

Exhibit No.:
Issue: ISRS Rates
Witness: David M. Sommerer
Sponsoring Party: MoPSC Staff
Type of Exhibit: Direct Testimony
Case No.: GO-2018-0309
Date Testimony Prepared: August 22, 2018

MISSOURI PUBLIC SERVICE COMMISSION

COMMISSION STAFF DIVISION

PROCUREMENT ANALYSIS

DIRECT TESTIMONY

OF

DAVID M. SOMMERER

SPIRE MISSOURI, INC. (EAST)

CASE NO. GO-2018-0309

Jefferson City, Missouri
August 22, 2018

1 **DIRECT TESTIMONY**

2 **OF**

3 **DAVID M. SOMMERER**

4 **SPIRE MISSOURI, INC. (Spire East)**

5 **CASE NO. GO-2018-0309**

6 Q. Please state your name and business address.

7 A. David M. Sommerer, P.O. Box 360, Jefferson City, MO. 65102.

8 Q. By whom are you employed and in what capacity?

9 A. I am employed by the Missouri Public Service Commission (“Commission”) as
10 the Manager of the Procurement Analysis Department, which, among other duties, is responsible
11 for part of the Staff’s recommendation in natural gas ISRS cases.

12 Q. Please describe your education, background, and work experience.

13 A. Please see Schedule DMS–d1, for my education, background, and work
14 experience, attached to my testimony.

15 Q. Have you previously filed testimony before this Commission?

16 A. Yes. Please see Schedule DMS–d1, for a list of cases and the issues I have
17 addressed in testimony, attached to my testimony.

18 **EXECUTIVE SUMMARY**

19 Q. What is the purpose of your direct testimony?

20 A. My direct testimony will explain that Staff continues to support its
21 recommendation (a copy of which is attached as Schedule DMS–d2), as updated and corrected,
22 that addressed the Infrastructure System Replacement Surcharge (“ISRS”) application filed by

1 Spire Missouri, Inc. (“Company”) in Case No. GO-2018-0309. Staff witnesses
2 Kimberly K. Bolin and Caroline Newkirk are also addressing the ISRS application. Staff witness
3 Ali Arabian will address the ISRS application filed by Spire Missouri for its Spire West Service
4 Territory in Case No. GO-2018-0310.

5 Q. Are you the same David Sommerer who contributed to the Memorandum attached
6 as Appendix A and Appendix B of the Staff Recommendation filed in Case No. GO-2018-0309?

7 A. Yes.

8 Q. Is the information contained in the Staff Recommendation still true and accurate
9 to the best of your knowledge?

10 A. Yes, as updated below and by certain adjustments sponsored by the Staff Auditing
11 Section.

12 **STAFF RATE DESIGN FOR THE GAS ISRS**

13 Q Please describe Staff’s proposed rate design.

14 A. Staff’s proposed rates are consistent with the methodology used to establish the
15 Company’s past ISRS rates and consistent with the overall methodology used to establish ISRS
16 rates for Missouri’s other natural gas utilities. Staff originally proposed the ISRS rates contained
17 in Appendix B of the Staff Memorandum, filed on August 6, 2018, and attached to my testimony
18 as Schedule DMS–d2. Staff used the billing determinants from the most recent Spire East rate
19 case (Case No. GR-2017-0215) to provide the basis of the rate design, which was prepared under
20 my supervision.

21 Q. Have you updated the rate design schedule for this testimony?

22 A. Yes. The updated rate design schedule is attached to my testimony as
23 Schedule DMS-d3.

1 Q. Can you provide more detail about what has changed for the Appendix B rate
2 design (now Schedule DMS-d3) since the Staff memorandum was filed?

3 A. The revenue requirement that serves as the basis of the rate design has been
4 updated for certain tax adjustments further discussed in Staff witness Caroline Newkirk's
5 testimony. Consistent with the Staff memorandum filed in this case, it includes an adjustment
6 for any replaced plastic mains and services related to this current ISRS filing. This subject is
7 addressed in Kimberly K. Bolin's testimony. I have updated the original rate design in a revised
8 schedule designated as DMS-d3, to address these adjustments.

9 Q. Does Schedule DMS-d3 also include the proposed staff adjustment related to
10 the remanded cases (Case Nos. GO-2016-0332; GO-2016-0333; GO-2017-0201; and
11 GO-2017-0202) for replaced plastic mains and services?

