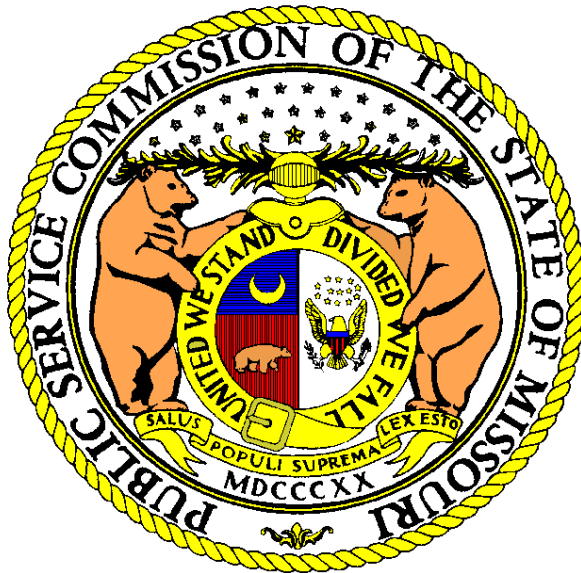


# MISSOURI PUBLIC SERVICE COMMISSION

## STAFF

## DIRECT REPORT



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

**CASE NO. GO-2019-0356**

*Jefferson City, Missouri  
September 27, 2019*

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SPIRE MISSOURI, INC.,  
d/b/a Spire (East)  
  
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1 **STAFF DIRECT REPORT**

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

4 **CASE NO. GO-2019-0356**

5 **I. Executive Summary**

6 On July 15, 2019 Spire Missouri, Inc. filed its *Verified Application and Petition of Spire*  
7 *Missouri Inc. to Change Its Infrastructure System Replacement Surcharge for Its*  
8 *Spire Missouri East Service Territory* (Application), with associated workpapers and the direct  
9 testimony of Craig R. Hoeflerlin. In its Application, Spire Missouri requests Commission  
10 approval to change the infrastructure system replacement surcharge (ISRS) for its Spire  
11 Missouri East Service Territory (Spire East). Spire Missouri’s request includes two  
12 components – reimbursement for (1) ISRS-eligible costs incurred between February 1, 2019  
13 and May 31, 2019 (including pro forma ISRS costs for June and July 2019) and (2) costs  
14 incurred between October 1, 2017 and June 30, 2018 that the Commission denied in cases GO-  
15 2018-0309 and GO-2019-0115. The ISRS surcharges Spire Missouri seeks equates to a revenue  
16 requirement of \$8,104,616, which was adjusted downward to \$7,640,218 after replacing June  
17 and July’s proforma costs with actual costs.

18 Spire Missouri initially filed two versions of a revised tariff Sheet No. 12 in its  
19 Application. After the Commission requested clarification on July 17, 2019 regarding which  
20 sheet Spire Missouri intends to take effect, Spire Missouri submitted a revised Sheet No. 12 on  
21 July 18, 2019, bearing a proposed effective date of August 14, 2019. On July 25, 2019 the  
22 Commission suspended the sheet Spire Missouri filed July 18, 2019 until November 12, 2019.  
23 Staff considers this third tariff Sheet No. 12 as the only tariff sheet pending in this Application.  
24 The Commission’s July 25, 2019 *Order Suspending Tariff Sheets* directs Staff to file a  
25 recommendation by September 13, 2019. On September 13, 2019, Staff filed its  
26 recommendation and attached memorandum recommending the Commission issue an  
27 order that:

- 28  
29 1. Rejects Spire Missouri’s ISRS tariff sheet (YG-2020-0009) P.S.C. MO  
30 No. 7 Third Revised SHEET No. 12 CANCELLING P.S.C. MO. No. 7  
31 Second Revised SHEET No. 12, as filed on July 18, 2019;  
32

- 1           2. Approves the Staff’s recommended ISRS surcharge revenues in this docket  
2           in the incremental pre-tax revenue amount of \$4,439,498 with a total current  
3           and cumulative ISRS surcharge of \$12,990,598;
- 4
- 5           3. Authorizes Spire Missouri to file an ISRS rate for each customer class as  
6           reflected in Staff’s Appendix B, which generates \$12,990,598; and  
7
- 8           4. Authorizes an effective date no later than November 12, 2019.

### 9           **Application Background**

10           Similar to its filing in case number GO-2019-0115, Spire Missouri’s current filing has  
11 two components to its cost recovery request. One request is for recovery of “new” costs for the  
12 period of February 1, 2019 to May 31, 2019, plus pro forma ISRS costs for the months of June  
13 and July 2019. These costs can be characterized as costs consistent with traditional, long-  
14 standing ISRS practice in that they relate to current, not past, ISRS costs. Neither Staff nor the  
15 Commission addressed these costs in past ISRS cases. Cost data for the months of June 2019  
16 and July 2019 were estimated and subject to updating to actual costs incurred once known.

17           The other component is Spire Missouri’s renewed request to recover “old” costs from a  
18 previous time period that Staff and the Commission addressed in previous proceedings.  
19 Specifically, Spire Missouri requests recovery of ISRS costs incurred during the period of  
20 October 1, 2017 to June 30, 2018 that the Commission deemed ineligible for recovery in its  
21 ISRS case number GO-2018-0309. The Commission’s *Report and Order* in GO-2018-0309 is  
22 on appeal at the Missouri Court of Appeals, Western District.

