

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

In the Matter of the Application of Spire)
Missouri Inc. to Change its Infrastructure) **Case No. GO-2019-0116**
System Replacement Surcharge in its) **Tariff No. YG-2019-0139**
Spire Missouri West Service Territory)

STAFF RECOMMENDATION

COMES NOW the Staff of the Missouri Public Service Commission and in response to the Commission’s January 15, 2019, *Order Directing Notice, Setting Intervention Deadline, Directing Filing, And Suspending Tariff Sheets* (“Order”) submits its *Staff Recommendation* to the Commission as set forth in detail in the attached appendices, and in support thereof states as follows:

1. On January 14, 2019, Spire Missouri Inc. (formerly known as Laclede Gas Company) filed its *Verified Application and Petition of Spire Missouri Inc. to Establish an Infrastructure System Replacement Surcharge for Its Spire Missouri West* (“Spire West” or “Company”, formerly known as Missouri Gas Energy) *Service Territory* (the “Application”)¹ pursuant to Sections 393.1009, 393.1012 and 393.1015 of the Revised Statutes of Missouri and Commission Rule 4 CSR 240-3.265 which authorize gas corporations to recover certain eligible infrastructure replacement costs through an infrastructure system replacement surcharge (“ISRS”).²

2. In its January 15th *Order*, the Commission suspended the tariff sheet filed by Spire West on January 14, 2019 (assigned tariff tracking number YG-2019-0139) until

¹ On October 29, 2018, the Company, pursuant to 4 CSR 240-4.017(4)(D), had filed *Spire Missouri Inc.’s Request For Waiver of Rule 4 CSR 4.017(1) For ISRS Case Filings, Or In The Alternative, Notice Of Intended Case Filings* seeking a waiver of the Commission’s 60 day notice requirement which the Commission granted on December 17, 2018.

² The Company’s Application also referenced the filing requirements of Commission Rule 4 CSR 240-2.060 and 2.080.

May 14, 2019. In its *Order* referenced above, the Commission also ordered Staff to file its recommendation regarding the Application no later than March 15, 2019. Staff's recommendation is attached hereto as Appendix A, Appendix B, and Appendix C, each of which are incorporated herein by reference.

3. In its Application, Spire West filed two cost recovery requests. One request is to recover "new" ISRS qualifying infrastructure replacement costs incurred during the period July 1, 2018, through January 31, 2019. The ISRS recovery requested for December 2018 and January 2019 plant in service additions was included on an estimated basis at the time the Application was filed. However, on February 25, 2019, Spire West filed a revised Appendix A including the actual ISRS plant addition costs for those months. This "new" cost recovery request (hereafter the "New Request") is consistent with traditional procedure regarding the time frame of the costs requested for recovery in a typical ISRS recovery filing.

4. The second component of Spire West's cost recovery request is unique to past ISRS filings because it is a renewal of the Company's previous ISRS cost recovery request (hereafter the "Old Request") which was denied by the Commission in a prior case, Case No. GO-2018-0310. Specifically, the Company's Old Request again seeks to recover its proposed ISRS costs incurred during the period of October 1, 2017 through June 30, 2018, which the Commission determined to be ineligible.³ The Report and Order in Case Nos. GO-2018-0309 and GO-2018-0310 was appealed to the Missouri Western District Court of Appeals by Spire Missouri Inc. and the Office of the

³ See Case No. GO-2018-0310, Report And Order, *In the Matter of the Application of Spire Missouri Inc. to Change its Infrastructure System Replacement Surcharge in its Spire Missouri West Service Territory*, effective October 1, 2018. (EFIS Item No. 64)

Public Counsel, Docket No. WD82302 (consolidated with WD82373).⁴ Because the Western District has not yet issued an opinion ruling on the appeal of the ISRS recovery denied by the Commission in underlying Case No. GO-2018-0310, Staff believes it premature to take up the matter of the Old Request in the instant ISRS case while the Old Request is on appeal at the Western District. Therefore, Staff has not included the ISRS costs in the Old Request in its revenue requirement for this proceeding.

