Exhibit No.:	**___**
Issues:	**Background Overview of Relief Sought Approach to Proceeding Rate Relief Sought Introduction of Witnesses**
Witness:	**Eric Bouselli**
Type of Exhibit:	**Direct Testimony**
Sponsoring Party:	**Spire Missouri Inc.**
Case No:	**GR-2022-0179**
Date Testimony Prepared:	**April 1, 2022**

SPIRE MISSOURI INC.

CASE NO. GR-2022-0179

DIRECT TESTIMONY

OF

ERIC BOUSELLI

Denotes Confidential Information

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SCHEDULES:

DIRECT TESTIMONY OF ERIC BOUSELLI

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Eric Bouselli, and my business address is 700 Market Street, St. Louis, Missouri 63101.

Q. WHAT IS YOUR PRESENT POSITION?

A. I am the Manager, Regulatory Strategy & Forecasting for Spire Missouri Inc. ("Spire Missouri" or the "Company").

Q. PLEASE STATE HOW LONG YOU HAVE HELD YOUR POSITION AND BRIEFLY DESCRIBE YOUR RESPONSIBILITIES.

A. I began employment in 2013 with Laclede Gas Company. I was promoted to my current position in January of 2022. In this role, I am responsible for the advancement of regulatory programs and constructs and the related forecasting and modeling. Before being promoted, I was a Lead in Financial Reporting with most of my time devoted to serving as the financial liaison with the regulatory group during the most recent Spire Missouri rate case process. Additionally, I continued to advance and utilize financial systems put in place during a recent systems upgrade project to support enhanced reporting both internally and as part of the regulatory process in Spire Inc.'s various jurisdictions. Before that role, I led two teams in system upgrade and process improvement projects. For the system upgrade, I managed a team focused on improving the budget, forecast, and cost allocation processes and systems. The second project was a cross functional team of Finance, Operations Services, and Field Operations individuals focused on streamlining and harmonizing future state processes across Spire Inc.'s regulated utilities. Prior to that, I was a Financial Analyst

II for Spire Missouri. In that capacity, I worked with executives and department leaders to budget and forecast for their respective departments. I also was responsible for providing insight into financials and guidance on future trends through reporting and ad hoc analysis.

Q. PLEASE BRIEFLY DESCRIBE YOUR PREVIOUS PROFESSIONAL EXPERIENCE PRIOR TO JOINING SPIRE MISSOURI.

A. Prior to being employed by Spire Missouri, I was employed by RubinBrown LLP as an Analyst. I performed detailed analytical analyses pertaining to business valuation, litigation support, and other miscellaneous financial projects. I worked directly with clients and was involved in project strategy formation. Among other things, I was also responsible for preparing detailed reports summarizing analyses performed and conclusions reached as a result of those analyses.

Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?

A. I graduated from the University of Missouri Trulaske College of Business in 2007 with a Masters in Accounting.

Q. HAVE YOU PREVIOUSLY FILED TESTIMONY BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION ("COMMISSION")?

A. No, I have not.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. The purpose of my direct testimony is to provide support for Spire Missouri's revised approach for the accounting of overhead costs, which was directed by the Commission in the Company's most recent rate case, Case No. GR-2021-0108, and which has been reviewed by Commission Staff.

II. BACKGROUND OF OVERHEAD TREATMENT IN THE MOST RECENT RATE CASE

Q. PLEASE SUMMARIZE THE COMMISSION'S RULING WITH RESPECT TO NON-OPERATIONAL OVERHEADS IN CASE NO. GR-2021-0108.

A. In the Amended Report and Order dated November 12, 2021, in GR-2021-0108 ("2021 Order"), the Commission held:

> [T]he Commission will order Spire Missouri to cease recovery of capitalized non-operational overhead costs in plant, going forward, until Spire Missouri's compliance with the [Uniform System of Accounts ("USoA")] is shown. Non-operational overheads associated with plant additions to be recognized as used and useful after the effective date of Spire Missouri's tariff sheets may be posted to a regulatory asset account. This will allow changes to indirect overhead allocations to be implemented on a prospective basis in either ISRS filings or Spire Missouri's next rate case. Without Staff's audit of Spire Missouri's compliance with the USOA and Spire Missouri's performing **the required study** it is not known whether the impact will lead to a rate increase, decrease or no material change. However, this treatment will prevent inclusion of non-operational overhead costs that are ultimately determined to be inappropriate from being included in plant additions recovered through ISRS cases before the resolution of this issue in Spire Missouri's next rate case. (Emphasis added.)[1]

Q. DID SPIRE MISSOURI SEEK CLARIFICATION OF THE FOREGOING DIRECTIVES?

A. Yes. Spire Missouri filed an Application for Rehearing or Clarification of the Amended Order and asked that the Commission clarify the foregoing findings related to capitalized overheads. The Commission clarified that it:

- directed cessation of all non-operational overheads, not just Administrative and General ("A&G") as Spire Missouri avers;

[1] Amended Report and Order, GR-2021-0108, pp. 82-83.