23           In Case No. GO-2019-0115, Spire Missouri resubmitted the old costs the Commission  
24 rejected in Case No. GO-2018-0309, in addition to requesting reimbursement for costs incurred  
25 from July 2018 to January 2019. The Commission disallowed recovery for the old costs, stating  
26 that it does not have jurisdiction over matters before the appellate court.<sup>1</sup>

27           According to Appendix A, Schedule 8 of its Application, Spire Missouri requests a  
28 revenue requirement of \$8,104,616, which includes \$1,590,345 of old costs. On July 23, 2019  
29 Spire Missouri provided Staff with actual June 2019 costs, and on August 21, 2019 Spire  
30 Missouri provided Staff with actual July 2019 costs. This revised revenue requirement  
31 decreases Spire Missouri’s request by \$464,398 from the initially-filed \$8,104,616 to

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1 Missouri Public Service Commission, Case No. GO-2019-0115, *Report and Order*, 46.

1 \$7,640,218. Spire Missouri states that the surcharges established in prior cases, plus the  
2 surcharge requested in this case, would produce cumulative ISRS revenues of \$16,191,318  
3 annually. The following table reflects Spire Missouri’s initial recommended revenue  
4 requirement and the revenue requirement adjusted for actual costs through July 2019 and the  
5 reduction of property taxes based on the Unanimous Stipulation and Agreement as to  
6 Resolution of Property Tax Expense in Case No. GO-2019-0115<sup>2</sup> (Property Tax Stipulation).

Spire East				
Case Number	Spire East Initial Application workpapers	Spire East Initial Application workpapers updated with actuals	Spire East Initial Application workpapers updated with actuals and adjusted property taxes	
GO-2019-0356	\$ 8,104,616	\$ 7,640,218	\$ 7,640,218	Note 1
GO-2019-0115	6,425,514	6,425,514	5,943,490	Note 2
GO-2018-0309	2,607,608	2,607,608	2,607,610	Note 3
<b>Cumulative Total</b>	<b>\$ 17,137,738</b>	<b>\$ 16,673,340</b>	<b>\$ 16,191,318</b>	

7  
8 **Note 1:** Spire Missouri’s Application includes costs for the period of October 1, 2017 through June 30, 2018  
9 previously denied by the Commission in its August 21, 2019 Report and Order on Rehearing in Case  
10 No. GO-2019-0115.

11 **Note 2:** Authorized revenue requirement that includes the reduction to the revenue requirement for property taxes  
12 approved by the Commission in its August 21, 2019 Report and Order on Rehearing in Case No. GO-2019-0115.

13 **Note 3:** Authorized revenue requirement corrected for an error in Spire Missouri’s Application workpapers for the  
14 Commission authorized revenue requirement in Case No. GO-2018-0309.

15 Spire Missouri included in its Application an alternative revenue requirement  
16 calculation consistent with the methodology the Commission approved in prior Spire East ISRS  
17 cases.<sup>3</sup> Consistent with the Commission’s *Report and Order on Rehearing*, dated August 21,  
18 2019, Staff did not consider previously-denied costs before the appellate court in calculating  
19 Spire Missouri’s revenue requirement. In calculating its recommended revenue requirement,  
20 Staff utilized and adjusted Spire Missouri’s alternative revenue requirement. Staff recommends  
21 that the Commission reject old ISRS costs in this proceeding for the same reasons the

2. Approved by the Commission in its August 21, 2019 *Report and Order on Rehearing* in Case No. GO-2019-0115.

3. Spire Missouri, Case No. GO-2019-0356, *Verified Application and Petition of Spire Missouri Inc. to Change its Infrastructure System Replacement Surcharge for its Spire Missouri East Service Territory*, paragraph 10.

1 Commission rejected them in Case No. GO-2019-0115 and only allow recovery of current  
2 ISRS-eligible projects between February and July 2019.

3 **Notice and Annual Report Requirements Met**  
4

5 Spire Missouri states in its Application that it is complying with notice requirements:  
6

7 24. Pursuant to 4 CSR 240-3.265(8) and (9), Spire East intends to  
8 continue using the annual notices and customer bill language approved  
9 by the Commission in Case No. GO-2018-0309, at the time its current  
10 ISRS was first established.  
11

12 Spire Missouri filed its 2018 Annual Report (submitted April 2019) and is not  
13 delinquent on paying its assessments.

14 **Auditor Review and Recommendation**

15 Commission Rule 20 CSR 4240-3.265, Natural Gas Utility Petitions for Infrastructure  
16 System Replacement Surcharges, sets forth the definitions of natural gas utility plant projects  
17 eligible for ISRS treatment. Based on Staff's review of supporting workpapers, work order  
18 authorizations, accounting entries for a selection of work orders, and a sample of invoices  
19 supporting the work order authorizations, Staff concluded that each of the projects reviewed  
20 meets the ISRS rule qualifications. Based upon its review of calculations in the alternative  
21 revenue requirement, Staff's recommended annual revenue requirement for February through  
22 July 2019 is \$4,439,598, with a cumulative total of \$12,990,598. (See attached Schedule 2.)

