Exhibit No.:	
Issue(s):	**PGA/ACA Case Filing; Off-System Sales**
Witness:	**Scott A Weitzel**
Type of Exhibit:	**Direct Testimony**
Sponsoring Party:	**Spire Missouri, Inc.**
Case No.:	**GR-2022-0136**
Date Prepared:	**November 3, 2023**

SPIRE MISSOURI, INC.

GR-2022-0136

DIRECT TESTIMONY

OF

SCOTT A. WEITZEL

Denotes Confidential Information

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Spire Missouri Inc. d/b/a Spire (West) Purchased Gas Adjustment (PGA) Tariff Filing	))	File No. GR-2022-0136

VERIFICATION OF SCOTT A. WEITZEL

STATE OF MISSOURI)
)
CITY OF ST. LOUIS)

I, Scott A. Weitzel, of lawful age, under penalty of perjury, and pursuant to Section 509.030, RSMo, state as follows:

1. My name is Scott Weitzel. I am the Vice President of Regulatory and Legislative Affairs for Spire Missouri Inc. My business address is 700 Market St., St Louis, Missouri 63101.

2. My direct testimony on behalf of Spire Missouri Inc. is attached to this verification.

3. My answers to each question in the attached direct testimony are true and correct to the best of my knowledge, information, and belief.

Scott Weitzel (Nov 3, 2023 12:25 CDT)
Scott A. Weitzel

November 3, 2023
Date

TABLE OF CONTENTS

I. INTRODUCTION

Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS FOR THE BENEFIT OF THE MISSOURI PUBLIC SERVICE COMMISSION ("COMMISSION")?

A. My name is Scott A. Weitzel, and my business address is 700 Market Street, St. Louis, MO 63101.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am the Vice President of Regulatory and Legislative Affairs for Spire Missouri Inc. ("Spire Missouri" or "Company").

Q. HOW LONG HAVE YOU HELD THAT POSITION AND WHAT ARE YOUR RESPONSIBILITIES?

A. I have been in regulatory affairs since I joined Spire Missouri in August of 2016, and I was promoted to my current position in November of 2021. In this role, I am responsible for all regulatory affairs, legislation, government affairs, strategy, policy, external affairs, advocacy, energy efficiency, and rates functions for Spire Missouri. I have held previous roles for Spire Missouri as the Managing Director of Regulatory and Legislative Affairs, Director of Rates and Regulatory Affairs, and Manager of Tariffs and Rate Administration.

Q. WHERE DID YOU WORK BEFORE JOINING SPIRE MISSOURI?

A. Upon graduation from college, I was employed by CenterPoint Energy as a Gas Marketing Analyst where I handled billing, nominations, hedge settlement, and account management for commercial, industrial, and municipal natural gas customers. I then spent nine years working for Ameren Missouri in various roles related to its gas supply operations. This work included scheduling gas, peak day planning, capacity and storage planning, gas supply procurement, capacity releases, hedging, gas accounting, responding to data requests, purchased gas adjustment ("PGA") analysis, and reviewing competitors' tariffs and cases. I then went to work for Ameren Illinois in the area of business development where I focused on extending natural gas to communities that were not currently supplied with natural gas, along with acquiring gas utilities and municipal gas systems.

Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?

A. I graduated from the University of Missouri-Columbia in 2003 with a Bachelor of Science in Human Environmental Sciences, a major in Consumer Affairs, and a minor in Leadership and Public Service. I received my Master of Business Administration from Webster University in 2007.

Q. HAVE YOU TESTIFIED BEFORE THE COMMISSION BEFORE?

A. Yes. I am attaching a summary of my previous case involvement as **Schedule SAW-D-1**.

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to provide an overview of the Company's Purchased Gas Cost Adjustment ("PGA") rate revisions and Actual Cost Adjustment ("ACA") filing. I will also provide Spire Missouri's response to the Off-System Sale ("OSS") issue raised in Staff's Recommendation.

