

**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-2020-0230</u>
System Replacement Surcharge in its Spire)	Tariff No. YG-2020-0140
Missouri West Service Territory)	

STAFF RECOMMENDATION

COMES NOW the Staff of the Missouri Public Service Commission, through counsel, and in response to the Commission’s February 18, 2020 *Order Directing Notice, Setting Intervention Deadline, Directing Filing, and Suspending Tariff Sheets* (“Order”), submits its *Staff Recommendation* to the Commission as set forth in the attached appendices, and in support 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 February 3, 2020, 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 West Service Territory (“Spire West”), or in the alternative, notice that it would file an ISRS case within 60 days.

2. On February 3, 2020, Spire Missouri filed its *Verified Application and Petition of Spire Missouri Inc. to Change its Infrastructure System Replacement Surcharge for Its Spire Missouri West Service Territory* (“Application”). Attached to Spire Missouri’s Application is proposed P.S.C. MO. No. 8 Fifth Revised SHEET No. 12 CANCELLING P.S.C. MO. No. 8 Fourth Revised SHEET No. 12, bearing an effective date of March 14, 2020.

3. On February 11, 2020 Staff filed a motion to reject the tariff sheet for failure to comply with 20 CSR 4240-40.085(3) and (4). On February 13, 2020 Spire Missouri filed a corrected application with a new proposed tariff sheet. The ISRS surcharges reflected on Spire Missouri's proposed Sheet 12 equate to an annual revenue requirement of \$5,590,208 and to total annual cumulative revenues of \$21,500,000.

4. On February 18, 2020 the Commission issued this Order suspending the tariff sheet Spire Missouri filed on February 13, 2020 (assigned tariff tracking number YG-2020-0140) until June 2, 2020. In this Order the Commission also ordered Staff to file its recommendation regarding the Application by April 3, 2020. 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. Spire Missouri's Application contains two cost recovery requests. One request is to recover "new" ISRS qualifying infrastructure replacement costs incurred between August 1, 2019 and February 29, 2020 ("New Request"). This New Request is consistent with traditional procedure regarding the time frame of the costs requested for recovery in a typical ISRS recovery filing.

6. The second part of Spire Missouri's recovery request is a second renewal requesting reimbursement of costs incurred between October 1, 2017 and July 31, 2019 ("Old Request") that the Commission denied in Case Nos. GO-2018-0310, GO-2019-0116, and GO-2019-0357. Staff does not include the Old Request in its revenue requirement in this proceeding.

7. Regarding Spire Missouri'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 August 1, 2019 through July 31, 2019. Staff also communicated with Spire Missouri personnel through email and telephone for clarification of the Application.

8. Consistent with the methodology the Commission adopted in case numbers GO-2018-0310, GO-2019-0116, and GO-2019-0357, 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.

9. The Missouri Court of Appeals recent opinion, *In the Matter of the Application of Spire Missouri, Inc. to Change Its Infrastructure System Replacement Surcharge*, 2019 WL 6119755 (Nov 19, 2019), reversed and remanded to the Commission Spire Missouri ISRS Case No.'s GO-2018-0309 and GO-2018-0310. The Court reversed the Commission's Report and Order "...to the extent it allowed ISRS recovery for structures not shown to be worn out or deteriorated." In its Opinion, the Court stated: "There was no evidence with respect to how long it takes cast iron and steel to become worn out or deteriorated. Moreover, the evidence suggested that the time for the deterioration to occur is different from location to location.....Spire seems to believe that it does not need to present evidence that the pipes it replaces are worn out or deteriorated because it considers any pipe subject to a state or federal replacement requirement to be by definition worn out or deteriorated". (See Opinion pages 13-14).

In its review of the instant ISRS petitions, Staff is guided by the Court's Opinion in the reversed and remanded Spire ISRS cases. In the instant case, Staff removed the costs of replacing cast iron, copper, and steel pipe because Spire Missouri did not provide

sufficient evidence that these pipes were in a worn out or deteriorated condition. Staff made this determination because Spire Missouri provided no more compelling evidence in its ISRS petitions now before the Commission than what it had put before the Commission in the reversed and remanded Spire ISRS cases (GO-2018-0309 / GO-2018-0310). That said, Staff will review any additional evidence that Spire may file later in this proceeding that supports the ISRS eligibility and cost recovery for replacement of the pipes and services included in the instant petitions.

