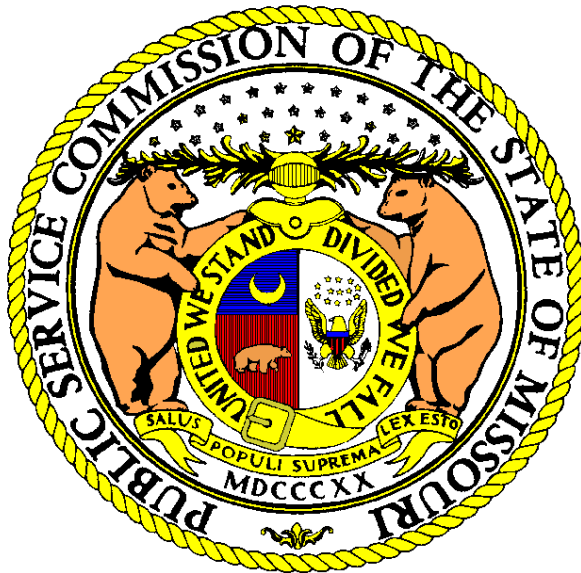


MISSOURI PUBLIC SERVICE COMMISSION

STAFF

DIRECT REPORT



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

CASE NO. GO-2019-0115

*Jefferson City, Missouri
March 29, 2019*

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SPIRE MISSOURI, INC.,
d/b/a Spire (East)
CASE NO. GO-2019-0115**

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1 **STAFF DIRECT REPORT**
2 **SPIRE MISSOURI, INC.,**
3 **d/b/a Spire (East)**
4 **CASE NO. GO-2019-0115**

5 **I. Executive Summary**

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

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

13 As part of its Application, Spire filed a revised tariff sheet No. 12 that increases its
14 ISRS revenues by \$9,203,991 annually. The filed rates will produce ISRS revenues of the
15 magnitude of \$11,811,601 annually.¹ The initially-filed tariff rates do generate the
16 appropriate Revenue Requirement, in total, that Spire East initially requested. The proposed
17 effective date of the Company’s initial tariff was February 13, 2019.

18 Spire East 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,
20 2.080, and 3.265, which allow Missouri natural gas corporations to file a petition and
21 proposed rate schedule with the Commission to recover certain infrastructure system
22 replacement costs outside a formal rate case, through a surcharge on customers’ bills.

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

24 **Eligibility of Costs**

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

¹ Previously, as the Commission deemed appropriate in Case No. GO-2018-0309, Spire East established its existing ISRS rates that produce \$2,607,610 annually that are in place today.

1 **investments placed into service between October 1, 2017 and**
2 **June 30, 2018 to the extent not previously recovered in Case No.**
3 **GO-2018-0309.** The infrastructure system replacements listed on
4 Appendix A and Appendix B are eligible gas utility plant projects in
5 that they are all either: a) mains, valves, service lines, regulator
6 stations, vaults, and other pipeline system components installed to
7 comply with state or federal safety requirements as replacements for
8 existing facilities that have worn out or are in deteriorated condition; or
9 b) main relining projects, service line insertion projects, joint
10 encapsulation projects, and other similar projects extending the useful
11 life, or enhancing the integrity of pipeline system components
12 undertaken to comply with state or federal safety requirements; or
13 c) unreimbursed infrastructure facility relocations due to the
14 construction or improvement of a highway, road, street, public way or
15 other public work required by or on behalf of the United States, the
16 State of Missouri, a political subdivision of the State of Missouri, or
17 another entity having the power of eminent domain.² [Emphasis
18 added.]

