Exhibit No.: ______________
Issue(s): Affiliate Transactions vs. Corporate Allocations/Overheads/Revenue Requirement
Witness/Type of Exhibit: Schallenberg/Rebuttal
Sponsoring Party: Public Counsel
Case No.: GR-2021-0108

REBUTTAL TESTIMONY

OF

ROBERT E. SCHALLENBERG

Submitted on Behalf of the Office of the Public Counsel

SPIRE MISSOURI, INC.

CASE NO. GR-2021-0108

** **

Denotes Confidential Information that has been Redacted

June 17, 2021

PUBLIC

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	)))))	Case No. GR-2021-0108

AFFIDAVIT OF ROBERT E. SCHALLENBERG

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

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

1. My name is Robert E. Schallenberg. I am the Director of Policy for the Office of the Public Counsel.

2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony.

3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

Robert E. Schallenberg
Robert E. Schallenberg
Director of Policy

Subscribed and sworn to me this 17th day of June 2021.

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI
TIFFANY HILDEBRAND
My Commission Expires
August 8, 2023
Cole County
Commission #15637121

Tiffany Hildebrand
Tiffany Hildebrand
Notary Public

My Commission expires August 8, 2023.

TABLE OF CONTENTS

Testimony	**Page**
Revenue Requirement	2
Affiliate Transactions	8
Capitalized Overhead	19

REBUTTAL TESTIMONY

OF

ROBERT E. SCHALLENBERG

SPIRE MISSOURI

CASE NO. GR-2021-0108

Q. PLEASE STATE YOUR NAME AND THE NAME OF THE PARTY FOR WHOM YOU ARE PROVIDING TESTIMONY.

A. Robert E. Schallenberg. I am providing testimony on behalf of the Office of the Public Counsel.

Q. ARE YOU THE SAME ROBERT E. SCHALLENBERG THAT CAUSED TO BE FILED DIRECT TESTIMONY IN THIS CASE?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of this rebuttal testimony is to address the direct testimonies of witnesses for Spire Missouri and Commission Staff ("Staff") that address the issues of Revenue Requirement, Affiliate Transactions, and Capitalized Overhead. These issues were addressed in the direct testimony I filed in this case. The issue of Revenue Requirement is addressed in the direct testimonies of the witnesses I identify in the matrix found below.

The issue of Affiliate Transactions is addressed in the direct testimony of Mr. Timothy W. Krick (Spire Missouri), and Mr. Matthew Young (Staff). The Affiliate Transaction issue is one where Spire Missouri and Staff have basically the same position.

The issue of Capitalized Overhead is addressed in the direct testimony of Mr. Matthew Young of the Commission Staff. His opinion is that Spire Missouri cannot demonstrate the company is in compliance with the Commission's rule requiring the costs must have a definitive relationship with construction before the overhead can be capitalized.

Revenue Requirement

Q. WHAT DIRECT TESTIMONIES ADDRESS THE REVENUE REQUIREMENT ASPECTS IN THIS CASE?

A. At this time in the case, all the revenue requirement direct testimony has been filed. The following matrix attempts to identify the direct testimonies that may address revenue requirement issues:

Direct Testimony	Issue
Scott Carter-Spire Missouri	Overview/Policy
Scott A, Weitzel-Spire Missouri	Filing Overview
Wesley E. Selinger-Spire Missouri	Revenue Requirement
Trisha E. Lavin-Spire Missouri	Minimum Filing Requirements
Karen Lyons-Commission Staff	Executive Summary
Greg Meyer-Vicinity Energy Kansas City Inc.,(Steam/Heat)	Revenue Requirement
Rodger Colton-National Heating Trust	Revenue Requirement

The selection of these testimonies was based on the issues listed on the cover page of their respective direct testimonies or because I found a "revenue requirement" section in their direct testimony.

Q. WHY WERE TESTIMONIES SELECTED THAT DID NOT LIST REVENUE REQUIREMENT AS AN ISSUE ON THEIR COVER SHEET?

A. The conditions underlying a specific revenue requirement position can have significantly different impacts despite being the same revenue requirement. Issues such as Overview, Policy, Minimum Filing Requirements, and Executive Summary can help identify the conditions behind different parties' revenue requirement positions despite the similarity of dollar positions. Discovery is an important component to help detect elements of a revenue requirement that the sponsoring party does not want to highlight.

Q. CAN YOU PROVIDE AN EXAMPLE OF REVENUE REQUIRENENTS FOR THE SAME AMOUNT AND DIFFERENT POSITIONS?

A. Yes. A simple example would be two $100 million revenue requirement positions with one having new depreciation rates resulting in $10 million greater depreciation expense than the other. While customers for both positions will be paying the same amount ($100 million), the customers <u>without</u> the higher depreciation rates will, all else being equal, have the higher revenue requirement during subsequent rate cases. This is due to the fact that the position without the higher depreciation expense will have a higher rate base during subsequent rate cases (again all else being equal) because the rate bases will not have been reduced annually by the $10 million of additional depreciation expense found in the revenue requirement of the other position.

Q. DID ANY OF THE NON-COMPANIES' DIRECT TESTIMONY ADDRESS SPIRE MISSOURI'S CUSTOMER RATE INCREASE HISTORY RELEVANT TO OPC'S CURRENT REVENUE REQUIREMENT?

