BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of Spire Missouri, Inc. d/b/a Spire (West) Purchased Gas Adjustment (PGA) Tariff Filing	)))	Case No. GR-2022-0136

SPIRE MISSOURI INC.'S RESPONSE TO
STAFF'S RECOMMENDATION

COMES NOW Spire Missouri Inc. ("Spire Missouri," "Spire West," or the "Company"), by and through counsel, and respectfully submits its Response to Staff's Recommendation Regarding Spire West's 2020-2021 Actual Cost Adjustment Filing ("Response"), stating the following:

1. On November 15, 2021, Spire Missouri filed revised tariff sheets with the Missouri Public Service Commission ("Commission") for the Spire West Purchased Gas Adjustment ("PGA") clause for the 2020-2021 period, which reflected changes to its Actual Cost Adjustment ("ACA").

2. On November 19, 2021, Staff of the Commission ("Staff") recommended approval of Spire Missouri's revised tariff sheets on an interim basis and requested a Commission order directing the filing of its recommendation on December 15, 2022.

SUMMARY

3. On December 15, 2022, Staff issued its Staff Recommendation Regarding Spire West's 2020-2021 Actual Cost Adjustment Filing ("Recommendation"). In addition to proposed adjustments to the Company's ACA balances related to Cash Outs and Off-System Sales, Staff had comments and non-financial recommendations on the Company's reliability and gas supply planning, actions during Winter Storm Uri ("Uri"), and hedging policies.

4. Spire Missouri accepts Staff's findings as to its comments on non-financial matters but disagrees with two adjustments to the ACA. Staff's recommended disallowance of nearly $5 million for Cash Outs neglects to consider the accounting treatment for transportation customer bill payments and appears to be a product of mere misunderstanding.

5. There is, however, no sound basis for the recommended disallowance of $25 million for Off-System Sales ("OSS"). The $25 million recovery represents the Company's share of a $100 million OSS that reduced overall purchased gas costs for customers by $75 million, while maintaining crucial heating services for customers during an extraordinary winter period. This proposed disallowance reflects an arbitrary application of the Company's Tariff. An OSS profit is determined not only by the price at which gas is sold but also the price at which that gas is replaced, also known as the Cost of Gas Supply ("CGS"). In this ACA period, Spire Missouri sold unusable storage gas during Uri to a neighboring utility in need at **####** per one million British thermal units ("MMBtu") and purchased replacement gas at **####** per MMBtu, returning a profit of $100 million to be shared between the Company and its customers. Staff, contrary to Spire Missouri's support and documentation for the two transactions being tied together, incorrectly applies a CGS of **####** per MMBtu to the replacement gas. The Company does not understand Staff's reasoning for applying this price based on its review of Staff's workpapers. Only confounding the issue further, Staff negates the $25 million benefit to Spire Missouri, yet recognizes the $75 million benefit to customers. Staff's adjustment effectively disincentivizes utilities from pursuing OSS and their benefits for both utilities and their customers.

6. For these reasons, the Commission should order Spire Missouri to establish its ACA account balances as proposed in the Company's revised tariff sheets and disregard Staff's adjustments.

STAFF'S COMMENTS AND NON-FINANCIAL RECOMMENDATIONS

7. **Reliability Analysis and Gas Supply.** Staff recognized that Spire West's revised resource plan was introduced in Case No. GR-2021-0122 and has been effective since the 2019-2020 ACA period. Staff will continue to monitor the Company's resource planning and demand forecasting. Staff had no recommendations related to the Company's reserve margin; however, it noted that while the Company's reserve margin for peak day at **####** is low, the **####
##
##**
Staff made no recommendations on this issue, with the expectation that Spire Missouri would continue to observe the effectiveness of its demand modeling and make appropriate revisions to its Resource Plan, if needed. Spire Missouri agrees with Staff's findings.

8. **Winter Storm Uri.** Staff noted that, in the 2020-2021 period, a cold weather event known as Uri caused well-below normal temperatures from February 8, 2021, to February 18, 2021. Staff reviewed the Company's actions and decisions during the event, including its natural gas purchases, storage utilization, and hedging. Based on its review, Staff made no adjustments to Spire's ACA balances as a result of the Company's actions to provide service during Uri, and the Company agrees with Staff's findings.