Q. PLEASE SUMMARIZE YOUR POSITION AS TO THE OFF-SYSTEM SALE ISSUE.

A. The subject OSS during winter storm Uri was not only prudent, but overall beneficial for the region in keeping gas service available to the purchaser's customers and helping maintain stability on the Southern Star Central Gas Pipeline Inc.'s ("Southern Star") interstate pipeline, while also providing significant cost savings to Spire West customers. The OSS was made and accounted for in accordance with the tariffs and rules and regulations that govern OSS transactions and the Company. No adjustment or disallowance is appropriate.

Q. IS ANYONE ELSE PROVIDING DIRECT TESTIMONY ON SPIRE MISSOURI'S BEHALF?

A. Yes. David Yonce, Managing Director of Regulatory Affairs Spire Missouri, is also providing Direct Testimony. His Direct Testimony discusses the details surrounding the OSS that is the subject of this case.

III. <u>PGA AND ACA EXPLANATION</u>

Q. WHY DID SPIRE MISSOURI INITIATE THIS CASE?

A. Spire Missouri provides natural gas to Missourians as a "gas corporation" and a "public utility" as understood by the Commission. As part of that service, Spire Missouri employs two PGAs, one for Spire Missouri West and another for the Spire Missouri East service area, to ensure that there is no over- or under-recovery of costs incurred to purchase the natural gas necessary to serve customers over a twelve-month period. The ACA provision of the PGA clause accomplishes this by crediting or charging customers of Spire Missouri, depending on whether the PGA over or under-collects costs.

Spire Missouri must address any over- or under-recovery in the PGA by initiating a case every year. These cases are meant to adjust the applicable PGA rate to account for each twelve-month billing period ending September 30th of each year. The PGA is meant to calculate a future gas portfolio and prices, while the ACA is meant to true-up previous year's collection activity (over/under recovery). Restated, the ACA rate may increase because purchased gas costs were higher than expected, or funds may be credited back to customers if the PGA over recovered compared to actual costs. This process is commonly referred to as an ACA case because the PGA is reset based on the Current PGA ("CPGA") and ACA factors included in Spire Missouri's tariff. The relevant tariff sheets, Sheets No. 11-11.3 are attached as **Schedule SAW-D-2**.

Q. CAN YOU EXPLAIN THE RELATIONSHIP BETWEEN THOSE FACTORS AND THE PGA?

A. A PGA is the sum of the CPGA and ACA factors. The CPGA factor reflects the estimated cost of purchased natural gas services needed to provide adequate service, including gas supply, transportation service contracts, storage services, demand charges, and other ancillary charges. The ACA factor is an annual reconciliation of the actual cost of purchased gas and pipeline services as shown in Spire Missouri's books and records, adjusted for any off-system sales of natural gas.

Q. WHAT PORTION OF THE CUSTOMER BILL IS COMPRISED OF THE PGA?

A. Depending on a number of factors, including the time of year, weather, and natural gas commodity prices, approximately half of an average customer's bill may be comprised of gas costs during the winter months. Specifically, for the Spire Missouri West service territory, gas costs comprised approximately 60% of the total customer bill for this winter period. The other half of the bill is made up of a customer charge and distribution charge. These charges are the costs to provide service to our customers through Spire owned distribution system and piping.

Q. DOES THE COMPANY PROFIT FROM THE PGA COMPONENT OF THE BILL?

A. No. PGA costs themselves, including interstate pipeline contracts, leased storage fields, hedges, and physical supply contracts are passed through to our customers with no mark-up, earnings, or profit to Spire.

IV. OVERVIEW OF SPIRE MISSOURI'S PGA AND ACA FILING

Q. WOULD YOU SUMMARIZE THE COMPANY'S ACA FILING IN THIS CASE?

A. The Company submitted its tariff revisions to adjust its PGAs for the Spire Missouri East and West service territories on November 15, 2021. A substitute tariff and extension was later filed on November 17, 2021. The tariff changes cover the purchased gas costs within the 2020-2021 ACA review period.

Based on its review of the ACA factors and adjusted cost of gas, Spire Missouri's tariff revisions recommend that the Spire Missouri West PGA rate for residential, small general service, large general service, large volume, and other firm service be increased from \$0.40415 to \$0.79310 per centum cubic foot ("Ccf") as of the conclusion of the 2020-2021 ACA review period.