23 *Staff Expert/Witness: Karen Lyons*

24 **II. ISRS Rate Schedules**

25 Staff's recommended ISRS rates are contained in Schedule 1, attached hereto and  
26 incorporated by reference. The rates in Schedule 1 are consistent with Staff's recommended  
27 Revenue Requirement of \$4,439,498 annually and generate \$12,990,598 annually for the  
28 cumulative ISRS.

29 Most ISRS filings utilize the most current annual report figures to establish the customer  
30 count used in the calculation of rates. However, the ISRS rates in this case are calculated based  
31 on the customer-count used in Spire Missouri's latest rate case, Case  
32 No. GR-2017-0215. The relevant statute clearly allows for this substitution:

33 **393.1015. 5. (1)** The monthly ISRS charge may be calculated based on a  
34 reasonable estimate of billing units in the period in which the charge will

1 be in effect, which shall be conclusively established by dividing the  
2 appropriate pretax revenues by the customer numbers reported by the gas  
3 corporation in the annual report it most recently filed with the commission  
4 pursuant to subdivision (6) of section 393.140, and then further dividing  
5 this quotient by twelve. **Provided, however, that the monthly ISRS may**  
6 **vary according to customer class and may be calculated based on**  
7 **customer numbers as** determined during the most recent general rate  
8 proceeding of the gas corporation so long as the monthly ISRS for each  
9 customer class maintains a proportional relationship equivalent to the  
10 proportional relationship of the monthly customer charge for each customer  
11 class. (Emphasis added.)  
12

13 This method change is necessary because of revisions that took place in the rate cases  
14 and because of the addition of newly-designed and newly-established rate classes.

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

16 **III. Engineering Review**

17 Staff's engineering review of this case was limited to participation in construction site  
18 visits and a review of Mr. Craig Hoeflerlin's direct testimony.

19 On August 21, 2019, Staff visited two construction sites in the Spire East territory in  
20 which cast iron pipe was replaced with plastic pipe. The construction observed was consistent  
21 with Staff's expectations for the work that would be necessary to replace cast iron with plastic.  
22 Staff did not observe anything that contradicted its understanding of the technical aspects of  
23 replacing cast iron and bare steel. The information regarding the methods used to replace cast  
24 iron mains and the associated service lines that was provided to Staff during the site visit is  
25 consistent with the information Spire Missouri provided in Case Nos. GO-2019-0115 and GO-  
26 2019-0116.

27 Staff's review of Mr. Hoeflerlin's direct testimony found that it contains a summary of  
28 the regulatory oversight related to programs that direct the replacement of cast iron and bare  
29 steel piping. Compliance with state and federal safety requirements is mandatory and is not by  
30 itself sufficient to qualify any specific expense as being ISRS eligible. Mr. Hoeflerlin's  
31 testimony also contains claims that Spire Missouri's cast iron and bare steel piping is in a worn  
32 out or deteriorated condition. As supporting evidence, Mr. Hoeflerlin refers to his own personal  
33 experience and to the testimony of Spire Missouri witness Rob Atkinson during the hearing for  
34 Case Nos. GO-2019-0115 and GO-2019-0116. Mr. Hoeflerlin also provides a sample of

1 photographs depicting the types of pipe Spire Missouri targets in its replacement programs.  
2 Staff notes that Spire Missouri also attested to the specific sections of the ISRS statute and the  
3 state or federal safety requirements that apply to the individual work orders that are listed in its  
4 verified application.

5 Based on its engineering review, Staff concludes the actions taken by Spire Missouri to  
6 replace cast iron and bare steel piping are reasonable.

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

#### 8 **IV. Review and Revenue Calculations**

9 Section 393.1015.3, RSMo, states, “A gas corporation may effectuate a change in its  
10 rate pursuant to the provisions of this section no more often than two times every twelve  
11 months.” The Spire East tariffs filed with this Application are suspended until November  
12 12, 2019. In Case No. GR-2017-0215, effective April 19, 2018, the ISRS balances were reset  
13 to zero. Since that date, Spire Missouri changed its Spire East ISRS surcharge twice, in Case  
14 No. GO-2018-0309, with an effective date of October 8, 2018 and Case No. GO-2019-0115,  
15 with an effective date of May 25, 2019<sup>4</sup>. Based on Spire Missouri’s previous ISRS filings and  
16 the statute, Spire Missouri is in compliance with this section of the statute.

17 Commission Rule 20 CSR 4240-3.265(18), Natural Gas Utility Petitions for  
18 Infrastructure System Replacement Surcharges, states:

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

29 Spire Missouri’s requested ISRS revenues exceed one-half of one percent of the natural  
30 gas utility’s base revenue level approved by the Commission in the most recent Spire East rate  
31 case, and Spire Missouri’s cumulative ISRS revenues, including the amounts requested in this

---

4. In its August 21, 2019 *Report and Order on Rehearing* in Case No. GO-2019-0115 the effective date for property taxes changed to August 21, 2019.



1 filing, do not exceed ten percent of the base revenue levels approved by the Commission in the  
2 last Spire East rate case, Case No. GR-2017-0215.

