

MEMORANDUM

TO: Missouri Public Service Commission Official Case File,
Case No. GR-2023-0157, Spire Missouri, Inc., d/b/a Spire

FROM: Anne M. Crowe, Lead Senior Utility Regulatory Auditor - Procurement Analysis
David Buttig, PE, Senior Professional Engineer - Procurement Analysis
Kwang Y. Choe, PhD, Economics Analyst - Procurement Analysis

/s/ David M. Sommerer 12/14/2023
Project Coordinator / Date

SUBJECT: Staff's Recommendation for Case No. GR-2023-0157, Spire Missouri, Inc.,
d/b/a Spire 2021-2022 Actual Cost Adjustment Filing

DATE: December 14, 2023

I. EXECUTIVE SUMMARY

On November 11, 2022, Spire Missouri, Inc., d/b/a Spire ("Company" or "Spire") filed its Actual Cost Adjustment (ACA) for the 2021-2022 ACA period. This filing revises the eastern ("Spire East") and western ("Spire West") Missouri operating division's ACA rates based upon the Company's calculation of the ACA balances.

The Procurement Analysis Department ("Staff") has reviewed the Company's ACA filing. Staff's analysis consisted of:

1. A review of the Company's billed revenues and actual natural gas costs for the period October 1, 2021, through September 30, 2022;
2. A reliability analysis for Spire, including a review of its estimate of customers' needs on a peak day (peak day requirements and the capacity levels to meet those requirements), peak day reserve margin and its rationale, and a review of gas supply plans for various weather conditions;
3. An examination of Spire's gas purchasing practices to determine the prudence of the Company's purchasing and operating decisions; and
4. A hedging review to evaluate the reasonableness of Spire's hedging practices for this ACA period.

Based on its review, Staff proposes to reduce the Spire East ACA balance to reflect the stipulated adjustment from the 2019/2020 ACA Case No. GR-2021-0127. The following Table of Contents

Appendix A

**** Denotes Confidential Information ****

provides a guide to Staff's comments and recommendations contained in Sections I through VI of this Memorandum:

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STAFF'S TECHNICAL DISCUSSION AND ANALYSIS

II. BACKGROUND

Spire West's primary service areas are: Kansas City, St. Joseph and Joplin. For the 2021-2022 ACA period, the Spire West has an average of 501,346 residential customers, 33,750 commercial customers, 90 industrial customers, and 550 commercial and industrial transportation customers, for a total of 535,736 customers.

Spire West transports its gas supply over Panhandle Eastern Pipe Line, Southern Star Central Gas Pipeline, Tallgrass Interstate Gas Transmission, and Rockies Express Pipeline.

Spire East serves an average of 664,044 residential, commercial, and industrial customers, as well as 151 transportation customers in the St. Louis metropolitan area and surrounding counties.

Spire East transports its gas supply to its city-gate over contracts for capacity on Enable Mississippi River Transmission, MoGas Pipeline, Southern Star Central Gas Pipeline, Spire STL Pipeline. Spire upstream pipeline are capacity contracts are with Enable Gas Transmission, Rockies Express Pipeline, Natural Gas Pipeline Company, and Panhandle Eastern Pipe Line.

III. BILLED REVENUE AND ACTUAL GAS COSTS

Historically Spire had two separate Purchase Gas Adjustment ("PGA") clauses and two separate ACA cases, one for Spire East and one for Spire West. In Spire's general rate case GR-2021-0108, the Commission authorized Spire to combine its separate PGA tariffs into a single uniform PGA tariff with a single set of definitions and methodology while still maintaining separate PGA rates for each of its operating divisions. Beginning with this ACA filing, Spire now has one ACA case while still maintaining separate PGA/ACA rates for East and Spire West operating divisions. Also consistent with Spire's general rate case, maintaining separate Spire East

PGA/ACA rates for several classes of customer's was eliminated, resulting in one customer class for natural gas customers.

In Spire East's 2019/2020 ACA Case No. GR-2021-0127, Staff recommended a disallowance related to an affiliated asset management agreement. Spire and Staff reached an agreement to settle the issue for \$600,000. The Commission approved the Partial Stipulation and Agreement from the 2019/2020 ACA period on January 25, 2023. Due to the timing of this ACA filing¹, Spire did not have the ability to include the \$600,000 reduction to gas costs in its filed ACA balance. Staff proposes to reduce the ACA under-recovery balance by \$600,000 to reflect the stipulated adjustment from GR-2021-0127.

