

MEMORANDUM

TO: Missouri Public Service Commission Official Case File,
Case No. GR-2020-0121, Spire Missouri, Inc., d/b/a Spire

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/s/ David M. Sommerer 12/15/20 /s/ Robert S. Berlin 12/15/20
Project Coordinator / Date Staff Counsel / Date

SUBJECT: Staff's Recommendation for Case No. GR-2020-0121, Spire Missouri, Inc.,
d/b/a Spire 2018-2019 Actual Cost Adjustment Filing

DATE: December 15, 2020

I. EXECUTIVE SUMMARY

On October 31, 2019, Spire Missouri, Inc., d/b/a Spire ("Company" or "Spire East") filed its Actual Cost Adjustment (ACA) for the 2018-2019 ACA period. This filing revises the ACA rates based upon the Company's calculation of the ACA balances.

Spire East serves approximately 650,000 residential, commercial, and industrial customers in the St. Louis metropolitan area and surrounding counties.

The Commission's Procurement Analysis Department ("Staff") has reviewed the Company's ACA filing. Staff's review included an analysis of billed revenues and actual gas costs for the period October 1, 2018, through September 30, 2019. Staff conducted a reliability analysis for Spire East, including a review of its estimate of customers' needs on a peak day (peak day requirements and the capacity levels to meet those requirements), peak day reserve margin and its rationale, and a review of gas supply plans for various weather conditions. Staff also reviewed Spire East's gas purchasing practices to determine the prudence of the Company's purchasing and operating decisions.

Staff has proposed no adjustments to Spire East's September 30, 2019, ACA account balances as shown in the table in the Recommendations section of this Memorandum. The following Table of Contents provides a guide to Staff's comments and recommendations contained in Sections I through IV of this Memorandum:

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Appendix A

**** Denotes Confidential Information ****

STAFF'S TECHNICAL DISCUSSION AND ANALYSIS

II. RELIABILITY AND GAS SUPPLY ANALYSIS

As a regulated gas corporation providing natural gas services to Missouri customers, a local distribution company (LDC) is responsible for conducting reasonable long-range supply planning and the decisions resulting from that planning. A purpose of the ACA process is to review the LDC's planning for gas supply, transportation and storage to meet its customers' needs. For this analysis, Staff reviewed Spire East's plans and decisions regarding estimated peak day requirements and the capacity levels to meet those requirements, peak day reserve margin and the rationale for this margin and natural gas plans for various conditions.

Staff has no proposed financial adjustments for the 2018-2019 ACA period related to reliability analysis and gas supply planning. Staff's other comments and recommendations are discussed in the rest of this section.

Spire STL Pipeline

Spire East began receiving gas from the Spire STL Pipeline in November 2019. The Federal Energy Regulatory Commission (FERC) authorized Spire STL Pipeline LLC to put most of the pipeline facilities into service in mid-November.¹ This does not affect Spire East's capacity for the 2018-2019 ACA period. The Staff notes that this is an affiliated pipeline and transactions between Spire East and Spire STL Pipeline will be examined beginning with the 2019-2020 ACA period review. Staff recommends that Spire East continue to keep it informed about changes in the gas supply and transmission portfolio related to the connection to the Spire STL Pipeline.

Resource Plan

In its memorandum filed in Case No. GR-2017-0229, Staff recommended that Spire East implement enhancements to its resource plan. In June 2020, Spire submitted to staff a revised resource plan. Since Spire submitted the plan, Staff and the company have communicated about Staff questions and concerns. Staff submitted comments and questions to Spire by e-mail on October 22, 2020. Staff and Spire discussed these issue by teleconference on November 13, 2020.

Spire's revised resource plan was not in use during the 2018-2019 ACA period. Staff will continue to monitor Spire's peak demand modeling and gas supply planning as part of annual ACA reviews and may provide additional comments on this issue as these new models are implemented.

¹ *Authorization to Commence Service of Certain Project Facilities*, November 14, 2019, FERC Docket No. CP17-40. Retrieved from https://elibrary.ferc.gov/idmws/file_list.asp?accession_num=20191114-3058.

