Exhibit No.:	
Issue:	*PGA off-system sale*
Witness:	*David M. Sommerer*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Direct Testimony*
Case No.:	*GR-2022-0136*
Date Testimony Prepared:	*January 26, 2024*

MISSOURI PUBLIC SERVICE COMMISSION

FINANCIAL AND BUSINESS ANALYSIS DIVISION

PROCUREMENT ANALYSIS

DIRECT TESTIMONY

OF

DAVID M. SOMMERER

SPIRE MISSOURI, INC.

CASE NO. GR-2022-0136

Jefferson City, Missouri
January 2024

** Denotes Confidential Information **

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DIRECT TESTIMONY OF

DAVID M. SOMMERER

SPIRE MISSOURI, INC.

CASE NO. GR-2022-0136

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DIRECT TESTIMONY

OF

DAVID M. SOMMERER

SPIRE MISSOURI, INC.

CASE NO. GR-2022-0136

Q. Please state your name and business address.

A. David M. Sommerer, 200 Madison Street, Jefferson City, MO. 65101.

Q. By whom are you employed and in what capacity?

A. I am employed by the Missouri Public Service Commission (Commission) as the Manager of the Procurement Analysis Department.

Q. Have you provided your educational background and work experience in this file?

A. Yes. My education background and work experience is included as Schedule DMS-d1.

EXECUTIVE SUMMARY

Q. What is the purpose of your Direct Testimony?

A. My Direct Testimony will address the Off-System Sales (OSS) issue in this case. This is the only remaining issue in Spire Missouri, Inc.'s (Spire Missouri or Company) 2020-2021 Actual Cost Adjustment (ACA) case. As a point of clarification, Case No. GR-2022-0136 pertains to the Company's Spire West system. Relatively recently, the Company has begun to combine both its Spire East and Spire West filings into one case number, though the East and West systems are still considered separate ACA rate areas. ACA cases are intended to compare the Company's actual gas costs incurred versus the recoveries billed pursuant to the Company's Purchased Gas Adjustment (PGA) tariffs. In Staff's view, this OSS issue relates to the appropriate gas costs to allocate/assign to a unique OSS transaction that occurred during Storm Uri (Uri) in February of 2021. Although Company witnesses David A. Yonce and Scott A. Weitzel provided Direct Testimony on November 3, 2023, my Direct Testimony will focus on supporting Staff's position. I plan to file a detailed rebuttal of the Company's Direct Testimony on March 1, 2024.

As an additional note, except for supporting schedules, the Company has, generally speaking, redacted the counterparty involved in the OSS transaction, the sales price of the OSS, the gas supply cost the Company has associated with the OSS, and the volumes of the OSS. Staff intends to use this approach to redactions within this testimony.

OSS SUMMARY

Q. Is there a summary from the Staff's ACA recommendation in this case that is relevant to the OSS issue.

A. Yes. The following is an excerpt (with repeated word removed) from the Staff's December 15, 2022 ACA recommendation pages 4 and 5.

> An off-system sale occurs when Spire West sells natural gas to a customer outside of its service area. Spire West makes a margin/profit from off-system sales, which is calculated by subtracting the cost of the gas supply, associated with the sale, from the gross revenues received from the sale as described in tariff sheet nos. R-27 and R-27.1. Per tariff sheet no. 11.6, Spire is allowed to keep 25% of the off-system sales profit with the remaining 75% flowing through the PGA/ACA to reduce the overall gas costs of Spire West's customers. In this ACA period Spire West made an off-system sale with the gas supply held in its SSC storage. The Company assigned a Cost of Gas Supply of ** [redacted] ** per MMBtu to this OSS. The Staff believes a higher Cost of Gas Supply, in the amount of ** [redacted] ** per MMBtu, should have been assigned to this OSS. Based on the Company's assignment of the Cost of Gas Supply

> and the OSS sharing percentages, the customer's gas costs were reduced $75 million and the Company kept $25 million. Based on Staff's assignment of the cost supply to the OSS, there should be no margin on the OSS. Staff's assignment reduces gas costs by $100 million because the higher cost supply associated with the OSS is not included in the cost of gas. Therefore Staff proposes an adjustment to reduce gas costs by $(25 million). This amount is based upon the $100 million of gas costs that should not have been included in the ACA minus the $75 million OSS sharing credit the Company has applied to the ACA balance.

See Staff's ACA memorandum, Confidential Schedule DMS-d2.

Q. Please specify what OSS tariffs were effective during the time of the OSS at issue.

A. P.S.C. MO. No. 8 Original Sheet 11.12 contained the sharing percentage while P.S.C. MO. No. 8 Original Sheet No. R-27 and R-27.1 provided certain rules related to OSS. For ease of reference, I am providing copies of these tariffs as Schedule DMS-d3.

OSS TARIFFS

Q. Have you been involved with the review of the Company's (and predecessor Companies) OSS tariffs over the years?

A. Yes, my recollection is that I have participated with the review of the OSS tariffs since their inception. I have worked with the Company's predecessors, and fellow Staff members to review and interpret these provisions since the 1990s.