5. Further, Staff points out that jurisdiction over the matter of the ISRS costs previously denied by the Commission in the Old Request now rests with the Missouri Court of Appeals and not the Commission. As a general matter, upon filing of a notice of appeal, a trial court loses almost all jurisdiction over a case. **Reynolds v. Reynolds**, 109 S.W.3d 258, 269–71 (Mo. App., W.D. 2003); **State ex rel. Stickelber v. Nixon**, 54 S.W.3d 219, 223 (Mo. App., W.D. 2001); **State ex rel. Steinmeyer v. Coburn**, 671 S.W.2d 366, 371 (Mo. App., W.D. 1984). The remaining jurisdiction of a trial court is sharply constrained, with few exceptions. **Stickelber, supra**, p. 223. For example, a trial court retains the ability to exercise functions of a purely ministerial or executive nature. **Id.** Statutes or Supreme Court Rules also convey authority to take up particular motions or applications for relief. **Id.** at 371–72. Among these is the authority to correct a clerical error by an order *nunc pro tunc*. **Reynold, supra**, p. 268. Beyond such exceptions, the trial court is not permitted to exercise functions of a judicial character. **Stickelber, supra**, p. 372. These latter functions are those which entail “the exercise of judgment and discretion whereas ministerial functions invoke no such discretion.” **Id.**

⁴ Spire Missouri Inc. has also appealed to the Western District Court of Appeals its 2017 ISRS Case Nos. GO-2017-0201 and GO-2017-0202 in WD82200 (consolidated with WD82297) and its 2016 ISRS Case Nos. GO-2016-0332 and GO-2016-0333 in WD82199 (consolidated with WD82299).

6. Spire Missouri Inc., having appealed the Commission's denial of ISRS treatment for certain transactions and while that appeal is pending with the Missouri Court of Appeals, now asks the Commission to reconsider its denial in view of certain additional evidence. Under the rule cited above, the Commission is without authority to do so. The determination of whether or not ISRS treatment is appropriate is a quasi-judicial function, which entails "the exercise of judgment and discretion." **Stickelber**, *supra*, p. 372. Since jurisdiction over the transactions in question now lies with the Court of Appeals, the Commission cannot reconsider those transactions in this proceeding.

7. With regard to Spire West's New Request for ISRS cost recovery, Auditing Staff examined the Application and reviewed supporting work papers, work order authorizations, and a sample of invoices supporting the work order authorizations for the period of July 1, 2018, through January 31, 2019. In response to guidance from the Commission in its Report and Order in the previous Spire West ISRS Case No. GO-2018-0310, the Company provided avoided cost studies for ISRS eligible work orders that included estimated costs associated with plastic mains and services replacement as discussed in the Staff Engineering Review Section of Staff's Memorandum, Appendix A.

8. Based on Staff's analyses of all information provided by the Company, Staff concludes that each of the projects reviewed by Staff meets the ISRS rule qualifications with the exception of costs associated with replacement of plastic mains and services when such cost was greater than the estimated cost of utilizing existing plastic pipe. After examination of the avoided cost studies provided by the Company, Audit Staff, and

Engineering Analysis Staff, conclude the Company has complied with Commission Rule 4 CSR 240-3.265 regarding natural gas utility plant projects that are eligible for ISRS recovery and the Commission's Report And Order in Case No. GO-2018-0310⁵ by providing evidence supporting the proposed recovery of certain plastic mains and services replacement costs.

9. Further, Staff concluded from Company studies that if the estimated cost of an ISRS-eligible work order for replacing existing plastic mains or services was greater than the cost of reusing them, the Company calculated the percentage difference in costs and made an adjustment to reduce its requested ISRS-eligible costs by that percentage. In the event it cost more to use the existing plastic mains or services than it cost to replace them, no adjustment was made by the Company to the actual ISRS-eligible costs incurred for that work order. As a result of Spire West's use of the avoided cost studies, it is reasonable for Staff to conclude that the plastic pipe replacements result in no additional ISRS cost. From an economic and engineering viewpoint, Staff considers such replacement to be incidental to or required in conjunction with the replacement of worn out or deteriorated components as required under Sec. 393.1009(5)(a) RSMo and consistent with the recent Western District Court of Appeals decision.⁶

⁵ See Case Nos. GO-2018-0309 and GO-2018-0310; (EFIS Item No. 64) Report And Order, pp. 15-16: *"In the future, if Spire Missouri wishes to renew its argument that plastic pipe replacements result in no cost or a decreased cost of ISRS, it should submit supporting evidence to be considered, such as, but not limited to, a separate cost analysis for each project claimed, evidence that each patch was worn out or deteriorated, or evidence regarding the argument that any plastic pipe replaced was incidental to and required to be replaced in conjunction with the replacement of other worn out or deteriorated components."*

⁶ ***In the Matter of the Application of Laclede Gas Company To Change Its Infrastructure System Replacement Surcharge In Its Missouri Gas Energy Service Territory and In the Matter of the Application of Laclede Gas Company to Change Its Infrastructure System Replacement Surcharge in Its Laclede Gas Service Territory; Public Service Commission, Respondent, v. The Office Of Public Counsel, Appellant***, 593 S.W.3d 835, 839, FN5, the Court states in relevant part *"We recognize that the replacement of worn out or deteriorated components will, at times, necessarily impact and require the replacement of nearby components that are not in a similar condition. Our conclusion here should not*

10. Based upon its review and all of its calculations, Staff recommends that Spire West receive incremental pre-tax ISRS revenues for this case of \$6,563,308 with a total current and cumulative ISRS surcharge of \$11,975,101.

