Exhibit No.:	
Issue(s):	**PGA/ACA Case Filing; Affiliate Transactions Rule; Affiliate Transactions; Spire STL Pipeline**
Witness:	**Scott A. Weitzel**
Type of Exhibit:	**Direct Testimony**
Sponsoring Party:	**Spire Missouri, Inc.**
Case No.:	**GR-2021-0127**
Date Prepared:	**January 27, 2023**

SPIRE MISSOURI, INC.

GR-2021-0127

DIRECT TESTIMONY

OF

SCOTT A. WEITZEL

Denotes Confidential Information

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Spire Missouri, Inc. d/b/a Spire (East) Purchased Gas Adjustment (PGA) Tariff Filing	))	File No. GR-2021-0127

<u>VERIFICATION OF SCOTT A. WEITZEL</u>

STATE OF MISSOURI)
) ss:
CITY OF ST. LOUIS)

I, Scott A. Weitzel, of lawful age, being first duly sworn, state as follows:

1. My name is Scott A. Weitzel. I am the Vice President of Regulatory and Governmental Affairs for Spire Missouri, Inc. My business address is 700 Market St., St Louis, Missouri 63101.

2. My direct testimony on behalf of Spire Missouri, Inc. is attached to this verification.

3. I hereby swear and affirm that my answers to each question in the attached direct testimony are true and correct to the best of my knowledge, information, and belief.

Scott Weitzel (Jan 27, 2023 12:32 CST)

Scott A. Weitzel

Jan 27, 2023

Date

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I. INTRODUCTION

Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS FOR THE BENEFIT OF THE MISSOURI PUBLIC SERVICE COMMISSION ("COMMISSION")?

A. My name is Scott A. Weitzel, and my business address is 700 Market Street, St. Louis, MO 63101.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am the Vice President of Regulatory and Legislative Affairs for Spire Missouri, Inc. ("Spire Missouri" or "Company").

Q. HOW LONG HAVE YOU HELD THAT POSITION AND WHAT ARE YOUR RESPONSIBILITIES?

A. I have been in regulatory affairs since I joined Spire Missouri in August of 2016, and I was promoted to my current position in November of 2021. In this role, I am responsible for all regulatory affairs, legislation, government affairs, strategy, policy, external affairs, advocacy, energy efficiency, and rates functions for Spire Missouri. I have held previous roles for Spire Missouri as the Managing Director of Regulatory and Legislative Affairs, Director of Rates and Regulatory Affairs, and Manager of Tariffs and Rate Administration.

Q. WHERE DID YOU WORK BEFORE JOINING SPIRE MISSOURI?

A. Upon graduation from college, I was employed by CenterPoint Energy as a Gas Marketing Analyst where I handled billing, nominations, hedge settlement, and account management for commercial, industrial, and municipal natural gas customers. I then spent nine years working for Ameren Missouri in various roles related to its gas supply operations. This work included scheduling gas, peak day planning, capacity and storage planning, gas supply procurement, capacity releases, hedging, gas accounting, responding to data requests, purchased gas adjustment ("PGA") analysis, and reviewing competitors' tariffs and cases. I then went to work for Ameren Illinois in the area of business development where I focused on extending natural gas to communities that were not currently supplied with natural gas, along with acquiring gas utilities and municipal gas systems.

Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?

A. I graduated from the University of Missouri-Columbia in 2003 with a Bachelor of Science in Human Environmental Sciences, a major in Consumer Affairs, and a minor in Leadership and Public Service. I received my Master of Business Administration from Webster University in 2007.

Q. HAVE YOU TESTIFIED BEFORE THE COMMISSION BEFORE?

A. Yes. I am attaching a summary of my previous case involvement as **Schedule SAW-D-1.**

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to provide an overview of the Company's PGA rate revisions, Actual Cost Adjustment ("ACA") filing, and resulting customer benefits. I will also speak to Spire Missouri's decision to enter into a firm transportation agreement with Spire STL Pipeline, LLC ("Spire STL Pipeline" or "Pipeline"), the Commission's affiliate transaction rules, and the affiliate transaction rules' application to the transportation agreement with Spire STL Pipeline.

Q. WHAT WAS YOUR INVOLVEMENT WITH THE COMPANY'S PGA FILING?

A. I oversaw the completion of the revised tariff sheets, contributed to case preparation as needed, and approved the ultimate filing. Given my position in the Company, I also reviewed the purchased gas costs and actual cost adjustment calculations with Spire Missouri's purchasing team and other key personnel before they were submitted to the Commission.

Q. HOW HAVE YOU BEEN INVOLVED WITH SPIRE STL PIPELINE?

A. As the Vice President of Regulatory and Legislative Affairs, I have been an advisor for Spire Missouri regarding its transportation service from Spire STL Pipeline. This involved providing technical support to Spire Missouri during the FERC and ACA process, and internal guidance to Spire Missouri personnel on the application of state affiliate transaction rules to the contract with the Pipeline. After Spire STL Pipeline submitted its necessary applications to the U.S. Federal Energy Regulatory Commission ("FERC"), I have remained involved in subsequent intercompany discussions. These talks have focused on Spire STL Pipeline fulfilling its service obligations, including the Pipeline's commitment to cap natural gas transportation costs.

I also oversaw the Company's development of its ACA filing that included Spire STL Pipeline-related costs and engaged with the Staff of the Public Service Commission ("Staff") after filing. This process included responding to data requests, developing reports on the Company's affiliate transactions for Staff review, and participating in meetings as requested by Staff.

Q. IS ANYONE ELSE TESTIFYING ON SPIRE MISSOURI'S BEHALF?

A. Yes. The Company's Managing Director of Gas Supply, David Yonce is also providing testimony. His testimony discusses the third-party evaluations of Spire STL Pipeline, its role in the Company's supply portfolio, and the technical reasons why the agreement with Spire STL Pipeline was necessary and prudent for Spire Missouri's operations.

Q. IF THIS CASE IS ABOUT THE PGA/ACA, WHY ARE SPIRE MISSOURI WITNESSES TALKING ABOUT PIPELINES?

A. The PGA accounts for all costs related to natural gas purchasing, including transportation and other related expenses. Those amounts include costs attributable to the agreement with Spire STL Pipeline. These are the only PGA costs in dispute, and Spire Missouri is submitting testimony on this point to demonstrate why it is appropriate for the Commission to include transportation costs from Spire STL Pipeline in the PGA for recovery.

Q. IS THIS THE FIRST PGA FILING WHERE SPIRE STL PIPELINE TRANSPORTATION COSTS WERE PART OF THE PGA?

A. No, it is not. Spire Missouri filed their annual PGA for rates effective November 2019 in Case No. GR-2020-0121 on October 31, 2019. Spire STL pipeline costs were part of the PGA's Current Purchased Gas Adjustment ("CPGA") component but not part of the ACA reconciliation.

Q. HOW DID THE COMMISION TREAT THE PGA IN CASE NO. GR-2020-0121?

A. The Commission ordered this file to be closed on March 29,2021, with no adjustment to the ACA.

Q. DO ACA CASES NORMALLY REQUIRE TESTIMONY?

A. No. Until 2022, the last Commission ACA proceeding I know of where parties filed testimony was over a decade ago in Case No. GR-2009-0417. The standard ACA proceedings for gas companies in Missouri is to go through a discovery process with Staff on procurement, transportation, and hedging activities for natural gas supply. Based on that discovery, Staff writes a report of their findings. The Company and OPC then respond to Staff's report. If parties disagree, then a procedural schedule may be needed to facilitate settlement discussions.

