

**Exhibit No.:** \_\_\_\_\_  
**Issue(s):** Cost Recovery Mechanism  
**Witness/Type of Exhibit:** Schallenberg/Direct  
**Sponsoring Party:** Public Counsel  
**Case No.:** GO-2019-0356  
GO-2019-0357

**DIRECT TESTIMONY**

**OF**

**ROBERT E. SCHALLENBERG**

Submitted on Behalf of the Office of the Public Counsel

**SPIRE MISSOURI INC.**  
**SPIRE MISSOURI EAST SERVICE TERRITORY**  
**SPIRE MISSOURI WEST SERVICE TERRITORY**

CASE NO. GO-2019-0356  
CASE NO. GO-2019-0357

September 27, 2019

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

In the Matter of the Application of Spire )  
Missouri, Inc. to Change its Infrastructure )  
System Replacement Surcharge in its Spire ) Case No. GO-2019-0356  
Missouri East Service Territory )


In the Matter of the Application of Spire )  
Missouri, Inc. to Change its Infrastructure )  
System Replacement Surcharge in its Spire ) Case No. GO-2019-0357  
Missouri West Service Territory )

**AFFIDAVIT OF ROBERT E. SCHALLENBERG**

STATE OF MISSOURI )  
 ) ss  
COUNTY OF COLE )

Robert E. Schallenberg, of lawful age and being first duly sworn, deposes and states:


1. My name is Robert E. Schallenberg. I am a Director of Policy for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my direct testimony.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

  
\_\_\_\_\_  
Robert E. Schallenberg  
Director of Policy

Subscribed and sworn to me this 27<sup>th</sup> day of September 2019.



JERENE A. BUCKMAN  
My Commission Expires  
August 23, 2021  
Cole County  
Commission #13754037

  
\_\_\_\_\_  
Jerene A. Buckman  
Notary Public

My Commission expires August 23, 2021.

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**DIRECT TESTIMONY**  
**OF**  
**ROBERT E. SCHALLENBERG**  
**SPIRE MISSOURI**  
**CASE NOS. GO-2019-0356 & GO-2019-0357**

1 **I. Introduction**

2 **Q. Please state your name and business address.**

3 A. My name is Robert E. Schallenberg. My business address is 200 Madison Street, P.O. Box  
4 2230, Jefferson City, Missouri 65101.

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

6 A. I am employed by the Office of the Public Counsel (“OPC”) as the Director of Policy.

7 **Q. What is your educational background, what professional credentials do you hold,**  
8 **and, briefly, what is your work experience related to utility regulation?**

9 A. I am a 1976 graduate of the University of Missouri at Kansas City with a Bachelor of  
10 Science degree in Business Administration with a major emphasis in Accounting. In  
11 November 1976, I successfully completed the Uniform Certified Public Accountant  
12 (“CPA”) examination and subsequently received the CPA certificate. In 1989, I received  
13 my CPA license in Missouri. I began my employment with the Missouri Public Service  
14 Commission (“MoPSC”) as a Public Utility Accountant in November 1976. I remained on  
15 the Staff of the MoPSC until May 1978, when I accepted the position of Senior Regulatory  
16 Auditor with the Kansas Corporation Commission (“KCC”). I held a senior auditor  
17 position with the KCC through October, 1978. At that time I returned to the MoPSC staff.  
18 I held various auditor and management positions with the MoPSC staff until May, 2018,

1 when I accepted my current position with OPC. See Schedule RES-D-1 for more detail on  
2 my work experience.

3 **Q. Have you previously provided testimony before the MoPSC?**

4 A. Yes. A listing of cases and the issues for which I have filed testimony is also included in  
5 Schedule RES-D-1.

6 **Q. Have you filed testimony before any other utility regulatory entity?**

7 A, Yes, I have filed testimony before the KCC and the Federal Energy Regulatory  
8 Commission (“FERC”).

9 **Q. What is the purpose of your testimony?**

10 A. I am responding to the request of Spire Missouri Inc. (“Spire Missouri” or “the Company”)  
11 for the MoPSC to approve its proposed changes to the Company’s Infrastructure System  
12 Replacement Surcharge (“ISRS”).