9. **Hedging.** Staff reviewed Spire Missouri's Risk Management Strategy, Gas Supply Risk Management Policy, and its financial hedging transactions for the 2020-2021 period. Staff did not find any imprudence by Spire Missouri in relation to its hedging decisions. Staff recommended that the Company analyze the costs and benefits of the outcomes of its hedging strategy and evaluate any potential improvements to its 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. Staff also recommended that the Company document the rationale for its hedging decisions. Spire Missouri agrees with and accepts Staff's recommendations and comments regarding the Company's hedging policies.

STAFF'S ADJUSTMENTS TO THE COMPANY'S PROPOSED ACA BALANCES

10. **Cash Out.** Staff proposes to disallow $4,661,103 for Cash Outs based on its conclusion that the Cash Out bills to transportation customers did not match the Cash Out amount reported in the ACA filing. Spire Missouri believes this recommendation is the result of a misunderstanding of the Company's ACA accounting processes. which are explained in detail below.

11. The Cash Out provision in Spire Missouri's Tariff Sheet Nos. 9.16 and 9.17 applies to transportation customers. When a transportation customer's expected and actual natural gas use in a month differ, the Tariff recognizes this as an "imbalance" for reconciliation. The Tariff assesses an additional Cash Out charge to customers that use more natural gas than nominated, and customers that use less natural gas than expected receive bill credits for their positive imbalance.

12. According to Staff's calculations, the Cash Outs on transportation customers' bills over the 2020-2021 ACA period were less than what the Company reported in the ACA case filing. This is why Staff recommends removing $4,661,103 from the PGA to match the Cash Outs that transportation customers paid. However, Staff's analysis appears to misapprehend the issue by focusing on the transportation customers' bills as opposed to their accounting treatment and timing impacts.

13. When a transportation customer creates a negative imbalance by using more natural gas than previously nominated, the Company must purchase additional gas to make up the

shortfall. Spire Missouri records those purchases as expenses to a regulatory asset account as they represent monies that will need to be collected later through the Cash Out. Conversely, the positive imbalances that occur when a transportation customer uses less gas than nominated require entries to the Company's industrial revenue account (Account No. 481220) because Spire Missouri sells the excess natural gas back to a transportation customer's marketer. After making the initial accounting entries, the Company must adjust its PGA accounts to ensure that other customers are not supporting the Cash Outs from transportation customers. This process entails making manual entries to the appropriate regulatory asset accounts (Account Nos. 182700, 182720, or 182770) to record any credits from transportation customers making their Cash Out payments or debits for nonpayment. The Company must also revise its Cash Out determinations throughout the entire accounting process based on updates from natural gas marketers. They will regularly inform the Company that an earlier Cash Out needs to be adjusted because of a faulty meter reading, their own misreporting of natural gas usage, or other incongruence.

14. Staff's audit appears to have only focused on transportation customer cash-out bills applied to Account No. 182780, rather than all relevant accounts (including the revenue component) and has not accounted for the manual entries and revisions.

15. Accordingly, what Staff perceives as a discrepancy between the Cash Outs billed to customers and those reported in the ACA filing, is a result of both (1) an incomplete account review as discussed above, and (2) the normal delay that occurs between when the Company calculates Cash Outs and when Cash Out payments are finally received and recorded in regulatory asset accounts, including any adjustments in later periods. The Company's PGA did not collect $4,661,103 more than what was billed. That figure comes from the Staff only considering Account No. 182780 for regulatory asset accounts for marketers that had a positive imbalance compared to

the final, revised marketer bills. Factoring in the marketers that had a negative imbalance and revisions reveal that there are approximately **########** in costs identified to reconcile in the next ACA period. The Company has had several technical meetings with Staff and provided additional data on this topic and believes the issue can be resolved through additional discussions with Staff.