Staff points out that Spire bears the burden of proof because Spire filed the applications.¹ The burden of proof is the preponderance of the evidence standard.² In order to meet this standard, Spire Missouri must convince the Commission it is more likely than not that its allegations are true.³

10. 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.

11. Based upon its review and calculations, Staff recommends that Spire Missouri receive incremental pre-tax ISRS revenues for this case of \$1,297,608 with a total current and cumulative ISRS surcharge of \$17,207,399.

¹ "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*, 343 Mo. 710,723, 123 S.W. 2nd 27, 33 (1938).

² *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); *Rodriguez v. Suzuki Motor Corp.*, 936 S.W.2d 104,110 (Mo. banc 1996).

³ *Holt v. Director of Revenue, State of Missouri*; 3 S.W.3rd 427,430 (Mo. App. 1999); *McNear v. Rhoades*, 992 S.W. 2nd 877, 885 (Mo. App. 1999); *Rodriguez*, 936 S.W. 2nd at 109-111; *Wollen v. Depaul Health Center*, 828 S.W.2nd 681,685 (Mo. banc 1992).

12. Staff developed proposed ISRS rates for Spire Missouri's Spire West 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 West'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.

13. The proposed ISRS rates are calculated based on the customer count used in the last Spire West general rate case, case number GR-2017-0216. This method of calculation is authorized under § 393.1015.5.(1), RSMo.

14. Staff also notes that the Spire Missouri is current on its FY 2018 Annual Report 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-2020-0140) P.S.C. MO. No. 8 Fifth Revised SHEET No. 12 CANCELLING P.S.C. MO. No. 8 Fourth Revised SHEET No. 12, as filed February 13, 2020;

2. Approves Staff's recommended ISRS surcharge revenues in this docket in the incremental pre-tax revenue amount of \$1,297,608 with a total current and cumulative ISRS surcharge of \$17,207,399;

3. Authorizes Spire Missouri to file an ISRS rate for each customer class as reflected in Appendix B-1, which generates \$17,207,399 annually; and,

4. Authorizes an effective date no earlier than May 25, 2020.

Respectfully submitted,

/s/ Robert S. Berlin

Robert S. Berlin
Deputy Staff Counsel
Missouri Bar No. 51709
(573) 526-7779 (Telephone)
(573) 751-9285 (Fax)
bob.berlin@psc.mo.gov

/s/ Karen E. Bretz

Karen E. Bretz
Senior Counsel
Missouri Bar No. 70632
Attorney for the Staff of the
Missouri Public Service Commission
P.O. Box 360
Jefferson City, MO 65102
573-751-5472 (Voice)
573-751-9285 (Fax)
Karen.Bretz@psc.mo.gov

Attorneys for the Staff of the
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102

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 3rd day of April, 2020.

/s/ Karen E. Bretz

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. GO-2020-0230, Tariff Tracking No. YG-2020-0140
Spire Missouri Inc., d/b/a Spire (West)

FROM: David M. Sommerer, Manager, Procurement Analysis
Karen Lyons, Utility Regulatory Auditor, Auditing Department
Matthew R. Young, Utility Regulatory Auditor, Auditing Department
Jared Giacone, Utility Regulatory Auditor, Auditing Department
Jeremy Juliette, Utility Regulatory Auditor, Auditing Department

/s/ Mark L. Oligschlaeger 04/03/20 /s/ Robert S. Berlin 04/03/20
Financial and Business Analysis/Date Staff Counsel's Office/Date

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

DATE: April 3, 2020

EXECUTIVE SUMMARY

On February 3, 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 West Service Territory* ("Application") with associated workpapers and the Direct Testimony of Timothy H. Goodson. Spire Missouri filed a corrected application on February 13, 2020. In its Application, Spire Missouri requests Commission approval to change the infrastructure system replacement surcharge ("ISRS") for its Spire Missouri West Service Territory ("Spire West"). Spire Missouri's requests includes two components – reimbursement for (1) ISRS-eligible costs incurred between August 1, 2019 and February 29, 2020 and (2) costs incurred between October 1, 2017 and July 31, 2019 that the Commission denied in Case Nos. GO-2018-0310, GO-2019-0116, and GO-2019-0357. The ISRS surcharges Spire Missouri seeks equates to an annual revenue requirement of \$5,590,208, which will increase its ISRS revenues to the maximum allowed under Section 393.1012.1, RSMo and 20 CSR 4240-3.265(18).

