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Issue(s): Affiliate Transaction/Allocation
Witness/Type of Exhibit: Schaben/Rebuttal
Sponsoring Party: Public Counsel
Case No.: GR-2022-0179

REBUTTAL TESTIMONY
OF
ANGELA SCHABEN

Submitted on Behalf of the Office of the Public Counsel

SPIRE MISSOURI, INC.

CASE NO. GR-2022-0179

**

Denotes Confidential Information that has been redacted

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October 7, 2022

PUBLIC

REBUTTAL TESTIMONY

OF

ANGELA SCHABEN

SPIRE MISSOURI INC.

CASE NO. GR-2022-0179

INTRODUCTION

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

A. Angela Schaben, Utility Regulatory Auditor, Office of the Public Counsel (“OPC” or “Public Counsel”), P.O. Box 2230, Jefferson City, Missouri 65102.

Q. Are you the same Angela Schaben who filed direct testimony for the OPC in this case?

A. Yes.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to respond to the accounting schedules filed in this case by the Staff of the Public Service Commission (“Staff”). In particular, I am responding to the revenue requirement calculated in the accounting schedules that fails to make necessary disallowances related to Spire’s improper use of corporate allocators.

Q. Please elaborate on the issue concerning Spire’s corporate allocators and how you arrived at proposed disallowances.

A. The methods by which general cost allocation formulas are utilized in assigning costs between Spire Inc. and its affiliates suggest a disproportionately high amount of costs are assigned to Spire Missouri in relation to Spire, Inc. and its other regulated and non-regulated operations. Specifically, my review shows that indirect allocation factors are being inappropriately favored over direct charging methods. My recommendations and disallowances are based on corporate general allocator factors utilized in Spire’s recent cost allocation manual reports.

Q. Has the issue of disproportionate costs assigned to Spire Missouri resulting from Spire’s cost allocation process been raised before this particular rate case?

A. Yes. OPC witness Bob Schallenberg raised concerns regarding this issue in GR-2021-0108.

1 **Q. Is your recommendation in this case the same as those proposed by Mr. Schallenberg in**
2 **case GR-2021-0108?**

3 A. No. While the underlying concerns expressed in this testimony are very similar to those
4 expressed by Mr. Schallenberg, I have attempted to provide recommendations to resolve those
5 underlying issues that are very different than what he proposed in the last Spire general rate
6 case.

7 **Q. Please explain what evidence leads you to conclude that Spire is overusing its general cost**
8 **allocators in lieu of identifying a greater number of costs that can reasonably be directly**
9 **charged.**

10 A. A review of the evidence I have found demonstrates that Spire is allocating a majority of
11 projects using corporate allocation methods. From the list of project and task allocations
12 provided in response to GR-2021-0108 Staff DR 0017,¹ only approximately 13 projects, out
13 of the 122 listed, were designated as directly charged. The same data response also shows at
14 least 22 projects were cost allocated based on a general three factor corporate allocator based
15 on a weighted average of net assets, revenues, and wages. Additional projects utilize allocators
16 whose formulas are based upon the corporate three factor allocator.

17 **Q. Is there any other evidence that shows Spire is favoring the use of its general cost**
18 **allocators instead of direct charging costs?**

19 A. Yes. Spire's response to OPC DR 2001 indicates that a majority of Spire's shared costs are
20 indirectly allocated, as shown in the table below:

Business Unit	Total Dollars	Allocated %	Direct Assigned percentage
MO East	140,200,617.97	81.38%	18.62%
MO West	79,801,995.91	86.20%	13.80%
Alabama	84,613,117.87	98.67%	1.33%
Gulf	14,171,036.07	97.77%	2.23%
Mississippi	3,146,831.31	98.01%	1.99%
Non-Utility	14,976,495.42	62.43%	37.57%
Total	336,910,094.55	86.87%	13.13%

¹ [dr 17 - fy21 1 - fy21 budget - allocation factors to input into 3.xlsx](#); see schedule ADS-R-01 for projects summary

1 **Q. Based on this information, do you conclude that Spire charges costs directly as necessary**
2 **and appropriate?**

3 A. No. Given the fact that direct charge projects appear minimal, a reasonable effort could
4 succeed in identifying and assigning a greater number of direct costs, thereby reducing the
5 systematic overuse of general corporate allocators.

