Exhibit No.: ______________
Issue(s): Separate Tariffs/PGA & ISRS for Spire West and East/Discontinue the GSIP/Rate Base Exclusion of the NOL/Income Taxes Calculations in CWC/Gross Receipts Tax Calculations
Witness/Type of Exhibit: Riley/Direct
Sponsoring Party: Public Counsel
Case No.: GR-2021-0108

DIRECT TESTIMONY

OF

JOHN S. RILEY

Submitted on Behalf of the Office of the Public Counsel

SPIRE MISSOURI, INC.

CASE NO. GR-2021-0108

May 12, 2021

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

VERIFICATION OF JOHN S. RILEY

John S. Riley, under penalty of perjury, states:

1. Attached hereto and made a part hereof for all purposes is my direct testimony in the above-captioned case.

2. My answer to each question in the attached direct testimony is true and correct to the best of my knowledge, information, and belief.

/s/ John S. Riley
John S. Riley, C.P.A.
Senior Utility Regulatory Auditor
Office of the Public Counsel

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DIRECT TESTIMONY

OF

JOHN S. RILEY

SPIRE MISSOURI INC.

CASE NO. GR-2021-0108

Q. What is your name and what is your business address.

A. John S. Riley, PO Box 2230, Jefferson City, Missouri 65102.

Q. By whom are you employed and in what capacity?

A. I am employed by the Missouri Office of the Public Counsel ("OPC") as a Senior Utility Auditor.

Q. What is your educational background?

A. I earned a B.S. in Business Administration with a major in Accounting from Missouri State University.

Q. What is your professional work experience?

A. I was employed by the OPC from 1987 to 1990 as a Public Utility Accountant. In this capacity, I participated in rate cases and other regulatory proceedings before the Public Service Commission ("Commission"). From 1994 to 2000 I was employed as an auditor with the Missouri Department of Revenue. I was employed as an Accounting Specialist with the Office of the State Court Administrator until 2013. In 2013, I accepted a position as the Court

Administrator for the 19th Judicial Circuit, where I remained until April, 2016, when I joined the OPC as a Public Utility Accountant III. I have also prepared income tax returns, at a local accounting firm, for individuals and small business from 2014 through 2017.

Q. Are you a Certified Public Accountant ("CPA") licensed in the State of Missouri?

A. Yes. As a CPA, I am required to continue my professional training by attending Missouri State Board of Accountancy qualified educational seminars and classes. The State Board of Accountancy requires that I spend a minimum of 40 hours a year in training that continues my education in the field of accountancy. I am also a member of the Institute of Internal Auditors ("IIA") which provides its members with seminars and literature that assist CPAs with their annual educational requirements.

Q. Have you previously filed testimony before the Missouri Public Service Commission?

A. Yes I have. A listing of my Case filings is attached as JSR-D-1.

Q. What is the purpose of your direct testimony?

A. The purpose of my testimony is to recommend the continuation of separate Purchased Gas Adjustment ("PGA")/Actual Cost Adjustment ("ACA") tariff calculations, unattached ISRS and distinct tariffs for Spire Missouri West and Spire Missouri East, and the discontinuation of the Gas Supply Incentive Plan ("GSIP"). I will also propose the exclusion of the Company's Net Operation Loss carryforward ("NOL") from rate base calculations and introduce an income tax adjustment in the Cash Working Capital ("CWC") calculations. Finally, I will propose several adjustments to the Company's revenue requirement for failure to correctly calculate tax on the court mandated ISRS refunds and customers monthly billings.

CONTINUED SEPARATION OF SPIRE EAST AND WEST

Q. What is your general argument for why Spire East and Spire West should be kept separate for ratemaking purposes?

A. The two systems are essentially separate and distinct by location and physical characteristics.[1] As much as Spire testifies that these two entities are one corporation in one state, the fact of the matter is that Spire East will be getting the bulk of its natural gas from the STL Pipeline and the eastern half of the country while Spire West will be relying on natural gas from Texas and Oklahoma. Another factor to consider is that Spire West's most recent ISRS case saw revenues curtailed due to the proposed ISRS revenues being above the statutory maximum.[2] Any combination of the two territories would result in a cross-subsidization of both gas prices and ISRS expenses.

Q. Has Spire proposed any economic savings or synergies that will result from combining the tariffs, PGAs, or ISRS?

A. Not that I am aware. Spire East is managed from the Company's home office in St. Louis while Spire West still appears to be managed from Kansas City. Scott Weitzel mentions "recordkeeping and administrative efficiencies"[3] in his testimony, but stops short of pointing out actual labor or asset reductions due to consolidation. I do not believe that the Company

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[1] This recommendation does not conflict with the endorsement of OPC witness John Robinett who proposes consolidating Spire depreciation rates. Combining similar asset allocations does not justify consolidating separate and distinct territories which are currently being operated in separate and distinct areas.

[2] From 393.1012. "The commission may not approve an ISRS to the extent it would produce total annualized ISRS revenues exceeding ten percent of the gas corporation's base revenue level approved by the commission in the gas corporation's most recent general rate proceeding."

[3] Scott Weitzel direct, page 14 line 12.

is planning to eliminate any jobs following their proposed consolidation of tariffs. With separate and distinct areas of service, one cannot reduce the field support by way of cross subsidizing. The Company claims that it would like to consolidate its reporting before the Commission, however, Spire will continue to separate the East and West information internally for reporting and performance measurements if for no other fact that they are separate and distinct locations.

