BEFORE THE PUBLIC SERVICE COMMISSION OF THE STATE OF MISSOURI

In the Matter of Summit Natural Gas of Missouri, Inc.'s Purchased Gas Adjustment Tariff Filing	)))	**Case No. GR-2023-0129** Tariff No. YG-2023-0088

STAFF RECOMMENDATION

COMES NOW the Staff of the Missouri Public Service Commission and for its Recommendation, states as follows:

1. On November 4, 2022, The Empire District Gas Company d/b/a Liberty ("Empire") filed three tariff sheets bearing an effective date of December 4, 2022, Tariff File No. YG-2023-0088, and an accompanying cover letter with supporting worksheets and Direct Testimony from Dana Liner of Empire. The tariff sheets were filed to reflect changes in Empire's Purchased Gas Adjustment ("PGA") factors as a result of estimated changes in the cost of natural gas for the upcoming winter season and changes in the Actual Cost Adjustment ("ACA") factors.

2. The Commission issued an order on November 7, 2022, directing Staff to file a recommendation regarding Empire's request and corresponding tariff sheets, Tariff File No. YG-2023-0088, no later than November 14, 2022.

3. Staff has reviewed Empire's filings and within those filings, Empire is requesting the Weighted Average Cost of Capital ("WACC") be applied in the PGA. The PGA clause is a mechanism authorizing gas cost recovery only, but the Company's use of a WACC in determining appropriate carrying charges is potentially allowing for recovery of an equity return and associated income taxes.

4. Staff would further note that discovery is necessary to inquire as to whether the WACC truly represents the Company's access to debt that could have funded impacts from Storm URI, and whether there were significant over-recoveries from past ACAs that received the typical prime minus two percent carry costs. Staff recommends that the determination of the appropriate carrying cost rate and WACC be determined with all issues that result from its ACA review in this proceeding, Case No. GR-2023-0129.

5. Staff has reviewed the PGA filing and has determined it was calculated in conformance with Empire's PGA Clause. Staff does not oppose the approval of this tariff sheet on less than thirty (30) days' notice. Such action is supported by Empire's Commission-approved PGA clause allowing for notice of ten (10) business days for PGA change (both increases and decreases) filings. Therefore, Staff recommends the Commission approve the tariff sheets (No. YG-2023-0088) on an interim basis, subject to refund, for service on and after December 4, 2022.

6. Due to the limited time available to review the documentation supporting the ACA factor submitted in this filing, Staff requests permission to submit its results and recommendations regarding the information included in this ACA filing to the Commission on or before December 15, 2023.

WHEREFORE, for the foregoing reasons and those stated in Staff's Memorandum attached hereto, Staff recommends that the Commission issue an order approving Empire's tariff sheets in Tracking No. YG-2023-0088 as listed below, on an interim, subject to refund status; and further order Staff to file its recommendation on Empire's ACA filing no later than December 15, 2023.

<u>P.S.C. MO. No. 2</u>

Nineteenth Revised Sheet No. 62 Cancelling Eighteenth Revised Sheet No. 62

<u>P.S.C. MO. No. 2</u>

Nineteenth Revised Sheet No. 63 Cancelling Eighteenth Revised Sheet No. 63

<u>P.S.C. MO. No. 2</u>

Nineteenth Revised Sheet No. 65 Cancelling Eighteenth Revised Sheet No. 65.

Respectfully submitted,

/s/ J. Scott Stacey

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CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been transmitted by electronic mail to counsel of record this 14th day of November, 2022.

/s/ J. Scott Stacey

M E M O R A N D U M

TO: Missouri Public Service Commission Official Case File,
Case No. GR-2023-0129, Tariff No. YG-2023-0088
The Empire District Gas Company

FROM: Michael J. Ensrud, Research/Data Analyst - Procurement Analysis Dept.

/s/ *David M. Sommerer* 11/10/2022 /s/ *Scott Stacey* 11/10/2022
Financial and Business Analysis Div./Date Staff Counsel's Office/Date

SUBJECT: Staff Recommendation for Empire District Gas Company Scheduled Winter PGA/ACA Filing Effective Date December 4 2022

DATE: November 14, 2022

On November 4, 2022, The Empire District Gas Company, d/b/a Liberty ("Empire" "EDG" or "Company"), filed three tariff sheets bearing a proposed effective date of December 4, 2022. In addition, Empire filed a single page cover letter and supporting worksheets. Company also supplied the Direct Testimony of Ms. Dana Liner.

