MISSOURI PUBLIC SERVICE COMMISSION

STAFF REPORT

COST OF SERVICE

SPIRE MISSOURI, INC., d/b/a SPIRE

SPIRE EAST and SPIRE WEST
GENERAL RATE CASE

CASE NO. GR-2021-0108

Jefferson City, Missouri
May 2021

**** Denotes Confidential Information ****

TABLE OF CONTENTS OF
COST OF SERVICE REPORT OF
SPIRE MISSOURI, INC., d/b/a SPIRE

SPIRE EAST and SPIRE WEST

GENERAL RATE CASE

Case No. GR-2021-0108

STAFF'S COST OF SERVICE REPORT

OF

SPIRE MISSOURI, INC., d/b/a SPIRE

SPIRE EAST and SPIRE WEST

GENERAL RATE CASE

Case No. GR-2021-0108

I. Executive Summary

Staff conducted a review in Case No. GR-2021-0108 of all cost of service components (capital structure and rate of return, rate base, depreciation expense and operating revenues and expenses) for Spire Missouri Inc. "Spire Missouri", Spire East, formerly Laclede Gas, and Spire West, formerly Missouri Gas Energy. This audit was conducted in response to Spire Missouri's December 11, 2020 filing to increase and consolidate rates for its Spire East and Spire West service territories. Spire Missouri filed tariff sheets designed to implement an increase to its natural gas retail rate revenues by $111 million. On a consolidated basis, this represents a 18% increase in existing Spire Missouri rates. Spire Missouri is currently collecting Infrastructure System Replacement Surcharge "ISRS" revenues of $47.3 million. Since Spire Missouri is currently collecting these revenues, their requested net rate increase is approximately $64.2 million. On January 29, 2021, Staff received a revised revenue requirement from Spire correcting errors and omissions. In the corrected revenue requirement model, Spire calculated an increase to annual revenues of approximately $114.3 million based on a ROE of 9.5%. This represents an increase of approximately 18.5%. Spire Missouri did not provide a separate revenue requirement calculation for Spire East and Spire West.[1]

Staff's recommended revenue requirement increase for Spire East and Spire West is based on a test year for the twelve months ending September 30, 2020, which includes several updates for changes in major elements of the revenue requirement through December 31, 2020. Staff's recommendation also reflects all ISRS capital investment and related costs incurred since Spire East's and Spire West's last general rate case, GR-2017-0215 and GR-2017-0216. Spire East and Spire West ISRS rates will be set to zero upon the effective date of rates in this

[1] Spire's proposed revenue requirement increases of $111 and $114.3 million include $47.3 million of ISRS revenues.

case. Staff's recommended revenue requirement increase for Spire East and Spire West, with Staff's recommended return on equity (ROE) of 9.37%[2], is $6,646,349 and $47,301,955 respectively. Staff's recommendation includes an estimated true-up allowance of $6,300,000 for Spire East and $4,800,000 for Spire West. Including the true-up allowance, Staff's recommendation is comprised of a revenue requirement increase for Spire East and Spire West of $12,946,349 and $52,101,955 respectively. Although Staff is recommending a separate revenue requirement increase for Spire East and Spire West, Staff also calculated a Spire Missouri revenue requirement increase in the event the Commission determines consolidation is appropriate.

Staff's recommendations regarding assignment of the total cost-of-service to each retail rate customer class for Spire East and Spire West will be included in Staff's rate design testimony that is to be filed on May 26, 2021.

Staff Expert/Witness: Karen Lyons

II. Background

A. Background of Spire Missouri, Inc.

Spire Missouri Inc is a wholly owned subsidiary of Spire, Inc. The gas utility segment of Spire, Inc also includes Spire Alabama, Spire Gulf Inc. and Spire Mississippi. Spire East, formerly Laclede Gas (LAC) is an operating unit of Spire Missouri Inc., serving 663,262 residential, commercial and industrial customers in the City of St. Louis and parts of ten counties in eastern Missouri. Spire West, formerly Missouri Gas Energy (MGE) is an operating unit of Spire Missouri Inc., serving 529,714 customers and generally operating in 29 western Missouri counties including the cities of Kansas City, St. Joseph, Warrensburg and Joplin.[3]

B. Spire East and Spire West Previous Rate Increase

Spire East and Spire West last sought to change its rates in Case Nos. GR-2017-0215 and GR-2017-0216. Based on the Commission's Amended Report and Order, the authorized revenue requirement for Spire East was approximately $18 million and Spire West was approximately $15 million.

Staff Expert/Witness: Karen Lyons

[2] Staff's recommended ROE of 9.37% is the mid-point of Staff's recommended equity range of 9.12% to 9.62%.
[3] The number of customers for Spire East and Spire West are reported in 2020 Annual Report filed with the Commission on April 15, 2021, page 2

III. Test Year/True-Up Period

A test year update period reflects any material, known and measurable changes to Staff's case at a future date near the conclusion of Staff's audit. In contrast, true-ups are updates of major elements of a utility's revenue requirement beyond the end of an ordered test year and update period. True-ups are not required for every rate proceeding, and typically are only ordered when it can be demonstrated that material changes to the revenue requirement will likely occur after the end of the ordered update period within a period close enough to the operation-of law date in the case to allow for a review and verification of these known changes.

The ordered test year for these cases is the twelve months ending September 30, 2020. The test year update period ordered for this case is December 31, 2020. Staff also recommends at this time that a true-up audit be performed through May 31, 2021, to address all significant known and measurable changes that occur with regard to Spire East's and Spire West's known and measurable revenues, rate base and expense items.

The following list are the items that Staff proposes to update as part of its true-up audit:

RATE BASE

- Plant in Service
- Depreciation Reserve
- Accumulated Deferred Income Taxes
- Customer Advances
- Materials and Supplies
- Prepayments
- Pension Tracker Balance
- OPEB Tracker Balance
- Gas Storage
- Other Deferred Regulatory Assets and Liabilities
- Cash Working Capital

CAPITAL STRUCTURE

- Capital structure
- Cost of Debt
- Cost of Preferred Stock

REVENUES AND EXPENSES

- Revenues for customer growth
- Pension and other post-retirement employee benefit costs
- Employee benefits
- Payroll (including changes in pay rate, number of employees)

- Payroll taxes
- Insurance expense
- Rate case expense
- Depreciation expense
- Various amortizations
- Income taxes

As the part of the procedural schedule approved by this Commission in its Order Setting Procedural Schedule issued on February 3, 2021, Spire is required to provide all of this true-up information to the parties of this rate case by July 2, 2021.

Staff Expert/Witness: Karen Lyons

IV. Surveillance, General Ledger and CC&B Report

In Spire's last general rate cases, GR-2017-0215 and GR-2017-0216, Staff recommended that Spire provide the surveillance, general ledger and Customer Care and Billing (CC&B) reports on an annual basis, and more frequently if needed, within 60 days of the close of Spire Missouri's fiscal year.

The Commission stated in its Amended Report and Order in the above referenced cases:

> The Commission finds that it is reasonable to adopt the agreement of Spire Missouri, Staff, and Public Counsel regarding surveillance. The Commission will order Spire Missouri to provide Staff and Public Counsel the surveillance data in the format agreed upon and set forth in Attachment 1 of *Staff's Initial Post-Hearing Brief* on a quarterly basis. Additionally, the Commission will order Spire Missouri to provide Staff and Public Counsel its general ledger and CC&B subledger on an annual basis, within 60 days of the close of Spire Missouri's fiscal year, and to make both the ledger and subledger available more frequently in the event further support of the surveillance data is needed.

Staff recommends that Spire continue to provide the surveillance, general ledger and CC&B reports consistent with the Commission order in Spire's last general rate case.

Staff Expert/Witness: Karen Lyons

V. Rate of Return (ROE, Cost of Capital, Capital Structure)

A. Introduction

In this section, Staff presents evidence and provides a recommendation regarding the appropriate rate of return ("ROR") to be used in establishing Spire Missouri's natural gas service rates. Staff estimated the market-based cost of common equity ("COE") for Spire Missouri using a comparative COE analysis. Staff's analysis takes into account changes in economic and capital market conditions over time by employing two widely-used and well-respected COE estimation methodologies: the discounted cash flow model ("DCF") and the capital asset pricing model ("CAPM").[4] By using the decision made by the Commission in the most recent Spire Missouri rate cases as a benchmark, the comparative analysis method allowed Staff to calculate changes from period to period in authorized return on equity ("ROE").[5] In the Amended Report and Order issued March 7, 2018, in Case Nos. GR-2017-0215 and GR-2017-0216, the Commission found that a 9.80% ROE was fair and reasonable for calculating revenue requirement for Spire Missouri.[6] For the current rate case, Staff recommends that the Commission set Spire Missouri's authorized ROE at 9.37%, the midpoint of a reasonable range of 9.12% and 9.62%. Staff's recommended authorized ROE takes into consideration that COE fell by 43 basis points since the period of the last Spire Missouri's rate cases.[7]

Staff's recommendation of a 9.37% authorized ROE will fairly compensate Spire Missouri for its current market COE and balance the interests of all stakeholders, particularly considering that the current market COE estimates for Spire Missouri are presently in the range of 6.40% to 8.10% (see App. 2, Schedule SJW-13 and Schedule SJW-14).

Staff also recommends that the Commission use Spire Missouri's own capital structure of 54.25% common equity and 45.75% long-term debt, for purposes of setting ROR in this proceeding.[8] Among other reasons, Spire Missouri's own standalone capital structure is the appropriate capital structure for use in this proceeding because Spire Missouri has an independently determined capital structure in that its debt is secured by its own assets and not the

---

[4] *Ass'n of Bus. Advocating Tariff Equity v. Midcontinent Indep. Sys. Operator, Inc.,* Opinion No. 569, 169 FERC ¶ 61,129 (2019).

[5] COE is the return required by investors; ROE is the return set by a regulatory utility commission. Although some experts contend that COE and ROE are synonymous, Staff's position is that they need not be. Observed utility COEs have been generally significantly lower than ROEs in recent years.

[6] On page 35, Amended Report and Order issued March 7, 2018, in Case Nos. GR-2017-0215 and GR-2017-0216.

[7] 43 basis points are the difference between the current DCF and CAPM estimated COEs and Spire Missouri's last rate case (GR-2017-0215 and GR-2017-0216)'s estimated COEs. See Schedules SJW-13 and SJW-14 for more on how Staff calculated the COEs.

[8] In the response to Staff's Data Request No. 109.1, an inconsistency among reported actual capital structures by Spire Missouri's witnesses is discussed. Staff's recommended capital structure at this time is based on Spire Missouri's projected capital structure after the placement of approximately $225-250 million in long term debt that will be funded prior to May 31, 2021, reported by Selinger' direct testimony (see Schedule WES-1 SCH-F). Staff's recommendation will be updated later based on Spire Missouri's true-up capital structure.

assets of its parent company, Spire Inc. ("Spire"), or any of Spire's other subsidiaries.[9] Additionally, Spire Missouri's stand-alone capital structure supports its own bond rating.[10] Consistent with Staff's capital structure recommendation, Staff also recommends at this time that the Commission use a cost of debt value of 4.00%, resulting in the overall midpoint ROR of 6.92%, taken from the calculated range of 6.78% to 7.05% (see App. 2, Schedule SJW-16).

Staff's analyses and conclusions are supported by the data presented in Schedules SJW-1 through SJW-17 of Appendix 2. Staff's workpapers will be provided to the parties at the time of the filing of Staff's Cost of Service Report. Staff will make any source documents of specific interest available upon the request of any party to this case or to the Commission upon request.

B. Analytical Frameworks

The determination of a fair ROR is guided by principles of economic and financial theory and by certain minimum Constitutional standards. Investor-owned public utilities, such as Spire Missouri, are private property that the state may not confiscate without appropriate compensation. The United States Supreme Court has described the minimum characteristics of a constitutionally-acceptable ROR in two frequently-cited cases: *Bluefield Water Works & Improvement Co. v. Public Service Commission of West Virginia,* and *Federal Power Commission v. Hope Natural Gas Co.*[11]

From these two decisions, Staff derives and applies the following principles to guide it in recommending a just and reasonable ROR:

1. A return consistent with returns of investments of comparable risk;
2. A return that allows the utility to attract capital; and
3. A return sufficient to assure confidence in the utility's financial integrity.

Embodied in these three principles is the economic theory of the opportunity cost of investment. The opportunity cost of investment is the return that investors forego in order to invest in similar risk investment opportunities that vary depending on market and business conditions.

Methodologies of financial analysis have advanced greatly since the *Bluefield* and *Hope*

---

[9] Staff's Data Request No. 0122.
[10] S&P Global Market Intelligence.
[11] *Bluefield Water Works & Improvement Co. v. Public Service Commission of West Virginia,* 262 U.S. 679, 43 S.Ct. 675, 67 L.Ed. 1176 (1923); *Federal Power Commission v. Hope Natural Gas Co.,* 320 U.S. 591, 64 S.Ct. 281, 88 L.Ed. 333 (1943).

decisions.[12] Additionally, today's utilities compete for capital in a global market rather than a local market. Nonetheless, the parameters defined in those cases are readily met using current methods and theory. The principle of commensurate return is based on the concept of risk. Financial theory holds that the return an investor may expect is reflective of the degree of risk inherent in the investment, risk being a measure of the likelihood that an investment will not perform as expected by that investor. Any line of business carries with it its own risks and it follows, therefore, that the return Spire Missouri's shareholders may expect is equal to that required by comparable-risk utility companies.

COE is a market-determined, minimum return investors are willing to accept for their investment in a company compared to returns on other available investments. An authorized ROE, on the other hand, is a Commission-determined return granted to monopoly industries, allowing them the opportunity to earn just and reasonable compensation for their investments.

Staff has relied primarily on the analysis of a comparable group of companies to estimate the COE for Spire Missouri, applying this comparable-company approach through the use of both the DCF method and the CAPM. Properly used and applied in appropriate circumstances, both the DCF and the CAPM can provide accurate estimates of utilities' COE. It is a well-accepted economic theory that a company that earns its cost of capital will be able to attract capital and maintain its financial integrity. Therefore, Staff's recommended authorized ROE based on the COE derived from comparison of peer companies, is consistent with the principles set forth *Bluefield* and *Hope*.

C. Economic and Capital Market Conditions

Determining whether a cost of capital estimate is just and reasonable requires a good understanding of current economic and capital market conditions, with the former having a significant impact on the latter. With this in mind, Staff emphasizes that an estimate of a utility's COE should pass the "common sense" test when considering the broader current economic and capital market conditions.

---

[12] Neither the Discounted Cash Flow ("DCF") nor the Capital Asset Pricing Model ("CAPM") methods were in use when those decisions were issued.

1. Economic Conditions

The current economic conditions look much stronger than at the beginning of last year (2020) when the COVID-19 pandemic halted most economic activities. When the pandemic hit, the economy was already affected by the weakening global economy, uncertainty emanating from trade conflict between the U.S. and China, and the pending withdrawal ("Brexit") of the United Kingdom from the European Union.

According to the Bureau of Economic Analysis, gross domestic product ("GDP") declined 5.0% and 31.7% in the first, and second quarters of 2020, respectively, and inclined 33.4% and 4.1% in the third, and fourth quarters of 2020, respectively. Annual real GDP growth in 2017, 2018, 2019 and 2020 measures were 2.2%, 3.0%, 2.2% and – 3.5%, respectively.[13] Although there are renewed concerns coming from new variants of the COVID-19, consensus among economists is that availability of vaccines and increasing vaccination rates, as well as the economic stimulus, present good prospects for a sustained economic recovery.

The International Monetary Fund ("IMF") projects the U.S. economy to grow 5.1 % in 2021 and 2.5 % in 2022.[14] In 2021, the Federal Open Market Committee ("FOMC") projects real GDP of the U.S will grow between 3.7% and 5.0%.[15] The Organization for Economic Cooperation and Development ("OECD") projects the nominal GDP growth rate of the U.S. for 2021 and 2022 to rise 6.5 and 4.0, respectively.[16] The International Monetary Fund ("IMF") projects averages of 5.5% and 4.2% global growths for 2021 and 2022, respectively.[17] The FOMC's long-run projections for nominal GDP of the U.S. is about 3.8%.[18]

After declining sharply as the pandemic struck, consumer price inflation rebounded along with economic activity although it remains below pre-COVID levels and the Federal Reserve System ("Fed") 2% target.[19] Annual inflation, measured by Personal Consumption Expenditures ("PCE")

---

[13] Bureau of Economic Analysis, retrieved on March 18, 2021 (https://www.bea.gov/data/gdp).
[14] International Monetary Fund, World Economic Outlook, retrieved on March 18, 2020. (https://www.imf.org/en/Publications/WEO/Issues/2021/01/26/2021-world-economic-outlook-update)
[15] Federal Open Market Committee, retrieved on March 18, 2021 (https://www.federalreserve.gov/monetarypolicy/fomcprojtabl20210317.htm)
[16] Organization for Economic Cooperation and Development, retrieved on March 18, 2021 (https://www.oecd-ilibrary.org/economics/oecd-economic-outlook_16097408).
[17] International Monetary Fund, World Economic Outlook, retrieved on March 18, 2021 (https://www.imf.org/en/Publications/WEO/Issues/2021/01/26/2021-world-economic-outlook-update)
[18] Federal Open Market Committee, retrieved on March 18, 2021 (https://www.federalreserve.gov/monetarypolicy/fomcprojtabl20200610.htm).
[19] Ibid.

for 2017, 2018, 2019 and 2020 was 1.7%, 1.8%, 1.4%, and 0.4%, respectively, and is expected to be about 1.3% for the year 2021.[20]

The labor market continued to reflect the impact of the COVID-19 pandemic. The unemployment rate has continued to decline from 14.7% in April 2020 to 6.2% in February 2021.[21] Although this metric is currently much lower than its April 2020 highs, the unemployment rate remains well above its pre-pandemic level of 3.5% recorded in February 2020. With an improving economy, the unemployment rate is expected to decline (improve) further.

On March 16, 2020, the FOMC decreased the Fed target funds rate ("funds rate") to 0-0.25%.[22] Abrupt and widespread cessation of economic activity in the U.S. necessitated this move by the Fed. But, recently, yields on 10-year Treasury notes have surged to the highest level since February 2020, before the pandemic hit the U.S. economy. Rates on 30-year mortgages rose above 3% this month for the first time since July 2020.[23] On September 16, 2020, the Fed chairman, Jerome Powell, signaled that the Fed will keep rates near zero for some time, with all 17 officials present at the 2-day meeting saying they expect to keep rates near zero for at least through 2023 until it sees evidence of a tight labor market and inflation reaches 2%.[24]

30-year treasury yields fell throughout 2017 before rising in 2018 and then falling again in 2019. 30-year treasury yields were 3.02% in January 2017 and 2.77% by December 2017. 2018 saw yields rising from 2.88% in January to 3.10% in December 2018 before falling to 1.27% by April 2020 (see App. 2, Schedule SJW-4-2), and rising to 1.67% in December 2020. Abroad, negative yields are common. There is more than $16 trillion of bonds with negative yields world-wide, most of them sold in the European Union and Japan.[25] Low interest rates abroad have the effect of pushing down U.S interest rates through the force of supply and demand. Lower yields abroad increase demand for U.S debt securities with the effect of lowering yields in the U.S. The average 30-year Treasury bond yield for a 3-month period (April, May, and June 2017)

---

[20] Congressional Budget Office, retrieved on March 18, 2021 (https://www.cbo.gov/publication/56465).
[21] Bureau of Labor Statistics, retrieved on March 18, 2021 (https://www.bls.gov/news.release/pdf/empsit.pdf).
[22] Board of Governors of the Federal Reserve System, retrieved on March 18, 2021 (https://www.federalreserve.gov/monetarypolicy/openmarket.htm).
[23] Wall Street Journal, retrieved on March 18, 2021 (https://www.wsj.com/articles/fed-seen-standing-firm-on-interest-rates-bond-purchases-11615887002).
[24] Wall Street Journal, retrieved on September 17, 2020 (https://www.wsj.com/articles/fed-signals-interest-rates-to-stay-near-zero-through-2023-11600279214).
[25] Wall Street Journal, retrieved on September 17, 2020 (https://www.wsj.com/articles/in-bond-anomaly-negative-yields-bring-positive-returns-11567947602).

included within the last Spire Missouri rate cases analysis was 2.90% (see App. 2, Schedule SJW-4-2). The most current average 30-year Treasury bond yield is 2.07% in the 3-month period (January, February, and March 2021) of analysis for the current rate case (see App. 2, Schedule SJW-4-3). That is a significant decrease of 83 basis points.

Interest rates have a strong relationship with GDP and the inflation rate. Weakening GDP growth will prompt the Fed to cut interest rates as the Fed tries to stimulate the economy. Weakening GDP growth also signals to investors of a weakening economy which causes investors to increase demand for treasury bonds as they flee riskier securities into the safe haven of government treasuries. High demand for treasury bonds causes prices to rise and yields to fall, creating a low cost-of-capital environment. Weak inflation also causes concern about economic growth, which prompts the Fed to cut interest rates. Although long-term utility bond yields have been rising recently, they remain at historical low levels and are expected to remain low due to the Fed's policy to keep interest rates low for some time. Utility bond yields are lower in the period of the current Spire rate case than during the period of the last Spire Missouri rate case (see App. 2, Schedule SJW-4-5). With projected low GDP growth, interest rates are set to remain low and continue to support a low COE environment. The takeaway is that capital is now less expensive and the ROE should therefore be lower than at the time of Spire Missouri's last general rate case. Staff's CAPM model, which shows that COE decreased by 34 basis points (see SJW-14), confirms that the CAPM COE estimate is lower in the current period than it was during the period of the last Spire rate case.

2. <u>Capital Market Conditions</u>

a. Utility Debt Markets

Interest rates are a key factor in determining a utility's COE, as stock investors demand a premium return over those offered by lower-risk, interest-bearing securities, such as U.S. Treasury bonds. An increase [decrease] in interest rates therefore, will increase [decrease] a utility's COE, all else being equal. The current utility debt market indicates a lower cost-of-capital than the period of the last Spire Missouri rate case. Utility bond yields have been on a steady decline since January 2019. Average Moody's utility bond yields, as reported by Mergent Bond Record, declined from 4.01% in June 2017 to 2.80% in December 2020 (see App. 2, Schedule SJW-4-1).

Staff compared average utility bond yields in a three-month period (April, May, and June 2017) within the timeframe of the last Spire Missouri rate case analysis, to a three-month period

(January, February, and March 2021) within the timeframe of the current case. The three-month average utility bond yield was 4.13% in the last Spire Missouri rate case compared to 3.18% in the current rate case, a drop of 95 basis points (see App. 2, Schedule SJW-4-1).

Although utilities' COEs are not perfectly correlated to changes in utility debt yields, it is widely recognized in the investment community that regulated utility stocks are a close alternative to bond investments and, therefore, the two values are highly correlated over time. As interest rates fall, utility stock prices rise, pushing COE down as investors substitute debt for utility stock in search for higher yields. Consequently, to the extent the Commission found that a 9.80% authorized ROE of the last Spire Missouri rate case was reasonable, and the cost of debt information was looked at in isolation, without considering COE estimation methodologies, this would suggest that a value lower than the 9.80% recommended authorized ROE may be considered just and reasonable for Spire Missouri's the current case.[26]

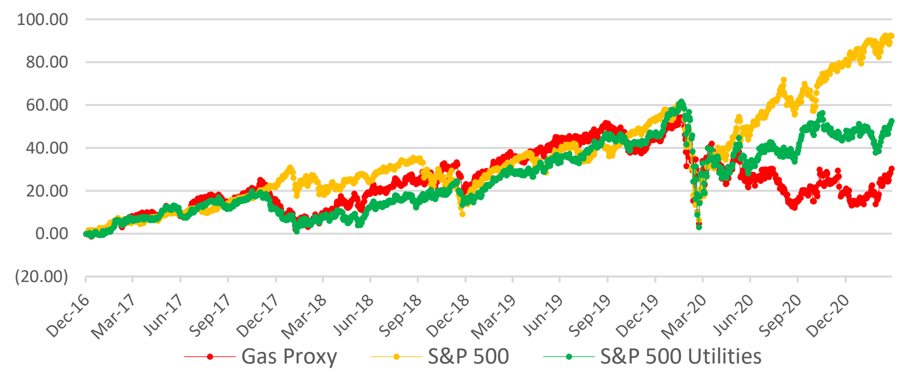
b. Utility Equity Markets

Utility equities have not been spared the effects of the pandemic, which saw equities fall across the board. In the last three years, overall, utility equity total returns fell behind the S&P 500. Over the past four years ending December 31, 2020, Staff's gas proxy group in this case experienced total returns of 21.22% during the same period, well below the 81.35% and 48.18% for the S&P 500 and the overall Utilities sector, respectively, for the same period.[27] In times of economic slowdown, utility equities perform better than the overall market as investors seek the 'safe haven' of the utilities sector. From around October 2018 to around May 2020, the utilities sector showed similar performance to the overall market, although there was a notable decline starting in March 2020 in both the utilities and the overall market (see Figure 1 below). The current recovery of the economy has seen both the utilities sector and the overall market rise although with the utilities sector lagging. Utilities are expected to lag the overall market when the economic outlook is improving, as investors feel more comfortable to seek high returns in the risky overall market. The net effect of the anemic economic growth, devastating pandemic, and the robust economic recovery of the past four years has led to the utilities sector lagging the overall market:

---

[26] The Commission Order Approving Stipulations and Agreements, WR-2017-0285.
[27] Regulatory Research Associates, S&P Global Market Intelligence.

Figure 1. Total Return 2018-2020



To further gain insight on what is happening in the utility equity market, Staff analyzed utility price to earnings ("PE") measures. PE ratios are higher for firms with strong growth prospects, other things held constant, but they are lower for riskier firms.[28] Higher growth prospects increases demand for a company's stock and all else constant, higher stock prices mean lower COE. Staff's gas proxy group's PE ratio for the time period (April, May, and June 2017), corresponding to the time period during the last Spire Missouri rate case, was 13.83x compared to 26.46x in the current period (January, February, and March 2021), corresponding to the time period of Staff's analysis for the current case.[29]

The relationship between PE ratios and COE is as follows: at any given point in time, the PE ratio gives you the price of the company (per share) divided by earnings per share. The reciprocal of this is called earnings yield – a metric comparable to dividend yield. If all other things are equal, at higher PE ratio, earnings yield (dividend yield) is lower, which translates into lower COE estimate. The net results of Staff's DCF models indicate that COE declined by 52 basis points since the time of Spire's last rate case.

D. Corporate Analysis

1. Business Profile

Spire Missouri is Missouri's largest natural gas distribution utility. Spire Missouri was founded in 1857. It was formerly known as Laclede Gas Company and changed its name to Spire Missouri Inc. in 2018. Spire Missouri is a subsidiary of Spire. The following summary based on Spire's Form 10-K filing with the United States Securities and Exchange Commission ("SEC") in

[28] Fundamentals of Financial Management, Eugene F. Brigham and Joel F. Houston, (8th Edition), pg. 82
[29] S&P Global Market Intelligence, retrieved in March 19, 2021.

November 2020 provides a good description of Spire Missouri and Spire's current business operations and current organizational structure.

Spire Missouri operates as a public utility that engages in the purchase, retail distribution and sale of natural gas, with primary offices located in St. Louis, Missouri. Spire Missouri operates as a major natural gas distribution utility system in Missouri that serves approximately 1.2 million residential, commercial and industrial customers across two regions, Spire Missouri East (serving St. Louis and eastern Missouri) and Spire Missouri West (serving Kansas City and western Missouri). For the year ended September 30, 2020, total annual average number of customers for the company was 1,186,523. Spire Missouri also transports gas through its distribution system for certain larger customers who buy their own gas on the wholesale market. The earnings of Spire Missouri are primarily generated by the sale of heating energy.

Spire Missouri focuses on its gas supply portfolio around various natural gas suppliers with equity ownership or control of assets situated to complement its regionally diverse firm transportation arrangements. For the year ended September 30, 2020, Spire Missouri purchased natural gas from 27 different suppliers to meet its total service area gas sales and storage injection requirements. The principal properties of Spire Missouri consist of its gas distribution system, which includes approximately 31,100 miles of main and related service lines, odorization and regulation facilities, and customer meters. The mains and service lines are located in municipal streets or alleys, public streets or highways, or on lands of others for which Spire Missouri has obtained the necessary legal rights to place and operate its facilities on such property. Spire Missouri has an underground natural gas storage facility, various operating centers, and other related properties. All of Spire Missouri's utility plant is subject to the liens of its mortgage. Spire Missouri entered into firm agreements with suppliers, including both major producers and marketers providing flexibility to meet the temperature-sensitive needs of its customers.

Spire Missouri is not publicly-traded and is totally owned by Spire that was formerly known as The Laclede Group, Inc. and changed its name to Spire Inc. in April 2016. The Laclede Group, Inc. was founded in 1857 and is based in St. Louis, Missouri. Total annual average number of customers for Spire Missouri and Spire Alabama for the year ended September 30, 2020 was 1,186,523 and 424,804, respectively. Spire Gulf and Spire Mississippi are utilities engaged in the purchase, retail distribution and sale of natural gas to 0.1 million customers in the Mobile, Alabama area and south-central Mississippi. Spire, through its subsidiaries, engages in the purchase, retail distribution, and sale of natural gas to residential, commercial, industrial, and other end-users of natural gas in the United States. Spire operates in two segments, Gas Utility and Gas Marketing. The first segment includes the regulated operations of Spire Missouri, Spire Alabama Inc., Spire Gulf Inc., and Spire Mississippi Inc. (collectively, the "Spire Utilities"). The business of the Spire Utilities is subject to seasonal fluctuations with the peak period occurring in the winter heating season, November through April of each year. It is also involved in the marketing of natural gas; and provision of energy services on non-regulated basis to on-system utility transportation customers, as well as to retail and wholesale customers. In addition, Spire engages in the transportation of propane through its propane pipeline; compression of natural gas; risk management; and other activities. Further, it provides physical natural gas storage services

2. Credit Ratings

Spire Missouri receive an individual credit rating as a stand-alone entity. Spire Missouri are currently rated by Moody's and Standard & Poor's ("S&P"). The corporate credit ratings assigned to Spire Missouri by Moody's and S&P are 'A1' and 'A–', respectively.[30] These ratings are higher than or equal to natural gas utilities' average bond ratings A3 and A– characterized by Moody's and S&P, respectively.[31] The corporate credit ratings assigned to Spire by Moody's and S&P are 'Baa2' and 'A–', respectively.[32]

E. Rate of Return Analysis

In order to arrive at Staff's recommended ROR, Staff specifically examined and evaluated: (1) the estimated COEs in the current and recent Spire Missouri rate cases; (2) the just and reasonable range of authorized ROE agreed in the most recent Spire Missouri rate case; (3) the appropriate ratemaking capital structure; and (4) the current embedded cost of debt.