Q. IS IT UNUSUAL FOR PARTIES TO INTERVENE IN AN ACA CASE?

A. Generally, yes. In other utilities' ACA cases filed shortly after Spire Missouri's case, such as Case Nos. GR-2021-0291 (Ameren Missouri), GR-2022-0122 (Summit Natural Gas), and GR-

2022-0127 & GR-2022-0128 (Liberty), there have been no third-party intervenors. Any case filed later is still awaiting a final Staff recommendation. Other than this proceeding (and the related Case No. GR-2021-0128), I cannot find any instance of multiple parties intervening in an ACA case over the past five years. The last time a third party intervened in an ACA case was the Missouri School Board's Association ("MSBA") in 2017 in Case No. GR-2014-0324. However, intervention was likely unnecessary because the Commission ultimately addressed MSBA's challenge in the then-ongoing rate case, Case No. GR-2017-0216, and closed the Case No. GR-2014-0324 file without a final decision.

The usual practice for an ACA proceeding is that natural gas utilities prepare their purchased gas cost calculations for Staff's audit. OPC can also perform its own analysis and scrutinize the purchased gas costs identified by Staff. Both agencies have auditors and engineers with the requisite skill to evaluate a Missouri natural gas company's ACA. Other stakeholders generally rely on the technical expertise of Staff to make an ACA recommendation, and so, while they may have much to contribute in a general base rate case, they do not normally get involved with ACA cases.

There is also little need for a non-governmental organization or other agency to intervene in ACA cases because of the scope of ratemaking proceedings. The reconciliation of the PGA through an ACA proceeding is a mechanical auditing practice that exists to ensure that a gas company applied the billing determinants set in a rate case and recorded natural gas prices correctly.

Q. DID YOU REVIEW ANYTHING BEFORE PREPARING THIS TESTIMONY?

A. In addition to Spire Missouri's tariff filings in this case, I read Staff's ACA Review Recommendation and Report, filed on May 27, 2022, in this case and familiarized myself with the relevant Spire STL Pipeline materials that have been provided to Staff during and prior to this case, as well as FERC filings and the Missouri affiliate transaction rules.

III. OVERVIEW OF SPIRE MISSOURI'S PGA AND ACA FILING

Q. WOULD YOU SUMMARIZE THE COMPANY'S ACA FILING?

A. The Company submitted its tariff revisions to adjust its PGAs for the Spire Missouri East and West service territories on October 30, 2020. The tariff changes cover the purchased gas costs within the 2019-2020 ACA review period.

Based on its review of the ACA factors and adjusted cost of gas, Spire Missouri's tariff revisions recommend that the Spire Missouri East PGA rate for residential, small general service, large general service, large volume, and other firm service be reduced from $0.41274 per therm to $0.37193 per therm as of the conclusion of the 2019-2020 ACA review period. The PGA rate for interruptible sales customers in Spire Missouri East should also decrease from $0.2980 per therm to $0.27514 per therm. While these rate adjustments are subject to change because of the tariff filings for ACA review periods after the 2019-2020 filing, this proceeding nonetheless still represents reduced PGA rates for customers.

Spire Missouri also calculated that the Company's western PGA rate for all customers should not change in this case because the increasing CPGA component of the 2019-2020 ACA period and decreasing ACA factors in the PGA negate any overall rate change.

Compared to Spire Missouri's PGA rate as of the date the Company initiated this proceeding, the ACA factor change for the 2019-2020 ACA review period would lower the average monthly bill for Spire Missouri's eastern customers by about $2.74 per month. Spire Missouri's western customer bills do not change under the Company's calculations. I am including the Company's proposed tariff revisions as **Schedule SAW-D-2**.

Q. WHY DID SPIRE MISSOURI INITIATE THIS CASE?

A. Spire Missouri provides natural gas to Missourians as a "gas corporation" and a "public utility" as understood by the Commission. As part of that service, Spire Missouri employs two PGAs, one for Spire Missouri West and another for the Spire Missouri East service area, to ensure that there is no over- or under-recovery of costs incurred to purchase the natural gas necessary to serve customers over a twelve-month period. The ACA provision of the PGA clause accomplishes this by crediting or charging customers of Spire Missouri, depending on whether the PGA over- or under-collects costs, based on a rate equal to the currently effective prime lending rate minus 2%. (Tariff Sheet 11.3).

Spire Missouri must address any over- or under-recovery in the PGA by initiating a case every year. These cases are meant to adjust the applicable PGA rate to account for each twelve-month billing period ending September 30th of each year. (Tariff Sheets 11 & 11.3). The PGA is meant to calculate a future gas portfolio and prices, while the ACA is meant to true-up the previous year collection activity (over/under recovery). Restated, the PGA rate may increase because purchased gas costs were higher than expected, or funds may be credited back to customers if the PGA over recovered compared to actual costs. This process is commonly referred to as an ACA case because the PGA is reset based on the CPGA and ACA factors included in Spire Missouri's tariff.

Q. CAN YOU EXPLAIN THE RELATIONSHIP BETWEEN THOSE FACTORS AND THE PGA?

A. A PGA is the sum of the CPGA and ACA factors. The CPGA factor reflects the estimated cost of purchased natural gas services needed to provide adequate service, including gas supply, transportation service contracts, storage services, demand charges, and other ancillary charges.

The ACA factor is an annual reconciliation of the actual cost of purchased gas and pipeline services as shown in Spire Missouri's books and records, adjusted for any off-system sales of natural gas.

Q. WHAT PORTION OF THE CUSTOMER BILL IS COMPRISED OF THE PGA?

A. Approximately half of a customer's bill is comprised of gas costs or the PGA. Specifically, for the Spire Missouri East service territory, gas costs comprise approximately 39% of the total customer bill for this PGA. The other half of the bill is made up of a customer charge and distribution charge. These charges are the costs to provide service to our customers through Spire-owned distribution system and piping.

Q. DOES THE COMPANY PROFIT FROM THE PGA COMPONENT OF THE BILL?

A. No. PGA costs including interstate pipeline contracts, leased storage fields, hedges, and physical supply contracts are passed through to our customers with no mark-up, earnings, or profit to Spire.

Q. WHAT IS THE CURRENT STATUS OF SPIRE MISSOURI'S REQUESTED CHANGES TO THE PGA?

A. The Commission approved Spire Missouri's proposed PGA rate adjustments, subject to a refund, pending Staff and other parties' review, on November 12, 2020. The Commission thereafter made the proposed revisions for the Spire Missouri West PGA final as of March 4, 2022, because no party objected to the Company's calculations. The Commission case file for the Spire Missouri West rate is Case No. GR-2021-0128. The PGA rate for the Spire Missouri East remains effective, subject to refund, depending on the resolution of this case.

IV. <u>STAFF AND CONSULTANT REPORT ON STL PIPELINE</u>

Q. HAS STAFF COMPLETED ITS REVIEW OF SPIRE MISSOURI EAST'S PGA?

A. Yes. Staff submitted its ACA Review Recommendation and Report ("Staff's Report") on May 27, 2022. Because of the large shift in pipeline capacity within the supply portfolio at issue in this case, Staff retained Schumaker & Company ("Schumaker") to help review Spire Missouri's PGA filings. Schumaker produced a report that was filed alongside Staff's ACA Review Recommendation.

