

**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-2017-0202**  
Infrastructure System Replacement ) **Tariff No. YG-2017-0156**  
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 February 10, 2017, *Order Directing Notice, Setting Intervention Deadline, Directing Filing, Granting Motions, and Suspending Tariff* as corrected by the *Order of Correction* issued February 14, 2017, 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 February 3, 2017, 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 240-3.265<sup>1</sup> which authorize gas corporations to recover certain eligible infrastructure replacement costs through an infrastructure system replacement surcharge (“ISRS”).

2. In the combined orders issued on February 10 and 14, 2017, the Commission suspended the tariff sheet filed by Laclede on February 3, 2017 (assigned tariff tracking number YG-2017-0156) until June 3, 2017, and ordered Staff to file its recommendation regarding Laclede’s Application no later than April 4, 2017. Staff’s

---

<sup>1</sup> Laclede’s Application also referenced Commission Rules 4 CSR 240-2.060 and 2.080.

recommendation is attached hereto as Appendix A, Appendix B, and Appendix C, each of which are incorporated herein by reference.

3. In its current Application, Laclede filed to recover ISRS qualifying infrastructure replacement costs incurred during the period November 1, 2016 through February 28, 2017. The ISRS recovery requested for January and February 2017 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.

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, 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 \$3,044,481. 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 \$32,571,375.

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. Section 393.1015.3, RSMo, provides 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 history and this statute, Staff recommends that the tariffs resulting from this ISRS filing should not go into effect any sooner than June 1, 2017.

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

1. Rejects Laclede’s ISRS tariff sheet (YG-2017-0156) P.S.C. MO No. 5 Consolidated, Twenty-Eighth Revised Sheet No. 12 cancelling P.S.C. MO. No. 5 Consolidated, Twenty- Seventh Revised Sheet No. 12, as filed on February 3, 2017;
2. Approves the Staff’s recommended ISRS surcharge revenues in this docket in the incremental pre-tax revenue amount of \$3,044,481 with a total current and cumulative ISRS surcharge of \$32,571,375;
3. Authorizes Laclede to file an ISRS rate for each customer class as reflected in Appendix B, which generates \$32,571,375 annually; and
4. Authorizes an effective date no sooner than June 1, 2017.

Respectfully submitted,

**/s/ Jeffrey A. Keevil**

Jeffrey A. Keevil  
Missouri Bar No. 33825  
Attorney for the Staff of the  
Missouri Public Service  
Commission  
P. O. Box 360  
Jefferson City, MO 65102  
(573) 526-4887 (Telephone)  
(573) 751-9285 (Fax)  
Email: jeff.keevil@psc.mo.gov

**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 4th day of April, 2017.

**/s/ Jeffrey A. Keevil**

## MEMORANDUM

**TO:** Missouri Public Service Commission Official Case File  
Case No. GO-2017-0202 - Tariff Tracking No. YG-2017-0156  
Laclede Gas Company

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

/s/ Mark L. Oligschlaeger 04/04/17  
Auditing Department / Date

/s/ David M. Sommerer 04/04/17  
Commission Staff Division / Date

/s/ Jeffrey A. Keevil 04/04/17  
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:** April 4, 2017

### **BACKGROUND**

On February 3, 2017, 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 March 5, 2017.

Also on February 3, 2017, Laclede filed a "Motion Of Laclede Gas Company For An Order Directing The Office Of The Public Counsel To File Its Recommendations Regarding ISRS Filing Within 60 Days." Laclede attributes the need for such a motion so as to require the Office of the Public Counsel ("OPC") to submit its ISRS recommendations within the same 60 day period mandated for the Commission Staff under Section 393.1015.2(2) of the ISRS Statute.

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.

OFFICIAL CASE FILE MEMORANDUM

MO PSC Case No. GO-2017-0202, Tariff No. YG-2017-0156

April 4, 2017

Page 2 of 6

On February 10, 2017, the Commission issued an “Order Directing Notice, Setting Intervention Deadline, Directing Filing, Granting Motions, and Suspending Tariff.” That order included the following:

- Established a deadline of March 4, 2017, for Staff to file its recommendation in this matter.
- Shortened discovery response times.
- Established a deadline of March 4, 2017, for the Office of the Public Counsel and any other party to file any objections or hearing requests in this matter.<sup>1</sup>
- Suspended Laclede’s proposed effective date (for the pending tariff) to June 3, 2017, from Laclede’s proposed effective date of March 5, 2017.