Q. Please discuss your understanding of these tariffs.

A. Tariff Sheet 11.12 simply provides the sharing percentage between the Company and customers. The sharing is a straightforward 75% of the OSS margin for customers and 25% of the OSS margin to the Company. The margin is the sales revenue from the OSS minus the cost of gas assigned to the OSS. More detailed guidelines are provided in

Tariff Sheets R-27 and R-27.1. On Tariff Sheet R-27, there is some clarity added to what OSS margin would include. The term used is "Off-system Net Revenue". That is defined as being equal to Off-system Sale Revenues (OS-Revenues) minus Off-system Cost of Gas Supply (OS-CGS) and Off-system Cost of Transportation (OSS-COT).

Q. Does the tariff provide further detail on what the above terms represent?

A. Yes, again from Tariff Sheet R-27 OS-Revenues are the "actual revenues received by the Company from an OS-Sale". This would typically be straightforward, and would be the sales prices negotiated with the third-party buyer, multiplied by the sales volumes purchased by the third-party buyer.

Next Off-system Cost of Gas Supply (OS-CGS) is defined. Once certain exclusions are identified (for example gas that was purchased for hedging) the tariff states, the "OS-CGS is equal to the highest CGS from the CGS-Schedule (as defined below) associated with the quantity of actual OS-Sales for the pipeline on which the sale is made, unless a lower CGS is documented and supported in accordance with the provisions of Section 3 of this rule".

Q. Please discuss the term "CGS-Schedule".

A. The Cost of Gas Supply (CGS) Schedule is described on Tariff Sheet R-27.1. It provides the essential record-keeping documentation for each OSS transaction. Although this is a simplification, the CGS-Schedule is designed to provide a listing of all of the cost details "associated with the delivery of gas to the Company's city gate for all of the Company's gas supply contracts". The CGS-Schedule also includes the details of the OSS transaction such as the sales prices, volumes, and "total costs associated with the sale". Thus, a basic comparison can be made between the Company's costs for on-system gas supply, versus the cost associated with or assigned to the OSS.

Q. There was a third term related to the calculation of the margin called Off-system Cost of Transportation (OSS-COT). What does that term relate to?

A. It is usually a relatively minor part of the costs associated with the OSS since it includes only the incremental commodity-related transportation costs. It does not include the "non-commodity related LDC system supply transportation costs". Because of the way the Federal Energy Regulatory Commission (FERC) designs most interstate pipeline rates, the majority of the interstate pipeline charges are contained within the reservation fee or fixed charge which is a "non-commodity related" transportation cost.

Q. What do you understand as the fundamental protection and over-arching guideline of the OSS tariffs?

A. In order to prevent subsidization of these transactions by the on-system customers, the general principle is to allocate the "highest cost" of gas supply associated with the quantity of actual on-system sales for the pipeline on which the sale is made (subject to certain exceptions). It is a matter of simple math that if the cheapest on-system supply is allocated to the OSS, it will increase the margin, and the Company's share of the profit. That would leave the higher cost supplies to be passed-through the PGA process and paid for by the on-system customers.

Q. What other point would you make with regard to the OSS tariffs?

A. It is my understanding that storage transactions were never contemplated by the tariff. It is clear that the tariffs focus on gas supply. The word "storage" is never used. The original concept was that the Company might have extra supply that could be sold outside the Company's service area. If storage would have been considered a viable OSS option under the tariffs, it would have be necessary to define elaborate cost allocation processes and protections. With storage, any given day that the market exceeds the weighted average cost of gas (WACOG) in storage, a profit potential exists. However, there would be a multitude of variables in play on whether storage balances should be reduced by any particular OSS given that storage is the foundation of the gas portfolio's reliability.

OSS TRANSACTION

Q. Can you describe the specifics of the OSS?

A. Yes, and since I do not dispute how the Company described the specific components of the transaction, I quote from Mr. Yonce's description from page 6, lines 3 through 7 of his Direct Testimony. "Spire Missouri made an OSS of natural gas during the extraordinary Uri winter storm. The OSS consisted of an in-ground storage transfer of ** [redacted] ** million British thermal units ("MMBtu") of the Company's natural gas in Southern Star storage inventory to ** [redacted] **, another public utility serving a neighboring state, on February 15, 2021".

Q. Please explain what you mean by the term "Southern Star storage inventory".

A. The Company contracts for transportation and storage capacity with Southern Star Central Gas Pipeline, Inc. (SSC). SSC is a (FERC) regulated interstate pipeline. Although SSC owns the actual storage fields, the Company is able to use the contracted storage to supplement the natural gas that it buys for its customers during the winter, sometimes referred to as "flowing supply". Therefore, during winter, the supplies that are delivered to the Kansas City area are a combination of storage withdrawals, and flowing supply. The concept of inventory is essentially a description of the gas volumes and associated prices held in the storage field for the Company's use. The usual cycle for using storage results in injections into storage during the summer, and withdrawals of the storage gas (reducing the storage inventory) during the winter.

Q. What was the sales price of the OSS?

A. ** [redacted] ** per MMBtu.

Q. Does Staff have a concern about the achieved sales price?

A. No. In this situation, the transaction was with an unaffiliated third-party with its own business incentive to negotiate the lowest price possible. Since the transaction is with an unaffiliated party it would not have the same conflicts present in an affiliated transaction.

Q. What is your understanding of the Company's *current* position with regard to the relevant gas supply cost to allocate to this transaction?

