

**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	)	Case No. GR-2021-0108
Company's Missouri Service Areas	)	

**RESPONSE TO MOTION FOR CLARIFICATION AND EXPEDITED  
TREATMENT**

**COMES NOW** the Office of the Public Counsel (“OPC”) and for its *Response to Motion for Clarification and Expedited Treatment*, states as follows:

**Capitalized Overheads**

1. Spire’s request is not seeking “clarification” as the Company claims. Instead, Spire’s motion is actually a disguised motion for rehearing or reconsideration that seeks to dramatically alter the nature of the Commission’s previous decision by misrepresenting the costs at issue.

2. Let us begin with a brief review. General overheads represent a type of cost incurred by a utility to provide service. That cost can either be capitalized or expensed. If the cost is capitalized, then it is included in rate-base and the utility recovers a return **of** that cost through depreciation expense and a return **on** that cost through the authorized rate of return. If the cost is expensed, then it is included in the revenue requirement and thereby recovered in full by the utility annually from ratepayers.

3. In this case, Spire has already capitalized its general overhead costs incurred for construction projects that have been previously performed, **including those performed in the test year**. This means that the “prudently incurred costs” that Spire refers to **are already included in rate-base**.

4. As the Commission already acknowledged, “Staff has **not** made any adjustments in its proposed cost of service to transfer capitalized overhead costs to expense.” *Report and Order*, pg. 69 ¶234 (emphasis added).

5. Because no adjustment has been made to remove them, the “prudently incurred” overhead costs are still included in rate-base and are therefore **already going to be recovered**. Thus, no adjustment is need to allow Spire to recover those prudently incurred test year costs through expense in this case. Again, those test year costs are already included in rate-base because Spire has previously capitalized them and no adjustment has been made to move them to an expense. *Report and Order*, pg. 69 ¶234.

6. The important distinction that needs to be understood here is the difference between overhead costs that **have** been incurred and those that **will** be incurred moving forward. Because Spire has capitalized the costs that **have already been incurred**, those costs have already been included in the revenue requirement. By contrast, the Commission’s *Report and Order* determined that Spire should “cease capitalizing non-operational overhead costs, **going forward**, until Spire Missouri’s compliance with the USOA is shown.” *Report and Order*, pg. 75 (emphasis added).

Thus, the costs to be expensed per the Commission's order are those that will be incurred going forward, *i.e.* in the future.

7. Because the only costs to be expenses per the Commission's order are those that will be incurred going forward, there are no “prudently incurred” costs in the test year period to be expensed.<sup>1</sup>

8. What Spire is really requesting in its filing is not a “clarification” but rather for the Commission to reconsider its prior decision and order the imputation of an assumed amount of expenses to cover future overhead costs. This is a problem for two major reasons.

9. First, the record is incomplete as to this issue. Spire is now seeking to dramatically increase its revenue requirement by assuming that future overhead expenditures will exactly match past expenditures. However, Spire's failure to abide by the USOA requirements coupled with the potential inconsistencies between scope and scale of construction projects that might occur between rate cases makes verification of Spire's assumption practically impossible.

10. Second, and perhaps more importantly, imputation of an assumed amount of expense to cover overhead costs moving forward directly contradicts the Commission's order that “[o]verhead costs determined to be in compliance with the USOA Plant Instruction requirements shall be included in rate base at the first

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<sup>1</sup> To be clear, the test year is historical, meaning that it has already happened. The costs to be expensed, per the Commission's order are costs that will be incurred “going forward.” *Report and Order*, pg. 75 (emphasis added). Because these are costs “going forward” they have not (and necessarily cannot be) incurred “in the test year,” which has already occurred.

opportunity, whether in an ISRS case or rate case.” *Report and Order*, pg. 76. A cost that is included in expense and recovered from ratepayers **before** it has occurred should not then be **later** capitalized and recovered a second time.

11. If the Commission orders an amount of expense included in Spire’s rates **now** to cover future overhead costs, and Spire’s customers begin to pay those overhead costs **now** as a result, then those costs should not be later capitalized (during an ISRS for example). If the Commission were to allow costs that have been previously included in expense to later be capitalized, it would be allowing Spire to recover the costs twice (first as an expense and then again through capitalization).