Q. WHAT WAS THE CAUSE OF THIS INCREASE?

A. To a large extent, this increase is due to the commodity price spike experienced in February 2021 during Winter Storm Uri ("Uri"). During this time, we saw unprecedented natural gas price spikes, with gas trading at \$200-\$600 per million British thermal unit ("MMBtu") compared to normal prices in the \$2-\$6 per MMBtu range. In addition to the market spikes experienced during Uri, there has been significant movement in the natural gas market nationally and internationally since the 2020-2021 winter. Prior winter market prices were set around $3.26 per MMBtu. The market subsequently moved up nearly 59% to $5.18 per MMBtu.

Q. DID STAFF PERFORM ITS OWN ANALYSIS ON THE COLD WEATHER EVENT AND ITS IMPACT ON SPIRE MISSOURI WEST?

A. Yes. Please see **Schedule SAW-D-3**. Staff evaluated multiple impacts that Uri, a severe winter storm, presented to the region, markets, utilities, and customers. This was a 73-page report.

Q. DID SPIRE WEST TAKE ANY STEPS TO MITIGATE THE INCREASES ASSOCIATED WITH WINTER STORM URI?

A. Yes. In Commission File No. GT-2022-0084, Spire West received authority to increase the credit amount of its Filing Adjustment Factor ("FAF") to offset the increase in gas costs resulting from Winter Storm Uri for up to three years (2021-2023). The Company used the FAF in this filing to mitigate the customer impact of these higher gas costs.

Q. WHAT WAS THE RESULT OF SPIRE WEST'S INITIAL TARIFF FILING?

A. On November 19, 2021, Staff of the Commission ("Staff") recommended approval of Spire Missouri's revised tariff sheets on an interim basis and requested a Commission order directing the filing of its recommendation on December 15, 2022. The tariff sheets became effective on November 30, 2021.

V. STAFF RECOMMENDATION AND RESPONSE

Q. HAS THE STAFF OF THE COMMISSION ("STAFF") CONDUCTED A REVIEW OF SPIRE WEST'S ACA FILING?

A. Yes.

Q. WHAT WAS THE RESULT OF THAT REVIEW?

A. On December 15, 2022, Staff issued its Staff Recommendation Regarding Spire West's 2020-2021 Actual Cost Adjustment Filing ("Recommendation"). In addition to proposed adjustments to the Company's ACA balances related to Cash Outs and Off-System Sales, Staff had comments and non-financial recommendations on the Company's reliability and gas supply planning, actions during Winter Storm Uri ("Uri"), and hedging policies.

Q. HOW DID THE COMPANY RESPOND TO THE RECOMMENDATION?

A. Spire Missouri accepted Staff's findings as to its comments on non-financial matters but disagreed with two adjustments to the ACA – (1) Staff's recommended disallowance of nearly $5 million for Cash Outs; and (2) the recommended disallowance of $25 million for Off-System Sales ("OSS"), which fundamentally misapplies the Company's Commission-approved tariff. On November 2, 2023, Staff and Spire filed their *Partial Stipulation and Agreement* the ("Stipulation") to fully resolve the Cash Out issue, leaving the OSS as the sole remaining disputed issue. The Company reserves the right to hold this as an open issue until the Commission approves the Stipulation.

VI. <u>OFF-SYSTEM SALE</u>

Q. WHAT IS THE SUBJECT OF STAFF'S PROPOSED OFF-SYSTEM SALES ADJUSTMENT?

A. The OSS at issue involves Spire Missouri's sale of [redacted] MMBtu of unusable storage gas during Uri to a neighboring utility in need, [redacted], at [redacted] per MMBtu and purchase of replacement gas at [redacted] per MMBtu, which returned a profit of $100 million to be shared between the customers and the Company pursuant to the Company's OSS tariff.

Q. WHAT ARE OFF-SYSTEM SALES ("OSS)?

A. An OSS occurs when Spire Missouri sells natural gas to a third-party. Spire Missouri must then replace the gas sold in an OSS after it completes the sale. Any profit made by the Company from an OSS is reduced by the cost to replace the gas that was sold.

