

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

In the Matter of the Application of Missouri Gas Energy, an)
operating unit of Laclede Gas Company, For Approval to) **File No. GR-2015-0025**
Establish an Infrastructure System Replacement Surcharge)

**STAFF RECOMMENDATION TO APPROVE
ISRS APPLICATION AS MODIFIED BY STAFF**

COMES NOW Staff of the Missouri Public Service Commission, by and through the undersigned counsel, and files this Recommendation for the Commission to approve an Infrastructure System Replacement Surcharge (“ISRS”) for Missouri Gas Energy (“MGE”) as qualified herein. For its Recommendation, Staff respectfully states to the Commission as follows:

OVERVIEW

1. On July 25, 2014,¹ MGE filed a *Verified Application and Petition of MGE To Establish An Infrastructure System Replacement Surcharge (“Application”)* and tariff sheet for approval to establish an ISRS for the recovery of eligible infrastructure system replacement investments as calculated by MGE from January 2014 through August 2014. The Commission assigned Tracking No. YG-2015-0028 to MGE’s proposed tariff sheet.

2. On August 14, the Commission issued its *Order Directing Filing*. The *Order* directed Staff to file its report and recommendation in this matter no later than September 23. This filing complies with the Commission’s *Order*.

¹ All dates herein refer to calendar year 2014 unless otherwise indicated.

ANALYSIS AND RECOMMENDATION

3. Section 393.1009, RSMo (Supp. 2010) and Commission Rule 4 CSR 240-3.265 (1)(B) set forth the costs that a gas corporation may recover through an ISRS surcharge.

4. Rule 4 CSR 240-3.265 (11) provides, in part, that Staff “may examine the information of the natural gas utility provided pursuant to this rule and sections 393.1009 to 393.1015, RSMo, to confirm the underlying costs and proper calculation of the proposed ISRS,” and that Staff may submit a report regarding its examination to the Commission no later than 60 days after the gas utility files its petition. Rule 4 CSR 240-3.265(12) provides that the Commission shall issue an order to become effective no later than 120 days after the gas utility files its petition.

5. As explained more fully in Staff’s *Memorandum*, Staff has reviewed MGE’s *Application* and all supporting workpapers and calculations, as well as MGE’s responses to Staff issued data requests. From its review, Staff identified two work orders that contained costs that do not qualify for recovery through an ISRS. Staff also recalculated the ISRS revenue requirement using the actual incurred costs for July and August 2014, compared to MGE’s calculation in the *Application* that used budgeted amounts for these months to develop its proposed revenue requirement. Staff’s calculations result in an ISRS revenue requirement of \$1,980,698, verses MGE’s estimated revenue requirement of \$2,775,348 in its *Application*.

6. Based on its review, Staff recommends the Commission reject MGE’s ISRS tariff sheet assigned Tracking No. YG-2015-0028, and approve an ISRS surcharge for MGE to recover an annual pre-tax revenue amount of \$1,980,698 as calculated by Staff.

OTHER MATTERS

7. Staff has verified that MGE filed its 2013 calendar year annual report and is not delinquent on the payment of any Commission assessment.

8. Staff is not aware of any other matter before the Commission that affects or is affected by this filing.

WHEREFORE, Staff recommends the Commission issue an order that: (1) rejects MGE's ISRS tariff sheet assigned Tracking No. YG-2015-0028; and (2) approves an ISRS surcharge for MGE to recover an annual pre-tax revenue amount of \$1,980,698 as calculated by Staff.

Respectfully submitted,

/s/ Jennifer Hernandez

Jennifer Hernandez
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CERTIFICATE OF SERVICE

I do hereby certify that a true and correct copy of the foregoing document has been emailed this 23rd day of September, 2014 to all counsel of record in this proceeding.