12. Therefore, if the Commission wishes for Spire to begin capitalizing overhead costs as soon as compliance with the USOA is shown, it should not order these costs to be included in expense now. Instead, the Commission should wait until Spire returns with an ISRS case so that the Company can properly show compliance with the USOA Plant Instruction requirement; at which point the Commission can allow the recovery of those costs through capitalization in the ISRS case. This is clearly exactly what the Commission envisioned because it literally stated: “[o]verhead costs determined to be in compliance with the USOA Plant Instruction requirements shall be included in rate base at the first opportunity, whether in an ISRS case or rate case.” *Report and Order*, pg. 76.

13. To summarize, overhead costs that were incurred during the test year have already been included in rate-base and no adjustment has been made to move them from a capital item to an expense item. *Report and Order*, pg. 69 ¶234. The

Commission's *Report and Order*, did not order the previously capitalized overheads to be expensed, but rather, ordered Spire to cease capitalizing overheads **going forward**, and, even then, only until compliance with the USOA was shown. *Report and Order*, pg. 75. Therefore, no adjustment to expense should be made in this case to account for these overhead costs, and the Commission should instead expect the Company to work toward demonstrating compliance with the USOA so that it can begin capitalizing those overheads again at the first possible opportunity (*i.e.* an ISRS filing).

### **Short-Term Debt**

14. The Company's Motion for Clarification requests the Commission to clarify the amount of short-term debt to include in Spire Missouri's ratemaking capital structure. In making this request, however, the Company has proposed a methodology that does not add up.

15. First, the OPC notes that the Commission's Order misinterpreted Mr. Murray's testimony. It is correct that Spire Missouri incurred approximately \$195.8 million in "deferred gas costs – OFO cover charge & penalties" related to Winter Storm Uri. Exhibit 45C, *Surrebuttal Testimony of Adam Woodard*, Schedule AWW SR-2, pgs. 4-5. However, it is incorrect that these costs were not considered in determining an average short-term debt balance in excess of short-term assets.

16. Schedule DM-TR-1 attached to Mr. Murray's True-up Rebuttal Testimony provided two capital structure scenarios, which were based solely on the Company's calculations of short-term debt in excess of short-term assets (including

the \$195.8 million in “deferred gas costs – OFO cover charge & penalties”) provided as Schedule AWW-SR-2 by Mr. Woodard and reaffirmed in his true-up direct testimony. Exhibit 242, *True-up Rebuttal Testimony of David Murray* pg. 3, lns. 1-4; pg. 4 lns. 22 – 27; Schedule DM-TR-1. However, **Mr. Woodard’s Schedule specifically included the \$195.8 million of Uri costs in the total monthly short-term assets, which was then subtracted from the total monthly short-term debt outstanding.** Exhibit 45C, *Surrebuttal Testimony of Adam Woodard*, Schedule AWW SR-2, pgs. 4-5.

17. Consequently, **Winter Storm Uri costs have already been netted from short-term debt in the Company’s own position.** Exhibit 45C, *Surrebuttal Testimony of Adam Woodard*, Schedule AWW SR-2, pgs. 4-5.

18. The only adjustment Mr. Murray made to Mr. Woodard’s schedule was to remove Mr. Woodard’s “pro forma” adjustment related to the \$305 million of long-term debt (\$55 million refinanced maturing long-term debt and \$250 million reduced short-term debt in May 2021). Exhibit 242, *True-up Rebuttal Testimony of David Murray*, pg. 4 lns. 22 – 27; Exhibit No. 60, *True-Up Direct Testimony of Adam Woodard*, pg. 2, lns. 1 – 3; Exhibit 45C, *Surrebuttal Testimony of Adam Woodard*, pg. 17, lns. 7-9. Therefore, if the Commission intended to adopt Spire Missouri’s capital structure as of the true-up date with consideration for the amount of short-term debt Spire Missouri typically utilizes over and above that which can be attributed to short-term assets (including netting out Uri costs), the capital structure with the proper balance and percentage of short-term debt is Mr. Murray’s first scenario

(\$272,457,948 of short-term debt). Exhibit 242, *True-up Rebuttal Testimony of David Murray* pg. 4 lns. 22 – 27; Schedule DM-TR-1.

