

**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,	)	<b><u>File No. GO-2015-0179</u></b>
For Approval to Change its Infrastructure System	)	Tariff No. YG-2015-0255
Replacement Surcharge	)	

**STAFF RECOMMENDATION**

**COMES NOW** the Staff of the Missouri Public Service Commission, by and through counsel, and for its *Staff Recommendation* in this matter hereby states:

1. Laclede Gas Company, doing business as Missouri Gas Energy (MGE or “Company”), filed an application and petition with the Commission January 30, 2015, requesting a change in MGE’s Infrastructure System Replacement Surcharge (ISRS) and implementation of a revised tariff sheet with a proposed effective date of March 2, 2015. The Commission suspended the tariff and ordered Staff to file its recommendation no later than March 31, 2015.

2. Missouri Revised Statute Sections 393.1009 to 393.1015 and Commission Rule 4 CSR 240-3.265 define an ISRS and grant utilities such as MGE the right to collect costs associated with eligible infrastructure system replacements.

3. Staff’s *Recommendation*, attached here as Appendix A and incorporated by reference, notes that the period for which this update is requested is September 1, 2014 through February 28, 2015. Staff determined that the appropriate annualized revenue requirement for the pending ISRS application in this matter is \$2,871,524, based on ISRS-qualifying plant placed in service during the period September 1, 2014 through February 28, 2015.

4. When this revenue requirement is added to the \$1,990,296 annual ISRS revenues currently being collected through MGE's ISRS, the total amount of MGE's current ISRS on the effective date of the order in this case should be \$4,861,820. Staff's recommended ISRS rates are contained in Appendix B and incorporated by reference.

5. Staff verified that MGE has filed its 2014 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 recommends that the Commission issue an order that (1) Rejects MGE's ISRS Tariff Sheet P.S.C. MO No. 6 Fourth Revised SHEET No. 10, Canceling Third Revised SHEET No. 10, as filed on January 30, 2015; (2) Approves Staff's recommended ISRS surcharge revenues in this docket in the annual amount of incremental annual pre-tax revenues of \$2,871,524 with a total cumulative ISRS surcharge of \$4,861,820; (3) Authorizes MGE to file an ISRS rate for each customer class as reflected in Appendix B, which generates \$4,861,820 annually; and (4) Grants such other and further relief as the Commission considers just in the circumstances.

Respectfully Submitted,

**/s/ Whitney Payne**

Whitney Payne  
Legal Counsel  
Missouri Bar No. 64078  
Attorney for the Staff of the  
Missouri Public Service Commission  
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**CERTIFICATE OF SERVICE**

I hereby certify that a true and correct copy of the foregoing was served by electronic mail, or First Class United States Postal Mail, postage prepaid, on this 31<sup>st</sup> day of March, 2015, to all counsel of record.

**/s/ Whitney Payne**

**MEMORANDUM**

TO: Missouri Public Service Commission Official Case File  
Case No. GO-2015-0179, Tariff Tracking No. YG-2015-0255 – Laclede Gas  
Company d/b/a Missouri Gas Energy

FROM: Charles Hyneman, Auditing Department  
Michael Ensrud, Tariffs/Rate Design - Energy  
Thomas M. Imhoff, Tariffs/Rate Design – Energy

/s/Charles Hyneman 03/31/15

/s/Tom Imhoff 03/31/15

Project Coordinator / Date

/s/John Borgmeyer 03/31/15

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: March 31, 2015

**BACKGROUND**

On January 30, 2015, 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 March 1, 2015.

MGE 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 customer bills.

MGE's current ISRS was established October 18, 2014 in ISRS Case No. GR-2015-0025, covering ISRS costs incurred January 1, 2014 through August 31, 2014. The amount of this ISRS as ordered by the Commission in that case was \$1,990,296. Prior to the establishment of this ISRS, MGE's ISRS plant through December 31, 2013 was included in MGE's rate base in its last general rate case, No. GR-2014-0007.

In its January 30, 2015 Application MGE asserts that it has continued to incur costs related to ISRS-eligible infrastructure system replacements. For the period from September 1, 2014 through February 28, 2015, MGE estimates that it is entitled to update and increase its current ISRS in the amount of \$2,604,269. This request included budgeted ISRS plant and budgeted ISRS costs for the months of January and February 2015.

