MEMORANDUM

TO: Missouri Public Service Commission Official Case File,
Case No. GR-2023-0217, 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* 12/13/24
Project Coordinator / Date

SUBJECT: Staff's Recommendation for Case No. GR-2023-0217, Spire Missouri, Inc., d/b/a Spire 2022-2023 Actual Cost Adjustment Filing

DATE: December 13, 2024

I. EXECUTIVE SUMMARY

On November 1, 2023, Spire Missouri, Inc., d/b/a Spire ("Company" or "Spire") filed its Actual Cost Adjustment ("ACA") for the 2022-2023 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, 2022, through September 30, 2023;
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.

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

STAFF'S TECHNICAL DISCUSSION AND ANALYSIS

II. BACKGROUND

Spire West's primary service areas are: Kansas City, St. Joseph and Joplin. For the 2022-2023 ACA period, the Spire West had an average of 537,593 residential, commercial, and industrial customers, and 566 transportation customers, for a total of 538,159 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 664,698 residential, commercial, and industrial customers, as well as 147 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, and Spire STL Pipeline. Spire East holds upstream pipelines capacity contracts with Enable Gas Transmission, Rockies Express Pipeline, Natural Gas Pipeline Company, and Panhandle Eastern Pipe Line.

III. BILLED REVENUE AND ACTUAL GAS COSTS

<u>BILLED REVENUES</u>

For both the West and East operating divisions, Spire provided detailed revenue reports for the months of October and November 2022 which agreed with the Purchsed Gas Adjustment ("PGA") and ACA revenues reported in Spire's ACA filing. From these detailed revenue reports, Staff selected a customer sample for tariff compliance testing. Based on testing, Staff confirmed:

1. The rates charged to sampled natural gas consumers agreed with the Commission approved rates without exception;
2. Customer natural gas charges in rate change months were recalculated without exception;
3. Billing adjustments were included in the billed revenue reports and appeared to be made in a timely manner;
4. The majority of customer billing statements, based on a customer sample, were generated within a day of the meter read date.
5. The PGA/ACA charges included on customer billing statements were traced to the expected detailed revenue report month, for example, a customer billing statement dated on the last day of that month appeared in that same revenue month without exception.
6. The billed PGA/ACA charges as they appeared on the customer bill agree with the reported revenues with the exception of balancing fees for the Spire East large volume schools. According to Spire, incorrect coding in its accounting system caused these large volume school balancing fees charged to be included in margin revenues rather than PGA revenues. These missing revenues totaled $646.54 for this ACA period through September 2024 and will be corrected/rebilled per Company.

No adjustment to billed revenues has been proposed due to the immateriality of the Spire East large volume school balancing fees; however, Staff will review future ACA filings to ensure these missing balancing fees and all balancing fees going forward are included in the PGA revenues.

During its review, Staff noticed that a portion of the language related to Spire West's contract demand service has been removed from the tariffs. Staff recommends, to the extent Spire has customers receiving contract demand service, Spire revise its tariffs to include the removed language.

NATURAL GAS COSTS

Based on its gas costs testing, Staff recommends adjustments to gas costs for a Supplier Invoice, Lost and Unaccounted for Natural Gas, Line of Credit fees, and ACA Interest as discussed below.

Supplier Invoice

For the Spire West division, it appears Spire failed to include an April 2023 credit from a natural gas supplier. Therefore, Staff proposes to decrease gas costs by $42,000.

Staff's proposed adjustment will impact the ACA interest.

Lost and Unaccounted for Natural Gas ("UAF" or "L&U")

UAF natural gas is the amount of gas purchased/received into the LDC's system as compared to the amount of gas delivered/billed to its customers. The difference is divided by the purchases and is expressed as a percentage. These differences are normal and can be caused by various reasons such as pipeline leaks and damages, vented gas as part of maintenance, and timing differences between monthly purchases and billing cycle practices. The Company inherently recovers the cost of its UAF through the PGA/ACA process. The ACA compares the prudently incurred actual purchased gas costs to billed revenues and, absent Staff proposed adjustments, any Spire shortfall/under-recovery is recovered through the ACA rate. Conversely, any surplus/over-recovery is returned to customers through the ACA rate.

In this ACA period, Spire makes an adjustment for UAF. The Company describes its UAF adjustment as the annual true up of unaccounted for assumptions made during the year. Spire uses September 2023 billed sales volumes multiplied by the distribution margin (non-gas cost) rates to calculate its UAF estimate adjustment which has the impact of increasing the gas costs for this ACA period.[1] Staff's validation of gas costs indicated invoiced gas cost were included in the Company's ACA filing. It is Staff's opinion that the Company's estimated adjustment for UAF is

[1] Data Request No. 0004.4

unnecessary. Therefore, Staff proposes to disallow Spire's UAF adjustments in the amount of $626,871.50 for Spire West and $1,861,823.38 for Spire East.

Staff's proposed disallowance of the UAF adjustment will impact the ACA interest in the following ACA period.

Line of Credit Fees

Spire maintains a line of credit it uses to manage its operations which includes capital investment as well as paying for gas supply, transportation, storage, and hedging costs. Spire is including a portion of the fees associated with its line of credit in its ACA filing. The specific language allowing recovery of these fees through the ACA has been removed from the tariff. Without the specific tariff language allowing recovery of these fees through the ACA, Staff is of the opinion these costs should be considered in the context of Spire's general rate case rather than the ACA. Spire only included these line of credit fees for Spire East. Staff proposes to reduce gas costs for the Spire East line of credit fees in the amount of $704,599.77.