- allowed for Spire Missouri to implement changes on a prospective basis in either ISRS filings or Spire Missouri's next rate case, not just the next rate case as Spire Missouri avers; and
- will approve the records to be maintained and overhead treatment after Staff completes its audit and makes its recommendation, contrary to Spire Missouri's assertion that Staff completes its audit and then capitalization may continue.

Importantly, the Commission further stated that "any non-operational overhead expenses included in the regulatory asset that fall outside of the test period of Spire's next rate case shall be considered for recovery during that rate case."[2]

Q. DID THE COMMISSION'S 2021 ORDER CONTAIN ANY OTHER REQUIREMENTS WITH RESPECT TO OVERHEAD COSTS?

A. Yes. The 2021 Order directed Spire Missouri to work with Commission Staff to "develop a list of deliverables needed from Spire Missouri for [Staff] to be able to audit source documents and any other documents necessary to support all overhead costs and the rationale and basis for overhead allocations, to where Staff can determine that Spire Missouri is in compliance with the USoA Plant Instructions capitalized overhead requirements."[3]

Q. WHAT ACTIONS DID SPIRE MISSOURI TAKE AS A RESULT OF THE COMMISSION'S ORDERS?

A. As a result of the Commission's Orders and the requirement that Spire Missouri complete a special study, the Company quickly embarked on a plan to work with Commission Staff to develop and perform any required studies, reviewed other overhead costs that may need

[2] Order Denying Application for Rehearing and Providing Clarification, GR-2021-0108, pg. 2.
[3] Amended Report and Order, GR-2021-0108, pg. 83.

different treatment and modified the benefit overhead rate calculation to consider the directed change in A&G capitalization. As part of this scoping exercise, we reviewed each area to determine the level of data, analysis, and expertise that was readily available in order to perform the study internally. Throughout the process, Spire Missouri has been collaborating with Commission Staff to establish a process for review of the overhead studies and costs identified that need different treatment. This collaboration included regular meetings to discuss overheads, studies, and other related matters, and ultimately concluded with the Staff's review of the overhead allocation methodologies.

Q. HOW DID THE COMPANY INTERACT WITH THE OFFICE OF THE PUBLIC COUNSEL ("OPC") DURING THIS PROCESS?

A. The Company reached out to OPC after deliverables were set and the Company and Staff were on the same page on how to handle the audit. The Company provided OPC with much of the same background overheads data that was provided to Staff. OPC, Staff, and the Company met several times to discuss the audit and process. The Company then provided internal and external overhead studies to OPC.

Q. WHAT IS THE PURPOSE OF AN OVERHEAD CAPITALIZATION STUDY?

A. Corporate services play an important role in a utility's construction program. Activities include planning and budgeting for capital expenditures and raising new capital to finance the expenditures, recruiting, and training a workforce to perform the construction work, processing time reports and vouchers needed to pay employees and vendors for construction services provided, auditing the work, and completing the property accounting activities to close the work order are all essential elements of successful construction projects. Further, active involvement in the construction program by executive management to provide leadership and oversight is also a key element of a successful construction program. Fully accounting for the corporate services aspects of a construction project is important in that the complete cost of a project provides relevant information to all involved in the process. Also, including appropriate amounts of administrative costs as a component of the cost of long-lived utility plant assets contributes to intergenerational equity among customers. However, because corporate service time and expense items are often routinely charged to the A&G category of accounts in the Federal Energy Regulatory Commission ("FERC") USoA, a distinct accounting methodology is often required to accurately reflect the cost of these services in the cost of a construction project. A capitalization study is a tool to show that a definite relationship to construction exists and a reasonable method of estimating that relationship is employed to specific pools of identified costs.

