

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

| | | |
|--|---|------------------------------|
| In the Matter of the Verified Application and |) | |
| Petition of Laclede Gas Company to Change its |) | <u>Case No. GR-2015-0026</u> |
| Infrastructure System Replacement Surcharge in |) | Tariff No.YG-2015-0027 |
| Its Laclede Gas Service Territory |) | |

STAFF RECOMMENDATION

COMES NOW the Staff of the Missouri Public Service Commission, by and through undersigned counsel, and hereby submits this *Staff Recommendation*. In support hereof, Staff states as follows:

1. On July 25, 2014, Laclede Gas Company (“Laclede” or “Company”) filed a verified application (“Application”) with the Commission to change its Infrastructure System Replacement Surcharge (“ISRS”) and a revised Tariff Sheet with a proposed effective date of August 25, 2014, pursuant to Sections 393.1009 to 393.1015 RSMo. Laclede requested that the Commission issue an order approving a change to its ISRS to provide for the recovery of the eligible infrastructure system replacement investments made by the Company from March 31, 2014 through August 31, 2014.

2. On July 30, 2014, in its *Order Directing Notice, Directing Filings And Setting Intervention Deadline*, the Commission ordered that Staff file a recommendation in the matter no later than September 23, 2014.

3. As explained in Staff’s *Memorandum*, attached hereto as Appendix A and incorporated herein by reference, Staff recommends the Commission issue an order in this case that rejects the ISRS tariff sheet (YG-2015-0027) filed by the Company on

July 25, 2014, and that approves the Staff's recommended ISRS surcharge revenues in the amount of annual pre-tax revenues of \$2,719,617.

4. Section 393.1009 and Commission Rule 4 CSR 240-3.265(1)(B) and (1)(G) define "eligible infrastructure system replacements" and "natural gas utility plant projects," the costs of which may be recovered through an ISRS surcharge.

5. 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.

6. In this proceeding, Laclede requested an ISRS surcharge to recover infrastructure replacement costs incurred from March 31, 2014 through August 31, 2014, with a total revenue requirement of \$3,149,162 (per Laclede's July 25, 2014 Application). Laclede's requested amount was revised to \$2,828,702 based on Laclede's September 16, 2014 updated request.

7. As explained more fully in Staff's *Memorandum*, Staff reviewed the Company's Application and all supporting workpapers and calculations and responses to Staff's data requests (including an audit sample of work orders). During its examination of these work orders, Staff auditors determined that three work orders (60418, 60419, and 900293) included in Laclede's Application reflect projects that are not eligible ISRS gas utility plant projects as described in Section 393.1009 (5)(c).

8. Staff's proposed ISRS rates for each customer class, attached hereto as Appendix B and incorporated herein by reference, are consistent with the methodology used to establish ISRS rates for Laclede and other utilities.

9. Staff has verified that Laclede has filed its 2013 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.

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

1. Rejects Laclede's ISRS tariff sheet revised Tariff Sheet P.S.C MO No. 5 Twenty-Third Revised Sheet No. 12 cancelling P.S.C. MO No. 5 Twenty-Second Revised Sheet No. 12, filed July 25, 2014.

2. Approves the Staff's recommended ISRS surcharge revenues in the amount of annual pre-tax revenues of \$2,719,617; and

3. Authorizes Laclede to file an ISRS rate for each customer class as reflected in Appendix B, which generates \$2,719,617 annually.

Respectfully submitted,

/s/ Akayla J. Jones

Akayla J. Jones
Legal Counsel
Missouri Bar No. 64941

Attorney for the Staff of the
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102
(573) 526-6036 (Telephone)
(573) 751-9285 (Fax)
akayla.jones@psc.mo.gov

CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed with first-class postage, hand-delivered, transmitted by facsimile or electronically mailed to all counsel of record this 23rd day of September, 2014.

