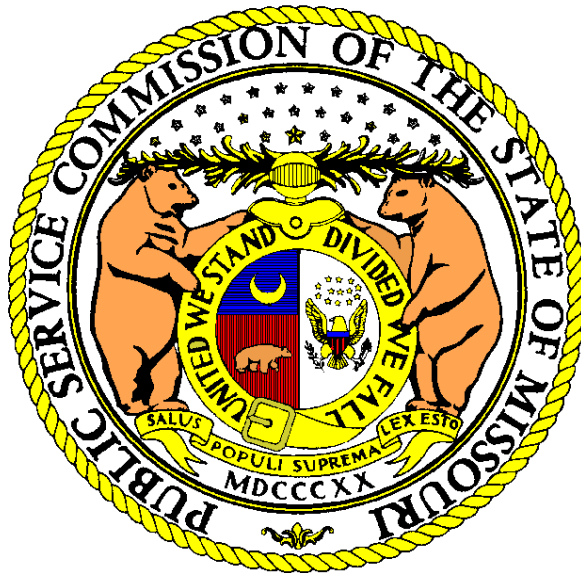


MISSOURI PUBLIC SERVICE COMMISSION

STAFF

DIRECT REPORT



**SPIRE MISSOURI, INC.,
d/b/a SPIRE (WEST)**

CASE NO. GO-2019-0116

*Jefferson City, Missouri
March 29, 2019*

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d/b/a Spire (West)
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1 **STAFF DIRECT REPORT**

2 **SPIRE MISSOURI, INC.,**
3 **d/b/a Spire (West)**

4 **CASE NO. GO-2019-0116**

5 **I. Executive Summary**

6 On October 29, 2018, Spire Missouri, Inc., d/b/a Spire (“Spire”, “Spire West”, or
7 “Company”) filed “Spire Missouri, Inc.’s Request for Waiver of Rule 4 CSR 4.017(1) for ISRS
8 Case Filings, or in the Alternative, Notice of Intended Case Filings.” On December 17, 2018,
9 the Commission responded by issuing “Order Granting Waiver.”

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

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

18 Spire West asserts it made its filing pursuant to Sections 393.1009, 393.1012 and
19 393.1015 of the Revised Statutes of Missouri and Commission Rules 4 CSR 240-2.060, 2.080,
20 and 3.265, which allow Missouri natural gas corporations to file a petition and proposed rate
21 schedule with the Commission to recover certain infrastructure system replacement costs
22 outside a formal rate case, through a surcharge on customers’ bills.

23 Spire West is requesting to recover ISRS costs as follows:

24 **Eligibility of Costs**

25
26 9. The infrastructure system replacements for which Spire West seeks
27 ISRS recognition are set forth on Appendix A and Appendix B, which
28 are attached hereto and made a part hereof for all purposes. **Appendix A**
29 **includes those eligible infrastructure investments placed into service**
30 **or to be placed into service on or after July 1, 2018 and Appendix B**
31 **includes those eligible infrastructure investments placed into service**

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.

1 **between October 1, 2017 and June 30, 2018 to the extent not**
2 **previously recovered in Case No. GO-2018-0310.** The infrastructure
3 system replacements listed on Appendix A and Appendix B are eligible
4 gas utility plant projects in that they are all either: a) mains, valves,
5 service lines, regulator stations, vaults, and other pipeline system
6 components installed to comply with state or federal safety requirements
7 as replacements for existing facilities that have worn out or are in
8 deteriorated condition; or b) main relining projects, service line insertion
9 projects, joint encapsulation projects, and other similar projects
10 extending the useful life, or enhancing the integrity of pipeline system
11 components undertaken to comply with state or federal safety
12 requirements; or c) unreimbursed infrastructure facility relocations due
13 to the construction or improvement of a highway, road, street, public way
14 or other public work required by or on behalf of the United States, the
15 State of Missouri, a political subdivision of the State of Missouri, or
16 another entity having the power of eminent domain.² [Emphasis Added.]