On February 14, 2017, the Commission issued an “Order of Correction” to correct the aforementioned order – correcting Staff’s filing date and OPC’s filing date. The “Order of Correction” has the following:

No later than April 4, 2017, the Staff of the Missouri Public Service Commission shall file its recommendation in this matter.

No later than April 4, 2017, the Office of the Public Counsel and any other party shall file any objections or hearing requests in this matter.

There is a potential issue with the effective date of this filing. Section 393.1015.3, RSMo, provides as follows:

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.

ISRS GO-2016-0196 went into effect May 31, 2016. ISRS GO-2016-0333 went into effect January 28, 2017. Therefore, the pending filing cannot go into effect any sooner than June 1, 2017.

---

<sup>1</sup>This language addressed Laclede’s “Motion Of Laclede Gas Company For An Order Directing The Office Of The Public Counsel To File Its Recommendations Regarding ISRS Filing Within 60 Days”.

OFFICIAL CASE FILE MEMORANDUM

MO PSC Case No. GO-2017-0202, Tariff No. YG-2017-0156

April 4, 2017

Page 3 of 6

**STAFF REVIEW AND REVENUE CALCULATION**

Commission Rule 4 CSR 240-3.265(18) for Natural Gas 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.

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. Laclede's cumulative ISRS revenues, which includes the authorized revenues for this filing, are approaching the ten percent cap noted in 4 CSR 240-3.265(18) above.

Staff referred to the Company's most recent general rate case proceeding, Case No. GR-2013-0171, in order to determine the dollar amount of total ISRS rate recovery equal to the ten percent cap restriction referenced above. Case No. GR-2013-0171 was stipulated between the Company and other parties for a \$14,811,000 rate increase prior to the scheduled filing of direct testimony by the Staff and other parties. However, the total base revenue amount on which the stipulated revenue requirement was based was not specified in the Stipulation and Agreement. In order to determine a revenue amount upon which to calculate the ten percent cap, Staff's position is that an amount equal to the base revenue amount found in the Company's filed accounting schedules from Case No. GR-2013-0171, plus the stipulated rate increase amount from that case, is the most appropriate value on which to calculate the 10% cap at this time. This amount is \$322,024,077 and, accordingly, ten percent of Staff's calculated base revenue level is equal to \$32,202,408. The difference between the total amount of ISRS revenues authorized by the Commission since Laclede's last rate increase case (i.e., \$29,526,894) and the calculated cap is \$2,675,554. However, in the Report and Order in Case No. WO-2015-0211, the Commission determined that the under-collected amount of ISRS revenue as of the time of the ISRS filing (i.e., the "reconciliation amount") should be excluded from the cap calculation. As discussed below, that value in this case is \$411,941. Therefore, based on the rationale of the Report and Order in Case No. WO-2015-0211, Staff's position is that the maximum amount of ISRS

OFFICIAL CASE FILE MEMORANDUM

MO PSC Case No. GO-2017-0202, Tariff No. YG-2017-0156

April 4, 2017

Page 4 of 6

revenues that can be authorized in this case is \$3,087,495 (\$2,675,554 plus \$411,941). See attached Appendix C.

In this Application, Laclede filed to recover ISRS qualifying infrastructure replacement costs incurred during the period of November 1, 2016, through February 28, 2017. The ISRS recovery requested for January and February 2017 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. Staff also communicated with Laclede personnel to clarify Laclede's Application when necessary.

Initial documentation was provided to Staff on February 6, 2017, which included workpapers and work order authorization pages for projects greater than \$25,000. January information was updated on February 15, 2017, and February information was updated on March 10, 2017.

On February 16, 2017, Laclede provided Staff with a sample of invoices related to costs incurred between November 1, 2016, and December 30, 2016. Laclede provided a sample of invoices related to costs incurred during the month of January 2017 on February 27, 2017, and February 2017 on March 15, 2017.

In Staff's review of the work order authorizations, Staff found instances in which the Company had chosen to replace an amount of steel pipe with new steel pipe. Staff issued a data request asking the Company why steel pipe was installed as replacement pipe in these instances instead of the normal practice of using plastic pipe as replacement pipe. The Company responded that, in these instances, steel pipe was used as the replacement so as to maintain cathodic protection features. Use of plastic pipe as the replacement in these limited circumstances would have created additional isolated steel segments which would have in turn required installation of additional cathodic protection features. This explanation was acceptable to Staff.

Commission Rule 4 CSR 240-3.265 for Natural Gas Infrastructure System Replacement Surcharges 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.