3 Spire Missouri seeks to recover qualifying ISRS costs incurred from February 1, 2019  
4 through July 31, 2019. The ISRS recovery requested for June and July 2019 plant-in-service  
5 additions was included on an estimated basis at the time Spire Missouri filed its application, but  
6 it filed an updated Appendix A that includes June and July actuals on September 11, 2019.  
7 Spire Missouri provided documentation supporting actual ISRS plant addition costs during  
8 Staff's audit.

9 Auditing Staff reviewed supporting workpapers, work order authorizations, and a  
10 sample of invoices supporting the work order authorizations. Staff also communicated with  
11 Spire Missouri personnel to clarify its application. Inclusion of costs associated with replacing  
12 plastic main and service lines undertaken as part of Spire Missouri's main and service line  
13 replacement program were at issue in previous ISRS applications. Spire Missouri provided  
14 avoided cost studies for each proposed ISRS-eligible work order in Case No. GO-2019-0115 to  
15 support ISRS recovery of these costs. In its *Report and Order* in Case No. GO-2019-0115, the  
16 Commission rejected Spire Missouri's avoided cost studies and ordered that the methodology  
17 developed by Staff in Case Nos. GO-2018-0309 and GO-2019-0115 be used to calculate the  
18 amount of ineligible plastic. Spire Missouri did not prepare any avoided costs studies to  
19 support recovery of the costs associated with replacement of plastic in the current case.

20 In its alternative ISRS revenue requirement model, Spire Missouri used the same  
21 methodology the Commission approved in Case Nos GO-2018-0309 and GO-2019-0115 to  
22 calculate the amount of ineligible plastic. The feet of plastic main and service lines replaced or  
23 retired were divided by the total footage of the pipe replaced or retired to arrive at the percentage  
24 of costs associated with plastic to be removed from ISRS recovery. Staff reviewed all the work  
25 orders Spire Missouri provided to confirm the feet of main and service lines replaced and retired  
26 by the type of pipe (plastic, cast iron, steel, etc.), and concluded that Spire Missouri's  
27 adjustments are consistent with the Commission methodology used in Case Nos GO-2018-0309  
28 and GO-2019-0115.

29 Commission Rule 20 CSR 4240-3.265, Natural Gas Utility Petitions for Infrastructure  
30 System Replacement Surcharges, sets forth the definitions of natural gas utility plant projects

1 eligible for ISRS treatment. Based on Staff's review of supporting workpapers, work order  
2 authorizations, accounting entries for a selection of work orders, and a sample of invoices  
3 supporting the work order authorizations, Staff concluded that each of the projects reviewed  
4 meets the ISRS rule qualifications.

5 The methodology used by Auditing Staff to determine the ISRS revenue requirement  
6 considers all accumulated depreciation and deferred income taxes on ISRS qualifying  
7 infrastructure replacement costs through October 31, 2019. This methodology is consistent  
8 with past reviews conducted by Auditing Staff and with Staff's view that the calculation of the  
9 ISRS revenue requirement should closely reflect the revenue requirement for ISRS qualifying  
10 plant as of the effective date of the ISRS rates.

11 *Staff Expert/Witness: Antonija Nieto*

12 Blanket Work Orders

13 Staff reviewed ISRS costs in Spire Missouri's blanket work orders. Blanket work orders  
14 are work orders covering a large number of tasks that do not close for an extended period of  
15 time. Issues arose in prior Spire Missouri ISRS filings regarding recovery of costs included in  
16 blanket work orders. In this proceeding, Spire Missouri categorized each separate task in the  
17 blanket work order as either ISRS eligible or ISRS ineligible. It then calculated the percentage  
18 of eligible versus ineligible tasks and applied the ineligible task percentage to the blanket work  
19 order total amounts to calculate an amount of blanket work order costs that are not ISRS  
20 eligible. Staff reviewed Spire Missouri's categorization to determine if each task it considers  
21 eligible met the requirements for ISRS recovery. Tasks considered eligible include mandated  
22 relocations, replacements due to leak repairs and corrosion inspections and, replacement of  
23 copper and cast iron pipe. Ineligible items include relocations at a customer's request,  
24 replacements due to excavation damage, replacement of plastic not related to a leak repair, and  
25 installation of new services. Staff agrees with Spire as to the eligibility of all the tasks included  
26 in the blanket work orders.

27 *Staff Expert/Witness: Karen Lyons*

28  
29 Current Income Taxes

1 Staff's calculation of income taxes complies with the applicable law regarding  
2 calculating income tax for ISRS purposes. Sections 393.1009(1)(a) and (b), RSMo state:

3 (1) "Appropriate pretax revenues", the revenues necessary to produce net  
4 operating income equal to:

5 (a) The gas corporation's weighted cost of capital multiplied by the net original  
6 cost of eligible infrastructure system replacements, including recognition of  
7 accumulated deferred income taxes and accumulated depreciation associated  
8 with eligible infrastructure system replacements which are included in a  
9 currently effective ISRS; and

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

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

16 The tax deductions Spire Missouri can claim for construction of ISRS property are  
17 interest expense, service transfers and Internal Revenue Code (IRC) Section 263A transfers.  
18 These deductions result in income tax savings of \$1,117,570 million, which offsets the  
19 \$1,117,378 million of ISRS income taxes prior to the consideration of any income tax  
20 deductions.

