

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
File No. GA-2023-0389, Spire Missouri, Inc.

FROM: Nathan Bailey, Utility Regulatory Auditor, Auditing Department,
Financial and Business Analysis Division
Antonija Nieto, Lead Senior Utility Regulatory Auditor, Auditing Department,
Financial and Business Analysis Division
Francisco Del Pozo, Economist, Tariff/Rate Design Department,
Industry Analysis Division
Seoung Joun Won, PhD., Regulatory Compliance Manager,
Financial Analysis Department, Financial and Business Analysis Division

/s/ David T. Buttig, PE / 08-08-2023
Senior Professional Engineer,
Procurement Analysis Dept.
Financial and Business Analysis Div. / Date

/s/ Ron Irving / 08-08-2023
Staff Counsel's Office / Date

SUBJECT: Staff Recommendation for Approval of CCN Application with Conditions

DATE: August 8, 2023

Overview

On May 16, 2023, Spire Missouri, Inc. (“Spire”, “Applicant” or the “Company”), filed its Application (“Application”) with the Missouri Public Service Commission (“Commission”) for permission and approval and a certificate of public convenience and necessity (“CCN”) to construct, install, own, operate, maintain, and otherwise control and manage a natural gas distribution system to provide gas service in Cass County, Missouri, as a further expansion of its existing certificated area. Spire seeks a waiver from Commission Rule 20 CSR 4240.4.017(1) that provides notice to the secretary of the Commission a minimum of sixty (60) days prior to filing a case and a variance from filing requirements of Commission Rule 20 CSR 4240-3.205(1)(A).

On May 24, 2023, the Commission issued its Order directing notice, setting deadline for intervention request and directing filing of Staff Recommendation. The application to intervene was set for no later than June 21, 2023. No parties intervened. The Commission directed Staff to file a Recommendation regarding Spire’s Application or request for an extension of time no later than July 6, 2023.

On July 3, 2023, Staff filed a motion for extension of time to file its recommendation in order to receive and review a couple outstanding data requests. Staff requested the Commission allow Staff a 30-day extension to August 8, 2023 to file its recommendation. On July 14, 2023,

the Commission issued its Order Granting Extension of Time to File Staff Recommendation by August 8, 2023.

Discussion

Spire's application states that it seeks a CCN to extend its existing certificated area in Cass County to Section 18, Township 46 North, Range 31 West of Cass County, Missouri ("Section 18"). A commercial customer within the requested section contacted Spire with a need for a distribution system extension to provide natural gas service for space heating, water heating, and cooking.¹ Based on the Application, Spire had no assets and was serving no customers in the requested service area expansion prior to the installation of assets to serve the facility.

Excess Capacity

As stated in the Application, Spire has installed 6,131 feet of 6-inch plastic main and 364 feet of 2-inch service prior to seeking certification. In response to Staff's Data Request No. 0010, **

However, after reviewing ** full development plan for the future complex, which includes a new **, it was determined that 6-inch main will serve initial customers as well as provide capacity necessary to connect the future planned customers' load. Staff reviewed ** included in response to Staff Data Request No. 0010, which provided details concerning future construction plans.

Rate Base and Impact on Revenue Requirement

The Auditing department reviewed information provided by Spire in response to Staff's data requests, Spire's Application, and work papers. According to Spire's response to Staff's Data Request No. 0006, the main and service assets were placed in service on October 26, 2022. Spire's prior rate case, Case No. GR-2022-0179 included rate base through September 30, 2022, hence, the assets were not included in the last rate case.

Staff submitted several data requests seeking information on customer contributions or deposits that were required in order for Spire to extend service to the customer. According to Spire, the new commercial customer did not provide any contributions in aid of construction (CIAC), therefore there are no contributions or advances eligible for refund. **

¹ Staff Data Request No. 0008.

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In response to Staff's Data Request No. 0001, Spire provided Staff with a list of Spire's assets, investments, and active customers in the requested area in addition to its assumptions and justifications used in the economic analysis to install those assets. Staff relied on information provided by Spire in Data Request No. 0001 to calculate the impact of the assets addition on the revenue requirement based on the Case No. GR-2022-0179. Staff used Spire's Cost Calculation, Revenue Calculation, and Income Statement to assess the impact of this CCN to Spire's revenue requirement. Staff is of the opinion that the additional revenue requirement increase caused by this addition is immaterial and will not become a detriment to existing customers.

