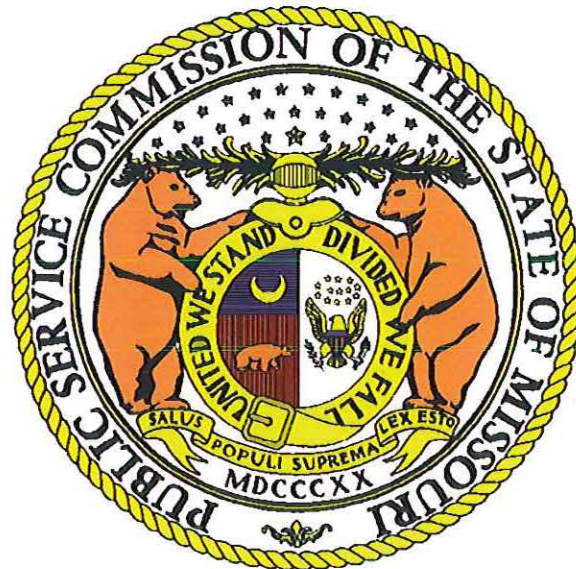


# MISSOURI PUBLIC SERVICE COMMISSION

## STAFF

## DIRECT REPORT



**SPIRE MISSOURI, INC.,  
d/b/a SPIRE (WEST)**

**CASE NO. GO-2019-0357**

*Jefferson City, Missouri  
September 27, 2019*

*Staff* Exhibit No. 101  
Date 10-2-19 Reporter MT  
File No. GO-2019-0357  
GO-2019-0356

**TABLE OF CONTENTS OF  
STAFF DIRECT REPORT  
SPIRE MISSOURI, INC.,  
d/b/a Spire (West)  
CASE NO. GO-2019-0357**

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12

I. Executive Summary .....1  
II. ISRS Rate Schedules.....4  
III. Engineering Review .....5  
IV. Review and Revenue Calculations.....6  
V. Recommendations .....13

1 **STAFF DIRECT REPORT**

2 **SPIRE MISSOURI, INC.,**  
3 **d/b/a Spire (West)**

4 **CASE NO. GO-2019-0357**

5 **I. Executive Summary**

6 On July 15, 2019 Spire Missouri, Inc. filed its *Verified Application and Petition of Spire*  
7 *Missouri Inc. to Change Its Infrastructure System Replacement Surcharge for Its Spire Missouri*  
8 *West Service Territory* (Application), with associated workpapers and the direct testimony of  
9 Craig R. Hoeflerlin. In its Application, Spire Missouri requests Commission approval to change  
10 the infrastructure system replacement surcharge (ISRS) for its Spire Missouri West Service  
11 Territory (Spire West). Spire Missouri's request includes two components – reimbursement for  
12 (1) ISRS-eligible costs incurred between February 1, 2019 and May 31, 2019 (including pro  
13 forma ISRS costs for June and July 2019) and (2) costs incurred between October 1, 2017 and  
14 June 30, 2018 that the Commission denied in cases GO-2018-0310 and GO-2019-0116. The  
15 ISRS surcharges Spire Missouri seeks equate to a revenue requirement of \$6,294,574, which is  
16 adjusted upwardly to \$6,424,114 after replacing June and July's proforma costs with actual  
17 costs.

18 Spire Missouri initially filed two versions of a revised tariff Sheet No. 12 in its  
19 Application. After the Commission requested clarification on July 17, 2019 regarding which  
20 sheet Spire Missouri intends to take effect, Spire Missouri submitted a revised Sheet No. 12 on  
21 July 18, 2019, bearing a proposed effective date of August 14, 2019. On July 25, 2019 the  
22 Commission suspended the sheet Spire Missouri filed July 18, 2019 until November 12, 2019.  
23 Staff considers this third tariff Sheet No. 12 as the only tariff sheet pending in this Application.  
24 The Commission's July 25, 2019 *Order Suspending Tariff Sheets* directs Staff to file a  
25 recommendation by September 13, 2019. On September 13, 2019, Staff filed its  
26 recommendation and attached memorandum recommending the Commission issue an order  
27 that:

- 28 1. Rejects Spire Missouri's ISRS tariff sheet (YG-2020-0010) P.S.C. MO  
29 No. 7, Third Revised SHEET No. 12 CANCELLING P.S.C. MO. No. 7  
30 Second Revised SHEET No. 12, as filed on July 18, 2019;  
31

- 1           2. Approves the Staff's recommended ISRS surcharge revenues in this docket  
2           in the incremental pre-tax revenue amount of \$3,721,343 with a total current  
3           and cumulative ISRS surcharge of \$15,634,591;
- 4
- 5           3. Authorizes Spire Missouri to file an ISRS rate for each customer class as  
6           reflected in Staff's Appendix B, which generates \$15,634,591; and  
7
- 8           4. Authorizes an effective date no later than November 12, 2019.

#### 9           **Application Background**

10           Similar to its filing in case number GO-2019-0116, Spire Missouri's current filing has  
11           two components to its cost recovery request. One request is for recovery of "new" costs for the  
12           period of February 1, 2019 to May 31, 2019, plus pro forma ISRS costs for the months of June  
13           and July 2019. These costs can be characterized as costs consistent with traditional, long-  
14           standing ISRS practice in that they relate to current, not past, ISRS costs. Neither Staff nor the  
15           Commission addressed these costs in past ISRS cases. Cost data for the months of June 2019  
16           and July 2019 were estimated and subject to updating to actual costs incurred once known.