Transportation Customers and School Aggregation

Staff reviewed the incidents of monthly imbalances for transportation customers and pools, and it compared the estimated imbalances of school aggregation pools to imbalances of other transportation customers. The distribution of imbalance incidents for these two types of transportation customers is shown in the following graph. There is an imbalance incident for every transportation customer or pool for every month in the ACA review period. School pools tend to be less in balance than firm transportation pools. **

** Spire East must manage flow and pressure in its distribution system, which is affected by transportation customer imbalances. **

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Spire East has different balancing provisions for school aggregation pools compared to the provisions for other transportation customers. Firm transportation pools are balanced using a daily cash-out, which is totaled and charged monthly. Spire East does not cash out school transportation pools, but permits them to correct monthly imbalances by adjusting nominations in the subsequent month.

Staff recommends that Spire East investigate the greater amount of imbalances caused by school transportation pools as compared to the firm transportation pools. Spire East should propose changes to its policies and tariffs in its current general rate case (Case No. GR-2021-0108) that would bring the balancing performance of school transportation pools more in line with that of other transportation customers, such as cash outs and daily balancing. If the utility does not fully recover the cost of imbalances caused by transportation customers, those costs are passed to other sale customers through the PGA. As much as possible, the costs of imbalances should be borne by the transportation customers causing the imbalances.

III. HEDGING

One of the purposes of hedging is to reduce upward gas price volatility. Staff reviewed the Company's Risk Management Strategy, Gas Supply Risk Management Policy and its financial hedging transactions for the 2018-2019 ACA period. The Company implemented its financial hedging transactions based on the risk management strategy. Staff also reviewed monthly hedged coverage for the winter period of November 2018 through March 2019. Spire East uses financial instruments and storage withdrawals for its hedge coverage.

Staff has the following comments on Spire East's hedging practice:

- A. ** _____

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B. Evaluation of Hedge Program

Staff reviews the prudence of a Company's decision-making based on what the Company knew or reasonably could have known at the time it made its hedging decisions. The Company's hedging planning should be flexible enough to incorporate changing market circumstances. The Company should evaluate its hedging strategy in response to changing market dynamics as to how much the existing hedging strategy actually benefits its customers while balancing market price risk. For example, Spire East should continue to evaluate the current strategy of financially hedging summer storage injections with respect to the appropriate amount of storage injections to hedge. The Company should also routinely review and evaluate the adequacy of its hedge coverage regarding the appropriate volumes of financial instruments as well as the possible use of more cost-effective financial instruments to assess exposure to market prices under the current market where the market prices have become relatively less volatile.

Staff recommends the Company analyze the benefits/costs based on the outcomes from its hedging strategy, and evaluate any potential improvements on the future hedging plan and its implementation to achieve a cost effective hedging outcome as the Company reviews and develops its hedging program each year in the Company's Risk Management Strategy.² For example, the Company should continue to evaluate the performance of its hedge program in terms of the various types of financial instruments used, whether some level of over-the-counter instruments might help control margin calls as the Company's policy is to utilize various derivatives, and whether the existing program should be modified under the current market.

Additionally, as Spire East incorporates the lower of First Of Month (FOM) Index or Daily Index pricing for swing supply as a type of insurance against daily price spikes within a month into the Company's Risk Management Strategy, the Company should continue to evaluate the costs/benefits of these instruments in conjunction with other parts of the Company's hedge program.

IV. RECOMMENDATIONS

1. Staff recommends the Commission issue an order directing the Company to establish the ACA account balance as shown in the table below to reflect the under or (over)-recovery balance as of September 30, 2019.

² The Company's Risk Management Strategy dated July 2015 was the most recent on available for the 2018-2019 ACA period. Staff notes that the Company indicated during recent updates that it would evaluate and consider a longer term hedging. Staff will continue to monitor the change in the Company's hedging strategy.

An (over)-recovery is the amount owed to the customers by the Company and is shown in the table as a negative number (in parentheses). An under-recovery is an amount owed to the Company by the customers and is shown in the table as a positive number.

	Firm Sales non-LVTSS	Firm Sales LVTSS	Interruptible Sales	LP Sales	Firm Transportation	Basic Transportation	Vehicular Fuel
ACA Balance per Filing	\$ (4,828,985)	\$ 294,691	\$ 21,126	\$ 5,691	\$ 677,032	\$ 241	\$ 586,640
Staff Adjustments	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Staff Recommended ACA Balance	\$ (4,828,985)	\$ 294,691	\$ 21,126	\$ 5,691	\$ 677,032	\$ 241	\$ 586,640

- Staff recommends the Commission issue an order requiring Spire East to respond to all of the recommendations herein within 45 days.