12 A. Yes. The proposed remand adjustment has been used as an offset to Staff's
13 recommended revenue requirement in the current ISRS cases (Case No. GO-2018-0309, and
14 Case No. GO-2018-0310). The effect of this adjustment is to include the credit recommended in
15 the remanded cases as part of the current rate calculation. Since the rate design calculation
16 assumes the rates will be in effect for an annual period, the same duration of the remand credit is
17 assumed for purposes of returning the remand refund to the customer classes. Any over or under
18 recovery can be addressed in a subsequent ISRS reconciliation.

19 **Quantifying the Appropriate Adjustment**

20 Q. What is the purpose of this section of your testimony?

21 A. My testimony in this section is to support Staff witness Kimberly K. Bolin's
22 percentage approach used to quantify the adjustment related to the replacement of plastic.
23 In summary, the Company has provided Staff with limited information when asked for

1 detailed plans regarding the “systematic” approach to pipeline replacement. A more
2 sophisticated approach to allocating plastic out of the ISRS calculation would require extensive
3 “before and after” design information from Spire Missouri that might explain the differences in
4 the old and new systems.

5 Q. Has Staff ever asked for master planning documents for Spire East?

6 A. Yes. I found at least two instances where Staff submitted data requests in ISRS
7 cases related to Spire East’s master planning documents. In Laclede Gas Company Case No.
8 GO-2016-0196, Staff Data Request No. 0005, the Company provided a high level 2012 slide
9 presentation along with some additional summary material including a screen image depicting
10 various pressure areas on the Company’s system. The other instance where Staff requested
11 master planning documents was in this case (GO-2018-0309) Data Request No. 0001.
12 The Company’s response was a one page map of proposed 2018-2020 replacements.

13 Q. Why is it critical for the Company to provide comprehensive and detailed
14 planning documents with regard to their replacement strategy?

15 A. Detailed “before and after” design schematics and planning narratives could shed
16 additional light on the complexity of a program that has so many facets. In light of the Court of
17 Appeal’s decision to re-examine ISRS eligibility based on the terms “worn out” and
18 “deteriorated condition” as they relate to plastic mains and services, detailed plans might explain
19 why the old low pressure system and the new intermediate pressure systems use different lengths
20 of pipe.

21 Q. Do you believe the information provided in response to Staff Data Request
22 No. 0001 in this case and the 2012 presentation are sufficient to explain important aspects of

1 why the distribution system being replaced differs in design and function from the newly
2 constructed distribution system?

3 A. No. The provided “plans” are high level overviews, essentially in a slide
4 presentation format.

5 Q. Why wouldn’t a high level overview be sufficient for achieving a detailed
6 understanding of the design of the old cast iron system versus the new intermediate pressure
7 system?

8 A. In attempting to understand all the reasons different locations and lengths of main
9 might be used for a particular neighborhood project and the work order associated with that
10 project, it is necessary to view the existing (old) system versus the newly constructed system.
11 Detailed plans have the potential of explaining why there is a significant amount of plastic main
12 being retired, and whether it is valid to compare the two system for a particular project area.

13 Q. Can you provide a few situations to illustrate why this case is complex from a
14 technical or operational standpoint?

15 A. Yes. Prior to 2011, the Company’s approach was more of a “piecemeal”
16 approach to replacing cast iron. Around 7 or 8 miles of cast iron were “replaced” per year.
17 Part of these “replacements” involved inserting lengths of plastic main into existing cast iron.
18 So in these instances, the “lengths” of new plastic main were really not so much a short “patch”
19 but new replacement main. This particular aspect is relevant to approaches on valuing the plastic
20 main adjustment, because longer sections of main are not so much a “patch” as a replacement of
21 the cast iron. If the Company replaces that relatively newer plastic insert, it is not really
22 replacing ancient cast iron main, but relatively new plastic main that had already effectively
23 replaced the original main.

1 Q. Is it conceivable that the Company's "systematic" replacement approach has
2 ended up replacing main that had already been replaced under its previous "piecemeal" or block
3 by block approach?

4 A. Yes. It is possible that the Company has previously requested ISRS recovery of
5 the cost of inserting this relatively new plastic main under the "piecemeal" approach 10 years
6 ago, while re-replacing it in its post-2012 entire cast iron system replacement approach. This is
7 important to know to understand whether the replacement program is actually incorporating
8 many incidental patches or what is being replaced includes much longer segments of previously
9 "replaced" cast iron using plastic inserts.

10 Q. Are there further complicating factors that, absent the availability of detailed
11 plans, make simple percentage allocation such as Staff's necessary?

12 A. Yes. It is not totally clear when new main is being added to facilitate new
13 interstate pipeline take-points versus having some additional purpose of replacing part of the
14 existing "worn out" system. The new regulator stations are drawing gas from the supply feeder
15 system at different points than the old system. A redesign of the distribution system may impact
16 how gas is taken from various interstate pipeline interconnects. A detailed plan, had it been
17 provided, may have allowed a better comparison about the lengths of main retired with the old
18 system as compared to the new plastic higher pressure system.