Q. WHAT PORTIONS OF THE STUDY WAS SPIRE MISSOURI ABLE TO COMPLETE INTERNALLY?

A. Spire Missouri was able to internally complete portions of the study related to: (i) insurance premiums and claims; (ii) information technology expenses and licensing; (iii) engineering; and (iv) business development cost. Spire Missouri retained Price Waterhouse Coopers ("PwC") to prepare capitalization studies for A&G labor costs and field distribution supervisory labor. PwC has performed similar studies for FERC regulated companies and has gained institutional knowledge working with FERC in determining compliance with USoA rules.

III. ADMINISTRATIVE AND GENERAL LABOR COST STUDY

Q. HOW DID PWC DETERMINE THE PROPER CAPITALIZATION PERCENTAGE WITH RESPECT TO A&G LABOR COSTS?

A. The Spire Missouri cost pool includes labor costs from 48 departmental cost centers consisting of over 600 employees. These departmental cost centers include many traditional A&G functional areas. PwC did not review any non-labor costs as part of the study. PwC considered 37 cost centers to be within the scope of the study, as certain centers were assumed to have 0% capitalization and/or consisted of immaterial charges when compared to the total cost pool and were not included in our study procedures. PwC developed capitalization percentages for each of those 37 departments. Once the final percentages were determined for each department, PwC calculated a weighted average capitalization percentage for Spire Missouri of **[redacted]**.

Q. DOES THE METHODOLOGY USED BY PWC COMPLY WITH USOA PRACTICES?

A. Yes. The FERC USoA provides a framework for capitalizing indirect overheads and recognizes that it would not be practical for all employees to direct charge their time to construction projects and states that "special studies shall be performed." The USoA lacks further guidance or interpretation around "special studies"; rather, it states that these costs must have a "definite relation to construction" and "arbitrary allocations are not allowed." PwC indicated that given that the USoA provides only a "framework" for determining capitalization rates, there has been diversity in practice. The PwC report highlights a few activities within certain departments where reasonable considerations by management could be made and allowed under the framework of the USoA given the diversity in practice.

Q. PLEASE IDENTIFY SCHEDULE EAB-D1.

A. Schedule EAB-D1 is the Confidential PwC A&G Time Study Report.

Q. IS SPIRE MISSOURI PROPOSING ANY ADJUSTMENTS TO THE CAPITALIZATION PERCENTAGE THAT WAS DETERMINED BY PWC?

A. No. Spire Missouri has used the departmental rates calculated by PwC to estimate the overheads for A&G labor costs. However, we plan on performing two additional two-week studies later in the fiscal year. The timing for those studies will likely be in the May/June and July/August timeframes. We will update the capitalization percentages at the conclusion of the additional studies in either this proceeding or an ISRS filing.

Q. YOU MENTIONED COMMISSION STAFF HAS REVIEWED THE PWC A&G LABOR STUDY. PLEASE DESCRIBE THAT REVIEW.

A. Commission Staff was provided with the preliminary report on the PwC A&G Labor Study on February 25, 2022. Spire Missouri had subsequent discussion with Staff on March 4, 2022, to answer questions from Staff and to discuss the Company's perspective, among discussions of other topics. A final version of the report was provided to Staff on March 9, 2022. Staff filed its Report ("Staff Report") with the Commission on March 18, 2022. Staff concluded that "Spire shall capitalize A&G labor with the transfer rates recommended by PwC," and "engage PwC to conduct studies of two additional time periods during the remainder of Spire's fiscal year 2022."[4] The Staff Report is attached to my testimony as Schedule EAB-D2.

IV. <u>FIELD DISTRIBUTION SUPERVISORY LABOR STUDY</u>

Q. PLEASE IDENTIFY SCHEDULE EAB-D3.

[4] Staff Report- Confidential, March 18, 2022, GR-2021-0108, pg. 22.

A. Schedule EAB-D3 is the Confidential Field Distribution Supervisory Labor Study prepared by PwC.

Q. WHAT APPROACH DID PWC TAKE IN COMPLETING THE FIELD DISTRIBUTION SUPERVISORY LABOR STUDY?

A. PwC undertook the study to support the capitalization of appropriate indirect costs incurred by Spire Missouri for field supervisory labor costs. PwC applied its own methodology, which is described in the study. However, the results were in line with the capitalization of such overhead costs using Spire Missouri's current method, with a difference of approximately **[redacted]**. Note that this capitalization comparison is to a full-year, weighted rate that includes summer months that normally have a higher level of construction. Therefore, it is highly likely if future periods were studied that the difference between PwC's methodology and Spire Missouri's methodology would become smaller or disappear entirely.