GAS SUPPLY INCENTIVE PLAN ("GSIP")

Q. Why in your opinion should the Commission discontinue the GSIP?

A. The natural gas market continues to be a low price and low volatility market. When Spire last requested to continue the GSIP in 2017, the Henry Hub monthly average was $2.98 MMBtu. As I write this testimony, the Henry Hub price is currently $2.56 MMBtu. Given this low volatility market, Spire's GSIP is unjustifiable and should be discontinued.

Q. Can you provide an overview of the GSIP tariff and how that compares to the Company's new proposal?

A. The GSIP was developed around 2002 to encourage gas distribution companies to actively seek the lowest priced natural gas in its market area. The early part of the century was a volatile time for natural gas prices and the GSIP was an attempt to incentivize Laclede to lessen the volatility. Currently, only Spire East is tariffed to employ a GSIP, however, the Company is proposing that Spire West also be included. The basic concept is to establish an index price level known as a benchmark where the Company would be rewarded when its gas purchases are priced lower than that benchmark. A tier system was developed in order to determine if the market activity and the Company's actions should qualify for an incentive reward. The important concept to understand is that the benchmark price must fall between the tier 2 and 3 price points. The current GSIP section with tier system section is attached as JSR-D-02. The activating condition in the GSIP language is section (b)

> (b). In order for the Company to be able to receive incentive compensation, Net Commodity Gas Price per MMBtu must be below the Annual Benchmark Price per MMBtu and the Net Commodity Gas Price per MMBtu must fall within Tier 1 or Tier 2. Further, the Annual Benchmark Price per MMBtu must fall within Tier 2 or Tier 3.

As you can see, the current floor in tier 2 is $3.00. Prior to the 2017 rate case the floor was $4.00. I argued that the GSIP should be eliminated because the price of natural gas was consistently too low and a Company incentive was unnecessary. Spire has since successfully argued for the $3.00 floor now included in tariffs. However, the average monthly price of natural gas in 2019 was $2.56 and in the pandemic year of 2020, the average for the year was $2.03. These are well below the $3.00 floor.

Q. What is Spire proposing in the current case?

A. The Company proposes the inclusion of Spire West into the GSIP tariff and lower the Tier 1 floor to $2.00 per MMBtu.

Q. How will the lower floor benefit Spire?

A. By lowering the bar, Spire will be able to take advantage of naturally occurring price dips in the natural gas market without putting in any real effort. As I pointed out, the current natural gas market lacks volatility. Review the Hub monthly prices since the last Spire rate case:

Henry Hub Natural Gas Spot Price (Dollars per Million Btu)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2017	3.30	2.85	2.88	3.10	3.15	2.98	2.98	2.90	2.98	2.88	3.01	2.82
2018	3.87	2.67	2.69	2.80	2.80	2.97	2.83	2.96	3.00	3.28	4.09	4.04
2019	3.11	2.69	2.95	2.65	2.64	2.40	2.37	2.22	2.56	2.33	2.65	2.22
2020	2.02	1.91	1.79	1.74	1.75	1.63	1.77	2.30	1.92	2.39	2.61	2.59
2021	2.71	5.35	2.62									

The average annual price for 2019 was $2.56. Tier 2 pricing at $3.00 would not benefit the Company very often, but lower the threshold to $2.00, and expect average pricing to return to pre-pandemic levels, and the Company will reliably generate incentive payments each month without having to do anything.

Q. How could Spire incentive payments hurt the ratepayer?

A. In two ways. First, Spire stands to collect up to $3 million if it keeps purchase prices under the new benchmark. That is $3 million that could very well be artificially generated due to a lower tier 1 floor, but, as the results of a sharing mechanism, it will have no impact on lowering consumers' rates through the PGA.

Another way the GSIP incentives could hurt ratepayers is through more aggressive hedging. The GSIP purchase price calculations includes hedging costs or gains. That's great for Spire if it hedges successfully (gains), but as I pointed out above, bad for ratepayers. That is $3 million in reductions that will not be used to reduce rates. The GSIP language would incentivize them to hedge aggressively. If the hedging results in losses, the ratepayer foots the bill.

Q. Please summarize your opinion on the GSIP.

A. I believe the GSIP should be suspended at this time. Spire does not need additional incentives to seek low natural gas prices. The natural gas market is not the unpredictable, spiking, and expensive platform that the GSIP was created to address in order to reduce the impact of upward natural gas commodity price volatility on the Company's customers. Given the fact that the Commission expects gas distribution systems to hedge prices to protect from volatility, Spire's proposed changes are unrewarding to the ratepayer and unnecessary.

INCOME TAX CALCULATIONS WITHIN CWC

Q. What adjustment are you proposing to the income tax calculations within the CWC?

A. The combined income tax working capital requirement should be adjusted by a negative $13, 089,822.

Q. What amount does the Company calculate for its income tax CWC requirement?

A. Company workpapers Schedule TSL-D2 indicate Federal and State income tax CWC requirements of positive $378,860 and $67,276, respectively[4]. The CWC summary uses a revenue lag of 49.15 days and an expense lag of negative 38 for a net lag of a positive 11.15 days. Spire uses a federal income tax amount of $12,407,679 and a state income tax of $2,203,284.