19 Q. Why did Staff's position change regarding the inclusion or exclusion of plastic
20 mains and services?

21 A. Previously Staff took the approach that plastic replacements were indeed
22 incidental to the replacement of the entire cast iron system. There was a general acceptance that
23 the plastic mains that were replaced were often short "patches." However, although I am not an

1 attorney, my understanding of the Court of Appeals' direction is to establish instances where
2 plastic mains and services were not worn out or deteriorated. Upon identifying those situations,
3 the ISRS would then need to be reduced by those replacement costs.

4 Q. Does this conclude your direct testimony?

5 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of Spire)
Missouri Inc. to Establish an Infrastructure) Case No. GO-2018-0309
System Replacement Surcharge in its Spire)
Missouri East Service Territory)

AFFIDAVIT OF DAVID M. SOMMERER

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW DAVID M. SOMMERER and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing Direct Testimony; and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.



DAVID M. SOMMERER

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 22nd day of August, 2018.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 12, 2020
Commission Number: 12412070



Notary Public

David M. Sommerer

Educational Background and Work Experience

In May 1983, I received a Bachelor of Science degree in Business and Administration with a major in Accounting from Southern Illinois University at Carbondale, Illinois. In May 1984, I received a Master of Accountancy degree from the same university. Also, in May 1984, I sat for and passed the Uniform Certified Public Accountants examination. I am currently a licensed CPA in Missouri. Upon graduation, I accepted employment with the Commission.

From 1984 to 1990 I assisted with audits and examinations of the books and records of public utilities operating within the state of Missouri. In 1988, the responsibility for conducting the Actual Cost Adjustment (ACA) audits of natural gas utilities was given to the Accounting Department. I assumed responsibility for planning and implementing these audits and trained available Staff on the requirements and conduct of the audits. I participated in most of the ACA audits from early 1988 to early 1990. On November 1, 1990, I transferred to the Commission's Energy Department. Until November of 1993, my duties consisted of reviews of various tariff proposals by electric and gas utilities, Purchased Gas Adjustment (PGA) reviews, and tariff reviews as part of a rate case. In November of 1993, I assumed my present duties of managing a newly created department called the Procurement Analysis Department. This Department was created to more fully address the emerging changes in the gas industry especially as they impacted the utilities' recovery of gas costs. My duties have included managing the Procurement Analysis staff, reviewing ACA audits and recommendations, participating in the gas integrated resource planning project, serving on the gas project team, serving on the natural gas commodity price task force, and participating in matters relating to natural gas service in the state of Missouri. In July of 2006, the Federal Issues/Policy Analysis Section was transferred to the Procurement Analysis Department. That group analyzes filings made before the Federal Energy Regulatory Commission (FERC). During the reorganization in August 2011, the Federal Issues/Policy Analysis Section was transferred to the Secretary/General Counsel Division. In 2015, I assumed the responsibility for the rate design aspects of the Gas Infrastructure System Replacement Surcharge (ISRS) process. The Gas ISRS allows for a more expedited process of including eligible pipeline replacements in rates prior to general rate cases.

CASES WHERE TESTIMONY

WAS FILED

DAVID M. SOMMERER

| COMPANY | CASE NO. | ISSUES |
|--|-----------------|---|
| Missouri Gas Energy | GR-2017-0216 | Gas Inventory Carrying Cost and Service Agreements |
| Laclede Gas Company | GR-2017-0215 | Gas Inventory Carrying Cost and Service Agreements |
| Laclede Gas Company | GO-2016-0333 | ISRS rates |
| Missouri Gas Energy | GO-2016-0332 | ISRS rates |
| Laclede Gas Company (MGE) | GO-2016-0197 | ISRS rates |
| Laclede Gas Company | GO-2016-0196 | ISRS rates |
| Liberty Utilities (Midstates Natural Gas) Corp d/b/a Liberty Utilities | GR-2014-0152 | Special Contact Customers Gas Contract |
| Missouri Gas Energy | GR-2014-0007 | Gas Supply Incentive Plan Property Tax PGA Recovery |
| Laclede Gas Company | GR-2010-0171 | Bad Debt in PGA, CAM |
| Atmos Energy Corporation | GR-2009-0417 | Affiliated Transactions |
| Atmos Energy Corporation | GR-2008-0364 | Affiliated Transactions |
| Missouri Gas Energy | GR-2009-0355 | PGA tariff |
| Laclede Gas Company | GT-2009-0026 | Tariff Proposal, ACA Process |
| Missouri Gas Utility | GR-2008-0060 | Carrying Costs |
| Laclede Gas Company | GR-2007-0208 | Gas Supply Incentive Plan, Off-system Sales, Capacity Release |
| Laclede Gas Company | GR-2005-0284 | Off-System Sales/GSIP |
| Laclede Gas Company | GR-2004-0273 | Demand Charges |
| AmerenUE | EO-2004-0108 | Transfer of Gas Services |
| Aquila, Inc. | EF-2003-0465 | PGA Process, Deferred Gas Cost |