Should the Commission approve this application, exact rate making determinations regarding the revenue requirement impact of this service area extension will be assessed in Spire's next general rate making proceeding.

Financial Ability

Staff investigated whether Spire Missouri has the financial ability to construct, install, own, operate, maintain, and otherwise control and manage a natural gas distribution system to provide natural gas service in Cass County, Missouri, as a further expansion of its existing certificated area. Spire Missouri is seeking a Certificate of Convenience and Necessity for Section 18. The total cost of the project is ** [REDACTED] **. ² Staff reviewed how Spire Missouri funded the Section 18 purchase and the effect the financing had on Spire Missouri's credit quality. According to the Application filed May 16, 2023, no external financing was required for construction related to this project. ³ Therefore, there are no changes in Spire Missouri's financial ratios because of this project. ⁴ Staff has no concerns with the financial risk profile of Spire Missouri. With consideration of Spire Missouri's financial capacity, the Applicant has the financial ability to provide the service. According to The Standard & Poor's ("S&P"), Spire Missouri's capital expenditure averages about \$360 million annually, with a credit facility availability of about \$475 million. ⁵ Spire Missouri is a wholly owned subsidiary of Spire Inc. The S&P expects that Spire Inc. will show robust capital expenditures of about \$650 million annually while maintaining a \$1.3 billion syndicated revolving

² Staff Data Request No. 0015.

³ Paragraph 11, May 16, 2023, *Application for Certificate of Convenience and Necessity for Cass County and a Request for Waiver*.

⁴ Staff Data Request No. 0013.

⁵ RatingsDirect, S&P Global Ratings. Spire Missouri Inc., May 30, 2023.

credit facility to cover its short-term funding needs.⁶ S&P and Moody's rated both Spire Missouri and Spire Inc. as investment grade. S&P rated both Spire Missouri and Spire Inc. as "A-", while Moody's rated them as "Baa2" and "A1", respectively.⁷ Considering the fact that the proposed total cost of the project is less than 1% of Spire Missouri's capital expenditure average, it is reasonable to conclude that Spire Missouri has the financial ability to construct, install, own, operate, maintain, and otherwise control and manage the natural gas distribution system of Section 18.

Potential risks and consequences of operating outside of Spire's certified area

Per the Commission Rule 20 CSR 4240-3.205 Filing Requirements for Gas Utility Applications for Certificates of Convenience and Necessity, regulated gas utilities are required to apply to the Commission requesting an approval of a certificate of convenience and necessity meeting the requirements set forth in the rule prior to constructing/purchasing assets and/or operating in previously uncertified area. As stated in the Application, Spire installed assets expanding to Section 18 in October 2022 without seeking the Commission's approval. Prior to installing the assets to serve ** [REDACTED] ** Spire had no infrastructure and no customers in the mentioned area. Operating as a regulated utility in an uncertified area in Missouri poses several risks including, but not limited to:

- Legal consequences – operating in an uncertified area violates regulatory requirements. Utilities that operate in uncertified area could face legal consequences such as fines, penalties, or a legal action for operating without proper certification.
- Lack of consumer protection – uncertified areas lack the consumer protection measures provided by the Missouri Public Service Commission potentially leaving customers vulnerable to unfair practices, improper billing, or inadequate quality of service.
- Regulatory intervention – The Missouri Public Service Commission has the authority to enforce compliance, initiate investigations, and take necessary actions to protect public interest. PSC may intervene to halt operations in uncertified areas.
- Reputation damage – Operating in uncertified areas can harm utility's reputation. Customers may lose trust in the utility resulting in negative public perception that can be hard to overcome.
- Financial risks – Operating in uncertified area may lead to financial risks, as utilities may not have access to certain regulatory mechanisms, rate structures, or financial support available to certified utilities.

⁶ RatingsDirect, S&P Global Ratings. Spire Inc., July 5, 2023.

⁷ S&P Capital IQ Pro.

Regulated utilities in Missouri are required to certify their area of operation to ensure that they have exclusive rights to serve customers within a specific territory. This helps prevent duplication of infrastructure and promotes efficiency in the provision of utility services. It also allows for effective regulation and oversight of utilities to protect consumer interests and maintain reliable service delivery.