17           The other component is Spire Missouri's renewed request to recover "old" costs from a  
18           previous time period that Staff and the Commission addressed in previous proceedings.  
19           Specifically, Spire Missouri requests recovery of ISRS costs incurred during the period of  
20           October 1, 2017 to June 30, 2018 that the Commission deemed ineligible for recovery in its  
21           ISRS case number GO-2018-0310. The Commission's *Report and Order* in Case  
22           No. GO-2018-0310 is on appeal at the Missouri Court of Appeals, Western District.

23           In Case No. GO-2019-0116, Spire Missouri resubmitted the old costs the Commission  
24           rejected in Case No. GO-2018-0310, in addition to requesting reimbursement for costs incurred  
25           from July 2018 to January 2019. The Commission disallowed recovery for the old costs, stating  
26           that it does not have jurisdiction over matters before the appellate court.<sup>1</sup>

27           According to Appendix A, Schedule 8 of its Application in this case, Spire Missouri  
28           requests a revenue requirement of \$6,294,574, which includes \$1,383,297 of old costs.  
29           On July 23, 2019 Spire Missouri provided Staff with actual June 2019 costs, and  
30           on August 21, 2019 Spire Missouri provided Staff with actual July 2019 costs. This revised  
31           revenue requirement increases Spire Missouri's request by \$129,540 from the initially-filed

---

1. Missouri Public Service Commission, Case No. GO-2019-0116, *Report and Order*, 46.

1 \$6,294,574 to \$6,424,114. Spire Missouri states that the surcharges established in prior cases,  
2 plus the surcharge requested in this case, would produce cumulative ISRS revenues of  
3 \$18,337,362 annually. The following table reflects Spire Missouri's initial recommended  
4 revenue requirement and the revenue requirement adjusted for actual costs through July 2019  
5 and the reduction of property taxes based on the Unanimous Stipulation and Agreement as to  
6 Resolution of Property Tax Expense in Case No. GO-2019-0116<sup>2</sup> (Property Tax Stipulation).

Spire West			
Case Number	Spire West Initial Application workpapers	Spire West Initial Application workpapers updated with actuals	Spire West Initial Application workpapers updated with actuals and adjusted property taxes
GO-2019-0357	\$ 6,294,574	\$ 6,424,114	\$ 6,424,114 Note 1
GO-2019-0116	6,782,560	6,782,560	6,501,455 Note 2
GO-2018-0310	5,411,794	5,411,794	5,411,793 Note 3
<b>Cumulative Total</b>	<b>\$ 18,488,928</b>	<b>\$ 18,618,468</b>	<b>\$ 18,337,362</b>

7  
8 **Note 1:** Spire Missouri's Application includes costs for the period of October 1, 2017 through June 30, 2018  
9 previously denied by the Commission in its August 21, 2019 Report and Order on Rehearing in  
10 Case No. GO-2019-0116.

11 **Note 2:** Authorized revenue requirement that includes the reduction to the revenue requirement for property taxes  
12 approved by the Commission in its August 21, 2019 Report and Order on Rehearing in  
13 Case No. GO-2019-0116.

14 **Note 3:** Authorized revenue requirement corrected for an error in Spire Missouri's Application workpapers for the  
15 Commission authorized revenue requirement in Case No. GO-2018-0310.

16 Spire Missouri included in its Application an alternative revenue requirement  
17 calculation consistent with the methodology the Commission approved in prior Spire West  
18 ISRS cases.<sup>3</sup> Consistent with the Commission's *Report and Order on Rehearing*, dated August  
19 21, 2019, Staff did not consider previously-denied costs before the appellate court in calculating  
20 Spire Missouri's revenue requirement. In calculating its recommended revenue requirement,  
21 Staff utilized and adjusted Spire Missouri's alternative revenue requirement. Staff recommends

2. Approved by the Commission in its August 21, 2019 *Report and Order on Rehearing* in Case No. GO-2019-0116.

3. Spire Missouri, Case No. GO-2019-0357, *Verified Application and Petition of Spire Missouri Inc. to Change its Infrastructure System Replacement Surcharge for its Spire Missouri West Service Territory*, paragraph 10.

1 that the Commission reject old ISRS costs in this proceeding for the same reasons it rejected  
2 them in Case No. GO-2019-0116 and only allow recovery of current  
3 ISRS-eligible projects between February and July 2019.

#### 4 **Notice and Annual Report Requirements Met**

5 Spire Missouri states in its Application that it is complying with notice requirements:  
6

7 24. Pursuant to 4 CSR 240-3.265(8) and (9), Spire West intends to  
8 continue using the annual notices and customer bill language approved  
9 by the Commission in Case No. GO-2018-0310, at the time its current  
10 ISRS was first established.

11  
12 Spire Missouri filed its 2018 Annual Report (submitted April 2019) and is not  
13 delinquent on paying its assessments.