A. The Company is essentially suggesting that around the time of the transaction it intended to replace the gas that was sold from its Southern Star Central (SSC) storage account. Ultimately, the Company argues that a ** [redacted] ** of gas acquired for ** [redacted] ** at a price of ** [redacted] ** per MMBtu, was the assignable gas supply to the OSS. This assignment creates the approximately $100,000,000 of artificial profit argued for this transaction.

Q. What is the Staff's position in this case?

A. This OSS was only possible because of the Company's holding of storage on the Southern Star Central system. Southern Star experienced significant supply issues during Storm Uri, including lack of flowing supply due to well-head freeze off. With demands along the SSC system increasing due to cold temperatures along with the fall of in supply, and astronomical daily price increases, storage becomes a highly valuable asset. Storage was available to the Company because its customers pay the fixed reservation fees necessary to hold storage capacity. The Company's customers pay these fees year after year, over the decades, so that storage is available to support their winter-time demand. The Company passes on these fixed charges to the customer via the Purchased Gas Adjustment tariff. It does so with little risk, as long as the costs are prudently incurred.

However, just as important as the payment of fixed storage fees to the interstate pipeline for the right to store natural gas, is the fact that the purchase of flowing gas supply can be viewed as limiting storage withdrawals. In other words, for every purchase of a gas molecule, there is less gas needed to be withdrawn from storage. So during the period immediately preceding, during, and after the OSS sale from storage, the Company was buying flowing supplies at unprecedented daily prices. It can be argued that the purchase of these supplies were defending the storage inventory balances by moderating the withdrawals that would otherwise take place over the several days where prices were extraordinarily high.

Q. Please describe the Staff's approach to assigning gas supply to the OSS transaction.

A. The Staff reviewed the daily prices that the Company was paying immediately before, during, and after the OSS. In Staff's view, as long as there is supply in this several-day timeframe, that is being paid for by the customer, at prices exceeding the sales price of the OSS, then there really is no margin to share. The Staff found more than enough high-cost flowing supply that could be assigned to the transaction. In effect, the reduction to the ACA costs that is necessary to allocate the high-cost Storm Uri supplies away from on-system customers, and over to the off-system sales transaction, results in an additional gas cost reduction of $25 million from the initial $75 million the Company has credited to the on-system customers. See Confidential Schedule DMS-d4 for a summary of the supplies allocated to the OSS.

COMPANY'S DESCRIPTION OF THE OSS IN EXTERNAL FINANCIAL REPORT

Q. Do you have information to share that indicates the Company, early in the process, recognized that even using their calculation of margin, the transaction was so unique, they had no original intention of keeping funds related to the OSS? Please explain.

A. In reviewing the portion of the Company's 10-Q for the quarterly period ended March 31, 2021, it can be seen that the Company noted,

> Spire Missouri normally retains 25% and passes 75% through to its customers. During the February cold weather event, Spire Missouri had an unusually large off-system sale resulting in $100.0 of incremental gross revenue. Due to the nature and magnitude of this particular transaction, Spire Missouri anticipates distributing all or a portion of its usual 25% share to customers and plans to work with the MoPSC and community partners over the rest of the fiscal year to determine the method and timing. Accordingly, a $25.0 regulatory liability has been recorded, with a corresponding reduction in revenue.

(Above dollar figures appear to be in the millions for purposes of this section).

Q. What does this appear to indicate?

A. That at that time, the Company was recording a regulatory liability that classified the $25 million as a regulatory liability not a revenue.

Q. Did this language carry through to the 10-Q for the quarterly period ended June 30, 2021?

A. Yes.

Q. What changed with regard to this issue in the Company's annual 10-K for the fiscal year ended September 30, 2021?

A. On page 121, of that document the Company noted,

> Spire Missouri retains 25% and passes 75% through to its customers as gas cost savings. During Winter Storm Uri, Spire Missouri had an unusually large off-system sale resulting in $100.0 of incremental gross revenue. Due to the nature and magnitude of this particular

> transaction, Spire Missouri initially deferred recognition of its 25% share and established a regulatory liability to allow time to assess the transaction in light of the open rate proceeding. When the regulatory treatment became clear in the fourth quarter of fiscal 2021, the Company reversed the liability and recorded the amount in operating revenues.

(Above dollar figures appear to be in the millions for purposes of this section).

Q. What is your understanding of this change in classification?

A. It appears that "due to the nature and magnitude of this particular transaction" the Company originally had considered its quantification of its share of the OSS margin to be a liability owed to the customers. However, the Company reclassified this liability back to an operating revenue once it considered the outcome of its rate proceeding.

Q. Could you summarize your Direct Testimony?

A. Yes. The remaining issue in this case relates to a highly unique OSS from the Company's SSC storage as a result of unusually high spot prices experienced during Storm URI. Although the spirit of the OSS tariff suggests that the highest cost of gas relevant to the sale be allocated to the OSS, the tariff allows for consideration of other allocations. In this situation, the tariff is silent on how to address a rare sale out of the Company's storage. The Company proposes the use of an arbitrary gas supply package that it believed to be associated with the OSS. The Staff, on the other hand, argues that as long as there is high-cost flowing gas supply near the sale, then those supplies should be allocated to the transaction.

Q. Does this conclude your Direct Testimony?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

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

AFFIDAVIT OF DAVID M. SOMMERER

STATE OF MISSOURI	)	
	)	ss.
COUNTY OF COLE	)	

COMES NOW DAVID M. SOMMERER and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Direct Testimony of David M. Sommerer*; and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.

