Exhibit No.:	
Issue(s):	*Credit Card Processing Fees, PSC Assessment Lag Error and Federal and State Income Tax Expense Lag, Insurance, Severance, Red Tag and One-Time Energy Affordability Program*
Witness:	*Antonija Nieto*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Surrebuttal Testimony*
Case No.:	*GR-2021-0108*
Date Testimony Prepared:	*July 14, 2021*

MISSOURI PUBLIC SERVICE COMMISSION

FINANCIAL AND BUSINESS ANALYSIS DIVISION

AUDITING DEPARTMENT

SURREBUTTAL TESTIMONY

OF

ANTONIJA NIETO

SPIRE MISSOURI INC., d/b/a SPIRE

SPIRE EAST and SPIRE WEST
GENERAL RATE CASE

CASE NO. GR-2021-0108

Jefferson City, Missouri
July 2021

****** Denotes Confidential Information ******

TABLE OF CONTENTS OF

SURREBUTTAL TESTIMONY OF

ANTONIJA NIETO

SPIRE MISSOURI INC., d/b/a SPIRE
SPIRE EAST and SPIRE WEST

GENERAL RATE CASE

CASE NO. GR-2021-0108

SURREBUTTAL TESTIMONY

OF

ANTONIJA NIETO

SPIRE MISSOURI INC., d/b/a SPIRE
SPIRE EAST and SPIRE WEST

GENERAL RATE CASE

CASE NO. GR-2021-0108

Q. Please state your name, employment position, and business address.

A. Antonija Nieto, Senior Utility Regulatory Auditor with the Missouri Public Service Commission ("Commission" or "PSC"), Fletcher Daniels State Office Building, 615 East 13th Street, Kansas City, Missouri 64106.

Q. Are you the same Antonija Nieto who has previously provided testimony in this case?

A. Yes. I contributed to Staff's Cost of Service Report ("COS Report") filed on May 12, 2021, and submitted prefiled rebuttal testimony filed June 17, 2021.

EXECUTIVE SUMMARY

Q. What is the purpose of your surrebuttal testimony?

A. The purpose of my surrebuttal testimony is to respond to Spire Missouri Inc. "Spire", witness Michelle Antrainer's rebuttal testimony regarding the Red Tag program and credit card processing costs. I will also respond to Spire witness C. Eric Lobser's rebuttal testimony regarding severance costs and Office of Public Counsel ("OPC") witness Robert E. Schallenberg on insurance expense. Additionally, my surrebuttal testimony addresses Spire witness Timothy S. Lyons's rebuttal testimony regarding PSC Assessment lag and OPC witness John S. Riley's rebuttal testimony regarding Federal and State Income Tax lag, both included within the cash working capital calculation.

CREDIT CARD PROCESSING FEES

Q. What is the difference between Spire's and Staff's position on this issue?

A. Staff calculated the cost of credit card processing fees based on the amount of expense recorded in the general ledger for both Spire East and Spire West for the 12 months ending December 31, 2020, and adjusted the test year accordingly. Spire did not propose an adjustment for credit card processing fees in its direct filing. Ms. Antrainer stated the reason Spire did not propose an adjustment was "…because through the end of the test year ending September 30, 2020, credit card fees were at or near what Spire is already recovering in rates."[1] Spire does not take issue with Staff's adjustment; however, witness Antrainer suggests Staff's adjustment be trued-up through May 31, 2021.[2]

Q. In a general rate case, does Staff adjust all cost of service components during the true-up phase of the case?

A. No. True-ups are updates of major cost of service components of a utility's revenue requirement beyond the end of an ordered test year and update period. As stated in Staff's COS Report, Staff will review all significant known and measurable changes to Spire East's and Spire West's cost of service through the true-up period in this case, May 31, 2021.[3]

Q. Will Staff true-up credit card transaction fees through May 31, 2021, as suggested by Ms. Antrainer?

[1] Rebuttal Testimony of Michelle Antrainer, Case No. GR-2021-0108, page 3, ln. 9-11.
[2] Rebuttal Testimony of Michelle Antrainer, Case No. GR-2021-0108, page 3, ln. 12-15.
[3] Staff's Cost of Service Report, page 3.

