

file its recommendation regarding MGE's Application no later than April 4, 2017. Staff's recommendation is attached hereto as Appendix A and Appendix B, both of which are incorporated herein by reference.

3. In its current Application, MGE 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 MGE's Application was filed, but documentation supporting actual ISRS plant addition costs for those months was supplied by MGE during the course of Staff's audit and review in this case.

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

5. Based upon its review and all of its calculations, Staff is recommending that MGE receive ISRS revenues for this case of \$3,000,749. Due to the previously approved ISRS rates for MGE which continue in effect, the total ISRS revenue requirement to be included in rates (including Staff's recommended amount for this case) is \$16,440,470.

6. Staff has developed proposed ISRS rates for MGE based on Staff's recommended revenue requirement for this case described above. Staff's proposed rates are consistent with the methodology used to establish MGE'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 MGE'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 MGE's ISRS tariff sheet (YG-2017-0157) P.S.C. MO No. 6, Eighth Revised Sheet No. 10 cancelling P.S.C. MO. No. 6, Seventh Revised Sheet No. 10, 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 \$3,000,749, with a total current and cumulative ISRS surcharge of \$16,440,470;

3. Authorizes MGE to file an ISRS rate for each customer class as reflected in Appendix B, which generates \$16,440,470 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-2017-0201, Tariff Tracking No. YG-2017-0157
Missouri Gas Energy

FROM: Caroline Newkirk, 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 Verified Application and Petition of Missouri Gas Energy, an Operating Unit of Laclede Gas Company, to Change its Infrastructure System Replacement Surcharge in its Missouri Gas Energy Service Territory

DATE: April 4, 2017

BACKGROUND

On February 3, 2017, Missouri Gas Energy ("MGE" or "Company"), an operating unit of Laclede Gas Company, filed the "Verified Application and Petition of Missouri Gas Energy, an Operating Unit of Laclede Gas Company, to Change its Infrastructure System Replacement Surcharge in its Missouri Gas Energy Service Territory" with the Missouri Public Service Commission ("Commission"). The Application proposes to increase MGE'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, MGE filed a "Motion of Missouri Gas Energy, an Operating Unit of Laclede Gas Company, for an Order Directing the Office of the Public Counsel to File Its Recommendations Regarding ISRS Filing within 60 Days." MGE 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.

MGE 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

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Commission to recover certain infrastructure system replacement costs outside a formal rate case, through a surcharge on customers' bills.

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.
- Suspended MGE's proposed effective date (for the pending tariff) to June 3, 2017, from MGE'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.¹

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.

¹ This language addressed MGE's "Motion of Missouri Gas Energy, an Operating Unit of Laclede Gas Company, for an Order Directing the Office of the Public Counsel to File Its Recommendations Regarding ISRS Filing within 60 Days."

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ISRS GO-2016-0197 went into effect May 31, 2016. ISRS GO-2016-0332 went into effect January 28, 2017. Therefore, the pending filing cannot go into effect any sooner than June 1, 2017.

STAFF REVIEW AND REVENUE CALCULATIONS

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.

MGE'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 MGE rate case and MGE's cumulative ISRS revenues, including this filing, do not exceed ten percent of the base revenue levels approved by the commission in the last MGE rate case.

In this Application, MGE 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 MGE's Application was filed, but documentation supporting actual ISRS plant addition costs for these months was supplied by MGE during the course of Staff's review and audit.

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

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

- February 6, 2017 - Work order authorizations for ISRS projects over \$25,000 for the months of November 1, 2016 thru December 31, 2016.
- February 14, 2017 – A sample of a full work order for November and December 2016.
- February 15, 2017 – Work order authorizations for January 2017.
- February 17, 2017 - A sample of invoices for October and November 2016.
- February 22, 2017 – A sample of invoices for January 2017.
- March 10, 2017 – Work order authorizations for February 2017.
- March 16, 2017 - A sample of invoices for February 2017.

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. Staff concluded each of the projects reviewed met the ISRS rule qualifications.

In Staff's review of the work order authorizations, Staff found instances where 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 required installation of additional cathodic protection features. This explanation was acceptable to Staff.

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 May 15, 2017. This methodology is consistent with past reviews conducted by Auditing Staff and 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.

Auditing staff also included incremental accumulated depreciation, accumulated deferred income taxes, and any qualifying property taxes associated with projects included in rates authorized for MGE in Case Nos. GR-2015-0025, GO-2015-0270, GO-2015-0343, GO-2016-0197, and GO-2016-0332 as required by 4 CSR 240-3.265(20)(K).