[4] Spire Missouri Inc. Lead- Lag Study Summary, TSL-D2, Lines 11 and 12

Q. Where is the error in the Company calculations?

A. Spire did not accurately assess the expense lag when considering income tax payments.

Q. Could you provide a brief explanation of the components of a CWC calculation?

A. Yes. A concise definition would be as follows:

> Cash Working Capital (CWC) is a rate base component that represents a measurement of the amount of funds, on average, required for the **payment** of a utility's day-to-day expenses, as well as an identification of whether a utility's customers or its shareholders are responsible for providing these funds in the aggregate.[5] (Emphasis Added)

In a CWC calculation, both a revenue lag and an expense lag are measured. The "lag" is the amount of time, usually in days, that it takes <u>revenues</u> to come in from the customer or the time it takes for the utility to pay out an <u>expense</u>. For the most part, Spire has calculated a 49.15 day lag for revenues to come in from their customers. Customer payments are fairly homogenous and this <u>revenue</u> lag is a consistent multiplier in the calculation. In contrast, each <u>expense</u> component of the CWC calculation has a different payment schedule based on when the individual expense needs to be paid. As a result, the expense lag is different for each line item.[6]

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[5] This definition is used by Staff in many of its Cost of Service Reports

[6] There are some variances, but, for the purpose of this testimony, the differences are not important.

Q. Spire has used a 38 day expense lag for income tax calculations which indicates that the income tax expense is paid prior to receiving revenues (49.15 days) from the ratepayer. How did the Company err in determining the negative 38 day expense lag?

A. Spire Inc.'s state and federal income tax returns, the Company's annual report filed with the Commission, and the public 10-K reports all indicate that both the parent company and Spire Missouri have not been required to pay income tax in at least the last three years.[7] Therefore, applying a 38 day expense lag to income taxes must result from a generalization of hypothetical quarterly payments that the Company doesn't actually make. Because Spire does not make any such quarterly payments, the 38 day lag in expenses for these payments is a clear error.

Q. What should the expense lag be for income taxes?

A. If you have no cost (payments) at any time during the year, then your lag would be an entire year. Thus, the expense lag should be a negative 365 days (*i.e.* one full year).

Q. If Spire is not making any income tax payments, then why include income taxes in the CWC calculation at all?

A. It is necessary to include income taxes in the CWC calculation because income taxes are already an expense item built into the Company's revenue requirement. In fact, income tax **has** to be included in Spire's revenue requirement due to the normalization rules established by the Internal Revenue Service ("IRS"). Simply put, the IRS requires income taxes to be

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[7] Page 14, line 13-17, Spire 2020 10-K "The Company has significantly reduced its current federal and state income tax obligations over the past few years through tax planning strategies and the use of bonus depreciation deductions for certain expenditures for property. As a result, the Company has generated large annual taxable losses that have resulted in significant federal and state net operating losses in years prior to the Tax Cuts and Jobs Act. The Company plans to utilize these net operating losses in the future to reduce income tax obligations."

calculated and included in rates (as if the utility is going to pay those taxes to the federal government) regardless of whether any such taxes are actually paid. Given this fact, it is only fair that the impact of this income tax expense is properly recognized on both sides of the equation when calculating Spire's overall CWC needs.

I want to take a moment and remind the Commission that income tax expense and income tax CWC are separate and distinct components of the revenue requirement and thus represent two separate funds. The first fund represents what the ratepayer is paying for the calculated amount of taxes, the income tax expense, even though the company can take advantage of tax timing differences and NOLs to defer payments. The second fund **"represents a measurement of the amount of funds, on average, required for the payment of a utility's day-to-day expenses…"** My issue is only with this second fund, the CWC, which should be modified to reflect that Spire has **<u>no</u>** day-to-day income tax CWC payments. Having the ratepayer pay for taxes is part of the regulatory process but trying to recognize a need for funds within the CWC calculations to pay those taxes when there is no actual disbursement would be wrong. The CWC calculations must therefore be made to recognize both the inflow of income tax payments made by Spire's customers **<u>and</u>** the lack of outflow for those same funds made by Spire. The only real way to accomplish this is to calculate the CWC as if there is no outflow each and every day of the year, *i.e.* apply a negative 365 day expense lag.

Q. What would be the adjustment to the Company's CWC calculations if the income tax expense lag was replaced with a negative 365 days?

A. I've included Spire's CWC Summary as Schedule JSR-D-03. The Schedule has the original calculations and the OPC adjustment. The income tax reset would change the Company's working capital requirement for income taxes from a positive $446,136 to a negative $12,643,686. This would reduce the total CWC in rate base from a positive $12,672,247 to a negative $417,575. A $13,089,822 difference.

Q. Are there any other considerations that need to be addressed?

A. Yes. The Commission must remember that income tax expense is a flow through item, meaning it will fluctuate until the Commission decides every issue. It will change as the Revenue Requirement shifts. The working capital requirement I have included in this testimony will thus necessarily need to be adjusted as well to account for these changes

NOL EXCLUSION FROM RATE BASE

Q. What amount of NOL has Spire included in its rate base calculations?

A. I have discovered two separate rate base offsets provided by Spire. In Company answer to Staff Data Request 0007, where Staff requested estimated deferred tax balances, there was a balance of $50,064 listed as NOL. Spire's workpapers filed with the initial rate case filing listed a proposed NOL total of $63,729,680 with a separation of $42,247,230 as current ADIT and $21,482,450 attributed to Excess ADIT. I expect more clarity as to the balance when the Company provides true-up numbers.

Q. How does the OPC propose to treat this deferred tax asset when calculating rate base?

A. The NOL should be excluded from the rate base calculation and should not be considered when amortizing excess ADIT balances.

Q. Why should an NOL be excluded?

A. An NOL is a tax return creation that does not have a true cost attributable to it. Also, since the tax code allows NOLs to be carried forward indefinitely; ratepayers will continue to pay income tax expense that does not associate with an actual income tax liability until the NOL is expended.

Q. Could you explain how an NOL has no cost and why this is important to your argument?

A. A taxable loss is a product of legislation and has no basis in a utility company's checkbook. IRS rules and regulations allow for generous deductions and timing differences that allow companies to create and utilize higher current expenses so taxable income is less. These timing differences are the basis of deferred tax liabilities. These differences can also create the taxable loss that companies carry forward and record on its books as a deferred tax asset. These losses were not generated because a company spent more money, but rather, because it could expense money quicker on its tax returns.