For each service area Staff reviewed the Spire's actual natural gas costs and billed revenue. Based on its testing, Staff proposes no further adjustments to the Spire East or Spire West ACA balances.

IV. RELIABILITY AND GAS SUPPLY ANALYSIS

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'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 2021-2022 ACA period related to reliability analysis and gas supply planning. Staff's other comments and recommendations are discussed in the rest of this section.

Reserve Margin

Spire Missouri submitted its revised resource plan for both its east and west service territories in 2020. Spire has been relying on these resource plans since that time for its demand forecasting. Staff and Spire have discussed Spire's plan, and Staff continue to monitor Spire's resource planning and demand forecasting.

Included in Spire's Resource plan is its calculated reserve margins. The reserve margins are calculated by subtracting the supply demand from the contracted supply capacity, and then dividing by the supply demand. Spire's eastern service territory has a reserve margin with a 95% confidence interval of ** [REDACTED] ** and its western service territory has a ** [REDACTED] ** reserve margin with a 95% confidence interval. Staff considers both of these reserve margins to be in the generally accepted range. Staff recommends that Spire continue to monitor its pipeline supply contracts and maintain an appropriate reserve margin for its service territories.

¹ November 11, 2022

V. HEDGING

One of the purposes of hedging is to reduce upward gas price volatility. Staff reviewed the Company's Risk Management Strategy, Gas Supply Risk Management Policy and its financial hedging transactions for the 2021-2022 ACA period. Part of the hedging strategy is that approximately ** [REDACTED] ** percent of normal winter purchases is expected to be hedged with financial instruments. The Company implemented its financial hedging transactions based on the risk management strategy. Staff also reviewed monthly hedged coverage for the winter period of November 2021 through March 2022. Spire used financial natural gas futures² and storage withdrawals for its hedge coverage. The financial hedges were placed between January 2021 and November 2021 for the winter heating season of November 2021 through March 2022 respectively. For Spire East, these resulted in about ** [REDACTED] ** percent hedged for winter purchases with financial instruments, ** [REDACTED] ** percent hedged overall with financial instruments and storage based on actual delivered volumes for the winter months, and ** [REDACTED] ** percent based on normal volumes for the winter months. For Spire West, these resulted in about ** [REDACTED] ** percent hedged for winter purchases with financial instruments, ** [REDACTED] ** percent hedged overall based on actual delivered volumes for the winter months, and ** [REDACTED] ** percent based on normal volumes for the winter months.

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

A. ** [REDACTED]

[REDACTED]

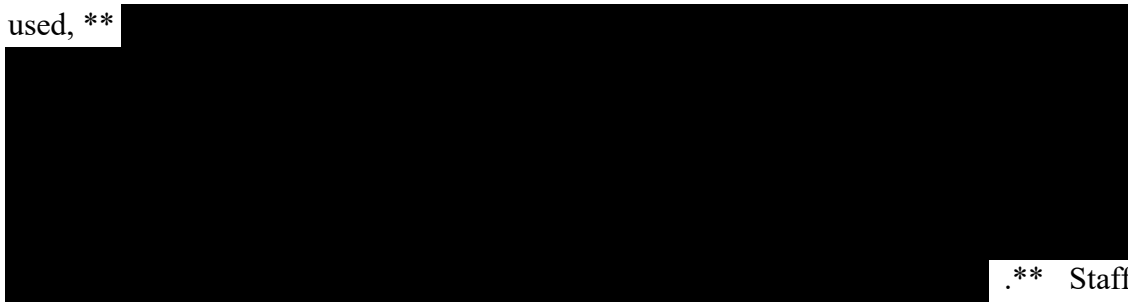
B. Evaluation of Hedge Program

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. The Company's hedging planning should be flexible enough to incorporate changing

² Spire indicated in recent updates that it also utilizes other financial instruments as well.

market circumstances. The 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 should 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 when the market prices 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.³ For example, the Company should continue to evaluate the performance of its hedge program in terms of the various types of financial instruments used, **



.** Staff recommends the Company document the rationale well for its hedging decisions.

Additionally, as Spire East incorporates the lower of First Of Month (FOM) Index or Daily Index pricing for swing supply as a type of insurance against daily price spikes within a month into the Company's Risk Management Strategy, the Company should continue to evaluate the costs/benefits of these instruments in conjunction with other parts of the Company's hedge program.