1. Cost of Common Equity

Staff estimated Spire Missouri's COE through a comparable company cost-of-equity analysis using a proxy group of gas utility companies, applying the DCF model and CAPM analysis and testing the reasonableness of the result with other methods. Staff compared the DCF and CAPM

---

[30] S&P Global Market Intelligence, retrieved March 19, 2021 (https://platform.marketintelligence.spglobal.com).
[31] Ibid.
[32] Ibid.

COE estimates from the current and the last Spire Missouri rate cases. Combining these COE estimates and applying them proportionately allowed Staff to estimate a sensible range of recommended authorized ROEs. Additionally, Staff used a survey of other indicators and compared its recommendation to recently authorized ROEs in other Commission jurisdictions as a check of the reasonableness of its recommendation.

a. The Proxy Group

Staff used a proxy group consisting of U.S. utilities that Value Line classifies as Gas Utilities. Staff screened seven companies (see App. 2, Schedule SJW-9) by ensuring that companies:

- are publicly traded;
- have more than five years of financial data available;
- have investment grade credit ratings from major U.S. credit rating agencies;
- have long-term growth coverage from at least two analysts;
- have no pending merger or acquisitions;
- have not reduced dividends since 2015;
- have at least 65% of income from regulated operations; and
- have at least 65% of assets in gas distribution operations.

The seven gas utilities met these criteria are presented in Table 1:

Table 1. Gas Utility Proxy Group

Gas Utility Companies	Ticker
Atmos Energy Corporation	ATO
New Jersey Resources Corporation	NJR
Northwest Natural Holding Company	NWN
ONE Gas, Inc.	OGS
South Jersey Industries, Inc.	SJI
Southwest Gas Holdings, Inc.	SWX
Spire Inc.	SR

b. DCF

Staff started its evaluation of the gas utility industry's COE by applying values derived from the proxy group to the constant growth rate DCF model. The DCF model is widely used by investors to evaluate stable-growth investment opportunities, such as regulated utility companies. The premise of the DCF model is that an investment of common stock is worth the present values of the infinite streams of dividends discounted at a market rate commensurate with the investment's risk. Using the following formula of the DCF model, the investors determine common stock price:

$$P = D/(k - g),$$

where P is the common stock price,

D is the current dividend,

k is investors' required return from the stock, and

g is the expected growth rate in dividends.

In rate cases, the investors' required return from the stock could be considered to be the expected market COE of utility stock investors. Staff uses an adjusted dividend yield $(1 + .5g)D$ to account for the fact that the dividends are paid on quarterly basis. For growth rate, Staff uses analysts' short-term projected dividends per share ("DPS") growth estimates and long-term GDP growth estimates, combined together into a single growth rate, at two-third (2/3) Value Line's projected growth rates of DPS and one-third (1/3) long-term projected GDP growth estimates weights (see App. 2, Schedule SJW-11). It is important that the growth rate used in Staff's constant-growth DCF model reflects the long-term investment horizon assumption implied in the constant-growth DCF model. The Federal Energy Regulatory Commission ("FERC") also agreed as much when it ruled, in Opinion 569, that exclusive use of short-term analysts' growth rates in the constant-growth DCF was inappropriate.[33] The COE estimate using the above formulation of the constant growth rate DCF can be expressed as follows:

$$k = (1 + .5g)D \,/\, P \; + \; g.$$

For the current rate case, the proxy group DCF analysis resulted in a DCF COE estimate range of 7.60% to 9.01% with a proxy group average COE point estimate of 8.10% (see App. 2, Schedule SJW-13). For the last Spire Missouri rate case, Staff recalculated the proxy group's COE

---

[33] *Ass'n of Bus. Advocating Tariff Equity v. Midcontinent Indep. Sys. Operator, Inc.,* Opinion No. 569, 169 FERC ¶ 61,129 (2019).

using the constant growth rate DCF analysis. Staff recalculated the last Spire Missouri's DCF COE in the view of Commission's rejection of Staff's recommended growth rate assumption as being unclear. Staff's recalculated DCF also reflects the Commission's higher authorized ROE of 9.80% compared to Staff's lower recommended authorized ROE in Spire Missouri's last rate cases of 9.25%.[34] The recalculation resulted in a DCF COE range of 6.20% to 9.54% with a proxy group average COE point estimate of 8.61% (see App. 2, Schedule SJW-13). Based on a comparative DCF analysis, the COE estimate has decreased by 52 basis points from the last Spire Missouri rate cases.

c. CAPM

In addition to the DCF, Staff used the CAPM to estimate Spire Missouri's COE. The CAPM is built on the premise that the variance in returns over time is the appropriate measure of risk, but only the non-diversifiable variance (systematic risk) is rewarded. Systematic risks, also called market risks, are unanticipated events that affect almost all assets to some degree because the effects are economy wide. Systematic risk in an asset, relative to the average, is measured by the beta of that asset.[35] Unsystematic risks, also called asset-specific risks, are unanticipated events that affect single assets or small groups of assets. Because unsystematic risks can be freely eliminated by diversification, the appropriate reward for bearing risk depends on the level of systematic risk.

The CAPM shows that the expected return for a particular asset depends on pure time value of money (measured by the risk free rate), the amount of the reward for bearing systematic risk (measured by the market risk premium ("MRP")), and the amount of systematic risk incurred by the asset (measured by beta). Specifically, the CAPM methodology estimates the cost of equity by taking the risk-free rate and adding to it the MRP multiplied by beta.[36] The MRP is calculated by subtracting the risk-free rate from the expected market return. The general form of the CAPM is as follows:

---

[34] On page 29 and page 33, Amended Report and Order issued March 7, 2018, in Case Nos. GR-2017-0215 and GR-2017-0216.
[35] Beta is a measure of the volatility—or systematic risk—of a security or portfolio compared to the market as a whole. (Investopedia, retrieved November 5, 2020).
[36] Roger A. Morin, New Regulatory Finance (Public Utilities Reports, Inc. 2006).

$$k = R_f + \beta(R_m - R_f)$$

where, k is the expected return on equity for a security,

R_f is the risk-free rate,

R_m is the expected market return,

β is beta, and

$R_m - R_f$ is the MRP.

For the risk-free rate, Staff used the average yield on 30-year U.S. Treasury bonds for the three-month period ending March 31, 2021; that figure was 2.07% for this case but it was 2.90% for Spire Missouri's 2017 rate case. For beta, Staff relied on estimates directly calculated through an Excel spreadsheet designed specifically to be used with the SNL database of market and financial information.[37] MRP can vary widely depending on estimating methodology. For the MRP estimate, Staff relied on three sets of data sources. First data set is the long-term geometric mean of historical return differences between large company stocks and long-term government bonds from 1926-2016 and 1926-2019, and those MRP estimates are 4.5% and 4.7%, respectively.[38] The second data set is the long-term arithmetic mean of historical return differences between large company stocks and long-term government bonds from 1926-2016 and 1926-2019, and those MRP estimates are 6.0 % and 6.1%, respectively.[39] The third data set is the long-term geometric mean of historical return differences between S&P 500 and long-term government bonds from 1928-2017 and 2028-2020, and those MRP estimates are 4.83% and 4.84%, respectively[40] The fourth data set is the long-term arithmetic mean of historical return differences between S&P 500 and long-term government bonds from 1928-2017 and 2028-2020, and those MRP estimates are 6.38% and 6.43%, respectively.[41]

---

[37] Staff still believes Value Line's beta calculation methodology is proper to use a CAPM analysis. Staff's beta is consistent with Value Line's beta calculation methodology. Consistent with Value Line's approach to calculating beta, Staff used 5-years of historical weekly returns of the subject company and the New York Stock Exchange ("NYSE") index. The covariance of the weekly returns on the NYSE index and the weekly returns on the subject company is divided by the variance of the weekly returns on the NYSE index to determine raw beta (unadjusted beta). Staff then adjusted the raw beta using the Blume adjustment formula as used by Value Line: Adjusted Beta = (1/3) + (2/3)(Unadjusted Beta)) (*see* Pinto, J. E., Henry, E., Robinson, T. R., Stowe, J. D., & Cohen, A. (2010). Equity Asset Valuation, CFA Investment Series.).

[38] Duff & Phelps 2020 Valuation Handbook: Guide to Cost of Capital.

[39] Ibid.

[40] Risk Premium, Damodaran Online, Stern School of Business, NYU.

[41] Ibid.

For the current rate case, the proxy group CAPM analysis resulted in a CAPM COE estimate range of 5.87% to 6.85% with a proxy group average COE point estimate of 6.40% (see App. 2, Schedule SJW-14). For the last Spire Missouri rate case, the recalculated proxy group's CAPM analysis resulted in a CAPM COE range of 6.07% to 7.13% with a proxy group average COE point estimate of 6.74% (see App. 2, Schedule SJW-14).[42] Based on a comparative CAPM analysis, the COE estimate has decreased by 34 basis points from the last Spire Missouri rate cases.

d. Tests of Reasonableness

A "rule of thumb" risk premium method allows an objective test of individual analysts' COE estimates.[43] The COE is estimated by simply adding an equity risk premium to the yield-to-maturity ("YTM") of the subject company's long-term debt. Based on general U.S. capital-market experience and regulated utilities, the typical equity risk premium is in the 3% to 5% range.[44] This is especially true considering that regulated utility stocks behave like bonds. For the three months ended through March 31, 2021, "A" rated and "Baa" rated long-term utility bonds had average yields of 3.15% and 3.42% respectively.[45] Adding a 3% risk premium, the "rule of thumb" indicates a cost of common equity between 6.15% and 6.42%. Adding a 5% risk premium, the "rule of thumb" indicates a cost of common equity between 8.15% and 8.42%. Overall, the "rule of thumb" indicates that a range of COE estimates of 6.40% to 8.10% is reasonable.

In addition, U.S. Treasury yields and utility bond yields are quite low (at levels last experienced in the early 1960s) and the spread between them is presently below their long-term average (see App. 2, Schedule SJW-4-4). Lower U.S. Treasury yields, and a narrower spread between U.S. Treasury yields (risk-free rate) and utility yields (see App. 2, Schedule SJW-4-2) mean that investors are requiring lower risk premiums, which consequently means that investors are requiring lower returns.[46] Therefore, it is common sense in today's capital market environment that investors are only requiring lower returns, in the 6 to 9 percent range, on their utility common

---

[42] This recalculation using the same methodology allows Staff apples to apples comparison.
[43] Stowe, J. D., Robinson, T. R., Pinto, J. E., & McLeavey, D. W. (2002) Analysis of Equity Investment: Valuation. Association for Investment Management and Research.
[44] CFA Institute, retrieved on March 18, 2021, (https://www.cfainstitute.org/en/programs/cfa/policies), and Roger A. Morin, New Regulatory Finance (Public Utilities Reports, Inc. 2006).
[45] Mergent Bond Record, January 2021.
[46] Morin, R. A. (2006) New Regulatory Finance. Public Utilities Reports.

equity investments rather than the historical average returns. As Staff explained in its discussion of other tests of reasonableness, these COE estimates are consistent with common sense tests. Therefore, Staff's DCF and CAPM calculations resulting in a COE estimate of 6.40% to 8.10% are reasonable.

2. Return on Equity

a. Authorized ROE

In Spire Missouri's most recent rate cases, the Commission determined, that for the purpose of calculating the revenue requirement, an authorized ROE of 9.80% was reasonable.[47] Based on an average of the results of Staff's DCF and CAPM analysis, the point COE estimate of the Spire Missouri's last rate case was 7.68%.[48] With the same proxy group, Staff's DCF and CAPM analysis in the current Spire Missouri case results in a COE point estimate of 7.25%. The difference between the two COEs is 43 basis points, meaning that COE has declined by 43 basis points since the last Spire Missouri case. If there is no significant change of the Commission's perspectives on the relationship between the COE estimate and the authorized ROE, it is reasonable to conclude that the current authorized ROE should be set approximately 43 basis points lower than the authorized ROE of 9.80% in the last Spire Missouri case. Considering all of the above information that Staff has reviewed, Staff recommends the Commission authorize an ROE of 9.37% for Spire Missouri in this proceeding.

b. Comparison of Authorized ROEs

Staff recognizes that the Commission may also be interested in recent authorized ROEs for other gas utility companies throughout the country. Table 2 presents information compiled and published by Regulatory Research Associates ("RRA") which details the average authorized ROE's from Commissions around the U.S. in the years 2010 - 2021, along with the number of cases considered:

---

[47] Amended Report and Order issued March 7, 2018, in Case Nos. GR-2017-0215 and GR-2017-0216.
[48] Staff recalculated this COE using the same methodology for the proper comparison analysis.

Table 2. Authorized ROEs of Utility Rate Cases (2010-2021)[49]

	Natural Gas				Electric			
	Fully Litigated		Settled		Fully Litigated		Settled	
Year	ROE (%)	Case (No.)	ROE (%)	Case (No.)	ROE (%)	Case (No.)	ROE (%)	Case (No.)
2010	10.08	27	10.30	12	10.35	27	10.39	34
2011	9.76	8	10.08	8	10.39	26	10.12	16
2012	9.92	21	9.99	14	10.28	29	10.06	29
2013	9.59	12	9.80	9	9.85	17	10.12	32
2014	9.98	15	9.51	11	10.05	21	9.73	17
2015	9.58	5	9.60	11	9.66	16	10.04	15
2016	9.61	10	9.50	16	9.74	25	9.80	17
2017	9.82	7	9.68	17	9.73	24	9.75	29
2018	9.59	17	9.59	23	9.63	22	9.57	26
2019	9.74	12	9.70	20	9.58	27	9.76	20
2020	9.44	12	9.47	22	9.43	32	9.46	23

In 2017, gas utility fully litigated authorized ROEs averaged 9.82%, compared to the 9.44% average ROE in gas utility rate cases completed in 2020.[50] The average settled ROE authorized for natural gas utilities was 9.68% in 2017 and 9.47% in cases decided during 2020.[51] The average overall ROE authorized for natural gas utilities was 9.72% in 2017 and 9.46% in 2020.[52] Staff's recommended authorized ROE of 9.37% is in line with the current level of authorized ROEs.

Staff issued Data Request No. 0119 to Spire Missouri to request authorized returns for each of Spire's subsidiaries. Spire Alabama Inc., Spire Gulf, and Spire Mississippi utilize formula rate structures to adjust their cost of service in rates. Spire Alabama currently has a 10.4% authorized ROE, Spire Gulf currently has a 10.7% authorized ROE, and Spire Mississippi currently has a 10.03% authorized ROE. Since these sister utilities have operated under "formula rate plans" for decades and their rates are not set through a traditional rate case process, those higher authorized ROEs are not directly comparable to Spire Missouri's authorized ROE. These alternative ratemaking approaches vary significantly from the State of Missouri's approach. The cost of debt under each state's regulatory framework is utilized for interest expense

---

[49] Regulated Research Associates, S&P Global Market Intelligence, Retrieved September 22, 2020.
[50] S&P Global Market Intelligence.
[51] Ibid.
[52] Ibid.

purposes and not to calculate rate of return; accordingly, these utilities do not have a traditional weighted average cost of capital ("WACC").[53]

3. Capital Structure

In the last general rate cases, the Commission ordered that Spire Missouri's standalone capital structure be used for ratemaking purpose. There has not been any discernible change to Spire Missouri's or Spire's capital structure policies since the last rate cases to cause Staff not to be consistent with the Commission's last decision. As discussed below, the following reasons relied upon by the Commission in determining the appropriate ratemaking capital structure for Spire Missouri still apply in the current case.

First, Spire Missouri operate as an independent entity, when considering Spire Missouri's procurement of financing and the cost of that financing. Spire is not the primary source of long-term and short-term debt financing for Spire Missouri and this appears to continue to be the case. Since January 2018, Spire Missouri has not received long-term financing from Spire, Inc. or other Spire subsidiaries.[54]

Second, Spire Missouri's stand-alone capital structure support its own credit rating.[55] The debt is rated by credit rating agencies based on the stand-alone credit quality of Spire Missouri. Therefore, the cost of any debt that Spire Missouri will be based on the Spire Missouri's creditworthiness. Actually, some rating agencies rated Spire Missouri's credit rating higher than Spire's. For example, the corporate credit ratings assigned to Spire Missouri by Moody's is 'A1' while Spire is rated 'Baa2' that is two notches lower.

Third, Spire is primarily a regulated gas distribution utility, meaning that the business risks of Spire are similar to those of Spire Missouri in terms of sector risk. If the business risks of the parent company are similar to those of the subsidiary, then each entity should be able to incur similar amounts of financial risk. Presumably, this should cause their capital structures to be fairly similar. As of September 30, 2019, Spire's SEC Form 10-K filings indicate that both Spire and Spire Missouri have around 44 percentage of long-term debt percentage in its capital structure. According to Spire Missouri's response to Staff Data Request No. 0119, Spire Alabama and Spire Gulf currently have equity capital limit of 55.5 percent, and Spire Mississippi utilizes a

[53] Staff's Data Request No. 0119.
[54] Staff's Data Request No. 0112.
[55] Staff's Data Request No. 0058.

hypothetical capital structure of 50 percent of common equity and 50 percent of long-term debt. In other words, Staff does not find any reasons that Spire Missouri's stand-alone capital structure should not be used for ratemaking purposes.

For these reasons, Staff recommends the Commission to set Spire Missouri's rate of return based on Spire Missouri's capital structure. The capital structure Staff used for this case is Spire Missouri's stand-alone capital structure composed of 54.25 percent common equity and 45.75 percent long-term debt that is based on Spire Missouri's pro forma capital structure after the expected placement of approximately $225-250 million in long term debt that will be funded prior to May 31, 2021.[56] Schedules SJW-5-1 and SJW-5-2, attached as Appendix 2 to this Report and incorporated by reference herein, presents Spire and Spire Missouri's historical capital structures and the associated capital ratios. Staff will keep monitoring Spire and Spire Missouri's updated capital structure through the end of the true-up period and will update its final recommendation to actual values at that time.

<u>4. Embedded Costs</u>

For purposes of setting Spire Missouri's ROR, Staff recommends at this time the use of Spire Missouri's projected embedded cost of debt in its direct testimonies, which is 4.00% instead of Spire Missouri's embedded cost of debt, which is 4.02% as of December 31, 2010.[57] Again, Staff will update its recommended cost of debt later in this case to reflect Spire Missouri's actual embedded cost of debt as of the end of the true-up period.

F. Conclusion

Considering all of the above financial and economic information Staff has reviewed, and taking into account the evidence that supports the conclusion that the cost of common equity for gas utility companies has declined by 43 basis points since the last Spire Missouri rate case, Staff concludes that an authorized ROE of 9.37% is just and reasonable with a range of reasonableness of 9.12% to 9.62%. However, Staff will keep monitoring the financial market condition. Because of the currently rapidly changing economic outlook, Staff's recommended authorized ROE will be updated when the proper data is available.

---

[56] Staff's Data Request No. 0109.1.
[57] Selinger and D'ascendis' Direct Testimonies and Staff's Data Request No. 0111.

Using an authorized ROE of 9.37% results in an authorized ROR of 6.92% (see App. 2, Schedule SJW-16) combined with embedded costs of debt of 4.00, applied to a capital structure consisting of 45.75 percent long-term debt and 54.25 percent common equity.

Staff Expert/Witness: Seoung Joun Won, PhD

VI. Rate Base

A. Plant in Service and Depreciation Reserve

Staff recommends plant-in-service ("Plant") and accumulated depreciation reserve balances be based on actual booked amounts as of the end of the update period, December 31, 2020, and on May 31, 2021, booked amounts for the true-up in this case. These booked amounts include plant additions that have occurred since the test year ending September 30, 2020, and the related depreciation reserve balances. At the time of the true-up audit, adjustments to the plant and reserve balances used by Staff for its direct filing will be updated to include amounts for plant additions that have become fully operational and used for service as of May 31, 2021, the ending point of the true-up. Staff will also include depreciation reserve balances related to all plant, including those additions and retirements. Plant must be "fully operational and used for service" before it is appropriate to reflect that plant and its associated reserve in rates.

Plant and Depreciation Reserve are two of the largest components of Rate Base. Plant represents the structures and equipment used by the utility to provide service to ratepayers. In the balance sheet, plant is often referred to as "fixed assets." The depreciation reserve represents the sum of all depreciation accruals, net of cost of removal and salvage charges, which have been recorded in the Depreciation Reserve, representing the amount of plant investment that has already been recovered in rates from customers. Depreciation Reserve is an offset to Plant and is a subtraction from plant in the determination of rate base; the resulting balance is known as "net plant."

The Spire East and Spire West plant identified on the Plant In Service, Staff's Accounting Schedule 3, and the accumulated depreciation reserve, identified on Depreciation Reserve, Staff's Accounting Schedule 6, respectively, reflect Spire East's and Spire West's balances by account for these items as of December 31, 2020, the end of the test year update period in this proceeding. These schedules include plant additions that have occurred since the end of the

September 30, 2020, test year and all depreciation reserve accruals that have been booked by Spire East and Spire West through December 31, 2020. The information in Accounting Schedules 3 and 6 for plant and reserve is shown by Federal Energy Regulatory Commission ("FERC") Uniform Systems of Accounts for each plant category, broken out by distribution, production, underground gas storage, other storage, transmission, and general plant.

Staff requested the plant and reserve amounts by FERC account and plant and reserve information that came directly from the Power Plant record system for both Spire East and Spire West. Spire uses an accounting package for plant records called Power Plant, commonly used by most of the major utilities operating in Missouri. As such, the plant and reserve information contained in Staff's Accounting Schedules 3 and 6 by individual plant categories and FERC accounts are those that directly tie back to the books and records of Spire East and Spire West.

It is necessary for both Spire and Staff to make adjustments to the plant reserve balances to account for retirement work in progress ("RWIP"). RWIP is retired plant that has not yet been classified for certain components of depreciation, namely cost of removal and salvage. While the actual plant is retired and removed from plant balance and the related reserve, the plant has not been physically disassembled, so the cost of removal and salvage components of depreciation are still included in the reserve. As a result, Spire East's and Spire West's books overstate the reserve for this retired plant that is no longer serving utility customers. Because a plant that is no longer being used for utility service is removed from rate base, it is also necessary to make a corresponding adjustment to remove from the reserve balances the cost of removal and salvage amounts for the retired plant. Staff included a line item in the Accumulated Depreciation schedule, identifying the RWIP amount relating to this retired plant.

Depreciation expense is based on Staff witness David T. Buttig's recommended depreciation rates that were applied to the plant balances as of December 31, 2020. This will be further discussed under the heading of Depreciation Expense, in the Income Statement section of Staff's Cost of Service Report.

Staff Expert/Witness: Jeremy Juliette

B. Advanced Metering Technology

Spire Witness Scott Weitzel's direct testimony states that "Spire is installing advanced metering technology to improve metering quality and provide enhanced safety. These investments in new technology allow Spire to provide smarter, safer, and more efficient service to our customers." (Page 9. Lines 5-7).

The Company included $4,419,631 in Account 381.100 Smart Meters and $919,416 in Account 382.100 Smart Meter Installations for Spire Missouri West and $0 in Account 381.100 Smart Meters and $0 in Account 382.100 Smart Meter Installations for Spire Missouri East through December 31, 2020.

Staff has not been provided sufficient evidence that the amount recorded is associated with plant that is "used and useful." The proposed additions to rate base have been excluded as Staff continues its investigation of the decision to install the meters and justification of the costs.

Staff Expert/Witness: J. Luebbert

C. Excess Forest Park Relocation Funds

In Spire's last general rate case, Case No. GR-2017-0215, Staff's investigation revealed that Spire East sold property that contained one of its service centers (referred to as the Forest Park property) and partially replaced it with another service center (referred to as the Manchester facility) while also relocating its corporate headquarters. As part of the sale of the Forest Park property, Spire East received funds from the buyer to relocate its employees and equipment to other facilities.

To account for the ratemaking impacts of the transaction, the Commission ordered Spire in GR-2017-0215 to adjust its depreciation reserve so that ratepayers would not continue to pay for the sold assets. Staff's investigation in this case confirmed that Spire increased its depreciation reserve by $1.8 million to comply with the Commission's order.

Regarding the funds Spire received to relocate, the Commission ordered:

> The Commission adopts the Staff's proposal that Spire Missouri shall create a regulatory liability to record the rate base offset of the relocation expense which shall be amortized over five years beginning with the date the rates set in this case become effective.[58]

In reviewing the documents from Spire's last case, GR-2017-0215, particularly the accounting schedules supporting the ordered revenue requirement, Staff notes that a rate base

---

[58] Page 25 of Case No. GR-2017-0215 Amended Report and Order.

offset was included in the final accounting schedule for Spire East[59] but it was not properly amortized to expense. Furthermore, Spire's books and records show that it did not create a regulatory liability and Spire did not amortize the liability over five years as ordered by the Commission. As a result of these oversights, Spire is still in possession of approximately $3.6 million of funds that were ordered to be returned to ratepayers. Accordingly, Staff has included the $3.6 million as a rate base deduction in the current case to recognize the amount of cost-free funds retained by Spire at December 31, 2020. Staff recommends implementing the Commission's guidance ordered in GR-2017-0215 as a part of this case and has accordingly included an appropriate amount of amortization expense.

Staff Expert/Witness: Matthew R. Young

D. Propane Investment

Spire East maintains a Natural Gas Liquids (NGL) pipeline that supports shipment of liquid propane from the underground propane cavern located at the Underground Storage (UGS) property in Florissant, Missouri to vaporization facilities at UGS and in South St. Louis at the Catalan Plant. Spire East also receives revenues in the form of storage fees from Conoco Phillips. The contract for these revenues was recently renewed effective April 1, 2021.

Historically, Spire East proposed to treat the propane assets and the related revenues and expenses below the line (not included in regulated cost of service calculation). As part of the resolution of Case No. GR-2013-0171, section 14 of the *Stipulation and Agreement,* approved by the Commission on June 26, 2013[60], addressed the propane related issues as follows:

> The Parties agree that Laclede's propane cavern and associated equipment and any associated revenues, expenses and investment shall be accounted for "above the line" (meaning that it shall be included in the regulated cost of service calculation) for ratemaking purposes. Revenues shall include, but not be limited to; funds received for use of the propane cavern and associated equipment in any manner whatsoever and also all funds received from the sale of propane inventory. Such accounting treatment shall be without prejudice to the rights of any Party to assert in subsequent rate case proceedings whatever position they believe is appropriate regarding the proper regulatory treatment of propane related issues. As part of the settlement of this rate case proceeding, if Laclede seeks different regulatory treatment than as set forth above for

[59] Filed in EFIS in Case No. GR-2017-0215/0216 on March 21, 2018.
[60] GR-2013-0171, Order Approving Unanimous Stipulation and Agreement, June 26, 2013.

> Laclede's propane cavern and associated equipment, including all associated revenues, expense and investment prior to its next rate case it agrees to file a request before the MPSC for approval of its proposed treatment, provided that as part of its request for approval Laclede may also seek a Commission determination that its intended treatment may be implemented without further action by the Commission. At the time it makes its filing for different regulatory treatment, Laclede Gas Company will provide a study and all financial and operation justification for the determination and proposed change to the regulatory treatment compared to other alternatives it considered (e.g. reduction of other capacity and peaking supply contracts). Such study shall include related impacts on Laclede Gas Company's cost of service (including gas costs for its customers). All parties agree that this agreement does not have any precedential value in any current or future case or to any other instance where Laclede may seek to dispose of utility assets that it believes are no longer used and useful for the provision of utility service.

** [redacted] [61]. ** As part of the resolution of Case No. GR-2017-0215, section 12 of the *Partial Stipulation and Agreement,* approved by the Commission on March 7, 2018[62], addressed the propane related issues as follows:

> The Parties agree that Paragraph 14 of the Stipulation and Agreement approved by the Commission in LAC's last rate case proceeding, Case No. GR-2013- 0171, pertaining to "Propane-Related Issues", as set forth in Attachment 3 to this Partial Stipulation and Agreement shall remain in full force and effect.

Consistent with Staff's treatment of these assets historically, Staff continues to maintain that the propane assets can still serve Spire East customers and has included the investment and reserve balances associated with this investment and the propane inventory balance through December 31, 2020, which represents the update cutoff period established as part of this rate proceeding. Accordingly, Staff also included in the Spire East cost of service calculation liquid propane-related operating expenses and propane related revenues that occurred during the test year ending September 30, 2020.

Staff Expert/Witness: Karen Lyons

---

[61] ** [redacted]. **

[62] Case No. GR-2017-0215, Commission Amended Report and Order, filed on March 7, 2018.

E. Lambert Airport Compressed Natural ("CNG") Fuel Station

Spire CNG, Inc., a subsidiary of Spire Inc. constructed and owned two CNG stations for public use starting in 2014. The stations are located in St. Louis County, Missouri, near St. Louis Lambert International Airport, and Greer, South Carolina. In the quarter ending June 30, 2020, Spire Inc. recorded impairment charges totaling $7.8 million related to these stations as a result of revised projections reflecting lower diesel prices and slower conversions of Class 8 vehicles. The fair values used in measuring the impairment charges were determined with an expected present value technique using a discounted cash flow method under an income approach. Both stations remain fully operational as designed. Spire Missouri purchased the Lambert CNG station from Spire CNG, Inc. for the reduced value after the impairment charge in December 2020. The purchase price was ** [redacted] **, reduced from the net book value as non-utility property of ** [redacted] **.