The fact that this deferred tax asset has no cost presents the ratepayer with a double whammy. Utilities attempt to include the NOL in rate base and thereby afforded a rate of return on a fictitious asset while the ratepayer has already paid the income tax expense that is not actually paying income taxes because of the NOL.

Q. How is the Company incorporating an NOL into the excess ADIT calculations?

A. As previously mentioned, Spire has split the NOL into a current portion and calculated a portion to assign to the excess ADIT. In its workpapers, the Company has used $21.48 million to offset the protected portion of the excess ADIT amortization. This seems to be an arbitrary exercise since an NOL cannot be amortized. The results lowers the protected balance of ADIT to amortize through the Average Rate Assumption Method (ARAM). This NOL balance should be excluded for the same reasons that I explained previously.

GROSS RECIEPT TAX REFUND

Q. Could you please provide some background information to this adjustment?

A. Yes. Litigated issues from prior Spire ISRS cases resulted in a $15 million refund being ordered back to the Company customers. Spire administered the refund during the July/August 2020 billing cycle.

Q. Wherein lies the problem with administering the refund?

A. I've actually discovered two separate problems with the company's application of gross receipts tax to the customer's monthly charges. I've included a customer bill, which was sent to the OPC, as Schedule JSR-D-04, page 1. This bill has the line item refund ($7.04) included as a deduction from the current services amount. The first problem is the Company billing software has incorrectly placed the ISRS court ordered refund below the gross receipts tax calculation line. This has caused the Company to short change the ratepayer for the amount of gross receipts tax that should have been refunded based on amount of the ISRS refund amount. The second error is that the Company billing software has calculated a gross-up on the tax amount. This is quite possibly a continual problem from long before the court ordered ISRS refund.

Q. What is the definition of "gross receipts"?

A. The St. Louis County ordinance 502.150(2), defines gross receipts as:

> "Gross receipts" means the aggregate amount of all sales and charges of the commodities or services described in (1) made by a public utility in the unincorporated areas of St. Louis County during any period less discounts, credits, **refunds**, sales taxes and uncollectible accounts actually charged off during the period.(Emphasis added)

Q. Could you walk us through each error separately?

A. As you can see on the detail column of the customer bill in the schedule, there are five separate components that should be combined and <u>then</u> have the gross receipt tax rate applied to the total. On this bill, our components are:

Customer charge	$22.00
Summer Usage	$1.95
ISRS	$2.23
WNAR	(0.09)
Usage	$3.84
Total	$29.93

The billing error on the statement is that the tax is calculated and inserted ($1.58) and **<u>then</u>** the ISRS refund is included which produces the total current charges of $24.47. This is an obvious error when you realize that the refund amount was at one time a portion of current taxable charges on a prior billing and therefore its deduction should be included somewhere above the "tax" line and then have gross receipts tax calculated on that total which is, after the refund, $22.89.

Customer charge	$22.00
Summer Usage	$1.95
ISRS	$2.23
WNAR	(0.09)
Usage	$3.84
ISRS Credit	($7.04)
Total	$22.89

A 5% tax on $22.89 is $1.1445, so this customer was short-changed the difference between the tax that was charged ($1.58) and the $1.144 that should have been charged.

Q. Getting to the second error, can you explain what the term "gross-up" refers to?

A. A simplified definition of this calculation would be that a **gross-up** is an additional amount of money added to a payment to cover the **taxes** that will be owed on that payment. In the regulatory environment the gross-up is usually the combined income tax effect on a particular revenue requirement item. In testimony, you often read that some adjustment is say, $1 million, but, with a tax gross-up, the adjustment is worth $1,313,025.[8]

This brief example shows how expenses get factored up to cover taxes in a regulatory proceeding, but this is an unnecessary step when considering gross receipts taxes.

Q. Why is the gross-up calculation unnecessary when dealing with Gross Receipts Tax?

A. Gross Receipts is calculated like sales tax. To illuminate. Everyone has looked at their receipt from the grocery store and noted that everything you purchased is listed, then it is combined to list a total purchase amount and then sales tax is calculated and applied to that amount. For example: The total spent on groceries is $ 100. A sales tax rate of, let's say, 5% is applied. The total amount due at the checkout is $105. There is nothing complicated here. Multiply the $100 by the 5% = $5 and add that to the total comes to $105

Q. What has Spire done when applying Gross Receipts tax to the ratepayer's utility bill?

A. It appears that Spire has done some sort of gross up to the Gross Receipts tax rate. As I explained earlier, the calculation should be a straight forward multiplication, however, if

[8] Gross up = (1/1-tax rate), 1/(1-.2384),1/.7616, = 1.313025

you apply the 5% rate to the monthly charge in (Exhibit JSR-D-04, page 2)[9], you come up with a lesser amount than what shows on the statement.

Present Reading	Previous Reading	Usage (CCF) X	BTU Factor	= Therms
891555	879140	12415	1.052	13060.58
Actual		Vehicular Fuel		

Delivery 03-01-2021 to 03-31-2021		**815.71**
Customer Charge	23.38	
Usage Therms: 13,060.6 @ $0.05644	737.14	
Pipeline Upgrade Charge (ISRS)	2.95	
Aggregation and Balancing Fee Therms: 13,060.6 @ $0.004	52.24	
Taxes		**42.93**
Chesterfield Tax	42.93	
Total Current Charges		**$858.64**

Let's perform the exercise. $815.71 multiplied by 5% = $40.79. Spire has billed for $42.93 in tax. The only way to derive the $42.93 is to add $815.71 and $42.93 to total $858.64 and multiply by 5% and the answer comes out to $42.93. The tax remittance amount is equal to 5.2629% of the $815.71. The $42.93 is equal to the gross up of the original $40.79.[10]

Q. What is the results of this tax gross-up?

A. Each and every customer, subject to the gross receipts calculations, is overpaying tax on every monthly billing. Keep in mind that this is a flow through item. The utility invoices, collects, and remits the tax. This error has not harmed the utility in any way, but its customers are paying much more in taxes than they otherwise should.