19 Spire East has two cost recovery requests included in this filing. One request is “new” costs
20 for the period of July 1, 2018, to January 31, 2019, that Staff and the Commission have never
21 addressed. The months of December 2018 and January 2019 cost data were estimated
22 amounts³ and subject to updating to actual costs incurred once known. This portion of the
23 filing is consistent with traditional procedure concerning the timeframe of the costs being
24 captured for the “typical” ISRS recovery filing. The other component is Spire East’s
25 additional request to recover costs that relate to a time period that Staff and the Commission
26 has already addressed in a previous proceeding.⁴ Specifically, Spire East is requesting to
27 recover qualifying ISRS costs incurred during the period of October 1, 2017 to
28 June 30, 2018, that were not recovered in the previous ISRS Case No. GO-2018-0309
29 because the Commission deemed the costs ineligible for ISRS recovery at that time. The
30 Commission’s Report and Order in that ISRS case is currently under appeal at the Missouri
31 Court of Appeals, Western District, as Docket No. WD82302 (consolidated with WD82373).
32 Since the Western District has not yet issued its opinion ruling on the appeal of the ISRS

² “Verified Application and Petition of Spire Missouri, Inc. to Change its Infrastructure System Replacement Surcharge for its Spire Missouri East Territory,” Pages 4 – 5.

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

⁴ Case No. GO-2018-0309.

1 recovery denied by the Commission in underlying Case No. GO-2018-0309, Staff, under
2 advisement of Staff Counsel, believes it is premature to include any additional costs related to
3 that ISRS case at this time. Therefore, Staff is not including those requested ISRS costs in its
4 recommended Revenue Requirement in this proceeding.

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

- 10 1. Rejects Spire East’s ISRS tariff sheet (YG-2019-0138) P.S.C.
11 MO. No. 7, Second Revised Sheet No. 12 cancelling P.S.C. MO.
12 No. 7, First Revised Sheet No. 12, as filed on January 14, 2019.
- 13 2. Approves Staff’s recommended ISRS surcharge revenues in this
14 docket in the incremental pre-tax revenue amount of \$6,480,635
15 with a total current and cumulative ISRS surcharge of \$9,088,245.
- 16 3. Authorizes Spire East to file an ISRS rate for each customer class
17 as reflected in Appendix B, which generates \$9,088,245 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*
20 *Applications and Petitions and Request for an Evidentiary Hearing* on March 15, 2019.

21 On February 25, 2019, Spire East submitted its updated figures for December 2018
22 and January 2019 to reflect the actual costs incurred. The revised revenue requirement
23 was increased from the initially-filed \$9,203,991 estimate, to the revised \$9,257,817 actual.
24 The “adjustment” increased the company’s revenue requirement by \$53,826 annually.
25 After the update to actuals, Spire East is seeking a cumulative revenue requirement of
26 \$11,865,427 annually.

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

2 21. Pursuant to 4 CSR 240-3.265(8) and (9), Spire East intends to
3 continue using the annual notices and customer bill language approved
4 by the Commission in Case No. GO-2018-0309, at the time its current
5 ISRS was first established.⁵

6 In Case No. GO-2016-0196, the Commission accepted Spire East's (then Laclede)
7 interpretation of Commission Rule 4 CSR 240-3.265 (8) and (9) allowing the Company to
8 reference and use the previous Commission-approved actual annual notices and customer
9 billing information.

10 Spire East 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
25 No. GO-2018-0309 by providing evidence to support its proposed recovery of certain plastic
26 mains and services replacement costs.

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

1 Based upon its review and calculations made in response to this ISRS Application,
2 Staff recommends Spire East receive additional ISRS revenues of \$6,480,670 (See Schedule 2
3 attached 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 \$6,480,670 annually (as related to the pending ISRS) and generate
9 \$9,088,280 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-2017-0215. The relevant statute
13 clearly allows for this substitution:

14 393.1015. 5. (1) The monthly ISRS charge may be calculated based on
15 a reasonable estimate of billing units in the period in which the charge
16 will be in effect, which shall be conclusively established by dividing
17 the appropriate pretax revenues by the customer numbers reported by
18 the gas 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
23 most recent general rate proceeding of the gas corporation so long as
24 the 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*

30 **III. Engineering Review**

31 Following the Commission's Report and Order in Case Nos. GO-2018-0309 and
32 GO-2018-0310, Spire provided avoided cost studies for the projects they claimed as ISRS

