

Exhibit No.:
Issue: 2018 ISRS Remand
Witness: Karen Lyons
Sponsoring Party: MoPSC Staff
Type of Exhibit: Rebuttal Testimony
Case Nos.: GO-2018-0309 and
GO-2018-0310
Date Testimony Prepared: May 20, 2020

MISSOURI PUBLIC SERVICE COMMISSION
FINANCIAL AND BUSINESS ANALYSIS DIVISION
AUDITING DEPARTMENT

REBUTTAL TESTIMONY
OF
KAREN LYONS

SPIRE MISSOURI, INC., d/b/a SPIRE

CASE NO. GO-2018-0309
Spire Missouri East Service Territory

CASE NO. GO-2018-0310
Spire Missouri West Service Territory

Jefferson City, Missouri
May 2020

1 **REBUTTAL TESTIMONY OF**

2 **KAREN LYONS**

3 **SPIRE MISSOURI, INC., d/b/a SPIRE**

4 **CASE NO. GO-2018-0309**

5 **Spire Missouri East Service Territory**

6 **CASE NO. GO-2018-0310**

7 **Spire Missouri West Service Territory**

8 Q. Please state your name, employment position, and business address.

9 A. Karen Lyons, Utility Regulatory Auditor with the Missouri Public Service
10 Commission (“Commission” or “PSC”), Fletcher Daniels State Office Building, 615 East 13th
11 Street, Kansas City, Missouri 64106.

12 Q. Are you the same Karen Lyons who has previously provided testimony in
13 this case?

14 A. Yes. I contributed to Staff’s Direct Report (“Direct Report”) filed on May 13,
15 2020.

16 **EXECUTIVE SUMMARY**

17 Q. Please summarize your rebuttal testimony.

18 A. The purpose of my rebuttal testimony is to respond to Spire Missouri Inc.’s
19 “Spire Missouri” refund proposal for Case No. GO-2018-0309 and GO-2018-0310. I will
20 respond to Spire Missouri witness Wesley E. Selinger’s Direct Testimony in these cases.

21 Q. Are there other Staff witnesses addressing Spire Missouri’s refund proposal?

22 A. Yes. Staff witness Jeremy Juliette addresses the differences between Spire
23 Missouri and Staff’s proposed refund.

1 **SPIRE MISSOURI REMAND REFUNDS**

2 Q. What is Spire Missouri's proposal regarding the proposed refund in this
3 proceeding?

4 A. Spire Missouri recommends a refund amount of \$1,117,865 for Spire East and
5 \$3,874,438 for Spire West.¹ Spire Missouri's total recommended refund for both jurisdictions
6 is \$4,992,303.

7 Q. Does Staff agree with Spire Missouri's recommended refund amount for
8 Spire East and Spire West?

9 A. No. Staff recommends a refund amount of \$5,367,021 for Spire East and
10 \$10,152,221 for Spire West. There are several differences between Staff and Spire Missouri's
11 recommended refund. One of the major differences between Staff and Spire Missouri is the
12 Company use of the average service life of mains and services to determine the refund amount.
13 Staff Witness Jeremy Juliette will address the other differences between Spire Missouri and
14 Staff's recommended refund amounts in his rebuttal testimony with the exception of the average
15 service life.

16 Q. Explain how Spire used the average service life in its determination of the refund
17 amount for Spire East and Spire West.

18 A. In its refund calculation, Spire Missouri excluded the value of replacements of
19 cast iron and steel mains that exceeded their useful service life at the time of the mains'
20 retirement. To make this adjustment Mr. Selinger developed a percentage comparing the
21 footage of cast iron and steel retirements that exceeded its useful life to the total footage of cast
22 iron and steel. To develop this percentage, Mr. Selinger used the workorders found in

¹ Wesley E. Selinger Direct Testimony, Page 18, Lines 14-15 and Page 19, Lines 1-2.

1 OPC Exhibits 202, 208 and 209² in the initial Case Nos. GO-2018-0309 and GO-2018-0310.
2 Spire Missouri considers infrastructure replacements that exceeded the useful service life to be
3 worn out or deteriorated and therefore ISRS eligible.

4 Based on Mr. Selinger's analysis and approach, 87.06% of cast iron facilities replaced
5 exceeded their useful life and, therefore, the replacements are eligible for ISRS recovery. In his
6 revised revenue requirement calculation he used 87.06% of the costs to determine the ISRS
7 eligible costs for cast iron. Using the same methodology, he determined that the replacement
8 costs for 35.85% of steel mains and 99.73% of steel services should also be considered eligible
9 ISRS costs.

10 Q. Is the methodology used by Mr. Selinger consistent with the methodology used
11 to determine the original revenue requirements approved by the Commission for Case Nos
12 GO-2018-0309 and GO-2018-0310?