11. Staff has developed proposed ISRS rates for Spire West based on Staff's recommended ISRS revenue requirement for this case described above. Staff's proposed rates are consistent with the methodology used to establish Spire West'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.

12. Staff notes that most ISRS rates utilize the most current annual report figures to establish the customer count used in the calculation of rates. The proposed ISRS rates are calculated based on the customer count used in the last Spire West rate case, Case No. GR-2017-0216. This change in method of calculation was necessary because of revisions that took place in the rate case, such as newly-designed and newly-established rate classes. This method of calculation is authorized under Sec. 393.1015.5.(1) RSMo.

13. Staff also notes that the Company is current on its FY 2017 Annual Report (submitted April 2018) and is not delinquent on paying its assessment.

WHEREFORE, for the reasons stated above and in Staff's attached Memorandum, incorporated herein as Appendices A, B, and C, Staff recommends the Commission issue an order in this case that:

be construed to be a bar to ISRS eligibility for such replacement work that is truly incidental and specifically required to complete replacement of the worn out or deteriorated components..." (WD80544)

1. Rejects Spire West's ISRS tariff sheet (YG-2019-0139) P.S.C. MO. No. 8, Second Revised Sheet No. 12 cancelling P.S.C. MO. No. 8, First Revised Sheet No. 12, as filed on January 14, 2019;
2. Approves Staff's recommended ISRS surcharge revenues in this docket in the incremental pre-tax revenue amount of \$6,563,308 with a total current and cumulative ISRS surcharge of \$11,975,101;
3. Authorizes Spire West to file an ISRS rate for each customer class as reflected in Appendix B, which generates \$11,975,101 annually; and,
4. Authorizes an effective date no later than May 14, 2019.

Respectfully submitted,

/s/ Robert S. Berlin

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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 15th day of March, 2019.

/s/ Robert S. Berlin

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. GO-2019-0116, Tariff Tracking No. JG-2019-0139
Spire Missouri, Inc.-West

FROM: Michael J. Ensrud, Rate & Tariff Examiner, Procurement Analysis
Charles T. Poston, PE, Utility Regulatory Engineer, Engineering Analysis Dept.
Keith D. Foster, Utility Regulatory Auditor, Auditing Department
Kimberly K. Bolin, Utility Regulatory Auditor, Auditing Department

/s/ Mark L. Oligschlaeger 03/15/19 /s/ Daniel I. Beck, PE 03/15/19
Auditing Department/Date Engineering Analysis Department/Date

/s/ J Luebbert 03/15/19
Commission Staff Division/Date

/s/ David M. Sommerer 03/15/19 /s/ Robert S. Berlin 03/15/19
Procurement Analysis/Date Staff Counsel's Office/Date

SUBJECT: Staff Report and Recommendation Regarding Spire West's ISRS Tariff Submission

DATE: March 15, 2019

On October 29, 2018, Spire Missouri, Inc. ("Spire West", "Spire", or "Company") filed "Spire Missouri, Inc.'s Request for Waiver of Rule 4 CSR 4.017(1) for ISRS Case Filings, or in the Alternative, Notice of Intended Case Filings". On December 17, 2018, the Commission responded by issuing "Order Granting Waiver".

On January 14, 2019, Spire West filed "Verified Application and Petition of Spire Missouri, Inc. to Change its Infrastructure System Replacement Surcharge for its Spire Missouri West Service Territory".

As part of its Application, Spire filed a revised tariff sheet No. 12 that increases its annual ISRS revenues by \$9,769,606 annually. The filed rates produce ISRS revenues of the magnitude of \$15,181,399 annually.¹ The initially-filed tariff rates do generate the appropriate Revenue Requirement, in total, that Spire West initially requested. The proposed effective date of the Company's initial tariff was February 13, 2019.

¹ Previously, as the Commission deemed appropriate in Case No. GO-2018-0310, Spire West established its existing ISRS rates that produce \$5,411,793 annually that are in place today.