A. Yes. The testimony provided by the witness for the Missouri Industrial Energy Consumers and Vicinity Energy Kansas City, Inc., Mr. Greg R. Meyer, provides the historical rate increases Spire Missouri has been approved to raise its customers' base rates since 2010.[1] He testifies that Spire Missouri's margin (i.e. base) rates have increased $103 million for over a decade.[2] This means that the Company is now seeking to increase those same base rates by more than they have been increase since 2010.[3]

Q. DOES THE NON-COMPANY DIRECT TESSTIMONY IMPACT THE REVENUE REQUIREMENT THAT SHOULD BE USED TO DETERMINE WHETHER THE BASE RATES NEED TO BE CHANGED AND, IF SO, BY HOW MUCH?

A. Yes. The Commission Staff has developed and filed three alternative revenue requirement positions to Spire Missouri's $682 million revenue requirement. The Staff filed three different revenue requirements to reflect the low, middle, and high return on equity positions in Staff's cost of capital recommendation. The Staff's revenue requirement positions is $640,426,936;

---

[1] Greg R. Meyer Direct Testimony page 2 line 10 through page 3, line 2
[2] Id.
[3] Id. Page 2, lines 3 through 7. "seeking to increase its base margin revenues by $111 million, or 19.5%"

$645,339,457, and $650,215,854 determined on the basis of which of the three cost of equity proposals the Commission adopts. All three numbers include an $11,100,000 contingency in anticipation of additional revenue requirement changes that Staff will make later in this case. Staff revenue requirement positions contain profit levels of $136,119,775, $139,861,143, and $143,575,001 respectively. The Company's revenue requirement includes $149,914,400 of profit for Spire Inc. It should be noted that these profit differences are also impacted by Staff's lower rate base position. Schedule RES-R-1 shows the total Spire Missouri Revenue Requirement positions of the Company and the Commission Staff with a revenue requirement breakdown by component to examine for issues. Schedule RES-R-2 is an attempt to identify the revenue requirement position for other parties including OPC based on the assumption that the party accepts Staff position with their specific issues not challenged.

Q. WHAT DOES MR. SCOTT CARTER'S DIRECT TESTIMIONY REGARDING OVERVIEW/ POLICY HAVE TO DO WITH THE ISSUE OF REVENUE REQUIIREMENT?

A. Mr. Carter's direct testimony provides the opportunity to understand what Spire Missouri's customers get for the $682 million dollar revenue requirement the Company seeks in this case. Mr. Carter acknowledges this point in his direct testimony.[4] The Company would not provide the actual documentation supporting their decision to file for a $111 million increase in their base rates currently being charged but did include the minimum filing requirements (MFRs) required by Commission rules. The MFR do not reflect the information the Company relied on to make the decision to file this case, however, because it was created after the decision to file the case was made and the related specifics had occurred. All documentation actually supporting Spire Missouri's real decision to file a rate case, the amount it would request, and by what date it would file was prepared to advance litigation and the Company is not providing such documentation. I presume the basis for this case was for factors not contained in the Company's testimony as it would have a motive to provide material that would support that testimony. The Company provided no work papers to support Mr. Carter's direct testimony.

[4] Scott Carter Direct Testimony page 3, line 21 through page 21, line 12.

Q. HAVE YOU BEEN ABLE DETERMINE THE SUPPORTING FACTORS SPIRE MISSOURI RELIED UPON TO FILE THIS RATE CASE DESPITE THEIR REFUSAL TO PROVIDE SUCH INFORMATION?

A. Yes. OPC witness Mr. David Murray and I found some of the information in the confidential material and presentations ** [6]** OPC has requested the long range plan material, but has been so-far unsuccessful in acquiring the material.

Q. WHAT DOES MR. SCOTT WEITZEL'S DIRECT TESTIMIONY REGARDING FILING OVERVIEW HAVE TO DO WITH THE ISSUE OF REVENUE REQUIREMENT

A. Mr. Weitzel provides a summary and identifies the primary components of Spire Missouri's filing.[7]

---

[5] ** ** pages 70 and 71 of 91.
[6] Id. Page 42 of 97
[7] Scott Weitzel Direct Testimony page 3, line 1 through page 4, line 13.

Q. MESSRS. CARTER[8], WEITZEL[9], AND MS. LAVIN[10] DIRECT TESTIMONIES DISCUSS CUSTOMER IMPACT OF THIS RATE CASE. ARE YOU AWARE OF A SOURCE OF CUSTOMER OPINION REGARDING THIS CASE NOT MENTIONED IN THEIR DIRECT TESTIMONIES?

A. Yes. Their direct testimonies omit any mention of the consideration and process, if any, Spire Missouri will give the public comments the Commission received and will receive from Spire Missouri's customers expressing their opinion of this rate increase request. Schedules RES-R-3 and 4 are copies of the public and confidential public comment information received in this case as of June 15, 2021. These public comments appear to support OPC's position at this time recommending Spire Missouri's base rates not be increased.

Q. WHAT IS YOUR POSITION REGARDING THE RECOMMENDATION OFFRED IN MR. WESLEY SELINGER'S DIRECT TESTIMIONY AS TO THE REVENUE REQUIREMENT ISSUE?

A. Mr. Selinger's direct testimony supports Spire Missouri's request to update its rates and charges as well as explain certain key rate adjustments and programs.[11] It is my opinion that the costs from certain litigation should not be recovered from Spire Missouri's customers. The Company and two other parties propose adjustments to account 925 Injuries and Damages. My rebuttal testimony will address whether these adjustments are putting back litigation costs OPC is attempting to eliminate.

Q. WHAT SPECIFIC ELEMENTS OF MS. TRISHA LAVIN'S DIRECT TESTIMIONY RAISE A CONCERN FOR YOU WITH REGARD TO THE REVENUE REQUIREMENT ISSUE?