/s/ Jennifer Hernandez

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. GR-2015-0025, Tariff Tracking No. YG-2015-0028 – Missouri Gas
Energy

FROM: Matthew Young, Auditing Department
Joel Molina, Auditing Department
Charles Hyneman, Auditing Department
Tom Imhoff, Tariffs/Rate Design – Energy

/s/Charles Hyneman 09/23/14
Auditing Department / Date

/s/Thomas M. Imhoff 09/23/14
Tariff, Rate Design Section / Date

/s/John Borgmeyer 09/23/14
Staff Counsel's Office / Date

SUBJECT: Staff Report and Recommendation Regarding the Application and Petition of
Missouri Gas Energy Seeking the Missouri Public Service Commission's
Approval to Increase Its Infrastructure System Replacement Surcharge

DATE: September 23, 2014

BACKGROUND

On July 25, 2014, Laclede Gas Company ("Laclede") d/b/a Missouri Gas Energy ("Company" or "MGE"), filed an Application and Petition ("Application") with the Missouri Public Service Commission ("Commission") to implement a change in MGE's Infrastructure System Replacement Surcharge ("ISRS") and a revised Tariff Sheet with a proposed effective date of August 25, 2014.

MGE made its filing pursuant to Missouri Revised Statutes Sections 393.1009 through 393.1015, RSMo Cum. Supp. 2010 and Commission Rule 4 CSR 240-3.265, Natural Gas Utility Petitions for Infrastructure System Replacement Surcharges, 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.

MGE asserts that it has continued to incur costs related to ISRS-eligible infrastructure system replacements. For the period from January 1, 2014 through August 31, 2014, MGE claims those costs entitle MGE to \$2,775,348 of additional annualized revenues.

The Commission issued an "Order Directing Notice, Directing Filings And Setting Intervention Deadline" on July 29, 2014, but did not suspend the pending tariff. This order set an intervention date of August 13, 2014. \

The Commission issued an "Order Suspending Tariff" on August 14, 2014. That order states the "Commission must issue an order regarding the application effective no later than November 22, 2014."

STAFF'S ISRS REVENUE REQUIREMENT CALCULATION

In accordance with Section 393.1015.2 (2), Staff may: (1) examine information of MGE to confirm that the underlying costs are in accordance with the provisions of Sections 393.1009 to 393.1015; (2) confirm the proper calculation of the ISRS; and (3) submit a report regarding its examination to the Commission.

Section 393.1015 places two significant scope restrictions on the Staff's ISRS examination. First, the Staff must submit a report regarding its examination to the Commission no later than sixty days after a utility files an ISRS application. Second, the Staff is prohibited from examining any other revenue requirement or ratemaking issues (such as increases in revenues or decreases in other costs that may offset the need for an ISRS). This examination is different from a normal Staff rate case audit where all items of a utility's revenues, expenses, investments, gains and losses are examined and the resulting revenue requirement recommended by Staff is based on a comprehensive examination as opposed to a single-issue examination as required by Section 393.1015.2 (2).

The scope of Staff's examination of MGE's ISRS application consisted of two parts. The first part was a review of the accuracy of the calculation of the ISRS revenue requirement components used to calculate the overall ISRS revenue requirement. This part of Staff's audit included reviewing MGE's calculation of the appropriate capital structure and capital cost rates, income tax rates, return on plant, depreciation expense, property taxes, depreciation reserve, and deferred income taxes. In addition to these individual components of an ISRS revenue requirement, the Staff also examined MGE's proposed level of the net under and over collections of prior ISRS surcharges that were approved by the Commission in the Company's prior ISRS cases. After an examination of the Company's revenue requirement calculation, Staff found no significant errors in MGE's computations.

The second part of Staff's examination consisted of a review of the supporting documentation of the costs included in MGE's ISRS application. Staff reviewed a number of work orders that amounted to approximately 85% of the additions that were identified as non-SLRP (Service Line Replacement Program) construction. During its examination of these work orders, Staff auditors used the guidelines set forth in Section 393.1009. Section 393.1009(3) defines eligible infrastructure system replacements as gas utility plant projects that:

- (a) Do not increase revenues by directly connecting the infrastructure replacement to new customers;
- (b) Are in service and are used and useful;
- (c) Were not included in the gas corporation's rate base in its most recent general rate case; and
- (d) Replace or extend the useful life of an existing infrastructure.