David M. Sommerer

DAVID M. SOMMERER

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 25th day of January 2024.

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

D. Suzie Mankin

Notary Public

David M. Sommerer

Educational Background and Work Experience

In May 1983, I received a Bachelor of Science degree in Business and Administration with a major in Accounting from Southern Illinois University at Carbondale, Illinois. In May 1984, I received a Master of Accountancy degree from the same university. Also, in May 1984, I sat for and passed the Uniform Certified Public Accountants examination. I am currently a licensed CPA in Missouri. Upon graduation, I accepted employment with the Commission.

From 1984 to 1990 I assisted with audits and examinations of the books and records of public utilities operating within the state of Missouri. In 1988, the responsibility for conducting the Actual Cost Adjustment (ACA) audits of natural gas utilities was given to the Accounting Department. I assumed responsibility for planning and implementing these audits and trained available Staff on the requirements and conduct of the audits. I participated in most of the ACA audits from early 1988 to early 1990. On November 1, 1990, I transferred to the Commission's Energy Department. Until November of 1993, my duties consisted of reviews of various tariff proposals by electric and gas utilities, Purchased Gas Adjustment (PGA) reviews, and tariff reviews as part of a rate case. In November of 1993, I assumed my present duties of managing a newly created department called the Procurement Analysis Department. This Department was created to more fully address the emerging changes in the gas industry especially as they impacted the utilities' recovery of gas costs. My duties have included managing the Procurement Analysis staff, reviewing ACA audits and recommendations, participating in the gas integrated resource planning project, serving on the gas project team, serving on the natural gas commodity price task force, and participating in matters relating to natural gas service in the state of Missouri. In July of 2006, the Federal Issues/Policy Analysis Section was transferred to the Procurement Analysis Department. That group analyzes filings made before the Federal Energy Regulatory Commission (FERC). During the reorganization in August 2011, the Federal Issues/Policy Analysis Section was transferred to the Secretary/ General Counsel Division. In 2015, I assumed the responsibility for the rate design aspects of the Gas Infrastructure System Replacement Surcharge (ISRS) process. The Gas ISRS allows for a more expedited process of including eligible pipeline replacements in rates prior to general rate cases. In April of 2021, I participated in the development of Staff's Report in the Cold Weather Event Investigation Case No. AO-2021-0264.

CASES WHERE TESTIMONY WAS FILED DAVID M. SOMMERER

COMPANY	CASE NO.	ISSUES
Summit Natural Gas of Missouri	GR-2022-0122	PGA/ACA Carrying Costs
Summit Natural Gas of Missouri	GC-2022-0158	Ozark Healthcare Complaint
Spire East/West	GR-2021-0108	PGA/ACA Consolidation, Seasonal PGA
Spire East	GO-2019-0356	ISRS rates
Spire West	GO-2019-0357	ISRS rates
Spire East	GO-2019-0115	ISRS rates
Spire West	GO-2019-0116	ISRS rates
Spire East	GO-2018-0309	ISRS rates
Spire West	GO-2018-0310	ISRS rates
Missouri Gas Energy	GO-2017-0201	ISRS rates
Laclede Gas Company	GO-2017-0202	ISRS rates
Missouri Gas Energy	GR-2017-0216	Gas Inventory Carrying Cost and Service Agreements
Laclede Gas Company	GR-2017-0215	Gas Inventory Carrying Cost and Service Agreements
Laclede Gas Company	GO-2016-0333	ISRS rates
Missouri Gas Energy	GO-2016-0332	ISRS rates
Laclede Gas Company (MGE)	GO-2016-0197	ISRS rates
Laclede Gas Company	GO-2016-0196	ISRS rates

COMPANY	CASE NO.	ISSUES
Liberty Utilities (Midstates Natural Gas) Corp., d/b/a Liberty Utilities	GR-2014-0152	Special Contact Customers Gas Contract
Missouri Gas Energy	GR-2014-0007	Gas Supply Incentive Plan Property Tax PGA Recovery
Laclede Gas Company	GR-2010-0171	Bad Debt in PGA, CAM
Atmos Energy Corporation	GR-2009-0417	Affiliated Transactions
Atmos Energy Corporation	GR-2008-0364	Affiliated Transactions
Missouri Gas Energy	GR-2009-0355	PGA tariff
Laclede Gas Company	GT-2009-0026	Tariff Proposal, ACA Process
Missouri Gas Utility	GR-2008-0060	Carrying Costs
Laclede Gas Company	GR-2007-0208	Gas Supply Incentive Plan, Off-system Sales, Capacity Release
Laclede Gas Company	GR-2005-0284	Off-System Sales/GSIP
Laclede Gas Company	GR-2004-0273	Demand Charges
AmerenUE	EO-2004-0108	Transfer of Gas Services
Aquila, Inc.	EF-2003-0465	PGA Process, Deferred Gas Cost
Missouri Gas Energy	GM-2003-0238	Pipeline Discounts, Gas Supply
Laclede Gas Company	GT-2003-0117	Low-Income Program
Laclede Gas Company	GR-2002-356	Inventory, Off-System Sales
Laclede Gas Company	GR-2001-629	Inventory, Off-System Sales
Laclede Gas Company	GR-2001-387	ACA Price Stabilization
Missouri Gas Energy	GR-2001-382	ACA Hedging/Capacity Release
Laclede Gas Company	GT-2001-329	Incentive Plan
Laclede Gas Company	GO-2000-394	Price Stabilization