17 Spire West has two cost recovery requests included in this filing. One request is “new” costs
18 for the period of July 1, 2018, to January 31, 2019, that Staff and the Commission have never
19 addressed. The months of December 2018 and January 2019 cost data were estimated amounts³
20 and subject to updating to actual costs incurred once known. This portion of the filing is
21 consistent with traditional procedure concerning the timeframe of the costs being captured for
22 the “typical” ISRS recovery filing. The other component is Spire West’s additional request to
23 recover costs that relate to a time period that Staff and the Commission has already addressed
24 in a previous proceeding.⁴ Specifically, Spire West is requesting to recover qualifying
25 ISRS costs incurred during the period of October 1, 2017, to June 30, 2018, that were not
26 recovered in the previous ISRS Case No. GO-2018-0310 because the Commission deemed the
27 costs ineligible for ISRS recovery at that time. The Commission’s Report and Order in that
28 ISRS case is currently under appeal at the Missouri Court of Appeals, Western District,
29 as Docket No. WD82302 (consolidated with WD82373). Since the Western District has not
30 yet issued its opinion ruling on the appeal of the ISRS recovery denied by the Commission in
31 underlying Case No. GO-2018-0310, Staff, under advisement of Staff Counsel, believes it

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.

³ On February 25, 2019, Spire West filed a revised Appendix A including actual costs through January 2019.

⁴ Case No. GO-2018-0310.

1 is premature to include any additional costs related to that ISRS case at this time. Therefore,
2 Staff is not including those requested ISRS costs in its recommended Revenue Requirement in
3 this proceeding.

4 On January 15, 2019, the Commission issued its “Order Directing Notice, Setting
5 Intervention Deadline, Directing Filing, and Suspending Tariff Sheets.” The order directed
6 Staff to file a recommendation not later than March 15, 2019. It also suspended the tariff’s
7 effective date until May 14, 2019. On March 15, 2019, Staff filed its Recommendation and
8 attached Memorandum that recommended the Commission issue an order that:

- 9 1. Rejects Spire West’s ISRS tariff sheet (JG-2019-0139) P.S.C. MO
10 No. 8, Second Revised Sheet No. 12 cancelling P.S.C. MO. No. 8,
11 First– Revised Sheet No. 12, as filed on January 14, 2019.
- 12 2. Approves the Staff’s recommended ISRS surcharge revenues in
13 this docket in the incremental pre-tax revenue amount of
14 \$6,563,308 with a total current and cumulative ISRS surcharge of
15 \$11,975,101.
- 16 3. Authorizes Spire West to file an ISRS rate for each customer class
17 as reflected in Appendix B, which generates \$11,975,101 annually.
- 18 4. Authorizes an effective date no later than May 14, 2019.

19 The Office of the Public Counsel also filed its *Objections to Spire Missouri Inc.’s Applications*
20 *and Petitions and Request for an Evidentiary Hearing* on March 15, 2019.

21 On February 25, 2019, Spire West submitted its updated figures for December 2018 and
22 January 2019 to reflect the actual costs that occurred. The revised revenue requirement
23 was increased from the initially-filed \$9,769,606 estimate, to the revised \$8,751,036 actual.
24 The “adjustment” decreased the company’s revenue requirement by \$1,018,570 annually.
25 After the update to actuals, Spire West is seeking a cumulative revenue requirement of
26 \$14,162,829 annually.

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

2 21. Pursuant to 4 CSR 240-3.265(8) and (9), Spire West intends to
3 continue using the annual notices and customer bill language approved
4 by the Commission in Case No. GO-2018-0310, at the time its current
5 ISRS was first established.⁵

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

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

12 Commission Rule 4 CSR 240-3.265 Natural Gas Utility Petitions for Infrastructure
13 System Replacement Surcharges sets forth the definitions of natural gas utility plant projects
14 that are eligible for ISRS treatment. Based on Staff's review of a sampling of work orders
15 included in the Company's filing, Staff concluded that each of the projects reviewed meets the
16 ISRS rule qualifications, with the exception of costs associated with replacement of plastic
17 mains and services when such cost was greater than the estimated cost of utilizing existing
18 plastic pipe. Based upon Staff's analysis of the avoided cost studies and supplemental detail
19 provided by Spire, Staff found the level of detail in the avoided cost studies related to the
20 replacement or reuse of plastic service lines was sufficient to make conclusions about the
21 reasonableness of the construction decisions made by Spire. After examination of the avoided
22 cost studies provided by the Company in this proceeding, Audit Staff, in conjunction with
23 Engineering Analysis Staff, takes the position that the Company has complied with this rule
24 and fulfilled the requirement contained within the Commission's Report and Order in Case No.
25 GO-2018-0310 by providing evidence to support its proposed recovery of certain plastic mains
26 and services replacement costs.