16. **Off-System Sale.** An OSS occurs when Spire Missouri sells natural gas outside of its service territory. Spire Missouri must then replace the gas sold in an OSS after it completes the sale. Any profit made by the Company from an OSS is reduced by the cost to replace the gas that was sold. Under Spire Missouri's Tariff Sheet No. 11.6, the Company keeps 25% of the OSS profit, with the remaining 75% flowing through the PGA/ACA as a credit to Spire West's customers, reducing the overall gas costs.

17. As Tariff Sheet No. 11.6 describes it, this division serves as a "Gas Cost Incentive Mechanism" ("Incentive Mechanism") for the Company to engage in OSS. The Company's ability to retain 25% of an OSS profit ensures that it will continually seek sales when they benefit customers because it will retain a share of the benefits. If the Company could not obtain a profit from OSS, there would be little motivation to take on the additional risk in pursuit of any potential cost savings for customers. Consider also that Customers pay PGA charges to support significant amounts of pipeline or storage capacity. Because Spire Missouri uses those assets primarily to supply customers on the coldest days, the Company should seek to reduce these costs whenever possible. The Incentive Mechanism is designed to reward both customers and the Company for Spire Missouri's efforts to optimize, monitor dynamic conditions, and leverage these pipeline and storage assets when market opportunities arise.

18. In this instance, Spire Missouri made an OSS of natural gas during the extraordinary Uri storm. The Company transferred **#######* MMBtu of natural gas in Southern Star Central Gas Pipeline, Inc. ("Southern Star") storage to **#### ########** another public utility serving Kansas, on February 15, 2021. Spire Missouri did not need the **#######** MMBtu of storage gas to serve its customers at that time. However, **######** had a dire need for additional gas supply and was able to utilize Southern Star storage gas for that purpose. Accordingly, Spire Missouri took action to assist a utility in distress and sold natural gas in Southern Star storage to **######** for **#####** per MMBtu. This OSS enabled the neighboring utility to maintain heating services during the extreme winter weather event and secured a $100 million profit margin because the Company replaced the gas sold at **####** per MMBtu. The Company's filed tariff revisions account for this Incentive Mechanism by reducing overall gas costs by $75 million but retaining $25 million as a purchased gas cost, per Tariff Sheet No. 11.6. Spire Missouri's PGA has already returned the $75-million share of the profit to customers.

19. Initiating that OSS was the best course of action because the Company could not have used the sold volumes of storage gas during Uri. In order to maintain necessary pressures to meet the extremely high demand on Spire Missouri's system, as well as comply with operational flow orders ("OFO") on Southern Star's upstream system, the Company was required to match its natural gas shipments with demand.

20. Southern Star issued a series of OFOs from February 11, 2021, through February 19, 2021, per Section 10.2 of its Tariff's General Terms and Conditions. This Section of the Tariff empowers Southern Star to direct natural gas shippers, like Spire Missouri, to increase or decrease their intake of flowing gas when storage injections or withdrawals threaten available supplies. In

this case, Southern Star issued both storage and delivery location OFOs to maintain service in the face of dramatically increased demand during Uri. The storage OFOs are relevant because they directed Spire Missouri to continue withdrawing stored natural gas at or below its maximum daily allowance and not store any amount of natural gas above 0% of its maximum allotment. These directions effectively commanded Spire Missouri to use flowing supply, and not storage, to meet at least one-third of its total usage. Restated, even if it wanted to, the Company could not inject any additional storage gas during Uri.

21. To confirm the Company's "one-third" figure, the Company is including a spreadsheet provided by Southern Star as **Exhibit A**. It shows that the Company used storage reserves to meet close to or more than one-third of its supply needs during Southern Star's OFO period, as required by Southern Star's tariffs and OFOs. During this time, the Company had far more natural gas in Southern Star storage than it could actually utilize for its distribution system due to the "one-third" requirement.

22. Accordingly, there was no good reason to not undertake the OSS. Doing so would have foregone savings for the Company's customers and needlessly endangered the Kansas customers served by **#####.** The Company attaches copies of the Southern Star's storage OFOs and applicable Tariff language that required Spire Missouri to use flowing gas as **Exhibits B and C**, respectively.