Spire West asserts it 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.

Spire West is requesting to recover ISRS costs as follows:

Eligibility of Costs

9. The infrastructure system replacements for which Spire West seeks ISRS recognition are set forth on Appendix A and Appendix B, which are attached hereto and made a part hereof for all purposes. **Appendix A includes those eligible infrastructure investments placed into service or to be placed into service on or after July 1, 2018 and Appendix B includes those eligible infrastructure investments placed into service between October 1, 2017 and June 30, 2018 to the extent not previously recovered in Case No. GO-2018-0310.** The infrastructure system replacements listed on Appendix A and Appendix B are eligible gas utility plant projects in that they are all either: 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 deteriorated condition; or 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; or c) unreimbursed infrastructure facility relocations due to the construction or improvement of a highway, road, street, public way or other public work required by or on behalf of the United States, the State of Missouri, a political subdivision of the State of Missouri, or another entity having the power of eminent domain.² [Emphasis Added.]

Spire West has two cost recovery requests included in this filing. One request is “new” costs for the period of July 1, 2018 to January 31, 2019 that Staff and the Commission have never addressed. The months of December 2018 and January 2019 cost data were estimated amounts and subject to

² “Verified Application and Petition of Spire Missouri, Inc. to Change its Infrastructure System Replacement Surcharge for its Spire Missouri West Territory”, Pages 4 – 5.

updating to actual costs incurred once known. This portion of the filing is consistent with traditional procedure concerning the timeframe of the costs being captured for the “typical” ISRS recovery filing. The other component is Spire West’s additional request to recover costs that relate to a time period that Staff and the Commission has already addressed – in a previous proceeding.³ Specifically, Spire West is requesting to recover qualifying ISRS costs incurred during the period of October 1, 2017 to June 30, 2018 that were not recovered in the previous ISRS Case No. GO-2018-0310 because the Commission deemed the costs ineligible for ISRS recovery at that time. The Commission’s Report and Order in that ISRS case is currently under appeal at the Missouri Court of Appeals, Western District, as Docket No. WD82302 (consolidated with WD82373). Since the Western District has not yet issued its opinion ruling on the appeal of the ISRS recovery denied by the Commission in underlying Case No. GO-2018-0310, Staff believes it is premature to include any additional costs related to that ISRS case at this time. Therefore, Staff is not including those requested ISRS costs in its recommended Revenue Requirement in this proceeding. That the instant ISRS request presents an additional request for ISRS recovery of a previously denied ISRS is unique to this filing and is addressed in more detail in Staff Counsel’s legal pleading accompanying this memo.

On January 15, 2019, the Commission issued its “Order Directing Notice, Setting Intervention Deadline, Directing Filing, and Suspending Tariff Sheets”. The order directs Staff to file a recommendation not later than March 15, 2019. It also suspends the tariff’s effective date until May 14, 2019.

On February 25, 2019, Spire West submitted its updated actual figures for December 2018 and January 2019 – to reflect costs that actually occurred. The revised revenue requirement was increased from the initially-filed \$9,769,606 estimate, to the revised \$8,751,036 actual. The “adjustment” decreased the company’s revenue requirement by \$1,018,570 annually. After the updated actual figures, Spire West is seeking a cumulative revenue requirement of \$14,162,829 annually.

³ Case No. GO-2018-0310.

Spire West asserts it is complying with notice requirements, as follows:

21. Pursuant to 4 CSR 240-3.265(8) and (9), Spire West intends to continue using the annual notices and customer bill language approved by the Commission in Case No. GO-2018-0310, at the time its current ISRS was first established.⁴

In Commission Case No. GO-2016-0197, the Commission accepted Spire West's (then Missouri Gas Energy) interpretation of Commission Rule 4 CSR 240-3.265 (8) and (9) allowing the Company to reference and use the previous Commission-approved actual annual notices and customer billing information.

Spire West has filed its 2017 Annual Report (submitted April 2018), and Spire is not delinquent on paying its assessments.

THE ISRS RATE SCHEDULES

Staff's recommended ISRS rates are contained in Appendix B, attached hereto and incorporated by reference. The rates in Appendix B are consistent with Staff's recommended Revenue Requirement of \$6,563,308 annually (as related to the pending ISRS) and generate \$11,975,101 annually for the cumulative ISRS.

