Exhibit No.:	
eIssue(s):	**Off-System Sales**
Witness:	**David A. Yonce**
Type of Exhibit:	**Rebuttal Testimony**
Sponsoring Party:	**Spire Missouri, Inc.**
Case No.:	**GR-2022-0136**
Date Prepared:	**March 1, 2024**

SPIRE MISSOURI, INC.

GR-2022-0136

REBUTTAL TESTIMONY

OF

DAVID A. YONCE

Denotes Confidential Information

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	))	File No. GR-2022-0136

<u>VERIFICATION OF DAVID A. YONCE</u>

STATE OF MISSOURI)
)
CITY OF ST. LOUIS)

I, David A. Yonce, of lawful age, under penalty of perjury, and pursuant to Section 509.030, RSMo, state as follows:

1. My name is David A. Yonce. I am the Managing Director of Regulatory Affairs for Spire Missouri, Inc. My business address is 700 Market St., St Louis, Missouri 63101.

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

3. My answers to each question in the attached rebuttal testimony are true and correct to the best of my knowledge, information, and belief.

David Yonce
David Yonce (Mar 1, 2024 13:02 CST)

David A. Yonce

Mar 1, 2024

Date

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I. INTRODUCTION

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

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

Q. ARE YOU THE SAME DAVID A. YONCE WHO PREVIOUSLY FILED DIRECT TESTIMONY IN THIS PROCEEDING?

A. Yes, I submitted Direct Testimony on behalf of Spire Missouri Inc. (“Spire Missouri” or “Company”) in this proceeding.

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to respond to the Direct Testimony of David M. Sommerer filed on behalf of the Staff of the Missouri Public Service Commission (“Staff”).

Q. DOES MR. SOMMERER’S DIRECT TESTIMONY RESPOND TO SPIRE MISSOURI’S PREVIOUSLY FILED DIRECT TESTIMONY?

A. No. Mr. Sommerer states that his Direct Testimony focuses “on supporting Staff’s position” and that he plans “to file a detailed rebuttal of the Company’s Direct Testimony on March 1, 2024.”

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. I show that the matters identified in Staff witness Sommerer’s Direct Testimony do not alter the conclusion that the off-system sale transaction in question was made and accounted for in accordance with Spire Missouri’s tariffs and rules and regulations that govern off-system sales transactions and the Company. No adjustment or disallowance is appropriate.

III. RESPONSE TO STAFF DIRECT TESTIMONY

Q. HAVE YOU REVIEWED THE DIRECT TESTIMONY OF STAFF WITNESS SOMMERER?

A. Yes.

Q. WHAT IS THE SUBJECT OF MR. SOMMERER'S DIRECT TESTIMONY?

A. He discusses the one remaining issue in this case – the gas costs to allocate/assign to a certain off-system sale ("OSS") transaction that took place during Storm Uri ("Uri") in February of 2021.

Q. PLEASE DESCRIBE THAT OSS TRANSACTION.

A. Spire Missouri made an OSS of natural gas during the extraordinary Uri winter storm. The OSS consisted of a sale of [redacted] million British thermal units ("MMBtu") of the Company's natural gas in Southern Star Central storage inventory to [redacted], another public utility serving a neighboring state, on February 15, 2021. I will refer to this transaction as the "OSS Transaction."

Q. ARE THERE ASPECTS OF STAFF WITNESS SOMMERER'S DIRECT TESTIMONY TO WHICH YOU WOULD LIKE TO RESPOND?

A. Yes. I would like to respond to the aspects of his Direct Testimony concerning the OSS Tariff Provisions; the OSS Transaction; and the Company's descriptions of the OSS in its external financial reports.

A. OSS Tariff Provisions

Q. IS THERE ANY DISAGREEMENT THAT THE OSS TRANSACTION IS AN OFF-SYSTEM SALE?

A. I do not believe so. Mr. Sommerer, citing the Staff's December 15, 2022 ACA recommendation (Sommerer Dir., p. 2), indicates that "[a]n off-system sale occurs when Spire West sells natural gas to a customer outside of its service area." That definition accurately describes the OSS Transaction.

