

## MEMORANDUM

**TO:** Missouri Public Service Commission Official Case File,  
Case No. GR-2017-0300 – Spire Missouri, Inc., d/b/a Spire

**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 12/17/18  
Project Coordinator / Date

/s/ Robert S. Berlin 12/17/18  
Staff Counsel's Office / Date

**SUBJECT:** Staff's Recommendation for Spire Missouri, Inc., d/b/a/ Spire 2016-2017  
Actual Cost Adjustment Filing

**DATE:** December 17, 2018

### I. EXECUTIVE SUMMARY

On October 31, 2017, Spire Missouri Inc., d/b/a Spire (“Spire Missouri West” or “Company”) filed its Actual Cost Adjustment for the 2016-2017 period in Case No. GR-2017-0300 for its Spire Missouri West division. On August 16, 2017, in Case No. GN-2018-0032, the Commission issued an order recognizing the name change of Laclede Gas Company and Laclede Gas Company, d/b/a Missouri Gas Energy (“MGE”) to Spire Missouri Inc., d/b/a Spire. In order to distinguish the Laclede service area from the Missouri Gas Energy service area, Spire registered the fictitious names Spire Missouri East for the former Laclede Division and Spire Missouri West for the former MGE Division. This filing contains the Company’s Actual Cost Adjustment (ACA) account balance calculation for Spire Missouri West.

The Commission’s Procurement Analysis Department (“Staff”) reviewed and evaluated Spire Missouri West’s billed revenues and actual gas costs for the period of July 1, 2016, to June 30, 2017. The Staff examined Spire Missouri West’s gas purchasing practices to determine the prudence of the Company’s purchasing and operating decisions, including:

- (1) A reliability analysis of estimated peak cold day requirements and the capacity levels needed to meet those requirements,
- (2) The Company’s rationale for its reserve margin for a peak cold day,
- (3) A review of normal, warm and cold weather requirements and the gas supply plans for meeting these requirements, and

- (4) A review of Spire Missouri West’s hedging for the period to determine the reasonableness of the Company’s hedging plans.

At this time, Staff has determined a total adjustment in the amount of \$ (324,965.65) to the Company’s June 30, 2017, ACA account balance as shown in the table below. Staff’s recommended adjustments are explained in the Actual Gas Costs and Billed Revenue section of this recommendation.

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

Account	6-30-17 Ending Balance per MGE Filing	Prior Period Staff Proposed Adjustment	Current Period Proposed Adjustment	6-30-17 Staff Recommended Ending Balance
ACA Balance	\$ 20,111,396.25	\$ (7,275,221.11)	\$ (324,965.65)	\$ 12,511,209.49

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

This ACA Memorandum is organized into the following sections:

Section No.	Topic	Page
I	Executive Summary	1
II	Background	3
III	Reliability Analysis and Gas Supply Planning	3
IV	Gas Supply and Transportation Standards of Conduct	5
V	Actual Gas Costs and Billed Revenue	6
VI	Hedging	6
VII	Recommendations	8

Each section explains Staff’s concerns and recommendations.

## **STAFF'S TECHNICAL DISCUSSION AND ANALYSIS**

### **II. BACKGROUND**

Spire Missouri West's primary service areas are: Kansas City, St. Joseph and Joplin. For the 2016-2017 ACA, the Company has approximately 457,000 residential customers, 54,000 commercial customers, 100 industrial customers, and 375 transport customers, for a total of 511,475 customers.

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

### **III. RELIABILITY ANALYSIS AND GAS SUPPLY PLANNING**

As a regulated gas corporation providing natural gas services to Missouri customers, a local distribution company (LDC) is responsible for conducting reasonable long-range supply planning and the decisions resulting from that planning. A purpose of the ACA process is to review the LDC's planning for gas supply, transportation and storage to meet its customers' needs. For this analysis, Staff reviewed Spire Missouri West'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 2016-2017 ACA period related to reliability analysis and gas supply planning. Staff's other comments and recommendations are discussed in the rest of this section.

#### **Gas Procurement Procedures**

In its response to Staff data requests, Spire Missouri West noted that it has no written documents relating to flowing gas supply procurement such as:

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

This lack of document procurement procedures is concerning. Company's standards of conduct (SOC) call for documented *processes* for:

- supply approval and award for purchases for longer than one month, and
- information exchange for purchases of one month or less and for off-system sales.