OFFICIAL CASE FILE MEMORANDUM

MO PSC Case No. GO-2017-0202, Tariff No. YG-2017-0156

April 4, 2017

Page 5 of 6

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 May 15, 2017. 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. It should also be noted that Laclede calculated accumulated depreciation through May 1, 2017, while Missouri Gas Energy (MGE) in Case No. GO-2017-0201, calculated accumulated depreciation through May 15, 2017. It is Staff's view that the methodology used in calculating the accumulated depreciation for MGE should also be applied consistently to Laclede. The Staff, in its proposal, has calculated Laclede's accumulated depreciation through May 15<sup>th</sup>, 2017, which is consistent with MGE's calculation.

The Auditing Staff also included incremental accumulated depreciation, accumulated deferred income tax, and any qualifying property taxes associated with projects included in ISRS rates authorized for Laclede in Case Nos. GO-2014-0212, GR-2015-0026, GO-2015-0269, GO-2015-0341, GO-2016-0196, and GO-2016-0333, 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 this reconciliation and found Laclede under-collected ISRS revenue by \$411,941, which is identical to the amount of under-collection calculated by the Company. As a result of the reconciliation, Staff recommends including this amount of under-collected ISRS revenue in Laclede's ISRS rates.

### **SUMMARY AND CONCLUSIONS**

Based upon its review and all of its calculations, Staff is recommending that Laclede receive ISRS revenues of \$3,044,481, which is slightly under the ten percent cap maximum. This is different than Laclede's requested ISRS-related revenue requirement of \$3,045,329, as updated on March 10, 2017. The difference is attributed to Staff recording accumulated depreciation through May 15, 2017, whereas Laclede recorded it through May 1, 2017.

Upon Commission approval, this amount will be included with the currently-in-effect ISRS (Case Nos. GO-2014-0212, GR-2015-0026, GO-2015-0269, GO-2015-0341, GO-2016-0196, and GO-2016-0333). The below table shows the cumulative amount to be included in rates:

OFFICIAL CASE FILE MEMORANDUM

MO PSC Case No. GO-2017-0202, Tariff No. YG-2017-0156

April 4, 2017

Page 6 of 6

<b>ISRS Case No.</b>	<b>Revenue Requirement</b>	<b>Cumulative</b>
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
GO-2017-0202	\$3,044,481	\$32,571,375

**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-2017-0156) P.S.C. MO No. 5 Consolidated, Twenty-eighth Revised Sheet No. 12 cancelling P.S.C. MO. No. 5 Consolidated, Twenty- Seventh – Revised Sheet No. 12, as filed on February 3, 2017.
2. Approves the Staff's recommended ISRS surcharge revenues in this docket in the incremental pre-tax revenue amount of \$3,044,481 with a total current and cumulative ISRS surcharge of \$32,571,375.
3. Authorizes Laclede to file an ISRS rate for each customer class as reflected in Appendix B, which generates \$32,571,375 annually.
4. Authorizes an effective date no sooner than June 1, 2017.

**BEFORE THE PUBLIC SERVICE COMMISSION**

**OF THE STATE OF MISSOURI**

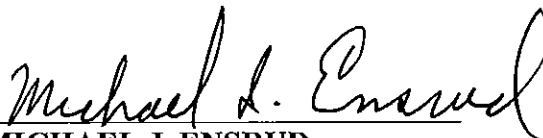
In the Matter of the Application of Laclede )  
Gas Company to Change its Infrastructure ) Case No. GO-2017-0202  
System Replacement Surcharge in its )  
Laclede Gas Service Territory )

**AFFIDAVIT OF MICHAEL J. ENSRUD**

STATE OF MISSOURI )  
 ) ss.  
COUNTY OF COLE )

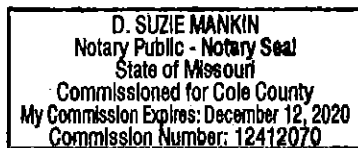
**COMES NOW MICHAEL J. ENSRUD** and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing Staff Recommendation in Memorandum form; and that the same is true and correct according to his best knowledge and belief.


Further the Affiant sayeth not.