13 A. No. Spire did not argue that the useful life of the replaced cast iron and steel
14 facilities should be used to determine the revenue requirement in the initial 2018 cases or any
15 other previous ISRS cases.

16 Q. What was Spire's approach to determining the ISRS revenue requirement for
17 cast iron and bare steel replacements in the 2018 cases?

18 A. In its original application made on June 7, 2018, Spire Missouri asserted that
19 every cast iron and bare steel main replacement, service transfer, and service replacement was
20 a replacement for worn out or deteriorated facilities as required for ISRS cost recovery under
21 the ISRS statute³.

² Wesley E. Selinger Direct Testimony, Page 19, Line 15.

³ See Appendix A, Schedules 3 and 4 of Spire Missouri's application.

Rebuttal Testimony of
Karen Lyons

1 Q. Did Staff use the same methodology it used in the initial 2018 ISRS cases to
2 remove plastic materials to calculate the recommended refund in the 2018 remand cases for cast
3 iron and steel mains and services lines?

4 A. Yes. Staff's methodology is consistent with the initial 2018 ISRS cases by using
5 the plastic allowance methodology that was previously approved by the Commission to exclude
6 cast iron, steel, and service lines that were not shown to be worn out or deteriorated.⁴ Staff's
7 position is that this same methodology is the most appropriate method to value the cost of
8 replaced cast iron and steel mains and service lines not demonstrated by Spire to be worn out
9 or deteriorated.

10 Q. Would you consider Mr. Selinger's testimony addressing the development and
11 use of an average service life percentage to determine the amount of allowable costs for cast
12 iron and bare steel mains and bare steel service lines to be new evidence in this proceeding?

13 A. Yes. In addition, this methodology is not in accordance with the findings of the
14 Missouri Court of Appeals, Western District Opinion ("Court Opinion").

15 Q. Did the Court Opinion provide guidance on the average service life?

16 A. Although the Court addressed the age of the facilities, based on my review of
17 the Court Opinion the Court did not find that citations to the age of the facilities was sufficient
18 evidence to support that the replaced facilities were worn out or deteriorated. The Court stated⁵:

19 A review of the record reveals that Spire's primary argument revolved
20 around the age of the facilities and the assumption that old facilities must
21 be worn out or deteriorated. There was no evidence with respect to how
22 long it takes cast iron and steel to become worn out or deteriorated.

⁴ See Staff Direct Report filed on May 13, 2020, Page 2, Lines 24-27 and Page 3, Lines 1-3.

⁵ Missouri Western District Court of Appeals Opinion issued November 19, 2019, Page 13.

1 Moreover, the evidence suggested that the time for the deterioration to
2 occur is different from location to location.

3 Q. Does Staff have other concerns with Spire Missouri's proposed refund amount?

4 A. Yes. The total refund amount of \$4.9 million proposed by Spire Missouri is not
5 consistent with the \$12.8 million estimated refund amount the Company reported in its quarterly
6 10-Q filing with the Security Exchange Commission ("SEC") filed on May 8, 2020. The
7 Company states on page 29 of its quarterly 10-Q:

8 As reported last year, on November 19, 2019, the Missouri Western
9 District Court of Appeals issued rulings ("ISRS rulings") that determined
10 certain capital investments in 2016 through 2018 were not eligible for
11 recovery under the ISRS. The ISRS rulings upheld appeals by the OPC
12 that contested recovery of portions of Spire Missouri's ISRS and
13 overturned the three prior MoPSC decisions.

14 On January 2, 2020, Spire Missouri submitted Applications for Transfer
15 to the Missouri Supreme Court. The MoPSC also submitted Applications
16 for Transfer to the Missouri Supreme Court that advanced similar
17 positions as Spire Missouri. On March 17, 2020, the Missouri Supreme
18 Court denied the Applications for Transfer of all three ISRS rulings, and
19 they have been remanded to the MoPSC to determine the appropriate
20 refund, if any, that may be required. Spire Missouri is participating in the
21 remand proceedings. The MoPSC must issue its decisions regarding the
22 appropriate amount of refunds, if any, by July 16, 2020.

23 Spire Missouri has recorded an estimate of the maximum impact of the
24 ISRS rulings based on its interpretation of the rulings and evidence
25 available. As of September 30, 2019, Spire Missouri recorded an
26 estimated \$12.2 regulatory liability for this matter by reducing revenue
27 for fiscal year 2019. There were two components of this provision. The
28 first related to a \$4.2 refund ordered by the ISRS rulings for amounts
29 collected prior to the last rate case, after which recoveries of related
30 authorized revenues became part of base rates that went into effect in
31 April 2018. **The second component related to an estimate of \$8.0 for**
32 **revenues associated with the June 2018 ISRS filing that was approved**
33 **by the MoPSC effective October 8, 2018. During the first six months**
34 **of fiscal 2020, additional provisions totaling \$4.2 were recorded to the**
35 **regulatory liability for ISRS revenues related to customer billings**
36 **recorded during this period under the June 2018 ISRS filing, along**
37 **with a \$0.6 provision for interest due on the entirety of the ISRS**
38 **revenues in dispute if refunded. [Emphasis added.]**

1 Q. Did Staff request support for the estimated refund amounts included in Spire
2 Missouri's 10-Q filed with the SEC on May 8, 2020?