13 **Q. What is your recommendation to the MoPSC?**

14 A. My recommendation is that Spire Missouri’s request to change its ISRS should be rejected.  
15 Missouri statutes sections 393.1009 to 393.1015 allow an eligible gas corporation to  
16 recover certain infrastructure replacement costs through the implementation of an ISRS,  
17 but only if the Commission finds that the petition filed by the gas corporation complies  
18 with the requirements of those statutes. Spire Missouri’s filed application includes recovery  
19 of overhead costs that are not ISRS eligible costs, so the petition filed by the gas

1 corporation **does not** comply with the requirements of sections 393.1009 to 393.1015.  
2 Spire Missouri's petition should therefore be rejected and the Company's request to change  
3 its ISRS denied. Schedule RES-D-2 is copies of these statutes for ease of reference.

4 My testimony will identify the inappropriate overhead costs included in Spire Missouri's  
5 filings and address the Company's assertion that the MoPSC's affiliate transaction rules,  
6 specifically the Company's cost allocation manual ("CAM"), requires these costs to be  
7 charged to the ISRS projects contrary to the Commission's rules adopting the federally  
8 approved Uniform System of Accounts ("USOA").

9 In addition, my testimony will also discuss Spire Missouri's failure to report information  
10 to the relevant authorities based on claims that the Company makes as part of its ISRS  
11 application.

## 12 **II. Background Information Regarding Overhead Costs**

### 13 **Q. What are overhead costs?**

14 A. There are many definitions of overhead costs used in many different circumstances. Spire  
15 Missouri defined the term "overhead costs," in the context of ISRS and other capital  
16 projects, as "those costs that are allocated rather than directly charged to an ISRS  
17 project."(OPC Data Request 1001 & 1012 Responses contained in Schedule RES-D-4).  
18 This definition is the same for Spire Missouri East and Spire Missouri West. (OPC Data  
19 Request 1001 Response contained in Schedule RES-D-4). For the sake of simplicity, I will  
20 employ the same definition of overheads that Spire Missouri does in this testimony.

1 **Q. Can you provide an example of some items that might be included in overhead costs?**

2 A. Yes. OPC DR 1001, contained in Schedule RES-D-4 includes a comprehensive description  
3 of the various costs that Spire Missouri has allocated as overheads to ISRS projects. Some  
4 of the items included in the costs that Spire Missouri has allocated to its ISRS are: Director  
5 Fees, Administrative & General Salaries, Injuries and Damages, General Office Supplies,  
6 and Miscellaneous Administrative & General expense. (OPC Data Request 1011 Response  
7 Schedule RES-D-4). It is important to note that some of these costs are not costs incurred  
8 by Spire Missouri for its utility operations, but rather for Spire Missouri's operation of  
9 Spire Inc., its holding company. Spire Missouri basically operates most Spire entities  
10 including its holding company, Spire Inc. Therefore, Spire Missouri is assigning a portion  
11 of the costs it incurs to operate Spire Inc. to these ISRS projects. The information  
12 supporting these facts will be discussed later in this testimony.

13 **Q. What are the different ways that a company can choose to account for its overhead**  
14 **costs?**

15 A. All costs incurred by a company (including overhead costs) are expenditures that may be  
16 treated as an expense or as an asset. An expense is the cost of a good or service that has  
17 expired. Assets are costs for goods and services that have not expired. As the asset expires,  
18 the cost of that asset that expires is charged to expense. Generally, only overheads costs  
19 that have a definite relationship to construction projects can be capitalized as an asset as  
20 stated in the USOA. Overheads without a definite relationship to construction projects  
21 would be expensed and are prohibited from being charged to construction projects.