In addition, these processes are to be “effectively monitored and controlled.”<sup>1</sup> It seems unlikely that Company operators, traders, internal auditors and managers can effectively monitor and control processes if they have are no clear standards by which they evaluate these activities. While the SOC itself provides some procedures, especially related to the documentation of procurement activities, it does not fully outline the procurement processes and it calls for additional documentation of these processes.

In contrast, Spire Missouri West points to its hedging policies. These constitute four documents. Spire's response to Staff data requests implies that these policies and procedures govern the natural gas selection process. However, other than to indicate that Spire's hedging committee has oversight of physical trading and providing a list of physical trading partners, these documents focus on hedging for the primary purpose of price stability; they do not address the RFP or non-RFP procurement procedures.

Spire Missouri West is undertaking a revision of its cost accounting manual in Case No. GW-2018-0367. This could be an opportune time for it to produce written procedures in keeping with its SOC.

Staff recommends that Company produce written procedures that describe its current gas procurement process. Specifically, Staff recommends that Spire's written procedures address

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

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<sup>1</sup> *Unanimous Partial Stipulation and Agreement and Waiver Request and Request for Approval of Cost Allocation Manual, Appendix 2, Case No. GC-2011-0098.*

## Reliability Report

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Company began to incorporate enhancements in its 2016 reliability study.

Staff recommends that Company more fully implement these enhancements to its reliability report

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

In addition, Staff notes that the next capacity analysis for Spire Missouri West, required in the stipulation in Case No. GM-2013-0254, is due to be submitted by August 2019.

## IV. Gas Supply and Transportation Standards of Conduct (SOC)

Staff conducted an investigation of Spire's (Spire Missouri West and East divisions) compliance with the gas supply documentation requirements of its Gas Supply and Transportation SOC section of the Cost Allocation Manual (CAM) in Case No. GO-2017-0223. On August 22, 2017, Staff filed the results of its investigation along with recommendations the Company should implement going forward to bring it into compliance with the SOC.<sup>2</sup>

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<sup>2</sup> Case No. GO-2017-0223 Staff Investigation Report dated August 22, 2017 pages 3-5.

Staff reviewed a sample of Company documents for SOC compliance for the 2016-2017 ACA period during its SOC investigation and recommended that no later than December 31, 2017 the Company implement its recommendations within the Report to bring it into compliance with the SOC. Staff's recommended date is within the 2017-2018 ACA period. Staff will continue to monitor Company documentation required by the SOC and make recommendations as necessary.

## **V. ACTUAL GAS COSTS AND BILLED REVENUE**

The ACA process compares actual gas costs to billed revenue for the twelve month ACA period.<sup>3</sup> As Staff noted in the prior period, the Company changed its method of accounting for recording gas costs in the ACA filing due to Laclede Gas Company's acquisition of MGE. This continues to be an issue in this ACA case. In this ACA period, Staff found documentation issues with both the Company's gas costs and billed revenue amounts. The Company's ACA filing included gas costs that were \$214,054.46 less than the invoices provided supporting its ACA filing. In addition, the billed revenue recorded in the ACA filing was \$ (539,020.11) less than the underlying source documents provided. Therefore Staff recommends a single adjustment of \$ (324,965.65) which is the sum of the two adjustments discussed above. Staff's proposed adjustment has the effect of decreasing the Company's under-recovery for the period.

Because of the documentation issues and Staff's recommendation in the prior ACA, the Company and Staff have had meetings via conference call and the Company has provided additional documents to support its prior ACA filing. Although there has been no resolution of the documentation issue to date, the Company has indicated it will continue to work with Staff to revise its documentation to support its ACA balances. Staff recommends a meeting, within 60 days from the filing date of this ACA recommendation, between the Company and Staff in an attempt to resolve the discrepancies Staff has noted and work towards reaching an agreement of transparent audit trail documents which support the Company's ACA balance.

## **VI. HEDGING**

In its review of MGE's purchasing practices, Staff reviewed the Company's Risk Management Strategy, Gas Supply Risk Management Policy and its financial hedging transactions for the 2016-2017 ACA period.

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<sup>3</sup> MGE Tariff Sheet No. 16, section III. CALCULATION OF THE ACTUAL COSTS ADJUSTMENT (ACA).

The Company implemented its financial hedging transactions based on its risk management strategy. MGE combined storage and financial instruments to hedge portions of the volumes needed for the winter heating season, November 2016 through March 2017.