This transaction is subject to the Commission's Affiliate Transaction Rules as set forth in 20 CSR 4240-40.015. Subject to those rules, asset transfers from an affiliate to a utility are to be recorded at the lower of fair market value or fully distributed cost. Prior to the purchase, Spire Missouri sought to expand CNG fueling capacity at its Berkeley service center which is in the vicinity of the Lambert CNG station. The affiliate-owned Lambert CNG station was a unique asset that has value to Spire Missouri. Spire CNG, Inc. examined various factors to determine the fair value of the station in calculation of the impairment charge including comparable transactions and scrap value. In examination of the calculations, Staff does not take issue with either the reduced value or the reliance on that value for an approximate fair market value. In reviewing the transaction and the reduced valuation, Staff finds the transaction is consistent with 20 CSR 4240-40.015 and recommends inclusion of the Lambert CNG assets in rate base.

Staff Expert/Witness: Keith Majors

F. Certificates of Convenience and Necessity (Spire West)

Since Spire's last rate case the Commission has approved a total of seven[63] Certificates of Convenience and Necessity (CCNs) for Spire Missouri West. The revenue requirement associated with each approved CCN was subject to review in the Company's next general rate proceeding.

[63] GA-2019-0210, GA-2019-0214, GA-2019-0226, GA-2020-0105, GA-2020-0235, GA-2020-0236, GA-2021-0010.

During the test period in this case, Spire had completed four of the seven CCN extensions.[64] Staff reviewed the actual costs of the four completed extensions. The table below shows a summary of the four completed extensions.

**

[redacted]

**

The line extension for Case No. GA-2019-0210 is the only line extension where the Company intends to only serve one customer. As shown in the table above, the level of capacity installed for line extensions in Case Nos.GA-2020-0235, GA-2020-0105 and GA-2019-0226 far exceeds the level of capacity currently utilized by the customer(s) served on the extension, due to the Company's future expectations for growth on the line. However, the Company's plans for additional customers to take service from the new main extensions have not materialized to date. Staff will review new customer growth from the line extensions through the true-up period ending May 31, 2021.

Without the expected customer growth, three of the Company's four completed line extensions are not cost effective at this time. Staff recommends an "excess capacity" adjustment based on the percentage of capacity utilized at this time. The adjustment will result in a reduction to the plant and depreciation reserve balances. As part of Staff's recommendation, the amount of the Company's current plant and depreciation reserve balances that are deemed to be excess capacity should be moved into the "plant held for future use" account (Account No. 105) for possible recovery in a future case.

Staff Expert/Witness: Robin Kliethermes

---

[64] The costs associated with a project are not recoverable in the Company's revenue requirement until the project is completed and in service.

G. Capitalization Policy

As a subsidiary of a publicly traded corporation, Spire follows accounting methods proscribed by Generally Accepted Accounting Principles ("GAAP") and as a gas utility regulated by Missouri, Spire must also follow the accounting methods proscribed by the FERC Uniform System of Accounts ("USOA"). Both forms of authoritative guidance include a basis for assigning costs to expense (i.e. include in the income statement) or assigning the cost to capital expenditures (i.e. include in the balance sheet). Over the course of normal business operations, Spire incurs costs that are clearly capital in nature and costs that are clearly expenses. However, Spire has the discretion under current accounting guidance to assign many costs to capital or expense.

The impact of reflecting these discretionary decisions for ratemaking purposes is a trade-off from the ratepayer's perspective. In the ratemaking process, choosing to charge customers for a cost through rate base instead of the income statement will generally cause three changes to the revenue requirement; 1) overall expenses will be reduced, 2) depreciation expense will increase and, 3) the calculated rate of return will increase. In this circumstance, the net impact would likely be an immediate reduction to the revenue requirement, which would appear to be a ratepayer benefit. However, if the cost is continued to be capitalized into rate base, the increase to depreciation expense and the required rate of return accumulates year after year while the rate reduction from decreased expense remains constant, if all else is held equal. Over time, the incremental increases to the revenue requirement will exceed the decrease in expense, which may not be in the interest of ratepayers.

A majority of the authoritative ratemaking guidance for capitalizing costs is addressed in the USOA's Gas Plant Instruction 3 – Components of Construction Cost. In this instruction, the USOA presents a thorough list of items that can be directly or indirectly related to construction costs, therefore eligible for capitalization. The USOA also includes Gas Plant Instruction 4 – Overhead Construction Costs. While Instruction (3) provides guidance for the capitalization of several categories of direct and overhead costs, Instruction (4) generally limits such capitalization to reasonable amounts.[65]

---

[65] Additional accounting guidance for certain costs can be found in the descriptions of specific plant and expense accounts.

To gain an understanding regarding the overhead costs Spire Missouri capitalizes, Staff analyzed the data provided in the ISRS rate cases Spire has filed since its last rate case. The information available to Staff shows that the overhead capitalized in Spire East's ISRS rate base exceeds 50% of the total capital costs, while Spire West's overhead constituted 20% of the total construction cost. The disparity between the two jurisdictions is driven in part by Spire's different construction approaches. Spire East primarily uses in-house personnel for construction projects and payroll costs are a driver of many of Spire's allocation factors so Spire East's projects tend to draw more overhead costs during the allocation process than Spire West, which relies more heavily on 3rd party contractors for construction projects.

Regardless of the use of contractors vs. in-house employees, it is not a reasonable expectation for half of Spire East's construction projects to be comprised of costs that are not directly related to any particular construction project. To discover if Spire's overhead construction costs are equitably assigned to each capital job or unit as required by the USOA, Staff submitted a series of data requests regarding Spire's capitalization practices. To account for construction costs, employees direct-charge charge costs to a capital project when possible and charge costs to a clearing account or shared services project when not possible. The indirect (overhead) costs booked to clearing or shared service projects are distributed at a later date, using allocation methods created by Spire.

In response to a data request asking for test year overhead employee costs and the related benefits that are capitalized, Spire notes that it does not maintain records of such information. Furthermore, Spire states that the allocation of costs to capital orders has dozens of steps and is a complex systematic process. As such, Staff cannot accurately discern the origin of overhead costs that Spire is booking to its capital projects and including in its rate base. For example, the information regarding overheads provided to Staff does not, or cannot, differentiate between supervisory labor from a Spire Missouri employee, unrelated overhead labor from a Spire Alabama employee, an employee of Spire Inc.'s unregulated businesses, an executive employee, and so on. Staff is concerned that the complexity of Spire's processes obfuscate the nature and amount of overheads Spire Missouri has booked to rate base.

For this reason, Staff is unable to affirm that Spire is in compliance with USOA requirements found in Gas Plant Instructions 3 and 4 that limits a project's assigned overhead to an equitable proportion, since Spire cannot show where the overhead originated. Additionally, there are costs currently capitalized by Spire that appear to conflict with the guidance set forth in the USOA. Staff recommends the Commission order Spire to cease capitalizing non-operational overhead costs, or as an alternative order Spire to cease capitalizing costs received from Spire Inc.'s Shared Services entity, until such a time Spire can demonstrate the nature and quantity of capitalized overhead costs and show the relationship between indirect costs and construction projects of Spire East and Spire West in order to justify that the capitalized portion of overheads is equitable. To align Staff's calculated revenue requirement with a Commission Order on this matter, Staff further recommends the Commission order Staff's accounting adjustments to reflect the Commission's order on Spire's capitalization policy. For clarity, Staff recommends that should the Commission adopt Staff's recommendation, Spire should implement changes in overhead capitalization prospectively from the effective date of tariffs from this rate case.

Staff Expert/Witness: Matthew R. Young

H. Cash Working Capital (CWC)

Cash Working Capital ("CWC") is the amount of funding necessary for a utility to pay day-to-day expenses incurred in providing the utility services to its customers. Cash inflows from payments received by the Company and cash outflows for expenses paid by the Company are analyzed using a lead/lag study.

When a utility expends funds in order to pay an expense necessary for the provision of service before its customers provide any corresponding payment, the utility's shareholders are the source of the funds. This shareholder funding represents a portion of each shareholders' total investment in the utility, for which the shareholders are compensated by the inclusion of these funds in rate base. By including these funds in rate base, the shareholders earn a return on the CWC-related funding they have invested.

Customers supply funds when they pay for gas services received before the utility pays expenses incurred in providing that service. Utility customers are compensated for the funds they provide by a reduction to the utility's rate base. By removing these funds from rate base, the utility earns no return on that funding which was supplied by customers.

A positive CWC requirement indicates that, in the aggregate, the shareholders provide the CWC for the test year. This means that, on average, the utility paid the expenses incurred to provide the gas services to its customers before those customers had to pay the utility for the provision of these utility services. A negative CWC requirement indicates that, in the aggregate, the utility's customers provide the CWC for the test year. This means that, on average, the customers paid for the utility's gas services before the utility paid the expenses that the utility incurred to provide those services.

A major component of the lead/lag study is the determination of the revenue lag. The revenue lag is the amount of time between the day the company provides the utility service, and the day it receives payment from the ratepayers for that service. Staff's overall revenue lag in this case is the sum of three (3) subcomponents. They are as follows:

1) Usage Lag: The midpoint of the period of time elapsed from the beginning of the first day of a service period to the end of the last day of a service period;
2) Billing Lag: The period of time between the last day of the service period and the day the bill for that service period is placed in the mail by the Company; and
3) Collection Lag: The period of time between the day the bill is placed in the mail by the Company and the day the Company receives payment from the ratepayer for the services provided.

Spire performed a lead-lag study specific to costs incurred during the 12-month test year ended September 30, 2020, for Spire Missouri only. Staff did not perform a complete CWC analysis in this case, and instead largely adopted the calculations made by Spire East and Spire West in this case and Staff's calculations in previous cases. However, upon review of the Company's CWC schedule and work papers, Staff determined that a current analysis was needed with respect to the Pension Expense lag, the Annual Performance Bonus lag, and Missouri PSC Assessment lag.

As will be discussed below, the results of Staff's analysis resulted in a positive CWC requirement for Spire East and Spire West. This means that, in the aggregate, Spire East and Spire West's shareholders provided the CWC to the company during the test year. The components of Staff's CWC calculation found on Accounting Schedule 8 on the EMS run are as follows:

1) Column A (Account Description): lists the types of cash expenses that Spire East and Spire West pay on a day-to-day basis.
2) Column B (Test Year Expenses): provides the amount of annualized expense included in Spire East's and Spire West's cost of service. Column B bases the dollars associated with those items on an adjusted jurisdictional basis in Column A.

3) Column C (Revenue Lag): indicates the number of days between the midpoint of the provision of service by Spire East and Spire West and the payment by the ratepayer for such service. Further explanation of the Revenue Lag can be found later in this section of the Report.
4) Column D (Expense Lag): indicates the number of days between the receipt of and payment for the goods and services (i.e., cash expenditures) used to provide the service to the ratepayer. Further explanation of the Expense Lag can be found later in this section of the Report.
5) Column E (Net Lag): results from the subtraction of the Expense Lag (Column D) from the Revenue Lag (Column C).
6) Column F (Factor): expresses the CWC lag in days as a fraction of the total days in the test year. This is accomplished by dividing the Net Lags in Column E by 365.
7) Column G is the CWC requirement needed for each expense listed. The amounts in this Column are calculated by multiplying the test year/annualized balances in Column B with the CWC Factor (Column F).

The result of Staff's CWC analysis is reflected on the Cash Working Capital Accounting Schedule 8. Staff's CWC analysis result is also reflected on the Rate Base Accounting Schedule 2 in the section entitled "Add to Net Plant-In-Service." Other aspects of Staff's CWC analysis and results are also listed in the Rate Base Schedule in the section entitled "Subtract From Net Plant" that includes the Federal Tax Offset, State Tax Offset, City Tax Offset and Interest Expense Offset.

Staff has reviewed the revenue and expense lag calculations made by Spire East and Spire West and reviewed Staff's calculations in previous cases. In this case, for Spire East and Spire West, Staff used the revenue, payroll expense and employee tax, and gross receipts tax lags calculated by Staff in Case No. GR-2017-0215 and GR-2017-0216, respectively. Staff accepted the following CWC expense lags proposed by Spire as reasonable: vacation pay, employee benefits, cash vouchers, uncollectible expense, property taxes, Gas Purchases, Federal and State unemployment taxes, use and sales tax, and interest expense. Staff performed a lead/lag study on the expense lags for the pensions, the annual performance bonus, and Missouri PSC Assessment. Staff also reflected a shortened revenue and expense lag for gross receipts, use and sales tax.

Spire East and Spire West are required to collect taxes for municipalities in which they operate. These taxes include gross receipts tax, use tax, and sales tax, and are included as separate line items on the ratepayer's bill. However, when the funds are received, the Company remits payments to the taxing authority based on the arrangement established with the taxing authority. Since the Company collects the taxes for the taxing authority and a service is not provided to the ratepayer by the Company, measurement of the revenue and expense lags calculations start with the beginning point of the collection lag for these taxes. The collection lag was defined earlier in this report as the period of time between the day the bill is placed in the mail by the Company and the day the Company receives payment from the ratepayer for the services provided. As a result of using this methodology, the gross receipts tax, sales tax and use tax CWC line items have a shortened revenue and expense lag.

Spire East and Spire West included an expense lag for the PSC Assessment. In addition, Spire East and Spire West included the PSC Assessment in prepayments. Prepayment balances and CWC, for Spire East and Spire West, are additions to rate base that allow Spire East and Spire West to earn a return on the balances. Staff included the PSC Assessment in CWC consistent with Spire East and Spire West, but excluded the PSC Assessment from prepayments.

The expense lag for pensions, annual performance plans, and the PSC assessment is determined based on the time elapsed between the midpoint of the period of service and the date on which payments were made. Staff calculated the pension expense lag based on payments made by Spire East and Spire West during the test year and calculated the PSC assessment based on the period of July 1, 2019 through June 30, 2020. Staff recommends a pension lag of 91.44 days for Spire East and 69.38 days for Spire West. Staff's recommended expense lag for the PSC assessment and the annual performance plan is 32.75 and 258.5, respectively.

In conclusion, the results of the study performed by Staff resulted in a positive CWC requirement. This means that in the aggregate, the shareholders have provided the CWC to the Company during the year. Therefore, the shareholders should be compensated for the CWC that they provide, through an increase to rate base.

Staff Expert/Witness: Antonija Nieto

E. Natural Gas Inventories

For both Spire East and Spire West, Staff has reviewed all gas inventories for the period of September 2017 through December 31, 2020, and has included a 13-month average ending December 31, 2020, as the proper amount of natural gas inventory to include in rate base.

Natural gas is purchased and injected into storage facilities during the summer months where it is held until the winter months when that gas is withdrawn and delivered to

Spire East's and Spire West's distribution system for customer use. Propane gas is also purchased and stored to meet peak demand during the winter months. Spire East owns propane facilities, but Spire West does not. Propane inventories are discussed in further detail in the Propane Investment-Revenue-Expense Section of this report

Spire East owns the Lange natural gas underground storage field located north of St. Louis. Spire East generally fills this storage field in the summer and uses gas from this storage to serve its customers on cold days during the heating season. The storage field and natural gas in the storage field are Spire East investments. The natural gas in the storage field is recorded in one of three accounts as required by the Federal Energy Regulatory Commission ("FERC") Uniform System of Accounts ("USOA"), 117, 352 and 164. The balance of inventory contained in FERC account 117.10 Gas Stored - base gas, also referred to as "cushion gas," represents the volume of gas that must remain in the storage facility to provide the required pressurization to extract the current gas from the storage facility. The balance reflected in FERC account 352.30 is non-recoverable natural gas that is permanently embedded in the storage field and may never be extracted. The natural gas that is included in FERC account 164.10 Gas Stored - Current represents attainable natural gas that is used to meet seasonal demand increases.[66] Spire East also injects and withdraws gas from the Mississippi River Transmission ("MRT") pipeline as a supplemental source of natural gas to the Lange storage field and is recorded in FERC account 164.11.

Prior to Case No. GR-2017-0215, the gas inventory balances for Spire East was recorded in account 164.10 and 164.11 and was addressed as part of the PGA/ACA process and therefore was not included in rate base. In its Amended Report and Order in Case No. GR-2017-0215, The Commission stated,[67]

> The Commission has considered the effects on the ratepayers of removing these costs from the PGA and putting them back in rate base. The Commission has also considered the benefits of doing so and that PGA costs will be reduced potentially offsetting the rate base increases. In balancing the interests of the ratepayers and of the company, the Commission determines that it is just and reasonable to move LAC's gas storage costs out of the PGA tariff and back into base rates. By doing so, the Commission brings LAC back in line with MGE and every other natural gas local distribution company in Missouri.

[66] Some of the gas in the storage field is unrecoverable. Attainable natural gas is that which is able to be recovered and used. It is also referred to as current gas.
[67] Case No. GR-2017-0215, *Amended Report and Order*, page 65-68, filed on March 7, 2018.

Staff included Spire East's gas inventories in rate base to be consistent with the Commission Order in Case No. GR-2017-0215 and the ratemaking treatment for Spire West gas inventories. Staff also included Spire West's firm capacity[68] for the Southern Star Central Gas Pipeline and the Panhandle Eastern Pipeline.

Staff Expert/Witness: Karen Lyons

F. Prepayments; Materials and Supplies

1. <u>Prepayments</u>

Prepayments are the costs a company incurs and pays in advance for various items needed to operate the utility system. Staff's recommended treatment of prepayments is to examine each prepayment account individually in order to determine an appropriate measure that most accurately reflects the ongoing future investment costs of a particular account, and then include that amount in Spire East's and Spire West's rate bases. Spire East and Spire West have utilized their own funds for prepaid items such as insurance premiums and rents. Staff examined Spire East's and Spire West's prepayment account balances on a month-by-month basis. Staff removed costs recorded in prepayments that do not benefit ratepayers and are not necessary in the provision of safe and adequate service. The costs that Staff excluded from prepayments is consistent with Staff's recommended disallowances discussed in the Cost of Service sections Dues and Donations and Miscellaneous Expense and Officer Expense. After excluding these costs, Staff determined the prepayment levels to include in Spire East's and Spire West's rate bases (Rate Base, Accounting Schedule 2) by calculating the 13-month average ending December 31, 2020, the update period. A 13-month average of month-ending balances is used to capture the beginning balance and ending balance of the 12-month period ending December 31, 2020. Staff recommends this approach because there was no discernible upward or downward trend in the monthly balances.

Staff Expert/Witness: Jeremy Juliette

2. <u>Materials and Supplies</u>

Materials and supplies consist of natural gas piping, connections for service, main repairs, gas regulators, and spare parts necessary to operate the local distribution natural gas system.

---

[68] Firm capacity is the amount of gas available for production or transmission which can be, and in many cases must be, guaranteed to be available at a given time.

Staff's recommended treatment of materials and supplies is to examine each account individually in order to determine an appropriate measure that most accurately reflects the ongoing future investment costs of a particular account, and this amount should be included in Spire East's and Spire West's rate base. For Spire East and Spire West, Staff reviewed the monthly balances for materials and supplies over the last several years and, because the monthly account balances fluctuated with no distinguishable trend, Staff determined that a 13-month average as of December 31, 2020, was appropriate for materials and supplies. Materials and supplies are included in the Spire East's and Spire West's rate base (Accounting Schedule 2).

Staff Expert/Witness: Jeremy Juliette

G. Pensions Asset Liability

1. <u>Pension Tracker and Expense</u>

Staff recommends that the ratemaking methodology for Spire East and Spire West's pension expense continue in a manner similar to that agreed to in the Stipulation and Agreement (the "2014 Spire West Stipulation") from Spire West's recent rate case, Case No. GR-2014-0007. In that case, Spire West and Staff agreed to several ratemaking methodologies governing the recognition of pension expense in Spire West's cost of service and the use of a tracking mechanism. In Spire East's recent rate case, Case No. GR-2013-0171, a Stipulation and Agreement ("2013 Spire East Stipulation") was filed, outlining a ratemaking methodology similar to the MGE Stipulation. In this case, Staff recommends the baseline funding scenario (80%) for cash contributions as calculated by Spire Missouri's actuary Willis Towers Watson in their Cash Forecast report dated October 30, 2020 provided in response to Staff Data Request number 0359. Staff also addresses the recent Missouri Supreme Court decision regarding the 1996 prepaid pension asset issue in prior cases.

Spire offers a defined benefit pension plan identified as the Spire Missouri Employees' Retirement Plan ("Spire East") to all of its current employees.

A legacy Spire pension plan also exists, identified as the Spire Missouri West Retirement Income Plan ("Spire West"). This legacy plan was a former Missouri Gas Energy ("MGE") pension plan that covered union and non-union MGE employees. Active employees covered under the legacy MGE plan were transitioned to the Spire Missouri Employee's Retirement plan on January 1, 2021. However, the legacy plan still covers all Spire (legacy MGE) employees who retired prior to January 1, 2021, and will continue until all of the benefit obligations owed to those retired employees has been met.

A tracker mechanism is a unique regulatory tool used to ensure that rate recovery over time is made equal to the actual expenditures for a particular cost of service item. A tracker mechanism compares the ongoing amount of a cash expense actually incurred by a utility to the amount of the same expense reflected in the utility's rates, and provides rate recovery over time of the difference between the two totals. Generally, tracker mechanisms should only be used for certain cost items incurred by utilities that show unusual characteristics or are incurred under extraordinary circumstances. Trackers are used for pensions and other post-employment benefits ("OPEBS") as an exception to the normal ratemaking adjustments because of the significant possible cash flow implications to utilities if their pension funding requirements are materially different from their pension expense recovery levels in rates. Spire East and Spire West are required to fund pensions at a certain level pursuant to the Employment Income Security Act ("ERISA") of 1974 and the Pension Protection Act ("PPA") of 2006. Ongoing tracker mechanisms capture both under and over recovery of an expense for recovery from or return to ratepayers.

The overall goal of a tracker mechanism, when properly exercised, is to provide the utility with dollar for dollar recovery of reasonable and prudently incurred cash expenses, but no more and no less than dollar for dollar recovery. For ratemaking purposes, Staff tracks the difference between cash paid by the company for pension contributions and cash received from customers through rates. However, Spire reports pension expense under the Accounting Standard Codification 715, which has historically been referred to as FAS 87 and FAS 88. The Federal Accounting Standards Board (FASB) issued FAS 87 to give publicly traded companies guidance on accounting for pension expense and to increase comparability between companies' reported costs. The pension expense reported by companies under the FAS 87 guidance is based on the estimated pension obligation a company incurs during the service of its employees. Furthermore, the FAS 87 expense calculation is not directly affected by the company's cash flow. Since a tracker mechanism has been agreed to, cash flow is fundamental in tracking the actual cash outlay incurred by the Company in order to provide the utility recovery of the difference in their actual cash outlay and the amounts that have been included in rates. Since the FAS 87 expense calculated by Spire's actuary, Towers Watson, does not capture the cash flow implications, FAS 87 expense is not an appropriate methodology for ratemaking purposes.

2. Spire West Pension Tracker

The Spire West pension tracker follows the methodology ordered by the Commission pursuant to the 2014 Spire West Stipulation, as implemented by Staff in the 2017 Rate Case, and updated through December 31, 2020. Staff recommends continuation of the tracking mechanism. Staff has included the cumulative difference between the amount in rates resulting from the 2017 Rate Case and the amounts contributed to the pension trusts, reduced by amortizations in rates. Staff recommends amortization of the cumulative tracker balance, $(19,017,238) at December 31, 2020 over a period of 8 (eight) years, inclusion of $(19,017,238) of the cumulative tracker balance as a net rate base reduction, and $4.4 million of current contributions in the cost of service.

3. Spire East Pension Tracker

The Spire East pension tracker follows the methodology ordered by the Commission pursuant to the 2013 Spire East Stipulation, as implemented by Staff in the 2017 Rate Case, and updated through December 31, 2020. Staff recommends continuation of the tracking mechanism. Staff has included the cumulative difference between the amount in rates resulting from the 2017 Rate Case and the amounts contributed to the pension trusts, reduced by amortizations in rates. Staff recommends amortization of the cumulative tracker balance, $92,034,851 at December 31, 2020 over a period of 8 (eight) years, inclusion of $92,034,851 of the cumulative tracker balance as a net rate base addition, and $32.4 million of current contributions in the cost of service.

4. Pension Asset Remand to the Commission of the 2017 Rate Case

In the Amended Report and Order in the 2017 Rate Case, the Commission determined that Spire East should recover $131.4 million of prepaid pension asset in customer rates over an eight-year amortization period. This amount had been reduced by prior recorded amounts from 1990 through 1994 of $19.8 million and 1994 through 1996 of $9 million. The Missouri Supreme Court found in favor of Spire East concerning the $9 million portion of the prepaid pension asset and remanded the case to the Commission for further proceedings [69] in February 2021.

---

[69] Supreme Court of Missouri, Opinion No. SC97834.

Based on the court decision, Staff recommends inclusion of the $9 million portion of prepaid pension asset at issue in the pension tracker mechanism for Spire East, which is the same ratemaking treatment this asset would have received if it were not a disputed issue in the 2017 Rate Case. Staff included the $9 million in the Spire East cumulative tracker balance of $92,034,851.

Staff Expert/Witness: Jared Giacone

H. Other Post-Employment Benefits ("OPEBS") and Tracker

Other Post Employment Benefit Costs ("OPEBS" or "postretirement benefits") are costs Spire East and Spire West incur to provide certain benefits to retired employees. The primary benefit is medical insurance, but these costs also include life, dental, and vision insurance benefits. OPEBs are actuarially calculated under the terms of Financial Account Standard 106 ("FAS 106"). FAS 106 is the FASB approved accrual accounting method used for financial statement recognition of the annual amount of OPEBs. The accounting of the cost of post-retirement benefits is not based on the actual dollars Spire pays for OPEBs to its retirees currently. Instead, under FAS 106, this measurement is accrual-based, in that it attempts to recognize financial effects of noncash transactions and events affecting future OPEB obligations as they occur. These noncash transactions and events are primarily current benefits earned by employees before retirement, but not paid until after retirement, as well as the interest cost arising from the passage of time until those benefits are paid. Staff's OPEB adjustment to Account 926, Employee Benefits, annualizes the level of Spire East's and Spire West's forecasted cash contributions.

The 2013 Spire East Stipulation and 2014 Spire West Stipulation describe the continuing use of trackers for OPEBs. The amounts tracked are the differences between the current ongoing level of cash contributions made to fund the OPEB trust accounts and the dollar amount of OPEB expense reflected in rates between each case. The OPEB tracking mechanisms are functionally the same as the pension tracking mechanisms.

1. <u>Spire West OPEB Tracker</u>

The Spire West OPEB tracker follows the methodology ordered by the Commission pursuant to the 2014 Spire West Stipulation, as implemented by Staff in the 2017 Rate Case, and updated through December 31, 2020. Staff recommends continuation of the tracking mechanism. Staff has included the cumulative difference between the amount in rates resulting from the 2017 Rate Case and the amounts contributed to the OPEB trusts, reduced by amortizations in rates. Staff recommends amortization of the cumulative tracker balance, $(298,110) at December 31, 2020 over a period of 8 (eight) years, inclusion of $(298,110) of the cumulative tracker balance as a net rate base reduction, and zero dollars for current contributions in the cost of service since current funding is sufficient to meet the OPEB obligations. Only the amortization of the OPEB liability balance will be included in the cost of service.

2. <u>Spire East OPEB Tracker</u>

The Spire East OPEB tracker follows the methodology ordered by the Commission pursuant to the 2013 Spire East Stipulation, as implemented by Staff in the 2017 Rate Case, and updated through December 31, 2020. Staff recommends continuation of the tracking mechanism. Staff has included the cumulative difference between the amount in rates resulting from the 2017 Rate Case and the amounts contributed to the pension trusts, reduced by amortizations in rates. Staff recommends amortization of the cumulative tracker balance, $8,580,496 at December 31, 2020 over a period of 8 (eight) years, inclusion of $8,580,496 of the cumulative tracker balance as a net rate base addition, and zero dollars for current contributions in the cost of service since current funding is sufficient to meet the OPEB obligations. Only the amortization of the OPEB asset balance will be included in the cost of service.

Staff Expert/Witness: Jared Giacone

I. Customer Deposits and Interest

Customer deposits represent funds received from a utility company's customers as security against potential loss arising from failure to pay for utility service. These deposits are available to the utility for general use. Staff's recommended treatment of customer deposits is to deduct the most current customer deposit balance from Spire East's and Spire West's rate bases. Since the deposits are supplied by the customers, a representative level is included as an offset to the rate base investment in order to ensure that the utility does not earn a return on the value of these deposits. In addition, since these funds were provided by the ratepayers and not the shareholders, the ratepayers should be allowed to earn a reasonable return on these funds.

For Spire East and Spire West, Staff reviewed monthly balances of customer deposits and determined that using the last known balance as of December 31, 2020, was appropriate to include in rate base which is shown on Staff's Accounting Schedule 2, Rate Base.

Interest is accrued on these customer deposits based on the rate specified in Spire East's and Spire West's tariffs. These rates are the federal prime interest rate of 3.25 percent plus 100 basis points for both residential and commercial customers. When a customer becomes eligible for a return of his or her deposit, the amount refunded includes the accumulated interest. The annual accrual of interest on customer deposits is included in the cost of service as an expense. The amount of interest calculated on customer deposits is reflected on Staff Accounting Schedule 10.

Staff Expert/Witness: Jeremy Juliette

J. Customer Advances

Customer advances are funds provided by individual customers of the utility to assist in the costs of the provision of gas service to those customers. Like customer deposits, customer advances are available to the utility for general use. Staff's recommended treatment of customer advances is to deduct the most current customer advance balance from Spire West's and Spire East's rate base. Since the advances obtained are essentially interest-free to the utility, a representative level is included as an offset to the rate base investment in order to ensure that the utility does not earn a return on the value of the level of advances.