A. Staff requested additional data from the Company reflecting the credit card transaction costs through May 31, 2021, the final true-up period. Staff will evaluate the credit card expense during the true-up phase of this case and make a determination of whether these costs should be trued-up.

CWC: PSC ASSESMENT LAG ERROR AND FEDERAL AND STATE INCOME TAX EXPENSE LAG

Q. In his rebuttal testimony, Company witness Lyons describes a typographic error made by Staff regarding the PSC assessment lag included in Staff's cash working capital schedule in its accounting schedules. Has Staff addressed his concern?

A. Yes, Staff has acknowledged and corrected the error. The correct lag of -32.75 days will be reflected in Staff's true-up accounting schedules.

Q. What is OPC's position regarding Staff's recommended income tax expense lag?

A. OPC witness Riley suggests that Staff's recommended income tax lag of 38 days is an error since Spire is not actually paying income taxes.

Q. Do you agree with Mr. Riley?

A. No. Staff's recommended 38 days is based on the Internal Revenue Code requirement for filing and paying corporate income taxes on a quarterly basis[4]. As discussed in my rebuttal testimony,[5] Staff has historically developed the federal and state income tax lags based on the statutory required quarterly, equal tax payments. Staff recommends adoption of the Company calculated income tax expense lag of 38 days.

[4] § 6655 Internal Revenue Code, (requiring corporations to make quarterly income tax payments of at least 25% of the total annual payment).
[5] Rebuttal Testimony of Antonija Nieto, Case No. GR-2021-0108, page 3-4, ln. 11-19 and 1-12.

INSURANCE

Q. OPC witness Schallenberg questions the amount of insurance and injuries and damages Staff included in Spire's cost of service in FERC account 925. What is the basis of Staff's adjustment increasing the test year amount of insurance and injuries and damages from $9,423,748 to $13,700,126?[6]

A. One of Staff's adjustments to FERC Account 925 reflects the ongoing and normal expense for insurance premiums and amounts to a $(134,611) adjustment for Spire East and $2,996,559 adjustment for Spire West. Staff based this adjustment on the Company's response to Staff's data request No. 0082 representing the Company's current insurance premiums. Allocation factors developed by Staff witness Matthew Young were applied to the insurance premiums provided in Spire's response to Staff data request No. 0082. Staff witness Jeremy Juliette addresses the adjustment for injuries and damages in his surrebuttal testimony.

Q. Why is there a noticeable difference in Staff's and Company's total normalized level for FERC account 925?

A. There are two reasons for the difference between Staff's and Spire's recommended level of insurance expense included in the cost of service:

1) Originally, Staff had difficulties matching the test year insurance for Spire East used by the Company to its general ledger. Staff verified the correct test year amount with Company's witness Wes Selinger in an email response. The email confirming the test year amount for insurance expense booked in FERC account 925 is attached to this testimony as Schedule an-s1. Spire's test year for insurance expense was overstated by

[6] Robert E. Schallenberg rebuttal testimony, Case No. GR-2021-0108, page 22, ln. 26-27. The amounts for FERC account 925, referenced in his testimony, is total Spire Missouri.

approximately $1.8 million.[7] Correcting this error, Spire's account balance for FERC account 925 would be approximately $1.8 million higher, all other things being equal. Spire erroneously used the combined Spire East and Spire West test year balances for Spire East only, while Spire West's test year balance was correct.

2) There is a difference between the capitalization rate used by Spire and Staff in its insurance annualization. Spire applied capitalization rates of 45.94% and 33.51% for Spire East and Spire West, respectively. Staff, on the other hand, applied capitalization rates of 18.34% for Spire East and 10.90% for Spire West. Staff obtained capitalization rates from Spire through its response to Staff's data request No. 0044.