Most ISRS filings utilize the most current annual report figures to establish the customer-count used in the calculation of rates. These ISRS rates are calculated based on the customer-count used in the last rate case Case No. GR-2017-0216. The relevant statute clearly allows for this substitution:

393.1015. 5. (1) The monthly ISRS charge may be calculated based on a reasonable estimate of billing units in the period in which the charge will be in effect, which shall be conclusively established by dividing the appropriate pretax revenues by the customer numbers reported by the gas corporation in the annual report it most recently filed with the commission pursuant to subdivision (6) of section 393.140, and then further dividing this quotient by twelve. **Provided, however, that the monthly ISRS may vary according to customer class and may be calculated based on customer numbers as determined during the most recent general rate proceeding of**

⁴ "Verified Application and Petition of Spire Missouri, Inc. to Change its Infrastructure System Replacement Surcharge for its Spire Missouri West Territory", Page 7.

the gas corporation so long as the monthly ISRS for each customer class maintains a proportional relationship equivalent to the proportional relationship of the monthly customer charge for each customer class. [Emphasis Added.]

This change in method of calculation was necessary because of revisions that took place in the rate cases, and by the addition of newly-designed and newly-established rate classes.

STAFF ENGINEERING REVIEW

Pursuant to the Commission's Report and Order in Case Nos. GO-2018-0309 and GO-2018-0310, Spire has provided supporting evidence in the form of separate avoided cost studies for the projects Spire claims are ISRS eligible. These avoided cost studies present two separate scenarios for each project. Scenario 1 represents the project as it was actually completed. Scenario 2 is the same project, but modified to reuse as much of the existing plastic pipe as would be practically possible. In order to have the ability to make a useful comparison between the two scenarios, each was estimated with a common set of cost assumptions related to labor, materials, required tools, and overhead. This approach required that each of the already completed projects that were represented as "Scenario 1" were re-estimated by Spire personnel so that a direct comparison could be made with the estimates for the hypothetical cases represented as "Scenario 2".

More than five hundred separate avoided cost studies were provided in the initial set of workpapers submitted by Spire. In Spire's initial set of workpapers 207 avoided cost studies were associated with Spire East and 302 were associated with Spire West.⁵ Each of these studies was examined by Staff to determine if they met basic expectations for content.⁶ Specifically, Staff checked to see if Spire had provided at a minimum: a tabular breakdown of the differences between Scenario 1 and Scenario 2, a brief narrative, and legible diagrams, maps, or schematics. In addition

⁵ Spire provided an additional 62 avoided cost studies for Spire West, but these were discovered to be duplicates of avoided cost studies that had already been provided for Spire East.

⁶ The initial set of avoided cost studies contained a highly variable level of detail with a significant fraction of the studies lacking some information. This issue is being addressed with Data Request No. 0011 in Case No. GO-2019-0115 and Data Request No. 0010 in Case No. GO-2019-0116 in which Staff requested additional information on a total of 158 of the avoided cost studies.

to the high level review performed on all of the avoided cost studies, a smaller subset of sixty-five avoided cost studies was chosen by Staff for more detailed reviews.

Staff found that the type of information in the avoided cost studies could be broken down into two different major categories: gas mains and gas service lines. For those projects that involved the installation of mains, Staff expected to find a level of detail that was sufficient to determine what alternate construction decisions were considered in order to reuse as much of the existing plastic mains as possible.

The evaluations Spire performed to consider the replacement or reuse of service lines were performed differently than the evaluations for mains. Whereas it was typical for greater amounts of detail to be available for the specific lengths of mains that were considered for abandonment or reuse, service lines were treated on an average length and average cost basis. The assumptions about average service line lengths and costs were based on prior experience by Spire in performing those work tasks. In order for Spire to present cost estimates for service lines at the same level of detail that was provided for mains in the avoided cost studies it would have required a significant increase in the amount of effort needed to perform the analyses. In a typical avoided cost study only a small number of specific design decisions would have to be considered when evaluating the reuse or abandonment of existing pieces of plastic mains. For service lines the number of specific design decisions would routinely have been in the dozens and were often more than one hundred. Staff found the level of detail in the avoided cost studies related to the replacement or reuse of plastic service lines was sufficient to make conclusions about the reasonableness of the construction decisions made by Spire.

SUMMARY AND FINDINGS

Spire is in the process of updating and improving the avoided cost studies that Staff reviewed and were found to be lacking in sufficient detail. For those studies that Staff has been able to review, they have been found to contain a pattern of reasonable, engineering-based decisions regarding the practicality of reusing sections of existing plastic pipe.