19. Mr. Murray's second scenario, which probably attributed to the confusion, simply took an average of short-term debt for a period within the test year and update period (13-months ended December 31, 2020) that did **not** include the three months effected by storm Uri. The purpose of this was to show that the amount and percentage of short-term debt for a period in which Uri **did not and could not** impact short-term assets or short-term debt was consistent with values determined using the trued-up test period. Exhibit 242, *True-up Rebuttal Testimony of David Murray*, Schedule DM-TR-1 (compare the values under the *Use of Short-term Debt and Asset Balances for the 13-months ended May 31, 2021* and *Use of Short-term Debt and Asset Balances for the 13-months ended December 31, 2020 to exclude Uri* headings).

20. The only adjustment Mr. Murray made to Mr. Woodard's schedule for purposes of this period, was again simply removing the "pro forma" long-term debt Mr. Woodard had backdated to the beginning of the test year. Exhibit 242, *True-up Rebuttal Testimony of David Murray* pg. 5 ln. 13 – pg. 6 ln. 4.

21. Either way, based on the Commission's adoption of Spire Missouri's capital structure, **which was proffered by Spire's own witness Mr. Woodard**, the percentage of short-term debt typically supporting Spire Missouri's rate base investment should be at least 8%. Exhibit 242, *True-up Rebuttal Testimony of David Murray*, Schedule DM-TR-1. Again, **Winter Storm Uri costs have already been**

netted from short-term debt in the Company's own position upon which the OPC's adjustment was based and thus have already been removed. Exhibit 45C, *Surrebuttal Testimony of Adam Woodard*, Schedule AWW SR-2, pgs. 4-5.

22. Spire's counter proposal, by contrast, is utter nonsense. First, the Company is seeking to remove Winter Storm Uri costs **twice** because they were already removed once by the Company in the schedule prepared by Mr. Woodard upon which Mr. Murray relied to develop his \$272.5 million figure. Second, Spire is seeking to directly reduce the **average** of short-term debt in excess of short-term assets by subtracting a debt instrument that only effected three months of the total average. This is exceptionally bad math.

23. Because the Commission adopted Spire Missouri's capital structure (presumably as of May 31, 2021 with consideration of substitution of long-term debt for short-term debt), the dollar value of the capital components should equal Spire Missouri's total capitalization (less the netting of short-term assets, including Uri costs) as of that date.

24. Spire Missouri had \$1,589,496,633 of common equity, \$1,338,736,661 of long-term debt and \$180,250,281 (\$433,525,000 minus \$253,274,719 from Woodard's Surrebuttal Schedule AWW SR-2) of short-term debt (in excess of short-term assets) as of May 31, 2021. Exhibit No. 146, *Staff True-Up Accounting Schedules East and West*, Schedule 12; Exhibit 242, *True-up Rebuttal Testimony of David Murray*, Schedule DM-TR-1; Exhibit 45C, *Surrebuttal Testimony of Adam Woodard*, Schedule AWW SR-2, pg. 6.



25. The sum of these values equals a total capitalization of \$3,108,483,575. However, Spire Missouri's proposed method in its clarification undercapitalizes Spire Missouri by \$157,750,281 (\$180,250,281 minus \$22.5 million proposed by Spire Missouri) by excluding this amount from the debt (whether short-term or long-term) that supports Spire Missouri's rate base.

26. Incidentally, the discrepancy between the actual dollar amount of Spire's capitalization and the Commission's ordered capital structure is an issue that the OPC will address in its own motion for rehearing. The OPC's evidence shows that Spire Missouri uses **both** short-term debt and long-term debt to support its rate base, and does not substitute one for the other.

27. The OPC is more than willing to make its witness available to help explain the proper approach to capture Spire Missouri's typical capitalization situation over time per the Commission's *Report and Order*.

WHEREFORE, the Office of the Public Counsel respectfully requests the Commission accept this *Response to Motion for Clarification and Expedited Treatment* and rule in the OPC's favor on all issues addressed herein.

Respectfully submitted,

By:           /s/ John Clizer            
John Clizer (#69043)  
Senior Counsel  
Missouri Office of the Public  
Counsel  
P.O. Box 2230

Jefferson City, MO 65102  
Telephone: (573) 751-5324  
Facsimile: (573) 751-5562  
E-mail: [john.clizer@opc.mo.gov](mailto:john.clizer@opc.mo.gov)

CERTIFICATE OF SERVICE

I hereby certify that copies of the forgoing have been mailed, emailed, or hand-delivered to all counsel of record this Second day of November, 2021.

/s/ John Clizer