

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
File No. GA-2023-0038, Spire Missouri, Inc.

FROM: Franciso Del Pozo, Economics Analyst
Tariff/Rate Design Department, Industry Analysis Division
Karen Lyons, Utility Regulatory Manager
Auditing, Financial and Business Analysis Division
Seoung Joun Won, PhD, Regulatory Compliance Manager
Financial and Business Analysis Division

/s/ Karen Lyons / 12-20-2022
Financial and Business Analysis Div. / Date

/s/ Jamie Myers / 12-20-2022
Staff Counsel's Office / Date

SUBJECT: Staff Recommendation for Approval of CCN Application with Conditions

DATE: December 20, 2022

CASE BACKGROUND

On August 5, 2022, Spire Missouri, Inc. (“Spire Missouri” or the “Company”), filed its Application (“Application”) with the Missouri Public Service Commission (“Commission”) for permission and approval of a certificate of public convenience and necessity (“CCN”) to construct, install, own, operate, maintain, and otherwise control and manage a natural gas distribution system to provide natural gas service in and around the City of Oronogo, Missouri in Jasper County (“Oronogo” or the “City”) as a further expansion of its existing certificated area.

On August 8, 2022, the Commission issued its Order directing notice and setting a deadline for intervention request by September 7, 2022 and directed Staff to file a Recommendation regarding Spire Missouri’s Application or a request for an extension of time no later than September 22, 2022. On September 22, 2022, the Commission Staff requested an extension to file its recommendation to December 20, 2022. The Commission granted this request on September 22, 2022.

BACKGROUND OF SPIRE MISSOURI AND THE CITY OF ORONOGO

Spire Missouri is an investor-owned gas utility providing retail gas service in Missouri through its two operating units or divisions, Spire East (formerly known as Laclede Gas Company or LAC) and Spire West (formerly known as Missouri Gas Energy or MGE). Spire West serves approximately 520,000 customers on the western side of Missouri. Spire East serves approximately 650,000 customers on the eastern side of Missouri.

According to the Asset Purchase Agreement included with Spire Missouri's application,

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██████████ ** Oronogo is located in the Spire West service territory and, according to Spire Missouri's application, is a Fourth Class City with around 334 natural gas customers, 16 of those being commercial. Natural gas service is currently offered by the City operating as an unregulated entity. In its application Spire Missouri estimates the addition of approximately 350 residential customers and 5 commercial customers due to planned developments in the area. The existing system was established in the 1980's and the City currently purchases its natural gas from Southern Star Central Gas Pipeline with a take point in the City. The take point has recently been upgraded and is capable of 486 MMBtu, of which the City contracted for 230 MMBtu. The current system consists of approximately 8.5 miles of main pipeline with approximately 8.4 miles of that being plastic polyethylene ("PE") and 350 plastic services with an average length of sixty-five (65) feet through 2020. The main and services were installed between 1980 through 2020.

On November 2, 2021, the citizens of Oronogo approved the sale of the City's natural gas system to Spire Missouri. On July 11, 2022, the Board of Aldermen of Oronogo passed Ordinance No. 22-36, both confirming that the voters approved the sale and approving an Asset Purchase Agreement ("APA") setting the terms and conditions for the purchase of the natural gas system.

Legal description

Spire Missouri's application states that it seeks a CCN permission and approval in and around the City of Oronogo; according to the Application and the attached original legal description approved by ordinance in 1929, the City area are as follow:

Section 1-Boundaries. The Boundaries of the City of Oronogo shall be as follows; and shall embrace the territory therein included, to wit: Commencing one-eighth of a mile South and one-eighth of a mile West of the Northeast corner of Section 31, Township 29, of Range 32, running thence on said line West one and three-eighths miles to a point one -eighth of a mile South of the Northwest corner of the Northeast quarter of Section 36, Township 29 of Range 33, thence South on said half Section line to the North bank of Center Creek in Township 28, Range 33-thence East on said bank line approximately one and three-eighths miles to a point one-eighth of a mile West of the East line of Section 6, Township 28, Range 32, thence North on said line to place of beginning in Section 31, Township 29, Range 32.