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[9] This monthly billing statement was provided by Spire in the answer to OPC data request 2078. The customer bills in the response are marked CONFIDENTIAL, however, after removing all customer related ID from the face, Spire has allowed us to use the statement in a public schedule.

[10] 1/(1-tax rate), 1/.95= 1.05263, $40.79X1.05263= $42.9367

Q. Let's go back to the ISRS refund tax shortfall. Can you quantify the amount of money that should be refunded due to the misapplication of the ordered refund below the tax calculation line?

A. To some degree. The refund amount ordered was $15 million. The customer base has multiple gross receipts tax rates. A universal gross receipts tax rate of 5% would be a close approximation but it would not be to the penny, however, we welcome Spire's input on accurately submitting the refund to each customer that is due[11]. We now know that the original $15 million was subjected to a tax gross up addition and then had this larger total multiplied by the tax rate. By our calculations performed above, we can take the actual tax and multiply it by the gross-up. 5% of $15 Million is $750,000. $750,000 X 1.052632 = $789,474 approximately $789,474 is still due the ratepayers.

Now, if I understand how the Spire billing software works, the Total Current Charges were reduced by the $15 million refund. This would reduce the amount of revenues to compute the Gross Receipts tax. In essence, Spire did receive the gross receipt tax refund from the taxing authorities due to the $15 million reduction in the calculations. It doesn't show up as a reduction on the customer's bill but it does reduce the tax Spire paid. Spire reaped a benefit but the customer has not been made whole and in fact, the customer cannot collect the refund from the taxing authority because the tax is charged to the utility.

[11] 5% isn't the lowest rate used for the gross receipts tax rates, however, it does appear to be the most widely used rate among the jurisdictions

Q. Can you quantify the amount of overpayment that each customer has submitted during the test year and true-up period?

A. I will be able to accurately access that amount after I receive answers to some outstanding data requests issued to the Company and review the Staff's direct filing in this case. I will have an adjustment in my rebuttal testimony.

Q. Are there any other adjustment that need to be considered?

A. Yes. Even though gross receipts tax is a flow through item and is backed out of Staff's case, it still calculates a CWC adjustment for the collection and payment of the funds to the taxing authority. After reviewing the Staff filing, I will make an adjustment to the CWC for the inflated revenues and gross receipts tax calculations

Q. Does this conclude your direct testimony?

A. Yes it does.

John S. Riley, CPA
Summary of Case Participation

ST LOUIS COUNTY WATER COMPANY	CASE NO. WR-88-5
SOUTHWESTERN BELL TELEPHONE COMPANY	CASE NO. TC-89-21
EMPIRE DISTRICT ELECTRIC COMPANY	CASE NO. ER-2016-0023
KCP&L GREATER MISSOURI OPERATIONS COMPANY	CASE NO. ER-2016-0156
KANSAS CITY POWER & LIGHT COMPANY	CASE NO. ER-2016-0285
AMEREN MISSOURI	CASE NO. ER-2016-0179
EMPIRE DISTRICT ELECTRIC PRUDENCE REVIEW	CASE NO. EO-2017-0065
LACLEDE GAS COMPANY	CASE NO. GR-2017-0215
MISSOURI AMERICAN WATER COMPANY	CASE NO. WU-2017-0351
MISSOURI AMERICAN WATER COMPANY	CASE NO. WR-2017-0285
LIBERTY (MIDSTATE NATURAL GAS)	CASE NO. GR-2018-0013
KANSAS CITY POWER AND LIGHT	CASE NO. ER-2018-0145
KCP&L GREATER MISSOURI OPERATIONS COMPANY	CASE NO. ER-2018-0146
EMPIRE DISTRICT ELECTRIC PRUDENCE REVIEW	CASE NO. EO-2018-0244
EMPIRE DISTRICT ELECTRIC COMPANY	CASE NO. ER-2018-0228
EMPIRE DISTRICT ELECTRIC COMPANY	CASE NO. ER-2018-0366
EMPIRE DISTRICT ELECTRIC COMPANY	CASE NO. EO-2018-0092
AMEREN GAS COMPANY	CASE NO. GR-2018-0227
MISSOURI AMERICAN WATER COMPANY	CASE NO. WO-2018-0373
LIBERTY UTILITIES EMPIRE ELECTRIC CO	CASE NO. EA-2019-0010
SUMMIT NATURAL GAS OF MISSOURI, INC	CASE NO. GR-2018-0230
SPIRE NATURAL GAS, EAST/WEST ISRS	CASE NO. GO-2019-0115
MISSOURI AMERICAN WATER COMPANY	CASE NO. WO-2019-0184

John S. Riley, CPA
Summary of Case Participation

AMEREN GAS	CASE NO. GR-2019-0077
UNION ELECTRIC COMPANY	CASE NO. ER-2019-0335
LIBERTY EMPIRE ELECTRIC CO.	CASE NO. ER-2019-0374
EVERGY MISSOURI METRO	CASE NO. EO-2020-0262
MISSOURI AMERICAN WATER CO.	CASE NO.WO-2020-0190
EMPIRE ELECTRIC COMPANY FAC	CASE NO. ER-2020-0311
MISSOURI AMERICAN WATER CO.	CASE NO. WR-2020-0344

PURCHASED GAS COST ADJUSTMENT
PGA

D. Gas Supply Incentive Plan

For purposes of reducing the impact of upward natural gas commodity price volatility on the Company's customers, a Gas Supply Incentive Plan (GSIP) shall be established in which the Company shall have the opportunity to share in price reductions earned by the Company in the acquisition of natural gas commodities.