Q. ARE THE FINANCIAL IMPACTS OF OFF-SYSTEM SALES ADDRESSED IN THE SPIRE MISSOURI TARIFF?

A. Yes. Spire Missouri's tariff includes a Gas Cost Incentive Mechanism ("Incentive Mechanism") that outlines that process. The Incentive Mechanism language, found in Tariff Sheet No. 11.12, is included as **Schedule SAW-D-4**.

Q. WHAT DOES THE INCENTIVE MECHANISM TARIFF PROVIDE?

A. The provision states as follows:

> The Company and its Firm Sales customers shall share the Off-System Sales margins and Capacity Release Revenues realized by the Company. Firm Sales customers shall retain 75% of the annual off-system sales margins and capacity release revenues and the Company shall retain 25% of such margins. The Company will record in an Incentive Revenue ("IR") Account that portion of revenue retained by the Company according to the sharing percentages. (emphasis added)

In other words, under Spire Missouri's Tariff Sheet No. 11.12, when the Company engages in an OSS, the Company keeps 25% of the OSS profit, while the remaining 75% flows through the PGA/ACA as a credit to Spire West's customers, reducing the overall gas costs they pay.

Q. HOW LONG HAS A GAS COST INCENTIVE MECHANISM BEEN IN PLACE FOR SPIRE MISSOURI?

A. Spire Missouri has had a gas cost incentive mechanism in its tariffs since at least October 1, 2007.

Q. WHAT IS THE PURPOSE OF THE GAS COST INCENTIVE MECHANISM?

A. As stated in its name, this mechanism serves as an incentive for the Company to engage in OSS. The Company's ability to retain 25% of an OSS profit ensures that it will continually seek sales when they benefit customers because it will also share in the benefits. If the Company could not also benefit from OSS, there would be little motivation to take on the additional risk and workload in pursuit of any potential cost savings for customers. Consider also that Customers pay PGA charges to support significant amounts of pipeline or storage capacity. Because Spire Missouri uses those assets primarily to supply customers on the coldest days, the Company should seek to reduce these costs whenever possible. The Incentive Mechanism is designed to reward both customers (75%) and the Company (25%) for Spire Missouri's efforts to optimize, monitor dynamic conditions, and leverage these pipeline and storage assets when market opportunities arise.

Q. HOW DOES STAFF TREAT THE GAS COST INCENTIVE MECHANISM TARIFF?

A. Staff's $25 million disallowance recommendation ignores the language of Sheet No. 11.12 by assessing the Company a **0%** share, when the tariff is clear that firm customers retain **75%** of OSS profit while the company shall retain **25%**.

Q. WHAT IS STAFF'S PROPOSED OFF-SYSTEM SALES ("OSS") ADJUSTMENT?

A. Staff states that "there should be no margin on the OSS" and recommends a disallowance based on its repricing of the cost to purchase natural gas supply to replace the gas sold through an OSS, otherwise known as the Off-system Cost of Gas Supply ("OS-CGS"). Staff's position is that the Company used the wrong OS-CGS and that the proper OS-CGS is [redacted] per MMBtu, which is unsupported. This position effectively erases the profit made on the OSS and would have the Commission remove $25 million from the PGA as if the entire $100 million OSS did not occur.

Q. WHAT DO YOU BELIEVE IS STAFF'S JUSTIFICATON FOR AN OS-CGS OF [redacted] PER MMBTU AND THIS $25 MILLION DISALLOWANCE?

A. Staff seems to be utilizing the following language of Sheet R-27 of the Company's Rules and Regulations tariffs, which is attached as **Schedule SAW-D-5**: "the OS-CGS is equal to the highest CGS from the CGS-Schedule." Staff appears to use this language to latch onto an arbitrary value from Spire Missouri West's CGS schedule to eliminate any profit, instead of using the actual price of the gas purchased to replace the gas sold in the OSS. However, that tariff provision continues on:

> Subject to the foregoing exclusion of certain gas supplies, the OS-CGS is equal to the highest CGS from the CGS-Schedule (as defined below) associated with the quantity of actual OS-Sales for the pipeline on which the sale is made, unless a lower CGS is documented and supported in accordance with the provisions of Section 3 of this rule. (emphasis added)

Staff's analysis ignores the full text of the tariff, as well as the operational planning, capacity and contract limitations, operational realities, and trade execution timing.