With regard to the annexed areas, Spire Missouri's application states that the legal descriptions for the annexed areas are not readily available at the moment. In response to Staff Data Request No. 0001, using the Jasper County MO DOT Highway Map as a reference, Spire Missouri states that the territory is Section 06, Township 28 North, Range 22 West, Section 01, Township 28 North, Range 33 West, Sections 29, 30, 31, 32, Township 29 North, Range 32 West, Section 36, Township 29 North, Range 36 West.

STAFF INVESTIGATION

Tartan Criteria

The Tartan Criteria commonly used by the Commission lists five conditions to include in the determination of whether a utility's proposal meets the standard of being "necessary or convenient for the public service". A short description of how each criteria has been met in Spire Missouri's Application is included below:

• **Is the service needed?**

This proposed acquisition is in the public interest because it ensures continuity of service to Oronogo’s residents, allows a public utility to provide safe and adequate service, and was approved by the residents of Oronogo. The City will benefit from this acquisition for various reasons, including meeting the need to replace aging infrastructure, complying with existing and new industry standards, and saving municipal funds that would otherwise be spent on maintaining the gas system.

• **Is the applicant qualified to provide the service?**

Yes. Spire is a public utility and gas corporation, as those terms are defined in RSMo. Section 386.020, and is a corporation incorporated under the laws of the State of Missouri, with its principal office located at 700 Market Street, St. Louis, Missouri, 63101.

• **Does the applicant have the financial ability to provide the service?**

Staff investigated whether Spire Missouri has the financial ability to construct, install, own, operate, maintain, and otherwise control and manage a natural gas distribution system to provide natural gas service in and around the City of Oronogo, Missouri in Jasper County (“Oronogo”), as a further expansion of its existing certificated area. Staff reviewed how Spire Missouri anticipates funding the Oronogo purchase and the effect the proposed financing would have on Spire Missouri’s credit quality. In response to Staff’s data request, Mr. Adam Woodard stated, “Spire raises funds, initially in the short-term debt markets (typically through commercial paper) for any shortfall in our daily cash position. The funds needed at closing would simply be added to our daily cash position. I would expect the initial funds sent to the city would be generated by a combination of internal funds and external funds raised through the short-term debt markets. This equates to debt and equity (the components of capital structure).”¹ According to the Asset Purchase Agreement attached in the Application, it stated, the purchase price is “** [REDACTED] **,”² and the total cost is expected to be less than ** [REDACTED] **.”³ In addition, Mr. Clifford Garrett stated, “Spire Missouri intends to finance the purchase of the natural gas assets over the long-term in a manner consistent with our recommended capital structure.”⁴ Therefore, Staff has no concerns with the financial risk profile of Spire Missouri.

1 Staff Data Request, No. 0004.
2 Appendix C, the Application.
3 Staff Data Request, No. 0010.
4 Staff Data Request, No. 0004.

With consideration of Spire Missouri's financial capacity, the Applicant has the financial ability to provide the service. According to The Standard & Poor's ("S&P"), Spire Missouri's capital expenditure averages about \$360 million annually, and credit facility availability of about \$475 million.⁵ Spire Missouri is a wholly owned subsidiary of Spire Inc. Over the next three years, the S&P expects Spire Inc. will show robust capital expenditure of about \$580 million annually through 2023.⁶ S&P and Moody's rated both Spire Missouri and Spire Inc. as investment grade. S&P rated both Spire Missouri and Spire Inc. as "A-", while Moody's rated them as "Baa2" and "A1", respectively.⁷ Considering the fact that the proposed total cost is less than 1% of Spire Missouri's capital expenditures through 2023, it is reasonable to conclude that Spire Missouri has the financial ability to construct, install, own, operate, maintain, and otherwise control and manage the natural gas distribution system of Oronogo.

- **Is the applicant's proposal economically feasible?**

Based on application assumptions and the previously approved rates reviewed and determined reasonable by the Commission, Spire Missouri's proposed acquisition is financially feasible. Spire Missouri's purchase and improvements can draw upon the significant resources of its own resources, should any shortfall arise.

