

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of the Application of)	
Laclede Gas Company to Change its)	<u>Case No. GO-2016-0197</u>
Infrastructure System Replacement)	Tariff No. YG-2016-0194
Surcharge in its Missouri Gas Energy)	
Service Territory)	

STAFF RECOMMENDATION

COMES NOW the Staff of the Missouri Public Service Commission, and in response to the Commission’s February 3, 2016, *Order Directing Notice, Directing Filings and Setting Intervention Deadline* (“Order”) submits its *Staff Recommendation* to the Commission as set forth in detail in the attached appendices, and in support thereof respectfully states as follows:

1. On February 1, 2016, Missouri Gas Energy (“MGE” or “Company”), an operating unit of Laclede Gas Company (“Laclede”), filed its *Verified Application and Petition of Missouri Gas Energy, an Operating Unit of Laclede Gas Company, to Change Its Infrastructure System Replacement Surcharge in Its Missouri Gas Energy Service Territory and Request for Waiver of Commission Rule 4.020(2)* (the “Application”) pursuant to Sections 393.1009, 393.1012 and 393.1015 of the Revised Statutes of Missouri and Commission Rule 4 CSR 240-3.265¹ which authorize gas corporations to recover certain eligible infrastructure replacement costs through an infrastructure system replacement surcharge (“ISRS”).

2. In the Order the Commission ordered Staff to file its recommendation regarding MGE’s Application no later than April 1, 2016. Staff’s recommendation is

¹ MGE’s Application also referenced Commission Rules 4 CSR 240-2.060, 2.080 and 4.020(2).

attached hereto as Appendix A and Appendix B, both of which are incorporated herein by reference.

3. This case represents MGE's fourth ISRS filing since the conclusion of its most recent general rate case, Case No. GR-2014-0007. In its current Application, MGE filed to recover ISRS qualifying infrastructure replacement costs incurred during the period September 1, 2015 through December 31, 2015, with pro-forma ISRS costs updated through February 29, 2016.

4. As part of Staff's examination of MGE's Application, Auditing Staff reviewed supporting work papers, a representative sample of work orders, and other applicable documentation, as well as communicating with MGE personnel to gain clarification of MGE's Application when necessary.

5. Based upon its review and all of its calculations (including the reconciliation required pursuant to 4 CSR 240-3.265(17)), Staff is recommending that MGE receive ISRS revenues for this case of \$3,570,050. Due to the previously approved ISRS rates for MGE which continue in effect, the total ISRS revenue requirement to be included in rates (including Staff's recommended amount for this case) is \$10,253,423.

6. Staff has developed proposed ISRS rates for MGE based on Staff's recommended revenue requirement for this case described above. Staff's proposed rates are consistent with the methodology used to establish MGE's past ISRS rates and are consistent with the overall methodology used to establish ISRS rates for other gas utilities. Staff's proposed ISRS rates are contained in Appendix B, attached hereto and incorporated by reference herein.

7. The effective date of rates in MGE's ISRS Case No. GO-2015-0270 was May 22, 2015. Since that date, MGE has changed its ISRS surcharge one additional time, in Case No. GO-2015-0343. Section 393.1015.3, RSMo, provides that "A gas corporation may effectuate a change in its rate pursuant to the provisions of this section no more often than two times every twelve months." Based upon MGE's previous ISRS history and this statute, Staff recommends that the tariff resulting from this ISRS filing should not go into effect any earlier than May 23, 2016.

WHEREFORE, Staff recommends the Commission issue an order in this case that:

1. Rejects the MGE ISRS tariff sheet (YG-2016-0194) P.S.C. MO No. 6, Sixth Revised Sheet No. 10 cancelling P.S.C. MO No. 6, Fifth Revised Sheet No. 10, as filed on February 1, 2016;

2. Approves the Staff's recommended ISRS surcharge revenues in this case in the incremental pre-tax revenue amount of \$3,570,050, with a total current and cumulative ISRS amount of \$10,253,423;

3. Authorizes MGE to file an ISRS rate for each customer class as reflected in Appendix B; and

4. Authorizes an effective date no earlier than May 23, 2016.

Respectfully submitted,

/s/ Jeffrey A. Keevil

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CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed, hand-delivered, or transmitted by facsimile or electronic mail to counsel of record this 1st day of April, 2016.