Q. Did Spire and Staff discuss the difference in the capitalization rate regarding insurance expense?

A. Yes, Staff discussed the difference in capitalization rate regarding insurance expense with Ms. Antrainer. The capitalization rate Staff applied to insurance expense in its direct filing is related to Employee Group Insurance, specifically account 926200. Spire uses the overhead transfer rate for the allocation of insurance premiums captured in account 925200. Staff now believes using the overhead transfer rate best represents future costs related to Spire East's and Spire West's insurance expense. For true-up insurance expense calculation, Staff will apply overhead transfer rates of 45.94% and 33.51% for Spire East and Spire West, respectively.

<u>SEVERANCE</u>

Q. What is Spire's position on Staff's treatment of severance costs?

[7] Spire included an incorrect test year amount of $11,416,070. The correct test year balance for FERC account 925 is $9,637,613. The difference is $1,778,457.

A. Company witness Lobser disagrees with Staff's recommendation to remove severance costs from the cost of service, opposing Staff's position that utilities are able to recover severance payments through regulatory lag. Mr. Lobser states that "just because these costs are associated with employee turnover doesn't mean the Company benefits from lag."[8]

Q. Do you agree with Mr. Lobser?

A. No. Regulatory lag, simply stated, is the time between the incurrence of a cost or revenue by a utility and the reflection of that expense or revenue in rates. The Commission's Report and Order in Evergy Metro's (former Kansas City Power & Light Company (KCPL)) 2010 Rate Case states:

> As a result of regulatory lag, if a utility experiences a cost decrease, there is a lag in time until that reduced cost is reflected in rates. During that lag, the Company shareholders reap, in the form of increased earnings, the entirety of the benefit associated with reduced costs. The Company shareholders also reap, in the form of decreased earnings, the entirety of the loss associated with increased costs.[9]

Severance expenses are by nature different from normal recurring expenses that are included in utility rates. Severance costs that create a customer benefit, such as lower payroll costs, are incurred infrequently.

In this case the Company could have experienced what's commonly known as a "positive regulatory lag," meaning that by the time current rates are changed from this rate case, Spire will have recovered directly in rates more dollars from terminated employee salary and benefits compensation than it expended in severance costs. Staff did not confirm if those specific positions freed by severed employees were filled.

[8] C. Eric Lobser rebuttal testimony, page 5, Case No. GR-2021-0108.
[9] Report and Order, Case No. ER-2010-0355, page 151, paragraph 442.

Q. Please elaborate.

A. Spire's severance costs in this case are ** [redacted] **. Between November of 2017 and February of 2020, ** [redacted] ** employees were terminated with severance pay. If those positions were not filled, by May 31, 2021, the final true-up date, the Company recovered approximately ** [redacted] ** million from ratepayers through rates in those employees' payroll alone. Severance costs would be significantly over-recovered by the time new rates are implemented.

Q. In addition, Mr. Lobser states, "we use severance agreements to limit potential employment practices liability (EPL) when an employee terminates employment under circumstances that could give rise to an EPL claim."[10] What is your response?

A. Severance payments, as stated by Mr. Lobser, are given to protect the Company against potential EPL lawsuits. The reasons companies use severance agreements include, but are not limited to, protection from age discrimination, sexual harassment, and other types of lawsuits brought by terminated employees. As such, these costs do not decrease payroll in general and do not benefit the ratepayers. The beneficiary of these costs are the Company's shareholders.

Q. Has the Commission addressed severance costs in a previous order?

A. Yes. In the KCPL rate case, Case No. ER-2007-0291 the Commission stated in its Report and Order:

> As it found in KCPL's last rate case, the Commission again finds that these severance costs largely protect shareholders against litigation, and they did not have the effect of decreasing payroll; therefore, these costs should not be included in cost of service.[11]

[10] Rebuttal Testimony of C. Eric Lobser, Case No. GR-2021-0108, page 4.

[11] *In the Matter of the Application of Kansas City Power and Light Company for Approval to Make Certain Changes in its Charges for Electric Service To Implement Its Regulatory Plan*, Report and Order, Case No. ER-2007-0291, page 55.

Since there is no benefit to ratepayers from the severance costs incurred in this case, Staff recommends removing the expense from the cost of service.