COMPANY	CASE NO.	ISSUES
Laclede Gas Company	GT-99-303	Incentive Plan
Laclede Gas Company	GC-99-121	Complaint PGA
Laclede Gas Company	GR-98-297	ACA Gas Cost
Laclede Gas Company	GO-98-484	Price Stabilization
Laclede Gas Company	GR-98-374	PGA Clause
Missouri Gas Energy	GC-98-335	Complaint Gas Costs
United Cities Gas Company	GO-97-410	PGA Clause
Missouri Gas Energy	GO-97-409	PGA Clause
Missouri Gas Energy	GR-96-450	ACA Gas Costs
Missouri Public Service	GA-95-216	Cost of Gas
Missouri Gas Energy	GO-94-318	Incentive Plan
Western Resources Inc.	GR-93-240	PGA tariff, Billing Adjustments
Union Electric Company	GR-93-106	ACA Gas Costs
United Cities Gas Company	GR-93-47	PGA tariff, Billing Adjustments
Laclede Gas Company	GR-92-165	PGA tariff
United Cities Gas Company	GR-91-249	PGA tariff
United Cities Gas Company	GR-90-233	PGA tariff
Associated Natural Gas Company	GR-90-152	Payroll
KPL Gas Service Company	GR-90-50	Service Line Replacement
KPL Gas Service Company	GR-90-16	ACA Gas Costs
KPL Gas Service Company	GR-89-48	ACA Gas Costs
Great River Gas Company	GM-87-65	Lease Application
Grand River Mutual Tel. Company	TR-87-25	Plant, Revenues
Empire District Electric Company	WR-86-151	Revenues

cont'd David M. Sommerer

COMPANY	CASE NO.	ISSUES
Associated Natural Gas Company	GR-86-86	Revenues, Gas Cost
Grand River Mutual Telephone	TR-85-242	Cash Working Capital
Great River Gas Company	GR-85-136	Payroll, Working Capital
Missouri-American Water Company	WR-85-16	Payroll

MEMORANDUM

TO: Missouri Public Service Commission Official Case File,
Case No. GR-2022-0136 – Spire Missouri, Inc., d/b/a Spire

FROM: Anne M. Crowe, Senior Utility Regulatory Auditor - Procurement Analysis
David Buttig, PE, Senior Professional Engineer - Procurement Analysis
Kwang Y. Choe, PhD, Economics Analyst - Procurement Analysis

/s/ *David M. Sommerer* 12/15/22 — Project Coordinator / Date

/s/ *Jamie S. Myers* 12/15/22 — Staff Counsel's Office / Date

SUBJECT: Staff's Recommendation for Spire Missouri, Inc., d/b/a/ Spire 2020-2021 Actual Cost Adjustment Filing

DATE: December 15, 2022

I. EXECUTIVE SUMMARY

On November 12, 2021, Spire Missouri Inc., d/b/a Spire ("Spire West" or "Company") filed its Actual Cost Adjustment ("ACA") for the 2020-2021 period in Case No. GR-2022-0136 for its Spire West division.

Spire West's ACA filing reflects the commodity price spike experienced in February 2021 during Winter Storm Uri. In Case No. GT-2022-0084 Spire West received authority to increase the credit amount of its Filing Adjustment Factor ("FAF")[1] to offset the increase in gas costs resulting from Winter Storm Uri for up to three years (2021-2023). The Company used the FAF to mitigate the customer impact in this filing.

The Commission's Procurement Analysis Department ("Staff") reviewed and evaluated Spire West's billed revenues and actual gas costs for the period of October 1, 2020, to September 30, 2021. The Staff examined Spire West's gas purchasing practices to determine the prudence of the Company's purchasing and operating decisions, including:

(1) A reliability analysis of estimated peak cold day requirements and the capacity levels needed to meet those requirements,

(2) The Company's rationale for its reserve margin for a peak cold day,

(3) A review of normal, warm and cold weather requirements and the gas supply plans for meeting these requirements, and

[1] The FAF is designed to refund to, or recover from, customers any over- or under-recoveries of gas costs that have accumulated since the Company's last ACA filing.

(4) A review of Spire West's hedging for the period to determine the reasonableness of the Company's hedging plans.

Staff proposes two adjustments in the amounts of $(4,661,103) and $(25,000,000) (for a total of $(29,661,103)) due to Cash Outs and Off-System Sales as explained in the Billed Revenue and Actual Gas Cost Section of this recommendation.

Staff recommends the Commission issue an order directing the Company to establish the ACA account balances shown in the table below to reflect the under or (over)-recovery balances as of September 30, 2021.

An under-recovery is an amount that is owed to the Company by its customers and is shown in the table below as a positive number. An over-recovery reflects an amount that is owed to the customer by the Company and is shown as a negative number (in parentheses). Spire Missouri West has an under-recovery.

Account	9-30-21 Ending Balance per Spire Missouri West Filing	Current Period Proposed Adjustment	9-30-21 Staff Recommended Ending Balance
ACA Balance	$ 176,357,537	$ (29,661,103)	$ 146,696,434

Additionally, Staff recommends the Commission order the Company to respond to this Staff Recommendation Memorandum within 30 days.