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

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

25 Spire provided 509 avoided cost studies in the initial set of workpapers delivered to
26 Staff. Spire East had 207 projects with avoided cost studies and Spire West had 302. Staff
27 performed a high level review of all 509 avoided cost studies to determine if each met basic
28 expectations for content. Specifically, Staff checked to see if Spire had provided a tabular
29 breakdown of the differences between the two construction scenarios, a brief narrative
30 description, and legible diagrams or maps. During Staff's initial review of all of the avoided

1 cost studies, it was concluded that a significant fraction of the documents were lacking at least
2 some piece of important information. As a result, Staff requested that Spire revisit 158 of the
3 avoided cost studies and revise them to include more detail.⁶ In addition to the high level
4 review that was performed on all of the avoided cost studies, 65 avoided cost studies were
5 chosen by Staff for more detailed reviews.

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

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

24 OPPORTUNITIES FOR IMPROVEMENT

25 The determination of “reasonableness” made during Staff’s engineering review does
26 not imply that no improvements could be made to the content of avoided cost studies if Spire
27 chooses to use them in any future ISRS filings. As previously stated, Staff found an uneven
28 level of detail within Spire’s avoided cost studies. This primarily dealt with illegible or

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 missing maps and diagrams. This issue has already been raised with the Company and is in
2 the process of being resolved.

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

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

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

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

23 SUMMARY AND FINDINGS

24 The avoided cost studies created by Spire have demonstrated that the circumstances
25 surrounding the decision to reuse or abandon a section of plastic pipe are not necessarily
26 straightforward. For example, to tie into an existing piece of plastic pipe, it may be necessary
27 to make additional excavations which require shoring to ensure the safety of construction
28 personnel. Much of the existing plastic pipe would require pressure testing to enable it to be
29 upgraded to operate in a new, higher pressure distribution system. Scheduling reconnection
30 of customers, relocation of meters, and temporary bypasses necessary to support continuous

1 gas service are all issues which can also impact the decision to reuse or abandon sections of
2 existing plastic pipe. For short segments of gas mains or for service lines that could be
3 reused, the cost of the additional excavations, pipe fittings, and testing necessary for
4 successful reuse could be expected to exceed the costs of abandonment and replacement.

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

6 **IV. Review and Revenue Calculations**

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

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

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

26 Spire East’s requested ISRS revenues exceed one-half of one percent of the natural gas
27 utility’s base revenue level approved by the Commission in the most recent Spire East rate
28 case, and Spire’s cumulative ISRS revenues, including the amounts requested in this filing, do
29 not exceed ten percent of the base revenue levels approved by the Commission in the last
30 Spire East rate case, Case No. GR-2017-0215.

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

8 As part of its examination of Spire East's application, Auditing Staff reviewed
9 supporting workpapers, work order authorizations, and a sample of invoices supporting the
10 work order authorizations. Staff also communicated with Spire East's personnel to clarify
11 Spire's application when necessary.

12 In previous ISRS applications, issues were raised regarding the inclusion of the cost
13 associated with replacement of plastic main and services undertaken as part of a larger mains
14 and services replacement program. In response to guidance from the Commission in its
15 Report and Order in the last ISRS Case No. GO-2018-0309, in this ISRS Petition Spire East
16 provided an avoided cost study for each ISRS-eligible work order that included estimated
17 costs associated with plastic mains and services replacement as discussed in the Staff
18 Engineering Review Section of this report. If the estimated cost of an ISRS-eligible work
19 order for Scenario 1 was greater than the estimated cost for Scenario 2, meaning it cost more
20 to replace the existing plastic mains or services than it would to reuse them, Spire East
21 calculated the percentage difference in costs between the two scenarios and made an
22 adjustment to reduce its actual ISRS-eligible costs incurred for that work order by that
23 percentage difference. If the estimated cost of an ISRS-eligible work order for Scenario 2
24 was greater than the estimated cost for Scenario 1, meaning it cost more to utilize the existing
25 plastic mains or services than to replace it, no adjustment was made by the Company to the
26 actual ISRS-eligible costs incurred for that work order.

27 As part of its work scope in this case, Audit Staff compared the information contained
28 within each avoided cost study to the information in the Company's Revenue Requirement
29 workpaper to verify the amounts used to determine the plastic percentage differences
30 matched. Staff noted any discrepancies and sought clarification from the Company.

