

Exhibit No.:

*Issues: True-up Revenue Requirement
Property taxes*

Witness: Karen Lyons

Sponsoring Party: MoPSC Staff

Type of Exhibit: True-Up Direct Testimony

*Case Nos.: GR-2017-0215 and
GR-2017-0216*

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MISSOURI PUBLIC SERVICE COMMISSION

COMMISSION STAFF DIVISION

AUDITING DEPARTMENT

TRUE-UP DIRECT TESTIMONY

OF

KAREN LYONS

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

**LACLEDE GAS COMPANY AND MISSOURI GAS ENERGY
GENERAL RATE CASE**

CASE NOS. GR-2017-0215 and GR-2017-0216

*Jefferson City, Missouri
November 2017*

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1 I will also address Staff's true-up recommendation for an annualized level of property
2 taxes for LAC and MGE.

3 **TRUE-UP**

4 Q. Please summarize your true-up direct testimony.

5 A. This true-up direct testimony presents an overview of Staff's true-up audit and
6 revenue requirement for LAC and MGE. Staff's true-up Accounting Schedules support its
7 recommendations for the amounts of the rate revenue increases the Commission should
8 approve for LAC and MGE. Staff's recommended revenue requirement for LAC and MGE is
9 based on the companies' actual historical information through the period ending
10 September 30, 2017. In developing the true-up revenue requirement, Staff considered all the
11 relevant and material components of the revenue requirement calculation. Broadly, these
12 components are: (1) capital structure and return on investment, (2) rate base investment and
13 (3) income statement results, including revenues, depreciation expense and income taxes.

14 Q. Are the areas addressed in Staff's true-up audit consistent with the
15 Commission's May 24, 2017 Order setting the procedural schedule in this case?

16 A. Yes. The Commission stated the following on page 7 of its Order:

17 Issues anticipated for true-up include: changes to plant-in-
18 service, depreciation reserve, all other rate base items (with the
19 exception of revenue and expense lags for cash working
20 capital), revenues (all categories), customer growth, pensions
21 and other post-retirement employee benefit costs, payroll
22 (including changes in pay rate, number of employees), other
23 employee benefits, payroll taxes, insurance expense, rate case
24 expense, depreciation expense, various amortizations, income
25 taxes, property taxes, capital structure, capital costs and other
26 significant items that must be considered in order to maintain a
27 proper relationship of revenues, expenses, and rate base.

1 Q. Are there any costs included in the Commission's May 24, 2017, Order that
2 Staff did not true-up?

3 A. Yes. Staff did not true-up property taxes for LAC and MGE. This issue will
4 be discussed in further detail later in this testimony.

5 Q. Did Staff include costs in LAC's and MGE's cost of service that were not
6 included at the time Staff filed its Direct Testimony on September 8, 2017?

7 A. Yes. Staff included costs, both capital and expense, related to LAC's purchase
8 of meter interface units ("AMR") and included a normalized level of employee uniform
9 expense. These issues are addressed in more detail in Staff witness Lisa M. Ferguson's
10 True-Up Direct Testimony.

11 Q. How did Staff conduct its true-up audit?

12 A. Staff updated LAC's and MGE's cost of service through September 30, 2017,
13 using the same methods and approach it used in its initial filing in this proceeding.

14 Q. What capital structure is Staff using as of September 30, 2017?

15 A. Staff's is using a Spire Inc. capital structure with short term debt as of
16 September 30, 2017 which consists of 45.56% common equity, 6.47% short-term debt and
17 47.97% long-term debt. Both Staff's true-up recommendations concerning capital structure
18 and debt rates are discussed in the surrebuttal testimony of Staff witness David Murray of the
19 Financial Analysis Unit.

20 Q. Based on changes discussed above, what is Staff's recommended true-up
21 revenue requirement for LAC?

22 A. Staff is recommending a revenue requirement increase for LAC in the range of
23 \$16.5 million to \$21.2 million, based on the low, mid and high end of Staff's recommended

1 return on equity of 9.0%, 9.25% and 9.50%. Staff's recommended range for return on equity
2 for LAC and MGE has not changed from Staff's previous filings in this case.

3 Q. Based on the changes discussed above, what is Staff's recommended true-up
4 revenue requirement for MGE?

5 A. Staff is recommending a revenue requirement increase for MGE in the range of
6 \$4.9 million to \$7.8 million, based on the low, mid and high end of Staff's recommended
7 return on equity of 9.0%, 9.25% and 9.50%.

8 **PROPERTY TAX**

9 Q. Please summarize Staff's recommendation for LAC's and MGE's
10 property taxes.

11 A. Staff's recommended level of property taxes for LAC and MGE in its direct
12 filing was based on all property that is currently providing service to customers and was
13 assessed on January 1, 2017. Staff's annualized level of property taxes for LAC and MGE
14 was calculated by applying a ratio of 2016 actual property taxes paid and plant-in-service as
15 of January 1, 2016 to LAC's and MGE's plant-in-service as of January 1, 2017. Staff's
16 recommended annualized level of property taxes for LAC and MGE is \$16,304,419 and
17 \$12,565,244 respectively.

18 Q. Please explain why Staff did not true up LAC's and MGE's property taxes.

19 A. Property taxes are assessed on a local and state basis on January 1 of each year.
20 The only property assessed is that which is owned on that date. The only property taxes
21 that are expensed are those attributable to plant-in-service owned and assessed as of January 1
22 of any given year, in this case January 1, 2017. Property placed in service after January 1,
23 2017, by LAC and MGE will not be assessed until January 1, 2018, with taxes due

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1 December 31, 2018. Since the true-up in this case, is September 30, 2017, property taxes
2 assessed on January 1, 2018 and paid on December 31, 2018 are outside the true-up period in
3 this case and are not known and measurable. Consequently, Staff did not true-up LAC's and
4 MGE's property taxes.

5 Q. Does this conclude your true-up direct testimony?

6 A. Yes, it does.