Staff has the following comments and concerns about MGE's hedging practice and documentation:

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

Staff recommends the Company analyze the benefits/costs based on the outcomes from the hedging strategy, and evaluate any potential improvements on the future

hedging plan and its implementation to achieve a cost effective hedging outcome. 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, a summary of how the Company's financial hedges have performed against market pricing, i.e., the impact of purchases without the hedges, is useful in its consideration of prospective changes to its Risk Management Strategy as the Company reviews and develops its hedging program each year.<sup>4</sup> This hedge performance or mark-to-market summary over an extensive historical period shows the gains/losses from the hedges and is helpful in seeing the long term financial impact of the hedge program and may assist the Company in hedge planning. The Staff made a similar recommendation for the prior ACA cases.

## **VII. RECOMMENDATIONS**

1. Staff has determined the following preliminary ACA account balance as shown in the table below to reflect the under or (over)-recovery balance as of June 30, 2017. Staff notes due to Laclede Gas Company's acquisition of MGE, the Company has changed its accounting method for recording costs in the ACA filing. Staff recommends a meeting, within 60 days from the filing date of this ACA recommendation, between the Company and Staff in an attempt to resolve the discrepancies Staff has noted and work towards reaching an agreement of transparent audit trail documents which support the Company's ACA balance.

Staff further recommends the Commission hold this case open pending resolution of the prior Spire Missouri West (formerly known as MGE) ACA case which remains open.

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

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<sup>4</sup> The Company indicated its Risk Management Strategy dated July 2015 was the most recent on available for the 2016-2017 ACA period.

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Staff recommends that the Commission issue an order requiring the Company to:

2. Respond to the Staff comments, concerns, and recommendations in the Reliability Analysis and Gas Supply Planning section.
3. Respond to the comments, concerns, and recommendations expressed by Staff in the Hedging Section.
4. File a written response to all comments, concerns and recommendations included in this Staff Recommendation Memorandum within 45 days.

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

In the Matter of Laclede Gas Company     )  
d/b/a Missouri Gas Energy's Purchased    )  
Gas Adjustment (PGA) Factors to be        )  
Reviewed in its 2016-2017 Actual Cost    )  
Adjustment                                     )  
Case No. GR-2017-0300

**AFFIDAVIT OF ANNE M. CROWE**

STATE OF MISSOURI     )  
                                  )  
COUNTY OF COLE     )     ss.

COMES NOW ANNE M. CROWE 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.

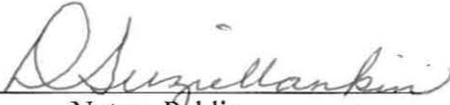
Further the Affiant sayeth not.

  
\_\_\_\_\_  
ANNE M. CROWE

**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 17<sup>th</sup> day of December, 2018.

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 Laclede Gas Company            )  
d/b/a Missouri Gas Energy's Purchased        )  
Gas Adjustment (PGA) Factors to be            )  
Reviewed in its 2016-2017 Actual Cost        )  
Adjustment    )

Case No. GR-2017-0300

**AFFIDAVIT OF KEENAN B. PATTERSON, PE**

STATE OF MISSOURI        )  
  )  
COUNTY OF COLE         )        ss.

COMES NOW KEENAN B. PATTERSON, PE 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.

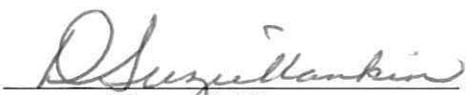
Further the Affiant sayeth not.

  
\_\_\_\_\_  
KEENAN B. PATTERSON, 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 17<sup>th</sup> day of December, 2018.

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Gas Adjustment (PGA) Factors to be            )  
Reviewed in its 2016-2017 Actual Cost        )  
Adjustment    )

Case No. GR-2017-0300

**AFFIDAVIT OF KWANG Y. CHOE, PhD**

STATE OF MISSOURI            )  
  )  
COUNTY OF COLE            )            ss.

**COMES NOW KWANG Y. CHOE, 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.

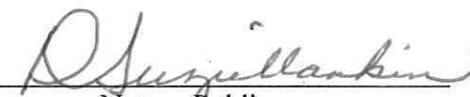
Further the Affiant sayeth not.

  
\_\_\_\_\_  
**KWANG Y. CHOE, 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 17<sup>th</sup> day of December, 2018.

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