BEFORE THE PUBLIC SERVICE COMMISSION OF THE STATE OF MISSOURI

In the Matter of the Laclede Gas Company's Request to Increase Its Revenues for Gas Service	)))	**<u>File No. GR-2017-0215</u>** Tariff No. YG-2017-0195
In the Matter of the Laclede Gas Company d/b/a Missouri Gas Energy's Request to Increase Its Revenues for Gas Service	)))	**<u>File No. GR-2017-0216</u>** Tariff No. YG-2017-0196

REPORT AND ORDER

Issue Date: February 21, 2018

Effective Date: March 3, 2018

technology to improve energy reliability and resiliency for critical infrastructure. The Commission supports that goal, but DE has not been persuasive that the $5.1 million pilot program as proposed should be approved and paid for by ratepayers. The proposed pilot program lacks sufficient details, as it does not contain specific recommendations or formulas relating to MEEIA, does not state a time period for the program or how it would be evaluated, and lacks specificity regarding on-bill financing, line extension policies, and interaction with MEEIA. This lack of detail does not allow the Commission to determine if and to what extent the pilot program may affect the sales and revenues of electric utilities that are not participating as intervenors in this case, may be a prohibited promotional practice, and may be inconsistent with MEEIA requirements. For all these reasons, the Commission concludes that the CHP pilot program should not be approved as proposed by DE. The Commission encourages the parties to continue discussions on how best to improve energy reliability and resiliency for critical infrastructure and submit more detailed recommendations in the future.

XX. AMR Meters

A. What is the appropriate amount to include in rates to account for expenses related to LAC's purchase of automated meter reading (AMR) devices?

<u>Findings of Fact</u>

1. Prior to July 1, 2017, LAC leased AMR devices from the company Landis & Gyr, who both owned and maintained the AMR devices.[502] As part of the contract LAC was charged a meter read rate of $0.985 per meter, per month.[503]

[502] Ex. 65, Lobser True-Up Rebuttal, p. 1.
[503] Ex. 292, Ferguson True-Up Rebuttal, p. 2.

2. Effective July 1, 2017, LAC purchased the AMR devices from Landis & Gyr for $16.6 million[504] ($16,624,220 for the 700,262 already deployed meter interface units).[505]

3. By purchasing the AMR devices LAC reduced the price per meter read from $0.98 to $0.24, which directly benefits ratepayers.[506] Landis & Gyr still read the meters under contract with LAC at a rate of $0.24 per meter per month until June 30, 2020, and at $0.30 per meter per month after that date.[507]

4. Staff included in its calculated cost of service the $16,624,220 that LAC paid for the AMR devices.[508]

5. The AMR devices are distinct from the meters they monitor. Because of this, Staff recommends the establishment of Account No. 397.2 – AMR Devices.[509]

6. The useful life of the AMR devices is 20 years based on battery life. However, LAC will be switching to a new system in 2020 with replacement of all AMR devices completed by 2024. Thus, Staff recommends that the cost be *amortized* over a period of 7.5 years.[510]

7. Public Counsel agrees that the AMR should be listed in a new plant sub-account for the AMR meter interface units in Account 397.2 – AMR Devices. OPC recommends a five percent *depreciation* rate based on the average service life of the asset.[511]

8. Spire Missouri is also seeking to recover approximately $700,000 in rates

[504] Ex. 65, Lobser True-Up Rebuttal, p. 2.
[505] Ex. 292, Ferguson True-Up Rebuttal, p. 2.
[506] Ex. 65, Lobser True-Up Rebuttal, p. 2.
[507] Ex. 292, Ferguson True-Up Rebuttal, p. 2.
[508] Ex. 294, Patterson True-Up Direct, p. 2.
[509] Ex. 294, Patterson True-Up Direct, p. 2.
[510] Ex. 294, Patterson True-Up Direct, p. 2.
[511] Ex. 438, Robinett True-Up Rebuttal, p. 1.

for maintenance expenses. Though Landis & Gyr maintain the communications network and perform rudimentary maintenance on the devices, LAC is responsible for the cost of replacement of the devices and their batteries when they stop working or functioning properly. Landis & Gyr is also responsible for maintenance which is built into the monthly service fee.[512] Spire Missouri based its maintenance costs on a historic failure rate LAC has seen since the system was installed in 2005.[513]

