

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. GA-2024-0243, Spire Missouri, Inc., d/b/a Spire

FROM: Francisco Del Pozo, Economist, Tariff/Rate Design Department
Seoung Joun Won, PhD., Regulatory Compliance Manager, Financial Analysis
Department

/s/ Francisco Del Pozo / May 3, 2024
Economist, Tariff/Rate Design/Date

/s/ Seoung Joun Won / May 3, 2024
Regulatory Compliance Manager/Date

SUBJECT: Staff Recommendation for Approval of CCN Application

DATE: May 3, 2024

Overview

On March 8, 2024, Spire Missouri Inc. (“Spire”, “Applicant” or the “Company”), filed its *Application for Certificate of Convenience and Necessity for Cass County and Request for Waiver* (“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 and a variance from filing requirements of Commission Rule 20 CSR 4240-3.205(1)(A).

On March 20, 2024, the Commission issued its Order directing notice, setting deadline for intervention request and directing filing of Staff Recommendation. The application to intervene was set for no later than April 9, 2024.

Discussion

Spire’s application states that it seeks a CCN to extend its existing certificated area in Cass County to Section 32, Township 46 North, Range 32 West of Cass County (“Section 32”). A commercial

customer ** [REDACTED] ** (“the Customer”) within the requested section contacted Spire with a need for a distribution system extension to receive natural gas service in order to serve five additional Large General Service (“LGS”) customers (“the Project”).¹
** [REDACTED]

[REDACTED] . ** Also, Spire clarified that there are two potential residential customers that at the time of the Application have not approached Spire. Based on the Application, and Staff inquiries,² Spire’s proposed service territory does not overlap with any other gas company’s service territory. In addition, Staff is not aware of any other gas company’s investment/asset, or active customers, located in other immediate areas to the proposed expansion in the application.

Excess Capacity

As stated in the Application, Spire’s expansion will install 6,380 feet of 8-inch plastic main, 1,785 feet of 6-inch plastic main and 1,090 feet of 2-inch service line. Staff inquired about the minimum main size capacity cost used to estimate construction costs to serve additional customers.³ Spire clarified that the two potential residential customers are not included in any of the Company’s revenue or cost calculations Spire indicated that proposed assets are consistent with the minimum size required to extend service to serve five new customers/lots to build warehouse buildings and approximately 33% of actual size main capacity remains for additional customers. That size capacity margin is coherent with similar projects evaluated in previous Spire applications. Spire clarified that the total number of customers will be dependent upon final service request loads and delivery pressure, the estimated cost to install the minimum size main for the application is ** [REDACTED] **.

¹ Paragraph 7, March 8, 2024, Application for Certificate of Convenience and Necessity for Cass County and a Request for Waiver.

² Spire’s Response to Staff Data Request 008

³ Spire’s Response to Staff Data Request 011

Rate Base and Impact on Revenue Requirement

Staff submitted several data requests seeking information regarding the financial impact to ratepayers as well information on customer contributions or deposits that were required in order for Spire to extend service to the customer. According to Spire's economic analysis, the return for this project is greater than the overall return allowed in GR-2022-0179,⁴ and therefore, no customer contribution is required for this project.⁵ Staff used Spire's Cost Calculation, Revenue Calculation, and Income Statement to assess the impact of this CCN on Spire's revenue requirement. Based on Spire Missouri's estimates, annual rate revenue is expected to ** [REDACTED] [REDACTED] . **

Should the Commission approve this application, exact rate making determinations regarding the revenue requirement impact of this service area extension will be assessed in Spire's next general rate making proceeding.

Financial Ability

Staff investigated whether Spire Missouri 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, as an expansion of its existing certificated area. The total cost of the Project for Spire Missouri amounts to ** [REDACTED] **. ⁶ Staff thoroughly assessed the financial implications of this CCN on Spire Missouri's credit quality. As the Project outlined in this application will be financed using internal funds,⁷ there would be no alterations to Spire Missouri's financial ratios and capital structure resulting from this CCN.⁸

Considering Spire Missouri's financial capacity, the Applicant has the ability to provide the service. Currently, Staff has no concerns regarding Spire Missouri's financial risk profile. According to Standard & Poor's ("S&P"), Spire Missouri's capital expenditure averages

⁴ Spire's Response to Staff Data Request 007

⁵ Spire's Response to Staff Data Request 010 and Current Effective Tariff -Rules and Regulations, Sheet No. R-15.2

⁶ Staff Data Request, No. 0005.

⁷ Staff Data Request, No. 0006.

⁸ Staff Data Request, Nos. 0002 and 0003.

about \$360 million annually, with a credit facility availability of about \$475 million.⁹ Spire Missouri is a wholly-owned subsidiary of Spire, Inc. According to S&P, Spire, Inc. is expected to demonstrate 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.¹⁰ S&P and Moody's both rated Spire Missouri and Spire Inc. as investment grade. S&P assigned a rating of "A-" to both companies, while Moody's rated Spire Missouri as "Baa2" and Spire Inc. as "A1" respectively.¹¹ Given that the proposed total cost of the Project is less than 0.1% of Spire Missouri's average capital expenditure, it is reasonable to conclude that Spire Missouri has the financial capability to construct, install, own, 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 earlier discussion regarding customer need for service addresses the need of the project.
- 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.

⁹ RatingsDirect, S&P Global Ratings. Spire Missouri Inc., May 30, 2023.

¹⁰ RatingsDirect, S&P Global Ratings. Spire Inc., July 5, 2023.

¹¹ S&P Capital IQ Pro. Retrieved in March 14, 2024.

- Does the applicant have the financial ability to provide the service?
 - Yes. As stated above, no external funding is 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. Based on Spire Missouri's estimates, annual rate revenue is expected to ** [REDACTED] . **
- Does the service promote the public interest?
 - Yes, with the proposed recommendation. In addition, ** [REDACTED] ** contacted Spire with a need for a distribution system extension to receive natural gas service in order to serve five additional Large General Service customers¹² and two potential residential customers.¹³ It is Staff's position that granting the CCN with the proposed recommendation is reasonable.

Staff Recommendation

Staff reviewed the information provided by Spire concerning the requested service area, projected costs, projected rate revenue, and Spire's financial capability to construct, install, own, operate, maintain, and otherwise control and manage a natural gas distribution system to provide gas service for this CCN. Based on Staff's review of the Tartan Criteria in relation to this application, Staff recommends the Commission approve the Company's requested CCN. Staff also recommends that the Commission Order Spire to file an updated tariff sheet incorporating Section 32, Township 46 North, Range 32 West of Cass County in its tariff book.

¹² Paragraph 7, March 8, 2024, Application for Certificate of Convenience and Necessity for Cass County and a Request for Waiver.

¹³ Staff Data Request, No. 009.

**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-2024-0243

AFFIDAVIT OF FRANCISCO DEL POZO

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

COMES NOW FRANCISCO DEL POZO, and on his oath states 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.

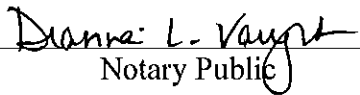
Further the Affiant sayeth not.



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 30th day of April 2024.



Notary Public

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

