MEMORANDUM

TO: Missouri Public Service Commission Official Case File,
Case No. GR-2019-0120 – Spire Missouri, Inc., d/b/a Spire West

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's Office / Date

SUBJECT: Staff's Recommendation for Spire Missouri, Inc., d/b/a/ Spire 2017-2018 Actual Cost Adjustment

DATE: Filing December 17, 2019

I. EXECUTIVE SUMMARY

On October 31, 2018, Spire Missouri Inc., d/b/a Spire ("Spire West" or "Company") filed its Actual Cost Adjustment for the 2017-2018 period in Case No. GR-2019-0120 for its Spire Missouri West division.

The Commission's Procurement Analysis Department ("Staff") reviewed and evaluated Spire West's billed revenues and actual gas costs for the period of July 1, 2017, to September 30, 2018.[1] The Staff examined Spire 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 West's hedging for the period to determine the reasonableness of the Company's hedging plans.

[1] In Spire Missouri's rate case numbers GR-2017-0215 and GR-2017-0216, the Commission authorized Spire West (formerly Missouri Gas Energy (MGE)) to use Spire East's (formerly Laclede Gas Company) ACA period of October through September. Spire West's ACA filing in this current case contains three additional months (July 2018 – September 2018) of billed revenue and gas costs so that going forward Spire West's ACA period be the same as Spire East's ACA period.

At this time, Staff has one proposed dollar adjustment to the Company's September 30, 2018, ACA account balance as shown in the table below. Staff recommends the Commission issue an order directing the Company to establish the ACA account balances shown in the table below to reflect the under or (over)-recovery balances as of September 30, 2018.

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 (in parentheses). Spire West has an over-recovery in this period.

Account	9-30-18 Ending Balance per MGE Filing	Current Period Proposed Adjustment	9-30-18 Staff Recommended Ending Balance
ACA Balance	$ (1,834,815.40)	$ (177,957.92)	$ (2,012,773.32)

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:

Each section explains Staff's concerns and recommendations.

STAFF'S TECHNICAL DISCUSSION AND ANALYSIS

II. BACKGROUND

Spire West's primary service areas are: Kansas City, St. Joseph and Joplin. For the 2017-2018 ACA, the Company has approximately 470,000 residential customers, 33,000 commercial customers, 100 industrial customers, and 370 transport customers, for a total of 503,470 customers.

Spire 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 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 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.

Gas Procurement Procedures

In its memorandum filed in Case No. GR-2017-0300, the previous ACA case, Staff recommended that Spire West prepare written procedures for procurement of gas in keeping with the company's Standards of Conduct provisions that called for documented processes. Specifically, Staff recommended 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.

On October 17, 2019, Staff met with Spire West to discuss this and other issues related to reliability. Though it indicated in its response to a Staff data request that it did not have such documents related to gas procurement, during the discussion Spire West indicated that it has internal documents related to gas procurement procedures that may address the issues raised by Staff. Staff recommends that Spire West submit these documents in response to data requests as part of the ACA review in Case No. GR-2020-0122, the 2019-2020 ACA review.

Reliability Report

In its memorandum filed in Case No. GR-2017-0229, Staff recommended that Spire West implement enhancements to its reliability report. Specifically, Staff recommended that Spire West 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 a justification, and
- incorporate customer growth projections.

Staff discussed this issue with Spire Missouri West during the October 17 meeting previously mentioned. ** **

Staff recommends that Spire West 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.[2] ** **

IV. GAS COST

A. INVOICES

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 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 versus 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 volume of gas purchased for each service area so that Staff can verify the Company reconciled the invoiced gas volume to the appropriate service area.

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

The supporting documentation for gas costs contained nine consecutive monthly invoices from a gas supplier for sales to Spire West's nonregulated marketing affiliate, Laclede Energy Resources (now renamed Spire Marketing). Staff was able to confirm that the supply purchased was delivered to Spire West instead of its marketing affiliate. Staff recommends the Company work with its vendors to ensure that invoices are issued to the correct entity when necessary.

B. CASH OUTS

Spire West's transportation tariffs contain a Cash Out provision which reconciles a transportation customer's imbalance by requiring the Company to either buy or sell gas to the transportation customer equal to the customer's monthly imbalance[3]. At the end of each month, if the transporter used more gas than it put into Spire West's system, then the transporter pays the Company for the additional gas supplies it used. If the transporter used less gas than it put into the system, the Company purchases this gas from the transportation customer through a credit on the customer's bill. The cost of the gas purchased or sold to transportation customers through the Cash Out process flows through the PGA/ACA account. Staff determined in this period that the Cash Out amounts stated in the Company's transportation customer balancing reports did not agree with the higher, unsupported Cash Out amount reported in the Company's ACA filing. The transportation imbalance report contains the details of transporters monthly imbalances and the Cash Out amount. This Cash Out underlying support should agree with the ACA filing. Therefore, to reconcile this discrepancy Staff proposes an adjustment to reduce the Cash Outs total by $177,957.92. This adjustment brings the Company's Cash Out amount in its ACA filing in line with the Cash Out amounts shown in the Company's transportation customer balancing reports.

V. HEDGING

In its review of Spire West's purchasing practices, 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 its risk management strategy. Spire West combined storage and financial instruments to hedge portions of the volumes needed for the winter heating season, November 2017 through March 2018.

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[3] "Balancing" by a transportation customer or a pool of transportation customers means the amount of gas put into Spire West's system (receipts) is equal to the amount used or taken out of Spire West's system (deliveries). When a transportation customer puts more or less gas into Spire Missouri West's system than the gas actually used, this difference is referred to as an "imbalance."

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

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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. It is expected that 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, Spire West 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

[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.

calls as the Company's policy is to utilize various derivatives and whether the existing program should be modified under the current market.

VI. RECOMMENDATIONS

1. Staff recommends the Commission issue an order directing the Company to establish the ACA account balance as shown in the table below to reflect the (over)-recovery balance as of September 30, 2018.

   An over-recovery reflects an amount that is owed to the customer by the Company and is shown as a negative number (in parentheses). Spire West has an over-recovery.

Account	9-30-18 Ending Balance per MGE Filing	Current Period Proposed Adjustment	9-30-18 Staff Recommended Ending Balance
ACA Balance	$ (1,834,815.40)	$ (177,957.92)	$ (2,012,773.32)

2. File a written response to all of the 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 Spire Missouri, Inc. d/b/a Spire West Annual PGA Filing	))	Case No. GR-2019-0120

AFFIDAVIT OF ANNE M. CROWE

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

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

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 13th day of December 2019.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 12, 2020
Commission Number: 12412070

D Suzie Mankin

Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Spire Missouri, Inc.	)	
d/b/a Spire West Annual PGA Filing	)	Case No. GR-2019-0120

AFFIDAVIT OF KEENAN B. PATTERSON, PE

STATE OF MISSOURI	)	
	)	ss.
COUNTY OF COLE	)	

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

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 13th day of December 2019.

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AFFIDAVIT OF KWANG Y. CHOE PhD

STATE OF MISSOURI	)	
	)	ss.
COUNTY OF COLE	)	

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

KWANG Y. CHOE PhD

JURAT

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