| COMPANY | CASE NO. | ISSUES |
|--------------------------------|--------------|---------------------------------|
| Missouri Gas Energy | GM-2003-0238 | Pipeline Discounts, Gas Supply |
| Laclede Gas Company | GT-2003-0117 | Low-Income Program |
| Laclede Gas Company | GR-2002-356 | Inventory, Off-System Sales |
| Laclede Gas Company | GR-2001-629 | Inventory, Off-System Sales |
| Laclede Gas Company | GR-2001-387 | ACA Price Stabilization |
| Missouri Gas Energy | GR-2001-382 | ACA Hedging/Capacity Release |
| Laclede Gas Company | GT-2001-329 | Incentive Plan |
| Laclede Gas Company | GO-2000-394 | Price Stabilization |
| Laclede Gas Company | GT-99-303 | Incentive Plan |
| Laclede Gas Company | GC-99-121 | Complaint PGA |
| Laclede Gas Company | GR-98-297 | ACA Gas Cost |
| Laclede Gas Company | GO-98-484 | Price Stabilization |
| Laclede Gas Company | GR-98-374 | PGA Clause |
| Missouri Gas Energy | GC-98-335 | Complaint Gas Costs |
| United Cities Gas Company | GO-97-410 | PGA Clause |
| Missouri Gas Energy | GO-97-409 | PGA Clause |
| Missouri Gas Energy | GR-96-450 | ACA Gas Costs |
| Missouri Public Service | GA-95-216 | Cost of Gas |
| Missouri Gas Energy | GO-94-318 | Incentive Plan |
| Western Resources Inc. | GR-93-240 | PGA tariff, Billing Adjustments |
| Union Electric Company | GR-93-106 | ACA Gas Costs |
| United Cities Gas Company | GR-93-47 | PGA tariff, Billing Adjustments |
| Laclede Gas Company | GR-92-165 | PGA tariff |
| United Cities Gas Company | GR-91-249 | PGA tariff |
| United Cities Gas Company | GR-90-233 | PGA tariff |
| Associated Natural Gas Company | GR-90-152 | Payroll |

cont'd David M. Sommerer

| COMPANY | CASE NO. | ISSUES |
|----------------------------------|-----------|--------------------------|
| KPL Gas Service Company | GR-90-50 | Service Line Replacement |
| KPL Gas Service Company | GR-90-16 | ACA Gas Costs |
| KPL Gas Service Company | GR-89-48 | ACA Gas Costs |
| Great River Gas Company | GM-87-65 | Lease Application |
| Grand River Mutual Tel. Company | TR-87-25 | Plant, Revenues |
| Empire District Electric Company | WR-86-151 | Revenues |
| Associated Natural Gas Company | GR-86-86 | Revenues, Gas Cost |
| Grand River Mutual Telephone | TR-85-242 | Cash Working Capital |
| Great River Gas Company | GR-85-136 | Payroll, Working Capital |
| Missouri-American Water Company | WR-85-16 | Payroll |

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. GO-2018-0309 - Tariff Tracking No. YG-2018-0163
Spire Missouri Inc.-East

FROM: Caroline Newkirk, Regulatory Auditor, Auditing Department
Kimberly K. Bolin, Regulatory Auditor, Auditing Department
Michael J. Ensrud, Rate & Tariff Examiner, Procurement Analysis

/s/ Mark L. Oligschlaeger 08/06/18
Auditing Department / Date

/s/ David M. Sommerer 08/06/18
Commission Staff Division / Date

/s/ Jeffrey A. Keevil 08/06/18
Staff Counsel's Office / Date

SUBJECT: Staff Report and Recommendation Regarding the Verified Application and Petition of Spire Missouri Inc. to Establish an Infrastructure System Replacement Surcharge for its Spire Missouri East Service Territory

DATE: August 6, 2018

BACKGROUND

On June 7, 2018, Spire Missouri Inc. ("Spire East" or "Company") filed a "Verified Application and Petition to Establish an Infrastructure System Replacement Surcharge for its Spire Missouri East Service Territory" with the Missouri Public Service Commission ("Commission"). The Application proposes to increase Spire East's Infrastructure System Replacement Surcharge (ISRS) rates and implement a revised Tariff Sheet with a proposed effective date of July 7, 2018.