MGE's updated its ISRS Application to \$2,871,524 on March 12, 2015. This updated ISRS Application includes approximately \$919,754 in additional ISRS plant over and above the actual and budgeted plant in its January 30, 2015 Application. MGE's updated Application and was received via email to Staff on March 12, 2015.

The Commission issued an "Order Directing Notice, Directing Filings and Setting Intervention Deadline" on February 3, 2015, but did not suspend the pending tariff. This order set an intervention date of February 19, 2014. That order also establishes March 31, 2015 as the date Staff "shall file its recommendation in this matter."

The Commission issued another order suspending the tariff on February 10, 2015. That order states the "The Commission will suspend that tariff until May 30, 2015, to allow sufficient time to review the ISRS application."

### **STAFF'S ISRS REVENUE REQUIREMENT CALCULATION**

In accordance with Section 393.1015.2(2), the 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.

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. Consistent with this requirement the Commission established a deadline for Staff to file a recommendation regarding MGE's application in this docket. In its February 3, 2015 *Order Directing Notice, Directing Filings and Setting Intervention Deadline* the Commission ordered that "no later than March 31, 2015, the Staff of the Missouri Public Service Commission shall file its recommendation in this matter."

The second significant audit scope restriction is that 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). Single-issue examination resulting in single-issue ratemaking as required by the Section 393.1015.2(2) is significantly different from a normal Staff rate audit where all items of a utility's revenues, expenses, investments, gains and losses are examined. The resulting revenue requirement recommended by Staff is based on a comprehensive examination of many factors affecting the utility's revenue requirement.

The scope of Staff's examination of an ISRS application consists of two parts. The first part is a review of 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 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.

Table 1 shows that from its January 30, 2015 initial ISRS Application until its March 12, 2015 supplemental ISRS Application (received by the Staff via an email on March 12, 2015), MGE's requested ISRS plant increased by \$919,754 and its ISRS revenue requirement increased by \$267,254. The significant difference in the deferred tax component for the current GO-2015-0179 ISRS resulted from a correction of the deferred tax calculation reflecting that bonus depreciation on 2015 plant in service is not currently available.

Table 1

	1/30/2015	3/12/2015
	Original Application	Supplemental Application
ISRS Plant (9/1/14 - 2/28/15)	\$21,434,415	\$22,354,169
Deferred Taxes (previous ISRS update GR-2015-0025)	(\$2,588,325)	(\$2,588,325)
Accumulated Depreciation (previous ISRS update GR-2015-0025)	(\$168,296)	(\$168,296)
Deferred Taxes (Current-GO-2015-0179)	(\$3,605,839)	(\$1,777,859)
Accumulated Depreciation (Current GO-2015-0179)	(\$232,384)	(\$238,419)
Total ISRS Rate Base (Current GO-2015-0179)	\$14,839,571	\$17,581,270
Return on ISRS Rate Base	\$1,446,858	\$1,714,174
Depreciation Expense	\$398,196	\$398,134
Property Taxes on 2014 ISRS Plant	<u>\$759,215</u>	<u>\$759,215</u>
Proposed ISRS Revenue Requirement	\$2,604,269	\$2,871,524

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 MGE's ISRS application. Staff reviewed a number of selected work order documents.

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.

Because of the nature and structure of the ISRS as a continuing and cumulative surcharge, the Staff has the ability to adjust MGE's total ISRS, including all previous ISRS updates, in MGE's next ISRS filing, if found to be appropriate. The ability to examine all previous ISRS costs in subsequent ISRS applications is an important safeguard given the limited time available to audit ISRS costs (a maximum of 60 days) in any individual application.

Based on a limited review of MGE's ISRS Application, Staff is not proposing any adjustments to MGE's updated ISRS revenue requirement. Staff has determined the appropriate annualized revenue requirement for the pending ISRS Application (GR-2015-0179) is \$2,871,524 based on ISRS plant placed in service during the period September 30, 2014 through February 28, 2015.

When added to the \$1,990,296 annual ISRS revenues currently being collected in MGE's initial ISRS (GR-2015-0025), the total amount of MGE's current ISRS should be \$4,861,820 on the effective date of the tariff from this docket.