VI. RECOMMENDATIONS

1. For this 2021/2022 ACA period, Staff proposes to reduce the Spire East ACA balance to reflect the stipulated adjustment of \$ (600,000) from the 2019/2020 ACA Case No. GR-2021-0127. Staff recommends the preliminary Spire East and Spire West ACA balances shown in the tables below. However, because the ACA balance is cumulative⁴, Staff recommends the Commission hold this

³ The Company's Risk Management Strategy dated July 2015 was the most recent on available for the 2021-2022 ACA period. Staff notes that the Company has recently updated its risk management strategy, which considers a longer term hedging, among other changes. Staff will continue to monitor the change in the Company's hedging strategy.

⁴ The ending ACA balance from the prior period becomes the beginning ACA balance for the current period.

ACA case open pending resolution of Staff’s proposed Off-System Sales (“OSS”) adjustment in the prior Spire West 2020/2021 ACA Case No. GR-2022-0136.

An (over)-recovery is the amount owed to the customers by the Company and is shown in the table as a negative number (in parentheses). An under-recovery is an amount owed to the Company by the customers and is shown in the table as a positive number.

Both Spire East and Spire West have under-recovered ACA balances.

Spire East		
	Firm Sales	LP Sales
ACA Balance per Filing	\$ 114,600,511.20	\$ 638.84
2019/20 ACA Period Stipulated Adjustment	\$ (600,000.00)	\$ 0
Staff Recommended ACA Balance 9-30-22	\$ 114,000,511.20	\$ 638.84

Spire West	
	Firm Sales ACA
ACA Balance per Filing 9-30-22	\$ 163,554,244.66
Prior ACA Period OSS Adjustment (2020-21)	\$ (25,000,000)
Current Period Staff Adjustments	\$ 0
Staff Recommended ACA Balance 9-30-22	\$ 138,554,244.66

2. Staff recommends the Spire continue to monitor its pipeline supply contracts and maintain an appropriate reserve margin for its service territories. (IV. Reliability and Gas Supply Analysis)
3. Staff recommends Spire 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. (V. Hedging)
4. Staff recommends Spire continue to evaluate the performance of its hedge program in terms of the various types of financial instruments used, whether the existing program should be modified under the current market. (V. Hedging)
5. Staff recommends Spire document the rationale well for its hedging decisions with executions of financial transactions. (V. Hedging)
6. Staff recommends the Commission issue an order requiring Spire to respond to all of the recommendations herein within 30 days.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Spire Missouri, Inc., d/b/a)
Spire's Purchased Gas Adjustment Tariff)
Filing)
Case No. GR-2023-0157

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.

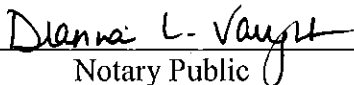


ANNE M. CROWE

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 12th day of December 2023.

DIANNA L. VAUGHT
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: July 18, 2027
Commission Number: 15207377



Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Spire Missouri, Inc., d/b/a)	<u>Case No. GR-2023-0157</u>
Spire's Purchased Gas Adjustment Tariff)	
Filing)	

AFFIDAVIT OF DAVID T. BUTTIG, PE

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

COMES NOW DAVID T. BUTTIG, 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.

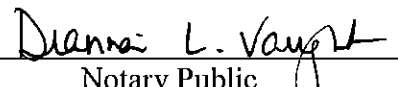


DAVID T. BUTTIG, PE

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 12th day of December 2023.

DIANNA L. VAUGHT Notary Public - Notary Seal State of Missouri Commissioned for Cole County My Commission Expires: July 18, 2027 Commission Number: 15207377



Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Spire Missouri, Inc., d/b/a)
Spire's Purchased Gas Adjustment Tariff)
Filing)
Case No. GR-2023-0157

AFFIDAVIT OF KWANG Y. CHOE, PhD

STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

COMES NOW KWANG Y. CHOE, PhD, and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Staff Recommendation, in Memorandum form*; and that the same is true and correct according to his best knowledge and belief.

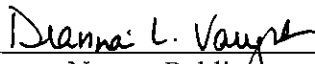
Further the Affiant sayeth not.


_____ **KWANG Y. CHOE, PhD**

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 12th day of December 2023.

DIANNA L. VAUGHT Notary Public - Notary Seal State of Missouri Commissioned for Cole County My Commission Expires: July 18, 2027 Commission Number: 15207377


_____ **Notary Public**