#### 14 **Auditor Review and Recommendation**

15 Commission Rule 20 CSR 4240-3.265, Natural Gas Utility Petitions for Infrastructure  
16 System Replacement Surcharges, sets forth the definitions of natural gas utility plant projects  
17 eligible for ISRS treatment. Based on Staff's review of supporting workpapers, work order  
18 authorizations, accounting entries for a selection of work orders, and a sample of invoices  
19 supporting the work order authorizations, Staff concluded that each of the projects reviewed  
20 meets the ISRS rule qualifications. Based upon its review of calculations in the alternative  
21 revenue requirement, Staff's recommended annual revenue requirement for February through  
22 July 2019 is \$3,721,343, with a cumulative total of \$15,634,591. (See attached Schedule 2.)

23 *Staff Expert/Witness: Karen Lyons*

#### 24 **II. ISRS Rate Schedules**

25 Staff's recommended ISRS rates are contained in Schedule 1, attached hereto and  
26 incorporated by reference. The rates in Schedule 1 are consistent with Staff's recommended  
27 Revenue Requirement of \$3,721,343 annually and generate \$15,634,591 annually for the  
28 cumulative ISRS.

29 Most ISRS filings utilize the most current annual report figures to establish the customer  
30 count used in the calculation of rates. However, the ISRS rates in this case are calculated based  
31 on the customer count used in Spire Missouri's latest rate case,  
32 Case No. GR-2017-0216. The relevant statute clearly allows for this substitution:

1                   **393.1015. 5. (1)** The monthly ISRS charge may be calculated based on a  
2 reasonable estimate of billing units in the period in which the charge will  
3 be in effect, which shall be conclusively established by dividing the  
4 appropriate pretax revenues by the customer numbers reported by the gas  
5 corporation in the annual report it most recently filed with the commission  
6 pursuant to subdivision (6) of section 393.140, and then further dividing  
7 this quotient by twelve. **Provided, however, that the monthly ISRS may**  
8 **vary according to customer class and may be calculated based on**  
9 **customer numbers** as determined during the most recent general rate  
10 proceeding of the gas corporation so long as the monthly ISRS for each  
11 customer class maintains a proportional relationship equivalent to the  
12 proportional relationship of the monthly customer charge for each customer  
13 class. (Emphasis added.)  
14

15                   This method change is necessary because of revisions that took place in the rate cases  
16 and because of the addition of newly-designed and newly-established rate classes.

17 *Staff Expert/Witness: David M. Sommerer*

18 **III. Engineering Review**

19                   Staff's engineering review of this case was limited to participation in construction site  
20 visits and a review of Mr. Craig Hoeflerlin's direct testimony.

21                   On August 21, 2019, Staff visited two construction sites in the Spire East territory in  
22 which cast iron pipe was replaced with plastic pipe. The construction observed was consistent  
23 with Staff's expectations for the work that would be necessary to replace cast iron with plastic.  
24 Staff did not observe anything that contradicted its understanding of the technical aspects of  
25 replacing cast iron and bare steel. The information regarding the methods used to replace cast  
26 iron mains and the associated service lines that was provided to Staff during the site visit is  
27 consistent with the information Spire Missouri provided in  
28 Case Nos. GO-2019-0115 and GO-2019-0116.

29                   Staff's review of Mr. Hoeflerlin's direct testimony found that it contains a summary of  
30 the regulatory oversight related to programs that direct the replacement of cast iron and bare  
31 steel piping. Compliance with state and federal safety requirements is mandatory and is not by  
32 itself sufficient to qualify any specific expense as being ISRS eligible. Mr. Hoeflerlin's  
33 testimony also contains claims that Spire Missouri's cast iron and bare steel piping is in a worn  
34 out or deteriorated condition. As supporting evidence, Mr. Hoeflerlin refers to his own personal  
35 experience and to the testimony of Spire Missouri witness Rob Atkinson during the hearing for

1 Case Nos. GO-2019-0115 and GO-2019-0116. Mr. Hoferlin also provides a sample of  
2 photographs depicting the types of pipe Spire Missouri targets in its replacement programs.  
3 Staff notes that Spire Missouri also attested to the specific sections of the ISRS statute and the  
4 state or federal safety requirements that apply to the individual work orders that are listed in its  
5 verified application.

6 Based on its engineering review, Staff concludes the actions taken by Spire Missouri to  
7 replace cast iron and bare steel piping are reasonable.

8 *Staff Expert/Witness: Charles T. Poston, PE*

9 **IV. Review and Revenue Calculations**

10 Section 393.1015.3, RSMo, states, "A gas corporation may effectuate a change in its  
11 rate pursuant to the provisions of this section no more often than two times every twelve  
12 months." The Spire West tariffs filed with this Application are suspended until  
13 November 12, 2019. In Case No. GR-2017-0216, effective April 19, 2018, the ISRS balances  
14 were reset to zero. Since that date, Spire Missouri changed its Spire West ISRS surcharge  
15 twice, in Case No. GO-2018-0310, with an effective date of October 8, 2018 and  
16 Case No GO-2019-0116, with an effective date of May 25, 2019<sup>4</sup>. Based on Spire Missouri's  
17 previous ISRS filings and the statute, Spire Missouri is in compliance with this section of the  
18 statute.

