackson, State of Missouri, at my office in Kansas City, on this 13th day of September 2019.



Notary Public



BEVERLY M. WEBB
My Commission Expires
April 14, 2020
Clay County
Commission #12464070

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of Spire)
Missouri, Inc. to Change its Infrastructure)
System Replacement Surcharge in its)
Spire Missouri East Service Territory) Case No. GO-2019-0356

AFFIDAVIT OF KAREN LYONS

STATE OF MISSOURI)
) ss.
COUNTY OF JACKSON)

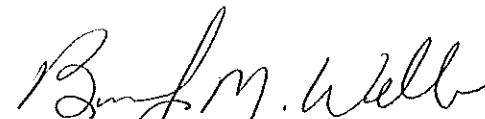
COMES NOW KAREN LYONS and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Staff Recommendation in memorandum form*; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.


KAREN LYONS

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Jackson, State of Missouri, at my office in Kansas City, on this 13th day of September 2019.


Notary Public



BEVERLY M. WEBB
My Commission Expires
April 14, 2020
Clay County
Commission #12464070