BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Spire Missouri, Inc. d/b/a Spire (East) Purchased Gas Adjustment (PGA) Tariff Filing	)))	**Case No. GR-2021-0127**

SPIRE MISSOURI'S STATEMENT OF POSITION

COMES NOW Spire Missouri Inc. ("Spire Missouri" or "Company"), as its *Statement of Position* concerning the issues contained in the *Joint List of Issues, Stipulation of Undisputed Facts, and Order of Openings, Witnesses and Cross-Examination* filed on July 7, 2023, respectfully states as follows to the Missouri Public Service Commission ("Commission"):

BACKGROUND

On October 30, 2020, Spire Missouri filed its Actual Cost Adjustment (ACA) for the 2019-2020 ACA period. This ACA review period will reconcile the actual gas costs Spire Missouri incurred from October 1, 2019 to September 30, 2020.

On January 6, 2023, Spire Missouri and Staff filed a *Partial Stipulation and Agreement* to resolve all monetary issues between Staff's Report and Spire Missouri including, without limitation, disputes regarding the Asset Management Agreement transaction entered into during the 2019-2020 ACA period. The Commission approved the *Partial Stipulation and Agreement* in an order effective February 24, 2023. The only issues remaining in this case for Commission decision relate to Spire Missouri's firm transportation agreement with Spire STL Pipeline, LLC.

ISSUES

The parties were unable to reach an agreement as to how the issues for Commission decision should be described. *Staff and Spire Missouri*, proposed that the issues be described as follows:

> 1. Was Spire Missouri's decision to enter into a firm transportation contract with Spire STL Pipeline LLC prudent?
>
> 2. If not, should the Commission order a disallowance of gas costs for the Spire Missouri East 2019-2020 Actual Cost Adjust period based on that decision?
>
> 3. If so, what disallowance of gas costs should be ordered?

The *Office of the Public Counsel, Environmental Defense Fund and Consumers Council of Missouri* proposed that the issues be described as follows:

> 1. Was it reasonable and prudent for Spire Missouri, Inc. d/b/a Spire (East), in managing its gas supply and pipeline capacity, to have relied on obtaining service from Spire STL Pipeline prior to the latter having received a non-appealable certificate of public convenience and necessity from FERC?
>
> 2. If the answer to the foregoing question is negative, what action should the Commission take?

Spire Missouri will respond generally to both sets of issues in the following position statement.

Spire Missouri Position:

In order to disallow Spire Missouri's gas costs within the context of an ACA case, the Commission must find both that: (1) Spire Missouri acted imprudently; and, (2) such imprudence resulted in harm to Spire Missouri's customers.[1] Spire Missouri's decision to enter into a firm transportation agreement with Spire STL Pipeline, LLC and its decisions related to managing its gas supply and pipeline capacity in light of that contract were prudent. Those decisions caused no harm to Spire Missouri's customers (no increase in gas costs) during the ACA period at issue and likely benefited the customers. Moreover, the Spire STL Pipeline operated throughout the 2019-2020

[1] *See State ex rel. Associated Natural Gas v. Pub. Serv. Comm'n*, 954 S.W.2d 520, 529 (Mo. App. W.D. 1997).

Actual Cost Adjust period pursuant to a FERC certificate having no adverse decisions.[2] Thus, the Commission may not order any further gas cost disallowance for the Spire Missouri East 2019-2020 Actual Cost Adjust period.

Prudent Decision

The Commission has previously indicated that the following reasonableness standard should be applied when determining whether a company's actions are prudent:

> . . . the company's conduct should be judged by asking whether the conduct was reasonable at the time, under all the circumstances, considering that the company had to solve its problem prospectively rather than in reliance on hindsight. In effect, our responsibility is to determine how reasonable people would have performed the tasks that confronted the company.[3]