6 **Q. What does Spire’s CAM say with regard to direct charging of costs in general?**

7 A. According to Spire’s currently approved CAM, ** _____
8 _____
9 _____
10 _____
11 _____ **

12 **Q. Do you believe that Spire is adhering to the requirements of its CAM?**

13 A. No. Barely any costs for materials or services incurred by Spire Inc. or its affiliates are direct
14 charged. A large percentage of costs are charged up to Spire Services based on project codes,
15 then redistributed to affiliates based on general allocation factors. Ideally, project codes should
16 be properly designed to maximize direct charging of costs rather than utilized as a basis for
17 default general allocation factors.

18 **Q. What does Spire’s CAM say with regard to direct labor costs?**

19 A. Spire’s currently approved CAM states the following in relation to direct labor costs:
20 ** _____
21 _____
22 _____
23 _____
24 _____
25 _____
26 _____

² [approved cam 2016.pdf](#), page 13 of 65.; see schedule ADS-R-02

1 _____
2 _____
3 _____
4 _____
5 _____
6 _____
7 _____
8 _____
9 _____
10 _____
11 _____ **

12 **Q. Does Spire utilize a three-factor formula?**

13 A. Yes.

14 **Q. How is the three-factor formula utilized by Spire defined in its currently approved CAM?**

15 A. Spire's three factor allocation factor, or general allocator, is defined within the *Indirect and*
16 *Allocated Costs* subsection, which reads as follows:

17 ** _____
18 _____
19 _____
20 _____
21 _____
22 _____
23 _____
24 _____
25 _____
26 _____

³ [approved cam 2016.pdf](#), pages 13 through 14.

1 _____
2 _____
3 _____
4 _____
5 _____
6 _____
7 _____
8 _____
9 _____
10 _____
11 _____ **

12 **Q. Does Spire calculate its three factor formula using the same methodology defined in**
13 **its CAM?**

14 A. Not that I have found. Spire’s cost causal factors pool includes post-allocated wages in
15 addition to direct wages.

16 **Q. What concerns do you have with the method by which Spire is calculating its three factor**
17 **cost allocator?**

18 A. Based on responses to Staff DRs, Spire’s three factor formula calculation includes distributed
19 payroll costs resulting from utilizing a three factor allocation method. Per the three-factor
20 formula definition provided previously in this testimony, direct labor totals are one of the
21 constant drivers of three factor allocation methods based on utility industry reviews. The
22 problem here is that Spire includes allocated shared costs in its calculation of the three-factor
23 allocation method in addition to direct costs.

⁴ [approved cam 2016.pdf](#), pages 15-19

1 **Q. What is the problem with including allocated shared costs in the three-factor formula**
2 **that determines how shared costs should be allocated?**

3 A. Including allocated shared costs in the formula determining the general allocator by which
4 shared costs will be distributed, overgeneralizes and inflates the amount of shared costs
5 allocated to operating companies that already report greater totals of net assets, revenues, and
6 wages.

7 **Q. Is the issue of overgeneralizing shared costs prevalent between Spire Inc. and its**
8 **affiliates?**

9 A. I believe so. Spire's corporate three factor allocation is also utilized in various other general
10 allocators designated for different affiliate groupings. Applying an already overgeneralized
11 corporate allocator further compounds inflated shared costs between affiliates which
12 potentially subsidizes unregulated affiliate operations since the regulated operating companies
13 report significantly more assets, revenues, and wages.

14 **Q. Can you provide examples?**

15 A. Yes. Examples of allocation factors utilizing the corporate three factor allocation are the "GL"
16 and "Invoices Processed" allocators. The "Invoices" allocator includes the individual number
17 of invoices processed by both Spire, Inc. and Spire Shared Services. However, rather than
18 direct charging these invoices to each respective company, these invoices are allocated to the
19 remaining affiliates by applying the corporate three factor allocation formula. The "GL"
20 allocator also utilizes the corporate three factor allocation formula to distribute Spire, Inc. and
21 Shared Services GL entries between other Company affiliates.

22 **Q. Can you provide an example of another corporate shared allocator that indirectly relies**
23 **on the corporate three factor allocation?**

24 A. Yes. The IT Factor allocator relies on the "GL" allocator, the "Invoices" allocator, and the
25 Headcount allocator. Since both the Invoices and GL allocators utilize the corporate three
26 factor allocator, the IT factor allocator is impacted as well.