1 In addition, Audit Staff obtained a sample of the detailed calculations used to develop the
2 estimated costs for selected avoided cost studies. These samples were then compared to each
3 avoided cost study to verify the total of the amounts matched each cost element. Again, any
4 discrepancies were noted by Staff and provided to the Company for further clarification.

5 Commission Rule 4 CSR 240-3.265 Natural Gas Utility Petitions for Infrastructure
6 System Replacement Surcharges sets forth the definitions of natural gas utility plant projects
7 that are eligible for ISRS treatment. Based on Staff's review of a sampling of work orders
8 included in the Company's filing, Staff concluded that each of the projects reviewed meets the
9 ISRS rule qualifications, with the exception of costs associated with replacement of plastic
10 mains and services when such cost was greater than the estimated cost of utilizing existing
11 plastic pipe. After examination of the avoided cost studies provided by the Company in this
12 proceeding, Audit Staff, in conjunction with Engineering Analysis Staff, takes the position
13 that the Company has complied with this rule and fulfilled the requirement contained within
14 the Commission's Report and Order in Case No. GO-2018-0309 by providing evidence to
15 support its proposed recovery of certain plastic mains and services replacement costs.

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

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

23 BLANKET WORK ORDERS

24 Staff reviewed Spire's workpapers concerning ISRS costs included in "blanket work
25 orders." Blanket work orders are work orders that cover a large number of tasks, and which
26 do not close for an extended period of time. Issues have arisen in prior Spire ISRS filings
27 regarding the eligibility for recovery of the costs included in blanket work orders through the
28 ISRS rate mechanism. In this proceeding, the Company categorized each separate task in the
29 blanket work order as either ISRS eligible or ISRS ineligible. Spire then calculated the
30 percentage of eligible vs. ineligible tasks and applied the ineligible task percentage to the

1 blanket work order total amounts to calculate an amount of blanket work order costs that are
2 not ISRS eligible. Staff reviewed Spire’s categorization to determine if each task Spire
3 considered eligible met the requirements for ISRS recovery. Tasks considered eligible
4 included mandated relocations, replacements due to leak repairs and corrosion inspections,
5 and replacement of copper and cast iron pipe. Ineligible items included relocations at a
6 customer’s request, replacements due to excavation damage, replacement of plastic not related
7 to a leak repair, and installation of new services. Staff and Spire are in agreement as to the
8 eligibility of all the tasks included in the blanket work orders.

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

10 CURRENT INCOME TAXES

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

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

- 16 (a) The gas corporation’s weighted cost of capital multiplied by the
17 net original cost of eligible infrastructure system replacements,
18 including recognition of accumulated deferred income taxes and
19 accumulated depreciation associated with eligible infrastructure
20 system replacements which are included in a currently effective
21 ISRS; and
22 (b) Recover state, federal, and local income or excise taxes
23 applicable to such income.

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

28 The tax deductions that Spire can claim for construction of ISRS property are interest
29 expense, and Internal Revenue Code (IRC) Section 263A transfers. These deductions result
30 in income tax savings of approximately \$2.4 million, which more than offsets the calculation
31 of the \$1.3 million of ISRS related income taxes stated prior to the consideration of any
32 income tax deductions.

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

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

13 Staff calculated the amount of the 263A deduction, by developing a 263A transfers
14 deduction percentage (14.05%). This percentage was developed by using the 263A transfer
15 deduction used in 2016 (\$16,196,036) as compared to the amount of plant added during the
16 same period per Company's annual report filed with the Missouri Public Service Commission
17 (\$115,312,836). If Spire is able to provide information that would allow for a more precise
18 263A deduction calculation, Staff would consider using this information instead of the
19 percentage that Staff has used in its current calculation.

20 In its initial recommendation in this case filed March 15, 2019, Staff proposed
21 inclusion of a deduction for "service transfer" costs. At this time Staff is unsure if the service
22 transfer deductions are embedded in the calculation of the 263A deduction. For this reason
23 we are no longer including a deduction for service transfers in our ISRS revenue requirement.
24 This change, however, does not change the amount of Staff's recommended revenue
25 requirement.

