

**Exhibit No.:** \_\_\_\_\_  
**Issue(s):** Stranded Assets: Diaphragm  
Meters/Spire STL Pipeline, LLC  
**Witness/Type of Exhibit:** Marke/Direct  
**Sponsoring Party:** Public Counsel  
**Case No.:** GR-2022-0179

**DIRECT TESTIMONY**  
**OF**  
**GEOFF MARKE**

Submitted on Behalf of the Office of the Public Counsel

**SPIRE MISSOURI, INC.**

CASE NO. GR-2022-0179

August 31, 2022

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**DIRECT TESTIMONY**

**OF**

**GEOFF MARKE**

**SPIRE MISSOURI, INC.**

**CASE NO. GR-2022-0179**

1 **I. INTRODUCTION**

2 **Q. Please state your name, title and business address.**

3 A. Geoff Marke, PhD, Chief Economist, Office of the Public Counsel (OPC or Public Counsel),  
4 P.O. Box 2230, Jefferson City, Missouri 65102.

5 **Q. What are your qualifications and experience?**

6 A. I have been in my present position with OPC since 2014 where I am responsible for economic  
7 analysis and policy research in electric, gas, water, and sewer utility operations.

8 **Q. What is the purpose of your direct testimony?**

9 The purpose of my direct testimony is to provide support for my recommendation to disallow  
10 costs associated with Spire Missouri Inc.'s ("Spire") deployment of ultrasonic meters,  
11 overhead costs associated with Spire STL Pipeline and to file placeholder testimony that  
12 emphasizes that costs associated with the Spire STL Pipeline should be set at a hard cap moving  
13 forward as represented by Spire to the FERC and the PSC Staff.

14 **II. STRANDED ASSETS: DIAPHRAGM METERS <sup>1</sup>**

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<sup>1</sup> "Stranded asset" is a term that has different meanings depending on the context. For example, regulation-based stranded assets differ from market-based stranded assets. The latter simply compares the book value of an asset relative to some future market value of the asset. For example, if an oil reserve has \$1 billion book value but sliding demand due to carbon taxes or other environmental regulations reduces its market value to \$400 million, the result is \$600 million in stranded assets. By contrast, regulation-based assets are assets that are subject to cost of service or other rate-of return regulation. Government regulators at some point have explicitly approved this type of asset in the past to earn a return over a defined period of time—typically in line with the Company's depreciation schedule and subsequent rate cases; however, assets can and should remain useful above and beyond the point they have been paid off. In this case, the stranded assets are the diaphragm meters' remaining book value when Spire decided to "retire" these assets within ten years despite the Company's Commission approved 35-year depreciation schedule the Company has offered and maintained for multiple consecutive rate cases (including this one).

1 **Q. In Spire's last rate case (Case No. GR-2021-0108) you argued that it was imprudent**  
2 **for Spire to replace its current diaphragm meters that had approximately 2/3 of their**  
3 **remaining life left with more expensive ultrasonic meters.**

4 A. That is correct.

5 **Q. Why is that a problem?**

6 A. In effect, Spire had created/found a perverse incentive opportunity to build out rate base  
7 with meter (and associated software) replacement as its platform. Captive customers, in  
8 turn, found themselves in a position where they are paying for multiple meters with all of  
9 the ancillary service costs when all they need is one meter to tell them how much gas they  
10 consumed in a month. This is gold plating and it is a practice that should be discouraged as  
11 it results in rates that are neither just nor reasonable.

12 I took specific issue with replacing their existing diaphragm meters with ultrasonic meters  
13 based on the premise that the Company failed to provide the basic due diligence expected  
14 of a regulated utility to show that its actions were cost effective. Stated differently, I did not  
15 believe customers should be paying excess profits on and remaining book value of the  
16 stranded diaphragm meter assets. One meter for one customer.

17 In addition to the aforementioned concerns it became apparent that Spire's past and current  
18 practices resulted in, and further exacerbated a significant stranded asset balance in its meter  
19 accounts.