⁵ "Verified Application and Petition of Spire Missouri, Inc. to Change its Infrastructure System Replacement Surcharge for its Spire Missouri West Territory", Page 7.

1 Based upon its review and calculations made in response to this ISRS Application,
2 Staff recommends Spire West receive additional ISRS revenues of \$6,563,189 (See attached
3 Schedule 2 to this report).

4 *Staff Expert/Witness: J Luebbert on behalf of all witnesses*

5 **II. ISRS Rate Schedules**

6 Staff's recommended ISRS rates are contained in Schedule 1, attached hereto and
7 incorporated by reference. The rates in Schedule 1 are consistent with Staff's recommended
8 Revenue Requirement of \$6,563,189 annually (as related to the pending ISRS) and generate
9 \$11,974,982 annually for the cumulative ISRS.

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

14 393.1015. 5. (1) The monthly ISRS charge may be calculated based on a
15 reasonable estimate of billing units in the period in which the charge will
16 be in effect, which shall be conclusively established by dividing the
17 appropriate pretax revenues by the customer numbers reported by the gas
18 corporation in the annual report it most recently filed with the
19 commission pursuant to subdivision (6) of section 393.140, and then
20 further dividing this quotient by twelve. **Provided, however, that the**
21 **monthly ISRS may vary according to customer class and may be**
22 **calculated based on customer numbers as determined during the most**
23 **recent general rate proceeding of the gas corporation so long as the**
24 **monthly ISRS for each customer class maintains a proportional**
25 **relationship equivalent to the proportional relationship of the monthly**
26 **customer charge for each customer class. [Emphasis Added.]**

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

29 *Staff Expert/Witness: David M. Sommerer*

1 **III. Engineering Review**

2 Following the Commission’s Report and Order in Case Nos. GO-2018-0309 and
3 GO-2018-0310, Spire provided avoided cost studies for the projects they claimed as ISRS
4 eligible. These studies were created to help quantify the cost differential between two different
5 types of construction scenarios. Scenario 1 was the project as it was actually completed.
6 Scenario 2 was a hypothetical look at what it would have taken to reuse as much of the existing
7 plastic pipe as would be practically possible. The two scenarios were cost estimated based on
8 a common set of assumptions related to labor, materials, required tools, and overhead. By cost
9 estimating each of the scenarios with the same set of assumptions, conclusions could be drawn
10 about the relative cost between the two different approaches to construction: replacement or
11 reuse of existing plastic pipes. Since differences between the cost estimates would be used to
12 calculate the percentage of actual costs that would be claimed as ISRS eligible, it was important
13 to ensure that the methods and assumptions used by Spire to create the avoided cost studies
14 were reasonable.

15 Every construction project was unique, but Spire used similar formats for all of the
16 avoided costs studies. Each avoided cost study typically contained a tabular breakdown of the
17 footage of pipe that was abandoned or reused along with counts of service lines that were in
18 some way modified as a part of the project. The costs of labor, materials, tools, and overhead
19 were also broken down for each construction scenario. As appropriate, a short narrative
20 description would also be included. Finally, a series of maps or diagrams would be provided
21 giving an overview of the project being analyzed. The maps would include highlighting,
22 arrows, notes, or other information to indicate how the different construction scenarios would
23 replace or reuse sections of plastic pipe. Staff recognized that due to the wide range of
24 complexity of the projects being examined that not every avoided cost study would contain the
25 same amount of information or level of detail. Small, simple projects would not be expected to
26 require as much documentation or explanation as larger, more complicated projects.