Spire East 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.

Spire requested ISRS recovery for plant from October 1, 2017 through April 30, 2018, with pro forma ISRS costs updated through June 30, 2018.

Spire East requested an increase in ISRS revenue requirement in the amount of \$4,807,507 in this ISRS filing.

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RELEVANT HISTORY

On April 30, 2018, Spire filed “Spire Missouri Inc.’s Request for Waiver of Rule 4 CSR 4.017(1) For ISRS Case Filings, Or in The Alternative, Notice of Intended Case Filing”.

On May 14, 2018, the Office of the Public Counsel filed a “Motion to Late File and Motion to reject Spire Missouri Inc.’s Request for Waiver of Rule 4 CSR 240.017(1) for ISRS Case Filings or Motion to Reject Sua Sponte”.

On May 24, 2018, the Commission issued an “Order Granting Requests for Waiver”.

On June 7, 2018, Spire East filed the “Verified Application and Petition of Spire Missouri Inc. to Establish an Infrastructure System Replacement Surcharge for its Spire Missouri East Service Territory”.

On June 8, 2018, the Commission issued an “Order Directing Notice, Setting Intervention Deadline, and Directing Filing”. The deadline for Staff’s recommendation memo is August 6, 2018.

In a separate order – issued on the same day - the Commission issued an “Order Suspending Tariffs” until October 5, 2018.

On June 27, 2018, Spire East filed “Request for Approval of Customer Notices and Bills” and supplied copies of the new language of various notices and bills.

On July 10, 2018, the Commission issued its “Order Approving Customer Notice” that approved the customer notices and bills that was filed on June 27, 2018.

STAFF REVIEW AND REVENUE CALCULATIONS

On June 7, 2018, Spire Missouri, Inc. (“Spire” or “Company”), filed its Verified Application and Petition in Case No. GO-2018-0309 to establish an Infrastructure System Replacement Surcharge (ISRS) for its Spire Missouri East (“Spire East”) service territory (formerly known as Laclede Gas Company). This is the first ISRS filing since Spire East’s most recent general rate case, Case No. GR-2017-0215.

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 have been suspended until October 5, 2018. In Case No. GO-2016-0333, which was filed in September of 2016, the effective date for Spire East’s revised ISRS rates was January 28, 2017. Since that date, Spire East has changed its ISRS

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surcharge one additional time, in Case No. GO-2017-0202, with the effective date of June 1, 2017. Based upon Spire East's previous ISRS filings and the statute, Staff asserts that since this ISRS filing will be going into effect later than January 28, 2018, that Spire East is in compliance with the statute.

Commission Rule 4 CSR 240-3.265(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 required 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 the 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 East's requested ISRS revenues 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's cumulative ISRS revenues, including this filing, do not exceed ten percent of the base revenue levels approved by the commission in the last Spire East rate case.

In this Application, Spire East filed to recover ISRS qualifying infrastructure replacement costs incurred during the period of October 1, 2017, through June 30, 2018. The ISRS recovery requested for May and June 2018 plant in service additions was included on an estimated basis at the time Spire East's Application was filed, but documentation supporting actual ISRS plant addition costs for these months was supplied by Spire East during the course of Staff's audit.

As part of its examination of Spire East's application, Auditing Staff reviewed supporting workpapers, work order authorizations, and a sample of invoices supporting the work order authorizations, for the period of October 1, 2017, through April 30, 2018. Staff also determined the amount of plastic mains and services replaced for these months in order to exclude the associated replacement costs from the ISRS request, consistent with recent Western District Court of Appeals decision. For this purpose, Staff used the same methodology it recently applied in the remand proceedings for Case Nos. GO-2016-0332, GO-2016-0333, GO-2017-0201 and GO-2017-0202. Staff also communicated with Spire East's personnel to clarify Spire's application when necessary.

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In the past, Staff has included ISRS eligible costs for the requested update period in its review of the Company's ISRS requests. However, due to the Western District Court of Appeals opinion in Cases No. GO-2016-0332 and GO-2016-0333, Staff's workload has significantly increased in relation to both the initial months and the requested update months. Due to the increased workload, and Spire East's delay in providing Staff work order authorizations and updated workpapers for the update period, Staff was unable to conduct a review of sample invoices supporting the requested cost recovery for the update months of May and June 2018 prior to the filing of Staff's Recommendation. Staff will perform the review of a sample of invoices for May and June 2018 costs subsequent to the filing of its Recommendation, and will update its Recommendation if necessary.