20 **Q. What was the Commission's response?**

21 A. The Commission disallowed 26% of the meters replaced which were less than 10 years old.

22 As to the outstanding issue regarding the undepreciated meter balance, the Commission's  
23 Report and Order stated:

24 Lastly, the Commission is presented in this case with evidence that the real-world  
25 life expectancy of Spire Missouri's diaphragm meters is falling short of the historical  
26 life expectancy of diaphragm meters assigned for depreciation purposes. Stranded

1 assets result when a meter with expected life is replaced earlier than the expiration  
2 of its expected service life. Although it came to light during testimony regarding  
3 ultrasonic meters, this situation of stranded assets was not created by the  
4 introduction of ultrasonic meters. Because the stranded assets issues was discovered  
5 tangential to another issue in the case, it did not receive sufficient attention from the  
6 parties for the Commission to make an informed finding. **Therefore, the**  
7 **Commission will allow the evidence on this issue to continue to develop and will**  
8 **look forward to Spire Missouri's proposed solution in its next rate case.**<sup>2</sup>  
9 (emphasis added)

10 **Q. Did Spire Missouri file a proposed solution in its rate case?**

11 A. No, they did not. Spire Missouri did not file any testimony on this topic.

12 **Q. Can you shed light on how long these two types of meters are supposed to last?**

13 A. There are multiple life estimates that were put forward in the last rate case including for  
14 ultrasonic meters that included:

- 15 • 20 year depreciable life that was ordered in Case No. GO-2020-0416
- 16 • 15 year life per Spire witness, Scott Weitzel in response to OPC data request 8511;  
17 and
- 18 • 20 year average service life of an ultrasonic meter per Spire witness James Rieske  
19 in response to OPC data request 2140.

20 And for diaphragm meters:

- 21 • Spire witness (James Rieske) testified that diaphragm meters have an actual life of  
22 18.8 years (Spire East) and 22.2 years (Spire West);
- 23 • Spire used a range of 33 to 37 years for the depreciable life of its diaphragm meters  
24 in its depreciation studies since 2003; and
- 25 • Spire recommended a 35 year depreciable life for its meters in the last rate case.<sup>3</sup>

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<sup>2</sup> GR-2021-0108 Report and Order p. 63

<sup>3</sup> *Ibid.* 57-59.

1 **Q. Those estimates are all over the place and not consistent with the depreciate schedules.**  
2 **What impact does this have on ratepayers?**

3 A. It means that ratepayers are paying more than they should. OPC witness John Robinett's  
4 direct testimony goes into greater detail on this issue as well as the accelerated rate of meter  
5 replacements that has occurred since the closure of the last rate case.

6 **Q. Did the Commission's Report and Order allow for accelerate replacement of**  
7 **diaphragm meters?**

8 A. No. Again, the Report and Order stated:

9 The Commission finds that recovery for the cost of replacement of meters, replaced  
10 on an as-needed basis, is appropriate in instances where: the service was already  
11 disconnected; the existing meter needs replacement; and the alternative is a new  
12 diaphragm meter.<sup>4</sup>

13 **Q. Does it appear as though meters are being replaced at an accelerated rate?**

14 A. Yes. Review of Staff's true-up accounting schedules in Case No. GR-2021-0108 shows  
15 Spire Missouri West and Spire Missouri East had plant-in-service values for ultrasonic  
16 meters of \$7,262,175 and \$0.00 as of May 31, 2021, respectively.

17 A mere 10 months since Staff's True-up schedules, balances are now at \$22,085,108 for  
18 Spire Missouri West and \$18,217,769 for Spire Missouri East.<sup>5</sup>

19 **Q. What is your recommendation?**

20 A. I am offering up three options for the Commission to consider:

21 1. The first option is to disallow the remaining balance and the return on all stranded  
22 diaphragm meters that are replaced with less than 5 years remaining on its 35-year  
23 useful life. This is five years earlier than the Company's 35-year recommended  
24 depreciation schedule.

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<sup>4</sup> *Ibid.* 47.

<sup>5</sup> See GR-2022-0179 Direct Testimony of John A. Robinett, response to OPC DR-8519.

1           2. The second option would be to disallow the remaining balance and the return on all  
2           stranded diaphragm meters that have less than 18.8 years of service for Spire East  
3           and 22.2 years for Spire West. This aligns with the Company's average actual useful  
4           life of diaphragm meters.

5           3. The third option would be to disallow the remaining balance and the return on all  
6           stranded diaphragm meters that have less than 10 years of service for both utilities.  
7           This aligns with the Commission order in Spire's most recent rate case.