The GSIP recognizes that the Company, through various purchasing techniques, including hedging, may be able to acquire supplies of natural gas for its on-system customers at levels below an established benchmark price. If the Company can acquire natural gas commodity prices below the benchmark, then it will have the opportunity to keep some of those price reductions, if those prices fall within certain pre-defined pricing tiers.

1. The GSIP applies to the total commodity cost of natural gas supplies purchased for on-system consumers, inclusive of the cost and price reductions associated with the Company's use of financial instruments divided by actual purchase volumes for on-system customers, ("Net Commodity Gas Price"), for all volumes purchased by the Company for on-system resale during the Company's October through September ACA period. The Company shall retain in an Incentive Revenue (IR) Account a portion of certain cost reductions the Company realizes in connection with the acquisition and management of its gas supply portfolio.

(a). In order to determine if the Company is eligible for incentive compensation due to its purchasing activities, Net Commodity Gas Price per MMBtu and the Annual Benchmark Price per MMBtu of natural gas for the ACA period will be evaluated to determine in which of the following tiers each respective price falls.

TIER LEVELS

Tier 1	less than or equal to $3.000 per MMBtu
Tier 2	greater than $3.000 per MMBtu and less than or equal to the Incentive Sharing Ceiling set forth below
Tier 3	greater than the Incentive Sharing Ceiling at $6.50 per MMBtu

(b). In order for the Company to be able to receive incentive compensation, Net Commodity Gas Price per MMBtu must be below the Annual Benchmark Price per MMBtu and the Net Commodity Gas Price per MMBtu must fall within Tier 1 or Tier 2. Further, the Annual Benchmark Price per MMBtu must fall within Tier 2 or Tier 3.

The Annual Benchmark Price per MMBtu shall be calculated as follows: First, for each month of the ACA period, the associated First-of-Month (FOM) index prices as shown below and as reported in the Inside FERC's Gas Market Report shall be weighted by the following percentages to develop a FOM composite price:

PURCHASED GAS COST ADJUSTMENT
PGA

D. Gas Supply Incentive Plan (continued)

Enable Gas Transmission ("EGT") – East	22%
Natural Gas Pipeline Co. of America - Mid-Continent	8%
Natural Gas Pipeline Co. of America - South Texas	5%
Panhandle Eastern Pipe Line Co. ("PEPL")	10%
EGT-West- EGT-East index less $0.035	24%
Trunkline Gas Co. – Louisiana	6%
Southern Star Gas Pipeline Central	12%
Enable Mississippi River Transmission - West leg-Henry Hub less $.07	13%

Second, the Annual Benchmark Price will then be calculated by taking the monthly FOM composite price as calculated above for each month and weighting said price by each month's associated actual purchase volumes for on-system customers.

The Company shall notify Staff and OPC promptly upon any individual changes to its pipeline capacity equal to or greater than 10% of existing subscribed capacity, and shall work with OPC and Staff to set a new GSIP benchmark.

(c). Incentive Compensation - The Company will be eligible for incentive compensation if the Net Commodity Gas Price falls in either Tier 1 or Tier 2, is below the Annual Benchmark Price per MMBtu, and the Annual Benchmark Price per MMBtu is in either Tier 2 or Tier 3. If those conditions are satisfied, the Company will receive incentive compensation of 10% of the difference between the Net Commodity Gas Price and the Annual Benchmark Price per MMBtu, multiplied by the Company's purchase volumes for on-system sales during the ACA period, up to a maximum of $3,000,000 in incentive compensation. The Incentive Adjustment (IA) Account shall be debited by the Company's appropriate compensation amount and the IR Account will be credited by the same amount.

(d). Gas costs not included in this mechanism include pipeline service costs, storage costs, demand charges, and any reductions in natural gas supply due to bundled transportation contracts that increase transportation costs to achieve lower gas supply costs. No incentive compensation will be given for reductions in actual gas prices if such reductions are tied to any increase in pipeline service costs and/or demand charges, unless such costs or charges are necessitated by significant changes in the Company's system operating conditions.

(e). The Commission shall retain the ability to evaluate and determine the prudence of the Company's efforts in connection with its procurement of gas and management of its gas supply demand and transportation services.

PURCHASED GAS COST ADJUSTMENT
PGA

D. Gas Supply Incentive Plan (continued)

(f). Subject to the market-out clause of this tariff, no revisions to the GSIP shall be made any sooner than the effective date of rates in the Company's next general rate case proceeding. Any party shall have the right to propose termination or modification of the program in case of significant impacts on the price of natural gas by such acts as acts of God, change in federal or state law or regulation, or significant change in gas supply market or system operating conditions.