Because customers that pay an advance are unlikely to receive a refund of any portion of the customer advance, no interest is paid to those customers for the use of their money, unlike the interest paid on customer deposits. For Spire East, Staff used the last known balance as of December 31, 2020. Staff used this balance because Spire indicated that the balance will increase in February 2021.[70] Due to a steady increase in the balance for Spire West, Staff also used the last known balance as of December 31, 2020. Staff will true-up these adjustments as of May 31, 2021 at the appropriate time. These adjustments are shown on Staff's Accounting Schedule 2, Rate Base.

Staff Expert/Witness: Jeremy Juliette

K. Accumulated Deferred Income Taxes (ADIT)

Each year that Spire Missouri has a temporary tax timing difference that causes a deferred income tax expense, a liability is created. The liability recognizes that the tax savings received in the current period are temporary, and will be reversed in future periods. The federal government intended to create these timing differences so that a company could have an effective cost-free

---

[70] Response to Staff Data Request No. 133.1

loan from the federal government so that the firm could reinvest in its company. Over time, the tax liability related to temporary timing differences are accumulated in Spire Missouri's liability accounts as Accumulated Deferred Income Taxes ("ADIT"). As discussed in the Income Tax section of this report, ratepayers are charged deferred income tax expense related to normalized tax timing differences protected by the Internal Revenue Service's ("IRS") Internal Revenue Code ("IRC"). Because ratepayers do not immediately receive the benefits of the normalized tax deductions, customers have effectively paid income tax expense that Spire Missouri has not yet incurred. As such, Spire Missouri's ADIT represents cash collected from customers for an expense that will be realized in future periods and is considered an interest-free loan from ratepayers. Since the amount of ADIT customers have provided is available for Spire Missouri's use, rate base is reduced by that amount to avoid charging customers a rate of return on funds they have made available to Spire Missouri.

Staff Expert/Witness: Matthew R. Young

L. Rate Base Offset GM-2013-0254 – MGE's ADIT

Pursuant to the Unanimous Stipulation and Agreement approved by the Commission authorizing Laclede Gas Company to purchase MGE in Case No. GM-2013-0254, Spire West is required to recognize a rate base offset of $125 million:

> Laclede Gas shall include a rate base offset for its MGE Division in the amount of $125 million. Laclede Gas' MGE Division shall amortize this rate base offset over a period of ten years commencing on the effective date of close. For clarification, the outstanding balance of such rate base offset shall serve to reduce rate base for rate making purposes in the context of all future rate proceedings during the amortization period, which will effectively prevent customers from paying a return on such rate base offset. This shall result in lower rates and charges in future periods.

Spire Missouri Inc., then known as Laclede Gas Company, at that time included a rate base offset for its MGE Division in the amount of $125 million as of the effective date of rates in Case No. GR-2014-0007. MGE began amortizing this rate base offset over a period of ten years commencing on the effective date of close of the sale of MGE to Spire Missouri, Inc., then known as Laclede Gas Company. Staff has included the unamortized portion of the rate base offset at December 31, 2020, for the direct filing as a reduction to rate base. This balance will be updated as of May 31, 2021 for true-up purposes.

Staff Expert/Witness: Matthew R. Young

M. Insulation Financing and Energy Wise Loan Balances

Spire East and Spire West offers an Insulation Financing Program that permits qualifying residential customers to borrow funds for the purpose of insulating their homes and adding storm windows and storm doors.

In addition, Spire East and Spire West offers the EnergyWise program, which is similar to the insulation financing program except that its focus is offering financing for high-efficiency natural gas furnaces, high-efficiency gas air conditioners, and certain energy efficient appliances. This program is available to credit-qualified residential and commercial customers.

Due to a definitive upward trend in the loan balances of both programs, Staff has included the loan balances at December 31, 2020, as an appropriate level to be included in the Spire East and Spire West rate base. Staff will continue to analyze data associated with these programs and will update the loan balances through the true-up, May 31, 2021.

Interest Income Energy Wise/Insulation Financing

The loan balances associated with the Insulation Financing Program and EnergyWise program are currently included in rate base. Spire East and Spire West receives interest income that is collected in relation to both of these programs. Interest is calculated on these loan balances using three different interest rates, as stated in the Spire Missouri tariff, depending on the type of loan held by each customer.

Staff has included interest income related to these programs as part of Spire East and Spire West cost of service based on data from actual use of the program.

Staff Expert/Witness: Karen Lyons

N. Transition Costs-Purchase of MGE by The Laclede Group

Pursuant to the *Partial Non-Unanimous Stipulation and Agreement* in Case Nos. GR-2017-0215 and GR-2017-0216 as approved by the Commission, Spire East and Spire West were allowed to recover $5.3 and $4.2 million, respectively, of acquisition transition costs over four (4) years. This amortization began with the effective date of rates on April 19, 2018 and will have a remaining balance at the time of the effective date of rates in this case. Staff recommends including an amortization over three years of the projected remaining balance at the approximate effective date of rates in this case at November 2021 to best match recovery of this cost with the effective rates. The remaining balances will be $554,167 and $435,417 at that time. These unamortized balances are included in rate base pursuant to the *Partial Non-Unanimous Stipulation and Agreement*.

Spire East and Spire West were allowed to amortize two other regulatory assets related to the acquisition and referenced in the *Partial Non-Unanimous Stipulation and Agreement* in Case Nos. GR-2017-0215 and GR-2017-0216 as approved by the Commission. Staff has removed the test year amortization for these regulatory assets, the 720 Olive Leasehold Improvements and the MGE Software Assets. These regulatory assets were to be amortized but not included in Staff's accounting schedules pursuant to that stipulation and agreement.

Staff Expert/Witness: Keith Majors

VII. Corporate Allocations

Spire Inc., the parent company of Spire, owns subsidiary companies across the United States that include regulated and non-regulated operations. In addition to owning Spire in Missouri, Spire Inc. also has gas utility operations regulated by Alabama and Mississippi and wholesale operations regulated by the Federal Energy Regulatory Commission ("FERC"). Furthermore, Spire Inc. has entities that conduct non-regulated operations based in Missouri, South Carolina, Wyoming, and Texas. While some of these entities have employees and facilities dedicated to each business segment, there are instances where costs are incurred by one business segment that benefits a different, or multiple, business segment(s). For example, the time spent by the executive leadership is properly attributable to all business segments of Spire Inc. since executives are charged with leading the company as a whole.

To account for the costs that are common across multiple business units, Spire Inc. implemented a shared service model. Under this model, costs that are incurred on behalf of a different, or more than one, business unit are charged to the shared services entity so that the costs can accumulate in shared cost pools. At the end of each period, the cost pools are distributed back to the business segments based on the various cost drivers. Types of costs accounted for under this methodology include the labor and non-labor costs of executive and corporate, finance, human resources, information technology, legal, insurance, supply chain, facilities, marketing, project management, external affairs, customer experience, business development, and other costs.

Costs are distributed to the appropriate business segments by the use of several types of allocation factors. These allocation factors are updated annually and include allocators to spread costs corporate-wide (all business units), utility only (regulated operations), Missouri only (Spire Missouri and non-regulated operations), and Missouri utility only (Spire Missouri). Furthermore, these allocation factors can be derived from various cost drivers including employee headcount, customer count, square footage used, fixed assets, and many others. When a cost pool has no identifiable cost driver, the shared services model allocates costs based on a three factor allocator that is a blend of fixed assets, revenue, and wages.

While calculating the cost of service for Spire East and Spire West, Staff recommends utilizing annualized fixed asset, 3-factor, and information technology allocation factors currently in effect for fiscal year 2021 due to Spire's current and ongoing activity in implementing and upgrading its website and incorporating its southern operations into its new software platforms. For the remaining factors, Staff recommends utilizing normalized allocation factors due to the year-to-year fluctuating nature of Spire Missouri's share of the total cost.

Staff Expert/Witness: Matthew R. Young

VIII. Income Statement-Revenues

A. Retail Revenues

1. Introduction

The following section describes how Staff determined the amount of Spire East and Spire West adjusted non-gas operating revenues.[71] Since the largest component of non-gas operating revenues is a result of rates charged to Spire East and Spire West retail customers, a comparison of non-gas operating revenues with the cost of service is fundamentally a test of the adequacy of the currently effective retail natural gas rates to meet Spire East and Spire West current costs of providing utility service.

One of the major tasks in a rate case is to determine the magnitude of any deficiency (or excess) between a company's cost of service and its operating revenues. Test year revenues need to be appropriately normalized and annualized in order to accurately measure the amount of any deficiency (or excess) in the current level of operating revenues. Once determined, the deficiency (or excess) can only be made up (or otherwise addressed) by adjusting retail rates (i.e., rate revenue) prospectively.

---

[71] The cost of gas is recovered from customers in the Company's Purchased Gas Adjustment (PGA) and removed from Spire East's and Spire West's revenue requirement for purposes of establishing non-gas rates.

2. Definitions

Non-gas operating Revenues are composed of two components: (1) Rate Revenue and (2) Other Operating Revenue. The definitions of these components are as follows:

Rate Revenue: Test year rate revenues consist solely of the revenues derived from Spire East and Spire West authorized Commission approved rates for providing natural gas service to their retail customers. Spire East and Spire West variable charges are determined by the amount of each customer's usage and the (per unit) rates that are applied to that usage. Each customer also pays a flat monthly customer charge dependent upon each customer's rate class. The Spire East rate classes include residential, small general, large general, large volume, unmetered gaslight, interruptible, general l.p., vehicular fuel rate, and transportation customer classifications. The Spire West rates classes include residential, small general, large general, large volume, unmetered gaslight, and transportation customer classifications. The tables below are Spire East and Spire West ending rate revenue by class.

Spire East	
Rate Class	**Total MO Normalized Revenue**
Residential Service	$ 275,083,737
Small General Service	$ 29,185,361
Large General Service	$ 26,954,133
Large Volume Service	$ 1,005,526
Unmetered Gaslight	$ 42,763
Interruptible	$ 544,840
General LP	$ 12,417
Vehicular	$ 24,746
Large Volume Transportation	$ 14,902,508
Total	$ 347,756,032

Spire West	
Rate Class	**Total MO Normalized Revenue**
Residential Service	$ 175,409,043
Small General Service	$ 17,367,161
Large General Service	$ 15,604,508
Large Volume Service	$ 230,764
Unmetered Gaslight	$ 1,270
Intrastate Transportation	$ 17,081,050
Total	$ 225,693,795

Other Operating Revenue: Other operating revenue includes late payment charges, collection trip charges, special meter reading charges and disconnection/reconnection of service charges. Each of these charges is also established by the Commission, and all of these revenue items are taken into account in setting retail rates for Spire East and Spire West gas service to customers.

3. The Development of Revenue in this Case

To determine the level of Spire East and Spire West revenue, Staff applied standard ratemaking adjustments to test year (historical) volumes and customer levels. Staff makes these adjustments in order to determine the level of revenue that Spire East and Spire West would collect on an annual basis, under normal weather or climatic conditions, natural gas usage and customer levels, based on information that is "known and measurable" as of the end of the update period. In this particular case, the test year is the 12 months ended September 2020, updated for known and measurable changes through December 2020. There also will be a true-up in this case through May 2021.

Revenue was developed and summarized in two different ways: (1) type of regulatory adjustment and (2) total revenue by rate class. This Report describes the eight major regulatory adjustments Staff made to test year billed rate revenues:

a. weather normalization
b. 365-day adjustment
c. customer growth
d. large customer annualization
e. removal of gas costs
f. removal of off-system sales ("OSS") and capacity revenue
g. removal of Gross Receipts Tax ("GRT") revenue and expense
h. removal of Infrastructure System Replacement Surcharge ("ISRS") revenue

Not all of these adjustments affect both sales (therms or ccfs) and rate revenue dollars, and not all rate classes are subject to all five adjustments.

Other revenue adjustments proposed by Staff in this proceeding are briefly described in the following Cost of Service Report sections.

4. Customer Growth

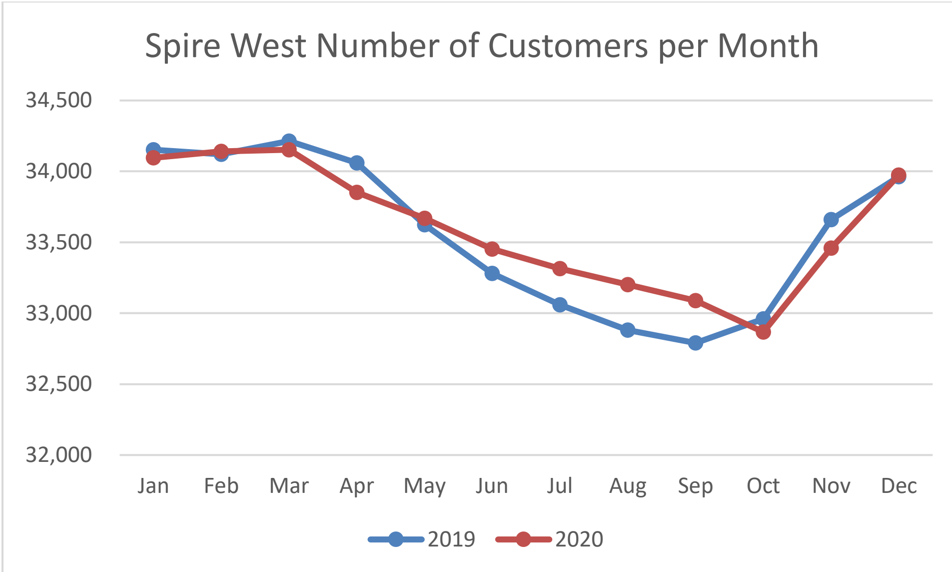
All revenue adjustments made by Staff in determining Spire East and Spire West cost of service were priced on the margin (the total rate excluding the Purchased Gas Adjustment (PGA) gas cost rate) included in Spire East and Spire West tariffs. Staff analyzed customer growth for the Residential, SGS, and LGS classes for Spire East and Spire West. Adjustments for the large volume customers are discussed in Section VII.3. of this Report.

The annualization of customer revenues contains two components, the base charge and the commodity charge. The base charge is the minimum monthly charge that Spire East and Spire West assess to a customer for supplying gas service. The monthly base charge revenue is calculated by multiplying the base charge by Staff's annualized level of customers on a monthly basis.

Natural gas customers tend to fluctuate seasonally over a 12-month period, with some customers leaving the system during the spring and summer months and then rejoining the system during the fall and winter months. This seasonal sensitivity in customer numbers makes it impractical to base a customer growth adjustment on one period-ending customer number value as is normally done for electric utilities. The test year ending September 2020 and updated through December 2020 includes impacts of COVID 19. For this reason, Staff applied actual residential customer charge counts for January 2020 through December 2020 for Spire East and Spire West. The residential adjustment for January 2020 through December 2020 is reflected as the growth adjustment. Staff will review residential customer growth through May 2021 and will make any necessary adjustments in the true up filing on August 6, 2021.

Staff reviewed the monthly number of customers for Spire East's and Spire West' SGS and LGS rate classes and determined that a growth adjustment is not necessary. Staff found that throughout the test period customers switched between the SGS and LGS rate classes; however, when combined the monthly number of billed customers from month to month generally remained consistent as compared to the prior 12 month period.

continued on next page



Staff also notes that during the update period of October 2020 through December 2020 that several Large Volume customers switched to the LGS class. Staff did not make a growth adjustment for the LGS class. Staff will review LGS growth through May 2021 and will make any necessary adjustments in the true up filing on August 6, 2021.

Staff Experts/Witnesses: Kim Cox and Robin Kliethermes

3. Large Customer Adjustments

Spire East provided monthly billing units and information for every customer who took service on the Large Volume Service ("LV") and Interruptible Service ("IN") rate schedules during the test year and updated through December 2020. Spire West provided monthly billing units and information for every customer who took service on the LV rate schedule. Staff used these units as the basis of its analyses and adjustments. The following adjustments were made:

4. Large Customer Rate Switching

The general intent of an annualization is to re-state the test year usage as if conditions known at the end of the update period had existed throughout the entire year. Rate switching[72] and annualization adjustments include adjustments for new customers, the exit of existing customers, and load growth or decline of specific existing customers.

[72] Rate switching is when customers switch which rate schedule they will be served on during the test year or update period.

If a customer was in a rate class at the beginning of the test year, then transferred to a different rate class during the test year, the customer's billing determinants and associated revenues in the original class were removed from that class' total. The customer's billing determinants were then "priced out" using the tariffs of the class to which the customer switched, and those determinants and revenues were added to the totals in the new class. This resulted in a full year of history for the customer in the rate class they were in at the end of the year. For new customers having no prior usage, an estimated level of usage was used in order to have 12 months of data.

Spire East Large Customer Rate Class Changes: During the test year three customers left the large volume class. One customer left the IN class and one customer came on the IN class. Spire West Large Customer Rate Class Changes: During the test year, two customers left the LVclass.

5. Large Customer 365-Day Adjustment

The 18 bill cycles representative of the 12 months ending December 31, 2020, may or may not include 365 days. Staff made adjustments to customers' monthly usage for customers whose test year does not include 365 days, either by adding the appropriate number of days of average usage when there were fewer than 365 days of usage, or by subtracting the appropriate number of days of average usage when there were more than 365 days of usage.

6. Weather Normalization Adjustment

Staff did not apply a weather normalization factor to Spire East or Spire West customer's monthly usage. Staff witness, Michael L. Stahlman explains this further in the next section below.

Staff Expert/Witness: Kim Cox

B. Other Revenue Adjustments

1. Revenue - Weather Variables Used for Weather Normalization

Natural gas usage and revenue vary from year to year based on weather conditions. The temperature pattern in the test year is the primary determinant for weather-sensitive customers' gas usage and the Company's revenue in the test year. Each year's weather is unique, so rates for weather-sensitive customer classes must be based on test year usage and revenue adjusted to a level commensurate with "normal" weather conditions, rather than actual test year usages and revenue.

Weather Variables - Staff obtained weather data from the Midwest Regional Climate Center (MRCC).[73] Weather data of St Louis Lambert International Airport ("STL") and Kansas City International Airport ("MCI") was used for the service territories of Spire East and Spire West, respectively. The weather data sets consist of actual daily maximum temperature ("T_{max}") and daily minimum temperature ("T_{min}") observations. Staff used these daily temperatures to develop a set of mean daily temperature ("MDT")[74] values.

Natural gas sales are predominantly influenced by "ambient air temperature,"[75] so MDT and the derivative measure, heating degree days ("HDD"),[76] are the measures of weather used in adjusting test year natural gas sales. HDDs were originally developed as a weather measure that could be used to determine the relationship between temperature and gas usage. HDDs are based on the difference of MDT from a comfort level of 65°F. HDDs are calculated as the difference between 65°F and MDT when MDT is below 65°F, and are equal to zero when MDT is above 65°F.

Normal Weather - According to the National Oceanic and Atmospheric Administration ("NOAA"), a climate "normal" is defined as the arithmetic mean of a climatological element computed over three consecutive decades.[77] In developing climate normal temperatures, the NOAA focuses on the monthly maximum and minimum temperature time series to produce the serially-complete monthly temperature ("SCMT") data series.[78]

Staff utilized the SCMT published in July 2011 by the National Climatic Data Center ("NCDC") of the NOAA. To Staff's knowledge, NOAA is the only entity that provides reasonably reliable weather data for 30 year historical period and test year period for the Kansas City and St. Louis regions. For the purposes of normalizing the test year gas usage and revenues, Staff used the adjusted T_{max} and T_{min} daily temperature series for the 30-year period of January 1, 1989,

---

[73] http://mrcc.isws.illinois.edu/CLIMATE/

[74] By National Climatic Data Center convention, MDT is the average of daily maximum temperature (T_{max}) and daily minimum temperature (T_{min}) e.g. MDT = (T_{max} + T_{min}) /2

[75] Ambient air temperature is the outside temperature of the surrounding air without taking into account the humidity or wind in the air.

[76] Where MDT < 65°F, HDD = 65 – MDT; otherwise, HDD = 0.

[77] Retrieved on October 17, 2013, https://www.ncdc.noaa.gov/data-access/land-based-station-data/land-based-datasets/climate-normals

[78] Retrieved on October 17, 2013, http://www1.ncdc.noaa.gov/pub/data/normals/1981-2010/source-datasets/.The SCMT, computed by the NOAA, includes adjustments to make the time series of daily temperatures homogeneous.

through December 31, 2018, at STL and MCI. The series are consistent with NOAA's SCMT during the most recent NOAA 30-year normal period ending 2010.

There may be circumstances under which inconsistencies and biases in the 30-year time series of daily temperature observations occur, (e.g. such as the relocation, replacement, or recalibration of the weather instruments). Changes in observation procedures or in an instrument's environment may also occur during the 30-year period. The NOAA accounted for documented and undocumented anomalies in calculating its SCMT.[79] The meteorological and statistical procedures used in the NOAA's homogenization for removing documented and undocumented anomalies from the T_{max} and T_{min} monthly temperature series is explained in a peer-reviewed publication.[80]

Subsequent to determining the homogenized monthly temperature time series described above, the NOAA also calculates monthly normal temperature variables based on a 30-year normal period, e.g. maximum, minimum, average temperatures, and HDDs. These monthly normals are not directly usable for Staff's purposes because the NOAA daily normal temperatures and HDD values are derived by statistically "fitting" smooth curves through these monthly values. As a result, the NOAA daily normal HDD values reflect smooth transitions between seasons and do not directly relate to the 30-year time series of MDT as used by Staff. However, in order for Staff to develop adjustments to normal HDD for gas usage, Staff must calculate a set of normal daily HDD values that reflect the actual daily and seasonal variability.

Staff used a ranking method to calculate normal weather estimates of daily normal temperature values, ranging from the temperature that is "normally" the hottest to the temperature that is "normally" the coldest, thus estimating "normal extremes." Staff ranked MDTs for each month of the 30-year history from hottest to coldest and then calculated the normal daily temperature values by averaging the ranked MDTs for each rank, irrespective of the calendar date. The ranking process results in the normal extreme being the average of the most extreme temperatures in each month of the 30-year normals period. The second most extreme temperature is based on the average of the second most extreme day of each month, and so forth. Staff's

---

79 Arguez, A., I. Durre, S. Applequist, R. S. Vose, M. F. Squires, X. Yin, R. R. Heim, Jr., and T. W. Owen, 2012: NOAA's 1981-2010 U.S. Climate Normals: An Overview. Bulletin of the American Meteorological Society, 93, 1687-1697,

80 Menne, M.J., and C.N. Williams, Jr., (2009) Homogenization of temperature series via pairwise comparisons. *J. Climate*, **22**, 1700-1717.

calculation of daily normal temperatures is not the same as NOAA's calculation of smoothed daily normal temperatures because Staff calculated its normal daily temperatures based on the rankings of the actual temperatures of the test year, and the test year temperatures do not follow smooth patterns from day to day. More details of a ranking method that Staff uses for normal weather are explained in a peer-reviewed publication.[81] Using these normal daily temperatures, Staff calculated normal HDD for each day of the test year. This information was made available to Staff witness Kim Cox to calculate the weather normalization adjustments.

Staff Expert/Witness: Michael L. Stahlman.

2. <u>Revenue – Weather Normalization</u>

Introduction and Summary

Since the primary use of natural gas for residential customers in Missouri is for the purpose of space heating, the level of natural gas sales are dependent upon weather conditions. As natural gas rates are derived from the level of usage and the Company's revenue requirement, it is important to remove abnormal weather influences from the test year in order to provide a more accurate representation of "normal" natural gas usage. For example, if natural gas sales are overstated because the weather in the test period was colder than normal then the Company may under recover its revenue requirement and if natural gas sales are understated because the weather in the test period is warmer than normal then the Company may over recover its revenue requirement. This analysis addresses Staff's weather-normalization of natural gas sales for Spire East and Spire West customers.

Spire East Weather Normalization Adjustment

Staff conducted an analysis of weather normalization for the Residential General Service (RES), Small General Service (SGS), and Large General Service (LGS) for the test year ending September 30, 2020. Staff did not perform a weather normalization calculation for Large Volume Service (LV), and Transportation classes as explained in more detail later in this report by Staff witness Michael L. Stahlman. Staff's overall weather normalization analyses determined that the weather during the test year was warmer than normal, so actual sales were also lower than normal.

---

[81] Won, S. J., Wang, X. H., & Warren, H. E. (2016). Climate normals and weather normalization for utility regulation. Energy Economics, 54, 405-416.

In order to account for the reduced sales and warmer weather, Staff performed an adjustment to increase natural gas sales to reflect usage and sales for "normal" weather conditions. Staff's analysis resulted in an approximate increase of 0.81% for the RES class, an approximate increase of 0.82% for the SGS class, and an increase of approximately of 0.45% for the LGS class. These adjustments account for changes in sales to reflect normal weather and the annual number of days in a billing cycle.

Spire EAST	**Residential**		**SGS**		**LGS**	
Billing Month	**Actual Usage**	**Weather Adj.**	**Actual Usage**	**Weather Adj.**	**Actual Usage**	**Weather Adj.**
October	12,203,463	486,548	1,857,040	15,182	5,405,984	203,727
November	49,899,852	-8,798,905	6,204,925	-1,297,491	12,660,042	-2,122,601
December	71,729,912	-2,492,586	10,658,163	-526,839	19,243,827	-1,292,140
January	85,382,892	8,630,040	12,952,697	1,371,876	22,247,537	2,176,748
February	87,916,663	5,631,710	13,864,356	897,597	23,438,755	1,484,201
March	68,557,295	5,686,302	10,978,430	819,431	20,265,066	1,121,658
April	41,766,133	2,150,610	5,609,466	459,367	12,226,286	1,005,172
May	25,268,282	-6,150,827	2,914,214	-939,920	7,538,753	-1,494,823
June	13,207,166	-1,439,332	1,683,768	-259,287	4,908,875	-487,733
July	9,613,507	112,271	1,402,326	24,928	3,971,187	27,088
August	8,577,609	-66,568	1,322,649	-7,307	3,837,246	-25,518
September	9,041,631	186,947	1,325,170	26,194	4,009,029	33,763

Spire West Weather Normalization Adjustment

Staff conducted an analysis of weather normalization for the Residential (RES), Small General Service (SGS), Large General Service (LGS) for the test year ending September 30, 2020. Staff did not perform a weather normalization calculation for Large Volume (LV), and Transportation classes as explained in more detail later in this report by Staff witness Michael L. Stahlman. Similar to the weather normalization analysis for Spire East, Staff's weather normalization analysis of Spire West gas sales resulted in an increase to natural gas sales because the weather during the test year was warmer than normal. The analyses resulted in an approximate increase of 2.33% for the RES class, an approximate increase of 2.45% for the SGS class, an increase of approximately 2.0% for the LGS class. These adjustments account for changes in sales due to abnormal weather and the annual number of days in the billing cycles.

Spire West	Residential		SGS		LGS	
Billing Month	**Actual Usage**	**Weather Adj.**	**Actual Usage**	**Weather Adj.**	**Actual Usage**	**Weather Adj.**
October	9,596,482	-1,226,192	1,447,954	-178,268	3,079,448	-359,300
November	37,364,040	-8,426,471	5,690,773	-1,418,825	7,231,186	-1,542,623
December	53,329,614	1,558,210	9,107,011	214,546	10,176,497	215,471
January	66,592,978	7,706,969	10,761,389	1,294,962	12,945,314	1,409,969
February	68,496,624	5,139,849	11,405,125	845,618	13,428,401	901,496
March	49,555,240	5,632,387	8,139,555	928,209	10,411,119	1,256,224
April	30,659,620	2,185,550	4,397,002	414,949	6,681,564	437,926
May	18,099,975	-3,512,039	2,366,821	-575,568	3,930,666	-660,059
June	8,992,817	-565,626	1,274,451	-109,681	2,069,175	-138,728
July	6,593,453	78,531	985,892	19,833	2,212,658	36,612
August	5,888,684	-33,440	997,714	-3,722	2,196,535	-195
September	6,336,531	-102,111	1,042,868	-17,654	2,318,112	-20,960

Process Used to Weather Normalize Sales

Staff's weather normalized adjustments of natural gas sales account for deviations from what are considered normal weather conditions that occurred during the test year. Staff adjusted monthly natural gas volumes to normal by first adjusting the annual number of days for each billing cycle[82] to 365. If the annual number of days in a billing cycle is below or above 365, Staff added or subtracted the difference to the non-heating season[83]. This adjustment is performed so that each billing cycle is set to the same total number of days. Since natural gas utilities are winter peaking, any heating degree days (HDD) that are removed based on the 365 day adjustment are added back to October, since it is a shoulder month[84] to the heating season. Using the non-heating months minimizes the impact on the heating season. After each billing cycle is adjusted so that it contains the proper number of calendar days, the next step is to calculate the difference between normal

---

[82] Customers are divided up over 18 separate billing cycles within a billing month. For example, a percentage of the Company's customers are billed on the 1st of the month, which is the 1st billing cycle and another percentage of customers is billed on another day of the month. Billing cycles are used to spread out the number of meters read and bills issued on any specific day of the month.

[83] The non-heating season is generally referred to as the month of May, June, July, August and September.

[84] A shoulder month is generally referred to as a month directly before or after a peak winter or summer month, such as the months of April, May and October.

[4] The definition of billing cycle heating degree days is the sum of heating degree days (HDD) in the given billing cycle, where mean daily temperature (MDT) < 65°F, HDD = 65 – MDT; otherwise, HDD = 0. By National Climatic Data Center convention, MDT is the average of daily maximum temperature (T_{max}) and daily minimum temperature (T_{min}) e.g. MDT = (T_{max} + T_{min}) /2.

and actual HDDs for each billing cycle. Then, Staff multiplied these differences by the estimate rendered from the regression analysis described below under "Application of Weather Normalization Process" to determine the changes in sales volumes in each billing cycle due to abnormal weather. The next step is to sum each of the changes in sales volumes per month due to abnormal weather. Lastly, Staff adds the monthly adjustments in sales volumes to the total monthly natural gas sales to calculate the normalized volumes.