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

27 Based upon its review and calculations made in response to this ISRS Application,
28 Staff recommends Spire East receive additional ISRS revenues of \$6,480,670 (See attached
29 Schedule 2 to this report).

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

1 **V. Recommendations**

2 Staff recommends the Commission issue an order that:

- 3 1. Rejects Spire East’s ISRS tariff sheet (YG-2019-0138) P.S.C. MO. No. 7,
4 Second Revised Sheet No. 12 cancelling P.S.C. MO. No. 7, First Revised
5 Sheet No. 12, as filed on January 14, 2019.
- 6 2. Approves Staff’s recommended ISRS surcharge revenues in this docket in
7 the incremental pre-tax revenue amount of \$6,480,670 with a total current
8 and cumulative ISRS surcharge of \$9,088,280.
- 9 3. Authorizes Spire East to file an ISRS rate for each customer class as
10 reflected in the attached Schedule 1, which generates \$9,088,280 annually.
- 11 4. Authorizes an effective date no later than May 14, 2019.

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

13 **Schedule 1 – ISRS Rate Design**

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

15 **Appendix 1 – Staff Credentials**

SPIRE MISSOURI INC., SPIRE (East)
CASE NO. GO-2019-0115 & YG-2019-0138
ISRS RATE DESIGN - Direct Testimony

Staff's Total ISRS Rev Req

\$9,088,280

<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%	\$1.08	\$7,817,303
SGS - Small Gen. Service	36,743	\$35.00	1.5909	58,455	8.3111%	\$1.71	\$755,337
LGS-Large Gen. Service	3,882	\$125.00	5.6818	22,057	3.1360%	\$6.12	\$285,012
LV-Large Volume Service	67	\$914.25	41.5568	2,784	0.3959%	\$44.75	\$35,978
SL-Unmetered Gas Light	84	\$6.00	0.2727	23	0.0033%	\$0.29	\$296
IN-Interruptible	20	\$837.40	38.0636	761	0.1082%	\$40.99	\$9,837
General LP	36	\$17.94	0.8155	29	0.0042%	\$0.88	\$379
Vehicular Fuel	8	\$23.38	1.0627	9	0.0012%	\$1.14	\$110
LVTSS-Large Volume Transport & Sales Service	147	\$2,131.41	96.8823	14,242	2.0249%	\$104.32	\$184,027
TOTAL	645,960			703,333	100.00%		\$9,088,280

* Due to rounding to the nearest penny, the designed ISRS rates will over-collect by \$1821. 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