A. Ms. Lavin's direct testimony provided Spire Missouri's Minimum Filing Requirements (MFRs) which give specific information required when filing a rate case.[12] This rule section includes seven

[8] Scott Carter Direct Testimony page 3, line 23 through page 4, line 3 where Spire Missouri brings a "belief to life by listening to our customers,".
[9] Scott Weitzel Direct Testimony page 3 lines 3 through line 7.
[10] Trisha Lavin Direct testimony page 8, line 12 through line 16.
[11] Mr. Wesley E. Selinger direct testimony pages 4, line 1 through page 7, line 14
[12] 20 CSR 4240-3.30 (3) (B)

items that should be of interest to the public and suitable for publication. The seventh item is the "summary of the reasons for proposed changes or a summary explanation of the reasons the additional rate is needed."[13] Given my review of Board of Director material and presentations, I find that the Company has omitted several important factors behind the filing of this case.

Q. WHAT SPECIFIC CONCERNS DO YOU HAVE WITH MS. KAREN LYONS' DIRECT TESTIMIONY AS IT RELATES TO THE REVENUE REQUIREMENT ISSUE?

A. I would not say that I have concern with Ms. Lyons direct testimony. Rather I note that she states that Staff's recommendation regarding assignment of the total cost of service to each retail rate class for Spire Missouri East and Spire Missouri West will be included in the Staff's rate design testimony. It has been noted in multi-party discussions that case reconciliation needs to be performed on a Spire Missouri East (MOE) and Spire Missouri West (MOW) basis as a result of this fact. Based on Ms. Lyon's direct testimony, the OPC is working to present its issues on a separate MOE and MOW basis.

Q. ARE THERE ANY PARTICULAR ELEMENTS OF MR. GREG MEYER'S DIRECT TESTIMIONY THAT YOU FEEL IT IS IMPORTANT TO ADDRESS?

A. Mr. Meyer's direct testimony provides positions for certain revenue requirement adjustments.[14] These revenue requirement adjustments have been the subject of data request to determine whether they are included in Staff's case or need to be adjustments to Staff's case. Once the responses have been provided, adjustments will be made to the Spire Missouri revenue requirement to represent the position of the parties on these issues. One of Mr. Meyer's adjustments is related to the 925 account, for Injuries & Damages.[15]

This adjustment was examined in relation to OPC's position that Spire, Inc. should be responsible for all costs caused by the Ms. McGaughy matter, with Spire Missouri customers not bearing any cost caused by this event. Based on my review, I hold the opinion that no costs of the award is in Spire Missouri's test year except for $300,000 for deductibles that Spire Missouri West insurance coverage would not pay. OPC propose the $300,000 be removed from Spire Missouri's revenue

---

[13] Id. 20 CSR 4240-3.30 (3) (B) (7)
[14] Mr. Greg R. Meyer Direct Testimony, page 4, line 8 through page 20, line 7
[15] Id. Page 13, line 1 through page 16, line 3

requirement and no increase to insurance costs can be added in true-up unless it can be shown that the increase is not influenced by Ms. McGaughy matter insurance reimbursements.

Q. WHAT SPECIFIC ELEMENTS OF MR. RODGER COLTON'S DIRECT TESTIMIONY NEED TO BE ADDRESSED IN RELATION TO THE REVENUE REQUIREMENT ISSUE?

A. Mr. Colton has suggested in his direct testimony certain programs he would like to see implemented. A data request has been issued to determine if these programs have revenue requirement impacts. The responses to these data request will be reflected in updates of the Spire Missouri's revenue requirement made in surrebuttal, after the information is received and reviewed.

Q. WHY ARE YOU INVOLVED IN ASSESSING THE REVENUE REQUIREMENT MATTERS RAISED BY OTHER PARTIES BESIDES SPIRE MISSOURI?

A. As the case progresses towards its hearing, the unresolved issues will be defined as issues to be presented to the Commission for resolution. Every party have the opportunity to take a position on each issue, even if they did not originate the matter. In the development of OPC's overall revenue requirement for this case, I need to examine other parties' issues to determine the impact these disagreements have on OPC's revenue requirement position.

Affiliate Transactions

Q. WHAT DIRECT TESTIMONIES ADDRESS THE ASPECTS OF SPIRE MISSOURI'S AFFILIATE TRANSACTIONS?

A. There is no party, other than OPC, that addresses the area of affiliate transactions using the proper designator of "affiliate transactions." Spire Missouri and the Commission Staff address affiliate transactions by referring to them as "Cost Allocation Mechanics" and "Corporate Allocations" respectively. The following direct testimonies address affiliate transactions:

Direct Testimony/Party	Issue
Timothy W. Krick-Spire Missouri	Cost Allocation Mechanics
Scott A. Weitzel-Spire Missouri	Incentive Compensation
Matthew R. Young-Commission Staff	Corporate Allocations

Q. HOW DO THESE DIRECT TESTIMONIES ADDRESS AFFILIATE TRANSACTIONS WHEN THE ISSUE CONTAINED ON THEIR COVER PAGES CITE COST ALLOCATIONS WITH NO MENTION OF AFFILIATE TRANSACTIONS?

A. These testimonies mischaracterize their discussion of Spire Missouri's transactions with its affiliates as a corporate or cost allocation mechanics matter. The importance of understanding this mischaracterization cannot be understated. The Commission has an affiliate transaction rule for its gas utilities that establish the requirements that must be satisfied before a utility can participate in such transactions with its affiliates. This rule prohibits affiliate transactions if they are not consistent with the Commission's Affiliate Transaction Rule. The term "cost allocations" is only meant to address the assignment of costs totally within Spire Missouri (e.g. cost assignment to Spire Missouri East vs Spire Missouri West of Spire Missouri total costs or a customer class cost of service). Cost allocations are not covered by a Commission rule in the same manner as affiliate transactions. Thus, by mischaracterizing Spire's affiliate transactions using the "cost" or "corporate" allocation nomenclature, Spire and Staff are effectively seeking to reduce or remove these affiliate transactions from scrutiny under the Commission's rules.

