BEFORE THE PUBLIC SERVICE COMMISSION OF THE STATE OF MISSOURI

In the Matter of Spire Missouri Inc.'s d/b/a Spire Request for Authority to Implement a General Rate Increase for Natural Gas Service Provided in the Company's Missouri Service Areas	)))))	**<u>File No. GR-2021-0108</u>** Tracking No. YG-2021-0133

AMENDED REPORT AND ORDER

Issue Date: November 12, 2021

Effective Date: November 22, 2021

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AMENDED REPORT AND ORDER

On October 27, 2021, the Commission issued its *Report and Order* resolving the above-captioned cases. On October 29, 2021, Spire Missouri Inc. filed a *Motion for Clarification and Expedited Treatment.* Subsequently, the Commission directed expedited responses for those parties wishing to respond. On November 3, 2021, after receiving responses from the Staff of the Missouri Public Service Commission and the Office of the Public Counsel, the Commission issued its *Order Providing Clarification to Report and Order and Delegating Authority.* On November 5, 2021, Spire Missouri Inc. filed *Spire's Application for Rehearing, Motion for Reconsideration and Motion for Expedited Treatment*. Also on November 5, 2021, the Office of the Public Counsel filed *OPC's Application for Rehearing or Reconsideration.* The motions generally request that the Commission clarify, reconsider and rehear certain aspects of its *Report and Order*. The Commission directed expedited responses to the two motions. Spire Missouri responded to OPC's motion, arguing against each issue OPC raised. No other responses were received.

The Commission has reviewed the requests and the responses and finds that clarification to its *Report and Order* is needed. Therefore, the Commission amends its *Report and Order* accordingly to clarify those sections. All requests for rehearing filed regarding the Commission's *Report and Order* issued on October 27, 2021, are moot as this *Amended Report and Order* supplants it. This *Amended Report and Order* will be given a ten-day effective date. All applications for rehearing of this *Amended Report and Order* must be filed prior to this effective date.

Procedural History

On December 11, 2020, Spire Missouri Inc. d/b/a Spire (Spire Missouri or "the Company") filed tariff sheets designed to implement a general rate increase for natural gas service, and to consolidate, to the extent possible, the rate structures of its two service areas known as Spire East and Spire West. As filed, the tariff sheets would have increased Spire Missouri's annual gas revenues by approximately $112 million, of which $47 million is already being recovered through Infrastructure System Replacement Surcharge (ISRS) charges, resulting in a net increase of $65 million. Pursuant to the statute, ISRS charges terminate with the conclusion of a rate case, becoming part of rate base, and the ISRS charge is reset to zero.[1]

The Commission suspended Spire Missouri's general rate increase tariff sheets until November 10, 2021, the maximum amount of time allowed by the controlling statute.[2] The following parties filed applications and were allowed to intervene: Midwest Energy Consumers Group (MECG); Missouri Industrial Energy Consumers (MIEC); National Housing Trust (NHT); Renew Missouri (Renew MO); Legal Services of Eastern Missouri, Inc. (LSEM); Consumers Council of Missouri (CCM); Missouri School Boards' Association (MSBA); and Vicinity Energy Kansas City, Inc. (Vicinity).

The Commission established the test year for this case as the 12-month period ending September 30, 2020, and trued-up for known and measurable revenue, rate base, and expense items through May 31, 2021. The Commission also established a procedural schedule leading to an evidentiary hearing.

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[1] Section 393.1012.3, RSMo (Supp. 2020).
[2] Section 393.150, RSMo (2016). (All statutory references are to the Revised Statutes of Missouri 2016, unless otherwise noted.)

During the week of June 22 to June 25, 2021, the Commission held six local public hearings. Due to COVID, the local public hearings were held by WebEx, an audio and visual teleconferencing application. The six local public hearings were designated for geographic regions of the state, with one hearing designated for customers of all service areas.[3] During the local public hearings the Commission heard from a total of twenty-two witnesses. The Commission also received 236 written comments.

The parties prefiled direct, rebuttal, and surrebuttal testimony and direct and rebuttal true-up testimony. The evidentiary hearing began on August 2, 2021, and concluded on August 6, 2021.[4] The true-up hearing was waived by request of the parties. The parties filed post-hearing briefs on September 7, 2021, and reply briefs on September 17, 2021.[5]

On various dates, the eleven parties submitted a total of four partial stipulations and agreements, which were addressed by previous order.[6] After the Commission approved the stipulations, nine issues still remained unresolved.[7] This Report and Order addresses those nine remaining issues.

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[3] Transcript Volumes (hereinafter “Tr. Vol.”) 4-9.
[4] Tr. Vol. 10-14.
[5] The case is considered submitted as of the date of the final brief. 20 CSR 4240-2.150(1).
[6] *Order Approving Partial Stipulations and Agreements*, issued September 15, 2021.
[7] For continuity, this Report and Order will use the same issue numbering system as used throughout this case.

General Findings of Fact

1. Spire Missouri is an investor-owned gas utility providing retail gas service to large portions of Missouri through its two operating units or divisions, Spire East (formerly known as Laclede Gas Company or LAC) and Spire West (formerly known as Missouri Gas Energy or MGE).[8]

2. The Office of the Public Counsel (OPC) is a party to this case pursuant to Section 386.710(2), RSMo, and by Commission Rule 20 CSR 4240-2.010(10).

3. The Commission Staff (Staff) is a party to this case pursuant to Commission Rule 20 CSR 4240-2.010(10).

4. Spire West serves approximately 520,000 customers on the western side of Missouri.[9]

5. Spire East serves approximately 650,000 customers on the eastern side of Missouri.[10]

6. Spire Missouri is a wholly-owned subsidiary of Spire Inc.[11]

7. Since 2013, Spire Inc. has acquired Alabama Gas Corporation (Alagasco) and Mobile Gas in Alabama and Wilmut Gas in Mississippi. Spire Inc. created a new shared services entity, Spire Services Inc., on July 15, 2015.[12]

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[8] *Joint Stipulation of Facts*, filed July 19, 2021, para. 8.
[9] *Joint Stipulation of Facts*, filed July 19, 2021, para. 9.
[10] *Joint Stipulation of Facts*, filed July 19, 2021, para. 10.
[11] *Joint Stipulation of Facts*, filed July 19, 2021, para. 12.
[12] *Joint Stipulation of Facts*, filed July 19, 2021, para. 14.

8. Spire Inc. owns three gas distribution systems as wholly-owned subsidiaries including Spire Missouri, Alagasco in Alabama, and EnergySouth Inc. in Alabama and Mississippi.[13]

9. Spire Inc. also holds gas marketing business segments and Spire STL Pipeline LLC. Spire STL Pipeline is an interstate transmission pipeline regulated by the Federal Energy Regulatory Commission (FERC).[14]

10. The rates Spire Missouri will be allowed to charge its customers are based on a determination of the company's revenue requirement. The revenue requirement can be expressed as the following formula:[15]

$$RR = COS - CR$$

where: RR = Revenue Requirement
COS = Cost of Service
CR = Adjusted Current Revenues

The cost-of-service for a regulated utility can be defined by the following formula:

$$COS = O + (V - D)R$$

where: COS = Cost of Service;
O = Adjusted Operating Costs (Payroll, Maintenance, etc.), Depreciation Expense and Taxes
V = Gross Valuation of Property Required for Providing Service
D = Accumulated Depreciation Representing Recovery of Gross Property Investment
R = Allowed Rate of Return
V – D = Rate Base (Gross Property Investment less Accumulated Depreciation = Net Property Investment)
(V - D)R = Return Allowed on Net Property Investment

[13] *Joint Stipulation of Facts*, filed July 19, 2021, para. 15.
[14] *Joint Stipulation of Facts*, filed July 19, 2021, para. 16.
[15] *Joint Stipulation of Facts*, filed July 19, 2021, para. 17.

11. A test year is a historical year used as the starting point for determining the basis for adjustments that are necessary to reflect annual revenues and operating costs in calculating any shortfall or excess of earnings by the utility.[16]

12. Adjustments, such as annualization and normalization, are made to the test year results when the unadjusted results do not fairly represent the utility's most current annual level of existing revenue and operating costs.[17]

13. A normalization adjustment is an adjustment made, to a cost or revenue, to reflect normal, on-going operations of the utility. Revenues or costs that were incurred in the test year that are determined to be atypical or abnormal will get specific rate treatment and generally require some type of adjustment to reflect normal or typical operations. The normalization process removes abnormal or unusual events from the cost of service calculations and replaces those events with normal levels of revenues or costs.[18]

14. An annualization adjustment is made to a cost or revenue shown on the utility's books to reflect a full year's impact of that cost or revenue.[19]

15. The test year for this case is the twelve months ending September 30, 2020, adjusted for known and measurable changes through May 31, 2021.[20]

General Conclusions of Law

A. Spire Missouri is a public utility, and a gas corporation, as those terms are defined in Subsections 386.020(18) and (43), RSMo (Supp. 2020). As such, Spire

[16] *Joint Stipulation of Facts*, filed July 19, 2021, para. 18.
[17] *Joint Stipulation of Facts*, filed July 19, 2021, para. 19.
[18] *Joint Stipulation of Facts*, filed July 19, 2021, para. 20.
[19] *Joint Stipulation of Facts*, filed July 19, 2021, para. 21.
[20] *Joint Stipulation of Facts*, filed July 19, 2021, para. 7.

Missouri is subject to the Commission’s jurisdiction pursuant to Chapters 386 and 393, RSMo.[21]

B. The Commission’s subject matter jurisdiction over Spire Missouri’s rate increase request is established under Section 393.150, RSMo.

C. Section 393.150, RSMo, authorizes the Commission to suspend the effective date of a proposed tariff for 120 days beyond the effective date of the tariff, plus an additional six months.

D. Spire Missouri can charge only those amounts set forth in its tariffs.[22]

E. Subsection 393.140(11), RSMo, gives the Commission authority to regulate the rates Spire Missouri may charge its customers for natural gas.

F. Utilities are required to provide safe and adequate service.[23]

G. In determining the rates Spire Missouri may charge its customers, the Commission is required to determine whether the proposed rates are just and reasonable.[24]

H. Spire Missouri has the burden of proving its proposed rates are just and reasonable, pursuant to Section 393.150.2, RSMo, “[a]t any hearing involving a rate sought to be increased, the burden of proof to show that the increased rate or proposed increased rate is just and reasonable shall be upon the gas corporation . . . .”

[21] *Joint Stipulation of Facts*, filed July 19, 2021, para. 11.
[22] Sections 393.130 and 393.140, RSMo.
[23] Sections 393.130 and 393.140, RSMo.
[24] Section 393.150.2, RSMo.

I. In order to carry its burden of proof, Spire Missouri must meet the preponderance of the evidence standard.[25] In order to meet this standard, the Company must convince the Commission it is "more likely than not" that Spire Missouri's proposed rate increase is just and reasonable.[26]

J. In determining whether the rates proposed by Spire Missouri are just and reasonable, the Commission must balance the interests of the investor and the consumer.[27] In discussing the need for a regulatory body to institute just and reasonable rates, the United States Supreme Court has held as follows:

> Rates which are not sufficient to yield a reasonable return on the value of the property used at the time it is being used to render the services are unjust, unreasonable and confiscatory, and their enforcement deprives the public utility company of its property in violation of the Fourteenth Amendment.[28]

In the same case, the Supreme Court provided the following guidance on what is a just and reasonable rate:

> What annual rate will constitute just compensation depends upon many circumstances and must be determined by the exercise of a fair and enlightened judgment, having regard to all relevant facts. A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding risks and uncertainties; but it has no constitutional right to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures. The return should be reasonably sufficient to assure

[25] *Bonney v. Environmental Engineering, Inc.*, 224 S.W.3d 109, 120 (Mo. App. 2007); *State ex rel. Amrine v. Roper*, 102 S.W.3d 541, 548 (Mo. banc 2003); *Rodriguez v. Suzuki Motor Corp.*, 936 S.W.2d 104, 110 (Mo. banc 1996), citing to, *Addington v. Texas*, 441 U.S. 418, 423, 99 S.Ct. 1804, 1808, 60 L.Ed.2d 323, 329 (1979).
[26] *Holt v. Director of Revenue, State of Mo*., 3 S.W.3d 427, 430 (Mo. App. 1999); *McNear v. Rhoades*, 992 S.W.2d 877, 885 (Mo. App. 1999); *Rodriguez v. Suzuki Motor Corp*., 936 S.W.2d 104, 109-111 (Mo. banc 1996); *Wollen v. DePaul Health Center*, 828 S.W.2d 681, 685 (Mo. banc 1992).
[27] *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591, 603, (1944).
[28] *Bluefield Water Works & Improvement Co. v. Public Service Commission of the State of West Virginia*, 262 U.S. 679, 690 (1923).

> confidence in the financial soundness of the utility and should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties. A rate of return may be reasonable at one time and become too high or too low by changes affecting opportunities for investment, the money market and business conditions generally.[29]

The Supreme Court has further indicated:

> '[R]egulation does not insure that the business shall produce net revenues.' But such considerations aside, the investor interest has a legitimate concern with the financial integrity of the company whose rates are being regulated. From the investor or company point of view it is important that there be enough revenue not only for operating expenses but also for the capital costs of the business. These include service on the debt and dividends on the stock. By that standard the return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks. That return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital.[30]

K. In undertaking the balancing required by the Constitution, the Commission is not bound to apply any particular formula or combination of formulas. Instead, the Supreme Court has said:

> Agencies to whom this legislative power has been delegated are free, within the ambit of their statutory authority, to make the pragmatic adjustments which may be called for by particular circumstances.[31]

L. Furthermore, in quoting the United States Supreme Court in *Hope Natural Gas*, the Missouri Court of Appeals said:

> [T]he Commission [is] not bound to the use of any single formula or combination of formulae in determining rates. Its rate-making function, moreover, involves the making of 'pragmatic adjustments.' … Under the statutory standard of 'just and reasonable' it is the result reached, not the

[29] *Bluefield,* at 692-93.
[30] *Federal Power Commission v. Hope Natural Gas Co.,* 320 U.S. 591, 603 (1944) (citations omitted).
[31] *Federal Power Commission v. Natural Gas Pipeline Co*. 315 U.S. 575, 586 (1942).

method employed which is controlling. It is not theory but the impact of the rate order which counts.[32]

M. Witness credibility is solely a matter for the fact-finder, "which is free to believe none, part, or all of the testimony."[33]

N. An administrative agency, as fact finder, also receives deference when choosing between conflicting evidence.[34]

<u>Findings of Fact regarding WNAR and two proposed RNAs – Issue 30</u>

16. Spire Missouri currently has a Weather Normalization Adjustment Rider (WNAR). The Company's WNAR is designed to address revenue variations caused by abnormal weather, and has been useful in addressing weather related revenue impacts.[35]

17. With a WNAR, adjustments to revenue are based on the relationship between usage and weather at the time of the rate case and the difference between actual and normal weather.[36]

18. The WNAR includes a coefficient (β) that is the measurement of the usage response of the customers to weather as defined in the rate case.[37]

19. Spire Missouri requests replacing its currently effective WNAR with a Rate Normalization Adjustment Rider (RNA).[38]

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[32] *State ex rel. Associated Natural Gas Co. v. Pub. Serv. Comm'n*, 706 S.W. 2d 870, 873 (Mo. App. W.D. 1985).
[33] *State ex rel. Public Counsel v. Missouri Public Service Comm'n*, 289 S.W.3d 240, 247 (Mo. App. 2009).
[34] *State ex rel. Missouri Office of Public Counsel v. Public Service Comm'n of State*, 293 S.W.3d 63, 80 (Mo. App. 2009).
[35] Ex. 34, Selinger direct, p. 28, lns. 10-12.
[36] Ex. 213, Mantle rebuttal, p. 15, lns. 14-16.
[37] Ex. 212, Mantle direct, p. 8, lns. 8-9.
[38] Ex. 34, Selinger direct, p. 28, lns. 9-10.

20. Spire Missouri's proposed RNA aims to address the revenue impacts of changes in usage due to weather and conservation.[39] However, the Company's proposed RNA would also account for fuel switching, rate class switching, and economic factors that impact usage in the second block and not just changes due to weather and conservation.[40]

21. Spire Missouri's proposed RNA mechanism would be paired with a block rate design, with a usage within a specified block (above or below the block break amount are the "blocks") being designated weather-sensitive and subject to variations due to weather and conservation.[41]

22. A block rate design divides each customer group by usage. The residential customers are divided by a block break, which is a designation of volume usage of natural gas (e.g. 100 Ccf[42] per month). The small general service (SGS) customers are similarly divided, but by their own block break. The Company retains the risk for customers with usage below the block break. All sales above the block break are reconciled to rate case billing determinants.[43]

23. Staff proposed a block break of 50 Ccf for residential, and a beginning block break of 200 and an ending block break of 500 Ccf for SGS customers. Spire Missouri proposed a block break of 30 Ccf for the residential class and 100 Ccf for the SGS class.[44]

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[39] Ex. 34, Selinger direct, p. 28, lns. 15-17.
[40] Ex. 213, Mantle rebuttal, p.14, lns. 10-16.
[41] Ex. 34, Selinger direct, p. 29, lns. 18-20.
[42] Ccf is a volume measurement of natural gas and equals 100 cubic feet of natural gas. Eia.gov/tools/faqs accessed October 27, 2021.
[43] Ex. 104, Staff Class Cost of Service Report, p. 39, lns. 15.
[44] Ex. 213, Mantle rebuttal, p. 29, lns. 6-18.

