

MEMORANDUM

TO: Missouri Public Service Commission
Official Case File, File No. GA-2024-0257
Spire Missouri, Inc., d/b/a Spire

FROM: Keith Majors, Utility Regulatory Audit Unit Supervisor, Auditing Department
Seoung Joun Won, PhD, Regulatory Compliance Manager, Financial Analysis Dept.
Financial and Business Analysis Division
Francisco Del Pozo, Economist - Tariff/Rate Design Department,
Industry Analysis Division

/s/ Francisco Del Pozo 06-06-24
Tariff/Rate Design Department / Date

SUBJECT: Staff Recommendation for Approval of CCN Application with Conditions

DATE: June 6, 2024

Overview

On March 22, 2024, Spire Missouri, Inc. (“Spire”, “Applicant” or the “Company”), filed its Application (“Application”) with the Missouri Public Service Commission (“Commission”) seeking permission and approval for 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 Newton 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 25, 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 15, 2024. 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 May 9, 2024.

On May 3, 2024, Staff filed a motion for extension of time to file its recommendation in order to receive and review a couple outstanding data requests. Staff requested the Commission allow Staff a 30-day extension to June 6, 2024, to file its recommendation. On May 3, 2024, the Commission issued its Order Granting Extension of Time to File Staff Recommendation by June 6, 2024.

Discussion

Spire's application states that it seeks a CCN to extend its existing certificated area in Newton County to Section 16 and Section 17, Township 26 North, Range 33 West of Newton County ("Sections 16 and 17").¹ Based on the Application,² since 2018 Spire has installed assets in the requested service area and is serving two customers in the residential rate class and four customers in the Small General Service rate class,³ including ** [REDACTED] ** ("Customer"). In 2024 the Customer contacted Spire with a need for natural gas service for two new commercial warehouses.⁴ In Addition, Spire was approached by six additional potential customers, three commercial and three residential, along the route who wanted to convert from propane.

In Staff Data Request No. 0009 Staff asked if Spire's proposed service territory overlapped with any other Natural Gas Company's service territory or existing investment/assets; Spire's response indicated that to its knowledge, the proposed service territory mentioned in the application does not overlap with any other natural gas utility's service territory or assets, and there are no other natural gas utility's assets around the proposed expansion areas in the application. Staff is not aware of any other natural gas company's investment/asset, or active customers, located in other immediate areas to the proposed expansion in the Application.

As stated in the Application, from 2018 to 2020, Spire installed 1,099 feet of 2-inch plastic main, 6,510 feet of 4-inch plastic main, 345 feet of 2-inch service, 110 feet of 1.25-inch service, and 522 feet of 0.5-inch service within Sections 16 and 17. In addition, Spire informed Staff that to serve the Customer's two new commercial warehouses, one of the new buildings can be served off of an existing main while the other will require a main extension that will consist of 40 feet of 2-inch service and 910 feet of 2-inch main.⁵ The Customer's request for service to the second building will only require a service line with an estimated total usage of 11,040 CCF annually.⁶

Spire clarified that the economic feasibility of its Application is based on all prior investment located within the section noted in the application⁷ and the proposed main extensions shown in the feasibility study represent the minimum cost to serve. Based on the Application, Staff estimates that if Spire revenue expectations materialize, the size capacity margin is comparable with similar projects evaluated in previous Spire applications.

¹ Paragraph 6, The Application.

² Paragraph 7, The Application.

³ Spire's Response to Staff Data Request No. 0014.

⁴ Paragraph 8, The Application.

⁵ Paragraph 8, The Application.

⁶ Spire's Response to Staff Data Request No. 0010.

⁷ Spire's Response to Staff Data Request No. 0013.

Rate Base and Impact on Revenue Requirement

Staff submitted several data requests seeking information regarding the economic and 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-2022-0179,⁸ and therefore, no customer contribution is required for this project.⁹ Staff inquired about the evidence to support the Customer's request to move to the Company's Large General Service (LGS) rate class,¹⁰ Spire informed Staff that the Customer requested a larger meter to facilitate increased usage and the Company assigned the rate class based on the installed equipment capacity. The Customer's initial installation was based on annual estimated usage of ** [REDACTED] **, and the larger meter installation was based on the annual estimated usage of ** [REDACTED] **. Spire clarified that all estimated usage was provided by the Customer and recorded on the Company's new business application according to equipment size and manufacturer demand and there was no additional cost for the meter upgrade to the Customer.¹¹ 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's estimates, annual rate revenue is expected to ** [REDACTED] **. ** [REDACTED] **. **

Spire clarified that these revenues are based on current tariffed rates, but the usage applied is merely an estimate, as Spire cannot fully estimate total monthly usage due to weather variations and potential zero usage during the summer months.¹²

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 Newton County, Missouri, as an expansion of its existing certificated area. This expansion pertains specifically to Sections 16 and 17, where Spire seeks a CCN to serve additional commercial buildings.¹³ The total cost of the Project for Spire Missouri amounts to ** [REDACTED] **. ¹⁴ Staff thoroughly assessed the financial implications of this CCN on Spire Missouri's credit quality. As the

⁸ Spire's Response to Staff Data Request No. 0008.

⁹ Spire's Response to Staff Data Request No. 0011 and Current Effective Tariff -Rules and Regulations, Sheet No. R-15.2.

