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	)	Case No. GR-2021-0108
Service Provided in the Company's	)	
Missouri Service Areas.	)	

MECG / VICINITY STATEMENT OF POSITION

COMES NOW the Midwest Energy Consumers Group ("MECG") and Vicinity Energy – Kansas City ("Vicinity") and present the attached Joint Statement of Position. MECG and Vicinity present positions on the issues that are of greatest concern to the transportation customers. That said, MECG and Vicinity reserve the right to take positions on other issues based upon the testimony presented at the evidentiary hearing.

ISSUES

► 2. COVID-19 Accounting Authority Order ("AAO"):
a. What is the appropriate amount of Spire Missouri's COVID-19 AAO the Commission should approve for recovery in Spire Missouri rates?
b. Should the unamortized balance of the COVID-19 AAO be included in rate base?

Position Statement:
The unamortized COVID balance should not be included in rate base. The balance has resulted from the deferral of expenses and should not be given rate base treatment.

► 11. Insurance Expense -- What amount of Insurance expense should be included in Spire East's and Spire West's cost of service in FERC account 925?

Position Statement:

Insurance premiums and claims paid should be updated through the true-up period. Claims paid for the 12 months ending May 31, 2021 should be used for determining rates in this case. Spire witness Lobser has noted in testimony that the three year average of claims paid has decreased by $150,000. This seems to indicate that there is now a trend of downward claims payments and this should be reflected in rates.

►13. Incentive Compensation:
a. Should the costs of Spire's Annual Incentive Plan ("AIP") be included in base rates?

b. Should the two new metrics Spire implemented in the fall of 2018 be included in base rates?

Position Statement:
AIP incentive payments should be included in base rates except for those metrics that relate to the earnings of Spire. AIP payments related to the earnings of Spire should be disallowed from cost of service. The AIP payments associated with the two new metrics that Spire implemented should be disallowed unless they are unrelated to Spire's earnings and clearly demonstrated to have the potential to increase employee performance.

► 14. Property Tax:

a. What is the appropriate level of Missouri property tax to be included in rates?

Position Statement: The Commission should reject Staff's methodology for calculating Missouri property taxes. As MIEC / Vicinity witness Meyer points out, Staff's methodology is inconsistent with the known and measureable standard in that it is a prediction as to the level of property taxes that will be paid on December 31, 2021 – seven months after the true-up date in this case.[1]

c. Should the Commission discontinue the Missouri property tax tracker?

Position Statement: In its last case, the Commission wrestled with how to implement the then-recently enacted Tax Cuts & Jobs Act ("TCJA"). As part of its Amended Report and Order, the Comissionn recognized that certain financial aspects of the TCJA were unknown. As such, the Commission implemented a tracker to defer these unknown financial aspects of the TCJA. As part of the same discussion the Commission also recognized that 2018 property taxes were then unknown. Therefore, the Commission implemented a tracker to capture the change in property taxes for 2018. "[A]s 2018 property taxes are still not known and measurable, the Commission will also establish a tracker to account for any amounts of property tax expense over or under the amounts set out in rates for possible inclusion in Spire Missouri's next rate proceeding."[2] Therefore, while denominated as a "tracker" the mechanism is clearly limited to one single year.

MECG / Vicinity assert that, given that the uncertainty of the TCJA no longer exists, the Commission should discontinue the Missouri property tax tracker. Refusal to implement such a tracker is consistent with several recent decisions in which the Commission has rejected trackers for ordinary expenses such as property taxes.

d. Should the Commission discontinue the Kansas property tax tracker?

Position Statement: Yes. Spire utilizes storage facilities that are available in Kansas on the Southern Star Central Pipeline to store gas used to supply the Spire West system. Starting in 2009, Kansas began to levy property taxes on gas stored in these Kansas storage facilities. In previous cases, the Commission found that the level of property taxes levied by Kansas on this

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[1] Meyer Rebuttal, pages 8-10.

[2] Meyer Surrebuttal, pages 6-7 (citing to Case No. GR-2017-0215, Amended Report and Order, issued March 7, 2018, at pages 117-118).

stored gas was "volatile." Therefore, the Commission implemented a property tax tracker associated with gas stored in Kansas, which has been in place for approximately a decade.