The avoided cost studies created by Spire have demonstrated that in many circumstances a decision to reuse sections of plastic pipe is not necessarily straightforward. For example, to tie

into an existing piece of pipe, it may be necessary to make additional excavations which, depending on the depth of the pipe that is trying to be reused, may require shoring to ensure the safety of construction personnel. Additionally, much of the existing plastic pipe would require pressure testing to enable it to be upgraded to operate in a new, higher pressure distribution system. For short segments of gas mains or for services lines that could be reused, the cost of the additional excavations, pipe fittings, and testing necessary for successful reuse could be expected to exceed the costs of abandonment and replacement.

STAFF REVIEW AND REVENUE CALCULATIONS

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 Spire West tariffs filed with this Application have been suspended until May 14, 2019. In Case No. GR-2017-0216, effective April 19, 2018, the ISRS balances were reset to zero. Since that date, Spire West has changed its ISRS surcharge once, in Case No. GO-2018-0310, with an effective date of October 8, 2018. Based on Spire East’s previous ISRS filings and the statute, Staff asserts that Spire East is in compliance with this section of the statute.

Commission Rule 4 CSR 240-3.265(18), Natural Gas Utility Petitions for Infrastructure System Replacement Surcharges, 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 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.

Spire West’s requested ISRS revenues exceed one-half of one percent of the natural gas utility’s base revenue level approved by the Commission in the most recent Spire West rate case, and Spire’s cumulative ISRS revenues, including the amounts requested in this filing, do not exceed ten percent of the base revenue levels approved by the Commission in the last Spire East rate case, Case No. GR-2017-0216.

In this Application, Spire West filed to recover qualifying ISRS costs incurred during the period of July 1, 2018, through January 31, 2019. The ISRS recovery requested for December 2018 and January 2019 plant in service additions was included on an estimated basis at the time Spire West's Application was filed, but an updated Appendix A that includes December and January actuals was filed February 25, 2019, and documentation supporting actual ISRS plant addition costs for these months was supplied by Spire West during the course of Staff's audit.

As part of its examination of Spire West's application, Auditing Staff reviewed supporting workpapers, work order authorizations, and a sample of invoices supporting the work order authorizations. Staff also communicated with Spire West's personnel to clarify Spire's application when necessary.

In previous ISRS applications, issues were raised regarding the inclusion of the cost associated with replacement of plastic main and services undertaken as part of a larger mains and services replacement program. In response to guidance from the Commission in its Report and Order in the last ISRS Case No. GO-2019-0310, Spire West provided an avoided cost study for each ISRS-eligible work order that included estimated costs associated with plastic mains and services replacement as discussed in the Staff Engineering Review Section of this memorandum. If the estimated cost of an ISRS-eligible work order for Scenario 1 was greater than the estimated cost for Scenario 2, meaning it cost more to replace the existing plastic mains or services than it would to reuse them, Spire West calculated the percentage difference in costs between the two scenarios and made an adjustment to reduce its actual ISRS-eligible costs incurred for that work order by that percentage difference. If the estimated cost of an ISRS-eligible work order for Scenario 2 was greater than the estimated cost for Scenario 1, meaning it cost more to utilize the existing plastic mains or services than to replace it, no adjustment was made by the Company to the actual ISRS-eligible costs incurred for that work order.

As part of its work scope in this case, Audit Staff compared the information contained within each avoided cost study to the information in the Company's Revenue Requirement workpaper to verify the amounts used to determine the plastic percentage differences matched. Staff noted any discrepancies and sought clarification from the Company. In addition, Audit Staff obtained a sample of the detailed calculations used to develop the estimated costs for selected

avoided cost studies. These samples were then compared to each avoided cost study to verify the total of the amounts matched each cost element. Again, any discrepancies were noted by Staff and provided to the Company for further clarification.

Commission Rule 4 CSR 240-3.265 Natural Gas Utility Petitions for Infrastructure System Replacement Surcharges sets forth the definitions of natural gas utility plant projects that are eligible for ISRS treatment. Based on Staff's analyses of the information provided by the Company, Staff concluded that each of the projects reviewed meets the ISRS rule qualifications, with the exception of costs associated with replacement of plastic mains and services when such cost was greater than the estimated cost of utilizing existing plastic pipe. After examination of the avoided cost studies provided by the Company in this proceeding, Audit Staff, in conjunction with Engineering Analysis Staff, takes the position that the Company has complied with this rule and fulfilled the requirement contained within the Commission's Report and Order in Case No. GO-2018-0310 by providing evidence to support its proposed recovery of certain plastic mains and services replacement costs.