9. Spire Missouri estimates that when all maintenance, replacement, and property tax expenses are combined with the roughly $0.49 in depreciation and capital costs plus the $0.24 Landis & Gyr contract meter rate, the total cost per month of AMR devices is approximately $0.86. This would result in a $0.12 per month reduction in cost for the ratepayer from the $0.98 meter read rate prior to July 1, 2017.[514]

10. Staff opposes including $694,256 (approx. $700,000) as a maintenance expense, because Spire Missouri pays for device replacement (a capital cost) and not routine maintenance which is performed under the contract with Landis & Gyr.[515] Spire Missouri will recover those replacement costs as plant in service at the next general rate proceeding.[516]

Conclusions of Law

A. Subsection 393.230.1, RSMo, empowers the Commission to ascertain valuation of property of any gas corporation. This would include the power to, "ascertain all new construction, extensions and additions to the property of every gas

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[512] Ex. 292, Ferguson True-Up Rebuttal, pp. 4-5; and Ex. 287, Response to Data Request 484.
[513] Ex. 65, Lobser True-Up Rebuttal, p. 3; See also, Ex. 292, Ferguson True-Up Rebuttal, p. 4, noting that paragraph 4 of the contract amendment with Landis & Gyr specifies that all maintenance and installation costs are included in the amended contract as Landis & Gyr's responsibility through the year 2024.
[514] Ex. 65, Lobser True-Up Rebuttal, p. 4.
[515] Ex. 292, Ferguson True-Up Rebuttal, p. 4.
[516] Ex. 292, Ferguson True-Up Rebuttal, p. 6.

corporation[.]"

B. Subsection 393.240.2 RSMo, empowers the Commission by order to, "fix the proper and adequate rates of depreciation of the several classes of property of such corporation, person or public utility."

Decision

Spire Missouri directly reduced the cost to ratepayers by choosing to purchase rather than continue to lease the AMR devices. Spire Missouri asserts that savings to LAC's customers will be around one million dollars a year. This one million dollar amount is calculated with the assumption that after recoupment of any cost to acquire the AMR devices ($16.6 million), the company will be allowed to recoup approximately $700,000 in maintenance for the devices, and an estimated $400,000 in property taxes on the devices.[517]

The Commission recognizes that Spire Missouri could have waited to purchase the assets until after the true-up period and have taken advantage of any regulatory lag to retain the savings for its shareholders. Because this purchase occurred outside the test year but before September 30, 2017, it is appropriately a true-up issue. Spire Missouri shall be allowed to recover the $16.6 million cost of the AMR devices. Spire Missouri shall establish Account 397.2 – AMR Devices as a new plant sub-account. Additionally, because of the planned obsolescence of these devices, the Commission finds it is reasonable under these specific facts to authorize the amortization of these assets over 7.5 years.

It is unclear from the record what, if any, maintenance expenses will be incurred by Spire Missouri with regard to the maintenance of the AMR devices given that Landis

[517] A resolution of the property tax issue is set out below.

& Gyr are responsible for maintenance under the terms of the contract. The Commission is of the opinion that any replacement of the AMR device or battery would not be maintenance, but is a capital expenditure that the company will have an opportunity to recoup in its next rate case. However, because of the benefits to the ratepayers presented by this purchase and renegotiation of the AMR contract, and because of the uncertainty as to what actual maintenance expense Spire Missouri will incur related to the AMR devices, the Commission orders a maintenance tracker be established to ascertain Spire Missouri's actual maintenance expense on the AMR devices not covered by the contract and not including replacement of the devices or their batteries for possible recovery in Spire Missouri's next rate case.

B. What is the appropriate amount to include in cost of service to account for property taxes related to the AMR devices?

<u>Findings of Fact</u>

1. As set out above, on July 1, 2017, LAC purchased AMR devices that it previously leased from Landis & Gyr for approximately $16.6 million.[518]

2. Spire Missouri estimates that property taxes for 2018 and beyond will be $400,000 annually.[519] Spire Missouri seeks to recover that amount in this case.

3. Because the property was not purchased until July 2017, no property taxes would be assessed on the AMR devices until January 2018 and will not be due until December 31, 2018.