RED TAG AND ONE TIME ENERGY AFFORDABILITY PROGRAM

Q. What is Spire's position regarding the rate base treatment for the Red Tag Program?

A. Spire disagrees with Staff's position of not including the unamortized balance of limited-income Red Tag program in rate base. Spire witness Antrainer states: "All of these assets are similar in that investor funds are utilized for the benefit of customers without inclusion in the revenue requirement."[12]

Q. Are there other limited-income programs that Staff excluded from rate base?

A. Yes. Since its inception in Case No. GR-2014-0007, Spire West's one-time Energy Affordability program was excluded from rate base. However, Staff inadvertently included the one-time Energy Affordability program balance in rate base in its direct accounting schedules supporting its direct filing. Staff will correct this error in its true-up accounting schedules.

Q. Did Staff notify the Company of the error?

A. Yes. Staff sent an email to Ms. Antrainer on June 22, 2021, notifying her of the error.

Q. Is Staff addressing rate base treatment for the Red Tag and one-time Energy Affordability programs?

[12] Rebuttal Testimony of Michelle Antrainer, Case No. Gr-2021-0108, page 6.

A. Yes. Staff continues to recommend no rate base treatment for the Red Tag and one-time Energy Affordability programs. Although Ms. Antrainer addresses only the Red Tag program in her rebuttal testimony, the following discussion applies to both programs.

Q. What is Staff's response to Ms. Antrainer's rebuttal testimony stating that Staff's treatment of Red Tag program is different from all other limited-income programs?

A. Rate base treatment for Spire East's Energy Efficiency Program and its Low Income Program was a provision agreed to in a Stipulation and Agreement and subsequently approved by the Commission.[13] In Case No. GR-2014-0007, Staff recommended rate base treatment for Spire West's Energy Efficiency program deferred costs. Staff's recommendation was based on the large balance of the regulatory asset and is consistent with how these costs were treated for Spire East and other utilities. Staff determines rate base treatment for deferred costs on a case by case basis. The fact that other existing deferred costs are included in rate base, such as Spire East's and Spire West's Energy Efficiency programs and Spire East's Low Income program, is irrelevant to the Red Tag program.

Q. What does Staff consider when determining whether deferred costs should be included in a utility rate base?

A. Staff has generally recommended rate base treatment for deferred costs that are capital in nature, costs that are amortized over a long period of time, and deferred balances that are significant. For example, in KCPL's 2010 rate case, the Commission approved construction accounting for costs related to KCPL's Iatan 2 generating unit and approved rate base treatment. In this example, the Commission approved two regulatory assets

[13] Laclede Gas Company, Case No. GR-2007-0208, Unanimous Stipulation and Agreement, Low Income Program, pages 13-16, Energy Efficiency Program, pages 16-20.

that are being amortized over 47.7 and 46 year period, the estimated life of the asset. The longer amortization period results in a larger economic detriment to KCPL if the unamortized balance is not included in rate base. Similarly, there would be a larger economic impact to Spire East and Spire West, due to the size of the deferral balance, if the unamortized balances of its Energy Efficiency program costs are not included in rate base.

Q. Are the costs included in the deferral balances for the Spire East and Spire West Red Tag program and Spire West's one-time Energy Affordability Program capital in nature or require a lengthy amortization period?

A. No. Red Tag program costs are deferred by Spire East and Spire West for repairs made to low income customers' equipment to avoid disconnection. Spire West's one-time Energy Affordability program was established in Spire West's Case No. GR-2014-0007, to assist low-income customers with high gas bills from the unusually cold winter of 2013-2014.

Q. Does Staff consider the costs included in the deferral balances for the Spire East and Spire West Red Tag program and Spire West's one-time Energy Affordability program significant?

A. No. The unamortized balances as of December 31, 2020, for Spire East and Spire West Red Tag program are $62,719 and $39,259, respectively. The unamortized balance of Spire West's one-time Energy Affordability Program is $156,884.

Q. Please summarize Staff's recommended accounting treatment for the deferred costs for the Spire East and Spire West Red Tag program and Spire West's one-time Energy Affordability program.

A. Staff recommends including a four (4) year amortization of the deferred costs for the Spire East and Spire West Red Tag program and Spire West's one-time Energy Affordability program. Staff further recommends no rate base treatment.