<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	31,943,765	31,943,106	659
Deferred Taxes	(157,449)	(198,400)	40,951
Accumulated Depreciation	<u>(262,442)</u>	<u>(217,571)</u>	<u>(44,871)</u>
Total Net	<u>31,523,874</u>	<u>31,527,135</u>	<u>(3,261)</u>
<u>Gas Utility Plant Projects - Service Line Replacements and Insertion Projects:</u>			
<u>Work Orders Placed in Service</u>			
Gross Additions	22,090,148	22,078,128	12,020
Deferred Taxes	(125,720)	(182,278)	56,558
Accumulated Depreciation	<u>(439,924)</u>	<u>(370,289)</u>	<u>(69,635)</u>
Total Net	<u>21,524,504</u>	<u>21,525,561</u>	<u>(1,057)</u>
<u>Gas Utility Plant Projects - Regulator Stations:</u>			
<u>Work Orders Placed in Service</u>			
Gross Additions	-	0	0
Deferred Taxes	-	0	0
Accumulated Depreciation	<u>-</u>	<u>0</u>	<u>0</u>
Total Net	<u>-</u>	<u>0</u>	<u>0</u>
<u>Gas Utility Plant Projects - Main Relocations net of Reimbursements:</u>			
<u>Work Orders Placed in Service</u>			
Gross Additions	1,532,907	1,532,907	0
Deferred Taxes	(14,124)	(17,392)	3,268
Accumulated Depreciation	<u>(11,383)</u>	<u>(9,470)</u>	<u>(1,913)</u>
Total Net	<u>1,507,400</u>	<u>1,506,045</u>	<u>1,355</u>
<u>Increase in Accumulated Deferred Income Taxes and Accumulated Depreciation</u>			
<u>Associated with Eligible Infrastructure System Replacements which are included in a</u>			
<u>Currently Effective ISRS</u>			
Total Incremental Accumulated Depreciation	(595,783)	(595,783)	0
Total Incremental Accumulated Deferred Taxes	(110,103)	(110,103)	(0)
Total ISRS Rate Base	53,849,892	53,852,855	(2,963)
Overall Rate of Return per GR-2017-0215	7.20%	7.20%	
UOI Required	3,875,954	3,876,167	(213)
Income Tax Conversion Factor	1.34135	1.34135	
Revenue Requirement Before Interest Deductibility	<u>5,199,011</u>	<u>5,199,297</u>	<u>(286)</u>
Total ISRS Rate Base	53,849,892	53,852,855	(2,963)
Weighted Cost of Debt per GR-2017-0215	1.8900%	1.8900%	
Interest Deduction	1,017,763	1,017,819	(56)
Marginal Income Tax Rate	25.4482%	25.4482%	
Income Tax Reduction due to Interest	259,003	259,017	(14)
Income Tax Conversion Factor	1.34135	1.34135	
Revenue Requirement Impact of Interest Deductibility	<u>347,413</u>	<u>347,433</u>	<u>(20)</u>
<u>263A Transfers Deduction</u>			
Income Tax Factor	6,269,749		6,269,749
Income Tax Reduction due to 263A Transfers Deduction	<u>0.34135</u>		
	2,140,179		2,140,179
Applicable Income Tax		975,697	(975,697)
Total Revenue Requirement on Capital	3,875,954	4,851,864	(975,910)
Depreciation Expense	1,072,609	1,072,144	465
Net Property Taxes	<u>1,532,107</u>	<u>1,539,224</u>	<u>(7,117)</u>
Total ISRS Revenues	<u>6,480,670</u>	<u>7,463,232</u>	<u>(982,562)</u>
June 2018 - GO-2018-0309 - Additional Revenues (From Appendix B)	-	1,794,585	(1,794,585)
Total ISRS Revenues	<u>6,480,670</u>	<u>9,257,817</u>	<u>(2,777,147)</u>

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of)
Spire Missouri Inc. to Change its)
Infrastructure System Replacement)
Surcharge in its Spire Missouri East)
Service Territory)
Case No. GO-2019-0115

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)
Infrastructure System Replacement)
Surcharge in its Spire Missouri East)
Service Territory)
Case No. GO-2019-0115

AFFIDAVIT OF KEITH D. FOSTER

STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

COMES NOW KEITH D. FOSTER and on his 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)
Infrastructure System Replacement)
Surcharge in its Spire Missouri East)
Service Territory)
Case No. GO-2019-0115

AFFIDAVIT OF J LUEBBERT

STATE OF MISSOURI)
)
) ss.
COUNTY OF COLE)

COMES NOW J LUEBBERT and on his 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.

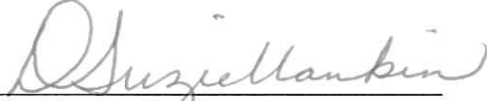


J LUEBBERT

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.

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-2019-0115
Infrastructure System Replacement)
Surcharge in its Spire Missouri East)
Service Territory)

AFFIDAVIT OF CHARLES T. POSTON, PE

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

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 foregoing *Staff Direct Report*; and that the same is true and correct according to his best knowledge and belief.

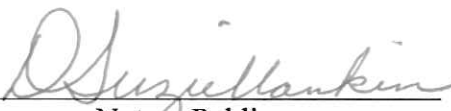
Further the Affiant sayeth not.


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


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-2019-0115
Infrastructure System Replacement)
Surcharge in its Spire Missouri East)
Service Territory)

AFFIDAVIT OF DAVID M. SOMMERER

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW DAVID M. SOMMERER and on his 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.

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