Application of Weather Normalization Process

Staff witness Michael L. Stahlman provides the daily actual and daily normal HDDs for Spire East and Spire West. Mr. Stahlman addresses the calculation of HDDs in the "Normal Weather" section of this Cost of Service Report. Spire East and Spire West both have established billing cycles for groups of natural gas accounts where each billing cycle corresponds to different days of the month. Customers' accounts are usually grouped into one of approximately eighteen (18) billing cycles. Staggering the billing of customers' accounts throughout the billing month allows the Company to distribute the work required in order to bill Spire East and Spire West customers.

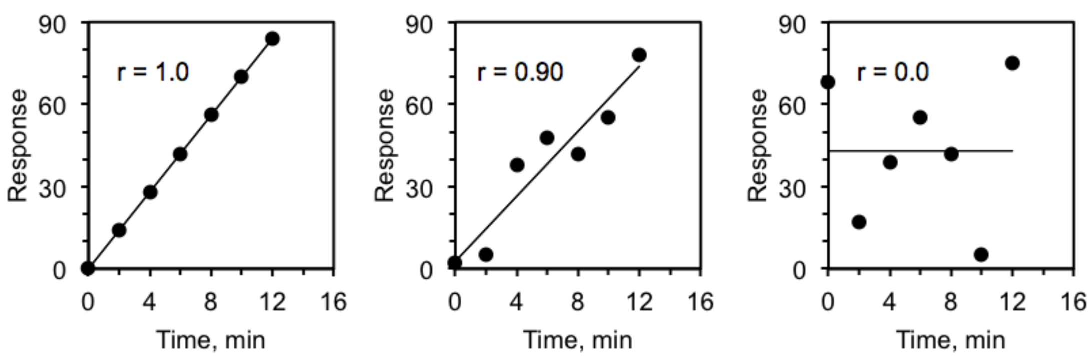
In its first step, Staff used a regression analysis to estimate the relationship between the average usage per customer per day and the average HDD per day for each billing cycle month. Second, Staff calculated the difference between normal and actual HDDs for each billing cycle. Third, Staff multiplied the differences from the second step by the estimate rendered from the regression analysis in the first step. The fourth step was to sum the billing cycles' adjusted volumes by billing month. Fifth, Staff added the monthly adjustments in either therms or ccfs to the total monthly natural gas sales to calculate normalized volumes. The billing month averages are calculated from the data provided by the utility on the numbers of customers, natural gas usage, and summed HDD from the billing cycles for each billing month by customer class. The daily average HDD in each billing month and billing cycle is weighted by the percentage of customers in that billing cycle. Thus, the billing cycles with the most customers are given more weight when computing the daily average HDD for the billing month. Staff uses the twelve monthly average-usage-per-customer amounts across the billing cycles to calculate the daily average usage for one month. The usage and weather billing month averages are used to study the relationship between space-heating natural gas usage and cold weather, which is used to estimate the change in usage related to a change in HDD. Staff uses regression analyses to estimate the relationship for each class of customers. The output of the regression analyses develops quantitative measures that describe the relationship between daily space-heating sales per customer in therms or ccf to the actual daily HDD. The regression equation estimates a change in the daily natural gas usage per customer whenever the actual daily average weather changes by HDD. Staff recommends that the Commission utilize Staff's weather normalization adjustments that are outlined above and in Appendix 3.

Staff Expert/Witness: Joel McNutt

3. <u>Weather Sensitivity of Large Customer Classes</u>

Staff did not make a weather adjustment to Spire's large customer classes. Staff reviewed the relationship between weather and gas usage for the Large Volume and Interruptible classes using correlation analysis.[85] The results indicated a weak correlation[86] between billing cycle heating degree days[87] and each set of customers' gas usage. Further, Staff found that these

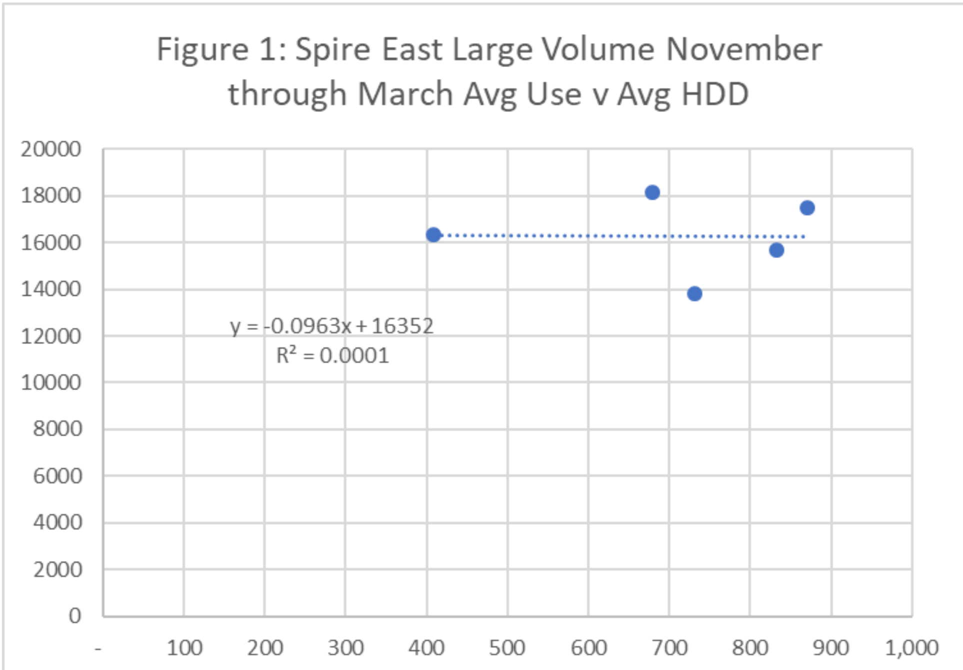
[85] Correlation is a measure of how the variations in one dataset are consistent with the variations in another. A correlation coefficient is a number between −1 and +1 calculated so as to represent the linear dependence of two variables or sets of data. Generally speaking, the closer a correlation coefficient is to 1, the more the datasets vary consistently with each other. If the correlation is negative, the variation in one dataset gets more positive as the variation in the other dataset gets more negative. Conventionally, if a correlation coefficient is greater than 0.7 then it is interpreted that there is a strong positive relationship.



[86] Correlation is a measure of how the variations in one dataset are consistent with the variations in another. A correlation coefficient is a number between −1 and +1 calculated so as to represent the linear dependence of two variables or sets of data. Generally speaking, the closer a correlation coefficient is to 1, the more the datasets vary consistently with each other. If the correlation is negative, the variation in one dataset gets more positive as the variation in the other dataset gets more negative. Conventionally, if a correlation coefficient is greater than 0.7 then it is interpreted that there is a strong positive relationship.

[87] The definition of billing cycle heating degree days is the sum of heating degree days (HDD) in the given billing cycle, where mean daily temperature (MDT) < 65°F, HDD = 65 – MDT; otherwise, HDD = 0. By National Climatic Data Center convention, MDT is the average of daily maximum temperature (T_{max}) and daily minimum temperature (T_{min}) e.g. MDT = (T_{max} + T_{min}) /2.

customers appeared to be seasonal; the usage was higher in winter but usage largely independent of the weather. For example, Figure 1 reviewed the winter months of Spire East Large Volume customers and found virtually no correlation whatsoever.



These customers also had different responses to weather in the spring season compared to the fall, making an adjustment on the assumption of a linear relationship inappropriate.

Staff Expert/Witness: Michael L. Stahlman

4. <u>Large Volume Transport Customer Annualization</u>

Staff received monthly revenue reports as well as data from Spire's Data Warehouse that provide monthly billing data for each individual Large Volume Transportation customer. Staff used the test year ending September 30, 2020 and updated for customer changes through December 2020 to calculate test year revenue for transportation customers.[88]

For Spire West, customers served on the Company's Large Volume Sales ("LV") and Large General Service Sales ("LGS") rate schedules can elect to transport gas instead of purchase

[88] Transportation customers purchase gas from an entity other than Spire, but use Spire's distribution system to transport the case to the customer's location. Transportation customers generally do not pay Spire's PGA rate unless the customer has to purchase gas directly from Spire.

the gas from Spire. Staff calculated the revenues of the LV transportation customers on an individual customer basis. The non-gas revenues related to the LGS transportation customers are included in the class revenues for the LGS class and were not computed on an individual customer basis. For Spire East, customers who elect to transport gas are served on a specific transportation service tariff, Large Volume Transportation Service tariff ("LVTSS")

Staff made adjustments to billing units and revenues based on the test year for the 12 months ending September 30, 2020, to be adjusted for known and measureable changes through the update period December 31, 2020. Adjustments include: Interclass Rate Switching, Annualization, and 365-day Adjustment.

5. Transportation Customer Rate Switching

The general intent of an annualization is to re-state the test year usage as if conditions known at the end of the update period had existed throughout the entire year. Rate switching and annualization adjustments include adjustments for new customers, the exit of existing customers, and load growth or decline of specific existing customers.

If a customer was in the rate class at the beginning of the test year, then transferred to a different rate class during the test year, the customer's billing determinants and associated revenues in the original class were removed from that class total. The customer's billing determinants were then "priced out" using the tariffs of the class to which the customer switched, and those determinants and revenues were added to the totals in the new class. This resulted in a full year of history for the customer in the rate class they were in at the end of the year.

For new customers having no prior usage, an estimated level of usage was used in order to have 12 months of data.

Spire East Large Customer Rate Class Changes

During the test period, three Transportation accounts closed, five customers switched into the Transportation class from LGS, one customer switched into the Transportation class from VF (Vehicular Fuel). Staff will be reviewing usage for all transportation customers through the true-up period ending June 30, 2021. Staff's review could result in additional usage and revenue adjustments in the true-up period.

Spire West Large Customer Rate Class Changes

During the test period, six Transportation accounts closed and seven accounts entered the Transportation class. Staff will be reviewing usage for all transportation customers through the true-up period ending June 30, 2021. Staff's review could result in additional usage and revenue adjustments in the true-up period.

6. Large Customer 365-Day Adjustment

The 18 bill cycles representative of the 12 months ending September 30, 2020, may or may not include 365 days. All of the customers taking service on the Transportation rate schedule were billed based on the same bill cycle that resulted in 365 days, so no adjustment was made.

Staff Expert/Witness: Joseph P. Roling

C. Other Miscellaneous Revenue Adjustments

All revenue adjustments in Staff's cost of service will be priced on the margin rate (the total rate excluding gas cost) included in Spire East and Spire West tariffs. Therefore, revenues and expenses related to gas costs are removed from Staff's revenue requirement calculations. The cost of gas will be addressed as part of Staff's review of the Companies' Purchase Gas Adjustment ("PGA") and Actual Cost Adjustment ("ACA") filings.

The amounts received from customer payments and recorded as revenues during the test year include Gross Receipts Tax ("GRT"). GRTs are imposed by a taxing authority for which Spire East and Spire West are obligated to charge customers on their utility bills. After Spire East and Spire West collect these taxes from their customers, these amounts are periodically remitted to the appropriate taxing authority. In this regard, to accurately account for Spire East and Spire Wests actual test year retail revenues, it is necessary to remove GRT from the amounts recorded as revenues during the test year while at the same time removing the corresponding remittances to the taxing authority as a charge to expense. Staff made adjustments to remove GRT from revenue and expense. In addition, Staff adjusted Spire East and Spire West level of uncollectible expense to account for GRT taxes not paid by those customers whose bill amounts are written off.

ISRS revenues are collected as a result of Commission approved surcharge rates that are determined between rate cases. ISRS surcharge rates are set back to "zero" in the rate case. Staff made adjustments to remove ISRS revenue not included in base rates from the cost of service to derive the appropriate test year margin revenues.

Currently, as an incentive to maximize off-system sales ("OSS") and capacity release revenue, Spire East and Spire West are authorized to keep a percentage, or share, of the profit from OSS and capacity release transactions. Spire East and Spire West customers receive the remaining profit through the PGA/ACA mechanism as a reduction to gas costs. Staff made adjustments to remove the OSS and Capacity revenue not included in base rates from the cost of service to derive the appropriate test year margin revenues and related expenses.

The recording of unbilled revenue on the books of Spire East and Spire West is an attempt to recognize the sales of gas that have occurred, but have not yet been billed to the customer. Since Staff has adjusted revenue to assure that it includes only 365 days of revenue and because revenue has been restated to a billed basis, it is unnecessary to recognize unbilled revenue. Staff eliminated unbilled revenue from its determination of Spire East and Spire West revenue requirements.

As a result of the COVID-19 pandemic, Spire Missouri waived a portion of disconnection and reconnection fees and late payment fees during the test year. Consequently, the test year does not represent an ongoing level of these revenues. Staff recommends a two year average of fiscal year 2018 and 2019 disconnection and reconnection fees and late payment fees to include in the cost of service. The AAO related to this event is discussed in detail by Staff Expert/Witness Kim Bolin in the "COVID AAO Cost Recovery" section of this report.

Staff Expert/Witness: Keith Majors

IX. Income Statement-Expenses

A. Payroll and Benefits

1. Payroll, Payroll Taxes, 401(k), and Other Employee Benefits

Staff reviewed all wages and salaries of Spire employees and the allocation of payroll costs to each Spire entity and rate district. An allocation of costs is necessary to assign a proper amount of payroll costs to each of the Spire entities and rate districts. Staff reviewed the allocation of actual assigned payroll costs for each of these entities. Staff calculated base payroll by multiplying the actual employee levels by the wage rate or salary as of the update period of December 31, 2020 for annualizing payroll costs. Staff's payroll adjustment takes into consideration overtime. Staff accepted the Company's 12.61% of total payroll as the amount for overtime. Staff applied the percentage to Staff's annualized payroll as of the update period ending December 31, 2020 to calculate the overtime amount to be included in Staff's payroll adjustment. Staff also annualized payroll taxes, employee benefits and 401k match expenses. The same process will be utilized for the true-up period, May 31, 2021.

Total annualized payroll must be separated between amounts charged to expense and amounts charged to capital and below the line accounts. The ratio between these two amounts is referred to as an Operations and Maintenance ("O&M") factor. For the test year ending September 30, 2020, O&M expense factor was 45.38 percent for Spire East and 53.09 percent for Spire West based on the response to Staff Data Request number 044. The establishment of an appropriate O&M factor is important as this ratio directly affects the amount of payroll charged to expense and as well as determining the expense level for payroll related benefits. Staff recommends the use of an O&M factor based on the response to Staff Data Request number 044, which is 45.38 percent for Spire East and 53.09 percent for Spire West. Staff distributed its payroll adjustment to the FERC Uniform System of Accounts ("USOA") based on the test year distribution Staff calculated. Staff calculated the distribution by separating test year account balances between labor and non-labor using payroll general ledger cost element codes and excluded incentive comp/employee bonus general ledger cost element codes from the test year payroll account balances. The total sum of the payroll amounts (excluding incentive compensation/employee bonus) for each account was then used to calculate a percentage of payroll contained in each account. The percentage for each account was calculated by taking each payroll account balance and dividing it by the total sum of the payroll amounts for all accounts. Staff reviewed the incentive comp/employee bonus amounts independently from payroll and that review is contained in this report under the heading Incentive Compensation. The resulting percentage for each account was then applied to Staff's total payroll adjustment in order to distribute Staff's adjustment to each account proportionately.

Spire anticipates a change from a third party call center to an internal employee call center beginning in May 2021, which will likely impact the test-year payroll adjustment in the true-up to account for the additional internal employees. Any addition of internal employees during the true-up will also impact the payroll tax and employee benefit expenses and would reduce a portion of the third-party call center expense.

Payroll taxes were annualized by applying the current payroll tax rates to each employee's annual level of payroll. An aggregate tax rate was used to calculate payroll taxes for overtime. Staff calculated payroll taxes based on the wage levels and current tax rates through the update period ending December 30, 2020. This includes amounts pursuant to the Federal Unemployment Taxes Act ("FUTA"), State Unemployment Taxes Act ("SUTA"), and Federal Insurance Contributions Act ("FICA") taxes. Staff's annualized payroll and most current tax rates were used to calculate the level of payroll tax proposed in this case.

Spire East and Spire West had 401(k) match expenses and expenses for employee life, accidental death and dismemberment ("AD&D") and long term disability insurance, and these were calculated based upon actual employee wage and salary levels as of the update period of December 30, 2020.

Staff Expert/Witness: Jared Giacone

2. <u>Incentive Compensation</u>

Short-Term Incentive Compensation

Staff reviewed Spire's short-term incentive compensation plan and long-term incentive compensation plan. Staff also reviewed the two new metrics Spire has incorporated in their short-term plan. Staff is recommending removal of all the long-term incentive compensation expense as it is earnings based. Staff is also recommending removing the expense associated with the corporate performance component in Spire's short-term plan as it is also earnings based. Staff is recommending recovery of Spire's two new metrics.

Employees of Spire East and Spire West are eligible for annual bonuses under Spire Missouri's Annual Incentive Plans ("AIP"). This incentive compensation plan provides an annual cash payout to eligible union and non-union participants based on four components: corporate performance, business unit performance, individual performance, and team unit performance. Measurement goals and a target incentive pool are established for each plan year and terms of the AIP are communicated to all employees within 90 days of the beginning of the plan year.

The first component of AIP, corporate performance, is measured with the financial metric of Net Economic Earnings Per Share ("NEEPS"). NEEPS differs from the traditional Earnings per Share ("EPS") calculation in that NEEPS ignores the effect on net income of certain extraordinary items (e.g. unrealized losses, acquisition losses). This AIP component is applicable to payouts made to all employees. The Commission in general, and specifically in the case of Spire West, has disallowed incentive compensation based on financial metrics that tie payouts to the level of shareholder's interest achieved. The Commission expressed this position in its Report and Order in Spire West's 2004 Rate Case, Case No. GR-2004-0209:

> The Commission agrees with Staff and Public Counsel that the financial incentive portions of the incentive compensation plan should not be recovered in rates. Those financial incentives seek to reward the company's employees for making their best efforts to improve the company's bottom line. Improvements to the company's bottom line chiefly benefit the company's shareholders, not its ratepayers. Indeed, some actions that might benefit a company's bottom line, such as a large rate increase, or the elimination of customer service personnel, might have an adverse effect on ratepayers.
>
> If the company wants to have an incentive compensation plan that rewards its employees for achieving financial goals that chiefly benefit shareholders, it is welcome to do so. However, the shareholders that benefit from that plan should pay the costs of that plan. The portion of the incentive compensation plan relating to the company's financial goals will be excluded from the company's cost of service revenue requirement. (p. 43)

Consistent with past Commission orders,[89] Staff has not included costs related to earnings-based metrics in Spire East's or Spire West's revenue requirements.

The second component of incentive compensation is the business unit performance. This component is applicable to all employees. In direct testimony,[90] Spire indicated that management had conducted a detailed review of the company's AIP design in the fall of 2018. During this review, Spire made the decision to replace the previous business unit objective, Utility Operating Income, with two new objectives, Utility Contribution Margin and Utility Adjusted O&M per Customer. Utility Contribution Margin is calculated as Utility Gross Revenues – Gas Costs – Gross Receipts Tax, and is also referred to as Net Operating Revenue. Utility Adjusted O&M per Customer is calculated as (Utility Operating & Maintenance Expenses + Property Taxes)/12 Month Average Number of Customers. Staff reviewed these new metrics and determined they both benefit customers and have included the cash payouts from these two metrics in rates.

The third component of incentive compensation, individual performance, is applicable only to non-union employees. Each non-union employee collaborates with his or her supervisor to establish goals for the upcoming year. At the end of the plan year, the supervisor awards a

---

[89] For similar findings, see the Report and Orders in Case Nos. GR-96-285; ER-2006-0314; and ER-2007-0291.
[90] Case No. GR-2021-0108, Scott Weitzel Direct Testimony, page 23, lines 1-7.

composite rating of actual performance based on the rating of the employee's various personal goals. The employee's performance directly affects the amount of payout the employee can receive from the individual component of the AIP, but does not affect their corporate or business unit component award. Staff included this component in rates.

The fourth component of AIP is team unit performance, and is applicable only to union employees. Unlike non-union employees that establish goals for each individual, union employees earn AIP payouts based upon the performance of their respective union (e.g. call center employees or field operation employees). A majority of the metrics embedded in the team unit AIP component are customer-oriented goals such as: average call handle time, call abandonment rate, OSHA recordable incident rate, leak response time, etc. Generally, Staff supports such metrics as successful achievement of these goals can lead to lower costs incurred by the utility, which lead to a lower cost of service.

Long-Term Incentive Compensation

In addition to AIP, Spire offers compensation under the Equity Incentive Plan ("EIP"). Unlike AIP, which pays cash compensation, EIP pays employee awards with shares of Spire stock. Because EIP does not have cash consequences for Spire East or Spire West, Staff made adjustments to remove the expensed EIP payments from the cost of service.

Staff Expert/Witness: Jeremy Juliette

3. <u>SERP</u>

Supplemental Executive Retirement Plan (SERP) is an employee benefit fund for certain highly-compensated employees that allows for an annuity or lump sum payment upon retirement. Actual SERP payouts were analyzed to determine an appropriate amount of SERP expense to include in this case.

Included in Staff's revenue requirement recommendations are normalized levels of recurring SERP payments (annuities) and a normalization of any large lump-sum SERP payments Spire has made to its former executives and other highly-compensated former employees. SERP payments are non-qualified retirement plans for officers and executives, which provide the pension benefits these highly-compensated individuals would have received under other company retirement plans but for compensation and benefit limits imposed by the Internal Revenue Service ("IRS"). The Commission has traditionally included a reasonable amount of SERP expenses in customer rates. Staff is recommending a three-year average for SERP which is consistent with Staff's position in the previous rate case.

Staff Expert/Witness: Jared Giacone

4. <u>Severance Expense</u>

Staff recommends removal of employee severance payments incurred during the test year. Severance payments are cash payments granted to certain employees upon termination of employment. Severance agreements typically include commitments from the former employee to not pursue litigation against the company and its officers.

Severance payments are non-recurring in regards to the specific employee. Because of the unique nature of cost of service ratemaking, utilities are able to recover severance payments through regulatory lag. Between the time the employee is terminated and the time rates are changed in the next rate case, Spire East and Spire West collect both the salary and payroll benefits of the terminated employee. These savings can accumulate to more than the severance paid.

The amounts of severance expense removed from the cost of service are $396,088 and $68,400 for Spire East and Spire West, respectively. The adjustments are reflected in Staff Accounting Schedule 10.

Staff Expert/Witness: Antonija Nieto

B. Other Expenses

1. <u>Advertising Expense</u>

Advertising expenses are incurred by both Spire East and Spire West. In developing its recommendation of the allowable level of advertising expense for Spire East and Spire West, Staff relied upon the principles the Commission set forth in ***Re: Kansas City Power and Light Company,*** 28 MO P.S.C. (N.S.) 228 (1986). In that proceeding, the Commission adopted an approach that classifies advertisements into five categories and provides separate rate treatment for each category. While that proceeding specifically addressed an electric utility, the categories of advertisements described are applicable to all utilities regulated by the Commission. The five categories of advertisements recognized by the Commission are:

1. General: advertising that is useful in the provision of adequate service;
2. Safety: advertising which conveys how to safely use electricity and to avoid accidents;

3. Promotional: advertising used to encourage or promote the use of electricity;

4. Institutional: advertising used to improve the company's public image; and

5. Political: advertising associated with political issues.

The Commission adopted these categories of advertisements because it believed that a utility's revenue requirement should: "1) always include the reasonable and necessary cost of general and safety advertisements; 2) never include the cost of institutional or political advertisements; and 3) include the cost of promotional advertisements only to the extent that the utility can provide cost-justification for the advertisement." (Report and Order in KCPL Case No. EO-85-185, 28 MO P.S.C. (N.S.) 228, 269 271 (April 23, 1986)).

In response to Staff data requests, Spire East and Spire West provided supporting documentation for its advertising costs and copies of the actual advertisements. Staff examined each advertisement, classifying them into the individual categories listed above to determine the types of advertisements that should be either included or excluded from Spire East and Spire West's cost of service. Staff reviewed these advertisements to ensure that only advertising costs for programs necessary for the provision of safe and adequate utility service are included in Spire East and Spire West's cost of service. For example, all advertising costs related to the safe use of natural gas were included in expenses as well as costs necessary for Spire East and Spire West to communicate with their customers on such matters as notifications relating to operation of the cold-weather rule and the availability of low-income assistance programs.

In the KCPL case referenced above, the Commission stated that the utility must not include the cost of institutional advertisements. Staff determined that some of the test year advertising costs are related to institutional advertisements, which are those advertisements designed to enhance the public image of Spire East and Spire West. Staff recommends adjustments to remove the cost of advertisements classified as institutional because these costs are incurred in order to develop a favorable image of Spire East and Spire West; they are not required to provide utility service to customers, nor do they provide any direct benefit to these customers. Total disallowed advertising expense is $15,503 for Spire East and $213 for Spire West. Staff's adjustments are located in Schedule 10 of Staff's accounting schedules.

Staff Expert/Witness: Antonija Nieto

2. **Rate Case Expenses**

Staff recommends including a 50% share of the average incremental external rate case expense from the most recent two Spire Missouri rate cases and normalizing that cost level over a three year period. The annual amount of rate case expense included in Staff's recommended revenue requirement is $196,465 combined for Spire East and Spire West. This amount would not be subject to true-up for actual expense incurred, or any over or under-recovery recognized. Staff also recommends removal of all expenses incurred in Spire Missouri's appeals of the 2017 Rate Cases.

Rate case expense is the sum of the costs a utility incurs in preparing and filing a rate case. In the instant case, Spire Missouri has incurred expenses in conjunction with legal counsel and outside consultants. Staff recommends full recovery of the depreciation study expense and all internal payroll expenses incurred in processing the rate case. Staff recommends assigning Spire Missouri's remaining discretionary rate case expense to both ratepayers and shareholders based upon a 50/50 split of incremental external rate case expenses. This allocation is consistent with the Commission's most recent guidance concerning rate case expense in the Spire Missouri Case Nos. GR-2017-0215 and GR-2017-0216. The Commission's decision was recently upheld by the Missouri Supreme Court[91]. The total amount of rate case expense is based on a two case average of the two prior Spire Missouri rate cases.

Staff's recommended cost sharing methodology in this case is based on the following rationale:

1) Rate case expense sharing of incremental external expenses creates an incentive and mitigates a disincentive on the utility's part to control rate case expenses to reasonable levels;

2) Generally, both ratepayers and shareholders benefit from the rate case process. The ratepayer is receiving safe and adequate service at a just and reasonable rate and the shareholder is receiving an opportunity to receive an adequate return on investment;

3) Ratepayers will continue to pay for the majority of the rate case and regulatory process expenses under any form of sharing mechanism when including internal payroll costs; it is fair and equitable to expect shareholders to carry a reasonable portion of the rate case cost burden; and

[91] *Spire Mo., Inc. v. Pub. Serv. Comm'n*, --- S.W.3d ---, No. SC97834, Slip Op. at 13-14 (Mo. banc Feb. 9, 2021). Case No. SC97834

4) There is a high probability that some recommendations advocated by utilities through the rate case process will ultimately be found by the Commission to not be in the public interest.

Rate case expense is defined as all incremental costs incurred by a utility directly related to an application to change its general rate levels. These applications are usually initiated by the utility but rate case expenses may also be incurred as a result of the filing of an earnings complaint case by another party. The largest amounts of rate case expense usually consist of costs associated with use of outside witnesses, consultants, and external attorneys hired by the utility to participate in the rate case process.

Generally, utility management has a high degree of control over rate case expense. Attorneys, consultants, and other services can either be provided by in-house personnel or can be acquired from an outside party. Some Missouri utilities employ in-house counsel and primarily utilize internal labor to process rate filings; therefore, the use of outside attorneys and consultants in rate proceedings is not always necessary. Rate case expenses subject to a sharing mechanism do not include internal labor costs as those are included in the cost of service through the payroll annualization and are not incremental expenses resulting from the rate case process. These costs are fully paid for by ratepayers.

During rate case proceedings and generally in the utility regulatory process, there are four broad categories of costs involved:

1) The cost incurred by the Commission for itself and Staff,
2) The cost incurred by the Office of Public Counsel,
3) The cost incurred by intervenors in Commission proceedings, and
4) The cost incurred by the utility in the regulatory process.

Category 1 is the cost incurred by the Commission. This includes all operating expenses, salaries, wages, and benefits of the Commission and Staff. The Commission’s operating expenses are limited to the amount the Missouri General Assembly appropriates for that purpose. An annual amount of operating expenses is assessed by the Commission and paid by the utilities it regulates, and subsequently passed on to ratepayers through rates. The utility is not charged the direct cost of processing its filings or regulating company-specific activities. Spire Missouri is charged based on an assignment of the Commission’s budget to regulation of the gas industry with this amount allocated to Spire Missouri based on the percentage of its regulated revenues compared to the total gas regulated revenues in Missouri. The utility, in turn, passes this expense to its ratepayers through rate case process. Ultimately customers pay these expenses through rates for utility services.

Category 2 is the cost incurred by the Office of the Public Counsel. Public Counsel represents the public and the interests of utility customers in proceedings before the Commission. An amount for Public Counsel's annual operating expenses is appropriated by the Missouri General Assembly, which is sourced from general revenue paid by Missouri taxpayers.

Category 3 is the cost incurred by intervenors in Commission proceedings. Intervenors may be involved in Commission proceedings for a variety of reasons, but most frequently for reasons related to revenue requirement and rate design issues raised in general proceedings. Some intervening parties represent a large individual utility customer or group of customers. There are several intervenors in this case, some of whom have retained their own counsel and experts to review Spire Missouri's rate increases/decreases. Each intervenor is responsible for its own rate case expenses.

Category 4 is the cost incurred by the utility in the regulatory and rate setting process. In prior rate cases, the Commission allowed utilities to pass through to ratepayers the full amount of normalized and prudently incurred rate case and regulatory expenses in the rate-setting process. When utilities are allowed to pass full rate case costs on to ratepayers, the utilities are the only rate case participants that do not face practical limit in the amount of rate case expense they chose to incur. All of the other participants in the rate case process are limited in the amounts of rate case expense they can incur by the budgetary decisions of General Assembly or by the willingness of the intervening parties to fund rate case activities. With full rate case expense recovery, utilities are free to plan their rate case activities with knowledge that the associated cost of those activities will be passed on to customers.