Q. WHAT TARIFF PROVISIONS APPLIED TO THE OSS TRANSACTION?

A. As Mr. Sommerer indicates, the tariff sheets in effect at that time were No. 8 Original Sheet 11.12, which contained the sharing percentage (the "Off-system Net Revenue" is split 75% customers/25% Company), while P.S.C. MO. No. 7 Original Sheets Nos. R-27 and R-27.1 provided certain rules related to OSS.

Q. DOES MR. SOMMERER DESCRIBE THE BACKGROUND OF THESE PROVISIONS?

A. I don't believe that he does.

Q. WHAT IS YOUR UNDERSTANDING OF THE INTENT OF THESE PROVISIONS?

A. It is my understanding that these OSS tariff provisions were introduced to incentivize the Company to pursue OSS transactions to save money for customers and provide a profit opportunity for the Company by optimizing its gas supply portfolio. This is exactly what was done in the OSS Transaction, which was an opportunity for the Company to save money for customers, make money for itself, and help out a neighboring utility in need. This was a win-win-win. I am quite perplexed as to why Staff seems to want to make this transaction a win-win-lose, with the loss being for the Company who identified and acted on this opportunity in good faith.

Q. IN THE ABSENCE OF THESE OSS TARIFF PROVISIONS, DOES THE COMPANY HAVE ANY FINANCIAL INCENTIVE TO PURSUE SUCH TRANSACTIONS?

A. No.

Q. THE OSS TRANSACTION CONCERNED THE SALE OF STORAGE GAS. STAFF WITNESS SOMMERER STATES AS FOLLOWS IN REGARD TO THE APPLICABILITY OF THE OSS TARIFFS:

> **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.**

(SOMMERER DIR., p. 5). DO YOU AGREE WITH THIS ASSESSMENT?

A. No. First, as mentioned above, an OSS "occurs when the Company sells natural gas to a party outside of its service area." That is precisely what happened in this case. Second, the absence of the word "storage" has no impact on this analysis. Storage gas is certainly a part of "gas supply" falling under pipeline transportation, which is referenced in Sheet No. R-27 of the Company's Rules and Regulations under sheet R-27, A. Definitions, Off-system marketing Sales (OS-Sales) are defined "as any Company sale of gas, or gas bundled with pipeline transportation, made to parties at locations off the Company's distribution system." Gas in Southern Star's storage facility would certainly qualify as gas bundled with pipeline transportation. Lastly, this is not the first time that Spire Missouri has used storage gas for an OSS.

Q. MR. SOMMERER STATES THAT "IF STORAGE WOULD HAVE BEEN CONSIDERED A VIABLE OSS OPTION UNDER THE TARIFFS, IT WOULD HAVE BE[EN] NECESSARY TO DEFINE ELABORATE COST ALLOCATION PROCESSES AND PROTECTIONS." (SOMMERER DIR. PP. 5-6). DO YOU AGREE THAT THIS ISNECESSARY?

A. No. Storage gas falls under "gas bundled with pipeline transportation," the sale of which would bring it under Sheet No. R-27. This tariff sheet contains specific language for determining the net revenue to be applied to the OSS sharing mechanism.

Q. STAFF WITNESS SOMMERER STATES THAT, PER TARIFF, "OFF-SYSTEM NET REVENUE" IS 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). (SOMMERER DIR., PP. 3-4). DO YOU AGREE WITH THAT STATEMENT?

A. Yes. That formula is found on Tariff Sheet No. R-27.

Q. WHAT IS THE DIFFERENCE BETWEEN STAFF AND SPIRE MISSOURI IN REGARD TO THE APPLICATION OF THIS FORMULA?

A. The primary difference concerns the OS-CGS, which is defined as being "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*." (Tariff Sheet No. R-27.1) [emphasis added].