Q. WHAT SPECIFIC ELEMENTS OF MR. TIMOTHY KRICK'S DIRECT TESTIMIONY DO YOU TAKE ISSUE WITH?

A. There are two items contained in Mr. Krick's direct testimony to which I take exception. First, I take exception with Mr. Krick's testimony that Spire Missouri's Cost Allocation Manual ("CAM") support its compliance with the Rule intended to provide public assurance that customers' rates are not adversely impacted by Spire's non-regulated activities. Second, I disagree with Mr. Krick's representation that Spire Missouri affiliate transactions are "Cost Allocations

Mechanics" in his direct testimony.[16] Such a representation muddies discussion of this issue and makes the actual process confusing as to whether Spire Missouri can show that it is not engaging in transactions with an affiliate that provide a financial advantage or unnecessary preference to an affiliate that is not also provided to third party vendors.

Q. WHY DO YOU CONTEND THAT MR. KRICK IS INCORRECT WHEN HE TESTIFIES THAT SPIRE MISSOURI'S COST ALLOCATION MANUAL ("CAM") SUPPORT ITS COMPLIANCE WITH THE RULE INTENDED TO PROVIDE PUBLIC ASSURANCE THAT CUSTOMERS' RATES ARE NOT ADVERSELY IMPACTED BY SPIRE'S NON-REGULATED ACTIVITIES AMONG OTHER THINGS?[17]

A. Spire Missouri has developed and implemented a system where rates charged to Spire Missouri's customers include the costs of goods and services provided to Spire Missouri's parent company, Spire Inc. Spire Missouri is therefore providing financially advantageous and preferential treatment to Spire Inc. The affiliate transaction rule dictates that Spire Missouri <u>cannot</u> participate in an affiliate transaction where the Company is providing financial and/or preferential advantages to its affiliate.

> "(D) The regulated gas corporation shall not participate in any affiliated transactions which are not in compliance with this rule, except as otherwise provided in section (10) of this rule." [18]

The fact that Spire Missouri and Spire Inc. has developed and implemented a "shared services model" that reallocates Spire Inc. costs to the utility subsidiaries is contrary to both the letter and the intent of the affiliate transaction rule and is the type of transaction that the Commission should have a vested interest in prohibiting. I have covered this issued extensively in my direct testimony.

---

[16] See Mr. Krick's direct testimony, his labeling of his testimony as "Cost Allocation Mechanics" on , despite his labeling of his testimony as "Cost Allocation Mechanics" on his the cover page and testimony, starting on page 3, line 1 through page 11, line 23.
[17] See Mr. Timothy W. Krick page 3, lines 4 through 8
[18] 20 CSR 4240-40.015(2)(D)

Q. WHY DO YOU DISPUTE MR. KRICK'S REPRESENTATION THAT SPIRE MISSOURI AFFILIATE TRANSACTIONS ARE "COST ALLOCATIONS MECHANICS?"

A. Affiliate transactions and cost allocations are not different names for the same thing. For example, affiliate transactions are defined in the affiliate transaction rule[19]. Cost allocation has no such definition or specificity. Affiliate transactions require annual reporting and document creation/retention to show regarding these activities.[20,21] There is no such reporting required for costs allocations. Spire Missouri submits an annual report to the Commission requiring information regarding "Transactions with Associated (Affiliated) Companies."[22] There is no such requirement to report all corporate cost allocations. The affiliate transaction rule has a specific definition for the costing methodology to be used for affiliate transactions with the cost objective being the goods and services produced.[23] There is no similar specific definition for the costing methodology to be used for cost allocations in such matters as jurisdictions or customer classes cost assignment.

Q. YOU MENTIONED THAT THE AFFILIATE TRANSACTION RULE HAS A SPECIFIC DEFINITION FOR THE COSTING METHODOLOGY TO BE USED FOR AFFILIATE TRANSACTIONS. CAN YOU PLEASE ELABORATE?

A. The affiliate transaction rule defines the costing methodology [24] to focus on the costs of a good or service produced.

> (F) Fully distributed cost (FDC) means a methodology that examines all costs of an enterprise in relation to all the goods and services that are produced. FDC requires recognition of all costs incurred directly or indirectly used to produce a good or service. Costs are assigned either through a direct or allocated approach. Costs that

---

[19] 20 CSR 4240-40.015(1)(B)
[20] See F/Y 9-30-2020, Spire Missouri East and West page 358
[21] 20 CSR 4240-40.015(4)(4)
[22] Fiscal Year ending 9/30/20 Spire Missouri East and West, FERC Form No.2 (New 12-07) page 358.
[23] 20 CSR 4240-40.015(1)(F)
[24] Id.

> cannot be directly assigned or indirectly allocated (e.g., general and administrative) must also be included in the FDC calculation through a general allocation.

Therefore, the proper basis for cost allocation methodology for an affiliation transaction is the use of the goods and services produced, *i.e.* the costs follow the goods or services. In practice, this is done by charging the cost of a good or service being produced directly to the user of that same good or service. This method of directly charging costs results in costs being directly assigned to each affiliate based on the goods and services that are actually used by that affiliate.