Both Staff and Schumaker's reports agree that Spire Missouri's decision to enter into a firm transportation agreement with Spire STL Pipeline was prudent and complied with the Commission's affiliate transaction rules. Staff's ACA Review Recommendation and Report also details Staff's analysis of the Company's other purchased gas activities over the ACA period and other aspects of the Company's gas supply planning.

Q. ARE THERE ANY OTHER DISPUTED ISSUES IN THIS ACA CASE?

A. No. On January 25, 2023, the MPSC approved a partial stipulation to resolve a dispute between Staff and the Company regarding the appropriate index on which to price an AMA contract. That resolution makes the prudence of the Spire STL Pipeline contract the primary focus of this ACA.

Q. DO YOU AGREE WITH STAFF'S FINDINGS REGARDING STL PIPELINE?

A. I agree with Staff's overall conclusion that the decision to enter into the capacity agreement with Spire STL Pipeline was prudent. On Page 5 of its Report, filed on May 27, 2022, Staff, highlighting benefits of the agreement, states:

> As a result of an extensive review of the decision of Spire Missouri to contract for capacity with Spire STL Pipeline**, S**taff found that the key customer benefit from the agreement was Spire Missouri's decision to cap the transportation rate of 25 cents per MMBTU over the 20-year term of the agreement....The protective nature of the cap and its corresponding benefits for Spire Missouri's customers are critical to accepting the prudence of this agreement.... This cap exists in an environment of possible inflationary pressures, and ongoing interstate pipeline modernization programs for non-affiliated pipelines.

Non-price benefits of the agreement include provision of needed access to the Marcellus Basin, and improved operating pressures into the North and West parts of Spire Missouri's distribution system. Another possible ongoing benefit is access to a relatively liquid (actively traded) gas supply pricing point South of Chicago, Illinois.

Q. DO YOU AGREE WITH STAFF'S CONSULTANT SCHUMAKER & COMPANY'S FINDINGS REGARDING STL PIPELINE AND WHAT WERE THOSE FINDINGS?

A. Yes, I also agree with the Schumaker & Company report. In the summary of its findings on Page 10 and 11, Schumaker & Company state that:

- Spire Inc.'s decision making surrounding the Spire STL Pipeline, including the decision to build the pipeline, was reasonable and consequently prudent based on our review of company documentation.

- The decision by Spire Inc. to construct the Spire STL pipeline was rendered after a long review process which started in 2011 and culminated on January 26, 2017 when Spire STL Pipeline LLC filed its application for a 7(c) Certificate at FERC. (Page 10)
- Spire STL pipeline helped improve some operational issues within the distribution system.
- Reconfiguring Spire Missouri East's supply portfolio has yielded financial and non-financial benefits for the customers of Spire Missouri East.
- Missouri ratepayers have been shielded from the cost overruns by a precedent agreement that was negotiated at the start of the project.
- A favorable transportation rate was negotiated between Spire Missouri East and Spire STL pipeline.
- Spire Inc. is in general compliance with the Missouri Affiliate Rules with respect to the STL Pipeline.

- Spire STL Pipline LLC is structured similar to organizations of other electric and gas utilities.

Q. TO GET MORE SPECIFIC, PAGE FIVE OF THE MEMORANDUM INCLUDED WITH STAFF'S REPORT STATES THAT, WHEN DISCUSSING THE CAPACITY ARRANGEMENT WITH SPIRE STL PIPELINE, "STAFF FOUND THAT THE KEY CUSTOMER BENEFIT FROM THE AGREEMENT WAS SPIRE MISSOURI'S DECISION TO CAP THE TRANSPORTATION RATE OF 25 CENTS PER MMBTU OVER THE 20-YEAR TERM OF THE AGREEMENT." DO YOU AGREE WITH THIS STATEMENT?

A. Yes. Engaging with Spire STL Pipeline presents many benefits for Spire Missouri's customers, but perhaps the most apparent is that Spire Missouri negotiated a rate cap far below FERC-approved rates. Spire Missouri secured a discounted daily reservation rate of $0.23 per dekatherm ("Dth") with a daily adjustment of no more than $0.02/Dth, amounting to a $0.25/Dth cap. Spire STL Pipeline's current FERC-approved transportation rate is $0.357/Dth. This difference in cost means that the Company, and consequentially customers, are paying far less for capacity than if the Company contracted with Spire STL Pipeline like any other shipper. In addition, Spire STL Pipeline cannot assess commodity charges other than the ACA surcharge, and the transportation agreement sets the fuel retention rate to 0.25%, adjusted annually, by incorporating Spire STL Pipeline's FERC-approved tariff.

Q. STAFF'S MEMORANDUM CONTINUES ON PAGE FIVE, "AS A KEY ASPECT OF THE SPIRE STL PIPELINE AGREEMENT, THE RATE CAP HAD THE TANGIBLE BENEFIT OF HOLDING SPIRE STL PIPELINE ACCOUNTABLE FOR NEARLY ALL

COST OVER-RUNS RELATED TO THE CONSTRUCTION PROJECT." IS THIS PORTION OF STAFF'S MEMORANDUM ACCURATE?

A. Yes. Spire Missouri's transportation costs have not increased even as Spire STL Pipeline's construction costs exceeded earlier expectations. Again, this is because of the rate cap included in the contract between the Company and the Pipeline. Spire STL Pipeline originally estimated that the Pipeline would require \$220 million to construct, but after cost overruns relating to historic flooding, has actually spent close to \$300 million construct the project.

Q. HAS ANYONE ELSE VERIFIED STAFF'S EVALUATION OF THE RATE CAP?

A. Yes. FERC reviewed Staff's analysis in its Order on Remand and Reissuing Certificates in late December 2022 as part of its own evaluation of the present and future market need for the Pipeline. For reference, this is the Order that most recently granted the Pipeline a permanent certificate of public convenience and necessity ("CCN") to operate. FERC was able to substantiate the findings in Staff's ACA Review Recommendation and Report. It then used those findings to ultimately conclude that the Pipeline's benefits outweigh any potentially negative outcomes. I am including FERC's Order with my testimony as **Schedule SAW-D-3**.

Q. WHAT DOES FERC'S ORDER ON REMAND AND REISSUING CERTIFICATES SAY ABOUT STAFF'S REPORT?

A. On pages 19 through 20, the Order notes that Missouri rate payers were shielded from cost overruns of the Spire STL Pipeline due to the terms of the Precedent Agreement. "The Missouri PSC staff's report supports our conclusion, based on the record, that the construction and operation of the Spire STL Pipeline has not imposed excessive costs on Spire Missouri and its captive ratepayers."

Q. THE MEMORANDUM INCLUDED WITH STAFF'S REPORT ALSO STATES ON PAGE FOUR THAT, "DESPITE THE FACT THAT THERE WAS SOME RISK OF THE APPELLATE COURTS OVERTURNING THE FERC AUTHORIZATION ISSUED IN AUGUST 2018, SPIRE STL PIPELINE, AT ITS OWN RISK, DECIDED TO PROCEED WITH CONSTRUCTION OF THE LINE ONCE THE AUTHORIZATION WAS ISSUED." DO YOU AGREE WITH THIS STATEMENT?