/s/ Akayla J. Jones

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. GR-2015-0026, Tariff Tracking No. YG-2015-0027 – Laclede Gas
Company

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

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

/s/Tom Imhoff 09/23/14
Tariffs/Rate Design / Date

/s/Akayla Jones 09/23/14
Staff Counsel’s Office / Date

SUBJECT: Staff Report and Recommendation Regarding the Application and
Petition of Laclede Gas Company 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” or “Company”) filed an Application and Petition (“Application”) with the Missouri Public Service Commission (“Commission”) to implement a change in Laclede’s Infrastructure System Replacement Surcharge (ISRS) and a revised Tariff Sheet with a proposed effective date of August 25, 2014.

Laclede made its filing pursuant to Missouri Revised Statutes Sections 393.1009 through 393.1015, RSMo Cum. Supp. 2011 and Commission Rule 4 CSR 240-3.265, 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.

Laclede asserts that it has continued to incur costs related to ISRS-eligible infrastructure system replacements. For the period from March 31, 2014 through August 31, 2014, Laclede claims those costs entitle Laclede to \$3,149,162 (per Laclede's July 25, 2014 Application). Laclede's requested amount was revised to \$2,828,702 based on Laclede's September 16, 2014 updated request.

The Commission issued an “Order Directing Notice, Directing Filings And Setting Intervention Deadline” on July 30, 2014, but did not suspend the pending tariff.

The Commission issued an “Order Suspending Tariff” on August 20, 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

Laclede's Commission-approved ISRS charges prior to its GR-2013-0171 rate case ("2013 rate case") were rolled into Laclede's base rates in the 2013 rate case. Rates in Laclede's 2013 rate case include \$14,811,000 of cumulative ISRS revenues (all ISRS plant investments through December 31, 2013). The 2013 rate case *Amended Stipulation and Agreement* states:

1. The Parties agree and recommend that Laclede be authorized to transfer into its Missouri jurisdictional base rate revenues, as of September 1, 2013, the Fourteen Million, Eight Hundred Eleven Thousand Dollars (\$14,811,000) related to the Infrastructure System Replacement Surcharge ("ISRS") revenues that have previously been approved by the Commission and that Laclede is currently collecting in rates.

15. As required by Commission rules, the Company's current ISRS shall be reset to zero as of September 1, 2013. Plant in service additions for inclusion in a future ISRS shall be limited to additions subsequent to January 31, 2013. The Parties agree to continue their resolution of the ISRS issue regarding income tax by reducing the Company's filed amount by one-half of the value of the Staff's tax adjustment and, in exchange for this reduction, implementation of the ISRS as soon as reasonably possible, contingent on the Company's timely provision of data and information, including response to discovery, and the availability of the Parties' resources to process the surcharge.

Since the 2013 rate case, the Commission has, in its File No. GO-2014-0212 *Order Approving Unanimous Stipulation and Agreement, Order Granting Motion For Expedited Treatment and Order Approving Tariff*, approved one Laclede ISRS filing. Laclede is currently collecting \$7,062,051 in ISRS charges beginning on April 12, 2014. This ISRS charge, as well as any increase in ISRS charges the Commission approves in this current ISRS filing, will be included in Laclede's base rates in its next general rate case. The ISRS plant in service coverage period for the GO-2014-0212 ISRS was February 1, 2013 through February 28, 2014. The ISRS plant in service coverage period as proposed by Laclede for this currently-proposed ISRS, GR-2015-0026, is March 1, 2014 through August 31, 2014 with the exception of two Laclede non-ISRS work orders which will be discussed below.

In accordance with Section 393.1015.2(2), the Staff may (1) examine information of Laclede 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.

While Section 393.1015.2(2) allows the Staff to perform an examination of an ISRS filing and make a report of its examination to the Commission, Section 393.1015.2(2) also places two significant 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 legally 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). Single-issue examination as required by the Section 393.1015.2(2) 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.

The scope of Staff's examination of Laclede's ISRS application consisted of two parts. The first part was a review for the accuracy of the calculation of the ISRS revenue requirement components used to calculate the overall proposed ISRS revenue requirement. This part of Staff's examination included reviewing Laclede'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.

The Staff verified Laclede's use of the appropriate capital structure and capital cost components as approved by the Commission in its February 21, 2014 *Order Approving Late-Filed Exhibit* in the 2013 rate case. The Staff also verified that the depreciation rates used by Laclede to calculate the ISRS were the same rates approved by the Commission its June 26, 2013 *Order Approving Unanimous Stipulation and Agreement* in the 2013 rate case.