Q. WHAT IS THE RELEVANCE OF THE EMPHASIZED LANGUAGE?

A. The language is clear that a lower OS-CGS cost can be used to price an OSS transaction when it is documented and supported, which is the case with this OSS. Staff does not attempt to engage with this tariff language at all.

Q. PLEASE EXPLAIN.

A. Under the tariff, if the Company can support a lower CGS, then that is the CGS that should be used. On February 15, 2021, the Company performed a storage transfer on Southern Star for [redacted] MMBtu. This is documented in the February 2021 Southern Star storage report for Spire Missouri West, which is attached as **Schedule SAW-D-6**. As discussed in more detail in the Direct Testimony of David Yonce, this transfer was to [redacted] for [redacted] per MMBtu. The gas sold in this OSS was subsequently replaced with a purchase from [redacted] for [redacted] per MMBtu, prices that are clearly documented in the sale and purchase records. In developing its recommendation, Staff issues hundreds of data requests, Company responses to which have provided these records, and others, including the February 2021 CGS-Schedule and corresponding February 2021 Sales report which is attached to the Direct Testimony of David Yonce as **Schedule DAY-D-6**. Thus, the lower CGS for this OSS transaction has been supported, yet Staff appears to ignore both the tariff and the documentation provided by the Company.

Q. ARE THERE ANY OTHER ISSUES WITH STAFF'S RECOMMENDATION?

A. Yes. First, the Company cannot comprehend Staff's position that the Company sold gas at [redacted] per MMBtu only to replace it at the same price. As discussed in the Direct Testimony of David Yonce, the Company could not utilize this gas due to operational controls, so the Company found a way to maximize this excess inventory for the benefit of its customers. However, while the Company could not use the gas, it also had no obligation to do anything with it. For Company personnel to spend time during a critical winter storm event to perform an OSS without the opportunity of earning a profit makes absolutely no sense. Staff's position also does not comport with the operational aspects of the sale. Staff's recommendation, again discussed further in David Yonce's testimony, seems to suggest that the Company purchased replacement gas in the days before it made the storage transfer. However, replacement gas for a storage transfer on Southern Star's system could only be replaced with a corresponding injection, which in this case, was the gas purchased from [redacted]. Contrary to Staff's position, the Company made no storage injections on the days Staff suggests the replacement gas was injected, a fact documented in **<u>Schedule SAW-D-6</u>**, the February 2021 storage report. The March 2021 storage report, attached as **<u>Schedule SAW-D-7</u>**, actually shows the storage injections replacing the [redacted] MMBtu, which resulted from the purchase from [redacted] for that month. In this OSS, the storage transfer on Southern Star's system could only be offset and replaced by an injection on the same system. In fact, Sheet No. R-27 requires this, stating that the CGS from the CGS-Schedule must be "associated with the quantity of actual OS-Sales for the pipeline on which the sale is made." As Staff's proposed replacement prices were from days that no injections occurred, those prices cannot be applied to this OSS, particularly where a lower price of the actual replacement injections is documented and supported as discussed further below and in the Direct Testimony of David Yonce.

Q. TO SUMMARIZE, WHAT IS SPIRE MISSOURI'S POSITION AS TO THIS ISSUE?

A. Spire Missouri's position is that the lower CGS is supported and documented, and in accordance with the Commission-approved tariffs, should be the CGS applied to this OSS. Staff's recommended OS-CGS represents a misapplication of the tariffs, specifically Sheet No. 11.12 and Sheet No. R-27.