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

- June 8, 2018 -Work order authorizations over \$50,000 for October 2017 through April 2018.
- June 19, 2018 - Work order authorizations between \$25,000 and \$50,000 for October 2017 through April 2018
- June 19, 2018 - Work Order Charge Details for October 2017 through April 2018
- July 3, 2018 - A sample of invoices for October 2017 through April 2018
- July 18, 2018 - Work order authorizations over \$50,000 for May and June 2018
- July 26, 2018 – Work order authorizations over \$25,000 for May and June 2018
- July 27, 2018 – Work order charge details for May and June 2018

In this case, Spire East did not provide supporting information concerning ISRS costs for the update period months of May and June 2018 until late in the audit process, as noted above. In the future, Staff requests that such information be provided to it as soon as possible after the costs are reasonably finalized to allow for continued use of the ISRS update period process for Spire East.

Commission Rule 4 CSR 240-3.265 Natural Gas Utility Petitions for Infrastructure System Replacement Surcharges sets forth the definitions of natural gas utility plant projects that are eligible for ISRS treatment. Staff concluded each of the projects reviewed meets the ISRS rule qualifications, with the exception of plastic mains and services referenced above.

The methodology used by the Auditing Staff allows for consideration of all accumulated depreciation and deferred income taxes on ISRS qualifying infrastructure replacement costs through September 30, 2018. This methodology is consistent with past reviews conducted by

Schedule DMS-d2

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Auditing Staff 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.

In Spire East ISRS cases going back many years, both the Company and Staff have chosen to incorporate half of the value of certain income tax deductions in ISRS revenue requirement. This 50/50 split was agreed to because there had been a previous dispute over the applicability of these particular deductions to ISRS plant additions. Staff has continued in this case to reflect half of the value of the tax deductions in question in Spire East's ISRS revenue requirement in this case.

STAFF RECONCILIATION

Commission Rule 4 CSR 240-3.265(17) requires a reconciliation of the ISRS revenue Spire East collected from customers in the prior 12-month period to account for over or under-collection of previously approved ISRS revenue. Staff performed this reconciliation and found Spire East over-collected ISRS revenue by \$ 2,717,537 which is identical to the amount of over-collection calculated by Spire East. As a result of the reconciliation, Staff recommends including this amount of over-collected ISRS revenue in Spire East's ISRS rates as a reduction to the ISRS rate.

SUMMARY AND CONCLUSIONS

Based upon its review and calculations made in response to this ISRS Application, Staff recommends Spire East receive additional ISRS revenues of \$2,158,784 (see attached Appendix C to this memo). Staff would note that this amount could change based on Staff's review of the sample invoices for the update months referenced above, or based on the Commission's decision in the remand proceedings for Case Nos. GO-2016-0332, GO-2016-0333, GO-2017-0201 and GO-2017-0202.

Based upon its review and all of its calculations, Staff is recommending that Spire East receive ISRS revenues of \$2,158,784.¹ This is different than Spire East's requested ISRS-related revenue requirement of \$4,807,507 as sought. The difference is attributed to all the aforementioned revisions and corrections addressed above.

¹ This amount could change based on Staff's review of the sample invoices for the update months referenced above, or based on the Commission's decision in the remand proceedings for Case Nos. GO-2016-0332, GO-2016-0333, GO-2017-0201 and GO-2017-0202.

The ISRS rates that Staff is proposing will re-establish a new ISRS revenue requirement in the amount of \$2,158,784² after ISRS was reduced to zero as part of GR-2017-0215. This is a reduction of \$2,648,723 from the requested \$4,807,507 ISRS reimbursement.

THE ISRS RATE SCHEDULES

Staff's recommended rates are consistent with the methodology used to establish Laclede's (Spire predecessor entity) 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.

Most ISRS filings utilize the most-current annual report figures to establish the customer-count used in the calculation of rates. These ISRS rates are calculated based on the customer-count used in the last rate case Case No. GR-2017-0215. The relevant statute clearly allows for this substitution when it states the following:

393.1015. Documentation to be submitted — notice to be published — examination of proposal — authorization by commission, when — pretax revenues, factors to be considered — revised rate schedule, filed when — rulemaking authority. —

5. (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)**

This change in method of calculation was necessary because of revisions that took place in the rate cases, and by newly-designed and newly-established rate classes.

² See footnote above.

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Spire is current on its FY 2018 assessment. At this time, Staff cannot confirm whether it is current on its FY 2019 assessment. The PSC Annual Report is up to date. Staff is not aware of any other matter before the Commission that affects or is affected by this filing except as noted above.