- **Does the service promote the public interest?**

As the Commission determined in Case No. GA-94-127, positive findings with respect to the other four standards above will in most instances support a finding that an application for a CCN will promote the public interest. Additionally, due to involvement by the public of the City of Oronogo in voting to approve the sale of the City's system, the involvement of the City of Oronogo's Board of Aldermen passing the Ordinance No. 22-36, confirming the voters approval and approving the Asset Purchase Agreement and for the reasons outlined previously in this memorandum, Staff asserts that Spire Missouri's request for a CCN and related acquisition of the Oronogo natural gas assets is not detrimental to the public interest.

⁵ RatingsDirect, S&P Global Ratings. March 24, 2021.

⁶ RatingsDirect, S&P Global Ratings. September 20, 2022.

⁷ S&P Capital IQ Pro.

STAFF RECOMMENDATION

Based on the information provided above, Staff recommends the Commission approve the Company's CCN with the following conditions:

1. Reserve all rate making determinations regarding the revenue requirement impact of this request until the Company's next general rate making proceeding.
2. Spire Missouri shall provide an updated legal description of the area subject to the service territory for this CCN consistent with the Jasper County MO DOT Highway Map used as a reference for this application.
3. Require Spire Missouri to file to an updated tariff sheet to incorporate (list what we have available) and the updated legal description consistent with recommended condition 2.

Staff has verified that the Company has filed its annual report and is not delinquent on any assessment.

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


In the Matter of the Application of Spire Missouri, Inc.)
d/b/a Spire for Certificate of Convenience and)
Necessity to Construct, Install, Own, Operate,)
Maintain, and Otherwise Control and Manage a)
a Natural Gas Distribution System in and around the)
City of Oronogo in Jasper County, Missouri as an)
Expansion of its Existing Certificated Areas)
File No. GA-2023-0038

AFFIDAVIT OF FRANCISCO DEL POZO

STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

COMES NOW Francisco Del Pozo, and on his oath states 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.

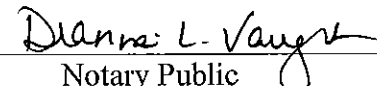
Further the Affiant sayeth not.



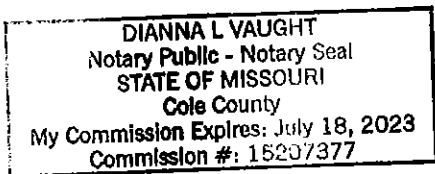
FRANCISCO DEL POZO

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 20th day of December, 2022



Notary Public



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

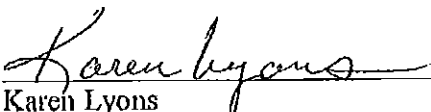
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AFFIDAVIT OF KAREN LYONS

STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

COMES NOW Karen Lyons, and on her oath states that she is of sound mind and lawful age; that she contributed to the foregoing *Staff Recommendation*; and that the same is true and correct according to her best knowledge and belief.

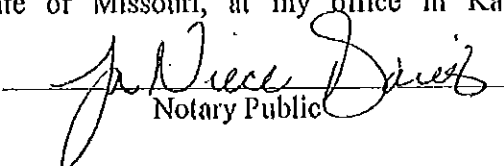
Further the Affiant sayeth not.



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 20th day of December, 2022



Notary Public

JANIECE DAVIS
NOTARY PUBLIC - NOTARY SEAL
STATE OF MISSOURI
MY COMMISSION EXPIRES FEBRUARY 13, 2028
JACKSON COUNTY
COMMISSION #22076386

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File No. GA-2023-0038

AFFIDAVIT OF SEOUNG JOUN WON, PhD

STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

COMES NOW Seoung Joun Won, PhD, and on his oath states 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.

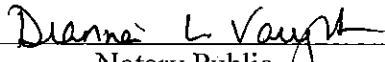
Further the Affiant sayeth not.



SEOUNG JOUN WON, PhD

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 20th day of December, 2022



Notary Public