Consistent with the Commission's orders, Staff did not consider previously-denied costs in calculating Spire Missouri's revenue requirement. Staff recommends that only current projects between August 2019 and February 2020 be considered ISRS-eligible. Additionally, Staff removed the costs of work orders that replaced cast iron, copper, and steel pipe to calculate a recommended revenue requirement of \$1,297,608. Although the Commission has not determined how to proceed after remand, Staff believes this revenue requirement is consistent with

¹ Staff understands that the tariff sheets filed with the February 3, 2020 application are "exemplar" tariff sheets. The Commission suspended the tariff sheets accompanying Spire Missouri's February 13, 2020 application.

the Missouri Court of Appeals' recently decided opinion, *In the Matter of the Application of Spire Missouri Inc. to Change Its Infrastructure System Replacement Surcharge*, dated November 19, 2019.

INTRODUCTION

Similar to its filing in Case Nos. GO-2019-0116 and GO-2019-0357, Spire Missouri's current filing has two components to its cost recovery request. One request is for recovery of "new" costs for the period between August 1, 2019 and February 29, 2020. These costs can be characterized as costs consistent with traditional, long-standing ISRS practice, because they relate to current, not past, ISRS cases. Neither Staff nor the Commission addressed these costs in past ISRS cases.

The other component is Spire Missouri's renewed request to recover "old" costs from previous time periods addressed in prior proceedings. Specifically, Spire Missouri requests recovery of ISRS costs incurred between October 1, 2017 and July 31, 2019 that the Commission deemed ineligible for recovery in Case Nos. GO-2018-0310, GO-2019-0116, and GO-2019-0357. Staff recommends the Commission reject recovery of old ISRS costs for the same reasons it previously rejected them.

On November 19, 2019 the Missouri Court of Appeals determined that Spire could not recover the costs of replacing cast iron, steel or plastic within an ISRS case without a showing that the pipe was worn out or deteriorated. The Court reversed and remanded the Commission's decision in order to remove the costs of replacing pipe not shown to be worn out or deteriorated. Staff is waiting for guidance from the Commission how to proceed regarding previous ISRS proceedings. However, Staff recommends implementing the Court's guidance in this ISRS proceeding.

Spire Missouri requests a revenue requirement of \$5,590,208. This revenue requirement reflects a reduction of the request due to the application of the ten percent cap of Section 393.1012.1, RSMo and 20 CSR 4240-3.265(18). Spire's entire incremental request before

² "While Spire's 'replacement strategy may laudably produce a safer system, the question squarely before us is not whether its chosen approach is prudent but rather whether the replacement of ... components that were not in a worn out or deteriorated condition are ISRS-eligible.' 'In analyzing that proposition, we cannot ignore the plain language of the statute for convenience, expediency[,] or necessity to conclude that the costs are eligible for recovery through the ISRS process.'" *In the Matter of the Application of Spire Missouri Inc. to Change Its Infrastructure System Replacement Surcharge*, 2019 WL 6119755, *5 (November 19, 2019) (citations omitted). The Missouri Supreme Court denied transfers of these cases March 17, 2020.

³ Spire Missouri is constrained by Section 393.1012.1, RSMo and 20 CSR 4240-3.265(18), which state that annualized ISRS revenues cannot exceed 10% of the utility's approved revenue level approved in its last general rate case. The Commission approved a revenue level of \$215 million in Spire Missouri's most recent general rate case, Case No. GR-2017-0216. Therefore, Spire Missouri requests the maximum level of ISRS revenues allowed under Missouri law.

application of the ten percent cap is \$11,105,406. That amount includes plastic pipe that was previously disallowed in the October 2017 to July 2019 timeframe (\$2,370,885), as well as plastic pipe for the current timeframe of August 2019 through February 2020 (calculated in Spire Missouri's ISRS Model Appendix A) The Commission previously established a cumulative annual ISRS revenue requirement of \$15,909,792 in Case No. GO-2019-0357. Spire Missouri states that the surcharges established in prior cases, plus the \$5,590,208 surcharge requested in this case, would produce cumulative ISRS revenues of \$21,500,000 annually, which is the maximum Spire Missouri may recover under Missouri law.