This ACA Memorandum is organized into the following sections:

Section No.	Topic	Page
I	Executive Summary	1
II	Background	3
III	Reliability Analysis and Gas Supply Planning	3
IV	Billed Revenue and Actual Gas Costs	4
V	Winter Storm Uri	5
VI	Hedging	6
VII	Recommendations	7

Each section explains Staff's concerns and recommendations.

STAFF'S TECHNICAL DISCUSSION AND ANALYSIS

II. BACKGROUND

Spire Missouri West's primary service areas are: Kansas City, St. Joseph and Joplin. For the 2010-2021 ACA period, the Company has an average of 497,836 residential customers, 33,633 commercial customers, 97 industrial customers, and 374 commercial and industrial transportation customers, for a total of 531,940 customers.

Spire Missouri West transports its gas supply over Panhandle Eastern Pipe Line ("PEPL"), Southern Star Central Gas Pipeline ("SSC"), Tallgrass Interstate Gas Transmission ("TIGT"), and Rockies Express Pipeline ("REX").

III. RELIABILITY ANALYSIS AND GAS SUPPLY PLANNING

As a regulated gas corporation providing natural gas services to Missouri customers, a local distribution company (LDC) is responsible for conducting reasonable long-range supply planning and the decisions resulting from that planning. A purpose of the ACA process is to review the LDC's planning for gas supply, transportation, and storage to meet its customers' needs. For this analysis, Staff reviewed Spire West's plans and decisions regarding estimated peak day requirements and the capacity levels to meet those requirements, peak day reserve margin and the rationale for this margin and natural gas plans for various conditions.

Staff has no proposed financial adjustments for the 2020-2021 ACA period related to reliability analysis and gas supply planning. Staff's other comments and recommendations are discussed in the rest of this section.

A. Resource Plan

Staff introduced Spire West's revised Resource Plan in Case No. GR-2021-0122. The 2019-2020 ACA period was the first in which the revised plan was in effect. Staff and Spire discussed the revision both in advance of and subsequent to Spire's finalization of the plan, Staff will continue to monitor Spire's resource planning and demand forecasting.

B. Reserve Margin

The reserve margin for the peak day is ** [redacted] **. Staff normally considers this to be low. In previous ACA discussions with Staff related to its revised Resource Plan, Spire has expressed a high degree of confidence in its revised models for demand projection. ** [redacted] ** In light of this additional refinement, which addresses some of the uncertainty intended to be covered by a somewhat higher reserve margin, Staff makes no additional recommendations related to reserve margin with the expectation that Spire will continue to observe the effectiveness of its demand modeling and make appropriate revisions to its Resource Plan if needed.

IV. BILLED REVENUE AND ACTUAL GAS COSTS

During this ACA period Staff performed a review and evaluation of the Company's actual gas costs and billed revenue. Based on its review, Staff proposes adjustments for Cash Outs and Off-System Sales to the September 30, 2021 ACA balance as explained below.

A. Cash Outs

Spire West's transportation tariffs contain a Cash Out provision which reconciles a transportation customer's imbalance by requiring the Company to either buy or sell gas to the transportation customer equal to the customer's monthly imbalance[2]. At the end of each month, if the transporter used more gas than it put into Spire West's system, then the transporter pays the Company for the additional gas supplies it used. If the transporter used less gas than it put into the system, the Company purchases this gas from the transportation customer through a credit on the customer's bill. The cost of the gas purchased or sold to transportation customers through the Cash Out process flows through the PGA/ACA account. Staff determined in this period that the Cash Out amounts stated in the Company's bills issued to the transportation customers or their retail gas marketers did not agree with the higher, unsupported Cash Out amount reported in the Company's ACA filing. The underlying Cash Out bills should agree with the ACA filing. Therefore, to reconcile this discrepancy Staff proposes an adjustment to reduce the Cash Outs total by $(4,661,103). This adjustment brings the Company's Cash Out amount in its ACA filing in line with the Cash Out bills issued to the transportation customers or their retail gas marketers.

B. Off-System Sale (OSS)

An off-system sale occurs when Spire West sells natural gas to a customer outside of its service area. Spire West makes a margin/profit from off-system sales, which is calculated by subtracting the cost of the gas supply, associated with the sale, from the gross revenues received from the sale as described in tariff sheet nos. R-27 and R-27.1. Per tariff sheet no. 11.6, Spire is allowed to keep 25% of the off-system sales profit with the remaining 75% flowing through the PGA/ACA to reduce the overall gas costs of Spire West's customers. In this ACA period Spire West made an off-system sale with the gas supply held in its SSC storage. The Company assigned a Cost of

[2] "Balancing" by a transportation customer or a pool of transportation customers means the amount of gas put into Spire West's system (receipts) is equal to the amount used or taken out of Spire West's system (deliveries). When a transportation customer puts more or less gas into Spire Missouri West's system than the gas actually used, this difference is referred to as an "imbalance."

Gas Supply of ** [redacted] ** per MMBtu to this OSS. The Staff believes a higher Cost of Gas Supply, in the amount of ** [redacted] ** per MMBtu, should have been assigned to this OSS. Based on the the Company's assignment of the Cost of Gas Supply and the OSS sharing percentages, the customer's gas costs were reduced $75 million and the Company kept $25 million. Based on Staff's assignment of the cost supply to the OSS, there should be no margin on the OSS. Staff's assignment reduces gas costs by $100 million because the higher cost supply associated with the OSS is not included in the cost of gas. Therefore Staff proposes an adjustment to reduce gas costs by $(25 million). This amount is based upon the $100 million of gas costs that should not have been included in the ACA minus the $75 million OSS sharing credit the Company has applied to the ACA balance.