3 A. Yes. In response to Staff Data Requests⁶ asking for support for the estimated
4 refund amounts included in the 10-Q filed on May 8, the Company provided support. The table
5 below reflects the estimated refund amounts for Spire East and Spire West:

6

Spire Missouri Estimated Refund – 10-Q SEC filing			
	Spire East	Spire West	Total
Total Estimated Refund before Interest	\$4,137,793	\$8,715,135	\$12,852,928
Interest Adjustment	\$96,132	\$201,875	\$298,007
Total Estimated Refund including Interest	\$4,233,925	\$8,917,010	\$13,150,935

7
8 Q. How is the estimated refund amount in the 10-Q SEC filing different from
9 Staff's recommended refund amount provided earlier in this testimony?

10 A. Staff's total recommended refund for Spire Missouri is \$15,519,242. Staff
11 calculated the refund amount through July 16, 2020. The difference between Spire Missouri's
12 estimated refund in its 10-Q filing with the SEC and Staff's recommended refund for
13 Spire Missouri is \$2,368,307. This difference is largely attributable to the date the refund
14 amounts were calculated. The estimate included in Spire Missouri's 10-Q filing with the SEC
15 is calculated through April 30, 2020 and as previously stated, Staff's recommended refund is
16 calculated through July 16, 2020

17 Q. Does this conclude your testimony?

18 A. Yes.

⁶ Case No. GO-2018-0309, Staff Data Request No. 0015 and Case No. GO-2018-0310, Staff Data Request No. 0010. (*see* attached Schedule KL-r1)

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of Spire)
Missouri Inc. to Establish an Infrastructure) Case No. GO-2018-0309
System Replacement Surcharge in its Spire)
Missouri East Service Territory)

In the Matter of the Application of Spire)
Missouri Inc. to Establish an Infrastructure) Case No. GO-2018-0310
System Replacement Surcharge in its Spire)
Missouri West Service Territory)

AFFIDAVIT OF KAREN LYONS

STATE OF MISSOURI)
) ss.
COUNTY OF JACKSON)

COME NOW Karen Lyons and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Rebuttal Testimony*; and that the same is true and correct according to her best knowledge and belief, under penalty of perjury.

Further the Affiants sayeth not.

/s/ Karen Lyons _____
Karen Lyons

Missouri Public Service Commission

Data Request

Data Request No.	0015
Company Name	Spire-Investor(Gas)
Case/Tracking No.	GO-2018-0309
Date Requested	5/14/2020
Issue	General Information & Miscellaneous - Infrastructure System Replacement (ISRS)
Requested From	Lew Keathley
Requested By	Bob Berlin
Brief Description	ISRS Regulatory Liability balance
Description	Provide the estimated amount Spire Missouri recorded as a regulatory liability for the estimated refund for Case Nos GO-2018-0309 and GO-2018-0310 including the date it was recorded. To the extent Spire Missouri revised the estimate, provide the date it was changed, the revised estimate and the reason why the estimate was changed. Provide all analyses that support the estimate in excel format with formulas intact. Data Request submitted by Karen Lyons: karen.lyons@psc.mo.gov
Due Date	5/18/2020

The attached information provided to Missouri Public Service Commission Staff in response to the above data information request is accurate and complete, and contains no material misrepresentations or omissions, based upon present facts of which the undersigned has knowledge, information or belief. The undersigned agrees to immediately inform the Missouri Public Service Commission Staff if, during the pendency of Case No. GO-2018-0309 before the Commission, any matters are discovered which would materially affect the accuracy or completeness of the attached information.

If these data are voluminous, please (1) identify the relevant documents and their location (2) make arrangements with requestor to have documents available for inspection in the Spire-Investor(Gas) office, or other location mutually agreeable. Where identification of a document is requested, briefly describe the document (e.g. book, letter, memorandum, report) and state the following information as applicable for the particular document: name, title number, author, date of publication and publisher, addresses, date written, and the name and address of the person(s) having possession of the document. As used in this data request the term "document(s)" includes publication of any format, workpapers, letters, memoranda, notes, reports, analyses, computer analyses, test results, studies or data, recordings, transcriptions and printed, typed or written materials of every kind in your possession, custody or control or within your knowledge. The pronoun "you" or "your" refers to Spire-Investor(Gas) and its employees, contractors, agents or others employed by or acting in its behalf.