24. Both Spire Missouri and Staff proposed RNAs that would insulate Spire Missouri from fluctuations in the usage above the block break as it relates to the revenue requirement of Spire Missouri's residential and SGS customer classes. This mechanism removes Spire Missouri's risk of recovering the portion of its revenue requirement that is subject to volumetric recovery for these two classes.[45]

25. Spire Missouri's proposed RNA would essentially decouple the revenues received from the residential and SGS customers from their usage thus removing almost all of the revenue risk from the Company and placing that risk on customers.[46]

26. The RNA rider amount is based on the change in usage of those customers above the block break (second block) and assumes weather and conservation only impacts the usage of the second block. However, after the RNA rate is calculated, it is applied to all usage, regardless of what block the usage falls in. This results in customers with low usage, i.e. non-weather-sensitive customers with little room for conservation, being charged more because other customers were more weather-sensitive or conserved energy.[47]

27. Spire Missouri, for its proposed RNA, defines conservation broadly to include the adoption of energy efficiency measures, as well as any other factor inducing changes to the volumes of gas sold.[48]

28. Staff, for its proposed RNA, defines conservation as "the wise utilization of natural product especially by a manufacturer so as to prevent waste and insure future use

[45] Ex. 213, Mantle rebuttal, p.14, lns. 3-7.
[46] Ex. 213, Mantle rebuttal, p.17, lns. 4-7.
[47] Ex. 213, Mantle rebuttal, p.17, lns. 16-21.
[48] Ex. 34, Selinger direct, p. 29, lns. 13-14.

of resources that have been depleted."[49] Staff's definition of conservation is fairly broad, thus Staff's proposed RNA would allow for recovery of many economic factors.[50]

29. Spire Missouri's RNA has a broader interpretation of conservation than Staff's; hence Spire Missouri's RNA will capture more situations outside of the traditional conservation definition.[51]

30. Spire Missouri failed to explain the analysis used by the Company to develop its RNA, or why an RNA is needed to cover both weather and conservation.[52]

31. Spire Missouri's RNA does not directly address either conservation or weather. It only addresses the difference between rate case revenue requirement and the revenue actually collected.[53]

32. Non-weather and non-conservation economic factors available for recovery under Staff's proposed RNA include:

a. lower natural gas use due to a health event, such as COVID;[54]

b. rate switching from the SGS class;[55]

c. switching source fuel;[56] and

d. departure and addition of customers.[57]

33. Non-weather and non-conservation economic factors available for recovery under Spire Missouri's proposed RNA include:

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[49] Ex. 104, Staff Class Cost of Service Report, p. 38, footnote 15 citing Webster's Third New International Dictionary 483 (1986).
[50] Tr. Vol. 12, pp. 464-465.
[51] Ex. 138, Stahlman surrebuttal, p. 3, lns. 13-15; Tr. Vol. 12, pp. 464-465.
[52] Ex. 212, Mantle direct, p. 2-5; Ex. 213, Mantle rebuttal, p.12, lns. 26-27.
[53] Ex. 213, Mantle rebuttal, p.19, lns. 5-8.
[54] Tr. Vol. 12, p. 465, lns. 10-25.
[55] Tr. Vol. 12, p. 466, lns. 1-9.
[56] Tr. Vol. 12, p. 455, lns. 14-16; and p. 466, lns. 13-23.
[57] Ex. 104, Staff Class Cost of Service Report, p. 42, footnote 19.

a. lower natural gas use due to a health event, such as COVID;[58]

b. rate switching from the SGS class;[59]

c. departure of customers;[60] and

d. recession.[61]

34. Spire Missouri has continuously had a weather-related rider since first authorized in 2002.[62]

35. The issue with the existing WNAR is not the mechanism but Spire Missouri's understanding and implementation of the mechanism.[63]

36. OPC proposed six modifications to the existing WNAR, meant to simplify it. The proposed modifications are as follows:

a. the interest rate included should be Spire Missouri's short-term interest rate;[64]

b. the β coefficients measuring response to weather should be updated consistent with the weather normalization of usage in this case;[65]

c. the volumetric rates should be updated consistent with the rates in this case;[66]

d. the WNAR should be changed to require an annual filing instead of semi-annual filings;[67]

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[58] Tr. Vol. 12, p. 442, lns. 3-9.
[59] Tr. Vol. 12, p. 441, lns. 17-25.
[60] Tr. Vol. 12, p. 441, lns. 13-16.
[61] Tr. Vol. 12, p. 442, lns. 14-17.
[62] File No. GR-2002-356, *Report and Order*, issued November 8, 2002.
[63] Tr. Vol. 12, p. 467, lns. 21-25.
[64] Ex. 212, Mantle direct, p. 11, lns. 19-23.
[65] Ex. 212, Mantle direct, p. 12, lns. 1-19.
[66] Ex. 212, Mantle direct, p. 12-13.
[67] Ex. 212, Mantle direct, p. 13-14.

e. Spire Missouri's tariff change request filings should be made with a 60-day- effective date;[68] and

f. the tariff sheets should be simplified in the manner proposed by OPC.[69]

37. The modifications proposed by OPC would make the WNAR simpler and easier to understand.[70]

38. If reauthorized by the Commission, Staff also recommended the existing WNAR should be amended to require the Company to file updated WNAR tariff sheets 60 days in advance of their proposed effective date.[71]

39. Spire Missouri's current WNAR tariff only requires an updated WNAR tariff sheet to be filed 30 days in advance of its proposed effective date. This necessitates Staff reviewing that submission and filing its recommendation within 10 to 15 days, which is not always adequate for a full review, especially when substitute tariff sheets are filed.[72]

<u>Conclusions of Law regarding WNAR and two proposed RNAs – Issue 30</u>

O. Section 386.266.3, RSMo (Supp. 2020), provides that any gas corporation may make an application to the Commission to approve rate schedules authorizing periodic rate adjustments, outside of general rate proceedings, to adjust rates of customers in eligible customer classes to account for the impact on utility revenues of increases or decreases in residential and commercial customer usage due to variations in either weather, conservation, or both.

[68] Ex. 214, Mantle surrebuttal, p. 14, lns. 1-15.
[69] Ex. 212, Mantle direct, p. 13-14; and Schedule LMM-D-3.
[70] Ex. 213, Mantle rebuttal, p. 20, lns. 12-13.
[71] Ex. 123, Stahlman rebuttal, p. 4, lns. 16-17.
[72] Ex. 123, Stahlman rebuttal, p. 4, lns. 18-20.

Decision regarding WNAR and two proposed RNAs – Issue 30

OPC argues that either of the proposed RNAs will allow recovery for weather, conservation and "everything else that impacts revenue." The Commission agrees. The record clearly indicates that recovery will be available for many variations other than weather and/or conservation. Such a recovery mechanism, as is proposed in both Staff's and Spire Missouri's proposals, is not authorized by statute, and thus cannot be authorized by the Commission.

Staff and Spire Missouri both attempt to qualify their own respective proposed RNA by offering competing definitions of conservation. The disagreement between Staff and Spire Missouri over which definition of conservation to use is moot in light of the fact that neither of the proposed RNAs establish how their designated block breaks are just and reasonable metrics of usage under either definition of conservation.

Although Spire Missouri did not request continuation of its WNAR, the Company did request an adjustment mechanism to account for changes in usage due to variations in weather and conservation. Spire Missouri failed to demonstrate a viable method to evaluate impacts of conservation. However, the Commission finds it is appropriate to authorize the continuation of a modified WNAR to address the revenue impacts of weather variations. With the six recommendations of OPC, the WNAR would be simpler and easier to understand for Spire Missouri. Staff further testified that the extension of the review period for revisions to a WNAR tariff from 30 to 60 days is necessary to ensure adequate review. The Commission agrees on both counts. As with any authorization to file periodic rate adjustments approved under Section 386.266.3, RSMo, Spire Missouri is free not to file a WNAR rider. If it chooses to do so, however, such WNAR tariff sheets shall incorporate the six recommendations of OPC.

Findings of Fact regarding Net Operating Loss Carryforward – Issue 16

40. The term net operating loss (NOL) is defined as "the excess of operating expenses over revenues." An NOL results when a utility does not have enough taxable income to utilize all of the tax deductions to which it would otherwise be entitled. When this situation occurs, the amount of the unused deductions is referred to as an NOL and is booked to a deferred asset account.[73]

41. The NOL Asset is the balance of the accumulation of all prior NOLs.[74]

42. The NOL Asset represents a tax benefit that Spire Missouri has not yet realized, and therefore, it is appropriate to include as an offset to total accumulated deferred income taxes (ADIT).[75]

43. ADIT is the summation of normalized book/tax timing differences (caused by tax deductions) that are temporary in nature and will become a tax liability to Spire Missouri in future periods. Since Spire Missouri is able to use book/tax timing differences to avoid paying current income taxes, the ADIT balance represents an amount of cash Spire Missouri has avoided spending on its past income tax liabilities and is considered a cost-free loan from the federal government.[76]

44. Excess ADIT exists because timing differences that were temporary in nature transitioned to permanent differences due to federal and state tax reform. Since

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[73] Ex. 125, Young rebuttal, pp. 6-7.
[74] Ex. 125, Young rebuttal, p. 7, lns. 5-6.
[75] Ex. 125, Young rebuttal, pp. 7-8.
[76] Ex. 125, Young rebuttal, p. 6, lns. 14-18.

the tax benefits were no longer temporary, ratepayers would not have received the benefits in future periods so it is appropriate to return the excess ADIT through ongoing amortizations.[77]

45. In ratemaking terms, ADIT is a measurement of the tax savings Spire Missouri has received from the Internal Revenue Service (IRS) but has not passed on to ratepayers through the ratemaking process.[78]

46. The rate base reduction for ADIT, including an offset for NOL, is a measurement of how much free cash a company has been able to generate from the government via tax deductions.[79]

47. The NOL offset to ADIT is recognized as the portion of a utility's tax deductions that cannot be currently applied to taxable income to reduce income taxes. This recognition of an NOL tax asset in rate base is mandated by the IRS's normalization requirements.[80]

48. When bonus depreciation and other tax deductions grow so large as to push the company's taxable income into the negative, the available tax deduction cannot offset any liability and no "free" cash is generated. In that circumstance, the company must record an offsetting deferred tax asset for the net operating loss carryforward (NOLC). The NOLC offsets the ADIT, which would decrease the company's rate base, and therefore, the NOLC has the effect of increasing the rate base.[81]

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[77] Ex. 125, Young rebuttal, p. 9, lns. 8-12.
[78] Ex. 125, Young rebuttal, p. 6, lns. 12-14.
[79] Ex. 140, Young surrebuttal, p. 7, lns. 13-15.
[80] Ex. 140, Young surrebuttal, p. 8, lns. 16-20.
[81] Ex. 140, Young surrebuttal, p. 7, lns. 5-11, citing File No. ER-2014-0258, *Report and Order,* issued April 29, 2015.

49. The NOL ADIT Asset is recorded to Account 190. The NOL ADIT Asset may include NOLs carried forward from prior periods.[82]

50. When there is an NOL (the ADIT Asset), it means that a portion of the interest free loan from the Federal Treasury (the ADIT Liability) has not been realized.[83]

51. In certain circumstances, tax law requires an NOL to be included as an offset to total ADIT to avoid a normalization violation.[84]

52. It is appropriate to include the NOL ADIT Asset in rate base to offset the ADIT Liability that has not been realized due to the excess of tax depreciation over book depreciation. The net of these two ADIT balances represents the realized portion of the interest free loan which is an appropriate (required by normalization provisions of the Internal Revenue Code) rate base reduction.[85]

53. The cash obtained by the utility through tax strategy is entirely different from the income tax costs included in rates intended to cover current tax payments.[86]

54. The difference between current income tax expense collected from customers and cash paid to the IRS does not factor into the ADIT component of rate base.[87]

55. Staff Accounting Schedule 11 for Spire West and Spire East includes the income tax calculation. Total income tax is calculated beginning with the total net income before taxes. Net taxable income is derived by adding and subtracting nondeductible

[82] Ex. 11, Felsenthal rebuttal, p. 11, ln. 14.
[83] Ex. 12, Felsenthal surrebuttal, p. 9, lns. 22-23.
[84] Ex. 140, Young surrebuttal, p. 8, lns. 19-20.
[85] Ex. 12, Felsenthal surrebuttal, p. 10, lns. 1-5.
[86] Ex. 140, Young surrebuttal, p. 8, lns. 6-8.
[87] Ex. 140, Young surrebuttal, p. 8, lns. 20-22.

items and adjusting for depreciation, among other things. Provisions for federal, Missouri state, and city income taxes are included in the total income tax calculation. Various deferred income taxes, including the amortization of excess ADIT are part of the total income tax calculation that is then included in Spire Missouri's cost of service.[88]

56. OPC proposes as an alternative to removal of the NOL Asset, that the Commission use a tracker to offset the NOL based on three years' worth of income tax expense.[89]

57. OPC proposes a tracker to quantify the difference between income tax expense included in rates and the NOL included in rate base. The difference could be recorded in a regulatory liability or tracker mechanism until Spire Missouri's next rate case where the amount could be amortized.[90]

58. It is not clear if the information sought by the tracker proposed by OPC is already being accounted for through the ADIT offset, or that it would produce any benefit.[91]

59. No additional evidence was provided by OPC to detail the mechanics of how its proposed tracker would work.

60. Spire Missouri has access to two sources of cash – one from deferred income taxes and one from current income taxes. The first source is the cash generated from customers through normalization of income tax deductions. The second source is

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[88] Ex. 102, Staff Accounting Schedules.
[89] Ex. 211, Riley surrebuttal, p. 9, lns. 3-10.
[90] Ex. 211, Riley surrebuttal, pp. 8-9.
[91] Tr. Vol. 13, pp. 613-614.

the cash collected from ratepayers for payment of current income taxes. The two sources must be held distinct from each other.[92]

Conclusions of Law regarding Net Operating Loss Carryforward – Issue 16

P. The Commission has previously decided the issue of NOLC, stating as follows:

> However, when bonus depreciation and other tax deductions grow so large as to push the company's taxable income into the negative, the available tax deduction cannot offset any liability and no "free" cash is generated. In that circumstance, the company must record an offsetting deferred tax asset for NOLC. The NOLC offsets the ADIT, which would decrease the company's rate base, and therefore, the NOLC has the effect of increasing the rate base.[93]

Q. In the rates section of the Code of Federal Regulations discussing ADIT, there is this requirement: "[a]ny amounts properly includable in Account 190, Accumulated deferred income taxes, must be treated as an addition to rate base."[94]

Decision regarding Net Operating Loss Carryforward – Issue 16

The Commission finds it is proper for an NOL asset balance (which may include NOLC) to be included as an offset to the ADIT Liability. This decision is consistent with the Commission's prior decisions in this matter, and no argument was raised to cause the Commission not to apply the same reasoning in the present case.

OPC argues against the inclusion of the NOL asset balance because it contends that a second balance of funds is theoretically available as a substitute for the first balance of funds. OPC offers no authority that would allow the Commission to authorize such substitution. The cash obtained by the utility through tax strategy to increase deductions

[92] Ex. 140, Young surrebuttal, p. 7, lns. 15-20.
[93] File No. ER-2014-0258, *Report and Order*, p. 18, lns. 14-19.
[94] 18 CFR § 154.305 for gas pipelines; 18 CFR § 35.24 for electric.

and reduce taxable income is entirely different from the income tax costs included in rates intended to cover current tax payments based on the revenue requirement of this rate case. The law on the inclusion of the NOL asset balance is clear, and the Commission determines that the NOL asset balance should be included in rate base as an offset to ADIT. The Commission finds the testimony of Staff's and Spire Missouri's witnesses on this issue to be more credible than the testimony provided by OPC.

The Commission also determines the tracker recommended by OPC as an alternative to removal of the NOL Asset has not been defined to any level of detail. There is not adequate evidence in the record to make a determination that a tracker of income tax expense to be compared in the next Spire Missouri rate case to the NOL Asset would be appropriate. The NOL Asset is an offset to ADIT. The calculation of income tax expense includes recognition of deferred ADIT and excess ADIT. Therefore, it cannot be determined from the record evidence how the relationship between ADIT, the NOL Asset and OPC's proposed tracker of income tax expense used to reduce NOL may or may not jeopardize Spire Missouri's compliance with IRS normalization rules if implemented.

In addition, OPC's proposed income tax expense tracker seeks to compare the tracked amount to the actual income taxes paid by Spire Missouri. However, the utilization of a 365-day expense lag for income taxes in Cash Working Capital (CWC), as set out below, would also compensate customers for paying the income tax expense when no income taxes are actually paid and is an adjustment to rate base. To allow an income tax expense tracker in addition to the CWC 365-day income tax expense lag would overcompensate customers. Therefore, the Commission denies OPC's request for an income tax expense tracker.

Findings of Fact regarding Cash Working Capital – Issue 8

61. CWC is the amount of funds, on average, required for the utility to pay its day-to-day expenses. When a utility expends funds to pay an expense necessary to provide service before its customers provide corresponding payment, the utility's shareholders are the source of the funds. This shareholder funding represents a portion of the shareholders' total investment in the utility, for which shareholders are compensated by inclusion of these funds in the utility's rate base. By including these funds in rate base, the shareholders earn a return on this working capital they have invested.[95]

62. Customers supply CWC when they pay for gas services received before the utility pays an expense incurred in providing that service. Utility customers are compensated for the funds they provide by a reduction to the utility's rate base, meaning that the utility does not earn a return on the working capital supplied by customers.[96]

63. A CWC analysis identifies whether a utility's customers or its shareholders are responsible for providing these funds in the aggregate.[97]

64. A positive CWC requirement indicates that, in the aggregate, the shareholders provided the CWC for the test year. A negative CWC requirement indicates that the utility's customers provided the CWC for the test year, meaning that, on average, the customers paid for the utility's services before the utility paid the expenses that the utility incurred to provide those services.[98]

[95] Ex. 101, Staff Cost of Service Report, p. 33, lns. 14-21.
[96] Ex. 101, Staff Cost of Service Report, p. 33, lns. 24-27.
[97] Ex. 209, Riley direct, p. 8, lns. 7-9.
[98] Ex. 101, Staff Cost of Service Report, pp. 33-34.

65. A major component of a CWC calculation is lag, which is the amount of time, usually in days, that it takes revenues to come in from the customer or the time it takes for the utility to pay out an expense. Both a revenue lag and an expense lag are measured.[99]

66. Staff Accounting Schedules 8 for Spire East and Spire West include the components used to calculate the amount of CWC to include in rate base.[100]

67. Customer payments are fairly homogenous and this revenue lag is a consistent multiplier in the CWC calculation. In contrast, each expense component of the CWC calculation has a different payment schedule based on when the individual expense needs to be paid.[101]

68. The money collected for income taxes is an expense included in the cost of service and is not dependent upon the CWC requirement. Any adjustment to CWC will not affect the money collected in rates to pay income taxes.[102]

69. Spire Missouri has significantly reduced its current federal and state income tax obligations over the past few years through tax planning strategies and the use of bonus depreciation deductions for certain expenditures for property. As a result, the Company has generated large annual taxable losses that have resulted in significant federal and state NOLs in years prior to the Tax Cuts and Jobs Act. Spire Missouri plans to utilize these NOLs in the future to reduce income tax obligations.[103]

[99] Ex. 209, Riley direct, p. 8, lns. 10-12.
[100] Ex. 102, Staff Accounting Schedules; Ex. 146, Staff True-Up Accounting Schedules.
[101] Ex. 209, Riley direct, p. 8, lns. 13-16.
[102] Tr. Vol. 12, p. 523-524.
[103] Ex. 209, Riley direct, p. 9, footnote 7, quoting from Spire SEC 10-K 2020, p. 14, lns. 13-17.