¹⁰ Paragraph 10, The Application.

¹¹ Spire's Response to Staff Data Request No. 0015.

¹² Included in Spire's Application as Appendix 4 and Spire's Response to Staff Data Request No. 0014.

¹³ Paragraph 6, The Application.

¹⁴ Staff Data Request, No. 0005.

Project outlined in this application will be financed using internal funds,¹⁵ there would be no alterations to Spire Missouri's financial ratios and capital structure resulting from this CCN.¹⁶

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 about \$360 million annually, with a credit facility availability of about \$475 million.¹⁷ 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.¹⁸ S&P expects Spire, Inc.'s capital spending to be \$765 million in 2024.¹⁹ 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 as "Baa2" and Spire Inc. as "A1", respectively.²⁰ Given that the proposed total cost of the Project is less than 0.1% of Spire's average capital expenditure through 2023, 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.

Potential Risks and Consequences of Operating Outside of Spire's Certified Area

Per Commission Rule 20 CSR 4240-3.205 Filing Requirements for Gas Utility Applications for Certificates of Convenience and Necessity, regulated gas utilities are required to apply to the Commission requesting an approval of a certificate of convenience and necessity meeting the requirements set forth in the rule prior to constructing/purchasing assets and/or operating in previously uncertified area. As stated in the Application, Spire had no infrastructure and no customers in the mentioned area prior to 2018. Operating as a regulated utility in an uncertified area in Missouri poses several risks including, but not limited to:

- Legal consequences – operating in an uncertified area violates regulatory requirements. Utilities that operate in uncertified area could face legal consequences such as fines, penalties, or a legal action for operating without proper certification.
- Regulatory intervention – The Missouri Public Service Commission has the authority to enforce compliance, initiate investigations, and take necessary actions to protect public interest. The Commission may intervene to halt operations in uncertified areas.

¹⁵ Staff Data Request, No. 0006.

¹⁶ Staff Data Request Nos. 0002 and 0003.

¹⁷ RatingsDirect, S&P Global Ratings. Spire Missouri Inc., May 30, 2023.

¹⁸ RatingsDirect, S&P Global Ratings. Spire Inc., July 5, 2023.

¹⁹ RatingsDirect, S&P Global Ratings. Spire Inc. Outlook Revised To Negative From Stable On Weaker Financial Measures; Ratings Affirmed, December 21, 2023.

²⁰ S&P Capital IQ Pro. Retrieved in March 14, 2024.

- Reputation damage – Operating in uncertified areas can harm utility’s reputation. Customers may lose trust in the utility resulting in negative public perception that can be hard to overcome.
- Financial risks – Operating in uncertified area may lead to financial risks, as utilities may not have access to certain regulatory mechanisms, rate structures, or financial support available to certified utilities.

Regulated utilities in Missouri are required to certify their area of operation. This helps prevent duplication of infrastructure and promotes efficiency in the provision of utility services. It also allows for effective regulation and oversight of utilities to protect consumer interests and maintain reliable service delivery.

One of Staff’s primary concerns in this CCN is that Spire continues providing natural gas service beyond the boundaries of its Commission authorized footprint. Since the discovery of the error, Spire has conducted multiple internal meetings to identify how the situation occurred as well as to discuss and implement new processes and procedures that are intended to prevent reoccurrence. Spire also committed to perform periodic internal audits on the matter.²¹ Staff is persuaded that violating the authorized service area was not intentional and did not produce detrimental impacts to the public.

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 criterion 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. Section 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.

²¹ Spire’s Response to Staff Data Request No. 0003 in GA-2023-0374.

- Is the applicant's proposal economically feasible?
 - Yes. 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 as Spire's expected revenues materialize.
- 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.

Staff Recommendation

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

- Spire shall continue working on the internal audit report of its processes and procedures regarding compliance with Commission Rule 20 CSR 4240-3.205 Filing Requirements for Gas Utility Applications for Certificates of Convenience and Necessity to ensure all of its regulated area of operation has been certified by the Commission.
- Spire shall provide its internal audit report to the Commission prior to filing for its next general rate case.
- Spire shall file an updated tariff sheet incorporating Section 16 and Section 17, Township 26 North, Range 33 West of Newton County.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

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Missouri Inc. d/b/a Spire for a Certificate of) File No. GA-2024-0257
Convenience and Necessity to Construct,)
Install, Own, Operate Maintain, and)
Otherwise Control and Manage a Natural)
Gas Distribution System in Newton County)
Missouri as an Expansion of its Existing)
Certified Areas)

AFFIDAVIT OF KEITH MAJORS

STATE OF MISSOURI)
)
COUNTY OF Jackson) ss.

COMES NOW KEITH MAJORS 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.

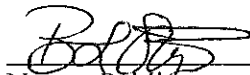
Further the Affiant sayeth not.



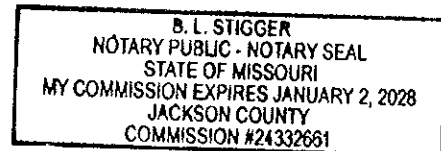
KEITH MAJORS

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 June 2024.



Notary Public



BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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AFFIDAVIT OF SEOUNG JOUN WON, PhD

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW SEOUNG JOUN WON, 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.




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 4th day of June 2024.





Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION
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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 5th day of June 2024.





Notary Public