

MEMORANDUM

TO: Missouri Public Service Commission Official Case File,
Case No. GR-2019-0119, Spire Missouri, Inc., d/b/a Spire East

FROM: Anne M. Crowe, Regulatory Auditor - Procurement Analysis
Keenan B. Patterson, PE, Regulatory Engineer - Procurement Analysis
Kwang Y. Choe, PhD, Regulatory Economist - Procurement Analysis

/s/ David M. Sommerer 12/17/19 /s/ Robert S. Berlin 12/17/19
Project Coordinator / Date Staff Counsel / Date

SUBJECT: Staff's Recommendation for Case No. GR-2019-0119, Spire Missouri, Inc.,
d/b/a Spire 2017-2018 Actual Cost Adjustment Filing

DATE: December 17, 2019

I. EXECUTIVE SUMMARY

On October 31, 2018, Spire Missouri, Inc., d/b/a Spire ("Company" or "Spire East") filed its Actual Cost Adjustment (ACA) for the 2017-2018 ACA period. This filing revises the ACA rates based upon the Company's calculation of the ACA balances.

Spire Missouri East (f/k/a Laclede Gas Company) serves approximately 645,000 residential, commercial, and industrial customers in the St. Louis metropolitan area and surrounding counties.

The Commission's Procurement Analysis Department ("Staff") has reviewed the Company's ACA filing. Staff's review included an analysis of billed revenues and actual gas costs for the period October 1, 2017, through September 30, 2018. Staff conducted a reliability analysis for Spire East, including a review of its estimate of customers' needs on a peak day (peak day requirements and the capacity levels to meet those requirements), peak day reserve margin and its rationale, and a review of gas supply plans for various weather conditions. Staff also reviewed Spire East's gas purchasing practices to determine the prudence of the Company's purchasing and operating decisions.

Staff has proposed no adjustments to Spire East's September 30, 2018, ACA account balances as shown in the table in the Recommendations section of this Memorandum. The following Table of Contents provides a guide to Staff's comments and recommendations contained in Sections I through V of this Memorandum:

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STAFF'S TECHNICAL DISCUSSION AND ANALYSIS

II. RELIABILITY AND GAS SUPPLY ANALYSIS

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

Staff has no proposed financial adjustments for the 2017-2018 ACA period related to reliability analysis and gas supply planning. Staff's other comments and recommendations are discussed in the rest of this section.

Spire STL Pipeline

Spire East began receiving gas from the Spire STL Pipeline in November 2019. The Federal Energy Regulatory Commission (FERC) authorized Spire STL Pipeline LLC to put most of the pipeline facilities into service in mid-November.¹ This does not affect Spire East's capacity for the 2017-2018 ACA period. The Staff notes that this is an affiliated pipeline and transactions between Spire East and Spire STL Pipeline will be examined as part of the 2019-2020 ACA period review.

Related to this, Spire East submitted to Staff and the Office of the Public Counsel a notice on August 30, 2019, that it was making changes to its contracts for capacity on interstate pipelines. This notification was required under a provision of the Stipulation and Agreement approved by the Commission in Case No. GM-2013-0254.² Spire East reduced its capacity on Enable Mississippi Rivers Transmission Pipeline from 660,329 Dth/day to 480,799 Dth/day. Staff

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

² *Order Approving Unanimous Stipulation and Agreement* issued July 17, 2013.

recommends that Spire East continue to keep it informed about changes in the gas supply and transmission portfolio related to the connection to the Spire STL Pipeline.

Reliability Report

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

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

On October 17, 2019, Staff met with Spire East to discuss the reliability report and other issues related to the reliability. **

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Staff recommends that Spire East submit the reliability report as required in the Stipulation and Agreement approved by the Commission in Case No. GM-2013-0214 as soon as possible.³
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Transportation Customers and School Aggregation

Staff compared the monthly imbalances of school transportation pools to pools of firm transportation customers. The distribution of imbalances for these two types of transportation customers is shown in the following graph. School pools tend to be less in balance than firm transportation pools. **

** Spire East must manage flow and pressure in its distribution system, which is affected

³ Ibid.

by transportation customer imbalances. **

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Spire East has the ability to monitor the daily use of customers in both classes, though the balancing provisions differ. Firm transportation pools are balanced using a daily cash-out, which is totaled and charged monthly. Spire East does not cash out school transportation pools, but permits them to correct monthly imbalances by adjusting nominations in the subsequent month.