However, if the Commission accepts Staff's proposed revenue requirement of \$1,297,608 as shown in Appendix C-1, the resulting cumulative annual ISRS revenue requirement will be less than the ten percent ISRS revenue cap. Below is a table illustrating each ISRS case's annual revenue requirement and the cumulative revenue requirement under this scenario:

Case Number	Case Revenue Requirement	Cummulative Requirement
GO-2020-0230	\$1,297,608	\$17,207,399
GO-2019-0357	\$3,996,543	\$15,909,792
GO-2019-0116	\$6,501,455	\$11,913,248
GO-2018-0310	\$5,411,793	\$5,411,793

Spire Missouri's proposed tariff sheets filed with its corrected February 13, 2020 application bear an effective date of March 14, 2020. Rates should not be made effective earlier than May 25, 2020, due to the limit of no more than two ISRS rate increases in a 12 month period. The effective date for rates in Case No. GO-2019-0116 was May 25, 2019 and in Case No. GO-2019-0357 was November 16, 2019. ISRS rates made effective prior to May 25, 2020 would result in more than two ISRS rate changes in a 12 month period.

Spire Missouri filed its 2018 annual report with the Commission. However, Spire Missouri did not use the number of billing units in this report to calculate rates in this proceeding. Consistent with Section 393.1015.1, RSMo, Spire used the number of billing units from its previous rate case, Case No. GR-2017-0216.

As of the issuance of this memorandum, Spire Missouri is not delinquent on its FY 2019 assessments.

⁴ Spire Missouri, "Corrected – Verified Application and Petition of Spire Missouri, Inc. to Change its Infrastructure System Replacement Surcharge for its Spire Missouri West Service Territory," Paragraph 8 (February 13, 2020).

⁵ Section 393.1015.3, RSMo and 20 CSR 4240-3.265(16).

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 West tariffs filed with this Application are suspended until June 2, 2020. In Spire Missouri’s last general rate case, Case No. GR-2017-0215, effective April 19, 2018, the ISRS balances were reset to zero. Since then, Spire West’s ISRS surcharge changed three times – in Case No. GO-2018-0310, with an effective date of October 8, 2018, in Case No. GO-2019-0116, with an effective date of May 25, 2019, and in Case No. GO-2019-0357, with an effective date of November 16, 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 West exceed one-half of one percent of the natural gas utility’s base revenue level approved by the Commission in the most recent Spire West rate case. As described above, Spire Missouri’s cumulative ISRS revenues, including the amounts requested in this filing, exceed ten percent of the base revenue levels approved by the Commission in the last Spire West rate case, Case No. GR-2017-0215, which requires Spire West to reduce its application request.

In this Application, Spire Missouri filed to recover current qualifying ISRS costs incurred during the period of August 1, 2019, through February 29, 2020. The ISRS recovery requested for January 2020 and February 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 January on February 20, 2020 and for February on March 18, 2020. The actual ISRS costs for January and February 2020 are incorporated in Staff’s recommended ISRS revenue requirement.

As part of its examination of Spire West’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 Missouri’s personnel through email and telephone for clarification of the Application.

⁶ See also Section 393.1012.1, RSMo.

Spire Missouri also seeks recovery of \$2,370,885 of previously disallowed ISRS costs incurred between October 1, 2017 and July 31, 2019 for the replacement of plastic infrastructure. 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, it did calculate an alternative ISRS revenue requirement without the previously disallowed plastic pipe costs (calculated in Spire Missouri's ISRS Model Appendix B).⁸ Excluding the costs of replacing plastic pipe, using the methodology described below, reduces Spire Missouri's revenue requirement for Spire West to \$7,022,347, disregarding the ten percent cap. Under the cap, the revenue requirement is reduced to \$5,590,208. In this alternative revenue requirement, Spire Missouri used the same methodology the Commission applied in Case Nos. GO-2018-0310, GO-2019-0116, and GO-2019-0357 (prior Spire West 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 are consistent with the methodology used in Case Nos. GO-2018-0310, GO-2019-0116, and GO-2019-0357.

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 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 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.