70. Spire Inc.'s state and federal income tax returns, Spire Missouri's annual report filed with the Commission, and the public 10-K reports filed with the U.S. Securities and Exchange Commission,[104] all indicate that both the parent company and Spire Missouri have not been required to pay income tax in at least the past three years.[105]

71. Spire Missouri's current NOLC makes it highly unlikely that it will pay income taxes for the next three years.[106]

72. It is necessary to include income taxes in the CWC calculation because income taxes are already an expense item built into the Company's revenue requirement.[107]

73. Income tax expense and income tax CWC are separate and distinct components of the revenue requirement.[108]

74. The final CWC adjustment is dependent on the final income tax expense included in the cost of service and will be determined after the impact of all issues decided by the Commission are included in the revenue requirement.[109]

75. Spire Missouri proposed, and Staff accepted, a federal and state income tax expense lag of 38 days.[110] A 38-day lag is consistent with the payment of quarterly income taxes.[111]

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[104] A 10-K is a comprehensive report filed annually by a publicly-traded company about its financial performance. Investopedia.com, accessed October 20, 2021.
[105] Ex. 209, Riley direct, p. 9, lns. 4-6.
[106] Tr. Vol. 12, p. 525, lns. 19-20.
[107] Ex. 209, Riley direct, p. 9, lns. 16-17.
[108]Ex. 209, Riley direct, p. 10, lns. 5-7.
[109] Ex. 209, Riley direct, p. 11, lns. 2-5.
[110] Ex. 209, Riley direct, p. 7, lns. 12-16.
[111] Ex. 119, Nieto rebuttal, p. 3, lns. 14-15.

76. An expense lag of a year recognizes the revenue is being provided by customers, but is never being paid out by the utility as an expense.[112]

77. If Spire Missouri had an income tax liability it would be required to submit quarterly income tax payments in accordance with IRS publication 542.[113]

78. Income tax expense is included in rates but the Company will not have to pay any income taxes through the period that these rates will be in effect. This is a negative CWC requirement that is deducted from Spire Missouri's rate base.[114]

79. Even though Spire Missouri is not paying income taxes, Staff includes an amount for income tax expense in its rate case cost of service because it interprets the IRS income tax normalization rules as requiring it pursuant to 26 USC § 6655(c).[115]

Conclusions of Law regarding Cash Working Capital – Issue 8

R. The IRS does not require a corporation to make quarterly income tax payments to avoid penalty if the corporation does not expect to incur taxes in excess of $500.[116]

S. Federal tax law, 26 USC § 6655(c), requires the remittance of quarterly estimated income taxes by specific due dates during the calendar year.

T. The Internal Revenue Code (IRC), § 168(i)(9)(A)(i), requires the income tax expense built into a rate case cost of service to be the income tax amount that a company would incur if it did not take advantage of accelerated depreciation and other tax advantage timing differences.

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[112] Ex. 210, Riley rebuttal, p. 5, lns.14-18.
[113] Tr. Vol. 12, p. 509, lns. 14-18.
[114] Ex. 211, Riley surrebuttal, p. 10, lns. 14-16.
[115] Tr. Vol. 12, p. 510-511.
[116] 26 USC §6655(f); *see also* Exhibit 49, *IRS Publication 542*, p. 6, "Generally, a corporation must make installment payments if it expects its estimated tax for the year to be $500 or more."

U. Pursuant to IRC §168(i)(9)(A)(i) the taxpayer must, in computing its tax expense for purposes of establishing its cost of service for ratemaking purposes and reflecting operating results in its regulated books of account, use a method of depreciation with respect to such property that is the same as, and a depreciation period for such property that is no shorter than, the method and period used to compute its depreciation expense for such purposes.

Decision regarding Cash Working Capital – Issue 8

The Commission finds that federal and state income tax expense is included in rates but the Company is not likely to remit any federal or state income taxes because of its NOLC. Since the Company is not remitting any income taxes to the IRS on a quarterly basis, using a 38-day income tax expense lag in the CWC calculation is inappropriate. This lack of income tax payment should be reflected in the CWC expense lag. The fact that no income tax payments have been made in the test year or true-up period justifies the use of a 365-day expense lag. Therefore, the Commission finds that the appropriate expense lag days for income taxes within the CWC calculation is 365 days.

Additionally, the Commission finds that using a 365-day expense lag for federal and state income taxes in the calculation of CWC under the methodology used in rate cases before the Commission does not circumvent IRS normalization rules or create a violation because CWC does not include ADIT. Thus, the IRS rules on normalization are not relevant to this CWC issue.

<u>Findings of Fact regarding Incentive Compensation – Issue 13</u>

80. Spire Missouri's Annual Incentive Plans (AIP) provides an annual cash payout to eligible union and non-union participants.[117]

81. Annual incentive compensation incentivizes employees to capture further savings past the year previously incentivized.[118] An employee must generate new savings in order to earn further incentive payments.[119]

82. Employees of Spire East and Spire West are eligible for annual bonuses under Spire Missouri's AIP. This incentive compensation plan provides an annual cash payout to eligible union and non-union participants based on four components: corporate performance, business unit performance, individual performance, and team unit performance. Measurement goals and a target incentive pool are established for each plan year and terms of the AIP are communicated to all employees within 90 days of the beginning of the plan year.[120]

83. The first component of AIP, corporate performance, is measured with the financial metric of Net Economic Earnings Per Share (NEEPS). NEEPS differs from the traditional Earnings Per Share (EPS) calculation in that NEEPS ignores the effect on net income of certain extraordinary items (e.g. unrealized losses, acquisition losses). This AIP component is applicable to payouts made to all employees.[121]

84. The second component of incentive compensation is the business unit performance. This component is applicable to all employees. In direct testimony, Spire

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[117] Ex. 101, Staff Cost of Service Report, p. 66, lns. 19-20.
[118] Tr. Vol. 12, p. 558, lns. 3-7.
[119] Tr. Vol. 12, p. 558, lns. 22-25.
[120] Ex. 101, Staff Cost of Service Report, p. 66, lns. 18-23.
[121] Ex. 101, Staff Cost of Service Report, p. 66, lns. 24-28.

Missouri indicated that management had conducted a detailed review of the company's AIP design in the fall of 2018. During this review, Spire Missouri made the decision to replace the previous business unit objective, Utility Operating Income, with two new objectives, Utility Contribution Margin and Utility Adjusted O&M per Customer. Utility Contribution Margin is calculated as Utility Gross Revenues – Gas Costs – Gross Receipts Tax, and is also referred to as Net Operating Revenue. Utility Adjusted O&M per Customer is calculated as (Utility O&M Expenses + Property Taxes)/12 Month Average Number of Customers.[122]

85. The third component of incentive compensation, individual performance, is applicable only to non-union employees. Each non-union employee collaborates with his or her supervisor to establish goals for the upcoming year. At the end of the plan year, the supervisor awards a composite rating of actual performance based on the rating of the employee's various personal goals. The employee's performance directly affects the amount of payout the employee can receive from the individual component of the AIP, but does not affect their corporate or business unit component award. Staff included this component in rates.[123]

86. The fourth component of AIP is team unit performance, and is applicable only to union employees. Unlike non-union employees that establish goals for each individual, union employees earn AIP payouts based upon the performance of their respective union (e.g. call center employees or field operation employees). A majority of the metrics embedded in the team unit AIP component are customer-oriented goals such as: average call handle time, call abandonment rate, Occupational Safety and Health

[122] Ex. 101, Staff Cost of Service Report, p. 67, lns. 20-28.
[123] Ex. 101, Staff Cost of Service Report, pp. 67-68.

Administration (OSHA) recordable incident rate, leak response time, etc. Generally, Staff supports such metrics as successful achievement of these goals can lead to lower costs incurred by the utility, which lead to a lower cost of service.[124]

87. A proper determination of revenue requirement is dependent upon matching the rate base, return on investment, revenues, and operating cost components at the same point in time. This ratemaking principle is commonly referred to as the "matching" principle.[125]

88. Staff made adjustments to remove all the long-term incentive compensation expense because it is earnings based. Staff also removed the expense associated with the corporate performance component in Spire Missouri's AIP because it is also earnings based.[126]

89. The Commission in general, and specifically in the case of Spire West, has disallowed incentive compensation based on financial metrics that tie payouts to the level of shareholder's interest achieved. The Commission expressed this position in its Report and Order in Spire West's 2004 Rate Case, File No. GR-2004-0209.[127]

90. In 2018, Spire Missouri implemented two new AIP business unit performance metrics – utility contribution margin, and utility adjusted operations and maintenance (O&M) per customer.[128]

[124] Ex. 101, Staff Cost of Service Report, p. 68, lns. 5-12.
[125] Ex. 100, Lyons direct, p. 6, lns. 7-10.
[126] Ex. 101, Staff Cost of Service Report, p. 66, lns. 14-16.
[127] Ex. 101, Staff Cost of Service Report, p. 66, lns. 28-31.
[128] Ex. 131, Juliette surrebuttal, p. 10, lns. 4-5.

91. Both of the new metrics provide benefits to ratepayers as they incentivize employees to reduce expenses or increase revenues while providing safe and reliable service.[129]

92. Any savings Spire Missouri recognized because of its successful incentive compensation plan that is currently in effect would be built into the test year for this rate case proceeding. These savings, therefore, will be reflected in Spire Missouri's cost of service approved by the Commission in this case and will be built into the approved general rates.[130]

93. Staff's cost of service report includes a level of incentive compensation expense representative of Spire Missouri's incentive compensation expense for the year following this rate case.[131]

94. The level of incentive compensation expense that is included in Staff's cost of service report excludes earnings based compensation, the corporate performance component.[132]

95. Staff has included a level of non-earnings based AIP expense associated with the bonuses paid out that Staff believes will be representative of Spire Missouri's incentive compensation expense for the year following this case.[133]

[129] Ex. 131, Juliette surrebuttal, p. 10, lns. 5-7.
[130] Ex. 131, Juliette surrebuttal, p. 8, lns. 9-12.
[131] Ex. 131, Juliette surrebuttal, p. 8, lns. 9-12.
[132] Tr. Vol. 12, p. 556, lns. 12-20.
[133] Ex. 131, Juliette surrebuttal, p. 8, lns. 12-14.

96. The Commission has consistently disallowed incentive compensation based upon earnings metrics while allowing inclusion of incentive compensation based upon customer and operational metrics.[134]

97. Incentive payments are paid out once and an employee has to generate new savings in order to get another further incentive payment in a future year.[135]

98. The AIP corresponds to Spire Missouri's fiscal year with bonuses paid out to employees after the end of the fiscal year for performance goals reached during the fiscal year.[136]

99. Staff reviewed Spire Missouri's AIP in effect during the test year where bonuses were paid out during the rate case true-up period.[137]

100. Spire Missouri's AIP provides non-monetary benefits such as quicker response time to leaks, increased customer satisfaction, and improved service call quality.[138]

101. Spire Missouri's AIP provides non-monetary benefits that include customer safety and response lead times.[139]

102. It is not guaranteed that earnings will increase in response to a particular incentive plan.[140]

103. Incentive compensation is a component of overall employee compensation, and is included with items such as pensions, benefits, and base pay. Double recovery is

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[134] Ex. 131, Juliette surrebuttal, p. 9, lns. 1-3.
[135] Tr. Vol. 12, p. 558.
[136] Tr. Vol. 12, p. 562.
[137] Tr. Vol. 12, p. 563. Clarification of Staff witness Juliette that AIP bonus expense included in the cost of service corresponds with benefits for the same period of time.
[138] Tr. Vol. 12, p. 570.
[139] Tr. Vol. 12, p. 565, lns. 5-13.
[140] Tr. Vol. 12, p. 566, lns. 11-14.

not an issue as the savings from the plan achievements are included in the cost of service as reductions in cost or increases in revenue, both of which benefit customers who pay for the incentive plan through cost of service.[141]

104. OPC recommends no inclusion of incentive compensation expense in Spire Missouri's cost of service.[142]

105. OPC argues that incentive programs are structured such that their costs are recovered in the productivity they generate.[143]

106. The benefits and costs of the 2021 AIP are not included in the cost of service.[144]

107. Staff's adjustment to USOA Account No. 920, Administrative and General Salaries, to exclude the earnings-based portion of AIP is a negative adjustment to remove $2,174,121 from Spire East's cost of service. The remaining costs of the AIP remain in Spire East's cost of service. Staff did not make a positive adjustment to AIP to increase expenses in Spire East's cost of service.[145]

108. There is no adjustment required to include the costs associated with bonuses paid out for the benefits achieved during the test year.[146]

109. The benefits or costs savings that have already been achieved during the test year will be included in rates.[147]

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[141] Ex. 131, Juliette surrebuttal, p. 9, lns. 7-11.
[142] Tr. Vol. 12, p. 570, lns. 1-4.
[143] Ex. 203, Schallenberg direct, p. 20, lns. 7-8, and ln. 13.
[144] Tr. Vol. 12, p. 533, lns. 4-8.
[145] Ex. 102, Staff Accounting Schedule 10, *Adjustments to Income Statement Detail*, p. 8.
[146] Tr. Vol. 12, p. 559, lns. 1-10.
[147] Tr. Vol. 12, p. 559, lns. 1-10.

Conclusions of Law regarding Incentive Compensation – Issue 13

V. The Commission has historically disallowed bonus plans targeting shareholder profits.[148]

W. Presented with a partial disallowance of rate case expense, the Supreme Court of Missouri has approved the disallowance where some of the issues pursued in a general rate case by the utility benefitted only its shareholders and not its ratepayers.[149]

X. Witness credibility is solely a matter for the fact-finder, "which is free to believe none, part, or all of the testimony."[150]

Y. An administrative agency, as fact finder, also receives deference when choosing between conflicting evidence.[151]

Decision regarding Incentive Compensation – Issue 13

The Commission has historically not allowed earnings based compensation to be recovered in rates because those incentives predominantly benefit shareholders and not ratepayers. Incentivizing employees to improve Spire Missouri's bottom line aligns the employee interests with the shareholders and not ratepayers. Staff appropriately disallowed recovery of the bonuses paid under the corporate performance component of Spire Missouri's AIP because it was earnings based. Spire Missouri did not dispute Staff's

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[148] Tr. Vol. 12, pp. 556-57. *See also* File No. GR-2004-0209, *Report and Order*, September 21, 2004, p. 43 "Improvements to the company's bottom line chiefly benefit the company's shareholders, not its ratepayers. Indeed, some actions…might have an adverse effect on ratepayers."); File No. ER-2006-0314, *Report and Order*, December 21, 2006, p. 58 ("[I]f the method KCPL chooses to compensate employees shows no tangible benefit to Missouri ratepayers, then those costs should be borne by shareholders, and not included in cost of service."); and File No. ER-2007-0291, *Report and Order*, December 6, 2007, p. 49 ("…because maximizing EPS could compromise service to ratepayers, such as by reducing maintenance, the ratepayers should not have to bear that expense.").

[149] Spire Missouri, Inc. v. PSC, 618 S.W.3rd 225, 233-234 (Mo. banc 2021).

[150] *State ex rel. Public Counsel v. Missouri Public Service Comm'n*, 289 S.W.3d 240, 247 (Mo. App. 2009).

[151] *State ex rel. Missouri Office of Public Counsel v. Public Service Comm'n of State*, 293 S.W.3d 63, 80 (Mo. App. 2009).

recommended disallowance of corporate performance bonuses. The Commission agrees with Staff that those incentive plans are primarily for the benefit of the shareholders and not for the benefit of the ratepayers.

OPC's position is that no amount of AIP bonus expense should be approved, because including it in rates leads to double recovery. On the question of double recovery, the Commission finds the testimony of Staff to be more credible than that of OPC. The test year includes all the monetary benefits of employees attaining their AIP goals through reduced expenses and/or increased revenues. To not include the bonus expense paid out to employees during the true-up period that led to the benefits would be contrary to the matching principle.

OPC argues that future AIP benefits will be greater than the cost to run the programs. That position considers that the net benefits are a result of subtracting the cost of the incentive programs from the gross benefits. Subtracting the cost of the incentive programs from the gross benefits is exactly what the Commission is providing through its acceptance of Staff's adjustment to include a portion of AIP bonus expense in the cost of service since the gross benefits are already included. The benefits and bonus expense of the 2021 AIP are not included in the test period. OPC's theory is unworkable when a company designs an employee incentive program that focuses on non-monetary aspects such as customer service or safety training. The AIP bonuses rewarding employees for attaining non-monetary goals under OPC's position would not be recoverable in rates.

OPC argues that incentive compensation bonus expense is recovered by Spire Missouri (or any utility) twice. The first recovery is in rates. The alleged second recovery is in future periods between rate cases. However, OPC does not seem to recognize that the monetary benefits for which the bonuses are paid have already been included in Spire Missouri's cost of service. Spire Missouri's AIP goals are set each fiscal year with bonuses paid out only if employees successfully reach the goals set for that fiscal year. Staff reviewed the AIP goals for the test year and made an adjustment to exclude bonus expense related to earnings goals. The Commission considers this adjustment to appropriately match the expense of employee bonuses to the benefits recognized in Spire Missouri's cost of service.

OPC has also raised a perceived conflict in Staff witness Juliette's testimony. OPC states that Mr. Juliette supported the idea that monetary benefits for which the bonuses are paid have already been included in the cost of service. OPC argues that Mr. Juliette thus contradicted his pre-filed testimony. The Commission disagrees with OPC's argument that a conflict exists in Mr. Juliette's testimony.

OPC relies on this quote, taken during cross examination of Staff witness Juliette, "We're looking for cost to achieve new benefits. Right? A. That is correct."[152] Cross examination of Mr. Juliette by OPC, and the source of OPC's concern, is found in Transcript Volume 12, pages 557-559. The questioning focused on the benefits achieved by the Company from a cost reduction or revenue increase and whether the related bonus is paid indefinitely. OPC also asks if benefits are built into rates. OPC then asks if costs need to be included to pay for benefits already achieved, and states for witness confirmation that the issue is cost to achieve new benefits. OPC then argues that this single answer from cross-examination establishes that Mr. Juliette is changing his testimony.

[152] Tr. Vol. 12, p. 559, lns. 12-13.

The Commission does not see a conflict in the testimony of witness Juliette. Where OPC argues a change in testimony, the Commission sees unclear questioning. The word cost is used in questioning of Mr. Juliette several times, such that the Commission itself is unclear as to what cost the questioner is referencing – the cost of the bonuses paid under an incentive plan; the savings of costs – a cost reduction; the costs inputted in the revenue requirement; or the cost of implementing an incentive plan other than the cost of bonuses. As the question is unclear as to the meaning of costs, and OPC's argument of testimonial conflict is based on one statement answering that is correct to an ambiguous question, the Commission does not find a conflict in Mr. Juliette's testimony.