As the Company explained in their response to Staff Data Request No.13, the ISRS plant listed in MGE's application included \$1,419,574 of plant-in-service that was already included in MGE's rate base in its last rate case, No. GR-2014-0007. MGE advised the Staff that this error was due to a difference in accounting for ISRS plant between MGE and Laclede and this error

should not recur in the future. As a result of the acquisition of MGE by Laclede, MGE is currently converting its plant accounting systems to be compatible with the plant accounting systems of Laclede as well as changing personnel and some accounting practices, such as the appropriate treatment in ISRS cases of plant in service that has not been classified into detailed plant accounts. Staff recommends that MGE and Laclede develop and implement appropriate accounting internal controls to ensure that no ISRS plant that has been included in rate base in the prior rate case is included in subsequent ISRS applications.

Section 393.1009 (5) restricts the types of plant projects that may be included in the ISRS by limiting gas utility plant projects as projects that consist only of:

- (a) Mains, valves, service lines, regulator stations, vaults, and other pipeline system components installed to comply with state or federal safety requirements as replacements for existing facilities that have worn out or are in a deteriorated condition;
- (b) Main relining projects, service line insertion projects, joint encapsulation projects, and other similar projects extending the useful life or enhancing the integrity of pipeline system components undertaken to comply with state or federal safety requirements; and
- (c) Facilities relocations required due to construction of improvement of a highway, road, street, public way, or other public work by or on behalf of the United States, this state, a political subdivision of this state, or another entity having the power of eminent domain provided that the costs related to such projects have not been reimbursed to the gas corporation.

After a review of the work orders requested from the company, Staff identified work orders 004315 and 004430 as work orders that do not qualify as ISRS plant projects as defined by Section 393.1009 (5). The descriptions of the work orders included replacement of underperforming rectifiers and work necessary to replace the ground bed around the rectifiers. Since work of this nature does not fit into the projects described by paragraphs (a), (b), or (c), Staff did not include the plant costs associated with these work orders in its ISRS revenue requirement recommendation.

Staff Data Request No.2 was an inquiry pertaining to contributions and reimbursements received by the Company for the costs of certain construction projects. During an examination of the transactions listed in the Company's response, Staff discovered that contributions were being accounted for using two methods. Though no adjustment has been proposed in this case, Staff does recommend that MGE take actions to ensure consistent accounting treatment for plant contributions.

MGE's July 25, 2014 ISRS application contained two months of estimated plant additions (July and August 2014). The practice of including budgeted construction costs is consistent with Laclede's prior ISRS cases. After Staff obtained the actual costs for these two months, the actual totals were substantially below the budgeted amounts used in the Company's calculation of the revenue requirement. The difference between the Company's estimated numbers in its application and the actual numbers that were later provided to Staff is the primary driver of the

revenue requirement differences shown between MGE’s application and Staff’s calculation. The incremental differences between MGE’s calculated ISRS revenues of \$2,775,348 and Staff’s proposed level of \$1,980,698 are illustrated in the following table:

	MGE 7-25 Filing	Staff Calculation	Difference
ISRS Plant Additions	\$20,707,485	\$13,756,123	(\$6,951,362)
Deferred Income Taxes	(300,664)	(188,931)	111,733
Accumulated Depreciation	(180,179)	(147,833)	32,346
Net ISRS Rate Base	\$20,226,642	\$13,419,359	(\$6,807,283)
Return on Rate Base	\$1,972,098	\$1,308,388	(\$663,710)
Net Depreciation Expense	387,053	256,112	(130,940)
Property Taxes	0	0	0
Prior ISRS Under Collection	416,198	416,198	0
ISRS Revenue Requirement	\$2,775,348	\$1,980,698	(\$794,650)

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 Attachment B, attached hereto and incorporated by reference herein.

Staff has verified that MGE has filed its 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.

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 revised Tariff Sheet P.S.C MO No. 6 First Revised Sheet No. 10 cancelling P.S.C. MO No. 6 Original Sheet No. 10 filed July 25, 2014;
2. Approves the Staff’s recommended ISRS surcharge revenues in the annual amount of annual pre-tax revenues of \$1,980,698; and
3. Authorizes MGE to file an ISRS rate for each customer class as reflected in Attachment B, which generates \$1,980,698 annually.