27 Spire provided 509 avoided cost studies in the initial set of workpapers delivered
28 to Staff. Spire East had 207 projects with avoided cost studies and Spire West had 302.
29 Staff performed a high level review of all 509 avoided cost studies to determine if each met
30 basic expectations for content. Specifically, Staff checked to see if Spire had provided a tabular

1 breakdown of the differences between the two construction scenarios, a brief narrative
2 description, and legible diagrams or maps. During Staff’s initial review of all of the avoided
3 cost studies, it was concluded that a significant fraction of the documents were lacking at least
4 some piece of important information. As a result, Staff requested that Spire revisit 158 of the
5 avoided cost studies and revise them to include more detail.⁶ In addition to the high level review
6 that was performed on all of the avoided cost studies, 65 avoided cost studies were chosen by
7 Staff for more detailed reviews.

8 Staff found that the type of information in the avoided cost studies could be broken
9 down into two different major categories: gas mains and gas service lines. The methods used
10 by Spire to determine costs for the reuse or replacement of mains and services lines were found
11 to be different. For mains, it was typical to find specific lengths of plastic pipe that were either
12 being reused or replaced. However, service lines were treated on an average length and average
13 cost basis. Actual lengths of individual service lines were not included in the avoided cost
14 studies. The assumptions about average service line lengths and costs were based on prior
15 experience by Spire in performing those types of work tasks. Discussions with Spire indicated
16 that in order to present cost estimates for services at the same level of detail that was provided
17 for mains in the avoided cost studies, it would have required a significant increase in the amount
18 of work needed to perform the analysis. In a typical avoided cost study only a small number of
19 specific design decisions would have to be considered when evaluating the reuse or
20 abandonment of existing pieces of plastic mains. For service lines, the number of specific design
21 decisions would routinely have been in the dozens and were often more than one hundred. Staff
22 found the level of detail in the avoided cost studies related to the replacement or reuse of plastic
23 mains and plastic service lines was sufficient to make conclusions about the reasonableness of
24 the construction decisions made by Spire.

25 *Staff Expert/Witness: Charles T. Poston, PE*

⁶ 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.

1 OPPORTUNITIES FOR IMPROVEMENT

2 The determination of “reasonableness” made during Staff’s engineering review does not
3 imply that no improvements could be made to the content of avoided cost studies if Spire
4 chooses to use them in any future ISRS filings. As previously stated, Staff found an uneven
5 level of detail within Spire’s avoided cost studies. This primarily dealt with illegible or missing
6 maps and diagrams. This issue has already been raised with the Company and is in the process
7 of being resolved.

8 Following Staff’s review it become apparent that the reuse of small segments of plastic
9 main were often unreasonable from an engineering perspective. The amount of effort and
10 material required to salvage small pieces of main often exceeded what would have been
11 necessary to abandon it and replace it with new plastic pipe. It may be possible for future efforts
12 to be streamlined by specific analyses to determine if there is a minimum length below which
13 small segments of plastic main may be excluded from any similar avoided cost studies.

14 The information provided for service line modifications in the avoided cost studies is
15 done on an average length and average cost basis. Staff believes that opportunities exist for
16 improvements to be made to the formatting and terminology used by Spire regarding service
17 lines in order to more clearly communicate what assumptions are being made in the analyses.

18 Because this was the first opportunity for Spire to use avoided cost studies within an
19 ISRS case, there was some uncertainty about what constituted necessary content. Numerous
20 meetings were organized between the parties in which participants could ask questions about
21 specific projects or the avoided cost study format in general. Time was also taken to ask about
22 terminology or abbreviations used by the Company within the avoided cost studies. These
23 meetings were typically productive and helped to improve the quality of Staff’s review of the
24 avoided cost studies. It would be expected that any changes to future avoided cost studies
25 would require additional contact between parties to ensure that the same high level of
26 information sharing would continue to take place.