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

⁷ Spire Missouri, "Corrected – Verified Application and Petition of Spire Missouri, Inc. to Change its Infrastructure System Replacement Surcharge for its Spire Missouri West Service Territory," Paragraph 9 (February 13, 2020).

⁸ *Id.* at Paragraph 10.

the past three ISRS cases for the analysis, as they are the cumulative ISRS filings since Spire Missouri's last general rate case.

Case Number	Total Blanket Work Order Request	Total Gross ISRS Plant Request (Before Adjustment for Plastic)	Blanket Work Orders as Percentage of Total ISRS Request
GO-2020-0230	\$6,943,021	\$60,549,897	11%
GO-2019-0357	\$4,512,384	\$43,831,739	10%
GO-2019-0116	\$6,884,585	\$53,822,163	13%
GO-2018-0310	\$6,452,598	\$81,408,195	8%

Although the Staff does not have the same concerns about blanket work orders with Spire West as it does with Spire East, 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. As the ratio of blanket work orders request compared to the total recovery request increases, Staff finds the documentation required for blanket work orders should also increase. Staff recommends that Spire Missouri modify its blanket work order procedure to provide more documentation, or limit the number of projects included in blanket work orders. At this time Staff does not have any proposed disallowances related to blanket work orders. Staff is interested in discussing this issue further with the Company.

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 May 15, 2020.

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 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 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 a level of 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.

Commission Rule 20 CSR 4240-3.265(17) requires a reconciliation of the ISRS revenue Spire Missouri collected from Spire West customers in the prior twelve month period to account for over- or under-collection of previously approved ISRS revenue. Spire Missouri's most recent ISRS case, Case No. GO-2019-0357, contained a reconciliation so an examination of ISRS revenues is not needed in this case.

Spire did not provide sufficient evidence in this proceeding that the pipes it replaced were worn out or deteriorated. To be consistent with the Missouri Court of Appeals recent decision, Staff removed the cost of work orders that replaced cast iron, copper, steel, and plastic pipes to calculate a recommended revenue requirement. The remaining costs that are ISRS eligible are projects required by civic improvements, angle of repose situations, and blanket work orders. After this adjustment, Staff recommends Spire West receive additional ISRS revenues of \$1,297,608 (see attached Appendix C-1). This results in cumulative annual ISRS revenues of \$17,207,399. Staff will review any evidence Spire may provide later in this proceeding which demonstrates that the pipes replaced during this ISRS period were in fact in a worn out or deteriorated condition.

However, if the Commission decides to approve a revenue requirement consistent with recent cases (excluding plastic pipe replacement but including the cost of cast iron, steel, and copper pipe replacements), Staff recommends Spire West receive additional ISRS revenues of \$5,599,040 (Appendix C-2), which should be reduced to \$5,590,208 due to the ten percent cap. Appendix B-1 shows the Staff's proposed rate design, excluding plastic, cast iron, and bare steel. Appendix B-2 shows the Staff's proposed rate design, excluding plastic, but including cast iron and bare steel.

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-2020-0140) P.S.C. MO. No 8 Fifth Revised SHEET No. 12 CANCELLING P.S.C. MO. No 8 Fourth Revised SHEET No. 12, as filed February 13, 2020;
2. Approves the Staff's recommended ISRS surcharge revenues in this docket in the incremental pre-tax revenue amount of \$1,297,608 with a total current and cumulative ISRS surcharge of \$17,207,399;
3. Authorizes Spire Missouri to file an ISRS rate for each customer class as reflected in Staff's Appendix B-1, which generates \$17,207,399; and
4. Authorizes an effective date no earlier than May 25, 2020.

⁹ This is more than Spire's amount due to rounding differently.

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)	<u>Case No. GO-2020-0230</u>
its Infrastructure System Replacement)	<u>Tariff No. YG-2020-0140</u>
Surcharge in its Spire Missouri West)	
Service Territory)	

**AFFIDAVIT OF DAVID M. SOMMERER, KAREN LYONS,
MATTHEW R. YOUNG, JARED GIACONE, JEREMY JULIETTE**

STATE OF MISSOURI)	
)	ss.
COUNTY OF COLE)	

COME NOW David M. Sommerer, Karen Lyons, Matthew R. Young, Jared Giacone, Jeremy Juliette and on their oath declares that they are of sound mind and lawful age; that they contributed to the foregoing Memorandum; 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/ David M. Sommerer
David M. Sommerer