As noted above, the 2013 rate case *Amended Stipulation and Agreement* at paragraph 15 states that the parties "agree to continue their resolution of the ISRS issue regarding income tax by reducing the Company's filed amount by one-half of the value of the Staffs tax adjustment..." This issue dates back several years to a difference in income tax methodology used by the Staff and Laclede in calculating income tax expense for the ISRS. The parties to the 2013 rate case determined to temporarily resolve this issue by splitting the difference in the ISRS revenue requirement under the two methods. The Staff has made this adjustment in its proposed ISRS revenue requirement.

Table 1 shows that from its July 25, 2014, initial ISRS filing until its updated ISRS filing received by the Staff on September 16, 2014, Laclede's requested ISRS plant decreased by over \$3 million and its ISRS revenue requirement decreased by \$320,461. While most of the ISRS revenue requirement decrease was caused by the fact that Laclede significantly overestimated its ISRS plant additions for July and August 2014, Laclede's initial filing also included some worksheet calculation errors in book depreciation rates, tax depreciation rates, and the book depreciation expense calculation that were corrected by Staff.

Table 1

| GO-2015-0026 | Laclede's July 25 2014 Initial Filing | Laclede's Sept16 2014 Update | Changes to Laclede's Initial Filing |
|--------------------------------------|---|------------------------------------|---|
| Total ISRS Rate Base | \$28,509,480 | 25,465,037 | (\$3,044,443) |
| Total Revenue Requirement on Capital | \$2,967,140 | \$2,650,287 | (\$316,853) |
| Depreciation Expense | \$652,182 | \$599,527 | (\$52,655) |
| ISRS Revenue Overcollection | (10,864) | (10,864) | \$0 |
| Income Tax Stipulation adjustment | (459,295) | (\$410,249) | \$49,047 |
| Net ISRS Revenues Requested | 3,149,162 | 2,828,702 | (320,461) |

The second part of Staff's examination consisted of a review of the plant work order documentation supporting the inclusion of the costs of specific gas plant projects in Laclede's ISRS application. Staff auditors reviewed a number of selected work order documents both received electronically from Laclede and also at Laclede's headquarters in St. Louis on September 10 and 11, 2014. The work order documents for July and August 2014 ISRS work orders were received along with Laclede's updated ISRS filing on September 16, 2014.

During its examination of these work orders, Staff auditors determined that three work orders (60418, 60419, and 900293,) included in Laclede's application reflect projects that are not eligible ISRS gas utility plant projects as described in Section 393.1009 (5)(c). Only certain types of gas utility plant projects are eligible to be included in an ISRS. Section 393.1009 (5) restricts the types of plant projects that may be included in the ISRS to 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.

At paragraph 8 of its Application, Laclede describes work orders 60418 and 60419 as "pertaining to the replacement of worn and deteriorated telemetric equipment." In Appendix A, Schedule 1 page 16 of 19, Laclede describes work order 60418 as "upgrade instrumentation" and 60419 as "Replace Bristol Network RTU's."

Documentation requested from Laclede titled "Work Order Authorization – Capital" describes work order 60418 in the amount of \$205,916 as:

Upgrade telemetric equipment at TM station to replace defective equipment and older technology. Many of the existing telemetric stations that are in the SCADA system require continuous monitoring of the equipment and must stay current with System Control's systems. For System Control to properly manage and operate the distribution system, electric monitoring and control are a must. Older equipment is required to be updated to keep up with the current changes in the industry and to be able to work properly with Laclede's SCADA network.

The "Work Order Authorization – Capital" describes work order 60419 in the amount of \$133,285 as:

Replace six Series 3300 Bristol RTU's that are part of a five year plan to upgrade the telemetric equipment. The existing RTU's are obsolete and parts are no longer available. The existing 3300 series RTU's are no longer available from the manufacturer. Parts and service are no longer being supported by the manufacturer and service support is being redirected to the product lines. The RTU's are vital to the SCADA network and are essential for Laclede's operation of the distribution system.