A. I don't agree that Spire STL Pipeline somehow took an undue risk when it began construction after FERC approved its CCN. The CCN itself required the Pipeline to construct the project within a defined time period. Moreover, the Precedent Agreement between Spire STL Pipeline and Spire Missouri required the utility started to begin to take service once the Pipeline was operational. This is a typical, industry-standard term. There is always some amount of "risk" that a regulatory approval will later be challenged. I would note that EDF is largely responsible for creating this uncertainty, which it now argues should have further delayed the Pipeline and its benefits for Missouri customers.

On the other hand, I do agree with Staff's statement to the extent that Spire STL Pipeline took action "at its own risk." Spire Missouri's customers will not be on the hook for the additional costs that EDF caused by challenging the Pipeline's CCN. The Company has established this security for customers through negotiations with Spire STL Pipeline and by following its internal review and due diligence process, including affiliate transaction rules.

V. THE COMMISSION'S AFFILIATE TRANSACTIONS RULES AND SPIRE STL PIPELINE

Q. WHAT INTERNAL REVIEW PROCESSES ARE TYPICALLY INVOLVED WHEN CONSIDERING AN AFFILIATE TRANSACTION?

A. In addition to the supply adequacy and cost-benefit analyses that our purchasing team performs for every transaction, Spire Missouri subjects potential affiliate transactions to additional scrutiny under its Cost Allocation Manual ("CAM"), the Gas Supply and Transportation Standards of Conduct ("SOC"), and the Commission's affiliate transaction rules.

Q. CAN YOU ELABORATE ON THAT "ADDITIONAL SCRUTINTY"?

A. Sure. Spire Missouri has historically evaluated potential affiliate transactions using its SOC, which is part of the Company's CAM. The Company established the current rendition of its CAM and SOC in 2013 as the result of a stipulation and agreement filed on July 16, 2013, in Case No. GC-2011-0098.

The Company is now undergoing a revision and approval process for a new CAM before the Commission in Case No. GO-2022-0327. The Company started this process after the Commission established a workshop docket to revise Spire Missouri's CAM (Case No. GW-2018-0367). Though the Commission has not yet approved the recent changes to the CAM, the Company continues to use the CAM and SOC to evaluate potential affiliate transactions.

Q. WHAT IS INCLUDED IN THE COMPANY'S CAM?

A. The CAM establishes the procedures for Spire Missouri to comply with the Commission's affiliate transaction rules. It includes a cost calculation methodology to develop pricing benchmarks for goods and services provided by affiliates, guidelines for allocating costs between Spire Missouri and its affiliates, recordkeeping and reporting requirements for affiliate transactions, and training procedures for Company personnel to comply with the Commission's affiliate transaction rules.

I am including with my testimony Spire Missouri's currently effective CAM as **Schedule SAW-D-4** and the pending version as **Schedule SAW-D-5**.

Q. DO THE CAM PROCEDURES DIFFER AMONG THE COMPANY'S AFFILIATES?

A. No. The Company treats all affiliate costs, including those from Spire STL Pipeline, the same. All transactions are subject to the CAM's cost allocation and pricing terms. Company personnel are also trained and instructed to only engage with the Pipeline in accordance with the Commission's rules.

Q. DID SPIRE MISSOURI ANALYZE THE TRANSPORTATION AGREEMENT WITH SPIRE STL PIPELINE USING ITS CAM?

A. Yes. Specifically, Spire Missouri reviewed the terms of the agreement with Spire STL Pipeline using the SOC, which is part of the CAM. While stakeholders helped develop the revised CAM, Spire Missouri continued to subject potential affiliate transactions to its previously developed CAM from 2013. Both versions of the CAM codify recordkeeping and cost methodology protocols to maintain regulatory compliance.

Q. WHY DID THE COMPANY DEVELOP A CAM AS OPPOSED TO ANY OTHER SAFEGUARD?

A. Spire Missouri developed a CAM and an associated SOC because of the Commission's regulatory requirements for affiliate transactions. The Commission's rules on affiliate transactions refer repeatedly to the use of CAMs to guide regulatory compliance.

Q. WHAT IS YOUR UNDERSTANDING OF THE COMMISSION'S REGULATION OF AFFILIATE TRANSACTIONS?

A. I have developed an understanding of the affiliate transaction rules through my regulatory compliance experience. From that perspective, there are three Commission affiliate transaction rules that apply to Spire Missouri: the main rule (20 CSR 4240-40.015); the marketing affiliate rule (20 CSR 4240-40.016); and the heating, ventilation, and air conditioning services ("HVAC") affiliate rule (20 CSR 4240-40.017). The marketing affiliate rule prescribes how regulated utilities may market unregulated affiliate services and the HVAC rule has certain specific restrictions for when HVAC services are at issue.

What I referred to as the "main rule" is what I believe most people usually think about when discussing the "affiliate transaction rule." It establishes the standards for natural gas utilities to engage in affiliate transactions. The purpose of the main rule, as I read it, is to "prevent regulated utilities from subsidizing their non-regulated operations" and "provide the public the assurance that their rates are not adversely impacted by the utilities' nonregulated activities." The main rule is drafted to achieve those goals by setting evidentiary standards for utilities to verify their cost calculations.

Q. WHAT DO YOU MEAN BY "COST CALCULATION"?

A. The main rule requires the use of fair market price and fully distributed cost as benchmarks to evaluate affiliate transactions. The Company's CAM similarly states that all goods and services provided *to* affiliates shall be charged at the greater of the fair market price or fully distributed cost, whereas all goods and services provided *by* affiliates for Spire Missouri shall be priced at the lesser of fair market price or fully distributed cost.

I note that the main rule does not separately define "fair market price," but we can think of it as how prices are traditionally set by natural market principles like supply and demand. The easiest way to determine the fair market price for a good or service is to investigate what people are actually willing to pay for that good or service in an arm's length transaction. A request for proposal ("RFP") or an open auction usually accomplishes that.

The main rule does define "fully distributed cost," though. The main rule states that fully distributed cost is:

> [A] methodology that examines all costs of an enterprise in relation to all the goods and services that are produced. FDC [fully distributed cost] requires recognition of all costs incurred directly or indirectly used to produce a good or service. Costs are assigned either through a direct or allocated approach. Costs that cannot be directly assigned or indirectly allocated (e.g., general and administrative) must also be included in the FDC calculation through a general allocation.

From my experience, this language means that fully distributed cost considers all costs, including labor, administrative, overheads, and related issues. The fully distributed cost is what it would cost the regulated utility to perform the same function itself or build the same project itself. The Company generally applies this fully distributed cost methodology when dealing with affiliate transactions that do not have readily comparable competitors or other options.

Q. DID SPIRE MISSOURI USE AN RFP WHEN IT ENTERED INTO THE TRANSPORTATION CONTRACT WITH SPIRE STL PIPELINE?

A. Yes. In this case, an RFP helps demonstrate the fair market price for Spire STL Pipeline's services. Spire Missouri performed an RFP to solicit additional capacity and contracted with Spire STL Pipeline through the latter's open season offering in August 2016.

Q. HOW EXACTLY DID THE COMPANY DEVELOP THE RFP?

A. Spire Missouri had been considering options to diversify its gas supply portfolio since at least 2010 to improve reliability, meet peak demand as the St. Louis metropolitan area continues to expand westward, and capitalize on shifting natural gas prices in response to growing supply. Natural gas supplies increased exponentially nationwide due to production increases in the

Marcellus and Utica Shale regions from 2010 to 2015. The Company was, at the time, heavily dependent on MRT's system (sourcing gas from the Gulf and Midcontinent) and liquid propane injections to supply the St. Louis region. To mitigate that heavy dependence, Spire Missouri considered establishing a new lateral connection to the Rocky Mountain Express Pipeline ("REX") in 2011 and had discussions with MRT to see what possibilities existed to access developing new supplies of natural gas from the Appalachian Basin. Unfortunately, none of those conversations produced a new supply agreement.