19 Commission Rule 20 CSR 4240-3.265(18), Natural Gas Utility Petitions for  
20 Infrastructure System Replacement Surcharges, states:

21 The commission shall reject an ISRS petition after a commission order  
22 in a general rate proceeding unless the ISRS revenues requested in the  
23 petition, on an annualized basis, will produce ISRS revenues of at least  
24 the lesser of one-half of one percent (1/2%) of the natural gas utility's  
25 base revenue level approved by the commission in the natural gas  
26 utility's most recent general rate case proceeding or one (1) million  
27 dollars, but not in excess of ten percent (10%) of the subject utility's base  
28 revenue level approved by the commission in the utility's most recent  
29 general rate proceeding.

30 Spire Missouri's requested ISRS revenues exceed one-half of one percent of the natural  
31 gas utility's base revenue level approved by the Commission in the most recent Spire West rate

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4. In its August 21, 2019 *Report and Order on Rehearing* in Case No. GO-2019-0116 the effective date for property taxes changed to August 21, 2019.



1 case, and Spire Missouri's cumulative ISRS revenues, including the amounts requested in this  
2 filing, do not exceed ten percent of the base revenue levels approved by the Commission in the  
3 last Spire West rate case, Case No. GR-2017-0216.

4 Spire Missouri seeks to recover qualifying ISRS costs incurred from February 1, 2019  
5 through July 31, 2019. The ISRS recovery requested for June and July 2019 plant-in-service  
6 additions was included on an estimated basis at the time Spire Missouri filed its application, but  
7 it filed an updated Appendix A that includes June and July actuals on September 11, 2019.  
8 Spire Missouri provided documentation supporting actual ISRS plant addition costs during  
9 Staff's audit.

10 Auditing Staff reviewed supporting workpapers, work order authorizations, and a  
11 sample of invoices supporting the work order authorizations. Staff also communicated with  
12 Spire Missouri personnel to clarify its application. Inclusion of costs associated with replacing  
13 plastic main and service lines undertaken as part of Spire Missouri's main and service line  
14 replacement program were at issue in previous ISRS applications. Spire Missouri provided  
15 avoided cost studies for each proposed ISRS-eligible work order in  
16 Case No. GO-2019-0116 to support ISRS recovery of these costs. In its *Report and Order* in  
17 Case No. GO-2019-0116, the Commission rejected Spire Missouri's avoided cost studies and  
18 ordered that the methodology developed by Staff in Case Nos. GO-2018-0310  
19 and GO-2019-0116 be used to calculate the amount of ineligible plastic. Spire Missouri did not  
20 prepare any avoided costs studies to support recovery of the costs associated with replacement  
21 of plastic in the current case.

22 In its alternative ISRS revenue requirement model, Spire Missouri used the same  
23 methodology the Commission approved in Case Nos. GO-2018-0310 and GO-2019-0116 to  
24 calculate the amount of ineligible plastic. The feet of plastic main and service lines replaced or  
25 retired were divided by the total footage of the pipe replaced or retired to arrive at the percentage  
26 of costs associated with plastic to be removed from ISRS recovery. Staff reviewed all the work  
27 orders Spire Missouri provided to confirm the feet of main and service lines replaced and retired  
28 by the type of pipe (plastic, cast iron, steel, etc.), and concluded that Spire Missouri's  
29 adjustments are consistent with the Commission methodology used in  
30 Case Nos. GO-2018-0310 and GO-2019-0116.

1 Commission Rule 20 CSR 4240-3.265, Natural Gas Utility Petitions for Infrastructure  
2 System Replacement Surcharges, sets forth the definitions of natural gas utility plant projects  
3 eligible for ISRS treatment. Based on Staff's review of supporting workpapers, work order  
4 authorizations, accounting entries for a selection of work orders, and a sample of invoices  
5 supporting the work order authorizations, Staff concluded that each of the projects reviewed  
6 meets the ISRS rule qualifications.

7 The methodology used by Auditing Staff to determine the ISRS revenue requirement  
8 considers all accumulated depreciation and deferred income taxes on ISRS qualifying  
9 infrastructure replacement costs through October 31, 2019. This methodology is consistent  
10 with past reviews conducted by Auditing Staff and with Staff's view that the calculation of the  
11 ISRS revenue requirement should closely reflect the revenue requirement for ISRS qualifying  
12 plant as of the effective date of the ISRS rates.

13 *Staff Expert/Witness: Antonija Nieto*

14 Blanket Work Orders

15 Staff reviewed ISRS costs in Spire Missouri's blanket work orders. Blanket work orders  
16 are work orders covering a large number of tasks and do not close for an extended period of  
17 time. Issues arose in prior Spire Missouri ISRS filings regarding recovery of costs included in  
18 blanket work orders. In this proceeding, Spire Missouri categorized each separate task in the  
19 blanket work order as either ISRS eligible or ISRS ineligible. It then calculated the percentage  
20 of eligible versus ineligible tasks and applied the ineligible task percentage to the blanket work  
21 order total amounts to calculate an amount of blanket work order costs that are not ISRS  
22 eligible. Staff reviewed Spire Missouri's categorization to determine if each task it considers  
23 eligible met the requirements for ISRS recovery. Tasks considered eligible include mandated  
24 relocations, replacements due to leak repairs and corrosion inspections and, replacement of  
25 copper and cast iron pipe. Ineligible items include relocations at a customer's request,  
26 replacements due to excavation damage, replacement of plastic not related to a leak repair, and  
27 installation of new services. Staff agrees with Spire Missouri as to the eligibility of all the tasks  
28 included in the blanket work orders.