27 *Staff Expert/Witness: Charles T. Poston, PE*

1 SUMMARY AND FINDINGS

2 The avoided cost studies created by Spire have demonstrated that the circumstances
3 surrounding the decision to reuse or abandon a section of plastic pipe are not necessarily
4 straightforward. For example, to tie into an existing piece of plastic pipe, it may be necessary
5 to make additional excavations which require shoring to ensure the safety of construction
6 personnel. Much of the existing plastic pipe would require pressure testing to enable it to be
7 upgraded to operate in a new, higher pressure distribution system. Scheduling reconnection of
8 customers, relocation of meters, and temporary bypasses necessary to support continuous gas
9 service are all issues which can also impact the decision to reuse or abandon sections of existing
10 plastic pipe. For short segments of gas mains or for service lines that could be reused, the cost
11 of the additional excavations, pipe fittings, and testing necessary for successful reuse could be
12 expected to exceed the costs of abandonment and replacement.

13 *Staff Expert/Witness: Charles T. Poston, PE*

14 **IV. Review and Revenue Calculations**

15 Section 393.1015.3, RSMo, states, “A gas corporation may effectuate a change in its
16 rate pursuant to the provisions of this section no more often than two times every
17 twelve months.” The Spire West tariffs filed with this Application have been suspended until
18 May 14, 2019. In Case No. GR-2017-0216, effective April 19, 2018, the ISRS balances were
19 reset to zero. Since that date, Spire West has changed its ISRS surcharge once, in Case No.
20 GO-2018-0310, with an effective date of October 8, 2018. Based on Spire West’s previous
21 ISRS filings and the statute, Staff asserts Spire West is currently in compliance with this section
22 of the statute.

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

25 The commission shall reject an ISRS petition after a commission order
26 in a general rate proceeding unless the ISRS revenues requested in the
27 petition, on an annualized basis, will produce ISRS revenues of at least
28 the lesser of one-half of one percent (1/2%) of the natural gas utility’s
29 base revenue level approved by the commission in the natural gas
30 utility’s most recent general rate case proceeding or one (1) million
31 dollars, but not in excess of ten percent (10%) of the subject utility’s base

1 revenue level approved by the commission in the utility's most recent
2 general rate proceeding.

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

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

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

19 In previous ISRS applications, issues were raised regarding the inclusion of the cost
20 associated with replacement of plastic main and services undertaken as part of a larger mains
21 and services replacement program. In response to guidance from the Commission in its
22 Report and Order in the last ISRS Case No. GO-2018-0310, in this ISRS Petition Spire West
23 provided an avoided cost study for each ISRS-eligible work order that included estimated costs
24 associated with plastic mains and services replacement as discussed in the Staff Engineering
25 Review Section of this report. If the estimated cost of an ISRS-eligible work order for
26 Scenario 1 was greater than the estimated cost for Scenario 2, meaning it cost more to replace
27 the existing plastic mains or services than it would to reuse them, Spire West calculated the
28 percentage difference in costs between the two scenarios and made an adjustment to reduce its
29 actual ISRS-eligible costs incurred for that work order by that percentage difference. If the
30 estimated cost of an ISRS-eligible work order for Scenario 2 was greater than the estimated

1 cost for Scenario 1, meaning it cost more to utilize the existing plastic mains or services than
2 to replace it, no adjustment was made by the Company to the actual ISRS-eligible costs incurred
3 for that work order.

4 As part of its work scope in this case, Audit Staff compared the information contained
5 within each avoided cost study to the information in the Company's Revenue Requirement
6 workpaper to verify the amounts used to determine the plastic percentage differences matched.
7 Staff noted any discrepancies and sought clarification from the Company. In addition, Audit
8 Staff obtained a sample of the detailed calculations used to develop the estimated costs for
9 selected avoided cost studies. These samples were then compared to each avoided cost study
10 to verify the total of the amounts matched each cost element. Again, any discrepancies were
11 noted by Staff and provided to the Company for further clarification.

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

23 The methodology used by Auditing Staff to determine ISRS revenue requirement allows
24 for consideration of all accumulated depreciation and deferred income taxes on ISRS qualifying
25 infrastructure replacement costs through April 30, 2019. This methodology is consistent with
26 past reviews conducted by Auditing Staff and with Staff's view that the calculation of the ISRS
27 revenue requirement should closely reflect the revenue requirement for ISRS qualifying plant
28 as of the effective date of the ISRS rates.