The "lower" OS-CGS that should be applied to this OSS is [redacted] per MMBtu, which reflects the documented and supported actual cost to replace the gas sold to [redacted]. Using this OS-CGS results in an accurate, $100 million profit that was shared according to the Incentive Mechanism in the Company's tariffs: 75% of the profit reduced gas costs for firm customers and 25% was retained by the Company. The Commission should reject

Staff's recommendation and decline to disallow the $25 million representing the Company's share of the OSS profit.

Q. WHY DID THE COMPANY MAKE THIS OSS?

A. While Spire Missouri Witness Yonce will go into further detail on this transaction in his Direct Testimony, the Company made this OSS because it was beneficial to natural gas customers of both Spire Missouri and [redacted]. It helped [redacted] maintain a critical utility service to its customers and did so when Spire Missouri could leverage additional natural gas storage without threatening its own operations. It also generated $100 million in profit, which, through the Gas Cost Incentive Mechanism, yielded a substantial benefit of $75 million to Spire Missouri customers.

Q. DO YOU BELIEVE THAT THIS OSS IS IN LINE WITH THE REASON THE COMMISSION APPROVED THE GAS COST INCENTIVE MECHANISM?

A. Yes. The Commission approved the Incentive Mechanism to encourage sales exactly like the OSS to [redacted] at issue here. Not permitting Spire Missouri to keep 25% of the gains from an OSS fails to consider the reduced gas costs that the Company achieved for customers and eliminates any incentive to look for similar market opportunities in the future. This is not a novel use of the Incentive Mechanism. The Company has utilized this provision ("unless a lower CGS is documented and supported") many times in the past, including other off system sales during this same ACA period, and such transactions have not been challenged by Staff. It appears Staff is scrutinizing this specific transaction and the proper OS-CGS simply because of the size of the transaction. It further appears that Staff has arbitrarily picked [redacted] as the price for the replacement gas, simply to wipe out any profit the Company would receive, while retaining the full amount of the customer benefit as a credit for customers. The molecules Staff attempts to assign as the OS-CGS were not purchased for [redacted] and Staff provides no basis or support for why [redacted] should be used.

Q. DO YOU HAVE ADDITIONAL CONCERNS WITH STAFF'S RECOMMENDATION?

A. I do. I am concerned with how Staff's recommendation is beneficial for any party involved. Clearly operating within the confines of the Commission-approved tariff, Spire Missouri achieved a benefit of $75 million for its customers. Taking on risk to achieve this benefit, the Company effectively navigated an extreme weather and pricing event, and maintained service to its customers while other utilities had rolling blackouts. Moreover, Spire Missouri requested and was approved to defer high Uri gas costs for customers over three years, carrying hundreds of millions of dollars in under collected gas costs. However, the recognition for these efforts is a recommended, yet unsupported, $25 million disallowance by Staff that only serves to hurt the utility.

Q. HOW DOES THIS HURT THE UTILITY?

A. A $25 million disallowance is a substantial hit to Spire. The financial impact of such a disallowance would in theory reduce Spire Missouri's authorized 9.8% ROE from its last general rate case during this time to approximately 6.8%, or nearly a 3% ROE hit. To my knowledge, no gas company in the United States has such a low effective or authorized ROE. Approval of Staff's recommended disallowance in this case would unfairly punish Spire Missouri for doing the right thing.

Q. DO YOU THINK THIS FURTHERS THE PUBLIC INTEREST?

A. No. All stakeholders benefited from this OSS. The Commission sets rates at a level that will provide a utility's shareholders with the opportunity, not the guarantee, to earn a reasonable return on their investment. The Commission must balance a variety of often competing interests to ensure the overall public interest. Negating the benefit the Company achieved with this OSS, while retaining all of its benefits for the customer, is a severe imbalance of this principle. Accordingly, I request that the Commission consider the public interest when reviewing this OSS and the parties' positions in this case.

VII. <u>CONCLUSION</u>

Q. WHAT CONCLUSIONS DO YOU BELIEVE THE COMMISSION SHOULD REACH IN THIS CASE?

A. The Commission should accept Staff's non-financial recommendations, reject Staff's adjustment to the Off-System Sales, and issue an order directing Spire Missouri to establish the ACA account balances as proposed by the Company in its revised tariff sheets.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.