Q. HOW HAS STAFF CALCULATED THE OS-CGS?

A. Interestingly, Mr. Sommerer hasn't really focused on "the highest CGS from the CGS-Schedule" or "a lower CGS [that] is documented and supported." As stated in my Direct Testimony, "Staff's [redacted] per MMBtu [cost of gas] does not appear to be tied to any specific supply package or other recorded transactions. The memorandum accompanying Staff's recommendation explains only that Staff 'believes a higher Cost of Gas Supply' should be used. The CGS in Staff's Microsoft Excel workpapers supporting its memorandum [and its Direct Testimony in Staff Confidential Schedule DMS-d4] is hard coded as [redacted] per MMBtu, and there is no formula or citation detailing how Staff derived the figure or where it even came from." Staff's analysis seems to completely ignore the tariff and most certainly ignores the "lower CGS" that has been "documented and supported in accordance with the provisions of Section 3 of this rule."

Q. HAS SPIRE MISSOURI ADDRESSED THIS CALCULATION?

A. Yes. Spire Missouri witness Scott A. Weitzel explained the Company's calculations in his Direct Testimony (pp. 12-16).

Q. IN RESPONSE TO A QUESTION AS TO "THE FUNDAMENTAL PROTECTION AND OVER-ARCHING GUIDELINE OF THE OSS TARIFFS," MR. SOMMERER STATES THAT "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)." (SOMMERER DIR., P. 5). WAS THERE ANY SUBSIDIZATION OF THE OSS TRANSACTION BY THE CUSTOMERS IN THIS CASE?

A. No. There was no subsidization with this transaction. As stated above, the OSS provisions were designed to incentivize the Company to identify opportunities to save customers money and that is exactly what this transaction accomplished, in addition to helping a neighboring utility. In the absence of this transaction, all parties would have been worse off. Rather than a win-win-win, if the Company had failed to execute on this opportunity, it would have been a lose-lose-lose.

Q. PLEASE ELABORATE ON WHY ALL PARTIES WOULD HAVE BEEN WORSE OFF IN THE ABSENSE OF THIS TRANSACTION.

A. It's quite simple. Customers received a $75 million credit to the PGA as a result of the OSS Transaction, lowering their gas costs, which would not have otherwise occurred. The neighboring utility could have experienced operational issues and potentially even outages. The Company would not have benefited from its portion of the profit on the sale.

Q. WOULDN'T THE CUSTOMERS HAVE BENEFITED FROM THE USE OF THE STORAGE GAS DURING URI IN THE ABSENCE OF THE OSS TRANSACTION?

A. No. As I explained in my Direct Testimony, the Company could not have used the storage inventory it sold to [redacted] for its own withdrawals during that period. (Yonce Dir., pp. 6-9). Southern Star, the interstate pipeline from which Spire West receives an overwhelming majority of its gas supply, issued a series of OFOs from February 11, 2021, through February 19, 2021, during Uri, in accordance with Section 10.2 of its Tariff's General Terms and Conditions. These OFOs were both delivery location and storage OFO's issued to maintain service in the face of dramatically increased demand during Uri. The delivery location OFO required that receiving parties taking gas from Southern Star, like Spire Missouri, not exceed the amount scheduled and confirmed with Southern Star for each of their delivery points, allowing, but limiting, no-notice withdrawals only up to each receiving party's contracted maximum daily quantity ("MDQ") for each respective delivery point. Receiving parties that violated this OFO were subject to the penalties provided in Southern Star's tariff general terms and conditions. Meanwhile, the storage OFO directed Spire Missouri to continue withdrawing stored natural gas at or below its MDWQ and maintain a positive MSQ balance. The day before the OSS, the Company had 5,437,319 MMBtu in storage inventory, giving the Company ample excess storage to complete the [redacted] MMBtu OSS to both the benefit of its customers and itself, while maintaining adequate inventory under its Southern Star storage contract with a maximum daily withdrawal quantity of 493,813. Thus, the OSS Transaction did not cause Spire Missouri to purchase any natural gas during Uri beyond what it would have purchased in the absence of the OSS Transaction, nor did it increase costs for customers. Instead, it reduced costs significantly.