29 *Staff Expert/Witness: Karen Lyons*

30

1           Current Income Taxes

2           Staff's calculation of income taxes complies with the applicable law regarding  
3 calculating income tax for ISRS purposes. Sections 393.1009(1)(a) and (b), RSMo state:

4           (1) "Appropriate pretax revenues", the revenues necessary to produce net operating  
5 income equal to:

6           (a) The gas corporation's weighted cost of capital multiplied by the net original  
7 cost of eligible infrastructure system replacements, including recognition of  
8 accumulated deferred income taxes and accumulated depreciation associated with  
9 eligible infrastructure system replacements which are included in a currently  
10 effective ISRS; and

11           (b) Recover state, federal, and local income or excise taxes applicable to such  
12 income.

13           There are certain tax deductions associated with ISRS plant additions that should be  
14 considered in determining the amount of state and federal taxes applicable to ISRS net operating  
15 income. All of these tax deductions are directly associated with and incremental to the ISRS  
16 plant additions in this proceeding.

17           The tax deductions Spire Missouri can claim for construction of ISRS property are  
18 interest expense, service transfers and Internal Revenue Code (IRC) Section 263A transfers.  
19 These deductions result in income tax savings of \$949,127, which offsets the \$948,785 of ISRS  
20 income taxes prior to the consideration of any income tax deductions.

21           The weighted cost of debt, which is multiplied by the ISRS investment, consistent with  
22 section 393.1009(1)(a), RSMo, includes a component for both long-term and short-term debt.  
23 As a result, the return on ISRS investment includes interest paid to debt holders. This interest  
24 payment is tax deductible. Staff recognized this tax deduction in the calculation of income  
25 taxes.

26           Spire Missouri capitalizes the cost of transferring service connections from the old main  
27 to the new main, meaning these costs become part of the company's investment and are  
28 included in plant. However, Spire Missouri expenses the cost of service transfers for income  
29 tax purposes and deducts these costs in the calculation of its applicable income tax. Unlike the  
30 Spire East ISRS Application, the Spire West Application does not include any service transfers,  
31 which were capitalized on Spire's books.

32           Section 263A of the IRC discusses the tax treatment, capitalization versus expense, for  
33 various plant related costs that are self-constructed assets. Spire Missouri treats these various

1 plant-related costs differently than the treatment prescribed by the IRC. In the aggregate, Spire  
2 Missouri capitalizes more costs than are required to be capitalized for tax purposes. The amount  
3 capitalized on Spire Missouri's books in excess of the amount capitalized for tax purposes is  
4 deductible in the calculation of applicable income taxes.

5 Staff calculated the amount of the 263A deduction, by developing a 263A transfers  
6 deduction percentage (4.89%). This percentage was developed by using the 263A transfer  
7 deduction used in 2018 tax return (\$8,302,099), as compared to the amount of all ISRS and  
8 non-ISRS plant added during the same period per Spire Missouri's annual report filed with the  
9 Commission (\$169,716,939). Staff then applied this percentage to the amount of all of the ISRS  
10 additions included in Staff's ISRS revenue requirement.

11 Staff recommends that the Commission take into account certain tax deductions directly  
12 associated with ISRS plant additions in determining the amount of state and federal taxes  
13 applicable to ISRS net operating income.

14 *Staff Expert/Witness: Karen Lyons*

15 Treatment of Capitalized Overheads

16 In the prior Spire West ISRS case, the parties entered into a stipulation regarding  
17 overheads which states that no adjustment shall be made for overhead costs and that the parties  
18 agree to discuss how Spire Missouri allocates overhead costs to its ISRS projects. Accordingly,  
19 Spire Missouri provided a presentation to Staff and OPC between ISRS cases.

20 In this case, Staff continued to evaluate Spire Missouri's capitalization policies to see if  
21 an overheads adjustment is appropriate. Staff determined that Spire Missouri's accounting  
22 treatment of overhead costs appears to be consistent with how base rates were set in its most  
23 recent general rate cases, so an adjustment is not warranted. Furthermore, due to the complexity  
24 of Spire Missouri's accounting practices and the applicability of this issue to the overall cost of  
25 service, a general rate case would be a better venue to audit Spire Missouri's capitalization of  
26 overhead costs and discuss the application of the Uniform System of Accounts in a more  
27 detailed manner.

28 OPC was concerned in the prior ISRS case with Spire Missouri's recovery of general  
29 overhead costs through the ISRS mechanism<sup>5</sup>. In the current ISRS case, Staff examined Spire

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5. OPC, Case Nos. GO-2019-0115 and GO-2019-0116, *Direct Testimony of Robert Schallenberg*.

1 Missouri's allocation and capitalization of indirect costs to find if it is inappropriately using the  
2 ISRS mechanism to recover costs between rate cases. Addressing OPC's previous concern, the  
3 benefit to a utility from the ISRS mechanism can be maximized if a utility increased its  
4 capitalization rate immediately after base rate is established. Staff reviewed Spire Missouri's  
5 capitalization policies to find if it shifted its accounting for costs from expense to ISRS projects  
6 after establishing recovery of its expenses in the prior rate cases.