Therefore, the Commission finds that the bonuses paid from the three non-earnings based components are appropriate. The Commission finds that $4,353,074 is the appropriate amount of incentive compensation combined for Spire East and Spire West to include in Spire Missouri's cost of service based upon Staff's Revenue Requirement Reconciliation – True-Up.

Findings of Fact regarding ultrasonic meter recovery – Issue 26

110. Spire Missouri switched to an ultrasonic meter to use when replacing existing diaphragm meters. Spire Missouri chose the Itron Intelis series of ultrasonic meters, and began installing them in June 2020 in Spire West.[153] Spire Missouri began installing ultrasonic meters in Spire East on June 29, 2021.[154]

111. Spire Missouri did not apply for an ultrasonic meter replacement program.[155]

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[153] Ex. 32, Rieske rebuttal, p. 2-3.
[154] Tr. Vol. 11, p. 255, ln. 23.
[155] Ex. 33, Rieske surrebuttal, p. 3, lns. 2-12.

112. A primary benefit of the ultrasonic meter Spire Missouri chose is its safety on the customer side of the meter. The meter contains valves that automatically shut off the flow of gas when a sensor detects an open fuel run,[156] or when it detects a temperature of 176 degrees.[157]

113. Not all commercially available meters will work on Spire Missouri's system.[158]

114. The ultrasonic meters cost approximately $25.00 more than an equivalent diaphragm meter.[159]

115. A new ultrasonic meter costs approximately $170[160] to $200.[161]

116. A diaphragm meter that fails an accuracy test, and which Spire Missouri wants to reuse, must be refurbished to continue operation, which costs Spire Missouri approximately $221.[162]

117. Spire Missouri did not perform a formal cost-benefit study on replacing the existing meters with ultrasonic meters, but states the decision was based on a series of studies evaluating meter technology.[163]

118. Spire Missouri spent approximately one year studying its metering practices.[164]

[156] Ex. 32, Rieske rebuttal, p. 4-5.
[157] Ex. 32, Rieske rebuttal, p. 7, lns. 5-9; Tr. Vol 11, p. 235.
[158] Tr. Vol 11, p. 221.
[159] Ex. 32, Rieske rebuttal, p. 6, lns. 13-14.
[160] Ex. 115, Luebbert rebuttal, p. 6, lns. 19-20.
[161] Tr. Vol. 11, p. 232, lns. 5-8.
[162] Tr. Vol. 11, pp. 230-231.
[163] Ex. 33, Rieske surrebuttal, pp. 5-8.
[164] Ex. 33, Rieske surrebuttal, p. 5, lns. 9-11.

119. Spire Missouri developed metrics as a result of its one-year study on metering practices.[165]

120. At the beginning of 2018, Spire Missouri's service area contained 725,750 meters that are over 10 years old and eligible for meter sampling.[166]

121. Spire Missouri has a waiver of the Commission's rule regarding individual meter testing, and instead may utilize statistical sampling methods to select meters for removal for those meter groups with accuracy rates of 90%.[167]

122. In calendar year 2018 for Spire West, 95% of the sample meter population was testing below 90% accuracy.[168]

123. At the beginning of calendar year 2020, 337,000 meters are replacement eligible per Commission rules at Missouri West alone. Of that number, 70,000 meters were over 30 years old. Only 84.6% of legacy meters in Missouri West are currently meeting the accuracy test—the worst performance of all Spire regions.[169]

124. In the Spire West service area,[170] Spire Missouri used an opportunity-based approach to replace diaphragm meters with ultrasonic meters when it is already at a customer's premises for another purpose, such as a turn on or an atmospheric corrosion inspection. Spire Missouri states that the average labor cost is approximately $58.37 when an ultrasonic meter replaces a diaphragm meter at an opportunity-based replacement.[171]

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[165] Ex. 33, Rieske surrebuttal, p. 5, lns. 12-14.
[166] Ex. 33, Rieske surrebuttal, p. 5, lns. 15-16.
[167] GO-91-353; *Order Granting Variance from Compliance*, issued October 8, 1991 (Missouri Gas Energy f/k/a The Kansas Power and Light Company), pp. 1-2.
[168] Ex. 33, Rieske surrebuttal, p. 5, lns. 18-20.
[169] Ex. 32, Rieske rebuttal, p. 15, lns. 13-19.
[170] Ex. 32, Rieske rebuttal, p. 16, lns. 8-16.
[171] Ex. 33, Rieske surrebuttal, p. 14, lns. 6-15.

125. It costs Spire Missouri an estimated $107 to perform a meter installation as a standalone event.[172]

126. The use of a variety of meter types and sizes over the years has created a meter population for Spire Missouri of over 100 unique combinations of meter and network modules in service in Missouri. A network module has a unique connection to each meter type and this resulted in Spire Missouri being required to maintain and distribute inventory and supply equipment to install and program every possible combination. This created added expense and inefficiency in the process to sustain automated meter reading (AMR) equipment.[173]

127. The mechanical components in the operation of the meter diaphragm, meter index, and network module were prone to frequent breakage. During calendar year 2019, 9,333 meters were replaced because they quit accurately registering usage across Spire Missouri.[174]

128. The ultrasonic meter has an integrated network module which makes the meter one unit and eliminates the disparate vintages of meter and module.[175]

129. Of the 41,373 ultrasonic meters Spire Missouri has installed in Missouri to date, 74% of replacements were meters that were already mandated for testing by Commission rules.[176]

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[172] Ex. 33, Rieske surrebuttal, p. 14, ln. 5.
[173] Ex. 33, Rieske surrebuttal, p. 6, lns. 2-7.
[174] Ex. 33, Rieske surrebuttal, p. 7, lns. 5-8.
[175] Ex. 33, Rieske surrebuttal, p. 7, lns. 3-4.
[176] Ex. 32, Rieske rebuttal, p. 16, lns. 2-4.

130. There is no evidence in the record as to whether the remaining 26% of meter replaced, which were less than 10 years old, were justified in being replaced as they were not eligible for accuracy testing under the Commission's meter testing rule.[177]

131. Spire Missouri plans to continue targeting the replacement of aged meters by following the meter sampling program requirements that target aged meter populations that are underperforming during accuracy testing.[178]

132. Recovery of the costs of the new ultrasonic meters is appropriate in instances where: the service was already disconnected; the existing meter needs replacement; and the alternative is a new diaphragm meter.[179]

133. Spire Missouri acknowledged that they condemn most meters that are removed for accuracy testing, particularly if their age exceeds more than 15 years; further, Spire Missouri stated that at times they retire meters as young as 10 years based on actual condition and useful life of that particular meter.[180]

134. Despite Spire Missouri completing 148,310 field activities to repair meters in calendar year 2020, 40,986 customer bills were estimated because a billing read was not available.[181]

135. Staff recommended disallowance of recovery of 26% of the ultrasonic meters booked in FERC subaccounts 381.1 and 382.1. As of May 31, 2021, Spire Missouri had booked $9.8 million in FERC subaccount 381.1 and $3.4 million in FERC

[177] Ex. 133, Leubbert surrebuttal, p. 4, lns. 11-15; Tr. Vol. 11, p. 265.
[178] Ex. 32, Rieske rebuttal, p. 16, lns. 14-16.
[179] Ex. 133, Leubbert surrebuttal, p. 4, 15-18.
[180] Ex. 208, Marke surrebuttal, attachment Response to Office of Public Counsel Data Request 2142.
[181] Ex. 33, Rieske surrebuttal, p. 8, lns. 1-2.

subaccount 382.1. The resulting recommended disallowance equates to $(2.5) million for FERC subaccount 381.1 and $(891,388) for FERC subaccount 382.1.[182]

136. Staff also recommends that Spire Missouri be required to file quarterly reports that describe any changes to the meter replacement strategy for each Missouri service territory as well as justification for any changes to the replacement strategy. The justification should include, but not be limited to, cost benefit analyses for the change in replacement strategy, alternative approaches considered, and potential customer impacts of the changes.[183]

137. Spire Missouri supported the provision of quarterly reports.[184]

Conclusions of Law regarding ultrasonic meter recovery – Issue 26

Z. Under Commission Rule 20 CSR 4240-10.030(19), gas utilities are required to remove, inspect and test meters every 10 years.

AA. Spire Missouri received a waiver to the 10 year inspection rule, and performs a statistical sampling instead of testing every meter.[185]

BB. The burden is on the gas corporation to prove that the gas costs it proposes are just and reasonable.[186]

Decision regarding ultrasonic meter recovery – Issue 26

The Commission finds that Spire Missouri's switch to ultrasonic meters for its replacement program is justified, except for the 26% of installations as alleged by Staff. Spire Missouri did not submit a proposal to replace its entire fleet of meters, so meters

[182] Ex. 133, Luebbert surrebuttal, pp. 4-5.
[183] Ex. 133, Luebbert surrebuttal, p. 5, lns. 8-13.
[184] Tr. Vol. 11, pp. 251-252.
[185] GO-95-320, *Report and Order*, issued May 13, 1997 (Laclede Gas Company); GO-91-353; *Order Granting Variance from Compliance*, issued October 8, 1991 (Missouri Gas Energy f/k/a The Kansas Power and Light Company).
[186] Section 393.150.2, RSMo.

should be replaced on an as-needed basis and consistent with Commission meter testing sampling rules.

The Commission finds that recovery for the cost of replacement of meters, replaced on an as-needed basis, is appropriate in instances where: the service was already disconnected; the existing meter needs replacement; and the alternative is a new diaphragm meter. The safety features and comparable costs make Spire Missouri's choice of a new ultrasonic meter (about $170 to $200) justified in instances where the options to replace an already disconnected meter are a new diaphragm meter (about $170 to $200 for a new ultrasonic meter, minus an approximate $25 difference in the cost of a new diaphragm meter equals about $145 to $175) or a refurbished diaphragm meter ($221).

The Commission finds that Spire Missouri has met its burden of showing the ultrasonic meter replacements were just and reasonable as to the 74% of ultrasonic meter replacements. The parties raised questions concerning Spire Missouri's justification for the remaining 26% of meter replacements.

Spire Missouri did not respond with any evidence demonstrating that the remaining 26% of the ultrasonic meter replacements were just and reasonable.

Spire Missouri met its burden of proof with respect to 74% of the ultrasonic meter replacements. However, given the lack of evidence as to the situation facing Spire Missouri regarding the remaining 26% of the ultrasonic meters it has installed, Spire Missouri has not met its burden with respect to demonstrating that those replacements were just and reasonable. The Commission cannot conclude that the replacement of 26% of the meters was just and reasonable in the absence of evidence from the utility.

Therefore, the Commission has no choice but to disallow recovery of 26% of the ultrasonic meter replacements as not having been shown to be just and reasonable.

As to the quarterly reports requested by Staff, and supported by OPC and Spire Missouri – the Commission agrees with the parties and will order the non-contested quarterly reports.

Findings of Fact regarding Depreciation – Issue 24

Depreciation Study

138. Depreciation, as applied to depreciable utility plant, means the loss in service value (not restored by maintenance). That loss must be incurred in the course of service, come from known causes, and not be covered by insurance. Generally, causes include wear and tear, decay, obsolescence, and changes in demand, among others.[187]

139. All parties are recommending the use of a single set of depreciation rates for Spire Missouri's service area (Spire East and Spire West currently have separate schedules).[188]

140. Spire Missouri submitted a depreciation study (Depreciation Study) that was performed in 2020 by Gannett Fleming Valuation and Rate Consultants.[189]

141. Staff conducted its own depreciation study,[190] using as sources the Depreciation Study prepared by Gannet Fleming, the spreadsheets submitted along with the study, Spire Missouri's data request responses, and previous Commission orders.[191]

[187] Ex. 101, Staff Cost of Service Report, p. 112, lns. 12-20.
[188] Ex. 200, Robinett direct, p. 1; Ex. 101, Staff Cost of Service Report, p. 112, lns. 24-25; Spire Initial Brief, p. 13.
[189] Ex. 35, Spanos rebuttal, Schedule JJS-R2.
[190] Ex. 101, Staff Cost of Service Report, p. 112, ln. 26.
[191] Ex. 101, Staff Cost of Service Report, p. 113, lns. 9-12.

142. OPC's position is that the Commission should order depreciation rates that convert Spire Missouri West to Spire Missouri East rates, supplemented by the Depreciation Authority Order issued in File No. GO-2020-0416 and adjust account 376.2 Cast Iron Mains to reflect the sunset provision of the ISRS statute and to account for under recovered investment being driven by joint encapsulation additions and retirements.[192]

143. The proposed depreciation rates in the Depreciation Study appropriately reflect the rates at which Spire Missouri's combined assets should be depreciated over their useful lives and are based on the most commonly used methods and procedures for determining depreciation rates.[193]

144. Staff has developed depreciation rates based on the combined life and net salvage analyses of Spire East and Spire West in a similar manner as prepared in the Depreciation Study.[194]

145. The historical data obtained and available for analysis by Spire West includes transactional entries for the period 1994 through 2020. The conversion of the initial data as of 1994 included installation years back to the initial year of service. A twenty-six year history of transactions is enough time, in the current case, to statistically develop valid life characteristics.[195]

146. As was done in the Depreciation Study, the statistical component of life and net salvage analyses for Spire West should include all of the forces of retirement and

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[192] Ex. 201, Robinett rebuttal, p. 6, lns. 3-8, referring to *Order Approving Application for Depreciation Authority Order*, issued September 16, 2020.
[193] Ex. 35, Spanos rebuttal, p. 2, lns. 15-18.
[194] Ex. 35, Spanos rebuttal, p. 3, lns. 7-9.
[195] Ex. 35, Spanos rebuttal, p. 3, lns. 14-18.

drivers for replacement at that time so developing lives or net salvage estimates need to include different practices or policies if they existed.[196]

147. OPC's proposal to continue the use of the currently ordered depreciation rates for Spire East, and further to apply the Spire East depreciation rates to Spire West, ignores recent historical transactions, Company plans, and changes that have occurred in the industry in recent years.[197]

148. The Depreciation Study conducted in this case relates to the combined Spire East and Spire West entity, so the rates established in the GR-2017-0215 and GR-2017-0216 cases are not the same as the depreciation study presented in this case.[198]

149. The Depreciation Study, conducted in 2020, was provided as part of this case in order to present the combined analysis of the asset classes in place as of September 30, 2020.[199]

General plant account amortization

150. Spire Missouri requested its general plant accounts no longer be depreciated, but amortized. This means that the assets would have a predetermined life in which Spire Missouri would recover its cost. When the asset has reached its life span, it would then need to be retired so as to no longer recover additional depreciation beyond its original cost. After the asset has reached its life span, Spire Missouri recommends that

[196] Ex. 35, Spanos rebuttal, p. 3, lns. 21-24.
[197] Ex. 35, Spanos rebuttal, p. 4, lns. 13-15.
[198] Ex. 36, Spanos surrebuttal, p. 2, lns. 16-18.
[199] Ex. 36, Spanos surrebuttal, p. 3, lns. 1-3.

those assets would have a 0% depreciation rate in order to no longer have any depreciation expense.[200]

151. Spire Missouri addresses the following general plant accounts in relation to its amortization proposal: 391.00 – Office Furniture & Equipment, 391.10 – Mechanical Office Equipment, 391.20 – Data Processing Software/Systems, 391.30 – Data Processing Equipment, 393.00 – Stores Equipment, 394.00 – Tools, Shop, and Garage Equipment, 395.00 – Laboratory Equipment, 397.00 – Communication Equipment, 397.10 – Communication Equipment - ERT, and 398.00 – Miscellaneous Equipment.[201]

152. The general plant accounts that Staff proposes a different depreciation rate for are Accounts 391.00, 391.10, 391.20, 391.30, 393.00, 394.00, 395.00, 397.00, 397.10, 397.20 and 398.00.[202]

153. Spire Missouri's direct testimony depreciation rates are not the same as those filed in its rebuttal testimony.[203]

154. Spire Missouri is not required to use the depreciation rates recommended by its Depreciation Study.[204]

155. The useful lives that have been selected for General Plant Amortization, for electric utilities where the Commission has authorized this treatment, use the historical depreciation rates previously ordered for those accounts.[205]

[200] Ex. 128, Buttig surrebuttal, pp. 4-5.
[201] Ex. 128, Buttig surrebuttal, p. 4, table at ln. 11.
[202] Ex. 35, Spanos rebuttal, p. 17, lns. 6-8.
[203] Ex. 128, Buttig surrebuttal, p. 3, lns. 6-11.
[204] Ex. 128, Buttig surrebuttal, p. 4, lns. 1-5.
[205] Ex. 202, Robinett surrebuttal, p. 9, lns. 19-21.

156. Weighted average value for depreciation rates, as opposed to amortization rates, do not over-recover as would happen with Spire Missouri's amortization as the Company does not have an account set up for the assets that have fully accrued, thus those asset amounts would still be included in the amortized values.[206]

157. At the time the rates are set, Spire Missouri's rates are set with a level of fully accrued plant and depreciation expense built in to rates utilizing the entire plant balance. Ratepayers should receive the benefit of increased reserves if the utility does not timely retire fully accrued dollars. If general plant amortization is approved, it is Spire Missouri's decision how regularly to retire fully amortized general plant, which could be monthly, quarterly, bi-annually or annually.[207]

158. Spire Missouri maintains assets in the general plant accounts past their amortization period. This practice has, and would, lead to an over-recovery.[208]

159. Denying Spire Missouri's proposed change, and continuing with the Company's current methodology, is in the public interest because it enables the Commission, Staff, and OPC to conduct prudence reviews after the fact. Spire Missouri will continue to track retirements and costs, and it will provide data useful for conducting future depreciation studies that could otherwise be unavailable.[209]

160. General Plant account amortization threatens the ability to perform any sort of prudence review of plant added into these accounts because it fails to track retirement units and original costs. Under the General Plant amortization method, only two values matter: the total additions for an account in a vintage year and the amortization period

[206] Ex. 128, Buttig surrebuttal, p. 5, lns. 9-14.
[207] Ex. 202, Robinett surrebuttal, p. 9, lns. 6-11.
[208] Ex. 128, Buttig surrebuttal, p. 5, lns. 18-19.
[209] Ex. 202, Robinett surrebuttal, p. 12, lns. 3-7.

over which the original investments are to be recouped. Because only these two values are tracked, the method does not require the recording of the original cost of any particular asset. Stated differently, the total additions do not reflect the costs per retirement unit (a "retirement unit" being the smallest measurable breakdown of a particular type of asset to be recorded as capital). Not reflecting the costs per retirement unit is concerning because it will hamper the ability of parties to evaluate the prudency of capital expenditures. This is because it is difficult to make any type of prudency evaluation for a given asset when all the assets are lumped together in one account instead of being broken out by asset (*i.e.* cost per retirement unit).[210]

161. General Plant Amortization will only produce historical data for depreciation that matches the amortization period for the selected account. This is a problem because the amortization periods may or may not match the useful life of the assets. In other words, the data will only show the retirements booked in strictly dollar amounts and will not show retirement of any actual physical assets.[211]

Cast iron mains

162. The cast iron mains account has been growing and not decreasing with the removal and replacement of cast iron mains. The plant-in-service balance was $14 million in a 2010 case.[212] Ten years later, plant-in-service has a balance of $32 million. The cause of the increase is the joint encapsulations that allowed an existing main to continue to operate while new infrastructure was being installed in the adjacent areas. Those joint encapsulations are being capitalized in the cast iron main account.[213]

[210] Ex. 202, Robinett surrebuttal, p. 10, lns. 5-17.
[211] Ex 202, Robinett surrebuttal, pp. 10-11.
[212] File No. GR-2010-0171.
[213] Ex. 200, Robinett direct, pp. 3-5.