V. WINTER STORM URI

Beginning on or around February 6, 2021, an Arctic air mass enveloped much of the continental United States with temperatures experienced throughout the Midwest well below normal between February 8 and February 18, 2021. Spire West indicated it was prepared for the cold weather event as a result of its normal practice of continuously monitoring weather and gas supply. It took steps to ensure storage levels were adequate, that available capacity would meet operational needs, and that the Company could find the appropriate level of supply to fill its capacity.[3]

The Staff evaluates prudence based on whether a reasonable person would find 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, without the benefit of hindsight. Imprudence alone is not treated as a basis for a disallowance. However, when imprudence is coupled with harm to a utility's ratepayers, then a prudence disallowance is appropriate.

Staff reviewed Spire West's actions and decisions as it related to Winter Storm Uri, February 12th through February 21st, including a review of natural gas purchases, storage utilization, and hedging. Spire West issued an Operational Flow Order[4] (OFO) for the period, effective February 12, 2021 until February 20, 2021. Spire West stated declaring an OFO was the best way to protect and maintain the integrity of its distribution system. Based on Staff's review, no additional adjustments to Spire West's ending ACA balances have been recommended.

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[3] Case No. AO-2021-0264 Data Request No. 294.

[4] Spire West's tariff Sheet No. 16.8 states the "Company may issue Operational Flow Orders (OFO's) to Transportation Customers as necessary to protect the integrity of its system or any portion thereof and/or to insure comopliance with the requirements of upsteam pipeline companies." An OFO requires the transporters to match the amount of gas put into the system with the amount of gas they use.

VI. HEDGING

In its review of Spire West's purchasing practices, Staff reviewed the Company's Risk Management Strategy, Gas Supply Risk Management Policy and its financial hedging transactions for the 2020-2021 ACA period.

The Company implemented its financial hedging transactions based on its risk management strategy. Spire West combined storage and financial instruments to hedge portions of the volumes needed for the winter heating season, November 2020 through March 2021.

Staff has the following comments on Spire West's hedging practices:

A. ** [redacted] **

B. Evaluation of Hedge Program

Staff reviews the prudence of a Company's decision-making based on what the Company knew or reasonably could have known at the time it made its hedging decisions. A Company's hedging planning should be flexible enough to incorporate changing market circumstances. A Company should evaluate its hedging strategy in response to changing market dynamics as to how much the existing hedging strategy actually benefits its customers while balancing market price risk. For example, Spire West should routinely review and evaluate the adequacy of its hedge coverage regarding the appropriate volumes of financial instruments as well as the possible use of more cost-effective financial instruments to assess exposure to market prices when the market prices become relatively less volatile.

Staff recommends the Company analyze the benefits/costs based on the outcomes from the hedging strategy, and evaluate any potential improvements on the future hedging plan and its implementation to achieve a cost effective hedging outcome as the Company reviews and develops its hedging program each year in the Company's Risk Management Strategy.[5] For example, the Company should continue to evaluate the performance of its hedge program in terms of the various types of financial instruments used, ** [redacted]. ** Staff recommends the Company well document the rationale for its hedging decisions.

VII. RECOMMENDATIONS

1. Staff recommends the Commission issue an order directing the Company to establish the ACA account balance as shown in the table below to reflect the under or (over)-recovery balance as of September 30, 2021.

An under-recovery is an amount that is owed to the Company by its customers and is shown in the table below as a positive number. An over-recovery reflects an amount that is owed to the customer by the Company and would be shown as a negative number (in parentheses). Spire West has an under-recovery.

Account	9-30-21 Ending Balance per Spire Missouri West Filing	Current Period Proposed Adjustment	9-30-21 Staff Recommended Ending Balance
ACA Balance	$ 176,357,537	$ (29,661,103)	$ 146,696,434

2. Staff recommends that the Commission issue an order requiring the Company to file a written response to all of the comments, concerns and recommendations included in this Staff Recommendation Memorandum within 30 days.

[5] The Company's Risk Management Strategy dated July 2015 was the most recent on available for the 2020-2021 ACA period. Staff notes that the Company indicated during recent updates that it would evaluate and update its risk management strategy, which considers a longer term hedging, among other changes. Staff will continue to monitor the change in the Company's hedging strategy.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

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

AFFIDAVIT OF ANNE M. CROWE

STATE OF MISSOURI	)	
	)	ss.
COUNTY OF COLE	)	

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

Further the Affiant sayeth not.

Anne M. Crowe

ANNE M. CROWE

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 13th day of December 2022.

D. Suzie Mankin

Notary Public

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

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

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

AFFIDAVIT OF DAVID T. BUTTIG, PE

STATE OF MISSOURI	)	
	)	ss.
COUNTY OF COLE	)	

COMES NOW DAVID T. BUTTIG, PE and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Staff Recommendation* in Memorandum form; and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.