Based on the descriptions provided by Laclede in its ISRS application and the work order documentation requested and obtained by Staff, these work order descriptions do not meet the requirements of a gas utility plant project that is an eligible infrastructure system replacement.

On September 16, 2014, Laclede provided the Staff with some documentation that provides brief descriptions of the work order projects designated by Laclede as qualifying for the ISRS. Based upon a review by Staff of supporting documents related to the July and August 2014 ISRS work order update, the Staff found that work order 900293 in the amount of \$191,257 does not qualify for ISRS treatment. The description of this work order indicates that the work was based on a customer request. While most of the Laclede work orders indicate that the work was required under the Commission's Cast Iron Replacement Program, a required relocation from an entity with eminent domain, or required for other safety reasons such as a main being placed in an angle of repose, there was no such documentation reflected on this work order. Due to the lack of documentation, the Staff determined that this project does not meet the requirements of a gas utility plant project that is an eligible infrastructure system replacement.

Table 2 contains the calculation of the ISRS revenue requirement amount associated with the Staff's recommendation, after exclusion of the three Laclede work orders noted above:

Table 2

| GO-2015-0026 | Laclede's Sept16 2014 Updated Revenue Requirement | Staff's Recommended ISRS Revenue Requirement | Difference |
|--|--|---|--------------------|
| Total ISRS Rate Base | \$25,465,037 | \$24,866,566 | (\$598,471) |
| Total Revenue Requirement on Capital | \$2,650,287 | \$2,588,000 | (\$62,287) |
| Depreciation Expense | \$599,527 | \$582,663 | (\$16,864) |
| ISRS Revenue Over collection | (\$10,864) | (\$10,864) | \$0 |
| Income Tax Difference Stipulation adjustment | (\$410,249) | (\$440,182) | (\$29,933) |
| Net ISRS Revenues Requested by Laclede | \$2,828,702 | \$2,719,617 | (\$109,085) |

Based on Staff's review, it has determined the appropriate annualized revenue requirement for the pending ISRS Application (GR-2015-0026) is \$2,719,617, based on ISRS plant placed in service during the period March 31, 2014 through August 31, 2014. When added to the \$7,062,051, which are the annual ISRS revenues currently being collected as approved by the Commission in Laclede's previous ISRS (GO-2014-0212), the cumulative ISRS revenues from both ISRS cases total \$9,781,668.

THE ISRS RATE SCHEDULES

Staff's recommended rates are consistent with the methodology used to establish Laclede's past ISRS rates and consistent with the overall methodology used to establish ISRS rates for other gas utilities. Staff's recommended ISRS rates are contained in Attachment B, attached hereto and incorporated by reference.

Staff has verified that Laclede has filed its 2013 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 Laclede's ISRS tariff sheet revised Tariff Sheet P.S.C MO No. 5 Twenty-Third Revised Sheet No. 12 cancelling P.S.C. MO No. 5 Twenty-Second Revised Sheet No. 12, filed July 25, 2014;
2. Approves the Staff's recommended ISRS surcharge revenues in the amount of annual pre-tax revenues of \$2,719,617; and
3. Authorizes Laclede to file an ISRS rate for each customer class as reflected in Attachment B, which generates \$2,719,617 annually.