29 *Staff Expert/Witness: Keith D. Foster*

1 BLANKET WORK ORDERS

2 Staff reviewed Spire’s workpapers concerning ISRS costs included in “blanket work
3 orders.” Blanket work orders are work orders that cover a large number of tasks, and which do
4 not close for an extended period of time. Issues have arisen in prior Spire ISRS filings regarding
5 the eligibility for recovery of the costs included in blanket work orders through the ISRS rate
6 mechanism. In this proceeding, the Company categorized each separate task in the blanket work
7 order as either ISRS eligible or ISRS ineligible. Spire then calculated the percentage of eligible
8 vs. ineligible tasks and applied the ineligible task percentage to the blanket work order total
9 amounts to calculate an amount of blanket work order costs that are not ISRS eligible. Staff
10 reviewed Spire’s categorization to determine if each task Spire considered eligible met the
11 requirements for ISRS recovery. Tasks considered eligible included mandated relocations,
12 replacements due to leak repairs and corrosion inspections and, replacement of copper and cast
13 iron pipe. Ineligible items included relocations at a customer’s request, replacements due to
14 excavation damage, replacement of plastic not related to a leak repair, and installation of new
15 services. Staff and Spire are in agreement as to the eligibility of all the tasks included in the
16 blanket work orders.

17 *Staff Expert/Witness: Kimberly K. Bolin*

18 CURRENT INCOME TAXES

19 Staff’s calculation of income taxes is in compliance with the Missouri Revised Statutes
20 associated with income taxes for an ISRS for gas utilities, Sections 393.1009(1)(a) and (b),
21 which states:

22 (1) “Appropriate pretax revenues”, the revenues necessary to produce net
23 operating income equal to:

24 (a) The gas corporation’s weighted cost of capital multiplied by the
25 net original cost of eligible infrastructure system replacements,
26 including recognition of accumulated deferred income taxes and
27 accumulated depreciation associated with eligible infrastructure
28 system replacements which are included in a currently effective
29 ISRS; and

30 (b) Recover state, federal, and local income or excise taxes
31 applicable to such income.

1 There are certain tax deductions associated with ISRS plant additions that should be taken into
2 account in determining the amount of state and federal taxes applicable to ISRS net operating
3 income. All of these tax deductions are directly associated with and incremental to the ISRS
4 plant additions in this proceeding.

5 The tax deductions that Spire can claim for construction of ISRS property are interest
6 expense, and Internal Revenue Code (IRC) Section 263A transfers. These deductions result in
7 income tax savings of approximately \$2 million, which more than offsets the \$1.1 million of
8 ISRS related income taxes stated prior to the consideration of any income tax deductions.

9 The weighted cost of debt, which is multiplied by the ISRS investment in compliance
10 with section 393.1009(1)(a), includes a component for both long-term and short-term debt.
11 As a result, the return on ISRS investment includes interest paid to debt holders. This interest
12 payment is tax deductible. Both Staff and Spire have recognized this tax deduction in the
13 calculation of income taxes.

14 Section 263A of the Internal Revenue Code (IRC) discusses the tax treatment,
15 capitalization versus expense, for various plant related costs that are self-constructed assets.
16 On the Company's regulatory books, these various plant related costs are treated differently
17 than the treatment prescribed by the IRC. In the aggregate, more costs are capitalized on the
18 Company's regulatory books than are required to be capitalized for tax purposes. The amount
19 capitalized on the Spire's books in excess of the amount capitalized for tax purposes is
20 deductible in the calculation of applicable income taxes.

21 Staff calculated the amount of the 263A deduction, by developing a 263A transfers
22 deduction percentage (13.03%). This percentage was developed by using the 263A transfer
23 deduction used in 2016 (\$10,850,002) as compared to the amount of plant added during
24 the same period per Company's annual report filed with the Missouri Public Service
25 Commission (\$83,294,363). Staff then applied this percentage to all of the additions. If Spire
26 is able to provide information that would allow for a more precise 263A deduction calculation,
27 Staff would consider using this information instead of the percentage that Staff has used in its
28 current calculation.

29 *Staff Expert/Witness: Kimberly K. Bolin*

1 Based upon its review and calculations made in response to this ISRS Application, Staff
2 recommends Spire West receive additional ISRS revenues of \$6,563,189 (See attached
3 Schedule 2 to this report).