This method of direct charging has a secondary benefit as well, in that, an affiliate recovers its production costs through the number of goods and services sold to individual entities. The purchasing affiliates' costs is determined by the number of produced goods and services it uses. Thus, a purchasing affiliate will have no costs from a good or service produced if it doesn't purchase any such good or service. The purchasing affiliate will only pay for the costs of goods and services that it used in proportion of the amount that was totally used. For example, if the purchasing affiliate purchased 10% of the goods or services produced by an affiliate, then the purchasing affiliate would pay 10% of the producing affiliate's total costs to produce that good or service.

Q. DOES SPIRE RELY MAINLY ON THE DIRECT CHARGING METHODOLOGY YOU JUST DESCRIBED FOR ITS AFFILIATE TRANSACTIONS?

A. No. Spire does not directly assign costs based on the goods and services that are actually being used by each affiliate. Spire instead uses the ** ** allocation method for assigning the cost of goods and services produced and consumed by its affiliates. Under this model, Spire seeks to assign costs based on the affiliate entities that it believes have "benefited" from the good or service regardless of whether the affiliate actually used that good or service. However, this is not what the Commission's affiliate transaction rules permit or require so as to prevent a Missouri electric, gas, or steam utility from providing a financial advantage to an affiliate.

The affiliate transaction rule requires cost allocation based on a specific methodology related to goods and services used as opposed to cost charging to affiliates independent of the amount of the good or service used. The ** ** formula, which does not assign/allocate costs based on the amount of goods and service used, will thus not comply with the affiliate transaction rule.

The “benefit” criteria Spire is using, which employs the ** ** method, is inappropriate, as the process ignores both the cost causer and the net benefit as the appropriate cost objective. To state it differently, the ** ** method does not consider who caused the cost to be incurred or even try to determine whether the cost is actually beneficial to the entity being charged.

Q. WHAT DO YOU MEAN WHEN YOU SAY THAT THE METHOD DOES NOT CONSIDER WHETHER THE COST IS ACTUALLY BENEFICIAL TO THE ENTITY BEING CHARGED?

A. Let me give you an example. A person with transportation needs might consider a Mercedes as an option to address that need. When that individual becomes aware of the cost of the Mercedes, however, they will most likely <u>not</u> find the Mercedes to be an actually beneficial option to them (even if it did theoretically solve their transportation needs) because the total costs (including the maintenance, insurance, upkeep, etc.) will be a net detriment. In other words, the Mercedes will most likely cost more than it is worth to the individual.

Q. SO, TO REITERATE, WHAT SHOULD THE COMPANY BE DOING INSTEAD?

A. Spire should be direct charging all affiliate transaction costs which are incurred by or on behalf of a specific Spire Inc. entity (including Spire Inc. itself) directly to the entity who has caused the cost to be incurred. For example, Spire Inc. has a number of outside (meaning non-employed) directors on its Board of Directors. Outside directors receive special compensation. The cost of the compensation for Spire Inc.’s outside directors is thus incurred to satisfy a requirement of Spire Inc. to have outside directors on its board. As such, the cost of this compensation should be directly charged to Spire Inc. and not allocated to Spire Missouri.

Q. WHAT ARE THE SPECIFIC ELEMENTS OF MR. MATTHEW YOUNG'S DIRECT TESTIMIONY THAT YOU WILL ADDRESS IN YOUR REBUTTAL TESTIMONY?

A. The direct testimony provided by Mr. Young, ostensibly addresses "Corporate Allocations."[25] Once again, however, it is important to note that this term is different from the concept of an "affiliate transaction" and therefore cannot be used to appropriately analyze Spire's compliance with the affiliate transaction rule requirements.

Q. HOW DOES "CORPORATE ALLOCATIONS" DIFFER FROM "AFFILIATE TRANSACTIONS?"

A. Corporate cost allocations is an intracompany cost assignment with varying cost objectives within Spire Missouri. Corporate cost allocation address more than affiliate transactions and, in some areas, affiliate transactions are not considered at all. For example, the cost of the parent entity's president may be allocated to achieve multiple cost objectives, such as divisions (i.e. production, transmission, distribution, or customer service), customer class (i.e. residential, commercial, or industrial) or jurisdictions when operating in multiple states or state/federal reporting. All these cost assignments are appropriately called corporate cost allocations.

Q. DOES MR. YOUNG'S TESTIMONY ON CORPORATE ALLOCATIONS ACTUALLY ADDRESS CORPORATE ALLOCATIONS?

A. No. Despite how the section is titled, the topic discussed in the first three paragraphs of Mr. Young's direct testimony is affiliate transactions. Mr. Young does not, however, discuss how those affiliate transactions comply with the existing requirements to the extent that Spire Missouri can participate in those transactions. Mr. Young does not discusses the need to evaluate these transactions for compliance with the Commission's affiliate transaction rule to determine whether Spire Missouri should have actually participated in the transaction or recorded the transaction on its books. Again, Spire Missouri is prohibited from participating in transactions with affiliates that are not in compliance with the affiliate transaction rule.[26] Spire Missouri is currently producing

[25] Staff's Cost of Service Report dated May 2021on pages 47, line 10 through page 48, line 13.
[26] 20 CSR 4240-40.015(2)(D)

goods and services used by Spire Inc. that Spire Missouri is not recovering the related costs for, which is a violation of the affiliate transaction rule.