7 In order to evaluate if Spire Missouri's capitalization policies have changed since the  
8 last rate cases<sup>6</sup>, Staff examined Spire Missouri's capitalization of internal labor, since labor is  
9 a large contributor to total construction costs and overhead costs. Staff compared the labor  
10 capitalization ratio used in Staff's payroll annualization in the most recent Spire East and Spire  
11 West rate cases to the actual rate of labor capitalization during Spire Missouri's fiscal year-to-  
12 date 2019<sup>7</sup>. The following table shows that the labor capitalized to ISRS projects is consistent  
13 with the labor capitalization rate used to set Spire Missouri's base rates:

**Comparison of Labor Capitalization Rates**

	<b>Capital % in Rate Case (Staff)</b>	<b>Spire Current % (Staff DR 4)</b>	<b>Difference</b>
Spire East	45.67%	45.23%	-0.44%
Spire West	39.77%	39.48%	-0.29%

14  
15  
16 The comparison in the preceding table addresses Staff's concern regarding shifts over time in  
17 the percentage of labor capitalized. Because the current capitalization rate approximates the  
18 capitalization rate embedded in base rates, Staff finds no basis for an adjustment to capitalized  
19 overheads in the current ISRS cases. Additionally, due to the complexity of Spire Missouri's  
20 allocation and capitalization methodologies, as well as the very limited amount of time allowed  
21 for Staff review of ISRS filings, Staff takes the position that an audit of overhead costs during  
22 a rate case would provide the Commission more informed recommendations from the parties.

23 *Staff Expert/Witness: Matthew R. Young*

24  
25  
26  

---

6. The last rate case in each jurisdiction is GR-2017-0215 – Spire East and GR-2017-0216 – Spire West.

7. Staff Data Request 4, submitted on July 24, 2019 requested data for FYTD through June 30, 2019.

1 Reconciliation

2 Commission Rule 20 CSR 4240-3.265(17) requires a reconciliation of the ISRS revenue  
3 Spire Missouri collected from customers in the prior twelve month period to account for over-  
4 or under-collection of previously approved ISRS revenue. The reconciliation in this case is  
5 also affected by the property tax stipulation entered in the prior ISRS case. Paragraph five of  
6 this stipulation “resets” the approved revenue requirement in the prior ISRS case by stating:

7 The Signatories further agree that the appropriate revenue  
8 requirement for Spire Missouri East Case No. GO-2019-0115 is  
9 \$5,943,490 and \$6,501,455 for Spire West Case No. GO-2019-  
10 0116; and that such amounts should be approved by the  
11 Commission.

12 In addition to using the revenue requirements specified in the property tax stipulation,  
13 Staff also included the offsets prescribed by paragraph seven of the stipulation:

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

24 Staff adjusted billed revenues for Spire West before making a comparison to authorized  
25 revenues and found that as of July 31, 2019, Spire Missouri under-collected ISRS for Spire  
26 West revenue by \$357,249. The amounts identified in paragraph seven of the property tax  
27 stipulation represent the amount Spire Missouri over-collected between  
28 May 25, 2019 and August 23, 2019. Including the new approved revenue requirement and the  
29 offset identified in the stipulation, Spire Missouri’s under-collection is reduced to \$338,218,  
30 shown as follows:

Total ISRS Revenue Undercollection	\$	(407,532)
Property Tax Settlement GO-2019-0116	\$	69,314
Total revenues to be reconciled over 12 months	\$	<u>(338,218)</u>

31  
32 *Staff Expert/Witness: Matthew R. Young*  
33

1           Based upon its review and calculations made in response to this ISRS Application,  
2 specifically, Spire West's alternative revenue requirement (Appendix C), Staff's recommended  
3 revenue requirement for the February through July 2019 period is \$3,721,343 with a cumulative  
4 total of \$15,634,591. (See attached Schedule 2 to this report).

5 *Staff Experts/Witnesses: Karen Lyons, Antonija Nieto and Matthew R. Young*

6 **V. Recommendations**

7           Staff recommends the Commission issue an order that:

- 8           1. Rejects Spire Missouri's ISRS tariff sheet (YG-2020-0010) P.S.C. MO  
9           No. 7, Third Revised SHEET No. 12 CANCELLING P.S.C. MO. No. 7  
10           Second Revised SHEET No. 12, as filed on July 18, 2019;
- 11  
12           2. Approves the Staff's recommended ISRS surcharge revenues in this  
13           docket in the incremental pre-tax revenue amount of \$3,721,343 with a total  
14           current and cumulative ISRS surcharge of \$15,634,591;
- 15  
16           3. Authorizes Spire Missouri to file an ISRS rate for each customer class as  
17           reflected in Staff's Appendix B, which generates \$15,634,591; and  
18
- 19           4. Authorizes an effective date no later than November 12, 2019.