8           Restated, the options are as follows:

- 9           1.) Disallow diaphragm meters that were removed with less than 30 years in service  
10           a. 5-years less than the Company's depreciation schedule;  
11           2.) Disallow diaphragm meters that were removed with less than 18.8 years in  
12           service for Spire East and 22.2 years for Spire West  
13           a. The average useful life identified by Spire witness Rieske; or  
14           3.) Disallow diaphragm meters that were removed with less than 10 years in service  
15           a. Consistent with the Commission's order in Spire's most recent rate case

16 **Q. Is there one option you favor over the others?**

17 A. I believe option #2 is a just and reasonable outcome for both ratepayers and shareholders. It  
18 reflects the cost causative precedence and provides equitable relief to the Company despite  
19 its failure to have its depreciation schedules reflect the operational life of meter assets over  
20 multiple cases.

21 **III. SPIRE STL PIPELINE, INC.**

22 **Q. What is Spire STL Pipeline, Inc.?**

23 A. Spire STL Pipeline, Inc. is a non-regulated affiliate to Spire Inc. that wholly owns and  
24 operates the new interstate pipeline, the Spire STL Pipeline, into Spire Missouri East's  
25 service territory. The 65-mile pipeline includes 59 miles of underground pipe in Illinois and  
26 six miles of underground pipe in Missouri (referred to as the North County Extension). In

1 August 2018, the Federal Energy Regulatory Commission (FERC) issued a certificate  
2 authorizing construction of the project and the pipeline went into service in November 2019.

3 Spire has argued that the STL Pipeline was necessary to ensure more reliability for its  
4 distribution customers and eliminates the need for back-up propane systems.<sup>6</sup>

5 **Q. What is the current status of the STL Pipeline?**

6 A. The pipeline is operating in service under a temporary permit after FERC/Spire lost a  
7 lawsuit filed by the Environmental Defense Fund in which the DC Circuit Court overturned  
8 the FERC permit issued in 2018. The status of the pipeline is currently awaiting review by  
9 FERC.<sup>7</sup>

10 **Q. Do you have any concerns you would like to raise regarding the STL Pipeline and cost  
11 allocations?**

12 A. Yes. My concern rests on the shared services model as it pertains to the costs incurred by  
13 the non-regulated Spire STL Pipeline. OPC has historically been vocal about Spire's  
14 inability to transparently demonstrate they are booking both direct and indirect costs across  
15 its affiliates in a proper manner. The subsequent fallout of increased media/marketing, legal,  
16 board of directors, and other related costs associated with the Spire STL Pipeline should not  
17 be borne by Missouri ratepayers. There are grave concerns that Spire's shared service model  
18 is inappropriately billing regulated customers too much for non-regulated services.

19 **Q. What is your recommendation?**

20 A. At the moment I am awaiting responses to discovery over this issue. At a minimum, I  
21 believe it is incumbent that Spire Missouri's regulated customers should not have to pay  
22 any of the increased costs related to the prolonged legal expenses, excess marketing and  
23 media messaging, and related operational (or capital) expenses created from Spire Inc.'s  
24 decision to move forward with the Spire STL Pipeline. I hope to be able to provide specific

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<sup>6</sup> See also: <https://www.spireenergy.com/spire-stl-pipeline>

<sup>7</sup> There are at least a half dozen property owners with outstanding lawsuits related to the pipeline related to property damages. See also: <https://missouriindependent.com/2022/04/27/documents-spire-st-louis-pipeline/>



1           dollar amounts in rebuttal testimony which will allow the Company multiple opportunities  
2           for response.

3   **Q.   Does this conclude your testimony?**

4   A.   Yes.

5

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

In the Matter of Spire Missouri, Inc. d/b/a     )  
Spire'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 OF GEOFF MARKE**

**STATE OF MISSOURI**    )  
                                  )   ss  
**COUNTY OF COLE**     )

Geoff Marke, of lawful age and being first duly sworn, deposes and states:

1. My name is Geoff Marke. I am a Chief Economist for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my direct testimony.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

  
\_\_\_\_\_  
Geoff Marke  
Chief Economist

Subscribed and sworn to me this 31<sup>st</sup> day of August 2022.



TIFFANY HILDEBRAND  
My Commission Expires  
August 8, 2023  
Cole County  
Commission #15637121

  
\_\_\_\_\_  
Tiffany Hildebrand  
Notary Public

My commission expires August 8, 2023.