LACLEDE GAS COMPANY
CASE NO. GR-2015-0026
 ISRS RATE DESIGN

APPENDIX B

Staff's Total ISRS Revenue Calculation

\$2,719,617

| Customer Rate Class | Ave Cust # Sept. 13 | Customer Charge | Ratio To Res | Weighted Cust # | Customer Percentage | ISRS Charge | ISRS Revenues |
|----------------------------|----------------------------|------------------------|---------------------|------------------------|----------------------------|--------------------|----------------------|
| Residential | 602,420 | \$19.50 | 1.6250 | 978,933 | 88.3824% | \$0.33 | \$2,403,663 |
| Com & Ind. Class 1 | 30,895 | \$25.50 | 2.1250 | 65,652 | 5.9273% | \$0.43 | \$161,201 |
| Com & Ind. Class 2 | 8,945 | \$40.50 | 3.3750 | 30,189 | 2.7256% | \$0.69 | \$74,127 |
| Com & Ind. Class 3 | 589 | \$81.00 | 6.7500 | 3,976 | 0.3589% | \$1.38 | \$9,762 |
| Large Volume | 73 | \$800.00 | 66.6667 | 4,867 | 0.4394% | \$13.64 | \$11,950 |
| Interruptible | 16 | \$710.00 | 59.1667 | 947 | 0.0855% | \$12.11 | \$2,324 |
| Transportation | 133 | \$2,069.94 | 172.4950 | 22,942 | 2.0713% | \$35.30 | \$56,331 |
| Transportation - Other | 0 | \$1,531.00 | 127.5833 | 0 | 0.0000% | \$0.00 | \$0 |
| Gas Light | 83 | \$5.69 | 0.4742 | 39 | 0.0036% | \$0.10 | \$97 |
| <i>Vehicular Fuel</i> | 4 | \$20.20 | 1.6833 | 7 | 0.0006% | \$0.34 | \$17 |
| Liquid Propane | 42 | \$17.00 | 1.4167 | 60 | 0.0054% | \$0.29 | \$146 |
| TOTAL | <u>643,200</u> | | | <u>1,107,610</u> | <u>100.0000%</u> | | <u>\$2,719,617</u> |

* Due to rounding to the nearest penny, the designed ISRS rates will under collect by \$19,923. However, it should be noted that the total amount collected will be trued-up at a later date.


BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Verified Application and)
Petition of Laclede Gas Company to Change) File No. GR-2015-0026
its Infrastructure System Replacement)
Surcharge in Its Laclede Gas Service)
Territory)

AFFIDAVIT OF CHARLES R. HYNEMAN

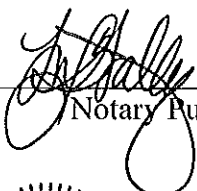
STATE OF MISSOURI)
) ss.
COUNTY OF JACKSON)

Charles R. Hyneman, 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.



Charles R. Hyneman

Subscribed and sworn to before me this 22nd day of September 2014.



Notary Public



MICHELE L. WATLEY
My Commission Expires
February 6, 2017
Jackson County
Commission #13445832

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

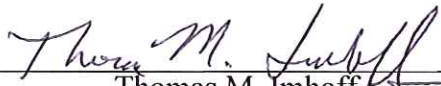
In the Matter of the Verified Application)
and Petition of Laclede Gas Company to)
Change its Infrastructure System)
Replacement Surcharge in Its Laclede Gas)
Service Territory)

Case No. GR-2015-0026

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.

LAURA BLOCH
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: June 21, 2015
Commission Number: 11203914



Notary Public

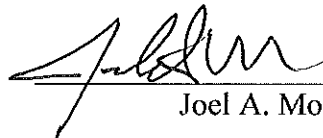
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Verified Application and)
Petition of Laclede Gas Company to Change its) Case No. GR-2015-0026
Infrastructure System Replacement Surcharge in)
Its Laclede Gas Service Territory)

AFFIDAVIT OF JOEL A. MOLINA

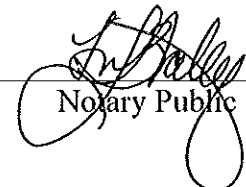
STATE OF MISSOURI)
)
COUNTY OF JACKSON) ss.

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 22nd day of September, 2014.



Notary Public



MICHELE L. WATLEY
My Commission Expires
February 6, 2017
Jackson County
Commission #13445832

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

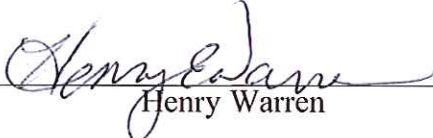
In the Matter of the Verified Application)
and Petition of Laclede Gas Company to)
Change its Infrastructure System)
Replacement Surcharge in Its Laclede Gas)
Service Territory)

Case No. GR-2015-0026

AFFIDAVIT OF HENRY WARREN

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Henry Warren, 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.


Henry Warren

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

LAURA BLOCH
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: June 21, 2015
Commission Number: 11203914


Notary Public