Spire Missouri had been considering options to diversify its gas supply portfolio for many years to improve reliability, meet peak demand as the St. Louis metropolitan area continued to expand westward, and capitalize on shifting natural gas prices in response to growing supply. The latter reason was due to the fact that natural gas supplies increased exponentially nationwide due to production increases in the Marcellus and Utica Shale regions from 2010 to 2015 and the Company was, at the time, heavily dependent on Mississippi River Transmission Pipeline's ("MRT") system (sourcing gas from the Gulf and Midcontinent) and liquid propane injections to supply the St. Louis region.[4]

A committee of key personnel was formed in 2013 as "Project Gas." The purpose of Project Gas was to evaluate the market trends for natural gas and prepare future gas supply

2 In fact, there was no adverse decision related to the Spire STL Pipeline until June of 2021, almost a full year after the end of the ACA period at issue in this case.

3 *In the Matter of the Determination of In-Service Criteria for the Union Electric Company's Callaway Nuclear Plant and Callaway Rate Base and Related Issues. In the Matter of Union Electric Company of St. Louis, Missouri, for Authority to File Tariffs Increasing Rates for Electric Service Provided to Customers in the Missouri Service Area of the Company*, 27 Mo. P.S.C. (N.S.) 183, 192-193 (1985). The Missouri Court of Appeals for the Western District later utilized this standard in addressing a question of prudence arising within the context of an ACA case. *State ex rel. Associated Natural Gas v. Pub. Serv. Comm'n*, 954 S.W.2d 520, 528-29 (Mo. App. W.D. 1997).

4 Weitzel Dir., p. 20-21.

recommendations. A March 2015 review by Project Gas identified four key weaknesses to meeting future demand:

- A dependence on MRT for up to 80% of Spire Missouri East's gas and no-notice storage;
- Supply resources being vulnerable to earthquakes along the New Madrid Seismic Zone because of a lack of pipeline diversity;
- Limited availability of new capacity at Spire Missouri's city-gates relative to peak demand; and,
- Relatively little price competition among existing pipeline providers.

The ultimate recommendation to the Spire Inc. Board of Directors at the March 2015 meeting was to seek firm pipeline capacity from the Marcellus basin and Rocky Mountains.[5]

With that recommendation in mind, the Company initiated a request for proposals ("RFP") process. However, it became apparent by early 2016 that this process would not lead to the construction of the desired pipeline.[6]

The Company therefore turned toward the prospect of Spire Inc. authorizing the construction and operation of an independent pipeline. On April 27, 2016, the Project Gas team sought approval from Spire Inc.'s Board of Directors to establish a Spire-affiliated pipeline with a separate and distinct organization. Spire Inc.'s Board voted to proceed with the proposal after the April 2016 meeting.[7]

Spire Missouri and Spire STL Pipeline were represented by completely separate business and legal teams, which conducted an arms-length negotiation of a potential precedent agreement for service on the new proposed pipeline. Spire STL Pipeline proposed to supply the Company 350,000 Dth/day of capacity as a foundation shipper for twenty years.[8] Spire Missouri's gas purchasing team

[5] Weitzel Dir., p. 22.
[6] Weitzel Dir., p. 22.
[7] Weitzel Dir., p. 22-23.
[8] Weitzel Dir., p. 23-24.

conducted an alternative supply portfolio analysis that concluded that Spire Missouri customers would save $1,906,000 per year by adding Spire STL Pipeline to its portfolio.[9] Spire Missouri negotiated for committed capacity (with a two-cent rate increase cap) and executed a firm transportation agreement/precedent agreement with Spire STL Pipeline in January of 2017 on those terms.[10]

Spire Missouri subsequently updated the alternative supply portfolio study after the Company signed the precedent agreement with the Spire STL Pipeline in 2017. Accounting for more pricing certainty, including the $0.25/Dth rate cap agreed to with Spire STL Pipeline, showed that the Company's actual expected annual savings were $5,904,000.[11]

Spire Missouri's decision to enter into a firm transportation agreement with the Spire STL Pipeline accomplished three goals: (1) The Company avoided the need to pursue more expensive, less advantageous means of securing natural gas capacity; (2) The Pipeline gave Spire Missouri access to more diverse and prolific natural gas production, which means that the Company has more options to procure competitively priced supply at liquid and transparent markets; and (3) The Pipeline gave the Company a stronger position for negotiations with other, competing pipelines.[12]

