

MEMORANDUM

TO: Missouri Public Service Commission, Official Case File
File No. GA-2024-0100, Spire Missouri Inc.

FROM: Seoung Joun Won, Phd., Regulatory Compliance Manager, Financial Analysis Dept.
Antonija Nieto, Lead Senior Utility Regulatory Auditor, Auditing Department
Nathan Bailey, CPA, Utility Regulatory Auditor Department
Financial and Business Analysis Division
Francisco Del Pozo, Economist, Tariff/Rate Design Department
Industry Analysis Division

/s/ David Buttig 12/17/2023
Senior Professional Engineer,
Procurement Analysis Dept. / Date

SUBJECT: Recommendation of Approval of Requested Transfer of Assets and Rejection
of Acquisition Premium Adjustment

DATE: December 17, 2023

Overview

On September 22, 2023, Spire Missouri, Inc. (“Spire”, “Applicant”, or the “Company”), filed its Application (“Application”) with the Missouri Public Service Commission (“Commission”) for permission and approval and a certificate of public convenience and necessity (“CCN”) to construct, install, own, operate, maintain, and otherwise control and manage a natural gas distribution system to provide gas service in Cass County, Missouri, as a further expansion of its existing certificated area. Spire seeks a waiver from Commission Rule 20 CSR 4240-4.017(1) that provides notice to the secretary of the Commission a minimum of sixty (60) days prior to filing a case.

On September 22, 2023, the Commission issued its Order directing notice, setting a deadline for intervention request, and directing filing of Staff Recommendation. The deadline for application to intervene was set for October 23, 2023. No parties intervened. The Commission directed Staff to file a Recommendation regarding Spire’s Application or request for an extension of time no later than November 8, 2023.

On November 7, 2023, Staff filed a motion for extension of time to file its recommendation in order to file and review additional data requests. Staff requested the Commission allow Staff a 30-day extension in order to file its recommendation. On November 13, 2023, the Commission issued its Order Granting Extension of Time to File Staff Recommendation by December 7, 2023.

Discussion

Spire’s Application states that it seeks a CCN to extend its existing certificated area in Cass County to Sections 24-25, Township 46 North, Range 32 West of Cass County (“Section 24 and 25”), and Section 30, Township 46 North, Range 31 West of Cass County (“Section 30”) to serve a development for subdivision homes. ** [REDACTED] ** (the “Customer”) contacted Spire with a need for a distribution system extension to provide natural gas service for phases 1-3 in order to serve 50 lots for customers’ homes. The Customer intends to execute development phases 4 and 5 upon successful occupancy of the preceding phases. According to the application, natural gas service is not currently offered by another regulated or unregulated entity in the requested area.

Potential Area Development and Excess Capacity

** [REDACTED] **

Spire conducted an analysis of the Customer’s immediate request, which is to provide gas service to development phases 1 – 3. Spire’s analysis projected the minimum costs and revenues tied to providing service to the Customer’s initial development. Spire used this analysis to determine the appropriate level of customer provided funds required to support the minimum construction costs. However, the minimum cost to construct does not account for demand created by future development phases (phases 4 and 5). To meet the full needs of this project including future growth, Spire asserts that ** [REDACTED] **¹ **. The Company estimates that the total cost for this project is ** [REDACTED] **

¹ Staff Data Request No. 0009.

which is greater than the minimum cost to connect the Customer as it requested. The difference between the minimum cost and the total expected cost is characterized as the cost of infrastructure installed to accommodate potential customer growth. In this project, the construction costs tied to the potential for growth is calculated as follows:

**

[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]

**

Rate Base and Impact on Revenue Requirement

The Auditing Department reviewed information provided by Spire in response to Staff's data requests, Spire's Application, and work papers. Staff submitted several data requests seeking information on customer contributions or deposits that were required in order for Spire to extend service to the Customer. In a response to Staff Data Request No. 0010, Spire indicated that a contribution in aid of construction ("CIAC") is required from the Customer in amount of ** [REDACTED] **. ²

In response to Staff's Data Request No. 0010, Spire provided Staff with a list of its assumptions and justifications used in the economic analysis to install assets in the proposed extended area. Staff relied on information provided by Spire in Data Request No. 0010 to calculate the impact of the asset's addition on the revenue requirement based on the revenue requirement determined in Case No. GR-2022-0179. Staff used Spire's Cost Calculation and Revenue Calculation included in its economic model to assess the impact of this CCN to Spire's revenue requirement. Staff's position is that the additional revenue requirement increase caused by this addition is immaterial and will not become a detriment to existing customers.