Staff's proposed line of credit fees reclassification will impact the ACA interest.

ACA Interest

Interest is either owed to Spire or to its sales customers based on the monthly under or over-recovery ACA account balances. Staff's proposed adjustments discussed above, affect the monthly the ACA interest calculation and decrease the amount of interest owed to Spire. Staff proposes to reduce gas costs by $57,238.19 for Spire East and by $1,004.80 for Spire West.

The following tables summarize Staff's proposed natural gas cost adjustments.

Spire East		
Issue		**Amount**
Lost and Unaccounted for Gas	$	(1,861,823.38)
Line of Credit Fees	$	(704,599.77)
ACA Interest	$	(57,238.19)
Total Staff Proposed Adjustments	$	(2,623,661.34)

Spire West		
Issue		**Amount**
Lost and Unaccounted for Gas	$	(626,871.50)
Supplier Invoice	$	(42,000.00)
ACA Interest	$	(1,004.80)
Total Staff Proposed Adjustments	$	(669,876.30)

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.

Reserve Margin

Spire Missouri submitted its June 2020 revised resource plan for both its Spire East and Spire West service territories in Data Request 0072. Spire has been relying on these resource plans since its initial submission for its demand forecasting. Staff and Spire have discussed Spire's plan, and Staff continues to monitor Spire's resource planning and demand forecasting. During Staff's review, Spire submitted its updated resource plan (October 2023). Even though the updated resource plan was not used for the planning of the 2022-2023 ACA period, the reserve margins calculated in it have been included in the following tables to show the change in reserve margins since the previous study.

**

[redacted]

**

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. Staff considers the calculated reserve margins to be in the generally accepted range.

Staff has no proposed financial adjustments for the 2022-2023 ACA period related to reliability analysis and gas supply planning. Staff recommends that Spire continue to monitor its pipeline supply contracts and maintain an appropriate reserve margin for its service territories.

V. HEDGING

One of the purposes of hedging is to reduce the impacts of upward gas price volatility to its customers. Staff reviewed the Company's Risk Management Strategy, Gas Supply Risk Management Policy and its financial hedging transactions for the 2022-2023 ACA period. Part of the hedging strategy is that approximately ** [redacted] ** of normal winter purchases are expected to be hedged with financial instruments. The Company implemented its financial hedging transactions based on its risk management strategy. Staff also reviewed monthly hedged coverage for the winter period of November 2022 through March 2023. Spire used financial natural gas futures, costless collars and storage withdrawals for its hedge coverage.[2] Costless collars are typrically designed to offer some price protection within a price ceiling and price floor. Such financial instruments inherently give some price protection at the ceiling price, while limiting the participation of price decreases in a lower-priced market. The financial hedges were placed between September 2021 and October 2022 for the winter heating season of November 2022 through March 2023 respectively. For Spire East, these resulted in about ** [redacted] ** hedged for winter purchases with financial instruments, ** [redacted] ** edged overall with financial instruments and storage based on actual delivered volumes for the winter months, and ** [redacted] ** based on normal volumes for the winter months. For Spire West, these resulted in about ** [redacted] ** edged for winter purchases with financial instruments, ** [redacted] ** hedged overall based on actual delivered volumes for the winter months, and ** [redacted] ** based on normal volumes for the winter months.

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

A. ** [redacted]

[redacted] **

[2] Staff notes that some of the financial instruments are not without additional market price risk.

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 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, ** [redacted] ** Staff recommends the Company document in detail the rationale for its hedging decisions.

[3] The Company's Risk Management Strategy dated July 2015 was the most recent on available for the 2022-2023 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.

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 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. Staff recommends the Spire East and Spire West ACA September 30, 2023, ACA balances shown in the table below.

   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.

September 30, 2023 Ending ACA Balances			
Spire East	**Company Filing**	**Staff Adjustments**	**Staff Recommended**
Firm Sales	$ 146,160,093.08	$ (2,623,661.34)	$ 143,536,431.74
LP Sales	$ 7,207.82	$ -	$ 7,207.82
Spire West			
Firm Sales	$ 126,336,249.35	$ (669,876.30)	$ 125,666,373.05

2. Staff recommends the Spire continue to monitor its pipeline supply contracts and mainatain 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)

5. 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)
6. Staff recommends Spire document in detail the rationale for its hedging decisions with executions of financial transactions. (V. Hedging)
7. 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 Purchased Gas Adjustment	)	Case No. GR-2023-0217

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

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 2024.

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

D Suzie Mankin

Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Spire Missouri, Inc.	)	
d/b/a Spire Purchased Gas Adjustment	)	Case No. GR-2023-0217

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

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 2024.

D. Suzie Mankin

Notary Public

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: April 04, 2025
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BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Spire Missouri, Inc. d/b/a Spire Purchased Gas Adjustment	))	Case No. GR-2023-0217

AFFIDAVIT OF KWANG Y. CHOE, PhD

STATE OF MISSOURI	)	
	)	ss.
COUNTY OF COLE	)	

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

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 9th day of December 2024.

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

D Suzie Mankin

Notary Public