21 The weighted cost of debt, which is multiplied by the ISRS investment, consistent with  
22 section 393.1009(1)(a) RSMo, includes a component for both long-term and short-term debt.  
23 As a result, the return on ISRS investment includes interest paid to debt holders. This interest  
24 payment is tax deductible. Staff recognized this tax deduction in the calculation of income  
25 taxes.

26 Spire Missouri capitalizes the cost of transferring service connections from the old main  
27 to the new main, meaning these costs become part of the company's investment and are  
28 included in plant. However, Spire Missouri expenses the cost of service transfers for income  
29 tax purposes and deducts these costs in the calculation of its applicable income tax. Unlike the  
30 Spire East ISRS Application, the Spire West Application does not include any service transfers,  
31 which were capitalized on Spire's books.

32 Section 263A of the IRC discusses the tax treatment, capitalization versus expense, for  
33 various plant related costs that are self-constructed assets. Spire Missouri treats these various

1 plant-related costs differently than the treatment prescribed by the IRC. In the aggregate, Spire  
2 Missouri capitalizes more costs than are required to be capitalized for tax purposes. The amount  
3 capitalized on Spire Missouri's books in excess of the amount capitalized for tax purposes is  
4 deductible in the calculation of applicable income taxes.

5 Staff calculated the amount of the 263A deduction, by developing a 263A transfers  
6 deduction percentage (6.72%). This percentage was developed by using the 263A transfer  
7 deduction used in 2018 tax return (\$10,752,604) as compared to the amount of all ISRS and  
8 non-ISRS plant added during the same period Spire Missouri's annual report filed with the  
9 Commission (\$160,038,474). Staff then applied this percentage to the amount of all of the ISRS  
10 additions included in Staff's ISRS revenue requirement.

11 Staff recommends that the Commission take into account certain tax deductions directly  
12 associated with ISRS plant additions in determining the amount of state and federal taxes  
13 applicable to ISRS net operating income.

14 *Staff Expert/Witness: Karen Lyons*

15 Treatment of Capitalized Overheads

16 In the prior Spire East ISRS case, the parties entered into a stipulation regarding  
17 overheads which states that no adjustment shall be made for overhead costs and that the parties  
18 agree to discuss how Spire allocates overhead costs to its ISRS projects. Accordingly, Spire  
19 Missouri provided a presentation to Staff and OPC between ISRS cases.

20 In this case, Staff continued to evaluate Spire Missouri's capitalization policies to see if  
21 an overheads adjustment is appropriate. Staff determined that Spire Missouri's accounting  
22 treatment of overhead costs appears to be consistent with how base rates were set in its most  
23 recent general rate cases, so an adjustment is not warranted. Furthermore, due to the complexity  
24 of Spire Missouri's accounting practices and the applicability of this issue to the overall cost of  
25 service, a general rate case would be a better venue to audit Spire Missouri's capitalization of  
26 overhead costs and discuss the application of the Uniform System of Accounts in a more  
27 detailed manner.

28 OPC was concerned in the prior ISRS case with Spire Missouri's recovery of general  
29 overhead costs through the ISRS mechanism<sup>5</sup>. In the current ISRS case, Staff examined Spire  
30 Missouri's allocation and capitalization of indirect costs to find if it is inappropriately using the

1 ISRS mechanism to recover costs between rate cases. Addressing OPC’s previous concern, the  
2 benefit to a utility from the ISRS mechanism can be maximized if a utility increased its  
3 capitalization rate immediately after base rate is established. Staff reviewed Spire Missouri’s  
4 capitalization policies to find if it shifted its accounting for costs from expense to ISRS projects  
5 after establishing recovery of its expenses in the prior rate cases.

6 In order to evaluate if Spire Missouri’s capitalization policies have changed since the  
7 last rate cases<sup>5</sup>, Staff examined Spire Missouri’s capitalization of internal labor, since labor is  
8 a large contributor to total construction costs and overhead costs. Staff compared the labor  
9 capitalization ratio used in Staff’s payroll annualization in the most recent Spire East and Spire  
10 West rate cases to the actual rate of labor capitalization during Spire Missouri’s fiscal year-to-  
11 date 2019<sup>6</sup>. The following table shows that the labor capitalized to ISRS projects is consistent  
12 with the labor capitalization rate used to set Spire Missouri’s base rates:

<b>Comparison of Labor Capitalization Rates</b>			
	<b>Capital % in Rate Case (Staff)</b>	<b>Spire Current % (Staff DR 4)</b>	<b>Difference</b>
Spire East	45.67%	45.23%	-0.44%
Spire West	39.77%	39.48%	-0.29%

13  
14 The comparison in the preceding table addresses Staff’s concern regarding shifts over  
15 time in the percentage of labor capitalized. Because the current capitalization rate approximates  
16 the capitalization rate embedded in base rates, Staff finds no basis for an adjustment to  
17 capitalized overheads in the current ISRS cases. Additionally, due to the complexity of Spire  
18 Missouri’s allocation and capitalization methodologies, as well as the very limited amount of  
19 time allowed for Staff review of ISRS filings, Staff takes the position that an audit of overhead  
20 costs during a rate case would provide the Commission more informed recommendations from  
21 the parties.