Q. HOW WOULD YOU CHARACTERIZE STAFF'S POSITION ON AFFILIATE TRANSACTIONS BASED ON MR. YOUNG'S TESTIMONY?

A. It is not clear whether Staff holds the position that the time spent by Spire Missouri employees working as Spire Inc. executive officers is properly attributable to all the utility business segments of Spire Inc. since executives are charged with leading the Company as a whole, *i.e.* as an enterprise. It is important to understand that Spire Inc. is a parent company, not just a holding company.[27] As a result, Spire Inc. has its own operations that are conducted in a manner consistent with its long term Strategic Plan.[28]

Q. WHAT IS THE SOURCE OF THE CONFUSION SURROUNDING THE OPERATION OF SPIRE INC.?

A. To account for costs that are recorded commonly across multiple business units, Spire Inc. implemented a shared service model with direct testimony that the model is being changed at this time.[29] Under this model costs incurred on behalf of individual entities or more than one business unit are charged to a shared service entity (Spire Services) so that the cost can accumulate into shared cost pools. This is a critical stage of the shared service model design and implementation, but it is also easy to be overlooked because the Company does not identity its function in its affiliate transaction reporting. Mr. Krick's direct testimony on page 7 shows a "Figure 1: Spire Shared Services Overview," but neither the actual Spire Services company nor its functions are identified or explained.

Q. WHAT IS THE PROBLEM WITH SPIRE SERVICES?

A. Spire Services is an entity inserted between Spire Missouri and its affiliates. It is not transparent as to what is the role or need for Spire Services in Spire Missouri's provision of goods and services

---

[27] See Mark Henricks/Sept 25, 2020 article re: "ALL ABOUT HOLDING COMPANIES AND PARENT COMPANIES"
[28] Spire l Corporate Governance Guidelines Updated July 30, 2020. These Guidelines regarding Spire Director Responsibilities that "The Spire Inc. Board is responsible for oversight of the business and affairs of the Company, including overseeing and monitoring the Company's strategic plan and operating plan and budget."
[29] Tim Krick Direct Testimony page 4, line 24 through page 5, line 5.

to its affiliates, including Spire Services and their parent company, Spire Inc. Spire Services is not discussed in Spire Missouri's annual affiliate transaction report submitted to the Commission[30]. The testimony asserts that Spire Services (FKA Shared Services) is the creator of significant benefit without any employees. The Company's assertions seem to indicate that Spire Missouri, when operating as Spire Services, creates significant benefit or value that is then being given away to Spire Missouri's affiliates and not retained by Spire Missouri to reduce the cost to serve its customers.

Q. CAN YOU PLEASE ELABORATE?

A. In order for savings to occur, there must be a difference between the cost one incurred to produce a good or service and the alternative cost to procure that good or service elsewhere, *i.e.* on the market. Spire Services has no employees. It is actually Spire Missouri employees that are doing the work to operate Spire Services. Thus the "savings" being produced by Spire Services is really the difference between the cost Spire Missouri incurred to produce the good or service and the alternative cost to procure that good or service off the market. However, because the lower cost Spire Missouri incurs to produce the product is being allocated to affiliates instead of the higher "market" cost, the "savings" being generated are also being allocated out to all affiliates. This is a violation of the affiliate transaction rule prohibiting the provision of a financial advantage to an affiliate. What should occur is that Spire Missouri charges its affiliate the higher market cost, and retains all the "savings" for itself and ultimately its customers.

Q. ARE THERE ANY WAYS THAT THE PROBLEMS YOU NOTE COULD BE ADDRESSED?

A. As I previously indicated, the best method is to employ direct charging to the maximum degree possible. The next best option is that costs that are indirectly related to the production of a good or service is charged based on the relative use of that good or service among various projects. Further, to address the issue I just identified regarding the retention of value created by the shared services model, the entities receiving goods or services from the Shared Service company should be

[30] Spire Missouri Cost Allocation Manual Annual Report, Fiscal Year September 30, 2020. Report is submitted under name "Spire-Investor Gas"

charged the cost of what it would have taken for that entity to have procured that good or service off the market, with Spire Missouri retaining any created "benefit."

When dealing with affiliate transactions, it is important to achieve a goal of fairness and equality that costs caused by an entity be charged to that entity. This directive should never be substituted by a benefits test. A quality test for a shared services model is the element that shows the costs are properly assigned. It is important that these costs are not diverted into a cost pool and charged to other entities that did not cause the cost to be incurred. The fact that cost pools have allocators that are not related to occurrence of the cost being incurred indicates a problem with the shared service model.

Q. PLEASE PROVIDE AN EXAMPLE OF THE PROBLEM.

A. Mr. Young adopts the Company's "functions" (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) for allocation of affiliate transactions. This means that Staff is dividing costs incurred on behalf of various affiliates based on the department that is performing the work for the Spire Inc. enterprise. This hinders satisfaction of the affiliate transaction rule's fundamental principle that costs are to be charged based on the exchange of <u>goods and services</u> between affiliates. By using "functions" or "departments" as the basis to assign costs, Staff has implicitly based cost allocation on the cost to operate that "function" or "department," not the actual goods and services being produced by that "function" or "department." This is especially true when the product involved work activity from multiple "functions." What all of this means in short, is that the cost of Spire operating its legal department, for example, is not being assigned based on which affiliate has incurred legal costs, but rather, is based solely on pre-determined labor assignments.