163. Based on the information known to Spire Missouri related to cast iron mains, all cast iron main plant-in-service will be retired by end of 2030 so the depreciation rate must include this life component in order to ensure the full recovery by end of 2030.[214]

164. In Spire Missouri's Depreciation Study the cast iron mains represent not only the remaining cast iron mains that are being replaced as part of the cast iron replacement program but also the cast iron main encapsulation assets.[215]

165. In Spire Missouri's Depreciation Study, the estimated survivor curve for Account 376.2, Mains - Cast Iron, reflects the Cast Iron Replacement Program. The program was initiated in 1989 but the current practices were developed in 2009 and will continue until all cast iron main and related assets are replaced. The current practices anticipate completing the replacement program within the next 10 years. Therefore, the survivor curve is truncated at year end 2030 to reflect the remaining life cycle.[216]

166. The 12.35% depreciation rate for cast iron mains proposed by Spire Missouri is appropriate for all related cast iron assets in Account 376.[217]

167. Both the main and the encapsulations will be replaced as part of Spire Missouri's cast iron main replacement program.[218]

Enterprise Software

168. The Enterprise Computer Software System (Enterprise Software) is a fully integrated and comprehensive information management system.[219]

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[214] Ex. 35, Spanos rebuttal, p. 14, lns. 8-11.
[215] Ex. 36, Spanos surrebuttal, p. 4, lns. 3-5.
[216] Ex. 35, Spanos rebuttal, Schedule JJS-R2, p. 38.
[217] Ex. 36, Spanos surrebuttal, p. 4, lns. 5-6.
[218] Ex. 36, Spanos surrebuttal, p. 4, lns. 9-10.
[219] Ex. 128, Buttig surrebuttal, p. 6, lns. 11-13.

169. Spire Missouri recommends an average life of 10 years for Enterprise Software depreciation.[220]

170. The Enterprise Software assets were assigned at a 15-year service life and a depreciation rate of 7% in a previous case.[221]

171. The Company's Depreciation Study does not provide the evidence for a shortened average life for the Enterprise Software assets.[222]

172. Staff supports using the number approved in the Enterprise Software depreciation case.[223]

Plastic mains

173. Plastic mains are polyethylene and lack the inherent flaw of corrosion that exists in other main types.[224]

174. Staff and Spire Missouri recommend a decrease in the recommended average service lives for plastic mains of 15 years, from 75-years to 60-years.[225]

175. In File Nos. GR-2017-0215 and GR-2017-0216, OPC raised concerns that the accelerated nature of the ISRS and the retiring of sections of new plastic patches would have a negative impact on the average service life of the Account 376.3 Mains-Plastic.[226]

176. OPC testified that Laclede Gas Company and MGE's new practice that began in 2011 is to replace and abandon large amounts of plastic pipe before the useful life of those pipes has ended. Many of the replaced pipes were in the ground only a few

[220] Ex. 35, Spanos rebuttal, p. 16, lns. 21-22.
[221] File No. GO-2012-0363, *Report and Order*, effective October 13, 2012.
[222] Ex. 128, Buttig surrebuttal, p. 7, lns. 21-22.
[223] Ex. 128, Buttig surrebuttal, p. 7, lns. 1-5.
[224] Ex. 202, Robinett surrebuttal, pp. 20-21.
[225] Ex. 202, Robinett surrebuttal, pp. 5-6.
[226] Ex. 202, Robinett surrebuttal, p. 4, lns. 18-20.

years before being abandoned. Over time these multiple short lived asset retirements will cumulatively decrease the overall estimated average service life of plastic pipe installed in the entire system. This distortion in the average service life on this plant by continuous early retirements may result in a skewed and abnormal relationship between the plant and reserve balance. This skewed and abnormal relationship, if not noted and removed from the depreciation study, will likely indicate an increase in depreciation rates when no increase is actually needed. This potential increase in depreciation rates will increase Spire Missouri's (f/k/a Laclede Gas Company and MGE) cost of service artificially and unnecessarily.[227]

177. Spire Missouri witnesses have testified in prior ISRS cases that the useful life of plastic mains would exceed that of cast iron and unprotected steel mains.[228]

178. The current ordered rate for plastic mains is a 1.57% depreciation rate which is driven by a 70 year average service life and -10% net salvage.[229]

179. A 75-year average service life for plastic mains is consistent with the September 30, 2012, and 2016 depreciation studies performed by Spire Missouri East.[230]

180. Staff and Spire Missouri recommend a -40% net salvage value based on an increase in the cost of removal of plastic mains.[231]

181. The depreciation study for Laclede Gas Company for gas plant on September 30, 2003, indicated a 70-year average service life with a -15% net salvage. The depreciation study for Laclede Gas Company for gas plant at September 30, 2009,

[227] Ex. 202, Robinett surrebuttal, p. 5, lns. 11-22 citing to Robinett direct testimony in cases GR-2017-0215 and GR-2017-0216.
[228] Ex. 202, Robinette surrebuttal, p. 20, ln.19 through p. 21, ln.10.
[229] Ex. 202, Robinett surrebuttal, p. 5, lns. 5-6.
[230] Ex. 202, Robinett surrebuttal, p. 6, lns. 12-14.
[231] Ex. 202, Robinett surrebuttal, p. 6, lns. 14-16.

indicated a 70-year average service life with a -15% net salvage. The depreciation study for Laclede Gas Company for gas plant at September 30, 2012, indicated a 75-year average service life with a -25% net salvage. The depreciation study for Laclede Gas Company for gas plant at September 30, 2016, indicated a 75-year average service life with a -30% net salvage. The Depreciation Study for Spire Missouri for gas plant at September 30, 2020, indicated a 60 year average service life with a -40% net salvage.[232]

182. A 75-year average service life is consistent with Spire Missouri's prior depreciation studies.[233]

<u>Smart meters</u>

183. OPC and Staff propose that Spire Missouri continue to use a 20-year life for Smart Meters and Smart Meter Installation supported by the depreciation schedules ordered in File No. GO-2020-0416.[234]

184. According to the direct testimony and attached schedule of Mr. Selinger, Spire Missouri is proposing to maintain the currently ordered depreciation rates from File No. GO-2020-0416.[235]

185. Spire Missouri's response to OPC data request number 8511, answered by Spire Missouri's witness, Mr. Weitzel indicated that: The 15 year life for smart meters and their installation was based on the understanding of the nature of the smart meters and informed judgment of the life cycle of smart meters which includes the life estimates of

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[232] Ex. 202, Robinett surrebuttal, p. 4, lns. 5-13.
[233] Ex. 202, Robinett surrebuttal, p. 6, lns. 12-14.
[234] Ex. 128, Buttig surrebuttal, p. 8, lns. 2-7; p. 9.
[235] Ex. 128, Buttig surrebuttal, p. 9, lns. 14-16.

other utilities in the industry that have experienced more defined life characteristics for smart meters.[236]

186. OPC asked an additional data request, number 2140, answered by Spire Missouri's witness, Mr. James Rieske, which discusses the smart meter infrastructure being deployed by Spire Missouri. Mr. Rieske's response was that the average service life of an ultrasonic meter is 20 years. This response contradicts Spire Missouri's other response.[237]

187. Spire Missouri recommended in the rebuttal testimony of Mr. Spanos changes to the newly created smart meter and smart meters installation accounts that were not supported by any historical analysis since the first meters were installed in mid-year 2020.[238]

188. In File No. GO-2020-0416, Spire Missouri requested a Depreciation Authority Order for the smart meters and smart meter installations. The depreciation rate was established on the basis of the smart meters having a battery life of 20 years.[239]

<u>Diaphragm meters</u>

189. Spire Missouri's witness testified that their diaphragm meters currently have an actual life of approximately 18.8 years for Spire East and 22.1 years for Spire West.[240]

190. Spire Missouri has used a range of 33 years to 37 years for the depreciable life of its diaphragm meters in its depreciation studies since 2003.[241]

[236] Ex. 202, Robinett surrebuttal, p. 22, lns. 5-12.
[237] Ex. 202, Robinett surrebuttal, p. 22, lns. 18-20.
[238] Ex. 202, Robinett surrebuttal, p. 22, lns. 2-5.
[239] Ex. 128, Buttig surrebuttal, p. 8, lns. 20-22.
[240] Tr. Vol. 11, pp. 230, 232-233 and 253-255.
[241] Ex. 202, Robinett surrebuttal, pp. 15-16.

191. A 35-year depreciable life for meters is the recommendation of Spire Missouri in the Depreciation Study in the present case.[242]

192. Spire Missouri intends to retire existing diaphragm meters that are removed for testing within the meter sampling process, even if they meet the accuracy standard.[243]

193. Replacement of a meter prior to its depreciation being fully realized, will result in stranded costs.[244]

194. Spire Missouri agrees that the disconnect between the diaphragm meter depreciation and the practical life of a diaphragm meter needs to be analyzed and discussed with Staff and interested parties.[245]

195. Meters removed for accuracy testing have been retired by Spire Missouri when still testing accurately for the following reasons: fundamentally the Company has found that refurbishing a meter is not cost effective when all of the cost factors are considered from the time a meter is removed to the time it is delivered to be reinstalled; the meter condition was such that refurbishment simply was not possible or practical; and the meter was of a type and size that is no longer used by Spire. For example, meters sized below a capacity of 250 CFH are no longer used in any Spire region.[246]

196. OPC proposes that the Commission has several options with how to handle the potentially large reserve shortfall for current diaphragm meters. The Commission could just order a depreciation rate consistent with the current recommendations of all the parties. This option is supported by the fact that no parties have discussed how the

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[242] Ex. 35, Spanos rebuttal, Schedule JJS-R2, p. 51 of 396.
[243] Ex. 202, Robinett surrebuttal, p. 14, lns. 28-32.
[244] Ex. 201, Robinett rebuttal, p. 12, lns. 1-12; Ex. 115, Luebbert rebuttal, p. 5, lns. 10-11.
[245] Ex. 202, Robinett surrebuttal, p. 14, lns. 12-15.
[246] Ex. 202, Robinett surrebuttal, p. 14, lns. 15-26.

stranded asset should be handled and all parties will have a better understanding of the true magnitude of the shortfall in the next rate case.[247]

197. OPC's additional proposed options include a depreciation rate adjustment, creation of a regulatory asset for the remaining uncollected balance, disallowance of a portion of the remaining investment or implementing a hybrid method.[248]

Conclusions of Law regarding Depreciation – Issue 24

Smart meters

CC. The smart meter and smart meter installation depreciation rates, Accounts 381.1 and 382.1, respectively, were authorized by the Commission in File No. GO-2020-0416, *Order Approving Application for Depreciation Authority Order*, which became effective on October 16, 2020, and has not been rescinded or altered.

Enterprise Software

DD. The Enterprise Software rates were ordered by the Commission in File No. GO-2012-0363, which set the life of the Enterprise Software at 15 years. The *Report and Order,* effective October 13, 2012, has not been rescinded or altered.

Decision regarding Depreciation – Issue 24

The Commission finds that Spire Missouri's Depreciation Study should be adopted, with specific modifications. Those modifications to the Depreciation Study are as follows: General Plant amortization is not authorized; Enterprise Software will remain at a 15-year life; plastic mains will remain at a 75-year life; and Smart Meters will remain at a 20-year life.

[247] Ex. 202, Robinett surrebuttal, pp. 16-17.
[248] Ex. 202, Robinett surrebuttal, pp. 17-18.

OPC's recommendation to use Spire East's existing depreciation rates from 2012 for both Spire East and Spire West is contrary to the established practice of matching depreciation rates to assets in service. It is not appropriate to ignore the depreciation factors affecting Spire West when combining the two. That generally leaves the Commission to choose between adopting, with modifications, Spire Missouri's Depreciation Study or Staff's depreciation study. Staff's depreciation study uses the information from Spire Missouri's Depreciation Study as its basis. Spire Missouri's Depreciation Study was conducted in 2020, and is based on the most commonly used methods and procedures for determining depreciation rates. Spire Missouri's Depreciation Study also looks at the combined utility assets of both the Spire West and Spire East service areas. The Commission finds Spire Missouri's Depreciation Study to be the more persuasive evidence.

The Commission finds that Spire Missouri's proposal for amortization of the general plant accounts is not appropriate as General Plant account amortization threatens the ability to perform any sort of prudence review of plant added into these accounts because it fails to track retirement units and original costs. It is also inappropriate as weighted average values for depreciation rates, as opposed to amortization rates, do not over-recover. An over-recovery would happen with Spire Missouri's proposed amortization as the Company does not have an account set up for the assets that have fully accrued, thus those asset amounts would still be included in the amortized values. And it is inappropriate as General Plant Amortization will only produce historical data for depreciation that matches the amortization period for the selected account. This is a problem because the amortization periods may or may not match the useful life of the assets. In other words, the data will only show the retirements booked in strictly dollar amounts and will not show retirement of any actual physical assets.

The Commission finds that 12.35% is the appropriate depreciation rate to be used for cast iron main account. Spire Missouri's proposed rate was the most reasonable, accounting for the legislation sunset, and remaining consistent on salvage costs. There was not enough evidence in the record for the Commission to fully evaluate OPC's proposed higher salvage costs.

The Commission finds that a 15-year life is the appropriate service life to assign to Enterprise Software, as established in GO-2012-0363. Spire Missouri referred to the service life for the original Enterprise Software and subsequent applications not reaching the 15-year threshold, but without details as to what shortcomings are attributable to which applications. The Commission, however, notes that Enterprise Software has not yet reached the 15-year threshold. The Commission's October 3, 2012 *Report and Order* in File No. GO-2012-0363, notes that Laclede Gas Company was in the process of implementing the Enterprise Software.[249] This sets the current age of the Enterprise Software at approximately 9 years.

The Commission finds that the depreciable life of plastic mains should remain at 75 years, as this has been established as the lifespan in prior Commission cases, and no argument was raised to cause the Commission to change the authorized service life of plastic mains.

[249] GO-2012-0363, *Report and Order*, issued October 3, 2012, p. 4, Finding of Fact 1.

The Commission finds that the appropriate Smart Meter depreciation rate is that agreed to by all parties and previously authorized by the Commission in File No. GO-2020-0416.

Lastly, the Commission is presented in this case with evidence that the real-world life expectancy of Spire Missouri's diaphragm meters is falling short of the historical life expectancy of diaphragm meters assigned for depreciation purposes. Stranded assets result when a meter with expected life is replaced earlier than the expiration of its expected service life. Although it came to light during testimony regarding ultrasonic meters, this situation of stranded assets was not created by the introduction of ultrasonic meters. Because the stranded assets issue was discovered tangential to another issue in the case, it did not receive sufficient attention from the parties for the Commission to make an informed finding. Therefore, the Commission will allow the evidence on this issue to continue to develop and will look forward to Spire Missouri's proposed solution in its next rate case.

<u>Findings of Fact regarding Affiliate Transactions - Issue 19</u>

198. Spire Inc., the parent company of Spire Missouri, owns subsidiary companies across the United States that include regulated and non-regulated operations. While some of these entities have employees and facilities dedicated to each business segment, there are instances where costs are incurred by one business segment that benefits a different, or multiple, business segment(s). For example, the time spent by the executive leadership is properly attributable to all business segments of Spire Inc. since executives are charged with leading the company as a whole.[250]

[250] Ex. 101, Staff Cost of Service Report, p. 47, lns. 11-20.

199. To account for the costs that are common across multiple business units, Spire Inc. implemented a shared service model. Under this model, costs that are incurred on behalf of a different, or more than one, business unit are charged to the shared services entity (Spire Services Inc.) so that the costs can accumulate in shared cost pools. At the end of each period, the cost pools are distributed back to the business segments based on the various cost drivers. Types of costs accounted for under this methodology include the labor and non-labor costs of executive and corporate, finance, human resources, information technology, legal, insurance, supply chain, facilities, marketing, project management, external affairs, customer experience, business development, and other costs.[251]

200. Spire Inc. and Spire Services Inc. do not have a material corporate purpose separate and apart from the operations and lines of businesses of their regulated and non-regulated affiliates.[252]

201. Costs are distributed to the appropriate business segments by the use of several types of allocation factors. These allocation factors are updated annually and include allocators to spread costs corporate-wide (all business units), utility only (regulated operations), Missouri only (Spire Missouri and nonregulated operations), and Missouri utility only (Spire Missouri). Furthermore, these allocation factors can be derived from various cost drivers including employee headcount, customer count, square footage used, fixed assets, and many others. When a cost pool has no identifiable cost driver, the

[251] Ex. 101, Staff Cost of Service Report, p. 47, lns. 21-28.
[252] Ex. 117, Majors rebuttal, p. 6, lns. 3-5.

shared services model allocates costs based on a three factor allocator that is a blend of fixed assets, revenue, and wages.[253]

202. Laclede Gas Company filed its application with the Commission to restructure itself into a holding company (now Spire Inc.), regulated utility company, and unregulated subsidiaries on December 1, 2000, in File No. GM-2001-342.[254]

203. Spire Inc.'s purpose is to own shares of other companies.[255]

204. Due to the corporate structure of Spire Inc., all transactions under the term "corporate allocations" are affiliate transactions, and must comply with the Commission's affiliate transaction rules.[256]

205. The primary purpose of the restructuring was to establish an optimal corporate structure that would permit Laclede Gas Company, now Spire Missouri, to more effectively pursue both its regulated utility obligations as well as the unregulated business opportunities afforded by increased competition in the energy industry and other developments.[257]

206. Laclede Gas Company was the parent prior to restructuring, operating as a regulated utility with both regulated and nonregulated subsidiaries.[258]

207. The proposed holding company structure designated The Laclede Group, Inc. as the holding company with Laclede Gas Company separate and apart from its previous subsidiaries.[259]

[253] Ex. 101, Staff Cost of Service Report, pp. 47-48.
[254] Ex. 226, Application of Laclede Gas Company to Restructure into a Holding Company.
[255] Ex. 16, Krick rebuttal, p. 8, lns. 11-12.
[256] Ex. 135, Majors surrebuttal, p. 8, lns. 8-10.
[257] Ex. 226, Application of Laclede Gas Company to restructure into a Holding Company, p. 5, para. 13.
[258] Ex. 226, Application of Laclede Gas Company to restructure into a Holding Company, p. 3, para. 6.
[259] Ex. 226, Application of Laclede Gas Company to restructure into a Holding Company, pp. 3-4, para. 7.