The practice of allowing utility to recover all, or almost all, of its rate case expense from customers creates an inherent disincentive for the utility to control rate case expense. For all other parties to the rate case process, the funds spent are ultimately limited by a budget and financial restraints. Having significant financial resources to fund rate case activities combined with the ability to pass through the entire amount of the expenses creates what can be perceived as an unfair advantage over all other parties in the rate case process.

Some of a utility's other discretionary expenses are not recovered by the utility in the rate making process. For example, charitable contributions, which are discretionary amounts paid to individuals or organizations for charitable reasons with no direct business benefit, have historically not been included as an expense in the cost of service. While the utility may believe it has a responsibility to be a "good corporate citizen," including charitable contributions in the cost of service would equate to an involuntary contribution by the ratepayer. Cost associated with political activities ("lobbying") are another type of cost routinely disallowed from inclusion in customer rates. These are examples of costs that are not necessary for the provision of safe and adequate utility service in Missouri. While both charitable contributions and lobbying expenses are not recovered by utilities in the cost of service, this fact does not and has not discouraged utilities from participating in such activities. Similarly, while any form of sharing of rate case expense may act as an incentive to control these costs, Staff has not identified substantial curtailing of incremental rate case expenses by the utilities affected by sharing.

In 2011, the Commission established Case No. AW-2011-0330 to investigate current rules and practices regarding recovery of rate case expense by Missouri utility companies. Both sharing rate case expenses 50/50 and sharing based on ordered rate increase versus requested rate increase were discussed in that report.

The Commission ordered a sharing of KCPL's rate case expenses in its *Report and Order* in Case No. ER-2014-0370:

> The Commission finds that in order to set just and reasonable rates under the facts of this case, the Commission will require KCPL shareholders to cover a portion of KCPL's rate case expense. One method to encourage KCPL to limit its rate case expenditures would be to link KCPL's percentage recovery of rate case expense to the percentage of its rate increase request the Commission finds just and reasonable. The Commission determines that this approach would directly link KCPL's recovery of rate case expense to both the reasonableness of its issue positions and the dollar value sought from customers in this rate case.
>
> The Commission concludes that KCPL should receive rate recovery of its rate case expenses in proportion to the amount of revenue requirement it is granted as a result of this Report and Order, compared to the amount of its revenue requirement rate increase originally requested. This amount should be normalized over three years. The Commission also finds that it is appropriate to require a full allocation to ratepayers of the expenses for KCPL's depreciation study, recovered over five years, because this study is

> required under Commission rules to be conducted every five years. [Footnotes omitted][92]

The footnote omitted in the above reference further clarifies the Commission's conclusions concerning recovery of rate case expenses:

> It is understood that some of the issues litigated in this case do not directly affect the overall revenue requirement granted by the Commission; but it is also clear that the vast majority of litigated issues do have a direct or indirect impact on the revenue requirement. Accordingly, percentage sharing is a reasonable approach to correlating recovery of rate case expense to the relationship between the amount of litigation that benefited both ratepayers and shareholders and that which benefited only shareholders[93].

More recently, in the Spire Missouri rate cases, the Commission ordered a 50/50 split of rate case expenses:

> Therefore, it is just and reasonable that the shareholders and the ratepayers, who both benefited from the rate case, share in the rate case expense. The Commission finds that in order to set just and reasonable rates under the specific facts in this case, the Commission will require Spire Missouri shareholders to cover half of the rate case expense and the ratepayers to cover half with the exception of the cost of customer notices and the depreciation study[94].

Staff examined the facts and circumstances in Spire Missouri's filing and recommends the Commission order a 50/50 sharing of rate case expense.

Staff divides rate case expense over the period of time it estimates will pass before the utility's next rate case and includes an annual amount in the utility's revenue requirement. Typically, this cost is not "amortized" for ratemaking purposes, and the utility's recovery of this expense in rates is not tracked against its actual rate case expense for consideration of over or under recovery. Staff recommends this cost should be "normalized" by including a normal level in the cost of service. In the current case, Staff recommends a three year normalization of rate case expenses because of the historical frequency of Spire Missouri rate cases. Staff has also included depreciation study expenses over five years with no sharing, which is the required time interval for Spire Missouri to conduct depreciation study.

---

[92] *Report and Order*, Case No. ER-2014-0370 page 72.
[93] *Report and Order*, Case No. ER-2014-0370 page 72, Footnote 251.
[94] *Report and Order*, Case Nos. GR-2017-0215 and GR-2017-0216, page 52.

Staff recommends including a 50% share of a two case average of Spire Missouri's incurred rate case expense over its previous two general rate cases. Spire Missouri's actual rate case expense incurred over the last several rate cases is summarized in the following tables:

Spire East Rate Case Expense	**Total Expense**
GR-2007-0208	251,278
GR-2010-0171	206,582
GR-2013-0171	80,180
GR-2017-0215	1,129,301
Two Case Average	604,740
50% Shared Amount	302,370
Three Year Normalized Amount	$100,790

Spire West Rate Case Expense	**Total Expense**
GR-2004-0209	937,906
GR-2006-0422	967,378
GR-2009-0355	1,035,745
GR-2014-0004	167,743
GR-2017-0215	980,359
Two Case Average	574,051
50% Shared Amount	287,026
Three Year Normalized Amount	$95,675

Staff recommends including a 50% share of the average incremental external rate case expense from the most recent two Spire Missouri rate cases and normalizing that cost level over a three year period. The annual amount of rate case expense included in Staff's recommended revenue requirement is $196,465. This amount would not be subject to true-up for actual expense incurred, or any over or under-recovery recognized.

Staff also recommends an adjustment for the cost recovery of Spire Missouri's depreciation study which the Company is required to provide every five years. Staff used the most recent cost of the depreciation study from the 2017 Rate Cases. Staff used an amortization period of five years to determine the revenue requirement impact. This results in an annual amount of $11,034.

Finally, Staff recommends removal from the cost of service of all incremental expenses incurred to appeal the Commission's *Report and Order* in the 2017 Rate Cases. These expenses were incurred strictly for the benefit of Spire Missouri's shareholders and should not be included in the cost of service. Staff has identified $237,824 of these expenses in the test year. To the extent any additional incremental expenses were incurred the adjustment should so reflect.

Staff Expert/Witness: Keith Majors

3. Lease Expense

During the test year, Spire East and Spire West incurred costs for the leasing of property and equipment that was used in day-to-day operations. Staff has reviewed the lease expenses and associated lease documentation for the test year, and annualized it to reflect the most current expense levels.

Staff Expert/Witness: Antonija Nieto

4. Spire, Inc. Corporate Office Lease

Spire Inc. is currently leasing its corporate headquarters located at 700 and 800 Market Street in St. Louis, MO. The cost of this lease is allocated between the various regulated and non-regulated subsidiaries of Spire Inc. Staff made adjustments to the portions of the lease expense allocated to Spire East and Spire West based on overall allocation factors recommended by Staff witness Matthew R. Young.

Staff Expert/Witness: Antonija Nieto

5. Lobbying and MEDA Activities

As part of its analysis of lobbying expense, Staff analyzed the organizations to which Spire paid dues. If an organization was found to provide legislative activities in part or in whole, Staff made an adjustment to eliminate those lobbying costs. These types of costs primarily benefit Spire shareholders and should therefore be absorbed by the shareholders of Spire. Staff believes that any costs related to the Missouri Energy Development Association ("MEDA") should be treated below-the-line for ratemaking purposes and absorbed by shareholders. MEDA is engaged in governmental affairs and lobbying activities on behalf of Missouri regulated utilities on an ongoing basis. Staff made an adjustment to the test year account balance to remove the MEDA invoice amounts of $135,835 listed in Staff Data Request number 40.

The Company stated in Staff Data Request number 56 that they had identified $237,000 in contract lobbyist expense. Staff made an adjustment to the test year account balance to remove this amount for contract lobbying.

In addition to MEDA and contract lobbying, the Company's response to Staff Data Request number 79 identified costs related to legislative activities for the American Gas Association ("AGA"). The Company identified 6.2% of AGA dues that they treated below-the-line for ratemaking purposes. Staff did not make an adjustment for AGA because the Company already booked lobbying costs associated with AGA below the line.

Staff Expert/Witness: Jared Giacone

6. <u>Insurance Expense</u>

Insurance expense is the cost of attaining protection obtained from third parties by utilities against the risk of financial loss associated with unanticipated events or occurrences. Utilities, like non-regulated entities, routinely incur insurance expense in order to minimize their liability (and, potentially, that of their customers) associated with unanticipated losses. Insurance traditionally consists of the following types of coverage:

- Directors and Officers Liability Insurance
- Workers' Compensation - covers all employees
- General and Excess Liability – all liability claims against the company
- Property – covers tangible property
- Fiduciary Liability – general coverage including theft, forgery, fraud, terrorism, etc.

Premiums for insurance are normally pre-paid by utilities (i.e., payment is made by the utility to the insurance vendor in advance of the policy going into effect). Most insurance policies cover an annual (twelve month) period. Therefore, insurance payments are normally treated as prepayments, with the amount of the premium being booked as an asset and amortized to expense over the life of the policy. Spire East's and Spire West's prepayments have been analyzed separately and are discussed in the prepayments section of this Cost of Service Report.

Staff's adjustment to FERC Account 924 reflects the ongoing and normal expense for property insurance premiums. Staff's adjustment for FERC Account 924 is $43,738 for Spire East and $73,765 for Spire West. Staff's adjustment to FERC Account 925 reflects the ongoing and normal expense for all other insurance premiums and amounts to $(134,611) for Spire East and $2,996,559 for Spire West. Staff's adjustments are reflected in Schedule 10 of Staff's Accounting Schedule.

Staff Expert/Witness: Antonija Nieto

7. **Injuries and Damages**

Injuries and damages expense represents the portion of legal claims against a utility that is not subject to reimbursement under the utility's insurance policies. Injuries and damages expense normally consists of the following components:

- General Liability
- Auto Liability
- Workers Compensation

Generally Accepted Accounting Principles normally require companies to book injury and damages claims on an accrual basis. This means the expense is based on estimated future claims payout amounts, rather than the actual cash payments made. However, for ratemaking purposes, Staff's position is that injuries and damages expense should be measured on a "cash" basis; i.e., be based upon actual cash payouts by the utility for claims made against it. This approach results in the actual cash payments forming the basis for the amount allowed in utility rates for recovery instead of the accrued book expense.

For injuries and damages expense, Staff calculated a three-year average of actual cash payouts net of insurance recoveries in Account 925 and used that average to represent a normalized level of actual claims paid. Staff then subtracted the normalized level of actual claims paid from the test year to calculate its adjustment. Staff's adjustment of $410,823 for Spire East and $1,003,607 for Spire West is shown on Staff's Accounting Schedule 10. This calculation has been endorsed by the Commission in prior Spire East and Spire West cases.[95]

Staff Expert/Witness: Jeremy Juliette

8. **Hydro-Static Testing Expense**

In GR-2017-0215 & 0216, the Commission approved a *Non-Unanimous Stipulation and Agreement* in its *Amended Report and Order* filed on March 7, 2018. The *Non-Unanimous Stipulation and Agreement* states the following:

---

[95] GR-2017-2016, GR-2017-0215, GR-2014-0007, GR-2013-0171.

> "The Signatories agree that effective on the date of this agreement, LAC and MGE will expense all future hydrostatic testing costs. For the purposes of this rate case, MGE's rates will include an annual amount of hydrostatic testing expense of $413,177. No further action will be taken with respect to hydrostatic testing performed."[96]

In this case, Staff reviewed the costs associated with hydro-static testing and verified that both Spire East and Spire West have been expensing all costs associated with hydrostatic testing.[97] Staff reviewed the amount of hydro-static testing expense incurred since the last rate case for Spire East and Spire West. Staff discovered Spire West has not incurred any hydro-static testing expense since the last case, therefore, Staff made no adjustment to the test year. For Spire East, an annual amount of hydrostatic testing was not included in the Non-unanimous Stipulation and Agreement in Case No. GR-2017-0215. Staff analyzed hydrostatic testing expense for Spire East for the period of 2018-2020 and determined a three year normalization is representative of an ongoing level of hydro-static expense for Spire East. Staff's adjustment of ($525,729) is reflected in Staff Accounting Schedule 10.

Staff Expert/Witness: Jeremy Juliette

9. Fuel Expense for Equipment and Vehicles

Staff reviewed Spire's fuel costs for equipment and vehicles that are used in the day to day operations during fiscal year 2018, 2019, and 2020. Staff determined that costs currently included in test year best represents fuel expense for equipment and vehicles going forward. Staff's treatment of fuel expense is consistent with Spire.

Staff Expert/Witness: Antonija Nieto

10. Credit Card Processing Fees

Spire East and Spire West incur costs from various credit card companies and/or third party vendors that charge to process credit card payments that customers make to pay their utility bill. In the Partial Stipulation and Agreement filed in GR-2009-0355, the Commission allowed Spire West (formerly Missouri Gas Energy (MGE)) to recover in rates the per-transaction expense associated with processing customer credit card payments. Prior to the settlement in that case, the customer was responsible for the transaction fees associated with using a credit card to make payments. In the last general rate case, GR-2017-0215, Spire East sought similar treatment to that

---

[96] *Partial Non-Unanimous Stipulation and Agreement* in GR-2017-0215 & 2016, paragraph 7, filed on December 20, 2017.

[97] Response to Staff Data Request No. 135 in GR-2021-0108.

approved by the commission for MGE for credit card processing fees. The Commission approved the same treatment for Spire East in case No. GR-2017-0215[98].

The Company did not propose an adjustment for credit card processing fees in this case. However, Staff reviewed the costs associated with credit card processing fees during the test year and determined the appropriate amount of fees to include in rates in this case. Staff determined the cost based on the amount of expense recorded in general ledger for those costs for the 12 months ending December 31, 2020 and made adjustments in amount of $169,014 for Spire East and $20,331 for Spire West. Staff's adjustments are reflected in Schedule 10 of Staff's Accounting Schedule.

Staff Expert/Witness: Antonija Nieto

11. **Dues and Donations**

Staff reviewed the list of membership dues paid and donations made to various organizations that Spire charged to their utility accounts during the year. Dues and donations are expenditures made by utilities to organizations, clubs, charitable funds and other groups. Dues can be defined as the amount paid to an organization by the utility which allow the utility or individuals employed by the utility company to participate in and benefit from the organization's activities. Donations are defined as discretionary amounts paid to individuals or organizations for charitable reasons with no direct business benefit.

Staff used the four criteria first used in Case No. EO-85-185 to establish when dues and donations should not be included in customer rates. These criteria have been applied in utility rate cases since 1985. The criteria for excluding the costs are:

1) The expenses are involuntary ratepayer contributions of a charitable nature;
2) The expenses are supportive of activities which are duplicative of those performed by other organizations to which the Company belongs or pays dues;
3) The expenses are associated with active lobbying activities which have not been demonstrated to provide any direct benefit to the ratepayers; or
4) The expenses represent costs of other activities that provide no benefit or increased service quality to the ratepayer

[98] GR-2017-0215, Amended Report and Order, March 7, 2018, page 72.

Spire participates in several social and civic organizations. Staff reviewed the contributions made to these organizations to determine if the costs should be recovered in rates based on the benefit derived from these costs to the Company's customers.

Based on Commission criteria detailed in Case No. EO-85-185, Staff recommends removal of chamber of commerce dues if they are in the following categories:

> 1) Chamber of commerce dues that serve areas outside of the Spire service territory;
>
> 2) Chamber of commerce dues for statewide chambers of commerce; and
>
> 3) Chamber of commerce dues that are duplicative of other chamber dues in the same area

Staff recommends and made an adjustment to remove $353,857 of dues that met the exclusion criteria listed above. Some examples of dues removed were for organizations in a duplicative local region, some were national or Statewide, and some were charitable in nature or otherwise provided no benefit or increased service quality to ratepayers. Staff allowed local chambers of commerce and/or local economic development dues so long as they were not in a duplicative local region. Staff also allowed numerous employee trade/professional memberships dues.

Staff Expert/Witness: Jared Giacone

12. Miscellaneous Expense and Officer Expense Accounts

Spire East and Spire West make use of corporate suites and season tickets to sporting and entertainment events to entertain large customers, government employees, and Spire's own employees and families. Spire made an adjustment to remove the cost of the tickets and alcohol in their direct filing[99]. In addition to the costs removed by Spire East and Spire West, Staff has removed additional expenses that Staff views as non-beneficial to ratepayers.

The officers of Spire Missouri submit expense reports for items such as travel costs, membership dues, and other miscellaneous charges. Staff has reviewed the expense reports for the officers of Spire Missouri and removed charges for items that provide no benefit to ratepayers and are not necessary in the provision of safe and adequate service.

In total, Staff has removed $510,991 for Spire East and $266,067 for Spire West regarding these disallowed costs.

Staff Expert/Witness: Jeremy Juliette

---

[99] Case No. GR-2021-0108, *Wesley Selinger Direct Testimony*, p. 14, lines 20-23.

13. Board of Directors Expense

As a publicly traded Company, Spire is required by the Security Exchange Commission to have an independent board of directors. Staff has reviewed the expense incurred in the test year related to the board of directors and made adjustments to remove those expenses found to be imprudent, unreasonable, or of no benefit to the ratepayers. Total amount of Board of Directors expense removed from cost of service is $1,100 for Spire East and $660 for Spire West.

Staff Expert/Witness: Antonija Nieto

14. Property Tax Expense and Tracker

Staff recommends an annualized level of property taxes using a ratio of plant-in-service as of January 1 2020 and property taxes paid in 2020. The ratio is then applied to plant-in-service as of January 1, 2021. Staff also recommends a five year amortization of deferred property taxes based on a property tax tracker approved by the Commission in Case Nos. GR-2017-0215 and Case No GR-2017-0216 and recommends discontinuing the tracker.

Property taxes are those taxes assessed by state and local county taxing authorities on a utility's "real" property. Property taxes are computed using the assessed property values and property tax rates. The taxing authorities, either state or local, use an assessment date of January 1 of each year. This date is critical because it forms the basis for the property tax bill, which is generally paid at the end of that same year, no later than December 31. A utility is required to file with the taxing authorities a valuation of its utility property based on the January 1 assessment date. The taxing authorities will then provide the utilities with what they refer to as "assessed values" for each category of property owned. Typically in late summer or fall, the appropriate taxing authorities give the utilities the property tax rate. Property tax bills are then issued with "due dates" before December 31 based on property tax rates applied to the utilities' assessed values.

Staff annualizes property taxes by using a ratio of plant-in-service as of January 1 to property taxes paid in the same year. Staff uses this ratio to evaluate the property taxes paid by Spire East and Spire West and develop an annualized level of property taxes to include in Spire East's and Spire West's cost of service.

Since the update period in this case is December 31, 2020, Staff determined the annualized property taxes based on the property Spire East and Spire West had in-service on January 1, 2021.

Staff applied a property tax ratio based on actual 2020 property tax payments to January 1, 2021, plant. The property tax rate is calculated by dividing the total amount of property tax paid by Spire East and Spire West in 2020 by the total cost of the taxable property owned on January 1, 2020. This ratio when applied to the January 1, 2021, plant provides the amount of property taxes expected to be paid for 2021. Staff recommends that this is the appropriate method for developing an annualized level of property taxes, because this method relies upon the actual January 1, 2021, balance of Spire East's and Spire West's property, and uses the most recent known tax rate (2020), without attempting to estimate any change in the rate of taxation for 2021 that is not known as of the update period.

Staff's approach is consistent with previous Staff recommendations and with the Orders by the Commission in the following litigated rate cases:

- Missouri Gas Energy, Case No. GR-96-285
- St Louis County Water Company, Case No. WR-2000-844
- The Empire District Electric Company, Case No. ER-2001-0299
- Kansas City Power & Light, Case No. ER-2006-0314

In the most recent case listed above, Case No. ER-2006-0314, the Commission ordered the following:[100]

> Staff recommends that the Commission calculate property tax expense by multiplying the January 1, 2006 plant-in-service balance by the ratio of the January 1, 2005 plant-in-service balance to the amount of property taxes paid in 2005. KCPL wants the property tax cost of service updated to include 2006 assessments and levies. The Commission finds that the competent and substantial evidence supports Staff's position, and finds this issue in favor of Staff.

Staff's recommended level of property taxes for Spire East and Spire West is reflected in Staff's Accounting Schedule 10.

Property Tax Tracker

In Case Nos. GR-2017-0215 and GR-2017-0216, the Commission ordered the establishment of a tracker for Spire's property tax expenses. Beginning on page 117 of its Amended Report and Order, the Commission states:

> Finally, one of Spire Missouri's arguments against including the effects of the TCJA in the present case was that it was unfair to the company to not

[100] Case No. ER-2006-0314, Commission Report and Order, page 68.

> also include certain property taxes that also fall outside of the test year. Having considered these arguments the Commission agrees that actual property tax expense paid in 2017 is now known and measurable even though it falls outside the test year. And, coupled with the extraordinary event of decreased income tax expense it would not be just to exclude these know and measurable taxes (estimated at hearing as approximately $1.4 million) from increasing property tax expense. Therefore, as an offset to the reduction in current income tax expense, the Commission will include the actual 2017 property taxes as an expense for the new rates. However, as 2018 property taxes are still not known and measurable, the Commission will also establish a tracker to account for any amounts of property tax expense over or under the amounts set out in rates for possible inclusion in Spire Missouri's next rate proceeding.[101]

In this case, Staff reviewed the regulatory asset established by Spire in accordance with the previous Commission order. Staff calculated the amounts collected in rates from the effective date of rates in the last case through the update period in the current case. Staff also included the amount of property taxes included in Spire East's and Spire West's ISRS surcharges and any refunds the company received during the time the tracker was in effect. Staff compared the amount collected to the actual property taxes paid by both Spire East and Spire West. Staff determined the balance of the regulatory asset as of December 31, 2020 to be $5,818,098 for Spire East and $3,410,141 for Spire West, meaning that Spire has under-collected property tax expense in rates compared to the amounts it has paid to taxing authorities since its last rate case. Staff recommends this balance be amortized over a period of five years. The annualized amortization amount is reflected in Staff's Accounting Schedule 10 for Spire East and Spire West. At this time, Staff also recommends discontinuation of the property tax tracker for both Spire East and Spire West.

Property Tax Appeals

Staff also reviewed any appeals that Spire East and Spire West filed since the effective date of rates in the last case. Spire East filed appeals in St. Francois and St. Genevieve counties for the years of 2018, 2019, and 2020. These appeals are still open and an evidentiary hearing is scheduled for June 23, 2021 according to the Missouri Tax Commission. Spire East also filed an appeal in Franklin county in 2018 in which Spire East successfully reduced the amount of property tax paid that year. This amount was deducted from the regulatory asset. Spire West filed appeals in Clay and Platte counties for the years of 2018, 2019, 2020. Like Spire East, these appeals are still open

---

[101] Case Nos. GR-2017-0215 & GR-2017-0216, Commission Amended Report and Order, pages 117-118.

and an evidentiary hearing is scheduled for June 23, 2021. Since the evidentiary hearings occur after the true-up in this case, Staff recommends these appeals and any future appeals be reviewed in the next rate case to determine if any amounts recovered by Spire should be used as a reduction to the property tax regulatory asset established in Spire's last rate cases.

Staff Expert/Witness: Jeremy Juliette

15. <u>Kansas Property Taxes – Spire West Specific</u>

Staff reviewed the regulatory asset, approved by the Commission in Case No. GR-2009-0355, to determine the unamortized balance as of the update period, December 31, 2020. Staff recommends amortizing the unamortized balance over a 4 year period. Staff also recommends a normalized level of Kansas property taxes based on a 4 year period (2017-2020) and discontinuing the property tax tracker.

In 2009, the Kansas Legislature passed a law, Kansas House Substitute for Senate Bill No. 98, to allow for assessment of all gas being stored and held for resale in Kansas. Similar to its position in Case No. GR-2004-0209, Spire West, formerly Missouri Gas Energy ("MGE") requested recovery of Kansas property tax it had not yet paid in Case No. GR-2009-0355. As part of the Stipulation and Agreement filed on November 5, 2009, in the 2009 rate case, and approved by the Commission on February 10, 2010, Spire West was granted an AAO for the expenses associated with property tax to be paid to the state of Kansas. According to the Stipulation and Agreement on page 4:

> MGE shall be granted the following accounting authority order (AAO): That Missouri Gas Energy, a division of Southern Union Company, ("MGE") is granted an Accounting Authority Order whereby the company is authorized to record on its books a regulatory asset, which represents the expenses associated with the property tax to be paid to the state of Kansas in relation to natural gas in storage pursuant to House Substitute for Senate Bill No. 98 for 2009 and subsequent years based on assessments from Kansas taxing authorities. Missouri Gas Energy may maintain this regulatory asset on its books until the beginning of the month after the final judicial resolution of the legality of that tax. Thereafter, Missouri Gas Energy shall commence amortization of the deferred amounts, with the amortization to be completed over a five-year period. If MGE files a general rate case prior to that final resolution, ratemaking treatment of the deferral may be considered within that case. If MGE is allowed ratemaking treatment providing a return of any AAO funds for Kansas Property Tax, there shall be no return on the Kansas Property Tax AAO funds included in rates. The Commission shall include language in its Order stating that the

> grant of this AAO does not in any way control how the Commission will treat this deferral for ratemaking purposes in subsequent rate cases, except there shall be no rate base treatment of deferred amounts as provided above.

In both the 2004 and 2009 rate cases, the Commission made it clear that if the courts concluded that Spire West had to pay the Kansas taxes, the deferral treatment would end and the five-year amortization was to commence the following month. No rate base treatment was to occur related to any unamortized balance for this deferral treatment.

In addition to the cases discussed above, as part of the Stipulation and Agreement in Case No. GM-2013-0254 (concerning the merger of Laclede Gas Company and MGE), approved by the Commission on July 17, 2013, "pre-acquisition regulatory assets of Laclede Gas and MGE will continue in accordance with the Commission approved terms and conditions that created or continued the asset."[102]

On December 6, 2013, the courts issued an order holding Spire West responsible for Kansas property taxes. Spire West and other litigants appealed the Kansas Supreme Court's decision to the United States Supreme Court. On October 6, 2014, The United States Supreme Court denied the Petition for a writ of certiorari.

As part of the Stipulation and Agreement filed on April 11, 2014, in the general rate case denoted as Case No. GR-2014-0007, and approved by the Commission on April 23, 2014, Spire West was allowed to defer a portion of Kansas property taxes and allowed to recover a portion in base rates. According to the Stipulation and Agreement on page 14:

> The Parties agree that the rates recommended herein include an allowance of One Million Six Hundred Thousand ($1,600,000) for the amortization of MGE's current regulatory asset relating to the assessment of Kansas Ad Valorem Taxes and One Million Four Hundred Thousand ($1,400,000) to reflect an annual ongoing level of Kansas Ad Valorem Taxes. MGE shall be authorized to record as a regulatory asset/liability, as appropriate, the difference between any Kansas Ad Valorem taxes paid by the Company and the allowances included in rates, and such difference shall be recovered from or returned to customers in future rates through a five year amortization of such difference, provided that if the Company prevails in its current appeal challenging the lawfulness of such tax assessments, the Company shall apply interest to any amounts recovered in rates at the Company's short term debt rate but shall seek approval as soon as reasonably practical to flow through any difference to customers through a

[102] Case No. GM-2013-0254 *Stipulation and Agreement* pages 12-13.

> separate tariff mechanism. In the event the amortization of the asset or liability becomes fully amortized between rate cases, the amount included in rates between the date it became fully amortized and the effective date of rates in the next rate case shall be returned to shareholders or ratepayers, as appropriate, over a time period not to exceed five years.

The annual amortizations approved by the Commission in the 2014 rate case, $1.6 million for historical deferred property taxes (2009-2013) and $1.4 million for an ongoing level, were based on estimates. Estimates were used because the final decision from the Supreme Court was not known. As part of the GR-2017-0216 case, Staff reviewed invoices, inventory levels, gas prices, and tax rates for 2009 through 2013 to verify the deferred balances recorded in the regulatory asset approved in Case No. GR-2014-0007, were correct. Staff determined after reviewing the actual property tax invoices that the regulatory asset created in the 2014 rate case using estimates was overstated. In GR-2017-0216, the Commission ordered[103] the regulatory asset created in the 2014 rate case to reflect actual property tax paid by Spire West be revised to $7,802,197. The Commission also ordered a normalized level of Kansas property tax expense of $1,454,069 be included in Spire West's revenue requirement. Along with the normalized level of expense, the Commission ordered an annual amortization expense of $276,510 to be included in regards to the unamortized balance of the revised regulatory asset.

In this case, Staff reviewed the regulatory asset to determine the unamortized balance as of the update period, December 31, 2020. While analyzing the regulatory asset, Staff also reviewed invoices for Kansas property taxes paid for 2018-2020. Staff compared the amounts collected through rates and the amount of actual taxes paid for each year. Any over or under collection was then incorporated into the regulatory asset. Staff calculated the unamortized balance as of December 31, 2020 to be $1,243,642. Staff recommends amortizing this remaining balance over four years for an annual amortization expense of $310,910. Staff's adjustment to increase the annual amortization is reflected in Staff Accounting Schedule 10.

Staff also completed a historical analysis regarding Kansas property taxes paid by Spire West. The table below represents the amounts paid for 2009-2020:

[103] Case Nos. GR-2017-0215 & GR-2017-0216, Commission Amended Report and Order, pages 25-26.

Spire West Historical Actual Kansas Property Taxes 2009-2020	
Year	**Tax Amount**
2009	$1,449,247
2010	$2,017,164
2011	$1,509,395
2012	$1,304,449
2013	$1,521,942
2014	$1,391,599
2015	$1,316,239
2016	$1,122,514
2017	$1,674,298
2018	$1,743,549
2019	$1,777,419
2020	$955,932

Staff used this analysis to normalize the amount of Kansas property tax expense to include in Spire West's revenue requirement. Staff recommends an annual amount of $1,537,800 of expense to be included based on a four year average (2017-2020).