In its rebuttal testimony, Spire proposes to continue the Kansas property tax tracker. Specifically, Spire argues that, in the event that there is another winter storm similar to that which occurred in February 2021, gas costs could rapidly escalate and property taxes on gas contained in Kansas storage facilities would increase.

As MIEC / Vicinity witness Meyer points out, however, the possibility of another winter storm similar in magnitude to that experienced in February is unlikely. In fact, the Commission has previously found that the February winter storm was "extraordinary". It is well established that rates are established based upon normalized conditions, including weather. It is inappropriate to implement mechanisms now simply for the possibility of an extraordinary event. Rather, if such an event does occur, the Commission can utilize other regulatory tools such as an Accounting Authority Order to address that extraordinary event.[3]

While a February type winter storm is unlikely, it is virtually impossible that the winter storm would be timed such that it would affect property taxes. "The Kansas property tax for gas inventories is established on a single day price (January 1 of the year in question). Spire is arguing that the February 2021 cold weather event must be addressed and a property tax tracker established in case the cold weather event reoccurred and impacted the single day of the year when property taxes are valued."[4] Given this unlikely event, and the fact that there are alternative tools to address this situation in the event that it does occur, the Commission should discontinue the Kansas property tax tracker.

► 20. What billing determinants and revenue should be ordered in this case?

c. Should customer growth adjustments be applied to the Residential class?

<u>Position Statement</u>:
Yes, customer growth should be applied for a full 12 months during the test year.

d. Should a growth adjustment for Spire East's and Spire West's Small General Service and Large General Service rate classes be applied?

<u>Position Statement</u>:
Yes, the Small General Service class revenues should also be adjusted for customer growth for a full 12 months.

► 22. Research and Development Allowance -- Should an allowance of $1 million for research and development costs be included in Spire's cost of service?

<u>Position Statement</u>: In its direct testimony, Spire proposed that it be allowed to collected $1 million annually as a Research and Development Allowance. Spire's proposal should be

[3] *Id.* at page 8.
[4] *Id.*

disallowed. As MIEC / Vicinity witness Meyer points out, Spire "fails to distinguish the benefits Spire receives from dues in organizations that also undertake the same or similar type of work, namely the American Gas Association and Gas Technology Institute. It is my understanding that Spire's current and proposed rates include the membership dues, that include research and development, in these organizations."[5] As such, there is a significant concern, given the lack of detail underlying Spire's proposal, that Spire's R&D efforts will be duplicative of the efforts undertaken by the American Gas Association and Gas Technology Institute. For this reason, Spire's proposal should be rejected.

► 47. Spire West Non-Residential Rate Design -- What appropriate steps should be taken for Spire West non-residential rate design?

► 48. Spire East Non-Residential Rate Design -- What appropriate steps should be taken for Spire East non-residential rate design?

Position Statement: In addition to a customer charge, the current Spire West transportation tariff provides for two seasonal volumetric blocks. "The first block applies to the first 30,000 Ccf of customer monthly usage and is equal to 3.441¢/Ccf during the summer and 5.512¢/Ccf during the winter. For all usage in excess of 30,000 Ccf/month, the customer is charged 2.280¢/Ccf during the summer and 4.300¢/Ccf during the winter."[6]

Similarly, in addition to a customer charge and a reservation charge, the current Spire East transportation tariff provides for two seasonal volumetric blocks. "The first block of 2.509¢/therm applies to the first 36,000 therms of customer monthly usage. The second block of 1.050¢/therm applies to all usage in excess of 36,000 therms."[7]

In its tariffs and direct testimony, Spire proposes to collapse the two block transportation tariff into a single volumetric rate. As Vicinity / MIEC witness Collins explains, Spire's proposal should be rejected.

As Mr. Collins explains, Spire "has not justified its proposed rate designs nor has it demonstrated that its rate design proposal properly reflects class cost of service for the Transportation class."[8] Rather, Spire's proposal appears to be entirely arbitrary.