Staff recommends that Spire East review the greater variance in imbalances of school transportation pools in comparison to the firm transportation pools and consider making revisions to its policies or tariffs that would bring the balancing performance of school transportation pools more in line with that of other transportation customers.

III. GAS COSTS

In this ACA period there were instances when Spire West and Spire East bought gas from the same supplier. The supplier issued a single invoice and Spire Missouri Inc. allocated the costs between its Spire West and Spire East service areas. However it was not always clear on the invoice how much gas volume was purchased for Spire West and how much was purchased for Spire East. When supply is purchased from the same supplier for both service areas, Staff recommends the Company either note on the invoice or provide other documents that specify the volumes of gas purchased for each service area so that Staff can verify the Company reconciled the invoiced gas volumes to the appropriate service area.

IV. HEDGING

One of the purposes of hedging is to reduce upward gas price volatility. Staff reviewed the Company's Risk Management Strategy, Gas Supply Risk Management Policy and its financial hedging transactions for the 2017-2018 ACA period. The Company implemented its financial hedging transactions based on the risk management strategy. Staff also reviewed monthly hedged coverage for the winter period of November 2017 through March 2018. Spire East uses financial instruments and storage withdrawals for its hedge coverage.

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

A. ** _____

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B. Evaluation of Hedge Program

Staff reviews the prudence of a Company's decision-making based on what the Company knew or reasonably could have known at the time it made its hedging decisions. The Company's hedging planning should be flexible enough to incorporate changing market circumstances. The Company should evaluate its hedging strategy in response to

changing market dynamics as to how much the existing hedging strategy actually benefits its customers while balancing market price risk. For example, Spire East should continue to evaluate the current strategy of financially hedging summer storage injections with respect to the appropriate amount of storage injections to hedge. The Company should also routinely review and evaluate the adequacy of its hedge coverage regarding the appropriate volumes of financial instruments as well as the possible use of more cost-effective financial instruments to assess exposure to market prices under the current market where the market prices have become relatively less volatile.

Staff recommends the Company analyze the benefits/costs based on the outcomes from its hedging strategy, and evaluate any potential improvements on the future hedging plan and its implementation to achieve a cost effective hedging outcome as the Company reviews and develops its hedging program each year in the Company's Risk Management Strategy.⁴ For example, the Company should continue to evaluate the performance of its hedge program in terms of the various types of financial instruments used, whether some level of over-the-counter instruments might help control margin calls as the Company's policy is to utilize various derivatives, and whether the existing program should be modified under the current market.

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

V. RECOMMENDATIONS

1. Staff has determined the following preliminary ACA account balances as shown in the table below to reflect the under- or (over)-recovery balance as of September 30, 2018. However, there remain outstanding documentation issues with the prior ACA period which have not been resolved yet. Staff recommends the Commission hold this case open pending resolution of the prior Spire East ACA case (GR-2017-0299) which remains open.

⁴ The Company stated that its Risk Management Strategy dated July 2015 was the most recent on available for the 2017-2018 ACA period and it will be updated as needed.

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

	Firm Sales non-LVTSS	Firm Sales LVTSS	Interruptible Sales	LP Sales	Firm Transportation	Basic Transportation	Vehicular Fuel
ACA Balance per Filing	\$(3,407,342)	\$(165,607)	\$ (38,470)	\$(4,656)	\$ 960,828	\$ 241	\$814,890
Prior Period Staff Adjustments	\$ (548,279)	\$ (2,616)	\$ (10,397)	\$ 0	\$ 0	\$ 241	\$ (6,404)
Staff Adjustments	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Staff Recommended ACA Balance	\$ (3,955,621)	\$(168,233)	\$ (48,867)	\$(4,656)	\$ 960,828	\$ 482	\$ 808,486

Staff recommends the Commission issue an order requiring Spire East to:

2. Respond to all of the recommendations herein within 45 days.

