

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

In the Matter of the Application of)	
Laclede Gas Company to Change its)	<u>Case No. GO-2016-0332</u>
Infrastructure System Replacement)	Tariff No. YG-2017-0048
Surcharge in its Missouri Gas Energy)	
Service Territory)	

STAFF RECOMMENDATION

COMES NOW the Staff of the Missouri Public Service Commission and in response to the Commission’s October 3, 2016, *Order Directing Notice, Setting Intervention Deadline, Directing Filing and Suspending Tariff* (“Order”) submits its *Staff Recommendation* to the Commission as set forth in detail in the attached appendices, and in support thereof respectfully states as follows:

1. On September 30, 2016, Missouri Gas Energy (“MGE” or “Company”), an operating unit of Laclede Gas Company (“Laclede”), filed its *Verified Application and Petition of Missouri Gas Energy, an Operating Unit of Laclede Gas Company, to Change Its Infrastructure System Replacement Surcharge in Its Missouri Gas Energy Service Territory* (the “Application”) pursuant to Sections 393.1009, 393.1012 and 393.1015 of the Revised Statutes of Missouri and Commission Rule 4 CSR 240-3.265¹ which authorize gas corporations to recover certain eligible infrastructure replacement costs through an infrastructure system replacement surcharge (“ISRS”).

2. In the Order the Commission suspended the tariff sheet filed by MGE on September 30, 2016 (assigned tariff tracking number YG-2017-0048) until January 28, 2017, and ordered Staff to file its recommendation regarding MGE’s Application no later than November 29, 2016. Staff’s recommendation is attached

¹ MGE’s Application also referenced Commission Rules 4 CSR 240-2.060, 2.080 and 4.020(2).

hereto as Appendix A and Appendix B, both of which are incorporated herein by reference.

3. This case represents MGE's fifth ISRS filing since the conclusion of its most recent general rate case, Case No. GR-2014-0007. In its current Application, MGE filed to recover ISRS qualifying infrastructure replacement costs incurred during the period March 1, 2016 through August 31, 2016, with pro-forma ISRS costs updated through October 31, 2016.

4. As part of Staff's examination of MGE's Application, Auditing Staff reviewed supporting work papers, a representative sample of work orders, invoices, and other applicable documentation such as work order authorizations, as well as communicating with MGE personnel to gain clarification of MGE's Application when necessary.

5. Based upon its review and all of its calculations, Staff is recommending that MGE receive ISRS revenues for this case of \$3,362,598. Due to the previously approved ISRS rates for MGE which continue in effect, the total ISRS revenue requirement to be included in rates (including Staff's recommended amount for this case) is \$13,616,021.

6. Staff has developed proposed ISRS rates for MGE based on Staff's recommended revenue requirement for this case described above. Staff's proposed rates are consistent with the methodology used to establish MGE's past ISRS rates and are consistent with the overall methodology used to establish ISRS rates for other gas utilities. Staff's proposed ISRS rates are contained in Appendix B, attached hereto and incorporated by reference herein.

7. Previously, on June 9, 2016, Laclede, on behalf of MGE, had filed a *Request for Waiver of Rule 4.020(2) for ISRS Case Filings, or in the Alternative, Notice of Intended Case Filings* (“Request”). The waiver request should be denied, particularly in light of the fact that revisions to the Commission’s *ex parte* rules are currently under consideration by the Commission. MGE’s June 9, 2016, Request should serve as sufficient notice of intended case filing.

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

1. Rejects the MGE ISRS tariff sheet (YG-2017-0048) P.S.C. MO No. 6, Seventh Revised Sheet No. 10 cancelling P.S.C. MO No. 6, Sixth Revised Sheet No. 10, as filed on September 30, 2016;
2. Approves the Staff’s recommended ISRS surcharge revenues in this case in the incremental pre-tax revenue amount of \$3,362,598, with a total current and cumulative ISRS amount of \$13,616,021;
3. Authorizes MGE to file an ISRS rate for each customer class as reflected in Appendix B; and
4. Denies MGE’s waiver request.

Respectfully submitted,

/s/ Jeffrey A. Keevil

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CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed, hand-delivered, or transmitted by facsimile or electronic mail to counsel of record this 29th day of November, 2016.