Security	Public
Rationale	NA

Missouri Public Service Commission

Respond Data Request

Data Request No.	0015
Company Name	Spire-Investor(Gas)
Case/Tracking No.	GO-2018-0309
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Response	Please see the attached.
Objections	NA

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Security :	Public
Rationale :	NA

Missouri Public Service Commission

Data Request

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Security	Public
Rationale	NA

Missouri Public Service Commission

Respond Data Request

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Security :	Public
Rationale :	NA

Data Request 0015 for GO-2018-0309

Provide the estimated amount Spire Missouri recorded as a regulatory liability for the estimated refund for Case Nos GO-2018-0309 and GO-2018-0310 including the date it was recorded. To the extent Spire Missouri revised the estimate, provide the date it was changed, the revised estimate and the reason why the estimate was changed. Provide all analyses that support the estimate in excel format with formulas intact.

Data Request submitted by Karen Lyons: karen.lyons@psc.mo.gov

Due Date: 5/18/2020

Case Nos GO-2018-0309

Accounting period ended 9/30/2019 (FY2019) – an estimated regulatory liability was recorded of \$2,596,733. No estimate of interest was recorded in FY2019 due to materiality and the limited time available to assess that part of the refund after the ruling was received.

Accounting month ended 10/31/2019 (FY2020) – an additional estimated regulatory liability was recorded of \$206,360. The reason the estimate was changed was to account for revenue earned on an accrual basis in the month of October. An estimate liability was recorded for interest due \$54,603, this estimate included the impact on the full refund including 2019. The reason why it included the 2019 amount is because that amount was not recorded in 2019 due to materiality and the limited time available to assess that part of the refund after the ruling was received.

Accounting months ended 11/30/2019, 12/31/2019, 1/31/2020, 2/29/2020, 3/31/2020, 4/30/2020– an additional estimated regulatory liability was recorded in each of these months, the reason the estimate was changed was to account for revenue earned on an accrual basis in these months. A schedule of these adjustments is provided in the spreadsheet titled "ISRS Refund Calculations - Revenue.xlsx". An additional estimated regulatory liability was recorded for interest due on the balance of the estimated refund. A schedule of these adjustments is provided in the spreadsheet titled "ISRS Refund Calculations 2018 Remand - Interest as of 04302020.xlsx".

Case Nos GO-2018-0310

Accounting period ended 9/30/2019 (FY2019) – an estimated regulatory liability was recorded of \$5,456,336. No estimate of interest was recorded in FY2019 due to materiality and the limited time available to assess that part of the refund after the ruling was received.

Accounting month ended 10/31/2019 (FY2020) – an additional estimated regulatory liability was recorded of \$447,434. The reason the estimate was changed was to account for revenue earned on an accrual basis in the month of October. An estimate liability was recorded for interest due of \$114,512, this estimate included the impact on the full refund including 2019. The reason why it included the 2019 amount is because that amount was not recorded in 2019 due to materiality and the limited time available to assess that part of the refund after the ruling was received.

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Data Request 0010 for GO-2018-0310

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Data Request submitted by Karen Lyons: karen.lyons@psc.mo.gov

Due Date: 5/18/2020

Case Nos GO-2018-0309

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estimated refund. A schedule of these adjustments is provided in the spreadsheet titled "ISRS Refund Calculations 2018 Remand - Interest as of 04302020.xlsx".

**Spire Missouri
Provision for Refund
April 30, 2020**

	FY19	FY20	Interest	Total
Missouri East	\$ 2,596,733.00	\$ 1,541,060.00	\$ 96,132.00	\$ 4,233,925.00
Missouri West	\$ 5,456,336.00	\$ 3,258,799.00	\$ 201,875.00	\$ 8,917,010.00
Total	\$ 8,053,069.00	\$ 4,799,859.00	\$ 298,007.00	\$ 13,150,935.00

FY20 by Month	Oct	Nov	Dec	Jan	Feb	Mar	Apr	FY20 YTD
Missouri East	\$ 206,360.00	\$ 214,548.00	\$ 227,757.00	\$ 221,439.00	\$ 223,409.00	\$ 223,882.00	\$ 223,665.00	\$ 1,541,060.00
Missouri West	\$ 447,434.00	\$ 441,150.00	\$ 469,374.00	\$ 481,289.00	\$ 472,641.00	\$ 473,814.00	\$ 473,097.00	\$ 3,258,799.00
Interest	\$ 653,794.00	\$ 655,698.00	\$ 697,131.00	\$ 702,728.00	\$ 696,050.00	\$ 697,696.00	\$ 696,762.00	\$ 4,799,859.00