After the REX lateral connection plans fell through, the Company formed a committee of key personnel in 2013 called "Project Gas." Spire Missouri commissioned Project Gas to evaluate the market trends for natural gas and prepare future gas supply recommendations. Project Gas looked at macro and micro market factors, environmental concerns, technological advancements in hydraulic fracturing, and pipeline systems across the United States. Its efforts turned towards considering how best to access gas supplies from the Marcellus and Utica basins, and it later retained IHS Consulting Services ("IHS") to assist with its review. An October 2014 presentation by Project Gas to Spire, Inc. and Spire Missouri's leadership noted the opportunity of using a joint venture with a pipeline operator, and a review on March 5, 2015, covered the limitations on Spire Missouri's supply portfolio. The March 2015 review identified four key weaknesses to meeting future demand:

- A dependence on MRT for up to 80% of Spire Missouri East's gas and no-notice storage;
- Supply resources being vulnerable to earthquakes along the New Madrid Seismic Zone because of a lack of pipeline diversity;
- Limited availability of new capacity at Spire Missouri's city-gates relative to peak demand; and

- Relatively little price competition among existing pipeline providers.

IHS and Project Gas' ultimate recommendation to the Spire Inc. Board of Directors at the March 2015 meeting was to seek firm pipeline capacity from the Marcellus basin and Rocky Mountains.

Q. DID SPIRE INC. ACCEPT THAT RECOMMENDATION?

A. Yes. With that recommendation in mind, Spire Inc. initiated an RFP process on Spire Missouri's behalf. It sent an RFP to three different pipeline companies for a new pipeline to connect Spire Missouri East to REX. The RFP specified that Spire Missouri was seeking ** [redacted] **

Please refer to **Schedule SAW-D-6** for a copy of the Spire Missouri's RFP notice that the Company distributed on July 24, 2015.

The three pipelines that responded to the RFP were ** [redacted] ** All three signed confidentiality agreements and submitted their proposals with estimated project costs, risk sharing relationships, and potential reservation rates for future capacity. After considering the proposals, the Company began earnest negotiations with ** [redacted] ** which had made the best proposal . However, it became apparent by early 2016 that ** [redacted] ** would not be able to construct the pipeline because it lacked the necessary financial capability at the time to move forward with the project.

With ** [redacted] ** being unable to proceed with the project, the Company and Project Gas explored what other options were available, including reengaging discussions with ** [redacted] **. Those discussions did not ultimately lead to an agreement, and the Company and Project Gas therefore turned towards the prospect of Spire Inc. authorizing the construction and operation of an independent pipeline.

On April 27, 2016, the Project Gas team sought approval from Spire Inc.'s Board of Directors to establish a Spire-affiliated pipeline with a separate and distinct organization. The Project Gas team provided a business case justification for the project with a sensitivity analysis of projected capital expenditures and the preliminary foundation shipper transportation rates for firm capacity.

Project Gas also reported on the results of several meetings with engineering, procurement and construction management and environmental firms designed to identify industry-leading consultants for the Pipeline. A regulatory and public affairs expert with 15 years of prior FERC experience was also identified as a consultant to support the Pipeline development efforts. Spire Inc. would eventually hire Russell English and Ronald Obee to serve as its Director of Pipeline Projects and Project Consultant, respectively. Mr. English had twenty years' experience managing all phases of pipeline construction and operation, and Mr. Obee had worked in the pipeline industry for over 30 years in various capacities.

Spire Inc.'s Board voted to proceed with the proposal after the April 2016 meeting. Spire STL Pipeline was organized one month later, and it held an open season for potential customers from August 1, 2016, through August 19, 2016. Spire Missouri engaged with Spire STL Pipeline during this open season to begin good faith negotiations for potential transportation capacity. Throughout this negotiation, Spire Missouri and Spire STL Pipeline were represented by completely separate business and legal teams, which conducted an arms-length negotiation. Spire STL Pipeline proposed to supply the Company 350,000 Dth/day of capacity as a foundation shipper for twenty years with a rate cap for committed capacity. The Company then verified its sensitivity analysis of projected capital expenditures using the Pipeline's proposal to ensure that the transportation agreement would not unreasonably raise rates or be detrimental to customer interests. After confirming that Spire STL Pipeline was the best overall option for the desired firm transportation capacity, and negotiating the rate cap and other terms, Spire Missouri executed a precedent agreement with Spire STL Pipeline. The Pipeline was later constructed and began operations in November 2019 after completing FERC's approval process.

Q. HOW EXACTLY DID THE COMPANY VERIFY THE RATE IMPACT OF SPIRE STL PIPELINE'S TERMS?

A. With the alternative supply portfolio analyses that the Company developed throughout its decision-making process, which I describe later in my testimony.

Q. WHAT ELSE DOES THE MAIN RULE CONTAIN BESIDES COST CALCULATION METHODOLOGIES?

A. Under the "Standards" subheading, the main rule states that, "a regulated gas corporation shall not provide a financial advantage to an affiliated entity." The main rule specifies that a natural gas utility provides a financial advantage to an affiliate when: (1) It pays an affiliate for goods or services at a price greater than the lesser of fair market price or fully distributed cost required to provide the goods or service itself; or (2) Provides information, goods, or services to an affiliate below the greater of fair market price or fully distributed cost.

Q. HOW WOULD YOU APPLY THOSE STANDARDS TO THE AGREEMENT WITH SPIRE STL PIPELINE?

A. I would use the first example for a financial advantage. In order to not be a financial advantage, Spire Missouri's contract with Spire STL Pipeline must be priced at the lesser of the fair market price for comparable transportation service or the fully distributed cost for the Company to build the pipeline itself. As Staff explains on page 7 of its ACA Review Recommendation and Report memorandum, "The Affiliated [sic] Transaction Rule requires Spire

Missouri, Inc. would purchase the service from Spire STL Pipeline at the lesser of FDC [fully distributed cost] or FMP [fair market price]."

Q. AND DO YOU BELIEVE THE COMPANY IS PAYING THE LESSER OF FULLY DISTRIBUTED COST OR FAIR MARKET PRICE FOR SPIRE STL PIPELINE'S SERVICES?

A. Yes. In addition to the RFP I mentioned earlier, we can look at the price for available pipeline services in the Spire Missouri East area to evaluate a fair market price. The table below shows the cost Spire Missouri currently pays the surrounding Panhandle Eastern Pipe Line Company, LP ("PEPL"), MoGas Pipeline, LLC ("MoGas"), Enable Gas Transmission, LLC ("EGT"), Southern Star Central Gas Pipeline, Inc. ("Southern Star"), and REX for transportation service to the St. Louis metropolitan area:

Pipeline	Transportation Rate (per Dth)
PEPL	$0.54
Southern Star	$0.50
MRT	$0.17-$0.28
MoGas	$0.12-$0.27
EGT	$0.244
REX	$0.605

These rates are indicative of an accepted range for a fair market price, and the contracted rate of $0.25/Dth with Spire STL Pipeline is well within that range. Considering that the listed prices do not include any commodity or fuel rates, of which Spire STL Pipeline has a very small fuel charge of 0.29% and a smaller $0.0015 commodity charge, the contracted $0.25/Dth rate is almost certainly lower than the fair market price for natural gas transportation services around Spire Missouri East.