At the time a tracker was approved by the Commission, there was a level of uncertainty about the amount of Kansas property taxes that Spire West would pay. As reflected in the table above, there is now several years of costs incurred by Spire West. Consequently, Staff can now determine a normalized level and treat these costs as a normal recurring operating expense. Therefore, Staff recommends discontinuing the Kansas property tax tracker.

Staff Expert/Witness: Jeremy Juliette

16. <u>Uncollectibles</u>

Uncollectible expense is the portion of retail revenues Spire East and Spire West are unable to collect from retail customers because of bill non-payment. After a certain amount of time has passed, delinquent customer accounts are written off. If Spire East and Spire West subsequently collect some portion of previously written off delinquent amounts owed, then those amounts collected reduce the actual write-offs. This results in the net write-off, which is used to determine the normalized level of bad debt expense. Staff examined all levels of net write-offs for the last four years for both Spire East and Spire West. Staff recommends a three-year average (2018-2020) of Spire East's and Spire West's net write-offs. Bad debt expense that has been deferred in Spire's COVID-19 AAO is not included in Staff's three-year average. Staff's adjustments are reflected in Staff's Accounting Schedule 10; ($1,950,113) for Spire East and $1,206,894 for Spire West.

Staff Expert/Witness: Antonija Nieto

17. <u>Amortization of Non-Depreciated Accounts</u>

Certain items such as leasehold improvements, franchises and consents, land and land rights, intangible plant and easements/right of way costs, and software accounts are items that Spire East and Spire West include in their rate base but are not assets that have a depreciation rate assigned to them. In place of this, Spire East and Spire West amortize and recover the cost of the asset over the life of that asset. Staff has included the annualized plant amortization expense in Staff Accounting Schedule 10.

Staff Expert/Witness: Jeremy Juliette

18. <u>PSC Assessment</u>

The Missouri Public Service Commission assessment ("PSC Assessment") is an amount billed to all regulated utilities operating under the jurisdiction of the Commission as an allocation of the Commission's operating costs for regulating those utilities. The expense of the PSC Assessment is then included by these regulated utilities in the rates charged to customers.

Spire's PSC Assessment was adjusted to the latest assessment available for the current fiscal year for the State of Missouri (FY-2021) based upon information obtained from the Commission's Budget and Fiscal Services Department. Spire is assessed as one company, therefore Staff allocated a percentage of the total assessment to Spire East and Spire West based on the 2019 Statement of Revenues provided by Spire to Budget and Fiscal Services for Spire East and Spire West. Staff's adjustment for the PSC Assessment is located on Schedule 10 of Staff's Accounting Schedules.

Staff Expert/Witness: Jared Giacone

19. Information Technology Expense

Staff reviewed information technology expenses charged to Spire East and Spire West during the last three fiscal years and found that the annual expense showed an upward trend at Spire East and a downward trend at Spire West. However, combining the costs from Spire East and West results in a fluctuating yearly amounts for Spire Missouri. In its direct case, Staff has included a normalized expense based on a three-year average for Spire East and Spire West.

Staff Expert/Witness: Matthew R. Young

20. Non-Wage Maintenance

Maintenance expense is the cost of maintenance charged to the various operating expense and clearing accounts. It includes labor, materials, overheads, and any other expenses incurred in maintaining a utility's assets. Maintenance expense normally consists of the costs of the following activities:

- Direct field supervision of maintenance;
- Inspecting, testing and reporting on condition of plant, specifically to determine the need for repairs and replacements;
- Work performed with the intent to prevent failure, restore serviceability, or maintain the expected life of the plant;
- Installing, maintaining, and removing temporary facilities to prevent interruptions; and
- Replacing or adding minor items of plant, which do not constitute a retirement unit.

Staff analyzed maintenance costs by FERC account for each month for the calendar years ending December 31, 2018, 2019 and 2020. Staff analyzed through the update period ending December 31, 2020, which was the most recent data available to determine if there were any recent trends for the non-labor expenses that had occurred beyond the test year. The test year was the twelve month period ending September 30, 2020, and the test year period data was included within Staff's analysis. Staff separated maintenance expense between labor and non-labor costs in order to perform the review of non-labor maintenance. Staff specifically addresses labor costs under the heading *Payroll, Payroll Related Benefits* in this cost of service report.

Staff's review included a comparison of annual non-labor maintenance account year-ending balances from 2018, 2019 and 2020 to identify any trends or fluctuations from one year to another. Staff also calculated a two (2) and a three (3) year average to determine any trends or fluctuations. The yearly totals and the averages were compared to the test year (12 month period ending September 30, 2020).

Staff found the 12-month test year, ending September 30, 2020, account balances to be reasonable and representative of a normalized level of non-labor maintenance costs for Spire East and Spire West.

Staff Expert/Witness: Jared Giacone

21. Line Locate Costs

Spire East and Spire West contract underground line locating through a third party, currently United States Infrastructure Corporation (USIC). During the period of April 2018 through January 2020, Spire East used Heath Consultants for these services. Staff reviewed the contract that was in place for Spire East during the period of April 2018 through January 2020 since the contract was in place during a portion of the test year established in the current case. Staff also reviewed the current contract and invoices from USIC and determined the test year level of these costs are reasonable and representative of future line locate costs. Additionally, Staff adjusted ** [redacted] **.

Staff Expert/Witness: Antonija Nieto

22. St. Peters Lateral Costs – LAC Specific

On March 1, 2017, Spire East, formerly known as Laclede Gas ("LAC"), entered into a contract for approximately 13 years with MoGas Pipeline LLC ("MoGas") to supply pipeline services to Spire East's system at a reduced price per volume of natural gas flow. As part of the agreement with MoGas, Spire East agreed not to complete the St. Peters Pipeline lateral that was started prior to negotiations with MoGas. Spire East invested approximately $2 million on the St. Peters Pipeline before the MoGas contract was completed.

The amended contract with MoGas results in an annual savings of $4.5 million for the period of 2019-2030; savings of approximately $54 million over the life of the contract. The $2 million in expense incurred by Spire East prior to reaching an agreement with MoGas primarily consisted of typical preliminary construction costs such as the use of engineering consultants, procurement of easements, and legal costs. In Case No. GR-2017-0215 the parties agreed to a four year amortization of these costs. The *Partial Stipulation and Agreement* was approved by the Commission on March 7, 2018. The *Partial Stipulation and Agreement* states:

> The Parties agree that the development costs incurred by LAC in connection with the St. Peters Lateral project, which project enabled LAC to secure discounts from one of its pipeline supplies of a value substantially in excess of such costs, shall be amortized in rates over a four-year period at an annual amount of $529,501. Such costs shall not be included in rate base.

The effective date of rates for Case No. GR-2017-0215 was April 19, 2018. The costs described above will be fully amortized on April 19, 2022. To avoid a significant over-recovery of these cost by Spire East, Staff recommends adjusting the annual amortization amount to $121,344 and recommends a four year amortization. Staff's calculation is based on May 31, 2021, the true up period in this case.

Staff Expert/Witness: Karen Lyons

23. <u>Energy Efficiency and Low Income Programs</u>

The current energy efficiency portfolio for Spire East and Spire West territories was agreed to in Case No. GR-2017-0215 in the Partial Stipulation and Agreement filed on December 17, 2017, and approved by the Commission in the Report and Order filed on February 18, 2018[104]. The parties agreed to changes in the terms and conditions that govern the provision of the energy efficiency programs by LAC (Spire Missouri East) and MGE (Spire Missouri West) in the Partial Stipulation and Agreement[105] filed on December 13, 2017, and approved in Commission's Report and Order[106] effective March 3, 2018.

Of the agreed change in terms and conditions a few of the changes are:

- The Energy Efficiency Collaborative ("EEC") for LAC and MGE shall now function as an advisory group. The Company shall be responsible for all final decisions regarding its natural gas energy efficiency programs;
- Program Funding: Except as otherwise provided in the Stipulation and Agreement, the Parties agree there will be no increase in the Company's overall budget funding for

---

[104] File No. GR-2017-0215, *In the Matter of Laclede Gas Company's Request to Increase it Revenues for Gas Services*/File No. GR-2017-0216, *In the Matter of Laclede's Gas Company d/b/a Missouri Gas Energy's Request to Increase Its Revenues for Gas Service*

[105] File No. GR-2017-0215, *In the Matter of Laclede Gas Company's Request to Its Revenues for Gas Service* and File No. GR-2017-0216, *In the Matter of Laclede Gas Company d/b/a Missouri Gas Energy's Request to Increase Its Revenues for Gas Service*, *Partial Stipulation and Agreement*, paragraph 15, pages 7-12.

[106] File No. GR-2017-0215, *In the Matter of Laclede Gas Company's Request to Its Revenues for Gas Service* and File No. GR-2017-0216, *In the Matter of Laclede Gas Company d/b/a Missouri Gas Energy's Request to Increase Its Revenues for Gas Service,* Report and Order, page 9.

Program Year 2018. Beginning October 1, 2018, the Company shall fund energy efficiency programs, on an annual basis, toward the goal of 0.75% of the rolling average of the Company's gross operating revenues for the previous three years, provided that such target levels may be exceeded by up to 20%, but may not exceed the 20% buffer without Commission approval;

- The 2018 annual budget for the Multi-Family Low-Income programs shall be $900,000, subject to a potential upward adjustment within the 20% budget variance allowance; however, any unspent funds from this sub-budget will be made available for other programs in the following year.

Staff recommends the Commission approve continuation of all current programs at their currently approved funding level. The Company has proposed program structure changes within the residential and commercial energy efficiency programs and to the Low-Income Energy Affordability Program and Red-Tag Repair program. These proposed changes are in addition to the two new program tariffs filed for approval by Company witness Shaylyn Dean.

Staff continues to review the proposed changes and will address them further in rebuttal.

In Case No. GR-2007-0208 the Laclede Gas Energy Efficiency Collaborative (EEC) was approved by the Commission Order Approving Unanimous Stipulation and Agreement and Authorizing Tariff Filing, which became effective on July 29, 2007[107]. The EEC was charged with the task to develop, implement and evaluate energy efficiency and conservation programs.

When rates became effective pursuant to the Commission's Report and Order in Case No. GR-2006-0422 on March 30, 2007, funding for Missouri Gas Energy's (MGE) energy efficiency programs also began. On August 7, 2007, the MGE Energy Efficiency Collaborative was approved as a result of the Commission's Order Approving Unanimous Stipulation and Agreement in Case No. GT-2008-0005.

In Case No. GM-2013-0254, when merger of Laclede Gas Company (now Spire Missouri East) and Missouri Gas Energy (now Spire Missouri West) was effectuated, the EEC's began meeting as one, and in person, on a quarterly basis to better facilitate discussions for both utility energy efficiency portfolios. Each utility provided programs best suited to its individual service

[107] File No. GR-2007-0208, *In the Matter of Laclede Gas Company's Tariff to Revise Natural Gas Rate Schedules, Laclede Gas Company's Quarterly Status Report on Energy Efficiency Collaborative*

territory, programs that leverage co-delivery opportunities with the local electric utility, and that fit individual budgets as set forth in approved Stipulation and Agreements. Since that time, the Company feels the two "flagship" programs, the Residential High Efficiency Rebate Program and the Commercial/Industrial Rebate Program, have served to encourage Spire customers of both sectors to invest in energy saving and environmentally-friendly natural gas equipment and measures.

Staff continues reviewing the overall portfolio performance and impacts and performance of each program as well as the administration of funds, and reserves the right to comment and/or make recommendations in future testimony.

<u>Residential High Efficiency Rebate Program</u>

The Residential High Efficiency Rebate Program provides residential owners and customer's rebates for the installation of high efficiency heating systems, water heating systems and thermostats. This program is available for owners of, or customer living in, individually metered dwelling units. All eligible customers must apply through the Company or through participating heating, ventilating and air conditioning and plumbing contractors. Individual dwelling units, as determined by account number, whether owner-occupied or rental property, are eligible for a maximum of two heating system rebates, two water heater rebates, or two combination unit rebates, and two thermostat rebates. Owners of multiple individually metered dwelling units may receive rebates for all qualifying natural gas energy efficiency equipment, subject to program funding availability.

<u>Commercial and Industrial (C/I) Rebate Program</u>

The C/I Rebate program was established to provide commercial and industrial customers incentives through prescriptive (standard) rebates and customer rebates for the implementation of natural gas energy efficiency measures, including part or all of the cost of an energy audit that identifies a measure that subsequently results in a rebate through this program.

Customers implementing certain measure as described below will receive prescriptive rebates. All other rebates under this program will receive financial incentives which are customized or individually determined using the Total Resource Cost Test ("TRC") latest edition of the California Standard Practice Manual for Economic Analysis of Demand-Side Programs and Projects.

Custom Rebates (C/I)

The C/I Rebate program will provide customer rebates to C/I customers for the installation of any natural gas related energy efficiency improvement that does not qualify for a prescriptive rebate. All customer rebates will be individually determined and analyzed to ensure that they pass the Total Resource Cost Test. Any measure that is pre-qualified (evaluated prior to being installed), must produce a Total Resource Cost test result of 1.0 of higher. During a program year, a commercial or industrial customer's total rebate is limited to $100,000 or the remaining uncommitted budget for the current program year, whichever is lower. Remaining uncommitted program budgets may be reallocated to other programs if they are not part of unexpired rebate pre-approvals committed for proposed customer projects.

The following is a summary of current programs:

Spire Missouri East Specific Programs

Residential Single Family Low-Income Program

The purpose of the Residential Single Family Low-Income Program is to deliver long-term natural gas savings and bill reductions to low income customers who occupy single family dwelling units within the Spire Missouri East service territory. This program is available to income-qualifying single family low-income customers receiving service under the Spire Residential Rate and residing in single family detached housing, duplexes, and mobile homes. Customers must have service with Spire Missouri East and Ameren Missouri to participate.

The Company will co-deliver the program with Ameren Missouri to achieve synergies and to help eligible customers receive energy savings and bill reductions from other energy sources. Participants in selected low-income neighborhoods are limited to the one-time receipt of energy efficiency measures under this program.

Multi-Family Low Income Program

The Multi-Family Low Income Program is a program that will deliver long-term natural gas savings and bill reductions to low income customers who occupy multifamily dwelling units within the Spire Missouri East service territory. This is achieved through direct-install water consumption reduction and heat retention measures at no cost to participating customers. The program will also provide residents of the dwelling units with education on the use of the natural gas conservation measures. The program will have an annual budget of $500,000. The program is available to income-qualified multifamily properties that contain natural gas space-heating and/or water-heating equipment and receive gas service from Spire Missouri East and electric service from Ameren Missouri.

The direct-install measures will include smart thermostats, programmable setback thermostats, low-flow faucet aerators, low-flow showerheads, insulating water-heater pipe wrap, and furnace clean & checks. The Company entered into an agreement with Ameren Missouri and a program administrator to develop, implement, and maintain all services associated with the Program.

Energy Efficiency Kits Program

The purpose of the Energy Efficiency Kits Program is to raise customer awareness of the benefits of "high efficiency" products and to educate residential customers about energy use in their homes by offering information, products, and services to residential customers to save energy cost effectively.

The Company has partnered with Ameren Missouri and a program administrator to implement this Program. The program administrator provides the necessary services to effectively implement the Program and to strive to attain the energy savings targets. The Program incorporates various program partners, products, incentive mechanisms and program delivery strategies.

The Company, in partnership with the electric utility and program administrator, follows a multi-faceted approach to educate participants and effectuate installation of energy efficiency products and actions addressed in the Energy Efficiency Kits. The kits may include low flow faucet aerators, low flow showerheads, pipe wrap and dirty filter alarms.

<u>Spire Missouri West Specific Programs</u>

Independence Power & Light (IPL) Pilot Weatherization Program

The IPL Pilot Weatherization Program is an experimental co-delivery Program between IPL and Spire West designed to provide weatherization improvement measures to create long-term (natural gas) bill reduction savings to low-Income single-family Spire West natural gas customers within the IPL service territory. The program is administered by Truman Heritage/Habitat for Humanity ("THHFH"). Weatherization costs for services provided to any single household cannot exceed $7,500 with the total allocated 50% - IPL and 50% - Spire West.

The program is funded with a maximum of $100,000 from Spire West's Conservation and Energy Efficiency Program funding, which is applied to this program for Spire West's share of the funding. The Company conducts an internal billing analysis of the pilot program every 24 months to make a determination regarding the cost-effectiveness by comparing the energy savings of participants with a non-participant comparison group. The cost-effectiveness metrics and test will be added but shall not be used to exclude or diminish low-income programs, but instead shall be used to improve program delivery and effectiveness.

Income Eligible Multi-Family Program Direct Install Program

The Income Eligible Multi-Family Program is designed to deliver long-term energy savings and bill reductions to income-eligible customers in multi-family home units and shared common areas within the Spire Missouri West service area. Multi-family dwelling units are defined as structures of three (3) or more attached unit complexes.

The Company co-delivers the program with Evergy Missouri West and Evergy Missouri Metro so that eligible customers utilizing both services may receive energy savings and bill reductions from both energy sources. The cost-effectiveness metrics and test will be added but shall not be used to exclude or diminish the low-income program, but instead shall be used to improve program delivery and effectiveness.

Home Comfort Efficiency Program

The Home Comfort Efficiency Program is designed to encourage residential customers to implement whole house improvements by promoting home energy assessments, comprehensive retrofit services and high efficiency furnaces and water heating equipment. The Company co-delivers the program with Evergy Missouri West and Evergy Missouri Metro so that eligible customers utilizing both services may receive energy savings and bill reductions from both energy sources. The program is available to single family property owners and individually-metered multifamily units in buildings with 4 or less units and also renters that receive written approval from the homeowner/landlord to participate. Qualifying customers are eligible to receive the following:

Option 1 – Insulation & Air Sealing: Customers that have completed a comprehensive energy audit by a program authorized energy auditor are eligible to receive the installation of a free energy savings items and rebates.

Option 2 – Energy Savings Kits or Kit Components: Energy Efficient direct install measures provided to residential customers by the Company to include discretionary energy assessments to targeted low income residents.

Option 3 – High Efficiency Furnaces and Water Heating Equipment: Spire Missouri West also offer incentives for qualifying high efficiency natural gas furnaces and water heating equipment measures. These measures are not jointly delivered with Evergy Missouri West and, Evergy Missouri Metro.

The total budget for each year of the program shall be calculated and filed annually by the Company as part of its annual budget filing for all energy efficiency program expenditures. This amount provides for incentive payments, marketing costs, and Company administrative costs.

Weatherization Program

This Program is designed to provide energy education and weatherization assistance to low-income residential customers to assist customers in reducing their energy consumption and thus reducing their natural gas utility bill. The annual program funds were approved to remain the same for the Spire Missouri East territory at $950,000 and $750,000 annually in assistance for the benefit of eligible low-income customers Spire Missouri West territory.

In paragraph 17 on page 12 of the *Partial Stipulation and Agreement* in Case No. GR-2017-0215, it was agreed:

> *"17. The Parties agree that the low-income weatherization programs and arrearage reduction programs of LAC and MGE shall be continued at current funding levels. DE agrees to continue administering the LAC program for a reasonable period of time to allow time for the Company to conduct a Request for Proposal to obtain bids for providing administrative services for the LAC and MGE low-income weatherization programs or for the Company to assume administration of the LAC low-income weatherization program. DE will not participate in selection of an administrator under an RFP process if DE participated as a bidder for administration of the LAC or MGE programs. If a third party is selected to provide such administrative services, it may receive compensation for such services at a level no greater than 5% of program funds, which amount shall be deferred for future recovery in rates."*

Staff will address changes to the administration of the program in both territories in rebuttal in addition to the program changes proposed by the Company in rebuttal.

<u>Low-Income Energy Affordability Program</u>

The Low-Income Energy Affordability Program continues to be provided to eligible customers in the service territories of Spire Missouri East and Spire Missouri West under new terms approved by the Commission in Case Nos. GR-2017-0215 and GR-2017-0216. The program is jointly administered by Spire Missouri East and Spire Missouri West and select Community Action Agencies ("CAA") and other similar social service agencies in the joint territories.

To be eligible for the program, the customer is required to register with a community action agency, have a household income below 185% of the federal poverty level ("FPL"), apply with the CAA for any energy assistance funds for which they might be eligible, and review and agree to implement cost-free self –help energy conservation measures identified by the CAA. In addition, all applicants are provided with basic budgeting information, as well as information about other potential sources of income such as the Earned Income Tax Credit. The CAA may use household registration from other assistance programs to determine eligibility for the program. The CAA shall also make an effort to identify eligible participants who, because of their payment history or other factors, has a greater opportunity to succeed in the program.

The program shall be funded at a total annual level not to exceed $900,000 for Spire Missouri East and $750,000 for Spire Missouri West and shall consist of the Fixed Charge Assistance Program ("FCAP") and the Arrearage Repayment Program ("ARP"). The FCAP eligible customers receive a monthly bill credit of $20 year round. During the billing months of November through April, eligible customers with household incomes ranging from 0% to 135% receive an additional credit of $30. The ARP customers may enroll in the ARP in the calendar months of October through December or April through June, with specific guidelines during each enrollment period which the customer must meet to qualify for help. The Company is proposing several changes to this program, which Staff will address in rebuttal.

Red Tag Repair Program

The Red Tag Repair Program is an experimental program in which customers receive funding towards minor repairs or replacement of their gas appliances and piping in order to obtain or retain gas service. The program has two components: (1) Heating Only for Lower Income, and (2) Avoid Red Tags.

1. The Heating Only for Lower Income provides payment assistance to eligible residential customers of the Company, with a household income equal to or less than 185% of the Federal Poverty Level, who require repairs or replacement of natural-gas appliances and/or piping that have been red-tagged. Appliances are red-tagged when they are not safe to function without repair or replacement. If the customer is renting the premises, the approval of the landlord is required.

The Company provides up to $100,000 annually for its Spire Missouri East operating unit and $100,000 annually for its Spire West operating unit to credit customers or reimburse qualified social service agencies within its service territory that can provide, or arrange to provide, and pay for such emergency service work consistent with the terms set forth herein and at an administrative cost not to exceed 10% of the funds provided. No customer shall receive assistance greater than $1,000 under this program, with no more than $700 going towards a PSHE and no more than $450 going toward each other gas appliance or piping. Energy efficient appliances being preferred, when a furnace qualifies for replacement under the health and safety provisions of the federal Low-Income Weatherization Assistance Program, the furnace will be replaced with a 90% or higher efficiency unit, when feasible. In cases where a PSHE is being replaced at cost to the customer prior to installation, the customer shall be offered an opportunity to use red tag funding toward the purchase and installation of a 90% or higher energy efficient furnace. If the customer declines, then the customer shall be informed that they may use any licensed or qualified repair service provider or appliance seller that is willing to accept payment according to the terms of the program. The Spire East and Spire West Energy Efficiency Collaborative determines what data shall be gathered and reported to evaluate this Program.

2. The Avoid Red Tags program permits Spire East and Spire West field service representatives who are already on-site to spend a nominal amount of time to perform minor repairs of the customer's gas appliances and piping when doing so would result in the customer gaining or keeping use of service rather than having the piping or appliance "red-tagged" as unsafe. If the field service representative believes the problem can be repaired in no more than 15 minutes using parts that cost $20 or less, the field service representative may, with the customer's consent attempt to affect such repairs in conjunction with utility service at no cost to the customer. If the field service representative determines the repair will fall outside of these parameters, the repair effort is stopped and the service representative proceeds in accordance with the Company's safety practices and the Utility Promotional Practices.

The Company proposes a few changes to this Program, which Staff will address in rebuttal.

Staff Expert/Witness: Kory J. Boustead

a. <u>Accounting Treatment for Energy Efficiency Programs</u>

Spire East and Spire West have energy efficiency programs that allow them to defer energy efficiency costs that include administrative, marketing and customer incentives, and rebates. Staff

Witness Kory J. Boustead explains the history of the programs and addresses the proposed changes to the programs in her testimony.

Staff evaluated the regulatory asset balance for these programs and included the unamortized balance in rate base and an annual amortization in expense based on a ten year period[108].

Staff Expert/Witness: Antonija Nieto

b. Accounting Treatment for Low Income Affordability Programs

In Case No. GR-2017-0215, the Commission approved the *Partial Stipulation and Agreement regarding Low Income Energy Affordability Program* in its Amended Report and Order filed on March 7, 2018. The program was continued for Spire East, formerly Laclede Gas (LAC) and extended to Spire West, formerly Missouri Gas Energy (MGE)[109]. The Company is proposing to change the name of the program, expand eligibility for the program, make the program more understandable for the customers, unify the program across the state, and eliminate the two enrollment periods and resulting billing differences. Staff Witness Kory J. Boustead addresses the proposed changes to the program in her testimony.

Staff filed a data request regarding the actual costs of the Low Income Energy Affordability Program. For direct filing purposes, Staff adopted the Company's Low Income Energy Affordability Program proposed rate base balance and annual amortization based on a 10 year period. Staff will review the deferral balance for both Spire East and Spire West and include the unamortized balance in rate base and annual amortization for this program as part of its true-up audit in this rate case.

Staff Witness/Expert: Antonija Nieto

c. Accounting Treatment for One Time Energy Affordability Program (Spire West Only)

In Case No. GR-2014-0007, the parties agreed to the following in a Stipulation and Agreement,

> The Company shall also be permitted to defer and recover in future rates up to Four Hundred Thousand Dollars ($400,000) to fund the one-time energy affordability programs set forth in specimen Tariff Sheet No. R-93.

---

[108] Tariff Sheet R-30-12.

[109] Case No. GR-2017-0215, *Partial Stipulation and Agreement regarding Low Income Energy Affordability Program, paragraph 1*

This was a temporary low-income energy affordability program established because of the unusually cold winter of 2013-14 and the corresponding hardship for the Spire West, formerly MGE, low-income customers. MGE customers could enroll in this program from May 1, 2014 through August 31, 2014 pursuant to the terms set forth in the tariff. The tariff also states the following:

> Any Company funds used in the Program, plus administrative funds, shall be deferred into a low-income asset account for recovery over a five-year period in the Company's next rate case. The Company shall not charge or recover fees for its own work administering the program.

Staff reviewed the deferral balance to insure accuracy, included the unamortized balance in rate base, and recommends a 4 year amortization of the remaining balance.

Staff Expert/Witness: Antonija Nieto

d. Accounting Treatment Low Income Weatherization

Both Spire East and Spire West have a Low Income Weatherization programs. Auditing did not address these programs other than insuring the appropriate amount is included in Spire's Cost of Service. Currently Spire East collects $750,000 in base rates and Spire West collects $950,000 in base rates.

Staff Expert/Witness: Antonija Nieto

e. Accounting Treatment for Red Tag Program Costs

In Case No. GR-2013-0171, the Commission approved a Stipulation and Agreement allowing Laclede, now Spire East, to establish an experimental Low Income "Red Tag" Repair Program. As part of that agreement, Spire East was allowed to defer costs up to $25,000 annually in relation to this program. The program allows customers to receive funding toward minor repairs or replacements of their gas appliances and piping in order to obtain or retain gas service.[110]

In Case No. GR-2014-0007, the program was extended to Spire West, formerly MGE. The Commission approved the following in a Stipulation and Agreement for Spire West,

> - establish, subject to a tracking mechanism similar to that approved for Laclede, a new experimental "Red Tag" program for low income customers under which financial assistance is provided so that customers can make needed repairs to their equipment or piping where necessary to restore or avoid an interruption of service and, in the process, enhance safety;

[110] Tariff sheet R-29.

- establish a new experimental "Red Tag" program for all customers under which the Company may make minimal repairs to customer piping or equipment while already at the customer's premises for another reason in order to avoid service interruptions and enhance customer safety;
- The Parties recommend that the Company be permitted to defer and recover in future rates an amount up to One Hundred Thousand Dollars ($100,000) to fund the Company's experimental Low Income "Red Tag" Repair Program (See specimen Tariff Sheet No. R-89).

Staff reviewed Spire East's and Spire West's actual costs incurred for the Red Tag program and its regulatory asset balances for the deferred costs. Staff recommends an annual amortization based on the four-year period with no rate base treatment.

Staff Expert/Witness: Antonija Nieto

24. <u>Capitalized Depreciation Expense</u>

Staff recommends adjustments to remove a portion of the annualized depreciation expense calculated on transportation and power-operated equipment. This equipment is used by Spire East and Spire West to perform both operation and maintenance ("O&M") activities, which are expensed costs, and construction-related activities, which are capitalized. Therefore, a portion of the annualized depreciation calculated on both transportation and power-related equipment is capitalized and charged to construction projects that ultimately are recorded in plant-in-service. As a result, a portion of depreciation relating to construction must be removed from the annualized depreciation expense included in the calculation of net operating income to prevent a double recovery. Staff's adjustments are reflected in Staff's Accounting Schedule 10.

Staff Expert/Witness: Jeremy Juliette

25. <u>COVID AAO Cost Recovery</u>

In the Amended Unanimous Stipulation and Agreement filed in Case No. GU-2020-0376, which the Commission approved on October 21, 2020, the parties agreed to an accounting authority order (AAO) allowing Spire to track and defer into a regulatory asset the following costs associated with the COVID-19 pandemic beginning March 1, 2020 until March 31, 2021:

1. New or incremental operating and maintenance expense related to protecting employees and customer - eligible costs are the following:
   a. Additional cleaning of facilities and vehicles;
   b. Personal protective equipment (i.e. masks, gloves, sanitizing sprays);

c. Technology upgrades and equipment directly related to enabling employees to work from home;

2. Increased bad debt expense due to COVID-19 to the extent total bad debt expense exceeds $8,328,097 for Spire Missouri East and $4,356,922 for Spire Missouri West on an annual basis;
3. Costs related to any new-assistance programs implemented to aid customers with payment of natural gas bills during the pandemic;
4. Increased field employee overtime specifically attributable to changes in Spire field operation procedures cause by the COVID-19 pandemic, but only up to an amount by which the total overtime expense during the deferral period exceeds total overtime expense included in the cost of service in the amounts of $15,555,600 for Spire Missouri East and $4,249,213 for Spire Missouri West;
5. Late Payment fees up to $4,749,544 for Spire Missouri East and up to $1,381,236 Spire Missouri West; and
6. Reconnection charges and disconnection charges waived during the moratorium period up to $1,050,436 for Spire Missouri East and up to $1,575,654 for Spire Missouri West.

