

MEMORANDUM

TO: Missouri Public Service Commission Official Case File,
Case No. GA-2024-0361 Spire Missouri, Inc.

FROM: Francisco Del Pozo, Economist, Tariff/Rate Design Department, Industry
Analysis Division

Seoung Joun Won, PhD., Regulatory Compliance Manager, Financial Analysis
Department, Financial and Business Analysis Division

Ashley Sarver, Utility Regulatory Audit Supervisor, Auditing Department,
Financial and Business Analysis Division

/s/ Karen Lyons 10/24/2024
Utility Regulatory Manager / Date

SUBJECT: Staff Recommendation for Approval of CCN Application with Conditions

DATE: October 24, 2024

Overview

On June 6, 2024, Spire Missouri, Inc. (“Spire,” “Applicant,” or the “Company”), filed its Application for a Certificate of Convenience and Necessity (“CCN”) and Request for a Waiver (“Application”) with the Missouri Public Service Commission (“Commission”) for permission and approval of a CCN to construct, install, own, operate, maintain, and otherwise control and manage a natural gas distribution systems throughout the state of Missouri and for approval to acquire natural gas assets of Southern Star Central Gas Pipeline, Inc. (the “Application” or “Southern Star”). 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 60 days prior to filing a case and a variance from filing requirements of Commission Rule 20 CSR 4240-3.205(1)(A).

On June 21, 2024, the Commission issued its Order Directing Notice, Setting Deadline for Intervention Requests, and Directing Filing of Staff Recommendation. The application to intervene was set for no later than July 1, 2024. Missouri Joint Municipal Electric Commission d/b/a Missouri Electric Commission (“MEC”), Missouri School Boards’ Association (“MSBA”), and Southern Star Central Gas Pipeline, Inc. intervened. The Commission directed Staff to file its

**** Denotes Confidential Information ****

Appendix A

recommendation regarding Spire's *Application* or request an extension of time no later than July 16, 2024.

On July 15, 2024, Staff filed a *Motion for Extension of Time* to file its recommendation to conduct further discovery, analyze newly acquired data and information from Spire, and complete its investigation. On July 17, 2024, the Commission issued its *Order-Granting-Extension-of-Time-to-File Staff Recommendation* and granted the Staff until September 16, 2024, to file its recommendation. On July 18, Spire filed its *Supplement to the Application for Certificate of Convenience and Necessity and Approval of Purchase of Assets*, and a Request for a Waiver from Commission Rule 20 CSR 4240.4.017(1).

On September 13, 2024, Staff filed a *Motion for Extension of Time* to file its recommendation to conduct further discovery, analyze newly acquired data and information from Spire, and complete its investigation. On September 16, 2024, the Commission issued its *Order Granting Extension of Time to File Staff Recommendation* and granted the Staff until October 25, 2024, to file its recommendation.

Discussion

Spire's application states that it seeks a CCN to provide natural gas service to locations and customers that receive service from the domestic farm taps that are the subject of the Asset Purchase Agreement ("the APA") and this Application and is requesting the Commission approve the acquisition of the domestic farm taps. Southern Star directly services and meters 35 of the 453 domestic farm taps. The initial application references 453 farm taps involved in the transaction between Spire and Southern Star; however, after Staff reviewed the economic analysis and found six farm taps¹ were already transferred to another gas utility for metering and billing.

Spire filed a supplemental application for 447 farm taps to be transferred to Spire, along with all associated facilities. Of those 447 farm taps; 372 have active meters and are billed by Spire, 35

¹ Those farm taps are located in the certificated territory of other natural gas utility. Paragraph 4 of Supplemental Application.

have active meters read and billed by Southern Star, 40 do not have an active customer and are currently not billed. Based on Spire’s supplemental application and its initial Application, Southern Star will continue to transport the natural gas to all 447 domestic meters, and Spire’s existing firm transportation service agreement, TS26980, as may be amended to increase the maximum daily transportation quantity using available unsubscribed capacity and to add new delivery locations. Staff inquired about those potential modifications, and Spire asserted that its existing firm transportation service agreement, TS26980, ** [REDACTED]

[REDACTED] **

Per Staff’s inquiry about the basis to provide that service³, Spire provided a copy of a legacy agreement. Based on that document, Staff became aware that on May 16, 2002, the Commission ordered that Missouri Gas Energy (“MGE”) shall handle the maintenance and replacement of the service lines of certain Farm Tap Customers⁴. Spire began billing the 372 farm taps after a signed agreement between MGE and Williams Gas Pipeline on June 26, 2001. Spire’s assumption is that once that agreement was in place, MGE began booking those revenues.

MGE was acquired by Spire in 2013, and kept legacy MGE practices. Spire continued to read, bill and book the revenues associated with the 372 farm taps customers and has included those revenues in each of its general rate cases since 2013. Spire notes that although it reads and bills these 372 customers, they are still considered Southern Star farm tap customers. Spire states that once this CCN Docket is approved, Spire will begin the final transfer of all 447 farm taps from Southern Star to Spire Missouri, including the 35 new customers that Spire does not currently read and bill. Spire will then begin the transition in the field and schedule all necessary replacements and renewals⁵.