  
**MICHAEL J. ENSRUD**

**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 31<sup>st</sup> day of March, 2017.



  
Notary Public

**BEFORE THE PUBLIC SERVICE COMMISSION**

**OF THE STATE OF MISSOURI**


In the Matter of the Application of Laclede )  
Gas Company to Change its Infrastructure ) Case No. GO-2017-0202  
System Replacement Surcharge in its )  
Laclede Gas Service Territory )

**AFFIDAVIT OF JENNIFER K. GRISHAM**

STATE OF MISSOURI )  
 ) ss.  
COUNTY OF COLE )

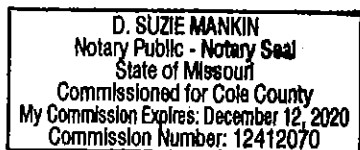
**COMES NOW JENNIFER K. GRISHAM** and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing Staff Recommendation in Memorandum form; and that the same is true and correct according to her best knowledge and belief.

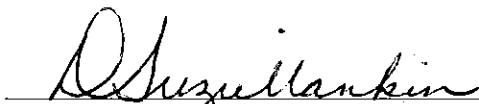
Further the Affiant sayeth not.

  
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 3<sup>rd</sup> day of April, 2017.



  
Notary Public

LACLEDE GAS COMPANY  
CASE NO. GO-2017-0202 & YG-2017-0156  
ISRS RATE DESIGN

Staff's Total ISRS Rev Req

**\$32,571,375.00**

<u>Customer Rate</u>	<u>Cust #</u>	<u>Customer Charge</u>	<u>Ratio To Res</u>	<u>Weighted Cust #</u>	<u>Customer Percentage</u>	<u>ISRS Charge</u>	<u>ISRS Revenues</u>
Residential	606,244	\$19.50	1.0000	606,244	87.9401%	<b>\$3.94</b>	\$28,643,309
Com & Ind. Class 1	30,824	\$25.50	1.3077	40,308	5.85%	<b>\$5.15</b>	\$1,904,453
Com & Ind. Class 2	9,006	\$44.29	2.2713	20,455	2.97%	<b>\$8.94</b>	\$966,449
Com & Ind. Class 3	606	\$88.57	4.5421	2,752	0.40%	<b>\$17.88</b>	\$130,047
Large Volume	72	\$874.78	44.8605	3,230	0.47%	<b>\$176.63</b>	\$152,606
Interruptible	18	\$776.36	39.8133	717	0.10%	<b>\$156.76</b>	\$33,859
Transportation	147	\$2,069.94	106.1508	15,604	2.26%	<b>\$417.94</b>	\$737,252
Transportation - Other	0	\$1,707.94	87.5867	0	0.00%	<b>\$0.00</b>	\$0
Gas Light	87	\$5.69	0.2918	25	0.00%	<b>\$1.15</b>	\$1,199
Vehicular Fuel	8	\$22.09	1.1328	9	0.00%	<b>\$4.46</b>	\$428
Liquid Propane	43	\$17.00	0.8718	37	0.01%	<b>\$3.43</b>	\$1,771
	<u>647,055</u>			<u>689,383</u>	<u>100.00%</u>		<u>\$32,571,375</u>

\* Due to rounding to the nearest penny, the designed ISRS rates **will over-collect by \$20,064**. However, it should be noted that the total amount collected will be trued-up at a later date.

**LACLEDE GAS COMPANY**  
**CASE NO. GO-2017-0202**

**Staff's Calculation**

Base Revenue Level before increase in Case No. GR-2013-0171 (per Company)	343,084,000.00
Minus Gross Receipts Tax (Data Request No. 157 in GR-2013-0171)	35,870,523.00
Revenue Increase Ordered in Case No. GR-2013-0171	14,811,000.00
Staff Calculation: Base Revenue Level in Case No. GR-2013-0171 (minus gross receipts tax)	<u>322,024,477.00</u>
<b>10% of Base Revenue Level</b>	<b><u>32,202,447.70</u></b>

Cap (10% of Base Revenue Level as calculated by Staff)	32,202,447.70
Less: Authorized Cumulative ISRS	<u>29,526,894.00</u>
Incremental ISRS - to Cap maximum	<b><u>2,675,553.70</u></b>
ISRS Undercollection April 2014 through December 2016	<u>411,941.00</u>
<b>Maximum ISRS Revenues Allowed</b>	<b><u><u>3,087,494.70</u></u></b>

GO-2014-0212 effective date 4/12/14	7,018,225.00
GR-2015-0026 effective date 10/18/14	2,780,045.00
GO-2015-0269 effective date 5/22/15 Reconciliation	5,378,541.00
GO-2015-0341 effective date 12/1/15	4,456,045.00
GO-2016-0196 effective date 5/31/16 Reconciliation	5,389,900.00
GO-2016-0333 effective date 1/28/2017	<u>4,504,138.00</u>
<b>Total Authorized ISRS Revenues</b>	<b><u>29,526,894.00</u></b>