208. The current Spire Inc. enterprise is quite different from the entity that existed at the time of the filing of the Holding Company Application in GM-2001-342.[260]

209. Spire Services Inc. functions as a clearinghouse to properly allocate and charge costs for goods and services between the Spire Inc. subsidiaries.[261]

210. Through Staff's payroll annualization, a substantial portion of the salaries and wages of Spire Missouri employees are allocated to various Spire Inc. affiliates, both regulated and non-regulated using the three-factor allocator, which uses an average of fixed assets, revenues and wages.[262]

211. Staff adjusted some Board of Director expenses and eliminated stock based compensation from Spire Missouri's cost of service.[263]

212. Spire Missouri provided $221 million of goods and services that were allocated between itself and other Spire Inc. affiliates during the test year. Of the total goods and services, $52.3 million were allocated to regulated and non-regulated affiliates.[264]

213. OPC proposed an $84 million adjustment. This is 50% of the Spire Missouri goods and services that were not allocated to affiliates, less $355,611 charged to Spire Inc.[265]

214. OPC does not identify the basis, allocation factor, or any other support for a 50% re-allocation.[266]

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[260] Ex. 203, Schallenberg direct, p. 10, lns. 1-3.
[261] Ex. 117, Majors rebuttal, p. 2, lns. 13-15.
[262] Ex. 117, Majors rebuttal, p. 3, lns. 26-28.
[263] Ex. 117, Majors rebuttal, p. 4, lns. 13-14.
[264] Ex. 203, Schallenberg direct, pp. 13-14.
[265] Ex. 117, Majors rebuttal, p. 5, lns. 11-20.
[266] Ex. 117, Majors rebuttal, p. 5, lns. 20-22.

215. The majority of the $355,611 of personnel costs allocated to Spire Inc. in 2020 were associated with certain non-utility activities in the areas of Legal and Information Technology that were expensed at Spire Inc. and not reallocated to an affiliate.[267]

216. The purpose of 20 CSR 4240-40.015, the Commission's Gas Utilities' Affiliate Transactions Rule (ATR) is to prevent regulated utilities from subsidizing their non-regulated operations.[268]

217. Use of service companies to obtain necessary corporate support services for multiple entities under a holding company structure is a common practice for utilities.[269]

218. The creation of Spire Services Inc. allowed Spire to merge many of its plans to achieve alignment of benefits for employees, cost savings, and administrative efficiencies.[270]

219. The merger of Spire's health and welfare plans, and its 401(k) plan has benefited from economies of scale.[271]

220. Spire Services Inc. is different from Ameren Services because it has no employees while Ameren Services has employees.[272]

221. Spire Missouri does not charge a profit on the services provided to affiliates nor does it pay a mark-up on services received.[273]

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[267] Ex. 203, Schallenberg direct, p. 15, lns. 6-9.
[268] Ex. 135, Majors surrebuttal, p. 8, lns. 11-14.
[269] Ex. 135, Majors surrebuttal, p. 9, lns. 20-21.
[270] Ex. 15, Krick direct, p. 5, lns. 8-22.
[271] Ex. 15, Krick direct, p. 5, lns. 17-20.
[272] Tr. Vol 11, pp. 369-370, and 403-404.
[273] Ex. 135, Majors surrebuttal, p. 10, lns. 16-22.

222. Spire Missouri's Cost Allocation Manual (CAM) came into being as a result of a Stipulation and Agreement that included the proposed CAM. That Stipulation and Agreement was approved by the Commission in 2013.[274]

223. The Commission last approved Spire Missouri's CAM in 2013.[275]

224. Spire Missouri's current cost assignment and allocation procedures are reasonable and result in equitable compensation.[276]

225. There is a project underway to evaluate changing the employer of several hundred employees that normally provide services to more than one subsidiary, or those that fall into traditional corporate service functions to Spire Services Inc.[277]

226. The Spire Missouri 2020 annual CAM report lists and describes all Spire Missouri functions that provide support to nonregulated affiliates and the holding company.[278]

227. The Spire Missouri 2020 annual CAM report lists procedures used to measure and assign costs to nonregulated affiliates and the holding company for functions that do not match those functions listed on pages 3-32 of the Spire Missouri 2020 annual CAM report.[279]

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[274] Ex. 203, p. 8-9; File No. GC-2011-0098, *Order Approving Stipulation and Agreement, Granting Waiver, and Approving Cost Allocation Manual*, issued August 14, 2013.
[275] *Joint Stipulation of Facts*, filed July 19, 2021, para. 13.
[276] Ex. 117, Majors rebuttal, p. 7, lns. 14-16.
[277] Ex. 15, Krick direct, pp. 4-5.
[278] Spire Missouri 2020 annual CAM report, pp. 3-32. Note the Commission admitted Ex. 231, which was the 'skinny' version of Spire Missouri's 2020 annual CAM report, but took official notice of the entire 2020 annual CAM report. *See,* Tr. Vol. 11, p. 392, lns. 10-14.
[279] Spire Missouri 2020 annual CAM report, p. 33.

228. The Spire Missouri 2020 annual CAM report lists and describes each service and good provided to Spire Missouri from each affiliate and the holding company.[280]

229. The Spire Missouri 2020 annual CAM report lists and describes each of six services and goods provided by Spire Missouri to each affiliate and the holding company.[281]

230. The Spire Missouri 2020 annual CAM report lists twelve services and goods charged by Spire Missouri in total dollar amounts to each affiliate and the holding company. The total cost to Spire Missouri related to each service and good is also provided. These services and goods provided by Spire Missouri do not match those listed on page 35 of the Spire Missouri 2020 annual Cam report.[282]

231. The Spire Missouri 2020 annual CAM report lists the dollar amount of each service and good purchased from each affiliate and the holding company by Spire Missouri and the total cost related to each service and good listed.[283]

232. The Spire Missouri 2020 annual CAM report lists and describes each line of business engaged in by Spire Missouri with non-affiliated third party customers following formation of a holding company and that would not reasonably be considered as a component of its regulated utility business.[284]

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280 Spire Missouri 2020 annual CAM report, p. 34.
281 Spire Missouri 2020 annual CAM report, p. 35.
282 Spire Missouri 2020 annual CAM report, pp. 36-40.
283 Spire Missouri 2020 annual CAM report, p. 40.
284 Spire Missouri 2020 annual CAM report, p. 41.

233. The Spire Missouri 2020 annual CAM report provides the total amount of revenues and expenses for each Spire Missouri nonregulated activity for the last fiscal year.[285]

234. The Spire Missouri 2020 annual CAM report provides all jurisdictions in which Spire Missouri, the holding company, affiliates and service company, if formed, file affiliate transaction information.[286]

235. The Spire Missouri 2020 annual CAM report shows an organizational chart for Spire (corporate structure), Spire Missouri and any other affiliate doing business with Spire Missouri.[287]

236. The Spire Missouri 2020 annual CAM report lists executive officers and the Spire organization by function.[288]

237. The Spire Missouri 2020 annual CAM report lists employee assignments from Spire Missouri to other affiliates during 2020.[289]

238. The Spire Missouri 2020 annual CAM report lists Spire Services Inc.'s allocation factors by allocation type and operating unit for fiscal years 2018, 2019, and 2020. [290]

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[285] Spire Missouri 2020 annual CAM report, p. 42.
[286] Spire Missouri 2020 annual CAM report, p. 43.
[287] Spire Missouri 2020 annual CAM report, p. 44.
[288] Spire Missouri 2020 annual CAM report, p. 45.
[289] Spire Missouri 2020 annual CAM report, p. 46.
[290] Spire Missouri 2020 annual CAM report, Appendix A, pp. 49-53.

Conclusions of Law regarding Affiliate Transactions – Issue 19

EE. Transactions between Spire Missouri and Spire Inc. are subject to the Commission's affiliate transaction rule, 20 CSR 4240-40.015, as well as subject to Spire's CAM, which is Commission approved.[291]

FF. The content of the CAM must set "forth the cost allocation, market valuation and internal cost methods".[292]

GG. Commission Rule 20 CSR 4240-40.015 (in pertinent parts) states:

> (1) Definitions.
> (D) Corporate support means joint corporate oversight, governance, support systems and personnel, involving payroll, shareholder services, financial reporting, human resources, employee records, pension management, legal services, and research and development activities.
>
> (2) Standards.
> (A) A regulated gas corporation shall not provide a financial advantage to an affiliated entity. For the purposes of this rule, a regulated gas corporation shall be deemed to provide a financial advantage to an affiliated entity if—
> 1. It compensates an affiliated entity for goods or services above the lesser of—
> A. The fair market price; or
> B. The fully distributed cost to the regulated gas corporation to provide the goods or services for itself; or
> 2. It transfers information, assets, goods or services of any kind to an affiliated entity below the greater of—
> A. The fair market price; or
> B. The fully distributed cost to the regulated gas corporation.
> (B) Except as necessary to provide corporate support functions, the regulated gas corporation shall conduct its business in such a way as not to provide any preferential service, information or treatment to an affiliated entity over another party at any time.

HH. Spire Missouri's CAM requires, for each good and service provided to Spire Missouri by an affiliate entity or provided by Spire Missouri to an affiliate entity, the dollar

[291] File No. GC-2011-0098.
[292] 20 CSR 4240-40.015(3)(D).

amount of each transaction, including the Uniform System of Accounts (USOA) account charged, be included in the annual CAM report.[293]

II. Spire Missouri's CAM requires Spire Missouri to annually report the basis used (e.g. fair market price, fully distributed cost, etc.) when it records each affiliate transaction.[294]

JJ. Spire Missouri's CAM requires Spire Missouri to maintain books and records sufficient to permit verification of compliance.[295]

KK. Spire Missouri's Commission-approved CAM, which uses its predecessor name of Laclede Gas Company, states that facilities, goods or services, including shared services provided by Laclede Gas Company to an affiliate, shall be charged by Laclede Gas Company at the greater of the fair market price of such facility, good or service or at the fully distributed cost incurred by Laclede Gas Company in providing such facility, good or service to itself.[296]

LL. Spire Missouri's CAM states that facilities, goods or services provided to Laclede Gas Company by an affiliated provider shall be charged to Laclede Gas Company at the lesser of the fair market price for such facilities, goods or services or the fully distributed cost to Laclede Gas Company to provide the facilities, goods or services to itself.[297]

MM. Spire Missouri's CAM transfer pricing and costing methodology identifies the allocation methods to be applied for indirect costs. The allocation of Board of Director

[293] Ex. 228, Spire Missouri's CAM, p. 3, para. 2.
[294] Ex. 228, Spire Missouri's CAM, pp. 3-4, para. 4.
[295] Ex. 228, Spire Missouri's CAM, p. 4, para. 5.
[296] Ex. 228, Spire Missouri's CAM, p. 11, para. IX.A(ii).
[297] Ex. 228, Spire Missouri's CAM, p. 10, para. IX.A(i).

fees between affiliates are to be based on the three component allocator, fixed assets, revenues and wages.[298]

NN. Spire Missouri's CAM includes descriptions of allocation methodologies to be applied to indirect costs shared by affiliates of the regulated utility.[299]

OO. The Commission directed Spire Missouri to rewrite its CAM in Spire Missouri's prior rate cases, File Nos. GR-2017-0215 and GR-2017-0216.[300]

Decision regarding Affiliate Transactions – Issue 19

The Commission finds that allocation factors used by Spire Missouri to charge affiliates and the holding company for the goods and services it provides are being appropriately assigned. However, the Commission's review of Spire Missouri's 2020 annual CAM report found several reporting requirements of Spire Missouri's CAM to be missing that are critical in demonstrating Spire Missouri's compliance with the Commission's Affiliate Transactions Rule, and thus the Commission will order an investigatory docket be opened for Staff to report on Spire Missouri's CAM compliance.

There is insufficient evidence in the record to support an $84 million adjustment. While OPC argues that number represents the estimated costs that Spire Inc. did not pay for goods and services produced on its behalf by Spire Missouri,[301] the Commission finds that there was no evidence showing a basis, allocation factor, or any other driver to account for the 50% adjustment. The Commission cannot order an adjustment without sufficient evidentiary support. Even if the Commission were to find issue with the pricing

[298] Ex. 228, Spire Missouri's CAM, p. 16.
[299] Ex. 228, Spire Missouri's CAM, pp. 10-19.
[300] File No. GR-2017-0215 and 0216, *Amended Report and Order*, pp. 58-60.
[301] Ex. 205, Schallenberg surrebuttal, p. 2, lns. 11-13.

of goods and services between Spire Missouri and its affiliates no credible evidence to support any such adjustment to address pricing issues has been provided.

OPC also argued in favor of a $1 million adjustment to be credited to Spire Missouri for creation of market value. OPC's argument is that Spire Missouri creates market value through its operation of Spire Services Inc. The Commission found more credible the testimony that the current service company structure results in an equitable distribution of any economies of scale to all affiliates, thus no adjustment for creation of market value specific to Spire Missouri is necessary.

Since testimony indicated that Spire Services Inc. will be transferring other employees from its affiliates, this will likely have an effect on Spire Missouri. As such, the Commission will order Spire Missouri to report on updates to its employee transfer project.

Lastly, the Commission will restate its order given in 2018 for Spire Missouri to rewrite its CAM. The ordered rewrite has not yet been completed. File No. GW-2018-0367 was opened on June 13, 2018, and held a workshop on rewriting Spire Missouri's CAM on October 15, 2018. That was the last action documented in the case. The parties have had over three years since the opening of File No. GW-2018-0367 to produce a rewritten CAM, and there have been no requests from any party to delay the proceedings. Therefore, the Commission will order a draft CAM be filed in File No. GW-2018-0367 for Commission approval no later than six months from the effective date of this order.

Findings of Fact regarding Capitalized Overheads – Issue 15

239. Capitalized overheads are costs that are indirectly related to a capital project that the utility has elected to capitalize rather than to expense (e.g. engineering, legal work, insurance, taxes, interest, etc.).[302]

240. In recent ISRS cases OPC has raised a concern about the amount of overheads. The issue was deferred to this rate case.[303]

241. As a subsidiary of a publicly traded corporation, Spire Missouri follows accounting methods prescribed by Generally Accepted Accounting Principles (GAAP) and as a gas utility regulated by Missouri, Spire Missouri must also follow the accounting methods prescribed by the FERC USOA.[304]

242. While some costs are clearly either expenses or capital expenditures in nature, Spire Missouri has discretion to assign many costs as it chooses.[305]

243. Without Spire Missouri completing the special study of the supervisor timecard distributions, described in USOA Gas Plan Instructions, Section 4(B), there is no way to determine an appropriate capital transfer rate, based on the USOA requirements.[306]

244. A consequence of the single-issue ratemaking nature of the ISRS is that it creates an incentive to maximize the overhead costs charged to ISRS eligible work orders.[307]

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[302] Ex. 125, Young rebuttal, pp. 1-2.
[303] ISRS cases, File Nos.GO-2019-0356 and GO-2019-0357.
[304] Ex. 101, Staff Cost of Service Report, p. 31, lns. 2-5.
[305] Ex. 101, Staff Cost of Service Report, p. 31, lns. 8-9.
[306] Tr. Vol. 10, p. 161, lns. 16 – 24.
[307] Ex. 125, Young rebuttal, p. 3, lns. 6-8.

245. Spire Missouri applies the same capital transfer rate to injuries and damages insurance, nearly the entire office supplies account, and directors and officers insurance despite the varying relationship of those costs to construction.[308]

246. Removing the capitalized Administrative and General overheads and instead treating those costs as expenses would increase the revenue requirement by nearly $115 million; about $50 million attributable to General Overheads, and the remaining $65 million to Employee Benefit and Pension Costs.[309]

247. Staff has not made any adjustment in its proposed cost of service to transfer capitalized overhead costs to expense.[310]

248. Spire Missouri provided a copy of the general ledger as its transaction level support for all of its capitalized overhead costs.[311]

249. Spire Missouri did not produce specific time reporting or cost studies supporting its capitalized overheads as required by the USOA to support that its overhead policy and procedure have a definite relationship to construction and are eligible to be capitalized.[312]

250. It would be impossible to estimate an impact on customers without performing the overhead cost study. It could lead to a rate increase, decrease, or no material change. Spire Missouri recommends the results of any study to determine the relationship of overhead costs to construction projects be brought forward in the filing of

[308] Ex. 140, Young surrebuttal, p. 16, lns. 14-16.
[309] Ex. 17, Krick surrebuttal, p. 7, lns. 6-15.
[310] Tr. Vol. 10, 146, lns. 16-25.
[311] Ex. 17, Krick surrebuttal, p. 9, lns. 3-5.
[312] Ex. 203, Schallenberg direct, p. 24, lns. 12-19.

the next rate case, and any changes to indirect overhead allocations be implemented on a prospective basis during that future case when establishing rates.[313]

251. A retrospective order removing capitalized overhead amounts back to October 1, 2019, as initially proposed by OPC would result in a write-off of overhead costs capitalized to plant-in-service during the test year of approximately $87 million.[314]

252. Labor that is direct charged to a construction project is not considered an overhead.[315]

253. Spire Missouri's time reporting system allows each employee to code their time directly to a capital project, an income statement-related activity, or a clearing account.[316]

254. Instead of conducting studies of the time charged to clearing accounts by its employees, Spire Missouri uses the direct labor charges as the basis of distributing overhead payroll costs.[317]

255. In September 1988, the National Association of Regulatory Utility Commissioners (NARUC) issued "Interpretation of Uniform System of Accounts for Electric and Gas Utilities." Interpretation No. 59 answers questions regarding the methods used for the capitalization of administrative and general expenses, specifically the use of proportional direct charges.[318]

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313 Ex. 17, Krick surrebuttal, pp. 10-11.
314 Ex. 17, Krick surrebuttal, p. 12, lns. 7-9.
315 Ex. 140, Young surrebuttal, p. 17, lns. 1-2.
316 Ex. 140, Young surrebuttal, p. 17, lns. 2-3.
317 Ex. 140, Young surrebuttal, p. 17, lns. 8-10.
318 Ex. 140, Young surrebuttal, pp. 17-18.