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STAFF RECONCILIATION

Commission Rule 4 CSR 240-3.265(17) requires a periodic reconciliation of the ISRS revenue MGE 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 MGE under-collected ISRS revenue by \$119,666 which is identical to the amount of under-collection calculated by MGE. As a result of the reconciliation, Staff recommends including this amount of under-collected ISRS revenue in MGE’s ISRS rates.

SUMMARY AND CONCLUSIONS

Based upon its review and calculations made in response to this ISRS Application, Staff recommends MGE receive additional ISRS revenues of \$3,000,749. Upon Commission approval, this amount will be included with ISRS rates currently in effect from Case Nos. GR-2015-0025, GO-2015-0270, GO-2015-0343, GO-2016-0197, and GO-2016-0332. The following table shows the cumulative amount to be included in rates:

ISRS Case No.	Revenue Requirement	Cumulative
GR-2015-0025	\$1,990,296	
GO-2015-0270	\$2,814,926	\$4,805,222
GO-2015-0343	\$1,878,151	\$6,683,373
GO-2016-0197	\$3,570,050	\$10,253,423
GO-2016-0332	\$3,186,298	\$13,439,721
GO-2017-0201	\$3,000,749	\$16,440,470

THE ISRS RATE SCHEDULES

Staff’s recommended rates are consistent with the methodology used to establish MGE’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 MGE 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 MGE’s last two ISRS cases which are currently on appeal.

OFFICIAL CASE FILE MEMORANDUM

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RECOMMENDATION

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

1. Rejects MGE's ISRS tariff sheet (YG-2017-0157) P.S.C. MO No. 6 , Eighth Revised Sheet No. 10 cancelling P.S.C. MO. No. 6 , Seventh Revised –Sheet No. 10, 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 \$3,000,749 with a total current and cumulative ISRS surcharge of \$16,440,470;
3. Authorizes MGE to file an ISRS rate for each customer class as reflected in Appendix B, which generates \$16,440,470 annually; and,
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-2017-0201
System Replacement Surcharge in its)
Missouri Gas Energy Service Territory)

AFFIDAVIT OF MICHAEL J. ENSRUD

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

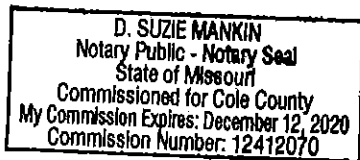
COMES NOW MICHAEL J. ENSRUD and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing Staff Recommendation in Memorandum form; and that the same is true and correct according to his best knowledge and belief.

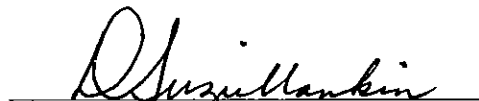
Further the Affiant sayeth not.


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 4th day of April, 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-2017-0201
System Replacement Surcharge in its)
Missouri Gas Energy 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.

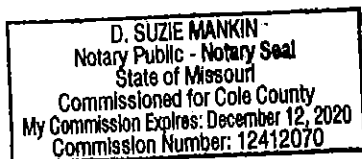
Further the Affiant sayeth not.

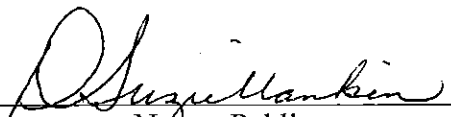


CAROLINE NEWKIRK

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 4th day of April, 2017.





Notary Public

Missouri Gas Energy

CASE NO. GO-2017-0201 & YG-2017-0157

ISRS Rate Design

Total ISRS Revenues

Case Increment \$ 3,000,749.00

Historical Base ISRS \$ 13,439,721.00

Total REVISED Revenue Requirement \$ 16,440,470

Customer Rate Class	Number of Customers	Customer Charge	Ratio to Residential Customer Charge	Weighted Customer Nos.	Customer Percentage	Proposed ISRS Charge	Proposed ISRS Revenues
Residential	445,941	\$ 23.00	1.00	445,941.00	78.5626%	\$ 2.41	\$12,916,058.61
Small General Service	57,881	\$ 34.00	1.478261	85,563.22	15.0739%	\$ 3.57	\$2,478,219.16
Large General Service	3,421	\$ 115.40	5.017391	17,164.50	3.0239%	\$ 12.11	\$497,145.66
Large Volume	482	\$ 904.56	39.328696	18,956.43	3.3396%	\$ 94.93	\$549,046.57
	<u>507,725</u>			<u>567,625</u>			<u>\$ 16,440,470</u>

*Due to rounding to the nearest penny, the designed ISRS rates will under-collect by \$18,019. However, it should be noted that the total amount will true-up at a later date.