1 **Q. What is the headcount allocator?**

2 A. The headcount allocator is derived from dividing the total number of employees designated to
3 each affiliate by the total number of employees considered for each group allocation. For
4 example, when considering all Spire affiliates under the general corporate allocator grouping,
5 Missouri East's headcount allocator is calculated by dividing its assigned employees by the
6 total number of Spire Inc. employees. When considering the gas utility allocator, Missouri
7 East's headcount allocator is calculated in relation to the total number of employees directly
8 assigned to the gas utilities, including the southeast utility operating companies.

9 **Q. Explain the importance that shared services employees be considered in a separate group
10 of employees under Shared Services, Inc.**

11 A. The Headcount allocator is utilized in a variety of different cost allocation capacities. A
12 majority of the shared service employees are assigned to Spire Missouri East. Realistically,
13 even though costs derived from shared service employee functions may be arbitrarily allocated
14 based on a weighted average of operating company fixed assets, revenue, and wages isn't
15 necessarily a sensible representation of actual costs. Shared service employees should be
16 retained under the shared service function and their time should be allocated to each operating
17 company based on time spent on various shared service functions. Ideally, more of the shared
18 service costs should be allocated to Spire Inc. This is especially true for shared service
19 functions that directly benefit Spire Inc, the parent company.

20 **Q. Are there other general allocators that disproportionately assign costs between affiliates?**

21 A. Yes. One that springs to mind is the allocator used to distribute of square footage usage. Of
22 the ****_____**** square footage within 700 Market Street used to determine the general square
23 footage allocators in Spire's FY21 support for rates, approximately ****_____**** of this space
24 was designated to Company identified shared service cost centers. Yet a majority of square
25 footage expense was assigned to Missouri East using the three factor corporate allocator.

1 **Q. Should all functions related to shared services cost centers, be moved under shared**
2 **services?**

3 A. Yes. To achieve an equitable division of costs between affiliates all functions assigned to
4 shared service cost centers should be moved to shared services. However, to be clear, just
5 because these functions are considered “shared” does not mean all shared costs should be
6 generally allocated using a default allocator.

7 **Q. Which shared service functions would directly benefit Spire Inc., the parent company?**

8 A. According to Spire’s FY21 CAM report, a variety of functions directly benefit Spire Inc. These
9 functions include, but are not limited to, business support, claims, communication and
10 marketing, corporate development, corporate secretary and governance, crisis management,
11 customer experience, enterprise risk management, external affairs, finance, human resources,
12 etc. A majority of Spire Missouri functions benefit Spire Inc., yet minimal costs are allocated
13 to the parent company.

14 **Q. If all of the corporate functions listed above benefit Spire, Inc., then what amount of costs**
15 **were allocated to Spire Inc.?**

16 A. According to the FY21 CAM report, ****_____**** in Spire direct personnel costs were
17 charged to Spire, Inc. in FY21. Considering the total amount of Spire wages utilized in FY21
18 allocation factors was over ****_____****, ****_____**** is extremely minimal.

19 **Q. Are there specific examples in the Company’s responses to Staff’s data requests that**
20 **provide detailed numbers specific to Spire Inc, such as GL transactions and invoices**
21 **processed?**

22 A. Yes. These examples are found in Spire’s response to Staff DRs 0017.

23 **Q. If these are specific to the parent company, why are they allocated to the affiliate**
24 **companies utilizing the corporate three factor allocator?**

25 A. The Company’s default method for allocating costs is by utilizing general corporate allocators.
26 Per the Company’s response to data requests, the parent Company does not have fixed assets,
27 revenues, or employees and therefore cannot be included in the corporate three factor formula.

1 Additionally, of the handful of direct project allocators, Spire Inc., the parent company, is not
2 represented.

3 **Q. Since the parent company benefits from shared service functions but is apparently**
4 **exempt from cost allocations derived from the general corporate three factor formula,**
5 **should considerably more shared service payroll expense be appropriated to Spire Inc?**

6 A. Yes. Clearly the parent company benefits from multiple shared services functions.
7 Specifically, the preparation of required SEC reporting, income tax preparation, and various
8 other activities that pertain specifically to the financial health of the parent company.
9 Additionally, a greater proportion of executive salaries should be allocated directly to Spire
10 Inc.