23. Staff's Memorandum included with the Recommendation states that, "there should be no margin on the OSS" and recommends a disallowance based on its repricing of the cost to purchase natural gas supply to replace the gas sold through an OSS, otherwise known as the Off-system Cost of Gas Supply ("OS-CGS"). Restated, Staff's position is that: (1) Company should not have made the OSS and secured an Incentive Mechanism of $100 million; and (2) the Company

used the wrong OS-CGS. Staff then asks the Commission to remove $25 million from the PGA as if the entire $100 million OSS did not occur. Staff's Recommendation is wrong on both counts.

24. First, as detailed above, the Company's decision to issue an OSS was the right choice. It helped **#####** maintain a critical utility service and did so when the Company could share natural gas without threatening its own operations because of the OFO requiring a minimum volume of flowing, non-storage gas. Creating $75 million in value for customers benefits them substantially, even if the Company also profits through the Incentive Mechanism.

Many interstate pipes were struggling operationally during Uri. The Southern Star OFOs show that Southern Star was also at critical mass. As Staff described them in its April 30, 2021, report on the cause of Uri in Case. No. AO-2021-0264, OFOs "are only issued by a pipeline as a *last resort* when shipper compliance has not occurred or the integrity of the pipeline system has been compromised." (Emphasis added). Spire not only helped a fellow utility get through this critical period but also assisted Southern Star. If a utility went down on Southern Star, that would have a ripple effect of negative consequences for all transporters. We saw the rolling blackouts in Missouri and the dire situations in Texas. Spire Missouri used all of its resources to keep interstate pipelines operational, help fellow utilities maintain service, and reduce our customer bills by $75 million. Spire Missouri should not be penalized for stepping up to help all stakeholders during these critical times.

25. Second, Staff's belief that the higher **####** per MMBtu OS-CGS should be assigned to the purchase of replacement gas for the OSS does not follow the Company's approved Tariff. Tariff Sheet No. R-27 defines OS-CGS as the highest CGS associated with an OSS, "unless a lower CGS is documented and supported." The OS-CGS is the cost that the Company incurs to replace natural gas after an OSS and is considered in the Incentive Mechanism under Tariff Sheet

No. 11.6 to determine any profit. Having a lower OS-CGS produces more OSS profit for customers. Here, a lower CGS is both documented and supported.

26. After the Company finalized the transfer to **#####,** the Company purchased **######** MMBtu of baseload gas from **####################** at a fixed price of **#####** per MMBtu on February 19, 2021. Spire Missouri made this purchase to cover the sale of excess gas storage in February, even though it would be for future natural gas needs in March 2021. Since the Company did not need the gas that was sold in the OSS, nor could it inject into storage during Uri, the purchase of replacement gas was made for the Company's March baseload when the Company knew it could be used. The **######** per MMBtu price was the highest CGS the Company incurred to provide Service in March, which, under Tariff Sheet No. R-27, is the appropriate CGS to apply to the OSS.

The association between the purchase from **#######** and the OSS is clearly supported given their proximity and natural relation. Further, the purchase from **#######** was also unique because it was based on a fixed price. Spire Missouri does not usually purchase monthly baseload at fixed prices and only did so here because it guaranteed a profit margin for the OSS. The purchase and sale records, attached hereto as **Exhibit D** and **Exhibit E**, demonstrate that the **#######** purchase was tied to the **######** sale. For these reasons, **#####** per MMBtu is the appropriate OS-CGS to assign to the OSS, not **####** per MMBtu as recommended by Staff. Using Staff's **####** would actually increase costs for customers by $100 million, wiping away the credit already supplied to customers.

27. The Company also wants to impress upon the Commission that Staff's **####** per MMBtu does not appear to be tied to any actual OSS or other recorded transactions. The Memorandum accompanying Staff's Recommendation explains only that Staff "believes a higher

Cost of Supply" should be used. The Cost of Supply in Staff's Microsoft Excel workpapers is hard coded as **####** per MMBtu, and there is no formula or citation detailing how Staff derived the figure or where it even came from.