20 *Staff Experts/Witnesses: Karen Lyons and David M. Sommerer*

21 **Schedule 1 – ISRS Rate Design**

22 **Schedule 2 – ISRS Revenue Requirement Calculation**

23 **Appendix 1 – Staff Credentials**

SPIRE MISSOURI INC. -WEST  
CASE NO. GO-2019-0357 & YG-2020-0010  
Rate Design Direct Testimony

Staff's Total ISRS Rev Req					<u>\$15,634,591</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%	\$2.30	\$12,973,495
SGS (Small Gen. Service)	31,727	\$30.00	1.5000	47,591	8.4031%	\$3.45	\$1,313,797
LGS-Large Gen. Service	3,628	\$130.17	6.5085	23,613	4.1694%	\$14.97	\$651,863
LV-Large Volume Service	460	\$1,095.27	54.7635	25,191	4.4481%	\$125.98	\$695,436
<b><u>TOTAL</u></b>	<b><u>505,762</u></b>			<b><u>566,342</u></b>	<b><u>100.00%</u></b>		<b><u>\$15,634,591</u></b>

\* Due to rounding to the nearest penny, the designed ISRS rates **will under-collect by \$284**. However, it should be noted that the total amount collected will be trued-up at a later date .



**Spire Missouri West  
ISRS Revenue Requirement Calculation**

**ISRS Activity:**

	Staff Recommendation: July 2019 Update	Spire's Filing: July 2019 Update	Difference
<b><u>Gas Utility Plant Projects - Main Replacements and Other Projects Extending Useful Life of Mains:</u></b>			
<u>Work Orders Placed in Service</u>			
Gross Additions	32,486,951	32,486,951	-
Deferred Taxes	(302,765)	(321,580)	18,815
Accumulated Depreciation	(247,751)	(247,751)	-
<b>Total Net</b>	<b>31,936,435</b>	<b>31,917,620</b>	<b>18,815</b>
<b><u>Gas Utility Plant Projects - Service Line Replacements and Insertion Projects:</u></b>			
<u>Work Orders Placed in Service</u>			
Gross Additions	5,962,621	5,962,621	-
Deferred Taxes	(47,910)	(51,363)	3,453
Accumulated Depreciation	(75,569)	(75,569)	-
<b>Total Net</b>	<b>5,839,142</b>	<b>5,835,689</b>	<b>3,453</b>
<b><u>Gas Utility Plant Projects - Regulator Stations:</u></b>			
<u>Work Orders Placed in Service</u>			
Gross Additions	(35)	(35)	-
Deferred Taxes	-	-	-
Accumulated Depreciation	-	-	-
<b>Total Net</b>	<b>(35)</b>	<b>(35)</b>	<b>-</b>
<b><u>Gas Utility Plant Projects - Main Relocations net of Reimbursements:</u></b>			
<u>Work Orders Placed in Service</u>			
Gross Additions	2,480,690	2,480,690	-
Deferred Taxes	(21,936)	(52,743)	30,807
Accumulated Depreciation	(23,565)	(23,565)	-
<b>Total Net</b>	<b>2,435,189</b>	<b>2,404,382</b>	<b>30,807</b>
<b><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></b>			
Total Incremental Accumulated Depreciation	(1,085,317)	(1,085,317)	-
Total Incremental Accumulated Deferred Taxes	(455,715)	(455,715)	-
<b>Total ISRS Rate Base</b>	<b>38,669,698</b>	<b>38,616,623</b>	<b>53,075</b>
<b>Overall Rate of Return per GR-2017-0216</b>	<b>7.20%</b>	<b>7.20%</b>	<b>0.00%</b>
<b>UOI Required</b>	<b>2,784,218</b>	<b>2,779,509</b>	<b>4,709</b>
<b>Income Tax Conversion</b>	<b>1.34135</b>	<b>1.34135</b>	<b>0.00</b>
<b>Revenue Requirement on Capital</b>	<b>3,734,611</b>	<b>3,728,294</b>	<b>6,317</b>
<b>Total ISRS Rate Base</b>	<b>38,669,698</b>	<b>38,616,623</b>	<b>53,075</b>
<b>Weighted Cost of Debt per GR-2017-0215</b>	<b>1.89%</b>	<b>1.89%</b>	<b>0.00%</b>
<b>Interest Deduction</b>	<b>730,857</b>	<b>729,854</b>	<b>1,003</b>
<b>Marginal Income Tax Rate</b>	<b>25.45%</b>	<b>25.45%</b>	<b>0.00%</b>
<b>Income Tax Reduction due to Interest</b>	<b>185,990</b>	<b>185,735</b>	<b>255</b>
<b>Income Tax Conversion Factor</b>	<b>1.3414</b>	<b>1.3414</b>	<b>0.0000</b>
<b>Revenue Requirement Impact of Interest Deductibility</b>	<b>(249,478)</b>	-	<b>(249,478)</b>
<hr/>			
<b>263A Transfers Deduction</b>	<b>2,002,199</b>	-	<b>2,002,199</b>
<b>Service Transfers Deduction</b>	-	-	-
<b>263A and Service Transfers Tax Deductible Items</b>	<b>2,002,199</b>	-	<b>2,002,199</b>
<b>Income Tax Factor</b>	<b>0.34135</b>	-	<b>0.34135</b>
<b>Income Tax Reduction due to Deductible Items</b>	<b>5,865,901</b>	-	<b>5,865,901</b>
<b>Applicable Income Tax</b>	-	<b>699,649</b>	<b>(699,649)</b>
<hr/>			
<b>Total Revenue Requirement on Capital</b>	<b>2,784,218</b>	<b>3,728,294</b>	<b>(944,076)</b>
<b>Depreciation Expense</b>	<b>655,682</b>	<b>655,682</b>	-
<b>Net Property Taxes</b>	<b>(56,776)</b>	<b>(56,776)</b>	-
<b>Total ISRS Revenues</b>	<b>3,383,124</b>	<b>4,327,200</b>	<b>(944,076)</b>
<b>ISRS Revenue Undercollection June 2018 through July 2019</b>	<b>338,218</b>	<b>338,794</b>	<b>(575)</b>
<b>Total Spire West ISRS Revenues</b>	<b>3,721,343</b>	<b>4,665,994</b>	<b>(944,651)</b>

BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI

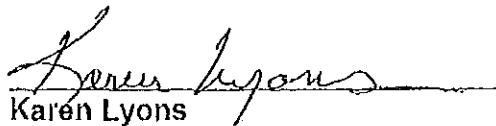
In The Matter of the Application of Spire )  
Missouri, Inc. to Change Its Infrastructure ) Case No. GO-2019-0357  
System Replacement Surcharge in its Spire )  
Missouri West Service Territory )

AFFIDAVIT OF KAREN LYONS

State of Missouri )  
 ) ss.  
County of Jackson )

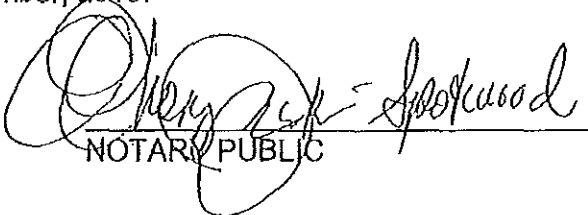
COMES NOW, Karen Lyons, and on her oath declares that she is of sound mind and lawful age; that she contributed to the attached *Direct Testimony*; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.

  
Karen Lyons

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Jackson, State of Missouri, at my office in Kansas City, on this 25<sup>th</sup> day of September, 2019.

  
NOTARY PUBLIC



EBONY JACKSON-SPOTWOOD  
My Commission Expires  
April 8, 2023  
Clay County  
Commission #19865798

BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI

In The Matter of the Application of Spire )  
Missouri, Inc. to Change its Infrastructure ) Case No. GO-2019-0357  
System Replacement Surcharge in its Spire )  
Missouri West Service Territory )

AFFIDAVIT OF ANTONIJA NIETO

State of Missouri )  
 ) ss.  
County of Jackson. )

COMES NOW, Antonija Nieto, and on her oath declares that she is of sound mind and lawful age; that she contributed to the attached *Direct Testimony*; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.

Antonija Nieto  
Antonija Nieto

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Jackson, State of Missouri, at my office in Kansas City, on this 24<sup>th</sup> day of September, 2019.

Mary Ann Spetwood  
NOTARY PUBLIC



EBONEY JACKSON-SPOTWOOD  
My Commission Expires  
April 8, 2023  
Clay County  
Commission #10066708

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

In The Matter of the Application of Spire )  
 Missouri, Inc. to Change its Infrastructure ) Case No. GO-2019-0357  
 System Replacement Surcharge in its Spire )  
 Missouri West Service Territory )

**AFFIDAVIT OF CHARLES T. POSTON, PE**

State of Missouri )  
 ) ss.  
 County of Jackson )

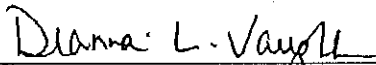
**COMES NOW**, Charles T. Poston, PE, and on his oath declares that he is of sound mind and lawful age; that he contributed to the attached *Direct Testimony*; and that the same is true and correct according to his best knowledge and belief.

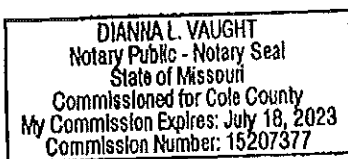
Further the Affiant sayeth not.

  
 \_\_\_\_\_  
 Charles T. Poston, PE

**JURAT**

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Jackson, State of Missouri, at my office in Kansas City, on this 26th day of September, 2019.

  
 \_\_\_\_\_  
 NOTARY PUBLIC





**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

In The Matter of the Application of Spire Missouri, Inc. to Change its Infrastructure System Replacement Surcharge in its Spire Missouri West Service Territory )  
 ) Case No. GO-2019-0357  
 )  
 )

**AFFIDAVIT OF MATTHEW R. YOUNG**

State of Missouri )  
 ) ss.  
 County of Jackson )

COMES NOW, Matthew R. Young, and on his oath declares that he is of sound mind and lawful age; that he contributed to the attached *Direct Testimony*; and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.

  
 \_\_\_\_\_  
 Matthew R. Young

**JURAT**

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Jackson, State of Missouri, at my office in Kansas City, on this 27<sup>th</sup> day of September, 2019.



M. RIDENHOUR  
 My Commission Expires  
 July 22, 2023  
 Platte County  
 Commission #18603483

  
 \_\_\_\_\_  
 NOTARY PUBLIC