/s/ Karen Lyons
Karen Lyons

/s/ Matthew R. Young
Matthew R. Young

/s/ Jared Giacone
Jared Giacone

/s/ Jeremy Juliette
Jeremy Juliette

SPIRE MISSOURI INC. - WEST (Without Cast Iron and Bare Steel)
CASE NO. GO-2020-0230 & YG-2020-0140

Staff's Total ISRS Rev Req					<u>\$17,207,399</u>		
<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	469,947	\$20.00	1.0000	469,947	82.9794%	\$2.53	\$14,278,602
SGS-Small Gen. Service	31,727	\$30.00	1.5000	47,591	8.4031%	\$3.80	\$1,445,963
LGS-Large Gen. Service	3,628	\$130.17	6.5085	23,613	4.1694%	\$16.48	\$717,439
LV-Large Volume Service	460	\$1,095.27	54.7635	25,191	4.4481%	\$138.66	\$765,395
<u>TOTAL</u>	<u>505,762</u>			<u>566,342</u>	<u>100.00%</u>		<u>\$17,207,399</u>

* Due to rounding to the nearest penny, the designed ISRS rates **will under-collect by \$848**. However, it should be noted that the total amount collected will be trued-up at a later date .

SPIRE MISSOURI INC. - WEST (with Cast Iron and Bare Steel included)
CASE NO. GO-2020-0230 & YG-2020-0140

Staff's Total ISRS Rev Req					<u>\$21,508,831</u>		
<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	469,947	\$20.00	1.0000	469,947	82.9794%	\$3.16	\$17,847,906
SGS-Small Gen. Service	31,727	\$30.00	1.5000	47,591	8.4031%	\$4.75	\$1,807,418
LGS-Large Gen. Service	3,628	\$130.17	6.5085	23,613	4.1694%	\$20.60	\$896,781
LV-Large Volume Service	460	\$1,095.27	54.7635	25,191	4.4481%	\$173.32	\$956,726
TOTAL	505,762			566,342	100.00%		\$21,508,831

* Due to rounding to the nearest penny, the designed ISRS rates **will under-collect by \$2,203**. However, it should be noted that the total amount collected will be trued-up at a later date .

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

ISRS Activity:

	Staff Recommendation Update Feb 2020	Spire's Filing Update Feb 2020	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	290,732	35,832,854	(35,542,122)
Deferred Taxes	(4,585)	(311,576)	306,991
Accumulated Depreciation	(3,537)	(299,787)	296,250
Total Net	282,610	35,221,491	(34,938,881)
<u>Gas Utility Plant Projects - Service Line Replacements and Insertion Projects:</u>			
<u>Work Orders Placed in Service</u>			
Gross Additions	6,175,414	6,564,916	(389,502)
Deferred Taxes	(53,835)	(59,782)	5,947
Accumulated Depreciation	(80,100)	(84,834)	4,734
Total Net	6,041,479	6,420,300	(378,821)
<u>Gas Utility Plant Projects - Regulator Stations:</u>			
<u>Work Orders Placed in Service</u>			
Gross Additions	(64)	(64)	-
Deferred Taxes	1	1	-
Accumulated Depreciation	1	1	-
Total Net	(62)	(62)	-
<u>Gas Utility Plant Projects - Main Relocations net of Reimbursements:</u>			
<u>Work Orders Placed in Service</u>			
Gross Additions	4,468,658	4,468,658	-
Deferred Taxes	(33,293)	(35,480)	2,187
Accumulated Depreciation	(36,284)	(36,284)	-
Total Net	4,399,081	4,396,894	2,187
<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	(1,679,511)	(1,332,625)	(346,885)
Total Incremental Accumulated Deferred Taxes	(1,964,907)	(1,592,296)	(372,611)
Total ISRS Rate Base	7,078,691	43,113,702	(36,035,011)
Overall Rate of Return per GR-2017-0216	7.20%	7.20%	0.00%
UOI Required	509,503	3,103,195	(2,593,692)
Income Tax Conversion	1.34135	1.34135	0.00000
Revenue Requirement on Capital	683,422	4,162,471	(3,479,049)
Total ISRS Rate Base	7,078,691	43,113,702	(36,035,011)
Weighted Cost of Debt per GR-2017-0215	1.89%	1.89%	0.00%
Interest Deduction	133,787	814,849	(681,062)
Marginal Income Tax Rate	25.45%	25.45%	0.00%
Income Tax Reduction due to Interest	34,046	207,364	(173,318)
Income Tax Conversion Factor	1.34135	1.34135	0.00000
Revenue Requirement Impact of Interest Deductibility	45,668	-	45,668
263A Transfers Deduction	534,844		534,844
Service Transfers Deduction	0		0
263A and Service Transfers Tax Deductible Items	534,844		534,844
Income Tax Factor	0.34135		0.34135
Income Tax Reduction due to Deductible Items	182,569		182,569
Applicable Income Tax		781,128	(781,128)
Total Revenue Requirement on Capital	509,503	4,162,471	(3,652,968)
Depreciation Expense	202,174	787,298	(585,124)
Net Property Taxes	412,012	2,072,578	(1,660,567)
Total ISRS Revenues	1,297,608	7,022,347	(5,724,740)