Spire was also to track and record operating cost reductions in a separate regulatory liability. Operating and maintenance costs reductions to be deferred were the reductions to the following:

1. Travel expense (hotels, airfare, meals, entertainment);
2. Training expense;
3. Office Supplies;
4. Utility service provided to facilities leased or owned by Spire;
5. Staffing reductions;
6. Reduced employee compensation and benefits;
7. Any taxable net operating loss that is carried back to previous tax years per the CARES Act; and,
8. Any direct federal or state assistance Spire or Spire Inc. receives related to COVID-19 relief.

The COVID-19 pandemic is an extraordinary event that has affected daily life in the U.S. to a degree not previously seen from a disease outbreak within living memory. In addition the costs Spire has incurred as of December 31, 2020 exceeds 5% of its net income and thus meet the materiality standard applicable for AAO deferrals established by the Commission in the past. Staff used the net income amounts from Staff's Accounting Schedules Reflecting the Commission's Amended Report and Order filed on March 21, 2018 in Spire's last rate cases, Case Nos. GR-2017-0215 and GR-2017-0216, to determine the materiality of the deferral.

Staff examined the following revenues, expenses and savings for the period of March 1, 2020 through December 31, 2020 for purposes of its direct filing:

Bad Debt Expense –Spire does not write off a customer account until approximately 360 days after the final bill is issued. Normally Staff uses net bad debt write-offs to determine a normalized level of bad debt expense to include in the cost of service. In Case No. GU-2020-0376, the parties agreed to use the bad debt expense level established in Case Nos. GR-2017-0215 and GR-2017-0216 as a baseline for bad debt deferrals. This level was a five-year average of net bad debt write-offs for Spire East and Spire West. However, due to Spire's bad debt write-off policy, it would not be accurate for purposes of this deferral to use net write-offs that have occurred from March 2020 through December 2020 to calculate the deferrals. Staff instead used the bad debt provision expense recognized monthly (estimated accrual amount) by Spire as a substitute to actual net bad debt write-offs for purposes of tracking bad debt expense in this AAO. In order to prevent over or under recovery of the bad debt expense in this deferral, Staff recommends that Spire track the actual net bad debt write-offs against the bad debt provision expense recognized (monthly estimated accrued amounts) that is currently being used as an estimate in this AAO to determine a deferral amount. The difference between the actual amounts and the estimated accrued amounts will either offset or be included as an additional amount to the unamortized balance of this AAO in Spire's next rate case.

The amount of bad debt expense to include in the deferral for Spire West is $1,776,346. For the period of March 2020 through December 2020, Spire East did not exceed the bad debt expense level required for deferral, thus Staff has not included any bad debt expense in the deferral in its direct filing. By the end of the AAO deferral period, March 2021, Spire East may have an expense amount that would exceed the bad debt expense required for deferral and this amount would then be included in the deferral. Staff will review all of the deferred costs in its true-up audit in this case.

Additional Cleaning Costs and Personal Protective Equipment - Staff included O&M costs related to additional cleaning costs and personal protective equipment. The amount of additional cleaning and personal protective equipment that should be deferred for Spire East is $** [redacted] ** and for Spire West the amount is $** [redacted] **.

Savings Related to Travel and Office Supplies - The amount of savings that should be included as an offset to the expenses in this AAO for Spire East is $** [redacted] **, and for Spire West it is $** [redacted] **.

Late Payment Fees and Reconnect/Disconnect Fees – Per Spire, Accounting Standards Codification (ACS) 980 does not allow Spire to record the deferral of foregone late payment fees and reconnect/disconnect. Spire has proposed to track the late payment fees, and reconnect/disconnect fees and recover these amounts over a five-year period. Staff is not opposed to this proposal. Staff would propose allowing recovery of $2,427,197 ($1,792,085 for Spire East and $635,112 for Spire West) for late payment fees and $771,367 ($546,570 for Spire East and $771,367 for Spire West) for reconnect/disconnect fees. Staff has included a five-year amortization of these items in Staff's cost of service.

Spire did not incur any of the following costs or savings, thus Staff did not review these items:

> Costs related to any new-assistance programs implemented to aid customers with payment of natural gas bills during the pandemic;
> Increased field employee overtime specifically attributable to changes in Spire field operation procedures cause by the COVID-19 pandemic;
> Training expense;
> Utility service provided to facilities leased or owned by Spire;
> Staffing reductions;
> Reduced employee compensation and benefits;
> Any taxable net operating loss that is carried back to previous tax years per the CARES Act; and,
> Any direct federal or state assistance Spire or Spire Inc. receives related to COVID-19 relief.

Staff reviewed the data provided by Spire for the period of March 1, 2020 through December 31, 2020 in regard to deferred COVID costs. The amount Staff has included in the deferral (excluding the late payment fees and reconnect/disconnect fees) as of December 31, 2020 for Spire East is $148,390 and for Spire West it is $1,932,494. Staff recommends a five-year amortization of the deferral, which would result in an annual amortization for Spire East in the amount of $29,678 and for Spire West the annual amortization would be $386,499. Consistent with similar AAOs in other cases, Staff recommends the Commission not include the unamortized balance of the AAO in rate base. Staff will review all expenses and savings that have incurred during the full deferral period through March 31, 2021 in its true-up audit.

Staff Witness/Expert: Kimberly K. Bolin

X. Income Taxes

1. <u>Current and Deferred Income Taxes</u>

Staff's methodology for calculating income tax expense begins by taking the adjusted net operating income from the income statement, then adding or subtracting certain tax timing differences in order to obtain a ratemaking taxable income amount. These "add back" and/or subtraction adjustments are necessary to recognize the differences between expenses that lower net income for book purposes and tax deductions that lower taxable income for tax purposes. The mismatch in reported expenses and deductions causes tax timing differences to occur. The current income tax calculations for Spire Missouri reflect timing differences consistent with the timing required and/or allowed by the IRC in that ratepayers are charged for the income tax liability generated by Spire Missouri's taxable income plus the deferred tax expense caused by the tax timing differences protected by the IRC.

The ratemaking calculation of income taxes for regulated utilities may reflect either the "normalization" treatment or the "flow through" treatment to recognize the effect of tax timing differences on income tax expense. The tax normalization method does not immediately pass the benefits to ratepayers of certain temporary tax timing differences. The intended effect of normalizing tax timing differences is to allow utilities the benefit of certain tax deductions for a period of time before those benefits are passed on to the utility's customers in rates. Normalizing tax timing differences related to Spire Missouri's plant in service for ratemaking purposes is effectively required by the IRC, with severe tax consequences for utilities that have normalization violations. Staff utilized a normalization approach in calculating income taxes for this case for timing differences caused by depreciation method or asset life, most notably depreciation expense.

For tax timing differences not protected by the IRC, the flow-through method is available for ratemaking purposes. The flow-through method essentially provides ratepayers the same benefit the utility enjoys for certain tax timing differences. After calculating Spire Missouri's taxable income that results from timing adjustments, the annualized income tax expense is calculated by applying the current federal, state, and city tax rates. A federal income tax rate of 21 percent and a state income tax rate of 4 percent were used in calculating Spire Missouri's current income tax liability. The difference between the calculated current income tax provision and the per book income tax provision is the current income tax adjustment.

Spire East is subject to earnings tax from the City of St. Louis, MO, and Spire West is subject to earnings tax from the City of Kansas City, MO. Both cities assess an earnings tax of one percent (1%) on the taxable income Spire Missouri reported in both jurisdictions. Staff has reviewed the earnings tax information for both Spire East and Spire West and found that neither utility has been required to pay earnings taxes since 2013. As such, Staff has not included an amount for city earnings tax in Spire Missouri's cost of service.

Due to the IRC's normalization requirements described above, Staff has included an amount of deferred tax expense in total income tax expense. The deferred tax expense is calculated by applying the current effective tax rate to the difference in tax depreciation and book depreciation. The effects of deferred income tax expense in ratemaking is also discussed ADIT section of this report. Staff will review income tax expense as part of its true-up audit and make any necessary adjustments.

Staff Expert/Witness: Matthew R. Young

2. <u>Tax Cut and Jobs Act</u>

The federal Tax Cuts and Jobs Act ("TCJA"), which was signed into law on December 22, 2017 and took effect on January 1, 2018, significantly reduced Spire's income tax expense and ADIT liability. The passage of the law was concurrent with Spire's 2017 rate cases before the Commission, Case Nos. GR-2017-0215 and GR-2017-0216. Due to the timing of the rate cases and the legislation, the Commission decided to include the impacts of the TCJA in Spire's rates. However, all of the effects of the TCJA were not known as the IRS and the Securities and Exchange Commission had not yet issued guidance or promulgated rules on the implementation of the TCJA. Also, the calculations regarding the total effect on ADIT and the calculations of what is known as "protected" and "unprotected" ADIT were not completed at the date of the Commission's Order.

Due to the uncertainties surrounding the calculations for implementing the effects of the TCJA, the Commission ordered a tracker mechanism to ensure that any over or under amortizations stemming from the TCJA were identified and eligible for consideration in Spire's next rate case. In the current case, Spire provided calculations of the TCJA's impact to ADIT, classified into protected and unprotected amounts, and amounts of over and under amortizations. Staff recommends discontinuing the TCJA tracker as the uncertainties that existing in Spire's 2017 cases no longer exist in this case and including current balances of ADIT and related amortizations in its accounting schedules as normalized amounts not subject to future tracking. Staff recognizes that regardless of the continuation of the TCJA tracker there will be a period between May 31, 2021 and the operation of law date from the current case that a tracker will be in effect but not recognized in rates. Staff will include this "stub period" in its audit during Spire's next general rate case.

When the TCJA reduced corporate tax rates from 35 percent to 21 percent, a portion of Spire's ADIT liability was no longer a liability. Since the IRS enables book/tax timing differences to provide corporations with interest free loans from the federal government, the reduced tax rate effectively "forgave" a portion of Spire's outstanding interest free loan. The amount of reduction to Spire's ADIT liability due to the TCJA is referred to as "Excess ADIT", and is eligible for return to the ratepayers and as previously explained, the return of Spire's Excess ADIT to ratepayers began in the 2017 rate cases.

Ratepayers are eligible to receive Spire's Excess ADIT because the IRS normalization requirements effectively prohibit regulators from passing certain plant-related tax deductions to customers in order for utilities to retain the intended tax benefit. Essentially, ratepayers are charged income tax expense as if the IRS's tax benefits did not exist. The difference between what ratepayers are charged for income taxes and what income tax liabilities are actually incurred by Spire is intended to be a temporary difference that will theoretically reverse itself over the life of the underlying assets. However, the TCJA caused the theoretically temporary difference to become a permanent difference, so the benefit that ratepayers would have received over the life of the assets will never materialize. As such, the Commission provided the ratepayers with the benefit that would otherwise have been lost through an amortization of the Excess ADIT.

Part of the federal government's guidance on how utilities should flow the Excess ADIT to customers included definitions of "protected" and "unprotected" ADIT. Protected ADIT is essentially plant-related ADIT caused by book/tax timing differences. This type of ADIT falls under the IRS normalization requirements and the returning protected excess ADIT to customers at a rate faster than it would have been returned absent the TCJA is effectively prohibited by the federal government. To return protected excess ADIT, Spire utilizes the Average Rate Assumption Method ("ARAM") as required by the IRS. In addition to protected Excess ADIT, a significant amount of Spire's Excess ADIT was not protected by IRS normalization requirements as it was caused by temporary book/tax differences of non-plant related deductions. To return the unprotected Excess ADIT, the Commission ordered an amortization period of 10 years to be applied to the balance of unprotected.

In the current rate case, all balances of protected and unprotected Excess ADIT is known and measurable, as well as the amortization amount produced by the ARAM methodology. Comparing the amounts that were used to set rates in the 2017 rate cases with the known and measurable amounts that are available in the current rate case, Staff finds that Spire East's and Spire West's amortization of the protected Excess ADIT has over-refunded customers and the amortizations of the unprotected Excess ADIT has under-refunded customers. The main concern with these findings is that in order to avoid consequences from the IRS for normalization violations, the over-refund of the protected Excess ADIT must be addressed by the Commission.

Staff recommends that the Commission order a transfer of the amounts refunded to customers from the protected balance to the unprotected balance of Excess ADIT for return to customers. This transfer will immediately restore the balance of protected ADIT to the amount required by the IRS-sponsored ARAM methodology, which should be sufficient to address any concerns about potential normalization violations. Additionally, Staff recommends that the amortization of the unprotected Excess ADIT should be offset to capture the reclassification of the over-refunded amounts to flow back to customers as well as allowing Spire to recover the shortfall in collection of unprotected EADIT from customers. The adjusted amortization of unprotected Excess ADIT should be reset to expire 10 years from the effective date of rates from the 2017 cases.

Staff Expert/Witness: Matthew R. Young

3. <u>Excess ADIT from Missouri Tax Reform</u>

Following the TCJA legislation described in the "TCJA Tracker" section of this report, the state of Missouri passed legislation reducing Missouri's corporate tax rate from 6.25 percent to 4 percent. The change in tax rates impacted Spire beginning on October 1, 2020, the start of its 2021 fiscal year. Mechanically, the reduction to the Missouri tax rate had the same effect on Spire's ADIT liability as the TCJA and lead to a balance of Excess ADIT, both protected and unprotected. Also similar to the treatment afforded to implementing TCJA impacts, Staff recommends returning Excess ADIT driven by Missouri's tax reform to customers beginning with the effective dates of rates from this case, using guidance provided by the federal government and the Commission.

Staff has included an Excess ADIT balance at May 31, 2021 in rate base and annualized amounts of amortizations in its income tax schedule. The amortizations are based on the ARAM methodology for protected Excess ADIT and a 10 year period for unprotected Excess ADIT.

Staff Expert/Witness: Matthew R. Young

XI. Depreciation

"Depreciation," as applied to depreciable utility plant means:

- the loss in service value not restored by current maintenance,
- incurred in connection with the consumption or prospective retirement of utility plant in the course of service,
- from causes which are known to be in current operation, and
- against which the utility is not protected by insurance.

Among the causes to be given consideration are: wear and tear, decay, action of the elements, inadequacy, obsolescence, changes in the art, changes in demand, and changes to the requirements of public authorities.

Spire Missouri is required to submit a depreciation study under rule 20 CSR 4240-40.090. The company submitted a report prepared by Gannet Fleming. Spire witness Mr. Wesley Selinger stated in his testimony that since the current rates the company is operating under were established in 2012, that it is appropriate to update the depreciation rates in this case. In addition, Spire wants to establish one set of depreciation rates for their assets statewide.

Staff conducted its own depreciation study for the assets of Spire using the straight-line method, broad group-averaging life procedure, and whole life technique for its depreciation study. Staff used the following formula to calculate the depreciation rates for each plant account:

$$Depreciation\ Rate = (100\% - Net\ Salvage\ \%) \div (Average\ Service\ Life)$$

In this equation, average service life is the expected period, in years, that depreciable plant will be in service. Net salvage is the difference between gross salvage, the amount received from the retirement of property, and the cost of removal.

For each account, Staff estimated the average service life and net salvage rate. Where there was adequate data to support it, Staff's recommendation is informed by statistical analysis of plant retirements as described below. For accounts that did not have adequate data to produce a reasonable result using statistical analysis, Staff relied on its engineering experience, informed judgement, and previous cases to prepare recommended rates.

Staff used available data to prepare estimates of service life and net salvage for each account. These sources include the depreciation study submitted by Spire that was prepared by Gannet Fleming, spreadsheets submitted along with the study, Spire's responses to data requests, and previous Commission orders.

Staff conducted statistical analysis of retirements when data supported its use, and used Gannet Fleming Depreciation Analysis Software to prepare stub survival curves for plant accounts. Survivor curves describe the amount of plant in an account, expressed as a percent that is still in service at various ages. For an account in which all plant is retired, the average service life can be calculated as the area under the curve. Because there is surviving plant in these accounts, the curves produced are partial and called stub curves.

In order to estimate average service life, Staff fitted an Iowa curve to the stub curve for each account. Iowa curves are widely used models of the life characteristics of utility plant.[111] Staff also used the Gannet Fleming software to assist in mathematical and visual fitting of the stub curves to Iowa curves. Average service lives for these accounts were drawn from the fitted Iowa curves.

In addition, where data supported it, Staff calculated the net salvage rates. This is the net salvage cost, including gross salvage and cost of removal, of retired plant for an account divided by the book cost of that plant.

These estimates of average life and net salvage were used in the equation noted above to calculate depreciation rates. In addition to the analysis of statistics, Staff's recommended rates are informed by judgment and relevant previous orders of the Commission.

---

[111] Wolf, F. K., Fitch W. C., (1994). *Depreciation Fundamentals*. Iowa State University Press.

Staff recommends that the commission order Spire to use the rates in Appendix 3, Schedule DTB-d1.

Staff Expert/Witness: David T. Buttig, PE

XII. Other Miscellaneous Issues

4. Call Center Staffing

In Case GR-2021-0108, Spire has indicated it desires to increase its overall internal Call Center staffing and eventually decrease its current utilization of third party contractors for this function. Staff believes it is important that Spire maintain data on this transition and its effect upon customer service levels for its own monitoring purposes and for provision to Staff. Staff presently receives specific metrics from Spire on customer service and staffing levels as ordered by the Commission in GM-2013-0254. Spire and Staff will continue to discuss how to revise these reports to more effectively monitor this transition to increased insourcing.

A Call Center provides the customer a central location to contact regarding a wide range of services pertaining to their utility service. Customers are directed to a phone number to contact the utility regarding questions or assistance. Interactive Voice Response systems (IVR) offer a customer the ability to select the particular option they need such as emergency, start/stop service or making a payment. The customer will also be given the opportunity to be transferred if they wish to speak with a Customer Service Representative.

After the merger of Missouri Gas Energy (MGE, now known as Spire West) with Laclede Gas Company (Laclede, now known as Spire East) in Case No. GM-2013-0254, Call Center operations for the West side of the state were transferred to a third party contractor in 2014. Laclede continued to operate its Call Center in St. Louis, Missouri with its own employees, primarily serving customers on the East side of the state. In 2015, the third-party contractor also began taking some calls that previously were being handled by the Laclede Call Center.

Spire indicated that over time it began to struggle with various quality issues associated with the utilization of a third party contractor for call center operations.[112] The quality scores associated with the contractors were lower than what Spire wished to see. Third party agents tend to have a much shorter average tenure of employment. Accuracy of information issues frequently

[112] Spire Missouri response to Staff Data Request No. 232.

occurred. The distance of the location of the third party provider from Spire created difficulties with training and management. Technology differences also created some challenges. Finally, the third party agents were not part of the Spire culture and, as a result, did not reflect the same level of engagement as that of Spire's own employees.

During the course of the Staff's Investigation of certain customer service issues in Case No. GO-2020-0182, Spire informed the Staff that it had initiated a project in 2018 to evaluate how it could improve its customer experience. ** [redacted] [113] [redacted] **

The implementation of this transition plan was delayed due to the ongoing Pandemic. Spire has indicated that, for its initial steps, it anticipates adding 37 contact center agent positions and two customer experience coaches as employees in its St. Louis, Missouri facility and filling these positions by May 31, 2021.[114] The Company has planned to conduct a series of training classes to be held in April through June 2021 for new hires for the Call Center.[115] As employees complete training and are able to handle calls, there will be reductions in contractor work forces.

At this time, Spire serves its customers who call in at four different contact center locations. The Spire Call Center in St. Louis is staffed by Spire agents. Spire also utilizes two different contractors to provide customer service agents to take calls. Spire has utilized Alorica since 2015 and presently it has representatives in Endicott, New York and Sherman, Texas that handle Spire's customer calls. In addition, Spire is also utilizing GC Services in Knoxville, Tennessee to answer calls. As Spire moves forward with its transition and staffing changes for its Call Centers, it is important that data be maintained to track any effect of the changes upon customer service.

As a part of the Order in Case No. GM-2013-0254, Spire provides the Staff a monthly report that includes a number of performance metrics, as well as information on staffing and volume of calls. This information is presently being submitted segregated by Spire East and Spire West operations. However, the information is submitted under different formats, making it difficult

[113] Spire Branding Presentation, 06/03/2020, Confidential.
[114] Spire Missouri response to Staff Data Request No. 340.
[115] Spire Missouri response to Staff Data Request No. 341.

to directly compare the two operating areas.

Staff believes an ability to receive information under consistent formats from both the Spire West and Spire East operating areas becomes even more important as Spire moves forward with major changes to its Call Center operations. Staff will continue to discuss with Spire the appropriate changes to the present Call Center reporting during the course of this case.

Staff Witness/Expert: Deborah Ann Bernsen

5. Fresh Perspective Program

Spire's Fresh Perspective program ("Program") is new to Spire ("Company") and is a customer engagement program consisting of four phases. The Company began this program in an effort to better understand and serve its customers. Staff reviewed information provided by the Company to determine if the program offers a benefit to Spire customers and how the program could, in the future, change the way Spire does business. Staff also looked at the program goals as well as the results of the initial phases of the program to determine the overall value. After thorough review, Staff supports the continuation of the program and believes it can be valuable; however, Staff has a few recommendations for the Company moving forward.

Background

** [redacted]

[redacted][116]

[redacted][117] [redacted][118] [redacted][119] [redacted][120]

[redacted][121]

[redacted][122]. **

[116] Data Request Response 209.
[117] Data Request Response 209.
[118] Data Request Response 210.1.
[119] Data Request Response 209.
[120] Data Request Response 209.
[121] Data Request Response 210.
[122] Data Request Response 210.2.

Staff Analysis

Staff has reviewed all aspects of the program and looked closely at the results of the fourth phase survey. It seems that Spire received a significant amount of information from its customers over the course of implementing the Fresh Perspectives Program. This information will be helpful to the Company in making decisions that will impact its customers and their experiences with the company. As a result of the program, Spire gained insight on what is important to its customers, the best way to communicate with them and how to bring more value to the customer. This type of information opens the door for the Company to make adjustments to business practices, customer service procedures and/or program offerings as a result of the information gleaned from its customers.

Staff Recommendation

Staff recommends that this program continue; however, it has some recommendations for the program moving forward. Staff recommends that Spire conduct this program in a way that gives more areas within its service territories an opportunity to participate, if possible. Up to this point, the program has occurred in Kansas City, St. Louis and Joplin. Staff would like to see varied locations for these sessions to ensure convenience and coverage for urban, suburban and rural customers throughout all of Spire's service territory. Staff also recommends that Spire continue to ensure diversity within the participants of the program in regard to age, race, ethnicity, sex, education and socio-economic status. Finally, Staff recommends that Spire ensure that as the program progresses, it continues to define specific performance and effectiveness measurements. Staff should also be informed when the phases of the program are planned to occur, what the results are and if any changes are made to customer offerings or business practices as a result of feedback from the program.

Staff Witness/Expert: Sarah Fontaine

XIII. Appendices

Appendix 1 - Staff Credentials

Appendix 2 - Support for Staff Cost of Capital Recommendation

Appendix 3 - Other Staff Schedules

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 DEBORAH ANN BERNSEN

STATE OF MISSOURI	)	
	)	ss.
COUNTY OF COLE	)	

COMES NOW DEBORAH ANN BERNSEN and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Staff's Cost of Service Report*; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.

/s/ Deborah Ann Bernsen
DEBORAH ANN BERNSEN

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Spire Missouri Inc.'s d/b/a Spire Request for Authority to Implement a General Rate Increase for Natural Gas Service Provided in the Company's Missouri Service Areas	)))))	Case No. GR-2021-0108

AFFIDAVIT OF KIMBERLY K. BOLIN

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW KIMBERLY K. BOLIN and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Staff's Cost of Service Report*; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.

/s/ Kimberly K. Bolin
KIMBERLY K. BOLIN

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 KORY J. BOUSTEAD

STATE OF MISSOURI	)	
	)	ss.
COUNTY OF COLE	)	

COMES NOW KORY J. BOUSTEAD and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Staff's Cost of Service Report*; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.

/s/ Kory J. Boustead
KORY J. BOUSTEAD

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 DAVID T. BUTTIG, PE

STATE OF MISSOURI	)	
	)	ss.
COUNTY OF COLE	)	

COMES NOW DAVID T. BUTTIG, PE and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Staff's Cost of Service Report*; and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.

/s/ David T. Buttig, PE
DAVID T. BUTTIG, PE

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 KIM COX

STATE OF MISSOURI	)	
	)	ss.
COUNTY OF COLE	)	

COMES NOW KIM COX and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Staff's Cost of Service Report*; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.

/s/ Kim Cox
KIM COX

<u>BEFORE THE PUBLIC SERVICE COMMISSION</u>

<u>OF THE STATE OF MISSOURI</u>

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 SARAH FONTAINE

STATE OF MISSOURI	)	
	)	ss.
COUNTY OF COLE	)	

COMES NOW SARAH FONTAINE and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Staff's Cost of Service Report*; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.

<u>/s/ Sarah Fontaine</u>
SARAH FONTAINE

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 JARED GIACONE

STATE OF MISSOURI	)	
	)	ss.
COUNTY OF JACKSON	)	

COMES NOW JARED GIACONE and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Staff's Cost of Service Report*; and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.

/s/ Jared Giacone
JARED GIACONE

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Spire Missouri Inc.'s d/b/a Spire Request for Authority to Implement a General Rate Increase for Natural Gas Service Provided in the Company's Missouri Service Areas	)))))	Case No. GR-2021-0108

AFFIDAVIT OF JEREMY JULIETTE

STATE OF MISSOURI)
) ss.
COUNTY OF JACKSON)

COMES NOW JEREMY JULIETTE and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Staff's Cost of Service Report*; and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.

/s/ Jeremy Juliette
JEREMY JULIETTE

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Spire Missouri Inc.'s d/b/a Spire Request for Authority to Implement a General Rate Increase for Natural Gas Service Provided in the Company's Missouri Service Areas	)))))	Case No. GR-2021-0108

AFFIDAVIT OF ROBIN KLIETHERMES

STATE OF MISSOURI	)	
	)	ss.
COUNTY OF COLE	)	

COMES NOW ROBIN KLIETHERMES and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Staff's Cost of Service Report*; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.

/s/ Robin Kliethermes
ROBIN KLIETHERMES

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Spire Missouri Inc.'s d/b/a Spire Request for Authority to Implement a General Rate Increase for Natural Gas Service Provided in the Company's Missouri Service Areas	)))))	Case No. GR-2021-0108

AFFIDAVIT OF J LUEBBERT

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW J LUEBBERT and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Staff's Cost of Service Report*; and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.

/s/ J Luebbert
J LUEBBERT

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Spire Missouri Inc.'s d/b/a Spire Request for Authority to Implement a General Rate Increase for Natural Gas Service Provided in the Company's Missouri Service Areas	)))))	Case No. GR-2021-0108

AFFIDAVIT OF KAREN LYONS

STATE OF MISSOURI)
) ss.
COUNTY OF JACKSON)

COMES NOW KAREN LYONS and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Staff's Cost of Service Report*; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.

/s/ Karen Lyons
KAREN LYONS

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 KEITH MAJORS

STATE OF MISSOURI	)	
	)	ss.
COUNTY OF JACKSON	)	

COMES NOW KEITH MAJORS and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Staff's Cost of Service Report*; and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.

/s/ Keith Majors
KEITH MAJORS

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 JOEL McNUTT

STATE OF MISSOURI	)	
	)	ss.
COUNTY OF COLE	)	

COMES NOW JOEL McNUTT and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Staff's Cost of Service Report*; and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.

/s/ Joel McNutt
JOEL McNUTT

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Spire Missouri Inc.'s d/b/a Spire Request for Authority to Implement a General Rate Increase for Natural Gas Service Provided in the Company's Missouri Service Areas	)))))	 Case No. GR-2021-0108

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 *Staff's Cost of Service Report*; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.

/s/ Antonija Nieto
ANTONIJA NIETO

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Spire Missouri Inc.'s d/b/a Spire Request for Authority to Implement a General Rate Increase for Natural Gas Service Provided in the Company's Missouri Service Areas	)))))	Case No. GR-2021-0108

AFFIDAVIT OF JOSEPH P. ROLING

STATE OF MISSOURI	)	
	)	ss.
COUNTY OF COLE	)	

COMES NOW JOSEPH P. ROLING and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Staff's Cost of Service Report*; and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.

/s/ Joseph P. Roling
JOSEPH P. ROLING

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 MICHAEL L. STAHLMAN

STATE OF MISSOURI	)	
	)	ss.
COUNTY OF COLE	)	

COMES NOW MICHAEL L. STAHLMAN and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Staff's Cost of Service Report*; and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.

/s/ Michael L. Stahlman
MICHAEL L. STAHLMAN

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Spire Missouri Inc.'s d/b/a Spire Request for Authority to Implement a General Rate Increase for Natural Gas Service Provided in the Company's Missouri Service Areas	)))))	Case No. GR-2021-0108

AFFIDAVIT OF SEOUNG JOUN WON, PhD

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW SEOUNG JOUN WON, PhD and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Staff's Cost of Service Report*; and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.

/s/ Seoung Joun Won
SEOUNG JOUN WON, PhD

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Spire Missouri Inc.'s d/b/a Spire Request for Authority to Implement a General Rate Increase for Natural Gas Service Provided in the Company's Missouri Service Areas	)))))	Case No. GR-2021-0108

AFFIDAVIT OF MATTHEW R. YOUNG

STATE OF MISSOURI)
) ss.
COUNTY OF JACKSON)

COMES NOW MATTHEW R. YOUNG and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Staff's Cost of Service Report*; and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.

/s/ Matthew R. Young
MATTHEW R. YOUNG