/s/ Jeffrey A. Keevil

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. GO-2016-0197, Tariff Tracking No. YG-2016-0194
Missouri Gas Energy

FROM: Jennifer K. Grisham, Regulatory Auditor, Auditing Department
Michael J. Ensrud, Rate & Tariff Examiner II, Procurement Analysis

/s/ Mark L. Oligschlaeger 03/31/16
Auditing Department / Date

/s/ David M. Sommerer 03/31/16
Commission Staff Division / Date

/s/ Jeffrey A. Keevil 03/31/16
Staff Counsel's Office / Date

SUBJECT: Staff Report and Recommendation Regarding Verified Application and Petition of Missouri Gas Energy, an Operating Unit of Laclede Gas Company, to Change its Infrastructure System Replacement Surcharge in its Missouri Gas Energy Service Territory and Request for Waiver of Commission Rule 4.020(2)

DATE: March 31, 2016

BACKGROUND

On February 1, 2016, Missouri Gas Energy ("MGE" or "Company"), an operating unit of Laclede Gas Company, filed the "Verified Application and Petition of Missouri Gas Energy, an Operating Unit of Laclede Gas Company, to Change its Infrastructure System Replacement Surcharge in its Missouri Gas Energy Service Territory and Request for Waiver of Commission Rule 4.020(2)" with the Missouri Public Service Commission ("Commission"). The Application proposes to increase MGE's Infrastructure System Replacement Surcharge (ISRS) rates and implement a revised Tariff Sheet with a proposed effective date of March 2, 2016. It also seeks waiver of the 60-day notice requirement.

MGE made its filing pursuant to Sections 393.1009, 393.1012 and 393.1015 of the Revised Statutes of Missouri and Commission Rules 4 CSR 240-2.060, 2.080, and 3.265, which allow Missouri natural gas corporations to file a petition and proposed rate schedule with the Commission to recover certain infrastructure system replacement costs outside a formal rate case, through a surcharge on customers' bills. MGE also requested a waiver of Commission Rule 4.020(2) – the 60-day notice requirement.

MGE asserts that it has continued to incur costs related to ISRS-eligible infrastructure system replacements since the Commission's last decision in Case No. GO-2015-0343 and submitted its Application to reflect ISRS investments for the period from September 1, 2015 through

OFFICIAL CASE FILE MEMORANDUM

MO PSC Case No. GO-2016-0197, Tariff No. YG-2016-0194

March 31, 2016

Page 2 of 4

December 31, 2015, with pro-forma ISRS costs updated through February 29, 2016. MGE estimated in its Application that it was entitled to an incremental increase of ISRS revenues in this case of \$3,597,838.

On March 9, 2016, MGE updated the amount of revenue requirement being sought. MGE's incremental revenue requirement reduced to \$3,570,050.

On February 3, 2016, the Commission issued an "Order Directing Notice, Directing Filings And Setting Intervention Deadline." That Order set the following dates:

- Staff's Recommendation shall be filed no later than April 1, 2016
- Suspension of the tariff sheet until May 31, 2016

On March 2, 2016, the Commission issued an "Order Granting Request For Waiver" in response to MGE's request for waiver of 4 CSR 240-4.020(2).

There is a potential issue with the effective date of this filing. Section 393.1015.3, RSMo, provides as follows:

A gas corporation may effectuate a change in its rate pursuant to the provisions of this section **no more often than two times every twelve months.** (Emphasis added)

MGE was granted authority to implement Fourth Revised Sheet No. 10,¹ Effective May 22, 2015. MGE was granted authority to implement Fifth Revised Sheet No. 10,² effective December 1, 2015. Therefore, the pending filing cannot go into effect any sooner than May 23rd.