1 **Q. Are there any authoritative sources containing information relative to the subject**  
2 **matter of overheads charged to construction projects?**

3 A. Yes. The FERC approved USOA provides information regarding accounting for overheads  
4 related to construction and the required conditions needed to be treated as an asset.

5 **Q. What is the FERC information regarding overhead construction costs?**

6 A. The gas USOA contains “Gas Plant Instructions” that detail how gas corporations are to  
7 book certain expenses. These instructions include section 3 “Components of construction  
8 cost” and section 4 “Overhead construction costs.” The overhead instruction found in  
9 section 4 is as follows:

10 *4. Overhead construction costs.*

11 A. All overhead construction costs, such as engineering, supervision,  
12 general office salaries and expenses, construction engineering and  
13 supervision by others than the accounting utility, law expenses, insurance,  
14 injuries and damages, relief and pensions, taxes and interest, shall be  
15 charged to particular jobs or units on the basis of the amounts of such  
16 overheads reasonably applicable thereto, to the end that each job or unit  
17 shall bear its equitable proportion of such costs and that the entire cost of  
18 the unit, both direct and overhead, shall be deducted from the plant accounts  
19 at the time the property is retired.

20 B. As far as practicable, the determination of pay roll charges includible in  
21 construction overheads shall be based on time card distributions thereof.  
22 Where this procedure is impractical, special studies shall be made  
23 periodically of the time of supervisory employees devoted to construction  
24 activities to the end that only such overhead costs as have a definite relation  
25 to construction shall be capitalized. **The addition to direct construction**  
26 **costs of arbitrary percentages or amounts to cover assumed overhead**  
27 **costs is not permitted.**



1 C. The record supporting the entries for overhead construction costs shall  
2 be so kept as to show the total amount of each overhead for each year, the  
3 nature and amount of each overhead expenditure charged to each  
4 construction work order and to each utility plant account, and the bases of  
5 distribution of such costs. **Emphasis added**

6 **Q. Are these FERC instructions applicable to Spire Missouri?**

7 A. Yes. MoPSC rule 20 CSR 4240-40.040 directs Spire Missouri to use the USOA prescribed  
8 by FERC. This means the MoPSC rules require that overhead costs Spire Missouri assigned  
9 to an ISRS construction project comply with the FERC USOA section 4 “Overhead  
10 construction costs” cited above. Schedule RES-D-3 is a copy of the FERC USOA adopted  
11 by MoPSC rule 20 CSR 4240-40.040. Spire Missouri has requested no waiver from the  
12 USOA adopted by the MoPSC. Without such a waiver, the company would have no  
13 authority to charge overheads to construction projects that do not comply with the  
14 Commission’s rule unless specifically ordered to do so in a rate case. Consequently, Spire  
15 Missouri’s compliance with FERC USOA, as it relates to overhead construction costs,  
16 would determine whether Spire Missouri was or was not including ISRS eligible overhead  
17 costs in its ISRS application

18 **III. Examination of Overhead Costs included in Spire’s ISRS filings**

19  
20 **Q. Have you examined the information that Spire Missouri has provided regarding the  
21 overhead costs included in its ISRS filings?**

22 A. Yes. As part of my review of this case I performed an investigation to determine whether  
23 only appropriate overheads were being charged to ISRS projects.

1 **Q. How did you determine whether only appropriate overheads were being charged to**  
2 **ISRS projects?**

3 A. First I examined the ISRS statutes (Schedule RES-D-2) to determine whether these statutes  
4 defined the overheads that can or cannot be included as ISRS costs. My examination  
5 showed the ISRS statutes do not specify what overheads are to be or not be included when  
6 calculating the amount that may be recovered through an ISRS determination. I therefore  
7 adopted a criteria that ISRS construction projects should be treated in the same manner as  
8 Spire Missouri is required to treat its construction projects in general, which meant  
9 application of and compliance with the USOA as adopted by the MoPSC.