11 **Q. Why should a greater proportion of executive salaries be allocated directly to the parent**
12 **company?**

13 A. Currently, nearly all of the Spire, Inc. executives are included in the Spire Missouri East
14 headcount and a majority percentage of their salaries, approximately 40% according to the
15 FY21 CAM report, are assigned to Spire Missouri East. Realistically, such a large proportion
16 of Spire, Inc. executive salaries and benefits should not be paid by Spire Missouri East for a
17 variety of reasons. In many cases, the executives are fifth through eighth level managers. This
18 means that a majority of supervision is occurring by middle level managers who are directly
19 supervising the largest number of employees. With so many hierarchical levels of management
20 overseeing day-to-day activities within Spire Missouri East, arbitrarily assigning executive
21 salary costs based on a weighted average of fixed assets, revenues, and wages doesn't appear
22 proportionate. A sensible approach to equitably allocating Spire Executive salaries, especially
23 in the Chief Executive Officer's (CEO) case, is to evaluate time spent on activities relating to
24 required compliance with rules and regulations at the parent company level, to include
25 Sarbanes-Oxley (SOX) compliance, investor relations, overall corporate strategy and
26 governance, etc. Also, one may reasonably presume that Spire, Inc. executives would spend
27 more, or equal, time engaged in managing smaller unregulated affiliates with fewer managers
28 and less than \$7 million in payroll costs. Likewise, when time consuming or controversial

1 issues requiring executive level involvement exist relating to managing unregulated business,
2 then an equitable division of executive salaries and benefits should reflect these necessary
3 actions.

4 **Q. Based on your analysis of Spire's cost allocation practices, do you believe that Staff**
5 **should have made a disallowance in the calculation of the revenue requirement included**
6 **in its accounting schedules?**

7 A. Yes. I believe that Staff's accounting schedules overstate the revenue Spire requires to provide
8 service based on the issues related to the corporate allocation factors discussed in this
9 testimony. I provide recommendations to resolving these issues. My recommendations
10 consider the data request responses indicating that shared costs are included in calculating the
11 corporate three factor allocator. My recommendations are also centered upon Spire's
12 ostensible overuse of the corporate three factor allocator and the subsequent compounding
13 characteristics of additional general allocators calculated based on the corporate three factor
14 allocator.

15 **Q. What disallowance would you apply to Staff's accounting schedules based on Spire's cost**
16 **allocation methods between affiliates using shared costs?**

17 A. At this particular point in time, for Spire Missouri East, I recommend the Commission disallow
18 \$8,000,000 relating to shared service cost allocations from revenue requirement. This
19 proposed disallowance is based on adjustments to the FY21 CAM founded on an updated three
20 factor formula which only includes a dollar amount for direct payroll and is more than
21 reasonable considering capital shared service allocations are not included. Furthermore, these
22 adjustments only relate to one specific time period in relation to the broader spectrum of the
23 test year and true up periods of this rate case.

24 **Q. Does your proposed disallowance adequately address potential cost allocation issues**
25 **related to the anticipated shared service cost center transfer project?**

26 A. I would say that greatly depends on the outcome of the current rate case. If Spire continues to
27 allocate a majority of its shared costs based on an allocator that also includes shared costs, then
28 my proposed disallowance would not sufficiently address subsequent consequences. Such

1 consequences include incorrect capital shared service allocations and allocation of other non
2 O&M functions based on general allocators. I may need to address additional adjustments in
3 surrebuttal.

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

5 A. Yes.

**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) Case No. GR-2022-0179
in the Company's Missouri Service Areas)

AFFIDAVIT OF ANGELA SCHABEN

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Angela Schaben, of lawful age and being first duly sworn, deposes and states:

1. My name is Angela Schaben. I am a Utility Regulatory Auditor for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my rebuttal 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.



Angela Schaben
Utility Regulatory Auditor

Subscribed and sworn to me this 7th day of October 2022.



TIFFANY HILDEBRAND
My Commission Expires
August 8, 2023
Cole County
Commission #15037121



Tiffany Hildebrand
Notary Public

My Commission expires August 8, 2023.