Both the fair market price and fully distributed cost for Spire STL Pipeline's services can also be understood using FERC's cost-of-service ratemaking principles. FERC sets rates for interstate pipelines based on the pipeline's cost to provide service plus a reasonable return on its investment. This is similar to how the Commission sets rates for public utilities and serves as an approximation of the price that an open market would establish.

In this case, Spire STL Pipeline's tariff rate for interruptible transportation service, park and loan service, and firm transportation service is \$0.3570/Dth as of November 18, 2019. This is the maximum amount of cost that can be collected from customers, and conversely represents the fully distributed cost that another company could recover after building its own pipeline to provide the same capacity service. Compared to Spire STL Pipeline's tariff rate, the Company's negotiated rate of \$0.25/Dth is \$0.107/Dth lower than what FERC has authorized. The negotiated rate being lower than the tariff rate means that the Company is paying a price below what Spire STL Pipeline could charge other customers and that the price does not advantage Spire STL Pipeline relative to any competing interstate pipelines. Therefore, we can be assured that the \$0.25/Dth rate is lower than both the fair market price and fully distributed cost for capacity supply to serve Spire Missouri East.

Q. DOES ANYONE AGREE WITH YOU THAT A NEGOTIATED RATE BEING LOWER THAN A TARIFF RATE IS EVIDENCE OF A PRICE BEING LOWER THAN FAIR MARKET PRICE OR FULLY DISTRIBUTED COST?

A. Yes. Staff makes the same observation on page 7 of its memorandum from the ACA Review Recommendation and Report. In Staff's words, "[I]t is reasonable to assume that the FDC [fully distributed cost] rate for the Spire STL Pipeline would fall between the FERC maximum rate of 35.70 cents and the estimated Missouri route estimate of 52 cents per MMBtu. Based on

Staff's Analysis, under both an FDC and FMP [fair market price] assessment the actual Spire East rate of 25 cents per MMBtu is lower and therefore compliant with the costing standards of the Rule." By "the Rule," Staff is referring to the main affiliate transaction rule.

Q. DO YOU KNOW WHAT STAFF MEANS BY "ESTIMATED MISSOURI ROUTE" IN THE QUOTE YOU PROVIDED?

A. Yes. To prepare for this case, my team and I modeled the rate impact of Spire Missouri constructing and operating its own high-pressure pipeline to connect to REX following the same route as the Spire STL Pipeline. Our intent was to measure all of the costs that Spire Missouri would incur to construct a new pipeline facility in lieu of contracting with the Pipeline. Our model used the applicable Commission-ordered capital structure and ROE for Spire Missouri. These parameters came from the Commission's ordered rates in Case No. GR-2017-0216 and were effective when Spire STL Pipeline was built. With those considerations, we then accounted for the amount of funds Spire Missouri would need to build the hypothetical pipeline and the impact of the investment on the Company's revenue requirement.

The results show that taking capacity from Spire STL Pipeline is significantly less expensive than Spire Missouri building a separate pipeline itself. The $0.25/Dth rate cap with Spire STL Pipeline amounts to an annual cost to utility customers of around $32 million. In contrast, if the Company built its own pipeline and applied the same rate base treatment from Case No. GR-2017-0216, the resulting annual costs for customers is roughly $67 million with a transportation rate of $0.52 per one million British thermal units ("MMBtu"). Restated, and to reiterate, if Spire Missouri had forgone engaging with an affiliate and built its own pipeline asset, the likely rate impact would have more than doubled. I am including the Company's rate impact model with my testimony as **<u>Schedule SAW-D-7</u>**.

Q. BASED ON THE NEGOTIATED RATE BEING LOWER THAN THE TARIFF RATE, DO YOU BELIEVE THAT THE COMPANY IS SUBSIDIZING SPIRE STL PIPELINE'S OPERATIONS?

A. No. I do not believe that the main affiliate transaction rule would prevent any utility from contracting for a negotiated rate below the tariff-approved level, nor should the main rule prohibit any transaction that results in lower costs for Missouri customers. As I said previously, the Commission's written purpose for the rule is to "prevent regulated utilities from subsidizing their non-regulated operations." The contract with Spire STL Pipeline fits this purpose because the contract instead represents a situation where a non-regulated entity is, arguably, subsidizing a regulated utility by providing a service at a below-market cost and fully distributed cost.

Q. CAN YOU PROVIDE OTHER EVIDENCE TO SUPPORT YOUR CONCLUSION THAT THE COMPANY IS NOT SUBSIDIZING SPIRE STL PIPELINE?

A. When Spire STL Pipeline applied to FERC for authority to operate, it had no existing transportation customers. There were therefore no entities that could have been subsidizing the Pipeline. FERC recognized this fact on page 11 of its latest order reissuing Spire STL Pipeline's CCN.

Consider also that if the Company was subsidizing Spire STL Pipeline, we should expect Spire STL Pipeline's earnings to meet or exceed authorized levels. Instead, Spire STL Pipeline is earning less. While FERC has authorized Spire STL Pipeline to earn a return on equity ("ROE") of 14%, Spire STL Pipeline's recent cost and revenue study for 2022 indicates that its earnings are far lower. The Pipeline's FERC filing demonstrate that Spire STL Pipeline is earning a ROE near to 8%, as opposed to 14%, and the actual return may be even lower. The Pipeline's FERC Form 2 filing on April 19, 2021, used a similar ROE, and the consultant company Schumaker confirmed the Form 2 ROE figures in its analysis included with Staff's ACA Review Recommendation and Report. I will note that one of the Commission's arguments to FERC during the CCN application process was that a 14% ROE would be excessive. In reality, STL Pipeline is earning a far lower ROE, on par with or below a Commission-approved ROE for utilities. I am including the Pipeline's 2022 cost and revenue study submitted to FERC with my testimony as **Schedule SAW-D-8.**

Q. DO YOU BELIEVE THAT THE COMMISSION SHOULD CONSIDER ANY OTHER PROVISION OF THE MAIN AFFILIATE TRANSACTION RULE IN THIS CASE?

A. Yes. The main rule also has a "preferential treatment" provision. The relevant language states that, "Except as necessary to provide corporate support functions, the regulated gas corporation shall conduct its business in such a way as not to provide any preferential service, information or treatment to an affiliated entity over another party at any time."

Q. IN YOUR VIEW AS A REGULATORY AFFAIRS MANAGER, DID SPIRE MISSOURI GIVE PREFERENTIAL TREATMENT TO SPIRE STL PIPELINE?

A. No. "Preferential treatment" in the common sense meaning of the phrase would refer to Spire Missouri placing Spire STL Pipeline's project above other proposals. But that is not what happened. The Company's original plan was to contract with an unaffiliated provider to construct a new access point to the REX pipeline. After Spire Inc. issued an RFP, and after the submitted proposals fell through, the Company took advantage of Spire STL Pipeline's open season for potential new customers. Spire STL Pipeline was then willing and able to meet the terms specified in the Company's RFP.

Q. DO OTHER MISSOURI UTILITIES PURCHASE TRANSMISSION SERVICE FROM AN AFFILIATE?

A. Yes. Ameren Missouri and Evergy Missouri also receive transmission services from affiliates. Missouri customers of those utilities pay for their affiliates' transmission projects in the charges and fees that the Commission-regulated utility pays to regional transmission operators, such as Midcontinent Independent System Operator ("MISO") or Southwest Power Pool ("SPP").