**Spire Missouri West
Staff Alternative ISRS Revenue Requirement Calculation**

ISRS Activity:

	Staff Recommendation Update Feb 2020	Spire's Filing Update Feb 2020	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	35,832,854	35,832,854	-
Deferred Taxes	(292,602)	(311,576)	18,974
Accumulated Depreciation	(299,787)	(299,787)	-
Total Net	35,240,465	35,221,491	18,974
<u>Gas Utility Plant Projects - Service Line Replacements and Insertion Projects:</u>			
<u>Work Orders Placed in Service</u>			
Gross Additions	6,564,916	6,564,916	-
Deferred Taxes	(55,801)	(59,782)	3,981
Accumulated Depreciation	(84,834)	(84,834)	-
Total Net	6,424,281	6,420,300	3,981
<u>Gas Utility Plant Projects - Regulator Stations:</u>			
<u>Work Orders Placed in Service</u>			
Gross Additions	(64)	(64)	-
Deferred Taxes	1	1	-
Accumulated Depreciation	1	1	-
Total Net	(62)	(62)	-
<u>Gas Utility Plant Projects - Main Relocations net of Reimbursements:</u>			
<u>Work Orders Placed in Service</u>			
Gross Additions	4,468,658	4,468,658	-
Deferred Taxes	(33,293)	(35,480)	2,187
Accumulated Depreciation	(36,284)	(36,284)	-
Total Net	4,399,081	4,396,894	2,187
<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	(1,679,511)	(1,332,625)	(346,885)
Total Incremental Accumulated Deferred Taxes	(1,964,907)	(1,592,296)	(372,611)
Total ISRS Rate Base	42,419,348	43,113,702	(694,354)
Overall Rate of Return per GR-2017-0216	7.20%	7.20%	0.00%
UOI Required	3,053,217	3,103,195	(49,978)
Income Tax Conversion	1,34135	1,34135	0.00000
Revenue Requirement on Capital	4,095,433	4,162,471	(67,038)
Total ISRS Rate Base	42,419,348	43,113,702	(694,354)
Weighted Cost of Debt per GR-2017-0215	1.89%	1.89%	0.00%
Interest Deduction	801,726	814,849	(13,123)
Marginal Income Tax Rate	25.45%	25.45%	0.00%
Income Tax Reduction due to Interest	204,025	207,364	(3,340)
Income Tax Conversion Factor	1,34135	1,34135	0.00000
Revenue Requirement Impact of Interest Deductibility	273,669	-	273,669
263A Transfers Deduction	2,292,580		2,292,580
Service Transfers Deduction	0		0
263A and Service Transfers Tax Deductible Items	2,292,580		2,292,580
Income Tax Factor	0.34135		0.34135
Income Tax Reduction due to Deductible Items	782,572		782,572
Applicable Income Tax		781,128	(781,128)
Total Revenue Requirement on Capital	3,053,217	4,162,471	(1,109,254)
Depreciation Expense	787,298	787,298	-
Net Property Taxes	2,072,578	2,072,578	-
Total ISRS Revenues	5,913,093	7,022,347	(1,109,254)
Adjustment to account for 10% cap on cumulative ISRS revenues (see calculation below)	(314,054)		
Recommended ISRS revenues	5,599,040		