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

Date Testimony Prepared: November 28, 2017

# 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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2	OF					
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5 6	LACLEDE GAS COMPANY AND MISSOURI GAS ENERGY GENERAL RATE CASE					
7	CASE NOS. GR-2017-0215 and GR-2017- 0216					
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 13 <sup>th</sup>					
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 Cost of Service Report ("COS Report") and					
15	provided rebuttal and surrebuttal testimony as part of this rate proceeding.					
16	EXECUTIVE SUMMARY					
17	Q. What is the purpose of your True-Up direct testimony?					
18	A. The purpose of this testimony is to provide the results of Staff's true-up audit					
19	of Laclede Gas Company ("LAC") and Missouri Gas Energy ("MGE") pursuant to the					
20	Commission's May 24, 2017, Order setting the procedural schedule in this case. The true-up					
21	period is through September 30, 2017. Staff's True-up Direct Accounting Schedules that are					
22	being filed concurrently with this testimony contain the revenue requirement results of					
23	the true-up audit conducted by Staff and are sponsored by myself and Staff witness					
24	Lisa M. Ferguson.					

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

#### **TRUE-UP**

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- Q. Please summarize your true-up direct testimony.
- A. This true-up direct testimony presents an overview of Staff's true-up audit and revenue requirement for LAC and MGE. Staff's true-up Accounting Schedules support its recommendations for the amounts of the rate revenue increases the Commission should approve for LAC and MGE. Staff's recommended revenue requirement for LAC and MGE is based on the companies' actual historical information through the period ending September 30, 2017. In developing the true-up revenue requirement, Staff considered all the relevant and material components of the revenue requirement calculation. Broadly, these components are: (1) capital structure and return on investment, (2) rate base investment and (3) income statement results, including revenues, depreciation expense and income taxes.
- Q. Are the areas addressed in Staff's true-up audit consistent with the Commission's May 24, 2017 Order setting the procedural schedule in this case?
  - A. Yes. The Commission stated the following on page 7 of its Order:

Issues anticipated for true-up include: changes to plant-inservice, depreciation reserve, all other rate base items (with the exception of revenue and expense lags for cash working capital), revenues (all categories), customer growth, pensions and other post-retirement employee benefit costs, payroll (including changes in pay rate, number of employees), other employee benefits, payroll taxes, insurance expense, rate case expense, depreciation expense, various amortizations, income taxes, property taxes, capital structure, capital costs and other significant items that must be considered in order to maintain a proper relationship of revenues, expenses, and rate base. 1

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Q. Are there any costs included in the Commission's May 24, 2017, Order that Staff did not true-up? A. Yes. Staff did not true-up property taxes for LAC and MGE. This issue will be discussed in further detail later in this testimony. Did Staff include costs in LAC's and MGE's cost of service that were not Q. included at the time Staff filed its Direct Testimony on September 8, 2017? Yes. Staff included costs, both capital and expense, related to LAC's purchase A. of meter interface units ("AMR") and included a normalized level of employee uniform expense. These issues are addressed in more detail in Staff witness Lisa M. Ferguson's True-Up Direct Testimony. Q. How did Staff conduct its true-up audit? A. Staff updated LAC's and MGE's cost of service through September 30, 2017, using the same methods and approach it used in its initial filing in this proceeding. Q. What capital structure is Staff using as of September 30, 2017? A. Staff's is using a Spire Inc. capital structure with short term debt as of September 30, 2017 which consists of 45.56% common equity, 6.47% short-term debt and 47.97% long-term debt. Both Staff's true-up recommendations concerning capital structure and debt rates are discussed in the surrebuttal testimony of Staff witness David Murray of the Financial Analysis Unit. Q. Based on changes discussed above, what is Staff's recommended true-up revenue requirement for LAC? A. Staff is recommending a revenue requirement increase for LAC in the range of \$16.5 million to \$21.2 million, based on the low, mid and high end of Staff's recommended

- return on equity of 9.0%, 9.25% and 9.50%. Staff's recommended range for return on equity

  for LAC and MGE has not changed from Staff's previous filings in this case.
  - Q. Based on the changes discussed above, what is Staff's recommended true-up revenue requirement for MGE?
  - A. Staff is recommending a revenue requirement increase for MGE in the range of \$4.9 million to \$7.8 million, based on the low, mid and high end of Staff's recommended return on equity of 9.0%, 9.25% and 9.50%.

#### **PROPERTY TAX**

- Q. Please summarize Staff's recommendation for LAC's and MGE's property taxes.
- A. Staff's recommended level of property taxes for LAC and MGE in its direct filing was based on all property that is currently providing service to customers and was assessed on January 1, 2017. Staff's annualized level of property taxes for LAC and MGE was calculated by applying a ratio of 2016 actual property taxes paid and plant-in-service as of January 1, 2016 to LAC's and MGE's plant-in-service as of January 1, 2017. Staff's recommended annualized level of property taxes for LAC and MGE is \$16,304,419 and \$12,565,244 respectively.
  - Q. Please explain why Staff did not true up LAC's and MGE's property taxes.
- A. Property taxes are assessed on a local and state basis on January 1 of each year. The only property assessed is that which is owned on that date. The only property taxes that are expensed are those attributable to plant-in-service owned and assessed as of January 1 of any given year, in this case January 1, 2017. Property placed in service after January 1, 2017, by LAC and MGE will not be assessed until January 1, 2018, with taxes due

True-Up Direct Testimony of Karen Lyons

- 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.

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- Q. Does this conclude your true-up direct testimony?
- 6 A. Yes, it does.

#### BEFORE THE PUBLIC SERVICE COMMISSION

#### OF THE STATE OF MISSOURI

In the Matter of Laclede Ga		y's )				
Request to Increase Its Reve	enues for	)	Case No. GR-2017-0215			
Gas Service		)				
In the Matter of Laclede Ga	s Compan	, )				
d/b/a Missouri Gas Energy's	Request t	0 )	Case No. GR-2017-0216			
Increase Its Revenues for G	as Service	)				
AFFIDAVIT OF KAREN LYONS						
STATE OF MISSOURI	)	s.				
COUNTY OF JACKSON	)	3,				

COMES NOW KAREN LYONS and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing True-Up Direct Testimony; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.

KAREN LYONS

**JURAT** 

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Jackson, State of Missouri, at my office in Kansas City, on this \_\_\_\_\_\_\_\_ day of November, 2017.

Notary Public

NOTARY SEAL SE

BEVERLY M. WEBB My Commission Expires April 14, 2020 Clay County Commission #12464070