As he further explains, the current rate design is more cost justified. Specifically, a two block rate more appropriately recognizes that a significant amount of fixed costs are collected through volumetric rate. A single volumetric rate is problematic in that higher volume transportation customers pay for a greater level of fixed costs than lower volume users. The practical effect of collecting fixed costs through a single volumetric charge is that a subsidy is created for the benefit of the lower volume transportation customers. "The reduced second block in Spire's existing rate design attempts to reflect this fact by reducing the volumetric consumption charge

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[5] Meyer Direct, page 6.
[6] Collins Direct, pages 19-20.
[7] *Id.* at page 20.
[8] *Id.* at page 21.

for the higher usage customers after they exceed the second block usage threshold."[9] Therefore, Spire's proposal to collapse the transportation rate blocks into a single rate block will exacerbate the subsidies within the transportation tariff.

This problem is demonstrated by the impact of Spire's rate design proposal. While Spire did not conduct any kind of impact analysis underlying its proposal,[10] Mr. Collins analyzed the effect of Spire's proposal across the spectrum of transportation customer usage characteristics. Mr. Collins' analysis demonstrated that, for the largest transportation customers, including Vicinity, Spire's rate proposal would lead to increases in excess of 80% for Spire's largest transportation customers.[11]

Given the multitude of problems underlying Spire's transportation rate design proposal, Mr. Collins recommends that Spire proposal be rejected and that any rate change for the transportation should be implemented through an equal decrease / increase applied to both transportation rate blocks.[12]

► 50. Interclass Revenue Responsibility

Position Statement: As reflected in the following section, there are significant problems with Staff's class cost of service study including its stubborn insistence that transportation customers be allocated a portion of gas storage costs as well as its faulty surrebuttal approach for allocation of distribution mains. Once such flaws are corrected, all of the class cost of service studies in this case indicate that the transportation customers in both the Spire East and West systems are paying rates well above cost of service. At a minimum, the Commission should maintain base rates for the transportation class at current levels and, in the alternative, should seriously consider granting a rate reduction to the transportation classes.

► 52. Class Cost of Service – How should (1) gas storage and inventory; (2) income taxes; and (3) distribution mains be allocated among the classes?

Position Statement: A quick review of Staff and Spire's class cost of service studies show constant changes in those studies from direct to rebuttal to surrebuttal testimony. In fact, in the case of Staff's testimony, there was also a "corrected" direct testimony. In contrast to the constant changes being made to the Staff and Spire class cost of service studies, Vicinity / MIEC witness Collin's position has been constant . That all said, the largest differences between the various studies concern the method by which gas storage / inventory should be allocated, if at all, to the transportation class as well as the methodology for allocating income taxes and distribution mains.

a. Gas Storage & Inventory

[9] *Id.*
[10] *Id.* at pages 22-23.
[11] *Id.* at pages 23-25.
[12] *Id.* at page 25.

In order to understand the proper allocation of certain costs, the Commission must understand how transportation service differs from the gas service that Spire provides to its other customers. The vast majority of Spire's customers rely on Spire to not only procure natural gas inventories, but also to deliver that gas to the customers. In contrast, transportation customers are responsible for procuring their own gas supplies. As such, these transportation customers rely on Spire only for the delivery of their gas supplies.

In its role of procuring gas supplies for its service customers, Spire East maintains gas storage caverns as well as propane inventory to meet peak service needs. In contrast, transportation customers are not permitted to rely on these storage facilities.[13] Instead, to the extent that these customers require gas storage, they must rely on storage that is available on the interstate pipeline system.[14] As Spire readily admits, "[t]ransport customers manage their own gas supply and are not allowed to use Laclede's storage assets."[15] Given this, it is not surprising that Spire's class cost of service witness agrees that transportation customers should not be allocated any storage, gas inventory or propane inventory costs.

> Q. DOES THE COMPANY AGREE WITH MIEC COLLINS RECOMMENDATION ON THE ALLOCATION OF UNDERGROUND STORAGE COSTS, GAS INVENTORY COSTS AND PROPANE INVENTORY COSTS TO TRANSPORTATION CUSTOMERS?
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> A. Yes. The Company agrees with MIEC Witness Collins that the underground storage costs, gas inventory costs and propane inventory costs should not be allocated to transportation customers as these costs are not incurred to provide distribution delivery service to Transportation customers. This approach is consistent with the methodology used in the Company's most recent rate case proceeding (Case No. GR-2017-0215 and GR-2017-0216).[16]