10 The next stage was the identification of the overhead types and the method of allocation  
11 used to charge these overheads to ISRS construction projects. Overheads that are charged  
12 to ISRS projects based on their definite relationship to all construction activities or specific  
13 to ISRS construction projects would be an appropriate overhead charge under the USOA.  
14 Overheads that are charged to ISRS projects using an assignment basis that do not reflect  
15 a definite relationship to all construction activities or an assignment basis specific to ISRS  
16 construction projects would be an inappropriate overhead charge under the USOA.

17 **Q. How did you identify the overhead types and the method of allocation used to charge**  
18 **these overheads to ISRS construction projects?**

19 A. Data requests were developed to (1) identify the nature of the overheads being charged to  
20 the ISRS projects that are the subject of these filings, (2) determine the specific overheads  
21 that are being charged as ISRS costs, and (3) examine the basis for charging each overhead

1 to ISRS projects. Schedule RES-D-4 is a copy of my OPC data requests and Spire  
2 Missouri's responses. This schedule indicates the information Spire Missouri provided to  
3 me in this case, which I used to prepare this testimony. This schedule does not represent  
4 data and statements that I would support or have verified.

5 **Q. Does Spire Missouri's ISRS filings comply with the requirements of the USOA**  
6 **outlined above?**

7 A. No. Spire Missouri charges some overheads to its ISRS construction projects on a general  
8 basis that recognizes no definite relationship to the ISRS construction projects. Spire  
9 Missouri also charges some other overheads to its ISRS construction projects based on a  
10 specific factor, instead of a general allocator, and I do not take issue with these other  
11 overheads that identify specific allocation factors in this case. The overhead costs charged  
12 to ISRS construction projects on a general basis, however, do not conform to the  
13 requirements of the USOA

14 **Q. Can you please elaborate?**

15 A. Yes. General factor allocations are designed to allocate costs to a cost objective  
16 independent of any cost relationship to the cost objective. The USOA prohibits this  
17 approach being used to charge overheads to construction projects, such as the ISRS  
18 projects, without a definite relationship to the relevant construction activity.

19 Spire Missouri is charging some overheads to ISRS construction project costs by using a  
20 general allocator instead of using the factors showing their definite relationship to ISRS

1 construction projects. These overhead costs are: Director Fees, Administrative & General  
2 Salaries, Injuries and Damages, General Office Supplies, and Miscellaneous  
3 Administrative & General expense. (OPC Data Request 1011 Response Schedule RES-D-  
4 4). General allocators are relied upon when one does not have a definitive factor linking  
5 the costs to a construction project or in this case an ISRS project. A general allocator is an  
6 arbitrary allocator because it is not assigning costs based on cost causative factors. General  
7 allocators are not allowed under the USOA as a means to charge costs to construction  
8 projects, but can be used for other purposes such as jurisdictional cost assignment (such as  
9 multi state utility operations or affiliate transactions recognizing all entity costs in relation  
10 to the goods and services the entity produces for example).

11 **Q. How can one determine which overhead components have not been shown to have a**  
12 **definite relationship to ISRS projects?**

13 A. The method of assigning or allocating costs will show the relationship or the lack thereof.  
14 General allocators are used when a definite relationship doesn't exist to assign these costs.  
15 A definite relationship is indicated when a direct or indirect cost assignment is utilized.  
16 The opposite of using a general allocator occurs when indirect costs are charged based on  
17 their relationship to ISRS projects. For example, payroll tax payments cannot be traced at  
18 the time of their payments to governmental entities to specific activities such as ISRS  
19 projects. However, they can be charged based on the payroll charged to specific activities  
20 because there is a definite relationship between payroll taxes and the payroll charged to the  
21 specific activities.