22 *Staff Expert/Witness: Matthew R. Young*

23 Reconciliation

24 Commission Rule 20 CSR 4240-3.265(17) requires a reconciliation of the ISRS revenue  
25 Spire collected from customers in the prior twelve month period to account for over- or under-

---

5. The last rate case in each jurisdiction is GR-2017-0215 – Spire East and GR-2017-0216 – Spire West.  
6. Staff Data Request 4, submitted on July 24, 2019 requested data for FYTD through June 30, 2019.

1 collection of previously approved ISRS revenue. The reconciliation in this case is also affected  
2 by the property tax stipulation entered in the prior ISRS case. Paragraph five of this stipulation  
3 “resets” the approved revenue requirement in the prior ISRS case by stating:

4 The Signatories further agree that the appropriate revenue  
5 requirement for Spire Missouri East Case No. GO-2019-0115 is  
6 \$5,943,490 and \$6,501,455 for Spire West Case No. GO-2019-  
7 0116, and that such amounts should be approved by the  
8 Commission.

9 In addition to using the revenue requirements specified in the property tax stipulation,  
10 Staff also included the offsets prescribed by paragraph seven of the stipulation:

11 The Signatories agree that the difference between property tax  
12 expenses as originally approved by the Commission and as  
13 recalculated pursuant to this Stipulation for the period when rates  
14 went into effect on, May 25, 2019, until the August 23, 2019  
15 effective date for the revised tariff sheets, will be reflected in the  
16 annual reconciliation amounts in Spire’s current ISRS filings  
17 GO-2019-0356 and GO-2019-0357 in the amounts of  
18 approximately \$118,855 for Spire Missouri East and \$69,314 for  
19 Spire Missouri West. (Footnote omitted.)  
20

21 Staff adjusted billed revenues for Spire East before making a comparison to authorized  
22 revenues and found that as of July 31, 2019, Spire Missouri under-collected ISRS revenue for  
23 Spire East by \$357,249. The amounts identified in paragraph seven of the property tax  
24 stipulation represent the amount Spire Missouri over-collected between May 25, 2019 and  
25 August 23, 2019. Including the new approved revenue requirement and the offset identified in  
26 the stipulation, Spire Missouri’s under-collection is reduced to \$238,393, shown as follows:  
27

Total ISRS Revenue Undercollection	\$	(357,249)
Property Tax Settlement GO-2019-0115	\$	118,855
Total amount to be reconciled over 12 months	\$	<u>(238,393)</u>

28  
29  
30 *Staff Expert/Witness: Matthew R. Young*

31 Based upon its review and calculations made in response to this ISRS Application,  
32 specifically, Spire East’s alternative revenue requirement (Appendix C), Staff’s recommended  
33 revenue requirement for the February through July 2019 period is \$4,439,598 with a cumulative  
34 total of \$12,990,598. (See attached Schedule 2 to this report).

1            *Staff Experts/Witnesses: Karen Lyons, Antonija Nieto and Matthew R. Young*

2            **V. Recommendations**

3            Staff recommends the Commission issue an order that:

- 4            1. Rejects Spire Missouri’s ISRS tariff sheet (YG-2020-0009) P.S.C. MO  
5            No. 7 Third Revised SHEET No. 12 CANCELLING P.S.C. MO. No. 7  
6            Second Revised SHEET No. 12, as filed on July 18, 2019;  
7  
8            2. Approves the Staff’s recommended ISRS surcharge revenues in this  
9            docket in the incremental pre-tax revenue amount of \$4,439,498 with a total  
10           current and cumulative ISRS surcharge of \$12,990,598;  
11  
12           3. Authorizes Spire Missouri to file an ISRS rate for each customer class as  
13           reflected in Staff’s Appendix B, which generates \$12,990,598; and  
14  
15           4. Authorizes an effective date no later than November 12, 2019.

16           *Staff Experts/Witnesses: Karen Lyons and David M. Sommerer*

17           **Schedule 1 – ISRS Rate Design**

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

19           **Appendix 1 – Staff Credentials**

SPIRE MISSOURI INC. -EAST  
CASE NO. GO-2019-0356 & YG-2020-0009  
RATE DESIGN - Direct Testimony

Staff's Total ISRS Rev Req

**\$12,990,598**

<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	604,973	\$22.00	1.0000	604,973	86.0152%	\$1.54	\$11,173,889
SGS - Small Gen. Service	36,743	\$35.00	1.5909	58,455	8.3111%	\$2.45	\$1,079,663
LGS-Large Gen. Service	3,882	\$125.00	5.6818	22,057	3.1360%	\$8.75	\$407,391
LV-Large Volume Service	67	\$914.25	41.5568	2,784	0.3959%	\$63.96	\$51,426
SL-Unmetered Gas Light	84	\$6.00	0.2727	23	0.0033%	\$0.42	\$423
IN-Interruptable	20	\$837.40	38.0636	761	0.1082%	\$58.59	\$14,061
General LP	36	\$17.94	0.8155	29	0.0042%	\$1.26	\$542
Vehicular Fuel	8	\$23.38	1.0627	9	0.0012%	\$1.64	\$157
LVTSS-Large Volume Transport & Sales Service	147	\$2,131.41	96.8823	14,242	2.0249%	\$149.12	\$263,045
<b>TOTAL</b>	<b>645,960</b>			<b>703,333</b>	<b>100.00%</b>		<b>\$12,990,598</b>

\* Due to rounding to the nearest penny, the designed ISRS rates **will over collect by \$568** However, it should be noted that the total amount collected will be trued-up at a later date.