28. Spire Missouri infers that Staff is assigning the higher CGS as a proxy for natural gas prices when the Company engaged in three unrelated gas purchases on February 14, 15, and 16, 2021. The Company initiated purchases on those days for its marketers and firm customers. Because Staff is connecting a hypothetical CGS from this period to the OSS on February 15, 2021, it must think that those transactions on February 14, 15, and 16, 2021, were used to replace the sold natural gas. That is not true. Spire Missouri did not replace the gas sold to **#####** with purchases before the OSS occurred. It would be unusual, and often infeasible, to acquire replacement gas before an OSS. Spire Missouri's resource needs require the Company to undertake multiple transactions in a month in response to ever-fluctuating gas prices. This situation provides little flexibility to prepare for an OSS in the manner Staff imagines.

29. Moreover, it would have been operationally impossible to inject gas on February 14, 15, and 16, 2021, in preparation for a future OSS. This period was still in the midst of frigid temperatures during Uri. The Company was using all physical supply resources to supply firm sales to customers, including withdrawals from storage. It is physically impossible to inject, as Staff's workpapers suggests, OSS replacement gas when all other supplies are committed to customer needs.

30. To demonstrate that the Company did not have any ability to commit more natural gas to storage, please see Southern Star's storage report that is based on the contractual rights of Spire Missouri's storage agreement, included with this Response as **Exhibit F.** Southern Star's records confirm that the Company was withdrawing natural gas reserves throughout Uri and could

not have committed any amount to storage, contrary to Staff's Recommendation. The table below shows Staffs adjustments compared to the actual flow and storage activity in Southern Star's report.

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31. Treating Staff's adjustments from the table above as replacement gas also creates a double booking in the Company's natural gas accounting. Though Staff wishes to disallow $25 million, it is still recognizing that purchased gas costs are $75 million lower. Staff is treating the natural gas entries as *both* being available for Spire Missouri's firm customers and offered for an OSS. This contradicts the accounting principles contained in Tariff Sheet No. R-27.1, which require the Company to separate natural gas transaction entries. For this reason alone, the Commission should reject Staff's Recommendation. Accepting Staff's disallowance supposes that the Company should violate its own accounting principles and tariffs and imperil itself before outside auditors.

32. In sum, Spire Missouri made this OSS to help another utility meet customer demand during an extreme cold weather event, keeping the gas on for many customers not even on the Company's system. This transaction supported the overall natural gas interstate market during a critically strained energy event, while also providing a financial windfall of $75 million to its own customers. Spire Missouri complied with its tariff provisions specifically created to account for OSS and the Incentive Mechanism. Spire Missouri's customers were never at risk of losing service

as a result of the OSS because no flowing capacity resources were used in this transaction. The OSS was prudent and produced cost savings for customers, and the Company respectfully requests that the Commission reject Staff's adjustment to OSS.

33. Further, it is only proper that Spire Missouri retains 25% of the OSS profit per Tariff Sheet No. 11.6. This sharing is fair and good policy. The Commission approved the Incentive Mechanism to encourage sales like the OSS to **######.** Not permitting Spire Missouri to keep 25% of the gains from an OSS discounts the reduced gas costs that the Company achieved for customers and will negate any future incentive to look for similar market opportunities in the future.

34. Spire Missouri hopes that this Response and exhibits will provide the necessary context to Staff and the Commission. The Company also believes that additional technical meetings might further illuminate how this OSS benefited the larger market during a critical weather event, helped a fellow utility, and reduced costs for our customers.

WHEREFORE, Spire Missouri respectfully requests that the Commission accept Staff's non-financial recommendations, reject Staff's adjustments to the Company's Cash Outs and Off-System Sales, issue an order directing Spire Missouri to establish the ACA account balances as proposed by the Company in its revised tariff sheets, and grant such other relief as the Commission deems proper.

Respectfully submitted,

/s/ J. Antonio Arias

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CERTIFICATE OF SERVICE

I do hereby certify that a true and correct copy of the foregoing document has been sent by electronic mail to all counsel of record on this 19th day of January, 2023.

/s/ *Lew Keathley*

Lew Keathley