Q. Spire witness Antrainer mentions in her rebuttal testimony that Spire was not able to validate Staff's Spire East's December 2020 balance for Red Tag. How did Staff obtain Red Tag balances for Spire East and Spire West?

A. Staff obtained balances for Spire East and Spire West Red Tag programs through the Company's response to Staff data request No. 0149. Staff requested additional information from the Company and will true-up these balances as of May 31, 2021.

Q. Does this conclude your surrebuttal testimony?

A. Yes, it does.

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	)	Case No. GR-2021-0108
General Rate Increase for Natural Gas	)	
Service Provided in the Company's	)	
Missouri Service Areas	)	

AFFIDAVIT OF ANTONIJA NIETO

STATE OF MISSOURI)
) ss.
COUNTY OF JACKSON)

COMES NOW ANTONIJA NIETO and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Surrebuttal Testimony of Antonija Nieto*; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.

A Nieto

ANTONIJA NIETO

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 12th day of July 2021.

Notary Public

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI
EBONEY JACKSON-SPOTWOOD
My Commission Expires
April 8, 2023
Clay County
Commission #19865798

Nieto, Antonija

Subject: FW: Test Year balances for Insurance-Account 925
Attachments: Copy of 925 TY 4-8-2021.xlsx; TY 925.xlsx

From: Selinger, Wes <Wesley.Selinger@spireenergy.com>
Sent: Thursday, April 08, 2021 12:36 PM
To: Lyons, Karen <karen.lyons@psc.mo.gov>
Subject: RE: Test Year balances for Insurance-Account 925

Hey Karen, that is correct. I apologize I looked at a number wrong when I sent my last email.

From: Lyons, Karen <karen.lyons@psc.mo.gov>
Sent: Thursday, April 8, 2021 11:45 AM
To: Selinger, Wes <Wesley.Selinger@spireenergy.com>
Subject: RE: Test Year balances for Insurance-Account 925

Wes,

Thanks for responding so quickly. When you say a slight difference, can you clarify? Looking at the attachment you provided, it looks like we tie for account 925. I did notice for account 924, your workpapers appears to have the TY balance of $1,154,340 for Spire Missouri as Spire East's TY. Is this what you are referring to. I assume you agree that the TY balance in account 924 is $706,858 for Spire East and $447,482 for Spire West.

If this helps, the TY balances for FERC account 924 and 925, excluding the balances for injuries and damages, based on Staff review is as follows:

FERC Account 924
Spire East: $706,858
Spire West: $447,482
Spire Missouri: $1,154,340

FERC Account 925
Spire East: $9,637,613
Spire West: $1,778,457
Spire Missouri: $11,416,069

From: Selinger, Wes <Wesley.Selinger@spireenergy.com>
Sent: Thursday, April 08, 2021 10:59 AM
To: Lyons, Karen <karen.lyons@psc.mo.gov>
Subject: RE: Test Year balances for Insurance-Account 925

Karen, see the attached sheet. There was an error in here and I was including the provision to get to the $11 million. I've got a much closer number to yours after removing that; however, there is still a small difference.

The West side should tie out after including claims and transfers.

Let me know what you think.

Thanks

From: Lyons, Karen <karen.lyons@psc.mo.gov>
Sent: Wednesday, April 7, 2021 5:18 PM
To: Selinger, Wes <Wesley.Selinger@spireenergy.com>
Subject: Test Year balances for Insurance-Account 925

⚠ External email

Wes,

Hoping this is an easy question for you. We are having trouble tying out the test year insurance balance for East and West for account 925. Specifically the balance included in your Schedule H7. We have tried to tie out with the data dump and the general ledgers supplied early in the case for FY18-FY20. I extracted the FY 2020 by FERC account and CE for East and West, see attached. My thought is the test year should be the lines highlighted in yellow but it doesn't tie except for D&O. Can you tell me how you get to $11,416,070 for East and $1,778,457 for West?

Karen Lyons
Utility Regulatory Supervisor
Financial & Business Analysis
Missouri Public Service Commission
Phone: (816)-889-3949
Email: Karen.lyons@psc.mo.gov