**Spire Missouri East  
ISRS Revenue Requirement Calculation**

**ISRS Activity:**

	<b>Staff Recommendation: July 2019 Update</b>	<b>Spire's Filing: July 2019 Update</b>	<b>Difference</b>
<b><u>Gas Utility Plant Projects - Main Replacements and Other Projects Extending Useful Life of Mains:</u></b>			
<u>Work Orders Placed in Service</u>			
Gross Additions	28,859,312	28,859,312	-
Deferred Taxes	(161,760)	(176,374)	14,614
Accumulated Depreciation	(229,873)	(229,873)	-
<b>Total Net</b>	<b>28,467,679</b>	<b>28,453,065</b>	<b>14,614</b>
<b><u>Gas Utility Plant Projects - Service Line Replacements and Insertion Projects:</u></b>			
<u>Work Orders Placed in Service</u>			
Gross Additions	17,901,691	17,901,691	-
Deferred Taxes	(121,333)	(135,573)	14,240
Accumulated Depreciation	(300,111)	(300,111)	-
<b>Total Net</b>	<b>17,480,247</b>	<b>17,466,007</b>	<b>14,240</b>
<b><u>Gas Utility Plant Projects - Regulator Stations:</u></b>			
<u>Work Orders Placed in Service</u>			
Gross Additions	-	-	-
Deferred Taxes	-	-	-
Accumulated Depreciation	-	-	-
<b>Total Net</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b><u>Gas Utility Plant Projects - Main Relocations net of Reimbursements:</u></b>			
<u>Work Orders Placed in Service</u>			
Gross Additions	1,122,375	1,122,375	-
Deferred Taxes	(10,489)	(11,382)	893
Accumulated Depreciation	(7,492)	(7,492)	-
<b>Total Net</b>	<b>1,104,394</b>	<b>1,103,501</b>	<b>893</b>
<b><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></b>			
Total Incremental Accumulated Depreciation	(871,417)	(871,417)	-
Total Incremental Accumulated Deferred Taxes	(672,632)	(672,632)	-
<b>Total ISRS Rate Base</b>	<b>45,508,271</b>	<b>45,478,524</b>	<b>29,747</b>
<b>Overall Rate of Return per GR-2017-0215</b>	<b>7.20%</b>	<b>7.20%</b>	<b>0.00%</b>
<b>UOI Required</b>	<b>3,275,549</b>	<b>3,273,408</b>	<b>2,141</b>
<b>Income Tax Conversion Factor</b>	<b>1.34135</b>	<b>1.34135</b>	<b>0.00</b>
<b>Revenue Requirement on Capital before Interest Deductibility</b>	<b>4,393,658</b>	<b>4,390,786</b>	<b>2,872</b>
<b>Total ISRS Rate Base</b>	<b>45,508,271</b>	<b>45,478,524</b>	<b>29,747</b>
<b>Weighted Cost of Debt per GR-2017-0215</b>	<b>1.89%</b>	<b>1.89%</b>	<b>0.00%</b>
<b>Interest Deduction</b>	<b>860,106</b>	<b>859,544</b>	<b>562</b>
<b>Marginal Income Tax Rate</b>	<b>25.45%</b>	<b>25.45%</b>	<b>0.00%</b>
<b>Income Tax Reduction due to Interest</b>	<b>218,882</b>	<b>218,739</b>	<b>143</b>
<b>Income Tax Conversion Factor</b>	<b>1.34135</b>	<b>1.34135</b>	<b>0.00</b>
<b>Revenue Requirement Impact of Interest Deductibility</b>	<b>(293,597)</b>	<b>-</b>	<b>(293,597)</b>
<b>263A Transfers Deduction</b>	<b>2,652,397</b>	<b>-</b>	<b>2,652,397</b>
<b>Service Transfers Deduction</b>	<b>10,488,014</b>	<b>-</b>	<b>10,488,014</b>
<b>263A and Service Transfers Tax Deductible Items</b>	<b>13,140,411</b>	<b>-</b>	<b>13,140,411</b>
<b>Income Tax Factor</b>	<b>0.3414</b>	<b>-</b>	<b>0.3414</b>
<b>Income Tax Reduction due to Deductible Items</b>	<b>4,485,479</b>	<b>-</b>	<b>4,485,479</b>
<b>Applicable Income Tax</b>	<b>-</b>	<b>823,973</b>	<b>(823,973)</b>
<b>Total Revenue Requirement on Capital</b>	<b>3,275,549</b>	<b>4,390,786</b>	<b>(1,115,237)</b>
<b>Depreciation Expense</b>	<b>932,965</b>	<b>932,965</b>	<b>-</b>
<b>Net Property Taxes</b>	<b>(7,409)</b>	<b>(7,409)</b>	<b>-</b>
<b>Total ISRS Revenues</b>	<b>4,201,105</b>	<b>5,316,342</b>	<b>(1,115,237)</b>
<b>ISRS Revenue Undercollection June 2018 through July 2019</b>	<b>238,393</b>	<b>239,380</b>	<b>(987)</b>
<b>Total Spire East ISRS Revenues</b>	<b>4,439,498</b>	<b>5,555,722</b>	<b>(1,116,224)</b>