² Staff Data Request, No. 0013

³ Staff Data Request No. 0015 (b)

⁴ Order Approving Amended Application, Case No. GO-2002-48. [Docket Sheet - GO-2002-48 - Item 12 - EFIS \(mo.gov\)](#)

⁵ Staff Data Request No. 0016 (a)

Economic Feasibility

Based on the review of the Application and the Supplement to Spire’s Initial Application, as well as the update of the Economic Analysis, the economic model put together by Spire depicts a total estimated project cost of approximately ** [REDACTED] **. At closing, Spire will assume all responsibility for the operation and maintenance of these domestic farm taps⁷. The infrastructure updates will include the replacement of approximately 366 service lines/yard lines for which there are no records and moving 35 Southern Star maintained farm taps meters to the house according to Spire’s current standard⁸. The assumptions used in the economic model were the cost of replacing approximately 447 service lines/yard lines for the domestic farm taps and moving the associated meter adjacent to the closest structure. The estimated replacement cost was based on an average service length of 683 feet and a renewal method of direct bury for 209 services and inserting new material within the old material for 238 services⁹. This acquisition will not require external funds, however customers currently billed by Southern Star will experience an impact as Spire’s rates include riders and its standard Customer Charge¹⁰.

Staff analyzed the supplemented economic models and its assumptions¹¹. Spire asserts that “the Company will meet the Internal Rate of Return¹² (“IRR”) for this acquisition and by doing so, existing Spire Missouri customers are held harmless”¹³. Based in the detailed review of Spire’s cost assumptions¹⁴, Staff has some concerns about unknown potential capital cost and their effect on the total cost transferred to existing Spire’s Missouri customers¹⁵. The proposed transaction also targets a relatively limited number of end-users spread across a large geographic area. In total,

6 ** [REDACTED] **

⁷ Paragraph 6, The Application

⁸ Staff Data Request No. 0004

⁹ Staff Data Request No. 0014 (a)

¹⁰ To help customers during this transition, the Company plans to work with these new customers by mailing out letters that contain information about billing changes. Staff Data Request No. 0012

¹¹ Confidential Farm Tap Revenue Calc.xlsx, CONF SSC Farm Tap Customers Revenue Calc.xlsx, CONF Spire Response MO PSC Data Request No. 0001.1 Economics SSC Purchase.xlsm. MPSC 001.1

¹² In general, the internal rate of return (“IRR”) shows the estimated annual rate of return as a percentage and is used to evaluate investments. As a rule, higher IRR percentages are generally better when comparing potential investments.

¹³ Staff Data Request No. 0009

¹⁴ Spire’s cost assumptions only considers Mains, does not account for “Other” Capital Expenditures

¹⁵ Tab Cash Flows (“NPV”), cell N32. Excel file Economics SSC Purchase. Staff Data Request No. 001.1

Spire expects to replace or renew more than 57.82¹⁶ miles of natural gas distribution lines. The first concern is the viability of the project. The economic model assumes a Net Present Value of the balance of expected revenues compared to expenses equal to ** [REDACTED] ** through 10 years and ** [REDACTED] ** through 20 years. A larger contribution¹⁷ would have been a way to mitigate the economic risk however the APA includes a contribution roughly equal to ** [REDACTED] **, resulting in an NPV breakeven point 30 years in the future based upon Spire's assumptions. The second concern is related to the reliability of the expected cost due to the extensive geographical distribution¹⁸ of individual customers and the unknown condition of the infrastructure¹⁹. Finally, given all considerations described before, Staff considers that the cost of the project should be limited to those whom will benefit of the project. Therefore, Staff recommends that the Commission condition approval of this CCN upon ratepayers receiving service outside of the requested CCN area being held harmless from any expenses in excess of billed non-gas revenues.²⁰

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 throughout the state of Missouri and for approval to acquire natural gas assets of Southern Star Central Gas Pipeline, Inc.

Spire and Southern Star entered into an Asset Purchase Agreement to transfer ownership of 477 domestic farm taps in Missouri.²¹ Spire Missouri is seeking a CCN to provide natural gas service to locations and customers that receive service from the domestic farm taps that are subject of the

¹⁶ Based on 683 foot average service length for 447 fam taps. Staff Data Request No. 0014

¹⁷ The economic model considers a CIAC of approximately \$2,000,000. Staff Data Request No. 0014 (b)

¹⁸ Exhibit 4 (List of the sections, townships and ranges that contain all domestic farm Taps) and Exhibit 5 (plot map) of the Application.