David Buttig

DAVID T. BUTTIG, PE

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 14th day of December 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

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

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

AFFIDAVIT OF KWANG Y. CHOE, PhD

STATE OF MISSOURI	)	
	)	ss.
COUNTY OF COLE	)	

COMES NOW KWANG Y. CHOE, PhD and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Staff Recommendation* in Memorandum form; and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.

Kwang Y. Choe

KWANG Y. CHOE, PhD

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 13th day of December 2022.

D. Suzie Mankin

Notary Public

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

PURCHASED GAS COST ADJUSTMENT
PGA

IX. GAS COST INCENTIVE MECHANISM

The Company and its Firm Sales customers shall share the Off-System Sales margins and Capacity Release Revenues realized by the Company. Firm Sales customers shall retain 75% of the annual off-system sales margins and capacity release revenues and the Company shall retain 25% of such margins. The Company will record in an Incentive Revenue ("IR") Account that portion of revenue retained by the Company according to the sharing percentages.

RULES AND REGULATIONS

33. Off-System Sales

A. Definitions:

Off-system marketing Sales (OS-Sales) are herein defined as any Company sale of gas, or gas bundled with pipeline transportation, made to parties at locations off the Company's distribution system. Subject to any waivers or approved modifications, OS-Sales made to an affiliate of the Company shall be accounted for in accordance with the Company's Cost Allocation Manual or, if and when applicable, the Commission's affiliate transaction rules.

Off-system Sale Revenues (OS-Revenues) are the actual revenues received by the Company from an OS-Sale.

Cost of Gas Supply (CGS) is the commodity cost related to the purchase of gas supply, exclusive of transportation costs.

Off-system Cost of Gas Supply (OS-CGS) is the CGS related to the purchase of gas supply for a proposed OS-Sale. In determining the OS-CGS, the costs of gas supplies: (1) which have been procured on behalf of the Company's on-system customers for a period greater than one month; and (2) which have a commodity price at the time of the OS-Sale that has been altered from an indexed price as a result of a hedge in a physical gas supply contract, shall not be considered. Nor shall the Company use such gas supplies for OS-Sales, unless the Company determines, and provides sufficient information to verify, that selling such gas supplies is not detrimental to its customers. Subject to the foregoing exclusion of certain gas supplies, the OS-CGS is equal to the highest CGS from the CGS-Schedule (as defined below) associated with the quantity of actual OS-Sales for the pipeline on which the sale is made, unless a lower CGS is documented and supported in accordance with the provisions of Section 3 of this rule. The total OS-CGS to be booked as a cost to the OS-Sales Accounts shall be equal to the sum of the multiplication of the gas cost of each individual transaction by the associated quantities actually sold as shown on the CGS-Schedule.

Off-system Cost of Transportation (OS-COT) is the incremental cost of transportation related to the delivery of the gas supply for an OS-Sale to the point of delivery. The OS-COT shall include all commodity related transportation costs, including fuel, associated with the OS-Sale. The OS-COT shall not include non-commodity related LDC system supply transportation costs.

Off-system Net Revenue (OS-Net-Revenue) is equal to OS-Revenues minus OS-CGS and OS-COT.

RULES AND REGULATIONS

33. Off-System Sales (continued)

B. Accounting:

The Company shall maintain separate revenue and expense accounts to record its OS-Sales transactions, which accounts shall be audited and subject to modification by the Commission at the same time the Company's other gas costs for system supply purposes are reviewed pursuant to the ACA process. Each OS-Sales transaction shall be accounted for and analyzed separately.

C. Record Keeping:

For the first day of each month and for each day where a subsequent change in the cost of gas supplies or in the cost of delivery thereafter occurs, the Company shall construct and retain a CGS-Schedule. This CGS-Schedule shall provide contract volumes, scheduled volumes, available volumes, unit commodity cost of gas, and unit transportation costs associated with the delivery of gas to the Company's city gate for all of the Company's gas supply contracts. The CGS-Schedule will also provide information relating to any OS-Sales. This information will include the location of sale, volume sold, sales price, total revenue from the sale, the unit commodity cost of gas used for the sale, unit transportation costs to point of sale, any other costs or cost reductions associated with the sale (e.g. avoided penalty costs) and the total costs associated with the sale.

To the extent that the CGS-Schedule costs associated with the OS-Sales are different than the costs accrued for each transaction, the Company will prepare and retain a complete explanation and related records regarding such difference. If the CGS associated with the volumes of gas distributed to the Company's system sales customers is at a higher cost than the OS-CGS for the OS-Sale, the Company shall document all reasons for each such occurrence and shall retain the documentation explaining such costing

In the event the OS-CGS assigned to the OS-Sale is less than the highest price, as described herein, nothing in this tariff shall preclude the review of such transaction or impair a party's right to propose an adjustment in connection with such transaction in the relevant ACA proceeding.

D. Limitation on Sales:

The Company's OS-Sales shall be made on an as-available basis.

The Company shall make no individual OS-Sale where a negative margin results, unless the Company determines and documents that such a transaction is not detrimental to the Company's customers.

DATE OF ISSUE: March 20, 2018 DATE EFFECTIVE: April 19, 2018

ISSUED BY: C. Eric Lobser, VP, Regulatory & Governmental Affairs
Spire Missouri Inc., St. Louis, MO. 63101

Case No. GR-2022-0136

SCHEDULE DMS-d4

HAS BEEN DEEMED

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IN ITS ENTIRETY