Q. DOES SPIRE MISSOURI PLAN TO CHANGE ITS METHODOLOGY FOR DETERMINING CAPITALIZATION OF FIELD DISTRIBUTION SUPERVISORY LABOR?

A. No. The PwC study supports the reasonableness of Spire Missouri's current approach to capitalization, and therefore, Spire Missouri does not recommend a change to its existing practice. If Spire Missouri were to change its practice and method of capitalization to be more in line with how A&G is capitalized, it would require us to perform a significant amount of configuration work in our allocation system. The cost and time required to perform that work has not been estimated since we do not recommend any change.

Q. DOES COMMISSION STAFF SUPPORT SPIRE MISSOURI'S CONTINUED USE OF THE METHODOLOGY FOR CAPITALIZING FIELD DISTRIBUTION SUPERVISORY LABOR IT HAS USED IN THE PAST?

A. Yes. Staff concluded that Spire "shall continue with its current methodology to capitalize supervisory costs."[5]

V. INSURANCE AND CLAIMS

Q. HOW WAS THE STUDY PERFORMED WITH RESPECT TO INSURANCE PREMIUMS AND CLAIMS COSTS?

A. Spire Missouri studied two components: (i) insurance claims; and (ii) insurance premium costs. In preparing the study, we reviewed both workers compensation and liability claims from October 1, 2020, through December 8, 2021, for Spire Missouri East and Spire Missouri West using data from our Origami claims management system. Department information of the employee reporting the claim was included to estimate whether the work being done was either capital or O&M in nature. The historical productive hour capitalization ratios for those departments were applied to the claims count to approximate the nature of the work.

In order to estimate the capital portion of insurance premium cost, Spire Missouri created a "synthetic" construction company to estimate the "exposures" for such a company. This "synthetic" construction company was used to solicit estimated premiums from our brokers. The starting place and a significant portion of the underwriting process (and so the premium) is related to the potential to create a claim, which is then refined by

[5] Staff Report- Confidential, March 18, 2022, GR-2021-0108, pg. 21.

whether the company tends to have more or fewer claims or higher or lower severity than the industry. These are things like payroll, headcount, property values, revenues, etc.

Q. PLEASE DESCRIBE SCHEDULE EAB-D4.

A. Schedule EAB-D4 is a copy of the Confidential Report Spire Missouri provided to Commission Staff regarding the capitalization analysis of insurance premium and claims cost.

Q. WHAT WAS THE RESULT OF THE STUDY WITH RESPECT TO INSURANCE PREMIUMS?

A. A single rate was estimated for both Spire Missouri East and Spire Missouri West. There was not a material difference in overall capitalization rate for insurance premiums based on the new study of **[redacted]** compared to the high **[redacted]** range under the general overhead transfer rate method for Spire Missouri East. However, the new **[redacted]** rate is lower compared to the Spire Missouri West rate which was in the **[redacted]** range under prior methodology.

Q. WHAT WAS THE RESULT OF THE STUDY WITH RESPECT TO CLAIMS COSTS?

A. Under past practice, 0% of the claims cost were capitalized although they were eligible under the USoA, Section 3.8 specifically. That section states:

> "Injuries and damages" includes expenditures or losses in connection with the construction work on account of injuries to persons and damages to the property of others; also the cost of investigation of and defense against actions for such injuries and damages. Insurance recovered or recoverable on account of compensation paid for injuries to persons incident to construction shall be credited to the account or accounts to which such compensation is charged. Insurance recovered or recoverable on account of property damages incident to construction shall be credited to the account or accounts charged with the cost of the damages.

Two separate studies were performed resulting in a rate of **[redacted]** for workers compensation and **[redacted]** for non-workers compensation claims.

Q. HAS COMMISSION STAFF PROVIDED SPIRE MISSOURI WITH ANY FEEDBACK RELATED TO THIS ISSUE?

A. Staff previously inquired if Spire Missouri capitalized any portion of claims, including questions as part of Staff's initial list of deliverables to address overheads in the 2021 Order. The Company responded that its current practice did not involve the capitalization of any claims costs, but that the Company plans to move in that direction upon review of our practices in response to the Commission's 2021 Order and because it is clearly allowed under the USoA. Spire Missouri provided the internal studies to Staff on February 23, 2022, and discussed them with Staff on February 24, 2022. Staff made follow-up inquiries regarding what the historical capitalization impact would have looked like over the last five fiscal years. Spire Missouri provided a response to Staff on February 25, 2022. In Staff's Report, it stated that it is acceptable for Spire to "begin capitalizing a portion of the deductibles paid for worker's compensation claims as calculated in Spire's Use Study" and to "begin capitalizing a portion of the deductibles paid for general liability claims as calculated in Spire's Use Study."[6]