The tariff sheets were filed to reflect changes in Empire's Purchased Gas Adjustment (PGA) factors as the result of estimated changes in the cost of natural gas for the upcoming winter season and changes in the Actual Cost Adjustment (ACA) factors.

In addition to the requirements of past PGA filings, this PGA contains a continuation of the Storm Uri deferred cost recovery that was authorized by the Missouri Public Service Commission's (Commission) Order in Case No. GT-2022-0080. Case No. GT-2022-0080 allows extension of PGA recovery beyond the 12-month limitation that existed prior to Case No. GT-2022-0080.

CARRYING COSTS

This PGA filing (GR-2023-0129) continues to be impacted by the ongoing amortization of Storm Uri costs. Because of the significant impact that Storm URI has on rates, it has been considered appropriate to spread those, unique costs over multiple PGA filings. The process is basically an amortization of high natural gas costs (resulting from unseasonably cold weather, production freeze-offs and related high prices in February 2021). In the EDG filing the main request is related to the carrying cost rate to be applied to the Storm Uri costs.

In her direct testimony, Ms. Dana Liner states the following:

> ***Q. What are the carrying charges identified in the Company's tariff generally intended for?***

> *A. Section III of the tariff indicates that monthly carrying charges associated with the normal ACA will be set at the prime interest rate on the first business day of the following month minus two percent. That rate is a carrying charge applicable to normal gas costs recovered over a short-term period of 12-months. These funds come from cash reserves or short-term debt instruments not exceeding 12 months. During normal conditions, EDG funds its gas supply costs through cash generated from operations.* (Page 4, lines 23-24 to page 5 lines 1-6)
>
> ***Q. What makes the extended recovery different from the circumstances contemplated by Section III of the tariff?***
>
> *A. In this proceeding, EDG is asking for the recovery of extraordinary gas costs over a long-term period of time. Section III of the tariff provides the necessary flexibility to allow the Company to recover unusually high gas amounts to be extended over longer periods at an appropriate carrying rate. The Company believes the proposed treatment to extend over a longer period is the correct thing to do for customers, but this treatment also has the effect of pushing the obligation past the 12-month short-term expense threshold. In taking this approach* ***the proposed long-term recovery treatment competes with and will be supported by funds that generally are used for capital projects.*** *The opportunity to earn a fair rate of return on capital is a cornerstone of rate regulation.* ***Therefore, WACC is the appropriate rate to apply to the use of long-term capital funds.*** [Emphasis added.] (Page 5, lines 7-18)

Staff disagrees. In the prior PGA case (GR-2022-0127), Staff documented (in its memo) the negative impact on PGA rates that the polar vortex (often called Storm "URI") produced in February 2021:

> The specific tariff language added that authorizes "extraordinary" impacts to be mitigated over longer periods of time (fluctuating up to five (5) years) was inserted as the result of the GT-2022-0080 proceeding, but has never been utilized until the pending (2021-2022 PGA/ACA) filing. Tariff Sheet 56 contains:
>
>> Upon request by the Company, Staff, or OPC, and for **good cause shown**, when an **extraordinary event** has occurred, supported by affidavit, the Commission may permit the company to divide the cumulative balances of each System's deficit gas cost recovery revenue (ACA account under-recovery) by estimated sales volumes for an extended period which shall not exceed 5 years. [Emphasis added.]

However, contrary to the Company's contention, the Staff views these extraordinary costs as **not** analogous to capital investments, plant, or costs related to Infrastructure System Replacement Surcharges, they are gas costs subject to the PGA tariff[1].

There is another section of the tariff that indicates some "carrying charge" other than the traditional "prime minus 2%" can be considered. Ms. Liner sites in her testimony (Page 4, lines 6-10) the following:

> **Q. Is this allowed under the Company's tariff?**
>
> A. Yes. Section III (PSC MO No. 2, 1st Revised Sheet No. 57, effective October 22, 2021) allows the Company to "propose a carrying cost, subject to review, appropriate for the length of the extended period" if the Commission allows an extended recovery period, not to exceed five years, for an extraordinary under-recovery ACA balance. (Page 4, lines 6-10)

The PGA clause is a mechanism authorizing gas cost recovery only, but the Company's use of a WACC[2] in determining appropriate carrying charges is potentially allowing for recovery of an equity return and associated income taxes.

The Staff recommends that the determination of the appropriate carrying cost rate be determined with all issues that result from Staff's ACA review that will be conducted later on in this proceeding, Case No. GR-2023-0129.

The Staff would further note that discovery is necessary to inquire as to whether the WACC truly represents the Company's access to debt that could have funded impacts from Storm URI, and whether there were significant over-recoveries from past ACAs that received the typical prime minus two percent carry costs.