4 *Staff Experts/Witnesses: Keith D. Foster and Kimberly K. Bolin*

5 **V. Recommendations**

6 Staff recommends that the Commission issue an order that:

- 7 1. Rejects Spire West’s ISRS tariff sheet (JG-2019-0139) P.S.C. MO No. 8,
8 Second Revised Sheet No. 12 cancelling P.S.C. MO. No. 8, First– Revised
9 Sheet No. 12, as filed on January 14, 2019.
- 10 2. Approves the Staff’s recommended ISRS surcharge revenues in this docket
11 in the incremental pre-tax revenue amount of \$6,563,189 with a total current
12 and cumulative ISRS surcharge of \$11,974,982.
- 13 3. Authorizes Spire West to file an ISRS rate for each customer class as
14 reflected in the attached Schedule 1 which generates \$11,974,982 annually.
- 15 4. Authorizes an effective date no later than May 14, 2019.

16 *Staff Expert/Witness: J Luebbert on behalf of all witnesses*

17 **Schedule 1 – ISRS Rate Design**

18 **Schedule 2 – ISRS Revenue Requirement Calculation**

19 **Appendix 1 – Staff Credentials**

SPIRE MISSOURI INC., SPIRE (West)
CASE NO. GO-2019-0116 & JG-2019-0139
ISRS RATE DESIGN - Direct Testimony

Staff's Total ISRS Rev Req **\$11,974,982**

<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	\$9,936,772
SGS -Small Gen. Service	31,727	\$30.00	1.5000	47,591	8.4031%	\$2.64	\$1,006,275
LGS-Large Gen. Service	3,628	\$130.17	6.5085	23,613	4.1694%	\$11.47	\$499,281
LV-Large Volume Service	460	\$1,095.27	54.7635	25,191	4.4481%	\$96.50	\$532,654
TOTAL	505,762			566,342	100.00%		\$11,974,982

* Due to rounding to the nearest penny, the designed ISRS rates **will under-collect by \$1046**. 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**

<u>ISRS Activity:</u>	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>			
<u>Work Orders Placed in Service</u>			
Gross Additions	37,505,846	37,517,158	(11,312)
Deferred Taxes	(364,965)	(416,990)	52,025
Accumulated Depreciation	(310,137)	(254,611)	(55,526)
Total Net	<u>36,830,744</u>	<u>36,845,557</u>	<u>(14,813)</u>
<u>Gas Utility Plant Projects - Service Line Replacements and Insertion Projects:</u>			
<u>Work Orders Placed in Service</u>			
Gross Additions	6,186,134	6,185,583	551
Deferred Taxes	(57,164)	(73,287)	16,123
Accumulated Depreciation	(99,911)	(85,163)	(14,748)
Total Net	<u>6,029,059</u>	<u>6,027,133</u>	<u>1,926</u>
<u>Gas Utility Plant Projects - Regulator Stations:</u>			
<u>Work Orders Placed in Service</u>			
Gross Additions	49,886	49,886	0
Deferred Taxes	(229)	(272)	43
Accumulated Depreciation	(479)	(360)	(119)
Total Net	<u>49,178</u>	<u>49,254</u>	<u>(76)</u>
<u>Gas Utility Plant Projects - Main Relocations net of Reimbursements:</u>			
<u>Work Orders Placed in Service</u>			
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	<u>2,997,123</u>	<u>2,996,872</u>	<u>251</u>
<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	44,607,509	44,620,220	(12,711)
Overall Rate of Return per GR-2017-0216	7.20%	7.20%	
UOI Required	3,210,715	3,211,630	(915)
Income Tax Conversion Factor	1.34135	1.34135	
Revenue Requirement Before Interest Deductibility	<u>4,306,693</u>	<u>4,307,920</u>	<u>(1,227)</u>
Total ISRS Rate Base	44,607,509	44,620,220	(12,711)
Weighted Cost of Debt per GR-2017-0216	1.8900%	1.8900%	
Interest Deduction	843,082	843,322	(240)
Marginal Income Tax Rate	25.4482%	25.4482%	
Income Tax Reduction due to Interest	214,550	214,611	(61)
Income Tax Conversion Factor	1.34135	1.34135	
Revenue Requirement Impact of Interest Deductibility	<u>287,786</u>	<u>287,868</u>	<u>(82)</u>
<u>263A Transfers Deduction</u>			
<u>Income Tax Factor</u>	4,503,149		4,503,149
<u>Income Tax Reduction due to 263A Transfers Deduction</u>	0.34135		
	<u>1,537,150</u>		<u>1,537,150</u>
<u>Applicable Income Tax</u>			
		808,422	(808,422)
Total Revenue Requirement on Capital	3,210,715	4,020,052	(809,337)
Depreciation Expense	773,643	770,115	3,528
Net Property Taxes	2,578,831	2,598,507	(19,676)
Total ISRS Revenues	<u>6,563,189</u>	<u>7,388,674</u>	<u>(825,485)</u>
June 2018 - GO-2018-0310 - Additional Revenues (From Appendix B)	-	1,365,520	(1,365,520)
Total ISRS Revenues	<u>6,563,189</u>	<u>8,754,194</u>	<u>(2,191,005)</u>