Q. ARE THERE ANY OTHER ISSUE RELATED TO DIRECT TESTIMONY ON AFFILIATE TRANSACTIONS THAT YOU WOULD LIKE TO ADDRESS?

A. Yes. Spire enterprise "Incentive Compensation" is addressed in the direct testimony of Mr. Scott Weitzel[31]. Commission Staff addressed this issue in the "Staff Report-Cost of Services."[32] Mr. Weitzel's testimony fulfills ** ________________ **[33]

Staff is "recommending removing the expense associated with the corporate performance component in Spire's short-term plan as it is also earnings based." Staff also suggests the Commission should remove "all the long-term incentive compensation expense as it is earnings based." Finally, "Staff is recommending recovery of Spire's two new metrics."[34] Staff asserts that "Consistent with past Commission orders, Staff has not included costs related to earnings-based metrics in Spire East's or Spire West's revenue requirements."[35]

I hold the opinion that the costs of the Annual Incentive Plan (AIP) should be recovered in a properly designed incentive plan and not in base rates. A properly designed incentive plan is based upon the premise that the plan will create greater value for the Company than the plan will incur costs. Thus the AIP should already pay for itself at an established range of earnings, and the further inclusion of any incentive plan costs in base rates would be a double recovery. It would be a double recovery because the Company is already recovering once by retention of the performance plan results and is now seeking to recover again through the inclusion of the plan's cost in base rates. OPC has a data request to Spire Missouri regarding whether their annually approved incentive plans are designed to generate value for Spire Missouri. If the plans are not producing a net value then the plan needs to be modified or terminated. I anticipate this issue will be addressed further in surrebuttal. Finally, the incentive plans are not known and measurable as the plans can be terminated at any time and actual payments from the plans vary from year to year.

[31] Scott Weitzel Direct Testimony pages 22 through 24.
[32] Staff Report-Cost of Service. Incentive Compensation page 66 through 68 sponsored by Mr. Jeremy Juliette.
[33] ** ________________ **
[34] Staff Report- Cost of Service, May 2012, page 66, line 14 through 17.
[35] Id. Page 67, lines 18-19

In addition, I disagree with Staff that the two new Spire metrics are not are earnings based. On the contrary, they are earnings based as the cost reductions occur in the fiscal year and the payment occur sometime in the next the fiscal year. Any costs reductions that occur on this basis, without corresponding in reductions in customers' rates, is going to increase earnings.

Capitalized Overhead

Q. WHAT DIRECT TESTIMONY ADDRESSES SPIRE MISSOURI'S CAPITALIZED OVERHEAD?

A. There is no party that addresses this subject under the heading of Capitalized Overhead. Mr. Krick mentions the topic in his testimony. Mr. Young's direct testimony identifies Capitalization Policy as an issue that will be addressed on his cover page. Thus Staff is the only party that expressly stated that capitalized costs will be addressed in their direct testimony. The following matrix shows the direct testimony in my rebuttal:

Direct Testimony	**Issue**
Timothy W. Krick	Capitalization of Overheads page 11
Matthew R. Young-Commission Staff	Capitalization Policy

Q. WHAT IS THE CAPITALIZED OVERHEAD ISSUE?

A. ** **.[36] This area is also addressed in the FERC Financial Report FERC FORM No. 2:[37]

[36] ** **

[37] See FERC FINANCIAL REPORT FERC FORM No. 2: Annual Report of Major Natural Gas Companies and Supplemental Form 3-Q: Quarterly Financial Report. Pages 218.1 and 218a.

Q. WHAT ARE THE SPECIFIC ELEMENTS OF MR. MATTHEW YOUNG'S DIRECT TESTIMIONY THAT YOU WILL ADDRESS IN YOUR REBUTTAL TESTIMONY?

A. There are two elements of his direct testimony that will be addressed in my rebuttal testimony. First, I will address Mr. Young's selection of the scope of the issue and his related analysis. Second, I will address his proposal on how to address the problems he identified in this area.

Q. WHAT DOES MR. YOUNG HAVE TO SAY REGARDING SPIRE'S CAPITALIZATION OF OVERHEADS?

A. Mr. Young had the same experience that I had with searching for the evidence of Spire Missouri's compliance with the USOA's requirements for the capitalization of general overheads. The USOA explicitly prohibits use "of arbitrary percentages or amounts to cover assumed overhead costs" and states this "is not permitted."[38] Mr. Young and I found no evidence that the Company was not using these arbitrary percentages as their current process of capitalizing overheads was not based on a definite relation to construction. A definite relationship to construction would serve as the basis for overhead capitalization with no need to use arbitrary formulas. Spire Missouri acknowledges its use of these formulas in its fiscal year 2020 Annual Report submitted to the Commission and to FERC as a required Form 2 filing:

> "The transfers to construction are intended to cover that portion of those accounts which is attributable to construction on a general basis but which is not directly applicable to a particular work order"[39]

> "The amount capitalized is determined by apportionment of administrative and general expenses for the year based on the percentage of construction labor to total labor charges."[40]

Spire Missouri indicates that it is using a prohibited method. Mr. Young seems to be indicating the same conclusion.

---

[38] Uniform System of Accounts USOA Gas Plant Instructions 3.-Components of Construction Costs; item 4 Overhead Construction Costs; paragraph (B)
[39] See FERC FINANCIAL REPORT FERC FORM No. 2: Annual Report of Major Natural Gas Companies and Supplemental Form 3-Q: Quarterly Financial Report. Pages 218.1 and 218a.
[40] Id.

Q. WHAT ARE YOUR OBSERVATIONS REGARDING MR. YOUNG'S SCOPE AND ANALYSIS IN ADDRESSING SPIRE MISSOURI'S CAPITALIZED OVERHEADS?

A. I agree that Spire Missouri is required to meet the standards and requirements of the USOA adopted by the Commission.[41] I further agree that Spire Missouri does not have or refuses to provide that all the overheads that the Company capitalizes has a definite relationship to construction as evidenced by time sheets and special cost studies. I would add that the Company's description of its Construction Overhead Policy[42] annually reported to FERC and the Commission would indicate that it does not capitalize general overheads that have a definite relationship to construction.