/s/ Jeffrey A. Keevil

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. GO-2016-0332, Tariff Tracking No. YG-2017-0048
Missouri Gas Energy

FROM: Caroline Newkirk, Regulatory Auditor, Auditing Department
Michael J. Ensrud, Rate & Tariff Examiner II, Procurement Analysis

/s/ Mark L. Oligschlaeger 11/29/16
Auditing Department / Date

/s/ David M. Sommerer 11/29/16
Commission Staff Division / Date

/s/ Jeffrey A. Keevil 11/29/16
Staff Counsel's Office / Date

SUBJECT: Staff Report and Recommendation Regarding Verified Application and Petition of Missouri Gas Energy, an Operating Unit of Laclede Gas Company, to Change its Infrastructure System Replacement Surcharge in its Missouri Gas Energy Service Territory

DATE: November 29, 2016

BACKGROUND

On September 30, 2016 Missouri Gas Energy (“MGE” or “Company”), an operating unit of Laclede Gas Company, filed the “Verified Application and Petition of Missouri Gas Energy, an Operating Unit of Laclede Gas Company, to Change its Infrastructure System Replacement Surcharge in its Missouri Gas Energy Service Territory” with the Missouri Public Service Commission (“Commission”). The Application proposes to increase MGE’s Infrastructure System Replacement Surcharge (ISRS) rates and implement a revised Tariff Sheet with a proposed effective date of October 30, 2016.

MGE made its filing pursuant to Sections 393.1009, 393.1012 and 393.1015 of the Revised Statutes of Missouri and Commission Rules 4 CSR 240-2.060, 2.080, and 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.

MGE asserts that it has continued to incur costs related to ISRS-eligible infrastructure system replacements since the Commission’s last decision in Case No. GO-2016-0197 and submitted its Application to reflect ISRS investments for the period from March 1, 2016 through August 31, 2016, with pro-forma ISRS costs updated through October 31, 2016. MGE estimated in its Application that it was entitled to an incremental increase of ISRS revenues in this case of \$3,451,810.

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In relation to notice requirements, Laclede Gas Company, on behalf of MGE, has filed the following on June 9, 2016:

LACLEDE GAS AND MISSOURI GAS ENERGY'S REQUEST FOR WAIVER OF
RULE 4.020(2) FOR ISRS CASE FILINGS, OR IN THE ALTERNATIVE, NOTICE OF
INTENDED CASE FILINGS

This submission suffices for notice under 4 CSR 240-4.020(2). However, the waiver request should be denied, particularly in light of the fact that revisions to the Commission's *ex parte* rules are currently under consideration by the Commission.

On October 3, 2016, the Commission issued an "Order Directing Notice, Setting Intervention Deadline, Directing Filing and Suspending Tariff." That Order set the following dates:

- Staff's Recommendation shall be filed no later than November 29, 2016
- Suspension of the tariff sheet until January 28, 2017

STAFF REVIEW AND REVENUE CALCULATIONS

On September 30, 2016, Missouri Gas Energy ("MGE" or "Company"), an operating unit of Laclede Gas Company, filed an application and tariff sheet in Case No. GO-2016-0332 to change its Infrastructure System Replacement Surcharge (ISRS). This is the fifth ISRS filing since the Company's most recent general rate case, Case No. GR-2014-0007. The results of the preceding ISRS cases are currently included in MGE's ISRS rates: Case Nos. GR-2015-0025, GO-2015-0270, GO-2015-0343, and GO-2016-0197.

Section 393.1015.3, RSMo, states, "A gas corporation may effectuate a change in its rate pursuant to the provisions of this section no more often than two times every twelve months." The MGE tariff filed with this Application has been suspended until **January 28, 2017**. In Case No. GO-2015-0343, which was filed in August of 2015, the effective date for MGE's revised ISRS rates was December 1, 2015. Since that date, MGE has changed its ISRS surcharge one additional time, in Case No. GO-2016-0197. Based upon MGE's previous ISRS filings and the statute, Staff recommends the tariff for this ISRS filing should not go into effect prior to December 1, 2016.

Commission Rule 4 CSR 240-3.265(18) states, "... The commission shall reject an ISRS petition after a commission order in a general rate proceeding unless the ISRS revenues requested in the petition, on an annualized basis, will produce ISRS revenues of at least the lesser of one-half of one percent (1/2%) of the natural gas utility's base revenue level approved by the commission in the natural gas utility's most recent general rate case proceeding or one (1) million dollars, but

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not in excess of ten percent (10%) of the subject utility's base revenue level approved by the commission in the utility's most recent general rate proceeding." MGE's requested ISRS revenues exceeds the one-half of one percent of the natural gas utility's base revenue level approved by the commission in the most recent MGE rate case and MGE's cumulative ISRS revenues, including this filing, do not exceed ten percent of the base revenue levels approved by the commission in the last MGE rate case.

In this Application, MGE filed to recover ISRS qualifying infrastructure replacement costs incurred during the period of March 1, 2016 through October 31, 2016. The ISRS recovery requested for September and October 2016 plant additions was included on an estimated basis at the time MGE's Application was filed, but documentation supporting actual ISRS plant addition costs for these months was supplied by MGE during the course of Staff's review and audit in this case.