With regards to the insurance premium capitalization, Staff concluded that "Spire shall capitalize the insurance premiums of its worker's compensation and general liability policies based on the results of its Insurance Use Study, with Staff's recommended modifications" and "cease capitalizing the insurance premiums of its Directors & Officers, Fiduciary, and Cyber Liability Policies."[7] Additionally, property insurance premiums

[6] Staff Report- Confidential, March 18, 2022, GR-2021-0108, pp. 21-22.
[7] *Id.*

should continue with Spire's current practice of being charged to O&M. Staff's recommendation to only include certain policies effectively lowered the capitalization rate from the Company's internal studies to **[redacted]** when applied to policies excluding property insurance premiums. Spire Missouri agrees with these recommendations from Staff.

VI. ACCOUNT 921 (IT EXPENSE AND LICENSING)

Q. PLEASE DESCRIBE THE EXPENSES THAT FALL INTO FERC ACCOUNT 921.

A. The two main categories of expense that fall into FERC Account 921 are annual IT licensing costs and general expense (such as travel, office supplies, etc.).

Q. HOW WAS THE STUDY PERFORMED WITH RESPECT TO THESE EXPENSES?

A. For IT expenses, a study was performed in coordination with key personnel in the Company's IT department. The employees in IT were segregated into six different groups: Core Network Infrastructure, Application Developers, Quality Assurance, Leadership/Oversight, Platform/Middleware, and Security. Each group was assigned a capitalization percentage based on the results of the PwC study or an internal analysis of IT assets. The study resulted in a capitalization rate of **[redacted]** compared to the general overhead transfer rate method in the **[redacted]** range for Spire Missouri East and **[redacted]** range for Spire Missouri West. The new **[redacted]** rate is applicable to the costs associated with the IT department only.

Q. DOES THIS **[redacted] CAPITALIZATION RATE APPLY TO ALL NON-IT DEPARTMENTAL COSTS BOOKED IN FERC ACCOUNT 921?**

A. No. Other FERC Account 921 expenses are employee related, and therefore, Spire Missouri believes it is reasonable to apply the same departmental percentages determined in the PwC study of A&G labor for those costs.

Q. HAS COMMISSION STAFF REVIEWED THE STUDY PERFORMED FOR FERC ACCOUNT 921 COSTS?

A. Yes. Commission Staff was provided with the preliminary PwC A&G Labor Study on February 25, 2022. Spire had subsequent discussion with Staff on March 4, 2022. Spire provided a final version of the report to Staff on March 9, 2022. In the Staff Report, Staff said that it was "not opposed to Spire's recommendation of a capitalization methodology related to IT costs and employee expenses in Account 921…except for the inclusion of diversity in practice and targeted seasonality adjustments."[8] The **[redacted]** rate applicable to IT costs discussed above is the result of Spire Missouri's analysis and Staff's recommendation, it excludes any diversity in practice and targeted seasonality adjustments.

VII. <u>ENGINEERING AND BUSINESS DEVELOPMENT EXPENSE</u>

Q. PLEASE EXPLAIN SPIRE MISSOURI'S APPROACH TO DETERMINING THE APPROPRIATE AMOUNT OF ENGINEERING AND BUSINESS DEVELOPMENT COST TO BE CAPITALIZED.

A. The Company has previously conducted studies for these groups that complied with USoA standards because the studies were either based on timecard tracking or used metrics that are not arbitrary in the relation to capital. The engineering capitalization rate analysis was performed by reviewing cancelled work orders as a percentage of total created work orders for non-blanket distribution capital projects. These cancelled projects are due to customer

[8] Staff Report- Confidential, March 18, 2022, GR-2021-0108, pg. 19.

or municipal government decisions, or due to issues found during the engineering review process of a project that resulted in a project that would be charged to capital getting cancelled, and thus any design work completed would need to be expensed. The business development analysis consisted of a time study performed internally by tracking time associated with capital activities versus non-capital activities. The foregoing approaches comply with the USoA. Therefore, in this proceeding, Spire Missouri simply updated its prior studies.