As to the management of Spire Missouri's gas supply and pipeline capacity, in light of its agreement with Spire STL Pipeline, Spire Missouri was contractually obligated to take service on Spire STL Pipeline upon its in-service date. Spire Missouri thus executed planned contracting decisions and operational changes to avoid burdening its customers with unnecessary costs associated with capacity and assets that were no longer needed to serve its customers.[13] The Spire STL Pipeline allowed Spire Missouri to shed less attractive capacity options that would no longer be

[9] Weitzel Dir., p. 33-34.
[10] Weitzel Dir., p. 24
[11] Weitzel Dir., p. 34.
[12] Weitzel Dir., p. 32.

needed with Spire STL Pipeline in the portfolio.[14]

On the other hand, if Spire Missouri had maintained its previously contracted capacity until the Spire STL Pipeline FERC certificate was no longer appealable, Spire Missouri would have held all of the capacity it relinquished for well over three years after Spire STL Pipeline began to provide service to Spire Missouri. This would be redundant capacity, which would have significantly and unnecessarily increased costs to customers.[15]

The decision to contract with Spire STL Pipeline, and the decisions related to the management of gas supply and pipeline capacity, were reasonable at the time, under all the circumstances, considering that Spire Missouri had to solve its problem prospectively rather than in reliance on hindsight and, therefore, were prudent.

No Harm to Customers

Even where the Commission makes a finding of imprudence, it must still assess whether there is any detrimental impact on the Company's gas costs resulting from the purchasing practice at issue. In reviewing a disallowance in an ACA case for Associated Natural Gas Company (ANG), the Missouri Court of Appeals for the Western District stated as follows:

> Ultimately, the PSC's standards for the recoverability of ANG's costs arise from the statutory mandate that all charges made by a gas company be just and reasonable. Section 393.130.1. It would be beyond this statutory authority for the PSC to make a decision on the recoverability of costs, based upon a prudency analysis of gas purchasing practices, without reference to any detrimental impact of those practices on ANG's charges to its customers, such as evidence that the costs which ANG is seeking to pass on to its customers are unjustifiably higher than if different purchasing practices had been employed. Therefore the PSC's decision denying recovery of half the premium of the SEECO contract must be deemed unlawful.[16]

[13] Weitzel Reb., p. 11.
[14] Weitzel Reb., p. 18.
[15] Weitzel Reb., p. 18.
[16] *State ex rel. Associated Nat. Gas Co.*, 954 S.W.2d 520, 529-30 (emphasis added).

In this case, Spire Missouri's actual gas costs during the ACA review period of October 1, 2019 to September 30, 2020 did not increase as a result of its firm transportation agreement with Spire STL Pipeline, or as the result of its management of its gas supply and pipeline capacity. Spire Missouri's studies indicate that, accounting for more pricing certainty (including the $0.25/Dth rate cap), the Company's actual expected annual savings were $5,904,000.[17] More specifically, if Spire Missouri had maintained its historically contracted (and duplicative) capacity on MRT until such time as the FERC certificate became unappealable, Spire Missouri's customers would have incurred more than $150 million in additional costs.[18]

The costs Spire Missouri is seeking to pass on to its customers are not higher than if different purchasing practices had been employed. In fact, they are lower than if different purchasing practices had been employed. Accordingly, there is no harm to customers and no basis for a disallowance of gas costs.

Weitzel Dir., All; Weitzel Reb.; Weitzel Sur., All
Yonce Dir., All

WHEREFORE, Spire Missouri respectfully submits this *Statement of Position* for the Commission's consideration.

Respectfully submitted,

__//s//Matthew Aplington________

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[17] Weitzel Dir., p. 34.
[18] Weitzel Reb., p. 19.

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ATTORNEYS FOR SPIRE MISSOURI, INC.

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served electronically on all counsel of record on this 14th day of July, 2023.

_____*Julie Johnson*________