B. <u>OSS Transaction</u>

Q. STAFF WITNESS SOMMERER STATES THAT THE STORAGE ASSOCIATED WITH THE OSS TRANSACTION WAS ONLY "AVAILABLE TO THE COMPANY BECAUSE ITS CUSTOMERS PAY THE FIXED RESERVATION FEES NECESSARY TO HOLD STORAGE CAPACITY." (SOMMERER DIR., PP. 7-8) DO YOU BELIEVE THAT THIS SHOULD IMPACT THE TREATMENT OF THE OSS TRANSACTION?

A. No. Customers benefit from the availability of natural gas storage. That fact did not change with the execution of the OSS Transaction. Further, there was no marginal cost to customers that was created by the OSS Transaction. Routine OSS transactions and capacity releases also utilize gas supply assets and contracts that the Company's customers pay for. To my knowledge, that fact has never been the basis of a proposed ACA disallowance.

Q. MR. SOMMERER ALSO ALLEGED AS FOLLOWS:

> **. . . 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.**

(SOMMERER DIR., P. 8). DO YOU AGREE WITH THIS ASSESSMENT?

A. No. As discussed in my Direct Testimony:

> Complying with the[se] OFOs during Uri was extremely difficult. Major supply disruptions and marketer shortfalls caused dramatic swings and frequent changes each and every gas cycle at all of the delivery points where we served as point operator, and this OFO did not allow for a shipper to be long at one delivery location [segment] and short at another….no-notice storage withdrawals were limited to the remaining MDQs on our contract, and managing the drastic changes to scheduled and flowing supply made it nearly impossible to maximize storage withdrawals while simultaneously complying with the delivery location OFO. This task was made even more

> difficult due to the long holiday weekend over which Uri occurred, requiring us to make purchasing decisions on Friday morning (February 12) for gas that had to flow Saturday, Sunday, Monday and Tuesday (February 13-16).

As a comparison, usual weekend purchases only need to cover Saturday through Monday. The OSS Transaction did not impact the decisions the Company made involving storage utilization or the amount of flowing gas it was required to purchase heading into the long weekend.

Q. DOES IT APPEAR THAT STAFF CONSIDERED THIS SITUATION?

A. No. Staff witness Sommerer stated that "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." (Sommerer Dir., p. 8). This view completely ignores the intent of the OSS provision and sharing mechanism in the tariff. For example, let's say hypothetically that the Company has baseload supply on day 1 at \$3.00/Dth and on day 2, the Company sees an opportunity to sell gas off-system for \$3.00/Dth and buy gas to cover that deal for \$2.50. In this situation, it's very clear that the \$2.50/Dth gas should be applied to the net revenue calculation and result in net revenue of \$0.50/Dth. It would make no sense to try to apply the \$3.00/Dth gas that was purchased the day before to the transaction and, if that were the case, the Company would never do the deal, which would clearly benefit customers, because there would be no incentive to do so. That scenario is a simple example of exactly what happened with the OSS Transaction, yet Staff is trying to assign gas costs from before the transaction in question ever occurred.

Q. IS THERE FURTHER EVIDENCE THAT THE STAFF RECOMMENDATION IGNORES THE FACTS SURROUNDING THE OSS TRANSACTION?

A. Yes. Mr. Sommerer also made a point to indicate that "The Staff reviewed the daily prices that the Company was paying immediately before, during, and after the OSS." (Sommerer Dir., p. 8). However, it is unclear how the Company could have replaced the subject storage gas "before" or "during" the OSS Transaction because, as stated above, the Company had to make purchasing decisions early Friday morning (February 12) to cover its forecasted needs for the long weekend (February 13-16), and these decisions were made before the OSS Transaction in this case (February 15) was ever even considered. Spire Missouri witness Weitzel explained in his Direct Testimony (pp. 14-15) that replacement gas for a storage transfer on Southern Star's system could only be replaced with a corresponding injection. As discussed in my Direct Testimony, "the molecules that Staff has assigned to the sale that occurred on February 15, 2021, were actually molecules that were either consumed by the Company's customers or used to supplement marketer shortfalls during Uri, and thus physically impossible to be used as replacement gas for the OSS." (p. 11).