4. Staff argues it is inappropriate to allow recovery of any amount for property taxes related to the purchase of the AMR devices as they are outside the test

[518] Ex. 65, Lobser True-Up Rebuttal, p. 2.
[519] Ex. 65, Lobser True-Up Rebuttal, p. 3.

year and true-up period and are not known and measurable.[520]

Conclusions of Law

A. Spire Missouri seeks to recover in rates approximately $400,000 that it estimates it will have to pay in property taxes annually on the AMR devices. The standard for if this amount can be recovered in rates in this rate case is whether the amount is known and measurable now.[521]

Decision

The Commission finds that the AMR property taxes will not be due to be paid until December 31, 2018. Thus, these property taxes are beyond the test year and true-up period for this case. Also, to include these property taxes in rates, they must be known and measurable; at this point, they are not. However, given the specific circumstances of this case set out below, including the inclusion of a large income tax reduction to expenses due to the Tax Cuts and Jobs Act (TCJA) being incorporated in this case even though outside the test year and true-up period, the Commission determines that the property tax for AMR devices should be included in the property tax tracker set out elsewhere in this order. Therefore, even though the property tax for the AMR devices will not be included in current rates, they will be tracked for potential recovery in LAC's next rate case as discussed in further detail in the TCJA section of this order.

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[520] Tr. 2586.

[521] *In the Matter of Kansas City Power & Light Company's Request for Authority to Implement A General Rate Increase for Electric Service*, ER-2014-0370, 2015 WL 5244724, at *71 (Sept. 2, 2015). *State ex rel. GTE North, Inc. v. Missouri Public Service Commission,* 835 S.W. 2d 356, 368 (Mo App. 1992).

THE COMMISSION ORDERS THAT:

1. The tariff sheets filed by Spire Missouri Inc., then known as Laclede Gas Company, on April 11, 2017, and assigned tariff number YG-2017-0195, are rejected.

2. The tariff sheets filed by Spire Missouri Inc., then known as Laclede Gas Company, on April 11, 2017, and assigned tariff number YG-2017-0196, are rejected.

3. Spire Missouri Inc. is authorized to file tariffs for its Spire Missouri East and Spire Missouri West divisions sufficient to recover revenues as determined by the Commission in this order.

4. The non-unanimous Partial Stipulation and Agreement filed on December 13, 2017 is approved.

5. The Partial Non-unanimous Stipulation and Agreement filed on December 20, 2017, is approved.

6. The Non-Unanimous Stipulation Regarding Revenue Allocation and Non-Residential Rate Design, filed on December 20, 2017, is approved.

7. The non-unanimous Partial Stipulation and Agreement Regarding Low Income Energy Affordability Program filed January 9, 2018, is approved.

8. The parties shall comply with the terms of the above-approved stipulation and agreement.

9. The complaint filed by the Office of the Public Counsel in File No. GC-2016-0297 is denied.

10. The Kansas property tax tracker previously ordered in File No. GR-2014-0007 shall be continued.

11. Spire Missouri Inc. shall provide the Staff of the Missouri Public Service

Commission and the Office of the Public Counsel surveillance data in the format agreed upon and set forth in Attachment 1 of Staff's Initial Post-Hearing Brief on a quarterly basis.

12. Spire Missouri Inc. shall provide the Staff of the Missouri Public Service Commission and the Office of the Public Counsel its general ledger and CC&B subledger on an annual basis, within 60 days of the close of Spire Missouri Inc.'s fiscal year, and shall make both the ledger and subledger available more frequently in the event further support of the surveillance data is needed.

13. A tracker shall be established to account for any other effects (either over- or under-collection in rates) of the TCJA not captured by the current reduction in income tax expense for possible inclusion in rates at Spire Missouri Inc.'s next rate case.

14. A tracker shall be established to defer any amounts in excess ADIT over or under the $11.5 million amount refunded in rates, from the effective date of rates resulting from this case, forward, for possible inclusion in a later Spire Missouri Inc. rate case.

15. A tracker shall be established to account for any amounts of property tax expense, including for the automated meter reading devices that are discussion in this Report and Order, over or under the amounts set out in rates for possible inclusion in Spire Missouri Inc.'s next rate proceeding.

16. This report and order shall become effective on March 3, 2018.

BY THE COMMISSION

Morris L. Woodruff
Secretary

Hall, Chm., Kenney, Rupp, Coleman, and
Silvey, CC., concur.

Dippell, Senior Regulatory Law Judge