Q. DID THE UPDATES TO THE STUDY RESULT IN A MATERIAL CHANGE TO THE AMOUNT OF COST BEING CAPITALIZED?

A. No.

Q. HAS COMMISSION STAFF PROVIDED SPIRE MISSOURI WITH ANY FEEDBACK ON THE APPROACH DESCRIBED ABOVE?

A. Spire Missouri provided Staff with the summarized analysis and supporting details pertaining to the engineering and business development studies on February 23, 2022, and reviewed them with Staff on February 24, 2022. Spire Missouri noted that these studies were historically conducted by the Company and that the same methodology was being applied to the updated studies. In Staff's Report, Staff agreed with Spire's approaches and suggested that Spire update both rates used for capitalization to conform to the updated studies.[9]

VIII. OTHER CAPITALIZATION IMPACTS

Q. DID THE COMPANY'S REVIEW OF NON-OPERATIONAL OVERHEADS IDENTIFY OTHER IMPACTS?

[9] Staff Report- Confidential, March 18, 2022, GR-2021-0108, pg. 21.

A. Yes. A thorough internal review was made of each of the overhead categories presented to Staff as part of the last rate case. After the Company's review, it was determined that certain costs collected in the operations departmental clearings and directors' expenses should not be capitalized and that the formula for the employee benefit rate will need to be modified to reflect the A&G salaries and the related capitalized portions under the revised methodology discussed previously.

Q. WHAT TYPES OF COSTS WERE IDENTIFIED THAT WERE PREVIOUSLY INCLUDED IN CAPITALIZED OVERHEADS BUT THAT THE COMPANY BELIEVES SHOULD NOW BE DIRECTLY EXPENSED?

A. The operations departmental clearings captured certain training costs and yard maintenance labor and expenses that were identified as being unrelated to capitalizable projects during our internal review of non-operational costs. These costs historically were captured in a clearing account and then allocated between capital and O&M using departmental productive hours; now these costs will be directly expensed. Additionally, a portion of directors' expenses used to be capitalized as part of the general overheads process. It was determined that these costs do not have a definitive relation to the capital process and should not continue to be included the A&G overheads.

Q. WHAT CHANGES WERE MADE TO THE EMPLOYEE BENEFITS OVERHEAD RATE AND WHY?

A. The benefits rate formula was historically equal to (Capital + Removal Payroll) / (Total Payroll – A&G Payroll). A&G payroll was excluded from the formula because the flat general overhead rate was applied to it, and it was essentially in line with the benefit rate. Now that the A&G payroll will not be capitalized using a blanket general overhead rate, the Company deemed that the total costs should be included in the denominator and the A&G payroll overheads calculated using the new time study rates will be added to the numerator. The benefit rate formula will now equal (Capital + Removal Payroll + A&G Payroll Overhead) / (Total Payroll). This change results in a benefit overhead rate that is approximately **[redacted]** lower at both Spire Missouri East and Spire Missouri West.

Q. DOES THIS METHODOLOGY COMPLY WITH THE USOA?

A. The Company believes so, as the methodology relies on assumptions that tie the capitalized benefits to the portion of labor that is capitalized either directly or through allocation. In addition, in Staff's Report, Staff "finds Spire's recommendation appropriate and recommends this method be implemented going forward."[10]

IX. IMPACT OF CAPITALIZATION APPROACHES ON RATES

Q. DID THE COMMISSION'S 2021 ORDER HAVE A SUBSTANTIAL IMPACT ON SPIRE MISSOURI'S RATES?

A. Definitely. The overhead costs at issue are prudently incurred expenses, which Spire Missouri was not and will not be allowed to recover until the Commission issues an Order in this case. If Spire Missouri had never capitalized these costs and only expensed them as noncapitalized costs, Spire Missouri should have and would have been allowed to recover them because they were prudent expenditures. Instead, Spire Missouri has been unable to recover or capitalize certain non-operational overheads, which are prudently incurred costs, since the time the rates approved in Case No. GR-2021-0108 went into effect.

[10] Staff Report- Confidential, March 18, 2022, GR-2021-0108, pg. 14.

Q. HAVE YOU QUANTIFIED THE AMOUNT OF PRUDENTLY INCURRED NON-OPERATIONAL COSTS THAT SPIRE MISSOURI HAS BEEN UNABLE CAPITALIZE?

A. Yes. The Company has been tracking the impacts of the Commission's 2021 Order. The table below shows the impact by comparing what overheads would have been under prior methodology and the impacts of the Commission 2021 Order.