1 **Q. Did Spire Missouri charge overheads to the ISRS projects using non-general**  
2 **allocators?**

3 A. Yes, Group Insurance, Pension, Employee Benefits-Other, and Payroll Taxes are charged  
4 on a benefits rate or payroll charges. (OPC Data Request 1011 Response contained in  
5 Schedule RES-D-4). Because these costs were not allocated using general allocators, Spire  
6 Missouri is identifying the definitive relationship of these costs to ISRS construction and  
7 these costs therefore do not violate the overhead instructions found in the USOA.

8 **Q. Did you ask Spire Missouri for their position regarding the Company's compliance**  
9 **with the Missouri USOA requirements?**

10 A. Yes. Spire Missouri indicated that "while Spire Missouri's allocation of costs to the  
11 overhead component of its ISRS projects generally complies with the USOA Plant  
12 Instructions, it should be recognized that the Company is required to follow the allocation  
13 guidance provided in its Commission-approved Cost Allocation Manual. To the extent  
14 there is any difference between the two, the Commission-approved Cost Allocation Manual  
15 would control" (OPC Data Request 1004 Response contained in Schedule RES-D-4).

16 **Q. Do you agree with this position?**

17 A. No. There is simply nothing in Spire Missouri's Commission-approved Cost Allocation  
18 Manual that dictates how overhead costs are to be expensed or capitalized with regard to  
19 construction projects like the ISRS. This is because Spire's Commission-approved Cost  
20 Allocation Manual only governs Spire Missouri's compliance with the MoPSC affiliate

1 transaction rules and the ISRS construction projects are not affiliate transactions, as they  
2 use Spire Missouri resources to construct Spire Missouri ISRS projects. .

3 **Q. Do you have experience with the MoPSC affiliate transaction rules?**

4 A. Yes, Schedule RES-D-1 provides my experience with the MoPSC affiliate transaction  
5 rules.

6 **Q. Do the MoPSC's affiliate transaction rules control over the MoPSC's USOA rules?**

7 A. No. The MoPSC affiliate transaction rules prescribe the conditions that must be satisfied  
8 in order for Spire Missouri to participate in an affiliate transaction. 20 CSR 4240-40.015  
9 (2) (D). The MoPSC USOA rule (20 CSR 4240-40.040) direct gas companies under the  
10 Commission's jurisdiction to use the Uniform System of Accounts prescribed by the  
11 Federal Energy Regulatory Commission for major natural gas companies, as modified by  
12 the Commission rule. Schedule RES-D-6 is a copy of the Commission's affiliate  
13 transaction and USOA rules. These are entirely separate and distinct rules and both must  
14 be followed by any utility subject to MoPSC jurisdiction. Neither rule controls over the  
15 other.

16 **Q. Why do you say that the MoPSC affiliate transaction rules and Spire's CAM are not  
17 applicable to this ISRS filing?**

18 A. Schedule RES-D-4 contains the portion of Spire Missouri's 2018 fiscal year affiliate  
19 transaction report provided in response to OPC Data Request 1008. This information  
20 provides a list and description of all Spire Missouri functions that provides support to

1 nonregulated affiliates and the holding company, Spire, Inc. Based on this information, I  
2 conclude that Spire Missouri is the primary good and service provider for the Spire, Inc.  
3 consolidated entity. This information in Spire Missouri's 2018 fiscal year affiliate  
4 transaction report covers eleven (11) pages of the thirty-two (32) page report and shows  
5 the Spire Inc. system reliance on Spire Missouri. However, nothing in the report dictates  
6 how Spire Missouri is to book its overhead costs. The rule does require Spire Missouri to  
7 report "The amount of all affiliate transactions, by affiliated entity and account charged"  
8 (20 CSR 4240-40.015 (4) (B) (5)), but does not identify Spire Missouri affiliates providing  
9 construction services to Spire Missouri.