RECOMMENDATION

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

1. Rejects Spire East's ISRS tariff sheet (YG-2018-0163) P.S.C. MO No. 7 Consolidated, First Revised Sheet No. 12 cancelling P.S.C. MO. No. 7 Consolidated, Original Sheet No. 12, as filed on June 7, 2018.
2. Approves the Staff's recommended ISRS surcharge revenues in this docket in the incremental pre-tax revenue amount of \$2,158,784 re-establishing a "new" ISRS rate.
3. Authorizes Spire East to file an ISRS rate for each customer class as reflected in Appendix B, which generates \$ 2,158,784 annually.

SPIRE MISSOURI INC. -EAST
CASE NO. GO-2018-0309 & YG-2018-0163

ISRS RATE DESIGN

| Customer Rate Class | Staff's Total ISRS Rev Req | | | | | Customer Percentage | Cal ISRS Charge | ISRS Revenues |
|--|----------------------------|-----------------|----------------------|-----------------|---------------------|---------------------|--------------------|---------------|
| | Cust # | Customer Charge | Ratio To Residential | Weighted Cust # | Customer Percentage | | | |
| Residential | 604,973 | \$22.00 | 1.0000 | 604,973 | 86.0152% | \$0.26 | \$1,856,882 | |
| SGS (Small Gen. Service | 36,743 | \$35.00 | 1.5909 | 58,455 | 8.3111% | \$0.41 | \$179,419 | |
| LGS-Large Gen. Service | 3,882 | \$125.00 | 5.6818 | 22,057 | 3.1360% | \$1.45 | \$67,700 | |
| LV-Large Volume Service | 67 | \$914.25 | 41.5568 | 2,784 | 0.3959% | \$10.63 | \$8,546 | |
| SL-Unmetered Gas Light | 84 | \$6.00 | 0.2727 | 23 | 0.0033% | \$0.07 | \$70 | |
| IN-Interruptable | 20 | \$837.40 | 38.0636 | 761 | 0.1082% | \$9.74 | \$2,337 | |
| General LP | 36 | \$17.94 | 0.8155 | 29 | 0.0042% | \$0.21 | \$90 | |
| Vehicular Fuel | 8 | \$23.38 | 1.0627 | 9 | 0.0012% | \$0.27 | \$26 | |
| LVTSS-Large Volume Transport & Sales Service | 147 | \$2,131.41 | 96.8823 | 14,242 | 2.0249% | \$24.78 | \$43,713 | |
| TOTAL | 645,960 | | | 703,333 | 100.00% | | \$2,158,784 | |

* Due to rounding to the nearest penny, the designed ISRS rates will over-collect by \$2653. However, it should be noted that the total amount collected will be true-up at a later date.

**Spire Missouri East
ISRS Revenue Requirement Calculation**

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

| | |
|--------------------------------------|------------------|
| <u>Work Orders Placed in Service</u> | |
| Gross Additions | 38,033,532 |
| Deferred Taxes | (210,191) |
| Accumulated Depreciation | <u>(352,621)</u> |

Total Net 37,470,720

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

| | |
|--------------------------------------|------------------|
| <u>Work Orders Placed in Service</u> | |
| Gross Additions | 9,244,675 |
| Deferred Taxes | (152,123) |
| Accumulated Depreciation | <u>(194,151)</u> |

Total Net 8,898,401

Gas Utility Plant Projects - Regulator Stations:

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

Total Net -

Gas Utility Plant Projects - Main Relocations net of Reimbursements:

| | |
|--------------------------------------|-----------------|
| <u>Work Orders Placed in Service</u> | |
| Gross Additions | 1,650,699 |
| Deferred Taxes | (10,341) |
| Accumulated Depreciation | <u>(18,687)</u> |

Total Net 1,621,671

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

| | |
|--|--|
| Total Incremental Accumulated Depreciation | |
| Total Incremental Accumulated Deferred Taxes | |

| | |
|--|------------------|
| Total ISRS Rate Base | 47,990,792 |
| Overall Rate of Return per GR-2017-0215 | <u>7.20%</u> |
| UOI Required | 3,454,233 |
| Income Tax Conversion Factor | <u>1.34135</u> |
| Revenue Requirement Before Interest Deductibility | <u>4,633,335</u> |

| | |
|---|-----------------|
| Total ISRS Rate Base | 47,990,792 |
| Weighted Cost of Debt per GR-2017-0215 | <u>1.8900%</u> |
| Interest Deduction | 907,026 |
| Marginal Income Tax Rate | <u>25.4482%</u> |
| Income Tax Reduction due to Interest | 230,822 |
| Income Tax Conversion Factor | <u>1.34135</u> |
| Revenue Requirement Impact of Interest Deductibility | <u>309,613</u> |

| | |
|--|--------------------|
| Total Revenue Requirement on Capital | 4,323,722 |
| Depreciation Expense | 632,976 |
| Net Property Taxes | 354,368 |
| ISRS Revenue Overcollection January 2014 through May 2018 | <u>(2,717,537)</u> |