**

[redacted]

**

Using the prior methodology that the Commission rejected in Case No. GR-2021-0108, disallowance of capitalized overheads has caused the Company to cease from capitalization its actual costs by approximately ** [redacted] ** of which approximately ** [redacted] ** is related to employee costs such as payroll, benefits, and taxes, from the date rates went into effect, December 23, 2021, through February business. This amount will continue to grow each month until new rates reflecting the fully loaded cost of services go into effect and capitalization is allowed to resume. Spire Missouri is seeking recovery of the deferred overheads as part of this case.

Q. DOES THE FINANCIAL COMMUNITY EXPECT SPIRE MISSOURI TO RECOVER THESE PRUDENTLY INCURRED COSTS?

A. Yes. The Wells Fargo Securities' Utility and Infrastructure Team concluded the Commission's 2021 decision on this issue presents "an unquantified EPS risk assuming the costs cannot be deferred."[11] Combined with the Commission's decision on short term debt, Wells Fargo's conclusion is that these events serve to "undermine investors' confidence in the Missouri regulatory environment." Similarly, Bank of America's Global Research Team found the Commission's decision and clarification on these matters to be "disappointing" and noted that the Order's treatment of overheads will create a drag on earnings.[12] Bank of America speculated that the Commission's 2021 Order may drive agencies to lower Spire's credit rating which would impact its ability to borrow at favorable rates.

Q. PLEASE PROVIDE AN OVERVIEW OF HOW THE STUDIES CONDUCTED AS A RESULT OF THE 2021 ORDER WILL BE USED IN THIS RATE CASE.

A. The Commission's 2021 Order stated:

> The Commission will order Spire Missouri to cease recovery of capitalized nonoperational overhead costs in plant, going forward, until Spire Missouri's compliance with the USOA is shown. Non-operational overheads associated with plant additions to be recognized as used and useful after the effective date of Spire Missouri's tariff sheets may be posted to a regulatory asset account. This will allow changes to indirect overhead allocations to be implemented on a prospective basis in either ISRS filings or Spire Missouri's next rate case. Without Staff's audit of Spire Missouri's compliance with the USOA and Spire Missouri's performing the required study it is not known whether the 340 Ex. 140, Young surrebuttal, p. 16, lns. 18-20. 341 Ex. 140, Young surrebuttal, p. 16, lns. 20-21. 83 impact will lead to a rate increase, decrease or no material change. However, this treatment will prevent inclusion of non-operational overhead costs that are ultimately determined to be inappropriate from being included in plant additions recovered through ISRS cases before the resolution of this issue in Spire Missouri's next rate case. . . .
>
> The recognition of disallowed capitalized overheads as expenses of Spire Missouri will not be recoverable outside of a rate case test period. The potential recovery of any of the disallowed capitalized non-operational overheads as expenses that remain in the regulatory asset account through

[11] Wells Fargo, Utility and Infrastructure Daily – Comments on SR (November 4, 2021).
[12] B of A Securities, North American Gas Utilities, Regulatory Flash: SR rate clarification disappointing (November 4, 2021).

> the test year, update or true-up period of Spire Missouri's next rate case will be reviewed by the Commission during that rate case. Overhead 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. (pp. 82-83).

In accordance with the foregoing, Spire Missouri is proposing to capitalize its overhead costs in this case on a going forward basis in accordance with the methodologies I described above. In addition, pursuant to the Commission's 2021 Order, the amount of disallowed capitalized overhead costs over the term of the test period in this case and until new rates go into effect will be recovered through a regulatory asset. I will describe the regulatory asset and the process for amortizing costs included therein in greater detail below.

Q. CAN YOU DESCRIBE THE IMPACT OF APPLYING THE REVISED METHODOLOGY ON A GOING FORWARD BASIS?

A. Yes. The net effect is shown in the table below and is reflected in Spire's revenue deficiency model, attached to Spire Witness Antrainer's testimony. The effect is an increase of approximately $24 million in expense to the cost of service. The impacts of changes in methodology in accordance with the Commission's 2021 Order and those adjustments due to updates of prior studies have been identified. This net increase in expenses would have been capitalized under Spire's previous practice.

**

[redacted]

**

Q. IN YOUR OPINION, DO THE FOREGOING APPROACHES COMPLY WITH THE COMMISSION'S 2021 ORDER?

A. Yes. The methods used by Spire Missouri to allocate overhead to construction projects are consistent with the USoA. Spire Missouri worked with Commission Staff to inform them about the Company's approach and methodologies for each of the foregoing overhead costs. Staff reached its conclusions regarding overhead methodology finding compliance with USoA and the Company has adopted those recommended approaches.