STAFF REVIEW AND REVENUE CALCULATIONS

MGE's filing in Case No. GO-2016-0197 represents its fourth ISRS filing since the Company's most recent general rate case, Case No. GR-2014-0007. The results of the following subsequent ISRS cases are currently included in MGE's ISRS rates: Case Nos. GR-2015-0025, GO-2015-0270, and GO-2015-0343.

Section 393.1015.3, RSMo, states, "A gas corporation may effectuate a change in its rate pursuant to the provisions of this section no more often than two times every twelve months." The MGE tariffs filed with this Application have been suspended until May 31, 2016. In case

¹ GO-2015-0270.

² GO-2015-0343.

OFFICIAL CASE FILE MEMORANDUM

MO PSC Case No. GO-2016-0197, Tariff No. YG-2016-0194

March 31, 2016

Page 3 of 4

No. GO-2015-0270, which was filed in April of 2015, the effective date for MGE's revised ISRS rates was May 22, 2015. Since that date, MGE has changed its ISRS surcharge one additional time, in Case No. GO-2015-0343. Based upon MGE's previous ISRS filings and the statute, Staff recommends the tariff for this ISRS filing should not go into effect prior to May 23, 2016.

In this Application, MGE filed to recover ISRS qualifying infrastructure replacement costs incurred during the period of September 1, 2015 through February 29, 2016. As part of its examination of MGE's application, Auditing Staff reviewed supporting workpapers, a representative sample of work orders, and other applicable documentation. On February 2, 2016, MGE provided Staff with a sample of work orders related to costs incurred between September 1, 2015 and December 31, 2015. A sample of work orders for January 2016 was provided by MGE on February 9, 2016, and a sample of the February 2016 work orders was provided to Staff on March 9, 2016. Staff also communicated with MGE personnel to clarify MGE's application when necessary.

Commission Rule 4 CSR 240-3.265 for Natural Gas Infrastructure System Replacement Surcharges sets forth the definitions of natural gas utility plant projects that are eligible for ISRS treatment. Staff concluded each of the projects reviewed meets the ISRS rule qualifications.

The methodology used by the Auditing Staff allows for consideration of all accumulated depreciation and deferred income taxes on ISRS qualifying infrastructure replacement costs through April 15, 2016. This methodology is consistent with past reviews conducted by Auditing Staff and with Staff's view that the calculation of the ISRS revenue requirement should closely reflect the revenue requirement at the effective date of the ISRS rates.

Auditing staff also included incremental accumulated depreciation, accumulated deferred income tax, and any change in property tax rates for replacements associated with the currently effective ISRS authorized for MGE in Case Nos. GR-2015-0025, GO-2015-0270, and GO-2015-0343, as required by 4 CSR 240-3.265(20)(K).

STAFF RECONCILIATION

Commission Rule 4 CSR 240-3.265(17) requires a reconciliation of the ISRS revenue MGE collected from customers in the prior 12-month period to account for over or under-collection of ISRS revenue. Staff performed this reconciliation and found MGE under-collected ISRS revenue by \$323,568, which is identical to the amount of under-collection calculated by MGE. As a result of the reconciliation, Staff recommends including this amount of under-collected ISRS revenue in MGE's ISRS rates.

OFFICIAL CASE FILE MEMORANDUM

MO PSC Case No. GO-2016-0197, Tariff No. YG-2016-0194

March 31, 2016

Page 4 of 4

Based upon its review and calculations, Staff recommends MGE receive ISRS revenues of \$3,570,050. Upon Commission approval, this amount will be included with ISRS rates currently in effect from Case Nos. GR-2015-0025, GO-2015-0270, and GO-2015-0343. The following table shows the cumulative amount to be included in rates:

ISRS Case No.	Revenue Requirement	Cumulative
GR-2015-0025	\$1,990,296	
GO-2015-0270	\$2,814,926	\$4,805,222
GO-2015-0343	\$1,878,151	\$6,683,373
GO-2016-0197	\$3,570,050	\$10,253,423

THE ISRS RATE SCHEDULES

Staff's recommended rates are consistent with the methodology used to establish MGE's past ISRS rates and consistent with the overall methodology used to establish ISRS rates for other gas utilities. Staff's recommended ISRS rates are contained in Appendix B, attached hereto and incorporated by reference herein.