Q. WHAT DOES MR. YOUNG PROPOSE AS A SOLUTION TO THE ISSUE HE IDENTIFIES WITH SPIRE'S CAPITALIZATION OF OVERHEADS?

A. Mr. Young's recommendation is as follows: [43]

> "Staff recommends the Commission order Spire cease capitalizing nonoperational overhead cost, or as an alternative order Spire to cease capitalizing costs received from Spire Inc.'s Shared Services entity, until such a time Spire can demonstrate the nature and quantity of capitalized overhead cost and show the relationship between indirect cost and construction projects of Spire East and Spire West in order to justify that the capitalized portion of overheads is equitable. To align Staffs calculated revenue requirement with the Commission order on this matter, Staff further recommends the Commission order Staff's accounting adjustments to reflect the Commission's order on Spire's capitalization policy. For clarity, Staff recommends that should the Commission adopt Staff's recommendation, Spire should implement changes in overhead capitalization prospectively from the effective date of tariffs from this rate case."

[41] MoPSC Staff Report Cost of Service. May 2021. Page 31, lines 2 through 9.
[42] See FERC FINANCIAL REPORT FERC FORM No. 2: Annual Report of Major Natural Gas Companies and Supplemental Form 3-Q: Quarterly Financial Report. Pages 218.1 and 218a.
[43] MoPSC Staff Report Cost of Service. May 2021. Page 33, lines 2 through 11.

Q. WHAT ARE YOUR COMMENTS REGARDING MR. YOUNG'S PROPOSALS[44] IN ADDRESSING SPIRE MISSOURI'S CAPITALIZED OVERHEADS PROBLEMS?

A. I agree that Spire should be expressly ordered to cease capitalizing overhead where it cannot show a definite relationship to construction. I believe the order should be effective October 1, 2019, the beginning of the test year. The Utility had no authority to capitalize at least this amount of overhead. In the event Spire Missouri can show this relationship, then the relationship should be the basis for assigning costs to specific construction projects. I contend these costs were improperly capitalized and customers should not be forced to recover and pay the Company a profit for improper investment charges. If the matter should be addressed in this case then a regulatory asset/liability should be formed capturing the amount of overhead that has not been appropriately included in revenue requirement offset by the amount of overhead that would been recorded as expense in this case.

Q. ARE THERE OTHER ISSUES THAT YOU ARE ADDRESSING?

A. Yes. I am addressing the accounting aspects of the amount of money from the Injuries and Damages Account 925 that should be included in base rates. My interest is specifically related to the elimination of all costs related to the cash payments awarded related to the employment discrimination litigation discussed in Dr. Geoff Marke's direct testimony in this case. My role is to ensure the litigation costs are not being added back into the Company's revenue requirement by other parties' proposals. Staff proposes adjustments to significantly increase Injuries and Damages Account 925 test year cost levels to be recovered from Spire Missouri customers, which raises concern that these adjustments are including back into the Company's revenue requirement the costs OPC asserts should not be recovered in customer rates.

Q. WHOSE DIRECT TESTIMONY ARE YOU ADDRESSING IN YOUR REBUTTAL TESTIMONY REGARDING THIS MATTER?

A. I am addressing the direct staff testimony adjustments of Jeremy Juliette ($1,414,430) and Antonija Nieto ($2,861,948) increasing the test year amount of injuries and damages $9,423,748 to $13,700,126. There are two other parties taking a position as to the amount of injuries and

[44] Staff's Report Cost of Service page 33, line 2 through 11.

damages costs that should be included in the revenue requirement to establish rates in this case. The three parties' position as to the amount of injuries and damages that each party supports to be included in customer rates are:

Party	Amount to be Included in Injuries & Damages
Commission Staff	$13,700,126
Spire Missouri	$10,577,100
MIEC & Vicinity Energy	$9,077,100

The Staff's position is the highest of the parties in this case. The $13.7 million is an outlier when compared to the historical amounts reflected in account 925, Injuries & Damages. The following amounts reflect the historical levels of expense recorded on Spire Missouri's books starting with a period before the litigation was filed:

Account 925 Injuries & Damages/Year	Dollars Recorded
2020	$9,423,748
2019	$8,549,281
2018	$10,491,602
2017	$10,006,401
2016	$8,207,389
2015	$10,181,126
2014	$11,147,452

While two parties have positions within actual experience, the $13.7 million is beyond any amount recorded during the litigation period.

Q. WHAT ARE THE DETAILS OF THIS ISSUE?

A. Everyone holds the position that it is based on a three year average of actual cash expenditures. OPC's interest initially stemmed from the concern that litigation payments were considered in the three year average cash payments without recognizing the insurance recoveries of these payments. In fact, a large amount of insurance recoveries was received the month after the test year was closed and would not be considered as a cost offset to the litigation costs in their three year averages. The three average impact of the October insurance recovery would reduce the Staff and Company's injuries and damages to or below the test year amounts. The Staff's case is an up-date to December 31, 2020. The settlement would be in Staff's update. If one doesn't want to consider the October recovery, then the recovery would at least show that the customer rates in this case should not include these costs in revenue requirement to allow Spire Missouri to recover from the insurance company and then again through customer rates. At this time, OPC proposes the Commission adopt MIEC and Vicinity Energy position of $9,077,100 without any contested litigation costs. If the $9,077,100 is found to contain such costs, OPC's position is that the $9,077,100 must be adjusted to remove these costs before the amount that should be included in the revenue requirement for this case can be identified.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.