### **THE ISRS RATE SCHEDULES**

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

Staff sought and received correction as to the date when the customer counts used (in the calculation) were filed with the Commission. MGE's application stated it used the customer counts from the initially-filed April 15 version of the Annual Report. However, Staff confirmed that MGE actually used the "customer counts" in the amended Annual Report resubmitted as of September 10, 2014. These customer counts used in this case are consistent with counts used to calculate the rates in the last ISRS case, GR-2015-0025.

Staff has verified that MGE has filed its 2014 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 Fourth Revised SHEET No. 10, Canceling Third Revised SHEET No. 10 as filed on January 30, 2015,

2. Approves the Staff's recommended ISRS surcharge revenues in this docket in the amount of incremental annual pre-tax revenues of \$2,871,524 with a total cumulative ISRS surcharge of \$4,861,820; and
3. Authorizes MGE to file an ISRS rate for each customer class as reflected in Appendix B, which generates \$4,861,820 annually.



MISSOURI GAS ENERGY  
(Laclede Owned)

Missouri Gas Energy (Laclede Owned)

**Appendix B**

GO-2015-0025	\$1,990,296.00
GO-2015-0179 revised	\$2,871,524.00
Total	\$4,861,820.00

**GO-2015-0179**

**YG-2015-0255**

ISRS RATE DESIGN

Company's Total ISRS Revenues

Customer Rate Class	Number of Customers	Customer Charges	Ratio To Res. Cust. Charge	Weighted Customer #	Customer Percentage	ISRS charge	ISRS Revenues
<b>Residential</b>	440,372	\$23.00	1.000000	440,372	<b>78.19%</b>	<b>\$0.72</b>	<b>\$3,801,682.95</b>
Small General Service	60,087	\$34.00	1.478261	88,824	<b>15.77%</b>	<b>\$1.06</b>	<b>\$766,810.06</b>
Large General Service	2,939	\$115.40	5.017391	14,746	<b>2.62%</b>	<b>\$3.61</b>	<b>\$127,301.57</b>
Large Volume Service	489	\$904.56	39.328696	19,232	<b>3.41%</b>	<b>\$28.29</b>	<b>\$166,025.42</b>
<b>TOTAL</b>	503,887			<b><u>563,174</u></b>	<b><u>100.00%</u></b>		<b><u>\$4,861,820.00</u></b>

\* Due to rounding to the nearest penny, the designed ISRS rates will over collect by \$624. 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 Change its ) Case No. GO-2015-0179  
 Infrastructure System Replacement )  
 Surcharge )

**AFFIDAVIT OF MICHAEL J. ENSRUD**

STATE OF MISSOURI )  
 ) ss  
 COUNTY OF COLE )

Michael J. Ensrud, 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.

*Michael J. Ensrud*  
 Michael J. Ensrud

Subscribed and sworn to before me this 30<sup>th</sup> day of March, 2015.

D. SUZIE MANKIN Notary Public - Notary Seal State of Missouri Commissioned for Cole County My Commission Expires: December 12, 2016 Commission Number: 12412070
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*D. Suzie Mankin*  
 Notary Public

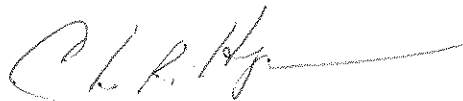
BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI

In the Matter of the Application of )  
Missouri Gas Energy, an operating unit of ) File No. GO-2015-0179  
Laclede Gas Company, for approval to )  
Change its Infrastructure System )  
Replacement Surcharge )

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 30<sup>th</sup> day of March, 2015.



Notary Public



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

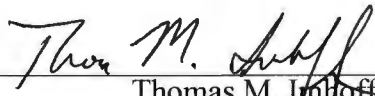
**BEFORE THE PUBLIC SERVICE COMMISSION  
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In the Matter of the Application of )  
Missouri Gas Energy, an operating unit of )  
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Change its Infrastructure System     )  
Replacement Surcharge             )

**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 20<sup>th</sup> day of March, 2015.

LAURA DISTLER  
Notary Public - Notary Seal  
STATE OF MISSOURI  
Commissioned for Cole County  
My Commission Expires: June 21, 2015  
Commission Number: 11203914

  
\_\_\_\_\_  
Notary Public