Staff has verified that MGE has filed its annual report and is not delinquent on any assessment. Staff is not aware of any other matter before the Commission that affects or is affected by this filing, other than MGE's last ISRS case which is currently on appeal.

RECOMMENDATION

Based upon the rationale stated above, Staff recommends the Commission issue an order in this case that:

1. Rejects MGE's ISRS tariff sheet (YG-2016-0194) P.S.C MO No. 6 Sixth Revised Sheet No. 10 cancelling P.S.C. MO No. 6 Fifth Revised Sheet No. 10 filed February 1, 2016;
2. Approves the Staff's recommended ISRS surcharge revenues in this docket in the incremental pre-tax revenue amount of \$3,570,050;
3. Authorizes MGE to file an ISRS rate for each customer class as reflected in Appendix B, which generates \$10,253,423 annually; and,
4. Authorizes an effective date no sooner than May 23, 2016.

Missouri Gas Energy (MGE)

ISRS Rate Design

Total ISRS Revenues

CASE NO. GO-2016-0197

TARIFF NO. YG-2016-0194

Total Revenue Requirement **\$ 10,253,423**

Customer Rate Class	Number of Customers	Customer Charge	Ratio to Residential Customer Charge	Weighted Customer Nos.	Customer Percentage	Proposed ISRS Charge	Proposed ISRS Revenues
Residential	441101	\$ 23.00	1	441101	78.1045%	\$ 1.51	\$ 8,008,389
Small General Service	60339	\$ 34.00	1.478261	89196.78261	15.7938%	\$ 2.24	\$ 1,619,408
Large General Service	3082	\$ 115.40	5.017391	15463.6	2.7381%	\$ 7.59	\$ 280,749
Large Volume	483	\$ 904.56	39.328696	18995.76	3.3635%	\$ 59.50	\$ 344,877
	<u>505,005</u>			<u>564757.1426</u>			\$ 10,253,423

*Due to rounding to the nearest penny, the designed ISRS rates will over-collect by \$13,149. However, it should be noted that the total amount will true-up at a later date.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of Laclede)
Gas Company to Change its Infrastructure) Case No. GO-2016-0197
System Replacement Surcharge in its)
Missouri Gas Energy Service Territory)

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.

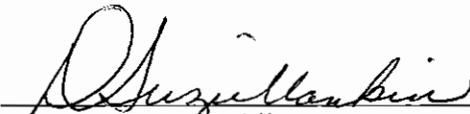
Further the Affiant sayeth not.


MICHAEL J. ENSRUD

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 31st day of March, 2016.

D. SUZIE MANKIN Notary Public - Notary Seal State of Missouri Commissioned for Cole County My Commission Expires: December 12, 2016 Commission Number: 12412070
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Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

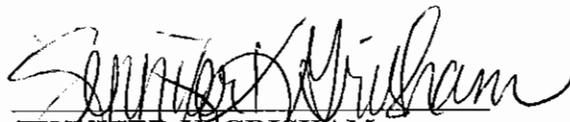
In the Matter of the Application of Laclede)
Gas Company to Change its Infrastructure) Case No. GO-2016-0197
System Replacement Surcharge in its)
Missouri Gas Energy Service Territory)

AFFIDAVIT OF JENNIFER K. GRISHAM

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW JENNIFER K. GRISHAM and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing Staff Recommendation in Memorandum form; and that the same is true and correct according to her best knowledge and belief.

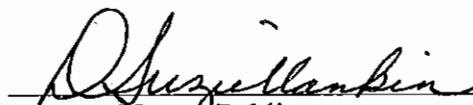
Further the Affiant sayeth not.


JENNIFER K. GRISHAM

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 31st day of March, 2016.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 12, 2016
Commission Number: 12412070


Notary Public