10 Besides being the primary service provider to Spire Missouri's affiliates, Spire Missouri is  
11 a Missouri natural gas utility that engages in the activities required to provide safe and  
12 adequate service at just and reasonable rates. These ISRS projects are a part of Spire  
13 Missouri's regulated gas business operations. These regulated operations should be Spire  
14 Missouri's primary operations. It is not an affiliate transaction when Spire Missouri  
15 conducts its own construction activities. Thus neither the MoPSC's affiliate transaction  
16 rules nor Spire Missouri's CAM involve any aspect of Spire Missouri's ISRS projects.

17 **IV. Issues related to Spire's reporting requirements**

18 **Q. Are you familiar with Missouri utility filings with the SEC and related disclosures?**

19 **A.** Yes, I have reviewed many such filings and related disclosures.

1 **Q. What are some of the things that a company like Spire Missouri would need to file or**  
2 **disclose to the SEC?**

3 A. Spire Inc. has its stock publically traded. Spire Missouri is a segment of Spire Inc. that  
4 provides separate reporting regarding its operations. Spire Missouri is a significant portion  
5 of Spire, Inc.'s total operations. Spire, Inc. would need to disclose any significant factor  
6 impacting Spire Missouri that could influence buyers and sellers of Spire, Inc. stock.

7 **Q. Would Spire Missouri need to file or disclose information with the SEC if it believed**  
8 **that it has a significant amount of worn-out or deteriorated portions in its distribution**  
9 **system?**

10 A. Yes. This fact would need to be disclosed as well as Spire Missouri's assessment of the  
11 situation and plan to address the issue over what timeframe.

12 **Q. Have you reviewed Spire Inc.'s filings related to Spire Missouri's ISRS?**

13 A. Yes. I have reviewed Spire Inc.'s 10K for fiscal year 2018. Spire Inc. uses a fiscal year  
14 ending September 30.

15 **Q. Did you discover any disclosure that Spire Missouri's natural gas system has a**  
16 **significant amount of worn-out or deteriorated portions in its distribution system?**

17 A. No. I have seen Spire describe the projects it carries out and seeks recovery for through the  
18 ISRS as plant "upgrades," but Spire does not indicate that its natural gas system has a  
19 significant amount of worn-out or deteriorated portions. Schedule RES-D-7 is a copy of  
20 Spire's most recent annual SEC filing discussing the upgrade activities.



1 **Q. Have you seen any other information regarding Spire Missouri's disclosures to the**  
2 **SEC?**

3 A. Yes. Spire Missouri's Responses to OPC Data Requests 8539 thru 8541 show that there  
4 has been no disclosures in any SEC filing indicating Spire Missouri has a significant  
5 amount of worn out and deteriorated plant in its system. The responses to these OPC data  
6 requests is contained in Schedule RES-D-8.

7 **Q. Do you agree with Spire Missouri's response?**

8 A. Yes. I have found no indication that Spire Missouri has made any representation that its  
9 system contains a significant amount of worn out or deteriorated plant.

10 **Q. Do you believe that Spire Missouri's failure to report or disclose its assertion that it**  
11 **has a significant amount of worn-out or deteriorated portions in its distribution**  
12 **system presents a problem to the Company?**

13 A. I'm of the opinion that Spire Missouri's construction activity is more in the nature of an  
14 upgrade to the system then it is construction activity designed to replace worn out and  
15 deteriorated mains and services. I have noticed that Spire Missouri's website available to  
16 the public also refers to its construction activity as upgrades and not the replacement of  
17 worn out and deteriorated plant. Portions of the website regarding plant upgrades are also  
18 included in Schedule RES-D-5. Therefore, I do not contend that Spire Missouri's failure to  
19 report or disclose to the SEC its assertion that it has a significant amount of worn-out or  
20 deteriorated portions in its distribution system presents a problem for the Company because

1 I am **not** of the opinion that Spire Missouri has a significant amount of worn-out or  
2 deteriorated portions in its distribution system.

3 **Q. Does this conclude your direct testimony in this case?**

4 A. Yes.