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

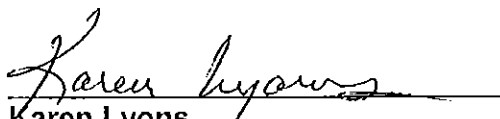
In The Matter of the Application of Spire )  
 Missouri, Inc. to Change its Infrastructure ) Case No. GO-2019-0356  
 System Replacement Surcharge in its Spire )  
 Missouri East Service Territory )

**AFFIDAVIT OF KAREN LYONS**

State of Missouri )  
 ) ss.  
 County of Jackson )

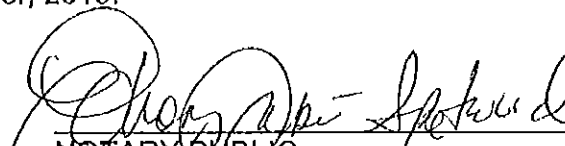
COMES NOW, Karen Lyons, and on her oath declares that she is of sound mind and lawful age; that she contributed to the attached *Direct Testimony*; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.

  
 \_\_\_\_\_  
 Karen Lyons

**JURAT**

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Jackson, State of Missouri, at my office in Kansas City, on this 25<sup>th</sup> day of September, 2019.

  
 \_\_\_\_\_  
 NOTARY PUBLIC



EBONEY JACKSON-SPOTWOOD  
 My Commission Expires  
 April 8, 2023  
 Clay County  
 Commission #19865798

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

In The Matter of the Application of Spire	)	
Missouri, Inc. to Change its Infrastructure	)	<u>Case No. GO-2019-0356</u>
System Replacement Surcharge in its Spire	)	
Missouri East Service Territory	)	

**AFFIDAVIT OF ANTONIJA NIETO**

State of Missouri )  
 ) ss.  
 County of Jackson )

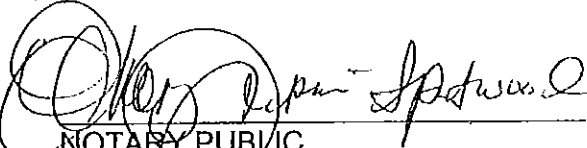
**COMES NOW**, Antonija Nieto, and on her oath declares that she is of sound mind and lawful age; that she contributed to the attached *Direct Testimony*; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.

  
 \_\_\_\_\_  
 Antonija Nieto

**JURAT**

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Jackson, State of Missouri, at my office in Kansas City, on this 24<sup>th</sup> day of September, 2019.

  
 \_\_\_\_\_  
 NOTARY PUBLIC



**EBONEY JACKSON-SPOTWOOD**  
 My Commission Expires  
 April 8, 2023  
 Clay County  
 Commission #19065700

**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-2019-0356  
System Replacement Surcharge in its Spire )  
Missouri East Service Territory )

**AFFIDAVIT OF CHARLES T. POSTON, PE**

State of Missouri )  
) ss.  
County of Jackson )

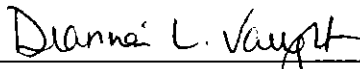
**COMES NOW**, Charles T. Poston, PE, and on his oath declares that he is of sound mind and lawful age; that he contributed to the attached *Direct Testimony*; and that the same is true and correct according to his best knowledge and belief.

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 Jackson, State of Missouri, at my office in Kansas City, on this 26th day of September, 2019.

  
\_\_\_\_\_  
NOTARY PUBLIC

DIANNA L. VAUGHT  
Notary Public - Notary Seal  
State of Missouri  
Commissioned for Cole County  
My Commission Expires: July 18, 2023  
Commission Number: 15207377



1

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

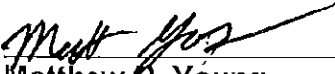
In The Matter of the Application of Spire )  
Missouri, Inc. to Change its Infrastructure ) **Case No. GO-2019-0356**  
System Replacement Surcharge in Its Spire )  
Missouri East Service Territory )

**AFFIDAVIT OF MATTHEW R. YOUNG**

State of Missouri )  
  ) ss.  
County of Jackson )

COMES NOW, Matthew R. Young, and on his oath declares that he is of sound mind and lawful age; that he contributed to the attached *Direct Testimony*; and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.

  
\_\_\_\_\_  
Matthew R. Young

**JURAT**

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Jackson, State of Missouri, at my office in Kansas City, on this 27<sup>th</sup> day of September, 2019.



M. RIDENHOUR  
My Commission Expires  
July 22, 2023  
Platte County  
Commission #19603483

  
\_\_\_\_\_  
NOTARY PUBLIC