Staff also reviewed Spire's workpapers concerning "blanket work orders." Blanket work orders are work orders that cover a large number of tasks, and which do not close for an extended period of time. Issues have arisen in prior Spire ISRS filings regarding the eligibility for recovery of the costs included in blanket work orders. In this proceeding, the Company categorized each separate task in the blanket work order as either ISRS eligible or ISRS ineligible. Spire then calculated the percentage of eligible vs. ineligible tasks and applied the ineligible task percentage to the blanket work order total amounts to calculate an amount of blanket work order costs that are not ISRS eligible. Staff reviewed Spire's categorization to determine if each task Spire considered eligible met the requirements of ISRS recovery. Tasks considered eligible were mandated relocations, replacements due to leak repairs and corrosion inspections and, replacement of copper and cast iron pipe. Ineligible items included relocations at a customer's request, replacements due to excavation damage, replacement of plastic not related to a leak repair, and installation of new services.

The methodology used by Auditing Staff allows for consideration of all accumulated depreciation and deferred income taxes on ISRS qualifying infrastructure replacement costs through April 30, 2019. 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 for ISRS qualifying plant as of the effective date of the ISRS rates.

In this case Staff has not included any amount for recovery of current income taxes. Staff took into account in its ISRS revenue requirement calculations tax deductions associated with interest expense, capitalized overheads and service transfers associated with ISRS plant additions in this period. All of these tax deductions are directly associated with and incremental to the ISRS plant additions in this proceeding. The amounts of these tax deductions associated with installation of ISRS-eligible plant generated enough tax savings to offset any current income taxes that would be applicable for recovery under ISRS.

SUMMARY AND CONCLUSIONS

If the estimated cost of an ISRS-eligible work order for Scenario 1 was greater than the estimated cost for Scenario 2, meaning it cost more to replace the existing plastic mains or services than it would to reuse them, Spire West calculated the percentage difference in costs between the two scenarios and made an adjustment to reduce its actual ISRS-eligible costs incurred for that work order by that percentage difference. If the estimated cost of an ISRS-eligible work order for Scenario 2 was greater than the estimated cost for Scenario 1, meaning it cost more to utilize the existing plastic mains or services than to replace it, no adjustment was made by the Company to the actual ISRS-eligible costs incurred for that work order. As a result of Spire West's use of the avoided cost studies, it is reasonable to conclude that the plastic pipe replacements result in no additional ISRS cost. From an economic and engineering viewpoint such replacement is incidental to or required in conjunction with the replacement of worn out or deteriorated components. Based upon its review and calculations made in response to this ISRS Application, Staff recommends Spire West receive additional ISRS revenues of \$6,563,308 (See attached Appendix C to this memo).

RECOMMENDATION

Based upon the rationale stated above, Staff recommends the Commission issue an order in this case that:

1. Rejects Spire West's ISRS tariff sheet (JG-2019-0139) P.S.C. MO No. 8, Second Revised Sheet No. 12 cancelling P.S.C. MO. No. 8, First- Revised Sheet No. 12, as filed on January 14, 2019.
2. Approves the Staff's recommended ISRS surcharge revenues in this docket in the incremental pre-tax revenue amount of \$6,563,308 with a total current and cumulative ISRS surcharge of \$11,975,101.
3. Authorizes Spire West to file an ISRS rate for each customer class as reflected in Appendix B, which generates \$11,975,101 annually.
4. Authorizes an effective date no later than May 14, 2019.

SPIRE MISSOURI, INC. -WEST
CASE NO. GO-2019-0116 & JG-2019-0139

Staff's Total ISRS Rev Req

\$11,975,101

<u>Customer Rate Class</u>	<u>Cust #</u>	<u>Customer Charge</u>	<u>Ratio To Residential</u>	<u>Weighted Cust #</u>	<u>Customer Percentage</u>	<u>Cal ISRS Charge</u>	<u>ISRS Revenues</u>
Residential	469,947	\$20.00	1.0000	469,947	82.9794%	\$1.76	\$9,936,871
SGS -Small Gen. Service	31,727	\$30.00	1.5000	47,591	8.4031%	\$2.64	\$1,006,285
LGS-Large Gen. Service	3,628	\$130.17	6.5085	23,613	4.1694%	\$11.47	\$499,285
LV-Large Volume Service	460	\$1,095.27	54.7635	25,191	4.4481%	\$96.50	\$532,660
TOTAL	505,762			566,342	100.00%		\$11,975,101

* Due to rounding to the nearest penny, the designed ISRS rates **will under-collect by \$1056**. However, it should be noted that the total amount collected will be trued-up at a later date .