Q. CAN YOU GIVE MORE DETAIL ABOUT WHAT PROJECTS AND BUDGETS THESE ELECTRIC TRANSMISSION AFFILIATES INVEST IN?

A. Evergy has current transmission projects in Kansas City, Lee's Summit, Pleasant Hill-Warrensburg, St. Joseph, Trenton, and Winchester. Per its annual reports, Evergy's capital expenditures relating to transmission facilities are projected to be $600 million for 2023, $591 million for 2024, $592 million for 2025, and $679 million for 2026. Ameren Missouri also has transmission projects, including the Metro South Reliability Project and Limestone Ridge Project and the Mark Twain Transmission Project. Ameren's Five-Year Infrastructure Investment Plan includes $3.5 billion specifically for Ameren Transmission, and in July 2022 MISO approved projects assigned to Ameren totaling an estimated $1.8 billion.

Q. DID SPIRE MISSOURI SUBMIT ANYTHING PRIOR TO THIS CASE TO DEMONSTRATE THAT CONTRACTING WITH SPIRE STL PIPELINE COMPLIED WITH THE COMMISSION'S AFFILIATE TRANSACTION RULES?

A. Yes. I submitted a notice on behalf of the Company to Staff and OPC in August 2019, just before Spire STL Pipeline started supplying transportation capacity on November 14, 2019. I sent the notice because Spire Missouri had agreed to alert Staff and OPC once the Company reduced its volume of transportation capacity on MRT by 10% in the stipulation and agreement, dated July 2, 2013, that resolved Case No. GM-2013-0254.

I then followed up later in December 2019 by providing another notice with several supporting documents. The follow-up notice included several components: (1) An internal report that Spire Missouri prepared to justify its decision to procure capacity from Spire STL Pipeline; (2) The actual contract between Spire STL Pipeline and the Company; (3) Concentric Energy Advisors' ("Concentric") independent assessment of the reasonableness of Spire Missouri's decision to contract for transportation capacity on Spire STL Pipeline in 2017; and (4) Other supporting documents. All of these documents from the follow-up notice are attached to my testimony as **Schedule SAW-D-9**.

To clarify, these notices I am mentioning are the same that Staff describes on page twelve of its ACA Review Recommendation and Report memorandum.

Q. WHAT IS THE IMPORTANCE OF THE 2017 CONCENTRIC REPORT?

A. Spire Missouri retained Concentric to verify the Company's decision that adding Spire STL Pipeline to its supply portfolio was in the best interest of customers. I am holding this report as an example of third-party confirmation that, based on the information Spire Missouri knew at the time, the Company's decision to take supply from Spire STL Pipeline was reasonable from a supply and cost perspective.

Concentric performed a dispatch analysis whereby it triaged all of the Company's then-existing supply, evaluated the economic and non-economic benefits of Spire STL Pipeline, and then compared potential supply alternatives. The potential alternatives were as follows:

- Contracting for additional capacity on Southern Star;
- Contracting for more capacity on both PEPL and MoGas;
- Seeking more capacity on MoGas alone;

- Accessing capacity from REX via the Natural Gas Pipeline Company of America, LLC ("NGPL"); and
- Acquiring more capacity through the mainline or east portions of the MRT system.

For various reasons documented in Concentric's report, none of the alternatives were likely to be economically advantageous for Spire Missouri's customers. Choosing any of them would have instead increased overall costs and resulted in a higher PGA rate. Schumaker confirmed as much in its review of the 2017 Concentric report on pages 21 through 23 of its report accompanying Staff's Report. The cost impact alone exemplifies why including the Spire STL Pipeline transportation costs in the PGA is a prudent customer benefit.

VI. THE REGULATORY BENEFITS OF SPIRE STL PIPELINE FOR CUSTOMERS

Q. HOW MUCH OF SPIRE MISSOURI'S PGA RATE IS ATTRIBUTABLE TO SPIRE STL PIPELINE?

A. There is $31,500,000 associated with Spire STL Pipeline during the 2019-2020 ACA period. This represents approximately 9.6% of the total CPGA.

Q. HOW DOES INCLUDING THOSE COSTS FROM SPIRE STL PIPELINE RESULT IN A COMPETITIVE AND PRUDENT PGA RATE?

A. Including Spire STL Pipeline costs maintains competitive and attractive PGA rates for three reasons: (1) The Company avoids the need to pursue more expensive, less advantageous means of securing natural gas capacity; (2) The Pipeline gives Spire Missouri access to more natural gas extraction sites, which means that the Company has more options to select the cheapest supply contract; and (3) gives the Company a stronger position for negotiations with other, competing pipelines.

Q. STARTING WITH YOUR FIRST REASON, WHAT MORE EXPENSIVE OPTIONS IS THE COMPANY AVOIDING?

A. Spire STL Pipeline allowed Spire Missouri to take greater advantage of the capacity already available to the Company. Spire STL Pipeline, in addition to providing capacity to Spire Missouri, also sends some supply to MoGas. This added supply increased the pressure on the MoGas pipeline system and provided Spire Missouri the opportunity to double the amount of capacity it previously received from MoGas, up to 82,000 dekatherms per day ("Dth/day") more. Because we got this extra capacity from MoGas, Spire Missouri ended up not needing to spend additional capital or purchase potential more expensive capacity through another source, such as Southern Star or MRT. Please see David Yonce's Testimony for MoGas specifics.

Q. WHAT CAN YOU PROVIDE THE COMMISSION TO SUBSTANTIATE THE CUSTOMER SAVINGS YOU CLAIM COME FROM CONTRACTING WITH SPIRE STL PIPELINE?

A. I'll refer you to **Schedule SAW-D-10** that I've included with my testimony. This is an alternative supply portfolio analysis that Spire Missouri's gas purchasing team conducted for an April 27, 2016, Spire, Inc. Board of Directors Strategy Committee meeting. The analysis was presented to demonstrate the benefits of Spire STL Pipeline to Spire Missouri. It compares the rate impact to the Company of remaining status quo compared to adding Spire STL Pipeline to its portfolio. It also factors in an expected rate increase on MRT as a result of a known upcoming rate case. Spire Missouri's gas purchasing team constructed this analysis with a ten-year planning horizon from 2018 to 2028, expected rate changes on MRT, and pricing estimates from supply options across the nation.

In late 2016, our analysis concluded that Spire Missouri would save $1,906,000 per year by adding Spire STL Pipeline to its portfolio. We then updated the alternative supply portfolio study after the Company signed the precedent agreement with the Pipeline in 2017. Accounting for more pricing certainty, including the $0.25/Dth rate cap, showed that the Company's actual expected annual savings were $5,904,000.

Q. DOES SPIRE STL PIPELINE ENABLE THE COMPANY TO AVOID OTHER TYPES OF COSTS?

A. Yes, namely deferred investment and avoided expenses. The 350,000 Dth/day from Spire STL Pipeline adds a lot of pressure to the Spire Missouri East system, as discussed in the direct testimony of David Yonce. Because of this added pressure, Spire Missouri was able to divert from its previous integrated resource plans and not construct a large-diameter, high-pressure extension to serve the west and southwest parts of Spire Missouri East.