Despite not being permitted to use these storage facilities, Staff continues to insist that it is appropriate to allocate a certain level of storage costs to the transportation class. The Commission should reject Staff's faulty position and refuse to allocate any storage costs to transportation customers.

b. <u>Income Taxes</u>

In its direct testimony, Staff allocated an excessive amount of income taxes to the transportation class. In his rebuttal testimony, Vicinity / MIEC witness Collins questioned the methodology used by Staff in the allocation of income taxes. In her surrebuttal testimony, Staff witness Kliethermes acknowledged her "inadvertent" mistake. "Staff generally agrees with Mr. Collins that the allocation of income taxes should be allocated to the rate classes in a manner more similar to the classes' share of rate base rather than test year level of revenue contribution in excess of assigned and allocated costs. Staff inadvertently did not update the income tax

[13] *Id.* at pages 15-16.
[14] Collins Surrebuttal, page 5.
[15] *Id.* at pages 8-9 and Schedule BCC-SUR-2.
[16] Lyons Surrebuttal, page 12.

allocator at the time of its direct filing."[17] Given the acknowledgment of its inadvertent mistake, this is no longer an issue in the case.

c. Distribution Mains

While transportation customers should not be allocated any gas / propane inventory or storage costs, it is appropriate to allocate an acceptable level of distribution main costs to transportation customers. This is consistent with the fact that distribution mains are utilized by transportation customers in order to receive the gas that was procured by the transportation customer and delivered to Spire for delivery to the transportation customer.

The appropriate manner for allocating these distribution main costs is reflected in Spire's rebuttal testimony. As Spire appropriately recognizes, "[t]he classification of distribution mains reflects two cost drivers. The first driver is the number of customers. Distribution mains are designed to provide customer access to the natural gas system. The second driver is peak or design day demand."[18] Spire witness Lyons initially classified distribution main costs as either customer or demand-related based upon the NARUC recognized zero-intercept methodology.[19] The customer-related portion was then allocated to each class based upon the number of customers in each class.[20] The demand-related portion was then allocated among the classes based upon the class's portion of the system peak demand.[21] Based upon this NARUC approved approach, the Commission should allocate 4.8% and 9.0% of the distribution main costs to the Spire East and Spire West transportation classes respectively.[22]

In its testimony, Staff suddenly presented an entirely new and flawed methodology for the allocation of distribution main costs in its surrebuttal testimony. Given that Staff shielded the results of this methodology until its surrebuttal testimony, other parties have not had the opportunity to comment on Staff's flawed approach. The representatives of the transportation class will demonstrate the flawed nature of Staff's approach during the evidentiary hearing. For now, the Commission should view Staff's approach with a skeptical eye.

54. Bad debt and uncollectibles

Position Statement: In the last case, the Commission included $12,685,019 of bad debt expense in Spire rates. Since that time, bad debt expense has decreased significantly. Specifically, as Mr. Meyer sets out, bad debt amounts for the last 3 years have been:

Year	Bad Debt Expense
2018	$12,712,886
2019	$13,315,589
2020	$9,796,925

[17] Kliethermes Surrebuttal, page 6.
[18] Lyons Rebuttal (CCOS), page 9.
[19] *Id.*
[20] *Id.* at page 11.
[21] *Id.*
[22] *Id.* at pages 13-14.

Source: Meyer Direct, page 11

In his direct testimony, Mr. Meyer recognizes that bad debt expense in 2020 is likely related to customer programs approved by the Commission in response to the Covid pandemic. "I believe the effects from the pandemic and utilities forgoing disconnecting customers from service led to a smaller amount of bad debts expense in 2020."[23]

As such, instead of seeking to include any recognition of the depressed level of bad debt expense incurred in 2020, Mr. Meyer actually proposed a positive adjustment to Spire's case. Specifically, Mr. Meyer proposed that the Commission simply utilize the same level of bad debt expense utilized in the last rate case ($12,685,019). "[M]y proposal would increase the revenue requirement of Spire by approximately $743,219."[24]

Respectfully submitted,

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[23] *Id.* at page 12.
[24] *Id.*

CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed, emailed or hand-delivered to all parties on the official service list for this case on this 19th day of July 2021.

/s/ Lewis Mills