X. RECOVERY OF DEFERRED COSTS

Q. HAS SPIRE MISSOURI CALCULATED THE DISALLOWED CAPITALIZED NON-OPERATIONAL OVERHEADS USING THE NEW METHODOLOGIES SET FORTH ABOVE?

A. Yes. That amount that Spire Missouri is seeking to include in a regulatory asset is approximately ** [redacted] ** through the end of February 2022. This amount will continue to grow until the Commission finds that the Company is in compliance with USoA. Upon approval from the Commission, Spire Missouri will resume capitalization of a portion of its A&G costs using the revised methodologies recommended by Staff and outlined previously. The remaining deferred costs not capitalized will continue to grow until new rates reflecting a fully loaded cost of service go into effect.

Q. DOES SPIRE MISSOURI PROPOSE TO AMORTIZE RECOVERY OF THE REGULATORY ASSET?

A. Yes. Spire Missouri is proposing to amortize the recovery of the regulatory asset over a 2-year term. In accordance with the Commission's 2021 Order, Spire Missouri will now expense a portion of the overheads formerly capitalized in the fiscal year the costs were incurred. As such, the Company will seek to recover these costs in a manner that aligns with the Commission's 2021 Order.

Q. WHAT IS THE RATE IMPACT OF THE FOREGOING APPROACH?

A. Spire included approximately $8.2 million and $5.9 million of additional amortization costs in the revenue deficiency models for Spire Missouri East and Spire Missouri West, respectively. This assumes the resumption of non-operational overhead capitalization in July 2022 and an increase of remaining costs not capitalized are deferred to a regulatory asset through the estimated true-up of September 2022.

Q. WHAT SUPPORT DOES SPIRE MISSOURI HAVE FOR THIS APPROACH?

A. First, inclusion of this amount in a regulatory asset was specifically authorized by the Commission.[13] Second, the costs are prudent and needed to operate Company's business, and it is appropriate for the Company to recover those costs through the cost of service.

[13] Amended Report and Order, GR-2021-0108, pg. 83.

Staff raised a question about the Company's compliance with the USoA in the prior rate case, and the Commission found that the Company was out of compliance with the USoA; thus, these costs should be excluded from capitalized overheads and expensed over a shorter duration.

Q. DO YOU BELIEVE THAT THE COMMISSION'S APPROVAL OF THE RECOVERY OF THESE COSTS THROUGH A REGULATORY ASSET WILL BENEFIT SPIRE MISSOURI'S CUSTOMERS?

A. Yes. I believe that the Commission's approval of the approach outlined above will go a long way toward alleviating the concerns raised by the Wells Fargo Securities' Utility and Infrastructure Team and Bank of America's Global Research Team. The Commission was clear that Spire Missouri's allocation of overhead costs must be in compliance with the USoA Gas Plant Instructions. Spire Missouri has worked with Commission Staff to ensure that it is properly capitalizing overheads in accordance with the USoA. The Commission's approval of the recovery of the regulatory asset authorized in Case No. GR-2021-0108 should mitigate the concerns raised by these groups and help avoid any further adverse consequences that might harm customers, like a credit downgrade.

XI. CONCLUSION

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Spire Missouri Inc.'s Request for Authority to Implement a General Rate Increase for Natural Gas Service Provided in the Company's Missouri Service Areas.	)))))	Case No. GR-2022-0179

AFFIDAVIT

STATE OF MISSOURI CITY OF ST. LOUIS	)))	SS.

I, Eric Bouselli, of lawful age, being first duly sworn, deposes and states:

1. My name is Eric Bouselli. I am the Manager of Regulatory Strategy & Forecasting for Spire Missouri Inc. My business address is 700 Market St., St Louis, Missouri, 63101.

2. Attached hereto and made a part hereof for all purposes is my direct testimony on behalf of Spire Missouri Inc. for the above referenced case.

3. Under penalty of perjury, I hereby declare that the foregoing is true and correct to the best of my knowledge and belief.

Eric Bouselli

4/1/22
Date

EAB-D1 has been marked Confidential in its entirety pursuant 20 CSR 4240-2.135(2)(A)5

EAB-D2 has been marked Confidential in its entirety pursuant 20 CSR 4240-2.135(2)(A)5

EAB-D3 has been marked Confidential in its entirety pursuant 20 CSR 4240-2.135(2)(A)5

EAB-D4 has been marked Confidential in its entirety pursuant 20 CSR 4240-2.135(2)(A)5