

MEMORANDUM

TO: Missouri Public Service Commission Official Case File,
Case No. GR-2020-0122 – Spire Missouri, Inc., d/b/a Spire

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/s/ David M. Sommerer 12/15/20

Project Coordinator / Date

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Staff Counsel's Office / Date

SUBJECT: Staff's Recommendation for 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 ("Spire Missouri West" or "Company") filed its Actual Cost Adjustment for the 2018-2019 period in Case No. GR-2020-0122 for its Spire Missouri West division.

The Commission's Procurement Analysis Department ("Staff") reviewed and evaluated Spire Missouri West's billed revenues and actual gas costs for the period of October 1, 2018, to September 30, 2019. The Staff examined Spire Missouri West's gas purchasing practices to determine the prudence of the Company's purchasing and operating decisions, including:

- (1) A reliability analysis of estimated peak cold day requirements and the capacity levels needed to meet those requirements,
- (2) The Company's rationale for its reserve margin for a peak cold day,
- (3) A review of normal, warm and cold weather requirements and the gas supply plans for meeting these requirements, and
- (4) A review of Spire Missouri West's hedging for the period to determine the reasonableness of the Company's hedging plans.

At this time, Staff has proposed no dollar adjustments to the Company's September 30, 2019, ACA account balance as shown in the table below. Staff recommends the Commission issue an order directing the Company to establish the ACA account balances shown in the table below to reflect the under or (over)-recovery balances as of September 30, 2019.

Appendix A

** Denotes Confidential Information **

An under-recovery is an amount that is owed to the Company by its customers and is shown in the table below as a positive number. An over-recovery reflects an amount that is owed to the customer by the Company and would be shown as a negative number (in parentheses). Spire Missouri West has an over-recovery during this review period.

Account	9-30-19 Ending Balance per Spire West Filing	Current Period Proposed Adjustment	9-30-19 Staff Recommended Ending Balance
ACA Balance	\$ (21,750,322.69)	\$ 0	\$ (21,750,322.69)

Additionally, Staff recommends the Commission order the Company to respond to this Staff Recommendation Memorandum within 45 days.

This ACA Memorandum is organized into the following sections:

Section No.	Topic	Page
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II	Background	2
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V	Recommendations	7

Each section explains Staff's concerns and recommendations.

STAFF'S TECHNICAL DISCUSSION AND ANALYSIS

II. BACKGROUND

Spire Missouri West's primary service areas are: Kansas City, St. Joseph and Joplin. For the 2018-2019 ACA, the Company has approximately 486,000 residential customers, 33,000 commercial customers, 100 industrial customers, and 370 transport customers, for a total of 519,470 customers.

Spire Missouri West transports its gas supply over Panhandle Eastern Pipe Line (“PEPL”), Southern Star Central Gas Pipeline (“SSC”), Tallgrass Interstate Gas Transmission (“TIGT”), and Rockies Express Pipeline (“REX”).

III. RELIABILITY ANALYSIS AND GAS SUPPLY PLANNING

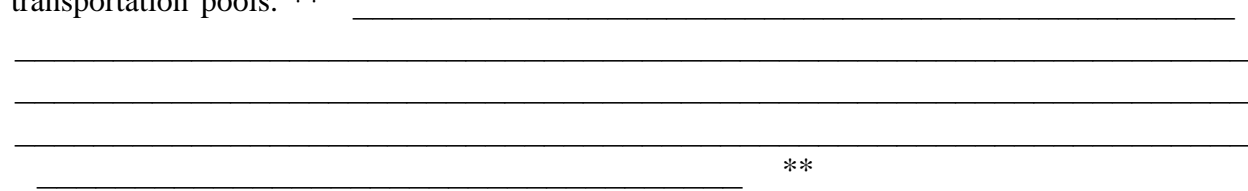
As a regulated gas corporation providing natural gas services to Missouri customers, a local distribution company (LDC) is responsible for conducting reasonable long-range supply planning and the decisions resulting from that planning. A purpose of the ACA process is to review the LDC’s planning for gas supply, transportation and storage to meet its customers’ needs. For this analysis, Staff reviewed Spire West’s plans and decisions regarding estimated peak day requirements and the capacity levels to meet those requirements, and 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 2019-2020 ACA period related to reliability analysis and gas supply planning. Staff’s other comments and recommendations are discussed in the rest of this section.

Transportation Customers and School Aggregation

Staff reviewed the incidents of monthly imbalance for transportation customers and pools, and it compared the estimated imbalances of school aggregation pools to imbalances of other transportation customers. Note that school pool imbalances used in this analysis are based on Spire estimates. Spire cannot presently measure actual school pool imbalances in the Spire Missouri West division. Because schools in Spire West are on various billing and metering cycles, their pool gas nominations and usage cannot all be aligned to the same period for comparison. Spire presently does not have the means to align these meter reads or the technology installed to further automate meter reading in its West division. Future generations of meters should remedy this issue as they are installed over time.

The distribution of incidents of imbalance 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. **



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In light of these facts, Staff recommends that Spire review its school aggregation provisions to ensure that they properly incentivize school aggregation pool operators to balance use and deliveries. Unfortunately, Spire West does not presently have the technological means to implement balancing provision for school pools similar to those it has in place for other transportation customers. This is a long-term issue that warrants continued monitoring in future cases.

Gas Procurement Procedures

In its memorandum filed in Case No. GR-2017-0300, Staff recommended that Spire West prepare written procedures for procurement of gas in keeping with the Company's Standards of Conduct

provisions that call for documented processes. Specifically, Staff recommended that Spire's written procedures address:

- best practices,
- processing for changing procedures,
- selecting suppliers to include in the request for proposals (RFP) process,
- follow-up with nonresponsive RFP recipients, or
- procedures for procurement outside of the RFP process.

On October 17, 2019, Staff met with Spire West to discuss this and other issues related to reliability. Though it indicated in its response to a Staff data request that it did not have such documents related to gas procurement, during the discussion Spire West indicated that it has internal documents related to gas procurement procedures that may address the issues raised by Staff. Staff recommends that Spire West submit these documents in response to data requests as part of its 2019-2020 ACA case.

Reliability Report

In its memorandum filed in Case No. GR-2017-0229, Staff recommended that Spire West implement enhancements to its reliability report. Specifically, Staff recommended that Spire West should:

- describe how it manages its assets in addition to the physical capabilities of the assets and the overall system,
- discuss the justification for its assessment of the appropriate amount of reserve capacity (or reserve margin) along with a justification, and
- incorporate customer growth projections.

In June 2020, Spire submitted to Staff a revised resource plan. Since Spire submitted the plan, Staff and the Company have communicated about Staff's questions and concerns. Staff submitted comments and questions to Spire by e-mail on October 22, 2020. Staff and Spire discussed these issues by teleconference on November 13, 2020.

Spire's revised reliability report 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.

IV. HEDGING

In its review of Spire West’s purchasing practices, 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 its risk management strategy. Spire West combined storage and financial instruments to hedge portions of the volumes needed for the winter heating season, November 2018 through March 2019.

Staff has the following comments on Spire West’s hedging practice:

- A. ** _____

_____ **

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. A Company’s hedging planning should be flexible enough to incorporate changing market circumstances. A 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 West 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 the 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.¹ 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.

V. 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.

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2. Staff recommends that the Commission issue an order requiring the Company to file a written response to all of the comments, concerns and recommendations included in this Staff Recommendation Memorandum within 45 days.

¹ 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.