It is crucial for regulated utilities to operate within their certified areas to ensure compliance, consumer protection, and long-term sustainability.

Tartan Criteria

In the Tartan Energy Company case, the Commission's Order listed five criteria to include in the consideration when making a determination on whether a utility's proposal meets the standard of being "necessary or convenient for the public service" (A short description of how Staff believes each criteria has been met is also included):

- Is the service needed?
 - Yes. The earlier discussion regarding customer need for service addresses the need of the project.
- Is the applicant qualified to provide the service?
 - Yes. Spire is a large public utility and gas corporation, as those terms are defined in RSMo. §386.020, and is a corporation incorporated under the laws of the State of Missouri, with its principal office located at 700 Market Street, St. Louis, Missouri, 63101. As an existing utility operator, Staff believes Spire is qualified to provide the service.
- Does the applicant have the financial ability to provide the service?
 - Yes. As stated above, no external funding was required for this project and Spire Missouri has the financial ability to construct, install, own, operate, maintain, and otherwise control and manage a natural gas distribution system to provide natural gas service for the area as previously described.
- Is the applicant's proposal economically feasible?
 - Yes. The effect on the revenue requirement indicates that the impact of authorizing this CCN will not be detrimental to the new customer(s) or Spire's general body of ratepayers.
- Does the service promote the public interest?
 - Generally, if all of the other criteria and conditions are met, then the criterion regarding public interest is met. Additionally, ** [REDACTED] [REDACTED] ** approached Spire with the request to provide natural gas service

for its expansion in Section 18 after identifying Spire as the natural gas service provider with a franchise to serve the City of Raymore. The cost impact of the projects' addition relative to Spire's overall rate base is immaterial and not a detriment to other Spire customers. It is Staff's position that granting the CCN promotes the public interest.

Staff Recommendation

Based on the information provided above, Staff recommends the Commission approve the Company's requested CCN with the following conditions:

- Spire shall initiate an internal audit of its processes and procedures regarding compliance with Commission Rule 20 CSR 4240-3.205 Filing Requirements for Gas Utility Applications for Certificates of Convenience and Necessity to ensure all of its regulated area of operation has been certified by the Commission. The report shall also include steps taken to avoid constructing and/or operating in uncertified areas in the future.
- Spire shall provide its internal audit report to the Commission prior to filing for its next general rate case.
- Spire shall file an updated tariff sheet incorporating Section 18, Township 46 North, Range 31 West for Cass County.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of Spire)
Missouri, Inc. d/b/a Spire for Permission and)
Approval and a Certificate of Convenience and)
Necessity to Construct, Install, Own, Operate,)
Maintain, and Otherwise Control and Manage a)
Natural Gas Distribution System to Provide Gas)
Service in Cass County, Missouri as an)
Expansion of its Existing Certificated Areas)

File No. GA-2023-0389

AFFIDAVIT OF ANTONIJA NIETO

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW ANTONIJA NIETO, and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Staff Recommendation, in Memorandum form*; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.

Antonija Nieto
ANTONIJA NIETO

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 8th day of August, 2023.

DIANNA L. VAUGHT
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: July 18, 2027
Commission Number: 15207377

Dianna L. Vaught
Notary Public

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In the Matter of the Application of Spire)
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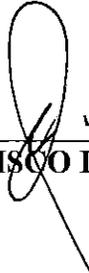
File No. GA-2023-0389

AFFIDAVIT OF FRANCISCO DEL POZO

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW FRANCISCO DEL POZO 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.

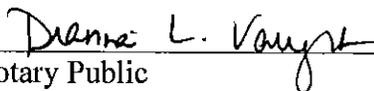


FRANCISCO DEL POZO

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 08th day of August, 2023.

DIANNA L. VAUGHT
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: July 18, 2027
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Notary Public

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AFFIDAVIT OF SEOUNG JOUN WON, PhD

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW SEOUNG JOUN WON, PhD, 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.

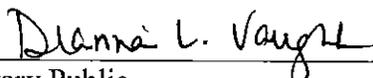
Further the Affiant sayeth not.


SEOUNG JOUN WON, PhD

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 8th day of August, 2023.

DIANNA L. VAUGHT
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Notary Public