Total ISRS Revenues per Company 2,593,528

Total ISRS Revenue per Staff 1,724,039

Average of Company and Staff Recommendations 2,158,784

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

| | |
|--|-----------------------|
| In the Matter of the Application of Spire) | |
| Missouri Inc. to Establish an Infrastructure) | File No. GO-2018-0309 |
| System Replacement Surcharge in its Spire) | |
| Missouri East Service Territory) | |

AFFIDAVIT OF CAROLINE NEWKIRK

| | |
|---------------------|-----|
| STATE OF MISSOURI) | |
|) | ss. |
| COUNTY OF COLE) | |

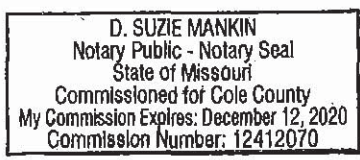
COMES NOW CAROLINE NEWKIRK and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing Staff Recommendation in Memorandum form; and that the same is true and correct according to her best knowledge and belief.

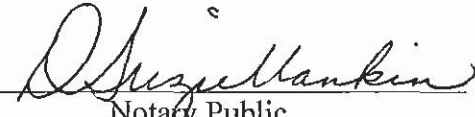
Further the Affiant sayeth not.


CAROLINE NEWKIRK

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 2nd day of August, 2018.




Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of Spire)
Missouri Inc. to Establish an Infrastructure) File No. GO-2018-0309
System Replacement Surcharge in its Spire)
Missouri East Service Territory)

AFFIDAVIT OF KIMBERLY K. BOLIN

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

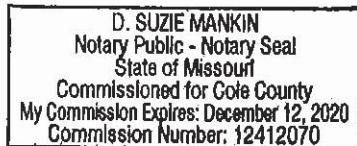
COMES NOW KIMBERLY K. BOLIN and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing Staff Recommendation in Memorandum form; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.


KIMBERLY K. BOLIN

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 3rd day of August, 2018.




Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

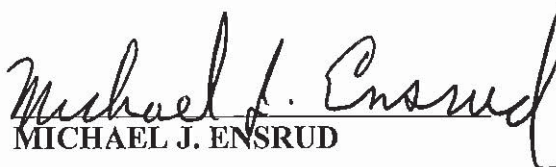
In the Matter of the Application of Spire)
Missouri Inc. to Establish an Infrastructure) File No. GO-2018-0309
System Replacement Surcharge in its Spire)
Missouri East Service Territory)

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.

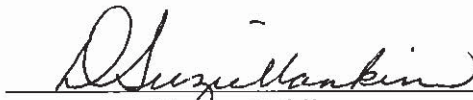
Further the Affiant sayeth not.


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 2nd day of August, 2018.




Notary Public

SPIRE MISSOURI INC. -EAST
CASE NO. GO-2018-0309 & YG-2018-0163
ISRS RATE DESIGN

Staff's Total ISRS Rev Req

(\$194,252)

| <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% | -\$0.02 | (\$167,086) |
| SGS (Small Gen. Service | 36,743 | \$35.00 | 1.5909 | 58,455 | 8.3111% | -\$0.04 | (\$16,144) |
| LGS-Large Gen. Service | 3,882 | \$125.00 | 5.6818 | 22,057 | 3.1360% | -\$0.13 | (\$6,092) |
| LV-Large Volume Service | 67 | \$914.25 | 41.5568 | 2,784 | 0.3959% | -\$0.96 | (\$769) |
| SL-Unmetered Gas Light | 84 | \$6.00 | 0.2727 | 23 | 0.0033% | -\$0.01 | (\$6) |
| IN-Interruptable | 20 | \$837.40 | 38.0636 | 761 | 0.1082% | -\$0.88 | (\$210) |
| General LP | 36 | \$17.94 | 0.8155 | 29 | 0.0042% | -\$0.02 | (\$8) |
| Vehicular Fuel | 8 | \$23.38 | 1.0627 | 9 | 0.0012% | -\$0.02 | (\$2) |
| LVTSS-Large Volume Transport & Sales Service | 147 | \$2,131.41 | 96.8823 | 14,242 | 2.0249% | -\$2.23 | (\$3,933) |
| TOTAL | 645,960 | | | 703,333 | 100.00% | | (\$194,252) |