¹⁹ Spire's estimated replacement-renewal cost was based on an average service length of 683 feet in an area of low density of expected customers. The assumptions used in the model were for the cost of replacing approximately 447 service lines/yard lines for the domestic farm taps and moving the associated meter adjacent to the closest structure. Staff Data Request No. 0014 (a)

²⁰ The calculation of billed non-gas revenues should also exclude infrastructure system replacement surcharge (ISRS) revenues.

²¹ Paragraph 6, The Application, and Paragraph 4, Supplement to the Application.

APA and this Application and is requesting the Commission approve the acquisition of the domestic farm taps. ** [REDACTED] **²²

A total estimated cost of approximately ** [REDACTED] **, with a Contributions in Aid of Construction (“CIAC”) of approximately ** [REDACTED] **.²³ ** [REDACTED]

[REDACTED]

[REDACTED] **²⁴

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 expenditures average about \$360 million annually, with a credit facility availability of about \$475 million.²⁵ 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.²⁶ S&P expects Spire, Inc.’s capital spending of \$765 million in fiscal 2024.²⁷ S&P and Moody’s both rated Spire Missouri and Spire Inc. as investment grade. S&P assigned a rating of “BBB+” to both companies, while Moody’s rated Spire Missouri as “A1” and Spire Inc. as “Baa2” respectively.²⁸ 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 when considering making a determination on whether a utility’s proposal meets the standard of being

²² Paragraph 14, The Application.

²³ Staff Data Request No. 0001.1.

²⁴ Paragraph 14, The Application.

²⁵ RatingsDirect, S&P Global Ratings. Spire Missouri Inc., May 30, 2023.

²⁶ RatingsDirect, S&P Global Ratings. Spire Inc., July 5, 2023.

²⁷ RatingsDirect, S&P Global Ratings. Spire Inc. Outlook Revised To Negative From Stable On Weaker Financial Measures; Ratings Affirmed, December 21, 2023.

²⁸ S&P Capital IQ Pro. Retrieved in October 1, 2024.

“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 the farm tap customers, this area has been historically served by Spire and 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 §386.020, RSMo, 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 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?
 - Based upon Spire’s economic model, the proposed transfer payment, and assumptions, Spire does not expect this project to break even until 30 years from the date of transference. Staff recommends that the Commission condition approval of this CCN upon ratepayers receiving service outside of the requested CCN area being held harmless from any expenses in excess of billed non-gas revenues.²⁹
- Does the service promote the public interest?
 - Yes, with the proposed conditions. Spire has been serving farm tap customers in the requested areas as legacy of MGE. It is Staff’s position that granting the CCN with conditions is reasonable.

²⁹ The calculation of billed non-gas revenues should also exclude infrastructure system replacement surcharge (ISRS) revenues.

Staff Recommendation

Based on the information provided above, despite the inability of the Company to identify the costs associated with the assets in the area, Staff recommends the Commission approve the Company's requested CCN with the following conditions:

- Spire shall file an updated tariff sheet incorporating the apportioned area.
- Spire shall track all revenues, investments, and expenses directly related to the Asset Purchase Agreement and any future additions or removal of the Farm Tap. These items must be recorded to a separate account or subaccounts, to the extent practical, separately by facility starting with the in-service date for the facility. Spire shall prepare, in support of the current and future general rate case, an analysis using reasonable allocations methods for those categories of expense where it is not practical to specifically track the transactions in the general ledger.
- Spire shall hold ratepayers receiving service outside of the requested CCN area harmless from any expenses in excess of billed non-gas revenues.³⁰

³⁰ The calculation of billed non-gas revenues should also exclude infrastructure system replacement surcharge (ISRS) revenues.

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)	Case No. GA-2024-0361
Convenience and Necessity to Construct,)	
Install, Own, Operate, Maintain, and Otherwise)	
Control and Manage Natural Gas Distribution)	
Systems Throughout the State of Missouri and)	
for Approval to Acquire Natural Gas Assets of)	
Southern Star Central Gas Pipeline, Inc.)	

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 22nd day of October 2024.

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) Case No. GA-2024-0361
Convenience and Necessity to Construct,)
Install, Own, Operate, Maintain, and Otherwise)
Control and Manage Natural Gas Distribution)
Systems Throughout the State of Missouri and)
for Approval to Acquire Natural Gas Assets of)
Southern Star Central Gas Pipeline, Inc.)

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 22nd day of October 2024.

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)	Case No. GA-2024-0361
Convenience and Necessity to Construct,)	
Install, Own, Operate, Maintain, and Otherwise)	
Control and Manage Natural Gas Distribution)	
Systems Throughout the State of Missouri and)	
for Approval to Acquire Natural Gas Assets of)	
Southern Star Central Gas Pipeline, Inc.)	

AFFIDAVIT OF ASHLEY SARVER

STATE OF MISSOURI)	
)	ss.
COUNTY OF COLE)	

COMES NOW ASHLEY SARVER 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.



ASHLEY SARVER

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 22nd day of October 2024.

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