(g). During the course of the GSIP, the Company shall provide quarterly monitoring reports to the Staff and Public Counsel detailing any potential price reductions achieved under the GSIP, quantifying the Company's share of any such price reductions, explaining the measures used by the Company to reduce such prices, and a summary of all hedged positions. The reports shall also include monthly details regarding the actual volumes purchased and the actual FOM pricing index that said volumes were priced at compared to the Pipeline FOM Index table above. If any volumes were purchased with a different FOM pricing point (index) or pricing arrangement, separate accounting shall occur so that the actual indices used may be compared to the benchmark indices. This information shall be accumulated in such a fashion to allow a ready comparison of the actual volumes purchased by basin or FOM price point versus the FOM pipeline percentages set out in the table above. The quarterly monitoring reports shall also include details of the monthly volumes (both actual volumes and contracted volumes) of each type of supply contract including baseload supply contracts, combination supply contracts, swing supply contracts and any other type of supply contract. These reports will be due 30 days after the last day of each applicable quarter. The Company shall also provide with its annual ACA filing a reliability report explaining, in reasonable detail, why its gas supplies and transportation services are appropriate to meet anticipated requirements of its firm service customers.

2. The debits to the IA Account shall be allocated to the applicable customer classifications, based on the volumes sold during the ACA period. Debits shall be allocated to the Company's on-system sales customers consistent with the allocation of commodity related charges set forth in A.2.c.

3. For each ACA year, the debits recorded in the IA Account, including any balance from the previous year, shall be accumulated to produce a cumulative balance of incentive adjustments. For purposes of computing new ACA factors for the subsequent twelve-month period beginning with the effective date of the Winter PGA, such cumulative incentive adjustment balances shall be combined with the appropriate Deferred Purchased Gas Costs Account balances. The Company shall separately record that portion of ACA revenue recovery which is attributable to recovery of the IA Account balances. Any remaining balance shall be reflected in the subsequent ACA computations.

4. These calculations exclude any volumes and costs relating to gas supplies sold to the Company by schools or their agents under the Company's Experimental School Transportation Program Tariffs.

DATE OF ISSUE: March 20, 2018 DATE EFFECTIVE: April 19, 2018

ISSUED BY: C. Eric Lobser, VP, Regulatory & Governmental Affairs
Spire Missouri Inc., St. Louis, MO. 63101

FILED
Missouri Public
Service Commission
GR-2017-0215; YG-2018-0117

Spire Missouri Inc.
Lead-Lag Study
Cash Working Capital Requirement
Summary

Line	Description	Revenue Requirement Amount	Average Daily Amount	Revenue Lag	Ref.	Expense Lag	Ref.	Net (Lead)/Lag Days	Working Capital Requirement
	Operation and Maintenance Expenses								
1	Purchased Gas Costs	$ 514,331,100	$ 1,409,126	49.14503021	A	(38.45)	B	10.69	$ 15,064,071
2	Regular Payroll Expenses & \	$ 105,135,178	$ 288,042	49.14503021	A	(12.00)	C	37.15	$ 10,699,313
3	Vacation Pay	$ 5,244,559	$ 14,369	49.14503021	A	(182.50)	C	(133.35)	$ (1,916,131)
4	Annual Performance Bonus	$ 6,443,726	$ 17,654	49.14503021	A	(242.50)	C	(193.35)	$ (3,413,497)
5	Pension	$ 25,450,524	$ 69,727	49.14503021	A	2.02	C	51.16	$ 3,567,430
6	Benefits (Group Insurance)	$ 16,855,575	$ 46,180	49.14503021	A	(7.07)	C	42.08	$ 1,943,212
7	Missouri PSC Assessment	$ 4,118,152	$ 11,283	49.14503021	A	35.29	C	84.44	$ 952,674
8	Uncollectible Expense	$ 12,571,722	$ 34,443	49.14503021	A	(49.15)	C	0.00	$ -
9	Other O&M	$ 90,060,968	$ 246,742	49.14503021	A	(42.11)	C	7.04	$ 1,735,887
10	Income Taxes								
11	Federal Income Taxes	$ 12,407,679	$ 33,994	49.14503021	A	(38.00)	D	11.15	$ 378,860
12	State Income Taxes	$ 2,203,284	$ 6,036	49.14503021	A	(38.00)	D	11.15	$ 67,276
13	Taxes Other Than Income Taxes								
14	FICA - Employer Portion	$ 10,884,333	$ 29,820	49.14503021	A	(15.27)	E	33.87	$ 1,010,122
15	FUTA	$ 106,848	$ 293	49.14503021	A	(75.57)	E	(26.42)	$ (7,735)
16	SUTA	$ 49,754	$ 136	49.14503021	A	(75.54)	E	(26.39)	$ (3,598)
17	Property Taxes	$ 40,000,000	$ 109,589	49.14503021	A	(185.27)	F	(136.12)	$ (14,917,678)
18	Sales Tax	$ 17,739,191	$ 48,601	33.93669688	A	(12.22)	G	21.72	$ 1,055,432
19	Use Tax	$ 505,174	$ 1,384	49.14503021	A	(76.50)	G	(27.35)	$ (37,854)
20	Gross Receipts Tax	$ 63,508,198	$ 173,995	33.93669688	A	(34.53)	G	(0.59)	$ (102,561)
21	Interest Payments	$ 52,172,892	$ 142,939	49.14503021	A	(72.95)	H	(23.81)	$ (3,402,977)
22	Total	$ 979,788,856	$ 2,684,353						$ 12,672,247
OPC Adjustment									
10	**Income Taxes**								
11	Federal Income Taxes	$ 12,407,679	$ 33,994	49.14503021	A	(365.00)	D	(315.85)	$ (10,737,060)
12	State Income Taxes	$ 2,203,284	$ 6,036	49.14503021	A	(365.00)	D	(315.85)	$ (1,906,626)
									$ (12,643,686)
	Adjusted CWC Rate Base Total								($471,575.00)

JSR-D-03

Thank you for your interest in the tax discrepancy we discussed this week. As illustrated below, my current Spire bill imposes county (gross receipts) tax of $1.58. This is **6.5%** of the $24.47 gross receipts Spire will collect from my payment, rather than the 5% imposed by St Louis County ordinance 502.151 upon Spire.