**Spire Missouri West
ISRS Revenue Requirement Calculation**

ISRS Activity:	Staff Recommendation	Spire's Filing Jan 2019 Update	Difference
<u>Gas Utility Plant Projects - Main Replacements and Other Projects Extending Useful Life of Mains:</u>			
<i>Work Orders Placed in Service</i>			
Gross Additions	37,507,222	37,517,158	(9,936)
Deferred Taxes	(364,959)	(416,990)	52,031
Accumulated Depreciation	(310,163)	(254,611)	(55,552)
Total Net	36,832,100	36,845,557	(13,457)
<u>Gas Utility Plant Projects - Service Line Replacements and Insertion Projects:</u>			
<i>Work Orders Placed in Service</i>			
Gross Additions	6,186,101	6,185,583	518
Deferred Taxes	(57,164)	(73,287)	16,123
Accumulated Depreciation	(99,911)	(85,163)	(14,748)
Total Net	6,029,026	6,027,133	1,893
<u>Gas Utility Plant Projects - Regulator Stations:</u>			
<i>Work Orders Placed in Service</i>			
Gross Additions	49,886	49,886	0
Deferred Taxes	(229)	(272)	43
Accumulated Depreciation	(479)	(360)	(119)
Total Net	49,178	49,254	(76)
<u>Gas Utility Plant Projects - Main Relocations net of Reimbursements:</u>			
<i>Work Orders Placed in Service</i>			
Gross Additions	3,072,465	3,072,465	0
Deferred Taxes	(45,135)	(49,944)	4,809
Accumulated Depreciation	(30,207)	(25,649)	(4,558)
Total Net	2,997,123	2,996,872	251
<u>Increase in Accumulated Deferred Income Taxes and Accumulated Depreciation Associated with Eligible Infrastructure System Replacements which are included in a Currently Effective ISRS</u>			
Total Incremental Accumulated Depreciation	(1,051,623)	(1,051,623)	0
Total Incremental Accumulated Deferred Taxes	(246,973)	(246,973)	0
Total ISRS Rate Base	44,608,832	44,620,220	(11,388)
Overall Rate of Return per GR-2017-0216	7.20%	7.20%	
UOI Required	3,210,810	3,211,630	(820)
Income Tax Conversion Factor	1.34135	1.34135	
Revenue Requirement Before Interest Deductibility	4,306,820	4,307,920	(1,100)
Total ISRS Rate Base	44,608,832	44,620,220	(11,388)
Weighted Cost of Debt per GR-2017-0216	1.8900%	1.8900%	
Interest Deduction	843,107	843,322	(215)
Marginal Income Tax Rate	25.4482%	25.4482%	
Income Tax Reduction due to Interest	214,556	214,611	(55)
Income Tax Conversion Factor	1.34135	1.34135	
Revenue Requirement Impact of Interest Deductibility	287,795	287,868	(73)
<u>263A Transfers Deduction</u>			
Service Transfers Deduction	4,503,149		4,503,149
<u>263A and Service Transfers Tax Deductible Items</u>			
Income Tax Factor	0.34135		
Income Tax Reduction due to Deductible Items	1,751,706		1,751,706
<u>Applicable Income Tax</u>			
		808,422	(808,422)
Total Revenue Requirement on Capital	3,210,810	4,020,052	(809,242)
Depreciation Expense	773,667	770,115	3,552
Net Property Taxes	2,578,831	2,598,507	(19,676)
Total ISRS Revenues	6,563,308	7,388,674	(825,366)
June 2018 - GO-2018-0310 - Additional Revenues (From Appendix B)	-	1,365,520	(1,365,520)
Total ISRS Revenues	6,563,308	8,754,194	(2,190,886)

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


In The Matter of the Application of Spire Missouri, Inc. to)
Change its Infrastructure System Replacement) Case No. GO-2019-0116
Surcharge in its Spire Missouri West Service Territory)

AFFIDAVIT OF KEITH D. FOSTER

State of Missouri)
) ss.
County of Cole)

COMES NOW Keith D. Foster, and on his oath declares 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.

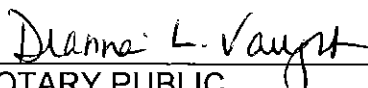
Further the Affiant sayeth not.



Keith D. Foster

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 13th day of March, 2019.



NOTARY PUBLIC

DIANNA L. VAUGHT Notary Public - Notary Seal State of Missouri Commissioned for Cole County My Commission Expires: June 28, 2019 Commission Number: 13207377