NORMAL PGA ISSUES

In addition to URI carrying cost recovery issues, there is significant increase related to ACA under-recoveries – traditional issues for a PGA filing. Current increases in estimated natural gas prices as reflected in the Regular PGA estimate have increased significantly over last year's mandatory PGA filing. Customers will be paying both for past price increases from Storm URI and present increases in current natural gas costs.

In its cover letter – for filing GR-2023-0129, Empire asserts the impact to future Total (Regular PGA plus ACA) PGA rates as follows:

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[1] In many cases, long-term plant is amortized (depreciated) over periods much longer than 5 years.
[2] WACC – Weighted Average Cost of Capital

> *As a result of this filing, for the South service area, the effect of these changes will increase the firm PGA rate from the current $0.96720 per Ccf (100 cubic feet) to $1.154290 per Ccf. For the North service area, the effect of these changes will increase the firm PGA rate from the current $0.71850 per Ccf to $1.054620 per Ccf. For the Northwest service area, the effect of these changes will increase the firm PGA rate from the current $0.644940 per Ccf to $1.305140 per Ccf.*

Table 1. Current and Proposed Firm Sales Total PGA and ACA Rates by Service Territory ($/Ccf)

	Current	**Proposed**	**Total Impact**
South	$0.96720	$1.154290	$0.18709
North	$0.71850	$1.054620	$0.33612
Northwest	$0.64494	$1.030514	$0.66020

Again, these increases are a composite of normal PGA issues and URI impacts.

On November 7, 2022, the Commission issued its "**Order Directing Expedited Staff Recommendation and Setting Time for Reponses**". The order directs Staff to file its recommendation no later than November 14, 2022.

Case No. GR-2023-0129, under which these changes were filed, was established to track EDG's natural gas costs to be reviewed in its 2021-2022 ACA filing. These rate changes should be made on an interim basis, subject to refund pending final Commission decisions in ACA Case Nos. GR-2023-0129 (2021-2022 ACA period) and GR-2022-0127 (2020-2021 ACA period). Due to the limited time available to review the documentation supporting the ACA factors submitted in this filing, the Procurement Analysis Department (PAD) requests permission to submit its results and recommendations regarding the information included in this ACA filing to the Commission on or before December 15, 2023.

The Staff has verified that the Company has filed its annual report and is not delinquent on any assessment. Staff has reviewed this filing and is not aware of any issue currently pending before the Commission that affects or is affected by this filing, other than those mentioned above.

Staff has reviewed this filing and determined that the rates on the proposed tariff sheets were calculated in conformance with Empire's PGA Clause.

Staff asks the Commission to take notice of Empire's tariff language that allows for approval of these tariff sheets on less than thirty (30) days' notice is demonstrated by Empire's Commission-approved PGA clause allowing for ten (10) business days' for PGA change filings. Therefore, Staff recommends that the following tariff sheets filed on November 4, 2022 be approved on an interim basis, subject to refund:

CONCLUSION

Staff is of the opinion that the carrying charge rate issue is an element relevant to the review in the 2021-2022 ACA proceeding portion of this case and should be included along with any other issues identified for litigation in late 2023.

Staff asks the Commission to take notice of Empire's tariff language that allows for approval of these tariff sheets on less than thirty (30) days' notice is demonstrated by Empire's Commission-approved PGA clause allowing for ten (10) business days' for PGA change filings. Therefore, Staff recommends that the following tariff sheets filed on November 4, 2022 be approved on an interim basis, subject to refund:

P.S.C.MO. No. 2, 19th Revised Sheet No. 62;
P.S.C. MO. No. 2, 19th Revised Sheet No. 63; and
P.S.C. MO. No. 2, 19th Revised Sheet No. 65.

The tariff sheets represent the Company's Winter PGA/ACA filing for its three PGA service areas and reflects changes in the PGA factors and the ACA factors. These tariff sheets bear an issue date of November 4, 2022, and a proposed effective date of December 4, 2022.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of The Empire District Gas Company d/b/a Liberty's Purchased Gas Adjustment Tariff Filing	)))	Case No. GR-2023-0129 Tariff No. YG-2023-0088

AFFIDAVIT OF MICHAEL J. ENSRUD

STATE OF MISSOURI	)	
	)	ss.
COUNTY OF COLE	)	

COMES NOW MICHAEL J. ENSRUD 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.

Michael J Ensrud

MICHAEL J. ENSRUD

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 14th day of November, 2022.

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