C. <u>External Financial Reporting</u>

Q. IN RESPONSE TO A QUESTION, STAFF WITNESS SOMMERER APPEARS TO ALLEGE THAT SPIRE MISSOURI "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." TO WHAT DOES MR. SOMMERER REFER IN HIS ANSWER?

A. He refers to a Company 10-Q filing for the quarterly period ended March 31, 2021.

Q. WHAT DID THAT COMPANY 10-Q STATE?

A. It stated in relevant part as follows:

> 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.

Q. WHEN DID THE FINANCIAL REPORTING CHANGE?

A. Spire Missouri filed a 10-K on November 22, 2021 that indicated that the regulatory uncertainty related to the OSS transaction had been resolved, stating:

> Spire Missouri is able to sell excess natural gas supply and capacity to third parties off-system, resulting in significant savings to its firm utility customers through the gas incentive mechanisms of its PGA as described above. 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.

(Spire Inc., 2021 Form 10-K, p. 121 (November 22, 2021)).

Q. WHY WERE THESE DISCLOSURES MADE?

A. The disclosures themselves explain why they were made, but I'll go into a bit more detail here. The transaction in question was undeniably a very large OSS transaction for the Company, and the Company wanted to preserve flexibility as to what it would ultimately do with its share of the proceeds. As stated in the disclosures, the Company wanted to take time to consider returning a portion of its proceeds from this OSS to customers. In fact, the

Company did indeed distribute a portion of the funds to the Spire Foundation for charitable purposes and to Missouri social service organizations.

Q. IS THERE ANY OTHER PERTINENT INFORMATION REGARDING THE NATURE AND TIMING OF THESE DISCLOSURES?

A. There was simply a lot going on at the time the OSS Transaction was done, and the financial disclosures were made. Spire Missouri had filed a general rate case on December 11, 2020 (File No. GR-2021-0108); the Commission opened its Uri investigation on February 24, 2021 (File No. AO-2021-0264); and several gas marketers filed complaints against Spire Missouri related to their bills for the Uri period in March and April of 2021 (Files Nos. GC-2021-0315, GC-2021-0316 and GC-2021-0353). The Company also filed a deferral case to spread the impact of Uri gas costs to customers over 3 years (File No. GO-2022-0082). These events along with the large size of this transaction, suggested that the Company carefully review the transaction and preserve flexibility with the use of its share of the proceeds during the interim reporting period that the 10-Q's cover. At the end of its fiscal year, however, the Company was required to make a determination as to how its portion of the OSS proceeds would be accounted for, and disclosed this treatment to investors in its annual report on form 10-K.

IV. CONCLUSION

Q. COULD YOU PLEASE SUMMARIZE THE ISSUE REMAINING IN THIS CASE?

A. Yes. The primary issue regarding the OSS transaction in question is the net revenue of the, and more specifically the cost of gas being applied to calculate it. Staff has arbitrarily assigned a CGS to this OSS Transaction and has proposed that molecules used by the Company's customers and purchased before and during the sale should be applied to it.

The Company has assigned a lower CGS tied to and supported by a specific transaction following the sale that was intended to replace the gas in storage that was sold in the OSS Transaction. Staff's assignment erases any margin returned on the sale which calls into question why the Company would have ever done the sale in the first place.

Q. WHAT CONCLUSIONS DO YOU BELIEVE THE COMMISSION SHOULD REACH IN THIS CASE?

A. The Commission should reject Staff's CGS and subsequent adjustment to the Off-System Sale and issue an order directing Spire Missouri to establish the ACA account balances as proposed by the Company in its revised tariff sheets. This will accurately recognize the results of the OSS transaction: customers received a $75 million reduction in gas costs, and the Company received $25 million under the OSS sharing mechanism.

Q. WHAT ARE THE RISKS OF ADOPTING STAFF'S RECOMMENDATION?

A. The Company's tariffs, specifically the OSS sharing mechanism, encourages the Company to bear risks and take advantage of opportunities to reduce gas costs for customers by engaging in these OSS transactions. Accepting Staff's recommendation burdens the Company with decreased recovery of gas costs when it has already saved the customers $75 million and discourages the Company from pursuing such beneficial transactions in the future.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.