Staff analyzed Spire's economic model for 50 residential customers in a 3-year scenario³ from the perspective of rate revenues. Based on Spire's representation of customer counts, costs, and usage assumptions, the application appears economically feasible.

² CIAC pursuant to currently effective tariff – rules and regulation; bullet 19, section E.

³ As provided in the Economic Model' Spreadsheet (revenue tab) attached to Response to Staff Data Request No. 0010.

To be consistent with past Commission practice, all ratemaking determinations regarding the revenue requirement impact of this service area extension request should be reserved until the Company's next general rate making proceeding.

Financial Ability

Staff investigated whether Spire has the financial ability to construct, install, own, operate, maintain, and otherwise control and manage a natural gas distribution system to provide gas service in Cass County, Missouri. This is a further expansion of its existing certificated area for which Spire Missouri is seeking a CCN to include Sections 24-25, Township 46 North, Range 32 West of Cass County and Section 30, Township 46 North, Range 31 West of Cass County to serve a development for a subdivision of homes. The Customer contacted Spire with a need for a distribution system extension to receive natural gas service for Phases 1-3 to serve 50 lots for customers' homes (the "Project").⁴ The total cost of the Project, less contributions from the Customer, for Spire Missouri will be ** [REDACTED] **. ⁵ Staff reviewed the financial effect of this CCN on Spire Missouri's credit quality. Because the Project in this application will be completed utilizing internal funds and a contribution in aid of construction provided by the customer, there would be no changes in Spire Missouri's financial ratios and capital structure due to this CCN.⁶

Staff has no concerns with the financial risk profile of Spire Missouri. Considering Spire Missouri's financial capacity, the Applicant has the financial ability to provide the service. According to The Standard & Poor's ("S&P"), Spire Missouri's capital expenditure averages about \$360 million annually, with a credit facility availability of about \$475 million.⁷ Spire Missouri is a wholly owned subsidiary of Spire, Inc. The S&P expects that Spire, Inc. will show robust capital expenditures of about \$650 million annually while maintaining a \$1.3 billion syndicated revolving credit facility to cover its short-term funding needs.⁸ S&P and Moody's rated both Spire Missouri and Spire Inc. as investment grade. S&P rated both Spire Missouri and Spire Inc. as "A-", while Moody's rated them as "Baa2" and "A1," respectively.⁹ Considering the fact that the proposed total cost of the Project is less than 0.1% of Spire Missouri's capital expenditure average, it is reasonable to conclude that Spire Missouri has the financial ability to construct, install, own,

⁴ Paragraph 7, The Application.

⁵ Staff Data Request No. 0005. ** [REDACTED] ** = ** [REDACTED] ** (the total cost of the Project) - ** [REDACTED] ** (contributions from the Customer).

⁶ Staff Data Request No. 0006.

⁷ RatingsDirect, S&P Global Ratings. Spire Missouri Inc., May 30, 2023.

⁸ RatingsDirect, S&P Global Ratings. Spire Inc., July 5, 2023.

⁹ S&P Capital IQ Pro.

operate, maintain, and otherwise control and manage a natural gas distribution system to provide gas service for this CCN.