256. NARUC endorses the use of the incremental cost method which identifies a relationship of a capital cost to construction by proving the cost would not have been incurred if the construction was not undertaken.[319]

257. Spire Missouri has relied exclusively on an arbitrary relationship between direct and indirect labor to account for overhead payroll costs, and the related payroll benefits that follow payroll.[320]

258. Spire Missouri uses a concept called 'cost elements' to charge work orders. Those cost elements are lost by the time construction-work-in-process is unitized to the FERC plant accounts.[321]

259. Spire Missouri does not keep records sufficient to show each overhead cost in its utility plant account and also has not provided support to show the bases used to distribute its overheads.[322]

260. It is not reasonable to assume the time devoted to capital projects of field employee supervisors and their supervisors is dictated by the field employee direct labor charged to the same capital projects. Therefore, Spire Missouri has not provided support for its indirect labor assigned to capitalized overheads.[323]

261. The label "non-operational overhead costs" is one of three capital cost categories presented by Spire Missouri and represents costs that are not direct charges and not related to field operations.[324]

[319] Ex. 140, Young surrebuttal, p. 18, lns. 5-8.
[320] Ex. 140, Young surrebuttal, p. 19, lns. 1-6.
[321] Ex. 140, Young surrebuttal, p. 19, lns. 11-14.
[322] Ex. 140, Young surrebuttal, p. 19, lns. 14-16.
[323] Tr. Vol. 10, p. 149, lns. 2-19.
[324] Ex. 140, Young surrebuttal, p. 21, lns. 3-5.

262. Staff's definition of non-operational overhead costs is derived from the direct testimony of Spire Missouri's witness, Krick in File Nos. GO-2019-0356 and GO-2019-0357.[325]

263. Non-operational overhead costs are employee benefits, shared services and administrative and general expenses.[326]

264. Non-operational overheads include engineering, the corporate engineering function, new growth support and other corporate type costs.[327]

265. Spire Services Inc.'s costs allocated to capitalized overheads are a subset of non-operational overhead costs.[328]

266. Non-operational overhead costs would be almost the entire list of overhead costs listed by OPC witness, Schallenberg in his direct testimony, Schedule RES-D-4.[329]

267. For Staff to be able to audit and determine Spire Missouri's compliance with the USOA, Spire Missouri would need to provide records of its plant accounts identifying the nature and amount of each overhead cost. The Staff would also require documentation to support the basis of the relationship the cost has to each construction project.[330]

268. OPC proposes a tracker be authorized to ensure that Spire Missouri's general overhead is not allowed to be over-recovered by transferring overheads to construction by an amount causing overhead expense to be less than the amount included in base rates in this case.[331]

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[325] Tr. Vol. 10, p. 162-163.
[326] Tr. Vol. 10, p. 162-163.
[327] Tr. Vol. 10, p. 163, lns. 16-24.
[328] Tr. Vol. 10, p. 164, lns. 3-6.
[329] Tr. Vol. 10, p. 164-165.
[330] Tr. Vol. 10, p. 165, lns. 7-18.
[331] Ex. 203, Schallenberg direct, p. 25, lns. 19-21.

269. Staff's proposal envisions that it, Spire Missouri and OPC would provide status reports to the Commission as Spire Missouri provides documents that can be audited by Staff and can demonstrate Spire Missouri's compliance with the USOA and then implement the new capitalized overhead process in Spire Missouri's next rate case.[332]

270. Staff does not include a recommendation that disallowed overhead costs be captured in a tracker mechanism as expenses to be included Spire Missouri's next rate case.[333]

Conclusions of Law regarding Capitalized Overheads – Issue 15

PP. The USOA Gas Plant Instruction, section 4, provides (in pertinent part):

4. Overhead construction costs.

> A. All overhead construction costs . . . shall be charged to particular jobs . . . on the basis of the amounts of such overheads reasonably applicable thereto, to the end that each job or unit shall bear its equitable proportion of such costs . . .
>
> B. As far as practicable, the determination of pay roll charges includible in construction overheads shall be based on time card distributions thereof. Where . . . impractical, special studies shall be made periodically of the time of supervisory employees devoted to construction activities to the end that only such overhead costs as have a definite relation to construction shall be capitalized. The addition to direct construction costs of arbitrary percentages or amounts to cover assumed overhead costs is not permitted.
>
> C. The record supporting the entries for overhead construction costs shall be so kept as to show the total amount of each overhead for each year, the nature and amount of each overhead expenditure charged to each construction work order and to each utility plant account, and the bases of distribution of such costs.

[332] Tr. Vol. 10, p. 153, lns.7-21.
[333] Tr. Vol. 10, p. 155, lns. 2-7.

QQ. The USOA provides a list of costs that are eligible for capitalization in Gas Plant Instruction 3, and limits the indirect costs eligible for capitalization to an appropriate amount in Gas Plant Instruction 4.[334]

RR. Spire Missouri is not in compliance with Gas Plant Instructions 3(A)(3) treatment of injuries and damages by posting losses to construction accounts and related insurance proceeds to expense accounts.[335]

SS. Spire Missouri is not in compliance with Gas Plant Instructions 3(A)(19) eligibility requirements for training costs when it includes generic training to construction accounts.[336]

TT. Gas Plant Instruction 4(A) limits overhead construction costs to appropriate amounts by requiring the overheads "shall be charged to particular jobs or units on the basis of the amounts of such overheads reasonably applicable thereto, to the end that each job or unit shall bear its equitable proportion of such costs . . ."[337]

UU. Gas Plant Instruction 4(C) requires records of construction work orders and utility plant accounts to be maintained so that the total amount of each overhead, the nature and quantity of each overhead that is charged to each work order and each plant account, as well as the basis of distributing the overhead costs, can be shown.[338]

VV. Gas Plant Instruction 4(B) requires the use of time card distributions as a basis of assigning overhead payroll to construction.[339]

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[334] Ex. 140, Young surrebuttal, p. 14, lns. 20-22.
[335] Ex. 140, Young surrebuttal, p. 15, lns. 7-14.
[336] Ex. 140, Young surrebuttal, p. 15, lns. 15-21.
[337] Ex. 140, Young surrebuttal, p. 16, lns. 6-9.
[338] Ex. 140, Young surrebuttal, p. 19, lns. 7-11.
[339] Ex. 140, Young surrebuttal, p. 17, lns. 6-7.

WW. Gas Plant Instruction 4(B) states that the indirect payroll of supervisors should be capitalized "to the end that only such overhead costs as have a definite relation to construction shall be capitalized."[340]

XX. Gas Plant Instruction 4(B) prohibits the use of arbitrary percentages to cover assumed overhead payroll costs.[341]

<u>Decision regarding Capitalized Overheads – Issue 15</u>

The Commission finds that Spire Missouri is not properly capitalizing overheads. Spire Missouri's cost elements, which it uses to charge work orders, are lost by the time construction-work-in-process is unitized to the FERC plant accounts. Without those cost elements, the Commission cannot find the record support for entries for overhead construction costs required by the USOA Gas Plant Instruction 4(C). Therefore, the Commission has no choice but to find that Spire Missouri has failed to meet its burden that it is in compliance with USOA Gas Plant Instructions and properly capitalizing overheads.

The Commission will order Spire Missouri to cease recovery of capitalized non-operational overhead costs in plant, going forward, until Spire Missouri's compliance with the USOA is shown. Non-operational overheads associated with plant additions to be recognized as used and useful after the effective date of Spire Missouri's tariff sheets may be posted to a regulatory asset account. This will allow changes to indirect overhead allocations to be implemented on a prospective basis in either ISRS filings or Spire Missouri's next rate case. Without Staff's audit of Spire Missouri's compliance with the USOA and Spire Missouri's performing the required study it is not known whether the

[340] Ex. 140, Young surrebuttal, p. 16, lns. 18-20.
[341] Ex. 140, Young surrebuttal, p. 16, lns. 20-21.

impact will lead to a rate increase, decrease or no material change. However, this treatment will prevent inclusion of non-operational overhead costs that are ultimately determined to be inappropriate from being included in plant additions recovered through ISRS cases before the resolution of this issue in Spire Missouri's next rate case.

Staff shall develop a list of deliverables needed from Spire Missouri for it to be able to audit source documents and any other documents necessary to support all overhead costs and the rationale and basis for overhead allocations, to where Staff can determine that Spire Missouri is in compliance with the USOA Plant Instructions capitalized overhead requirements. OPC may confer with Staff in the development of the list of deliverables. Staff, Spire Missouri, and OPC will provide status reports of the progress in Staff's completion of its audit and determination that Spire Missouri is in compliance with the USOA Plant Instruction overhead cost requirements.

The recognition of disallowed capitalized overheads as expenses of Spire Missouri will not be recoverable outside of a rate case test period. The potential recovery of any of the disallowed capitalized non-operational overheads as expenses that remain in the regulatory asset account through the test year, update or true-up period of Spire Missouri's next rate case will be reviewed by the Commission during that rate case. Overhead costs determined to be in compliance with the USOA Plant Instruction requirements shall be included in rate base at the first opportunity, whether in an ISRS case or rate case.

Findings of Fact regarding Cost of Capital – Issue 1

Capital Structure

271. Spire Missouri's current capital structure as of May 31, 2021, is 54.28% equity and 45.72% long-term debt.[342]

272. No obligation of Spire Missouri is guaranteed by Spire Inc. (or vice versa).[343]

273. The Society of Utility and Regulatory Financial Analysts (SURFA) lists four guidelines for determining when to use a parent company's capital structure in its guidebook, the Cost of Capital – A Practitioner's Guide. The four guidelines are:

a. Whether the subsidiary utility obtains all of its capital from its parent, or issues its own debt and preferred stock;

b. Whether the parent guarantees any of the securities issued by the subsidiary;

c. Whether the subsidiary's capital structure is independent of its parent (i.e., existence of double leverage, absence of proper relationship between risk and leverage of utility and non-utility subsidiaries); and,

d. Whether the parent (or consolidated enterprise) is diversified into non-utility operations.[344]

274. Staff's analysis, based on the SURFA guidelines, concluded that it is appropriate to base the ratemaking capital structure on Spire Missouri's actual capital structure and not Spire Inc.'s actual capital structure.[345]

[342] Ex. 60, Woodard true-up direct, p. 2, lns. 6-9.
[343] Ex. 45, Woodard surrebuttal, p. 11.
[344] Ex. 124, Won rebuttal, p. 41, lns. 3-15
[345] Ex. 124, Won rebuttal, p. 41, ln 16 through p. 42 ln 2.

275. Spire Missouri issues its own long-term debt secured by its own assets.[346]

276. Spire Missouri manages its capital structure to represent the capital structure that was approved by the Commission in the last rate case.[347]

277. Spire Missouri has an independently determined capital structure.[348]

278. Spire Inc. is diversified into non-utility operations; however, they comprise just under 10% of Spire Inc.'s businesses. These non-utility operations include Spire Marketing, Spire Storage, Spire STL Pipeline, and other business segments which are not regulated by the Commission.[349]

Short-Term Debt

279. Spire Missouri refunded some of its short-term debt[350] using funds from the $305 million bonds issued on May 20, 2021, at the close of the true-up period in the current case.[351]

280. Spire Missouri converted $170 million in short-term debt to long-term debt at the close of the test year in the prior rate case.[352]

281. Some of Spire Missouri's short-term debt comes from Spire Inc.[353]

282. Spire Missouri's cost of short-term debt was 0.29% as of March 31, 2021.[354]

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[346] Ex. 44, Woodard rebuttal, p. 6.
[347] Ex. 216, Murray rebuttal, p. 3 lns. 1-7, quoting Spire's answer to DR 0115.
[348] Ex. 44, Woodard rebuttal, p. 6; Ex. 45, Woodard surrebuttal, p. 11.
[349] Ex. 44, Woodard rebuttal, p. 6.
[350] The exact amount of the short-term debt refunded is not specifically known. However Spire Missouri's change in short-term debt between the end of April and May 2021 was a decrease of $199.2 million based on the information in Ex. 45, Woodard surrebuttal, Schedule AWW SR-2, p.5.
[351] Ex. 44, Woodard rebuttal, p. 9, lns. 6-10.
[352] $170 million fifteen days before the end of the true-up period in 2017. Ex. 217, Murray surrebuttal, p. 15, lns. 10-17.
[353] Ex. 124, Won rebuttal, p. 41, lns. 17-20.
[354] Ex. 241, Murray true-up direct, p. 7, lns. 24-27.

283. Spire Inc.'s recently released June 30, 2021, SEC Form 10-Q, Note 5 to the Financial Statements indicates that Spire Missouri's weighted average cost of commercial paper for the nine months ended June 30, 2021, was 0.2%. The same note indicates that Spire Missouri's weighted-average interest rate on a $250 million term loan is 0.8%.[355]

284. Spire Missouri's capital structure consisted of 13.05% and 11.86% short-term debt, on average, for the last 3 years and the last 5 years, respectively.[356]

285. Spire Missouri's quarterly-average capital structure for the test year consisted of at least 10% short-term debt. Even after excluding construction-work-in-progress from the short-term debt balances, over 7% of Spire Missouri's capital structure was supported by short-term debt.[357]

286. Spire Missouri argues that short-term debt should not be part of the capital structure since short-term assets exceeded short-term debt during the 20-month period ending May 31, 2021, after reducing the short-term debt for the entire 20-month period for the pro forma $250 million short-term loan.[358]

287. Spire Missouri entered into a $250 million 364-day loan to partially finance higher gas costs associated with Winter Storm Uri.[359]

288. OPC argues that Spire Missouri's pro forma analysis erroneously adjusts for the $250 million in time frames prior to Spire Missouri's incurrence of the $250 million debt.[360]

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[355] Ex. 242, Murray true-up rebuttal, p. 5, lns. 7-12.
[356] Ex. 217, Murray surrebuttal, p. 13, lns. 14-15 and Schedule DM-D-9-1.
[357] Ex. 217, Murray surrebuttal, p. 14, lns. 2-7.
[358] Ex. 45, Woodard surrebuttal, p. 17, lns. 4-9; Ex. 34, Selinger direct, pp. 8-9.
[359] Ex. 62, Woodard true-up rebuttal, p. 5, lns. 6-7.
[360] Tr. Vol. 14, pp. 839-840.

289. OPC's analysis shows that Spire Missouri's short-debt consistently exceeded its short-term assets during the 20-month period ending May 31, 2021.[361]

290. Spire Missouri's use of a hypothetical long-term debt issuance to replace short-term debt is manipulation of the short-term debt balances by assuming the long-term debt issued in May 2021 was issued twenty months prior, in September 2019.[362]

291. Spire Missouri's short-term debt supports its plant investments.[363]

292. OPC proposes a ratemaking capital structure for Spire Missouri of 49.66% equity, 41.83% long-term debt and 8.51% short-term debt.[364] This proposed ratemaking capital structure was calculated based on Spire Missouri's equity and long-term debt amounts as of May 31, 2021. The short-term debt was determined from Spire Missouri's 13-month average short-term debt in excess of short-term assets during the true-up period, which was $272.5 million.[365]

293. The 13-month average short-term debt of $272.5 million used by OPC, and based on Spire Missouri's calculation, includes both the "deferred gas costs – OFO cover charge & penalties" costs of approximately $195.8 million associated with Winter Storm Uri and the $250 million in short-term debt to cover the Winter Storm Uri costs.[366]

294. The $195.8 million in deferred gas costs are recorded as short-term assets for the months of March, April and May 2021.[367]

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361 Tr. Vol. 14, pp. 825-826; Ex. 215, Murray direct, p. 39, lns. 8-11, and p. 54, lns. 1-3; Ex. 216, Murray rebuttal, p. 15, lns 1-7.
362 Ex. 242, Murray true-up rebuttal, p. 2, lns. 9-18.
363 Ex. 216, Murray rebuttal, p. 15, lns. 8-9.
364 Ex. 242, Murray true-up rebuttal, p.4 lns. 26-27; and see Schedule DM-TR-1.
365 Ex. 242, Murray true-up rebuttal, Schedule DM-TR-2.
366 Ex. 242, Murray true-up rebuttal, Schedule DM-TR-2.
367 Ex. 45, Woodard surrebuttal, Schedule AWW SR-2.

295. The 13-month average short-term debt through December 31, 2020 is $255.03 million and does not include Winter Storm Uri related costs or debt.[368]

Long-Term Debt

296. All parties recommend the Commission find the cost of long-term debt to be 3.99%.[369]

Return on Equity (ROE)

297. Cost of Equity (COE) is a market-determined, minimum return investors are willing to accept for their investment in a company compared to returns on other available investments.[370]

298. An authorized Return on Equity (ROE) is a Commission-determined return granted to monopoly industries, allowing them the opportunity to earn just and reasonable compensation for their investments.[371]

299. Three financial analysts offered recommendations regarding an appropriate ROE. Dylan W. D'Ascendis testified on the behalf of Spire Missouri. He is employed by ScottMadden, Inc. as a Director. He has offered expert testimony on behalf of investor-owned utilities in over 20 state regulatory commissions in the United States and FERC on issues including, but not limited to, common equity cost rate, rate of return, valuation, capital structure, class cost of service, and rate design. On behalf of the American Gas Association (AGA), he calculates the AGA Gas Index, which serves as the benchmark against which the performance of the American Gas Index Fund (AGIF) is measured on

[368] Ex. 242, Murray true-up rebuttal, p.5, lns. 20-24 and Schedule DM-TR-2.
[369] Ex. 241, Murray true-up direct, p. 7, lns. 24-27; Ex. 145, Lyons true-up direct; Ex. 59, Antrainer true-up direct, Schedule F, MA-TD1 and MA-TD2.
[370] Ex. 101, Staff Cost of Service Report, p. 7, lns. 9-10.
[371] Ex. 101, Staff Cost of Service Report, p. 7, lns. 10-12.

a monthly basis. He is a member of SURFA and was awarded the professional designation "Certified Rate of Return Analyst" by SURFA. He is also a member of the National Association of Certified Valuation Analysts (NACVA) and was awarded the professional designation “Certified Valuation Analyst” by the NACVA in 2015. He has a Bachelor of Arts degree in Economic History from the University of Pennsylvania and a Master of Business Administration from Rutgers University.[372] D’Ascendis recommends a ROE of 9.95% with a range of 9.94% to 12.07%.[373]

300. Seoung Joun Won, PhD, is currently employed as a Regulatory Compliance Manager in the Financial Analysis Department of the Financial and Business Analysis Division of the Missouri Public Service Commission. He has a Bachelor of Arts, Master of Arts, and Doctor of Philosophy in Mathematics from Yonsei University, along with a Bachelor of Business Administration in Financial Accounting from Seoul Digital University in Seoul, South Korea, and a Doctor of Philosophy in Economics from the University of Missouri - Columbia. He has several certificate examinations for Finance Specialist in South Korea such as Accounting Management, Financial Risk Manager, Enterprise Resource Planning Accounting Consultant, Derivatives Investment Advisor, Securities Investment Advisor, and Financial Planner. Prior to joining the Commission, he taught undergraduate and graduate level mathematics at the Korean Air Force Academy and Yonsei University for 13 years. He served as the director of the Education and Technology Research Center in NeoEdu for 5 years. Before starting his current position at the Missouri Public Service Commission in 2010, he served as a regulatory economist in

[372] Ex. 5, D’Ascendis direct, pp. 4-5.
[373] Ex. 5, D’Ascendis direct, p. 5, lns. 22-24.