As part of its examination of MGE's application, Auditing Staff reviewed supporting workpapers, a representative sample of work orders, invoices, and other applicable documentation, such as work order authorizations. Staff also communicated with MGE personnel to clarify MGE's application when necessary.

The following documentation was provided to Staff on the following dates:

- October 3, 2016 - Work order authorizations for ISRS projects over \$50,000 for the months of March 1, 2016 thru August 31, 2016.
- October 10, 2016 - Work authorizations for September 2016.
- November 10, 2016 – Work authorizations for October 2016 and a sample of invoices and work orders related to costs incurred between March 1, 2016 and September 30, 2016.
- November 18, 2016 - A sample of invoices for October 2016.
- November 21, 2016 – A sample of a work order for October 2016.

Commission Rule 4 CSR 240-3.265 sets forth the definitions of natural gas utility plant projects that are eligible for ISRS treatment. Staff concluded each of the projects reviewed meets the ISRS rule qualifications.

The methodology used by the Auditing Staff allows for consideration of all accumulated depreciation and deferred income taxes on ISRS qualifying infrastructure replacement costs through December 15, 2016. This methodology is consistent with past reviews conducted by Auditing Staff and with Staff's view that the calculation of the ISRS revenue requirement should closely reflect the revenue requirement at the effective date of the ISRS rates.

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Auditing staff also included incremental accumulated depreciation, accumulated deferred income tax, and any change in property tax rates for replacements associated with the currently effective ISRS authorized for MGE in Case Nos. GR-2015-0025, GO-2015-0270, GO-2015-0343, and GO-2016-0197 as required by 4 CSR 240-3.265(20)(K).

STAFF RECONCILIATION

Commission Rule 4 CSR 240-3.265(17) requires a reconciliation of the ISRS revenue MGE collected from customers in the prior 12-month period to account for over or under-collection of ISRS revenue. Since a reconciliation of revenues collected thru December 31, 2015 was performed in the last ISRS rate case, Case No. GO-2016-0197, it is not necessary for Staff to perform a reconciliation of surcharges for purposes of this case because the required twelve-month (12) period provided in 4 CSR 240-3.265(17) has not elapsed.

AUDITING SUMMARY AND CONCLUSIONS

Based upon its review and calculations made in response to this ISRS Application, Staff recommends MGE receive additional ISRS revenues of \$3,362,598. This amount differs from MGE's updated work papers in that staff removed a \$72 transposition error on one of the Company's journal entries. Staff found this error when reviewing invoices. Upon Commission approval, this amount will be included with ISRS rates currently in effect from Case Nos. GR-2015-0025, GO-2015-0270, GO-2015-0343, and GO-2016-0197. The following table shows the cumulative amount to be included in rates:

ISRS Case No.	Revenue Requirement	Cumulative
GR-2015-0025	\$1,990,296	
GO-2015-0270	\$2,814,926	\$4,805,222
GO-2015-0343	\$1,878,151	\$6,683,373
GO-2016-0197	\$3,570,050	\$10,253,423
GO-2016-0332	\$3,362,598	\$13,616,021

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 herein.

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Staff has verified that MGE has filed its 2015 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, other than MGE's last two ISRS cases which are currently on appeal.

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 (YG-2017-0048) P.S.C MO No. 6 Seventh Revised Sheet No. 10 cancelling P.S.C. MO No. 6 Sixth Revised Sheet No. 10 filed on September 30, 2016;
2. Approves the Staff's recommended ISRS surcharge revenues in this docket in the incremental pre-tax revenue amount of \$3,362,598;
3. Authorizes MGE to file an ISRS rate for each customer class as reflected in Appendix B, which generates \$13,616,021 annually.

MGE
 ISRS Rate Design
 Total ISRS Revenues

CASE NO. GO-2016-0332

FILE NO. YG-2017-0048

Total Revenue Requirement **\$ 13,616,021**

Customer Rate Class	Number of Customers	Customer Charge	Ratio to Residential Customer Charge	Weighted Customer Nos.	Customer Percentage	Proposed ISRS Charge	Proposed ISRS Revenues
Residential	445,941	\$ 23.00	1	445941	78.5626%	\$ 2.00	\$ 10,697,098
Small General Service	57,881	\$ 34.00	1.478261	85563.21739	15.0739%	\$ 2.96	\$ 2,052,465
Large General Service	3,421	\$ 115.40	5.017391	17164.49565	3.0239%	\$ 10.03	\$ 411,737
Large Volume	482	\$ 904.56	39.328696	18956.4313	3.3396%	\$ 78.62	\$ 454,721
	<u>507,725</u>			<u>567,625</u>			<u>\$ 13,616,021</u>

*Due to rounding to the nearest penny, the designed **ISRS rates will under collect by \$8986**. However, it should be noted that the total amount will be trued-up at a later date.