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

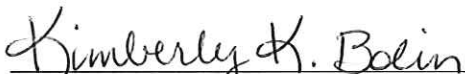
In the Matter of the Application of)	
Spire Missouri Inc. to Change its)	Case No. GO-2019-0116
Infrastructure System Replacement)	
Surcharge in its Spire Missouri West)	
Service Territory)	

AFFIDAVIT OF KIMBERLY K. BOLIN

STATE OF MISSOURI)	
)	ss.
COUNTY OF COLE)	

COMES NOW KIMBERLY K. BOLIN and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Staff Direct Report*; and that the same is true and correct according to her best knowledge and belief.

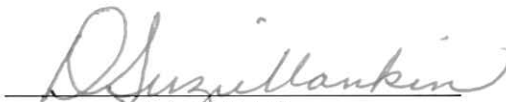
Further the Affiant sayeth not.


 KIMBERLY K. BOLIN

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 28th day of March 2019.

D. SUZIE MANKIN Notary Public - Notary Seal State of Missouri Commissioned for Cole County My Commission Expires: December 12, 2020 Commission Number: 12412070
--


 Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of)
Spire Missouri Inc. to Change its) Case No. GO-2019-0116
Infrastructure System Replacement)
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 him oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Staff Direct Report*; 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 28th day of March 2019.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 12, 2020
Commission Number: 12412070



Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

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

AFFIDAVIT OF J LUEBBERT

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW J LUEBBERT and on him oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Staff Direct Report*; and that the same is true and correct according to his best knowledge and belief.

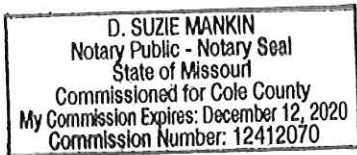
Further the Affiant sayeth not.

J LUEBBERT

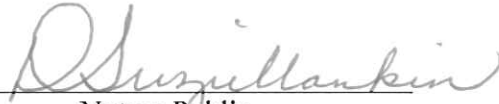


JURAT

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 28th day of March 2019.



Notary Public



BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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

AFFIDAVIT OF CHARLES T. POSTON, PE

STATE OF MISSOURI)	
)	ss.
COUNTY OF COLE)	

COMES NOW CHARLES T. POSTON, PE and on him oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Staff Direct Report*; and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.



CHARLES T. POSTON, PE

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 28th day of March 2019.

D. SUZIE MANKIN Notary Public - Notary Seal State of Missouri Commissioned for Cole County My Commission Expires: December 12, 2020 Commission Number: 12412070
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Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

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

AFFIDAVIT OF DAVID M. SOMMERER

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW DAVID M. SOMMERER and on him oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Staff Direct Report*; and that the same is true and correct according to his best knowledge and belief.

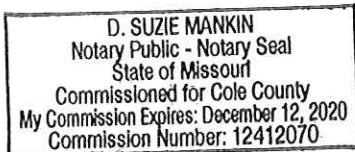
Further the Affiant sayeth not.



DAVID M. SOMMERER

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 28th day of March 2019.





Notary Public