Consider also the natural gas costs the Company is avoiding by transitioning away from an overreliance on MRT. One motivating factor for why Spire Missouri decided to engage with a new pipeline was to diversify its supply portfolio. Before, MRT supplied nearly all of the flowing supply in the Spire Missouri East territory.

Q. CAN YOU IDENTIFY ANY OTHER AVOIDED COSTS?

A. Yes. Although we can treat this as a series of avoided transaction costs, I think the instance of maintaining service during Winter Storm Uri deserves special recognition. Staff generally evaluates prudence based on whether a reasonable person would find that the utility's actions were reasonable based upon the circumstances and information that was known, or should have been known, at that time the decision was made, and without the benefit of hindsight. In my testimony and the testimony of David Yonce, Spire Missouri has supported the prudence of its decision to move forward with the Spire STL Pipeline agreement with the information it possessed at the time that decision was made. However, actual intervening experience can be helpful in justifying those decisions made years ago. In this case, the Winter Storm Uri experience is good example.

A southward dip in the polar vortex caused a nation-wide extraordinary winter event from February 13, 2021, to February 17, 2021. Natural gas prices rose precipitously, and record amounts of snow and ice fell across the country. St. Louis was no exception. We could have experienced service disruptions and supply issues during the Storm, but, by tapping into Spire STL Pipeline, the Company prevented service disruptions for 133,000 customers with natural gas from the Marcellus supply region. Having access to other natural gas markets also saved the Company approximately $280 million to $300 million, or between $70 and $345 per customer, which is discussed on Page 14 of Concentric's November 2021 Report, attached as Schedule DAY-D-5 to the Direct Testimony of David Yonce,

Furthermore, as explained by David Yonce in his direct testimony, the Company's pressure systems in St. Charles County, Missouri surprisingly performed better during Winter Storm Uri than around the same time in prior years. This performance is a testament to the value of Spire STL Pipeline. And although Winter Storm Uri is not within the ACA period for this case, it is still worth considering now because this represents savings that the Commission can see in future PGA true-ups. With the Spire STL Pipeline capacity agreement in place, Spire Missouri Spire Missouri East's PGA rate is currently the lowest in the state. Again, although these developments have occurred after the decision was made with Spire STL pipeline, there is value in recognizing the benefits to our customers that have come from the modeling and decision-making that lead to transacting with Spire STL Pipeline.

Q. WHAT DID YOU MEAN BY SPIRE STL PIPELINE PROVIDING "ACCESS TO MORE NATURAL GAS EXTRACTION SITES" WHEN DESCRIBING THE SECOND REASON SPIRE STL PIPELINE HELPS REDUCE THE PGA RATE?

A. Another reason that Spire STL Pipeline reduces the Company's overall PGA rate is that the Pipeline diversifies natural gas source options. Before the connection to Spire STL Pipeline, nearly all of the Company's supply portfolio came from the Mid-Continent Oil Province and Gulf of Mexico to the south and west of Missouri. A small fraction, 2%, came from sources east of the Spire Missouri East system. With Spire STL Pipeline, the Company can now access natural gas reserves from the Rocky Mountains to the Appalachian Marcellus Basins by connecting to REX. This diversity of potential supply positions Spire Missouri to take advantage of the lowest natural gas prices across the country, wherever they may be, and better prepares the Company to continue serving customers if supply delivery fails because of a natural disaster, weather event, increased demand, or other unforeseen event.

In addition, the REX connection creates a new trading point with other parties south of Chicago, Illinois. This trading junction, in and of itself, generates more potential benefits for Spire Missouri's customers. For one thing, before the Pipeline created this new trading point, the Company would have had to pay for transportation across connecting pipelines if it wanted to access natural gas from the Marcellus and Utica basins. This "rate stacking" of costs from multiple pipelines results in higher purchased gas costs than the current situation where Spire Missouri can buy gas directly from a single liquid trading point. Increasing the number of trades in a general marketplace also places downward pressure on prices. Establishing a new trading point on a pipeline has the same effect for natural gas costs because suppliers must adjust their prices to account for new supplies that can now enter the Pipeline.

Q. AS FOR YOUR THIRD STATED REASON WHY SPIRE STL PIPELINE SUPRESSES THE PGA RATE, WHAT IS THE BENEFIT OF BEING ABLE TO PARTICIPATE IN PIPELINE NEGOTIATIONS?

A. Spire Missouri's previous gas supply portfolio was captive with 80% of capacity coming from one pipeline: MRT. It is hard to negotiate for discounts when you are a captive customer with no other supply options. Spire Missouri is now in a much better negotiating position since we have a new pipeline serving our distribution system. Having the Spire STL Pipeline and supply diversity has allowed us to negotiate with other interstate pipelines to keep their transportation costs low or at a discount. This helps in keeping the overall PGA lower by not paying max rates on other interstate pipelines.

Q. DO YOU BELIEVE THAT THE SPIRE MISSOURI EAST PGA RATE WOULD BE LOWER IF SPIRE MISSOURI HAD NOT CONTRACTED FOR TRANSPORTATION SERVICE ON SPIRE STL PIPELINE?

A. No. Someone could argue that the PGA rate over the 2019-2020 ACA period would be lower, but it would only be "lower" because purchased gas costs would be taken out after the ACA was calculated. Going forward though, the PGA rate would likely be far more expensive without the benefits of STL Pipeline. The PGA has several components. One of them is the capacity reservation charge. This is made up of all interstate pipeline charges and storage charges. During the legacy gas supply portfolio this calculated to **[redacted]** during the November 2018 PGA filing. Once Spire STL pipeline was introduced into the capacity reservation charge during the November 2020 PGA filing the capacity reservation charge rate was **[redacted]**. This shows that the total pipeline charges the company manages did not increase after Spire STL pipeline was introduced. It actually decreased the capacity reservation charge. Again, this does not account for any gas commodity changes.

Moreover, this contracted capacity cannot be replaced by alternative sources without significant cost and increased risk. Both Spire Missouri and multiple third parties have confirmed that Spire STL Pipeline represents a best-cost option for 350,000 Dth/day of transportation service. Not utilizing Spire STL will most likely increase costs and, consequentially, the PGA rate.

VII. CONCLUSION

Q. WHAT IS YOUR OPINION OF INCLUDING THE AFFILIATE TRANSACTION COSTS FROM SPIRE STL PIPLINE IN THE PGA?

A. I believe that the Commission should approve a PGA rate that covers all affiliate transaction costs covered by the ACA period so long as they are properly supported. In this instance, the reasonableness of the agreement with Spire STL Pipeline has sufficient supporting documentation such as Concentric's external evaluation in 2017 in addition to the Company's own rate impact model and alternative supply portfolio analysis. The firm contracted rate on Spire STL Pipeline is also well within the range of fair market price and below Spire STL Pipeline's FERC tariffed rate. Appropriate procedures were followed including the Commission's affiliate transaction rules. We can therefore conclude that the contracted rate is below the fair market price for firm transportation service and the fully distributed cost for Spire Missouri to construct its own pipeline.

Q. WHAT IS YOUR RECOMMENDATION FOR THE COMMISSION?

A. I recommend that the Commission approve the Company's revised PGA rates for Spire Missouri East as filed and modified per the terms of the Partial Stipulation and Agreement between Staff and the Company approved on January 25, 2023. The Commission should approve Spire

Missouri's filed rates because they will reduce customer bills, and because the included affiliate transaction costs from Spire STL Pipeline are proper and reasonable as confirmed by the Company's CAM and SOC, Concentric, and the Company's modeling.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.