Further analysis confirms our tax overage is attributable to Spire classifying my one-time $7.04 ISRS refund "below the line," which excludes it from gross receipts tax calculation. However, the recurring $2.23 ISRS charge on this bill and all prior bills is "above the line" and factors into the gross receipts tax formula.

spire

Customer service or gas emergencies: 800-887-4173

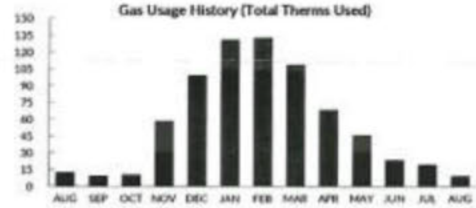
Statement Date: 08/13/2020
Account Number:
Service Address:

Bill at a Glance	Amount
Previous Balance	38.63
Payment - Thank you	(38.63)
Total Current Charges	24.47
Total Balance	24.47
Amount Due	$24.47
Due By	08/28/20
Late Fee Assessed After	09/04/20

Present Reading	Previous Reading	Usage (CCF) X	BTU Factor	= Therms
3296	3287	9	1.037	9.33
Actual		Residential General		

Delivery 07-14-2020 to 08-12-2020		**26.09**
Customer Charge	22.00	
Summer Usage ≤ 50 Therms: 9.3 @ $0.20994	1.95	
Pipeline Upgrade Charge (ISRS)	2.23	
WNAR	-0.09	
Natural Gas Cost		**3.84**
Usage	3.84	
Taxes		**1.58**
St. Louis Cnty Tax	1.58	
Other Charges		**(7.04)**
Pipeline Upgrade Charge (ISRS) Credit	-7.04	
Total Current Charges		**$24.47**

Gas Usage History (Total Therms Used)



	Aug '19	Jul '20	Aug '20
Total Therms Used	12.54	19.42	9.33
Daily Average Therms	0.39	0.59	0.31
Days in Billing Cycle	32	33	30

Important Message

Please retain this portion for your records. See back of bill for other convenient ways to pay.

When Spire forwards its gross receipts tax payment to St Louis County from my payment of this bill, it will be obligated by county ordinance 502.150(2) to remit no more than 5% of the $24.47 gross receipts, or $1.22 of the $1.58 *pass-through tax* Spire receives from me. Assuming my county's tax rate is lower than the average Missouri tax district, which seems likely, Spire is well positioned to reap a bonus windfall of perhaps *$1 million or more* from August 2020 revenues throughout its Missouri service area, representing taxes collected but not remitted in violation of Tariff Sheet 14.

To help insulate Spire’s pending ISRS case #GO-2021-0030 from potential challenges, may I suggest reversing the August ISRS refund to reclassify it above the line on September’s customer bills, or as soon thereafter as practicable?

spire

Statement Date: 04/01/2021
Account Number:
Service Address:

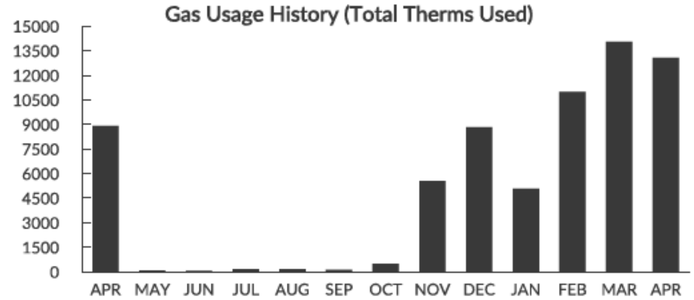
Customer service or gas emergencies: 800-887-4173

Bill at a Glance	Amount
Previous Balance	921.01
Payment - Thank you	(921.01)
Total Current Charges	858.64
Total Balance	**858.64**
Amount Due	**$858.64**
Due By	**06/30/21**
Late Fee Assessed After	**07/06/21**

Present Reading	Previous Reading	Usage (CCF) X	BTU Factor	= Therms
891555	879140	12415	1.052	13060.58
Actual		Vehicular Fuel		

Delivery 03-01-2021 to 03-31-2021		**815.71**
Customer Charge	23.38	
Usage Therms: 13,060.6 @ $0.05644	737.14	
Pipeline Upgrade Charge (ISRS)	2.95	
Aggregation and Balancing Fee Therms: 13,060.6 @ $0.004	52.24	
Taxes		**42.93**
Chesterfield Tax	42.93	
Total Current Charges		**$858.64**

Gas Usage History (Total Therms Used)



	Apr '20	Mar '21	Apr '21
Total Therms Used	8885.02	14041.01	13060.58
Daily Average Therms	286.61	501.46	421.31
Days in Billing Cycle	31	28	31

Important Message

Please see the enclosed insert for natural gas safety tips for your home or business.

Please retain this portion for your records. See back of bill for other convenient ways to pay.

Please return this portion with your payment. We ask that you please don't fold, staple or paper clip payment to your bill.

Save a stamp. Go paperless.

Account Number:
Service Address:

Amount Due	$858.64
Due By	06/30/21
Late Fee Assessed After	07/06/21

Amount Enclosed: $

DollarHelp

$1

Check the box to the left. DollarHelp is an easy way to help your neighbors who struggle to pay their heating bills. Share the warmth by checking the red box here or signing up at DollarHelp.org. Together, we can make a difference.

spire | United Way

Make Check Payable to:

Spire
Drawer 2
St. Louis, MO 63171

Please do not write below.