CASE NO. GR-2015-0025	GR-2015-0025 proposed	\$1,980,698
FILE NO. YG-2015-0028	Total	\$1,980,698
ISRS RATE DESIGN	Company's Total ISRS Revenues	\$1,980,698

Customer Rate Class	Number of Customers	Customer Charges	Ratio To Res. Cust. Charge	Weighted Customer #	Customer Percentage	ISRS charge	ISRS Revenues
Residential	440,372	\$23.00	1.0000	440,372	78.1946%	\$0.29	\$1,548,800
Small General Service	60,087	\$34.00	1.4783	88,824	15.7721%	\$0.43	\$312,397
Large General Service	2,939	\$115.40	5.0174	14,746	2.6184%	\$1.47	\$51,862
Large Volume Service	489	\$904.56	39.3287	19,232	3.4149%	\$11.53	\$67,639
TOTAL	503,887			563,174	100.0000%		\$1,980,698

* Due to rounding to the nearest penny, the designed ISRS rates will under collect by \$18,653. However, it should be noted that the total amount collected will be true-up at a later date.

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

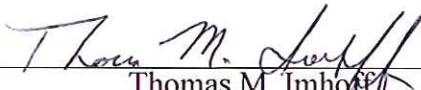
In the Matter of the Application of)
Missouri Gas Energy, an operating unit)
of Laclede Gas Company, For Approval)
to Establish an Infrastructure System)
Replacement Surcharge)

Case No. GR-2015-0025

AFFIDAVIT OF THOMAS M. IMHOFF

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Thomas M. Imhoff, of lawful age, on oath states: that he participated in the preparation of the foregoing Staff Recommendation in memorandum form, to be presented in the above case; that the information in the Staff Recommendation was provided to him; that he has knowledge of the matters set forth in such Staff Recommendation; and that such matters are true to the best of his knowledge and belief.



Thomas M. Imhoff

Subscribed and sworn to before me this 23rd day of September, 2014.





Notary Public

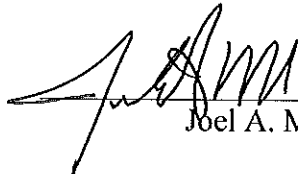
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of Missouri)
Gas Energy, an operating unit of Laclede) File No. GR-2015-0025
Gas Company, For Approval to Establish)
an Infrastructure System Replacement)
Surcharge)

AFFIDAVIT OF JOEL A. MOLINA


STATE OF MISSOURI)
) ss.
COUNTY OF JACKSON)

Joel A. Molina, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Recommendation in memorandum form, to be presented in the above case; that the information in the Staff Recommendation was developed by him; that he has knowledge of the matters set forth in such Staff Recommendation; and that such matters are true and correct to the best of his knowledge and belief.



Joel A. Molina

Subscribed and sworn to before me this 23rd day of September, 2014.



Notary Public



TAMMY MORALE:
My Commission Expires
January 7, 2018
Clay County
Commission #14451086

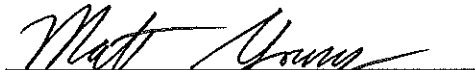
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an Infrastructure System Replacement)
Surcharge)

AFFIDAVIT OF MATTHEW R. YOUNG

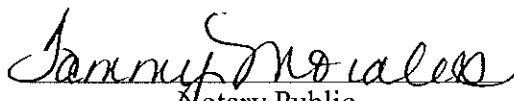
STATE OF MISSOURI)
) ss.
COUNTY OF JACKSON)

Matthew R. Young, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Recommendation in memorandum form, to be presented in the above case; that the information in the Staff Recommendation was developed by him; that he has knowledge of the matters set forth in such Staff Recommendation; and that such matters are true and correct to the best of his knowledge and belief.



Matthew R. Young

Subscribed and sworn to before me this 23rd day of September, 2014.



Notary Public



TAMMY MORALES
My Commission Expires
January 7, 2018
Clay County
Commission #14451086