Tartan Criteria

In the Tartan Energy Company case, the Commission's Order listed five criteria to include in the consideration when making a determination on whether a utility's proposal meets the standard of being "necessary or convenient for the public service" (a short description of how Staff believes each criteria has been met is also included):

- Is the service needed?
 - Yes. The sections to be incorporated currently do not have a provider of natural gas and the Customer has requested a natural gas provider for the subdivisions.
- Is the applicant qualified to provide the service?
 - Yes. Spire is a large public utility and gas corporation, as those terms are defined in RSMo. §386.020, and is a corporation incorporated under the laws of the State of Missouri, with its principal office located at 700 Market Street, St. Louis, Missouri, 63101. As an existing utility operator, Staff believes Spire is qualified to provide the service.
- Does the applicant have the financial ability to provide the service?
 - Yes. As stated above, no external funding was required for this project and Spire Missouri has the financial ability to construct, install, own, operate, maintain, and otherwise control and manage a natural gas distribution system to provide natural gas service for the area as previously described.
- Is the applicant's proposal economically feasible?
 - Yes. If customer growth within the development area materializes, the proposal is economically feasible. Additionally, the effect on the revenue requirement indicates that the impact of authorizing this CCN will not be detrimental to the new customer(s) or Spire's general body of ratepayers.
- Does the service promote the public interest?
 - Generally, if all of the other criteria and conditions are met, then the criterion regarding public interest is met. Additionally, ** [REDACTED] ** approached Spire with the need to provide natural gas service for its expansion in Sections 24, Section 25, and Section 30, where natural gas service is currently not provided by another regulated or unregulated utility. The developer will fund a contribution in aid of construction. The cost impact of the project's addition relative to Spire's overall rate base is immaterial and not a detriment to other Spire customers. It is Staff's position that granting the CCN promotes the public interest.

Staff Recommendation

Based on the information provided above, Staff recommends the Commission approve the Company's requested CCN with the following conditions:

- Spire shall file an updated tariff sheet incorporating Sections 24-25, Township 46 North, Range 32 West of Cass County, and Section 30, Township 46 North, Range 31 West of Cass County.
- All rate making determinations regarding the revenue requirement impact of this service area extension request are reserved until the Company's next general rate making proceeding.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI


In the Matter of the Application of Spire)
Missouri Inc d/b/a Spire for a Certificate of) File No. GA-2024-0100
Convenience and Necessity to Construct,)
Install, Own, Operate Maintain, and Otherwise)
Control and Manage a Natural Gas)
Distribution System in Cass County, Missouri)
as an Expansion of its Existing Certified Areas)

AFFIDAVIT OF FRANCISCO DEL POZO

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW FRANCISCO DEL POZO 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.

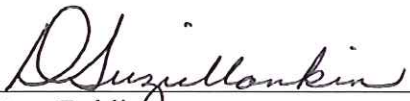


FRANCISCO DEL POZO

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 4th day of December 2023.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: April 04, 2025
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 d/b/a Spire for a Certificate of)
Convenience and Necessity to Construct,)
Install, Own, Operate Maintain, and Otherwise)
Control and Manage a Natural Gas)
Distribution System in Cass County, Missouri)
as an Expansion of its Existing Certified Areas)

File No. GA-2024-0100

AFFIDAVIT OF ANTONIJA NIETO

STATE OF MISSOURI)
) ss.
COUNTY OF JACKSON)

COMES NOW ANTONIJA NIETO 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.



ANTONIJA NIETO

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Jackson, State of Missouri, at my office in Kansas City, on this 5th day of December 2023.





Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of Spire)	
Missouri Inc d/b/a Spire for a Certificate of)	File No. GA-2024-0100
Convenience and Necessity to Construct,)	
Install, Own, Operate Maintain, and Otherwise)	
Control and Manage a Natural Gas)	
Distribution System in Cass County, Missouri)	
as an Expansion of its Existing Certified Areas)	

AFFIDAVIT OF SEOUNG JOUN WON, PhD

STATE OF MISSOURI)	
)	ss.
COUNTY OF COLE)	

COMES NOW SEOUNG JOUN WON 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.

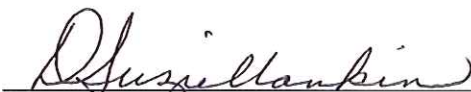
Further the Affiant sayeth not.


SEOUNG JOUN WON, 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 14th day of December 2023.

D. SUZIE MANKIN Notary Public - Notary Seal State of Missouri Commissioned for Cole County My Commission Expires: April 04, 2025 Commission Number: 12412070


Notary Public