Tariff/Rate Design Department.[374] Won recommends a ROE of 9.37 % with a range of 9.12 % to 9.62 %.[375]

301. David Murray is employed as a Utility Regulatory Manager for OPC. Prior to employment with OPC, Murray was the Utility Regulatory Manager of the Financial Analysis Department for Staff from 2009 through June 30, 2019. Murray started work at the Commission as a Financial Analyst in June 2000. Prior to that, he was employed by the Missouri Department of Insurance in a regulatory position. He holds a Bachelor of Science degree in Business Administration with an emphasis in Finance and Banking, and Real Estate from the University of Missouri-Columbia and a Master's degree in Business Administration from Lincoln University. In April 2007, he was awarded the professional designation of Certified Rate of Return Analyst by the Society of Utility and Regulatory Financial Analysts. He also holds the Chartered Financial Analyst designation.[376] Murray recommends a ROE of 9.25 % with a range of 8.50 % to 9.50 %.[377]

302. Spire Missouri used three models to estimate their COE. These models were the Discounted Cash Flow (DCF) model, the Capital Asset Pricing Model (CAPM), and the Risk Premium Model (RPM).[378]

303. Both OPC and Staff used the DCF model and the CAPM.[379]

304. The DCF model can discount various proxies of cash flows, such as estimated dividends, free cash flows to the equity investor or free cash flows to the firm.[380]

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[374] Ex. 101, Staff Cost of Service Report, Appendix 1, p. 59.
[375] Ex. 101, Staff Cost of Service Report, p. 5, ln. 10.
[376] Ex. 215, Murray direct, Schedule DM-D-1.
[377] Ex. 215, Murray direct, p. 38, ln. 20.
[378] Ex. 5, D'Ascendis direct, p. 6, lns. 14-17,
[379] Ex. 101, Staff Cost of Service Report, p. 5, lns. 1-4; Ex. 215, Murray direct, pp. 6-7.
[380] Ex. 215, Murray direct, See Definitions/Abbreviations.

The premise of the DCF model is that an investment of common stock is worth the present values of the infinite streams of dividends discounted at a market rate commensurate with the investment's risk.[381]

305. The CAPM is based on capital market theory in which it is recognized that although the total risk of a company and/or industry consists of market ("systematic") risk and asset/business-specific ("unsystematic") risk, investors are only compensated for systematic risk because holding a diversified portfolio allows for the investor to avoid unsystematic risk. Systematic risks are unanticipated events in the economy, such as economic growth, changes in interest rates, demographic changes, etc., that affect almost all assets to some degree. The required risk premium for incurring the market risk as it relates to the investment/portfolio is determined by adjusting the market risk premium by the beta of the stock or portfolio. The adjusted risk premium is then added to a risk-free rate to determine the cost of equity.[382]

306. The RPM is an ROE calculation method that is based on the idea that since investors in stocks take greater risk than investors in bonds, the former can expect to earn a return on a stock investment that reflects a premium over and above the return they expect to earn on a bond investment.[383]

307. Staff and OPC generally argue that Spire Missouri used high inputs in each of the three models Spire Missouri used resulting in higher results.[384]

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[381] Ex. 101, Staff Cost of Service Report, p.15, lns. 2-4.
[382] Ex. 215, Murray direct, p. 34, lns. 3-12.
[383] Ex. 124, Won rebuttal, pp. 14-15.
[384] Ex. 216, Murray rebuttal, p. 34, lns 22-24; Ex. 124, Won rebuttal, p.37, ln.12.

308. Staff argued that Spire Missouri's requested ROE of 9.95% was generally criticized as being too high when compared to the average ROE of 9.44% in fully litigated cases in 2020 (when Spire Missouri filed its application).[385]

309. Mr. D'Ascendis inadequately applied COE estimation methods to his gas company proxy group. When he applied the single-stage constant growth form of the DCF model, the CAPM, and the RPM to his utility proxy group, Mr. D'Ascendis used unreasonable upward-biased input data for each estimation model.[386]

310. Mr. D'Ascendis unconventionally utilized non-price regulated proxy group data to his DCF, RPM and CAPM analysis resulting in overstated COE estimation of 11.87%. Using a non-price regulated proxy group is fundamentally against the consensus of the regulated utility COE estimation methodologies.[387]

311. Staff's analysis also found that Mr. D'Ascendis made some unsuitable company-specific adjustments, which introduced more upward bias for his COE estimation.[388]

312. Staff argues that Spire Missouri used an average short-term analysts' growth rate of 6.16% in its DCF model, which significantly exceeds the realistic projected long-term Gross Domestic Product (GDP) growth rate of 3.8%.[389]

313. The single-stage DCF used in Spire Missouri's calculation purportedly describes the growth of the security into perpetuity. Staff argued that no security can grow

[385] Ex. 124, Won rebuttal, p. 6, ll. 2-8.
[386] Ex. 124, Won rebuttal, p. 2, lns. 17-22.
[387] Ex. 124, Won rebuttal, p. 2-3.
[388] Ex. 124, Won rebuttal, p. 3, lns 3-6.
[389] Ex. 124, Won rebuttal, p. 12, lns. 4-5.

at a rate in excess of the economy as a whole in perpetuity.[390] OPC argued that Spire Missouri assumed that the dividends of a company can grow in perpetuity at a 10.44% compound annual growth rate on an annual basis, which would not be rational.[391]

314. Both OPC and Staff argued that Spire Missouri's CAPM calculation used an inappropriately high market risk premium (MRP) of 10.45%, compared to the financial services industry's standard estimate of 4% to 7%.[392]

315. Staff testified the typical equity risk premium (ERP) is in the 3 to 5% range, with most research results indicating no higher than 7%. Staff notes that as calculated for Spire Missouri's proxy group, three of the eight companies have ERPs greater than 9%.[393] Additionally, it was noted that the ERPs for the proxy group are unstable and vary widely, even though natural gas utilities have relatively similar risk.[394]

316. Staff notes that D'Ascendis' predictive risk premium model analysis used a high projected risk free rate, which made Spire Missouri's COE increase by 49 basis points. D'Ascendis used 2.11% consensus forecast 30-year Treasury yield from Blue Chip Financial Services compared to 1.62% actual average yield for the three-month period ending December 31, 2020, on 30-year U.S. Treasury bonds.[395]

317. Staff supports OPC's recommendation of 9.25% as it is within Staff's reasonable range values of 9.12% and 9.62%.[396]

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[390] Ex. 124, Won rebuttal, p. 11, l. 15 - p. 12, l. 5.
[391] Ex. 216, Murray rebuttal, p. 19, l. 3; Tr. Vol 14, p. 806-807.
[392] Tr. vol. 14, p. 810, ll. 11-24; and see Ex. 216, Murray rebuttal, p. 23-24; and see Ex. 124, Won rebuttal, p. 26, lns. 7-8.
[393] Ex. 124, Won rebuttal, p. 16, lns. 1-4.
[394] Ex. 124, Won rebuttal, p. 16, lns. 4-6.
[395] Ex. 124, Won rebuttal, p. 16, lns. 8-14.
[396] Ex. 124, Won rebuttal, p. 3, lns. 12-17.

318. Spire Missouri proposed a size adjustment in its proposed ROE. While Spire Missouri is smaller than the average of the Company's proposed regulated proxy group, this is offset by Spire Missouri's higher bond rating compared to the average of the same group.[397]

319. The bond rating agency has already considered overall risks when awarding the higher rating.[398]

320. OPC estimates that Spire Missouri's current COE is in the range of 6.5% to 7.5%.[399] Staff estimates that Spire Missouri's current COE is in the range of 6.40% to 8.10%.[400]

321. D'Ascendis has attributed Spire Inc.'s flotation costs to Spire Missouri. Staff argues that Spire Inc.'s flotation costs should not be borne by Spire Missouri as Spire Missouri is financially independent of Spire Inc., having its own capital structure. Staff further argues that since Spire Missouri does not pay any of Spire Inc.'s debt costs, it should not pay any of its equity costs.[401]

322. The average ROE for natural gas utilities for all cases in the first half of 2021 is reported at 9.62%.[402]

323. The average level of ROE in the second quarter of 2021 is trending down.[403]

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[397] Ex. 124, Won rebuttal, p. 36, lns. 10-13.
[398] Ex. 124, Won rebuttal, p. 36, lns. 14-16; Tr. Vol. 14, p. 812, lns. 22-24.
[399] Ex. 215, Murray direct, p. 5, ln. 7.
[400] Ex. 101, Staff Cost of Service Report, p. 5, lns. 15-16.
[401] Ex. 124, Won rebuttal, pp. 36-37; Tr. Vol. 14, p. 811, lns. 18-19.
[402] Ex. 51, S&P Global Market Intelligence, Major Rate Case Decisions: January-June 2021, p. 1.
[403] Tr. Vol. 14, pp. 799-800.

324. The Commission has historically recognized a zone of reasonableness using the national average of recent ROE awards (plus or minus 100 basis points[404]) as a check on the Commission's ROE.[405]

325. An ROE of 9.37% is within 100 basis points of 9.62%, and thus within the zone of reasonableness.

<u>Conclusions of Law regarding Cost of Capital - Issue 1</u>

YY. In determining the rate of return, the Commission must consider Spire Missouri's capital structure and cost of debt, the Commission must determine the weighted cost of each component of the utility's capital structure. One component at issue in this case is the estimated cost of common equity capital, or the ROE. Estimating the cost of common equity capital is a difficult task, as academic commentators have recognized.[406] Determining a rate of ROE is imprecise and involves balancing a utility's need to compensate investors against its need to keep prices low for consumers.[407]

ZZ. Missouri court decisions recognize that the Commission has flexibility in fixing the rate of return, subject to existing economic conditions.[408] "The cases also recognize that the fixing of rates is a matter largely of prophecy and because of this, commissions in carrying out their functions, necessarily deal in what are called 'zones of

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[404] One basis point equals one-hundredth of a percent; thus, 100 basis points equals 1 percent.
[405] *Report & Order* in *Re: Kansas City Power & Light Company*, File No. ER-2010-0355 (April 12, 2011), pp. 120-24; See also *State ex rel. Public Counsel v. PSC*, 274 S.W.3d 569, 574 (Mo. App. W.D. 2009); and *State ex rel. Office of the Public Counsel v. PSC*, 367 S.W.3d 91, 110-11 (Mo. App. S.D. 2012).
[406] See Phillips, *The Regulation of Public Utilities*, Public Utilities Reports, Inc., p. 394 (1993).
[407] *State ex rel. Pub. Counsel v. Pub. Serv. Comm'n*, 274 S.W.3d 569, 574 (Mo. Ct. App. 2009).
[408] *State ex rel. Laclede Gas Co. v. Public Service Commission*, 535 S.W.2d 561, 570-571 (Mo. App. 1976).

reasonableness', the result of which is that they have some latitude in exercising this most difficult function."[409]

AAA. The United States Supreme Court has instructed the judiciary not to interfere when the Commission's rate is within the zone of reasonableness.[410]

Decision regarding Cost of Capital - Issue 1

The Commission finds that the appropriate capital structure to use for ratemaking purposes is that of Spire Missouri, modified to address the inclusion of short-term debt. The Commission finds that Spire Missouri's short-term debt is being used to finance long-term assets. Therefore, it is appropriate to include short-term debt in the capital structure of Spire Missouri used for ratemaking. However, the average short-term debt amount presented by OPC, which is the 13-month average short-term debt in excess of short-term assets, included both short-term assets and short-term debt associated with Winter Storm Uri. The Commission finds that it is not appropriate to include short-term assets and short-term debt associated with Winter Storm Uri in the capital structure. The Spire Missouri capital structure should be determined based on the equity and long-term debt as of May 31, 2021, and the average short-term debt in excess of short-term assets over the 13-month period ending May 31, 2021, excluding both short-term assets and short-term debt related to Winter Storm Uri during the months of March, April and May, 2021.

The Commission finds that the cost of the short-term debt is 0.29%.

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[409] *State ex rel. Laclede Gas Co. v. Public Service Commission*, 535 S.W.2d 561, 570 -571 (Mo. App. 1976). In fact, for a court to find that the present rate results in confiscation of the company's private property that court would have to make a finding based on evidence that the present rate is outside of the zone of reasonableness, and that its effects would be such that the company would suffer financial disarray. *Id*.

[410] *State ex rel. Public Counsel v. Public Service Commission*, 274 S.W.3d 569, 574 (Mo. App. 2009). *See, In re Permian Basin Area Rate Cases,* 390 U.S. 747, 767, 88 S.Ct. 1344, 20 L.Ed.2d 312 (1968) ("courts are without authority to set aside any rate selected by the Commission [that] is within a 'zone of reasonableness' ").

Spire Missouri converted several hundreds of millions of dollars of short-term debt to long-term debt on May 20, 2021, which is eleven days before the close of the true-up period on May 31, 2021. This is the second instance of a large conversion of short-term debt close to the deadline of its rate case by Spire Missouri, and as such, the Commission finds that Spire Missouri is using short-term debt to finance long-term assets. Further, Spire Missouri's capital structure consisted of 13.05% and 11.86% short-term debt, on average, for the last 3 years and last 5 years, respectively. Therefore, the appropriate amount of short-term debt should be included in Spire Missouri's ratemaking capital structure.

The Commission finds that the cost of long-term debt is uncontested, and shall be set at the agreed 3.99%.

The Commission finds the appropriate ROE is 9.37%, the midpoint of Staff's recommended range. Determining a rate of ROE is imprecise and involves balancing a utility's need to compensate investors against its need to keep prices low for consumers.

The Commission finds not credible the testimony of Spire Missouri on the issue of ROE. Spire Missouri performed three calculations for ROE. Its DCF model used an average short-term analysts' growth rate of 6.16%, which significantly exceeds the realistic projected long-term GDP growth rate of 3.8%. In its RPM analysis, Spire Missouri uses a proxy group where three of eight companies have ERPs above 9%, when a typical ERP is in the 3% to 5% range, with most research results indicating no higher than 7%. Spire Missouri's CAPM calculation contains an inappropriately high market-risk premium of 10.45%, compared to the financial services industry's standard estimate of 4% to 7%.

Spire Missouri's ROE calculations are not credible as the Commission finds Spire Missouri used high inputs in each of the three models and thus, got high results.

OPC and Staff have supported each other's ROE calculations, but the Commission finds that Staff's recommendation is more persuasive.

Decision Summary

The Missouri Public Service Commission, having considered the competent and substantial evidence upon the whole record, makes the above findings of fact and conclusions of law. The positions and arguments of all of the parties have been considered by the Commission in making these findings. Any failure to specifically address a piece of evidence, position, or argument of any party does not indicate that the Commission did not consider relevant evidence, but indicates rather that omitted material is not dispositive of this decision.

Except as otherwise set out in the body of this order, the Commission finds that Spire Missouri met its burden of proof to show that an increased rate is just and reasonable. Thus, the Commission concludes, based upon its review of the whole record that rates approved as a result of this order support the provision of safe and adequate service. The revenue requirement authorized by the Commission is no more than what is sufficient to keep Spire Missouri's utility plant in proper repair for effective public service and provide to Spire Missouri's investors an opportunity to earn a reasonable return upon funds invested.

By statute, orders of the Commission become effective in thirty days, unless the Commission establishes a different effective date.[411] To prevent unnecessary delay in the

[411] Section 386.490.2, RSMo.

filing of compliance tariffs, the Commission will make this order effective on November 22, 2021.

THE COMMISSION ORDERS THAT:

1. The tariff sheets submitted on December 11, 2020, by Spire Missouri, assigned Tariff No. YG-2021-0133 are rejected.

2. Spire Missouri is authorized to file tariff sheets sufficient to recover revenues approved in compliance with this order.

3. Spire Missouri shall file a draft CAM, as referenced in the body of this order, and submit such draft as a pleading in File No. GW-2018-0367 no later than six months from the effective date of this order.

4. Spire Missouri shall comply with all directives, conditions and other requirements as more fully described in the body of this order.

5. As described more fully in the body of this Order, Staff shall develop a list of deliverables needed from Spire Missouri, and shall audit Spire Missouri's source documents to where Staff can determine that Spire Missouri is in compliance with the USOA Plant Instructions capitalized overhead requirements.

6. The Commission orders an investigatory docket be opened for Staff to report on Spire Missouri's CAM compliance.

7. Spire Missouri shall provide periodic updates to the Commission regarding its employee transfer project, which shall include, at a minimum, a status report filed every 60 days, beginning January 17, 2022.

8. As described more fully in the body of this Order, Staff, Spire Missouri, and OPC shall provide 60-day status reports of the progress in Staff's completion of its audit

and determination that Spire Missouri is in compliance with the USOA Plant Instruction overhead cost requirements. The first of the status reports shall be submitted on or before January 17, 2022.

9. This Report and Order shall become effective on November 22, 2021.

BY THE COMMISSION

Morris L. Woodruff
Secretary

Silvey, Chm., Rupp, Coleman, Holsman, and Kolkmeyer CC., concur.

Hatcher, Regulatory Law Judge

STATE OF MISSOURI

OFFICE OF THE PUBLIC SERVICE COMMISSION

I have compared the preceding copy with the original on file in this office and I do hereby certify the same to be a true copy therefrom and the whole thereof.

WITNESS my hand and seal of the Public Service Commission, at Jefferson City, Missouri, this 12th day of November, 2021.

Morris L. Woodruff

Morris L. Woodruff
Secretary

Digitally signed by MOPSC
DN: CN=MOPSC, O=MOPSC, OU="",
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Reason: I attest to the accuracy and integrity of this document
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MISSOURI PUBLIC SERVICE COMMISSION

November 12, 2021

File/Case No. GR-2021-0108

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Enclosed find a certified copy of an Order or Notice issued in the above-referenced matter(s).

Sincerely,

Morris L Woodruff

Morris L. Woodruff
Secretary

Recipients listed above with a valid e-mail address will receive electronic service. Recipients without a valid e-mail address will receive paper service.